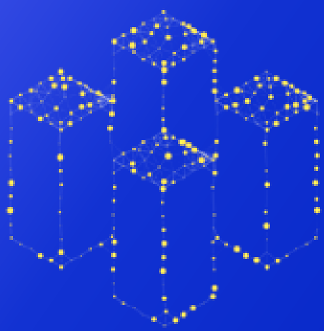
iomart

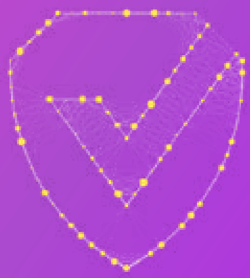
# ANNUAL REPORT AND ACCOUNTS

2020

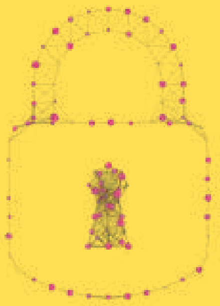
## INFRASTRUCTURE



## DATA PROTECTION

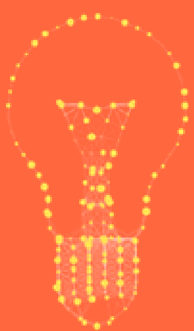


## SECURITY

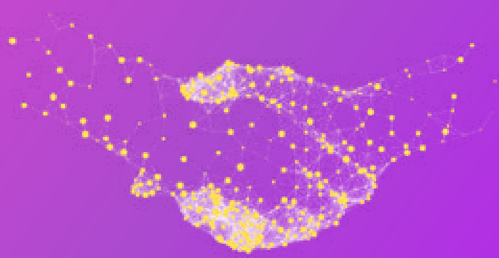


## CONNECTIVITY

## CONSULTANCY



## PARTNER PROGRAMME



We offer a wide portfolio of services to support our customers on-premise, in our data centres and in the HyperCloud.

# Contents

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ANNUAL REPORT AND ACCOUNTS 2020

# ABOUT US

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

Established in 1998 and headquartered in Glasgow, Scotland, 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.

We design, deliver and manage the technology and cloud solutions that help them to transform the way they deliver their services and we work with them to solve the many and complex challenges they face around data management, security and connectivity. As a trusted partner we support them through every phase of their digital transformation.

## Strong

iomart has been listed on the Alternative Investment Market for over 20 years, with a track record of continuous growth and profitability.

## Secure

We protect our customers against cyber threats, from the data centre to the desktop, and guarantee service uptime from infrastructure that we own, manage and operate 24/7.

## Skilled

We have a workforce of over 400 people, 300 of whom are technical specialists in infrastructure, cloud, network and security.

## Our Global Reach

# Our Business Values

Our core values reflect our commitment to deliver service excellence and peace of mind to our customers.

We are proud of the talented people who work across our business and who strive every day to deliver their best.

We are focused on leading the way in our sector by delivering innovative solutions to the highest standards.

#weareiomart

## ONE TEAM

we work together
to achieve great things

## ACCOUNTABLE

we take ownership
of what we do

## CUSTOMER FIRST

our customers are at the heart
of everything we do

## INNOVATIVE

we are always striving
to improve

## AMBITIOUS

we are proud and passionate
about our work

# Supporting customers during Covid-19

The Covid-19 pandemic forced many businesses to change the way they worked and their plans for the months ahead.

While we were able to move our non-data centre staff to work from home overnight, this was a completely new situation for many of our customers. We were able to deliver the technologies, security and solutions to support them in this sudden shift to remote working.

One customer in particular needed extra help.

RHS/Georgi Mabee

RHS

Inspiring everyone to grow

At a time when people were turning to gardening to help them through the crisis, The Royal Horticultural Society was forced to cancel all its shows, including its showcase event The Chelsea Flower Show.

Happily we were able to work with their digital and IT teams to turn it into Virtual Chelsea – their first completely online show.

> *We often talk about OneRHS, where teams come together to create a collaborative, united front. Bringing iomart into that loop just felt like we were all one team.*
>
> \- **Matt Rooke,** Digitech Director, Royal Horticultural Society

Virtual Chelsea was a huge success attracting more visitors to the RHS website than ever before.

There were other ways that we helped. Some of our consultants became part of our customers' executive pandemic planning teams and as a company we donated over 50 servers to support Folding@Home, a global computing project helping scientists search for a vaccine.

RHS/Suzanne Plunkett

# Our Business Model

Through the combination of a broad range of cloud services and products, our own physical assets and our skills we aim to deliver excellent outcomes for our customers and value for all our stakeholders.

## SERVICES

consultancy, design and deployment of bespoke cloud solutions which we secure and manage for our customers 24/7

## RESOURCES

data centres, servers, network, global PoPs and connectivity to ensure customers' systems and applications perform in all locations

## PEOPLE

a highly skilled permanent workforce that benefits from and is invested in the success of our business

# DELIVERING VALUE

for our customers, partners, staff, shareholders and the economy

## TECHNOLOGY

partnerships with world leading vendors allowing us to select best-in-class products for our solutions

## CUSTOMERS

serving a wide range of customers and sectors, often with bespoke solutions, and supporting their requirements 24/7

## REVENUE

monthly recurring revenue streams that generate strong and consistent returns for us, our vendor partners, our staff and our shareholders

## REVENUE

£112.6m
+9%

*2019 : £103.7m*

## ADJUSTED EBITDA*

£43.5m
+3%

*2019 : £42.2m*

## ADJUSTED PROFIT BEFORE TAX

£22.8m
-11%

*2019 : £25.5m*

## PROFIT BEFORE TAX

£16.8m
+4%

*2019 : £16.2m*

## ADJUSTED DILUTED EARNINGS PER SHARE

16.3p
-12%

*2019 : £18.6p*

## BASIC EPS

12.5p
+5%

*2019 : 11.9p*

## CASHFLOW FROM OPERATIONS*

£41.3m
+6%

*2019 : £39.1m*

## DIVIDEND

6.53p per share
-12%

*2019 : 7.46p*

*Adjusted EBITDA and cashflow from operations at 31 March 2020 benefitted by £3.0m from transition to IFRS 16 'Leases'

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ANNUAL REPORT AND ACCOUNTS 2020

# HIGHLIGHTS

## Financial Highlights

- Revenue up by 9% to £112.6m, with the majority of the growth derived organically in the year
- Adjusted EBITDA[1] benefitted by £3.0m from transition to IFRS 16 'Leases'
- Adjusted profit before tax[2] and adjusted earnings per share[3] reflects over £1m annualised investment in sales engine and broader mix of revenue
- Cash generated from operations in the year of £41.3m (2019: £39.1m before exceptional items) which retains the consistently strong profit-to-cash conversion ratio (95% conversion of adjusted EBITDA) (2019: 93%)
- Year-end cash position of £15.5m (2019: £10.1m) with net debt of £57.6m (£37.3m pre the adoption of IFRS 16) (2019: £39.2m), at a comfortable level of 1.3 times EBITDA[4]

## Operational Highlights

- Cloud Services organic growth rate increased to 6% in the year (2019: 2%)
- Increased investment in sales engine has led to several multi-million pound, multi-year contracts being secured, adding to future revenue visibility
- Continued market leading profitability and low customer attrition
- Acquisitions of ServerChoice in February 2020 and Memset Limited in March 2020, provide good quality customer base, with integration already underway
- Appointment of Reece Donovan as Chief Operating Officer to prepare Group for next stage of growth

### Statutory equivalents

A full reconciliation between adjusted and statutory profit before tax is contained within the financial statements. The largest variance year on year within the adjustments relates to the £1.9m reduction in contingent consideration on the 2018 LDeX acquisition which translates to a gain within the consolidated statement of comprehensive income. In the prior year a similar accounting entry was recorded for the 2017 Sonassi acquisition but in that situation it was a loss of £1.4m on the finalisation of the earn-out final payment which was higher than previously expected.

1 *Throughout these financial statements adjusted EBITDA (disclosed in the consolidated statement of comprehensive income) is earnings before interest, tax, depreciation and amortisation (EBITDA) before share-based payment charges, acquisition costs and gain/(loss) on the revaluation of contingent consideration. 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 (disclosed on page 14) is profit before tax, amortisation charges on acquired intangible assets, share-based payment charges, acquisition costs, accelerated write off of arrangement fees on bank facility and gain/(loss) on revaluation of contingent consideration.*

3 *Throughout these financial statements adjusted diluted earnings per share (disclosed in note 12) is earnings per share before amortisation charges on acquired intangible assets, share-based payment charges, acquisition costs, accelerated write off of arrangement fees on bank facility and gain/(loss) on revaluation of contingent consideration.*

4 *EBITDA is earnings before interest, tax, depreciation and amortisation.*

## Supporting customer growth

We design, build and deliver managed services that help our customers overcome their biggest challenges. Where there is underperforming legacy infrastructure we work with them to consolidate; where they need to deliver innovation we work with them to transform. By solving their problems, we help them to grow.


### PENINSULA

Global employment law consultancy Peninsula selected iomart to help transform the way it delivers services to customers in the UK and Ireland.

We are turning their fragmented on premise IT infrastructure into a scalable and resilient private cloud environment, as well as providing the data management, wide area network and public cloud connectivity needed to support the biggest part of their global operation.

> *The partnership with iomart minimises our business risk and empowers us to be more strategic. It will free up investment for new initiatives that improve our business agility and our ability to deliver even better services to our clients*
>
> **- Peter Done,** Founder and Group Managing Director, Peninsula

With our services and expertise we help organisations like Peninsula to realise the benefits that a move to the cloud will bring.

# Chairman's Statement

I am pleased to report that iomart (the "Group") has delivered another year of revenue growth, strong profitability and cash generation, in line with expectations. Due to the timing of the year end, the Group experienced minimal impact on trading in the year from the effects of Covid-19.

As we publish this report, Covid-19 continues to impact people and economies around the world. In times such as these, our purpose as a Board comes into clear focus: to ensure all employees are safe and supported; to ensure that the business continues to operate to the highest standards for the benefit of all stakeholders; and to protect and enhance the long-term future of the business. I am pleased to report that during these challenging times, this has indeed been the case. Having implemented remote working across our sites from early March 2020, the Group has continued to operate to its customary high standards, ensuring 100% uptime and high levels of customer support while continuing to develop prospects for future growth. The teams have responded positively to the changes asked of them, and I and the Board wish to thank them for their increased efforts in what have been challenging times for all.

iomart is a well-funded, well-managed, profitable and cash-generative business with high levels of recurring revenue. The cash position at year end has increased to £15.5m, up from £10.1m at the prior year end, demonstrating the financial strength of the business. The management team has run reasonable downside scenario tests and is confident we have the resources to withstand a significant economic downturn. We will continue to be vigilant in terms of monitoring business levels and the Group's cash position, however with greater than 85% of the Group's revenue recurring in nature, a wide customer base across multiple industry sectors and our offering delivering mission critical infrastructure, the Board is confident iomart is in a strong and robust position to address any future broader economic concerns.

During the year we paid an interim dividend of 2.60p per share which was paid to shareholders in January. In addition, the Board is now proposing to pay a final dividend of 3.93p per share. With this final dividend payment, the total for the year will be 6.53p, equivalent to the maximum pay-out ratio under our current policy of 40% of adjusted diluted earnings per share. We are aware of the focus from the wider community on dividend payments in the current economic situation, but believe that, given our funding position, our decision not to apply for the government's furlough scheme, our robust business model and our focus on being as fair and supportive as we can be to all stakeholders during the recent unprecedented events, including employees, customers and suppliers, we should recognise the support from our shareholders by continuing our dividend policy.

On 30 March 2020, we were delighted to welcome Reece Donovan to the Board as Chief Operating Officer. Reece has significant experience in the technology and telecommunication industries, with a demonstrable track record of achievement in roles both in the UK and internationally. Given the growth of the business and our plans for the future it was important to strengthen our executive team and we welcome Reece to the Group.

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
24 June 2020



# Chief Executive Officer's Report

**Introduction**

This is the twelfth consecutive year of growth since the transition of the business to cloud services in 2008 with the acquisition of our first data centres. Since that time, revenues and profits have grown considerably, with revenue reaching £112.6m (2019: £103.7m), an increase of 9% on the prior year through the combination of continued organic growth and the impact of acquisitions.

A key point of focus in the last 18 months has been the refresh of our sales and marketing operations to ensure we have the right mix of skills, processes and tools to deliver the next stage of growth. We have been encouraged by the early signs of success, securing several multi-million pound contracts in the year, which add to our long-term visibility of revenues. While adjusted EBITDA margins have naturally reduced as a result of this investment and the specific mix of revenues in the current year, we retain market leading adjusted EBITDA margins of above 38%, strong cash generation and high levels of customer retention. Our statutory profit before tax increased by 4% to £16.8m.

**Covid-19**

In the three months since the response to the Covid-19 pandemic was initiated in the UK, there has been limited impact on iomart's trading. We take great comfort from the resilience of our business model, especially the diversity and limited concentration of our customer base. We are not significantly exposed to industries that are suffering the worst effects. The level of customer churn across all segments of the business has been low, renewal levels high and cash collection in line with our typical profile. However, we remain vigilant to the economic impact the ongoing situation may create, particularly on the SME segment of the market.

Our priority has been the wellbeing and health of our staff and our teams have responded fantastically to the changes placed upon them. iomart has always had the technological capability to enable home working and implemented this mode of operation with no disruption from 9 March, while mission critical on-site roles, such as in data centres, have been manned in compliance with social distancing rules. As a result, our business has continued to operate 24/7 as near to normal as possible. Each of our data centres remains operational to high standards of security and resilience and all customer support has been maintained.

We have increased the monitoring of cash flow, and cash management has been strong. We have not applied for any support from the government's furlough scheme, preferring instead to continue to pay the salaries of the small number of the team whose roles are not currently required, while encouraging them to offer their time to the support of their communities.

**Market and Strategy**

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. The current situation around Covid-19 may see the acceleration in the adoption of digital transformation and remote working, both of which are likely to be long-term drivers to the Cloud.

Overall, our market continues to grow strongly. As has been well documented, 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, 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.

**Market and Strategy (continued)**

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 and help solve business problems;
- 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, processes and tools;
- Continued optimisation of our data centre 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:

- The managed private cloud division of privately owned ServerChoice Limited ("ServerChoice") on 28 February 2020, seeing the transfer of around 30 customers, some equipment and a small number of staff into our core managed Cloud Services business; and
- Memset Limited ("Memset") on 12 March 2020. Memset is a well-established business providing dedicated and virtualised private cloud infrastructure to around 2,000 customers from a team and data centre based in Dunsfold, Surrey.

The timing of these acquisitions means they had no material impact on revenue and profit in the year ended 31 March 2020 and planning for integration is already underway as we enter the new financial year. 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, Cloud Services (£99.8m revenue) and Easyspace (£12.8m revenue).

**Cloud Services**

Revenues in this segment have grown by 10% to £99.8m (2019: £90.6m). While the full year contribution from the prior year acquisitions was a positive factor, it was pleasing to see organic growth being the largest element of our overall growth in the current year. Revenue growth in the Cloud Services segment, excluding the impact of acquisitions, was 6% (2019: 2%). The Cloud Services adjusted EBITDA (before share-based payments, acquisition costs and central group overheads) was £42.3m being 42.4% of revenue (2019: £40.4m being 44.6% of revenue), or £39.3m on a like-for-like basis, excluding the impact of IFRS 16 'Leases'. We continue to expect Cloud Services to be the driver of revenue and profit growth for the Group going forward.

Within our Cloud Services division, we have three core offerings, recognising the differing 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:

- 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, trough 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 the 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. Over the last few years we have been a consolidator of the UK market within this area, via our M&A activity, including for example our most recent acquisition of Memset. In a considered manner, ensuring minimum disruption to the customer experience, we continue to consolidate legacy brands.

### Cloud Services (continued)

- 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.

The improvement in the revenue in the current year benefited from a strong performance by Cristie Data. The provision of IaaS saw some reductions in revenue primarily from the smaller customers, which while not material to the overall net revenue growth achieved, is high margin business. We achieved improved momentum in new business wins within the Cloud Services division, where the highest level of management effort and investment has been in the last year. Two large enterprise wins were achieved in the year which are both around £1m of annual recurring revenue. These were great examples of the full utilisation of our capability and service to support the move from fragmented on-premise IT infrastructure into a scalable, resilient and secure private cloud environment needed to support global operations.

We believe controlling our own infrastructure is important to delivering high quality, secure and robust solutions to customers. In June 2020, subsequent to the year end, we extended our London data centre property lease to June 2035. Following this, we plan to upgrade the main cooling and the electrical systems on the site over the coming 18 months, improving resilience but also adding to our energy efficiency.

### 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 £12.8m (2019: £13.1m). 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 adjusted EBITDA (before share-based payments, acquisition costs and central group overheads) of £5.6m being 44.2% of revenue (2019: £6.2m being 47.1% of revenue). The business benefits from use of the Group infrastructure meaning this profitability translates to strong cash flow for the Group.

### Current trading and outlook

The first two months of the new financial year have performed in line with our expectations, consistent with our high recurring revenue business model. As evidenced by our robustness during the Covid-19 period, our current cash balances remain at a similar level to the year end. Business development continues, with good discussions with both new and existing customers, although timing of new projects is likely to be more uncertain for the remainder of this calendar year.

While visibility of sales pipeline conversion remains less clear, we believe the medium-term impact of the social distancing measures implemented across the world will prompt the acceleration in the adoption of digital transformation and remote working, both of which are long-term drivers to the cloud. Our high levels of recurring revenues, breadth of customer base, industry leading profit margins and strong cash generation, mean we are confident iomart is well positioned to withstand the current challenges and deliver long-term growth.

**Angus MacSween**
Chief Executive Officer
24 June 2020

1 Throughout these financial statements adjusted EBITDA (disclosed in the consolidated statement of comprehensive income) is earnings before interest, tax, depreciation and amortisation (EBITDA) before share-based payment charges, acquisition costs and gain/(loss) on the revaluation of contingent consideration. Throughout these financial statements acquisition costs are defined as acquisition related costs and non-recurring acquisition integration costs.
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# Chief Financial Officer's Report

**Financial Review**

***Key Performance Indicators***

| | 2020 | 2019 |
|---|---|---|
| Revenue | £112.6m | £103.7m |
| Gross Profit % | 60.8% | 64.4% |
| Adjusted EBITDA | £43.5m | £42.2m |
| Adjusted EBITDA margin % | 38.6% | 40.7% |
| Adjusted profit before tax | £22.8m | £25.5m |
| Adjusted profit before tax margin % | 20.2% | 24.6% |
| Profit before tax | £16.8m | £16.2m |
| Profit before tax margin % | 14.9% | 15.6% |
| Basic earnings per share | 12.5p | 11.9p |
| Adjusted earnings per share (diluted) | 16.3p | 18.6p |
| Cash flow from operating activities before exceptional costs / Adjusted EBITDA % | 95% | 93% |
| Net debt / Adjusted EBITDA leverage ratio | 1.3 | 0.9 |

***Revenue***

Revenue for the year grew by 9% to £112.6m (2019: £103.7m) through the combination of continued organic growth and the full year impact of acquisitions made in the prior year.

Our Cloud Services segment grew revenues by 10% to £99.8m (2019: £90.6m), 6% excluding the impact of acquisitions (2019: 2%). A full year contribution from Bytemark and LDeX, acquired in August 2018 and late December 2018, respectively, contributed to the overall growth rate. The timing of our latest two acquisitions, completed in February and March 2020 means they made no material impact to the trading results in the year. The segment benefited from a strong performance by our hardware reseller brand, Cristie Data, with revenue from our higher margin Infrastructure as a Service offerings being slightly down. We achieved improved momentum in new business wins within the managed cloud services, where the highest level of management effort and investment has been in the last year, with the majority of revenue from these multi-year contracts being recognised in future years, increasing our monthly run-rate of revenue.

Our Easyspace segment has performed in line with expectations over the year with revenues reducing only slightly to £12.8m (2019: £13.1m).

