iomart

# **Annual** Report and Accounts **2019**

**Highly available, managed private cloud for Nomad Digital**

*"We have a global partner who understands our technology stack and delivers to our expectations in a tightly regulated market. In addition to responding to incredibly tight contract deadlines to avoid financial penalties, iomart has given us the scalable, high performance platform we need to support the intelligent train services of the future"* –
Lloyd Pattison, Global DevOps Engineering Manager, Nomad Digital

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# About Us

iomart provides the secure, mission-critical, managed services that enable businesses and organisations to innovate and grow in a digital world.

We host their IT environments, build and manage their cloud platforms, protect their data and implement new technologies, helping them to react quickly in a rapidly changing global marketplace.

Established in 1998 and headquartered in Glasgow, Scotland, over the past two decades we have built up the skills, knowledge, infrastructure and technology partnerships to be able to help our customers at all stages of their IT journey, no matter how complex their requirements.

**The customer is at the heart of everything we do.**

# Customer Commitment

Our customers choose us because we are committed to working in partnership with them to understand the business challenges they face and use our technical expertise and resources to help them overcome them. We are passionate about excellence in customer service.

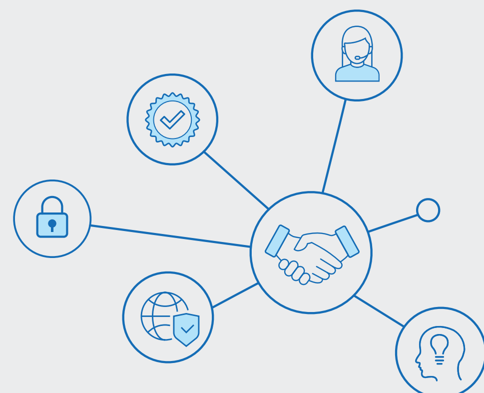
**Relationships** – our people are available 24/7/365 to support our customers. We wish to develop long-term relationships built on trust.

**Expertise** – we employ highly skilled engineers and consultants and have been managing cloud services for over 12 years.

**Reliability** – we deliver guaranteed uptime from infrastructure that we own, manage and operate. Our engineers and support staff are employed directly by us and provide round-the-clock support.

**Security** – we protect our customers' data, our infrastructure and our network 24/7/365.

**Quality** – we are proud to be the most accredited UK provider in our industry.



**Managed Backup and Disaster Recovery for Hazlewoods Accountants**

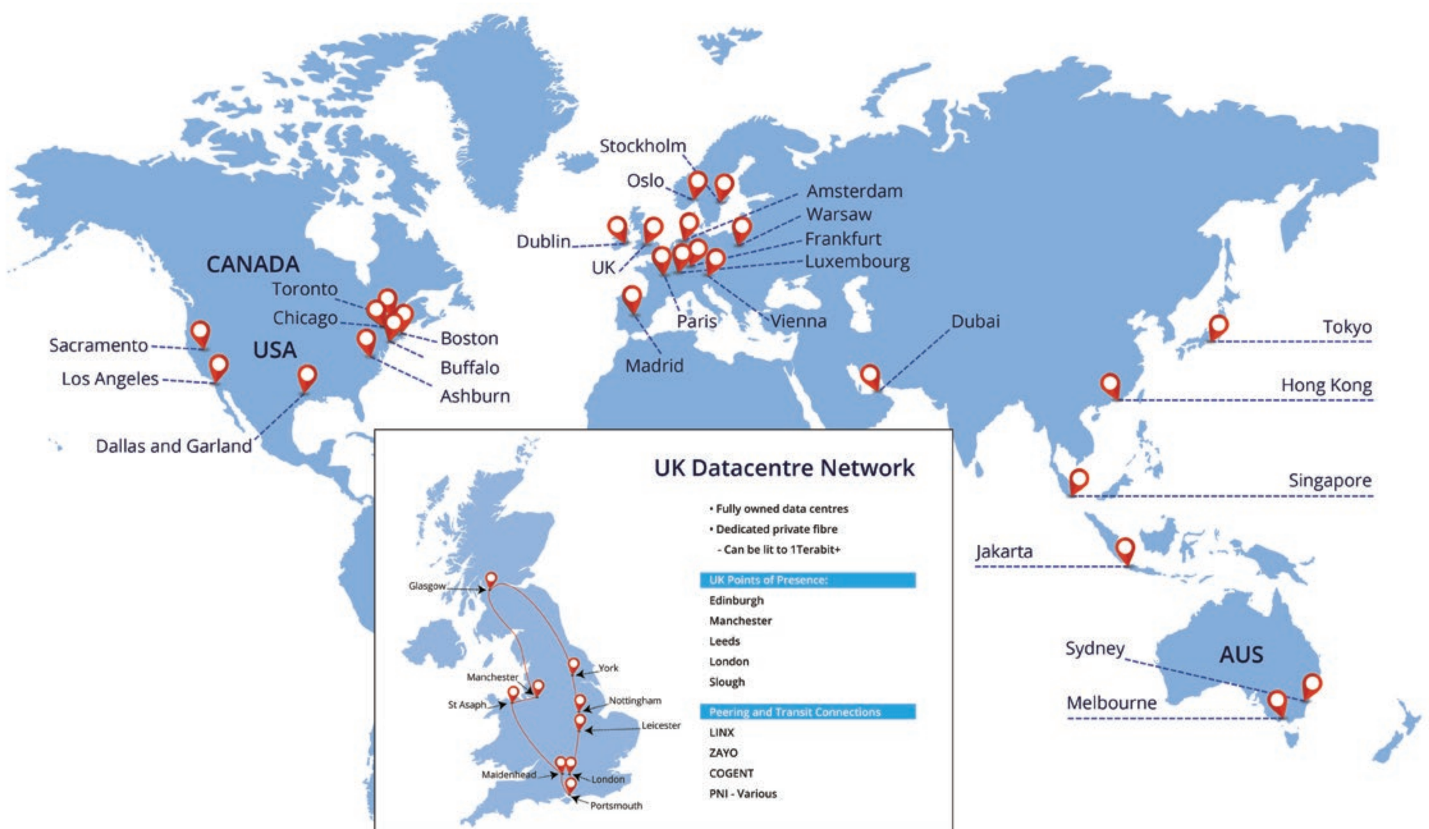
*"It's a risk averse investment which is always good for accountants. I equate our data protection challenge to climbing Everest and I'd say we're pretty close to the summit"* - Mark Brackley, IT Manager, Hazlewoods

# How We Deliver

We would never jeopardise our customers' mission-critical systems by relying on middlemen to deliver the core components of our managed services.

We control the entire customer journey, and are directly responsive to their requirements 24/7/365.

Continued investment in our own data centres, our fibre network and our people means we can deliver the highest quality service. And through multiple points of presence around the world we are able to deliver our managed services in almost any location to support our customers' global ambitions.



Revenue growth

6%

to £103.7M

EBITDA growth

6%

to £42.2M

Adjusted PBT growth

6%

to £25.5M

Adjusted diluted earnings per share growth

4%

to 18.6p

Operating Cashflow

£39.1M

Proposed final dividend increased by

4%

to 7.46p

## FINANCIAL HIGHLIGHTS

- Revenue growth of 6% to £103.7m (2018: £97.8m), a milestone for the Company surpassing £100m
- Adjusted EBITDA[1] growth of 6% to £42.2m (2018: £39.9m)
- Adjusted profit before tax growth[2] of 6% to £25.5m (2018: £24.1m)
- Adjusted diluted earnings per share[3] from operations increased by 4% to 18.6p (2018: 17.9p)
- Cash flow conversion from operations >90%, being £39.1m (2018: £40.8m)
- Adjusted profit before tax[2] margin maintained at 25% (2018: 25%)
- Proposed final dividend of 5.01p per share resulting in total dividend for year of 7.46p per share, an increase of 4% (2018: 7.18p per share), representing the 10th consecutive year of dividend growth

## OPERATIONAL HIGHLIGHTS

- Investments made to ensure long term certainty to datacentre infrastructure, including the purchase of the freehold of our Maidenhead site
- Two acquisitions completed, Bytemark and LDeX, adding new customers and complementary datacentre locations
- Refreshed sales and marketing function to support next phase of growth; early benefits started to flow through in H2 with increased new lead generation from both new and existing customers
- New Board members appointed, adding significant experience to the leadership team
- Market remains large with structural drivers, which combined with M&A strategy, supports ambition to deliver same long term pace of growth achieved over last 5 years which saw the business double in size

## 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 9% to £16.2m (2018: £14.9m)
- Basic earnings per share from operations increased by 3% to 11.9p (2018: 11.5p)

*1 Throughout these financial statements adjusted EBITDA is earnings before interest, tax, depreciation and amortisation (EBITDA) before share based payment charges, acquisition costs, (loss)/gain on the revaluation of contingent consideration and material 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, accelerated write off of arrangement fees on banking facility, (loss)/gain on revaluation of contingent consideration and material 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, accelerated write off of arrangement fees on banking facility, (loss)/gain on revaluation of contingent consideration and material non-recurring costs.*

## Enhancing Application Security for Highways England

*"We now have a cloud friendly security solution that gives us protection without disrupting the way our users access the applications each time Microsoft updates Office 365"* - Ivan Wells, Principal Architect, Highways England

## Strategic Report
## Chairman's Statement

In my first year as Chairman I am delighted to report on another successful year for the Group. We have continued to grow revenues, both organically and through acquisitions, while maintaining market leading profit margins and generating our usual high levels of operating cash.

iomart is a leading provider of managed cloud computing services, helping companies at all stages of their IT journey with a wide and flexible portfolio of services and products. We deliver these from our own infrastructure by a team with deep sector expertise. Customer relationships and excellence in service is at the heart of our business. The business model and strong market position has been established over more than ten years and we have made further steps to build upon this strong position during the year.

Over the next five years, our aim is to keep up the pace of growth achieved in the last five years, which saw the business double in size. To ensure we achieve this, we have refreshed our sales and marketing function in recognition that growing to a £200 million revenue business needs a broader set of skills, processes and tools. As we start our new financial year we are well placed to capture the full market opportunity.

This year has seen further significant long-term investment made into our UK market position. We have had another active year on the acquisition front, welcoming Bytemark and LDeX into the Group. These two acquisitions brought a new and diverse customer base to iomart, and added datacentre locations which are complementary to our existing estate. Towards the end of the year we also purchased the freehold of our Maidenhead site. This investment, along with the extension of our London lease to 2030 earlier in the year, brings long term certainty to our datacentre infrastructure. Our investment in infrastructure ensures we are well placed for the future to continue to deliver robust and cost effective managed cloud services to our growing customer base.

The financial strength and visibility of our business model allows us to operate a progressive dividend policy. During the year we made an interim dividend of 2.45p per share which was paid to shareholders in January. In addition, the Board is now proposing to pay a final dividend of 5.01p per share. With this final dividend payment, the total for the year will be 7.46p representing an increase of 4% over last year and equivalent to the maximum pay-out ratio under our current policy of 40% of adjusted diluted earnings per share. If approved, this would represent the 10th consecutive year of dividend growth.

During the period we have seen some changes to the composition of the Board. In August 2018, I took over the Chairmanship from Ian Ritchie, who did not stand for re-election following a successful ten-year tenure. This change left us with the requirement to fill a non-executive role. In February 2019 we were delighted to welcome Karyn Lamont to the Board. Karyn's financial background and experience will be an invaluable asset and support to the Group over the coming years. We also had a change within the Executive team with Scott Cunningham joining in September 2018 as our new Chief Financial Officer following the retirement of Richard Logan. In Scott we have found another high calibre individual to fulfil this role and he is now fully established within the organisation, working closely with Angus and the team on the delivery of our strategic objectives.

The progress we have made this year and the continued strong financial performance 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.

**Ian Steele**
*Non Executive Chairman*
10 June 2019

# Strategic Report
# Chief Executive Officer's Report

## Introduction

During the year we broke through the £100m revenue barrier, a landmark for the business and validation of the strategy we established over ten years ago. This achievement, as in all other years, has come with consistently strong profitability and cash flow. Our revenues in the year were £103.7m, an increase of 6% over the previous year, our adjusted EBITDA of £42.2m also showed a 6% increase over the previous year and our statutory profit before tax increased by 9% to £16.2m.

## Market and Strategy

iomart has operated in cloud computing for over 10 years after acquiring the initial datacentre estate in March 2007. We operate in a dynamic market with new products and solutions being developed at an ever-increasing pace. We are focussed on ensuring our product portfolio remains relevant to support customers in the journey to cloud based solutions, be that of a public, private, hybrid nature or indeed "on premise", as a substantial number of organisations still continue to acquire elements of what they need in this way.

The growth in data requirements sees no slow down, with the number of users, devices, content rich data and applications increasing demand for computer power, storage and connectivity. Development around such areas as machine learning, internet of things and big data will ensure this is a long term trend. The complexity of hosting environments is putting pressure on resourcing and capabilities of in-house IT teams, driving outsourcing demand. The market for cloud computing solutions which we identified in 2007 presents us with as much opportunity now as it did then and our strategy is well positioned to deliver continued success.

Overall our market continues to grow strongly. A large part of this growth is dominated by the 'hyper-scalers', primarily Amazon, Microsoft and Google. These organisations are now established parts of the landscape and what has been shown, especially given the trend to multiple cloud architectures, is that there is plenty of space for organisations like iomart and the hyper-scalers to coexist. We strongly believe our differentiation is that we provide advice, help, great customer service and flexibility. In addition, what is being shown is that for organisations with a stable baseload of computer power, iomart's bespoke cloud solutions can compete head to head on full life costs. The untidy nature of the vast majority of the world's legacy IT infrastructure provides us with the reassurance that there will always be customers who are looking for a trusted advisor in this space.

We have already established a strong position as a leading provider of managed cloud computing services which has customer relationships and excellence in service at the heart of the business. We plan to build on this position by focussing on:

- Growing our managed cloud services by excelling in customer service and ensuring innovation in our customer offering continues to match the needs of the market;
- Growing our self-managed infrastructure brands by differentiating with products, solutions and support which add value;
- Retaining our presence in the mass consumer domain name and web hosting market via selective marketing and dynamic pricing;
- Building a high performance team supported by best in class systems and processes;
- Continued optimisation of our datacentre estate with cost efficiency achieved via asset planning, procurement and automation;
- Ensuring robust and resilient infrastructure, connectivity and security at all times; and
- Continuation of our disciplined acquisition strategy, with earning enhancing deal valuations and clear integration to the existing business.

## Acquisitions

We again augmented our overall growth during the year through the acquisition of:

- Bytemark Holdings Limited ("Bytemark") in August 2018, a York based business which brings a diverse customer base and skillset to the group; and
- LDeX Group Limited ("LDeX") in December 2018. LDeX provides datacentre and connectivity services in the UK from central London and Manchester locations. As well as bringing a new customer base to iomart, the two locations are complementary to our existing infrastructure.

**Acquisitions (CONTINUED)**
Strict criteria continue to be applied to any potential acquisition target, ensuring they enhance our overall strategy and are accretive to the financial strength of the Group. We expect M&A activity will continue as an important growth driver for the Group in what remains a highly fragmented market.

**Operational Review**
While all of our activities involve the provision of services from common infrastructure, we are organised into two operating segments, the Cloud Services (£90.6m revenue) and Easyspace (£13.1m revenue) segments.

**Cloud Services**
Revenues in this segment have grown by 8% to £90.6m (2018: £84.1m). A quarter 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. The Cloud Services EBITDA (before share based payments, acquisition costs and central group overheads) was £40.4m being 44.6% of revenue (2018: £37.1m being 44.1% of revenue). We continue to expect Cloud Services to be the driver of revenue and profit growth for the Group going forward.

Over the last 12 months we have reinvigorated our sales and marketing function to ensure we are best placed to capture the full market opportunity. These efforts have included:

- Recruitment of a new senior sales management team;
- Changes to marketing resources;
- Revisions to commission schemes;
- The rollout of new group wide marketing toolsets; and
- Implementation of a new group wide CRM system.

The early benefits of this effort started to flow through in the second half of the financial year with an increase in new lead generation from both new and existing customers. Encouragingly, March, the final month of our financial year, was the highest revenue month of the year, ensuring a positive conclusion to what has been an intense period of change.

We believe controlling our own infrastructure is important to delivering high quality, secure and robust solutions to customers. We have had great success in the year in bringing long-term security to our datacentre estate. In May 2018 we successfully negotiated the extension to our London lease to June 2030, this was followed with an intensive month of December, which saw the purchase of the freehold of our Maidenhead site and also the acquisition of LDeX. LDeX provides datacentre and connectivity services in the UK from central London and Manchester locations. The Manchester site offers the ability to consolidate our current third party infrastructure in the region into one site in Trafford Park. Manchester is a “hot spot” for the IT industry in the UK and our investment plans will see a first class facility and hosting environment established.

Within our Cloud Services division we have three core offerings, recognising the complexity of the solutions designed and the level of ongoing managed services we provide. This means we are able to supply products and services across the full cloud spectrum and do so using shared resources and common platforms across the Group. In a considered manner, ensuring minimum disruption to the customer experience, we continue to consolidate legacy brands under iomart.

iomart Cloud Services: provides fully managed, complex bespoke designs, resulting in resilient solutions involving private, public and hybrid cloud infrastructure. This can range from the provision of managed online backup and disaster recovery solutions, through to an entity’s entire online live presence where all revenue generated by the entity’s activities are transacted through the cloud infrastructure we provide, delivered with reassurance of a full 24/7 management service.

Infrastructure as a Service (IaaS): 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.

Cristie Data: supplies computer equipment to customers’ premises along with associated support services. The continued revenue growth of this brand, including a higher mix of recurring business, confirms the move to the consumption of computing power in the cloud by established organisations is happening over a long period and establishing relationships at this early stage has allowed us to support customers as they start the journey to the cloud.

**Easyspace**

The Easyspace segment which provides a range of products to the micro and SME markets including domain names, shared, dedicated and virtual servers and email services saw a small reduction in revenue in the year to £13.1m (2018: £13.7m). To grow Easyspace significantly would mean competing in a more commoditised market with the need for a high marketing budget. As a result, our target for Easyspace is to retain our existing presence in the UK market via selective marketing and responding to market conditions with dynamic pricing. As in the past Easyspace delivered strong profitability with an EBITDA (before share based payments, acquisition costs and central group overheads) of £6.2m being 47.1% of revenue (2018: £6.4m being 46.8% of revenue). The business benefits from use of the Group infrastructure meaning this profitability translates to strong cash flow for the Group.

**UK membership of the European Union**

The majority of our revenue is generated within the UK. Revenue generated from other EU states is not material, the bulk of which is 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 have an established subsidiary in the Republic of Ireland should a EU trading relationship be required post Brexit by any of our customers. As a result, while the uncertainty caused by political delays is frustrating, we do not foresee any material direct impact from the potential Brexit scenarios.

**Current trading and outlook**

This is another year of strong results, with increased revenues, profits, cash flow and dividend levels. The demand for the products and services we provide continues to grow. Over the last 12 months we have reinvigorated our sales and marketing function which delivered a strong finish to the year with a significantly larger pipeline of prospects than this time last year and we enter the new financial year with confidence.

The first two months of the year have, consistent with our high recurring revenue business model, performed in line with our own expectations. A focus for the coming year is the timely conversion of the growing prospects pipeline, ensuring strong growth from the investment made in our skills, processes and systems.

The journey to cloud adoption remains a long term trend and, as a result, our market opportunity is large and widening. We continue to invest in our cloud product offering, skills and organisational platform to ensure we are positioned to capitalise on this opportunity, and the Board is confident that strong growth will continue in the future.

**Angus MacSween**
*Chief Executive Officer*
10 June 2019

**Financial Review**
***Key Performance Indicators***

| | 2019 | 2018 (restated, note 2) |
|---|---|---|
| Revenue | £103.7m | £97.8m |
| Gross Profit % | 64.4% | 64.4% |
| Adjusted EBITDA | £42.2m | £39.9m |
| Adjusted EBITDA margin % | 40.7% | 40.8% |
| Adjusted profit before tax | £25.5m | £24.1m |
| Adjusted PBT margin % | 24.6% | 24.7% |
| Adjusted earnings per share (diluted) | 18.6p | 17.9p |
| Cash flow from operating activities before exceptional costs / Adjusted EBITDA % | 93% | 102% |
| Net debt / Adjusted EBITDA leverage ratio | 0.9 | 0.7 |

***Revenue***
Revenues for the year grew by 6% to £103.7m (2018: £97.8m) through the combination of continued organic growth and the impact of acquisitions.

Our Cloud Services segment grew revenues by 8% to £90.6m (2018: £84.1m). A full year contribution from Dediserve, Simple Servers and Sonassi, all of which were acquired at various points during the prior year, plus the current year acquisitions of Bytemark in August and LDeX in late December contributed to the overall growth rate. Revenue growth in the Cloud Services segment excluding the impact of acquisitions was 2% (2018: 3% or 7% if excluding a low margin public cloud consultancy project in the 2016/17 comparative period). The lower organic growth rate reflects the cumulative impact of lower new customer orders in FY18 and FY19 which has been addressed by the reorganisation of our sales and marketing engine. March, the final month of our financial year, was the highest revenue month of the year, and reflects the reinvigoration of the sales and marketing function in the last year. We enter the new financial year with a more positive revenue run rate.

