# iomart

## Annual
Report and Accounts **2018**

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# Providing Clarity In The Cloud For Two Decades

## 20:20 Cloud Vision

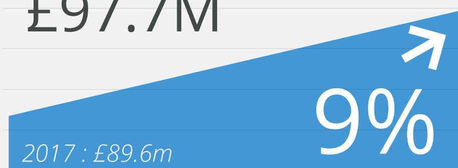
This year iomart Group plc celebrates 20 years of business. Two decades of growth which has seen the Group evolve into one of the UK's largest independent providers of managed cloud computing services.

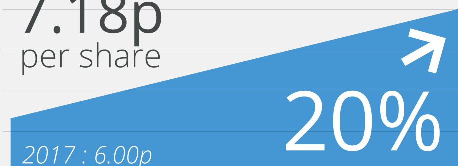
Much has changed since the company was founded in 1998. At that time Microsoft was still a software house, AWS was a four year old online bookseller, and Google had just filed for incorporation in California. However this was also the year that Scottish entrepreneur Angus MacSween saw the opportunity to offer business services via the Internet. iomart was launched as an integrated internet and telecommunications company and quickly made an impact in the market - offering the first UK consumer broadband connection and not long after, the first large scale email hosting service.

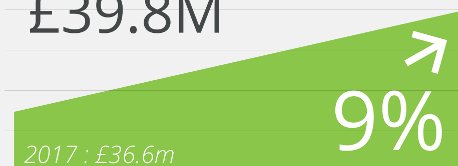
While other Internet start-ups fell by the wayside as the dot.com bubble burst, iomart continued to grow. In 2000 the company was floated on the London Stock Exchange's Alternative Investment Market. In 2007, as the long term opportunity to provide secure managed hosting services to help companies move their IT systems out of their offices became clear, iomart bought its first four data centres - in London, Glasgow, Nottingham and Leicester.

Today iomart is one of the UK's leading providers of managed cloud computing services, acting as a trusted partner for some of the country's biggest businesses. We help companies at all stages of their journey with a wide portfolio of managed cloud services – from initial consultancy, through to the provision of and ongoing support for the most complex of cloud solutions.

It has been an exciting and rewarding first 20 years for iomart and there is more of the story to be told.



# Our Financial Year

iomart has enjoyed another excellent year, with revenues and profits growing to record levels as we continue to deliver the cloud-based solutions that the market is looking for.

"We set out our current strategy of establishing a UK-based cloud computing operation in March 2007 when we acquired our initial data centre estate.

We strongly believe that the market for cloud computing solutions we identified in 2007 presents us with as much opportunity now as it did then and that, together with additional acquisitions, will allow us to continue to execute successfully on the strategy we put in place at that time. There is still a long runway of opportunity as the "IT as a Service" philosophy and delivery unfolds."

Angus MacSween, CEO, iomart.

## What Our Customers and Partners Say

Legal firm Farrer & Co LLP is moving to a secure Azure hybrid cloud platform and next generation desktop environment based on Office 365 and Windows 10.

*This is completely new to us and many in the legal market and this was about finding the right company to take this forward and demonstrate real experience.*

Neil Davison, IT Director

The England and Wales Cricket Board (ECB) selected Mvine's Cloud Services Enablement platform running on iomart's CloudSure managed hosting.

*We're delighted with the delivery of this project. ECB is now able to enjoy the benefits of the transformational work as well as the digital and cloud technologies enabling it.*

Frank Joshi, Director at Mvine

MMR IT moved to a private cloud solution.

*Working with iomart, which has similar expertise and security accreditations, as well as a public listing on the stock market, we were able to assure our clients that they could trust us with their data and they were happy to give us control to create the best cloud solution.*

Paul Line, Head of Commercial

Housing association GreenSquare moved its disaster recovery to Azure Site Recovery with support from iomart's digital transformation consultancy SystemsUp.

*They planned it incredibly thoroughly and there was a huge transfer of knowledge to our engineers on site.*

Rob Fletcher, Group Head of ICT

Exel Computer Systems plc required a partner to support its Enterprise Resource Planning software.

*Working together with iomart our customers don't have to worry about security, and when they want to scale up, we have the ability to instantly scale the resource to meet their demands.*

Jonathan Orme, Sales Operations and Marketing Manager

# Data Protection

One of the most commonly cited fears for companies considering outsourcing elements of their IT infrastructure to a third party is that of data security.

With the recent introduction of the EU General Data Protection Regulation to provide safeguards around personally identifiable informational, security and data protection is more important than ever - to us and our customers.

This is why we continue to invest in the skills and certifications to ensure our customers' data is secure on our servers and that our management systems meet the most rigorous international standards.

We are proud to be the most accredited company in our space in the UK.

Service Assurances
Business Assurances
Sustainability Assurances
UKAS MANAGEMENT SYSTEMS 0026
APMG-International ISO/IEC 20000
ISO 9001 ISOQAR REGISTERED QMS 7235 Quality
ISO 20000 ISOQAR REGISTERED ITSMS 7235 Support
ISO 27001 ISOQAR REGISTERED ISMS 7235 Security
ISO 22301 ISOQAR REGISTERED BCMS 7235 Resilience
ISO 14001 ISOQAR REGISTERED EMS 7235 Environment
ISO 50001 ISOQAR REGISTERED EnMS 7235 Energy
Group Integrated Management Systems

ico. Data Protection Public Register
iomart GDPR COMPLIANT
PCI DSS COMPLIANT
CYBER ESSENTIALS
AICPA SERVICE ORGANIZATIONS SOC aicpa.org/soc Formerly SAS 70 Reports
REGISTERED ITAR
HSCN HEALTH & SOCIAL CARE NETWORK COMPLIANT
Meeting Requirements

iomart Quality Assured ISO 27017:2015 Cloud Service Information security controls
iomart Quality Assured ISO 27018:2014 Protection of Personal Identifiable Information in the cloud
iomart Quality Assured ISO 27032:2012 Cybersecurity Techniques
iomart Quality Assured ISO 27040:2015 IT Security Storage Guidelines
iomart Quality Assured ISO 17789:2014 Cloud Computing Architecture
iomart Quality Assured ISO 38505:2017 Governance of IT data
iomart Quality Assured BS 10012:2017 Data Protection (PIMS)
iomart Quality Assured ISO 31000:2009 Risk Management Principles
Incorporating Best Practice

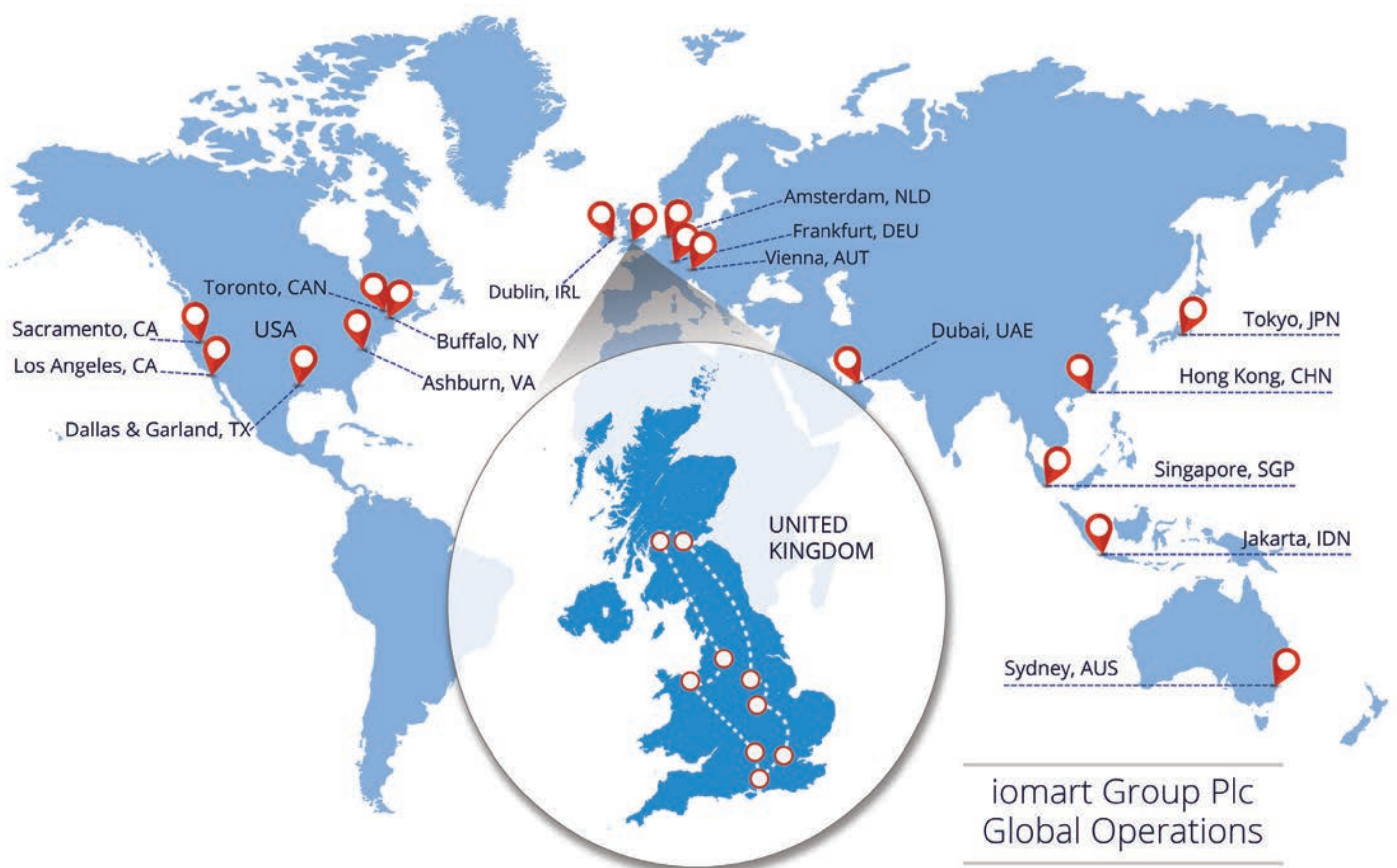
# Our Infrastructure

We have invested over two decades to create a secure and reliable data centre infrastructure to support our customers' mission-critical hosting requirements, enabling them to take advantage of the huge growth in cloud computing wherever their business is located.

In the UK we own and operate data centres at eight locations. They are connected by almost 2,000km of private fibre, enabling large scale virtualisation, distributed storage and multi-site disaster recovery.

Customers with an international footprint can access our services via multiple points of presence.

We have built out a secure, resilient and flexible global infrastructure to serve their global business requirements.



# Highlights

## FINANCIAL HIGHLIGHTS

- Revenue growth of 9% to £97.7m (2017: £89.6m)
- Adjusted EBITDA[1] growth of 9% to £39.8m (2017: £36.6m)
- Adjusted profit before tax growth[2] of 7% to £24.0m (2017: £22.4m)
- Adjusted diluted earnings per share[3] from operations increased by 6% to 17.96p (2017: 16.99p)
- Cashflow from operations increased by 8% to £40.8m (2017: £37.8m)
- Adjusted profit before tax[2] margin maintained at 25% (2017: 25%)
- Proposed final dividend of 4.93p per share resulting in total dividend for year of 7.18p per share, an increase of 20% (2017: 6.00p per share)

## OPERATIONAL HIGHLIGHTS

- 3 successful acquisitions completed during the year:
  - Dediserve for €7.9m
  - Simple Servers for £4.9m
  - Sonassi for £11.8m
- Creation of software defined fibre network
- Post year-end extension on London datacentre lease until 2030

## STATUTORY EQUIVALENTS

The above highlights are based on adjusted results. A full reconciliation between adjusted and statutory results is contained within this statement. The statutory equivalents of the above results are as follows:

- Profit before tax growth of 1% to £14.8m (2017: £14.7m)
- Basic earnings per share from operations increased by 1% to 11.41p (2017: 11.27p)

*1 Throughout these financial statements adjusted EBITDA is earnings before interest, tax, depreciation and amortisation (EBITDA) before share based payment charges, acquisition costs, gain on the revaluation of contingent consideration and non-recurring costs. Throughout these financial statements acquisition costs are defined as acquisition related costs and non-recurring acquisition integration costs.*

*2 Throughout these financial statements adjusted profit before tax is profit before tax, amortisation charges on acquired intangible assets, share based payment charges, mark to market adjustments in respect of interest rate swaps, acquisition costs. interest on contingent consideration due, gain on revaluation of contingent consideration and non-recurring costs.*

*3 Throughout these financial statements adjusted diluted earnings per share is earnings per share before amortisation charges on acquired intangible assets, share based payment charges, mark to market adjustments in respect of interest rate swaps, acquisition costs, interest on contingent consideration due, gain on revaluation of contingent consideration and non-recurring costs.*

## Strategic Report
## Chairman's Statement

I am again delighted to report on another successful year for the Group. We have continued to grow revenues, both organically and through acquisitions whilst maintaining profit margins and generating our usual high levels of operating cash.

This has been another active year on the acquisition front as we have welcomed Dediserve, Simple Servers and Sonassi into the Group. The latter two acquisitions provide us with a high level of expertise in the provision of Magento hosting, which represents our first foray into the area of application support.

All of this progress is a result of a great deal of hard work by our executives and staff and I thank them all on behalf of the Board and the shareholders for their efforts over the year.

After the year end we replaced our borrowing facility, due to end in June 2019, with a revolving credit facility of £80m through until June 2022. We appreciate the continued support shown by the Bank of Scotland Plc through the provision of this increased facility.

As we indicated last year, due to our high level of both profit and operating cash generation coupled with our relatively low level of debt, we have been able to establish a progressive dividend policy. At present that policy is to pay out a maximum dividend of up to 40% of our adjusted diluted earnings per share. During the year we introduced a maiden interim dividend of 2.25p per share which was paid to shareholders in January. In addition, the Board is now proposing to pay a final dividend of 4.93p per share on 6 September 2018 to shareholders on the register at close on 17 August 2018. With this final dividend payment the total for the year will be 7.18p representing an increase of 20% over last year and equivalent to a pay-out ratio of 40% of adjusted diluted earnings per share. This is the maximum we are committed to distributing under our current policy and we will re-consider the parameters of the policy over the coming financial year. We continue to offer shareholders the option to participate in a Dividend Reinvestment Plan (DRIP) as an alternative to receiving cash. Details of the DRIP scheme will be distributed with the annual accounts in due course.

I was appointed to the Board of iomart in December 2007, becoming Chairman the following year. It has been both a privilege and a pleasure to serve as your Chairman since then and to be part of the success which has been achieved over these years. I have decided not to stand for re-election at the forthcoming Annual General Meeting and will leave the Board at that time. I look forward to hearing of the continued success of the Group in future years.

We have started the new financial year in a strong position and I look forward to another exciting year of growth with considerable confidence.

**Ian Ritchie**
*Chairman*
11 June 2018

# Strategic Report
# Chief Executive Officer's Report

## Introduction

We have again enjoyed another excellent year with revenues and profits growing to record levels driven both organically and through acquisition as we continue to deliver the cloud based solutions that the market is looking for. Our revenues in the year were £97.7m, an increase of 9% over the previous year, our adjusted EBITDA of £39.8m also showed a 9% increase over the previous year and our profit before tax increased by 1% to £14.8m.

After over 10 years of first class commitment and service, most of which time was spent as Chairman, Ian Ritchie has chosen not to stand for re-election at our forthcoming Annual General Meeting. Both personally and on behalf of everyone connected with the Group, I want to thank him for his valuable contribution to the development of iomart over the years. Ian Steele, who was appointed to the Board in June 2016, has agreed to replace Ian as Chairman and we will recruit an additional Non-Executive Director in due course.

## Market and Strategy

We set out our current strategy of establishing a UK-based cloud computing operation in March 2007 when we acquired our initial datacentre estate. At that time the cloud computing market was in the very early stages of growth in the UK and there were many small entities entering the market to supply cloud based solutions. We identified the market opportunity at that time as both substantial and long term. The traditional method of computing power consumption on an organisation's own premises was still prevalent at that time and we predicted that over time the move from "on premise" consumption to cloud based consumption would occur. Our view was that would take place slowly as organisations chose to move some of their IT infrastructure to the cloud when there was a need to refresh part of their existing server estate or begin a new project.

The market has indeed evolved as we had predicted and computing power is now consumed in many ways by organisations. That includes the consumption of cloud based solutions whether that be of a public, private or hybrid nature or indeed "on premise" as a substantial number of organisations still continue to acquire what they need in this way.

It was always part of our strategy to address the market opportunity by acquiring customers organically and through the acquisition of competitors as the supply side of the market consolidated. We made our first such acquisition in May 2009 and since then we have made over 20 acquisitions in total including the three we have made in the course of this financial year.

We strongly believe that the market for cloud computing solutions we identified in 2007 presents us with as much opportunity now as it did then and that our strategy is well positioned to deliver continued success. There is still a long runway of opportunity as the "IT as a service" philosophy and delivery unfolds.

Clearly, our product portfolio has evolved over the years to match the needs of the market.

Security and data protection remain in the headlines and continue to be a driver of outsourcing areas of IT because of the lack of internal skills and experience in many organisations. Business continuity, disaster recovery and coping with ever increasing volumes of data mean organisations will look for help in mitigating their risk profiles.

The market overall is growing strongly and parts of that growth are dominated by the 'public cloud' vendors, primarily Amazon, Microsoft and Google. These are the whale sharks of the industry and they certainly swim in the same ocean as us, but it is a very big ocean. By their size and nature, they are largely faceless and rigid in their business models and we are certain that there is plenty of room in that ocean for companies, such as iomart, that are the opposite of faceless; companies that provide advice, help and great customer service and flexibility.

The untidy nature of the vast majority of the world's legacy IT infrastructure provides me with the reassurance that there will always be customers who are looking for a trusted advisor in this space.

Whatever the cloud challenge iomart can assist all organisations in moving to the cloud, whether it be private, public or hybrid approach. The long term recurring revenue opportunity for iomart remains compelling.

Since 2007, we have grown to become around a £100m plus revenue business with healthy margins and excellent cashflow. The objective for us now is to maintain our revenue growth and healthy margins over the next few years.

We are restructuring and reinvigorating our sales and marketing team and investing in deeper customer service skills and level of support. We remain open to growth by acquisition whilst maintaining our disciplined approach.

Our challenge is to continue to navigate through the further evolution of cloud adoption and to ensure we build the skills and resources necessary to be successful in that ever more complex space.

**Acquisitions**

We again augmented our organic growth through the acquisition of Dediserve Limited ("Dediserve") a Dublin based provider of cloud solutions in 10 locations around the world in May 2017, Tier 9 Limited (which trades as "Simple Servers") in July 2017 and Sonassi Holding Company Limited ("Sonassi") in November 2017. Both Simple Servers and Sonassi are located in the UK and specialise in the provision of cloud solutions for users of the Magento ecommerce application.

We continue to look for businesses that fit our criteria with a view to making further acquisitions in the coming year.

**UK membership of the European Union**

We have considered the potential impact of the UK's exit from the European Union ("EU"). To this point in time, other than some volatility in the foreign exchange markets involving Sterling, we have not seen any impact from the decision to leave. The majority of our revenue is generated within the UK. Revenue generated from other EU states is not material and tends to be from our online operations involving the provision of domain names and both shared and dedicated servers where our customers are choosing to take a service from our UK-based datacentres. We do not rely on migrant employees from other EU states to provide services to our customers. We may see an impact in administration in areas such as VAT when trading with EU member states post the UK's exit. As a result of the acquisition of Dediserve in May we have an established operation within the EU should that be required post Brexit.

**Operational Review**

In last year's Annual Report, we reported in three segments following the acquisition of Cristie Data ("Cristie") in August 2016. Cristie initially gave us more exposure to the provision of infrastructure on customers' premises and, unlike the rest of the Group, generated a substantial amount of non-recurring revenue. Consequently we reported the performance of that unit within a non-recurring revenue segment. In our half-yearly results at September 2017, we reported that Cristie had integrated well within the Group and had become involved in projects with our consultancy operation and in the provision of cloud solutions from our datacentres. In addition, a substantial amount of orders won and revenue generated through the operations of Cristie over the year were recurring in nature. Therefore, we concluded that it was no longer appropriate to include the results of Cristie separately, particularly in a non-recurring revenue segment, from the rest of our Cloud Services operations and we now report it within the Cloud Services segment. Consequently, we now report in two operating segments, namely Cloud Services and Easyspace.

**Cloud Services**

Revenues in this segment have grown by 10% to £84.1m (2017: £76.3m). Some of this growth has been generated organically as we continue to build on our strategy of providing cloud based solutions to both new and existing customers as they increase their cloud-based presence. The remainder of this growth has been driven by the contribution from the acquisitions made in both this period and the previous year as we continue to complement our organic growth through acquisition.

During the year we made a substantial investment to implement a software defined network across our datacentre estate in the UK. We are now in a position where we can implement network changes, within our datacentres, using software tools rather than the need for physical intervention by an engineer. As a consequence our network is now more resilient and is not as heavily dependent on labour when changes are required to be made.

After the end of the financial year we extended the lease for our London datacentre. The original lease was due to terminate in 2020 and that has now been extended until 2030. We will upgrade the facility over the coming year and we now have the vast majority of our datacentre estate on either freehold or leasehold terms lasting for 12 years or more.

Software licencing in a cloud environment is a complex issue and a recent audit carried out on behalf of a software licensor has identified a shortfall in licence revenue owing to that licensor for the four year period to March 2017. As a result, we estimated a provision in this period of £2.1m in respect of licence fee charges. The final amount could be higher, however not materially, although we believe this is unlikely and it could be lower. In each individual year to which the charge relates, the amount would not have materially affected our profitability. Full provision has been estimated in this financial year for licence fees relating to the current year based on the level of provision for the prior years. We are confident this is an isolated issue. We have taken steps to improve our processes in this area of operation with both additional resources and tools being deployed to ensure we accurately report and invoice for licence usage in the future.

**Cloud Services (continued)**
Through our iomart Cloud operation, we provide fully managed, complex bespoke designs, resulting in resilient solutions involving private, public and hybrid cloud infrastructure. This can range from the provision of online backup and disaster recovery solutions through to an entity's entire online live presence where all revenue generated by that entity's activities are transacted through the cloud infrastructure we provide.

Our Infrastructure as a Service (IaaS) operation, which encompasses the activities of our RapidSwitch and Redstation brands, delivers dedicated, physical, self-service servers to customers. We provide many thousands of physical servers for our customers using highly automated systems and processes which we continue to develop and improve.

SystemsUp provides consultancy services to organisations, particularly in the public sector, helping them to decide on their cloud strategy with an emphasis on the public cloud. Having a consultancy division within the Group allows us to engage at an earlier stage with organisations considering their cloud strategy and provides the opportunity to leverage the provision of those consultancy services to gain recurring revenue through the deployment of cloud solutions. However, unlike most of our other activities within the Cloud Services segment there is less recurring revenue generated from consultancy services. As we indicated in our half-yearly report revenue generated from our consultancy operation has declined in the year due to one low margin public cloud consultancy project ending.

As previously mentioned the activities of Cristie are now included within this segment. Having a unit within the Group that supplies computer equipment to customers' premises has proved a very useful addition. It has allowed us to confirm that the move to the consumption of computing power in the cloud by established organisations is happening over a long period. Only when entities have both the need to acquire additional infrastructure and have taken the decision to acquire some of that through the cloud will a selling opportunity arise for the Group. In general, we see a continual and steady movement in that direction.

We are able to supply products and services across the cloud spectrum and do so using common platforms across the Group.

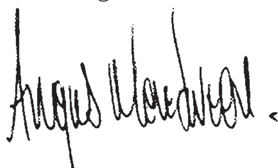
We continue to build on our skills and accreditations and see constant improvement across the Group's skillset.

**Easyspace**
In line with our expectations, the Easyspace segment has performed well over the year, maintaining the organic revenue growth which was re-established in the previous year. Our activities within this segment provide a range of products to the micro and SME markets including domain names, shared, dedicated and virtual servers and email services. Revenues in the segment have grown by 2.4% to £13.6m (2017: £13.2m) all as a result of organic growth.

**Current trading and outlook**
We are delighted to report another year of excellent results, with increased revenues and profits and the completion of a number of acquisitions, augmenting the Group's customer base and skill set. Trading in the new year has continued in a similarly positive vein.

Since we embarked on our current strategy in 2007, we have successfully executed on our growth strategy, growing revenues from £8m to nearly £100m. We strongly believe that the market for cloud computing solutions we identified at the time presents us with as much opportunity now as it did then and that, together with additional acquisitions, will allow us to continue to execute successfully on the strategy we put in place at that time.

There is still a long runway of opportunity as the "IT as a service" philosophy and delivery unfolds, providing us with considerable scope for long-term, sustained growth. We therefore look to the coming year and beyond with confidence.



**Angus MacSween**
*Chief Executive Officer*
11 June 2018

## Strategic Report
## Chief Financial Officer's Report

### Trading Results

***Revenue***

Revenues for the year grew by 9% to £97.7m (2017: £89.6m) through the combination of continued organic growth and the impact of acquisitions.

Our Cloud Services segment, including the operation of Cristie, grew revenues by 10% to £84.1m (2017: £76.3m). A full year contribution from Cristie, which we acquired in August 2016, and Dediserve, Simple Servers and Sonassi all of which were acquired at various points during the year helped this growth. Revenue growth in the Cloud Services segment excluding the impact of acquisitions was 3% (2017: 10%). As we reported in our half-yearly results, the rate of organic growth in the year has been weighed down by a low margin public cloud consultancy project coming to an end at the end of the previous financial year. Adjusting for the effect of that project the organic growth rate was 7%, which is similar to the comparable growth rate in the last financial year if the low margin public cloud consultancy project is excluded.

Revenues within the Easyspace segment grew by 2.4% to £13.6m (2017: £13.2m) all of which is organic.

Our business model in both segments generally involves the provision of cloud and managed hosting services from our datacentres delivering to our customers the computing power, storage, and network capability they require for the operation of their own businesses. We have invested in an estate of datacentres, in an extensive fibre network and for each customer the servers, routers, firewalls etc that are required to create the IT infrastructure they require. Customers then pay us for the provision of that infrastructure.

Larger customers tend to have multi-year contracts for complex cloud solutions, which are invoiced on a monthly basis. Many of our smaller customers pay in advance for the provision of services which results in a substantial sum of deferred revenue, which is then recognised over the period of the service provision. A very large proportion of our revenue is therefore recurring and the combination of multi-year contracts and payment in advance provides us with excellent revenue visibility.

The Group has completed its assessment of the impact of IFRS 15, which will be adopted in the next financial year, and current revenue recognition policies, and whilst unaudited, that assessment confirms that the adoption of IFRS 15 will not result in a material change to the financial statements (see note 2).

***Gross Margin***

Our gross profit for the year was £62.9m (2017: £57.3m) increasing as a result of the additional revenues we generated as explained above. In percentage terms, our margin remained around the same level at 64.4% (2017: 64.0%). Whilst the overall level of percentage margin is similar there have been a few individual movements, which have resulted in our margins being maintained.

Within Cloud Services the completion of the low margin public cloud consultancy project has reduced our costs and therefore improved our percentage margin. Conversely, the contribution of a full year of Cristie, bringing low margin hardware and software sales to customers' own premises has increased costs and reduced our percentage margin. We have also seen a benefit from the fixed cost nature of our datacentre estate where costs do not rise in line with revenue offset by a relative increase in licencing costs. All of our acquisitions in the year have also helped to increase modestly our percentage margin.

The gross margin within our Easyspace segment has remained consistent with the previous year.

***Adjusted EBITDA***

The adjusted EBITDA for the year was £39.8m (2017: £36.6m) an increase of 9% (page 43). Our adjusted EBITDA margin has remained at the same level of 40.8% (2017: 40.8%). The Cloud Services segment increased its absolute level of margin over the period whilst maintaining its percentage margin, while the Easyspace segment's absolute and percentage margin were very similar to the previous year.

**Adjusted EBITDA (continued)**

Adjusted EBITDA in the Cloud Services segment was £37.1m (2017: £34.0m), an increase of 9%. This improved performance is mainly a direct result of the additional gross margin delivered by the increase in sales revenue, from both organic and acquired sources, offset by a modest increase in administrative expenses with payroll costs having increased mainly due to the impact of acquisitions and an increase in software licence fees, offset by a reduction in bad debt expense. In percentage terms the adjusted EBITDA margin has slightly decreased to 44.1% (2017: 44.6%).

The Easyspace segment's adjusted EBITDA was £6.4m (2017: £6.2m) an increase of 3%. This improvement in adjusted EBITDA is largely due to a reduction in the level of administrative expenses. In percentage terms the adjusted EBITDA margin has remained consistent at 47.3% (2017: 47.1%).

Group overheads, which are not allocated to segments, include the cost of the Board, the running costs of the headquarters in Glasgow, Group marketing, human resource, finance and design functions and legal and professional fees for the year. These overhead costs have remained constant at £3.6m (2017: £3.7m).

**Adjusted profit before tax**

Depreciation charges of £12.5m (2017: £11.0m) have increased over the period, partly due to the impact of acquisitions, partly due to price increases implemented by hardware vendors as a result of the weakening of Sterling since the Brexit vote and partly because of charges for the equipment bought to provide services to the additional Cloud Services segment, including the impact of a substantial investment in our fibre network, which was made during the year.

The charge for amortisation of intangibles, excluding amortisation of intangible assets resulting from acquisitions ("amortisation of acquired intangible assets") of £2.1m (2017: £1.9m) has increased over the year as a result of an increase in the level of software investment.

Finance costs of £1.2m (2017: £1.3m), excluding the mark to market adjustment in respect of interest swaps on the Company's loans and the interest charge on the contingent consideration due in respect of acquisitions, remained static over the period.