***Business model***

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

***Gross Profit***

Gross profit in the year, which is calculated by deducting from revenue variable cost of sales such as domain costs, public cloud costs, the cost of hardware and software sold, power, sales commission and the relatively fixed costs of operating our data centres, increased by 3% to £68.5m (2019: £66.7m). In percentage terms, gross margin has reduced to 60.8% (2019: 64.4%) due primarily to two factors. Sales by Cristie Data are typically lower gross margin given the inclusion of the reselling element of their solutions, plus some of the larger managed cloud solutions recently signed have initial contribution levels lower than the smaller infrastructure only deals from the past, although we anticipate their gross profit margin will increase over time. We have not seen any significant individual price change in any of the components of the purchased cost base in the 12 months.

Gross profit within our Easyspace segment reduced slightly from the previous year due to the specific bundle of packages sold to hosting customers in the year.

***Adjusted EBITDA***

Our adjusted EBITDA performance in the year reflects the increased investments we have made in the organisation to provide us with the right platform for accelerated future growth, plus the impact of the revenue mix described above. While our adjusted EBITDA margin has decreased to 38.6%, we retain market leading margins and are confident this level is now sustainable, striking the right balance between investment in the organisation to better align the business with higher growth areas of the market and high levels of profit generation.

Adjusted EBITDA for the year was £43.5m (2019: £42.2m) an increase of 3% which in EBITDA margin terms translates to 38.6% (2019: 40.7%). The adoption of IFRS 16 'Leases' ("IFRS 16"), which reclassifies previous operating lease rentals to a depreciation and interest charge, has a benefit of £3.0m in the year to the adjusted EBITDA metric. The previously flagged investment in our commercial operation, combined with the overhead base of the prior year acquisitions, resulted in a £3.4m increase in our administrative expenses versus the prior year. This, along with the broader mix of revenue, has reduced our underlying EBITDA generation in the year.

Adjusted EBITDA in the Cloud Services segment was £42.3m (2019: £40.4m), an increase of 5%. This reported result includes the impact from the adoption of IFRS 16, the specific mix of business and our investment into our commercial operations previously mentioned which are all solely applicable to the Cloud Services segment. We do not anticipate any more significant increases in investments into the overheads moving forward as the reorganisation of our commercial operation is complete. These factors mean that in percentage terms, the full year adjusted EBITDA margin in the Cloud Services segment has decreased to 42.4% (2019: 44.6%).

The Easyspace segment's adjusted EBITDA was £5.6m (2019: £6.2m) reflecting the impact of slightly lower revenue this year plus some reduction in gross margin due to specific products sold. In percentage terms the adjusted EBITDA margin is reduced to 44.2% (2019: 47.1%).

Group overheads remained stable at £4.4m (2019: £4.4m). These are costs which are not allocated to segments, including 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.

***Adjusted profit before tax***

Excluding the impact of additional depreciation of £2.9m following the adoption of IFRS 16, depreciation charges have remained broadly consistent with prior year at £15.6m (2019: £13.1m). There were no material project type investments made in the year with most of the CAPEX spend being on operational items such as servers and storage to support customer deployments and growth.

The charge for amortisation of intangibles, excluding amortisation of intangible assets resulting from acquisitions ("amortisation of acquired intangible assets"), of £2.9m (2019: £2.5m) has increased as a result of an increase in the level of software investment.

Finance costs of £2.2m (2019: £1.2m), has increased primarily due to the adoption of IFRS 16, which reclassifies previous operating lease rentals to a depreciation and interest charge. The new interest charge created by this was £0.6m.

After deducting the charges for depreciation, amortisation (excluding the charges for the amortisation of acquired intangible assets) and finance costs (excluding the accelerated write off of arrangement fees on bank facility) from the adjusted EBITDA, the Group's adjusted profit before tax reduced by 11% to £22.8m (2019: £25.5m), representing an adjusted profit before tax margin of 20.2% (2019: 24.6%).

***Profit before tax***

The measure of adjusted profit before tax is an alternative profit 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** | **2020 £'000** | **2019 £'000** |
|---|---|---|
| **Adjusted profit before tax** | **22,768** | **25,524** |
| Less: Amortisation of acquired intangible assets | (6,159) | (6,492) |
| Less: Acquisition costs | (438) | (351) |
| Less: Share-based payments | (1,243) | (1,008) |
| Add/(Less): Gain/(loss) on revaluation of contingent consideration | 1,856 | (1,394) |
| Less: Accelerated write off of arrangement fees on bank facility | - | (63) |
| **Profit before tax** | **16,784** | **16,216** |

*Profit before tax (continued)*

The adjusting items are: charges for the amortisation of acquired intangible assets of £6.2m (2019: £6.5m) 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 (2019: £0.4m) as a result of professional fees associated with acquisitions made and share-based payment charges of £1.2m (2019: £1.0m) an increase due to the issue of additional share options.

In addition, the adjusting items also include a gain on the revaluation of contingent consideration of £1.9m (2019: £1.4m net loss). The current year gain relates to the reduction in the earn-out payment on the LDeX acquisition. This contingent payment relates to the EBITDA achieved during the 12 months to 31 December 2019 for which a multiple of six is applied. As a result, the reduction represents a £0.3m EBITDA variance to previous forecasts. In prior year, the final payment due on the Sonassi acquisition was £1.8m higher than the previous estimate. 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 resulted 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. Offsetting this loss in prior year was a gain of £0.4m on the revaluation of the Bytemark contingent consideration with settlement paid in full.

In the prior year comparatives there was one additional adjustment: non-cash accelerated write off of previously capitalised arrangements fees of £0.1m following the Group entering into a new banking facility on 6 June 2018.

After deducting these items from the adjusted profit before tax; the reported profit before tax was £16.8m (2019: £16.2m) an increase of 4%. In percentage terms the profit before tax margin was a slight reduction to 14.9% (2019: 15.6%) with favourable movement on the gain/(loss) on contingent consideration offsetting trading result reductions.

**Taxation**

The tax charge for the year is £3.1m (2019: £3.3m). The tax charge for the year is made up of a corporation tax charge of £3.6m (2019: £5.0m) with a deferred tax credit of £0.5m (2019: £1.7m). The effective rate of tax for the year is 18.7% (2019: 20.6%). The movement in the year is heavily influenced by three main factors being: the swing in the tax charge in the current year from the non-taxable gain on revaluation of contingent consideration compared to the non-taxable deductible loss in prior year, tax effect from share-based remuneration and adjustments in the current year tax relating to prior period. We believe 19%, being the UK headline corporation tax rate, is considered a reasonable recurring effective tax rate for underlying profits. Further explanation of the tax charge for the year is given in note 9.

*Profit for the year*

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 £13.7m (2019: £12.9m) an increase of 6%.

**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 12.5p (2019: 11.9p), an increase of 5%.

Adjusted diluted earnings per share, based on profit for the year attributed to ordinary shareholders before amortisation charges of acquired intangible assets, acquisition costs, share-based payment charges, the gain/(loss) on the revaluation of contingent consideration, accelerated write off of arrangement fees on the bank facility, and the tax effect of these items was 16.3p (2019: 18.6p), a reduction of 12%.

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 28 February 2020, iomart acquired the managed private cloud division of privately owned ServerChoice Limited, for an initial consideration of £2.0m after a deduction of £0.1m for working capital, with a further maximum consideration of £0.9m. The initial payment was funded from a drawdown from the Company's revolving credit facility. The contingent consideration will be based on achievement of certain monthly recurring revenue targets in June 2020 and September 2020. Based on estimates of the probabilities of various levels of revenue, we expect the amount to be paid in respect of the final contingent consideration due will be £0.8m (note 20). The business purchase agreement saw the transfer of around 30 customers, £0.3m of fixed assets and a small number of staff based in Stevenage into our core managed cloud services business.

On 12 March 2020, iomart completed the acquisition of Memset Limited for an initial consideration of £2.7m, with a further maximum consideration of £1.0m. This initial payment included a deduction of £0.6m to settle the adjustments required to 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. The contingent consideration will be based on achievement of certain monthly recurring revenue targets in December 2020. Based on estimates of the probabilities of various levels of revenue, we expect the amount to be paid in respect of the final contingent consideration due will be £0.5m (note 20). Memset is a well-established business based in Dunsfold, Surrey providing dedicated and virtualised private cloud infrastructure to around 2,000 customers.

## 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 2.60p (2019: 2.45p) which was paid in January 2020. We have now proposed a final dividend payment of 3.93p per share (2019: 5.01p) which would result in a total dividend for the year of 6.53p (2019: 7.46p) representing a pay-out ratio of 40% of the adjusted diluted earnings per share for the year. The Board has taken the decision to pay a final 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. Should the impact of Covid-19 increase in the year ahead, the Board will keep the level of future dividend payment under review. However, it should be noted the Group has not, to date, utilised any of the government furlough schemes and therefore believes that there is no impediment in this respect to paying a dividend to shareholders.

## Cash flow and net debt

### *Net cash flows from operating activities*

The Group continued to generate high levels of operating cash over the year. Cash flow from operations was £41.3m (2019: £39.1m before exceptional non-recurring costs) which represents a 95% conversion of adjusted EBITDA (2019: 93%). This strong level of cash flow conversion has been a constant feature over the years, recognising the strength of our business model and cash cycle. The adoption of IFRS 16, which reclassifies previous operating lease rental payments to lease repayments and interest represents a reclassification from net cash flows from operating activities of £3.0m to net cash flows from financing activities.

Payments of taxation in the year remained reasonably stable at £4.7m (2019: £5.4m) and results in a net cash flow from operating activities in the year of £36.6m (2019: £31.4m after paying £2.3m of non-recurring software licence fees).

### *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 £21.2m (2019: £35.3m) during the year.

The Group continues to invest in property, plant and equipment through expenditure on data centres and on equipment required to provide managed services to both its existing and new customers. As a result, the Group spent £14.7m (2019: £10.4m) on assets, net of related lease drawdowns, trade creditor movements and non-cash reinstatement provisions. This is broadly similar to last year after recognising the Maidenhead freehold purchase in December 2018 for £5.4m (excluding £0.3m of fees and taxes). 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 (2019: £1.4m) and on intangible assets of £1.1m (2019: £1.1m).

In line with our strategy of accelerating our growth by acquisition the Group spent £4.2m (2019: £12.0m), net of cash acquired, in relation to the acquisitions of the managed private cloud division of privately owned ServerChoice Limited and Memset Limited, as described above. In the current year, the Group did not incur any expenditure in respect of contingent consideration due on previous acquisitions (2019: £4.7m).

### *Cash flow from financing activities*

Drawdowns of £6.2m (2019: £25.9m) were made from the revolving credit facility in the year to fund the purchase of the acquisitions. Bank loan repayments of £2.0m (2019: £12.2m) were made in the year. We received £0.6m (2019: £0.3m) from the issue of shares as a result of the exercise of options by employees. We also made dividend payments of £8.3m (2019: £8.0m) (note 8); paid finance costs of £1.7m (2019: £1.1m); and made lease repayments of £4.7m (2019: £0.5m). The adoption of IFRS 16, which reclassifies previous operating lease rentals appearing within cash flow from operations to repayment of lease liabilities and additional finance costs paid is the reason for the increase in these related cash outflows within financing activities.

### *Net cash flow*

As a consequence, our overall cash generated during the year was £5.4m (2019: £0.6m) which resulted in cash and cash equivalent balances at the end of the year of £15.5m (2019: £10.1m).

***Net Debt***

The net debt position of the Group at the end of the period was £57.6m (2019: £39.2m) as shown below, of which nearly £20m is as a result of the adoption of IFRS 16. This represents a multiple of 1.3 times our annual adjusted EBITDA which we believe is a comfortable level of debt to carry given the recurring revenue business model and strong cash generation in the business. The level of net debt has increased purely as the result of the introduction of £20.3m of lease liability on the adoption of IFRS 16 (note 23).

| | **2020 £'000** | **2019 £'000** |
|---|---|---|
| Bank revolver loan | 52,791 | 48,536 |
| Lease liabilities | 20,347 | 777 |
| Less: cash and cash equivalents | (15,497) | (10,069) |
| **Net Debt** | **57,641** | **39,244** |

The banking facility, which provides an £80m revolving credit facility, matures in September 2022.

### 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 across wide sectors and a positive cash cycle is well established and creates a very strong financial position, even in the current challenging environment caused by the Covid-19 virus. 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*
24 June 2020

Definition of alternative profit measures:
Gross profit margin % is defined as Gross Profit / Revenue as a % (both as disclosed in the consolidated statement of comprehensive income)
Adjusted EBITDA margin % is defined as adjusted EBITDA (as defined on page 14) / Revenue (as disclosed in the consolidated statement of comprehensive income) as a %
Adjusted PBT margin % is defined as adjusted PBT (as defined on page 14) / Revenue (as disclosed in the consolidated statement of comprehensive income) as a %
Profit before tax margin % is defined as Profit before Tax / Revenue (both as disclosed in the consolidated statement of comprehensive income) as a %
Cash flow from operating activities before exceptional costs / Adjusted EBITDA % is defined as cash flow from operating activities before exceptional costs (as disclosed in the consolidated statement of cash flows) / Adjusted EBITDA (as defined on page 14) as a %
Net debt / Adjusted EBIDTA level ratio is defined as Net Debt (as disclosed on page 14) / Adjusted EBITDA (as defined on page 14)

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 Group meet its business objectives by appropriately managing, rather than eliminating, the risks relating to those objectives.

In the prior year, the Group, supported by external advisors, updated its risk management framework and risk assessment to identify and address all relevant risks in order to execute and deliver the Group's strategy. 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. There are a number of potential risks and uncertainties which have been identified as material as a result of this process. Details of financial risks are outlined in note 29.

As we finish the year, the impact of Covid-19 on our business required us to reassess the impact of the global pandemic on our business risk and internal control environment. As highlighted in the Chairman's statement and the Chief Executive Officer's statement, we take great comfort from the resilience of our business model, especially the diversity and limited concentration of our customer base. We are not significantly exposed to industries that are suffering the worst effects. We have the tools and technology which have allowed us to implement remote working across our sites from early March 2020 and to continue to operate effectively and meet customers' requirements. Taking all of this into account, while we remain very vigilant on the potential further impact of Covid-19, we believe our previous risk assessment still remains valid and our new modes of operation have not diluted the strength of our control environment.

**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.

**Data centre operation**

Any downtime experienced at our data centres 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 data centres 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 data centre 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 data centre 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 to 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 with the means to counter the types of security threats our clients face. We are enhancing our 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.

**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, allowing them to offer similar services for lower prices than the Group would be prepared to match, or launching 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, an 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 an integration and migration plan which includes the participation of the vendor to ensure successful integration of the acquired business into the Group's operations; and

- 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.

During the year, the Board and its directors confirm they have acted in a way that promotes the success of iomart Group for the benefit of its members as a whole, and in doing so have had regard to the stakeholders and key matters set out in Section 172 of the Companies Act 2006.

The Board considers that the Group's key stakeholders are its shareholders, employees, customers, suppliers and key partners and the environment. The directors recognise that they are expected to take into account the interests of those stakeholders whilst prioritising the long term success of the Group. This can mean that the interests of certain stakeholder groups in the short-term may need to be balanced against such long term success.

The Board view the key stakeholders and principal methods of engagement as shown in the table below. In all cases, the level of engagement informs the Board, both in relation to stakeholder concerns and the likely impact on decision-making.

| Stakeholder Group | Principal Methods of Engagement |
|---|---|
| Shareholders | The Board engages with shareholders throughout the year through the annual and half year results and trading updates, the Annual General Meeting, the investor roadshows and the investor pages on the iomart Group website. Throughout the year the Board engages with major shareholders and investors as required and receives detailed feedback reports via our various advisors, on views of shareholders and covering analysts. |
| Employees | Our culture defines the behaviours we expect from all our employees and helps drive our strategy of building a high performance team. In the current year, we have redefined the Group's values to focus on:<br>• **Customer First** – to ensure our customers are at the heart of everything that we do and that we anticipate their needs and exceed their expectations to deliver service excellence;<br>• **One team** – we work together to achieve great things and treat each other with respect;<br>• **Innovative thinking** – we will always strive to improve and challenge the status quo;<br>• **Be Accountable** – we take ownership of what we do and how we do it. We will deliver on our promises and are open to feedback; and<br>• **Be Ambitious** – we take pride in and are passionate about our work and we insist on the highest standards from ourselves and others.<br>The Board engages with employees through the receipt of monthly HR reports, by maintaining a rotational schedule which sees department heads present at Board meetings and regular internal staff publications and newsletters. |
| Customers | The Group places customers at the heart of our business and strategy. All our teams are focussed on regular communication with customers to ensure we fulfil our customers' product and service requirements and to deliver excellent customer service. We ensure that our customers have the opportunity to speak to their support team, account manager or a member of senior management throughout each stage of their customer journey with iomart. |
| Suppliers and key partners | Open and honest engagement and relationships with our suppliers and subcontractors is critical to the delivery of our business. The Group has a number of key strategic partners that we engage with to support delivery of our business in a number of key areas including IT infrastructure and communication products and services, software, provision of power and our landlords on leased property. Our teams and employees interact with our strategic partners and all other suppliers on a regular basis to strengthen trading relationships and to ensure that the supply chain function continues to operate well to support the business. |
| Environment | The Group recognises the environmental impacts arising from our business activities and is committed to reducing these through effective environmental management. The Group operates a number of data centres throughout the UK and we operate our data centres in a way intended to reduce the impact on our local environment, including the usage of energy and carbon dioxide emissions. |

The Board held ten board meetings in the year to address and meet its obligations under Section 172 of the Companies Act 2006. The following table covers the key decisions made during the year and the stakeholder group(s) impacted by these decisions.