Revenues within the Easyspace segment reduced by £0.6m to £13.1m (2018: £13.7m), in line with management expectations and recognising somewhat the cycle of domain name registrations.

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 necessary to create the IT infrastructure they require. Customers then pay us for the provision of that infrastructure, with the potential to add a managed services wrapper.

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.

In the current financial period, the Group has fully adopted IFRS 15 Revenue from Contracts with Customers. The Group has elected to apply the full retrospective method and restate comparative information from prior periods upon adoption of IFRS 15 (see note 2). As previously reported, the impact was not material to the financial statements with prior year revenue restatement being an increase of £135,000, and EBITDA restatement being an increase of £91,000.

***Gross Margin***
Our gross profit for the year was £66.7m (2018: £63.0m), increasing as a result of the additional revenues in the year. In percentage terms, our margin remained around the same level at 64.4% (2018: 64.4%).

Within Cloud Services our recent acquisitions have come with different margin profiles, we remain vigilant to protecting our strong overall profitability and always take this into account in our integration planning.

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

***Adjusted EBITDA***

Adjusted EBITDA for the year was £42.2m (2018: £39.9m) an increase of 6%. Our adjusted EBITDA margin has remained consistent at 40.7% (2018: 40.8%).

Adjusted EBITDA in the Cloud Services segment was £40.4m (2018: £37.1m), 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. We saw an increase in payroll costs as we invested in the core team, offset by some smaller reduction in administrative expenses. We anticipate a slight increase in investments into the business moving forward as we scale the organisation to ensure we capture more enterprise level market opportunities in our current and expanding customer base, while maintaining market leading margins. In percentage terms, the full year adjusted EBITDA margin in the Cloud Services segment has slightly increased to 44.6% (2018: 44.2%) following a positive mix in the first half of the year. EBITDA margin in the second half of the year was 43.8%.

The Easyspace segment's adjusted EBITDA was £6.2m (2018: £6.4m) reflecting the impact of slightly lower revenue this year. In percentage terms the adjusted EBITDA margin is marginally ahead of last year at 47.1% (2018: 46.8%).

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 increased by £0.8m in the year to £4.5m (2018: £3.7m).

***Adjusted profit before tax***

Depreciation charges of £13.1m (2018: £12.5m) have remained broadly consistent with prior year, after recognising the growth in the business including the impact of acquisitions. In contrast to other years, other than the purchase of the Maidenhead freehold property in December 2018, there was no material project type investments made in the year. We had planned to upgrade the cooling system at our London datacentre but planning approval delay means this project will now happen in the new financial year.

The charge for amortisation of intangibles, excluding amortisation of intangible assets resulting from acquisitions ("amortisation of acquired intangible assets"), of £2.5m (2018: £2.1m) has increased as a result of an increase in the level of software investment.

Finance costs of £1.2m (2018: £1.2m), 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 recorded in prior year, have 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 £25.5m (2018: £24.1m), an increase of 6%.

The adjusted profit before tax margin for the year was 24.6% (2018: 24.7%) which follows the stability of the gross margin and cost items.

***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** | **2019 £'000** | **2018 (restated, note 2) £'000** |
|---|---|---|
| Adjusted profit before tax | 25,524 | 24,130 |
| Less: Amortisation of acquired intangible assets | (6,492) | (6,449) |
| Less: Acquisition costs | (351) | (774) |
| Less: Share based payments | (1,008) | (1,206) |
| Less: Accelerated write off of arrangement fees on bank facility | (63) | - |
| Less/Add: (Loss)/gain on revaluation of contingent consideration | (1,394) | 1,335 |
| Add: Mark to market adjustment on interest rate swaps | - | 46 |
| Less: Interest on contingent consideration | - | (51) |
| Less: Non-recurring software licence fees relating to prior years | - | (2,143) |
| **Profit before tax** | **16,216** | **14,888** |

The adjusting items are: charges for the amortisation of acquired intangible assets of £6.5m (2018: £6.4m) which is the net impact of the acquisitions made in the year and the specific amortisation profile of items from acquisitions made in previous years; acquisition costs of £0.4m (2018: £0.8m) as a result of professional fees associated with acquisitions made; share based payment charges of £1.0m (2018: £1.2m) which have decreased as a result of share option awards made in previous years not fully vesting; and the non-cash accelerated write off of previously capitalised arrangements fees of £0.1m (2018: £nil) following the Group entering into a new banking facility on 6 June 2018.

In addition, the adjusting items also include a net loss on the revaluation of contingent consideration of £1.4m (2018: £1.3m net gain). As reported in the prior year, the structure of the Sonassi earn-out arrangement, with a high multiple factor under a ratchet mechanism, meant that a modest change in profitability within a certain range could result in a substantial change in the amount due under the earn-out terms. The brand's performance exceeded management expectations in the final months of the earn-out period to July 2018. As a result, the final payment due on Sonassi of £2.6m, was £1.8m higher than our previous estimate. Offsetting this loss is a gain of £0.4m on the revaluation of the Bytemark contingent consideration with settlement paid in full. During the year ended 31 March 2018 there had been an assumed decrease to the Sonassi contingent consideration which resulted in a gain of £1.4m being recorded. This represented an assumption, which at that point in time, reduced expected profitability over the earn out period to July 2018 by only 5.4%. Also in prior year, we 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 recorded in the year ended 31 March 2018.

In the prior year comparatives there were three additional adjustments: a mark to market credit adjustment in respect of interest rate swaps on the Company's loans of £0.1m and the charge of interest on the contingent consideration paid for the acquisition of United Communications Limited of £0.1m. These two items were extinguished in prior period so are not applicable in the current year. The other adjusting item which is not applicable in the current year relates to software licence fees. As a result of an audit undertaken on behalf of a software licensor in the prior year, incorrect licence information relating to previous financial years has been identified. The software licensor accepted this situation was not due to any deliberate action of the Group. The audit covered the four-year period ending March 2017 and a sum of £2.1m was provided for last year and subsequently paid in cash in August 2018.

After deducting these items from the adjusted profit before tax; the reported profit before tax was £16.2m (2018: £14.8m) an increase of 9%. In percentage terms the profit before tax margin remained stable at 15.6% (2018: 15.2%) with offsetting movements on the loss/gain on contingent consideration and the licence fee provision.

**Taxation**

The tax charge for the year is £3.3m (2018: £2.5m). The tax charge for the year is made up of a corporation tax charge of £5.0m (2018: £4.3m) with a deferred tax credit of £1.7m (2018: £1.8m). The effective rate of tax for the year is 20.6% (2018: 17.0%). The increase of 3.6% is heavily influenced by the swing in the tax charge in the current year from the non-tax deductible loss on revaluation of contingent consideration compared to the non-taxable gain in prior year. This one item alone represents an increase to the effective tax rate of 3.4%. Other adjustments which provide both favourable and unfavourable impact are less material. 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 £12.9m (2018: £12.4m) an increase of 4%.

**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 11.9p (2018: 11.5p), an increase of 3%.

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, accelerated write off of arrangement fees on the banking facility, the (loss)/gain on the revaluation of contingent consideration and the charge of interest on contingent consideration due, acquisition costs and the tax effect of these items was 18.6p (2018: 17.9p), an increase of 4%.

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 24 August 2018, the Company acquired the entire share capital of Bytemark on a no debt, no cash, normalised working capital basis. The sale and purchase agreement included an earn-out period to 31 March 2019. During November 2018, whilst not part of the original plan, the previous director shareholders of Bytemark indicated that they wished to consider leaving the business early and a negotiated settlement on the earn-out payment of £0.2m was agreed and paid. This, along with the initial consideration of £4.7m paid at completion, results in a total final consideration of £4.9m. The initial payment was funded from a drawdown from the Company's revolving credit facility.

On 20 December 2018, the Company acquired the entire share capital of LDeX on a no debt, no cash, normalised working capital basis using a locked box mechanism. At completion, an initial payment of £7.8m in cash was made. This initial payment included £0.3m to settle the adjustments included in the locked box accounts in respect of the cash, debt and working capital position. The initial payment was funded from a drawdown from the Company's revolving credit facility. A final sum of no more than £3.5m is payable dependent on the profitability of the business in the year to December 2019. The maximum purchase price is therefore £11m, excluding sums due in respect of the no debt, no cash and normalised working capital. Based on estimates of the probabilities of various levels of profitability, we expect the amount to be paid in respect of the final contingent consideration due will be £3.0m (note 20).

**Dividends**

Our dividend policy, 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 paid an interim dividend of 2.45p (2018: 2.25p) which was paid in January 2019. We have now proposed a final dividend payment of 5.01p per share (2018: 4.93p) which would result in a total dividend for the year of 7.46p (2018: 7.18p) an increase of 4% 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 (before exceptional non-recurring costs) was £39.1m (2018: £40.8m) which represents a 93% conversion of adjusted EBITDA (2018: 102%). During the year we paid £1.6m upfront for a three year software maintenance arrangement, made in order to receive a discount going forward, on a product where we are seeing increasing customer demand. Excluding this triennial invoice the adjusted EBITDA to operating cash conversion would be 97%, more in line with prior year and our internal expectations given our favourable cash cycle.

Payments on taxation in the year remained reasonably static at £5.4m (H1 2018: £5.2m) and after paying £2.3m of non-recurring software licence fees the net cash flow from operating activities in the year was £31.4m (2018: £35.6m).

***Cash flow from investing activities***

Given our strong position, in a growing market, we continue to invest large sums on investing activities split between both internal investments into our global infrastructure but also in the continuation of our disciplined acquisition strategy. The Group invested a total of £35.3m (2018: £41.5m) during the year.

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 £10.4m (2018: £16.1m) on assets, net of related finance lease drawdowns, trade creditor movements and non-cash reinstatement provisions. The largest item in the current year related to the purchase of the Maidenhead freehold in December 2018 for £5.4m (excluding £0.3m of fees and taxes). Maidenhead is our largest datacentre and we took the opportunity to secure the long-term security of the site when the existing landlord put the site on the market. The balance of expenditure related to more general investment activities primarily associated with specific customer requirements. We remain focused on increased automation and asset planning within the infrastructure estate with the aim of ensuring cost and utilisation efficiency.

Expenditure was also incurred on development costs of £1.4m (2018: £1.6m) and on intangible assets of £1.1m (2018: £1.2m).

In line with our strategy of accelerating our growth by acquisition the Group spent £11.6m (2018: £20.1m), net of cash acquired of £0.8m (2018: £4.2m) on acquisitions in the year in relation to the acquisitions of Bytemark and LDeX, as described above. In addition, the Group incurred expenditure of £4.7m (2018: £2.5m) in respect of contingent consideration due on previous acquisitions.

***Cash flow from financing activities***

Drawdowns of £25.9m (2018: £25.0m) were made from the revolving credit facility in the year to fund the purchase of the acquisitions and the freehold at Maidenhead. Bank loan repayments of £12.2m (2018: £8.5m) were made in the year. We received £0.3m (2018: £0.2m) from the issue of shares as a result of the exercise of options by employees. We also made dividend payments of £8.0m (2018: £8.9m) (note 8); paid finance costs of £1.0m (2018: £1.0m); and made lease repayments of £0.5m (2018: £0.3m).

***Net cash flow***

As a consequence, our overall cash generated during the year was £0.6m (2018: £0.6m) which resulted in cash and cash equivalent balances at the end of the year of £10.1m (2018: £9.5m).

***Net Debt***

The net debt position of the Group at the end of the period was £39.2m (2018: £26.6m) as shown below. This represents a multiple of less than one times our annual adjusted EBITDA which we believe is a very comfortable level of debt to carry given the recurring revenue business model and strong cash generation in the business.

| | **2019**<br>**£'000** | **2018**<br>**£'000** |
|---|---:|---:|
| Bank revolver loan | 48,536 | 35,239 |
| Finance Leases | 777 | 830 |
| Less: cash and cash equivalents | (10,069) | (9,495) |
| **Net Debt** | **39,244** | **26,574** |

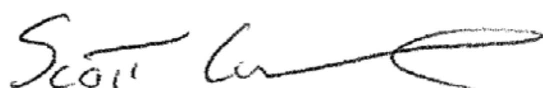
On 6 June 2018, the Group entered into a new banking facility which provides an £80m revolving credit facility that was due to mature on 31 May 2022. In June 2019, subsequent to the year end, the facility was extended to September 2022 purely for the administrative matter of ensuring a 12 month remaining facility period at the expected time of signing the March 2021 audited financial statements.

**Exposure to credit and liquidity risks**

Disclosures relating to our exposure to credit and liquidity risks are outlined in note 29.

**Financial position**

The strength of our business model, with high recurring revenue, low customer concentration and a positive cash cycle is well established and creates a very strong financial position. The Group continues to generate 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, means that the Group has the liquidity it requires to continue its growth through both organic and acquisitive means.



**Scott Cunningham**
***Chief Financial Officer***
10 June 2019

## Principal risks and uncertainties

The Board of Directors, who are responsible for the Group's system of risk management and internal controls, have established systems to ensure that an appropriate level of oversight and control is provided to manage principal risks and uncertainties identified that could have a material impact on the Group's performance. The Group's systems of risk management and internal controls, which are reviewed for effectiveness by the Audit Committee and the Board, are designed to help the Company meet its business objectives by appropriately managing, rather than eliminating, the risks relating to those objectives.

During the year the Company, within the context of our integrated management systems which consists of numerous international standards verified by a UKAS accredited certifying body, updated our risk management framework and risk assessment to identify and address all relevant principal risks and uncertainties in order to execute and deliver the Company's strategy. The Board has established a formal process to identify risks and uncertainties through the production and maintenance of a risk register which was updated in the year. There are a number of potential risks and uncertainties which have been identified as a result of this process. 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 29 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. The Group also has the ability to manage and recruit resource across multiple locations which creates, to some degree, flexibility on where we recruit and how we deploy our resources.

### 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 operate at their optimum parameters. We also continually look at new innovations and technology within the sector, that can help to deliver operational efficiency and effectiveness in line with our ISO50001 energy management system, and our obligations within the CRC Energy Efficiency Scheme.

### 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 diverse 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.

### 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. iomart continues to develop our security portfolio to equip our customers to counter the types of security threats our clients face as well as working on internal process improvement, security awareness and training to ensure we provide solutions which customers can rely on. The Group also carries specific insurance in relation to cyber related crime. Our contracts and associated schedules with customers make it clear where responsibilities lie in relation to the roles and responsibilities of each party for the Security of Data and Data Protection in general. iomart has undertaken an external audit of our business with respect to the statutory requirements for the UK Data Protection Act 2018 and the EU General Data Protection Regulations within the last months. Amongst a range of actions, we have formalised the role of Data Protection Officer, expanded training and awareness for all staff as well as the adoption of core iomart Group data protection policies across all brands.

**Principal risks and uncertainties (CONTINUED)**

**Competition**
iomart operates in a competitive and fluid marketplace and while the Directors believe the Group enjoys significant strengths and advantages in competing for business, some of the competitors are significantly larger and that could allow them to offer similar services for lower prices than the Group would be prepared to match, or launch new product offerings with significantly enhanced features. Consequently these competitors could materially adversely impact the scale of the Group's revenues and its profitability. In response to this, we maintain a broad customer base, with currently no single customer with more than 2% of our annual revenue. We also mitigate the risk by establishing strong relationships with our customers, developing tailor-made and value-creating solutions and delivering excellent service performance while being cost competitive in our day to day business. Our development team are continually working towards both enhancing, and augmenting, the services we currently offer. Our Product Board meets regularly to keep abreast of the new technology which could enhance the Group's service portfolio.

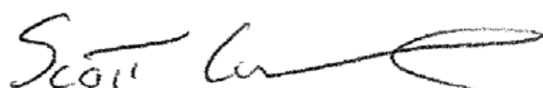
**Key suppliers**
The Group is dependent on certain key suppliers for the continued operation of its business, the most significant of which are those for electricity, bandwidth and servers. Were any of these key suppliers to fail in their service provision to the Group this could have an adverse effect 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.

**Growth management**
The Group is experiencing high levels of growth through a combination of 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 cash flow. For each acquisition diligence and integration planning is undertaken and all potential synergies identified.

The Strategic Report on pages 10 to 20 has been approved by the Board and is signed on its behalf:



**Scott Cunningham**
***Chief Financial Officer***
10 June 2019

# Board of Directors

1

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4

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1. Ian Steele
2. Angus MacSween
3. Scott Cunningham
4. Richard Masters
5. Karyn Lamont

# Board of Directors continued

1

## Ian Steele
### Non-Executive Chairman

**Date of appointment:** June 2016 (appointed Chairman August 2018)
**Committee Membership:** Audit, Remuneration and Nomination (Chair)
**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. In his final eight years before leaving Deloitte LLP in 2015, Ian sat on the UK board and fulfilled the role of senior partner for Scotland and Northern Ireland, as well as Head of Global Advisory Services for the Firm.
Ian took over the Chairmanship of iomart in August 2018.
**External appointments:** Ian 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.

2

## Angus MacSween
### Chief Executive Officer

**Date of appointment:** March 2000
**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.

3

## Scott Cunningham
### Chief Financial Officer

**Date of appointment:** September 2018
**Background and experience:** Scott is a chartered accountant having trained with Arthur Andersen where he became a senior manager providing audit and transaction support services to both public and private companies. Leaving Arthur Andersen in 2001 Scott joined Clyde Blowers and performed a number of roles including Group Financial Controller for the Clyde Bergemann Power Group from 2003 to 2006. He became Director of Corporate Finance and Company Secretary for AIM listed InterBulk Group plc in February 2006 and in April 2007 Scott became Group Finance Director for InterBulk Group plc until it was successfully sold to Den Hartogh in March 2016. Immediately prior to joining iomart he was an Investment Director at Clyde Blowers Capital.

4

## 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. In March 2019 it was announced that Richard Masters would be retiring from Pinsent Masons. He is currently operating within a notice period.

5

## Karyn Lamont
### Non-Executive Director

**Date of appointment:** February 2019
**Committee Membership:** Audit (Chair), Remuneration and Nomination
**Background and experience:** Karyn is a chartered accountant and former audit partner at PricewaterhouseCoopers LLP. She has over 25 years of experience, 13 years as an audit partner, and provided audit and other services to a range of clients across the UK's financial services sector, including outsourcing providers. Her specialist knowledge includes financial reporting, audit and controls, risk management, regulatory compliance and governance. Karyn left PricewaterhouseCoopers LLP in 2016.
**External appointments:** Karyn is a Non-Executive Director for The Scottish Investment Trust plc, Scottish Building Society, North American Income Trust plc and Scottish American Investment Trust plc. Other than Scottish American Investment Trust plc, Karyn acts as the Audit Committee Chair on all other appointments.

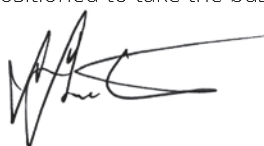
**Chairman's introduction to Corporate Governance**

As Chairman of the Board, it is my responsibility, working closely with my fellow Board colleagues, to ensure that the highest standards of corporate governance are embraced throughout the Group. In addition, it is my role to manage the Board in the best interests of the Group's many stakeholders and be responsible for ensuring the Board's integrity and effectiveness.

In the last year we have enhanced our governance framework and undertaken specific programmes to strengthen our commitment to continuous improvement in corporate governance across the business.

During the year the Board decided to adopt the Quoted Companies Alliance ("QCA") Code. The Board feel that the QCA Code is the most appropriate code for iomart at this point in time. We believe that the QCA Code provides us with the right governance framework: a flexible but rigorous outcome-oriented environment in which we can continue to develop our governance model to support our business. The remainder of this corporate governance report records how the Company addresses the governance principles defined in the QCA Code plus other corporate governance related matters.

We are confident that our approach to corporate governance will underpin the development of a strong organisation, well positioned to take the business to the next phase of growth.



**Ian Steele**
***Non Executive Chairman***

10 June 2019

**Board commitment to Corporate Governance**

The Board is committed to maintaining high standards of corporate governance and has established governance procedures and policies that are considered appropriate to the nature and size of the Group. In the last year we have enhanced our governance framework and undertaken specific programmes to strengthen our commitment to continous improvement in corporate governance across the business.