After deducting the charges for depreciation, amortisation, excluding the charges for the amortisation of acquired intangible assets, and finance costs, excluding the mark to market adjustment in respect of interest swaps on the Company's loans and the interest charge on the contingent consideration due in respect of acquisitions from the adjusted EBITDA, the Group's adjusted profit before tax was £24.0m (2017: £22.4m) an increase of 7%.

The adjusted profit before tax margin for the year was 24.6% (2017: 25.0%). This modest margin reduction is mainly due to the slight increase in depreciation charges as a percentage of revenue.

***Profit before tax***

The measure of adjusted profit before tax is a non-statutory measure which is commonly used to analyse the performance of companies particularly where M&A activity forms a significant part of their activities.

A reconciliation of adjusted profit before tax to reported profit before tax is shown below:

| **Reconciliation of adjusted profit before tax to profit before tax** | **2018**<br>**£'000** | **2017**<br>**£'000** |
|---|---|---|
| Adjusted profit before tax | 24,039 | 22,406 |
| Less: Amortisation of acquired intangible assets | (6,449) | (5,558) |
| Less: Acquisition costs | (774) | (104) |
| Less: Share based payments | (1,206) | (1,844) |
| Add: Mark to market adjustment on interest rate swaps | 46 | 84 |
| Less: Interest on contingent consideration | (51) | (330) |
| Add: Gain on revaluation of contingent consideration | 1,335 | - |
| Less: Non-recurring software licence fees relating to prior years | (2,143) | - |
| **Profit before tax** | **14,797** | **14,654** |

The adjusting items are: charges for the amortisation of acquired intangible assets of £6.4m (2017: £5.6m) which have increased mainly as a result of the acquisitions made in the year and the full year effect of acquisitions made in previous years; acquisition costs of £0.8m (2017: £0.1m) as a result of acquisitions made; share based payment charges of £1.2m (2017: £1.8m) which have decreased as a result of share option awards made in previous years not fully vesting; a mark to market credit adjustment

in respect of interest rate swaps on the Company's loans of £0.1m (2017: £0.1m); and the charge of interest, at the weighted average cost of capital rate of 15.5%, on the contingent consideration paid for the acquisition of United Communications Limited of £0.1m (2017: £0.3m).

In addition, there are two adjusting items in this period with no comparable amount in the previous financial year. We have made a net gain on revaluation of contingent considerations in the period of £1.3m (2017: £nil). The structure of the Sonassi earn out arrangement was such that a relatively modest change in profitability could result in a substantial change in the amount due under the earn out terms. Consequently, estimating the amount due was challenging. The decrease of £1.5m from the originally estimated £2.3m for Sonassi represents an underlying reduction in expected profitability over the earn out period, which ends in July 2018, of only 5.4%. We have also recorded a loss on the revaluation of contingent considerations in respect of Simple Servers of £0.1m and United Communications of £0.1m resulting in a total net gain on revaluation of contingent consideration of £1.3m in the period.

The other adjusting item which does not have a comparable amount in the previous year relates to software licence fees. As a result of an audit undertaken on behalf of a software licensor in the current year, incorrect licence information relating to previous financial years has been identified. The software licensor accepts this situation is not due to any deliberate action of the Group and we are discussing an even stronger collaboration together in the future. The audit covered the four year period ending March 2017 and a sum of £2.1m has been estimated as being due in respect of these four financial years. The final amount could be higher, however not materially, although we believe this is unlikely and it could be lower. The shortfall in licence count identified has been quantified at current year prices rather than the lower pricing that would have been applied in each of the years covered by the audit. Software licencing in a cloud environment is not straightforward with the cloud provider being responsible to the licensor for all software installed on any infrastructure platform provided to its customers, even if the cloud provider does not actually install the software. It is the case that we should have charged our customers more than we have for the use of software on the cloud platforms we provided over the audit period. We are taking steps to improve controls in this area and the adjusted profit before tax for the period of £24.0m includes full provision for all software licences due in that period.

After deducting these items from the adjusted profit before tax; the reported profit before tax was £14.8m (2017: £14.7m) an increase of 1%. In percentage terms the profit before tax margin having been adversely affected by the licence fee provision offset to some extent by the gain on revaluation of contingent consideration reduced to 15% (2017: 16%).

**Taxation**

There is a tax charge for the year of £2.5m (2017: £2.6m). The tax charge for the year is made up of a corporation tax charge of £4.3m (2017: £4.4m) with a deferred tax credit of £1.8m (2017: £1.8m). The effective rate of tax for the year is 17.0% (2017: 17.5%). The decrease of 0.5% is due to the reduction to the tax charge in the current year on the non-taxable income in respect of the gain on revaluation of contingent consideration and the increase in the deduction to the tax charge for the tax effect of share based remuneration. This is offset by an increase to the tax charge in respect of overseas jurisdictions as a result of the US tax rate reducing from 34% to 21% effective from 1 January 2018 impacting deferred tax assets held. Further explanation of the tax charge for the year is given in note 9.

**Profit for the year from total operations**

After deducting the tax charge for the year from the profit before tax the Group has recorded a profit for the year from total operations of £12.3m (2017: £12.1m) an increase of 2%.

**Earnings per share**

The calculation of both adjusted earnings per share and basic earnings per share is included at note 12.

Basic earnings per share from continuing operations was 11.41p (2017: 11.27p), an increase of 1%, and again this has been adversely affected by the licence fee provision offset to some extent by the gain on revaluation of contingent consideration.

Adjusted diluted earnings per share, based on profit for the year attributed to ordinary shareholders before share based payment charges, amortisation charges of acquired intangible assets, mark to market adjustments in respect of interest rate swaps, the gain on the revaluation of contingent consideration and the charge of interest on contingent consideration due, non-recurring costs, acquisition costs and the tax effect of these items was 17.96p (2017: 16.99p), an increase of 6%.

The measure of adjusted diluted earnings per share as described above is a non-statutory measure which is commonly used to analyse the performance of companies particularly where M&A activity forms a significant part of their activities.

### Acquisitions

On 17 May 2017, the Company acquired the entire share capital of Dediserve on a no debt, no cash, normalised working capital basis for a total purchase price of €7.9m (£6.7m). An initial payment of €7.8m (£6.7m) in cash less the sum of €0.25m (£0.21m) as an interim settlement of the expected amount due by the vendors in respect of the no debt, no cash, normalised working capital adjustment was made on acquisition. The initial payment was funded from a drawdown from the Company's revolving credit facility. A further payment of €0.11m (£0.1m) was made in respect of the final no debt, no cash, normalised working capital adjustment. In November a final amount of deferred consideration of €0.1m (£0.09m) was paid.

On 26 July 2017, the Company acquired the entire share capital of Simple Servers on a no debt, no cash, normalised working capital basis for a total purchase price of £4.9m. An initial payment of £3.0m in cash was made on acquisition. The initial payment was funded from a drawdown from the Company's revolving credit facility. In October, a further payment of £0.37m was made in respect of the no debt, no cash, normalised working capital adjustment. An amount of contingent consideration was due in respect of the period ending 31 March 2018. The contingent consideration has now been agreed at £1.9m. £1.8m was paid in June 2018 with the balance due in September 2018 (note 21).

On 17 November 2017, the Company acquired the entire share capital of Sonassi on a no debt, no cash, normalised working capital basis using a locked box mechanism at 30 September 2017 and a daily contribution from then until completion with the benefit of trading during that period accruing to the vendors. At completion, an initial payment of £10.0m in cash was made and in addition, an amount of £3.2m in cash was paid in settlement of the no debt, no cash, normalised working capital and daily contribution adjustment. The initial payment was funded from a drawdown from the Company's revolving credit facility. In February, a sum of £1.0m, which was contingent on the completion of an element of software development was paid. A final sum of no more than £5.5m is payable dependent on the profitability of the business in the year to July 2018. The maximum purchase price is therefore £16.5m, excluding any sums due in respect of the no debt, no cash, normalised working capital and daily contribution adjustment. We expect the amount to be paid in respect of the final contingent consideration due will be £0.8m (note 21).

### Dividends

Our dividend policy, as noted in our Chairman's statement on page 9, which has been in place for several years now, is based on the profitability of the business in the period. We have committed to a pay-out policy of up to 40% of the adjusted diluted earnings per share we deliver in a financial year. This year we introduced an interim dividend of 2.25p which was paid in January 2018. We have now proposed a final dividend payment of 4.93p per share which would result in a total dividend for the year of 7.18p (2017: 6.00p) an increase of 20% and representing a pay-out ratio of 40% of the adjusted diluted earnings per share for the year. The Board has taken the decision to increase the dividend to shareholders as a result of the recurring revenue nature of the Group, the level of operating cash which we now deliver and the low level of indebtedness within the Group.

### Cash flow and net debt

#### *Net cash flows from operating activities*

The Group continued to generate high levels of operating cash over the year. Cash flow from operations was £40.8m (2017: £37.8m) with the significant increase of 8% over the previous year's level due to a combination of the increase in adjusted EBITDA and improvements in working capital management. The adverse movement in trade receivables has been affected by the recording of a large software maintenance invoice in the year covering a period post the year-end resulting in a significant year-end prepayment. As this invoice was not due to be paid by the end of the year it has also contributed to the favourable movement in trade payables. In addition, the movement in both trade receivables and payables has been increased by the trading of Cristie close to the year end when relatively large on premise supply of equipment has led to both trade receivables and payables being outstanding at the year-end. After deducting payments for corporation tax of £5.2m (2017: £3.9m) the net cash flow from operating activities was £35.6m (2017: £33.9m).

#### *Cash flow from investing activities*

In line with our strategy of accelerating our growth by acquisition the Group continued to incur substantial sums on investing activities, spending a total of £41.5m (2017: £15.2m) in the year. Of this amount, £20.1m (2017: £0.7m), net of cash acquired of £4.2m (2017: £3.1m), was incurred in relation to the acquisitions of Dediserve, Simple Servers and Sonassi as described above. In addition, the Group incurred expenditure of £2.5m (2017: £1.2m) in respect of contingent consideration due on previous acquisitions.

**Cash flow and net debt (continued)**

The Group continues to invest in property, plant and equipment through expenditure on datacentres and on equipment required to provide managed services to both its existing and new customers. As a result, the Group spent £16.1m (2017: £10.2m) on assets, net of related finance lease drawdowns, trade creditor movements and non-cash reinstatement provisions. The main reason for the increase is the substantial investment in the network which was made during the year for which we will see the benefit in future years.

Expenditure was also incurred on development costs of £1.6m (2017: £1.4m) and on intangible assets of £1.2m (2017: £1.8m).

***Cash flow from financing activities***

Drawdowns of £25.0m (2017: £nil) were made from the revolving credit facility in the year to fund the purchase of the acquisitions. Bank loan repayments of £8.5m (2017: £16.0m) were made in the year. We received £0.2m (2017: £1.1m) from the issue of shares as a result of the exercise of options by employees. We also made dividend payments of £8.9m (2017: £3.4m) (note 8); incurred finance costs of £1m (2017: £1.2m); and made lease repayments of £0.3m (2017: £0.6m).

***Net cash flow***

As a consequence, our overall cash generated during the year was £0.6m (2017: £1.4m cash expenditure) which resulted in cash and cash equivalent balances at the end of the year of £9.5m (2017: £8.9m). After recognising bank loans of £35.2m (2017: £18.6m) and finance lease obligations of £0.8m (2017: £0.9m) net debt balances at the end of the period stood at £26.6m (2017: £10.6m) a level the Board is comfortable with given the strong cash generation of the Group.

**Exposure to credit and liquidity risks**

Disclosures relating to our exposure to credit and liquidity risks are outlined in note 30.

**Financial position**

The Group is now in a position where it is generating substantial amounts of operating cash. The generation of that cash flow together with the committed bank loan facility for acquisitions, capital expenditure and general business purposes and finance lease facilities which are also available to fund capital expenditure, means that the Group has the liquidity it requires to continue its growth through both organic and acquisitive means.

**Richard Logan**
*Chief Financial Officer*
11 June 2018

## Key performance indicator review

| Revenue Growth | 2018 | 2017 |
|---|---|---|
| Revenue | £97.7m | £89.6m |
| Growth | 9% increase | 17% increase |

Revenue from continuing operations grew by 9% over the year compared to growth of 17% in the previous year. The Cloud Services segment grew revenues by 10% (2017: 11%) and the Easyspace segment grew by 2.5% (2017: 22%).

| Adjusted EBITDA Margin | 2018 | 2017 |
|---|---|---|
| Adjusted EBITDA | £39.8m | £36.6m |
| Adjusted EBITDA margin | 41% | 41% |

The adjusted EBITDA has shown a 9% increase as a consequence of organic growth and acquisitions. In percentage terms the margin has remained constant at 41% at an overall group level and both segments have recorded margins in line with the previous year.

| Adjusted PBT Margin | 2018 | 2017 |
|---|---|---|
| Adjusted PBT | £24.0m | £22.4m |
| Adjusted PBT margin | 25% | 25% |

The adjusted PBT has shown a 7% increase as a consequence of organic growth and acquisitions. The percentage margin has been maintained over the year.

| Adjusted diluted EPS | 2018 | 2017 |
|---|---|---|
| Adjusted diluted EPS | 17.96p | 16.99p |
| Adjusted diluted EPS growth | 6% | 18% |

Our dividend policy uses adjusted diluted EPS as its calculation basis. We have therefore added adjusted diluted EPS and in particular the growth of this measure as a KPI. The adjusted diluted EPS has shown a 6% increase as a consequence of organic growth and acquisitions.

## Principal risks and uncertainties

The board has established a formal process to identify risks and uncertainties through the production and maintenance of a risk register. There are a number of potential risks and uncertainties which have been identified as a result of this process which could have a material impact on the Group's future performance. These are not all the risks which the board has identified but those that the Directors currently consider to be the most material. In addition to these risks note 30 contains details of financial risks.

### Staff

As with any service organisation iomart is dependent on the skill, experience and commitment of its employees and especially a relatively small number of senior staff. The performance of the Group could be adversely affected if the required staffing levels are not maintained or senior staff are not retained. The Group seeks to recruit and retain suitably skilled and experienced staff by offering a challenging and rewarding work environment. This includes competitive and innovative reward packages and a strong commitment to training and development.

### Datacentre operation

Any downtime experienced at our datacentres would immediately have an impact on our ability to provide customers with the level of service they demand. Should the Group be unable to provide the required level of service this could have an adverse effect on the Group's performance through the loss of customers and reputation. Our ongoing investment in preventative maintenance and lifecycle replacement programme ensures our datacentres continue to deliver operational efficiency and effectiveness.

### Network

The Group provides an essential service to an extensive client base many of whom rely on the provision of that service for their major internet presence. The service we provide to customers is dependent on the continued operation of our fibre network which connects our datacentre estate. Should the network fail there would be an adverse impact on customers and any diminution in the level of service could have serious consequences for customer acquisition and retention. The Group has implemented a resilient network throughout its datacentre estate with no single points of failure to ensure the likelihood of network failure is minimised. In addition, our high level of recurring revenue and our low level of customer attrition are evidence of our ability to provide the level of service required.

**Principal risks and uncertainties (continued)**

**Data and Cyber Security**
There has been a sharp rise in recent years in cyber and data related crime. The security of customer, commercial and personal data presents both a reputational and financial risk to the Group. Whilst it is a challenge to completely eliminate all data and cyber security risks the Group continues to make substantial investment in physical and data security systems and promote a culture within the organisation which embeds security across all of our operations. The Group also carries specific insurance in this regard.

**Key suppliers**
The Group is dependent on certain key suppliers for the continued operation of its business, the most significant of which are those for electricity, bandwidth and servers. Were any of these key suppliers to fail in their service provision to the Group this could have an adverse effect on the Group's ability to provide services to its customers. In all cases these supplies are obtained from reputable organisations chosen after a thorough selection process. After selection, the Group actively seeks to maintain good relationships with the chosen suppliers. The Group also seeks to maintain either several sources of supply or in the case of electricity alternative sources of power.

**Search engine optimisation**
A significant amount of the Group's sales revenues are generated through consumers using internet search engines to acquire goods and services. Should the Group's search engine optimisation performance deteriorate this could have an adverse effect on the revenue of the Group. The Group continually monitors the position of its websites with respect to these search engines. Through the allocation of experienced staff the Group seeks to maintain or enhance the position of its websites for detection by internet search engines.

**Growth management**
The Group is experiencing high levels of growth through both organic and acquisitive means. As a consequence we need to continue to evolve as an organisation to meet the demands that such growth places on our business operations. Failure to evolve in the necessary way could lead to deterioration in overall business performance. As part of our annual strategy and budget review process, which is updated as necessary throughout the year we identify the resource and organisational changes that are needed to support our growth. In addition, a detailed integration and migration plan is produced for each acquisition that is made to ensure the acquired operation is successfully integrated into the Group's operations.

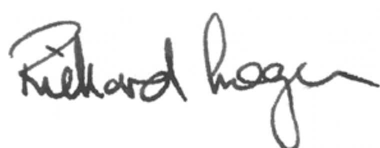
**Acquisitions**
The Group has made several acquisitions over the last number of years and has a stated strategy to continue to make acquisitions. This produces three areas of risk:

- Acquisition target risk – We may not be able to identify suitable targets for acquisition. Through a combination of internal research and external relations we maintain an active pipeline of potential acquisition targets.

- Acquisition integration risk – We may not integrate the acquired business into the Group in an effective manner and as a consequence could lose staff and customers of the acquired business. For each acquisition we prepare a detailed integration and migration plan which includes the participation of the vendor to ensure successful integration of the acquired business into the Group's operations.

- Acquisition performance risk – The acquired business may not perform in line with expectations. As a consequence the expected financial performance of the operation may not be achieved with a resulting adverse effect on profits and cashflow. For each acquisition diligence and integration planning is undertaken and all potential synergies identified.

The Strategic Report on pages 9 to 19 has been approved by the Board and is signed on its behalf:



**Richard Logan**
*Chief Financial Officer*
11 June 2018

# Board of Directors

## Ian Ritchie
**Non-Executive Chairman**

**Date of appointment**
December 2007
**Committee Membership**
Audit, Remuneration and Nomination (Chair)
**Background and experience**
Ian has spent a significant amount of his career working in the technology sector and is an experienced Non-Executive Chairman currently holding a number of senior post across various sectors. Ian is a past President of the British Computer Society and former Vice-President of the Royal Society of Edinburgh and Honorary Treasurer of the Royal Academy of Engineering. He was founding chairman of several technology companies, including Voxar Limited (now part of Canon), Orbital Software Group plc (now part of Sopheon plc), Digital Bridges Limited (now part of Oberon Inc) and Sonaptic Limited (now part of Cirrus Logic Inc).
**External appointments**
Ian was appointed in June 2017 as Non-Executive Chairman of Tern Plc and is Non-Executive Chairman of Computer Application Services Limited, Krotos Limited, and Red Fox Media Limited.

## Angus MacSween
**Chief Executive Officer**

**Date of appointment**
March 2000
**Committee Membership**
Nomination
**Background and experience**
Angus founded iomart in December 1998 following 15 years spent creating and selling businesses in the telephony and internet sector. In 1984, after a short service commission in the Royal Navy, Angus started his first business selling telephone systems. He then grew and sold five profitable businesses – including Prestel, an online information division of BT, which he turned into one of the UK's first internet service providers. Following the sale of Teledata Limited, the UK's leading telephone information services company, to Scottish Telecom plc, Angus then spent two years on the executive of Scottish Telecom plc where he was responsible for the development of the company's internet division.

## Richard Logan
**Chief Financial Officer**

**Date of appointment**
July 2006
**Background and experience**
Richard is a chartered accountant, having qualified with Arthur Young in 1984. Richard then spent seven years with Ben Line Group Limited initially as Group treasurer and latterly as finance director of the main container shipping division. From 1992 to 2002 Richard served as finance director of Kingston SCL, 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 Limited, a technology company based in Scotland.
**External appointments**
Richard is a Non-Executive Director of Inspired Energy plc, an AIM listed energy procurement organisation.

# Board of Directors continued

## Ian Steele

**Non-Executive Director**

**Date of appointment**
June 2016
**Committee Membership**
Audit (Chair), Remuneration and Nomination
**Background and experience**
Ian is a chartered accountant with over 35 years' experience in the corporate finance and corporate advisory sector. During a 16-year career with Deloitte LLP, Ian undertook roles within corporate finance and global advisory services. For the past eight years, Ian sat on the UK board of Deloitte LLP and fulfilled the role of senior partner for Scotland and Northern Ireland.
**External appointments**
Ian is a member of the Council of the Institute of Chartered Accountants of Scotland. He is a Non-Executive Director of STV Group plc and a Non-Executive Director of Killinchy Aerospace Holdings Limited, the principal trading subsidiary of which is Martin-Baker Aircraft Company Limited.

## Richard Masters

**Non-Executive Director**

**Date of appointment**
June 2017
**Committee Membership**
Audit, Remuneration (Chair) and Nomination
**Background and experience**
Richard has over 30 years' experience in the legal profession and was managing partner of McGrigors LLP until April 2012 when it merged with Pinsent Masons LLP. He sat on the main board of Pinsent Masons until March 2017 and has held a number of roles in the business including corporate finance advisory services. He served as Head of Client Operations for Pinsent Masons for three years post merger before being appointed as Executive Chairman of Complete Electronic Risk Compliance Limited, a Pinsent Masons LLP subsidiary which was sold to Dow Jones in February 2018.
**External appointments**
Richard is a member of Pinsent Masons LLP and Pinsent Masons International LLP.

As the company is listed on the Alternative Investment Market (AIM) it is not required to comply with the provisions of the UK Corporate Governance Code (the "Code") issued in April 2016. However, the Board is committed to ensuring that strong standards of corporate governance operate and has established governance procedures and policies that are considered appropriate to the nature and size of the Group.

We do not comply with the Code. During the year, the Board met with corporate governance advisers and reviewed trends in corporate governance, best practice where compliance with the Code was not required and its current corporate governance arrangements. We have reported on our Corporate Governance arrangements by drawing upon that review including those aspects of the Code we consider to be relevant to the Company. The Board considers that at this stage in the Group's development the expense of fully complying with the Code is not appropriate.

Under a change in AIM rules announced by the London Stock Exchange, with effect from September 2018, all AIM companies are required to recognise a corporate governance code and explain how they do so. It is likely that the Group will comply with the Quoted Companies Alliance ("QCA") code, the corporate governance code tailored for small and mid-size quoted companies and this will be reflected in the annual report and accounts for the year ending 31 March 2019.

**The Board**

The Code requires the Company to have an effective Board whose role is to develop strategy and provide leadership to the Company as a whole, as well as ensuring a framework of controls exist which allow for the identification, assessment and management of risk, ultimately taking collective responsibility for the success of the Company.

Through the leadership of the Chairman, the Board sets the Company's strategic goals; ensuring obligations to shareholders are met. Matters reserved for a decision of the Board include approval of Group strategy, annual budgets and business plans, acquisitions, disposals, business development, annual reports, interim statements, and any significant funding and capital expenditure plans.

The Board meets regularly, usually monthly, to discuss and agree on the various matters brought before it, including the trading results. The Company has a highly committed and experienced Board, which is supported by a senior management team, with the qualification and experience necessary for the running of the Group.

In addition, there is regular communication between Executive and Non-Executive Directors, where appropriate, to update the Non-Executive Directors on matters requiring attention prior to the next Board meeting.

**Role of the Chairman and Chief Executive Officer**

The Code requires that there should be a clear division of responsibilities between the running of the Board and the executive responsible for the Company's business, to ensure that no one person has unrestricted powers of decision.

The Chairman is responsible for the leadership of the Board, ensuring its effectiveness and setting its agenda. Once the Board has agreed strategic and financial objectives, it is the Chief Executive Officer's responsibility to ensure they are delivered upon. To facilitate this, the Chief Executive Officer chairs the Group's Operations Boards which additionally comprises the other executive director and, where appropriate, senior members of the management team. These Boards manage the day-to-day operation of the Group's business.

The Chairman holds other directorships, as detailed in his biography on page 20. The Board has considered the time commitment required by his other roles and has concluded they do not detract from his chairmanship of the Company.

**Composition of and Appointments to the Board**

The Code requires that there should be a balance of Executive and Non-Executive Directors and when appointing new Directors to the Board there should be a formal, rigorous and transparent procedure.

The Board comprises a Non-Executive Chairman, Chief Executive Officer, Chief Financial Officer and two independent Non-Executive Directors. Short biographies of the directors are given on pages 20 and 21.

All Non-Executive Directors serving at the year-end are considered to be independent. The Board does not consider the shareholdings of the Non-Executive Directors as detailed on page 30 to have any effect on their independence.

The Board is satisfied with this balance between Executive and Non-Executive Directors. The Board considers that its composition is appropriate in view of the size and requirements of the Group's business and the need to maintain a practical balance between Executive and Non-Executive Directors.

Each member of the Board brings different experience and skills to the Board and its various committees. The Board composition is kept under review as this mix of skills and business experience is a major contributing factor to the proper functioning of the Board, helping to ensure matters are fully debated and that no individual or group dominates the Board decision-making process.

When a new appointment to the Board is made, consideration is given to the particular skills, knowledge and experience that a potential new member could add to the existing Board composition. A formal process is then undertaken, which may involve external recruitment agencies, with appropriate consideration being given, in regards to Executive appointments, to internal and external candidates. Before undertaking the appointment of a Non-Executive Director, the Chairman establishes that the prospective Director can give the time and commitment necessary to fulfil their duties, in terms of availability both to prepare for and attend meetings and to discuss matters at other times.

**Information and Development**
A further principle of the Code is that information of a sufficient quality is supplied to the Board in a timely manner.

The Chairman is responsible for ensuring that all the Directors continually update their skills, their knowledge and familiarity with the Group in order to fulfil their role on the Board and the Board's Committees. Updates dealing with changes in legislation and regulation relevant to the Group's business are provided to the Board by the Company Secretary/Chief Financial Officer and through the Board Committees.

All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring the Board procedures are properly complied with and that the discussions and decisions are appropriately minuted. Directors may seek independent professional advice at the Company's expense in furtherance of their duties as Directors.

Training in matters relevant to their role on the Board is available to all Board Directors. New Directors are provided with an induction in order to introduce them to the operations and management of the business.

**Performance Evaluation**
The Code requires the Board to undertake a formal and rigorous evaluation of its own performance annually and that of its committees and individual Directors.

During the year a formal evaluation was conducted by means of a detailed questionnaire which was completed by each Director. The results of this process were collated by the Chairman and discussed by the Board collectively. The evaluation included a review of the performance of individual Directors, including the Chairman, and the Board Committees. Based on this evaluation the Board has concluded that its performance in the past year has been satisfactory.

**Re-election**
Under the Code, Directors should offer themselves for re-election at regular intervals and under the Company's Articles of Association, at every Annual General Meeting, at least one third of the Directors who are subject to retirement by rotation, are required to retire and may be proposed for re-election. In addition, any Director who was last appointed or re-appointed three years or more prior to the AGM is required to retire from office and may be proposed for re-election. Such retirement will count in obtaining the number required to retire at the AGM. New Directors, who were not appointed at the previous AGM, automatically retire at their first AGM and, if eligible, can seek re-appointment.

Two Directors will retire from office at the Company's forthcoming AGM and stand for re-appointment.

**Board Committees**
The Board has established two committees to deal with specific aspects of the Board's affairs: Audit and Remuneration Committees.

The Board has also established a Nominations Committee, which is chaired by Ian Ritchie and includes Richard Masters, Ian Steele and the Chief Executive Officer.

**Attendance at Board and Committee Meetings**
Attendances of Directors at Board and Committee meetings convened in the year, along with the number of meetings that they were invited to attend, are set out below:

| | Board | | Remuneration Committee | | Audit Committee | |
|---|---|---|---|---|---|---|
| | Held | Attended | Held | Attended | Held | Attended |
| Ian Ritchie – Non-Executive Chairman | 10 | 9 | 2 | 2 | 4 | 4 |
| Angus MacSween – Chief Executive Officer | 10 | 10 | - | - | - | - |
| Crawford Beveridge – Non-Executive Director (resigned 23 August 2017) | 3 | 3 | - | - | 2 | 2 |
| Richard Masters – Non-Executive Director (appointed 20 June 2017) | 8 | 6 | 2 | 2 | 2 | 2 |
| Richard Logan – Chief Financial Officer | 10 | 9 | 2 | 2 | 4 | 4 |
| Ian Steele – Non-Executive Director | 10 | 10 | 2 | 2 | 4 | 4 |

Where any Board member has been unable to attend Board or Committee meetings during the year, their input has been provided to the Company Secretary or Chief Financial Officer ahead of the meeting. The relevant Chairman then provides a detailed briefing along with the minutes of the meeting following its conclusion.

**The Audit Committee**

The members of the Audit Committee during the year were Ian Steele, Ian Ritchie, Crawford Beveridge until his resignation on 23 August 2017 and Richard Masters who was appointed on 23 August 2017.

The Audit Committee, chaired by Ian Steele, who has recent and relevant experience, is authorised by the Board to conduct any activity within its terms of reference and to seek any information it requires from any employee. The Audit Committee has written terms of reference, which are available on request, and include reviewing and monitoring:

- interim and annual reports, including consideration of the appropriateness of accounting policies;
- material assumptions and estimates adopted by management;
- developments in accounting and reporting requirements;
- external auditor's plans for the year-end audit of the Company and its subsidiaries;
- the effectiveness of the Committee;
- the Risk Register covering the systems of internal control and their effectiveness, reporting and making recommendations to the Board on the results of the review and receiving regular updates on key risk areas of financial control;
- the performance and independence of the external auditor concluding in a recommendation to the Board on the reappointment of the auditor by shareholders at the Annual General Meeting;
- non-audit fees charged by the external auditor; and
- the formal engagement terms entered into with the external auditor.