| Key Impact | Key Decisions Made | Key Stakeholder Group's impacted |
|---|---|---|
| Long Term Strategy and Acquisitions | Each year, the Board approves the budget of the Group and reviews the Group's strategy and growth plans for the next three years.<br>In February and March 2020, the Board approved the purchase of the managed private cloud division of privately owned ServerChoice Limited and the acquisition of Memset Limited, respectively. The Board considers that these transactions are in line with the acquisition strategy of the Group and the achievement of the long term growth plans. | Shareholders, Employees, Customers, Suppliers |
| Performance of the Group | On a monthly basis, the Board reviews the trading performance of the Group with detailed Board reports provided by the CFO covering trading in the month and year to date, with performance monitored against budget and the previous financial year.<br>At each Board meeting, the Board also receives detailed Board reports covering commercial, operational and HR matters prepared by senior managers of the business. These reports cover sales and forecast pipeline, customers and suppliers, data centre activity and various aspects of operational performance, compliance with ISO requirements and key employee activity.<br>In the year, the Board reviewed a survey of our top customers' feedback on performance and service delivery. In addition, the Group implemented a new CRM system to give greater insight into customer data and performance to ensure that our customer's journey is in line with the strategic direction and growth plans of the Group.<br>During the year, the CEO and CFO met with a number of key strategic partners to ensure we monitor the quality of our suppliers to optimise operational efficiency, ensure we receive the best level of service and continue to contract on favourable terms to support the business. | Shareholders, Employees, Customers, Suppliers, Environment |
| Financing and capital spend | The Board approves the terms and conditions of the Group's multi revolving credit facility. As part of the monthly Board report, the board receives monthly reporting on compliance with bank covenants.<br>The Board approves major capital expenditure in excess of £1m to support the capital investment in our infrastructure and data centres. During the year, the Board approved the cooling system replacement project at our main London data centre and the extension of the data centre property lease to 2035.<br>The Board reviews the dividend policy and approves the interim and annual dividends taking into account the results and financial position of the Group, including the impact of Covid-19. | Shareholders, Employees |
| Employees and Culture | The Board seeks to ensure that the Group's staff policies and processes are aligned with the Company's core values and promote the long term strategy of the Group.<br>The Board continues to make decisions that encourage improvements in systems, processes and benefits which impact the wellbeing of our employees. The Board approved the introduction of a flexible benefits portal in the year, which saw around 25% of our workforce take up such options in the initial period, and in the coming year the Group is launching a new performance management system to enhance career development.<br>The Remuneration Committee makes recommendations to the Board on the remuneration packages, including annual bonuses and salary increase, for the Executive Directors and long term incentive plans.<br>As part of the monthly board meetings, the Board receives an HR report covering key employee matters and developments. | Shareholders, Employees |

| Key Impact | Key Decisions Made | Key Stakeholder Group's impacted |
|---|---|---|
| Governance, Regulatory requirements and Risk | The Board reviews and approves the results announcements and trading updates, the half year report and annual report and the AGM statement. The Board receives regular briefings from the Chairman, Chief Executive Officer and Chief Financial Officer and the Company's brokers and public relations advisers.<br><br>Through the half year and annual year end results process and the investor roadshows, the Board are in communication with analysts and advisors to help understand shareholder views which contributes to the Group's strategy and decision making. The CFO presents investor feedback results from the roadshows to the Board. 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>In the current year, the Board, in line with our corporate governance framework, agreed to re-tender the external audit. The Board accepted the Audit Committee's recommendation to appoint Deloitte LLP as external auditor.<br><br>The Board takes regulatory responsibilities seriously and is committed to ensuring that it is open and transparent with regulators. In the current year, the Board met with our nominated adviser to obtain an update on changes to AIM rules and market abuse regulations to ensure iomart's compliance with requirements.<br><br>The Board undertakes a formal and rigorous evaluation of its own performance annually and that of its Committees and individual directors. The Board reviews the Nomination Committees assessment of the current and future composition of the Board, with a focus on diversity, skills and succession planning. On 30 March 2020, the Board approved the appointment of Reece Donovan as Chief Operating Officer. | Shareholders, Employees, Customers, Suppliers, Environment |
| Governance, Regulatory requirements and Risk (continued) | In the current year, the Board has received updates on the internal control framework and the Group risk register which was updated in the prior year via a process supported by external risk management advisors. Risk control documents are presented at Board meetings on the Group's key risks which include an updated assessment of controls and improvement actions required in respect of each major risk. As noted in the Chief Executive Officer's report on page 11, Principal Risks and Uncertainties on page 19 and the Corporate Governance report on page 34, the Board has formally considered the emerging risks as a result of Covid-19 on the business. | Shareholders, Employees, Customers, Suppliers, Environment |

| Key Impact | Key Decisions Made | Key Stakeholder Group's impacted |
|---|---|---|
| Environment | The Board is committed to demonstrating clear environmental and social policies and to minimising the impact of our business operations on the local environment. The Company participates in the Energy Saving Opportunities Scheme (ESOS) and meets the requirements of the Streamlined Energy and Carbon Reporting (SECR) regulations. The Board receive regular management reports on energy performance and outputs of our data centres to demonstrate our commitment to ESOS and SECR and is committed to developing the reporting of emissions across the Group with the intention to further improve environmental performance of our key data centre locations.<br><br>The Board receive updates on compliance with ISO standards, environmental and energy efficiency management policies and updates on improvement activities through the Operational Report of the monthly Board pack. In the current year, the Board approved significant capital spend to improve energy efficiency including the installation of upgraded cooling systems in our London data centre and replacement of IT equipment with new more energy efficient servers and storage devices. | Employees, Customers, Suppliers, Environment |

The Strategic Report on pages 10 to 24 has been approved by the Board and is signed on its behalf:

Scott Cunningham
*Chief Financial Officer*
24 June 2020

## 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.

## 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.

## Reece Donovan

### Chief Operating Officer

**Date of appointment**
March 2020

**Background and experience**
Reece has over 23 years' experience in the technology and telecommunication industries, with a demonstrable track record of achievement in roles both in the UK and internationally. Reece's most recent position was Chief Executive Officer at Nomad Digital, a provider of IP connectivity and digital solutions to the global transportation sector. Previous positions include Senior Vice-President Global Services for CSG International, a provider of software solutions to over 400 customers located in 120 countries and a number of management and operational roles across the technology, communications and consumer packaged goods industries at Steria plc, Xansa plc and Druid plc.

# 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 member of the Advisory Board of Visible Capital Limited. He is also a member of the Constitutional Panel of The Institute of Chartered Accountants of Scotland.

# 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. Richard was Chair of Scotland and Northern Ireland for Pinsent Masons from September 2017 until October 2019 when he retired.

# 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, and Audit Committee Chair, for The Scottish Investment Trust plc, Scottish Building Society, North American Income Trust plc and Scottish American Investment Trust plc.

### 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.

The Group adopts the Quoted Companies Alliance ("QCA") Code which the Board feel 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*
24 June 2020

### 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. We have continued to enhance our governance framework to strengthen our commitment to continuous improvement in corporate governance across the business.

### QCA code

In the prior year, we reported that that the Group would comply with the QCA code, the corporate governance code tailored for small and mid-size quoted companies and this is reflected in the annual report and financial statements for the year ending 31 March 2020. 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 during the year 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 and help solve problems;
- 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, processes and tools;
- Continued optimisation of our data centre estate with cost efficiency achieved via asset planning, procurement and automation;
- Ensure 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.

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

As noted in our Stakeholder Engagement report on pages 21 to 24, 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 Group engages in full and open communication with both institutional and private investors and responds promptly to all queries received. The Group does this via investor roadshows, attending investor conferences and regular financial reporting and through the regulatory news service ("RNS") announcements. In conjunction with the Group'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 Group's progress. The Group's website has a section for investors, which contains all publicly available financial information and news on the Group.

The Board recognises the AGM as an important opportunity to meet 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** |
|---|---|

Our Stakeholder Engagement report on pages 21 to 24 details how we have engaged with key stakeholders in the year. The Group recognises that long-term success is underpinned by good relations with its key stakeholders, both internal and external, and seeks to take into account the interests of all its stakeholders as well as the environment in which it operates.

The Group 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 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.

In the current year, the Group has invested in the HR process and introduced a flexible benefits portal in the year and in the coming year the Group is launching a new performance management system to enhance career development.

| 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.

In the prior year, the Group updated its risk management framework and risk assessment to identify and address all relevant risks in order to execute and deliver the Group'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. In the current year, the Board has received updates on the internal control framework through risk control documents being presented at Board meetings on the Group's key risks which include an updated assessment of controls and improvement actions required in respect of each major risk. 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. In the current year, the Board have also considered the risks of Covid-19 to the Group as noted in the Chief Executive Officer's report on page 11, Principal Risks and Uncertainties on page 19 and the Corporate Governance report on page 34.

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 Group, 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 Group 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 Group. 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 Group'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.

There is an approved formal schedule of matters reserved for the Board for consideration and approval which 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 Group'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 Group'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.

During the year the Board comprised an independent Non-Executive Chairman, Chief Executive Officer, Chief Financial Officer and two independent Non-Executive Directors. On 30 March 2020, recognising the growth of the business and our plans for the future, a Chief Operating Officer was appointed. Board biographies of all Board members giving details of their experience and other main commitments are included on pages 25 and 26.

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 which operated throughout the year. 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. Given the appointment of the Chief Operating Officer to the Executive team at the end of the year, the Board has been considering the criteria for an additional 4$^{th}$ Non-Executive Director.

**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 Group has a highly committed and experienced Board, which is supported by a senior management team, with the qualifications and experience necessary to run the Group.

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 are no outstanding actions from this year's process.

**QCA code (continued)**

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

The Group maintains core values of honesty, integrity, hard work, service and quality and actively promotes these values in all activities undertaken on behalf of the Group.

The Group 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 last year we updated and reinforced our Anti-Bribery and Corruption policies and training requirements throughout the Group. 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 Group 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 Group 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, age, 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.

**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 26. 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.

In the prior 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 Group'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 Group;
- 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 Audit Committee is chaired by Karyn Lamont. Its other members are Ian Steele and Richard Masters.

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 Group 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 2020 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 2020. 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 2020, the Group completed 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. |
| Valuation of 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 an early stage, the Audit Committee assessed the impact of Covid-19 on the year end audit process and the ability to deliver an effective and robust audit process respecting social distancing guidance. No material changes were required to the audit approach or processes to support the generation of the financial statements. Covid-19 has also been considered in relation to the going concern statement disclosed in note 2.

At the invitation of the Committee, meetings may be attended by the Executive Directors. 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. In the current year, the Audit Committee completed a competitive tender process of the external audit and Deloitte LLP were appointed as the Group's external auditor in August 2019. The Audit Committee would like to thank Grant Thornton UK LLP for their external audit services over the years.

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 Deloitte 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. In the year ended 31 March 2020, non-audit services performed by Deloitte LLP related to the interim review which is a permitted service.

**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 |
| Angus MacSween – Chief Executive Officer | 10 | 10 | - | - | - | - |
| Scott Cunningham – Chief Financial Officer | 10 | 10 | - | - | 2 | 2 |
| Reece Donovan – Chief Operating Officer* | 1 | 1 | - | - | - | - |
| Ian Steele – Non-Executive Chairman | 10 | 10 | 4 | 4 | 2 | 2 |
| Richard Masters – Non-Executive Director | 10 | 10 | 4 | 4 | 2 | 2 |
| Karyn Lamont – Non-Executive Director | 10 | 10 | 4 | 4 | 2 | 2 |

*Reece Donovan was appointed to the Board on 30 March 2020

The Nomination Committee held three meetings in the year and all were attended by Ian Steele, Richard Masters and Karyn Lamont.

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 Group 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 Board considers that the Group's key stakeholders are its shareholders, employees, customers, suppliers and key partners and the environment. During the year, the Board and its directors confirm they have acted in a way that promotes the success of iomart Group for the benefit of its members as a whole, and in doing so have had regard to the stakeholders and key matters set out in Section 172 of the Companies Act 2006 as disclosed in our Stakeholder Engagement report on pages 21 to 24. | |

## 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.

Angus MacSween, Ian Steele and Reece Donovan will retire from office at the Company's forthcoming AGM and stand for re-appointment.

### 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 24 including the potential impact of Covid-19. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Chief Financial Officer's Report on pages 14 to 18.

In the three months since the response to the Covid-19 pandemic was initiated in the UK, there has been a very limited impact on iomart's trading from Covid-19. We take great comfort from the resilience of our business model, especially the diversity and limited concentration of our customer base. We are not significantly exposed to industries that are suffering the worst effects. The level of customer churn across all segments of the business has been extremely low, renewal levels high and cash collection in line with our typical profile. However, we remain vigilant to the economic impact the ongoing situation may create, particularly on the SME segment of the market.

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.

The Group has access to a £80m multi option revolving credit facility that matures on 30 September 2022 of which £8m (annually) is available to be drawn on for general business purposes should that be required. The directors are of the opinion that the Group can operate within the current facility and comply with its banking covenants.

At the end of the financial year, the Group had net debt of £57.6m (2019: £39.2m) 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 considered the Group budgets and the cash flow forecasts for the next three financial years, and associated risks, including the potential impact of Covid-19, and the availability of bank and leasing facilities. We have run appropriate scenario and stress tests applying reasonable downside sensitivities and are confident we have the resources to meet our liabilities as they fall due.

After making enquiries, the directors have a reasonable expectation that the Group will be able to meet its financial obligations and has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

### AIM Rule Compliance Report

iomart Group plc is quoted on AIM and as a result the Group 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 Group'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 Group 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 31 March 2020**

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. In framing its remuneration policy the Remuneration Committee has adopted the Quoted Companies Alliance ("QCA") Remuneration Code for Small and Mid-sized Quoted Companies to ensure that the remuneration policy both reflects our strategy and is aligned with the QCA Remuneration code and 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.

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 four 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 generally reviews base salaries of the Executive Directors with effect from 1 April in each year. This year the Committee has taken a cautious approach as a result of Covid-19 and has deferred a salary review until later in the year. The salaries from 1 April 2020 are therefore unchanged as follows:<br>CEO – £365,925<br>CFO – £224,400<br>COO – £300,000 | 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 31 March 2020 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 2021.<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. The performance share plan was renewed in the year, with no significant changes to the scheme rules, and approved by the Board on 29 March 2020.<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 and COO. | • 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 to the directors 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. |
| Pension | • The Company may make contributions towards an individuals' personal pension arrangements. | • The maximum contributions payable by the Company are 2 times the contribution made by the director up to a maximum employer contribution of 10% of basic salary.<br>The CFO and COO receive a pension contribution. | n/a |
| Benefits | • The Executive Directors are entitled to life insurance cover, death in service benefits and to participate in the Group's Private Medical Insurance scheme. Other role-appropriate benefits may also be provided.<br>• The Group operates a Sharesave scheme for all employees including Executive Directors. | n/a | n/a |

### Service contracts

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

| | |
|---|---|
| Angus MacSween | 12 months |
| Scott Cunningham | 6 months |
| Reece Donovan | 12 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 2020 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 2020

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 2020 [3] Total | Year ended 31 March 2019 Total |
|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ |
| **Executive Directors** | | | | | | |
| Angus MacSween | 365,925 | 212,250 | 4,704 | - | 582,879 | 617,880 |
| Scott Cunningham [1] | 224,400 | 130,160 | 2,482 | 22,440 | 379,482 | 234,513 |
| **Non-Executive Directors** | | | | | | |
| Ian Steele | 75,000 | - | - | - | 75,000 | 62,500 |
| Richard Masters | 45,000 | - | - | - | 45,000 | 45,000 |
| Karyn Lamont [2] | 45,000 | - | - | - | 45,000 | 4,269 |

[1] Scott Cunningham was appointed to the Board on 4 September 2018
[2] Karyn Lamont was appointed to the Board on 26 February 2019
[3] Reece Donovan was appointed to the Board on 30 March 2020 and accordingly his salary for two days is excluded from the above table. Details of his remuneration package are disclosed on page 37.

### Directors' interests in shares

The directors holding office at 31 March 2020 held beneficial interests in the issued share capital of the Company as shown in the following table:

| | Number of ordinary shares | |
|---|---|---|
| | At 31 March 2020 | At 1 April 2019 |
| **Name of Director** | | |
| Angus MacSween | 17,003,409 | 17,003,409 |
| Scott Cunningham [1] | 8,000 | 4,000 |
| Reece Donovan | nil | nil |
| Ian Steele | nil | nil |
| Richard Masters [2] | 6,000 | nil |
| Karyn Lamont | nil | nil |

[1] On 19 June 2019, Scott Cunningham's spouse purchased 4,000 shares at a price of 325.0p taking total shareholding to 8,000 shares.

[2] On 2 December 2019, Richard Masters and his spouse purchased 3,000 shares each at a price of 354.5p.

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

The interests of the directors at 31 March 2020 in options over the ordinary shares of the Company were as follows:

| Name of director | At 1 April 2019 | Exercised | Granted | Lapsed | At 31 March 2020 | Exercise price | Date of Grant | Date from which exercisable | Expiry date |
|---|---|---|---|---|---|---|---|---|---|
| Angus MacSween | 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 |
| | 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 |
| | - | - | 115,999 | - | 115,999 | 1p | 09/05/2019 | 09/05/2022 | 09/05/2029 |
| | 1,011,195 | - | 115,999 | - | 1,127,194 | | | | |
| 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 |
| | - | - | 64,669 | - | 64,669 | 1p | 09/05/2019 | 09/05/2022 | 09/05/2029 |
| | 140,329 | - | 64,669 | - | 204,998 | | | | |

During the year options over 180,668 ordinary shares (2019: 248,003) were granted to directors under the unapproved share option scheme with an average exercise price of 1.0p per share (2019: 1.0p per share). No options have been granted to directors under the Sharesave scheme in the current year (2019: 2,777 options granted at an average exercise price of 324.0p per share).

The market price of the Company's shares at the end of the financial year was 270p (2019: 347p) and the range of prices during the year was between 229p (2019: 308p) and 405p (2019: 475p).

By order of the Board

Richard Masters

*Chairman, Remuneration Committee*

24 June 2020

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 2020.

**Principal activity**

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

**Financial risk management objectives and policies**

The Group's financial instruments comprise cash and liquid resources, bank loans and leases together with various items such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to provide finance for the Group's operations.

The multi option revolving credit facility of £80m is able to be used by the Group to finance acquisitions, capital expenditure, general business purposes (up to a maximum of £8m each year) 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 drawdown 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% (2019: 1.5%) per annum and a non-utilisation fee of 40% (2019: 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 the multi option revolving credit facility in the current year was 2.17% (2019: 2.44%).

The Group has net debt at 31 March 2020 of £57.6m (2019: £39.2m). Net debt comprises lease liabilities, including the impact of the adoption of IFRS 16, totalling £20.3m (2019: £0.8m), the Group bank facility totalling £52.8m (2019: £48.5m) and cash and cash equivalent of £15.5m (2019: £10.1m).

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 2020 of 2.60p per share (2019: 2.45p). The directors recommend a final dividend for the year ended 31 March 2020 of 3.93p per share (2019: 5.01p per share). This final dividend, together with the interim dividend, takes the total dividend to 6.53p per ordinary share for the 2020 financial year (2019: 7.46p). Subject to shareholder approval this proposed final dividend would be payable on 4 September 2020 to shareholders on the register at close on 14 August 2020.

**Research and development**

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

**Post balance sheet events**

On 23 June 2020, the lease of our London data centre was extended by a further 5 years to June 2035. As part of this extension, £2.3m of total lease deposits (note 14) will be returned to the Group post year end.

**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 24.

### Directors and their interests

The present membership of the Board is set out on pages 25 and 26 and the directors who served during the year are listed on page 41. In accordance with the Articles of Association, Angus MacSween, Ian Steele and Reece Donovan offer themselves for re-election at the forthcoming annual general meeting.

Details of directors' interests in the Group's shares are set out in the Report of the Board to the Members on Directors' Remuneration on 33 to 38.

### Insurance for directors and officers

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

### Donations

No political donations have been made during the year ended 31 March 2020 (2019: £nil).

### Substantial shareholdings

At 26 May 2020 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 | 18,049,299 | 16.53% |
| Angus MacSween | 17,003,409 | 15.57% |
| Octopus Investments | 15,703,817 | 14.38% |
| Investec Wealth & Investment | 6,474,327 | 5.93% |
| Noble Grossart Investment Limited | 3,325,000 | 3.04% |

### Employees

Information on our engagement with employees and our regard to this stakeholder on the principal decisions taken by the Company during the financial year is included in the Stakeholder Engagement report on pages 21 to 24.

Additionally, 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. Options in respect of directors are detailed in the Directors Remuneration Report.

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

The Company encourage employees to support the community and a number of charitable organisations through staff-led initiatives and in the year has taken part in a number of key events including Sleep in the Park, Great Scottish Run and local charity football tournaments. We sponsor the Scottish Football Association's annual Learning Disability School Cup, which forms part of the SFA's para-sport community initiative. iomart encourage employees to donate to charity through a payroll Give as You Earn Scheme.

Most recently, iomart donated £50,000 of spare computers from one of our UK data centres to support Folding@Home, a worldwide open source computing project that has been mobilised in the fight against Covid-19.

### Suppliers and customers

Information on our engagement with suppliers and customers and our regard to these stakeholders on the principal decisions taken by the Company during the financial year is included in the Stakeholder Engagement Report on pages 21 to 24.

Additionally, we recognise the importance to the Group and our suppliers of complying with all payment terms and we report on a half-yearly basis on our payment practices, policies and performances in line with the Reporting on Payment Practices and Performance Regulations 2017.

### Greenhouse Gas ("GHG") Emissions reporting

iomart seeks to minimise the impact of our operations on the environment and is committed to reducing its greenhouse gas ("GHG") emissions. Key sources of energy, primarily electricity to power our data centre estate, are monitored by the Group to allow us to be continually mindful of our energy consumption. iomart applies a set of global environmental standards to all of our activities and our environmental and energy management systems are certified to ISO 14001 and ISO 50001 (internationally accepted environmental standards). These certifications provide a framework against which we have developed comprehensive environmental procedures and monitoring systems. These processes have allowed us to measure our environmental performance and focus our activities on delivering improvements.

The table below shows the total gross GHG emissions in tonnes of $CO_2$ ("tCO2e") in the year ended 31 March 2020:

| | |
|---|---|
| Scope 1 - Emissions from combustion of gas | - |
| Scope 1 - Emissions from combustion of fuel for transport purposes | - |
| Scope 2 - Emissions from purchased electricity (location-based) | 12,549 |
| Scope 2 - Emissions from purchased electricity (market-based) | - |
| Scope 3 - Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel | 29 |
| **Total gross emissions ($tCO_2e$)** | **12,578** |

| | |
|---|---|
| Total gross emissions ($tCO_2e$) | 12,578 |
| Total sales (£'000) | 112,581 |
| **Carbon Intensity ratio ($tCO_2e$/£'000)** | **0.00011** |

### Methodology

There are no scope 1, direct emissions from the combustion of gas. Scope 2, indirect emissions, include consumption of purchased electricity in KwH, converting these values to CO2e using Department of Energy conversion factors. Scope 3 emissions relates to business travel in rental cars or employee-owned vehicles were iomart are responsible for purchasing the fuel.