**QCA Code**

Under a change in AIM rules announced by the London Stock Exchange, with effect from September 2018, all AIM companies were required to recognise a corporate governance code and explain how they do so. In the prior year, we reported that the Group would comply with the QCA code, the corporate governance code tailored for small and mid-size quoted companies and this would be reflected in the annual report and accounts for the year ending 31 March 2019. The QCA code helps companies put in place an effective and flexible governance model and encourages positive engagement between companies and their stakeholders to deliver results. The QCA code adopts a principles-based approach and is constructed around ten broad principles. The Board is committed to complying with these ten principles and have applied these as follows:

**QCA Code (CONTINUED)**

| 1 | Establish a strategy and business model to promote long-term value for shareholders |
|---|---|

We are a leading provider of managed cloud computing services, helping companies at all stages of their IT journey with a wide and flexible portfolio of services and products. We deliver these from our own infrastructure using a team with deep sector expertise. Customer relationships and excellence in service are at the heart of our business. We plan to build on this position by focussing on:

- Growing our managed cloud services by excelling in customer service and ensuring innovation in our customer offering continues to match the needs of the market;
- Grow our self-managed products by differentiating with solutions & support which add value;
- Retain our presence in the mass consumer market via selective marketing and dynamic pricing;
- Build a high performance team supported by best in class systems and processes;
- Continued optimisation of our datacentre estate with cost efficiency achieved via asset planning, procurement and automation;
- Ensure robust and resilient infrastructure, connectivity and security at all times; and
- Disciplined acquisition strategy with earning enhancing deal valuations and clear integration to existing business.

| 2 | Seek to understand and meet shareholders' needs and expectations |
|---|---|

iomart is committed to listening to and communicating openly with its shareholders to ensure that the strategy, business model and performance are clearly understood. The Chief Executive Officer and Chief Financial Officer have regular dialogue with shareholders and analysts to discuss strategic and other issues including the Company's financial results. Following major periods of communications, our advisers consolidate feedback, on an anonymised basis, from the relevant parties which then forms the basis of a briefing pack for the Board to ensure awareness of shareholder opinions.

The Company engages in full and open communication with both institutional and private investors and responds promptly to all queries received. The Company does this via investor roadshows, attending investor conferences and regular financial reporting and through the regulatory news service ("RNS") announcements. In conjunction with the Company's brokers and other financial and public relations 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.

The Board recognises the AGM as an important opportunity to meet private shareholders who are given notice of the AGM at least 21 days prior to the meeting. The Chairman aims to ensure that the Directors, including the Non-Executive Directors, are available at Annual General Meetings to answer questions.

**QCA Code (CONTINUED)**

| 3 | Take into account wider stakeholder and social responsibilities and their implications for long-term success |
|---|---|

The Group recognises that long-term success is underpinned by good relations with its key stakeholders, both internal (employees) and external (shareholders, customers, suppliers, regulators, industry bodies and debt providers). 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 as well as the local community and the environment in which it operates.

The Company seeks to be honest and fair in all relationships with customers and encourages feedback from our customers through account managers and engagement with individual customers through customer support teams. On a regular basis we perform customer surveys to both keep abreast of customers' plans for the future and to obtain feedback on our performance.

We are committed to attracting and retaining the highest level of personnel. We seek to achieve this through, amongst other things, the application of high standards in recruitment. We are aware of the importance of good communication in relationships with staff and we have 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 a bonus scheme.

| 4 | Embed effective risk management, considering both opportunities and threats, throughout the organisation |
|---|---|

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 relating to those objectives. The controls can only provide reasonable, not absolute, assurance against material misstatement or loss.

During the year, the Company updated its risk management framework and risk assessment to identify and address all relevant risks in order to execute and deliver the Company's strategy. The process, which was supported by external advisors, reviewed financial, operational, market and compliance areas to identify and document significant risks, the probability of those risks occurring, their potential impact and the plans for managing and mitigating each of the risks identified. 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 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.

Given the size of the Company, the Board has concluded it is not appropriate to establish a separate, independent internal audit function and will keep this under review.

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.

**QCA Code (CONTINUED)**

| 5 | Maintain the Board as a well-functioning, balanced team led by the chair |
|---|---|

The Board takes responsibility for developing long term strategies and providing 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 internal controls and risk, ultimately taking collective responsibility for the success of the Company. The Executive Directors are directly responsible for the running the business operations and the Non-Executive Directors are responsible for bringing independent judgement and scrutiny to decisions taken by the Board.

Through the leadership of the Chairman, the Board sets the Company's strategic goals; ensuring obligations to shareholders are met.

The Board meets regularly, usually monthly, to discuss and agree on the various matters brought before it, including the trading results. Information of a sufficient quality is supplied to the Board in a timely manner. 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.

During the year, the formal schedule of matters reserved for the Board for consideration and approval were refreshed. These include:

- approval of strategic plans, annual financial budgets and business plans;
- approval of material acquisitions, contracts, acquisition of major capital expenditure and disposal of major assets;
- changes relating to the Company's structure and shares;
- approval of the annual report and interim financial statements, trading statements, preliminary announcements and accounting policies;
- approving any significant funding facilities; and
- approval of the dividend policy.

There is a clear division of responsibilities between the running of the Board and the Executives responsible for the Company's business, to ensure that no one person has unrestricted powers of decision.

**Composition of and Appointments to the Board**

The composition of the Board ensures an appropriate balance of Executive and Non-Executive Directors and when appointing new Directors to the Board there are formal, rigorous and transparent procedures in place.

The Board comprises an independent Non-Executive Chairman, Chief Executive Officer, Chief Financial Officer and two independent Non-Executive Directors. Board biographies of all Board members giving details of their experience and other main commitments are included on pages 21 and 22.

All Non-Executive Directors serving at the year-end are considered to be independent.

The Board is satisfied with the balance between Executive and independent 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 which sees an independent Board majority.
The following changes to the composition of the Board took place during the year:

- Richard Logan stepped down as Chief Financial Officer on 4 September 2018 and Scott Cunningham was appointed on the same day.
- Ian Ritchie stepped down as Non-Executive Chairman at the AGM on 28 August 2018 and Ian Steele took up Chairmanship on the same day.
- Karyn Lamont was, on 26 February 2019, appointed as a Non-Executive Director and Chair of the Audit Committee.

**QCA Code (CONTINUED)**

| 6 | **Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities** |
|---|---|

The Board recognises that to remain effective it must ensure that it has the right balance of skills, experience, knowledge and independence to enable it to discharge its duties and responsibilities. The Company has a highly committed and experienced Board, which is supported by a senior management team, with the qualification and experience necessary to run the Company.

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.

The Chairman is also 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 in relation to 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.

| 7 | **Evaluate board performance based on clear and relevant objectives, seeking continuous improvement** |
|---|---|

The Board undertakes a formal and rigorous evaluation of its own performance annually and that of its Committees and individual Directors. Each year a formal evaluation is conducted by means of a detailed questionnaire which is completed by each Director. The results of this process are collated by the Chairman and discussed by the Board collectively. The annual evaluation includes a review of the performance of individual Directors, including the Chairman, and the Board Committees. The most recent evaluation during the year concluded that the Board and the relevant Committee performance had been satisfactory. There is no outstanding action from this year's process.

**QCA Code (CONTINUED)**

| 8 | Promote a corporate culture that is based on ethical values and behaviours |
|---|---|

The Company 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.

The Company treats all of its customers with the utmost respect and seeks to be honest and fair in all relationships with them.

Relationships with suppliers and subcontractors are based on mutual respect, honesty and fairness and we seek to honour the terms and conditions of our agreements in place with such suppliers and subcontractors.

We ensure that everyone is aware that the giving or accepting of bribes are not acceptable business conduct. During the year we updated and reinforced our Anti-Bribery and Corruption policies and training requirements throughout the Company. An anti-bribery statement is on our corporate website and we ensure that all staff are aware of our anti-bribery policy. We also have an anti-slavery and human trafficking statement which we also make sure all staff are aware of.

We recognise the importance of all of our employees and that the success of the Company is due to their efforts.
We respect the dignity and rights of all employees and provide clean, healthy and safe working conditions.
An inclusive working environment and a culture of openness are maintained by the regular dissemination of information. This includes an internal staff publication which is distributed at least quarterly covering business updates and other news.

The Company endeavours to provide equal opportunities for all employees and facilitates the development of employees' skill sets. A fair remuneration policy is adopted throughout our Group. The Group does not tolerate any sexual, physical or mental harassment of its employees and we operate an equal opportunities policy that specifically prohibits discrimination on grounds of colour, ethnic origin, gender, ages, religion, political or other opinion, disability, or sexual orientation.

We define corporate responsibility as ensuring that we have or are developing sound policies, practices or programmes that address business transparency and ethics, workplace practices and employee relationships and customer consultation. In practice our commitment to corporate responsibility plays out in a wide variety of ways and includes our employee engagement programme, which is designed to foster an inclusive workplace by encouraging our people to continually improve performance in this area. We encourage all of our employees to act in the following ways:

- Responsible – we will conduct our business in a socially responsible and ethical manner;
- Trustworthy – we will trust, respect and support each other;
- Accountable – we will accept responsibility and hold ourselves accountable for our work and our actions;
- Honest – we will do what we say we will do;
- Inspiring – we will seek new opportunities to deliver services and out of the ordinary solutions;
- Regarded – we will earn the respect of our peers, shareholders, stakeholders, clients and employees; and
- Exceptional – we will commit to excellence in everything we do.

## QCA Code (CONTINUED)

| 9 | Maintain governance structures and processes that are fit for purpose and support good decision making by the Board |
|---|---|

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 Board which additionally comprises the other executive directors 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 22. 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.

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

During the year the terms of reference of the Remuneration, Nomination and Audit Committee were refreshed and approved by the Board. The terms of reference for each Committee are available on the investor page of the Company website.

**The Remuneration Committee**
The Remuneration Committee is chaired by Richard Masters. Its other members are Ian Steele and Karyn Lamont. The Executive directors may be invited to attend meetings, where appropriate, except where matters under review by the Committee relate to them.

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;
- ensuring that remuneration is in line with current industry practice; and
- reporting to the Board on all matters within its duties and responsibilities.

**The Nomination Committee**
The Nomination Committee is chaired by Ian Steele. Its other members are Richard Masters and Karyn Lamont.

The Nomination Committee terms of reference include:

- reviewing the structure and composition of the Board;
- identifying and nominating for approval candidates to fill Board vacancies;
- evaluating the balance of skills, knowledge, experience and diversity of the Board;
- review results of the Board performance evaluation process; and
- reporting to the Board on all matters within its duties and responsibilities.

**The Audit Committee**
The members of the Audit Committee during the year were Ian Steele, Richard Masters and Karyn Lamont.

The Audit Committee, was chaired by Ian Steele until 26 February 2019 and was replaced by Karyn Lamont on her appointment on 26 February 2019. The Audit Committee has recent and relevant experience and is authorised by the Board to conduct any activity within its terms of reference and to seek any information it requires from any employee.

**QCA Code (CONTINUED)**

| 9 | **Maintain governance structures and processes that are fit for purpose and support good decision making by the Board (CONTINUED)** |
|---|---|

The Audit Committee terms of reference 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 management framework and risk assessment 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 Audit Committee in relation to the 2019 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 2019. 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 2019 the Group made two acquisitions (note 11). The Committee considered the calculations supporting the fair value of assets and liabilities of any business acquired in the year and reviewed 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 20). |

At the invitation of the Committee, meetings may be attended by the Chief Executive Officer and the Chief Financial Officer. As appropriate, representatives of the external auditors also attend meetings. The Chairman of the Committee also meets separately with senior management and the external auditors. The Company Secretary is Secretary of the Audit Committee.

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.

**QCA Code (CONTINUED)**

| 9 | **Maintain governance structures and processes that are fit for purpose and support good decision making by the Board (CONTINUED)** |
|---|---|

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

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 Audit Committee has commenced a competitive tender process in readiness for the review of the results for the six months ended 30 September 2019.

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 UK LLP 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.

**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 Steele – Non-Executive Chairman | 10 | 10 | 2 | 2 | 4 | 4 |
| Angus MacSween – Chief Executive Officer | 10 | 10 | - | - | - | - |
| Richard Masters – Non-Executive Director | 10 | 10 | 2 | 2 | 4 | 4 |
| Scott Cunningham – Chief Financial Officer (appointed 4 September 2018) | 6 | 6 | - | - | 3 | 3 |
| Karyn Lamont – Non-Executive Director (appointed 26 February 2019) | 2 | 2 | 1 | 1 | 1 | 1 |

The Nomination Committee held two meetings in the year, both were attended by Ian Steele and Richard Masters and one was attended by Karyn Lamont following her appointment.

Where any Board member has been unable to attend Board or Committee meetings, 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 Board will continue to review the appropriateness of the governance framework to ensure that it supports the Company in delivering its strategy.

## QCA Code (CONTINUED)

| 10 | Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders |
|---|---|
| | The Company communicates with shareholders through the Annual Report and Accounts, full year and half year results announcements, RNS announcements, the AGM and meetings with shareholders. A range of corporate information (including Company announcements) are available to all shareholders, investors and the public on the Company website www.iomart.com/investors<br><br>The Board receives regular briefings from the Chairman, Chief Executive Officer and Chief Financial Officer and the Company's brokers and public relations advisers. The Company communicates with shareholders through briefings with management and through investor conferences. |

## Other matters

### Re-election

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. The Articles of Association also stipulate that any new Directors, who were not appointed at the previous AGM, automatically retire at their first AGM and, if eligible, can seek re-appointment.

Scott Cunningham, Karyn Lamont and Richard Masters will retire from office at the Company's forthcoming AGM and stand for re-appointment.

### 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. 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 initially matured in June 2022. Subsequently, in June 2019 the facility was extended to September 2022. The Directors continue to adopt the going concern basis in preparing the financial statements.

### 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.

### Directors' Remuneration Report for the year to March 2019

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 Steele, the Company's Non-Executive Chairman and Karyn Lamont, Non-Executive Director are also members of the Committee. The Executive Directors 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 Company Secretary is secretary to the Committee.

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 salaries of the CEO and CFO and with effect from 1 April 2019 these will be increased by 2% in line with the average increase across the Group and will be as follows:<br>▪ CEO – £365,925<br>▪ CFO – £224,400 | 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 ended March 2019 the performance measure was based primarily on Group adjusted EBITDA performance, with the above criteria taken into account by the Committee when determining payments. A similar approach will be adopted in respect of the financial year ending March 2020.<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 95% of target is achieved. |

**Remuneration of executive directors (CONTINUED)**

| Element | Overview of policy and structure | Opportunity | Performance measures |
|---|---|---|---|
| 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.<br>• Share options awarded will normally vest after the third anniversary of the date of grant.<br>• Participants have 10 years from award to exercise. | • The maximum award under the performance share plan is 110% of base salary for the CEO and 100% of base salary for the CFO. | • 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.<br>• Options awarded in May 2019 will vest based on Group adjusted EBITDA performance for the March 2022 financial year to ensure continued focus on driving profit performance.<br>• Options awarded on appointment of the new Chief Financial Officer in September 2018 will vest based on Group adjusted EBITDA performance for the March 2019, March 2020 and March 2021 financial years to ensure continued focus on driving profit performance and alignment with existing option arrangements. These options cannot be exercised until 4 September 2021. |

**Remuneration of executive directors (CONTINUED)**

| Element | Overview of policy and structure | Opportunity | Performance measures |
|---|---|---|---|
| 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. The CFO receives 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
Scott Cunningham 6 months

Non-Executive Directors have a 6 month notice period.

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 remained 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.

**Directors' remuneration for the year ended 31 March 2019**
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 2019 Total | Year ended 31 March 2018 Total |
|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ |
| Executive directors | | | | | | |
| Angus MacSween | 358,750 | 254,713 | 4,417 | - | 617,880 | 439,417 |
| Scott Cunningham [1] | 128,333 | 91,117 | 2,230 | 12,833 | 234,513 | n/a |
| Richard Logan [2] | 89,688 | - | 1,916 | - | 91,604 | 297,794 |
| **Non-Executive directors** | | | | | | |
| Ian Ritchie [3] | 31,250 | - | - | - | 31,250 | 75,000 |
| Ian Steele | 62,500 | - | - | - | 62,500 | 45,000 |
| Richard Masters | 45,000 | - | - | - | 45,000 | 35,308 |
| Karyn Lamont [4] | 4,269 | - | - | - | 4,269 | n/a |

[1] Scott Cunningham was appointed to the Board on 4 September 2018
[2] Richard Logan resigned from the Board on 4 September 2018
[3] Ian Ritchie resigned from the Board on 28 August 2018
[4] Karyn Lamont was appointed to the Board on 26 February 2019

**Directors' interests in shares**

The Directors holding office at 31 March 2019 held beneficial interests in the issued share capital of the Company as shown in the following table:

| | Number of ordinary shares | |
|---|---|---|
| | At 31 March 2019 | At 1 April 2018 |
| **Name of director** | | |
| Angus MacSween [1] | 17,003,409 | 16,998,789 |
| Scott Cunningham [2] | 4,000 | nil |
| Ian Steele | nil | nil |
| Richard Masters | nil | nil |
| Karyn Lamont | nil | nil |

[1] On 31 October 2018, Angus MacSween exercised 4,620 options over ordinary shares of 1p each at an exercise price of 194.8p in relation to the Company's SAYE share option plan and as a consequence his shareholding increased by 4,620 shares.

[2] On 7 December 2018, Scott Cunningham's spouse purchased 4,000 shares at a price of 328.75p.

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

The interests of the directors at 31 March 2019 in options over the ordinary shares of the Company were as follows:

| Name of director | At 1 April 2018 | Exercised | Granted | Lapsed | At 31 March 2019 | 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 |
| | - | - | 107,674 | | 107,674 | 1p | 04/04/2018 | 04/04/2021 | 04/04/2028 |
| | - | - | 2,777 | | 2,777 | 324.0p | 01/11/2018 | 01/11/2021 | 31/03/2022 |
| | 948,374 | (47,630) | 110,451 | - | 1,011,195 | | | | |
| Scott Cunningham | - | - | 31,687 | - | 31,687 | 1p | 04/09/2018 | 04/09/2021 | 04/04/2028 |
| | - | - | 54,321 | - | 54,321 | 1p | 04/09/2018 | 04/09/2021 | 04/04/2028 |
| | - | - | 54,321 | - | 54,321 | 1p | 04/09/2018 | 04/09/2021 | 04/04/2028 |
| | - | - | 140,329 | - | 140,329 | | | | |

During the year options over 248,003 ordinary shares (2018: 207,757) were granted to Directors under the unapproved share option scheme with an average exercise price of 1.0p per share (2018: 1.0p per share) and 2,777 options over ordinary shares under the Sharesave scheme were granted to Directors (2018: 7,120) with an average exercise price of 324.0p per share (2018: 252.8p).

Angus MacSween exercised 47,630 share options during the year.  On 19 June 2018, 43,010 ordinary shares of 1p each were exercised at an exercise price of 46.5p per share in relation to the Enterprise Management Incentive scheme and were sold on the same day at a price of 390.3p per share.

The market price of the Company's shares at the end of the financial year was 347.0p (2018: 366.5p) and the range of prices during the year was between 308.0p (2018: 290.0p) and 475.0p (2018: 410.0p).

By order of the Board

**Richard Masters**
**Chairman, Remuneration Committee**

10 June 2019

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 2019.

### Principal Activity

The principal activity of the Group is the provision of managed cloud services. The Company's principal subsidiary undertakings are listed in note 15 to the financial statements. The Company's registered number is SC204560.

### 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 21, on 6 June 2018 the Group entered into an £80m multi option revolving credit facility with Bank of Scotland Plc of which £48.5m was drawn down at the year end and which is available to September 2022.

The multi option revolving credit facility was renewed in June 2018 to £80m (2018: £60m) and 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 is available until September 2022 at which point any advances made under the multi option revolving credit facility become immediately repayable. Each draw down made under this facility can be for either 3 or 6 months and can either be, at the discretion of the Company, 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 1.5% (2018: 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 £80m multi option revolving credit facility. The effective interest rate for multi option revolving credit facility in the current year was 2.44% (2018: 2.70%).

The Group's borrowings at 31 March 2019 comprise finance leases totalling £0.8m (2018: £0.8m) and bank facility usage totalling £48.5m (2018: £35.2m). The interest rates on the finance leases are fixed for the term of the lease at between 6.4% and 11.5% and the average interest rate was 10.1% (2018: 11.4%).

The Group is not exposed to material movements in interest rates on its bank borrowings.

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, the Group does not use derivative instruments. Additional information on financial instruments is included in note 29.

### Dividend

The directors declared an interim dividend for the year ended 31 March 2019 of 2.45p per share (2018: 2.25p). The directors recommend a final dividend for the year ended 31 March 2019 of 5.01p per share (2018: 4.93p per share). This final dividend, together with the interim dividend, takes the total dividend to 7.46p per ordinary share for the 2019 financial year (2018: 7.18p). Subject to shareholder approval this proposed final dividend would be payable on 5 September 2019 to shareholders on the register at close on 16 August 2019.

### 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

In June 2019, subsequent to the year end, the multi option revolving credit facility was extended from 31 May 2022 to 30 September 2022 purely for the administrative matter of ensuring a 12 month remaining facility period at the expected time of signing the March 2021 audited financial statements.

### 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 10 to 20.

## Directors and their interests

The present membership of the Board is set out on pages 21 and 22 and the directors who served during the year are listed on page 31. In accordance with the Articles of Association, Scott Cunningham, Karyn Lamont and Richard Masters 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 33 to 38.