Significant areas considered by the Committee in meeting in relation to the 2018 financial statements are set out below:

| Areas of estimates | Matter Considered and Role of the Committee |
|---|---|
| Impairment of goodwill | The Committee considered the carrying value of goodwill at 31 March 2018. The Committee reviewed the validity of cashflow projections and the significant financial assumptions used, including the selection of appropriate discount and long term growth rates. These projections and assumptions were further challenged through the use of sensitivity analysis, As set out in note 13 to the consolidated financial statements, no impairments of goodwill resulted from this exercise and the Committee did not consider that a reasonably possible change in the assumptions would cause an impairment to be recognised. |
| Business combinations valuation of intangible assets and fair value adjustments on acquisition | During the year ended 31 March 2018 the Group made three acquisitions (note 11). The Committee consider the calculations supporting the fair value of assets and liabilities of any business acquired in the year and review the supporting workings to support the value of intangibles acquired and any fair value adjustments required. |
| Contingent consideration | When an acquisition involves a potential payment of contingent consideration, the Committee review the fair value assessment prepared having regard to criteria on which any sum due will be calculated and challenge the probability of payment being required (note 21). |
| Revenue recognition and the adoption of IFRS 15 | In the next financial year the Group will adopt the provisions of IFRS 15 "Revenue from Contracts with Customers" relating to revenue recognition. The Group has completed its assessment of the impact of IFRS 15 and current revenue recognition policies and, whilst unaudited, that assessment confirms that the adoption of IFRS 15 will not result in a material change to the financial statements (note 2). |

At the invitation of the Committee, meetings may be attended by the Chief Executive Officer, the Chief Financial Officer and the Group Financial Controller. Representatives of the external auditors, Grant Thornton, also attend each meeting. The Chairman of the Committee also meets separately with senior management and the external auditors.

The Chairman of the Audit Committee reports to the subsequent meeting of the Board on the Committee's work and the Board receives a copy of the minutes of each meeting.

The Committee's effectiveness is reviewed annually as part of the Board evaluation exercise.

Under its terms of reference, the Audit Committee is responsible for monitoring the independence, objectivity and performance of the external auditors and for making a recommendation to the Board regarding the appointment of external auditors on an annual basis. The Group's external auditors, Grant Thornton UK LLP, were first appointed as external auditors of the Group for the period ended 31 March 2005.

The auditors have confirmed to the Committee that in relation to their services to the Company they comply with UK regulatory and professional requirements, including Ethical Standards issued by the Auditing Practices Board and that their objectivity is not compromised.

The auditors are required each year to confirm in writing that they have complied with the independence rules of their profession and regulations governing independence. Before Grant Thornton takes on any engagement for other services from the Company careful consideration is given as to whether the project could conflict with their role as auditor or impair their independence.

**The Remuneration Committee**
The Remuneration Committee was chaired by Crawford Beveridge until his resignation on 23 August 2017 and is now chaired by Richard Masters who was appointed on 23 August 2017. Its other members are Ian Ritchie and Ian Steele. It is normal for the Chief Executive Officer to be invited to attend meetings except where matters under review by the Committee relate to him.

The Committee has responsibility for making recommendations to the Board on the remuneration packages of the Executive Directors which includes:

- making recommendations to the Board on the Company's policy on Directors' remuneration and overseeing long term incentive plans (including share option schemes for all employees);
- ensuring remuneration is both appropriate to the level of responsibility and adequate to attract and/or retain Directors and staff of the calibre required by the Company; and
- ensuring that remuneration is in line with current industry practice.

**Risk Management and Internal Control**
The Directors, who are responsible for the Group's system of risk management and internal control, have established systems to ensure that an appropriate level of oversight and control is provided. The systems are reviewed for effectiveness by the Audit Committee and the Board. The Group's systems of risk management and internal control are designed to help the Company meet its business objectives by appropriately managing, rather than eliminating, the risks to those objectives. The controls can only provide reasonable, not absolute, assurance against material misstatement or loss. Executive Directors and senior management meet to review both the risks facing the business and the controls established to minimise those risks and their effectiveness in operation on an on-going basis. The aim of these reviews is to provide reasonable assurance that material risks and problems are identified and appropriate action taken at an early stage.

The Board confirms that procedures to identify, evaluate and manage the significant risks faced by the Group have been in place throughout the year and up to the date of approval of the Annual Report.

**Financial Control**
The annual financial plan is reviewed and approved by the Board. Financial results with comparisons to plan and forecast results are reported on monthly to the Board together with a report on operational achievements, objectives and issues encountered. Significant variances from plan are discussed at Board meetings and actions set in place to address them.

Approval levels for authorisation of expenditure are at set levels and cascaded through the management structure with any expenditure in excess of predefined levels requiring approval from the executive directors.

**Relations with Shareholders**
The Chief Executive Officer and Chief Financial Officer have, where appropriate, had regular dialogue with shareholders and analysts to discuss strategic and other issues including the Company's financial results.

The Company engages in full and open communication with both institutional and private investors and responds promptly to all queries received. In conjunction with the Company's brokers and other financial advisers all relevant news is distributed in a timely fashion through appropriate channels to ensure shareholders are able to access material information on the Company's progress. The Company's website has a section for investors, which contains all publicly available financial information and news on the Company.

**Going Concern**
The Directors, having made suitable enquiries and analysis of the accounts, consider that the Group has adequate resources to continue in business for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements. In making this assessment, the Directors have considered the Group budgets and the cash flow forecasts for the next two financial periods, and associated risks and the availability of bank and leasing facilities. On 6 June 2018, the Group entered into a new banking facility which provides an £80m multi option revolving credit facility that matures in June 2022.

**AIM Rule Compliance Report**
iomart Group plc is quoted on AIM and as a result the Company has complied with AIM Rule 31 which requires the following:

- Have in place sufficient procedures, resources and controls to enable its compliance with the AIM Rules;
- Seek advice from its Nominated Advisor ("Nomad") regarding its compliance with the Rules whenever appropriate and take that advice into account;
- Provide the Company's Nomad with any information it reasonably requests in order for the Nomad to carry out its responsibilities under the AIM Rules for Nominated Advisors, including any proposed changes to the Board and Provision of draft notifications in advance;
- Ensure that each of the Company's Directors accepts full responsibility, collectively and individually, for compliance with the AIM rules; and
- Ensure that each Director discloses without delay all information which the Company needs in order to comply with AIM Rule 17 (Disclosure of Miscellaneous Information) insofar as that information is known to the director or could with reasonable diligence be ascertained by the Director.

**Quality of Personnel and Employee Involvement**
The Group is committed to attracting and retaining the highest level of personnel. It strives to do this through, amongst other things, the application of high standards in recruitment. The Group is aware of the importance of good communication in relationships with its staff and also follows a policy of encouraging training.

A number of employees participate in the growth of the business through the ownership of share options with some employees also participating in the Group bonus scheme.

**Business Ethics**
The Board recognises that the Company is accountable to its shareholders and, at the same time, seeks to take into account the interests of all its stakeholders including customers, suppliers and subcontractors, employees, as well as the local community, and the environment in which it operates.

The Group maintains core values of Honesty, Integrity, Hard Work, Service and Quality and actively promotes these values in all activities undertaken on behalf of the Group.

**Customers**
The Group treats all of its customers with the utmost respect and seeks to be honest and fair in all relationships with them. The Group provides its customers with products of high quality.

**Suppliers and Subcontractors**
Relationships with suppliers and subcontractors are based on mutual respect, and the Group seeks to be honest and fair in its relationships with suppliers and subcontractors, and to honour the terms and conditions of its agreements in place with such suppliers and subcontractors.

The Group is aware that the giving or accepting of bribes is not acceptable business conduct.

**Employees**
The Group recognises the importance of its employees and that the success of the Group is due to their efforts. The Group respects the dignity and rights of all its employees. The Group provides clean, healthy and safe working conditions. An inclusive working environment and a culture of openness are maintained by the regular dissemination of information.

The Group endeavours to provide equal opportunities for all employees and facilitates the development of employees' skill sets. A fair remuneration policy is adopted throughout the Group.

The Group does not tolerate any sexual, physical or mental harassment of its employees. The Group operates an equal opportunities policy and specifically prohibits discrimination on grounds of colour, ethnic origin, gender, ages, religion, political or other opinion, disability, or sexual orientation.

By order of the Board

**Andrew McDonald**
*Company secretary*
11 June 2018

### Directors' Remuneration Report for the year to March 2018

As the Company is listed on the Alternative Investment Market it is not required to comply with the provisions of the UK Corporate Governance Code 2016 ("Code") issued by the Financial Reporting Council. However, in framing its remuneration policy the Remuneration Committee has given consideration to the Code to ensure that the remuneration policy both reflects our strategy and is aligned with shareholders' interests.

We have provided disclosures in addition to that which is required by AIM Rule 19 on a voluntary basis to enable shareholders to understand and consider our remuneration arrangements. In line with best practice, we will also voluntarily submit this report to an advisory shareholder vote 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
- alignment with our overall strategy and the continued commitment of executives to the Group's success through appropriate incentive schemes.

The committee is chaired by Richard Masters.  Ian Ritchie, the Company's non-executive Chairman and Ian Steele are also members of the Committee.  The CEO may attend meetings from time to time at the invitation of the committee and provide information and support as requested.  Directors are not present when their own remuneration is being discussed.

The committee normally meets at least twice per year and met two times during the current year.

### Remuneration of executive directors

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

| Element | Overview of policy and structure | Opportunity | Performance measures |
|---|---|---|---|
| Base salary | • The remuneration committee sets base salaries to reflect responsibilities and the skill, knowledge and experience of the individual taking into account salary levels in the wider market, including at similar sized businesses.<br>• Base salaries are reviewed annually. Where appropriate the remuneration committee considers external expert advice when setting the level of reward packages.<br>• The executive directors do not receive directors' fees. | • The committee recently reviewed base salary and salaries with effect from 1 April 2018 will be as follows:<br>▪ CEO – £358,750<br>▪ CFO – £215,250 | n/a |

**Remuneration of executive directors (continued)**

| Element | Overview of policy and Structure | Opportunity | Performance measures |
|---|---|---|---|
| Annual bonus | • The executive directors are eligible to receive an annual bonus dependent on Group and individual performance at the discretion of the remuneration committee.<br>• Bonuses are normally paid in cash following the year end. | • The maximum annual bonus opportunity is 135% of base salary. | • The level of executive directors' discretionary bonus payments is determined by a number of factors including the Group's financial performance, its successful continuation of its organic and acquisitive strategy, its continual internal improvement programme and the individual's own performance.<br>• For the bonus for the financial year ending March 2018 the performance measure was based primarily on Group adjusted EBITDA performance, with the above criteria taken into account by the Committee when determining payments. The expectation is that a similar approach will be adopted in respect of the financial year ending March 2019.<br>• For achievement of target a bonus of 100% of salary is paid. Executives only receive more than 100% of salary for performance well in excess of target. Bonuses reduce significantly if targets are not achieved with generally no bonuses payable if less than 90% of target is achieved. |
| Performance share plan | • The Group operates a performance share plan for executive directors and managers to reward, retain and incentivise those individuals who have made a major contribution to the Group and will continue to play a key role in helping the Group achieve its objectives in the future.<br>• Awards are granted in the form of nominal cost, 1p options. | • The maximum award under the performance share plan is 110% of base salary. | • The vesting of options is subject to the achievement of performance conditions. Normally vesting is also subject to continued employment.<br>• Performance is currently assessed based on the achievement of profit targets in three years set with reference to our organic and acquisitive growth strategy. |

**Remuneration of executive directors (continued)**

| Element | Overview of policy and Structure | Opportunity | Performance measures |
|---|---|---|---|
| Performance share plan (continued) | • Share options awarded will normally vest after the third anniversary of the date of grant.<br>• Participants have 10 years from award to exercise awards. | | • Options awarded in April 2018 will vest based on Group adjusted EBITDA performance for the March 2021 financial year to ensure continued focus on driving profit performance. |
| Pension | • The Company may make contributions towards an individuals' personal pension arrangements. | • The maximum contributions payable by the Company are 2 times the contribution made by the director up to a maximum employer contribution of 10% of basic salary.<br>• Neither the CEO nor the CFO currently receive a pension contribution. | n/a |
| Benefits | • The executive directors are entitled to life insurance cover, death in service benefits and to participate in the Group's Private Medical Insurance scheme. Other role-appropriate benefits may also be provided.<br>• The Group operates a Sharesave scheme for all employees including executive directors. | n/a | n/a |

**Service contracts**

Executive directors are engaged under service contracts which require the following notice periods:

| | |
|---|---|
| Angus MacSween | 12 months |
| Richard Logan | 6 months |

**Remuneration of non-executive directors**

The fees paid to the non-executive directors are determined by the Board. Non-executive directors are not entitled to receive any bonus or other benefits. Non-executive directors are entitled to reasonable expenses incurred in the performance of their duties.

Non-executive directors' fees were reviewed in the prior year to ensure that they are appropriate for a company of our size and complexity. Our policy for the March 2019 financial year remains the same as prior year to pay a fee of £40,000 per annum for Board Director duties with additional fees of £5,000 per annum paid to the Audit and Remuneration Committee chairman to reflect the additional time required to fulfil these roles.

The chairman receives a fee of £75,000 per annum.

Non-executive directors' letters of appointment are on a 6 month rolling basis.

**Directors' remuneration for the year ended 31 March 2018**

Details of individual director's emoluments for the year are as follows (this information has been audited):

| Name of director | Salary or fees | Bonus | Benefits | Pension contributions | Year ended 31 March 2018 Total | Year ended 31 March 2017 Total |
|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ |
| **Executive directors** | | | | | | |
| Angus MacSween | 350,000 | 84,921 | 4,496 | - | 439,417 | 565,210 |
| Richard Logan | 210,000 | 84,921 | 2,873 | - | 297,794 | 335,869 |
| Sarah Haran [1] | n/a | n/a | n/a | n/a | n/a | 325,640 |
| **Non-executive directors** | | | | | | |
| Chris Batterham [2] | n/a | n/a | n/a | n/a | n/a | 14,090 |
| Crawford Beveridge [3] | 10,417 | n/a | n/a | n/a | 10,417 | 25,000 |
| Ian Ritchie | 75,000 | - | - | - | 75,000 | 55,000 |
| Ian Steele | 45,000 | - | - | - | 45,000 | 27,462 |
| Richard Masters [4] | 35,308 | - | - | - | 35,308 | n/a |

[1] Sarah Haran resigned from the Board on 31 March 2017
[2] Chris Batterham resigned from the Board on 24 August 2016
[3] Crawford Beveridge resigned from the Board on 23 August 2017
[4] Richard Masters was appointed to the Board on 20 June 2017

**Directors' interests in shares**

The interests of the directors in the shares of the company at 31 March 2018, together with their interests at 1 April 2017 were as follows:

| | Number of ordinary shares | |
|---|---|---|
| | 31 March 2018 | At 1 April 2017 |
| **Name of director** | | |
| Angus MacSween | 16,998,789 | 16,998,789 |
| Crawford Beveridge (resigned 23 August 2017) | n/a | 30,000 |
| Richard Logan | 962,095 | 962,095 |
| Ian Ritchie | 156,102 | 156,102 |
| Ian Steele | nil | nil |
| Richard Masters (appointed 20 June 2017) | nil | n/a |

**Directors' interests in share options** (this information has been audited)

The interests of the directors at 31 March 2018 in options over the ordinary shares of the Company were as follows:

| Name of director | At 1 April 2017 | Exercised | Granted | Lapsed | At 31 March 2018 | Exercise price | Date of Grant | Date from which exercisable | Expiry date |
|---|---|---|---|---|---|---|---|---|---|
| Angus MacSween | 43,010 | - | - | - | 43,010 | 46.5p | 06/10/2008 | 31/03/2009 | 06/10/2018 |
| | 113,334 | - | - | - | 113,334 | 1p | 27/03/2013 | 31/05/2014 | 27/03/2023 |
| | 113,333 | - | - | - | 113,333 | 1p | 27/03/2013 | 31/05/2015 | 27/03/2023 |
| | 113,333 | - | - | - | 113,333 | 1p | 27/03/2013 | 31/05/2016 | 27/03/2023 |
| | 117,480 | - | - | - | 117,480 | 1p | 25/09/2014 | 25/09/2017 | 25/09/2024 |
| | 4,620 | - | - | - | 4,620 | 194.8p | 12/08/2015 | 01/10/2018 | 31/03/2019 |
| | 175,575 | - | - | - | 175,575 | 1p | 28/08/2015 | 28/08/2018 | 28/08/2025 |
| | 134,281 | - | - | - | 134,281 | 1p | 01/04/2016 | 01/04/2019 | 01/04/2026 |
| | - | - | 129,848 | - | 129,848 | 1p | 12/04/2017 | 12/04/2020 | 12/04/2027 |
| | - | - | 3,560 | | 3,560 | 252.8p | 18/08/2017 | 01/10/2020 | 31/03/2021 |
| | 814,966 | - | 133,408 | - | 948,374 | | | | |
| Richard Logan | 28,495 | - | - | - | 28,495 | 46.5p | 06/10/2008 | 31/03/2010 | 06/10/2018 |
| | 80,000 | - | - | - | 80,000 | 1p | 27/03/2013 | 31/05/2014 | 27/03/2023 |
| | 80,000 | - | - | - | 80,000 | 1p | 27/03/2013 | 31/05/2015 | 27/03/2023 |
| | 80,000 | - | - | - | 80,000 | 1p | 27/03/2013 | 31/05/2016 | 27/03/2023 |
| | 72,080 | - | - | - | 72,080 | 1p | 25/09/2014 | 25/09/2017 | 25/09/2024 |
| | 4,620 | - | - | - | 4,620 | 194.8p | 12/08/2015 | 01/10/2018 | 31/03/2019 |
| | 87,557 | - | - | - | 87,557 | 1p | 28/08/2015 | 28/08/2018 | 28/08/2025 |
| | 72,481 | - | - | - | 72,481 | 1p | 01/04/2016 | 01/04/2019 | 01/04/2026 |
| | 7,428 | - | - | - | 7,428 | 1p | 24/08/2016 | 24/08/2019 | 24/08/2026 |
| | - | - | 77,909 | - | 77,909 | 1p | 12/04/2017 | 12/04/2020 | 12/04/2027 |
| | - | - | 3,560 | | 3,560 | 252.8p | 18/08/2017 | 01/10/2020 | 31/03/2021 |
| | 512,661 | - | 81,469 | - | 594,130 | | | | |
| Ian Ritchie | 4,620 | - | - | - | 4,620 | 194.8p | 12/08/2015 | 01/10/2018 | 31/03/2019 |
| | 4,620 | - | - | - | 4,620 | | | | |

During the year options over 207,757 ordinary shares (2017: 288,293) were granted to Directors under the unapproved share option scheme with an average exercise price of 1.0p per share (2017: 1.0p per share) and 7,120 options over ordinary shares under the Sharesave scheme were granted to Directors (2017: nil) with an average exercise price of 252.8p per share (2017: nil).

**Directors' interests in share options (continued)**

The market price of the company's shares at the end of the financial period was 366.50p and the range of prices during the period was between 290.0p and 410.0p.

By order of the board

**Richard Masters**
*Chairman, Remuneration committee*
11 June 2018

The directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the year ended 31 March 2018.

**Financial risk management objectives and policies**

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.

As described in note 22, during the year the Group had a £60m multi option revolving credit facility with Bank of Scotland Plc of which £35.0m was drawn down at the year end and which was available until June 2019. On 6 June 2018, the Group entered into a new banking facility to replace the facility which was available during the year and which provides an £80m multi option revolving credit facility that matures in June 2022.

The multi option revolving credit facility may be used by the Group to finance acquisitions, capital expenditure, general business purposes and for the issue of guarantees, bonds or indemnities. The current facility was available until June 2019 at which point any advances made under the multi option revolving credit facility would have become immediately repayable. In addition, each draw down made under the facility can be for either 3 or 6 months and can either be repaid or continued at the end of the period. Interest is charged on this loan at an annual rate determined by the sum of the multi option revolving credit facility margin, LIBOR and the lender's mandatory costs. The multi option revolving credit facility margin is fixed at 1.7% per annum and a non-utilisation fee of 40% of the multi option revolving credit facility margin is due on any undrawn portion of the full £60m multi option revolving credit facility. The effective interest rate for the multi option revolving credit facility in the current year was 2.7% (2017: 3.32%).

The Group's borrowings at 31 March 2018 comprise finance leases totalling £0.8m (2017: £0.9m) and bank facility usage totalling £35.2m (2017: £18.6m). The interest rates on the finance leases are fixed for the term of the lease at between 9.3% and 11.5% and the average interest rate was 11.4% (2017: 11.2%).

The Group has exposure to movements in interest rates on its bank borrowings. The Group has entered into an interest rate swap in respect of £10m which has been drawn under the revolving credit facility from April 2015 which reduces by £2m every 6 months until October 2017 and as a consequence the interest rate on that amount of borrowing is fixed at 2.03% from April 2015 until maturity. As a consequence, at 31 March 2018, the interest rate swap has matured in October 2017 and £nil (2017: £2m) of the amount drawn under the multi option revolving credit facility was covered by interest rate swap arrangements. The fair value of the interest rate swap contract is estimated to be a gain of £46,000 (2017: £84,000) which has been recognised in profit or loss for the year.

The Group has exposure to movements in the exchange rate of the US dollar as certain domain name purchases and licences are transacted in this currency. To protect cash flows against the level of exchange rate risk, the Group entered into forward exchange contracts to hedge foreign exchange exposures arising on the forecast payments. The majority of transactions of the parent company and the UK subsidiaries are in UK sterling and, with the exception of forward foreign exchange contracts and interest rate swaps, the Group does not use derivative instruments. Additional information on financial instruments is included in note 30.

**Dividend**

The directors declared an interim dividend for the year ended 31 March 2018 of 2.25p per share (2017: £nil). The directors recommend a final dividend for the year ended 31 March 2018 of 4.93p per share (2017: 6.00p per share).

**Research and development**

The Group develops cloud computing products including private cloud platforms, hybrid cloud platforms, virtual platforms, online backup and storage solutions and email related products.

**Post balance sheet events**

On 6 June 2018, the Group entered into a new banking facility which provides an £80m multi option revolving credit facility that matures in June 2022.

On 30 May 2018, the Group extended the London datacentre lease to June 2030.

**Future developments**

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 18 to 19.

### Directors and their interests

The present membership of the board is set out on page 20 to 21 and the directors who served during the year are listed on page 30. Under the company's Articles of Association Ian Ritchie is due to retire by rotation but has chosen not to stand for re-election at our forth coming annual general meeting. Therefore, in accordance with the Articles of Association, Ian Steele and Angus MacSween are due to retire by rotation and offer themselves for re-election at the forthcoming annual general meeting.

Details of directors' interests in the company's shares are set out in the Report of the Board to the Members on Directors' Remuneration on pages 27 to 32.

### Insurance for directors and officers

The Company has purchased and maintains appropriate insurance cover against legal action brought against directors and officers.

### Substantial shareholdings

At 31 May 2018 the following interests in 3% or more of the issued ordinary share capital, excluding shares held by the iomart Group plc Employee Benefit Trust, had been notified to the Company:

| Shareholder | Shares | Percentage held |
|---|---:|---:|
| Liontrust Asset Management | 17,877,821 | 16.51% |
| Angus MacSween | 16,998,789 | 15.73% |
| Octopus Investments | 13,710,122 | 12.66% |
| Investec Wealth & Investment | 5,369,611 | 4.96% |
| Noble Grossart Investment Limited | 3,505,000 | 3.24% |

### Transactions in own shares

During the year 100,839 (2017: 745,797) own shares held in treasury at the carrying value of 49.5p each were issued following the exercise of share options by employees for which a net total of £57,515 (2017: £1,065,018) was received.

### 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 incentive schemes and it is the board's policy to make specific 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.

### Independent Auditor

The directors confirm that each of the persons who is a director at the date of approval of this annual report confirms that:

- so far as each director is aware, there is no relevant audit information of which the Group and Parent Company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This information is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2016.

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

**Andrew McDonald**
*Company secretary*
11 June 2018

The directors are responsible for preparing the Strategic Report and Directors' Report, and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and have chosen to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company and Group for that period.
In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed for the Group financial statements and whether United Kingdom Generally Accepted Accounting Practice FRS 101 (United Kingdom Accounting Standards and applicable laws) have been followed for the Parent Company financial statements, 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 company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Parent Company and enable them to ensure that the Group and Parent Company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

**Independent auditor's report to the members of iomart Group plc**

**Opinion**

**Our opinion on the group financial statements is unmodified**
We have audited the group financial statements of iomart Group plc for the year ended 31 March 2018, which comprise of the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Basis for opinion**
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the group financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

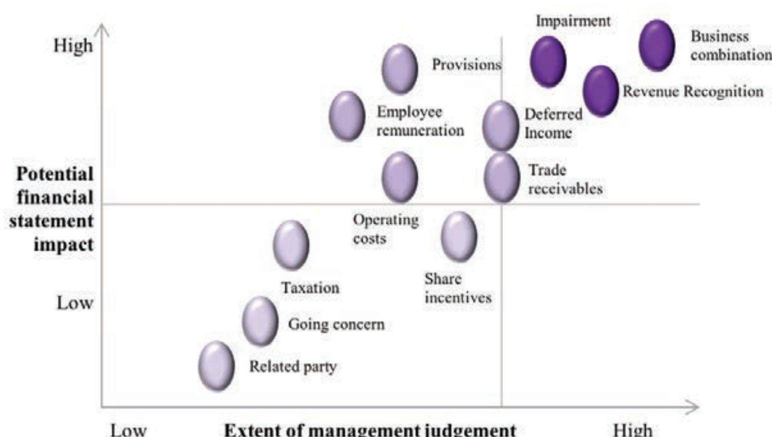
**Conclusions relating to going concern**
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the group financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

**Overview of our audit approach**
- Overall materiality: £1.793m, which represents 4.5% of the Group's EBITDA;
- Key audit matters were identified as revenue recognition, business combinations and carrying value of Goodwill; and
- We performed full scope audit procedures on the financial statements of Iomart Group plc and on the financial information of all trading UK subsidiaries along with targeted procedures on Iomart Cloud Inc and Dediserve Limited. This gave us coverage across all revenue.

**Key audit matters**

The graph below depicts the audit risks identified and their relative significance based on the extent of the financial statement impact and the extent of management judgement.




Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the group financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the group financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key Audit Matters | How the matter was addressed in the audit |
|---|---|
| **Revenue Recognition** | |
| The Group has recognised revenues of £97.7 million (31 March 2017: £89.6 million) in the year. Revenue is derived from a number of revenue streams, and key streams include domain and hosting services, managed cloud computing facilities and consultancy. Each stream has its own revenue recognition policies based on the nature of the revenue.<br><br>Revenue has different streams with different methods of recognition and therefore judgement is required to determine when this is recognised. This was the area that the audit team had a significant level of resource allocated to, to make sure this was correctly accounted for. We therefore identified this risk as a significant risk, which was one of the most significant assessed risks of material misstatement. | Our audit work included, but was not restricted to:<br><br>• Evaluating the Group's accounting policies for compliance with IAS 18, and agreeing whether revenue has been recognised in accordance with these policies;<br>• Performing detailed sample testing on a population of revenue throughout the year by vouching these to either cash payment or alternative appropriate supporting documentation proving the validity of the sale; and<br><br>• Considering within this testing the deferred revenue element and whether this had, if applicable been treated correctly.<br><br>The group's accounting policy on revenue recognition is shown in note 2 to the financial statements.<br><br>**Key observations**<br>Our testing has given us sufficient audit evidence that revenue is not materially misstated. |

| Key Audit Matters | How the matter was addressed in the audit |
|---|---|
| **Business Combinations** | |
| There were 3 acquisitions within the period under audit.<br><br>Dediserve Limited, based in Ireland was acquired in May 2017, for a cost of €7.9m.<br><br>The Tier 9 Limited Group ('Simple Servers'), was acquired in July 2017 for total consideration to be transferred of £5.15m, which included £1.7m of contingent consideration.<br><br>Sonassi Holdings Limited and its subsidiary Sonassi Limited were acquired in November 2017 for total consideration to be transferred of £16.6m, which included £2.3m of contingent consideration.<br><br>Details of the makeup of all the considerations for the acquisitions are included within note 11 including year-end reassessment of contingent consideration.<br><br>Given the subjectivity around assumptions used as part of the determining of the fair value of assets and liabilities acquired, there is a risk that such assets are incorrectly measured along with the assumptions used within the contingent consideration. We are aware that the company themselves have performed the valuation calculations of each acquisition. We therefore identified acquisition accounting as a significant risk, which was the most significant assessed risk of material misstatement. | Our audit work included, but was not restricted to:<br><br>• Considering the terms of the sale and purchase agreement and public offer documentation respectively to ensure that the terms of the acquisitions have been appropriately accounted for within the financial statements by management;<br>• Critically appraising the fair value adjustments relating to the acquisition of Simple Servers and Sonassi.<br>• Critically appraising any material movements within the Dediserve acquisition accounting from those audited in the prior year; along with our assessment of the current position of the company and whether an indication was given that any triggers were noted which would create any additional adjustments;<br>• Critical assessment of management's assumptions and calculations for goodwill and other intangible assets identified from acquisitions, incorporating the evaluation of relevant forecasts used to complete these calculations. This involved input by our specialist Valuations Team to ensure the calculations comply with the requirements set out in IFRS 3 'Business Combinations'; and<br>• Challenging management's rationale and calculations behind the fair values of any contingent consideration, including the assessment of the range of possible outcomes and the probability of each of these.<br><br>The group's accounting policy on acquisition accounting is shown in note 2 and related disclosures are included in note 11. The Audit Committee identified acquisition accounting as a significant area in its report on page 24, where the Audit Committee also described the action that it has taken to address this issue.<br><br>**Key observations**<br>We gained sufficient audit evidence that the accounting for business combinations and related intangible asset recognition were in compliance with IFRS 3, and were not materially misstated. |

| Key Audit Matters | How the matter was addressed in the audit |
|---|---|
| **Carrying value of Goodwill** | |
| The carrying value of goodwill is £75.8 million at 31 March 2018 (31 March 2017: £62.0 million), with the increase primarily driven by the three acquisition's discussed in the key audit matter above.<br><br>Goodwill is reviewed annually for impairment under IFRSs as adopted by the European Union. An impairment review must be carried out for each cash-generating unit ('CGU'), with a CGU being the smallest group of assets that includes the asset being tested for impairment. Management have assessed that there are two CGUs in the business, being "Cloud Services" and "Easyspace". The carrying value of this Goodwill and other associated assets is assessed by management with key judgements being made around discount rate, growth rate and future cash flows. Given the level of management judgement involved, we identified the carrying value of goodwill as a significant risk, which was one of the most significant assessed risks of material misstatement. | Our audit work included, but was not restricted to:<br><br>• Consideration of the CGUs used within the calculation, analysing and critically assessing management's assessment of the appropriateness of the two CGUs<br>• Consideration of the cash flow projections for each CGU as prepared by management, critically assessing the inherent judgements and assumptions;<br>• Performing sensitivity analysis on the key assumptions and reviewing the headroom when flexing key assumptions.<br>• A comparison was performed of the results of previous year's budgets against actual performance to assess management's ability for the current year.<br><br>The group's accounting policy on carrying value of goodwill is shown in note 2 and related disclosures are included in note 13. The Audit Committee identified goodwill impairment as a significant area in its report on page 24, where the Audit Committee also described the action that it has taken to address this issue.<br><br>**Key observations**<br>We gained sufficient appropriate audit evidence that the assumptions used by management in assessing goodwill and the resultant carrying value of goodwill is not impaired. |

**Our application of materiality**

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

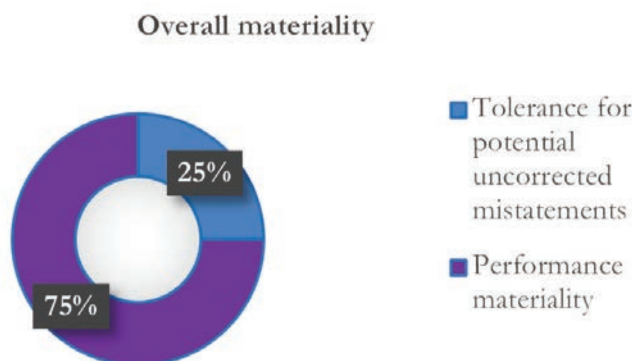
We determined materiality for the audit of the group financial statements as a whole to be £1.793m, which is 4.5% of EBITDA. This benchmark is considered the most appropriate because it is the key performance measure applied by users of the financial statements.