Using an operational approach, the Group identified its population to ensure that all activities and facilities, including data centres, are being recorded and reported in line with the mandatory GHG protocol corporate accounting and reporting standard. Relevant data is prepared on a monthly basis by our external energy management supplier. The validity, accuracy and completeness of the data was checked and used to calculate the GHG for the Group. Emissions are calculated as activity data multiplied by emissions factor (sourced from Government greenhouse gas reporting conversion factors). Acquisitions made during 2020 have not been included in GHG reporting on the basis the acquisitions were in the last month of the financial year and their exclusion is immaterial to Group metrics.

The Group uses total turnover to calculate the intensity ratio as this allows emissions to be monitored over time taking into accounts changes in the size of the Group. This factor provides the greatest degree of accuracy and is the metric best aligned to business growth.

## Greenhouse Gas ("GHG") Emissions reporting (continued)

### Energy efficiency

The proactive management of our GHG emissions is central to iomart operations with a clear focus on controlling and reducing our GHG and carbon footprint. The Group aims to improve energy efficiency of its operations and ensure continued compliance with ISO 50001:2011 as the basis for its energy management arrangements and has committed to:

- setting targets and objectives for reducing energy use and maintaining an energy efficiency programme;
- managing and reducing energy use relating to our business premises;
- respecting all existing, applicable environmental regulations and meeting all new applicable regulations;
- setting targets in the form of energy performance indicators for electricity and energy consumption and power usage effectiveness targets for each of our data centres. The Group engages an external energy management supplier who provides regular updates through reports and face to face meetings with the Executive Board to manage ongoing performance;
- providing training on good energy management practices and encouraging employee involvement in energy efficiency improvement initiatives; and
- the Group participates in the Energy Saving Opportunities Scheme (ESOS) with annual ESOS audits carried out throughout the Group and is committed to meeting the requirements of the Streamlined Energy and Carbon Reporting (SECR) regulations.

In the year, the Board approved capital spend to install upgraded cooling and main plant systems in our central London data centre. In addition, energy efficient fans and LED lighting have been installed at key data centres and a programme is currently underway to install new energy efficient servers. Smart sub-metering systems have been installed across key data centres to better monitor and understand energy use and further optimise energy and carbon performance.

For more detail on how the Board have had regard to the environment in key strategic decisions in the year, see our Stakeholder Engagement report on pages 21 to 24.

### Independent Auditor and disclosure of information to auditor

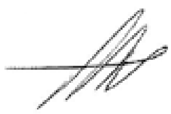
The directors confirm that each of the persons who is a director at the date of approval of this annual report confirms that:

- 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 2006.

Deloitte LLP were appointed as auditors on 27 August 2019 and have expressed their willingness to continue in office as auditors. A resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

By order of the Board



**Andrew McDonald**
*Company Secretary*
24 June 2020

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.

**Report on the audit of the financial statements**

## 1. OPINION

In our opinion:

- the financial statements of iomart Group plc (the 'Parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated statement of cash flows;
- the related notes 1 to 30 for the consolidated financial statements; and,
- the related notes 1 to 16 for the parent company financial statements.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework".

## 2. 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 financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (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.

## 3. SUMMARY OF OUR AUDIT APPROACH

| | |
|---|---|
| Key audit matters | The key audit matters that we identified in the current year were:<br>• Completeness and valuation of deferred revenue;<br>• Business combinations: valuation and allocation of acquired intangible assets; and<br>• The impact of the Covid-19 pandemic on going concern. |
| Materiality | The materiality that we used for the group financial statements was £1,254k which was determined on the basis of 3.0% of earnings before interest, tax, depreciation and amortisation, adjusted to exclude the gain on the revaluation of contingent consideration. |
| Scoping | Our audit covered 93% of the Group's revenue, 99% of the Group's net assets, 92% of the Group's profit before tax, and 96% of the Group's earnings before interest, tax, depreciation and amortisation, adjusted for the gain on contingent consideration. |

## 4. CONCLUSIONS RELATING TO GOING CONCERN

| | |
|---|---|
| We are required by ISAs (UK) to report in respect of the following matters where:<br>• the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or<br>• the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or 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. | We have nothing to report in respect of these matters, however have identified the impact of the Covid-19 pandemic on going concern as a key audit matter. |

## 5. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the 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 which 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 financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### 5.1. Completeness and valuation of deferred revenue

| | |
|---|---|
| Key audit matter description | **The Group has deferred revenue of £13,427k split between current (£11,144k) and non-current (£2,283k) included within trade and other payables.**<br><br>A significant proportion of the Group's services are invoiced in advance, resulting in a material deferred revenue balance being recorded in the financial statements at the year-end.<br><br>Due to the high volume of customer balances being deferred and the fact that the deferral calculation is performed across a range of systems and by a range of staff, we have determined there is a potential for fraud through possible manipulation of this balance.<br><br>Deferred revenue is included within notes 2 and 19 to the financial statements. |
| How the scope of our audit responded to the key audit matter | The audit procedures we performed in respect of this matter included:<br><br>• Gaining an understanding of the process undertaken by management to calculate deferred revenue, and testing of key controls within three of the full scope components;<br><br>• Testing the balance through recalculating the full deferred revenue balance in each entity based on contract start and end dates;<br><br>• Selecting samples from the listing, agreeing the underlying amounts to customer contracts where applicable;<br><br>• Performing cut-off testing in each entity, selecting a sample of pre and post-year end sales and ensuring that any deferred element was calculated correctly; and<br><br>• Recalculating current and non-current liability classification based on underlying schedules. |
| Key observations | We concluded that the completeness and valuation of deferred revenue recorded in the financial statements is not materially misstated. |

## 5. KEY AUDIT MATTERS (CONTINUED)

### 5.1. Business combinations: valuation and allocation of acquired intangible assets

| | |
|---|---|
| Key audit matter description | **The Group completed two business combinations in the year, Memset Limited and the managed private cloud service division of ServerChoice Limited for total consideration of £3,213k and £2,817k respectively. Goodwill of £1,097k and other intangible assets of £4,666k were recognised on acquisition.**<br><br>Management performed a purchase price allocation exercise to allocate consideration in excess of the net asset value to goodwill and other intangibles.<br><br>Given the judgement involved in valuing acquired intangible assets and in forecasting post-acquisition performance, we have identified a risk of material misstatement in relation to the valuation and allocation of acquired intangible assets.<br><br>Business combinations are included within notes 2 and 11 to the financial statements.<br><br>The directors' consideration in respect of the risk is included on page 34. |
| How the scope of our audit responded to the key audit matter | The audit procedures we performed in respect of this matter included:<br><br>• Gaining an understanding of the process undertaken by management to perform the purchase price allocation and contingent consideration calculation, and gaining an understanding of key controls;<br><br>• Critically assessing relevant share purchase agreements to ensure that acquisitions have been accounted for correctly in the financial statements;<br><br>• Engaging with our internal valuation specialists to understand the inputs and methodology and forming a view on assumptions used by management;<br><br>• Challenging management's assumptions for the inputs to the calculations with reference to Deloitte and comparable company benchmarks;<br><br>• Challenging the accuracy of forecast revenues used in the calculations; and<br><br>• Considering management's assessment of the presence of further intangible assets not identified. |
| Key observations | We concluded that the assumptions made by management in determining the valuation and allocation of acquired intangible assets are reasonable. |

## 5. KEY AUDIT MATTERS (CONTINUED)

### 5.1. The impact of the Covid-19 pandemic on going concern

| | |
|---|---|
| **Key audit matter description** | **There is an unprecedented level of economic uncertainty arising from the Covid-19 pandemic. Assessing the impact of this on going concern resulted in additional focus and time being spent by both management and the audit team.**<br><br>There is a challenge in modelling for the impact of the Covid-19 pandemic given the rapidly changing situation in the UK and the wide-reaching changes in government policy. Management modelled different scenarios which may occur as a result of the Covid-19 pandemic, showing drops in revenue and EBITDA in each of the following three financial years. Whilst no material uncertainty was identified in relation to going concern, we deemed it to be a key audit matter in the current environment.<br><br>Under the Covid-19 downside scenarios presented by management, the directors have concluded that the going concern assumption remains appropriate based on the continued trading performance of the group and the ability to comply with covenants linked to the group's banking facilities.<br><br>The directors' consideration in respect of the risk is included on page 36. |
| **How the scope of our audit responded to the key audit matter** | The audit procedures we performed in respect of this matter included:<br><br>• Obtaining an understanding of the processes and controls involved in management's going concern assessment in light of the Covid-19 pandemic;<br><br>• Testing the integrity of management's going concern model;<br><br>• Challenging the reasonableness of the scenarios identified and key assumptions used by management in determining the impact of the Covid-19 pandemic on going concern;<br><br>• Recalculating management's forecast covenant compliance calculations throughout the going concern period; and<br><br>• Assessing the adequacy of disclosures related to the impact of the Covid-19 pandemic on going concern made in the financial statements. |
| **Key observations** | We concluded that the scenarios identified by management, testing performed and key assumptions made in assessing the impact of the Covid-19 pandemic were reasonable and that the conclusions on going concern are appropriate. |

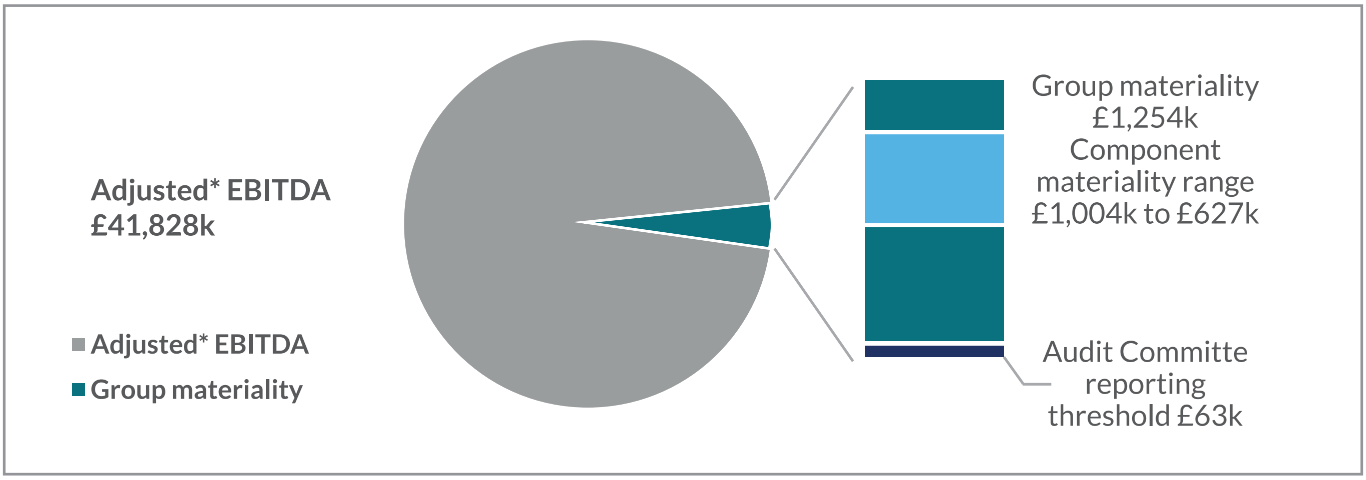
## 6. OUR APPLICATION OF MATERIALITY

### 6.1. 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 both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | Group financial statements | Parent Company financial statements |
|---|---|---|
| **Materiality** | £1,254k | £627k |
| **Basis for determining materiality** | 3.0% of earnings before interest, tax, depreciation and amortisation, adjusted to exclude gain on the revaluation of contingent consideration. | Parent company materiality equates to 0.6% of net assets which was capped at 50% of Group materiality. |
| **Rationale for the benchmark applied** | We have used an adjusted EBITDA measure as the benchmark for our determination of materiality as we consider this to be a critical performance measure for the Group on the basis that it is a key metric to analysts and investors and has equal prominence to statutory measures in the Annual Report. The gain on contingent consideration has been deemed to be non-recurring in nature and has therefore been excluded from the benchmark balance. | We have used net assets as the benchmark for our determination of materiality as the parent company is not a trading entity and instead holds the Group's investments in subsidiaries. We consider net assets to be the appropriate metric for such an entity.<br><br>We have capped materiality to be 50% of Group materiality being £627k. 50% is deemed to be appropriate based on the company only contribution to the Group. |




*Adjusted EBITDA represents earnings before interest, tax, depreciation and amortisation, adjusted to exclude the gain on the revaluation of contingent consideration.

## 6. OUR APPLICATION OF MATERIALITY (CONTINUED)

### 6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 60% of group materiality for the 2020 audit. In determining performance materiality, we considered the following factors:

- This is our first year of engagement.
- Our risk assessment, including our assessment of the Group's overall control environment and that we consider it appropriate to rely on controls within the revenue business process in three of the full scope components.
- Our risk assessment did not identify a disproportionate number of significant risks of material misstatement.

### 6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £63k, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## 7. AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment through discussion with IT and the Group and component finance teams and by performing walkthroughs of processes across each of these areas, including Group-wide controls, and assessing the risk of material misstatement at a Group level.

For components deemed significant to the Group, full scope audit procedures were performed to materiality levels applicable to each entity, which was lower than the Group materiality level. Components deemed significant are as follows:

- iomart Hosting Limited
- Easyspace Limited
- iomart Cloud Services Limited
- Cristie Data Limited
- Dediserve Limited
- Bytemark Holdings Limited
- Bytemark Limited
- LDeX Group Limited
- London Data Exchange Limited
- LDeX Connect Limited

Two further entities were subject to specified audit procedures based on the materiality of individual balances. Entities within this category are:

- Sonassi Holding Company Limited
- Sonassi Limited

This provided audit coverage of 93% of the Group's revenue, 99% of the Group's net assets, 92% of the Group's profit before tax, and 96% of the Group's earnings before interest, tax, depreciation and amortisation, adjusted for the gain on contingent consideration.

The remaining non-significant components were subject to analytical reviews. Our audit work on these components was executed at group materiality.

At the parent entity level, we also tested the consolidation process.

All work on the significant components and consolidation process was performed by the group engagement team.

## 8. OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report including the Chairman's statement, the Chief Executive Officer's report, the Chief Financial Officer's report, the corporate governance report, the Director's report and the Director's responsibilities statement, 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 in the 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 respect of these matters.

## 9. RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

## 10. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

Report on other legal and regulatory requirements

## 11. OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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 financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

## 12. MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

### 12.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have nothing to report in respect of these matters.

### 12.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

## 13. 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.

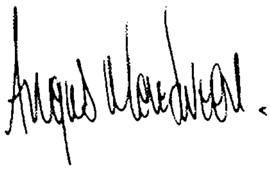
**David Sweeney, CA (Senior Statutory Auditor)**
**for and on behalf of Deloitte LLP**
Statutory Auditor
Glasgow
24 June 2020

| | Note | 2020 £'000 | 2019 £'000 |
|---|---|---|---|
| Revenue | 3 | 112,581 | 103,709 |
| Cost of sales | | (44,093) | (36,965) |
| **Gross profit** | | **68,488** | **66,744** |
| Administrative expenses | | (51,387) | (47,952) |
| **Operating profit** | 4 | **17,101** | **18,792** |
| **Analysed as**: | | | |
| **Earnings before interest, tax, depreciation, amortisation, acquisition costs and share-based payments** | | **43,510** | **42,232** |
| Share-based payments | 26 | (1,243) | (1,008) |
| Acquisition costs | 6 | (438) | (351) |
| Depreciation | 4 | (15,635) | (13,091) |
| Amortisation – acquired intangible assets | 4 | (6,159) | (6,492) |
| Amortisation – other intangible assets | 4 | (2,934) | (2,498) |
| Gain/(loss) on revaluation of contingent consideration | 29 | 1,856 | (1,394) |
| Finance income | 7 | 39 | 21 |
| Finance costs | 7 | (2,212) | (1,203) |
| **Profit before taxation** | | **16,784** | **16,216** |
| Taxation | 9 | (3,135) | (3,339) |
| **Profit for the year attributable to equity holders of the parent** | | **13,649** | **12,877** |
| **Other comprehensive income** | | | |
| *Amounts which may be reclassified to profit or loss* | | | |
| Currency translation differences | | 98 | (8) |
| **Other comprehensive income for the year** | | **98** | **(8)** |
| **Total comprehensive income for the year attributable to equity holders of the parent** | | **13,747** | **12,869** |
| **Basic and diluted earnings per share** | | | |
| Basic earnings per share | 12 | 12.5p | 11.9p |
| Diluted earnings per share | 12 | 12.2p | 11.6p |

The following notes form part of the financial statements.

| | Note | 2020 £'000 | 2019 £'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets – goodwill | 13 | 86,479 | 85,382 |
| Intangible assets – other | 13 | 24,631 | 25,211 |
| Trade and other receivables | 14 | 2,760 | 2,520 |
| Property, plant and equipment | 16 | 72,344 | 47,045 |
| | | **186,214** | **160,158** |
| **Current assets** | | | |
| Cash and cash equivalents | 18 | 15,497 | 10,069 |
| Trade and other receivables | 17 | 23,237 | 20,794 |
| | | **38,734** | **30,863** |
| **Total assets** | | **224,948** | **191,021** |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Trade and other payables | 19 | (2,283) | - |
| Non-current borrowings | 21 | (70,109) | (48,957) |
| Provisions | 22 | (1,956) | (1,115) |
| Deferred tax | 10 | (1,146) | (939) |
| | | **(75,494)** | **(51,011)** |
| **Current liabilities** | | | |
| Contingent consideration due on acquisitions | 20 | (2,480) | (3,009) |
| Trade and other payables | 19 | (31,948) | (30,933) |
| Current tax liabilities | | (3) | (1,315) |
| Current borrowings | 21 | (3,029) | (356) |
| | | **(37,460)** | **(35,613)** |
| **Total liabilities** | | **(112,954)** | **(86,624)** |
| **Net assets** | | **111,994** | **104,397** |
| **EQUITY** | | | |
| Share capital | 24 | 1,092 | 1,085 |
| Own shares | 25 | (70) | (70) |
| Capital redemption reserve | | 1,200 | 1,200 |
| Share premium | | 22,147 | 21,518 |
| Merger reserve | | 4,983 | 4,983 |
| Foreign currency translation reserve | | 50 | (48) |
| Retained earnings | | 82,592 | 75,729 |
| **Total equity** | | **111,994** | **104,397** |

These financial statements were approved by the board of directors and authorised for issue on 24 June 2020. 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.

| | Note | 2020 £'000 | 2019 £'000 |
|---|---|---|---|
| **Profit before taxation** | | **16,784** | **16,216** |
| (Gain)/loss on revaluation of contingent consideration | 29 | (1,856) | 1,394 |
| Finance costs – net | 7 | 2,173 | 1,182 |
| Depreciation | 16 | 15,635 | 13,091 |
| Amortisation | 13 | 9,093 | 8,990 |
| Share-based payments | 26 | 1,243 | 1,008 |
| Movement in trade receivables | | (1,107) | (1,226) |
| Movement in trade payables | | (627) | (1,563) |
| **Cash flow from operations (before payment of exceptional non-recurring cost)** | | **41,338** | **39,092** |
| Payment of exceptional non-recurring cost | | - | (2,312) |
| **Cash flow from operations** | | **41,338** | **36,780** |
| Taxation paid | | (4,719) | (5,353) |
| **Net cash flow from operating activities** | | **36,619** | **31,427** |
| | | | |
| **Cash flow from investing activities** | | | |
| Purchase of property, plant and equipment | 16 | (14,688) | (10,383) |
| Purchase of Maidenhead freehold | 16 | - | (5,729) |
| Development costs | 13 | (1,405) | (1,412) |
| Purchase of intangible assets | 13 | (1,065) | (1,107) |
| Payments for current period acquisitions net of cash acquired | | (4,156) | (11,970) |
| Contingent consideration paid | 29 | - | (4,688) |
| Finance income received | 7 | 39 | 21 |
| **Net cash used in investing activities** | | **(21,275)** | **(35,268)** |
| | | | |
| **Cash flow from financing activities** | | | |
| Issue of shares | 24 | 636 | 292 |
| Drawdown of bank loans | 21 | 6,150 | 25,860 |
| Repayment of lease liabilities | 23 | (4,686) | (471) |
| Repayment of bank loans | 21 | (2,000) | (12,200) |
| Finance costs paid | | (1,734) | (1,075) |
| Dividends paid | 8 | (8,282) | (7,991) |
| **Net cash (used in)/generated from financing activities** | | **(9,916)** | **4,415** |
| | | | |
| **Net increase in cash and cash equivalents** | | **5,428** | **574** |
| | | | |
| Cash and cash equivalents at the beginning of the year | | 10,069 | 9,495 |
| | | | |
| **Cash and cash equivalents at the end of the year** | 18 | **15,497** | **10,069** |

The following notes form part of the financial statements.

| | Note | Share capital £'000 | Own shares EBT £'000 | Foreign currency £'000 | Capital £'000 | Share premium account £'000 | Merger reserve £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 April 2018** | | **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 – final (paid) | 8 | - | - | - | - | - | - | (5,336) | (5,336) |
| Dividends – interim (paid) | 8 | - | - | - | - | - | - | (2,655) | (2,655) |
| 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** |
| Profit for the year | | - | - | - | - | - | - | 13,649 | 13,649 |
| Currency translation differences | | - | - | 98 | - | - | - | - | 98 |
| **Total comprehensive income** | | **-** | **-** | **98** | - | - | - | **13,649** | **13,747** |
| Dividends – final (paid) | 8 | - | - | - | - | - | - | (5,448) | (5,448) |
| Dividends – interim (paid) | 8 | - | - | - | - | - | - | (2,834) | (2,834) |
| Share-based payments | 26 | - | - | - | - | - | - | 1,243 | 1,243 |
| Deferred tax on share-based payments | 10 | - | - | - | - | - | - | 253 | 253 |
| Issue of share capital | 24 | 7 | - | - | - | 629 | - | - | 636 |
| **Total transactions with owners** | | **7** | - | - | - | **629** | - | **(6,786)** | **(6,150)** |
| **Balance at 31 March 2020** | | **1,092** | **(70)** | **50** | **1,200** | **22,147** | **4,983** | **82,592** | **111,994** |

The nature of equity in the statement of changes in equity is disclosed in the accounting policies (note 2).
The following notes form part of the financial statements.

