

iomart

supporting the network economy

Admission to the Alternative Investment Market
Placing and Public Offer
by Peel Hunt plc



Madasafish

www.madasafish.com



www.jings.com

www.jings.com



WinBiz

www.winbiz.co.uk

iomart Group plc

Application will be made for the whole of the issued ordinary share capital of the Company to be admitted to trading on the Alternative Investment Market of the London Stock Exchange ("AIM"). AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk than that associated with established companies tends to be attached. A prospective investor should be aware of the potential risks in investing in such companies and should make the decision to invest only after careful consideration and consultation with his or her own independent financial adviser.

The rules of AIM are less demanding than those of the London Stock Exchange's Official List. It is emphasised that no application is being made for admission of the issued ordinary share capital of the Company to the Official List. Further, the London Stock Exchange has not itself approved the contents of this document.

Qualifying Users (as defined in this document) will be able to apply for Ordinary Shares under the terms of the Public Offer, as set out in Part III of this document. Registration as a Qualifying User is only available through the Internet website at www.issuesdirect.com/iomart. The application period during which Qualifying Users may apply for Ordinary Shares under the Public Offer begins on 30 March 2000 and ends on 11 April 2000. Remittances and duly completed application forms, which are only available on the website, must be posted to the Company's receiving agent, IRG plc, so as to be received by 12 noon on 11 April 2000 at New Issues Department, IRG plc, PO Box No. 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH. Applicants under the Public Offer are expected to be notified of the Final Offer Price and the basis of allocation of the Ordinary Shares on 13 April 2000 and in any event prior to Admission.

This document, which comprises a prospectus drawn up in accordance with the POS Regulations, has been issued in connection with the proposed application for admission to trading of the Ordinary Shares to AIM. If you are in any doubt about the contents of this document you should consult a person authorised under the Financial Services Act 1986 who specialises in advising on the acquisition of shares and other securities. A copy of this document has been delivered for registration to the Registrar of Companies in Scotland in accordance with Regulation 4(2) of the POS Regulations. This document has been drawn up in accordance with the POS Regulations.

IOMART GROUP PLC

Placing and Public Offer of up to 18,181,818 Ordinary Shares at
between 110 pence and 145 pence per share

by

PEEL HUNT PLC

and

Admission to trading on the Alternative Investment Market

The Placing and Public Offer is conditional, *inter alia*, on Admission taking place on or before 19 April 2000 (or such later date as iomart Group plc and Peel Hunt plc may agree, being not later than 30 May 2000). The Ordinary Shares will rank in full for all dividends or other distributions hereafter declared, made or paid on the ordinary share capital of the Company and will rank *pari passu* in all other respects with all other Ordinary Shares in issue on Admission.

The Public Offer is only open to persons resident in the UK who are 18 years old or over. The ordinary shares offered by this document have not been, nor will they be, registered under the US Securities Act of 1933 or under any applicable securities laws of Australia, Canada or Japan. The ordinary shares may not be offered or sold or delivered, directly or indirectly, in or into the United States, Canada, Australia or Japan. This document must not be mailed or otherwise distributed or sent to or into the United States, Canada, Australia or Japan. This document does not constitute an offer of, or the solicitation of an offer to subscribe for or buy, any of the ordinary shares to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

Peel Hunt, which is regulated by The Securities and Futures Authority Limited, is acting as the Company's nominated adviser in connection with the proposed admission of the issued ordinary share capital of the Company to trading on AIM. Its responsibilities as the Company's nominated adviser under the AIM Rules are owed solely to the London Stock Exchange and are not owed to the Company or to any Director or to any other person in respect of his decision to acquire shares in the Company in reliance on any part of this document. No representation or warranty, express or implied, is made by Peel Hunt as to any of the contents of this document (without limiting the statutory rights of any person to whom this document is issued). Peel Hunt will not be offering advice and will not otherwise be responsible for providing customer protections to recipients of this document in respect of the Placing and Public Offer or any acquisition of shares in the Company.