Materiality for the current year is higher than the level that we determined for the year ended 31 March 2017 to reflect the growth in EBITDA in the year.

We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality for the audit of the group financial statements.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

**Our application of materiality (continued)**




We also determine a lower level of specific materiality of £67k for directors' remuneration, which is based on 5% of the prior year aggregate emoluments of £1.348m.

We determined the threshold at which we will communicate misstatements to the audit committee to be £90k. In addition, we will communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

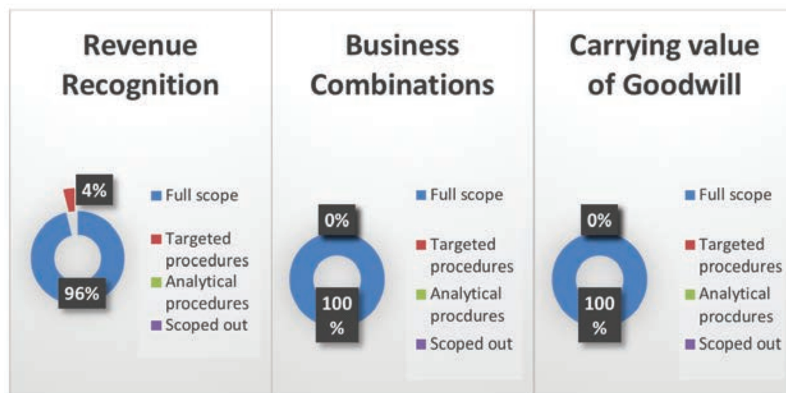
**An overview of the scope of our audit**
Our audit approach was a risk-based approach founded on a thorough understanding of the group's business, its environment and risk profile and in particular included:

- evaluation by the group audit team of identified components to assess the significance of that component and to determine the planned audit response based on a measure of materiality. We considered each component's significance as a percentage of the group's total assets, current assets, total liabilities, equity, revenues and EBITDA or significance based on qualitative factors, such as specific use is or concerns over specific components;
- an interim visit, which included an evaluation the group's internal controls environment including its IT systems and controls;
- components were identified as significant based on a detailed consideration of each component, quantitative financial considerations, risks identified at the component level and other qualitative factors;

| Audit of financial information | Targeted | Analytical procedures |
|---|---|---|
| • All Uk trading and non-trading entities | • Dediserve Ltd<br>• iomart Cloud Inc | • All other entries |

- there were no significant changes in scope from the prior year audit beyond the additional procedures required around the acquisitions as noted above.;
- Coverage of revenue for full scope audits was 96% with the remaining 4% covered by the targeted procedures performed;
- Communications were had with the component auditors of Dediserve Ltd, the only component not audited by Grant Thornton UK. This involved detailed communications including group instructions as part of the risk assessment for the component, and a review of targeted working papers at the fieldwork stage of the audit.

**An overview of the scope of our audit (continued)**




**Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report set out on pages 3 to 34, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the group financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the group financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement of the group financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**Our opinion on other matters prescribed by the Companies Act 2006 is unmodified**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the group
- financial statements are prepared is consistent with the group financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

**Matters on which we are required to report under the Companies Act 2006**

In the light of the knowledge and understanding of the group and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

**Matters on which we are required to report by exception**

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

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Responsibilities of directors for the financial statements**
As explained more fully in the directors' responsibilities statement set out on page 35, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of group financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the group financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the group financial statements**
Our objectives are to obtain reasonable assurance about whether the group financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these group financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

**Other matter**
We have only reported on the information in the Directors' Remuneration Report that is described as having been audited. We have reported separately on the parent company financial statements of Iomart Group plc for the year ended 31 March 2018. That report includes details of the parent company key audit matters; how we applied the concept of materiality in planning and performing our audit; and an overview of the scope of our audit··

Robert Hannah
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Glasgow
11 June 2018

## Consolidated statement of comprehensive income. Year ended 31 March 2018

| | Note | 2018 £'000 | 2017 £'000 |
|---|---|---|---|
| Revenue | | 97,669 | 89,573 |
| Cost of sales | 4 | (34,741) | (32,266) |
| **Gross profit** | | **62,928** | **57,307** |
| Administrative expenses | 4 | (46,154) | (41,074) |
| Administrative expenses – exceptional non-recurring costs | 4 | (2,143) | - |
| **Operating profit** | | **14,631** | **16,233** |
| **Analysed as**: | | | |
| **Earnings before interest, tax, depreciation, amortisation, acquisition costs, share based payments and non-recurring costs** | | **39,843** | **36,570** |
| Share based payments | 27 | (1,206) | (1,844) |
| Acquisition costs | 6 | (774) | (104) |
| Depreciation | 4 | (12,536) | (10,972) |
| Amortisation – acquired intangible assets | 4 | (6,449) | (5,558) |
| Amortisation – other intangible assets | 4 | (2,104) | (1,859) |
| Administrative expenses – exceptional non-recurring costs | 4 | (2,143) | - |
| Gain on revaluation of contingent consideration | 30 | 1,335 | - |
| Finance income | 7 | 13 | 22 |
| Finance costs | 7 | (1,182) | (1,601) |
| **Profit before taxation** | | **14,797** | **14,654** |
| Taxation | 9 | (2,510) | (2,571) |
| **Profit for the year attributable to equity holders of the parent** | | **12,287** | **12,083** |
| **Other comprehensive income** | | | |
| *Amounts which may be reclassified to profit or loss* | | | |
| Currency translation differences | | (25) | 22 |
| **Other comprehensive income for the year** | | **(25)** | **22** |
| **Total comprehensive income for the year attributable to equity holders of the parent** | | **12,262** | **12,105** |

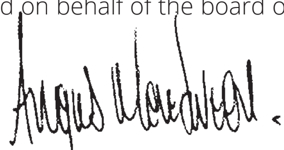
| | | | |
|---|---|---|---|
| **Basic and diluted earnings per share** | | | |
| **Total operations** | | | |
| Basic earnings per share | 12 | 11.41p | 11.27 p |
| Diluted earnings per share | 12 | 11.21p | 11.08 p |

The following notes form part of the financial statements.

| | Note | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets – goodwill | 13 | 75,837 | 62,000 |
| Intangible assets – other | 13 | 26,926 | 19,707 |
| Lease deposits | 14 | 2,760 | 2,760 |
| Property, plant and equipment | 16 | 40,686 | 35,049 |
| | | **146,209** | **119,516** |
| **Current assets** | | | |
| Cash and cash equivalents | 18 | 9,495 | 8,906 |
| Trade and other receivables | 17 | 17,958 | 15,080 |
| | | **27,453** | **23,986** |
| **Total assets** | | **173,662** | **143,502** |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Non-current borrowings | 22 | (503) | (625) |
| Trade and other payables | 20 | - | (102) |
| Provisions | 23 | (1,775) | (1,721) |
| Deferred tax | 10 | (1,319) | (888) |
| | | **(3,597)** | **(3,336)** |
| **Current liabilities** | | | |
| Contingent consideration due on acquisitions | 21 | (2,694) | (2,373) |
| Trade and other payables | 19 | (29,145) | (23,368) |
| Provisions | 23 | (2,587) | (38) |
| Current tax liabilities | | (1,608) | (2,000) |
| Current borrowings | 22 | (35,566) | (18,872) |
| | | **(71,600)** | **(46,651)** |
| **Total liabilities** | | **(75,197)** | **(49,987)** |
| **Net assets** | | **98,465** | **93,515** |
| **EQUITY** | | | |
| Share capital | 25 | 1,080 | 1,078 |
| Own shares | 26 | (70) | (120) |
| Capital redemption reserve | | 1,200 | 1,200 |
| Share premium | | 21,231 | 21,067 |
| Merger reserve | | 4,983 | 4,983 |
| Foreign currency translation reserve | | (40) | (15) |
| Retained earnings | | 70,081 | 65,322 |
| **Total equity** | | **98,465** | **93,515** |

These financial statements were approved by the board of directors and authorised for issue on 11 June 2018.

Signed on behalf of the board of directors



Angus MacSween
Director and chief executive officer
iomart Group plc – Company Number: SC204560

The following notes form part of the financial statements

## Consolidated statement of cash flows. Year ended 31 March 2018

| | Note | 2018 £'000 | 2017 £'000 |
|---|---|---|---|
| **Profit before taxation** | | **14,797** | **14,654** |
| Gain on revaluation of contingent consideration | 30 | (1,335) | - |
| Finance costs – net | 7 | 1,169 | 1,579 |
| Depreciation | 4 | 12,536 | 10,972 |
| Amortisation | 4 | 8,553 | 7,417 |
| Share based payments | 27 | 1,206 | 1,844 |
| Movement in trade receivables | | (2,289) | 837 |
| Movement in trade payables | | 6,195 | 480 |
| **Cash flow from operations** | | **40,832** | **37,783** |
| Taxation paid | | (5,236) | (3,874) |
| **Net cash flow from operating activities** | | **35,596** | **33,909** |
| | | | |
| **Cash flow from investing activities** | | | |
| Purchase of property, plant and equipment | 16 | (16,092) | (10,189) |
| Capitalisation of development costs | 13 | (1,577) | (1,372) |
| Purchase of intangible assets | 13 | (1,223) | (1,845) |
| Payments for current period acquisitions net of cash acquired | 11 | (20,143) | (703) |
| Contingent consideration paid | 30 | (2,475) | (1,161) |
| Finance income received | 7 | 13 | 22 |
| **Net cash used in investing activities** | | **(41,497)** | **(15,248)** |
| | | | |
| **Cash flow from financing activities** | | | |
| Issue of shares | | 224 | 1,064 |
| Draw down of bank loans | 22 | 24,956 | - |
| Repayment of finance leases | 22 | (276) | (580) |
| Repayment of bank loans | 22 | (8,500) | (16,000) |
| Finance costs paid | | (1,029) | (1,205) |
| Dividends paid | 8 | (8,885) | (3,375) |
| **Net cash received from/(used in) financing activities** | | **6,490** | **(20,096)** |
| | | | |
| **Net increase/(decrease) in cash and cash equivalents** | | **589** | **(1,435)** |
| | | | |
| Cash and cash equivalents at the beginning of the year | | 8,906 | 10,341 |
| | | | |
| **Cash and cash equivalents at the end of the year** | 18 | **9,495** | **8,906** |

The following notes form part of the financial statements.

| | Note | Share capital £'000 | Own shares EBT £'000 | Own shares Treasury £'000 | Foreign currency translation reserve £'000 | Capital redemption reserve £'000 | Share premium account £'000 | Merger reserve £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 April 2016** | | **1,078** | **(70)** | **(419)** | **(37)** | **1,200** | **21,067** | **4,983** | **54,467** | **82,269** |
| Profit for the year | | - | - | - | - | - | - | - | 12,083 | 12,083 |
| Currency translation differences | | - | - | - | 22 | - | - | - | - | 22 |
| **Total comprehensive income** | | **-** | **-** | **-** | **22** | **-** | **-** | **-** | **12,083** | **12,105** |
| Dividends – final (paid) | 8 | - | - | - | - | - | - | - | (3,375) | (3,375) |
| Share based payments | 27 | - | - | - | - | - | - | - | 1,844 | 1,844 |
| Deferred tax on share based payments | 10 | - | - | - | - | - | - | - | (392) | (392) |
| Issue of own shares for option redemption | 26 | - | - | 369 | - | - | - | - | 695 | 1,064 |
| **Total transactions with owners** | | **-** | **-** | **369** | **-** | **-** | **-** | **-** | **(1,228)** | **(859)** |
| **Balance at 31 March 2017** | | **1,078** | **(70)** | **(50)** | **(15)** | **1,200** | **21,067** | **4,983** | **65,322** | **93,515** |
| Profit for the year | | - | - | - | - | - | - | - | 12,287 | 12,287 |
| Currency translation differences | | - | - | - | (25) | - | - | - | - | (25) |
| **Total comprehensive income** | | **-** | **-** | **-** | **(25)** | **-** | **-** | **-** | **12,287** | **12,262** |
| Dividends – interim (paid) | 8 | - | - | - | - | - | - | - | (2,426) | (2,426) |
| Dividends – final (paid) | 8 | - | - | - | - | - | - | - | (6,459) | (6,459) |
| Share based payments | 27 | - | - | - | - | - | - | - | 1,206 | 1,206 |
| Deferred tax on share based payments | 10 | - | - | - | - | - | - | - | 143 | 143 |
| Issue of share capital | 25 | 2 | - | - | - | - | 164 | - | - | 166 |
| Issue of own shares for option redemption | 26 | - | - | 50 | - | - | - | - | 8 | 58 |
| **Total transactions with owners** | | **2** | **-** | **50** | **-** | **-** | **164** | **-** | **(7,528)** | **(7,312)** |
| **Balance at 31 March 2018** | | **1,080** | **(70)** | **-** | **(40)** | **1,200** | **21,231** | **4,983** | **70,081** | **98,465** |

The following notes form part of the financial statements.

## 1. GENERAL INFORMATION

iomart Group plc is a company incorporated and domiciled in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 108 of this report. The nature of the Group's operations and its principal activities are set out in the Strategic Report and Directors' Report.

The financial statements are presented in UK Pounds Sterling because that is the currency of the primary economic environment in which the Group operates.

## 2. ACCOUNTING POLICIES

### Basis of preparation

The consolidated financial statements have been prepared in accordance with applicable International Financial Reporting Standards (IFRS) as adopted by the EU and in accordance with the Companies Act 2006.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

The measurement bases and principal accounting policies of the Group are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

### Adoption of new and revised Standards - Amendments to IFRS that are mandatorily effective for the current year

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2017. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

*Amendments to IAS 7 Disclosure Initiative* – The Group has adopted the amendments to IAS 7 for the first time in the current year. The amendments required an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. The Group's liabilities arising from financing activities consist of borrowings. A reconciliation between the opening and closing balances of these items is provided in note 22. Apart from the additional disclosure in note 22, the application of these amendments has had no impact on the Group's consolidated financial statements.

*Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses* –The Group has adopted the amendments to IAS 12 for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference. The application of these amendments has had no impact on the Group's consolidated financial statements as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

*Amendments to Annual Improvements to IFRSs 2014-2016 cycle* – The Group has considered the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014 – 2016 cycle for the first time in the current year. The other amendments included in this package are not yet effective and they have not been early adopted by the Group. IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified as held for sale. This amendment does not impact the Group for the year ended 31 March 2018.

### New and revised IFRSs in issue but not yet effective and have not been adopted by the Group

At the date of authorisation of these financial statements, the following standards, interpretations and amendments have been issued but are not yet effective and have no material impact on the Group's financial statements:

- IFRS 10 and IAS 28 (amendments) - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.
- IFRS 11 - Amendments relating to Acquisitions of Interests in Joint Operations.
- IFRS 2 (amendments) – Classification and Measurement of Share-Based Payment Transactions.
- Annual Improvements to IFRSs 2012 - 2014 cycle – Amendments to IFRS 1 first-time adoption of International Financial Reporting Standards.

## 2. ACCOUNTING POLICIES (continued)

### New and revised IFRSs in issue but not yet effective and have not been adopted by the Group (continued)

### IFRS 15 - Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The Group is required to adopt IFRS 15 for the year ending 31 March 2019. The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognised at the date of initial application (the cumulative catch-up transition method). In the previous year, it was expected that the Group would adopt the cumulative catch-up transition method, however, on further review of the impact of IFRS 15 the Group intend to adopt the full retrospective method on a contract by contract basis as we feel, on reflection, it is more informative.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.
Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied ie when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

The Group has completed a detailed assessment of the impact of IFRS 15 on all aspects of its business and the various revenue streams. Whilst unaudited, that assessment confirms that the vast majority of the Group's current accounting policies as regards revenue recognition will not change and will not result in a material change to the financial statements as a result of the adoption of IFRS 15. The review has identified some minor areas in which adjustments will be required in revenue and cost recognition and in the related procedures and processes. Whilst not material, the areas which are likely to be affected are in relation to set-up fees within the cloud services segment and revenue from domain registration within the Easyspace segment.

#### *Cloud Services segment*

Under IFRS 15 some set-up fees charged on contracts, which are currently recognised when the set-up is complete, will require to be spread over the life of the contract.

The impact of any changes, both individually and in aggregate are not expected to be material to the revenue or profits in any given financial year.

#### *Easyspace segment*

The total revenue from the provision of domain names is currently recognised at the point of sale when the title to the domain name passes to the customer. Under IFRS 15 this revenue will require to be split between the registration of the domain and the ongoing services, such as support and mail forwarding, which are provided by the company over the period of registration of the domain.

As with the Cloud Services segment, the impact of any changes, both individually and in aggregate are not expected to be material to the revenue or profits in any given financial year. The parent company only will not be impacted by IFRS 15 as it does not generate revenue.

### IFRS 16 - Leases

IFRS 16 presents new requirements for the recognition, measurement, presentation and disclosure of leases. The standard provides that lessees will be required to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The standard was issued in January 2016 and applies to annual reporting periods beginning on or after 1 January 2019. The standard is expected to be applicable to the Group for the period beginning 1 April 2019. As at 31 March 2018, the Group has non-cancellable operating lease commitments of £7.3m. Under IFRS 16, a lease liability will have to be recognised on the balance sheet for each operating lease where the lease term is more than 12 months and they will be depreciated over the period of the lease. See note 24 for details on the Group's operating lease commitments.

**2. ACCOUNTING POLICIES (continued)**

**New and revised IFRSs in issue but not yet effective and have not been adopted by the Group (continued)**

**IFRS 9 – Financial Instruments**

The Group is required to adopt IFRS 9 for the year ending 31 March 2019. The full impact of adopting IFRS 9 on the Group's consolidated financial statements will depend on the financial instruments that the Group has during the year ended 31 March 2019 as well as economic conditions and judgements made at the year end. Ahead of the adoption of IFRS 9, management has reviewed the impact of the standard and has determined that the main impact on the Group and parent company will be in respect of the expected credit loss model for impairment review which management do not anticipate will have an overall material impact on the Group and parent company.

**Summary of Accounting Policies**

**Basis of consolidation**

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to 31 March 2018. Under IFRS 10, control exists when an investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. As each of the divisions within the Group are 100% wholly owned subsidiaries, the Group has full control over each of its investees.

Unrealised gains on transactions between the Group and its subsidiaries are eliminated. Unrealised losses are eliminated on consolidation and the underlying value of the asset transferred is tested for impairment. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

**Business Combinations**

Acquisitions of subsidiaries are accounted for using the acquisition method. The acquisition 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 statement of financial position at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies.

Where the Group's assessment of the net fair value of a subsidiary's identifiable assets acquired and liabilities assumed is less than the fair value of the consideration including contingent consideration of the business combination then the excess is treated as goodwill. Where the Group's assessment of the net fair value of a subsidiary's net assets and liabilities exceeds the fair value of the consideration including contingent consideration of the business combination then the excess is recognised through profit or loss immediately.

**Revenue**

Revenue comprises the fair value of the consideration received or receivable for the sale of 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.

***Easyspace***

This operating segment provides domain name registration and hosting services. Revenue from the provision of domain names is recognised at the point of sale when the title to the domain name passes to the customer. Revenue from the provision of hosting services is recognised evenly over the period of the service and only after the service has been established. Any unearned portion of revenue is included in payables as deferred revenue.

## 2. ACCOUNTING POLICIES (continued)

### Revenue (continued)

***Cloud Services***
This operating segment provides managed cloud computing facilities and services including consultancy. Revenue from the sale of cloud computing facilities and managed services is spread evenly over the period of the agreement and only after the service has been established. Any unearned portion of revenue is included in payables as deferred revenue. Consultancy services are generally provided on a "time and materials" basis and therefore revenue is recognised as these services are rendered. In addition, this operating segment also provides data storage, backup and virtualisation solutions. Revenue from the supply of hardware or software, and the provision of services in respect of installation or training, is recognised when delivery and installation of the equipment is completed. Revenue from the sale of cloud computing facilities and support services is spread evenly over the period of the agreement and only after the service has been established. Any unearned portion of revenue is included in payables as deferred revenue.

***Interest***
Interest is recognised on an accruals basis using the effective interest method.

### Intangible assets

***Goodwill***
Goodwill arising on consolidation is capitalised in the consolidated statement of financial position and, subject to an annual impairment test, has an indefinite life. The carrying value of goodwill is cost less accumulated impairment losses and is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units that are expected to benefit from the business combination. Impairment reviews are carried out by the Board at least annually. Impairments to goodwill are charged to profit or loss in the period in which they arise.

***Customer relationships***
Customer relationships are recognised only on acquisition. The fair value is derived based on discounted cash flows from estimated recurring revenue streams. The carrying value is stated at fair value at acquisition less accumulated amortisation and impairment losses. The useful economic life is assessed for each acquisition separately. Amortisation is charged over the useful life of the relationships in proportion to the estimated future cash flows, a period which is generally between five and eight years.

***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 costs which do meet the criteria range from new product development to the enhancement of existing services such as mail platforms. The scope of the development team's work continues to evolve as the Group continues to deliver business critical solutions to a growing customer base. 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 for all developments capitalised. Amortisation charges are recognised through profit or loss in the period in which they are incurred.

***Software***
Software is recognised at cost on purchase or fair value on acquisition and amortised on a straight-line basis over its useful economic life, which does not generally exceed five years or eight years for acquired software.

## 2. ACCOUNTING POLICIES (continued)

### Acquisition costs

In accordance with IFRS 3 Business Combinations, costs incurred on professional fees during an acquisition are not included in the overall cost of the investment in the acquired business. Consequently, these acquisition costs are included as administrative expenses in the consolidated statement of comprehensive income. In addition, the costs associated with integrating the acquired businesses into the Group are also included in this category. The combination of both these types of expenses is also shown in the consolidated statement of comprehensive income as acquisition costs.

### Non-Statutory Profit Measures

In addition to measuring financial performance of the Group based on statutory profit measures, the Group also measures performance based on adjusted EBITDA, adjusted profit before tax and adjusted diluted earnings per share.

#### *Adjusted EBITDA*

Adjusted EBITDA is defined as earnings before interest, tax, depreciation and amortisation (EBITDA) before share based payment charges, acquisition costs and any gains or losses on revaluation of contingent consideration and material non-recurring costs. Adjusted EBITDA is a common measure used by investors and analysts to evaluate the operating financial performance of companies, particularly in the sector that the Group operates.

The Group considers adjusted EBITDA to be a useful measure of operating performance because it approximates the underlying operating cash flow by eliminating the charges mentioned above. It is not a direct measure of liquidity, which is shown in the Consolidated Statement of Cash Flows, and needs to be considered in the context of the Group's financial commitments.

#### *Adjusted Profit before Tax*

Adjusted profit before tax is defined as profit before tax adjusted for the following:

- amortisation charges on acquired intangible assets;
- share based payment charges;
- mark to market adjustments in respect of interest rate swaps;
- where bank facilities are restructured during the year any accelerated write off of arrangement fees;
- M&A activity including:
    - Professional fees;
    - Any non-recurring integration costs
    - Any gain or loss on the revaluation of contingent consideration where it is material
    - Any interest charge on contingent consideration; and
- Any material non-recurring costs where their removal is necessary for the proper understanding of the underlying profit for the period.

Adjusted profit before tax is a common measure used by investors and analysts to evaluate the financial performance of companies, particularly in the sector that the Group operates, where M&A activity forms a significant part its activities.

The Group considers adjusted profit before tax to be a useful measure of performance because it eliminates the impact of certain non-recurring items including those associated with acquisitions and other charges commonly excluded from profit before tax by investors and analysts for valuation purposes.

#### *Adjusted Diluted Earnings per Share*

Adjusted diluted earnings per share is calculated by taking the adjusted profit before tax as described after deducting an appropriate taxation charge and dividing by the total weighted average number of ordinary shares in issue during the year and adjusting for the dilutive potential ordinary shares relating to share options.

The Group considers adjusted diluted earnings per share to be a useful measure of performance for the same reasons as adjusted profit before tax. In addition, it is used as the basis for dividend payments.

## 2. ACCOUNTING POLICIES (continued)

### Contingent consideration

Where an acquisition involves a potential payment of contingent consideration the estimate of any such payment is based on its fair value. To estimate the fair value an assessment is made as to the amount of contingent consideration which is likely to be paid having regard to the criteria on which any sum due will be calculated and is probability based to reflect the likelihood of different amounts being paid. Where a change is made to the fair value of contingent consideration within the initial measurement period as a result of additional information obtained on facts and circumstances that existed at the acquisition date then this is accounted for as a change in goodwill. Where changes are made to the fair value of contingent consideration as a result of events that occurred after the acquisition date then the adjustment is accounted for as a charge or credit to profit or loss.

### Property, plant and equipment

Property, plant and equipment is stated at cost 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 profit or loss.

### 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 plant and equipment have immaterial residual values. The rates generally applicable are:

| | |
|---|---|
| Freehold property | Between 2.00% and 3.33% per annum |
| Leasehold improvements | Between 6% and 10% 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 |
| Motor vehicles | 25% 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). 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 goodwill.

Goodwill, other individual assets or cash-generating units that include goodwill, 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 assets 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. Management estimate expected future cash flows from each cash generating unit and determine a suitable interest rate to calculate the present value of the future cash flows. Discount factors are determined for each cash generating unit to reflect the underlying risks involved. The future cash flows used in the calculation are based on the Group's latest approved budget.

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 13.

## 2. ACCOUNTING POLICIES (CONTINUED)

### 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 profit or loss over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to profit or loss 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, these are considered separately as to whether there is a finance lease within the lease.

### Lease deposits

Rental and re-instatement deposits for leasehold premises are included in the Consolidated Statement of Financial Position as either non-current assets or current assets depending on the length of time to maturity. Where lease deposits are interest earning the amount of deposit is not discounted and where they are not interest earning they are discounted at an appropriate rate.

### Borrowings

Borrowings are initially stated at fair value after deduction of any issue costs. The carrying amount is increased by the finance costs in respect of the accounting period and reduced by payments made in the period. Borrowings are subsequently stated at amortised cost, any difference between the periods (net of transaction costs) and the redemption value is recognised through profit or loss over the period of the borrowings using the effective interest method. Where borrowings are repaid early and new loan facilities agreed the terms of each loan facility are compared. Where the terms of the new borrowings are significantly different from those of the previous borrowings, the previous borrowings are treated as extinguished rather than modified as prescribed under IAS 39.

### Reinstatement costs

The Group has made alterations to properties which it occupies under lease arrangements. These lease arrangements contain provision for reinstatement of the property to its original condition at the Group's cost at the end of the lease should the landlord require that to happen. In respect of property leases which contain such a reinstatement provision the estimated cost of the reinstatement is provided in the financial statements. The discounted value of the expected cost of reinstatement is recorded as a leasehold improvement within property, plant and equipment and is then depreciated over the remaining term of the lease. A matching provision is recognised at the same time which is increased over the period of the lease by way of an interest charge such that the estimated cost of the reinstatement has been fully provided at the end of the lease period.

### Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### Taxation

The tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity.

## 2. ACCOUNTING POLICIES (CONTINUED)

### Current Tax

Current tax is the tax currently payable based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable.

### Deferred Tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are provided in full and are generally recognised for all taxable temporary differences, 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. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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 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. Where current or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Current and deferred tax assets and liabilities are calculated at tax rates and laws 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 current and deferred tax assets or liabilities are recognised as a component of tax expense in the statement of comprehensive income, except where they relate to items that are recognised directly in other comprehensive income or equity (such as share based remuneration) in which case the related deferred tax is also recognised in other comprehensive income or equity accordingly.

### 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 on initial recognition. Financial assets categorised as at fair value through profit or loss are recognised initially at fair value with transaction costs expensed through profit or loss.

All income and expenses relating to financial assets that are recognised in the statement of comprehensive income are presented within 'finance costs' or 'finance income' except for impairment of trade receivables which is presented within 'administrative expenses'.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

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 reporting date.

## 2. ACCOUNTING POLICIES (CONTINUED)

### Financial assets (continued)

Financial derivatives such as forward foreign exchange contracts and interest rate swaps are carried at fair value through profit or loss subsequent to initial recognition.

### 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 profit or loss. 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 re-measured at each reporting date at fair value, with changes in fair value being recognised through profit or loss. All other financial liabilities are recorded at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance costs through profit or loss. A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged, cancelled or when it expires. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss 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.

### Foreign currency transactions

Transactions denominated in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the period end are retranslated at the rates ruling at that date. Any gains or losses arising on assets and liabilities between the date of recording and the date of settlement are treated as gains or losses through profit or loss. Forward foreign exchange contracts used to hedge the Group's exposure to foreign currency transactions are fair valued at the balance date and the gain or loss is recognised through profit or loss for the period.

The results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the statement of financial position;
- income and expenses for each income statement are translated at average exchange rates; and
- all resulting exchange differences are recognised as a separate component of equity in the foreign currency translation reserve.

### 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 with maturities of three months or less from inception and which are subject to an insignificant risk of changes in value.

### Dividends

Dividend distributions payable to equity shareholders are included in the financial statements within 'other short term financial liabilities' when a final dividend is approved in a general meeting. Interim dividend distributions to equity shareholders approved by the Board are not included in the financial statements until paid.

## 2. ACCOUNTING POLICIES (CONTINUED)

### Equity

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares.
- "Own shares Treasury" represents the amount of the Company's own equity shares, plus attributable transaction costs, that is held by the Company as treasury shares.
- "Own shares EBT" represents the amount of the Company's own equity shares, plus attributable transaction costs, that is held by the Company within the iomart Group plc Employee Benefit Trust.
- "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.
- "Merger reserve" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue, when ordinary share capital is included in the consideration for business acquisitions.
- "Capital redemption reserve" represents set aside reserves in relation to previous redemption of own shares.
- "Foreign currency translation reserve" represents all exchange differences on the translation of the results and financial position of Group entities that have a functional currency different from the presentation currency.
- "Retained earnings" represents retained profits.

### Employee benefits - pensions

The Group contributes to an auto-enrolment pension scheme and also to a number of personal pension schemes on behalf of executive directors and some senior employees. The pension costs charged against operating profit are the contributions payable to the schemes in respect of the accounting period.

### Share-based payments

The Group operates equity-settled share-based remuneration plans for its employees. 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 share-based remuneration plans are ultimately recognised as an expense through profit or loss with a corresponding credit to 'retained earnings'.

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 based incentives expected to vest differs from previous estimates. The two main vesting conditions that apply to share options relate to the achievement of annual objectives and continuous employment. 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 based incentives ultimately exercised are different to that estimated on vesting.

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

### Segmental reporting

The Group provides segmental reporting on a basis consistent with the provision of internal financial information used for decision making purposes by the Chief Operating Decision Maker. Internal reports are produced on a basis consistent with the accounting policies adopted in the Group's financial statements.

The Group calculates geographical information on the basis of the location of the customer.

## 2. ACCOUNTING POLICIES (CONTINUED)

### Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 9 to 19. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Chief Financial Officer's Report on pages 13 to 17. In addition, note 30 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. As described in note 22, during the year the Group had a £60m multi option revolving credit facility with Bank of Scotland Plc of which £35.0m was drawn down at the year end and which was available until June 2019. On 6 June 2018, the Group entered into a new banking facility to replace the facility which was available during the year and within which provides an £80m multi option revolving credit facility that matures in June 2022 and which an amount is available interalia to be drawn on for general business purposes should that be required. At the end of the financial year, the Group had net debt of £26.6m (2017: £10.6m) a level which the Board is comfortable with given the strong cash generation of the Group. The Group has considerable financial resources together with long term contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the directors believe that the Group is well placed to manage its business risks.

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the year end, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Group do not consider that there are any key judgements in the preparation of the financial statements.

*Impairment of goodwill*
The Group is required to make a judgement as to whether there is any impairment of goodwill. This requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and to select a suitable discount rate in order to calculate the present value. Full details of the assumptions used in the calculation are disclosed in note 13.

*Valuation of intangible assets and fair value adjustments on acquisition*
As the Group continues to implement its acquisition strategy there is a requirement to fair value the assets and liabilities of any business acquired during the year. The Group is required to make a judgement as to what intangible assets exist within the acquired business at the time of the acquisition and what fair value adjustments are required. When reviewing the existence of intangible assets consideration has been given to potential intangible assets such as customer relationships and brand. The estimation of the valuation of customer relationships is based on the value in use calculation which requires estimates of the future cash flows expected to arise from the existing customer relationships over their useful life and to select a suitable discount rate in order to calculate the present value. Full details of the assumptions used in the calculation of intangible assets and fair value adjustments on the acquisitions that have occurred during the current year are disclosed in note 11.

*Contingent consideration*
Where an acquisition involves a potential payment of contingent consideration the Group is required to make a judgement as to whether any contingent consideration payment is likely. If it is then an estimate of any such payment is based on its fair value. To estimate the fair value an assessment is made as to the amount of contingent consideration which is likely to be paid having regard to future forecasts, the criteria on which any sum due will be calculated and is probability based to reflect the likelihood of different amounts being paid. At 31 March 2018, contingent consideration relates to Sonassi Holding Company Limited and Tier 9 Limited (note 21).

*Provision for non-recurring software licence fees*
As noted on page 15, a recent audit carried out on behalf of a software licensor has identified a shortfall in licence fees owing to that licensor for the four year period to March 2017. Based on information received to date, the Group has estimated that a provision of £2.1m is required in respect of this. The final amount could be higher, however not materially, although that is thought to be unlikely and it could be lower. The amount provided is the best estimate of the expected outcome (note 23).

## 3. SEGMENTAL ANALYSIS

The Chief Operating Decision-Maker has been identified as the Chief Executive Officer ("CEO") of the Company. The Group has two operating segments and the CEO reviews the Group's internal reporting which recognises these two segments in order to assess performance and to allocate resources. The Group has determined its reportable segments which are also its operating segments based on these reports.

The Group currently has two operating and reportable segments being Easyspace and Cloud Services.

- Easyspace – this segment provides a range of shared hosting and domain registration services to micro and SME companies.

- Cloud Services – this segment provides managed cloud computing facilities and services, through a network of owned datacentres, to the larger SME and corporate markets. The segment uses several routes to market including iomart Cloud, Infrastructure as a Service (IaaS) which was previously detailed as RapidSwitch and Redstation, SystemsUp, Cristie Data and the activities of Dediserve, Simple Servers and Sonassi which were acquired in the year.

In the prior year there were three segments reported which included Easyspace, Cloud Services and a Non-recurring segment which included the operations of Cristie Data ("Cristie") which was acquired in the prior year. Since the prior year, Cristie has become more integrated into our Cloud Services operation. We have provided consultancy services, through SystemsUp, to customers of Cristie, focusing on cloud strategy. In addition, Cristie has also won contracts to provide solutions from our datacentres on a dedicated cloud basis. Consequently, in this year, nearly half of the revenue generated and orders won by Cristie have been of a recurring nature. Therefore, we have concluded that it is no longer appropriate to include the results of Cristie separately, particularly in a non-recurring revenue segment, from the rest of our Cloud Services operations and we will report it within this segment from now on. The comparative figures for segmental analysis for the year ended 31 March 2017 have been restated to reflect this change.

Information regarding the operation of the reportable segments is included below. The CEO assesses the performance of the operating segments based on revenue and a measure of Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) before any allocation of Group overheads, charges for share based payments, costs associated with acquisitions and any gain or loss on revaluation of contingent consideration and material non-recurring items. This segment EBITDA is used to measure performance as the CEO believes that such information is the most relevant in evaluating the results of the segment.

The Group's EBITDA for the year has been calculated after deducting Group overheads from the EBITDA of the two segments as reported internally. Group overheads include the cost of the Board, all the costs of running the premises in Glasgow, the Group marketing, human resource, finance and design functions and legal and professional fees.

The segment information is prepared using accounting policies consistent with those of the Group as a whole.

The assets and liabilities of the Group are not reviewed by the chief operating decision-maker on a segment basis. Therefore none of the Group's assets and liabilities are segmental assets and liabilities and are all unallocated for segmental disclosure purposes. For that reason the Group has not disclosed details of segmental assets and liabilities.

All segments are continuing operations. No customer accounts for 10% or more of external revenues. Inter-segment transactions are accounted for using an arms-length commercial basis.

### Operating Segments

### Revenue by Operating Segment

| | 2018 | | | 2017 (restated)* | | |
|---|---|---|---|---|---|---|
| | External | Internal | Total | External | Internal | Total |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Easyspace | 13,580 | 2 | 13,582 | 13,249 | 12 | 13,261 |
| Cloud Services | 84,089 | 1,389 | 85,478 | 76,324 | 1,538 | 77,862 |
| | **97,669** | **1,391** | **99,060** | **89,573** | **1,550** | **91,123** |

## 3. SEGMENTAL ANALYSIS (CONTINUED)

### Operating Segments (continued)

### Geographical Information

In presenting the consolidated information on a geographical basis, revenue is based on the geographical location of customers. There is no single country where revenues are individually material other than the United Kingdom. The United Kingdom is the place of domicile of the parent company, iomart Group plc.

***Analysis of Revenue by Destination***

| | 2018 | 2017 |
|---|---|---|
| | £'000 | £'000 |
| United Kingdom | 79,625 | 75,163 |
| Rest of the World | 18,044 | 14,410 |
| **Revenue from operations** | **97,669** | **89,573** |

### Profit by Operating Segment

| | 2018 | | | 2017 (restated)* | | |
|---|---|---|---|---|---|---|
| | Adjusted EBITDA | Depreciation, amortisation, acquisition costs, share based payments and non-recurring costs | Operating profit/(loss) | Adjusted EBITDA | Depreciation, amortisation, acquisition costs, share based payments and non-recurring costs | Operating profit/(loss) |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Easyspace | 6,417 | (1,636) | 4,781 | 6,244 | (948) | 5,296 |
| Cloud Services | 37,056 | (21,596) | 15,460 | 34,006 | (17,441) | 16,565 |
| Group overheads | (3,630) | - | (3,630) | (3,680) | - | (3,680) |
| Acquisition costs | - | (774) | (774) | - | (104) | (104) |
| Share based payments | - | (1,206) | (1,206) | - | (1,844) | (1,844) |
| Profit before tax and interest | 39,843 | (25,212) | 14,631 | 36,570 | (20,337) | 16,233 |
| Gain on revaluation of contingent consideration | | | 1,335 | | | - |
| Group interest and tax | | | (3,679) | | | (4,150) |
| **Profit for the year** | **39,843** | **(25,212)** | **12,287** | **36,570** | **(20,337)** | **12,083** |

Group overheads, acquisition costs, share based payments, interest and tax are not allocated to segments.

*Prior to the restatement, external revenue for the year ended to 31 March 2017 was £13,249,000 for Easyspace and £72,685,000 for Cloud Services; adjusted EBITDA for the year ended 31 March 2017 was £6,244,000 for Easyspace and £33,680,000 for Cloud Services; and operating profit for the year ended 31 March 2017 was £5,296,000 for Easyspace and £16,560,000 for Cloud Services.

## 4. OPERATING PROFIT

The profit for the year from total operations is stated after charging/(crediting) the following operating costs:

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Staff costs excluding development costs capitalised and research and development costs written off profit or loss | 17,812 | 19,184 |
| Depreciation of property, plant and equipment | | |
| - Owned assets | 12,146 | 10,495 |
| - Leased assets | 390 | 477 |
| Property, plant and equipment hire | | |
| - Land and buildings | 3,001 | 2,623 |
| - Plant and machinery | 75 | 76 |
| Amortisation of intangible assets | | |
| - Acquired intangible assets | 6,449 | 5,558 |
| - Other intangible assets | 2,104 | 1,859 |
| R&D expensed to profit or loss | 92 | 74 |
| Bad debt expense | 287 | 622 |
| Exchange loss/(gain) | 207 | (524) |

Exceptional administrative expenses of £2,143,000 (2017: £nil) relate to non-recurring software licence fees relating to prior years as discussed on page 15.

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

| **Auditors' remuneration** | **2018 £'000** | **2017 £'000** |
|---|---|---|
| **Audit services**: | | |
| - Fees payable for the audit of the consolidation and the parent company accounts | 57 | 55 |
| - Fees payable for audit of subsidiaries, pursuant to legislation – UK | 81 | 77 |
| - Fees payable for audit of subsidiaries, pursuant to legislation – International | 12 | - |
| **Non-audit services:** | | |
| - Audit related services | 14 | - |
| - Assurance service fees | - | 6 |
| - Tax advisory | 3 | 23 |
| - Tax compliance – UK | 43 | 50 |
| - Tax compliance - International | 19 | - |
| | **229** | **211** |

## 5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| **Directors' emoluments** | | |
| Aggregate emoluments | 903 | 1,348 |
| Share based payments | 668 | 819 |
| **Total Directors' emoluments** | **1,728** | **2,167** |

Emoluments payable to the highest paid director are as follows:

| | 2018 | 2017 |
|---|---|---|
| Aggregate emoluments | 439 | 565 |

During the year the Company did not make any personal pension contributions to personal pension schemes of the directors (2017: nil).

The aggregate amount of gains realised by directors on the exercise of share options during the year was £nil (2017: £161,600).

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 27 to 32.

| | 2018 No. | 2017 No. |
|---|---|---|
| **Average number of persons employed by the Group (including directors):** | | |
| Technical | 236 | 242 |
| Sales and marketing | 92 | 99 |
| Administration | 42 | 46 |
| | **370** | **387** |

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| **Staff costs of the Group during the year in respect of employees and directors were:** | | |
| Wages and salaries | 15,957 | 16,739 |
| Social security costs | 1,800 | 1,726 |
| Pension costs | 100 | 172 |
| Share based payments | 1,206 | 1,844 |
| | **19,063** | **20,481** |

The Group operates a stakeholder pension scheme and also contributes to a number of personal pension schemes on behalf of executive directors and some senior employees. In the case of executive directors, details of the pension arrangements are given within the Report of the Board to the Members on Directors' Remuneration on pages 27 to 32. In the case of senior employees, pension contributions to individuals' personal pension arrangements are payable by the Group at a rate equal to the contribution made by the senior employee subject to a maximum employer contribution of 5% of basic salary.

## 6. ACQUISITION COSTS

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Professional fees | 774 | 99 |
| Non-recurring integration costs: | | |
| - Other | - | 5 |
| **Total acquisition costs** | **774** | **104** |

During the year costs of £774,000 (2017: £99,000) were incurred in respect of professional fees on acquisitions and £nil (2017: £5,000) other costs directly related to the integration of acquisitions into the Group were also incurred.

## 7. NET FINANCE COSTS

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| **Finance income:** | | |
| Bank interest receivable | 13 | 22 |
| **Finance income for the year** | **13** | **22** |
| | | |
| **Finance costs:** | | |
| Bank loan | (1,000) | (1,131) |
| Finance leases | (124) | (172) |
| Other interest charges | (53) | (52) |
| | (1,177) | (1,355) |
| | | |
| *Items affecting adjusted profit before tax calculation:* | | |
| Mark to market interest adjustment | 46 | 84 |
| Finance charge on contingent consideration on business combinations | (51) | (330) |
| | | |
| **Finance costs for the year** | **(1,182)** | **(1,601)** |
| | | |
| **Net finance costs** | **(1,169)** | **(1,579)** |

## 8. DIVIDENDS ON SHARES CLASSED AS EQUITY

| | 2018 Pence per share | 2018 £'000 | 2017 Pence per share | 2017 £'000 |
|---|---|---|---|---|
| **Paid during the year:** | | | | |
| **Interim dividend** | | | | |
| Equity dividends on ordinary shares | 2.25p | 2,426 | - | - |
| **Final dividend** | | | | |
| Equity dividends on ordinary shares | 6.00p | 6,459 | 3.15p | 3,375 |
| **Total dividend paid** | | **8,885** | | **3,375** |

The directors have recommended a final dividend for the year ended 31 March 2018 of 4.93p per share (2017: 6.00p per share). Subject to shareholder approval this proposed final dividend would be payable on 6 September 2018 to shareholders on the register at close on 17 August 2018.

## 9. TAXATION

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Corporation Tax: | | |
| Tax charge for the year | (4,364) | (4,349) |
| Adjustment relating to prior years | 68 | (12) |
| Total current taxation charge | **(4,296)** | **(4,361)** |
| | | |
| Deferred Tax: | | |
| Origination and reversal of temporary differences | 1,900 | 1,751 |
| Adjustment relating to prior years | (15) | 227 |
| Effect of different statutory tax rates of overseas jurisdictions | (70) | 27 |
| Effect of changes in tax rates | (29) | (215) |
| Total deferred taxation credit | **1,786** | **1,790** |
| | | |
| **Total taxation charge** | **(2,510)** | **(2,571)** |

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 are as follows:

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Profit before tax | 14,797 | 14,654 |
| | | |
| Tax charge @ 19% (2017 – 20 %) | 2,811 | 2,931 |
| | | |
| Expenses disallowed for tax purposes | 156 | 134 |
| Tax effect of net gain on revaluation of contingent consideration | (254) | - |
| Adjustments in current tax relating to prior years | (68) | 12 |
| Tax effect of different statutory tax rates of overseas jurisdictions | 113 | 5 |
| Movement in deferred tax relating to changes in tax rates | 29 | 215 |
| Tax effect of research and development tax reliefs | - | (326) |
| Tax effect of share based remuneration | (231) | (151) |
| Movement in unprovided deferred tax related to development costs | (68) | (13) |
| Movement in unprovided deferred tax related to property, plant and equipment | 7 | (9) |
| Movement in deferred tax relating to prior years | 15 | (227) |
| | | |
| **Total taxation charge for the year** | **2,510** | **2,571** |

The weighted average applicable tax rate for the year ended 31 March 2018 was 19% (2017: 20%). The total current corporation tax charge for the year of £4,364,000 (2017: £4,349,000) on operations represents 29.5% (2017: 29.7%) of the Group profit before tax of £14,797,000 (2017: £14,654,000). The effective rate of tax for the year, based on the taxation charge for the year as a percentage of the profit before tax, is 17.0% (2017: 17.5%). The net decrease of 0.5% is due to a combination of movements that have increased or decreased the tax charge in the year.

The decrease to the tax charge in the year is a result of the deduction in relation to tax effect of the net gain on revaluation of contingent consideration, the increase in the tax effect of share based remuneration in the current year largely due to the increase in share price and the movement in deferred tax relating to change in tax rates as the change in future corporation tax rates was processed in the prior year.

The increase to the tax charge in the year is due to there being no tax deduction in the current year in respect of research and development tax relief as the Group has moved into the large company scheme and applied a research and development credit to profit before tax, the effect of different tax rates of overseas jurisdictions has increased deferred tax assets due to the reduction of the US tax rate from 34% to 21% with effect from 1 January 2018 and the movement in deferred tax relating to prior years.

Disallowed expenses of £156,000 largely relate to M&A costs incurred on the acquisitions in the year.

A number of changes to the UK Corporation tax system were announced in the March 2016 Budget Statement with the main rate of corporation tax reduced from 18% to 17% from 1 April 2020. These changes were substantively enacted in the prior year and therefore are included in these financial statements.

### 10. DEFERRED TAX

The Group recognised deferred tax assets and liabilities as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Deferred tax Recognised £'000 | Deferred tax Unrecognised £'000 | Deferred tax Recognised £'000 | Deferred tax Unrecognised £'000 |
| Share based remuneration | 1,588 | - | 1,135 | - |
| Capital allowances temporary differences | 1,455 | - | 1,181 | - |
| Deferred tax on development costs | (329) | - | (311) | - |
| Deferred tax on acquired assets with no capital allowances | (235) | - | (326) | - |
| Deferred tax on customer relationships | (3,581) | - | (2,567) | - |
| Deferred tax on intangible software | (217) | - | - | - |
| **Deferred tax liability** | **(1,319)** | **-** | **(888)** | - |

At the year end, the Group had no unused tax losses (2017: £nil) available for offset against future profits.

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

| | Share based remuneration £'000 | Capital allowances temporary differences £'000 | Development costs £'000 | Deferred tax on acquired assets with no capital allowances £'000 | Customer relationships £'000 | Intangible Software £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| Balance at 1 April 2016 | **1,010** | **1,103** | **(195)** | **(442)** | **(3,551)** | **-** | **(2,075)** |
| Acquired on acquisition of subsidiary | - | (14) | - | - | (186) | - | **(200)** |
| Charged to equity | (392) | - | - | - | - | - | **(392)** |
| Credited/(charged) to statement of comprehensive income | 546 | 321 | (116) | 108 | 1,108 | **-** | **1,967** |
| Effect of different tax rates of overseas jurisdictions | - | - | - | - | 27 | **-** | **27** |
| Effect of changes in tax rates | (29) | (229) | - | 8 | 35 | **-** | **(215)** |
| **Balance at 31 March 2017** | **1,135** | **1,181** | **(311)** | **(326)** | **(2,567)** | **-** | **(888)** |
| Acquired on acquisition of subsidiary | - | (1) | - | - | (2,144) | (217) | **(2,362)** |
| Credited to equity | 143 | - | - | - | - | - | **143** |
| Credited/(charged) to statement of comprehensive income | 310 | 304 | (18) | 91 | 1,200 | **-** | **1,887** |
| Effect of different tax rates of overseas jurisdictions | - | - | - | - | (70) | **-** | **(70)** |
| Effect of changes in tax rates | - | (29) | - | - | - | **-** | **(29)** |
| **Balance at 31 March 2018** | **1,588** | **1,455** | **(329)** | **(235)** | **(3,581)** | **(217)** | **(1,319)** |

The deferred tax asset in relation to share based remuneration arises from the anticipated future tax relief on the exercise of share options.

The deferred tax on capital allowances temporary differences arises mainly from plant and equipment in the Cloud Services segment where the tax written down value varies from the net book value.

The deferred tax on development costs arises from development expenditure on which tax relief is received in advance of the amortisation charge.

The deferred tax on acquired assets arises from datacentre equipment acquired through the acquisition of iomart Datacentres Limited on which depreciation is charged but on which there are no capital allowances available.

The deferred tax on customer relationships and intangible software arises from temporary differences on acquired intangible assets.

## 11. ACQUISITIONS

### Dediserve Limited

The Group acquired 100% of the issued share capital of Dediserve Limited, ("Dediserve") on 17 May 2017 for €7.9m on a no debt, no cash, normalised working capital basis.

Dediserve is a company registered in the Republic of Ireland and is based in Dublin, which provides cloud hosting services to over 1,500 customers from 10 locations world-wide. The acquisition is in line with the Group's strategy to grow its hosting operations both organically and by acquisition. It also provides the Group with an additional European Union place of operation.

The Group incurred £431,000 of third party acquisition related costs in respect of this acquisition. These expenses are included in administrative expenses in the Group's consolidated statement of comprehensive income for the year ended 31 March 2018.

The following table summarises the consideration to acquire Dediserve and the amounts of identified assets acquired and liabilities assumed at the acquisition date,which are final:

| | £'000 |
|---|---|
| **Recognised amounts of net assets acquired and liabilities assumed:** | |
| Cash and cash equivalents | 250 |
| Trade and other receivables | 99 |
| Property, plant and equipment | 791 |
| Intangible assets | 3,680 |
| Trade and other payables | (290) |
| Borrowings | (283) |
| Current income tax liabilities | (120) |
| Deferred tax liability | (588) |
| Identifiable net assets | **3,539** |
| Goodwill | 3,130 |
| **Total consideration** | **6,669** |

| | |
|---|---|
| **Satisfied by:** | |
| Cash – paid on acquisition | 6,485 |
| Deferred consideration - paid | 98 |
| Deferred consideration – paid | 86 |
| **Total consideration transferred** | **6,669** |

The share purchase agreement, in respect of the acquisition of Dediserve, includes a provision, under which the total consideration payable was adjusted by a payment to be made either to or by the Company, depending on the level of cash, debt and working capital shown in an agreed set of accounts (the Completion Accounts) made up to, and as at, the completion date. The initial payment to acquire the company was €7,800,000 (£6,700,000) in cash and in addition an amount of €250,000 (£215,000) was deducted as an interim settlement of the expected amount due in respect of the no debt, no cash, normalised working capital adjustment. Following agreement of the Completion Accounts an additional payment of €113,000 (£98,000) was paid in respect of the no debt, no cash, normalised working capital adjustment. An amount of €100,000 (£86,000) was deferred and paid 6 months after the completion date in November 2017. The initial payment of €7,550,000 (£6,485,000) was funded by a draw down from the revolving credit facility of £6,485,000.

**11. ACQUISITIONS (CONTINUED)**

**Dediserve Limited (continued)**

The goodwill arising on the acquisition of Dediserve is attributable to the premium payable for a pre-existing, well positioned business and the specialised, industry specific knowledge of the management and staff, together with the benefits to the Group in merging the business with its existing infrastructure and the anticipated future operating synergies from the combination. The goodwill is not expected to be deductible for tax purposes.

Dediserve did not promote or advertise its trade name or brand and the bulk of its new business comes either directly from existing customers or from referrals or recommendations by existing customers or from marketing campaigns associated with the launch of a new location. Dediserve's privacy policy includes a commitment not to disclose any personal information it holds on customers unless the customer's permission is given. As a consequence, there is no significant value in either the trade name/brand or customer lists acquired at the acquisition date and therefore no value has been attributed to either intangible asset.

The fair value of the financial assets acquired includes trade receivables with a fair value of £51,000. The gross amount due under contracts is £51,000 of which £nil are expected to be uncollectable.

The fair value included in respect of the acquired customer relationships intangible asset is £3,680,000.

To estimate the fair value of the customer relationships intangible asset, a discounted cash flow method, specifically the income approach, was used with reference to the directors' estimates of the level of revenue, which will be generated from them. A post-tax discount rate of 13.6% was used for the valuation. Customer relationships are being amortised over an estimated useful life of 8 years.

Dediserve earned revenue of £2,453,000 and generated profits, before allocation of group overheads, third party acquisition related costs and tax of £799,000 in the period since acquisition.

**Tier 9 Limited**

The Group acquired 100% of the issued share capital of Tier 9 Limited ("Tier 9") on 26 July 2017. Tier 9 Limited is a non-trading holding company with two 100% owned subsidiaries: Cloudfuel Limited, which is also non-trading, and Simple Servers Limited (which trades as "Simple Servers").

Simple Servers is a Redditch based hosting company, which specialises in providing hosting solutions for the Magento eCommerce application which is used extensively by online retailers. This is hosted on various cloud platforms for all sectors of industry from SMEs to larger enterprises. The acquisition is in line with the Group's strategy to grow its operations both organically and by acquisition and gives the group access to a rapidly growing eCommerce market.

During the current period the Group incurred £106,000 of third party acquisition related costs in respect of this acquisition. These expenses are included in administrative expenses in the Group's consolidated statement of comprehensive income for the year ended 31 March 2018.

## 11. ACQUISITIONS (CONTINUED)

### Tier 9 Limited (continued)

The following table summarises the consideration to acquire Tier 9 and the amounts of identified assets acquired and liabilities assumed at the acquisition date, which are final.

| | £'000 |
|---|---|
| **Recognised amounts of net assets acquired and liabilities assumed:** | |
| Cash and cash equivalents | 469 |
| Trade and other receivables | 117 |
| Property, plant and equipment | 156 |
| Intangible assets | 1,821 |
| Trade and other payables | (287) |
| Current income tax liabilities | (94) |
| Deferred tax liability | (363) |
| **Identifiable net assets** | **1,819** |
| Goodwill | 3,331 |
| **Total consideration** | **5,150** |

| | |
|---|---|
| **Satisfied by:** | |
| Cash – paid on acquisition | 3,039 |
| Deferred consideration – paid | 370 |
| Contingent consideration - payable | 1,741 |
| **Total consideration to be transferred** | **5,150** |

The share purchase agreement, in respect of the acquisition of Tier 9, included a provision under which the total consideration payable may have been adjusted by a payment to be made either to or by the Company, depending on the level of cash, debt and normalised working capital shown in an agreed set of accounts (the Completion Accounts) made up to, and as at, the completion date. The initial payment to acquire Tier 9 was £3,039,000 in cash. Following agreement of the Completion Accounts a total payment of £370,000 was due by the Company in respect of the no debt, no cash, normalised working capital adjustment and this amount was paid in cash in October 2017.

The contingent consideration arrangements require the Company to pay the former shareholders of Tier 9 an additional amount contingent on the level of profitability delivered by Simple Servers in the year ended 31 March 2018 ("the Earn-out Payment").