## Insurance for directors and officers

The Company may under the Company's Articles of Association and subject to the provisions of the Companies Act, indemnify all directors or other officers against liability incurred by them in the execution or discharge of their duties or exercise of their powers, including but not limited to any liability for the costs of legal proceedings where judgement is given in their favour. This indemnity was in place during the financial year and is ongoing up to the date of this report. In addition, the Company has purchased and maintains appropriate insurance cover against legal action brought against directors and officers.

## Substantial shareholdings

At 31 May 2019 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 | 17,971,071 | 16.52% |
| Angus MacSween | 17,003,409 | 15.63% |
| Octopus Investments | 15,139,235 | 13.92% |
| Investec Wealth & Investment | 5,763,816 | 5.30% |
| Noble Grossart Investment Limited | 3,325,000 | 3.06% |

## Employees

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 (note 26) and it is the board's policy to make specific awards as appropriate to attract and retain the best available people.

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 for employees who become disabled, to promote their career development within the organisation.

## Donations

No political donations have been made during the year ended 31 March 2019 (2018: £nil).

## Independent Auditor and disclosure of information to 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. The Audit Committee has commenced a competitive tender process in readiness for the review of the results for the six months ending 30 September 2019.

By order of the Board

**Andrew McDonald**
***Company Secretary***

10 June 2019

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.

## 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 2019 which comprise of the Consolidated statement of comprehensive income, the Consolidated statement of financial position, the Consolidated statement of cash flows, the 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 2019 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.

## Conclusions relating to going concern

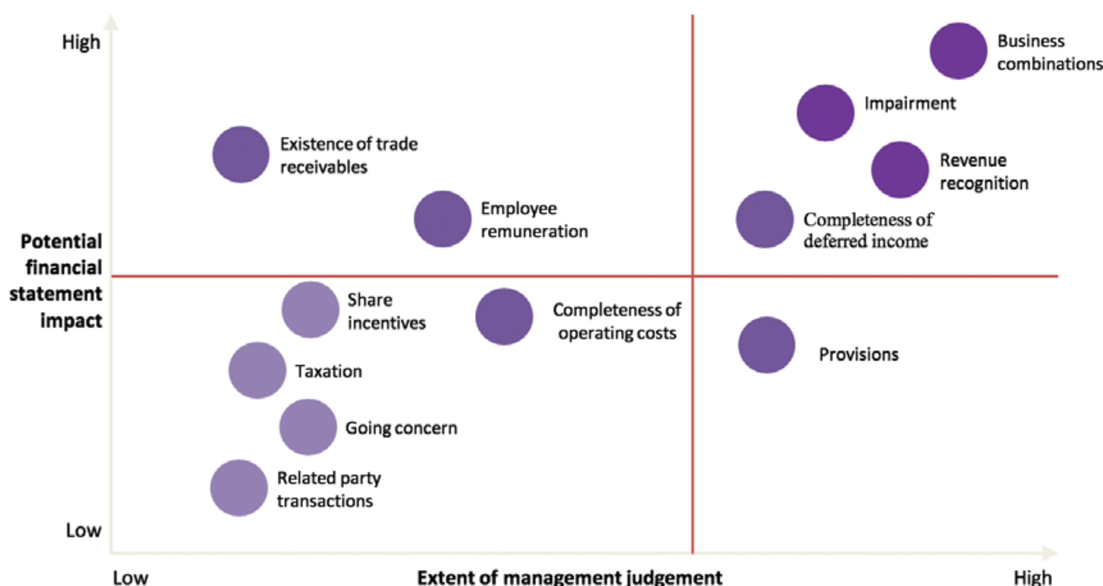
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- 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: £1,898,000, which represents 4.5% of the company's adjusted EBITDA;
- Key audit matters were identified as improper revenue recognition, business combinations - acquisitions and intangible assets may be impaired; and
- We performed full scope audit procedures on the financial statements of iomart Group plc, iomart Hosting Limited, Easyspace Limited and iomart Cloud Services Limited and targeted procedures on the financial information of 7 other trading UK subsidiaries along with analytical procedures on Iomart Cloud Inc, LDeX Group Limited and Dediserve Limited. This combined gave us coverage across 100% 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 judgement, 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 |
|---|---|
| **Improper Revenue Recognition**<br><br>The Group has recognised revenues of £103.7 million (31 March 2018: £97.8 million) in the year. Revenue is derived from a number of revenue streams, with key streams including domain and hosting services, managed cloud computing facilities and consultancy. Each stream has its own revenue recognition policies based upon the nature of the revenue.<br><br>As revenue has different streams with different methods of recognition, judgement is required to determine when revenue is recognised. Where revenue is invoiced, but the judgement is taken that the revenue recognition criteria have not been met, the revenue is included within deferred income on the balance sheet. We therefore identified the occurrence of revenue (incorporating completeness of deferred revenue) as a significant risk, which was one of the most significant assessed risks of material misstatement.<br><br>The group has adopted IFRS 15 “Revenues” in the year, and applied the full retrospective method to restate comparative information from prior year. As a result, retained earnings at 1 April 2017 and revenues recognised for the year ended 31 March 2018 reduced by (£0.1m) and (£0.1m) respectively. | Our audit work included, but was not restricted to:<br>• Audit of the Group’s transition to IFRS 15, by considering Group Management’s assessment of the impact of IFRS 15 on the Group’s revenue recognition policies, and the application of those changes based on our knowledge of the revenue transactions in the Group;<br>• Considering and challenging whether the Group’s revised revenue recognition policies are compliant with IFRS 15;<br>• Performing detailed sample testing on the population of revenue throughout the year by vouching these to cash payment and appropriate supporting documentation proving the occurrence and validity of the sale;<br>• Considering within this testing whether an element of the revenue should have been deferred and whether this had, if applicable been treated correctly; and<br>• Substantively testing a sample of deferred revenue transactions to verify that the transaction was appropriately deferred.<br><br>The group’s accounting policy on revenue recognition is shown in note 2 to the financial statements.<br><br>**Key observations**<br><br>We did not identify any material misstatements in the occurrence of revenues or its recognition in accordance with the requirements of IFRS 15. |

| Key Audit Matters | How the matter was addressed in the audit |
|---|---|
| **Business Combinations - acquisitions** | |
| There were two acquisitions within the period under audit.<br><br>The Bytemark Holdings Limited Group ('Bytemark') comprising Bytemark Holdings Limited and Bytemark Limited was acquired in August 2018, for a cost of £5.3m, with £4.7m paid up front with £0.6m maximum potential deferred contingent consideration payable subsequently.<br><br>The LDeX Group ('LDEX'), comprising LDex Group Limited, LDeX Connect Limited and London Data Exchange Limited was acquired in December 2018. The consideration was a maximum of £11.3m, made up of £7.8m cash initial consideration and a maximum potential contingent consideration of £3.5m payable subsequently.<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 valued. The value of contingent consideration is also subjective as it relies on future performance of the acquired businesses. 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>• Considering the terms of the sale and purchase agreement and documentation to ensure that the terms of the acquisitions have been appropriately accounted for within the financial statements;<br>• Critically appraising the fair value adjustments relating to the acquisition of Bytemark and LDeX;<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 29, where the Audit Committee also described the action that it has taken to address this issue.<br><br>**Key observations**<br><br>We did not identify any material misstatements in the accounting for business combinations, the recognition of related intangible assets or the value recognised in respect of contingent consideration in accordance with IFRS 3. |

| Key Audit Matters | How the matter was addressed in the audit |
|---|---|
| **Intangible assets may be impaired** | |
| The carrying value of goodwill is £85.4 million at 31 March 2019 (31 March 2018: £75.8 million), with the increase driven by the two acquisition's discussed in the key audit matter above.<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 has assessed that there are two CGUs in the business, being "Cloud Services" and "Easyspace". The carrying value of 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>• 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 inherent in the impairment model and considering the resultant impact on headroom when flexing key assumptions; and<br>• A comparison was performed of the results of previous year's budgets against actual performance to assess the reliability of the management's forecasting process.<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 impairment of goodwill as a significant area in its report on page 29, where the Audit Committee also described the action that it has taken to address this issue.<br><br>**Key observations**<br><br>We found the assumptions used (and judgements taken) by management to be balanced and did not identify any material misstatement in the carrying value of goodwill. |

**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.

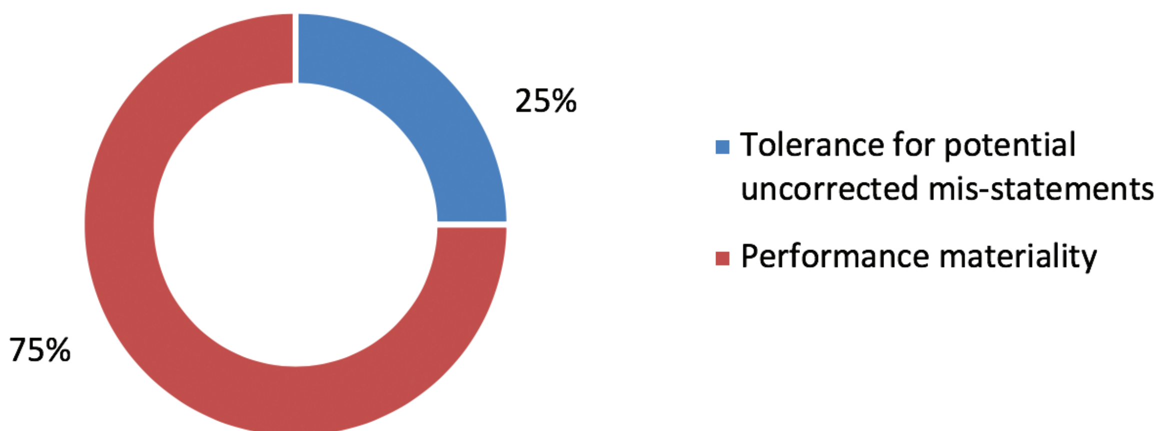
We determined materiality for the audit of the group financial statements as a whole to be £1.898m, which is 4.5% of adjusted EBITDA. This benchmark is considered the most appropriate because it is the key performance measure applied by both the directors and users of the financial statements.

Materiality for the current year is higher than the level that we determined for the year ended 31 March 2018 to reflect the growth in adjusted 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.

**Overall materiality**




We also determine a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions.

We determined the threshold at which we will communicate misstatements to the Audit Committee to be £95,000. 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 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 adjusted EBITDA or significance based on qualitative factors, such as specific uses or concerns over specific components;
- an interim visit, which included an evaluation of the group's internal control environment including its IT systems and controls; and
- components were identified as full scope, targeted or analytical in approach based on a detailed consideration of each component, quantitative financial considerations, risks identified at the component level and other qualitative factors when considered against their relative materiality to the Group and assessment of audit risk.
- there were no significant changes in scope from the prior year audit beyond the additional procedures required around the acquisitions as noted above; and
- all procedures were performed by the Group auditor within the UK.

| Full scope | Targeted | Analytical procedures |
|---|---|---|
| • iomart Group plc<br>• iomart Hosting Limited<br>• iomart Cloud Services Limited<br>• Easyspace Limited | • Bytemark Limited<br>• Cristie Data Limited<br>• ServerSpace Limited<br>• Simple Servers Limited<br>• Sonassi Limited<br>• Systems Up Limited<br>• United Communications Limited | • Dediserve Limited<br>• Iomart Cloud Inc<br>• LDEX Group Limited<br>• All other entities |

Revenue recognition | Business combinations | Carrying value of goodwill

### 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 40, 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 41, 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.

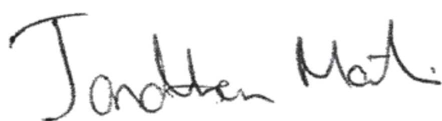
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

### Other matter

We have reported separately on the parent company financial statements of iomart Group plc for the year ended 31 March 2019. That report includes details of how we applied the concept of materiality in planning and performing our audit; and an overview of the scope of our audit .

### Use of our report

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.



**Jonathan Maile BSC (Hons) FCA**
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Glasgow
10 June 2019

## Consolidated Statement of Comprehensive Income - Year ended 31 March 2019

| | Note | 2019 £'000 | 2018 (restated, note 2) £'000 |
|---|---|---|---|
| Revenue | 3 | 103,709 | 97,804 |
| Cost of sales | | (36,965) | (34,785) |
| **Gross profit** | | **66,744** | **63,019** |
| Administrative expenses | | (47,952) | (46,154) |
| Administrative expenses – exceptional non-recurring costs | 4 | - | (2,143) |
| **Operating profit** | 4 | **18,792** | **14,722** |
| **Analysed as:** | | | |
| **Earnings before interest, tax, depreciation, amortisation, acquisition costs, share based payments and non-recurring costs** | | **42,232** | **39,934** |
| Share based payments | 26 | (1,008) | (1,206) |
| Acquisition costs | 6 | (351) | (774) |
| Depreciation | 4 | (13,091) | (12,536) |
| Amortisation – acquired intangible assets | 4 | (6,492) | (6,449) |
| Amortisation – other intangible assets | 4 | (2,498) | (2,104) |
| Administrative expenses – exceptional non-recurring costs | 4 | - | (2,143) |
| (Loss)/gain on revaluation of contingent consideration | 29 | (1,394) | 1,335 |
| Finance income | 7 | 21 | 13 |
| Finance costs | 7 | (1,203) | (1,182) |
| **Profit before taxation** | | **16,216** | **14,888** |
| Taxation | 9 | (3,339) | (2,510) |
| **Profit for the year attributable to equity holders of the parent** | | **12,877** | **12,378** |
| Other comprehensive income | | | |
| *Amounts which may be reclassified to profit or loss* | | | |
| Currency translation differences | | (8) | (25) |
| **Other comprehensive income for the year** | | **(8)** | **(25)** |
| **Total comprehensive income for the year attributable to equity holders of the parent** | | **12,869** | **12,353** |

| | Note | 2019 | 2018 |
|---|---|---|---|
| **Basic and diluted earnings per share** | | | |
| **Total operations** | | | |
| Basic earnings per share | 12 | 11.9p | 11.5p |
| Diluted earnings per share | 12 | 11.6p | 11.2p |

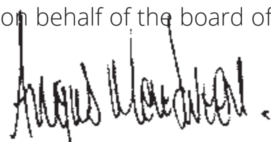
The following notes form part of the financial statements.

## Consolidated Statement of Financial Position - Year ended 31 March 2019

| | Note | 2019 £'000 | 2018 (restated, note 2) £'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets – goodwill | 13 | 85,382 | 75,837 |
| Intangible assets – other | 13 | 25,211 | 26,926 |
| Lease deposits | 14 | 2,520 | 2,760 |
| Property, plant and equipment | 16 | 47,045 | 40,686 |
| | | **160,158** | **146,209** |
| **Current assets** | | | |
| Cash and cash equivalents | 18 | 10,069 | 9,495 |
| Trade and other receivables | 17 | 20,794 | 18,508 |
| | | **30,863** | **28,003** |
| **Total assets** | | **191,021** | **174,212** |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Non-current borrowings | 21 | (48,957) | (503) |
| Provisions | 22 | (1,115) | (1,775) |
| Deferred tax | 10 | (939) | (1,319) |
| | | **(51,011)** | **(3,597)** |
| **Current liabilities** | | | |
| Contingent consideration due on acquisitions | 20 | (3,009) | (2,694) |
| Trade and other payables | 19 | (30,933) | (29,688) |
| Provisions | 22 | - | (2,587) |
| Current tax liabilities | | (1,315) | (1,608) |
| Current borrowings | 21 | (356) | (35,566) |
| | | **(35,613)** | **(72,143)** |
| **Total liabilities** | | **(86,624)** | **(75,740)** |
| **Net assets** | | **104,397** | **98,472** |
| **EQUITY** | | | |
| Share capital | 24 | 1,085 | 1,080 |
| Own shares | 25 | (70) | (70) |
| Capital redemption reserve | | 1,200 | 1,200 |
| Share premium | | 21,518 | 21,231 |
| Merger reserve | | 4,983 | 4,983 |
| Foreign currency translation reserve | | (48) | (40) |
| Retained earnings | | 75,729 | 70,088 |
| **Total equity** | | **104,397** | **98,472** |

These financial statements were approved by the board of directors and authorised for issue on 10 June 2019.

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 2019

| | Note | 2019 £'000 | 2018 (restated, note 2) £'000 |
|---|---|---|---|
| **Profit before taxation** | | **16,216** | **14,888** |
| Loss/(gain) on revaluation of contingent consideration | 29 | 1,394 | (1,335) |
| Finance costs – net | 7 | 1,182 | 1,169 |
| Depreciation | 16 | 13,091 | 12,536 |
| Amortisation | 13 | 8,990 | 8,553 |
| Share based payments | 26 | 1,008 | 1,206 |
| Movement in trade receivables | | (1,226) | (2,245) |
| Movement in trade payables | | (1,563) | 6,060 |
| **Cash flow from operations (before payment of exceptional non-recurring cost)** | | **39,092** | **40,832** |
| Payment of exceptional non-recurring cost | | (2,312) | - |
| **Cash flow from operations** | | **36,780** | **40,832** |
| Taxation paid | | (5,353) | (5,236) |
| **Net cash flow from operating activities** | | **31,427** | **35,596** |
| | | | |
| **Cash flow from investing activities** | | | |
| Purchase of property, plant and equipment | 16 | (10,383) | (16,092) |
| Purchase of Maidenhead freehold | 16 | (5,729) | - |
| Capitalisation of development costs | 13 | (1,412) | (1,577) |
| Purchase of intangible assets | 13 | (1,107) | (1,223) |
| Payments for current period acquisitions net of cash acquired | | (11,970) | (20,143) |
| Contingent consideration paid | 29 | (4,688) | (2,475) |
| Finance income received | 7 | 21 | 13 |
| **Net cash used in investing activities** | | **(35,268)** | **(41,497)** |
| | | | |
| **Cash flow from financing activities** | | | |
| Issue of shares | 24 | 292 | 224 |
| Draw down of bank loans | 21 | 25,860 | 24,956 |
| Repayment of finance leases | 21 | (471) | (276) |
| Repayment of bank loans | 21 | (12,200) | (8,500) |
| Finance costs paid | | (1,075) | (1,029) |
| Dividends paid | 8 | (7,991) | (8,885) |
| **Net cash received from financing activities** | | **4,415** | **6,490** |
| | | | |
| **Net increase in cash and cash equivalents** | | **574** | **589** |
| | | | |
| Cash and cash equivalents at the beginning of the year | | 9,495 | 8,906 |
| | | | |
| **Cash and cash equivalents at the end of the year** | 18 | **10,069** | **9,495** |

The following notes form part of the financial statements.

## Consolidated Statement of Changes in Equity - Year ended 31 March 2019

| | 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 2017 (restated, note 2)** | | **1,078** | **(70)** | **(50)** | **(15)** | **1,200** | **21,067** | **4,983** | **65,237** | **93,430** |
| Profit for the year (restated, note 2) | | - | - | - | - | - | - | - | 12,378 | 12,378 |
| Currency translation differences | | - | - | - | (25) | - | - | - | - | (25) |
| **Total comprehensive income** | | **-** | **-** | **-** | **(25)** | **-** | **-** | **-** | **12,378** | **12,353** |
| Dividends – interim (paid) | 8 | - | - | - | - | - | - | - | (2,426) | (2,426) |
| Dividends – final (paid) | 8 | - | - | - | - | - | - | - | (6,459) | (6,459) |
| Share based payments | 26 | - | - | - | - | - | - | - | 1,206 | 1,206 |
| Deferred tax on share based payments | 10 | - | - | - | - | - | - | - | 143 | 143 |
| Issue of share capital | 24 | 2 | - | - | - | - | 164 | - | - | 166 |
| Issue of own shares for option redemption | 25 | - | - | 50 | - | - | - | - | 8 | 58 |
| **Total transactions with owners** | | 2 | - | 50 | - | - | 164 | - | (7,527) | (7,311) |
| **Balance at 31 March 2018 (restated, note 2)** | | **1,080** | **(70)** | **-** | **(40)** | **1,200** | **21,231** | **4,983** | **70,088** | **98,472** |
| Profit for the year | | - | - | - | - | - | - | - | 12,877 | 12,877 |
| Currency translation differences | | - | - | - | (8) | - | - | - | - | (8) |
| **Total comprehensive income** | | **-** | **-** | **-** | **(8)** | **-** | **-** | **-** | **12,877** | **12,869** |
| Dividends – interim (paid) | 8 | - | - | - | - | - | - | - | (2,655) | (2,655) |
| Dividends – final (paid) | 8 | - | - | - | - | - | - | - | (5,336) | (5,336) |
| Share based payments | 26 | - | - | - | - | - | - | - | 1,008 | 1,008 |
| Deferred tax on share based payments | 10 | - | - | - | - | - | - | - | (253) | (253) |
| Issue of share capital | 24 | 5 | - | - | - | - | 287 | - | - | 292 |
| **Total transactions with owners** | | **5** | **-** | **-** | **-** | **-** | **287** | **-** | **(7,236)** | **(6,944)** |
| **Balance at 31 March 2019** | | **1,085** | **(70)** | **-** | **(48)** | **1,200** | **21,518** | **4,983** | **75,729** | **104,397** |

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 Lister Pavilion, Kelvin Campus, West of Scotland Science Park, Glasgow, G20 OSP. 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 valuation of certain financial instruments that are measured at 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.