The whole of this document should be read. Your attention is drawn to the section entitled "Risk Factors" on page 19.



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EXPECTED TIMETABLE OF PRINCIPAL EVENTS⁽¹⁾

	2000
Latest time and date for receipt by IRG plc of cheques and Application Forms	12 noon on 11 April
Announcement of the Final Offer Price and allocation of shares in the Placing and Public Offer	13 April
Admission and first day of dealings	19 April
Crediting of uncertificated shares to CREST accounts	19 April
Where applicable, definitive share certificates despatched by	27 April

(1) Each of the times and dates in the above timetable and elsewhere in this document in relation to the Placing and Public Offer is subject to change

DEFINITIONS

The following definitions apply throughout this document, unless otherwise stated or the context otherwise requires:

“Act”	the Companies Act 1985
“Admission”	the admission of the Company’s issued ordinary share capital to trading on AIM becoming effective in accordance with the AIM Admission Rules
“AIM”	the Alternative Investment Market of the London Stock Exchange
“AIM Rules”	the rules set out in Chapter 16 of the rules of the London Stock Exchange
“Approved Scheme”	the iomart Group plc Approved Share Option Scheme
“Board” or “Directors”	the directors of the Company, whose names are set out on page 6 of this document
“Company”	iomart Group plc
“Final Offer Price”	the price at which each new Ordinary Share is to be issued under the Placing and Public Offer
“Group”	the Company and its subsidiary iomart
“iomart”	iomart Limited
“London Stock Exchange”	London Stock Exchange Limited
“Ordinary Shares”	ordinary shares of 1p each in the capital of the Company
“Peel Hunt”	Peel Hunt plc
“Placing”	the proposed conditional placing by Peel Hunt on behalf of the Company of up to 18,181,818 Ordinary Shares at the Final Offer Price
“Public Offer”	the conditional offer by Peel Hunt on behalf of the Company of up to 1,818,181 Ordinary Shares at the Final Offer Price
“Placing Agreement”	the conditional agreement expected to be entered into between the Company (1), its executive Directors (2) and Peel Hunt (3) relating to the Placing and the Public Offer and Admission, further details of which are set out in paragraph 12 of Part VII of this document
“POS Regulations”	the Public Offer of Securities Regulations 1995
“Price Range”	110 pence to 145 pence
“Qualifying User”	a person who has successfully completed the registration process to enable him to apply for Ordinary Shares in the Public Offer (and who has accordingly demonstrated to the Company that he is an individual aged 18 or over who is resident in the United Kingdom)
“SAYE Scheme”	The iomart Group plc Savings Related Share Option Scheme
“Schemes”	The Approved Scheme and the Unapproved Scheme
“Sponsorship Agreement”	the conditional agreement dated 30 March 2000 between the Company (1), the Directors (2) and Peel Hunt (3) relating to the Public Offer and Admission, further details of which are set out in paragraph 11 of Part VII of this document
“Unapproved Scheme”	The iomart Group plc Unapproved Share Option Scheme