## 1. GENERAL INFORMATION

iomart Group plc is a public listed company listed on the Alternative Investment Market ("AIM"), incorporated and domiciled in the United Kingdom and registered in Scotland 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 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.

### Audit exemption of subsidiaries

For the year ended 31 March 2020, the following subsidiaries of the Group were entitled to exemption from audit under s479A of the Companies Act 2006.

| Subsidiary | Registered number |
|---|---|
| Cloudfuel Limited | 08903591 |
| Global Gold Holdings Limited | 03771136 |
| Global Gold Network Limited | 03751660 |
| Internet Engineering Limited | 03629948 |
| iomart Datacentres Limited | 05532548 |
| Melbourne Server Hosting Limited | 04091836 |
| Open Minded Solutions Limited | 05338357 |
| ServerSpace Limited | 05958069 |
| Simple Servers Limited | 06813119 |
| Sonassi Holding Company Limited | 09248696 |
| Sonassi Limited | 07715859 |
| Switch Media (Ireland) Limited | 05642405 |
| Switch Media Limited | 04510647 |
| SystemsUp Limited | 05212115 |
| Tier 9 Limited | 08903379 |
| United Communications Limited | 03651923 |

## 2. ACCOUNTING POLICIES (CONTINUED)

**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 17 - Insurance Contracts;
- IFRS 10 and IAS 28 (amendments) - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- Amendments to IFRS 3 - Definition of a business;
- Amendments to IAS 1 and IAS 8 - Definition of material; and
- Conceptual Framework Amendments to References to the Conceptual Framework in IFRS Standards.

**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 IFRS Standards and Interpretations issued by the International Accounting Standards Board (the Board) that are effective for an annual period that begins on or after 1 January 2019 including:

- IFRIC 23 Uncertainty over Income Tax Treatments;
- IFRS 16 Leases; and
- Annual improvements to IFRS Standards 2015-2017 cycle.

**IFRIC 23 – Uncertainty over Income Tax Treatments**

The Group has adopted IFRIC 23 for the first time in the current year which had no material impact on the amounts reported, and disclosures included, in the financial statements. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Group to:

- Determine whether uncertain tax positions are assessed separately or as a group; and
- Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  - If yes, the Group should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings; and
  - If no, the Group should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

**IFRS 16 – Leases**

In the current year, the Group has applied IFRS 16 that is effective for annual periods that begin on or after 1 January 2019. The date of initial application of IFRS 16 for the Group is 1 April 2019. IFRS 16 introduces significant changes to lessee accounting by removing the distinction between operating and finance leases, requiring the recognition of a right-of-use asset and a lease liability at the commencement of all contracts that are, or contain a lease, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value (below £5,000).

**Approach to transition**

The Group has applied IFRS 16 using the modified retrospective adoption method, with no restatement of prior year comparatives, and has recognised leases on balance sheet as at 1 April 2019. From 1 April 2019, the Group recognises a right-of-use asset and corresponding lease liability on the balance sheet with respect of all lease arrangements in which it is a lessee, except for short-term leases and low value leases. At this date, the Group has elected to measure the right-of-use assets to an amount equal to the lease liability.

For contracts in place at the date of transition, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as leases under IAS 17 and IFRIC 4.

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of transition.

## 2. ACCOUNTING POLICIES (CONTINUED)

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

**IFRS 16 – Leases (continued)**

Instead of performing an impairment review on the right-of-use assets for operating leases in existence at the date of transition, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Group has applied the optional exemptions to not recognise the right-of-use assets but to account for the lease expense on a straight line basis over the remaining lease term.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 2.85%.

Judgements applied in the adoption of IFRS 16 include determining the lease term for those leases with termination or extension options and determining an incremental borrowing rate where the rate implicit in a lease could not be readily determined. The directors do not consider that there have been material judgements made.

Full details of lease liabilities are set out in note 23.

The following is a reconciliation of total operating lease commitments at 31 March 2019 to the lease liabilities recognised at 1 April 2019:

| | £'000 |
|---|---|
| Total operating lease commitments disclosed at 31 March 2019 | 21,610 |
| Discounted using the lessee's incremental borrowing rate at the date of initial application | (3,126) |
| Less: low value and short-term leases recognised on a straight line basis as expense | (1,516) |
| Add: adjustments as a result of a different treatment of extension and termination options * | 3,453 |
| **Total lease liability recognised under IFRS 16 at 1 April 2019 (note 23)** | **20,421** |

**On adoption of IFRS 16, lease extension options have been extended beyond the non-cancellable period under IAS 17 and rental payments increased on a significant property lease following a rent review in the current period.*

**Leases – Accounting policy applicable from 1 April 2019 following the adoption of IFRS 16**

For any new contracts entered into on or after 1 April 2019, the Group will consider whether a contract is, or contains a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use of an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition the Group assesses whether the contract meets three key evaluations which are whether the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group; the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and the Group has the right to direct the use of the identified asset throughout the period of use.

**Measurement and recognition of leases as a lessee**

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability measured at the present value of future lease payments, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group assesses the right-of-use asset for impairment under IAS 36 'Impairment of Assets' where such indicators exist.

## 2. ACCOUNTING POLICIES (CONTINUED)

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

### IFRS 16 – Leases (continued)

### Measurement and recognition of leases as a lessee (continued)

The lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted using the rate implicit in the lease. If this rate cannot readily be determined, the Group applies an incremental borrowing rate. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the liability by payments made. The Group re-measures the lease liability (and adjusts the related right-of-use asset) whenever the lease term has changed or a lease contract is modified and the modification is not accounted for as a separate lease.

Lease payments included in the measurement of the lease liability can be made up of fixed payments, variable payments based on an index or rate, amounts expected to be payable under a residual guarantee and payments arising from options reasonably certain to be exercised. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is re-measured to reflect any reassessment or modification, or if there are changes in fixed payments. When the lease liability is re-measured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight line basis over the lease term.

Under IFRS 16, the Group recognises depreciation of the right-of-use asset and interest on lease liabilities in the consolidated statement of comprehensive income over the period of the lease. On the balance sheet, right-of-use assets have been included in property, plant and equipment and software and lease liabilities have been included in borrowings due within one year and after more than one year.

Under IFRS 16, the Group also separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cash flows. In the prior year, operating rental costs were presented within operating activities.

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 lease liability. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to profit or loss (finance costs) 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.

### 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 2020. 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.

## 2. ACCOUNTING POLICIES (CONTINUED)

### 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.

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.

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date

### 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 Group will typically enter multi-element contracts where more than one service is provided such as a private cloud platform combined with an online backup portal, and in such instances the delivery of these multi-element contracts are treated as a single performance obligation. Revenue is then subsequently recognised over the period of service delivery when the criteria for recognition has been met. Revenue recognised at a point in time predominantly consists of both software and hardware sales in which revenue is recognised at the point in which the customer receives the goods. The amount of revenue recognised under each category during the period can be summarised as follows:

| | 2020<br>£'000 | 2019<br>£'000 |
|---|---|---|
| Recurring - over time | 95,391 | 93,015 |
| Non-Recurring - point in time | 17,190 | 10,694 |
| **Total revenue** | **112,581** | **103,709** |

## 2. ACCOUNTING POLICIES (CONTINUED)

### Revenue (continued)

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.

### 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.

### Intangible assets

***Goodwill***

Goodwill represents the excess of the consideration of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment charges. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. 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 straight line 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.

## 2. ACCOUNTING POLICIES (CONTINUED)

### Intangible assets (continued)

*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 for purchased software or eight years in the case of acquired software.

### Acquisition costs

In accordance with IFRS 3 Business Combinations costs incurred on professional fees and attributable internal acquisition costs 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.

### Alternative performance measures

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

*Adjusted EBITDA*

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

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

## 2. ACCOUNTING POLICIES (CONTINUED)

*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;
- 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.

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

*Adjusted diluted earnings per share*

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

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

**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 IFRS 16.

**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 straight line rates generally applicable are:

| | |
|---|---|
| Freehold property | Between 2.00% and 3.33% per annum |
| Leasehold improvements | Between 6% and 10% per annum |
| Data centre 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.

## 2. ACCOUNTING POLICIES (CONTINUED)

### Impairment testing of goodwill, other intangible assets and property, plant and equipment (continued)

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.

### 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.

### Trade and other receivable - 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.

## 2. ACCOUNTING POLICIES (CONTINUED)

### Taxation

The income tax expense represents the sum of the tax currently payable and deferred tax.

### 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.

### 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 and the Group intends to settles its current tax assets and liabilities on a net basis.

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 instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

### Financial assets

Financial assets under IFRS 9 include trade, other receivables, prepayments and accrued income, cash and cash equivalents and lease deposits.

### 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").

## 2. ACCOUNTING POLICIES (CONTINUED)

### Financial assets (continued)

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

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.

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 ("ECL") model which 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.

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

## 2. ACCOUNTING POLICIES (CONTINUED)

### Financial liabilities

#### Classification and measurement of financial liabilities

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

Financial liabilities categorised as at fair value through profit or loss are re-measured at each reporting date at fair value, with changes in fair value being recognised through profit or loss. All other financial liabilities are recorded at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance costs through profit or loss. A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged, cancelled or when it expires. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

### Hedge accounting

The 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.

## 2. ACCOUNTING POLICIES (CONTINUED)

### Equity

Equity comprises the following:

- "Share capital" represents the nominal value of equity 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 and share-based payment reserve.

### 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.

## 2. ACCOUNTING POLICIES (CONTINUED)

### 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 24 including the potential impact of Covid-19. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Chief Financial Officer's Report on pages 14 to 18.

In the three months since the response to the Covid-19 pandemic was initiated in the UK, there has been a very limited impact on iomart's trading from Covid-19. We take great comfort from the resilience of our business model, especially the diversity and limited concentration of our customer base. We are not significantly exposed to industries that are suffering the worst effects. The level of customer churn across all segments of the business has been extremely low, renewal levels high and cash collection in line with our typical profile. However, we remain vigilant to the economic impact the ongoing situation may create, particularly on the SME segment of the market.

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.

The Group has access to a £80m multi option revolving credit facility that matures on 30 September 2022 of which £8m (annually) is available to be drawn on for general business purposes should that be required. The directors are of the opinion that the Group can operate within the current facility and comply with its banking covenants.

At the end of the financial year, the Group had net debt of £57.6m (2019: £39.2m) 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 considered the Group budgets and the cash flow forecasts for the next three financial years, and associated risks, including the potential impact of Covid-19, and the availability of bank and leasing facilities. We have run appropriate scenario and stress tests applying reasonable downside sensitivities and are confident we have the resources to meet our liabilities as they fall due.

After making enquiries, the directors have a reasonable expectation that the Group will be able to meet its financial obligations and has adequate resources to continue in operational existence for the foreseeable future (being a period extending at least twelve months from the date of approval of these financial statements). For this reason they continue to adopt the going concern basis in preparing the financial statements.

## 2. ACCOUNTING POLICIES (CONTINUED)

**Critical accounting judgements and key sources of estimation uncertainty**

The Group do not consider that there are any critical accounting judgements in the preparation of the financial statements.

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.

*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. 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 2020, contingent consideration relates to LDeX Group Limited, Memset Limited and ServerChoice Limited (note 20). The final balance related to the LDeX Group Limited acquisition was agreed with the previous shareholder and paid subsequent to the year end at the amount disclosed in 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 data centres, 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, Sonassi, LDeX, Bytemark plus Memset which was 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.

## 3. SEGMENTAL ANALYSIS (CONTINUED)

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

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

### Operating Segments

### Revenue by Operating Segment

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Easyspace | 12,792 | 13,113 |
| Cloud Services | 99,789 | 90,596 |
| | **112,581** | **103,709** |

### 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***

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| United Kingdom | 95,333 | 86,246 |
| Rest of the World | 17,248 | 17,463 |
| Revenue from operations | **112,581** | **103,709** |

### Profit by Operating Segment

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Adjusted EBITDA £'000 | Depreciation, amortisation, acquisition costs and share-based payments £'000 | Operating profit/(loss) £'000 | Adjusted EBITDA £'000 | Depreciation, amortisation, acquisition costs and share-based payments £'000 | Operating profit/(loss) £'000 |
| Easyspace | 5,649 | (1,459) | 4,190 | 6,182 | (1,595) | 4,587 |
| Cloud Services | 42,307 | (23,269) | 19,038 | 40,447 | (20,486) | 19,961 |
| Group overheads | (4,446) | - | (4,446) | (4,397) | - | (4,397) |
| Acquisition costs | - | (438) | (438) | - | (351) | (351) |
| Share-based payments | - | (1,243) | (1,243) | - | (1,008) | (1,008) |
| | 43,510 | (26,409) | 17,101 | 42,232 | (23,440) | 18,792 |
| Gain/(loss) on revaluation of contingent consideration | | | 1,856 | | | (1,394) |
| Group interest and tax | | | (5,308) | | | (4,521) |
| **Profit for the year** | | | **13,649** | | | **12,877** |

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

## 4. OPERATING PROFIT

Operating profit is stated after charging/(crediting) the following:

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Staff costs excluding development costs capitalised and research and development costs written off profit or loss | 21,317 | 19,157 |
| Depreciation of property, plant and equipment: | | |
| - Owned assets | 12,411 | 12,638 |
| - Right-of-use assets | 3,224 | 453 |
| Operating lease rentals (under IAS 17): | | |
| - Land and buildings | - | 2,112 |
| - Other | - | 2,005 |
| Short-term and low value lease expense (under IFRS 16) (note 23) | 1,662 | - |
| Amortisation of intangibles: | | |
| - Acquired intangible assets | 6,159 | 6,492 |
| - Other intangible assets | 2,744 | 2,498 |
| - Right-of-use assets | 190 | - |
| Research and development costs expensed | - | 40 |
| Bad debt expense | 633 | 369 |
| Net foreign exchange gain | (99) | (95) |

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

| **Auditors' remuneration** | **2020 £'000** | **2019* £'000** |
|---|---|---|
| **Audit services**: | | |
| - Fees payable for the audit of the consolidation and the parent company accounts | 80 | 74 |
| - Fees payable for audit of subsidiaries, pursuant to legislation – UK | 121 | 80 |
| - Fees payable for audit of subsidiaries, pursuant to legislation – International | 8 | 9 |
| **Total audit services fees** | **209** | **163** |
| **Non-audit services:** | | |
| - Interim review | 22 | 14 |
| - Advisory services | - | 11 |
| - Tax advisory | - | 24 |
| - Tax compliance – UK | - | 38 |
| - Tax compliance - International | - | 21 |
| **Total non-audit services fees** | **22** | **108** |
| **Total Auditors' remuneration** | **231** | **271** |

*Fees in 2019 were payable to Grant Thornton LLP.

## 5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| **Directors' emoluments** | | |
| Aggregate emoluments | 1,127 | 1,087 |
| Share-based payments | 796 | 560 |
| **Total Directors' emoluments** | **1,923** | **1,647** |

Emoluments payable to the highest paid director are as follows:

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Aggregate emoluments | 583 | 618 |

During the year the Company made personal pension contributions to personal pension schemes of the directors of £22,000 (2019: £13,000).

The aggregate amount of gains realised by directors, who served during the year, on the exercise of share options during the year was £nil (2019: £246,000).

The detailed numerical analysis of directors' remuneration and share options is included in the Report of the Board to the Members on Directors' Remuneration on pages 43 to 36.

| | 2020 No. | 2019 No. |
|---|---|---|
| **Average number of persons employed by the Group (including directors):** | | |
| Technical | 244 | 256 |
| Sales and marketing | 112 | 89 |
| Administration | 49 | 49 |
| | **405** | **394** |

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| **Staff costs of the Group during the year in respect of employees and directors were:** | | |
| Wages and salaries | 18,832 | 17,441 |
| Social security costs | 2,309 | 1,937 |
| Pension costs | 338 | 223 |
| Share-based payments | 1,243 | 1,008 |
| | **22,722** | **20,609** |

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 43 to 46. 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

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Professional fees | 438 | 351 |
| **Total acquisition costs** | **438** | **351** |

During the year costs of £207,000 (2019: £351,000) were incurred in respect of professional fees on acquisitions. £231,000 (2019: £nil) costs were incurred in respect of acquisition integration costs.

### 7. NET FINANCE COSTS

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| **Finance income:** | | |
| Bank interest receivable | 39 | 21 |
| **Finance income for the year** | **39** | **21** |
| **Finance costs:** | | |
| Bank loan | (1,545) | (1,016) |
| Interest on lease liabilities* | (649) | (85) |
| Other interest charges | (18) | (39) |
| | (2,212) | (1,140) |
| Accelerated write off of arrangement fees on bank facility | - | (63) |
| **Finance costs for the year** | **(2,212)** | **(1,203)** |
| **Net finance costs** | **(2,173)** | **(1,182)** |

*Interest on lease liabilities in 2020 includes the interest on all leases following the transition to IFRS 16 'Leases' as set out in note 23. Interest in 2019 includes the interest on finance leases under IAS 17 'Leases'.

### 8. DIVIDENDS PAID ON SHARES CLASSED AS EQUITY

| | 2020 Pence per share | 2020 £'000 | 2019 Pence per share | 2019 £'000 |
|---|---|---|---|---|
| **Paid during the year:** | | | | |
| **Final dividend (proposed in the prior year)** | | | | |
| Equity dividends on ordinary shares | 5.01p | 5,448 | 4.93p | 5,336 |
| **Interim dividend** | | | | |
| Equity dividends on ordinary shares | 2.60p | 2,834 | 2.45p | 2,655 |
| **Total dividend paid in cash** | | **8,282** | | **7,991** |

The directors have recommended a final dividend for the year ended 31 March 2020 of 3.93p per share (2019: 5.01p per share). Subject to shareholder approval this proposed final dividend would be payable on 4 September 2020 to shareholders on the register at close on 14 August 2020.