The potential undiscounted amount of the Earn-out Payment that the Company could be required to pay is between £nil and £2,961,000. The amount of contingent consideration payable which was recognised as of the acquisition date was £1,741,000. The level of profitability for the Earn-out Payment was estimated by applying the income approach to different scenarios based on historic performance and forecasts. Those scenarios reviewed had a range of outcomes for the amount of the Earn-out Payment of £1,046,000 to £2,339,000. A weighted average, based on management estimates of the probability of the achievement of the various levels of profitability, was then calculated to give the expected outcome of the amount of the Earn-out Payment of £1,741,000. The contingent consideration has now been agreed at £1,862,000 and £1,800,000 was paid in June 2018 with the balance due in September 2018. Consequently an amount of £121,000 has been recognised in the Statement of Comprehensive Income during the year as a loss on revaluation of contingent consideration.

The initial payment of £3,039,000 was funded by a draw down from the revolving credit facility of £3,000,000.

The goodwill arising on the acquisition of Tier 9 is attributable to the premium payable for a pre-existing, well positioned business and the specialised, industry specific knowledge of the management and staff, together with the benefits to the Group in merging the business with its existing infrastructure and the anticipated future operating synergies from the combination. The goodwill is not expected to be deductible for tax purposes.

Although the name Simple Servers is trademarked, it is not actively advertised or promoted and the bulk of Simple Servers' new business comes either directly from existing customers, from referrals or recommendations by existing customers or from the company's presence on Magento forums. Simple Servers privacy policy includes a commitment not to sell, distribute or lease any personal information it holds on customers unless the customer's permission is given. As a consequence there is no significant value in either the trade name/brand or customer lists acquired at the acquisition date and therefore no value has been attributed to either intangible asset.

## 11. ACQUISITIONS (CONTINUED)

### Tier 9 Limited (continued)

The fair value of the financial assets acquired includes trade receivables with a fair value of £77,000. The gross amount due under contracts is £77,000 of which £nil are expected to be uncollectable.

The fair value included in respect of the acquired customer relationships intangible asset is £1,821,000.

To estimate the fair value of the customer relationships intangible asset, a discounted cash flow method, specifically the income approach, was used with reference to the directors' estimates of the level of revenue, which will be generated from them. A post-tax discount rate of 12.7% was used for the valuation. Customer relationships are being amortised over an estimated useful life of 8 years.

Simple Servers earned revenue of £1,123,000 and generated profits, before allocation of group overheads, share based payments and tax, of £546,000 in the period since acquisition.

### Sonassi Holding Company Limited

The Group acquired 100% of the issued share capital of Sonassi Holding Company Limited ("Sonassi Holding") on 17 November 2017. Sonassi Holding is a non-trading holding company, which has a 100% owned subsidiary company, Sonassi Limited (which trades as "Sonassi").

Sonassi is a Manchester based hosting company, which, like Simple Servers, specialises in providing hosting solutions for the Magento eCommerce application. The acquisition is in line with the Group's strategy to grow its operations, both organically and by acquisition, and increases the group access to the rapidly growing eCommerce market.

During the current period the Group incurred £197,000 of third party acquisition related costs in respect of this acquisition. These expenses are included in administrative expenses in the Group's consolidated statement of comprehensive income for the year ended 31 March 2018.

| | £'000 |
|---|---|
| **Recognised amounts of net assets acquired and liabilities assumed (provisional):** | |
| Cash and cash equivalents | 3,434 |
| Trade and other receivables | 386 |
| Property, plant and equipment | 329 |
| Intangible assets | 7,646 |
| Trade and other payables | (874) |
| Current income tax liabilities | (329) |
| Deferred tax liability | (1,411) |
| **Identifiable net assets** | **9,181** |
| Goodwill | 7,376 |
| **Total consideration** | **16,557** |
| | |
| **Satisfied by:** | |
| Cash – paid on acquisition | 13,217 |
| Deferred consideration – paid | 1,000 |
| Contingent consideration – payable | 2,340 |
| **Total consideration to be transferred** | **16,557** |

The acquisition of Sonassi Holdings was completed using the "locked box" mechanism, on a no cash, no debt, normalised working capital basis. An initial payment of £13,217,000 was made at completion. This initial payment included an amount of £3,217,000 to settle the adjustments required to the locked box accounts in respect of the cash, debt and working capital position at the locked box date and to compensate the seller for changes in net debt or cash between the locked box date and completion. An additional amount of £1,000,000 was deferred, pending the completion of an upgrade of the software on which Sonassi's provisioning and customer management systems are based, and this amount was paid on 15 February 2018, following completion of the upgrade.

### 11. ACQUISITIONS (CONTINUED)

**Sonassi Holding Company Limited (continued)**

The share purchase agreement included a provision requiring the Company to pay the former shareholders of Sonassi Holdings an additional amount contingent on the level of profitability delivered by Sonassi in the year ending 31 July 2018 ("the Earn-out Payment").

The potential undiscounted amount of the Earn-out Payment that the Company could be required to pay is between £nil and £5,465,000. The amount of contingent consideration payable, which was recognised as of the acquisition date, was £2,340,000. The level of profitability for the Earn-out Payment was estimated by applying the income approach to different scenarios based on historic performance and forecasts. Those scenarios reviewed had a range of outcomes for the amount of the Earn-out Payment of £461,000 to £4,309,000. A weighted average, based on management estimates of the probability of the achievement of the various levels of profitability, was then calculated to give the expected outcome of the amount of the Earn-out Payment of £2,340,000. We expect the amount to be paid in respect of the final contingent consideration due will be £832,000. Consequently an amount of £1,508,000 has been recognised in the Statement of Comprehensive Income during the year as a gain on revaluation of contingent consideration.

The goodwill arising on the acquisition of Sonassi Holdings is attributable to the premium payable for a pre-existing, well positioned business and the specialised, industry specific knowledge of the management and staff, together with the benefits to the Group in merging the business with its existing infrastructure and the anticipated future operating synergies from the combination. The goodwill is not expected to be deductible for tax purposes.

The name Sonassi is not actively advertised or promoted and the bulk of Sonassi's new business comes either directly from existing customers, from referrals or recommendations by existing customers or from the company's presence on Magento forums. Sonassi's privacy policy includes a commitment not to sell, distribute or lease any personal information it holds on customers unless the customer's permission is given. As a consequence there is no significant value in either the trade name/ brand or customer lists acquired at the acquisition date and therefore no value has been attributed to either intangible asset.

The fair value of the financial assets acquired includes trade receivables with a fair value of £275,000. The gross amount due under contracts is £275,000 of which £nil are expected to be uncollectable.

The fair value included in respect of the acquired customer relationships intangible asset is £6,403,000.

To estimate the fair value of the customer relationships intangible asset, a discounted cash flow method, specifically the income approach, was used with reference to the directors' estimates of the level of revenue, which will be generated from them. A post-tax discount rate of 10.4% was used for the valuation. Customer relationships are being amortised over an estimated useful life of 8 years.

Sonassi has developed its own software, Magestack, for the provisioning of customers' sites, to provide a control panel for customers and for billing and customer management. To estimate the fair value of this intangible asset, a discounted cash flow method, specifically the relief from royalty approach, was used with reference to the directors' estimates of the level of future cost savings, which will be generated by the use of the company's own software rather than 3rd party software, for which licence fees would be payable. A post-tax discount rate of 10.4% was used for the valuation. Software is being amortised over an estimated useful life of 8 years.

Sonassi earned revenue of £892,000 and generated profits, before allocation of group overheads, share based payments and tax, of £704,000 in the period since acquisition.

## 11. ACQUISITIONS (CONTINUED)

### Pro-forma full year information

The following summary presents the Group as if the businesses acquired during the year had been acquired on 1 April 2017. The amounts include the results of the acquired business, depreciation and amortisation of the acquired property, plant and equipment and intangible assets recognised on acquisition. The amounts do not include any possible synergies from the acquisition. The information is provided for illustrative purposes only and does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of the future results of combined companies.

| | Pro-forma year ended 31 March 2018 |
|---|---|
| | **£'000** |
| Revenue | 100,016 |
| Profit after tax for the year | 12,381 |

## 12. 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, after deducting any own shares held in Treasury and held by the Employee Benefit Trust. 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, after deducting any own shares, and adjusting for the dilutive potential ordinary shares relating to share options.

| **Total operations** | **2018 £'000** | **2017 £'000** |
|---|---|---|
| Profit for the financial year and basic earnings attributed to ordinary shareholders | **12,287** | **12,083** |
| | **No** | **No** |
| Weighted average number of ordinary shares: | **'000** | **'000** |
| Called up, allotted and fully paid at start of year | 107,803 | 107,803 |
| Own shares held in Treasury | (28) | (465) |
| Own shares held by Employee Benefit Trust | (141) | (141) |
| Issued share capital in the year | 70 | - |
| **Weighted average number of ordinary shares - basic** | **107,704** | **107,197** |
| Dilutive impact of share options | 1,857 | 1,808 |
| **Weighted average number of ordinary shares - diluted** | **109,561** | **109,005** |
| Basic earnings per share | 11.41 p | 11.27 p |
| Diluted earnings per share | 11.21 p | 11.08 p |

## 12. EARNINGS PER ORDINARY SHARE (CONTINUED)

| **Adjusted earnings per share** | **2018 £'000** | **2017 £'000** |
|---|---|---|
| Profit for the financial year and basic earnings attributed to ordinary shareholders | 12,287 | 12,083 |
| - Amortisation of acquired intangible assets | 6,449 | 5,558 |
| - Acquisition costs | 774 | 104 |
| - Share based payments | 1,206 | 1,844 |
| - Mark to market interest adjustment | (46) | (84) |
| - Gain on revaluation of contingent consideration | (1,335) | - |
| - Non-recurring software licence fees | 2,143 | - |
| - Finance charge on contingent consideration | 51 | 330 |
| - Tax impact of adjusted items | (1,850) | (1,313) |
| **Adjusted profit for the financial year and adjusted earnings attributed to ordinary shareholders** | **19,679** | **18,522** |
| Adjusted basic earnings per share | 18.27 p | 17.28 p |
| Adjusted diluted earnings per share | 17.96 p | 16.99 p |

## 13. INTANGIBLE ASSETS

| | Goodwill | Development costs | Customer relationships | Software | Beneficial contracts | Domain names & IP addresses | Total |
|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Cost** | | | | | | | |
| At 1 April 2016 | **61,123** | **4,832** | **34,882** | **3,137** | **86** | **280** | **104,340** |
| Additions | - | - | | 1,670 | - | - | 1,670 |
| Currency translation differences | - | - | 101 | 40 | - | - | 141 |
| Acquired on acquisition of subsidiaries | 877 | - | 982 | - | - | - | 1,859 |
| Development cost capitalised | - | 1,372 | - | - | - | - | 1,372 |
| **At 31 March 2017** | **62,000** | **6,204** | **35,965** | **4,847** | **86** | **280** | **109,382** |
| Additions | - | - | 221 | 905 | - | - | 1,126 |
| Currency translation differences | - | - | (91) | (42) | - | - | (133) |
| Acquired on acquisition of subsidiaries | 13,837 | - | 11,904 | 1,243 | - | - | 26,984 |
| Disposals | - | - | - | (10) | - | - | (10) |
| Development cost capitalised | - | 1,577 | - | - | - | - | 1,577 |
| **At 31 March 2018** | **75,837** | **7,781** | **47,999** | **6,943** | **86** | **280** | **138,926** |
| | | | | | | | |
| **Accumulated amortisation:** | | | | | | | |
| At 1 April 2016 | **-** | **(3,194)** | **(15,308)** | **(1,453)** | **(26)** | **(171)** | **(20,152)** |
| Currency translation differences | - | - | (77) | (29) | - | - | (106) |
| Charge for the year | - | (989) | (5,551) | (815) | (7) | (55) | (7,417) |
| **At 31 March 2017** | **-** | **(4,183)** | **(20,936)** | **(2,297)** | **(33)** | **(226)** | **(27,675)** |
| | | | | | | | |
| Currency translation differences | - | - | 82 | (27) | - | - | 55 |
| Disposals | - | - | - | 10 | - | - | 10 |
| Charge for the year | - | (1,241) | (6,449) | (801) | (8) | (54) | (8,553) |
| **At 31 March 2018** | **-** | **(5,424)** | **(27,303)** | **(3,115)** | **(41)** | **(280)** | **(36,163)** |
| | | | | | | | |
| **Carrying amount:** | | | | | | | |
| **At 31 March 2018** | **75,837** | **2,357** | **20,696** | **3,828** | **45** | **-** | **102,763** |
| At 31 March 2017 | 62,000 | 2,021 | 15,029 | 2,550 | 53 | 54 | 81,707 |

Of the total additions in the year of £1,126,000 (2017: £1,670,000), £25,000 (2017: £122,000) was included in trade payables as unpaid invoices at the year end resulting in a net cash outflow of £97,000 (2017: net cash outflow £175,000) in trade payables. Consequently, the consolidated statement of cash flows discloses a figure of £1,223,000 (2017: £1,845,000) as the cash outflow in respect of intangible asset additions in the year.

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

Included within customer relationships are the following significant items: customer relationships in relation to the acquisitions of Sonassi Limited with a net book value of £5.7m and a remaining useful life of 8 years, Dediserve Limited with a net book value of £2.8m and a remaining useful of 8 years, Simple Servers Limited with an net book value of £1.4m and a remaining useful life of 8 years, Backup Technology with a net book value of £2.8m and a remaining useful life of 4 years; United Hosting with a net book value of £3.2m and a remaining useful life of 6 years; Melbourne Server Hosting with a net book value of £1.4m and a remaining useful life of 3 years; and ServerSpace with a net book value of £1.3m and remaining useful life of 5 years.

During the year, goodwill was reviewed for impairment in accordance with IAS 36 “Impairment of Assets”. No impairment charges (2017: £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 goodwill acquired in the year on all acquisitions has been allocated to the Hosting CGU as this is the CGU expected to benefit from the business combination.

### 13. INTANGIBLE ASSETS (CONTINUED)

The carrying value of goodwill by each CGU is as follows:

| Cash Generating Units (CGU) | 2018 £'000 | 2017 £'000 (restated)* |
|---|---|---|
| Easyspace | 23,315 | 23,210 |
| Cloud Services | 52,522 | 38,790 |
| | **75,837** | **62,000** |

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 the Board covering a two-year period. These projections are the result of detailed planning and assume similar levels of organic growth as the Group has experienced in the previous year unless there is a reason to alter historic growth rates and also full year contributions from acquisitions.

The growth rates and margins used to extrapolate estimated future performance in the 3 years after the initial 2 year period continue to be based on past growth performance adjusted downwards to take into account the additional risk due to the passage of time. 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 | Cloud Services |
|---|---|---|
| Discount rate | 10.4% | 9.7% |
| Average growth rate in years 3 to 5 | 2.5% | 2.5% |
| Future perpetuity rate | 2.0% | 2.0% |
| Initial period for which cash flows are estimated (years) | 2 | 2 |

Based on an analysis of the impairment calculation's sensitivities to changes in key parameters (growth rate, discount rate and pre-tax cash flow projections) there was no reasonably possible scenario where the CGU's recoverable amount would fall below its carrying amount.

*As noted in note 3, in the current year the Group now includes the non-recurring cash generating unit relating to Cristie Data reported in the prior year as part of Cloud Services cash generating unit, consequently, the prior year has been restated to reflect this change. Prior to restatement, the Cloud Services cash generating unit in 2017 was £37,913,000.

### 14. LEASE DEPOSITS

The lease deposits of £2,760,000 (2017: £2,760,000) are made up of a rental deposit of £784,000 (2017: £784,000) and a reinstatement deposit of £1,976,000 (2017 £1,976,000). The rental and reinstatement deposits are due to be repaid at the end of the lease which at the earliest is July 2020.

The Group is due to receive interest on the lease deposits at the prevailing market rate and therefore they have not been discounted.

## 15. SUBSIDIARIES

The following are subsidiaries and have all been consolidated in the Group financial statements:

| | Country of registration and operation | Activity | Ordinary share capital Owned by the company % | Ordinary share capital Owned by subsidiary undertakings % |
|---|---|---|---|---|
| Backup Technology Holdings Limited | England | Dormant | 100 | - |
| Backup Technology Limited | England | Dormant | - | 100 |
| Cloudfuel Limited | England | Non-trading | - | 100 |
| Cristie Data Limited | England | Provision of data storage, backup and virtualisation solutions | 100 | - |
| Dediserve Limited | Republic of Ireland | Managed hosting services | 100 | - |
| Easyspace Limited | England | Webservices | 100 | - |
| EQSN Limited | Scotland | Non-trading | 100 | - |
| Global Gold Holdings Limited | England | Non-trading | 100 | - |
| Global Gold Network Limited | England | Non-trading | - | 100 |
| Internet Engineering Limited | England | Non-trading | 100 | - |
| Internetters Limited | England | Dormant | - | 100 |
| iomart Cloud Inc | USA | Managed hosting services | 100 | - |
| iomart Cloud Services Limited | Scotland | Managed hosting services | 100 | - |
| iomart Datacentres Limited | England | Non-trading | 100 | - |
| iomart Development Limited | Scotland | Dormant | 100 | - |
| iomart Hosting Limited | Scotland | Managed hosting services | 100 | - |
| iomart Limited | Scotland | Dormant | 100 | - |
| iomart Virtual Servers Hosting Limited | Scotland | Dormant | 100 | - |
| Melbourne Server Hosting Limited | England | Managed hosting services | 100 | - |
| My Documents Limited | England | Dormant | 100 | - |
| Netintelligence Limited | Scotland | Dormant | 100 | - |
| NicNames Limited | England | Dormant | - | 100 |
| Open Minded Solutions Limited | England | Non-trading | 100 | - |
| Rapidswitch Limited | England | Dormant | 100 | - |
| Redstation Limited | England | Non-trading | 100 | - |
| ServerSpace Limited | England | Managed hosting services | 100 | - |
| Simple Servers Limited | England | Managed hosting services | - | 100 |
| Skymarket Limited | England | Dormant | 100 | - |
| Sonassi Holding Company Limited | England | Non-trading | 100 | - |
| Sonassi Limited | England | Managed hosting services | - | 100 |
| Switch Media (Ireland) Limited | England | Webservices | - | 100 |
| Switch Media Limited | England | Webservices | 100 | - |
| Systems Up Limited | England | Consultancy services | 100 | - |
| Tier 9 Limited | England | Non-trading | 100 | - |
| Titan Internet Limited | England | Dormant | 100 | - |
| United Communications Limited | England | Webservices | 100 | - |
| Web Genie Internet Limited | England | Dormant | - | 100 |

## 16. PROPERTY, PLANT AND EQUIPMENT

| | Freehold property £'000 | Leasehold improve-ments £'000 | Datacentre equipment £'000 | Computer equipment £'000 | Office equipment £'000 | Motor vehicles £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | |
| At 1 April 2016 | 2,062 | 7,323 | 20,472 | 47,242 | 2,356 | 68 | 79,523 |
| Additions in the year | - | 647 | 697 | 8,115 | 231 | - | 9,690 |
| Acquisition of subsidiaries | - | - | - | 179 | 27 | - | 206 |
| Disposals in the year | - | (3) | - | (58) | - | - | (61) |
| Currency translation differences | - | - | - | 125 | - | - | 125 |
| **At 31 March 2017** | **2,062** | **7,967** | **21,169** | **55,603** | **2,614** | **68** | **89,483** |
| Additions in the year | - | 767 | 1,511 | 14,297 | 96 | 11 | 16,682 |
| Acquisition of subsidiaries | - | - | - | 1,275 | 1 | - | 1,276 |
| Disposals in the year | - | (194) | - | (1,191) | (313) | (48) | (1,746) |
| Currency translation differences | - | - | - | 59 | - | - | 59 |
| **At 31 March 2018** | **2,062** | **8,540** | **22,680** | **70,043** | **2,398** | **31** | **105,754** |
| | | | | | | | |
| **Accumulated depreciation:** | | | | | | | |
| At 1 April 2016 | (191) | (2,337) | (7,939) | (31,585) | (1,371) | (55) | (43,478) |
| Charge for the year | (67) | (440) | (1,824) | (8,370) | (258) | (13) | (10,972) |
| Disposals in the year | - | 3 | - | 58 | - | - | 61 |
| Currency translation differences | - | - | - | (45) | - | - | (45) |
| **At 31 March 2017** | **(258)** | **(2,774)** | **(9,763)** | **(39,942)** | **(1,629)** | **(68)** | **(54,434)** |
| Charge for the year | (48) | (556) | (1,984) | (9,538) | (409) | (1) | (12,536) |
| Disposals in the year | - | 192 | - | 1,191 | 313 | 48 | 1,744 |
| Currency translation differences | - | - | (8) | 166 | - | - | 158 |
| **At 31 March 2018** | **(306)** | **(3,138)** | **(11,755)** | **(48,123)** | **(1,725)** | **(21)** | **(65,068)** |
| | | | | | | | |
| **Carrying amount:** | | | | | | | |
| **At 31 March 2018** | **1,756** | **5,402** | **10,925** | **21,920** | **673** | **10** | **40,686** |
| At 31 March 2017 | 1,804 | 5,193 | 11,406 | 15,661 | 985 | - | 35,049 |

The net book value of computer equipment held under finance lease at 31 March 2018 was £234,000 (2017: £546,000) and the net book value of datacentre equipment held under finance lease at 31 March 2018 was £375,000 (2017: £456,000).

Of the total additions in the year of £16,682,000 (2017: £9,690,000), £1,846,000 (2017: £1,256,000) was included in trade payables as unpaid invoices at the year end resulting in a net increase of £590,000 (2017: net decrease of £499,000) in trade payables. Consequently, the consolidated statement of cash flows discloses a figure of £16,092,000 (2017: £10,189,000) as the cash outflow in respect of property, plant and equipment additions in the year.

### 17. TRADE AND OTHER RECEIVABLES

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Trade receivables | 7,334 | 7,157 |
| Less: Provision for impairment | (799) | (1,121) |
| **Trade receivables (net)** | **6,535** | **6,036** |
| Other receivables | 500 | 553 |
| Prepayments | 10,152 | 7,889 |
| Accrued income | 771 | 602 |
| **Trade and other receivables** | **17,958** | **15,080** |

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 impairment provision calculations. Some of the higher value trade receivables in the Cloud Services segment are reviewed individually for impairment and judgement made as to any likely impairment based on historic trends and the latest communication with specific customers.

The balance of trade receivables in the Group are individually small in terms of value, so are considered for impairment by business unit specific provision calculations and are not individually impaired.

To consider the total exposure to credit risks, the Group uses figures net of VAT. At 31 March 2018, £4,922,000 (2017: £4,118,000) of net trade receivables were fully performing. Net trade receivables of £1,613,000 (2017: £1,918,000) were past due, but not impaired. The credit quality of financial assets that are neither past due or impaired can be assessed by reference to the customer type. Trade receivables consist of a large number of customers in various industries and geographical areas. The Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The aging below shows that almost all are less than three months old and historic performance indicates a high probability of payment for debts in this aging. Those over three months relate to customers without history of default for which there is a reasonable expectation of recovery.

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Up to 3 months | 1,412 | 1,887 |
| Over 3 months but less than 6 months | 42 | - |
| Over 6 months but less than 1 year | 159 | 31 |
| **Total unimpaired trade receivables which are past due** | **1,613** | **1,918** |

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Balance at start of the year | 1,121 | 850 |
| (Decrease)/increase in provision for receivables impairment | (322) | 267 |
| Fair value of trade receivable provision acquired during the year | - | 4 |
| **Balance at end of year** | **799** | **1,121** |

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

### 18. CASH AND CASH EQUIVALENTS

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Cash at bank and on hand | 9,495 | 8,906 |
| **Cash and cash equivalents** | **9,495** | **8,906** |

The credit risk on cash and cash equivalents is considered to be negligible because the counter parties are UK banking institutions. The effective interest rate earned on short term deposits was 0.35% (2017: 0.33%).

### 19. TRADE AND OTHER PAYABLES

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Trade payables | (10,451) | (5,958) |
| Other taxation and social security | (2,038) | (2,385) |
| Accruals | (6,272) | (6,660) |
| Deferred income | (10,232) | (8,257) |
| Other creditors | (152) | (108) |
| **Trade and other payables** | **(29,145)** | **(23,368)** |

The carrying amount of trade and other payables approximates to their fair value. Trade payables and accruals are non-interest bearing and generally mature within three months.

### 20. NON-CURRENT TRADE AND OTHER PAYABLES

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Trade payables | - | (102) |
| **Non-current trade and other payables** | **-** | **(102)** |

### 21. CONTINGENT CONSIDERATION

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Contingent consideration due on acquisitions within one year: | | |
| - Sonassi Holding Company Limited | (832) | - |
| - Tier 9 Limited | (1,862) | - |
| - United Communications Limited | - | (2,373) |
| **Total contingent consideration due on acquisitions** | **(2,694)** | **(2,373)** |

## 22. BORROWINGS

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| **Current:** | | |
| Obligations under finance leases | (327) | (233) |
| Bank loans | (35,239) | (18,639) |
| Current borrowings | **(35,566)** | **(18,872)** |
| **Non-current:** | | |
| Obligations under finance leases | (503) | (625) |
| Bank loans | - | - |
| Total non-current borrowings | **(503)** | **(625)** |
| **Total borrowings** | **(36,069)** | **(19,497)** |

The carrying amount of borrowings approximates to their fair value.

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

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Capital | Interest | Total | Capital | Interest | Total |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Due within one year | 327 | 71 | 398 | 233 | 81 | 314 |
| Due between two and five years | 503 | 111 | 614 | 541 | 170 | 711 |
| Due after more than five years | - | - | - | 84 | 3 | 87 |
| | **830** | **182** | **1,012** | **858** | **254** | **1,112** |

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 11.4% (2017: 11.2%). Lease payments are made on a monthly and quarterly basis. The future lease obligation of £1,012,000 (2017: £1,112,000) has a present value of £830,000 (2017: £858,000).

At the start of the year there was £18.6m (2017: £34.5m) outstanding on the multi option revolving credit facility and drawdowns of £25.0m (2017: £nil) were made from the facility during the year. Repayments totalling £8.5m (2017: £16.0m) were made resulting in a balance outstanding at the end of the year of £35.2m (2017: £18.6m).

The £60m multi option revolving credit facility was able to be used by the Group to finance acquisitions, capital expenditure, general business purposes and for the issue of guarantees, bonds or indemnities. The facility was available until June 2019 at which point any advances made under the multi option revolving credit facility would have become immediately repayable. Each draw down made under this facility could be for either 3 or 6 months and could either be repaid or continued at the end of the period. Interest was charged on this loan at an annual rate determined by the sum of the multi option revolving credit facility margin, LIBOR and the lender's mandatory costs. The multi option revolving credit facility margin was fixed at 1.7% per annum and a non-utilisation fee of 40% of the multi option revolving credit facility margin was due on any undrawn portion of the full £60m multi option revolving credit facility. The effective interest rate for multi option revolving credit facility in the current year was 2.70% (2017: 3.32%). Post the end of the financial year, the Group has entered into a replacement multi option revolving facility for an amount of £80m which is available until June 2022, see post balance sheet events note 31.

## 22. BORROWINGS (CONTINUED)

The future loan obligations of £35,399,000 (2017: £18,722,000) equate to a present value of £34,457,000 (2017: £18,315,000). The capital element of the bank loans is £35,239,000 (2017: £18,639,000) and this differs from the net amount drawn down of £34,956,000 (2017: £18,500,000) due to an effective interest rate adjustment.

The obligations under the multi option revolving credit facility and term loan facility are repayable as follows:

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Capital £'000 | Interest £'000 | Total £'000 | Capital £'000 | Interest £'000 | Total £'000 |
| Due within one year | 35,239 | 160 | 35,399 | 18,639 | 83 | 18,722 |
| Due between two and five years | - | - | - | - | - | - |
| | **35,239** | **160** | **35,399** | **18,639** | **83** | **18,722** |

| **Analysis of change in net cash/(debt)** | **Cash and cash equivalents £'000** | **Bank loans £'000** | **Finance leases and hire purchase £'000** | **Total liabilities** | **Total net cash/ (debt) £'000** |
|---|---|---|---|---|---|
| At 1 April 2016 | 10,341 | (34,525) | (1,399) | (35,924) | **(25,583)** |
| Repayment of bank loans | - | 16,000 | - | 16,000 | **16,000** |
| Impact of effective interest rate | - | (114) | - | (114) | **(114)** |
| Acquired on acquisition of subsidiary | 3,104 | - | - | - | **3,104** |
| Currency translation differences | - | - | (39) | (39) | **(39)** |
| Cash flow | (4,539) | - | 580 | 580 | **(3,959)** |
| **At 31 March 2017** | **8,906** | **(18,639)** | **(858)** | **(19,497)** | **(10,591)** |
| Repayment of bank loans | - | 8,500 | - | 8,500 | **8,500** |
| New bank loans | - | (24,956) | | (24,956) | **(24,956)** |
| Impact of effective interest rate | - | (144) | - | (144) | **(144)** |
| Acquired on acquisition of subsidiaries | 4,153 | - | 283 | 283 | **4,436** |
| Currency translation differences | - | - | 21 | 21 | **21** |
| Cash flow | (3,564) | - | (276) | (276) | **(3,840)** |
| **At 31 March 2018** | **9,495** | **(35,239)** | **(830)** | **(36,069)** | **(26,574)** |

## 23. PROVISIONS

The Group has made provision for the reinstatement of certain leasehold properties and after initial measurement, any subsequent adjustments to reinstatement provisions will be recorded against the original amount included in leasehold improvements with a corresponding adjustment to future depreciation charges.