GLOSSARY

access minutes	the number of minutes spent by ISPs users in accessing the Internet (which includes local calls, national regional calls, international calls and calls to UK mobile telephones made by clients, inbound 0800 calls made by clients, premium rate calls made by clients, personal number calling and calling cards)
ADSL	Asynchronous Digital Subscriber Line, a newly-introduced technology allowing high-speed data to be transmitted along existing telephone wiring
broadband	a bandwidth speed of 2 Mbit/s or more (in comparison to less than 2 Mbit/s which is termed narrowband) which allows the transmission of video signals using current compression and transmission standards
churn rate	in relation to an ISP, the percentage of its users that do not access the Internet via its service in any period of 40 days
co-location facility	where an operator locates its infrastructure, either switches, routers or servers, in an alternative network operator's point of presence
DSL	Digital Subscriber's Line
e-mail	electronic mail: a system which allows mail to be forwarded internally and externally in an electronic format
e-commerce	electronic commerce: the ability to buy and sell products or transact other types of business over a public or private network
interconnect	the process whereby one telecommunications company connects its network to that of another telecommunications company via a switch
Internet	a publicly accessible network of international computers that has become the standard for e-commerce and information exchange using data communications technology
ISDN	Integrated Services Digital Network, an international communications standard for sending voice, video and data over digital telephone lines or normal telephone wires
ISPs	Internet Service Providers, being companies which provide telephone network access to the Internet to businesses and consumers
Internet Protocol or IP	part of a series of protocols describing software that tracks the internet address of nodes, routes outgoing messages, and recognises incoming messages
IT	Information technology
PC	a personal computer, typically an IBM compatible model running a version of Microsoft Windows, but possibly an Apple Mac or similar
PTO Licence	a licence to provide certain telecommunications services granted under the Telecommunications Act 1984

SME	small or medium sized enterprise, that is, having less than 20 employees
switch	in networks, a device that filters and forwards packets between local area network segments
unified messaging	technology that allows all voicemail, faxes and e-mail to be stored digitally and then accessed from anywhere either by PC or telephone
VoIP	Voice over Internet Protocol
web	the world-wide web, a linked network of information, graphics, video and audio and software, borne out of the internet and arranged into a very large number of individual websites, each created using a number of common formats, generally referred to as “HTML”, or hypertext mark-up language
web hosting	the business of hosting, serving and maintaining files for one or more websites
website	a location or presence on the Internet defined by a unique address that provides content or services to users



DIRECTORS, SECRETARY AND ADVISERS

Directors	Nick Kuenssberg , <i>Non-executive chairman</i> Angus MacSween , <i>Chief executive</i> Bill Dobbie , <i>Business development director</i> Neil Finlayson , <i>Technical director</i> Sarah Haran , <i>Customer services director</i> Fred Shedden , <i>Non-executive director</i> <i>all of</i>
Registered & Head Office	80 Berkeley Street Glasgow, G3 7DS
Company Secretary	Stewart Moir
Nominated Adviser and Nominated Broker	Peel Hunt plc 62 Threadneedle Street London, EC2R 8HP
Auditors	Deloitte & Touche 39 St Vincent Place Glasgow, G1 2QQ
Reporting Accountants	Deloitte & Touche 17 Blythswood Square Glasgow, G2 4AD
Solicitors to the Company	McGrigor Donald Pacific House 70 Wellington Street Glasgow, G2 6SB
Solicitors to the Nominated Adviser	Theodore Goddard 150 Aldersgate Street London, EC1A 4EJ
Bankers	Bank of Scotland 235 Sauchiehall Street Glasgow, G2 3EY
Registrars	IRG plc Bourne House 34 Beckenham Road Beckenham Kent, BR3 4TU
Receiving agent	New Issues Department IRG plc P.O. Box No. 166 Bourne House 34 Beckenham Road Beckenham Kent, BR3 4TH

KEY INFORMATION

This information is derived from, and should be read in conjunction with, the full text of this document.

- iomart is an integrated telecommunications and Internet company which provides Internet access and web hosting services.
- iomart has a high quality scalable network that is capable of supporting a full range of services that rely on broadband technology.
- The Group's business model contains multiple routes to market and multiple revenue streams in order to minimise reliance on any particular product or marketing channel.
- The Group's two founding directors have substantial experience in the fields of telecommunications and the Internet and are supported by a strong technical team to assist in the implementation of the Group's strategy.
- iomart has established distribution partnerships with a number of well established organisations such as Virgin Biznet, 365 Corporation and indirectly Freeserve.
- The Group has a clear strategy to create a substantial and loyal customer base through which it can offer value added services that can be charged for on a subscription or other paid basis.