## 9. TAXATION

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Corporation Tax: | | |
| Tax charge for the year | (3,976) | (4,920) |
| Adjustment relating to prior years | 357 | (119) |
| **Total current taxation charge** | **(3,619)** | **(5,039)** |
| Deferred Tax: | | |
| Origination and reversal of temporary differences | 367 | 1,661 |
| Adjustment relating to prior years | 266 | 24 |
| Effect of different statutory tax rates of overseas jurisdictions | (13) | (8) |
| Effect of changes in tax rates | (136) | 23 |
| **Total deferred taxation credit** | **484** | **1,700** |
| **Total taxation charge** | **(3,135)** | **(3,339)** |

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

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Profit before tax | 16,784 | 16,216 |
| Tax charge @ 19% (2019: 19%) | 3,189 | 3,081 |
| Expenses disallowed for tax purposes | 20 | 76 |
| Tax effect of net (loss)/gain on revaluation of contingent consideration | (353) | 265 |
| Adjustments in current tax relating to prior years | (357) | 119 |
| Tax effect of different statutory tax rates of overseas jurisdictions | 6 | 22 |
| Movement in deferred tax relating to changes in tax rates | 136 | (23) |
| Tax effect of share-based remuneration | 651 | (192) |
| Movement in unprovided deferred tax related to development costs | 40 | 11 |
| Movement in unprovided deferred tax related to property, plant and equipment | 69 | 4 |
| Movement in deferred tax relating to prior years | (266) | (24) |
| **Total taxation charge for the year** | **3,135** | **3,339** |

The weighted average applicable tax rate for the year ended 31 March 2020 was 19% (2019: 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 18.7% (2019: 20.6%). The net decrease of 1.9% of the effective tax rate for the year is largely due to the following:

- the decrease in the tax effect as a result of a net gain on revaluation of contingent consideration in the year (2019: net loss) and the movement relating to adjustments in current tax relating to prior years;
- the increase in the tax effect of share-based remuneration as a result of the decrease in the year end share price from 2019 to 2020; and
- the impact of the increase in the deferred tax rate from 17% to 19%.

A UK corporation tax rate of 19% has been applied based on the rate substantively enacted at the balance sheet date. Deferred tax assets and liabilities at 31 March 2020 have been calculated based on the rate of 19% enacted at the balance sheet date.

### 10. DEFERRED TAX

The Group recognised deferred tax assets and liabilities as follows:

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Share-based remuneration | 1,069 | 1,378 |
| Capital allowances temporary differences | 1,364 | 1,632 |
| Deferred tax on development costs | - | (422) |
| Deferred tax on acquired assets with no capital allowances | (88) | (157) |
| Deferred tax on customer relationships | (3,298) | (3,173) |
| Deferred tax on intangible software | (193) | (197) |
| **Deferred tax liability** | **(1,146)** | **(939)** |

At the year end, the Group had no unused tax losses (2019: £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 2018 | **1,588** | **1,455** | **(329)** | **(235)** | **(3,581)** | **(217)** | **(1,319)** |
| Acquired on acquisition of subsidiaries | - | (226) | - | - | (841) | - | **(1,067)** |
| Credited 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)** |
| Acquired on acquisition of subsidiaries | - | (82) | - | - | (875) | - | **(957)** |
| Charged to equity | 253 | - | - | - | - | - | **253** |
| Credited/(charged) to statement of comprehensive income | (724) | (373) | 472 | 87 | 1,131 | 27 | **620** |
| Effect of different tax rates of overseas jurisdictions | - | 7 | - | - | 6 | - | **13** |
| Effect of changes in tax rates | 162 | 180 | (50) | (18) | (387) | (23) | **(136)** |
| **Balance at 31 March 2020** | **1,069** | **1,364** | **-** | **(88)** | **(3,298)** | **(193)** | **(1,146)** |

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 data centre 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 12 March 2020, the Company acquired the entire share capital of Memset Limited, and on 28 February 2020, iomart Hosting Limited, a 100% owned subsidiary of the Company, acquired the net assets of the managed private cloud business formerly operated by ServerChoice Limited. Total cash paid on acquisitions, net of cash acquired, in the year ended 31 March 2020 was £4.2m.

**Memset Limited**

The Group acquired 100% of the issued share capital of Memset Limited ("Memset") on 12 March 2020.

Memset provides a range of cloud VPS and dedicated servers to around 2,000 customers from its data centre in Dunsfold, Surrey and a third party data centre in Reading.

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 data centre space.

During the current year, the Group incurred £172,000 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 2020.

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

| | Book value £'000 | Fair value adjustments £'000 | Final fair value £'000 |
|---|---|---|---|
| **Recognised amounts of net assets acquired and liabilities assumed:** | | | |
| Cash and cash equivalents | 547 | - | 547 |
| Trade and other receivables | 740 | - | 740 |
| Property, plant and equipment | 2,894 | - | 2,894 |
| Intangible assets | 56 | 2,308 | 2,364 |
| Trade and other payables | (1,427) | - | (1,427) |
| Current borrowings | (1,088) | - | (1,088) |
| Borrowings due after more than 1 year | (628) | - | (628) |
| Deferred tax liability | (82) | (438) | (520) |
| Identifiable net assets | **1,012** | **1,870** | **2,882** |
| Goodwill | | | 331 |
| **Total consideration** | | | **3,213** |
| | | | |
| **Satisfied by:** | | | |
| Cash – paid on acquisition | | | 2,713 |
| Contingent consideration - payable | | | 500 |
| **Total consideration transferred** | | | **3,213** |

The acquisition of Memset was completed using a "locked box" mechanism, on a no cash, no debt, and normalised working capital basis. An initial payment of £2,713,000 was made at completion. This initial payment included a deduction of £587,000 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 Memset an additional amount contingent on the level of a particular portion of the monthly recurring revenue ("MRR") in December 2020 ("the Deferred Payment").

The potential undiscounted amount of the Deferred Payment that the Company could be required to pay is between £nil and £1,000,000. The amount of contingent consideration payable, which was recognised as of the acquisition date, was £500,000. The level of the relevant MRR was estimated by considering different scenarios based on the current level of the MRR, historic performance, known and agreed changes to the current level, and forecasts. In addition to the minimum and maximum, those scenarios reviewed had a range of outcomes for the amount of the Deferred Payment of £320,000 to £700,000. A weighted average, based on management estimates of the probability of the achievement of the various levels of MRR, was then calculated to give the expected outcome of the amount of the Deferred Payment of £500,000.

## 11. ACQUISITIONS (CONTINUED)

### Memset Limited (continued)

The goodwill arising on the acquisition of Memset 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 "Memset" is not actively advertised or promoted. The standard Memset contracts restrict the ability of Memset to sell, distribute or lease any personal information it holds on customers unless the customer's permission is given. As a consequence, there is no significant value in either the trade name/brand or customer lists acquired at the acquisition date and therefore no value has been attributed to either intangible asset.

The fair value of the financial assets acquired includes trade receivables with a fair value of £740,000. The gross amount due under contracts is £740,000 all of which is expected to be collectable.

The fair value included in respect of the acquired customer relationships intangible asset is £2,308,000.

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 pre-tax discount rate of 11.9% was used for the valuation. Customer relationships are being amortised over an estimated useful life of 8 years.

Memset earned revenue of £282,000 and generated profits, before allocation of group overheads, share-based payments and tax, of £25,000 in the period since acquisition.

### Net assets of the managed private cloud business formerly operated by ServerChoice Limited

On 28 February 2020, the Group acquired the net assets of the managed private cloud business formerly operated by ServerChoice Limited ("the ServerChoice assets"). The acquisition of the net assets and the transfer of employees engaged in the business, together satisfy the criteria for the definition of a business under IFRS 3 and the acquisition has therefore been treated as a business combination.

The acquisition is in line with the Group's strategy to grow its operations, both organically and by acquisition, and provides an additional high quality customer base.

During the current year, the Group incurred £35,000 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 2020.

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

| | Book value £'000 | Fair value adjustments £'000 | Final fair value £'000 |
|---|---|---|---|
| **Recognised amounts of net assets acquired and liabilities assumed:** | | | |
| Property, plant and equipment | 297 | - | 297 |
| Intangible assets | - | 2,302 | 2,302 |
| Trade and other payables | (111) | - | (111) |
| Deferred tax liability | - | (437) | (437) |
| Identifiable net assets | **186** | **1,865** | **2,051** |
| Goodwill | | | 766 |
| **Total consideration** | | | **2,817** |

| | |
|---|---|
| **Satisfied by:** | |
| Cash – paid on acquisition | 1,990 |
| Contingent consideration - payable | 827 |
| **Total consideration transferred** | **2,817** |

## 11. ACQUISITIONS (CONTINUED)

### Net assets of the managed private cloud business formerly operated by ServerChoice Limited (continued)

The business purchase agreement ("BPA") included provisions requiring the Group to pay to ServerChoice Limited two additional contingent amounts. These are based on the level of the total monthly recurring revenue ("MRR") invoiced to specific customers in June 2020 and September 2020, together the "Deferred Payments".

The potential undiscounted amounts of the Deferred Payments are between £nil and £887,000. The amount of contingent consideration payable, which was recognised as of the acquisition date, was £827,000. The levels of the relevant MRR, expected to be invoiced in June 2020 and September 2020, were estimated by considering different scenarios based on the current level of the MRR, historic performance, known and agreed changes to the current level, and forecasts.

In addition to the minimum of £nil and the maximum of £887,000, those scenarios reviewed for the Deferred Consideration had a range of outcomes for the Deferred Payment of £425,000 to £830,000. A weighted average, based on management estimates of the probability of the achievement of the various levels of MRR, was then calculated to give the expected outcome of the amount of the Deferred Payment of £827,000.

The goodwill arising on the acquisition of the former ServerChoice managed private cloud business is attributable principally to 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.

Apart from the goodwill, the only intangible asset acquired is the customer relationships, which have been fair valued at £2,302,000.

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 pre-tax discount rate of 13.0% was used for the valuation. Customer relationships are being amortised over an estimated useful life of 8 years.

The acquired managed private cloud business earned revenue of £139,000 and generated profits, before allocation of group overheads, share-based payments and tax, of £67,000 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 2019. The amounts include the results of the acquired business, depreciation and amortisation of the acquired property, plant and equipment plus a post-tax amount of £691,000 in respect of 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 2020 |
|---|---|
| | £'000 |
| Revenue | 119,497 |
| Profit after tax for the year | 13,779 |

## 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 | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Profit for the financial year and basic earnings attributed to ordinary shareholders | **13,649** | **12,877** |
| Weighted average number of ordinary shares: | **No 000** | **No 000** |
| Called up, allotted and fully paid at start of year | 108,510 | 107,990 |
| Own shares held by Employee Benefit Trust | (141) | (141) |
| Issued share capital in the year | 436 | 396 |
| **Weighted average number of ordinary shares - basic** | **108,805** | **108,245** |
| Dilutive impact of share options | 2,861 | 2,909 |
| **Weighted average number of ordinary shares - diluted** | **111,666** | **111,154** |
| Basic earnings per share | 12.5 p | 11.9 p |
| Diluted earnings per share | 12.2 p | 11.6 p |

| Adjusted earnings per share | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Profit for the financial year and basic earnings attributed to ordinary shareholders | 13,649 | 12,877 |
| - Amortisation of acquired intangible assets | 6,159 | 6,492 |
| - Acquisition costs | 438 | 351 |
| - Share-based payments | 1,243 | 1,008 |
| - Net (gain)/loss on revaluation of contingent consideration | (1,856) | 1,394 |
| - Accelerated write off of arrangement fees on bank facility | - | 63 |
| - Tax impact of adjusted items | (1,406) | (1,462) |
| **Adjusted profit for the financial year and adjusted earnings attributed to ordinary shareholders** | **18,227** | **20,723** |
| Adjusted basic earnings per share | 16.8 p | 19.1 p |
| Adjusted diluted earnings per share | 16.3 p | 18.6 p |

## 13. INTANGIBLE ASSETS

| | Goodwill £'000 | Development costs £'000 | Acquired Customer relationships £'000 | Software £'000 | Beneficial contracts £'000 | Domain names & IP addresses £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 1 April 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 |
| Development cost capitalised | - | 1,412 | - | - | - | - | 1,412 |
| **At 31 March 2019** | **85,382** | **9,193** | **52,766** | **8,039** | **86** | **280** | **155,746** |
| Additions | - | - | - | 2,490 | - | - | 2,490 |
| Currency translation differences | - | - | 38 | (33) | - | - | 5 |
| Acquired on acquisition of subsidiaries | 1,097 | - | 4,610 | - | - | 56 | 5,763 |
| Disposals | - | - | - | (173) | - | - | (173) |
| Development cost capitalised | - | 1,405 | - | - | - | - | 1,405 |
| **At 31 March 2020** | **86,479** | **10,598** | **57,414** | **10,323** | **86** | **336** | **165,236** |
| | | | | | | | |
| **Accumulated amortisation:** | | | | | | | |
| At 1 April 2018 | **-** | **(5,424)** | **(27,303)** | **(3,115)** | **(41)** | **(280)** | **(36,163)** |
| 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)** |
| Charge for the year | - | (1,507) | (6,159) | (1,420) | (7) | - | (9,093) |
| Currency translation differences | - | - | - | (53) | - | - | (53) |
| Disposals | - | - | - | 173 | - | - | 173 |
| **At 31 March 2020** | **-** | **(8,373)** | **(39,954)** | **(5,464)** | **(55)** | **(280)** | **(54,126)** |
| | | | | | | | |
| **Carrying amount:** | | | | | | | |
| **At 31 March 2020** | **86,479** | **2,225** | **17,460** | **4,859** | **31** | **56** | **111,110** |
| At 31 March 2019 | 85,382 | 2,327 | 18,971 | 3,875 | 38 | - | 110,593 |

Of the total additions in the year of £2,490,000 (2019: £1,082,000), £1,425,000 was included within lease liabilities within borrowings (2019: £nil). There were no amounts included in trade payables at the year end (2019: £nil). Consequently, the consolidated statement of cash flows discloses a figure of £1,065,000 (2019: £1,107,000) 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.

As disclosed in note 23, on 1 April 2019, the Group adopted IFRS 16. At 31 March 2020, a total of £1.4m is recognised within additions to software for appropriate lease transactions in the current year with a corresponding amortisation charge of £0.2m.

Included within customer relationships are the following significant items: customer relationships in relation to the acquisitions of Memset Limited of £2.3m with a useful life of 8 years, the managed private cloud business of ServerChoice Limited of £2.3m with a useful life of 8 years, Bytemark Limited with a net book value of £0.9m and LDeX Group Limited of £2.7m both with a remaining useful life of 7 years. Sonassi Limited with a net book value of £3.6m and a remaining useful life of 6 years, Dediserve Limited with a net book value of £1.4m and a remaining useful of 6 years, Simple Servers Limited with a net book value of £0.7m and a remaining useful life of 6 years, Backup Technology with a net book value of £0.8m and a remaining useful life of 2 years and United Hosting with a net book value of £1.4m and a remaining useful life of 4 years.

## 13. INTANGIBLE ASSETS (CONTINUED)

During the year, goodwill was reviewed for impairment in accordance with IAS 36 "Impairment of Assets". No impairment charges (2019: £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).

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

| Cash Generating Units (CGU) | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Easyspace | 23,315 | 23,315 |
| Cloud Services | 63,164 | 62,067 |
| | **86,479** | **85,382** |

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 three 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 years. As outlined previously, management remain confident in sustaining such levels of growth despite the current situation surrounding Covid-19. The impact of the pandemic has been considered in great detail when finalising these projections and they are perceived to be a reliable basis upon which to base our impairment testing.

The growth rates and margins used to extrapolate estimated future performance in the two years after the initial approved three 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.

In determining the value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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 | 13.1% | 12.5% |
| Future perpetuity rate | 0.0% | 2.0% |
| Initial period for which cash flows are estimated (years) | 5 | 5 |

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. TRADE AND OTHER RECEIVABLES – NON-CURRENT

Non-current trade and other receivables relates to lease deposits of £2,760,000 (2019: £2,520,000) which are made up of a rental deposit of £784,000 (2019: £544,000) and a reinstatement deposit of £1,976,000 (2019: £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. Subsequent to the year, the Group has extended the lease until June 2035 and £2,340,000 of the total lease deposit will be returned to the Group post year end (note 30).

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 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 hardware plus storage, backup and virtualisation solutions | 100 | - |
| Dediserve Limited | Republic of Ireland** | Managed hosting services | 100 | - |
| Easyspace Limited | England | Webservices | 100 | - |
| Global Gold Holdings Limited | England | Non-trading | 100 | - |
| Global Gold Network Limited | England | Non-trading | - | 100 |
| Internet Engineering Limited | England | Non-trading | 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 Hosting Limited | Scotland | Managed hosting services | 100 | - |
| iomart 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 | - |
| Memset Limited | England | Managed hosting services | 100 | - |
| Netintelligence Limited | Scotland | Dormant | 100 | - |
| Open Minded Solutions Limited | England | Dormant | 100 | - |
| RapidSwitch Limited | England | Dormant | 100 | - |
| Redstation Limited | England | Dormant | 100 | - |
| ServerSpace Limited | England | Managed hosting services | 100 | - |
| Simple Servers Limited | England | Managed hosting services | - | 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 | - |
| United Communications Limited | England | Webservices | 100 | - |

*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 property and improve-ments £'000 | Data centre equipment £'000 | Computer equipment £'000 | Office equipment £'000 | Motor vehicles £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | |
| At 1 April 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** |
| Additions in the year | - | 21,287 | 1,482 | 14,847 | 57 | 11 | 37,684 |
| Acquisition of subsidiaries | - | 457 | 1,192 | 1,540 | - | 2 | 3,191 |
| Disposals in the year | - | (16) | (18) | (622) | (206) | (21) | (883) |
| Currency translation differences | - | - | - | 216 | - | - | 216 |
| **At 31 March 2020** | **8,910** | **29,671** | **26,113** | **97,592** | **2,771** | **23** | **165,080** |
| **Accumulated depreciation:** | | | | | | | |
| At 1 April 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)** |
| Charge for the year | (279) | (3,610) | (1,853) | (9,625) | (262) | (6) | (15,635) |
| Disposals in the year | - | 16 | 18 | 622 | 206 | 21 | 883 |
| Currency translation differences | - | - | - | (157) | - | - | (157) |
| **At 31 March 2020** | **(697)** | **(7,104)** | **(15,470)** | **(67,532)** | **(1,924)** | **(9)** | **(92,736)** |
| **Carrying amount:** | | | | | | | |
| **At 31 March 2020** | **8,213** | **22,567** | **10,643** | **30,060** | **847** | **14** | **72,344** |
| At 31 March 2019 | 8,492 | 4,433 | 9,822 | 23,239 | 1,052 | 7 | 47,045 |

Of the total additions in the year of £37,684,000, £20,421,000 relates to right-of-use assets brought on the balance at 1 April 2019 on transition to IFRS 16 (note 23). In addition, during the year there were additions of £824,000 in respect of reinstatement provisions (note 22) and a further £119,000 in respect of leases. Of the total remaining additions in the year of £16,320,000 (2019: £15,831,000), £3,185,000 (2019: £1,553,000) was included in trade payables as unpaid invoices at the year end resulting in a net increase of £1,632,000 (2019: net decrease of £293,000) in trade payables. Consequently, the consolidated statement of cash flows discloses a figure of £14,688,000 (2019: £16,112,000) as the cash outflow in respect of property, plant and equipment additions in the year.

As disclosed in note 23, on 1 April 2019, the Group adopted IFRS 16 and recognised a right-of-use asset of £20.4m. At 31 March 2020, a total of £20.2m is recognised within additions to leasehold property and improvements in relation to the initial recognition along with subsequent additions in relation to IFRS 16, with a corresponding depreciation charge of £2.7m. In addition, a further £1.2m is recognised within additions to data centre equipment with a corresponding depreciation charge of £0.5m.