### Prior year restatement

The results for the year ended 31 March 2018 have been restated on the adoption of IFRS 15 Revenue from Contracts with Customers as the group has applied the full retrospective method. See page 55 for a reconciliation of the impact of IFRS 15 on the prior year and current year financial results.

### 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 in the current year.

### IFRS 15 - Revenue from Contracts with Customers

In the current financial year, the Group has adopted IFRS 15 Revenue from Contracts with Customers. The Group has elected to apply the full retrospective method and restate comparative information from prior periods upon adoption of IFRS 15. The Group has not applied any practical expedients in calculating the impact of IFRS 15 as they are not applicable to the Group's revenue streams.

The Group has two reportable segments upon which revenue can be categorised. Our core offering is through the Cloud Services segment, in addition to our offering through the Easyspace segment which continues to focus on micro and SME markets. The Group has assessed the principal vs agent indicators in IFRS 15 and concluded without exception that it is acting as principal in each sales transaction. This conclusion has been determined by giving consideration to whether the Group holds inventory risk, has control over the pricing over a particular service, takes the credit risk, and whether responsibility ultimately sits within the Group to service the promise of the agreements.

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. Under IFRS 15, revenue is recognised when the performance obligation on each contract has been satisfied with the customer. At the outset of each contract, an assessment is completed to determine the relevant performance obligations on each contract. As defined in IFRS 15, performance obligations in a contract are either goods or services that are distinct, or a series of goods or services that are substantially the same. Services which are not distinct, which in the case of the Group relate to setup fees, are combined with other services in the contract until a performance obligation is satisfied.

**2. ACCOUNTING POLICIES (CONTINUED)**

**Adoption of new and revised Standards - Amendments to IFRS that are mandatorily effective for the current year (CONTINUED)**

**IFRS 15 - Revenue from Contracts with Customers (CONTINUED)**

At the outset of a contract, the transaction price for that particular contract is determined, being the total value the Group expects to receive for the provision of the relevant goods or service. The transaction price determined is allocated to each performance obligation based on their stand-alone selling price. The Group uses the expected cost-plus margin approach or observable price to determine the stand-alone selling price for each performance obligation.

Our Cloud Services segment specialises in fully managed cloud computing services, which encompasses the delivery of dedicated self-service servers to customers along with the provision of on premise computer equipment. The vast majority of the services offered within the Cloud Services segment are provided on a monthly recurring basis. Through Easyspace, the Group is again providing a large degree of monthly recurring services, which are all very similar by nature, the key exception to this is being in regards to the provision of domain registrations. The Group has concluded in regards to its recurring revenue streams that the services provided relate to a series of goods or services that are substantially the same and have the same method of distribution to the customer. Whilst the route to market in each instance varies, the treatment of our recurring services in such instances remains consistent. These series of goods and services, or recurring revenue transactions, are recognised over the length of the contract, which is in line with when the customer will benefit from the provision of these services. In measuring completion of each performance obligation, the Group adopts the output method when recognising revenue.

In addition to recurring services, the Group also generates revenue from the sale of hardware, software, and consultancy services within our Cloud Services segment. Again consistent with IFRS 15, revenue is recognised in line with the satisfaction of the performance obligation which in the vast majority of instances is in line with the delivery of the item or service to the customer. As a result, the revenue recognition policy for these services remains unchanged under IFRS 15.

In summary, on application of IFRS 15, some changes in accounting policy resulted, principally in the following areas:

- Set-up fees charged on contracts, which were previously recognised upfront when the set-up was complete, are now spread over the life of the contract under IFRS 15, impacting revenue and deferred revenue disclosed within trade and other payables.
- In line with the recognition of revenue, sales commission earned on revenue, which was previously spread over a twelve- month period, is now spread over the life of the contract to which the commission relates, impacting cost of sales and deferred commission costs disclosed within trade and other receivables. The commission figure spread is inclusive of employers' national insurance contributions.
- Revenue from the provision of domain names was previously recognised at the point of sale when the title to the domain name passed to the customer. Under IFRS 15, revenue is now split between the registration of the domain, which is recognised at the point of sale, and the ongoing services, which are over the period of registration of the domain, impacting revenue and deferred revenue disclosed within trade and other payables.

The impact on revenue, cost of sales and EBITDA on the opening retained earnings at 1 April 2017 is not material. The tables below show the effect of IFRS 15 on the consolidated income statement for the year to 31 March 2018 and the year to 31 March 2019, the impact on the statement of financial position as at 31 March 2018 and 31 March 2019, along with how revenue has been disaggregated in the year to 31 March 2018 and the year to 31 March 2019.

## 2. ACCOUNTING POLICIES (CONTINUED)

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

### IFRS 15 - Revenue from Contracts with Customers (CONTINUED)

| | Year to 31/03/2019 | | | Year to 31/03/2018 | | |
|---|---|---|---|---|---|---|
| **Consolidated income statement (extract)** | **Pre IFRS 15** | **IFRS 15 impact** | **Total** | **Originally reported** | **IFRS 15 impact** | **Restated** |
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Revenue | 103,785 | (76) | **103,709** | 97,669 | 135 | **97,804** |
| Cost of sales | (36,847) | (118) | **(36,965)** | (34,741) | (44) | **(34,785)** |
| EBITDA | 42,426 | (194) | **42,232** | 39,843 | 91 | **39,934** |

| | Year to 31/03/2019 | | | Year to 31/03/2018 | | |
|---|---|---|---|---|---|---|
| **Statement of financial position (extract)** | **Pre IFRS 15** | **IFRS 15 impact** | **Total** | **Originally reported** | **IFRS 15 impact** | **Restated** |
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Trade & other receivables | 20,362 | 432 | **20,794** | 17,958 | 550 | **18,508** |
| Trade & other payables | (30,314) | (619) | **(30,933)** | (29,145) | (543) | **(29,688)** |
| Retained earnings | 75,916 | (187) | **75,729** | 70,081 | 7 | **70,088** |

**retained earnings movement is based on the cumulative impact on adoption of IFRS 15 under the full retrospective method. The impact on opening retained earnings at 1 April 2017 on adoption of IFRS 15 was a decrease of £0.1m.*

| | Year to 31/03/2019 | | | Year to 31/03/2018 | | |
|---|---|---|---|---|---|---|
| **Cash generating unit** | **Revenue recognised over time** | **Revenue recognised at point in time** | **Total** | **Revenue recognised over time** | **Revenue recognised at point in time** | **Total** |
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Cloud Services | 83,065 | 7,526 | **90,591** | 76,779 | 7,309 | **84,088** |
| Easyspace | 8,949 | 4,169 | **13,118** | 9,474 | 4,242 | **13,716** |
| **Total** | **92,014** | **11,695** | **103,709** | **86,253** | **11,551** | **97,804** |

**As per note 19 deferred revenue within trade and other payables at 31 March 2018 totalled £10,775,000. The vast majority of this balance has been released and recognised in the revenue figure of £103,709,000 for the year to 31 March 2019.*

## 2. ACCOUNTING POLICIES (CONTINUED)

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

### IFRS 15 - Revenue from Contracts with Customers (CONTINUED)

Following the adoption of IFRS 15, our revenue recognition policies in our operating segments are as follows:

**Cloud Services**
This operating segment provides managed cloud computing infrastructure and services including consultancy. Revenue from the sale of cloud computing infrastructure and managed services is recognised on an over time basis over the life of the agreement and only after the service has been established. Set-up fees charged on contracts are spread over the life of the contract. Consultancy services are generally provided on a "time and materials" basis and therefore revenue is recognised as these services are rendered. 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 on a point in time basis. Any unearned portion of revenue is included in payables as deferred revenue.

**Easyspace**
This operating segment provides domain name registration and hosting services. Revenue from the provision of domain names is split between the registration of the domain and the ongoing services associated with each domain registration. The registration of the domain is recognised on a point in time basis, whilst the ongoing service associated with each domain registration is spread over the length of the registration. Revenue from the provision of hosting services is recognised evenly over the period of the service on an over time basis and only after the service has been established. Any unearned portion of revenue is included in payables as deferred revenue.

**IFRS 9 – Financial Instruments**
In the current year, the Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments of IFRS 7 Financial Instruments: Disclosures that are effective for an annual period that begins on or after 1 April 2018. The Group and parent company has elected to apply the transition provisions of IFRS 9 and opted not to restate comparatives. Any differences from the adoption of IFRS 9 in relation to classification, measurement and impairment are recognised in retained earnings. IFRS 9 introduced new requirements for:

1. The classification and measurement of financial assets and financial liabilities;
2. Impairment of financial assets; and
3. Hedge accounting.

There has not been a material impact to the Group on adoption of IFRS 9. Details of these new requirements and their impact on the Group's consolidated financial statements and parent company only are described in the accounting policies section and in the trade receivables note 17.

**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 16 – Leases

IFRS 16 Leases was issued in January 2016 and applies to annual reporting periods beginning on or after 1 January 2019. As a result, the standard is applicable to the Group for the year ended 31 March 2020. The adoption of IFRS 16 will result in the Group recognising a right-of-use asset and lease liability for all contracts that are, or contain a lease. For leases currently classified as operating leases, the Group currently accounts for leases under IAS 17 and does not recognise related assets or liabilities for operating leases, and instead spreads the lease payments on a straight-line basis over the lease term, disclosing the total future commitment. As at 31 March 2019, the Group has non-cancellable operating lease commitments of £21.6m (2018: £9.9m), see note 23.

The Group is currently completing its assessment of IFRS 16, however, at this time the Group intends to transition to IFRS 16 applying the modified retrospective adoption method, with no restatement of prior year comparatives, and will therefore recognise leases on balance sheet as at 1 April 2019. Adopting IFRS 16 will result in the recognition of a right-of-use asset and corresponding liability on the balance sheet for each lease, with the associated depreciation and interest expense being recognised in the income statement over the period of the lease. The right-of-use asset will be assessed for impairment under IAS 36 at the date of initial application.

The current initial impact assessment of IFRS 16 has provisionally concluded that our intention is to make the following policy choices on transition to IFRS 16 on 1 April 2019:

- The Group plans to apply IFRS 16 initially on 1 April 2019 using the modified retrospective approach with the cumulative effect of adopting IFRS 16 recognised through opening retained earnings with no restatement of comparatives.
- The value of the right-of-use asset recognised on the initial application of IFRS 16 will be equal to the lease liability. The Group intends to apply the practical expedient that permits the exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- The Group intend to use the practical expedient not to recognise short-term leases (with a term of less than twelve months) and low-value leases (where the value of lease on inception is less than £6,000). These leases will continue to be classed as operating leases under IAS 17.
- The lease liability at 1 April 2019 will be measured at the present value of unpaid lease payments applying an appropriate incremental borrowing rate based on the rate of interest on the Group's external borrowings, adjusted for the term of the lease.

Based on our preliminary assessment the impact will be:

- There will be recognition of a right-of-use asset and lease liability of an estimated £17m to £20m at 1 April 2019 based on the values disclosed in the operating lease commitment note adjusted to present value and for our provisional view of the definition of a lease under IFRS 16.
- It is estimated that proforma EBITDA for the year ended 31 March 2019 would increase by £2m to £3m as operating lease expenses previously recognised as operating expenses will be reclassified to depreciation and finance costs under IFRS 16.
- Our preliminary assessment will be further advanced over the coming months ahead of the September 2019 half year results announcement.

## 2. ACCOUNTING POLICIES (CONTINUED)

### 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 2019. 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.

The impact the application of IFRS 15 has had on the financial statements and on the associated revenue streams is detailed further on pages 53 to 56.

### Exceptional costs

The Group defines exceptional items as costs incurred by the Group which relate to material non-recurring costs. These are disclosed separately where it is considered it provides additional useful information to the users of the financial statements.

### Interest

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

## 2. ACCOUNTING POLICIES (CONTINUED)

### 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.

***Intangible assets - 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.

***Intangible assets - Research and development***

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

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

Development costs not meeting the criteria for capitalisation are expensed as incurred. The 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.

***Intangible assets - 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.

### 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.

## 2. ACCOUNTING POLICIES (CONTINUED)

### *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 in which 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 in which 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 after 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 consideration to the level of dividend payments.

### 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)

### 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 |
| Datacentre equipment | Between 6% and 10% per annum |
| Computer equipment | Between 20% and 50% per annum |
| Office equipment | Between 10% and 25% 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.

### 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.

## 2. ACCOUNTING POLICIES (CONTINUED)

### 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 IFRS 9.

### 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.

### 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.

### Current Tax

Current tax is the tax currently payable based on taxable profit for the year and any adjustment to tax payable in respect of prior years. 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.

## 2. ACCOUNTING POLICIES (CONTINUED)

### 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. Deferred tax assets and liabilities arising in the same tax jurisdiction are offset.

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

Financial assets include trade, other receivables, prepayments and accrued income, cash and cash equivalents and lease deposits. The date of initial application of IFRS 9 (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 April 2018.

### Classification and measurement of financial assets

The Group classifies financial assets into three categories:

- Financial assets measured at amortised cost;
- Financial assets measured at fair value through other comprehensive income ("FVTOCI"); and
- Financial assets measured at fair value through profit or loss ("FVTPL").

The classification of financial assets is based on the Group's business model for managing the financial asset and the contractual cash flow characteristics associated with the financial asset. Specifically:

- Debt instruments that are held within a business model whose objective is to collect the contractual cashflows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;
- Debt instruments that are held within a business model whose objective is to both collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at FVTOCI; and
- All other debt investments and equity investments are measured subsequently at FVTPL.

The Group reviewed and assessed the Group's existing financial assets as at 1 April 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has no impact on the Group's financial assets as regards their classification and measurement.

## 2. ACCOUNTING POLICIES (CONTINUED)

### Classification and measurement of financial assets (CONTINUED)

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.

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.

### Impairment of financial assets

IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss ("ECL") model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. The Group recognises an allowance for expected credit losses for all debt instruments not held at fair value through profit or loss ("FVTPL"). The main financial asset that is subject to the new expected credit loss model is trade receivables, which consist of billed receivables arising from contracts.

While cash and cash equivalents, accrued income and lease deposits held at amortised cost are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

The Group has applied the IFRS 9 simplified approach to measuring forward-looking expected credit losses ("ECL") which uses a lifetime expected loss allowance for all trade receivables. The ECL model reflects a probability weighted amount derived from a range of possible outcomes. To measure the ECL, trade receivables and accrued income have been grouped based on shared credit risk characteristics and the days past due. The Group has established a provision matrix based on the payment profiles of sales over a twenty four month period and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information that might affect the ability of customers to settle the receivables, including macroeconomic factors as relevant. For more details see note 17.

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.

### Financial liabilities

### Classification and measurement of financial liabilities

The changes introduced by IFRS 9 in the classification and measurement of financial liabilities do not impact the Group 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.

## 2. ACCOUNTING POLICIES (CONTINUED)

### Classification and measurement of financial liabilities (CONTINUED)

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.

### Hedge accounting

The new hedge accounting requirements of IFRS 9 do not impact the Group financial liabilities.

### 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.

### 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; and
- "Retained earnings" represents retained profits.

## 2. ACCOUNTING POLICIES (CONTINUED)

### 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.

### 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 10 to 20. 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 14 to 18. In addition, note 29 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.

On 6 June 2018, the Group entered into a new £80m multi option revolving credit facility that matures on 31 May 2022 of which an amount is available to be drawn on for general business purposes should that be required. In June 2019, subsequent to the year end, the multi option revolving credit facility was extended from 31 May 2022 to 30 September 2022.

At the end of the financial year, the Group had net debt of £39.2m (2018: £26.6m) 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.

## 2. ACCOUNTING POLICIES (CONTINUED)

### Use of estimates and judgements

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 critical accounting judgements in the preparation of the financial statements.

***Impairment of goodwill***
The Group is required to make an assessment 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 an assessment 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 an assessment 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 2019, contingent consideration relates to LDex Group Limited (note 20).

## 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), SystemsUp, Cristie Data, Dediserve, Simple Servers, Sonassi plus LDeX and Bytemark which were acquired in the year.

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 2% or more of external revenues. Inter-segment transactions are accounted for using an arms-length commercial basis.

**Operating Segments**

**Revenue by Operating Segment**

| | 2019 | | | 2018 (restated, note 2) | | |
|---|---|---|---|---|---|---|
| | External<br>£'000 | Internal<br>£'000 | Total<br>£'000 | External<br>£'000 | Internal<br>£'000 | Total<br>£'000 |
| Easyspace | 13,113 | - | 13,113 | 13,716 | 2 | 13,718 |
| Cloud Services | 90,596 | 1,912 | 92,508 | 84,088 | 1,839 | 85,927 |
| | **103,709** | **1,912** | **105,621** | **97,804** | **1,841** | **99,645** |

## 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***

| | 2019 | 2018 (restated, note 2) |
|---|---|---|
| | £'000 | £'000 |
| United Kingdom | 86,246 | 79,760 |
| Rest of the World | 17,463 | 18,044 |
| Revenue from operations | **103,709** | **97,804** |

### Profit by Operating Segment

| | 2019 | | | 2018 (restated, note 2) | | |
|---|---|---|---|---|---|---|
| | 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 | 6,182 | (1,595) | 4,587 | 6,416 | (1,636) | 4,780 |
| Cloud Services | 40,447 | (20,486) | 19,961 | 37,148 | (21,596) | 15,552 |
| Group overheads | (4,397) | - | (4,397) | (3,630) | - | (3,630) |
| Acquisition costs | - | (351) | (351) | - | (774) | (774) |
| Share based payments | - | (1,008) | (1,008) | - | (1,206) | (1,206) |
| Profit before tax and interest | 42,232 | (23,440) | 18,792 | 39,934 | (25,212) | 14,722 |
| (Loss)/gain on revaluation of contingent consideration | | | (1,394) | | | 1,335 |
| Group interest and tax | | | (4,521) | | | (3,679) |
| **Profit for the year** | **42,232** | **(23,440)** | **12,877** | **39,934** | **(25,212)** | **12,378** |

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

## 4. OPERATING PROFIT

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

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Staff costs excluding development costs capitalised and research and development costs written off profit or loss | 19,157 | 17,812 |
| Depreciation of property, plant and equipment | | |
| - Owned assets | 12,638 | 12,146 |
| - Leased assets | 453 | 390 |
| Operating lease rentals: | | |
| - Land and buildings | 2,112 | 1,845 |
| - Other | 2,005 | 1,231 |
| Amortisation of intangible assets | | |
| - Acquired intangible assets | 6,492 | 6,449 |
| - Other intangible assets | 2,498 | 2,104 |
| R&D expensed to profit or loss | 40 | 92 |
| Bad debt expense | 369 | 287 |
| Net foreign exchange (gain)/loss | (95) | 207 |

Exceptional administrative expenses in 2018 included £2,143,000 in relation to non-recurring software licence fees relating to prior years as discussed on page 16.

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

| **Auditors' remuneration** | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| **Audit services:** | | |
| - Fees payable for the audit of the consolidation and the parent company accounts | 74 | 57 |
| - Fees payable for audit of subsidiaries, pursuant to legislation – UK | 80 | 81 |
| - Fees payable for audit of subsidiaries, pursuant to legislation – International | 9 | 12 |
| **Non-audit services:** | | |
| - Interim review | 14 | 14 |
| - Advisory services | 11 | - |
| - Tax advisory | 24 | 3 |
| - Tax compliance – UK | 38 | 43 |
| - Tax compliance - International | 21 | 19 |
| | **271** | **229** |

## 5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Directors' emoluments** | | |
| Aggregate emoluments | 1,087 | 903 |
| Share based payments | 560 | 668 |
| **Total directors' emoluments** | **1,647** | **1,571** |

| | | |
|---|---|---|
| Emoluments payable to the highest paid director are as follows: | | |
| Aggregate emoluments | 618 | 439 |

During the year the Company made personal pension contributions to personal pension schemes of the directors of £12,833 (2018: nil).

The aggregate amount of gains realised by directors, who served during the year, on the exercise of share options during the year was £245,856 (2018: £nil).

The detailed numerical analysis of directors' remuneration and share options is included in the Report of the Board to the Members on Directors' Remuneration on pages 33 to 38.

| | 2019 No. | 2018 No. |
|---|---|---|
| **Average number of persons employed by the Group (including directors):** | | |
| Technical | 256 | 236 |
| Sales and marketing | 89 | 92 |
| Administration | 49 | 42 |
| | **394** | **370** |

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Staff costs of the Group during the year in respect of employees and directors were:** | | |
| Wages and salaries | 17,441 | 15,957 |
| Social security costs | 1,937 | 1,800 |
| Pension costs | 223 | 100 |
| Share based payments | 1,008 | 1,206 |
| | **20,609** | **19,063** |

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 33 to 38. 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

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Professional fees | 351 | 774 |
| **Total acquisition costs** | **351** | **774** |

During the year costs of £351,000 (2018: £774,000) were incurred in respect of professional fees on acquisitions.