Upon the acquisition of ServerSpace, the Group recognised an onerous lease provision for excess datacentre capacity based on the contracted future lease rental obligations relating to datacentre capacity that is no longer required.

As noted on page 15, the Group has made a provision for non-recurring software licence fees relating to prior years of £2.1m, together with the current year charge of £0.5m gives a total provision of £2.6m.

The directors consider the carrying values of the provisions to approximate to their fair values as they have been discounted.

| | **2018 £'000** | **2017 £'000** |
|---|---|---|
| **Current:** | | |
| Non-recurring software licence fees | (2,587) | - |
| Onerous lease | - | (38) |
| Total current provisions | **(2,587)** | **(38)** |
| **Non-current:** | | |
| Reinstatement | (1,775) | (1,721) |
| Total non-current provisions | **(1,775)** | **(1,721)** |
| **Total borrowings** | **(4,362)** | **(1,759)** |

## 23. PROVISIONS (CONTINUED)

The movement in the provisions during the year was as follows:

| | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Reinstatement | Onerous | Non-recurring software licence fees | Total | Reinstatement | Onerous | Non-recurring software licence fees | Total |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Balance at start of the year | (1,721) | (38) | - | **(1,759)** | (1,668) | (422) | - | **(2,090)** |
| Reduction in provision | - | 38 | - | **38** | - | 384 | - | **384** |
| Increase in provision | | | (2,587) | **(2,587)** | - | - | - | **-** |
| Unwinding of discount | (54) | - | - | **(54)** | (53) | **-** | - | **(53)** |
| | **(1,775)** | **-** | **(2,587)** | **(4,362)** | **(1,721)** | **(38)** | **-** | **(1,759)** |

## 24. OPERATING LEASES

The Group has outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Land and buildings | Other | Land and buildings | Other |
| | £'000 | £'000 | £'000 | £'000 |
| Within one year | 2,135 | 71 | 1,934 | 76 |
| Between two to five years | 3,247 | 285 | 4,294 | 285 |
| After five years | 1,480 | 65 | 1,857 | 137 |
| | **6,862** | **421** | **8,085** | **498** |

**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.

## 25. SHARE CAPITAL

| | Ordinary shares of 1p each | |
|---|---|---|
| | Number of shares | £'000 |
| **Authorised** | | |
| **At 31 March 2016, 2017 and 2018** | **200,000,000** | **2,000** |

| | | |
|---|---|---|
| **Called up, allotted and fully paid** | | |
| At 31 March 2017 | 107,803,006 | 1,078 |
| Share capital issued in the year | 187,335 | 2 |
| **At 31 March 2018** | **107,990,341** | **1,080** |

At 31 March 2018 the Company held no shares (2017: 100,839) as own shares in treasury which were accounted for in the Own Shares Treasury reserve and had a nominal value of £nil (2017: £1,008) and a market value of £nil (2017: £298,988). This represents 0% (2017: 0.1%) of the issued share capital as at 31 March 2018 excluding own shares.

### 25. SHARE CAPITAL (CONTINUED)

At 31 March 2018 the Company held 140,773 shares (2017: 140,773) as own shares in the iomart Group plc Employee Benefit Trust ("EBT") which were accounted for in the Own Shares EBT reserve and had a nominal value of £1,408 (2017: £1,408) and a market value of £515,933 (2017: £417,392). This represents 0.1% (2017: 0.1%) of the issued share capital as at 31 March 2018 excluding own shares.

The share capital of iomart Group plc consists of ordinary shares with a par value of 1p. All shares, excluding the shares held by the Company in treasury and the shares held by the EBT, are equally eligible to receive dividends and represent one vote at the shareholders' meetings of iomart Group plc. All shares issued at 31 March 2018 are fully paid.

### 26. OWN SHARES RESERVES

| | Own shares EBT £'000 | Own shares Treasury £'000 | Own shares Total £'000 |
|---|---|---|---|
| At 1 April 2016 | **(70)** | **(419)** | **(489)** |
| Issue of own shares from Treasury for option redemption | - | 369 | 369 |
| **At 31 March 2017** | **(70)** | **(50)** | **(120)** |
| Issue of own shares from Treasury for option redemption | - | 50 | 50 |
| **At 31 March 2018** | **(70)** | **-** | **(70)** |

During the year 100,839 (2017: 745,797) own shares held in treasury at the carrying value of 49.5p each were issued following the exercise of share options by employees for which a net total of £57,515 (2017: £1,065,018) was received. As a consequence, at 31 March 2018 the Company held no shares (2017: 100,839) in treasury with a carrying value of £nil (2017: £49,915) which were accounted for in Own Shares treasury reserve; and 140,773 shares (2017: 140,773) in the EBT with a carrying value of £69,982 (2017: £69,982) which were accounted for in the Own Shares EBT reserve.

### 27. SHARE BASED PAYMENTS

The Group operated the following share based payment employee share option schemes during the year; an Enterprise Management Incentive scheme, a SAYE sharesave scheme 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 | Up to 3 years from grant | 10 years after date of grant | As set by Remuneration Committee | Yes |
| Unapproved schemes | Up to 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 | Yes |

The performance criteria as set by the Remuneration Committee are based on the achievement of annual objectives and continuous employment.

During the year, options over 288,174 ordinary shares (2017: 745,797) were exercised and the average market price at the exercise dates was 362.73p (2017: 286.1p). Options over 673,884 ordinary shares (2017: 602,228) were granted under the unapproved share option scheme with an average exercise price of 94.2p (2017: 1.0p) and 148,162 options over ordinary shares were granted under the sharesave scheme with an average exercise price of 252.8p (2017: none). Options over 188,883 ordinary shares (2017: 473,750) lapsed under the unapproved share option scheme with an average exercise price of 1.0p (2017: 184.3p), no options lapsed over shares under the EMI scheme (2017: none); and options over 64,042 (2017: 51,853) lapsed under the sharesave scheme with an average exercise price of 214.7p (2017: 193.9p).

## 27. SHARE BASED PAYMENTS (CONTINUED)

As disclosed in note 5, a share based payment charge of £1,206,000 (2017: £1,844,000) has been recognised in the statement of comprehensive income 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 for the options granted in the current and previous year:

| **Grant date** | **12 Apr 2017** | **26 Jul 2017** | **27 Jul 2017** | **18 Aug 2017** |
|---|---|---|---|---|
| **Vesting date** | **31 Mar 2020** | **26 Jul 2017** | **30 Sep 2018** | **1 Oct 2020** |
| **Variables used** | | | | |
| Share price at grant date | 293.75p | 310.0p | 313.50p | 312.75p |
| Volatility | 63% | 62% | 62% | 62% |
| Dividend yield | 0.93% | 1.06% | 1.06% | 2.16% |
| Number of employees holding options/units | 2 | 2 | 18 | 69 |
| Option/award life (years) | 10 | 10 | 10 | 3 |
| Expected life (years) | 3.25 | 1.00 | 1.42 | 3.25 |
| Risk free rate | 1.07% | 1.26% | 1.24% | 1.12% |
| Expectations of meeting performance criteria | 100% | 100% | 100% | 100% |
| **Fair value** | **284.04p** | **73.31p** | **307.84p** | **139.31p** |
| Exercise price per share | 1.0p | 315.2p | 1.0p | 252.8p |

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; and

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

The movement in options during the year in respect of the Company's ordinary shares of 1p each under the various share option schemes are as follows:

| | **2018** | | **2017** | |
|---|---|---|---|---|
| | **Weighted average exercise price per share (p)** | **Number of share options** | **Weighted average exercise price per share (p)** | **Number of share options** |
| Outstanding at start of year | 34.45 | 2,928,232 | 84.55 | 3,597,404 |
| Granted | 122.81 | 822,046 | 1.00 | 602,228 |
| Forfeited | 55.12 | (252,925) | 185.26 | (525,603) |
| Expired | 191.40 | (4,702) | - | - |
| Exercised | 77.25 | (288,174) | 142.80 | (745,797) |
| **Outstanding at end of year** | **51.41** | **3,204,477** | **34.45** | **2,928,232** |
| **Exercisable at end of year** | **22.65** | **1,596,216** | **33.56** | **1,764,040** |

## 27. SHARE BASED PAYMENTS (CONTINUED)

Summary of share options that were outstanding at the year end:

| | | Share options – outstanding | | | Share options – exercisable | | |
|---|---|---|---|---|---|---|---|
| | Range of exercise prices per share (p) | Outstanding shares | Weighted average exercise price per share (p) | Weighted average remaining contractual life (years) | Outstanding shares | Weighted average exercise price per share (p) | Weighted average remaining contractual life (years) |
| Enterprise management incentive scheme | 43.5 – 87.5 | 250,928 | 67.74 | 1.6 | 250,928 | 67.74 | 1.6 |
| Unapproved schemes | 1.0 – 315.5 | 2,695,850 | 33.47 | 6.6 | 1,345,288 | 14.24 | 4.8 |
| Sharesave scheme | 191.4 – 252.8 | 257,699 | 223.20 | 2.0 | - | - | - |
| **As at 31 March 2018** | | **3,204,477** | **51.41** | **5.9** | **1,596,216** | **22.65** | **4.3** |
| Enterprise management incentive scheme | 43.5 – 87.5 | 260,813 | 66.92 | 2.6 | 260,813 | 66.92 | 2.6 |
| Unapproved schemes | 1.0 – 173.0 | 2,487,258 | 19.44 | 6.9 | 1,496,645 | 27.05 | 5.5 |
| Sharesave scheme | 191.4 – 194.8 | 180,161 | 194.68 | 1.9 | 6,582 | 191.40 | 0.3 |
| **As at 31 March 2017** | | **2,928,232** | **34.45** | **6.2** | **1,764,040** | **33.56** | **5.1** |

## 28. RELATED PARTY TRANSACTIONS

Compensation paid to key management (only directors are deemed to fall into this category) during the year was as follows:

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Salaries and other short-term employee benefits | 1,048 | 1,502 |
| Share-based payments | 668 | 819 |
| | **1,716** | **2,321** |

Dividends paid to key management were as follows:

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Angus MacSween | 1,402 | 535 |
| Chris Batterham | - | 3 |
| Sarah Haran | - | 62 |
| Richard Logan | 80 | 31 |
| Ian Ritchie | 13 | 5 |
| Crawford Beveridge | - | 1 |
| **Total dividends paid to directors** | **1,495** | **637** |

## 29. CONTINGENCIES AND COMMITMENTS

### (a) Contingencies

There were no contingent assets or liabilities as at 31 March 2018 (2017: nil).

### (b) Commitments

Capital expenditure on software licences and property, plant and equipment committed by the Group at 31 March 2018 was £613,391 (2017: £1,146,980).

## 30. RISK MANAGEMENT

The Group finances its operations by raising finance through equity, bank borrowings and finance leases. No speculative treasury transactions are undertaken however the Group does from time to time enter into forward foreign exchange contracts to hedge known currency exposures. Financial assets and liabilities include those assets and liabilities of a financial nature, namely cash, short term receivables/payables and borrowings.

The carrying amounts of financial assets presented in the statement of financial position relate to the following measurement categories as defined in IAS 39:

| | Loans and receivables £'000 |
|---|---|
| **2018** | |
| **Non-current:** | |
| Lease deposit | 2,760 |
| | |
| **Current:** | |
| Trade receivables | 6,535 |
| Cash and cash equivalents | 9,495 |
| Other receivables | 500 |
| **Total for category** | **19,290** |
| **2017** | |
| **Non-current:** | |
| Lease deposit | 2,760 |
| | |
| **Current:** | |
| Trade receivables | 6,036 |
| Cash and cash equivalents | 8,906 |
| Other receivables | 553 |
| **Total for category** | **18,255** |

### 30. RISK MANAGEMENT (CONTINUED)

The carrying amounts of financial liabilities presented in the statement of financial position relate to the following measurement categories as defined in IAS 39:

| | At fair value through profit or loss £'000 | Financial liabilities measured at amortised cost £'000 | Other (non-IAS 39) £'000 | Total £'000 |
|---|---|---|---|---|
| **2018** | | | | |
| **Non-current:** | | | | |
| Finance leasing capital obligations | - | - | (503) | (503) |
| **Current:** | | | | |
| Trade payables | - | (10,451) | - | (10,451) |
| Accruals | - | (6,272) | - | (6,272) |
| Bank loan | - | (35,239) | - | (35,239) |
| Contingent consideration due on acquisitions | (2,694) | - | - | (2,694) |
| Finance leasing capital obligations | - | - | (327) | (327) |
| **Total for category** | **(2,694)** | **(51,962)** | **(830)** | **(55,486)** |
| **2017** | | | | |
| **Non-current:** | | | | |
| Trade payables | - | (102) | - | (102) |
| Finance leasing capital obligations | - | - | (625) | (625) |
| **Current:** | | | | |
| Trade payables | - | (5,958) | - | (5,958) |
| Accruals | - | (6,616) | - | (6,616) |
| Bank loan | - | (18,639) | - | (18,639) |
| Contingent consideration due on acquisitions | (2,373) | - | - | (2,373) |
| Finance leasing capital obligations | - | - | (233) | (233) |
| Interest rate swap contract | (44) | - | - | (44) |
| **Total for category** | **(2,417)** | **(31,315)** | **(858)** | **(34,590)** |

The Group's financial liabilities per the fair value hierarchy classifications under IFRS 13 'Financial Instruments: Disclosures' are described below:

| Category of financial liability | Fair value at 31 March 2018 £'000 | Level in hierarchy | Description of valuation technique | Inputs used for valuation model | Total gains recognised in profit or loss £'000 |
|---|---|---|---|---|---|
| Contingent consideration due on acquisitions | (2,694) | 3 | Based on level of future revenue and profitability and probability that vendors will comply with obligations under sale and purchase agreement. | Management estimate on probability and time scale of vendors meeting revenue and profitability targets and complying with obligations. | 1,335 |
| Interest rate swap contracts | - | 2 | Interest rate swap contracts are not traded in active markets. Fair valued using observable interest rates corresponding to the maturity of the contracts. | Observable interest rates corresponding to the maturity of the contracts. Effects of non-observable inputs are not significant for interest rate swaps. | 46 |
| **Total fair value** | **(2,694)** | | | **Total net gains** | **1,381** |

There have been no changes to valuation techniques or any amounts recognised through 'Other Comprehensive Income'. The £46,000 (2017: £84,000) gain recognised in profit or loss on interest rate swap contracts is included in finance costs. The interest rate swap contracts matured in October 2017.

### 30. RISK MANAGEMENT (CONTINUED)

The reconciliation of the carrying amounts of financial instruments classified within Level 3 is as follows:

| **Contingent consideration** | **2018 £'000** | **2017 £'000** |
|---|---|---|
| Balance at start of the year | (2,373) | (3,203) |
| Acquired through business combination | (4,080) | - |
| Settled in cash during the year | 2,475 | 1,160 |
| Recognised in profit or loss under: | | |
| - Gain on revaluation of contingent consideration | 1,335 | - |
| - Finance costs | (51) | (330) |
| **Balance at end of year** | **(2,694)** | **(2,373)** |
| Total amount included in profit or loss on Level 3 instruments under gain on revaluation of contingent consideration and finance costs | **1,284** | **(330)** |

#### 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. In note 22, the contractual maturity analysis of the Group's total borrowings of £36.1m (2017: £19.5m) is shown. The Group has £25m (2017: £41.5m) available to draw down on the revolving credit facility and reviews its cash flow requirements on a monthly basis.

#### Interest rates

The interest rate on the Group's cash at bank is determined by reference to the base rate and the interest rate on the Group's revolving credit loan facilities is based on LIBOR plus a margin. The Group has entered into an interest rate swap in respect of £10m which has been drawn under the revolving credit facility from April 2015 which reduces by £2m every 6 months until October 2017 and as a consequence the interest rate on that amount of borrowing is fixed at 2.03% from April 2015 until maturity. As a consequence, at 31 March 2018, the interest rate swap has matured in October 2017 and £nil of the amount drawn under the multi option revolving credit facility was covered by interest rate swap arrangements (2017: £2m). The fair value of the interest rate swap contracts is estimated to be a gain of £46,000 (2017: gain of £84,000) which has been recognised in profit or loss for the year.

#### Currency risk

During the year the Group made payments totalling US$8.4m (2017: US$5.5m) and EUR€0.4m (2017: EUR€0.1m) to acquire domain names for its Easyspace segment and licences for its Cloud Services segment. In addition, the Group received US$5.8m (2017: US$3.5m) and EUR€2m (2017: EUR€0.4m) from Cloud Services customers billed in foreign currency. The increase in the year in Euro receipts is driven by the acquisition of Dediserve. During the year, the Group entered into forward exchange contracts to hedge its exposure to the US Dollar arising on these purchases but at the year end the Group had no outstanding forward contracts in place (2017: none). Consequently, the fair value of currency contracts at the year end was £nil (2017: £nil). The level of non-monetary and monetary assets and liabilities denominated in foreign currencies in the Group are minimal.

#### Capital risk

The capital structure of the Group consists of net debt, which includes borrowings (note 22) and cash and cash equivalents, and equity attributable to owners of the parent, comprising issued share capital (note 25), other reserves and retained earnings. The Group currently has net debt due to its acquisition activities. The Group seeks to maintain a level of gross cash which the Board considers to be adequate for the size of the Group's operations which is around £10m. Consequently, the Group makes use of both banking facilities and finance lease arrangements to help fund the acquisition of companies and capital expenditure in order to maintain that level of gross cash. The Group's current policy is to pay interim and final dividends depending on the level of adjusted diluted earnings per share. The Group was in compliance with all covenants under its banking facility arrangements throughout the reporting period.

#### Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial losses to the Group. The Group provides standard credit terms (normally 30 days) to some of its customers which has resulted in trade receivables of £6,535,000 (2017: £6,036,000) which are stated net of applicable provisions and which represent the total amount exposed to credit risk. The lease deposits of £2,760,000 (2017: £2,760,000) are held in escrow accounts with the landlord's main UK bankers and the landlord is a major UK plc. The Group's cash at bank £9,495,000 (2017: £8,906,000) is held within clearing banks in the UK, Republic of Ireland and United States of America.

In respect of trade receivables, lease deposits and cash at bank the directors consider the risk of exposure to credit is minimal due to the reasons given above.

### 31. POST BALANCE SHEET EVENT

On 6 June 2018, the Group entered into a new banking facility which provides an £80m revolving credit facility that matures in June 2022.

On 30 May 2018, the Group extended the London datacentre lease to June 2030.

## Independent auditor's report to the members of iomart Group plc

### Opinion

**Our opinion on the parent company financial statements is unmodified**

We have audited the parent company financial statements of iomart Group plc for the year ended 31 March 2018, which comprise the statement of financial position, the statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the parent company financial statements:

- give a true and fair view of the state of the parent company's affairs as at 31 March 2018;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the parent company financial statements section of our report. We are independent of the parent company in accordance with the ethical requirements that are relevant to our audit of the parent company financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Who we are reporting to

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

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

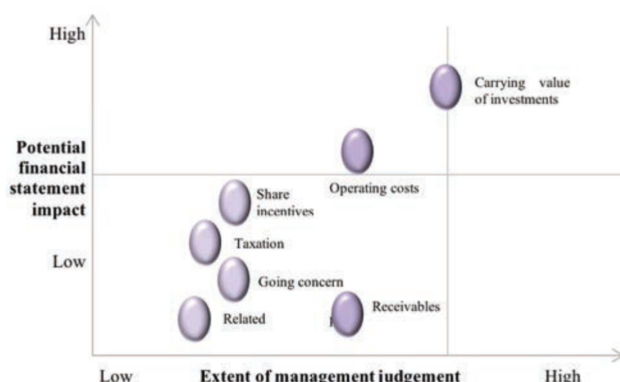
- the directors' use of the going concern basis of accounting in the preparation of the parent company financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

**Overview of our audit approach**

- Overall materiality: £1.345m, which represents 2% of the company's total assets capped at 75% of group materiality. This benchmark is considered the most appropriate because the parent company operates as a cost centre for the group.
- No key audit matters were identified within the parent company
- Our audit was scoped by obtaining an understanding of the company and its environment, including its internal controls, and assessing the risks of material misstatement

### Key audit matters

The graph below depicts the audit risks identified and their relative significance based on the extent of the financial statement impact and the extent of management judgement.




Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the parent company financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Within the parent company audit we have identified no key audit matters.

### Our application of materiality

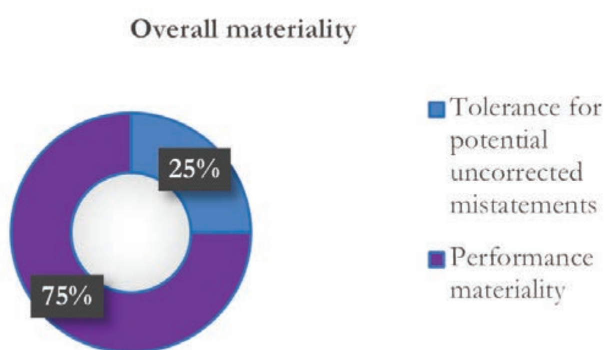
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our work and in evaluating the results of that work.

We determined materiality for the audit of the parent company financial statements as a whole to be £1.345m, which is 2% of total assets, capped at 75% of group materiality. This benchmark is considered the most appropriate because the company is a holding company with no trading revenue.  Given the primary purpose of this company is to hold the investments in the group's subsidiaries, we determined total assets to be the most appropriate benchmark.

Materiality for the current year is higher than the level that we determined for the year ended 31 March 2017 to reflect the acquisitions of Dediserve, Simpleservers and Sonassi.

We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.



### Our application of materiality (continued)

We also determine a lower level of specific materiality of £67,400 for directors' remuneration, which is based on 5% of the prior year aggregate emoluments of £1.348m.

We determined the threshold at which we will communicate misstatements to the audit committee to be £67,000. In addition we will communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

### An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the company's business, its environment and risk profile and in particular included:

- obtaining an understanding of the company and its environment, including its internal controls, and assessing the risks of material misstatement;
- focusing our work on the carrying value of investments as the largest balance and most significant judgement in the financial statements; and
- there were no material changes in the overview of the scope of the current year audit from the scope of that of the prior year.

### Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the parent company financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the parent company financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement of the parent company financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

### Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

### Matters on which we are required to report by exception

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

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

### Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 35, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of parent company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company financial statements, the directors are responsible for assessing the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the parent company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the parent company financial statements

Our objectives are to obtain reasonable assurance about whether the parent company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these parent company financial statements.

A further description of our responsibilities for the audit of the parent company financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

### Other matters

We have reported separately on the group financial statements of iomart Group plc for the year ended 31 March 2018. That report includes details of the group key audit matters; how we applied the concept of materiality in planning and performing our audit; and an overview of the scope of our audit.

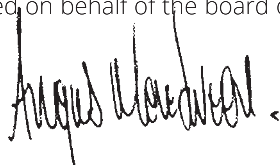
**Robert Hannah**
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Glasgow
11 June 2018

## STATEMENT OF FINANCIAL POSITION
**As at 31 March 2018**

| | Note | 2018 £'000 | 2017 £'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investments | 3 | 136,069 | 107,374 |
| | | **136,069** | **107,374** |
| **Current Assets** | | | |
| Trade and other receivables | 4 | 6,368 | 4,785 |
| Cash at bank balances | | 6,120 | 7,195 |
| | | **12,488** | **11,980** |
| **Total assets** | | **148,557** | **119,354** |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 6 | **(82,835)** | **(46,153)** |
| **Net current liabilities** | | **(82,835)** | **(34,173)** |
| **Total assets less current liabilities** | | **65,722** | **73,201** |
| **NET ASSETS** | | **65,722** | **73,201** |
| **EQUITY** | | | |
| Called up share capital | 9 | 1,080 | 1,078 |
| Own shares | 10 | (70) | (120) |
| Capital redemption reserve | | 1,200 | 1,200 |
| Share premium account | | 21,231 | 21,067 |
| Merger reserve | | 4,983 | 4,983 |
| Retained earnings | | 37,298 | 44,993 |
| **TOTAL EQUITY** | | **65,722** | **73,201** |

As permitted by section 408(3) of the Companies Act 2006, no profit and loss account of the company is presented. The loss for the financial year, dealt with in the profit and loss account of the company, was £167,000 (2017: profit of £3,759,000).

These financial statements were approved by the board of directors and authorised for issue on 11 June 2018.
Signed on behalf of the board of directors



**Angus MacSween**
*Director and chief executive officer*
iomart Group plc – Company Number: SC204560
The following notes form part of the financial statements

STATEMENT OF CHANGES IN EQUITY
Year ended 31 March 2018

| Changes in equity | Note | Share capital £'000 | Own shares EBT £'000 | Own shares Treasury £'000 | Capital redemption reserve £'000 | Share premium account £'000 | Merger reserve £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 April 2016** | | **1,078** | **(70)** | **(419)** | **1,200** | **21,067** | **4,983** | **42,462** | **70,301** |
| Profit for the year | | - | - | - | - | - | - | 3,759 | 3,759 |
| **Total comprehensive income** | | **-** | **-** | **-** | **-** | **-** | **-** | **3,759** | **3,759** |
| Dividends – final (paid) | 17 | - | - | - | - | - | - | (3,375) | (3,375) |
| Share based payments | 11 | - | - | - | - | - | - | 1,844 | 1,844 |
| Deferred tax on share based payments | 5 | - | - | - | - | - | - | (392) | (392) |
| Issue of own shares for option redemption | 10 | - | - | 369 | - | - | - | 695 | 1,064 |
| **Total transactions with owners** | | **-** | **-** | **369** | **-** | **-** | **-** | **(1,228)** | **(859)** |
| **Balance at 31 March 2017** | | **1,078** | **(70)** | **(50)** | **1,200** | **21,067** | **4,983** | **44,993** | **73,201** |
| Loss for the year | | - | - | - | - | - | - | (167) | (167) |
| **Total comprehensive income** | | **-** | **-** | **-** | **-** | **-** | **-** | **(167)** | **(167)** |
| Dividends – interim (paid) | 17 | - | - | - | - | - | - | (2,426) | (2,426) |
| Dividends – final (paid) | 17 | - | - | - | - | - | - | (6,459) | (6,459) |
| Share based payments | 11 | - | - | - | - | - | - | 1,206 | 1,206 |
| Deferred tax on share based payments | 5 | - | - | - | - | - | - | 143 | 143 |
| Issue of share capital | 9 | 2 | - | - | - | 164 | - | - | 166 |
| Issue of own shares for option redemption | 10 | - | - | 50 | - | - | - | 8 | 58 |
| **Total transactions with owners** | | **2** | **-** | **50** | **-** | **164** | **-** | **(7,528)** | **(7,312)** |
| **Balance at 31 March 2018** | | **1,080** | **(70)** | **-** | **1,200** | **21,231** | **4,983** | **37,298** | **65,722** |

The following notes form part of the financial statements.

## 1. COMPANY INFORMATION

iomart Group plc is a company incorporated and domiciled in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 108 of this report. The nature of the Company's operations and its principal activity is that of a holding company.

## 2. ACCOUNTING POLICIES

### Statement of compliance

These separate financial statements of the Company are presented as required by the Companies Act 2006. The Company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the Financial Reporting Council (FRC). Accordingly, these financial statements have been prepared in accordance with applicable accounting standards and in accordance with Financial Reporting Standard 101 – 'The Reduced Disclosure Framework' (FRS 101). The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have all been applied consistently throughout the year unless otherwise stated.

The financial statements have been prepared on a historical cost basis and are presented in Sterling (£).

### Disclosure exemptions adopted

The principal accounting policies adopted are the same as those set out in note 2 to the consolidated financial statements, however, in preparing these financial statements the Company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore, these financial statements do not include:

- a statement of cash flows and related notes;
- the requirement to produce a statement of financial position at the beginning of the earliest comparative period;
- the requirement of IAS 24 related party disclosures to disclose related party transactions entered into between two or more members of the iomart Group as they are wholly owned within the iomart Group;
- disclosure of key management personnel compensation;
- capital management disclosures;
- certain share based payments disclosures;
- business combination disclosures;
- disclosures in respect of financial instruments; and
- the effect of future accounting standards not adopted.

### Investments

Investments held as fixed assets are stated at cost less provision for any permanent diminution in value. As part of the acquisition strategy of the Company, the trade and net assets of subsidiary undertakings at or shortly after acquisition may be transferred at book value to fellow subsidiaries. Where a trade is hived across to a fellow subsidiary undertaking, the cost of the investment in the original subsidiary, which then becomes a non-trading subsidiary, is added to the cost of the investment in the entity to which the trade has been hived. In order to accurately assess any potential impairment of investments, the carrying value of the investment in all companies transferred is considered together against the future cash flows and net asset position of those companies which received the trade and net assets.

### Contingent consideration

Where an acquisition involves a potential payment of contingent consideration the estimate of any such payment is based on its fair value. To estimate the fair value an assessment is made as to the amount of contingent consideration which is likely to be paid having regard to the criteria on which any sum due will be calculated and is probability based to reflect the likelihood of different amounts being paid. Where a change is made to the fair value of contingent consideration within the initial measurement period as a result of additional information obtained on facts and circumstances that existed at the acquisition date then this is accounted for as a change in goodwill. Where changes are made to the fair value of contingent consideration as a result of events that occurred after the acquisition date then the adjustment is accounted for as a charge or credit to profit or loss.

## 2. ACCOUNTING POLICIES (CONTINUED)

### Income taxes

The tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity.

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 is not provided if reversal of these temporary differences can be controlled by the Company 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 Company 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 and laws that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the period end.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the Statement of Comprehensive Income, except where they relate to items that are recognised directly in other comprehensive income or equity (such as share based remuneration) in which case the related deferred tax is also recognised in other comprehensive income or equity accordingly.