ISSUE STATISTICS

Price Range ⁽¹⁾	110 pence to 145 pence
Number of new Ordinary Shares being offered ⁽²⁾	15,748,032
Number of Ordinary Shares in issue immediately following Admission ⁽²⁾	47,326,979
Percentage of Ordinary Shares in issue on Admission being placed pursuant to the Placing and Public Offer ⁽²⁾	33.3%
Net proceeds from the Placing and Public Offer available to the Company ⁽²⁾	£19.0 million
Market capitalisation of the Company, assuming the Final Offer Price is set at the mid-point of the Price range ⁽²⁾	£60.1 million

(1) It is currently expected that the Final Offer Price will be within the Price Range, but the Price Range is indicative only and the Final Offer Price may be set within, above or below the Price Range.

(2) The number of new Ordinary Shares referred to in the above information assumes the Final Offer Price is set at the mid-point of the Price Range of 127 pence. As the Company intends to raise total proceeds of £20 million pursuant to the Placing and Public Offer, the number of new Ordinary Shares to be issued by the Company pursuant to the Placing and Public Offer is dependent on the Final Offer Price.



PART I

INFORMATION ON THE GROUP

INTRODUCTION

iomart is an integrated telecommunications and Internet company with a growing customer base and scalable infrastructure. The Group provides Internet access and web hosting services which it markets directly and indirectly.

Firstly, iomart provides Internet access and other services for individual users through an ISP that is focused on customer service, under the brand name Madasafish. The Group also provides Internet access on behalf of 365 Corporation and other ISPs that do not have their own network. Secondly, the Group provides website building, web hosting, e-commerce and Internet access services for SMEs through its own brand WinBiz, and under the brand names of its partners Virgin Biznet and indirectly, Freeserve. All products are supported from iomart's purpose built, dedicated support centre in Stornoway, on the Isle of Lewis.

The Directors have developed a flexible strategy of selling iomart's products directly and indirectly in order to obtain multiple revenue streams and minimise reliance on any individual product. Internet access revenues are generated through a full telecommunications interconnect agreement with BT and a back up interconnect agreement with COLT. Web hosting revenues are generated by initial set up fees as well as ongoing monthly charges.

The Group's state of the art, scalable network is capable of supporting a full range of additional services that rely on broadband technology such as mobile Internet access, ADSL access to the Internet, unified messaging, VoIP and traditional voice telephony services. The Directors intend to increase the Group's revenues by growing its membership base and adding these and other complementary services that it can charge for on a subscription or similar basis.

The Company intends to raise up to £19 million net of expenses through the Placing and Public Offer and to obtain admission of its share capital to AIM. The funds raised will be used to implement the Directors' strategy, described in this document, repay certain of the Group's indebtedness and meet the costs of Admission and the Placing and Public Offer.

BACKGROUND

The Group was founded by Angus MacSween and Bill Dobbie in December 1998 and in the same month iomart obtained a telecommunications licence. On 29 March 1999, iomart entered into a full interconnect agreement with BT. In April 1999, the Group's support centre in Stornoway became operational and in May 1999, iomart was appointed as the designated provider of website building and web hosting services to Freeserve. In the same month, the Madasafish ISP went live.

In October 1999, iomart installed a switch in the Docklands area of London. This was followed by the launch of its SME targeted website building, web hosting and e-commerce services in conjunction with Virgin Biznet on 14 October 1999. On 26 October 1999, iomart entered into an agreement with 365 Corporation to provide Internet access to its business customers.

In February 2000, iomart was appointed as one of a small number of companies in the UK to assist BT in market trials for its DSL broadband technology.

In March 2000, iomart's own SME targeted website building, web hosting and e-commerce product which is marketed under the WinBiz brand went live, although it will not be formally marketed until April 2000.

THE MARKET

The Internet is a significant and rapidly expanding global interactive medium enabling people around the world to communicate, share information and conduct business. The Directors believe that the Internet is becoming an increasingly important medium for businesses to communicate and conduct electronic transactions with customers and suppliers.