## 7. NET FINANCE COSTS

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Finance income:** | | |
| Bank interest receivable | 21 | 13 |
| **Finance income for the year** | **21** | **13** |
| | | |
| **Finance costs:** | | |
| Bank loan | (1,016) | (1,000) |
| Finance leases | (85) | (124) |
| Other interest charges | (39) | (53) |
| | (1,140) | (1,177) |
| | | |
| *Items affecting adjusted profit before tax calculation:* | | |
| Mark to market interest adjustment | - | 46 |
| Finance charge on contingent consideration on business combinations | - | (51) |
| Accelerated write off of arrangement fees on banking facility | (63) | - |
| | | |
| **Finance costs for the year** | **(1,203)** | **(1,182)** |
| | | |
| **Net finance costs** | **(1,182)** | **(1,169)** |

## 8. DIVIDENDS PAID ON SHARES CLASSED AS EQUITY

| | 2019 Pence per share | 2019 £'000 | 2018 Pence per share | 2018 £'000 |
|---|---|---|---|---|
| **Paid during the year:** | | | | |
| **Interim dividend** | | | | |
| Equity dividends on ordinary shares | 2.45p | 2,655 | 2.25p | 2,426 |
| **Final dividend** | | | | |
| Equity dividends on ordinary shares | 4.93p | 5,336 | 6.00p | 6,459 |
| **Total dividend paid in cash** | | **7,991** | | **8,885** |

In 2018, an interim dividend payment was introduced for the first time, therefore, the dividend paid in 2018 is higher as it included the 2017 full year dividend plus the 2018 interim dividend.

The directors have recommended a final dividend for the year ended 31 March 2019 of 5.01p per share (2018: 4.93p per share). Subject to shareholder approval this proposed final dividend would be payable on 5 September 2019 to shareholders on the register at close on 16 August 2019.

## 9. TAXATION

| | 2019 £'000 | 2018 (restated, note 2) £'000 |
|---|---|---|
| Corporation Tax: | | |
| Tax charge for the year | (4,920) | (4,364) |
| Adjustment relating to prior years | (119) | 68 |
| Total current taxation charge | **(5,039)** | **(4,296)** |
| | | |
| Deferred Tax: | | |
| Origination and reversal of temporary differences | 1,661 | 1,900 |
| Adjustment relating to prior years | 24 | (15) |
| Effect of different statutory tax rates of overseas jurisdictions | (8) | (70) |
| Effect of changes in tax rates | 23 | (29) |
| Total deferred taxation credit | **1,700** | **1,786** |
| | | |
| **Total taxation charge** | **(3,339)** | **(2,510)** |

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

| | 2019 £'000 | 2018 (restated, note 2) £'000 |
|---|---|---|
| Profit before tax | 16,216 | 14,888 |
| | | |
| Tax charge @ 19% | 3,081 | 2,829 |
| | | |
| Expenses disallowed for tax purposes | 76 | 138 |
| Tax effect of net (loss)/gain on revaluation of contingent consideration | 265 | (254) |
| Adjustments in current tax relating to prior years | 119 | (68) |
| Tax effect of different statutory tax rates of overseas jurisdictions | 22 | 113 |
| Movement in deferred tax relating to changes in tax rates | (23) | 29 |
| Tax effect of share based remuneration | (192) | (231) |
| Movement in unprovided deferred tax related to development costs | 11 | (68) |
| Movement in unprovided deferred tax related to property, plant and equipment | 4 | 7 |
| Movement in deferred tax relating to prior years | (24) | 15 |
| | | |
| **Total taxation charge for the year** | **3,339** | **2,510** |

The weighted average applicable tax rate for the year ended 31 March 2019 was 19% (2018: 19%). 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 20.6% (2018: 16.9%). The net increase of 3.7% of the effective tax rate for the year is largely due to the following:

- The increase in the tax effect as a result of a net loss on revaluation of contingent consideration in the year (2018: net gain) and the movement relating to adjustments in current tax relating to prior years.

- The increase is offset by a reduction to the tax effect of different statutory tax rates of overseas jurisdictions largely due to the reduction of the US tax rate in the prior year from 34% to 21%. In addition, there is a decrease in the tax effect relating to reduced disallowed expenses. Disallowed expenses of £76,000 (2018: £138,000) 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:

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Share based remuneration | 1,378 | 1,588 |
| Capital allowances temporary differences | 1,632 | 1,455 |
| Deferred tax on development costs | (422) | (329) |
| Deferred tax on acquired assets with no capital allowances | (157) | (235) |
| Deferred tax on customer relationships | (3,173) | (3,581) |
| Deferred tax on intangible software | (197) | (217) |
| **Deferred tax liability** | **(939)** | **(1,319)** |

At the year end, the Group had no unused tax losses (2018: £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 2017 | **1,135** | **1,181** | **(311)** | **(326)** | **(2,567)** | **-** | **(888)** |
| Acquired on acquisition of subsidiaries | - | (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)** |
| Acquired on acquisition of subsidiaries | - | (226) | - | - | (841) | - | **(1,067)** |
| Charged to equity | (253) | - | - | - | - | - | **(253)** |
| Credited/(charged) to statement of comprehensive income | 43 | 394 | (108) | 87 | 1,249 | 20 | **1,685** |
| Effect of different tax rates of overseas jurisdictions | - | - | - | - | (8) | - | **(8)** |
| Effect of changes in tax rates | - | 9 | 15 | (9) | 8 | - | **23** |
| **Balance at 31 March 2019** | **1,378** | **1,632** | **(422)** | **(157)** | **(3,173)** | **(197)** | **(939)** |

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 permanent differences on acquired intangible assets.

## 11. ACQUISITIONS

On 24 August 2018, the Company acquired the entire share capital of Bytemark Holdings Limited. On 20 December 2018, the Company acquired the entire share capital of LDeX Group Limited. Total cash paid on acquisitions, net of cash acquired, in the year ended 31 March 2019 was £11.6m (2018: £20.1m).

**Bytemark Holdings Limited**

The Group acquired 100% of the issued share capital of Bytemark Holdings Limited on 24 August 2018. Bytemark Holdings Limited ("Holdings") is principally a holding company which owns 100% of the issued share capital of Bytemark Limited ("Bytemark"), together the "Bytemark Group".

The Bytemark Group provides managed and cloud based hosting services via its owned datacentre in York to a wide range of customers in all sectors of industry to primarily SMEs. 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 additional datacentre space and another customer base.

During the current period the Group incurred £128,000 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 2019.

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

| | £'000 |
|---|---|
| **Recognised amounts of net assets acquired and liabilities assumed:** | |
| Cash and cash equivalents | 546 |
| Trade and other receivables | 205 |
| Property, plant and equipment | 2,362 |
| Intangible assets | 988 |
| Trade and other payables | (1,470) |
| Current borrowings | (290) |
| Borrowings due after more than 1 year | (140) |
| Deferred tax liability | (209) |
| **Identifiable net assets** | **1,992** |
| Goodwill | 3,320 |
| **Total consideration** | **5,312** |
| | |
| **Satisfied by:** | |
| Cash – paid on acquisition | 4,712 |
| Contingent consideration - payable | 600 |
| **Total consideration transferred** | **5,312** |

The acquisition of Bytemark was completed using a "locked box" mechanism, on a no cash, no debt, and normalised working capital basis. An initial payment of £4,712,000 was made at completion. This initial payment included an amount of £62,000 to settle the adjustments required to the locked box accounts.

The share purchase agreement (SPA) included a provision requiring the Group to pay the former shareholders of Bytemark an additional amount contingent on the level of profitability delivered by Bytemark in the year ending 31 March 2019 ("the earn-out payment").

## 11. ACQUISITIONS (CONTINUED)

### Bytemark Holdings Limited (CONTINUED)

The potential undiscounted amount of the earn-out payment that the Group could be required to pay was between £nil and £1,000,000. The amount of contingent consideration payable, which was recognised as of the acquisition date, was £600,000. 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 £289,000 to £928,000. 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 £600,000 as of the acquisition date.

Subsequently, while not part of the original plan, during November 2018, the previous director shareholders of Bytemark indicated that they wished to consider leaving the business early. Driven by this, a negotiated settlement on the earn-out payment was agreed. The amount due to be paid by the Group, in full and final settlement of all its liabilities to the former shareholders, under the SPA, was fixed at £187,000 and the resulting gain of £413,000 has been included in the Group's consolidated statement of comprehensive income for the year ended 31 March 2019.

The goodwill arising on the acquisition of Bytemark 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 trading name "Bytemark" is not actively advertised or promoted by the company The Bytemark Group's standard terms and conditions restrict the ability of the Bytemark Group to sell, distribute or lease any personal information it holds on customers. 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 £91,000. The gross amount due under contracts is £91,000, all of which is expected to be collectable.

Included in the intangible assets of £988,000 is the fair value included in respect of the acquired customer relationships intangible asset of £974,000.

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 13.14% was used for the valuation. Customer relationships are being amortised over an estimated useful life of 8 years.

Bytemark earned revenue of £1,983,000 and generated profits, before allocation of group overheads, share based payments and tax, of £184,000 in the period since acquisition.

### LDeX Group Limited

The Group acquired 100% of the issued share capital of LDeX Group Limited ("LDeX Group") on 20 December 2018. LDeX Group is a holding company, which has two 100% owned subsidiary companies, London Data Exchange Limited ("LDeX") and LDeX Connect Limited ("Connect"), both of which are trading companies.

LDeX provides colocation, managed networks and media streaming solutions to a number of customers from its datacentres in London and Manchester, while Connect operates from the LDeX datacentres and provides connectivity services.

The acquisition is in line with the Group's strategy to grow its operations, both organically and by acquisition, and provides the Group with additional long-term datacentre space in both London and Manchester, with the opportunity to consolidate all the Group's Manchester operations within the two adjacent LDeX datacentres in Manchester.

During the current period the Group incurred £213,000 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 2019.

## 11. ACQUISITIONS (CONTINUED)

### LDeX Group Limited (CONTINUED)

The following table summarises the consideration to acquire LDeX Group and the amounts of identified assets acquired and liabilities assumed at the acquisition date which are provisional.

| | £'000 |
|---|---|
| **Recognised amounts of net assets acquired and liabilities assumed:** | |
| Cash and cash equivalents | 295 |
| Trade and other receivables | 849 |
| Property, plant and equipment | 1,712 |
| Intangible assets | 3,806 |
| Trade and other payables | (1,146) |
| Current income tax liabilities | (89) |
| Deferred tax liability | (858) |
| **Identifiable net assets** | **4,569** |
| Goodwill | 6,225 |
| **Total consideration** | **10,794** |
| | |
| **Satisfied by:** | |
| Cash – paid on acquisition | 7,785 |
| Contingent consideration - payable | 3,009 |
| **Total consideration to be transferred** | **10,794** |

The acquisition of LDeX Group was completed using the “locked box” mechanism, on a no cash, no debt, and normalised working capital basis. An initial payment of £7,785,000 was made at completion. This initial payment included an amount of £285,000 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.

The share purchase agreement included a provision requiring the Company to pay the former shareholders of LDeX Group an additional amount contingent on the level of profitability delivered by LDeX Group in the year ending 31 December 2019 (“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 £3,500,000. The amount of contingent consideration payable, which was recognised as of the acquisition date, was £3,009,000. 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 £2,317,000 to £3,500,000. 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 £3,009,000.

The goodwill arising on the acquisition of LDeX 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 “LDeX” is not actively advertised or promoted. The LDeX Group's standard contracts restrict the ability of the LDeX Group 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)**

**LDeX Group Limited (CONTINUED)**

The fair value of the financial assets acquired includes trade receivables with a fair value of £492,000. The gross amount due under contracts is £584,000 of which £92,000 are expected to be uncollectable.

The fair value included in respect of the acquired customer relationships intangible asset is £3,806,000.

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 13.44% was used for the valuation. Customer relationships are being amortised over an estimated useful life of 8 years.

LDeX Group earned revenue of £1,096,000 and generated profits, before allocation of group overheads, share based payments and tax, of £231,000 in the period since acquisition.

**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 2018. The amounts include the results of the acquired business, depreciation and amortisation of the acquired property, plant and equipment plus the amortisation of 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 2019 £'000 |
|---|---|
| Revenue | 107,960 |
| Profit after tax for the year | 12,902 |

## 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** | **2019 £'000** | **2018 (restated, note 2) £'000** |
|---|---|---|
| Profit for the financial year and basic earnings attributed to ordinary shareholders | **12,877** | **12,378** |
| Weighted average number of ordinary shares: | **No 000** | **No 000** |
| Called up, allotted and fully paid at start of year | 107,990 | 107,803 |
| Own shares held in Treasury | - | (28) |
| Own shares held by Employee Benefit Trust | (141) | (141) |
| Issued share capital in the year | 396 | 70 |
| **Weighted average number of ordinary shares - basic** | **108,245** | **107,704** |
| Dilutive impact of share options | 2,909 | 2,571* |
| **Weighted average number of ordinary shares - diluted** | **111,154** | **110,275** |
| Basic earnings per share | 11.9 p | 11.5 p |
| Diluted earnings per share | 11.6 p | 11.2 p |

** Following updated analysis, the dilutive impact of share options in 2018 has been restated to increase the number of dilutive options by 714,000 number of shares representing 0.6% of the diluted weighted average of shares. The impact of this restatement was to reduce diluted earnings per share and adjusted diluted earnings per share by 0.1p.*

| **Adjusted earnings per share** | **2019 £'000** | **2018 (restated, note 2) £'000** |
|---|---|---|
| Profit for the financial year and basic earnings attributed to ordinary shareholders | 12,877 | 12,378 |
| - Amortisation of acquired intangible assets | 6,492 | 6,449 |
| - Acquisition costs | 351 | 774 |
| - Share based payments | 1,008 | 1,206 |
| - Mark to market interest adjustment | - | (46) |
| - Net loss/(gain) on revaluation of contingent consideration | 1,394 | (1,335) |
| - Non-recurring software licence fees | - | 2,143 |
| - Accelerated write off of arrangement fees on banking facility | 63 | - |
| - Finance charge on contingent consideration | - | 51 |
| - Tax impact of adjusted items | (1,462) | (1,850) |
| **Adjusted profit for the financial year and adjusted earnings attributed to ordinary shareholders** | **20,723** | **19,770** |
| Adjusted basic earnings per share | 19.1 p | 18.4 p |
| Adjusted diluted earnings per share | 18.6 p | 17.9 p |

## 13. INTANGIBLE ASSETS

| | Goodwill | Development costs | Acquired Customer relationships | Software | Beneficial contracts | Domain names & IP addresses | Total |
|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Cost** | | | | | | | |
| At 1 April 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** |
| Additions | - | - | - | 1,082 | - | - | 1,082 |
| Currency translation differences | - | - | (13) | - | - | - | (13) |
| Acquired on acquisition of subsidiaries | 9,545 | - | 4,780 | 14 | - | - | 14,339 |
| Disposals | - | - | - | - | - | - | - |
| Development cost capitalised | - | 1,412 | - | - | - | - | 1,412 |
| **At 31 March 2019** | **85,382** | **9,193** | **52,766** | **8,039** | **86** | **280** | **155,746** |
| | | | | | | | |
| **Accumulated amortisation:** | | | | | | | |
| At 1 April 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)** |
| | | | | | | | |
| Currency translation differences | - | - | - | - | - | - | - |
| Disposals | - | - | - | - | - | - | - |
| Charge for the year | - | (1,442) | (6,492) | (1,049) | (7) | - | (8,990) |
| **At 31 March 2019** | **-** | **(6,866)** | **(33,795)** | **(4,164)** | **(48)** | **(280)** | **(45,153)** |
| | | | | | | | |
| **Carrying amount:** | | | | | | | |
| **At 31 March 2019** | **85,382** | **2,327** | **18,971** | **3,875** | **38** | **-** | **110,593** |
| At 31 March 2018 | 75,837 | 2,357 | 20,696 | 3,828 | 45 | - | 102,763 |

Of the total additions in the year of £1,082,000 (2018: £1,126,000), £nil (2018: £25,000) was included in trade payables as unpaid invoices at the year end resulting in a net cash outflow of £25,000 (2018: net cash outflow £97,000) in trade payables. Consequently, the consolidated statement of cash flows discloses a figure of £1,107,000 (2018: £1,223,000) 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 Bytemark Limited with a net book value of £0.9m and LDeX Group Limited of £3.5m both with a remaining useful life of 8 years. Sonassi Limited with a net book value of £4.8m and a remaining useful life of 7 years, Dediserve Limited with a net book value of £2m and a remaining useful of 7 years, Simple Servers Limited with an net book value of £1m and a remaining useful life of 7 years, Backup Technology with a net book value of £1.4m and a remaining useful life of 3 years; and United Hosting with a net book value of £2.2m and a 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 (2018: £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 Cloud Services CGU as this is the CGU expected to benefit from the business combination (note 3).

### 13. INTANGIBLE ASSETS (CONTINUED)

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

| Cash Generating Units (CGU) | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Easyspace | 23,315 | 23,315 |
| Cloud Services | 62,067 | 52,522 |
| | **85,382** | **75,837** |

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.

Management continue to apply the judgement that there are two distinct CGUs within the Group, namely Cloud Services and Easyspace. These segments have been derived with due consideration to IAS 36. The assumptions used for the CGU included within the impairment reviews are as follows:

| | Easyspace | Cloud Services |
|---|---|---|
| Discount rate | 9.8% | 9.0% |
| 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.

### 14. LEASE DEPOSITS

The lease deposits of £2,520,000 (2018: £2,760,000) are made up of a rental deposit of £544,000 (2018: £784,000) and a reinstatement deposit of £1,976,000 (2018: £1,976,000). The rental and reinstatement deposits are due to be repaid at the end of the lease which at the earliest is June 2030.

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 |
| Bytemark Holdings Limited | England | Holding company | 100 | - |
| Bytemark Limited | England | Managed hosting services | - | 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 | - |
| LDeX Group Limited | England | Holding company | 100 | - |
| London Data Exchange Limited | England | Managed hosting services | - | 100 |
| LDeX Connect Limited | England | Managed hosting services | - | 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 | Holding company | 100 | - |
| Sonassi Limited | England | Managed hosting services | - | 100 |
| Switch Media (Ireland) Limited | England | Webservices | - | 100 |
| Switch Media Limited | England | Webservices | 100 | - |
| SystemsUp 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 |

### 15. SUBSIDIARIES (CONTINUED)

*All subsidiaries with a country of registration in England have a registered office of 3rd Floor, 11-21 Paul Street, London, EC2A 4JU.

All subsidiaries with a country of registration in Scotland have a registered office of Lister Pavilion, Kelvin Campus, West of Scotland Science Park, Glasgow, G20 0SP.

**The registered office of Dediserve Limited is 13-18 City Quay, Dublin 2.

*** The registered office of iomart Cloud Inc is Miracle Mile Plaza, 601 21st Street, Suite 300, Vero Beach, FL 32960.

### 16. PROPERTY, PLANT AND EQUIPMENT

| | Freehold property £'000 | Leasehold improvements £'000 | Datacentre equipment £'000 | Computer equipment £'000 | Office equipment £'000 | Motor vehicles £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | |
| At 1 April 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** |
| Additions in the year | 5,729 | 33 | 775 | 9,256 | 38 | - | 15,831 |
| Acquisition of subsidiaries | 1,131 | - | - | 2,376 | 567 | - | 4,074 |
| Disposals in the year | - | (630) | - | (67) | (83) | - | (780) |
| Currency translation differences | (12) | - | 2 | 3 | - | - | (7) |
| **At 31 March 2019** | **8,910** | **7,943** | **23,457** | **81,611** | **2,920** | **31** | **124,872** |
| **Accumulated depreciation:** | | | | | | | |
| At 1 April 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)** |
| Charge for the year | (112) | (570) | (1,880) | (10,317) | (209) | (3) | (13,091) |
| Disposals in the year | - | 198 | - | 67 | 83 | - | 348 |
| Currency translation differences | - | - | - | 1 | (17) | - | (16) |
| **At 31 March 2019** | **(418)** | **(3,510)** | **(13,635)** | **(58,372)** | **(1,868)** | **(24)** | **(77,827)** |
| **Carrying amount:** | | | | | | | |
| **At 31 March 2019** | **8,492** | **4,433** | **9,822** | **23,239** | **1,052** | **7** | **47,045** |
| At 31 March 2018 | 1,756 | 5,402 | 10,925 | 21,920 | 673 | 10 | 40,686 |

## 16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The net book value of computer equipment held under finance lease at 31 March 2019 was £214,000 (2018: £234,000) and the net book value of datacentre equipment held under finance lease at 31 March 2019 was £295,000 (2018: £375,000).