### Financial assets

All financial assets are recognised when the Company 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 on initial recognition. Financial assets categorised as at fair value through profit or loss are recognised initially at fair value with transaction costs expensed through profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents and most other receivables fall into this category of financial instruments.

Provision against other receivables is made when there is objective evidence that the Company 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 reporting date.

Financial derivatives such as forward foreign exchange contracts and interest rate swaps are carried at fair value through profit or loss subsequent to initial recognition.

### Financial liabilities

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Company 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 profit or loss. 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 re-measured at each reporting date at fair value, with changes in fair value being recognised through profit or loss. All other financial liabilities are recorded at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance costs through profit or loss. A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged, cancelled or when it expires. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss 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.

## 2. ACCOUNTING POLICIES (CONTINUED)

### Leases

In accordance with IAS 17 Leases, the economic ownership of a leased asset is deemed to have been transferred to the Company (the lessee) if the Company 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 profit or loss over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to profit or loss 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, these are considered separately as to whether there is a finance lease within the lease.

### Borrowings

Borrowings are initially stated at fair value after deduction of any issue costs. The carrying amount is increased by the finance costs in respect of the accounting period and reduced by payments made in the period. Borrowings are subsequently stated at amortised cost, any difference between the periods (net of transaction costs) and the redemption value is recognised through profit or loss over the period of the borrowings using the effective interest method. Where borrowings are repaid early and new loan facilities agreed the terms of each loan facility are compared. Where the terms of the new borrowings are significantly different from those of the previous borrowings, the previous borrowings are treated as extinguished rather than modified as prescribed under IAS 39.

### Pension scheme arrangements

The Company contributes to an auto-enrolment pension scheme and also to a number of personal pension schemes on behalf of executive directors and some senior employees. Pension costs are charged to profit or loss in the period to which they relate.

### Share-based payment

All share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 January 2005 are recognised in the financial statements. All share-based payment arrangements in the company 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 through profit or loss with a corresponding credit to "Profit and loss reserve" unless the share based payment arrangement relates to an employee of a subsidiary company where in such instances the share based payment is added to the cost of investment in that subsidiary as a capital contribution.

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.

### Cash at bank and in hand

Cash at bank and in hand comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash with maturities of three months or less from inception and which are subject to an insignificant risk of changes in value.

## 2. ACCOUNTING POLICIES (CONTINUED)

### Dividends

Dividend distributions payable to equity shareholders are included in the financial statements within 'other short term financial liabilities' when a final dividend is approved in a general meeting. Interim dividend distributions to equity shareholders approved by the Board are not included in the financial statements until paid.

### Equity

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares.
- "Own shares Treasury" represents the amount of the Company's own equity shares, plus attributable transaction costs, that is held by the Company as treasury shares.
- "Own shares EBT" represents the amount of the Company's own equity shares, plus attributable transaction costs, that is held by the Company within the iomart Group plc Employee Benefit Trust.
- "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.
- "Merger reserve" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue, when ordinary share capital is included in the consideration for business acquisitions.
- "Capital redemption reserve" represents set aside reserves in relation to previous redemption of own shares.
- "Retained earnings" represents retained profits.

### Key judgements and sources of estimation uncertainty

There were no critical accounting judgements that would have a significant effect on the amounts recognised in the parent company financial statements or key sources of estimation uncertainty at the balance sheet date that would have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

## 3. INVESTMENTS HELD AS FIXED ASSETS

| | **Shares in subsidiary undertakings £'000** |
|---|---|
| **Cost** | |
| At 1 April 2017 | 107,374 |
| Additions | 28,375 |
| Share based payment (note 11) | 320 |
| **Cost at 31 March 2018** | **136,069** |
| **Net book value of Investments at 31 March 2018** | **136,069** |
| Net book value of Investments at 31 March 2017 | 107,374 |

All of the above investments are unlisted.

## 3. INVESTMENTS HELD AS FIXED ASSETS (CONTINUED)

The following subsidiaries are included in the Company financial statements:

| | | | Ordinary share capital | |
|---|---|---|---|---|
| | Country of registration and operation | Activity | Owned by the company % | Owned by subsidiary undertakings % |
| Backup Technology Holdings Limited | England | Dormant | 100 | - |
| Backup Technology Limited | England | Dormant | - | 100 |
| Cloudfuel Limited | England | Non-trading | - | 100 |
| Cristie Data Limited | England | Provision of data storage, backup and virtualisation solutions | 100 | - |
| Dediserve Limited | Republic of Ireland | Managed hosting services | 100 | - |
| Easyspace Limited | England | Webservices | 100 | - |
| EQSN Limited | Scotland | Non-trading | 100 | - |
| Global Gold Holdings Limited | England | Non-trading | 100 | - |
| Global Gold Network Limited | England | Non-trading | - | 100 |
| Internet Engineering Limited | England | Non-trading | 100 | - |
| Internetters Limited | England | Dormant | - | 100 |
| iomart Cloud Inc | USA | Managed hosting services | 100 | - |
| iomart Cloud Services Limited | Scotland | Managed hosting services | 100 | - |
| iomart Datacentres Limited | England | Non-trading | 100 | - |
| iomart Development Limited | Scotland | Dormant | 100 | - |
| iomart Hosting Limited | Scotland | Managed hosting services | 100 | - |
| iomart Limited | Scotland | Dormant | 100 | - |
| iomart Virtual Servers Hosting Limited | Scotland | Dormant | 100 | - |
| Melbourne Server Hosting Limited | England | Managed hosting services | 100 | - |
| My Documents Limited | England | Dormant | 100 | - |
| Netintelligence Limited | Scotland | Dormant | 100 | - |
| NicNames Limited | England | Dormant | - | 100 |
| Open Minded Solutions Limited | England | Non-trading | 100 | - |
| Rapidswitch Limited | England | Dormant | 100 | - |
| Redstation Limited | England | Non-trading | 100 | - |
| ServerSpace Limited | England | Managed hosting services | 100 | - |
| Simple Servers Limited | England | Managed hosting services | - | 100 |
| Skymarket Limited | England | Dormant | 100 | - |
| Sonassi Holding Company Limited | England | Non-trading | 100 | - |
| Sonassi Limited | England | Managed hosting services | - | 100 |
| Switch Media (Ireland) Limited | England | Webservices | - | 100 |
| Switch Media Limited | England | Webservices | 100 | - |
| Systems Up Limited | England | Consultancy services | 100 | - |
| Tier 9 Limited | England | Non-trading | 100 | - |
| Titan Internet Limited | England | Dormant | 100 | - |
| United Communications Limited | England | Webservices | 100 | - |
| Web Genie Internet Limited | England | Dormant | - | 100 |

## 4. TRADE AND OTHER RECEIVABLES

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Prepayments and accrued income | 222 | 209 |
| Deferred taxation (note 5) | 1,588 | 1,135 |
| Current income tax | 2,697 | 2,207 |
| Other taxation and social security | 652 | 612 |
| Amounts owed by subsidiary undertakings | 1,209 | 622 |
| | **6,368** | **4,785** |

## 5. DEFERRED TAXATION

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

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Recognised £'000 | Unrecognised £'000 | Recognised £'000 | Unrecognised £'000 |
| Share based remuneration | 1,588 | - | 1,135 | - |

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

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Balance brought forward | 1,135 | 1,010 |
| Profit and loss account movement arising during the year | 310 | 517 |
| Profit and loss account reserve movement during the year | 143 | (392) |
| Balance carried forward | **1,588** | **1,135** |

The deferred tax asset in relation to share based remuneration arises from the anticipated future tax relief on the exercise of share options.

## 6. TRADE AND OTHER PAYABLES

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Trade creditors | 83 | 96 |
| Other taxation and social security | 75 | 76 |
| Accruals and deferred income | 594 | 1,038 |
| Contingent consideration due on acquisitions (note 7) | 2,694 | 2,373 |
| Current borrowings (note 8) | 35,239 | 18,639 |
| Amounts owed to subsidiary undertakings | 44,150 | 23,931 |
| | **82,835** | **46,153** |

Amounts owed to subsidiary undertakings are repayable on demand and carry no interest.

## 7. CONTINGENT CONSIDERATION

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Contingent consideration due on acquisitions within one year: | | |
| - Sonassi Holdings Limited | (832) | - |
| - Tier 9 Limited | (1,862) | - |
| - United Communications Limited | - | (2,373) |
| **Total contingent consideration due on acquisitions** | **(2,694)** | **(2,373)** |

## 8. BORROWINGS

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| **Current:** | | |
| Bank loans | (35,239) | (18,639) |
| Current borrowings | **(35,239)** | **(18,639)** |
| **Non-current:** | | |
| Bank loans | **-** | **-** |
| Total non-current borrowings | - | - |
| **Total borrowings** | **(35,239)** | **(18,639)** |

The carrying amount of borrowings approximates to their fair value.

The future loan obligations of £35,399,000 (2017: £18,722,000) equate to a present value of £34,457,000 (2017: £18,315,000). The capital element of the bank loans is £35,239,000 (2017: £18,639,000) and this differs from the net amount drawn down of £34,956,000 (2017: £18,500,000) due to an effective interest rate adjustment. For details of the terms of repayment and rates of interest payable see note 22 in the consolidated financial statements.

The obligations under the multi option revolving credit facility and term loan facility are repayable as follows:

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Capital | Interest | Total | Capital | Interest | Total |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Due within one year | 35,239 | 160 | 35,399 | 18,639 | 83 | 18,722 |
| Due between two and five years | - | - | - | - | - | - |
| | **35,239** | **160** | **35,399** | **18,639** | **83** | **18,722** |

### 9. SHARE CAPITAL

| | Ordinary shares of 1p each | |
|---|---|---|
| | Number of shares | £'000 |
| **Authorised** | | |
| **At 31 March 2016, 2017 and 2018** | **200,000,000** | **2,000** |

| | | |
|---|---|---|
| **Called up, allotted and fully paid** | | |
| At 31 March 2017 | 107,803,006 | 1,078 |
| Share capital issued in the year | 187,335 | 2 |
| **At 31 March 2018** | **107,990,341** | **1,080** |

At 31 March 2018 the Company held no shares (2017: 100,839) as own shares in treasury which were accounted for in the Own Shares Treasury reserve and had a nominal value of £nil (2017: £1,008) and a market value of £nil (2017: £298,988). This represents 0% (2017: 0.1%) of the issued share capital as at 31 March 2018 excluding own shares.

At 31 March 2018 the Company held 140,773 shares (2017: 140,773) as own shares in the iomart Group plc Employee Benefit Trust ("EBT") which were accounted for in the Own Shares EBT reserve and had a nominal value of £1,408 (2017: £1,408) and a market value of £515,933 (2017: £417,392). This represents 0.1% (2017: 0.1%) of the issued share capital as at 31 March 2018 excluding own shares.

The share capital of iomart Group plc consists of ordinary shares with a par value of 1p. All shares, excluding the shares held by the Company in treasury and the shares held by the EBT, are equally eligible to receive dividends and represent one vote at the shareholders' meetings of iomart Group plc. All shares issued at 31 March 2018 are fully paid.

### 10. OWN SHARES RESERVES

| | Own shares EBT £'000 | Own shares Treasury £'000 | Own shares Total £'000 |
|---|---|---|---|
| At 1 April 2016 | **(70)** | **(419)** | **(489)** |
| Issue of own shares from Treasury for option redemption | - | 369 | 369 |
| **At 31 March 2017** | **(70)** | **(50)** | **(120)** |
| Issue of own shares from Treasury for option redemption | - | 50 | 50 |
| **At 31 March 2018** | **(70)** | **-** | **(70)** |

During the year 100,839 (2017: 745,797) own shares held in treasury at the carrying value of 49.5p each were issued following the exercise of share options by employees for which a net total of £57,515 (2017: £1,065,018) was received. As a consequence, at 31 March 2018 the Company held no shares (2017: 100,839) in treasury with a carrying value of £nil (2017: £49,915) which were accounted for in Own Shares treasury reserve; and 140,773 shares (2017: 140,773) in the EBT with a carrying value of £69,982 (2017: £69,982) which were accounted for in the Own Shares EBT reserve.

### 11. SHARE BASED PAYMENTS

For details of share based payment awards and fair values see note 27 to the Group financial statements. The Company accounts recognise the charge for share based payments for the year of £1,206,000 (2017: £1,844,000) by;

1) taking the charge in relation to employees of the parent company through the parent company statement of comprehensive income £886,000 (2017: £942,000),
2) recording an increase to its investment in subsidiaries for the amounts attributable to employees of subsidiaries and recording a corresponding entry to the profit and loss account reserve £320,000 (2017: £902,000).

### 12. INFORMATION REGARDING PARENT COMPANY EMPLOYEES

| | 2018 No. | 2017 No. |
|---|---|---|
| **Average number of persons employed by the Company (including directors):** | | |
| Technical | 8 | 8 |
| Sales and marketing | 5 | 6 |
| Administration | 24 | 23 |
| | **37** | **37** |

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| **Staff costs of the Company during the year in respect of employees and directors were:** | | |
| Wages and salaries | 1,888 | 2,025 |
| Staff costs recharged to other group companies | (221) | (354) |
| Social security costs | 293 | 265 |
| Pension costs | (17) | 19 |
| Share based payments | 886 | 942 |
| | **2,829** | **2,897** |

The company operates a stakeholder pension scheme and also contributes to a number of personal pension schemes on behalf of executive directors and some senior employees. In the case of executive directors, details of the pension arrangements are given within the Report of the Board to the Members on Directors' Remuneration on pages 27 to 32. In the case of senior employees, pension contributions to individuals' personal pension arrangements are payable by the Group at a rate equal to the contribution made by the senior employee subject to a maximum employer contribution of 5% of basic salary. Details of director's emoluments are disclosed within note 5 of the Group financial statements.

### 13. RELATED PARTY TRANSACTIONS

As permitted by FRS 101 related party transactions with wholly owned members of the Group have not been disclosed. Related party transactions regarding remuneration and dividends paid to key management (only directors are deemed to fall into this category) of the Company have been disclosed in note 28 of the Group financial statements.

### 14. CONTINGENCIES AND COMMITMENTS

**(a) Contingencies**

There were no contingent assets or liabilities as at 31 March 2018 (2017: nil).

**(b) Commitments**

There are no commitments present as at 31 March 2018 (2017: nil).

### 15. POST BALANCE SHEET EVENT

On 6 June 2018, the Group entered into a new banking facility which provides an £80m revolving credit facility that matures in June 2022.

On 30 May 2018, the Group extended the London datacentre lease to June 2030.

### 16. ULTIMATE CONTROLLING PARTY

The Directors have assessed that there is no ultimate controlling party.

## 17. DIVIDENDS ON SHARES CLASSED AS EQUITY

| | 2018 Pence per share | 2018 £'000 | 2017 Pence per share | 2017 £'000 |
|---|---|---|---|---|
| **Paid during the year:** | | | | |
| **Interim dividend** | | | | |
| Equity dividends on ordinary shares | 2.25p | 2,426 | - | - |
| **Final dividend** | | | | |
| Equity dividends on ordinary shares | 6.00p | 6,459 | 3.15p | 3,375 |
| **Total dividend paid** | | **8,885** | | **3,375** |

The directors have recommended a final dividend for the year ended 31 March 2018 of 4.93p per share (2017: 6.00p per share). Subject to shareholder approval this proposed final dividend would be payable on 6 September 2018 to shareholders on the register at close on 17 August 2018.

**NOTICE IS HEREBY GIVEN** that the 2018 annual general meeting of iomart Group plc (the "Company") will be held at Lister Pavilion, Kelvin Campus, West of Scotland Science Park, Glasgow G20 0SP on 28 August 2018 at 10.00 am for the purpose of considering and, if thought fit, passing the following resolutions, of which resolutions 1 to 7 (inclusive) will be proposed as ordinary resolutions and resolutions 8 to 10 (inclusive) will be proposed as special resolutions:-

1 To receive and adopt the financial statements of the Company and the directors' and auditors' reports thereon for the year ended 31 March 2018.

2 To approve the report of the board to the members on directors' remuneration for the year ended 31 March 2018.

3 To reappoint Mr Ian Steele (who retires by rotation and, being eligible, offers himself for re-election) as a director of the Company.

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

5 To declare a final dividend for the year ended 31 March 2018 of 4.93p per share payable on 6 September 2018 to shareholders on the register of members at the close of business on 17 August 2018.

6 To reappoint Grant Thornton UK LLP, Chartered Accountants, as auditors of the Company from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before shareholders and to authorise the directors to fix the auditors' remuneration.

7 THAT the directors of the Company are generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 to exercise all powers to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company:

(a) comprising equity securities (as defined in section 560(1) of the Companies Act 2006) up to an aggregate nominal amount of £721,910.24 (including within such limit any shares issued or rights granted under paragraph (b) below) in connection with an offer by way of rights issue:

(i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings;

(ii) to the holders of other equity securities as required by the rights of those securities or as the directors otherwise consider necessary,

and subject to such exclusions or other arrangements as the directors consider expedient in relation to fractional entitlements, legal, regulatory or practical problems under the laws of, or the requirements of any regulatory body or stock exchange in, any territory, or any other matter; and

(b) in any other case up to an aggregate nominal amount of £360,955.12 (such amount to be reduced by the nominal amount of any equity securities allotted pursuant to the authority in paragraph (a) above in excess of £360,955.12),

provided that such authority, unless renewed, varied or revoked by the Company, shall expire on 28 November 2019 or, if earlier, the date of the next annual general meeting of the Company after the passing of this resolution 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 an offer or agreement as if the authority conferred hereby had not expired.

This resolution revokes and replaces all unexercised authorities previously granted to the directors to allot shares in the Company and to grant rights to subscribe for, or to convert any security into, shares in the Company but is without prejudice to any allotment of shares or grant of rights already made, offered or agreed to be made pursuant to such authorities.

8. THAT, subject to the passing of resolution 7, the directors of the Company are authorised pursuant to section 570 of the Companies Act 2006 to allot equity securities (as defined in section 560(1) of the Companies Act 2006) for cash under the authority given by resolution 7 and/or to sell ordinary shares held by the Company as treasury shares for cash as if section 561 of the Companies Act 2006 did not apply to any such allotment or sale, such authority be limited:

(a) to the allotment of equity securities in connection with an offer of equity securities (but, in the case of the authority granted under resolution 7(b), by way of a rights issue only) to:

(i) the ordinary shareholders made in proportion (as nearly as may be practicable) to their existing respective holdings; and

(ii) to the holders of other equity securities as required by the rights of those securities or as the directors otherwise consider necessary,

and subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange; and

(b) to the allotment of equity securities pursuant to any authority conferred upon the directors in accordance with and pursuant to article 41 of the articles of association of the Company; and

(c) to the allotment of equity securities or sale of treasury shares (otherwise than pursuant to paragraphs (a) and (b) above) up to an aggregate nominal amount of £54,143.26,

such authority to expire at the end of the next annual general meeting of the Company (or, if earlier, at the close of business on 28 November 2019) but, in each case, prior to its expiry the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority expires and the board of directors may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired.

9. THAT, subject to the passing of resolution 7, the directors of the Company are authorised in addition to any authority granted under resolution 8 to allot equity securities (as defined in section 560(1) of the Companies Act 2006) for cash under the authority given by resolution 7 and/or to sell ordinary shares held by the Company as treasury shares for cash as if section 561 of the Companies Act 2006 did not apply to any such allotment or sale, such authority to be:

(d) limited to the allotment of equity securities up to a nominal amount of £54,143.26; and

(e) used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the board of directors of the Company determines to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice,

such authority to expire at the end of the next annual general meeting of the Company (or, if earlier, at the close of business on 28 November 2019) but, in each case, prior to its expiry the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority expires and the board of directors may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired.

10. That the Company be and is hereby generally and unconditionally authorised for the purposes of section 701 of the Companies Act 2006 to make one or more market purchases (within the meaning of section 693(4) of that Act) of ordinary shares of 1 pence each in the Company provided that:

(a) the maximum number of ordinary shares hereby authorised to be purchased is 10,828,653, 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 each ordinary share is 1 pence;

(c) the maximum price (exclusive of any expenses) which may be paid for each 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 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

**Andrew McDonald**
Company secretary
20 July 2018

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

**NOTES:**

**Appointment of Proxy**

1 As a member of the Company you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at a meeting of the Company. You should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in the notes to the proxy form. A proxy need not be a member of the Company.

2 To be effective, the proxy form, and any power of attorney or other authority under which it is executed (or a duly certified copy of any such power or authority), must be deposited at the office of the Company's registrars, Link Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, not less than 48 hours (excluding weekends and bank holidays) before the time for holding the meeting (i.e. by 10.00am on Friday 24 August 2018) and if not so deposited shall be invalid.

**Entitlement to attend and vote**

3 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered in the Company's register of members at:

- close of business on 24 August 2018; or
- if this meeting is adjourned, at close of business on the day two days prior to the adjourned meeting, shall be entitled to attend and vote at the meeting.

**Documents on Display**

4 Copies of the service contracts and letters of appointment of the directors of the Company will be available:

- for at least 15 minutes prior to the meeting; and
- during the meeting.

**Communication**

5 Except as provided above, members who wish to communicate with the Company in relation to the meeting should do so by post to the Company's registered office, details of which are below. No other methods of communication will be accepted.

Address: The Company Secretary
iomart Group plc
Lister Pavilion
Kelvin Campus
West of Scotland Science Park
Glasgow
G20 0SP

## EXPLANATORY NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING
## IOMART GROUP PLC

### Ordinary Resolutions

Resolutions 1 to 7 are all to be proposed as ordinary resolutions. This means that for each of those resolutions to be passed, more than half of the votes cast must be in favour of the resolution.

### Resolution 1 – To receive and adopt the financial statements for the year ended 31 March 2018 and the directors' and auditors' reports thereon

For each financial year the directors of the Company must present the audited financial statements, the directors' report and the auditors' report on the financial statements to the shareholders at an annual general meeting.

### Resolution 2 – To approve the directors' remuneration report

Shareholders are asked to approve the directors' remuneration report which may be found in the annual report on pages 27 to 32. This resolution is an advisory one and no entitlement to remuneration is conditional on the resolution being passed.

### Resolutions 3 and 4 – Re-election of directors

Under article 24 of the Company's articles of association one third of the directors are required to retire by rotation at each annual general meeting. Pursuant to those articles, Mr Ian Steele and Mr Angus MacSween are required to retire by rotation at this annual general meeting and, being eligible, offer themselves for reappointment. The board of directors is satisfied that the performance of Mr Ian Steele and Mr Angus MacSween continues to be effective and demonstrates commitment to their roles with the Company including commitment of time for board meetings and other duties required of them. Accordingly, resolutions 3 and 4 propose the reappointment of Mr Ian Steele and Mr Angus MacSween.

Brief biographical details of Mr Ian Steele and Mr Angus MacSween are given below.

Mr Ian Steele, appointed 2016; Ian is a chartered accountant with over 35 years' experience in the corporate finance and corporate advisory sector. During a 16-year career with Deloitte LLP, Ian undertook roles within corporate finance and global advisory services. For the past eight years, Ian sat on the UK board of Deloitte LLP and fulfilled the role of senior partner for Scotland and Northern Ireland. Ian is a member of the Council of the Institute of Chartered Accountants of Scotland. He is a Non-Executive Director of STV Group plc and a Non-Executive Director of Killinchy Aerospace Holdings Limited, the principal trading subsidiary of which is Martin-Baker Aircraft Company Limited.

Mr Angus MacSween, appointed 2000; Angus founded iomart in December 1998 following 15 years spent creating and selling businesses in the telephony and internet sector. In 1984, after a short service commission in the Royal Navy, Angus started his first business selling telephone systems. He then grew and sold five profitable businesses – including Prestel, an online information division of BT, which he turned into one of the UK's first internet service providers. Following the sale of Teledata Limited, the UK's leading telephone information services company, to Scottish Telecom plc, Angus then spent two years on the executive of Scottish Telecom plc where he was responsible for the development of the company's internet division.

### Resolution 5 – To declare a dividend 4.93p per ordinary share

Subject to the provisions of the Companies Acts, the Company may by ordinary resolution declare dividends, but no dividend shall exceed the amount recommended by the board of directors. The board of directors recommends the payment of a final dividend of 4.93p per ordinary share, to be payable to shareholders registered at close of business on 17 August 2018.

### Resolution 6 – Re-appointment and remuneration of auditors

The Company is required at each general meeting at which financial statements are presented to shareholders to appoint auditors who will remain in office until the next such meeting. Grant Thornton UK LLP have expressed their willingness to continue in office for a further year. In accordance with company law and corporate governance best practice, shareholders are also asked to authorise the directors to determine the auditors' remuneration.

### Resolution 7 – Authority to allot shares

Under section 551 of the Companies Act 2006, the directors of a company may only allot shares or grant rights to subscribe for, or to convert any security, into shares in the Company if authorised to do so.

In line with guidance issued by the Investment Management Association (now the Investment Association), the authority contained in paragraph (a) of this resolution will (if passed) give the directors authority to allot ordinary shares in connection with a rights issue in favour of ordinary shareholders up to an aggregate nominal amount equal to £721,910.24 (representing 72,191,024 ordinary shares) as reduced by the nominal amount of any shares issued under paragraph (b) of this resolution. This amount (before any reduction) represents approximately two-thirds of the issued ordinary share capital (excluding treasury shares) of the Company as at the latest practicable date prior to publication of the notice of the meeting.

The authority contained in paragraph (b) of this resolution will (if passed) give the directors the authority to allot ordinary shares up to an aggregate nominal value of £360,955.12 (representing 36,095,512 ordinary shares of 1p each). This amount represents approximately one-third of the issued ordinary share capital (excluding treasury shares) of the Company as at the latest practicable date prior to the publication of the notice of the meeting. This authority will expire on 28 November 2019 or, if earlier, at the conclusion of the next annual general meeting.

**Special Resolutions**

Resolutions 8, 9 and 10 will be proposed as special resolutions. This means that for each of those resolutions to be passed, at least three-quarters of the votes cast must be in favour of the resolution.

**Resolutions 8 and 9 - Disapplication of statutory pre-emption rights**

The Companies Act 2006 gives holders of ordinary shares, with limited but important exceptions, certain rights of pre-emption on the issue for cash of new ordinary shares or on the sale of any shares which the Company may hold in treasury following a purchase of its own shares. The directors of the Company believe that it is in the best interests of the Company that, as in previous years, the board of directors of the Company should have limited authority to allot some shares for cash or sell treasury shares without first having to offer such shares to existing shareholders. The directors' current authority expires at the close of the forthcoming annual general meeting. The authority sought by way of resolution 8 would expire at the earlier of the close of the next annual general meeting or 28 November 2019. The authority, if granted, will relate to the allotment of new ordinary shares or the sale of treasury shares in respect of (a) rights issues and similar offerings, where difficulties arise in offering shares to certain overseas shareholders, and in relation to fractional entitlements and certain other technical matters, (b) the right to receive shares, credited as fully paid, instead of cash in respect of the whole (or some part, to be determined by the board of directors) of such cash dividend or dividends (if the Company offers shareholders the option of making an election of that nature and if relevant shareholders make such an election), and (c) generally to allotments (other than in respect of pre-emptive offerings) of ordinary shares or the sale of treasury shares having an aggregate nominal value not exceeding £54,143.26 (being equal to 5% of the issued ordinary share capital (excluding treasury shares) of the Company as at the latest practicable date prior to the publication of the notice of the meeting).

Resolution 9, if approved, would give the directors of the Company an additional authority to issue ordinary shares, or sell treasury shares, for cash in connection with an acquisition or capital investment of kind contemplated by the Pre-Emption Group's Statement of Principles up to an additional aggregate nominal amount of £54,143.26 (being equal to 5% of the issued ordinary share capital (excluding treasury shares) of the Company as at the latest practicable date prior to the publication of the notice of the meeting). The directors confirm that they will only allot shares pursuant to this authority where the allotment is in connection with an acquisition or specified capital investment (as defined in the Pre-Emption Group's Statement of Principles) which is announced contemporaneously with the allotment or sale, or which has taken place in the preceding six-month period and is disclosed in the announcement of the allotment of sale.

The powers given by resolutions 8 and 9 will, unless sooner revoked or renewed by the Company in a general meeting, last until the earlier of the close of the next annual general meeting or 28 November 2019.

**Resolution 10 – Authority to purchase the 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 as at the date of the notice of this meeting.

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 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 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 10 to effect that buy back is 5% above the average middle market price of an ordinary share for the five business days immediately preceding the date on which the buy back is effected.

The statutory provisions governing buy backs of own shares are currently contained in, inter alios, sections 693 and 701 of the Companies Act 2006.

# Officers and Professional Advisers

**Directors**

| | |
|---|---|
| Ian Ritchie CBE, FREng, FRSE, FBCS, CEng, BSc | Non executive chairman |
| Angus MacSween | Chief executive officer |
| Ian Steele BAcc, CA | Non executive director |
| Richard Masters LLB, DipLP | Non executive director |
| Richard Logan BA, CA | Chief financial officer |

**Secretary**
Andrew McDonald, CA (appointed 2 February 2018)

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

**Nominated adviser and broker**
Peel Hunt LLP, Moor House, 120 London Wall, London EC2Y 5ET

**Principal Bankers**
Bank of Scotland Plc, 110 St Vincent Street, Glasgow G2 5ER

**Solicitors**
Shepherd & Wedderburn LLP, 5th Floor, 1 Exchange Crescent, Conference Square, Edinburgh EH3 8UL
Pinsent Masons LLP, 141 Bothwell Street, Glasgow G2 7EQ

**Independent auditor**
Grant Thornton UK LLP, Level 8, 110 Queen Street, Glasgow G1 3BX

**Registrars**
Link Asset Services, PXS, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU

**Company Registration Number**
SC204560

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