## 17. TRADE AND OTHER RECEIVABLES - CURRENT

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Trade receivables | 9,112 | 9,413 |
| Less: Expected credit loss | (421) | (800) |
| **Trade receivables (net)** | **8,691** | **8,613** |
| Other receivables | 591 | 448 |
| Prepayments | 13,106 | 11,421 |
| Accrued income | 849 | 312 |
| **Trade and other receivables** | **23,237** | **20,794** |

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

Since the adoption of IFRS 9 in the prior year, the Group has applied the simplified approach to providing for expected credit losses prescribed, which permits the use of lifetime expected loss provision for all trade receivables. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of economic conditions at the reporting date, including consideration of the impact of Covid-19. There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

The following table details the risk profile of trade receivables based on the Group's provision matrix. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between the Group's different customer segments.

| Risk profile category (ageing) | 2020 £'000 | ECL rate % | 2020 ECL allowance £'000 | 2019 £'000 | ECL rate % | 2019 ECL allowance £'000 |
|---|---|---|---|---|---|---|
| **Current** | | | | | | |
| Current | 6,165 | 0.21% | 13 | 6,621 | 0.23% | 15 |
| 0-30 days | 2,221 | 2.39% | 53 | 1,225 | 3.56% | 44 |
| 30-60 days | 254 | 23.42% | 59 | 657 | 4.39% | 29 |
| 60-90 days | 104 | 38.02% | 40 | 124 | 19.71% | 24 |
| Over 90 days | 368 | 69.53% | 256 | 786 | 87.52% | 688 |
| **Total** | **9,112** | | **421** | **9,413** | | **800** |

To consider the total exposure to credit risks, the Group uses figures net of VAT. At 31 March 2020, £6,165,000 (2019: £6,621,000) of net trade receivables were fully performing. Net trade receivables of £2,526,000 (2019: £1,992,000) 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.

## 18. CASH AND CASH EQUIVALENTS

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Cash at bank and in hand | 15,497 | 10,069 |
| **Cash and cash equivalents** | **15,497** | **10,069** |

The credit risk on cash and cash equivalents is considered to be negligible because the counter parties are largely UK banking institutions. The effective interest rate earned on short-term deposits was 0.5% (2019: 0.5%).

## 19. TRADE AND OTHER PAYABLES

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Trade payables | (11,311) | (10,123) |
| Other taxation and social security | (2,335) | (927) |
| Accruals | (7,137) | (8,325) |
| Deferred income | (11,144) | (11,203) |
| Other creditors | (21) | (355) |
| **Trade and other payables - Current** | **(31,948)** | **(30,933)** |

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

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Deferred income | (2,283) | - |
| **Trade and other payables – Non-current** | **(2,283)** | **-** |

Non-current deferred income in the year predominantly relates to support contracts that span over one year. As at 31 March 2019, that element of deferred income which would have been non-current was not material, so was not separately classified.

## 20. CONTINGENT CONSIDERATION

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Contingent consideration due on acquisitions within one year: | | |
| - LDeX Group Limited | (1,153) | (3,009) |
| - Memset Limited | (500) | - |
| - ServerChoice Limited | (827) | - |
| **Total contingent consideration due on acquisitions** | **(2,480)** | **(3,009)** |

The final consideration due on LDeX Group Limited, agreed with the previous shareholder and paid subsequent to the year end, is £1,153,000. This has resulted in gain on revaluation of contingent consideration of £1,856,000 recorded in the consolidated statement of comprehensive income.

Contingent consideration for Memset Limited and ServerChoice Limited are based on the directors' best estimate of payments due at 31 March 2020. Details of the range of possible outcomes are disclosed in note 11.

## 21. BORROWINGS

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| **Current:** | | |
| Lease liabilities (note 23) | (3,029) | (356) |
| Current borrowings | **(3,029)** | **(356)** |
| **Non-current:** | | |
| Lease liabilities (note 23) | (17,318) | (421) |
| Bank loans | (52,791) | (48,536) |
| Total non-current borrowings | **(70,109)** | **(48,957)** |
| **Total borrowings** | **(73,138)** | **(49,313)** |

The carrying amount of borrowings approximates to their fair value.

Details of the Group's lease liabilities are included in note 23.

At the start of the year there was £48.5m (2019: £35.2m) outstanding on the multi option revolving credit facility and drawdowns of £6.2m (2019: £25.9m) were made from the facility during the year. Repayments totalling £2.0m (2019: £12.2m) were made resulting in a balance outstanding at the end of the year of £52.8m (2019: £48.5m).

The multi option revolving credit facility of £80m is able to be used by the Group to finance acquisitions, capital expenditure, general business purposes (up to a maximum of £8m each year) and for the issue of guarantees, bonds or indemnities. As at 31 March 2020, the facility is available until September 2022 at which point any advances made under the multi option revolving credit facility become immediately repayable. Each drawdown 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% (2019: 1.5%) per annum and a non-utilisation fee of 40% (2019: 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 2.17% (2019: 2.44%).

Given the terms of the revolving credit facility and the ability for any drawdowns made to be extended beyond 31 March 2021 at the discretion of the Group, the total amount outstanding has been classified as non-current.

## 21. BORROWINGS (CONTINUED)

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

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Capital £'000 | Interest £'000 | Total £'000 | Capital £'000 | Interest £'000 | Total £'000 |
| Due within one year | - | (465) | (465) | - | - | - |
| Due within two to five years | (52,791) | - | (52,791) | (48,536) | (192) | (48,728) |
| | **(52,791)** | **(465)** | **(53,256)** | **(48,536)** | **(192)** | **(48,728)** |

The directors estimate that the fair value of the Group's borrowing is not significantly different to the carrying value. The capital element of the bank loans is £52,791,000 (2019: £48,536,000), in the prior year this figure differs from the net amount drawn down of £48,641,000 due to an effective interest rate adjustment.

| **Analysis of change in net cash/(debt)** | **Cash and cash equivalents £'000** | **Bank loans £'000** | **Lease liabilities £'000** | **Total liabilities £'000** | **Total net cash/(debt) £'000** |
|---|---|---|---|---|---|
| At 1 April 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 subsidiary | 841 | - | (430) | (430) | 411 |
| Currency translation differences | - | - | 12 | 12 | 12 |
| Cash and cash equivalent cash outflow | (267) | - | - | - | (267) |
| Lease liabilities cash outflow | - | - | 471 | 471 | 471 |
| **At 31 March 2019** | **10,069** | **(48,536)** | **(777)** | **(49,313)** | **(39,244)** |
| Lease liabilities on transition to IFRS 16 | | - | (20,421) | (20,421) | **(20,421)** |
| Additions to lease liabilities | - | - | (1,544) | (1,544) | **(1,544)** |
| Repayment of bank loans | - | 2,000 | - | 2,000 | **2,000** |
| New bank loans | - | (6,150) | - | (6,150) | **(6,150)** |
| Impact of effective interest rate | - | (105) | - | (105) | **(105)** |
| Acquired on acquisition of subsidiaries | - | - | (1,705) | (1,705) | **(1,705)** |
| Cash and cash equivalent cash inflow | 5,428 | - | - | - | **5,428** |
| Lease liabilities cash outflow | - | - | 4,100 | 4,100 | **4,100** |
| **At 31 March 2020** | **15,497** | **(52,791)** | **(20,347)** | **(73,138)** | **(57,641)** |

## 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. As at 31 March 2020, the total reinstatement provision of the Group is £1,956,000 (2019: £1,115,000). The utilisation of the reinstatement provision will be in line with the end of the leasehold properties lease terms to which the provisions relate.

In 2018, the Group made a provision for non-recurring software licence fees of £2.6m. In the prior year, cash payment was made in relation to this exceptional non-recurring item. As at 31 March 2019 and 31 March 2020, 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)

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| **Non-current:** | | |
| Reinstatement provision | (1,956) | (1,115) |
| **Total non-current provisions** | **(1,956)** | **(1,115)** |

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

| | 2020 | | 2019 | | |
|---|---|---|---|---|---|
| | Reinstatement provision £'000 | Total £'000 | Reinstatement provision £'000 | Non-recurring software licence fees £'000 | Total £'000 |
| Balance at start of the year | (1,115) | **(1,115)** | (1,775) | (2,587) | **(4,362)** |
| Reduction in provision | - | **-** | 709 | 2,587 | **3,296** |
| Increase in provision | (824) | **(824)** | - | - | **-** |
| Unwinding of discount | (17) | **(17)** | (49) | - | **(49)** |
| | (1,956) | **(1,956)** | (1,115) | - | **(1,115)** |

## 23. LEASES

The Group leases assets including buildings, fibre contracts, colocation and software contracts. Information about leases for which the Group is a lessee is presented below:

| **Right-of-use assets** | **Leasehold Property £'000** | **Data centre equipment £'000** | **Software £'000** | **Total £'000** |
|---|---|---|---|---|
| Balance at 31 March 2019* | - | 509 | - | 509 |
| Adjustment on transition to IFRS 16 | 19,748 | 673 | - | 20,421 |
| Balance at 1 April 2019 after adoption of IFRS 16 | 19,748 | 1,182 | - | 20,930 |
| Additions | 47 | 72 | 1,425 | 1,544 |
| Acquired on acquisition of subsidiary | 457 | - | - | 457 |
| Depreciation | (2,758) | (466) | - | (3,224) |
| Amortisation | - | - | (190) | (190) |
| **Balance at 31 March 2020** | **17,494** | **788** | **1,235** | **19,517** |

**net book value of leased assets under IAS 17 as at 31 March 2019*

The right-of-use assets in relation to leasehold property and data centre equipment are disclosed as non-current assets and are disclosed within property, plant and equipment at 31 March 2020 (note 16). The right-of-use assets in relation to software are disclosed as non-current assets and are disclosed within intangibles at 31 March 2020 (note 13).

### Lease liabilities

Lease liabilities are presented in the balance sheet within borrowings as follows:

| | **2020 £'000** | **2019* £'000** |
|---|---|---|
| **Current:** Lease liabilities | (3,029) | (356) |
| **Non-current:** Lease liabilities | (17,318) | (421) |
| **Total lease liabilities** | **(20,347)** | **(777)** |

**lease liabilities under IAS 17*

The maturity analysis of undiscounted lease liabilities are shown in the table below:

| | **2020 £'000** | **2019* £'000** |
|---|---|---|
| **Amounts payable under leases:** | | |
| Within one year | (3,536) | (356) |
| Between two to five years | (9,823) | (421) |
| After more than five years | (9,709) | - |
| | **(23,068)** | **(777)** |
| Add: unearned interest | 2,721 | - |
| **Total lease liabilities** | **(20,347)** | **(777)** |

**lease liabilities under IAS 17*

### 23. LEASES (CONTINUED)

The Group has elected not to recognise a lease liability for short-term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight line basis. During the year ended 31 March 2020, in relation to leases under IFRS 16, the Group recognised the following amounts in the consolidated statement of comprehensive income:

| | Year ended 31 March 2020 £'000 |
|---|---|
| Short-term and low value lease expense | (1,662) |
| Depreciation charge | (3,224) |
| Amortisation charge | (190) |
| Interest expense | (649) |
| | **(5,725)** |

Amounts recognised in the consolidated statement of cash flows:

| | Year ended 31 March 2020 £'000 |
|---|---|
| Short-term and low value lease expense | (1,662) |
| Repayment of lease liabilities within cash flows from financing activities | (4,686) |
| | **(6,348)** |

Included in repayment of lease liabilities within cash flows from financing activities is a repayment of £1.0m in relation to the settlement of lease liabilities on the acquisition of Memset Limited.

### 24. SHARE CAPITAL

| | Ordinary shares of 1p each | |
|---|---|---|
| | Number of shares | £'000 |
| **Authorised** | | |
| **At 31 March 2018, 2019 and 2020** | **200,000,000** | **2,000** |
| **Called up, allotted and fully paid** | | |
| At 1 April 2018 | 107,990,341 | 1,080 |
| Share capital issued in the year | 519,407 | 5 |
| At 31 March 2019 | 108,509,748 | 1,085 |
| Share capital issued in the year | 650,180 | 7 |
| **At 31 March 2020** | **109,159,928** | **1,092** |

During the year, 650,180 (2019: 519,407) ordinary shares were issued for a total consideration of £635,502 (2019: £292,040), resulting in a premium over the nominal value of £629,000 (2019: £286,864).

### 24. SHARE CAPITAL (CONTINUED)

At 31 March 2020 the Company held 140,773 shares (2019: 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 (2019: £1,408) and a market value of £380,087 (2019: £488,482). This represents 0.1% (2019: 0.1%) of the issued share capital as at 31 March 2020 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 2020 are fully paid.

### 25. OWN SHARES RESERVES

| | Own shares EBT £'000 | Own shares Total £'000 |
|---|---|---|
| **At 31 March 2020 and 31 March 2019** | **(70)** | **(70)** |

At 31 March 2020 the Company held 140,773 shares (2019: 140,773) in the EBT with a carrying value of £69,982 (2019: £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 650,180 ordinary shares (2019: 517,607) were exercised and the average market price at the exercise dates was 351.87p (2019: 394.21p). Options over 760,371 ordinary shares (2019: 671,274) were granted under the unapproved share option scheme with an average exercise price of 1.0p (2019: 1.0p) and no options over ordinary shares (2019: 186,810) were granted under the sharesave scheme with an average exercise price of £nil (2019: 324.0p). Options over 21,388 ordinary shares (2019: 177,199) were forfeited under the unapproved share option scheme with an average exercise price of 1.0p (2019: 1.0p) and options over 33,655 (2019: 36,442) were forfeited under the sharesave scheme with an average exercise price of 299.4p (2019: 283.0p). Options over 75,295 ordinary shares (2019: 40,000) expired under the unapproved share option scheme with an average exercise price of 1.0p (2019: 173.0p) and options over nil (2019: 10,995) expired under the sharesave scheme with an average exercise price of nil (2019: 194.8p).

## 26. SHARE-BASED PAYMENTS (CONTINUED)

As disclosed in note 5, a share-based payment charge of £1,243,000 (2019: £1,008,000) 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** | **7 May 2019** | **19 Aug 2019** | **19 Aug 2019** | **31 Jan 2020** |
|---|---|---|---|---|
| **Vesting date** | **31 Mar 2022** | **31 Mar 2022** | **31 Mar 2020** | **31 Mar 2022** |
| **Variables used** | | | | |
| Share price at grant date | 357.0p | 327.5p | 327.5p | 380.50p |
| Volatility | 62% | 64% | 64% | 61% |
| Dividend yield | 2.09% | 2.28% | 2.28% | 2.00% |
| Number of employees holding options/units | 2 | 1 | 21 | 2 |
| Option/award life (years) | 10 | 10 | 10 | 10 |
| Expected life (years) | 3 | 3 | 3 | 4 |
| Risk free rate | 1.2% | 0.52% | 0.52% | 0.53% |
| Expectations of meeting performance criteria | 100% | 100% | 50% | 100% |
| **Fair value** | **334.34p** | **304.88p** | **304.88p** | **350.27p** |
| Exercise price per share | 1.0p | 1.0p | 1.0p | 1.0p |

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

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:

| | **2020** | | **2019** | |
|---|---|---|---|---|
| | **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 | 54.05 | 3,280,318 | 51.41 | 3,204,477 |
| Granted | 1.0 | 760,371 | 71.32 | 858,084 |
| Forfeited | 183.4 | (55,043) | 49.10 | (213,641) |
| Expired | 1.0 | (75,295) | 177.10 | (50,995) |
| Exercised | 97.63 | (650,180) | 56.19 | (517,607) |
| **Outstanding at end of year** | **31.96** | **3,260,171** | **54.05** | **3,280,318** |
| **Exercisable at end of year** | **19.25** | **1,608,793** | **51.20** | **1,836,464** |

### 26. SHARE-BASED PAYMENTS (CONTINUED)

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

| | | Share options – outstanding | | | Share options – exercisable | | |
|---|---|---|---|---|---|---|---|
| | Range of exercise prices per share (p) | Outstanding shares | Weighted average exercise price per share (p) | Weighted average remaining contractual life (years) | Outstanding shares | Weighted average exercise price per share (p) | Weighted average remaining contractual life (years) |
| Enterprise management incentive scheme | 46.5 – 87.5 | 136,510 | 85.5 | 0.6 | 136,510 | 85.5 | 0.6 |
| Unapproved schemes | 1.0 – 146.1 | 2,880,786 | 7.1 | 6.3 | 1,472,283 | 13.1 | 4.0 |
| Sharesave scheme | 252.8 -324.0 | 242,875 | 296.9 | 1.2 | - | - | - |
| **As at 31 March 2020** | | **3,260,171** | **32.0** | **5.7** | **1,608,793** | **19.2** | **3.7** |
| Enterprise management incentive scheme | 46.5 – 87.5 | 136,510 | 85.5 | 1.6 | 136,510 | 85.5 | 1.6 |
| Unapproved schemes | 1.0 – 315.5 | 2,867,278 | 29.1 | 6.5 | 1,699,954 | 48.4 | 5.0 |
| Sharesave scheme | 252.8 -324.0 | 276,530 | 296.9 | 2.6 | - | - | - |
| **As at 31 March 2019** | | **3,280,318** | **54.0** | **10.7** | **1,836,464** | **51.2** | **4.7** |

### 27. RELATED PARTY TRANSACTIONS

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

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Salaries and other short-term employee benefits | 1,127 | 1,087 |
| Share-based payments | 796 | 560 |
| | **1,923** | **1,647** |

Directors' bonuses, as disclosed in the Directors' Remuneration Report on pages 43 to 46, were paid post year end.

Dividends paid to key management during the year were as follows:

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Angus MacSween | 1,294 | 1,254 |
| Scott Cunningham | - | - |
| Richard Masters | - | - |
| **Total dividends paid to directors** | **1,294** | **1,254** |

Dividends paid to Scott Cunningham of £401 and Richard Masters of £156 were below £1,000 which includes amounts in respect of spouses' shareholding.

Pinsent Masons LLP, the Group's solicitors, were deemed a related party up to October 2019 as Richard Masters, Non-Executive Director was a member up until his retirement at that date. Amounts paid to Pinsent Mason LLP during the period up to October 2019 were £23,000 (2019: £285,000). Richard Masters was not involved in any of the legal services provided to the Group.

## 28. CONTINGENCIES AND COMMITMENTS

### (a) Contingencies

Excluding the contingent liabilities associated with the contingent consideration (note 20), there are no contingent assets or contingent liabilities as at 31 March 2020 (2019: nil).

### (b) Commitments

Capital expenditure on software licences and property, plant and equipment committed by the Group at 31 March 2020 was £1,128,800 (2019: £886,989).

## 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:

| | Amortised cost £'000 |
|---|---|
| **2020** | |
| **Non-current:** | |
| Trade and other receivables | 2,760 |
| | |
| **Current:** | |
| Trade receivables | 8,691 |
| Cash and cash equivalents | 15,497 |
| Other receivables | 591 |
| **Total for category** | **27,539** |
| **2019** | |
| **Non-current:** | |
| Trade and other receivables | 2,520 |
| | |
| **Current:** | |
| Trade receivables | 8,613 |
| Cash and cash equivalents | 10,069 |
| Other receivables | 448 |
| **Total for category** | **21,650** |

### 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:

| | At fair value through profit or loss £'000 | Financial liabilities measured at amortised cost £'000 | Total £'000 |
|---|---|---|---|
| **2020** | | | |
| **Non-current:** | | | |
| Lease liabilities | - | (3,029) | (3,029) |
| Bank loan | - | (52,791) | (52,791) |
| **Current:** | | | |
| Trade payables | - | (11,311) | (11,311) |
| Accruals | - | (7,137) | (7,137) |
| Contingent consideration due on acquisitions | (2,480) | - | (2,480) |
| Lease liabilities | - | (17,318) | (17,318) |
| **Total for category** | **(2,480)** | **(91,586)** | **(94,066)** |
| **2019** | | | |
| **Non-current:** | | | |
| Lease liabilities | - | (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) |
| Lease liabilities | - | (356) | (356) |
| **Total for category** | **(3,009)** | **(67,761)** | **(70,770)** |

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 2020 £'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 | (2,480) | 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. | **1,856** |
| **Total fair value** | **(2,480)** | | | **Total net gain** | **1,856** |

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 | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Balance at start of the year | (3,009) | (2,694) |
| Acquired through business combination | (1,327) | (3,609) |
| Settled in cash during the year | - | 4,688 |
| Recognised in profit or loss under: | | |
| - Gain/(loss) on revaluation of contingent consideration | 1,856 | (1,394) |
| **Balance at end of year** | **(2,480)** | **(3,009)** |
| Total amount included in profit or loss on Level 3 instruments under gain/(loss) on revaluation of contingent consideration and finance costs | **1,856** | **(1,394)** |

### 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 multi option revolving credit facility of £52.8m (2019: £48.5m) is shown. The Group has £27.2m (2019: £32m) available to drawdown on the £80m (2019: £80m) 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. For the year ended 31 March 2020, if interest rates on the multi option revolving credit facility at that date had been 50 basis points higher/lower, with all other variables held constant, there would have been an immaterial change in the post-tax profit for the year (2019: immaterial impact on post-tax profit).