Of the total additions in the year of £15,819,000 (2018: £16,682,000), £1,553,000 (2018: £1,846,000) was included in trade payables as unpaid invoices at the year end resulting in a net decrease of £293,000 (2018: net increase of £590,000) in trade payables. Consequently, the consolidated statement of cash flows discloses a figure of £16,112,000 (2018: £16,092,000) as the cash outflow in respect of property, plant and equipment additions in the year.

## 17. TRADE AND OTHER RECEIVABLES

| | 2019 £'000 | 2018 (restated, note 2) £'000 |
|---|---|---|
| Trade receivables | 9,413 | 7,334 |
| Less: Provision for impairment | (800) | (799) |
| **Trade receivables (net)** | **8,613** | **6,535** |
| Other receivables | 448 | 1,050 |
| Prepayments | 11,421 | 10,152 |
| Accrued income | 312 | 771 |
| **Trade and other receivables** | **20,794** | **18,508** |

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value. The Group has adopted IFRS 9 during the current year and applied the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The expected credit loss provision under IFRS 9 as at 31 March 2019 is £100,000. In the prior year, the impairment of trade receivables was assessed based on the incurred loss model under IAS 39. The allowance provision for impairment calculated under IAS 39 "Financial instruments: recognition and measurement" and IFRS 9 "Financial Instruments" at 1 April 2018 are not materially different, accordingly, there are no adjustments on transition. The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Balance at start of the year | 799 | 1,121 |
| Expected credit loss provision under IFRS 9 | 100 | - |
| (Decrease)/increase in provision for receivables impairment | (191) | (322) |
| Fair value of trade receivable provision acquired during the year (note 11) | 92 | - |
| **Balance at end of year** | **800** | **799** |

To consider the total exposure to credit risks, the Group uses figures net of VAT. At 31 March 2019, £6,621,000 (2018: £4,922,000) of net trade receivables were fully performing. Net trade receivables of £1,992,000 (2018: £1,613,000) 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.

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Up to 3 months | 1,954 | 1,412 |
| Over 3 months but less than 6 months | 38 | 42 |
| Over 6 months but less than 1 year | - | 159 |
| **Total unimpaired trade receivables which are past due** | **1,992** | **1,613** |

### 18. CASH AND CASH EQUIVALENTS

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Cash at bank and on hand | 10,069 | 9,495 |
| **Cash and cash equivalents** | **10,069** | **9,495** |

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 0.5% (2018: 0.35%).

### 19. TRADE AND OTHER PAYABLES

| | 2019 £'000 | 2018 (restated, note 2) £'000 |
|---|---|---|
| Trade payables | (10,123) | (10,451) |
| Other taxation and social security | (927) | (2,038) |
| Accruals | (8,325) | (6,272) |
| Deferred income | (11,203) | (10,775) |
| Other creditors | (355) | (152) |
| **Trade and other payables** | **(30,933)** | **(29,688)** |

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. CONTINGENT CONSIDERATION

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Contingent consideration due on acquisitions within one year: | | |
| - LDeX Group Limited | (3,009) | - |
| - Tier 9 Limited | - | (1,862) |
| - Sonassi Holding Company Limited | - | (832) |
| **Total contingent consideration due on acquisitions** | **(3,009)** | **(2,694)** |

## 21. BORROWINGS

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Current:** | | |
| Obligations under finance leases | (356) | (327) |
| Bank loans | - | (35,239) |
| Current borrowings | **(356)** | **(35,566)** |
| **Non-current:** | | |
| Obligations under finance leases | (421) | (503) |
| Bank loans | (48,536) | - |
| Total non-current borrowings | **(48,957)** | **(503)** |
| **Total borrowings** | **(49,313)** | **(36,069)** |

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:

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Capital £'000 | Interest £'000 | Total £'000 | Capital £'000 | Interest £'000 | Total £'000 |
| Due within one year | 356 | 69 | 425 | 327 | 71 | 398 |
| Due between two and five years | 421 | 63 | 484 | 503 | 111 | 614 |
| | **777** | **132** | **909** | **830** | **182** | **1,012** |

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 10.1% (2018: 11.4%). Lease payments are made on a monthly and quarterly basis. The future lease obligation of £909,000 (2018: £1,012,000) has a present value of £773,000 (2018: £830,000).

At the start of the year there was £35.2m (2018: £18.6m) outstanding on the multi option revolving credit facility and drawdowns of £25.9m (2018: £25.0m) were made from the facility during the year. Repayments totalling £12.2m (2018: £8.5m) were made resulting in a balance outstanding at the end of the year of £48.5m (2018: £35.2m).

The multi option revolving credit facility was renewed in June 2018 to £80m (2018: £60m) and 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. As at 31 March 2019, the facility is available until May 2022 at which point any advances made under the multi option revolving credit facility become immediately repayable. Each draw down made under this 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 1.5% (2018: 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 £80m multi option revolving credit facility. The effective interest rate for multi option revolving credit facility in the current year was 2.44% (2018: 2.70%).

Subsequent to the year end, in June 2019, the facility term was extended from 31 May 2022 to 30 September 2022.

Given the terms of the revolving credit facility and the ability for any drawdowns made to be extended well beyond 31 March 2020 at the discretion of the Company, the total amount outstanding has been classified as non-current.

## 21. BORROWINGS (CONTINUED)

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

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Capital £'000 | Interest £'000 | Total £'000 | Capital £'000 | Interest £'000 | Total £'000 |
| Due within one year | - | - | - | 35,239 | 160 | 35,399 |
| Due within two to one year | 48,536 | 192 | 48,728 | - | - | - |
| | **48,536** | **192** | **48,728** | **35,239** | **160** | **35,399** |

The future loan obligations of £48,728,000 (2018: £35,399,000) equate to a present value of £46,808,000 (2018: £34,457,000). The capital element of the bank loans is £48,536,000 (2018: £35,239,000) and this differs from the net amount drawn down of £48,641,000 (2018: £34,956,000) due to an effective interest rate adjustment.

| Analysis of change in net cash/(debt) | Cash and cash equivalents £'000 | Bank loans £'000 | Finance leases and hire purchase £'000 | Total liabilities £'000 | Total net cash/(debt) £'000 |
|---|---|---|---|---|---|
| At 1 April 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 subsidiary | 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)** |
| Repayment of bank loans | - | 12,200 | - | 12,200 | **12,200** |
| New bank loans | - | (25,860) | - | (25,860) | **(25,860)** |
| Impact of effective interest rate | - | 363 | - | 363 | **363** |
| Acquired on acquisition of subsidiaries | 841 | - | (430) | (430) | **411** |
| Currency translation differences | - | - | 12 | 12 | **12** |
| Cash flow | (267) | - | 471 | 471 | **204** |
| **At 31 March 2019** | **10,069** | **(48,536)** | **(777)** | **(49,313)** | **(39,244)** |

## 22. 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.

In December 2018, the Group acquired the Maidenhead freehold resulting in the reversal of the reinstatement provision of £709,000 relating to this property. As at 31 March 2019, the total reinstatement provision of the Group is £1,115,000 (2018: £1,775,000).

In the prior year, the Group made a provision for non-recurring software licence fees of £2.6m. During the year, cash payment was made in relation to this exceptional non-recurring item. As at 31 March 2019, the provision is £nil.

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

## 22. PROVISIONS (CONTINUED)

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Current:** | | |
| Non-recurring software licence fees | - | (2,587) |
| Total current provisions | **-** | **(2,587)** |
| **Non-current:** | | |
| Reinstatement | (1,115) | (1,775) |
| Total non-current provisions | **(1,115)** | **(1,775)** |
| **Total borrowings** | **(1,115)** | **(4,362)** |

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

| | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Reinstatement £'000 | Onerous £'000 | Non-recurring software licence fees £'000 | Total £'000 | Reinstatement £'000 | Onerous £'000 | Non-recurring software licence fees £'000 | Total £'000 |
| Balance at start of the year | (1,775) | - | (2,587) | **(4,362)** | (1,721) | (38) | - | **(1,759)** |
| Reduction in provision | 709 | - | 2,587 | **3,296** | - | 38 | - | **38** |
| Increase in provision | - | - | - | **-** | - | - | (2,587) | **(2,587)** |
| Unwinding of discount | (49) | - | - | **(49)** | (54) | - | - | **(54)** |
| | **(1,115)** | **-** | **-** | **(1,115)** | **(1,775)** | **-** | **(2,587)** | **(4,362)** |

## 23. OPERATING LEASES

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

| | 2019 | | 2018 (restated*) | |
|---|---|---|---|---|
| | Land and buildings £'000 | Other £'000 | Land and buildings £'000 | Other £'000 |
| Within one year | 1,958 | 2,077 | 1,787 | 1,328 |
| Between two to five years | 6,145 | 937 | 3,205 | 2,016 |
| After five years | 10,468 | 25 | 1,480 | 65 |
| | **18,571** | **3,039** | **6,472** | **3,409** |

**Based on our preliminary assessment of the impact of IFRS 16 (see note 2), we have restated the prior year to include contracts identified as containing a lease under IAS 17 "Leases". As a result, land and buildings decreased by £0.4m and other increased by £3m.*

As at 31 March 2019, there is £18.6m (2018: £6.5m) of land and buildings lease commitments. The movement in the year largely relates to the increase of £4m relating to acquisitions in the year and an increase of £11.9m relating to the extension of the London property lease in May 2018 which was extended to June 2030.

## 24. SHARE CAPITAL

| | Ordinary shares of 1p each | |
|---|---|---|
| | Number of shares | £'000 |
| **Authorised** | | |
| **At 31 March 2017, 2018 and 2019** | **200,000,000** | **2,000** |

| | | |
|---|---|---|
| **Called up, allotted and fully paid** | | |
| At 1 April 2017 | 107,803,006 | 1,078 |
| Share capital issued in the year | 187,335 | 2 |
| At 31 March 2018 | 107,990,341 | 1,080 |
| Share capital issued in the year | 519,407 | 5 |
| **At 31 March 2019** | **108,509,748** | **1,085** |

During the year, 519,407 (2018: 187,335) ordinary shares were issued for a total consideration of £292,040 (2018: £224,111), resulting in a premium over the nominal value of £286,864 (2018: £163,238).

At 31 March 2019 the Company held 140,773 shares (2018: 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 (2018: £1,408) and a market value of £488,482 (2018: £515,933). This represents 0.1% (2018: 0.1%) of the issued share capital as at 31 March 2019 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 2019 are fully paid.

## 25. OWN SHARES RESERVES

| | Own shares EBT £'000 | Own shares Treasury £'000 | Own shares Total £'000 |
|---|---|---|---|
| At 1 April 2017 | **(70)** | **(50)** | **(120)** |
| Issue of own shares from Treasury for option redemption | - | 50 | 50 |
| **At 31 March 2018** | **(70)** | **-** | **(70)** |
| Issue of own shares from Treasury for option redemption | - | - | - |
| **At 31 March 2019** | **(70)** | **-** | **(70)** |

At 31 March 2019 the Company held 140,773 shares (2018: 140,773) in the EBT with a carrying value of £69,982 (2018: £69,982) which were accounted for in the Own Shares EBT reserve.

## 26. 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 517,607 ordinary shares (2018: 288,174) were exercised and the average market price at the exercise dates was 394.21p (2018: 362.73p). Options over 671,274 ordinary shares (2018: 673,884) were granted under the unapproved share option scheme with an average exercise price of 1.0p (2018: 94.2p) and 186,810 options over ordinary shares (2018: 148,612) were granted under the sharesave scheme with an average exercise price of 324.0p (2018: 252.8p). Options over 177,199 ordinary shares (2018: 188,883) were forfeited under the unapproved share option scheme with an average exercise price of 1.0p (2018: 1.0p) and options over 36,442 (2018: 64,042) were forfeited under the sharesave scheme with an average exercise price of 283.0p (2018: 214.7p). Options over 40,000 ordinary shares (2018: nil) expired under the unapproved share option scheme with an average exercise price of 173.0p (2018: nil) and options over 10,995 (2018: 4,702) expired under the sharesave scheme with an average exercise price of 194.8p (2018: 191.40p).

As disclosed in note 5, a share based payment charge of £1,008,000 (2018: £1,206,000) 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** | **4 Apr 2018** | **4 Sept 2018** | **31 Oct 2018** | **1 Nov 2018** |
|---|---|---|---|---|
| **Vesting date** | **4 Apr 2021** | **4 Sept 2021** | **30 Sep 2019** | **1 Nov 2021** |
| **Variables used** | | | | |
| Share price at grant date | 357.0p | 412.59p | 384.0p | 400.0p |
| Volatility | 55% | 56% | 58% | 58% |
| Dividend yield | 1.96% | 1.74% | 1.72% | 1.85% |
| Number of employees holding options/units | 2 | 1 | 19 | 90 |
| Option/award life (years) | 10 | 10 | 10 | 3 |
| Expected life (years) | 3 | 3 | 1 | 3 |
| Risk free rate | 1.44% | 1.41% | 1.43% | 1.45% |
| Expectations of meeting performance criteria | 100% | 100% | 100% | 100% |
| **Fair value** | **335.14p** | **390.64p** | **363.68p** | **169.18p** |
| Exercise price per share | 1.0p | 1.0p | 1.0p | 324.0p |

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.

### 26. SHARE BASED PAYMENTS (CONTINUED)

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:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | 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 | 51.41 | 3,204,477 | 34.45 | 2,928,232 |
| Granted | 71.32 | 858,084 | 122.81 | 822,046 |
| Forfeited | 49.10 | (213,641) | 55.12 | (252,925) |
| Expired | 177.10 | (50,995) | 191.40 | (4,702) |
| Exercised | 56.19 | (517,607) | 77.25 | (288,174) |
| **Outstanding at end of year** | **54.05** | **3,280,318** | **51.41** | **3,204,477** |
| **Exercisable at end of year** | **51.20** | **1,836,464** | **22.65** | **1,596,216** |

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 | 46.5 – 87.5 | 136,510 | 85.54 | 1.6 | 136,510 | 85.54 | 1.6 |
| Unapproved schemes | 1.0 – 315.5 | 2,867,278 | 29.13 | 6.5 | 1,699,954 | 48.44 | 5.0 |
| Sharesave scheme | 252.8 - 324.0 | 276,530 | 296.92 | 2.6 | - | - | - |
| **As at 31 March 2019** | | **3,280,318** | **54.05** | **10.7** | **1,836,464** | **51.20** | **4.7** |
| 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** |

## 27. RELATED PARTY TRANSACTIONS

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

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Salaries and other short-term employee benefits | 1,087 | 1,048 |
| Share based payments | 560 | 668 |
| | **1,647** | **1,716** |

Dividends paid to key management were as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Angus MacSween | 1,254 | 1,402 |
| Richard Logan [1] | - | 80 |
| Ian Ritchie [2] | - | 13 |
| **Total dividends paid to directors** | **1,254** | **1,495** |

[1] Richard Logan resigned from the Board on 4 September 2018
[2] Ian Ritchie resigned from the Board on 28 August 2018

Pinsent Masons LLP, the Company's solicitors, is deemed a related party as Richard Masters, Non-Executive Director is a member. Amounts paid to Pinsent Mason LLP during the year was £285,000 (2018: £215,000). Richard Masters is not involved in any of the legal services provided to the Company.

## 28. CONTINGENCIES AND COMMITMENTS

**(a) Contingencies**
There were no contingent assets or liabilities as at 31 March 2019 (2018: nil).

**(b) Commitments**
Capital expenditure on software licences and property, plant and equipment committed by the Group at 31 March 2019 was £886,989 (2018: £613,391).

## 29. 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 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 IFRS 9 (2018: as defined in IAS 39):

| | Amortised cost £'000 |
|---|---|
| **2019** | |
| **Non-current:** | |
| Lease deposit | 2,520 |
| | |
| **Current:** | |
| Trade receivables | 8,613 |
| Cash and cash equivalents | 10,069 |
| Other receivables | 448 |
| **Total for category** | **21,650** |
| **2018** | |
| **Non-current:** | |
| Lease deposit | 2,760 |
| | |
| **Current:** | |
| Trade receivables | 6,535 |
| Cash and cash equivalents | 9,495 |
| Other receivables | 1,050 |
| **Total for category** | **19,840** |

**29. 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 IFRS 9 (2018: as defined in IAS 39):

| | At fair value through profit or loss £'000 | Financial liabilities measured at amortised cost £'000 | Other £'000 | Total £'000 |
|---|---|---|---|---|
| **2019** | | | | |
| **Non-current:** | | | | |
| Finance leasing capital obligations | - | - | (421) | (421) |
| Bank loan | - | (48,536) | - | (48,536) |
| **Current:** | | | | |
| Trade payables | - | (10,123) | - | (10,123) |
| Accruals | - | (8,325) | - | (8,325) |
| Contingent consideration due on acquisitions | (3,009) | - | - | (3,009) |
| Finance leasing capital obligations | - | - | (356) | (356) |
| **Total for category** | **(3,009)** | **(66,984)** | **(777)** | **(70,770)** |
| **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)** |

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 2019 £'000 | Level in hierarchy | Description of valuation technique | Inputs used for valuation model | Total loss recognised in profit or loss £'000 |
|---|---|---|---|---|---|
| Contingent consideration due on acquisitions | (3,009) | 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. | (1,394) |
| **Total fair value** | **(3,009)** | | | **Total net loss** | **(1,394)** |

There have been no changes to valuation techniques or any amounts recognised through 'Other Comprehensive Income'.

## 29. RISK MANAGEMENT (CONTINUED)

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

| Contingent consideration | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Balance at start of the year | (2,694) | (2,373) |
| Acquired through business combination | (3,609) | (4,080) |
| Settled in cash during the year | 4,688 | 2,475 |
| Recognised in profit or loss under: | | |
| - (Loss)/gain on revaluation of contingent consideration | (1,394) | 1,335 |
| - Finance costs | - | (51) |
| **Balance at end of year** | **(3,009)** | **(2,694)** |
| Total amount included in profit or loss on Level 3 instruments under (loss)/gain on revaluation of contingent consideration and finance costs | **(1,394)** | **1,284** |

### 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 21, the contractual maturity analysis of the Group's total borrowings of £49.3m (2018: £36.1m) is shown. The Group has £32m (2018: £25m) available to draw down on the £80m (2018: £60m) multi option revolving credit facility and reviews its cash flow requirements on a monthly basis. The Group was in compliance with all covenants under its banking facility arrangements throughout the reporting period.

### 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.

### Currency risk

During the year the Group made payments totalling US$14.8m (2018: US$8.4m) and EUR€1.0m (2018: EUR€0.4m) to acquire domain names for its Easyspace segment and licences for its Cloud Services segment. In addition, the Group received US$7.7m (2018: US$5.8m) and EUR€1.7m (2018: EUR€2m) from Cloud Services customers billed in foreign currency. 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 (2018: none). Consequently, the fair value of currency contracts at the year end was £nil (2018: £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 21) and cash and cash equivalents, and equity attributable to owners of the parent, comprising issued share capital (note 24), 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.

### 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 £8,613,000 (2018: £6,535,000) which are stated net of applicable provisions and which represent the total amount exposed to credit risk. The lease deposits of £2,520,000 (2018: £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 £10,069,000 (2018: £9,495,000) 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.

## 30. POST BALANCE SHEET EVENT

In June 2019, subsequent to the year end, the multi option revolving credit facility was extended from 31 May 2022 to 30 September 2022 purely for the administrative matter of ensuring a 12 month remaining facility period at the expected time of signing the March 2021 audited financial statements.

## 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 2019 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 2019
- 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.

### 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:

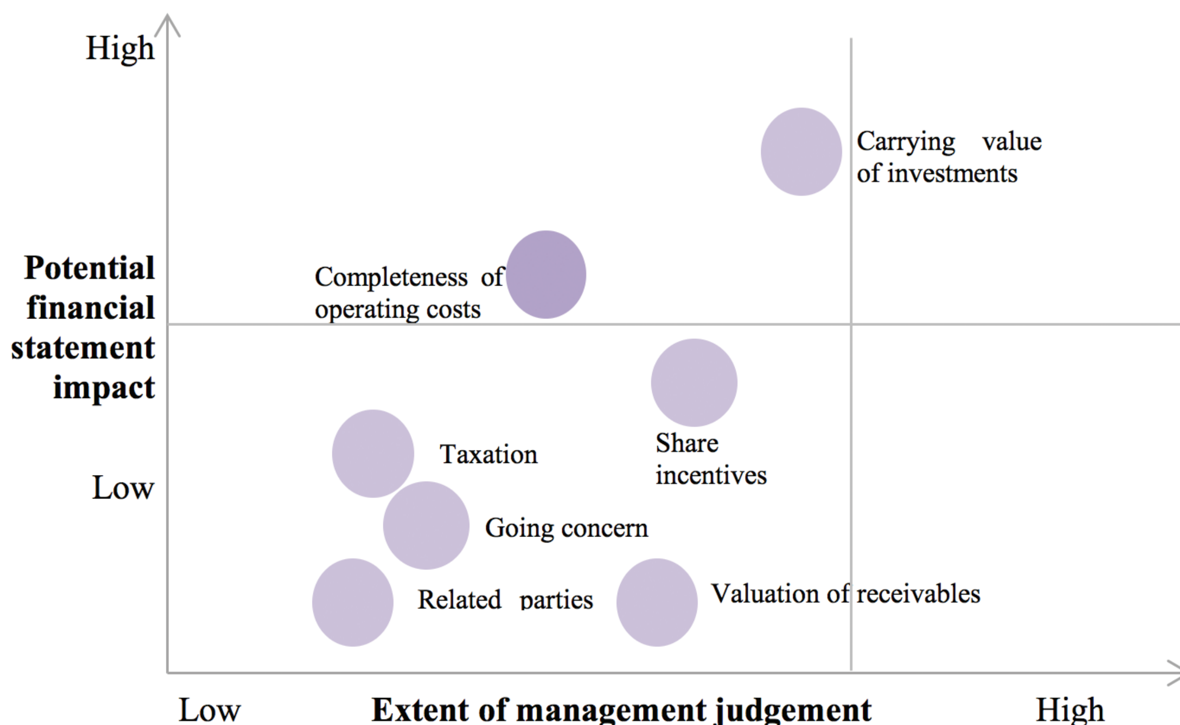
- the directors' use of the going concern basis of accounting in the preparation of the parent company financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the parent company's 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: £1,424,000, 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.