Within the UK, Internet usage by both consumers and businesses has increased significantly over the past two years with current estimates indicating that there are now 15 million adults in the UK with access to the Internet, of which 11.2 million are regular users¹. Further significant growth is forecast in Internet usage as PC penetration in the home increases and Internet access through other devices, such as mobile phones and TV develops. By 2004, the UK is predicted to be the second largest market in Europe for Internet users with an estimated 25 million users².

The amount of time spent online is also forecast to increase substantially. The total number of access minutes for consumer and SMEs is forecast to grow to 35 billion minutes by March 2000, and to 140 billion minutes by March 2004³.

There are over 3.6 million active businesses in the UK of which approximately 98 per cent. have less than 20 employees⁴. This is iomart's target market for its web hosting and e-commerce products. It was estimated that in 1999, 0.6 million companies with between 1 and 250 employees had a website although companies with less than 10 employees were believed to be six times less likely to have a website than companies with between 100 to 250 employees⁵.

In addition to the forecast increase in Internet usage, demand for alternative means of accessing the Internet is also forecast to increase substantially. It is estimated that by the end of 2005, 69 per cent. of cellular mobile subscriptions in Europe (equivalent to approximately 185 million) will be WAP enabled⁶ thereby allowing users to access the Internet from mobile hand held devices. Penetration of DSL, a broadband service that allows users to access the Internet at up to 40 times the speed of a 56k modem, is estimated at 20 per cent. of all European businesses by 2004⁷.

INTERNET ACCESS

The opportunity

The Directors believe that there is a significant opportunity to create a number of high quality ISP brands which appeal to different segments of the market and are able to establish customer loyalty and support through satisfying users' individual needs.

The Directors believe that the most important factor affecting a customer's choice of ISP will be the quality of service provision covering areas such as ease and speed of access to the Internet, minimal downtimes of the service, minimal engaged tones, the speed and level of customer support and quality of content. Whilst price will remain a consideration, the Directors do not believe that it will be the prime factor in choosing an ISP.

The Directors also believe that the provision of value added services that rely on broadband technology will be another key differentiator of ISPs, particularly for the business market.

Direct services

Through the provision of a customer focused ISP providing a high quality Internet access and customer service as well as focused content, the Directors intend to create a loyal customer base thereby minimising churn rates. User specific content and additional services will be identified through establishing an interactive dialogue with members of the Group's ISPs. Access to the Internet is currently provided through dial-up, ISDN or DSL.

1. Source: Fletcher Research "UK Internet User Monitor" October 1999
2. Source: Fletcher Research "Internet Europe: Connecting the Consumer", July 1999.
3. Source: BT plc, November 1999
4. Source: DTI Small and Medium Enterprise Statistics for the UK, August 1998
5. Source: Spectrum "Moving into the Information Age, An International Benchmarking Study, 1999", May 1999
6. Source: Datamonitor "Next Generation Mobile Access Devices: The call of Wireless Data", February 2000
7. Source: Datamonitor "European business Internet services markets", July 1999



Madasafish

Madasafish, located at www.madasafish.com, is a free ISP that was established in May 1999 and is marketed as “an ISP with attitude”. Currently Madasafish content focuses on games, music, news, film and video. The site gives users the ability to review and purchase music and games, listen to and download music on line, watch music videos and access other specialist music and games sites. Users can also access film reviews and through its association with ABC cinemas, download film trailers.

Other free services that are provided include email that can be accessed through a PC or by telephone, a chat room, newsgroups, links to other websites, domain name registration, the ability to build your own website and to register to receive DSL. It is intended that additional content will cover topics such as travel, finance and sport.