### Currency risk

During the year the Group made payments totalling US$8.9m (2019: US$14.8m) and EUR€1.2m (2019: EUR€1.0m) to acquire domain names for its Easyspace segment and licences for its Cloud Services segment. In addition, the Group received US$5.8m (2019: US$7.7m) and EUR€1.1m (2019: EUR€1.7m) from Cloud Services customers billed in foreign currency. During the year, the Group entered into forward exchange contracts to hedge its net exposure to the US Dollar arising on these purchases but at the year end the Group had no outstanding forward contracts in place (2019: none). Consequently, the fair value of currency contracts at the year end was £nil (2019: £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. 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 £8,691,000 (2019: £8,613,000) which are stated net of applicable provisions and which represent the total amount exposed to credit risk. The Group manages trade receivable balances vigilantly and takes prompt action on overdue accounts. The lease deposits of £2,760,000 (2019: £2,520,000) are held in escrow accounts with the landlord's main UK bankers. The Group's cash at bank £15,497,000 (2019: £10,069,000) is held within clearing banks in the UK, Republic of Ireland and United States of America with good credit ratings.

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

On 23 June 2020, the lease of our London data centre was extended by a further 5 years to June 2035. As part of this extension, £2.3m of total lease deposits (note 14) will be returned to the Group post year end.

## STATEMENT OF FINANCIAL POSITION
### As at 31 March 2020

| | Note | 2020 £'000 | 2019 £'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investments | 3 | 155,502 | 152,099 |
| Deferred tax | 5 | 1,069 | 1,378 |
| | | **156,571** | **153,477** |
| **Current Assets** | | | |
| Trade and other receivables | 4 | 7,334 | 6,004 |
| Cash and cash equivalents | | 12,991 | 7,857 |
| | | **20,325** | **13,861** |
| **Total assets** | | **176,896** | **167,338** |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Non-current borrowings | 8 | (52,791) | (48,536) |
| | | **(52,791)** | **(48,536)** |
| **Current liabilities** | | | |
| Trade and other payables | 6 | (21,958) | (62,810) |
| | | **(21,958)** | **(62,810)** |
| **Total liabilities** | | **(74,749)** | **(111,346)** |
| **NET ASSETS** | | **102,147** | **55,992** |
| **EQUITY** | | | |
| Called up share capital | 9 | 1,092 | 1,085 |
| Own shares | 10 | (70) | (70) |
| Capital redemption reserve | | 1,200 | 1,200 |
| Share premium account | | 22,147 | 21,518 |
| Merger reserve | | 4,983 | 4,983 |
| Retained earnings | | 72,795 | 27,276 |
| **TOTAL EQUITY** | | **102,147** | **55,992** |

As permitted by section 408(3) of the Companies Act 2006, no profit and loss account of the company is presented. The profit for the financial year of the Company was £52,496,000 (2019: loss of £2,786,000).

These financial statements were approved by the board of directors and authorised for issue on 24 June 2020.
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 2020

| | Note | Share capital £'000 | Own shares EBT £'000 | Capital redemption reserve £'000 | Share premium account £'000 | Merger reserve £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 April 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 – final (paid) | 13 | - | - | - | - | - | (5,336) | (5,336) |
| Dividends – interim (paid) | 13 | - | - | - | - | - | (2,655) | (2,655) |
| 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** |
| Profit for the year | | - | - | - | - | - | 52,496 | 52,496 |
| **Total comprehensive income** | | **-** | **-** | **-** | **-** | **-** | **52,496** | **52,496** |
| Dividends – final (paid) | 13 | - | - | - | - | - | (5,448) | (5,448) |
| Dividends – interim (paid) | 13 | - | - | - | - | - | (2,834) | (2,834) |
| Share-based payments | 11 | - | - | - | - | - | 1,052 | 1,052 |
| Deferred tax on share-based payments | 5 | - | - | - | - | - | 253 | 253 |
| Issue of share capital | 9 | 7 | - | - | 629 | - | - | 636 |
| **Total transactions with owners** | | **7** | **-** | **-** | **629** | **-** | **(6,977)** | **(6,341)** |
| **Balance at 31 March 2020** | | **1,092** | **(70)** | **1,200** | **22,147** | **4,983** | **72,795** | **102,147** |

The nature of equity in the statement of changes in equity is disclosed in the accounting policies (note 2).

The following notes form part of the financial statements.

## 1. COMPANY INFORMATION

iomart Group plc is a public listed company listed on the Alternative Investment Market ("AIM"), incorporated and domiciled in the United Kingdom and registered in Scotland. 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. On an annual basis, 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.

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

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 payments

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 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; and
- "Retained earnings" represents retained profits and share-based payment reserve.

### 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.

### Going Concern

The Company has net current liabilities of £1.6m, largely driven by £15.6m (net) of amounts due to subsidiary undertakings. The Group has an undrawn multi-option revolving credit facility of £27.2m at 31 March 2020. After making enquiries, the directors have a reasonable expectation that the Company will be able to meet its financial obligations and has adequate resources to continue in operational existence for the foreseeable future (being a period extending at least twelve months from the date of approval of these financial statements). For this reason they continue to adopt the going concern basis in preparing the financial statements.

## 2. ACCOUNTING POLICIES (CONTINUED)

### 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 2019 | 152,099 |
| Additions | 3,212 |
| Share-based payments (note 11) | 191 |
| **Cost at 31 March 2020** | **155,502** |
| **Net book value of Investments at 31 March 2020** | **155,502** |
| Net book value of Investments at 31 March 2019 | 152,099 |

All of the above investments are unlisted.

Additions in the year relate to the acquisition of Memset Limited.

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

## 4. TRADE AND OTHER RECEIVABLES

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Prepayments | 517 | 225 |
| Other debtors | 190 | - |
| Current income tax | 3,623 | 3,820 |
| Other taxation and social security | 464 | 738 |
| Amounts owed by subsidiary undertakings | 2,540 | 1,221 |
| | **7,334** | **6,004** |

## 5. DEFERRED TAXATION

The Company had recognised deferred tax assets as follows:

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Share-based remuneration | 1,069 | 1,378 |

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

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Balance brought forward | 1,378 | 1,588 |
| Profit and loss account movement arising during the year | (724) | 43 |
| Effect of deferred tax rate change in the year | 162 | - |
| Profit and loss account reserve movement during the year | 253 | (253) |
| Balance carried forward | **1,069** | **1,378** |

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

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Trade creditors | (470) | (237) |
| Other taxation and social security | (89) | (97) |
| Other creditors | (32) | - |
| Accruals | (1,542) | (873) |
| Contingent consideration due on acquisitions (note 7) | (1,653) | (3,009) |
| Amounts owed to subsidiary undertakings | (18,172) | (58,594) |
| | **(21,958)** | **(62,810)** |

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

## 7. CONTINGENT CONSIDERATION

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Contingent consideration due on acquisitions within one year: | | |
| - LDeX Group Limited | (1,153) | (3,009) |
| - Memset Limited | (500) | - |
| **Total contingent consideration due on acquisitions** | **(1,653)** | **(3,009)** |

The final consideration due on LDeX Group Limited, agreed with the previous shareholder and paid subsequent to the year end, is £1,153,000. This has resulted in gain on revaluation of contingent consideration of £1,856,000 recorded in the Statement of Comprehensive Income.

Contingent consideration for Memset Limited is based on the directors' best estimate of payments due at 31 March 2020. Details of the range of possible outcomes are disclosed in note 11 of the Group financial statements.

## 8. BORROWINGS

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| **Non-current:** | | |
| Bank loans | (52,791) | (48,536) |
| **Non-current borrowings** | **(52,791)** | **(48,536)** |
| **Total borrowings** | **(52,791)** | **(48,536)** |

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:

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Capital £'000 | Interest £'000 | Total £'000 | Capital £'000 | Interest £'000 | Total £'000 |
| Due within one year | - | (465) | (465) | - | - | - |
| Due within two to five years | (52,791) | - | (52,791) | (48,536) | (192) | (48,728) |
| | **(52,791)** | **(465)** | **(53,256)** | **(48,536)** | **(192)** | **(48,728)** |

The directors estimate that the fair value of the Group's borrowing is not significantly different to the carrying value. The capital element of the bank loans is £52,791,000 (2019: £48,536,000). In the prior year this figure differs from the net amount drawn down of £48,641,000 due to an effective interest rate adjustment. For details of the terms of repayment and rates of interest payable see note 21 in the Group financial statements.

## 9. SHARE CAPITAL

| | Ordinary shares of 1p each | |
|---|---|---|
| | Number of shares | £'000 |
| **Authorised** | | |
| **At 31 March 2018, 2019 and 2020** | **200,000,000** | **2,000** |

| | | |
|---|---|---|
| **Called up, allotted and fully paid** | | |
| At 1 April 2018 | 107,990,341 | 1,080 |
| Share capital issued in the year | 519,407 | 5 |
| At 31 March 2019 | 108,509,748 | 1,085 |
| Share capital issued in the year | 650,180 | 7 |
| **At 31 March 2020** | **109,159,928** | **1,092** |

During the year, 650,180 (2019: 519,407) ordinary shares were issued for a total consideration of £635,502 (2019: £292,040), resulting in a premium over the nominal value of £629,000 (2019: £286,864).

At 31 March 2020 the Company held 140,773 shares (2019: 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 (2019: £1,408) and a market value of £380,087 (2019: £488,482). This represents 0.1% (2019: 0.1%) of the issued share capital as at 31 March 2020 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 2020 are fully paid.

### 10. OWN SHARES RESERVES

| | Own shares EBT £'000 | Own shares Total £'000 |
|---|---|---|
| **At 31 March 2020 and 31 March 2019** | **(70)** | **(70)** |

At 31 March 2020 the Company held 140,773 shares (2019: 140,773) in the EBT with a carrying value of £69,982 (2019: £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 £1,243,000 (2019: £1,008,000) by:

1) taking the charge in relation to employees of the parent company through the parent company statement of comprehensive income £1,052,000 (2019: £1,084,000),

2) recording an increase to its investment in subsidiaries for the amounts attributable to employees of subsidiaries and recording a corresponding entry to retained earnings of £191,000 (2019: decrease of £76,000).

### 12. INFORMATION REGARDING PARENT COMPANY EMPLOYEES

| | 2020 No. | 2019 No. |
|---|---|---|
| **Average number of persons employed by the Company (including directors):** | | |
| Technical | 8 | 10 |
| Sales and marketing | 9 | 6 |
| Administration | 31 | 28 |
| | **48** | **44** |

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| **Staff costs of the Company during the year in respect of employees and directors were:** | | |
| Wages and salaries | 1,939 | 918 |
| Social security costs | 735 | 160 |
| Pension costs | 38 | 6 |
| Share-based payments | 1,052 | 1,084 |
| | **3,764** | **2,168** |

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 37 to 43. 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 directors' emoluments are disclosed within note 5 of the Group financial statements.

## 13. DIVIDENDS PAID ON SHARES CLASSED AS EQUITY

| | 2020 Pence per share | 2020 £'000 | 2019 Pence per share | 2019 £'000 |
|---|---|---|---|---|
| **Paid during the year:** | | | | |
| **Final dividend (proposed in the prior year)** | | | | |
| Equity dividends on ordinary shares | 5.01p | 5,448 | 4.93p | 5,336 |
| **Interim dividend** | | | | |
| Equity dividends on ordinary shares | 2.60p | 2,834 | 2.45p | 2,655 |
| **Total dividend paid in cash** | | **8,282** | | **7,991** |

The directors have recommended a final dividend for the year ended 31 March 2020 of 3.93p per share (2019: 5.01p per share). Subject to shareholder approval this proposed final dividend would be payable on 4 September 2020 to shareholders on the register at close on 14 August 2020.

## 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

Excluding the contingent liabilities associated with the contingent consideration (note 7), there are no contingent assets or contingent liabilities as at 31 March 2020 (2019: nil).

### (b) Commitments

There are no capital commitments present as at 31 March 2020 (2019: nil).

## 16. ULTIMATE CONTROLLING PARTY

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

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

If you are in any doubt as to what action to take, you should consult your stockbroker, solicitor, accountant or other appropriate independent professional adviser authorised under the Financial Services and Markets Act 2000, as amended. If you have sold or otherwise transferred all your shares in iomart Group plc, please forward this document and the accompanying form of proxy to the person through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

**IMPORTANT INFORMATION: IMPACT OF THE COVID-19 PANDEMIC ON THE MEETING**

The Board is closely monitoring the evolving Coronavirus (COVID-19) situation and public health concerns in the United Kingdom, including the related social distancing requirements, public health guidance and legislation issued by both the UK and Scottish Governments. At the time of publication of this notice, indoor public gatherings in Scotland remain subject to a number of restrictions.

The Board recognises that the annual general meeting represents an opportunity to engage with members, and provides a forum that enables members to ask questions of, and speak directly with, the Board. However, in light of current restrictions, the Board hopes that members will understand that the annual general meeting this year will be run as a closed meeting and members will not be able to attend. The Company will make arrangements such that the legal requirements to hold the meeting can be satisfied through the attendance of a minimum number of members and the format of the meeting will be purely functional – the meeting will comprise only the formal votes without any business update.

Members are therefore strongly encouraged to submit a proxy vote in advance of the meeting. A form of proxy for use at this meeting accompanies this notice. To be valid, the form of proxy must be completed and returned to Link Asset Services in accordance with paragraphs 1 and 2 of the Notes appended to this notice (or otherwise submitted electronically in accordance with paragraph 3 of the Notes). Given the restrictions on attendance, members are strongly encouraged to appoint the 'Chair of the Meeting' as their proxy rather than a named person who will not be permitted to attend the meeting.

Shareholders are also invited to submit questions in advance of the meeting via email at agm2020@iomart.com by no later than 10.00am on Friday 21 August 2020. Responses to the questions will be provided following the conclusion of the AGM.

This situation is constantly evolving, and the UK and/or Scottish Governments may change current restrictions or implement further measures relating to the holding of general meetings during the affected period. Any changes to the arrangements for the annual general meeting (including, without limitation, as to proxy appointments, attendance, venue, format, the business to be considered or timing, as the case may be) will be communicated to members before the meeting through our website (www.iomart.com) and, where appropriate, via the Regulatory News Service.

**NOTICE IS HEREBY GIVEN** that the 2020 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 25 August 2020 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 2020.
2. To approve the report of the board to the members on directors' remuneration for the year ended 31 March 2020.
3. To reappoint Mr Angus MacSween (who retires by rotation and, being eligible, offers himself for re-election) as a director of the Company.
4. To reappoint Mr Ian Steele (who retires by rotation and, being eligible, offers himself for re-election) as a director of the Company.
5. To elect Mr Reece Donovan, who was appointed since the last annual general meeting, as a director of the Company.
6. To declare a final dividend for the year ended 31 March 2020 of 3.93p per share payable on 4 September 2020 to shareholders on the register of members at the close of business on 14 August 2020.
7. To reappoint 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 £728,146.70 (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 £364,073.35 (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 £364,073.35),

    provided that such authority, unless renewed, varied or revoked by the Company, shall expire on 25 November 2021 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 in each case as if section 561 of the Companies Act 2006 did not apply to any such allotment or sale, such authority to 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 £54,611.00,

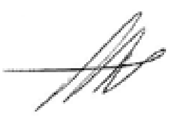
    such authority to expire at the end of the next annual general meeting of the Company (or, if earlier, at the close of business on 25 November 2021) but, in each case, prior to its expiry the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (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 in each case 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 £54,611.00; 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 25 November 2021) 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 10,922,200, representing 10% of the Company's issued ordinary share capital as at the latest practicable date prior to the publication of this notice of 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 at the end of the next annual general meeting of the Company (or, if earlier, at the close of business on 25 November 2021); 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***
***24 July 2020***

**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. In light of the COVID-19 restrictions, all shareholders are strongly encouraged and requested to only appoint the Chairman as their proxy or representative as any other persons so appointed will not be permitted to attend the meeting.
2. To be effective (subject to paragraph 3 below), 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, PXS1, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, not less than 48 hours (excluding weekends and bank holidays) before the time for holding the meeting (i.e. by 10.00am on Friday 21 August 2020) and if not so deposited shall be invalid.
3. Alternatively, you may instead submit your proxy vote electronically by accessing the shareholder portal at www.signalshares.com, logging in and selecting the 'Vote Online Now' link. You will require your username and password in order to log in and vote. If you have forgotten your username or password you can request a reminder via the shareholder portal. If you have not previously registered to use the portal you will require your investor code ('IVC') which can be found on your share certificate. Proxy votes should be submitted as early as possible and, in any event, not less than 48 hours (excluding weekends and bank holidays) before the time for holding the meeting (i.e. by 10.00am on Friday 21 August 2020) and if not so submitted shall be invalid.

**Entitlement to attend and vote**

4. 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 21 August 2020; 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.

   **References in these Notes to 'attend' should however be construed in light of the COVID-19 restrictions, as summarised in the notice of meeting, which will restrict physical attendance at the meeting in this case.**

**Documents on Display**

5. 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**

6. 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 2020 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 37 to 42. 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 Angus MacSween and Mr Ian Steele are required to retire by rotation at this annual general meeting and, being eligible, offer themselves 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 Reece Donovan was appointed on 30 March 2020 and accordingly offers himself for reappointment.

The board of directors is satisfied that the performance of Mr Angus MacSween, Mr Ian Steele and Mr Reece Donovan 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 Angus MacSween, Mr Ian Steele and Mr Reece Donovan.

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

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

Mr Ian Steele, appointed 2016: Ian is a chartered accountant with over 35 years' experience in the corporate finance and corporate advisory sector. During a 16-year career with Deloitte LLP, Ian undertook roles within corporate finance and global advisory services. 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.

Mr Reece Donovan, appointed 2020: Reece has over 23 years' experience in the technology and telecommunication industries, with a demonstrable track record of achievement in roles both in the UK and internationally. Reece's most recent position was Chief Executive Officer at Nomad Digital, a provider of IP connectivity and digital solutions to the global transportation sector. Previous positions include Senior Vice-President Global Services for CSG International, a provider of software solutions to over 400 customers located in 120 countries and a number of management and operational roles across the technology, communications and consumer packaged goods industries at Steria plc, Xansa plc and Druid plc.

### Resolution 6 – To declare a dividend of 3.93p per ordinary share

Subject to the provisions of the Companies Act 2006, 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 3.93p per ordinary share, to be payable to shareholders registered at close of business on 14 August 2020.

### Resolution 7 – Re-appointment and remuneration of auditors

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

### Resolution 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 £728,146.70 (representing 72,814,670 ordinary shares of 1p each) 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 £364,073.35 (representing 36,407,335 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 25 November 2021 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 25 November 2021. 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 £54,611.00 (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 a kind contemplated by the Pre-Emption Group's Statement of Principles up to an additional aggregate nominal amount of £54,611.00 (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 or 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 25 November 2021.

**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 latest practicable date prior to the publication 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.

**Directors**

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|---|---|
| Angus MacSween | Chief Executive Officer |
| Scott Cunningham BAcc, CA | Chief Financial Officer |
| Reece Donovan | Chief Operating 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**

Pinsent Masons LLP, 141 Bothwell Street, Glasgow G2 7EQ

**Independent auditor**

Deloitte LLP, Level 5, 110 Queen Street, Glasgow G1 3BX

**Registrars**

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

**Company Registration Number**

SC204560

**www.iomart.com**

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