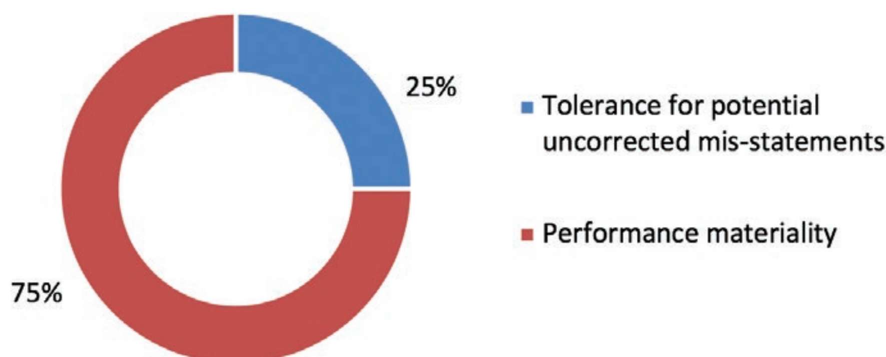
We determined materiality for the audit of the parent company financial statements as a whole to be £1,424,000, which is 2% of total assets, capped at 75% of group materiality. This benchmark is considered the most appropriate because the company is a holding company with no trading revenue. Given the 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 2018 to reflect the acquisitions of Bytemark Holdings Limited and LDeX Group Limited.

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.

**Overall materiality**




We also determine a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions.

We determined the threshold at which we will communicate misstatements to the audit committee to be £71,200. 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 41, 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.

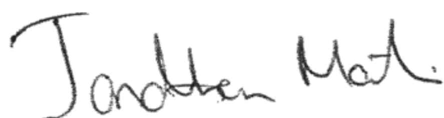
A further description of our responsibilities for the audit of the parent company financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

### Other matters

We have reported separately on the group financial statements of iomart Group plc for the year ended 31 March 2019. 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.

### Use of our report

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.



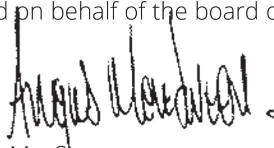
Jonathan Maile BSC (Hons) FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Glasgow
10 June 2019

## STATEMENT OF FINANCIAL POSITION
## AS AT 31 MARCH 2019

| | Note | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investments | 3 | 152,099 | 136,069 |
| Deferred tax | 5 | 1,378 | 1,588 |
| | | **153,477** | **137,657** |
| **Current Assets** | | | |
| Trade and other receivables | 4 | 6,004 | 4,780 |
| Cash at bank balances | | 7,857 | 6,120 |
| | | **13,861** | **10,900** |
| **Total assets** | | **167,338** | **148,557** |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Non-current borrowings | 8 | (48,536) | - |
| | | **(48,536)** | - |
| **Current liabilities** | | | |
| Trade and other payables | 6 | (62,810) | (47,596) |
| Current borrowings | 8 | - | (35,239) |
| | | **(62,810)** | **(82,835)** |
| **Total liabilities** | | **(111,346)** | **(82,835)** |
| **NET ASSETS** | | **55,992** | **65,722** |
| **EQUITY** | | | |
| Called up share capital | 9 | 1,085 | 1,080 |
| Own shares | 10 | (70) | (70) |
| Capital redemption reserve | | 1,200 | 1,200 |
| Share premium account | | 21,518 | 21,231 |
| Merger reserve | | 4,983 | 4,983 |
| Retained earnings | | 27,276 | 37,298 |
| **TOTAL EQUITY** | | **55,992** | **65,722** |

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 £2,786,000 (2018: loss of £167,000).

These financial statements were approved by the board of directors and authorised for issue on 10 June 2019.
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 2019

| | 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 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) | 13 | - | - | - | - | - | - | (2,426) | (2,426) |
| Dividends – final (paid) | 13 | - | - | - | - | - | - | (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** |
| Loss for the year | | - | - | - | - | - | - | (2,786) | (2,786) |
| **Total comprehensive income** | | **-** | **-** | **-** | **-** | **-** | **-** | **(2,786)** | **(2,786)** |
| Dividends – interim (paid) | 13 | - | - | - | - | - | - | (2,655) | (2,655) |
| Dividends – final (paid) | 13 | - | - | - | - | - | - | (5,336) | (5,336) |
| Share based payments | 11 | - | - | - | - | - | - | 1,008 | 1,008 |
| Deferred tax on share based payments | 5 | - | - | - | - | - | - | (253) | (253) |
| Issue of share capital | 9 | 5 | - | - | - | 287 | - | - | 292 |
| **Total transactions with owners** | | **5** | **-** | **-** | **-** | **287** | **-** | **(7,236)** | **(6,944)** |
| **Balance at 31 March 2019** | | **1,085** | **(70)** | **-** | **1,200** | **21,518** | **4,983** | **27,276** | **55,992** |

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

### Classification and measurement of financial assets

The Company classifies financial assets into three categories:

- Financial assets measured at amortised cost
- Financial assets measured at fair value through other comprehensive income ("FVTOCI")
- Financial assets measured at fair value through profit or loss ("FVTPL").

The classification of financial assets is based on the Company's business model for managing the financial asset and the contractual cash flow characteristics associated with the financial asset. Specifically:

- Debt instruments that are held within a business model whose objective is to collect the contractual cashflows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;
- Debt instruments that are held within a business model whose objective is to both collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at FVTOCI; and
- All other debt investments and equity investments are measured subsequently at FVTPL.

The directors of the Group reviewed and assessed the Company's existing financial assets as at 1 April 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has no impact on the Company's financial assets as regards their classification and measurement.

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.

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'.

## 2. ACCOUNTING POLICIES (CONTINUED)

### Financial assets (CONTINUED)

#### Classification and measurement of financial assets (CONTINUED)

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.

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.

#### Impairment of financial assets

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 liabilities

#### Classification and measurement of financial liabilities

The changes introduced by IFRS 9 in the classification and measurement of financial liabilities does not impact the Company's 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.

#### 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 IFRS 9.

#### 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. The pension costs charged against operating profit are the contributions payable to the schemes in respect of the accounting period.

## 2. ACCOUNTING POLICIES (CONTINUED)

### Share based payment

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 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.

### 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.

### Employee Benefit Trust

The assets and liabilities of the Employee Benefit Trust (EBT) have been included in the Group and Company financial statements. The cost of purchasing own shares held by the EBT are shown as a deduction within shareholders' equity. The proceeds from the sale of own shares are recognised in shareholders' equity. Neither the purchase or sale of own shares leads to a gain or loss being recognised in the income statement.

### 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 2018 | 136,069 |
| Additions | 16,106 |
| Share based payment (note 11) | (76) |
| **Cost at 31 March 2019** | **152,099** |
| **Net book value of Investments at 31 March 2019** | **152,099** |
| **Net book value of Investments at 31 March 2018** | 136,069 |

All of the above investments are unlisted.

Details of subsidiary undertakings consolidated in the Group financial statements are included in note 15 of the Consolidated Group financial statements.

## 4. TRADE AND OTHER RECEIVABLES

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Prepayments and accrued income | 225 | 222 |
| Current income tax | 3,820 | 2,697 |
| Other taxation and social security | 738 | 652 |
| Amounts owed by subsidiary undertakings | 1,221 | 1,209 |
| | **6,004** | **4,780** |

## 5. DEFERRED TAXATION

The Company had recognised deferred tax assets as follows:

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Share based remuneration | 1,378 | 1,588 |

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

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Balance brought forward | 1,588 | 1,135 |
| Profit and loss account movement arising during the year | 43 | 310 |
| Profit and loss account reserve movement during the year | (253) | 143 |
| Balance carried forward | **1,378** | **1,588** |

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

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Trade creditors | 237 | 83 |
| Other taxation and social security | 97 | 75 |
| Accruals and deferred income | 873 | 594 |
| Contingent consideration due on acquisitions (note 7) | 3,009 | 2,694 |
| Amounts owed to subsidiary undertakings | 58,594 | 44,150 |
| | **62,810** | **47,596** |

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

## 7. CONTINGENT CONSIDERATION

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| Contingent consideration due on acquisitions within one year: | | |
| - LDeX Group Limited | (3,009) | - |
| - Tier 9 Limited | - | (1,862) |
| - Sonassi Holding Company Limited | - | (832) |
| **Total contingent consideration due on acquisitions** | **(3,009)** | **(2,694)** |

## 8. BORROWINGS

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Current:** | | |
| Bank loans | - | (35,239) |
| **Current borrowings** | **-** | **(35,239)** |
| **Non-current:** | | |
| Bank loans | (48,536) | - |
| **Non-current borrowings** | **(48,536)** | **-** |
| **Total borrowings** | **(48,536)** | **(35,239)** |

The carrying amount of borrowings approximates to their fair value.

Given the terms of the revolving credit facility and the ability for any drawdowns made to be extended well beyond 31 March 2020 at the discretion of the Company, the total amount outstanding has been classified as non-current. The obligations under the multi option revolving credit facility and term loan facility are repayable as follows:

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Capital £'000 | Interest £'000 | Total £'000 | Capital £'000 | Interest £'000 | Total £'000 |
| Due within one year | - | - | - | 35,239 | 160 | 35,399 |
| Due within two to five years | 48,536 | 192 | 48,728 | - | - | - |
| | **48,536** | **192** | **48,728** | **35,239** | **160** | **35,399** |

The future loan obligations of £48,728,000 (2018: £35,399,000) equate to a present value of £46,808,000 (2018: £34,457,000). The capital element of the bank loans is £48,536,000 (2018: £35,239,000) and this differs from the net amount drawn down of £48,641,000 (2018: £34,956,000) due to an effective interest rate adjustment. For details of the terms of repayment and rates of interest payable see note 21 in the consolidated financial statements.

## 9. SHARE CAPITAL

| | Ordinary shares of 1p each | |
|---|---|---|
| | Number of shares | £'000 |
| **Authorised** | | |
| **At 31 March 2017, 2018 and 2019** | **200,000,000** | **2,000** |

| | | |
|---|---|---|
| **Called up, allotted and fully paid** | | |
| At 1 April 2017 | 107,803,006 | 1,078 |
| Share capital issued in the year | 187,335 | 2 |
| At 31 March 2018 | 107,990,341 | 1,080 |
| Share capital issued in the year | 519,407 | 5 |
| **At 31 March 2019** | **108,509,748** | **1,085** |

During the year, 519,407 (2018: 187,335) were issued for a total consideration of £292,040 (2018: £224,111), resulting in a premium over the nominal value of £286,864 (2018: £163,238).

At 31 March 2019 the Company held 140,773 shares (2018: 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 (2018: £1,408) and a market value of £488,482 (2018: £515,933). This represents 0.1% (2018: 0.1%) of the issued share capital as at 31 March 2019 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 2019 are fully paid.

## 10. OWN SHARES RESERVES

| | Own shares EBT £'000 | Own shares Treasury £'000 | Own shares Total £'000 |
|---|---|---|---|
| At 1 April 2017 | (70) | (50) | (120) |
| Issue of own shares from Treasury for option redemption | - | 50 | 50 |
| **At 31 March 2018** | **(70)** | **-** | **(70)** |
| Issue of own shares from Treasury for option redemption | - | - | - |
| **At 31 March 2019** | **(70)** | **-** | **(70)** |

At 31 March 2019 the Company held 140,773 shares (2018: 140,773) in the EBT with a carrying value of £69,982 (2018: £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 26 to the Group financial statements. The Company accounts recognise the charge for share based payments for the year of £1,008,000 (2018: £1,206,000) by:

1) taking the charge in relation to employees of the parent company through the parent company statement of comprehensive income £1,084,000 (2018: £886,000),
2) recording a decrease to its investment in subsidiaries for the amounts attributable to employees of subsidiaries and recording a corresponding entry to retained earnings of £76,000 (2018: increase of £320,000).

## 12. INFORMATION REGARDING PARENT COMPANY EMPLOYEES

| | 2019<br>No. | 2018<br>No. |
|---|---|---|
| **Average number of persons employed by the Company (including directors):** | | |
| Technical | 10 | 8 |
| Sales and marketing | 6 | 5 |
| Administration | 28 | 24 |
| | **44** | **37** |

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| **Staff costs of the Company during the year in respect of employees and directors were:** | | |
| Wages and salaries | 1,148 | 1,888 |
| Staff costs recharged to other group companies | (230) | (221) |
| Social security costs | 160 | 293 |
| Pension costs | 6 | (17) |
| Share based payments | 1,084 | 886 |
| | **2,168** | **2,829** |

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 33 to 38. 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. DIVIDENDS PAID ON SHARES CLASSED AS EQUITY

| | 2019<br>Pence per share | 2019<br>£'000 | 2018<br>Pence per share | 2018<br>£'000 |
|---|---|---|---|---|
| **Paid during the year:** | | | | |
| **Interim dividend** | | | | |
| Equity dividends on ordinary shares | 2.45p | 2,655 | 2.25p | 2,426 |
| **Final dividend** | | | | |
| Equity dividends on ordinary shares | 4.93p | 5,336 | 6.00p | 6,459 |
| **Total dividend paid in cash** | | **7,991** | | **8,885** |

In 2018, an interim dividend payment was introduced for the first time, therefore, the dividend paid in 2018 is higher as it included the 2017 full year dividend plus the 2018 interim dividend.

The directors have recommended a final dividend for the year ended 31 March 2019 of 5.01p per share (2018: 4.93p per share). Subject to shareholder approval this proposed final dividend would be payable on 5 September 2019 to shareholders on the register at close on 15 August 2019.

## 14. 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 27 of the Group financial statements.

## 15. CONTINGENCIES AND COMMITMENTS

### (a) Contingencies

There were no contingent assets or liabilities as at 31 March 2019 (2018: nil).

### (b) Commitments

There are no capital commitments present as at 31 March 2019 (2018: nil).

## 16. POST BALANCE SHEET EVENT

In June 2019, subsequent to the year end, the multi option revolving credit facility was extended from 31 May 2022 to 30 September 2022 purely for the administrative matter of ensuring a 12 month remaining facility period at the expected time of signing the March 2021 audited financial statements.

## 17. ULTIMATE CONTROLLING PARTY

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

**NOTICE IS HEREBY GIVEN** that the 2019 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 27 August 2019 at 10.00 am for the purpose of considering and, if thought fit, passing the following resolutions, of which resolutions 1 to 8 (inclusive) will be proposed as ordinary resolutions and resolutions 9 to 11 (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 2019.

2 To approve the report of the board to the members on directors' remuneration for the year ended 31 March 2019.

3 To elect Mr Scott Cunningham, who was appointed since the last annual general meeting, as a director of the Company.

4 To elect Ms Karyn Lamont, who was appointed since the last annual general meeting, as a director of the Company.

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

6 To declare a final dividend for the year ended 31 March 2019 of 5.01p per share payable on 5 September 2019 to shareholders on the register of members at the close of business on 16 August 2019.

7 To appoint Deloitte 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.

8 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 £725,906.10 (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 £362,953.05 (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 £362,953.05),

provided that such authority, unless renewed, varied or revoked by the Company, shall expire on 27 November 2020 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.

9. THAT, subject to the passing of resolution 8, 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 8 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 8(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 £54,442.96,

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 27 November 2020) 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, subject to the passing of resolution 8, the directors of the Company are authorised in addition to any authority granted under resolution 9 to allot equity securities (as defined in section 560(1) of the Companies Act 2006) for cash under the authority given by resolution 8 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:

(a) limited to the allotment of equity securities up to a nominal amount of £54,442.96; and

(b) 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 27 November 2020) 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.

11 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 10,888,591, 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
12 July 2019

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, 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 Thursday 22 August 2019) 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 23 August 2019; 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 8 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 2019 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 33 to 38. This resolution is an advisory one and no entitlement to remuneration is conditional on the resolution being passed.

**Resolutions 3, 4 and 5 – Election and 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 Richard Masters is required to retire by rotation at this annual general meeting and, being eligible, offer himself for reappointment. In addition, the articles also stipulate that any director appointed by the Board during the year must offer themselves for reappointment at the next available annual general meeting. Mr Scott Cunningham was appointed on 4 September 2018 and Ms Karyn Lamont was appointed on 26 February 2019 and accordingly offer themselves for reappointment. The board of directors is satisfied that the performance of Mr Richard Masters, Mr Scott Cunningham and Ms Karyn Lamont 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, 4 and 5 propose the reappointment of Mr Richard Masters, Mr Scott Cunningham and Ms Karyn Lamont.

Brief biographical details of Mr Richard Masters, Mr Scott Cunningham and Ms Karyn Lamont are given below.

Mr Richard Masters, appointed 2017: 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. Richard is a member of Pinsent Masons LLP and Pinsent Masons International LLP. In March 2019 it was announced that Richard Masters would be retiring from Pinsent Masons. He is currently operating within a notice period.

Mr Scott Cunningham, appointed 2019: Scott is a chartered accountant having trained with Arthur Andersen where he became a senior manager providing audit and transaction support services to both public and private companies. Leaving Arthur Andersen in 2001 Scott joined Clyde Blowers and performed a number of roles including Group Financial Controller for the Clyde Bergemann Power Group from 2003 to 2006. He became Director of Corporate Finance and Company Secretary for AIM listed InterBulk Group plc in February 2006 and in April 2007 Scott became Group Finance Director for InterBulk Group plc until it was successfully sold to Den Hartogh in March 2016. Immediately prior to joining iomart he was an Investment Director at Clyde Blowers Capital.

Ms Karyn Lamont, appointed 2019: Karyn is a chartered accountant and former audit partner at PricewaterhouseCoopers LLP. She has over 25 years of experience, 13 years as an audit partner, and provided audit and other services to a range of clients across the UK's financial services sector, including outsourcing providers. Her specialist knowledge includes financial reporting, audit and controls, risk management, regulatory compliance and governance. Karyn left PricewaterhouseCoopers LLP in 2016. Karyn is a Non-Executive Director for The Scottish Investment Trust plc, Scottish Building Society, North American Income Trust plc and Scottish American Investment Trust plc. Other than Scottish American Investment Trust plc, Karyn acts as the Audit Committee Chair on all other appointments.

**Resolution 6 – To declare a dividend 5.01p 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 5.01p per ordinary share, to be payable to shareholders registered at close of business on 16 August 2019.

**Resolution 7 – Appointment and remuneration of auditors**

To appoint Deloitte LLP as auditors to act as such until the conclusion of the next general meeting of the Company at which the requirements of section 437 and 438 of the Companies Act 2006 are complied with and to authorise the directors of the Company to fix their remuneration.

Resolution 8 – 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 £725,906.10 (representing 72,590,610 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 £362,953.05 (representing 36,295,305 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 27 November 2020 or, if earlier, at the conclusion of the next annual general meeting.

**Special Resolutions**

Resolutions 9, 10 and 11 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 9 and 10 - 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 9 would expire at the earlier of the close of the next annual general meeting or 27 November 2020. 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 £54,442.96 (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 10, 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 £54,442.96 (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 9 and 10 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 27 November 2020.

**Resolution 11 – 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 11 to effect that buy back is 5% above the average middle market price of an ordinary share for the five business days immediately preceding the date on which the buy back is effected.

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**

| | |
|---|---|
| Angus MacSween | Chief Executive Officer |
| Scott Cunningham BAcc, CA | Chief Financial Officer |
| Ian Steele BAcc, CA | Non-Executive Chairman |
| Richard Masters LLB, DipLP | Non-Executive Director |
| Karyn Lamont BAcc, CA | Non-Executive Director |

**Secretary**
Andrew McDonald BA, CA

**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, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU

**Company Registration Number**
SC204560

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