Details of Madasafish’s monthly cumulative membership and access minutes are outlined in the table below:

	<i>Month ended</i>					
	<i>Sep '99</i>	<i>Oct '99</i>	<i>Nov '99</i>	<i>Dec '99</i>	<i>Jan '00</i>	<i>Feb '00</i>
Cumulative number of members	23,233	34,470	48,908	63,298	84,317	107,914
Monthly access minutes	5.8 million	8.5 million	12.0 million	14.8 million	21.2 million	23.9 million

Since the beginning of March 2000, the average sign up rate of new Madasafish members has been in excess of 500 per day and totalled 118,523 as at 20 March 2000.

Since 31 December 1999, it is estimated that the churn rate of Madasafish users has ranged between approximately 2.6 per cent. and 4.0 per cent. which the Directors believe compares favourably to other ISPs and is a reflection of the loyalty of the Madasafish membership base.

Jings!

The Directors intend shortly to launch a new individualistic Scottish ISP brand under the name of “Jings!”. The service will be free and aimed at contemporary Scotland with a marketing image of “No tartan and no shortbread”. The Directors believe that this market represents a significant opportunity for a well positioned brand with a high level of customer service. Current plans are for the Jings! ISP to contain information on all types of Scottish news, sport, music and local entertainment as well as to provide similar services to those available on the Madasafish ISP, such as email, domain name registration and the ability to build your own website.

SME Internet access

An Internet access service is provided as part of iomart’s SME web building, web hosting and e-commerce package. This may be used by the SME customers of WinBiz or iomart’s marketing partners.

The Directors believe that the majority of access minutes generated by SME members will be during working hours on weekdays. This will complement the access minutes generated through iomart’s consumer ISPs which typically peak on weekday evenings and at weekends, thereby enhancing the utilisation rate of the Group’s network.

Indirect services

Many ISPs outsource Internet access, content and helpdesk facilities. Through its infrastructure, the Group has the flexibility to provide Internet access to these companies that do not own their own network but that need to offer Internet access and other services to their customers. Currently iomart has contracts to provide Internet access to the business customers of 365 Corporation and the customers of other companies.

WEB HOSTING

The opportunity

The Directors believe that most SMEs do not have the necessary skills in house to build and maintain their own website and e-commerce product function. The Directors believe that it is more cost effective for SMEs to use a pre-packaged product with customer support that will provide them with website building, web hosting and e-commerce services. By outsourcing these requirements, SMEs are able to share servers, services, support centre, support staff and infrastructure and can rely upon a third party to ensure that their website is managed from a secure and resilient facility.

The Directors believe that as its SME customers increasingly use the Internet, iomart will be able to expand the range of services that it offers to include products such as DSL, mobile Internet access, unified messaging and VoIP. Although the technologies for such services are still in their infancy, iomart is currently pilot testing DSL access to the Internet.

iomart has developed a pre-packaged product for SMEs, sold directly through its own brand WinBiz and indirectly via its partners, that offers website building, web hosting and e-commerce services. SMEs have the option of building their website from a range of approximately 50 different website templates which have been designed with different businesses in mind. These may be customised directly by the SME users or by the iomart staff, depending on the level of service required by the customer. In all cases, support and website building assistance is available, either online or by telephone, from the iomart team of web consultants. In addition, iomart is also able to provide an e-commerce function which can be added to the website templates.

iomart provides two levels of service to its SME members for each of the website building and e-commerce products. For website building, the options are for the customers to build their own website after a limited amount of assistance from the iomart support centre, or for iomart to build the website for them. For e-commerce, the standard option is for a website shop through which products may be displayed, but can only be purchased through email or over the telephone. The second option is for the SME user to be able to generate revenue directly, using the website to process the transaction.

In order to access the service, customers must sign up for a 12 month contract for which they are charged a fixed fee and a monthly service charge.

Indirect services

iomart has partnerships with companies including Virgin Biznet and indirectly, Freeserve whereby the Group's SME web hosting products are marketed under the partner's brand name. Through Virgin Biznet, SMEs are able to purchase elements of iomart's SME web hosting package. Currently, customers of iomart's other partners can only purchase a more limited version of the SME web hosting package.

Direct services

The WinBiz brand located at www.winbiz.co.uk provides SME customers with a website building, web hosting and e-commerce package as described above, as well as Internet access and domain name registration and email facilities. Customers are also provided with general advice and educational support on how SMEs can maximise the benefits of having a website. The brand went live in March 2000 although it will not be formally marketed until April.



ROUTES TO MARKET

Internet access

Madasafish CDs containing the ISP's software are currently freely available at ABC cinemas throughout the UK and approximately 600 outlets throughout the country such as games shops, record shops, computer retailers and newsagents. They are also given away free with certain specialist PC and Internet magazines and the relevant software may also be downloaded directly through the Internet. Resellers of the Madasafish CDs receive a share of the interconnect revenue generated by any new members that they have procured.

Experience to date has indicated that a significant proportion of new Madasafish members are generated through personal recommendations.

Web hosting

The SME web hosting package is marketed by iomart's partners on their website portals through which the software can be downloaded. In addition Virgin Biznet distributes CDs under its own brand name that contain the software and advertise the service through a number of channels such as direct mail and on the web.

WinBiz will be marketed by iomart through magazine advertising and telesales and the software may be downloaded from the Internet. The Directors intend that CDs containing the WinBiz software will be freely available from places such as business centres and chambers of commerce.

All marketing of both the Group's Madasafish ISP and the SME web hosting package is supported by iomart's own telesales team located at the support centre in Stornoway.

REVENUE STREAMS

Internet access

iomart receives interconnect revenues from the relevant telephone operator for the period of time that its members access the Internet through one of the Group's ISPs. The Group currently has agreements in place with BT through which it receives 100 per cent. of the interconnect revenue and with COLT through which it receives up to 50 per cent. of the interconnect revenue depending on call volumes. iomart also receives a share of the interconnect revenues for Internet access by the SME customers or retail customers of its partners.

Web hosting

iomart receives fixed and monthly charges for providing website building, web hosting and e-commerce services to SMEs through the WinBiz ISP. Fees are also charged to the SME customers of its partners on a similar basis, but are shared with the relevant partner. The revenue split with each partner depends upon the level of service that has been provided by iomart.

INFRASTRUCTURE, HARDWARE AND SOFTWARE

iomart has its own PTO licence and OFTEL has confirmed that it also holds "Annex II status". The Group is also one of a small number of UK based ISPs that has obtained Cisco Powered Network Status. iomart has built its own scalable network infrastructure through adopting a "Smart Build" strategy. Rather than build its own proprietary national telecommunications network, at considerable cost and over many years, the "Smart Build" approach is to invest in intelligent switches and routers to transmit voice and data calls using the networks of other operators.

iomart has installed carrier-class dial systems and telecommunications signalling controllers in the Docklands area of London and has entered into interconnect agreements with BT and COLT. This approach enables iomart to maximise returns per dial port, minimise operating costs and offer new services more rapidly, including the creation of new Internet and intranet services, expanded virtual private dial networks, wholesale dial outsourcing and the integration of intelligent network and voice capabilities.

Through this network, iomart is able to offer modem, ISDN and DSL access to a range of Internet and voice services including indirect access, VoIP, mobile Internet access, unified messaging and web conferencing that rely on broadband technology.

iomart also has a purpose built, fully web-enabled support centre based in Stornoway on the Isle of Lewis. The support centre provides telephone and email support to all its ISP customers as well as its own and its partners' web hosting customers.

iomart has a licence to use Netopia's "easy-build" website templates which do not require the use of HTML. The Group does not currently use any other supplier of web hosting software, although the Directors are free to do so should they identify alternative and better products. iomart's web hosting e-commerce platform is Worldpay's "Click & Build" software which is integrated with payment gateways.

iomart's system architecture is characterised by scalability, resilience, high security and high performance based on best-in-class products provided by Sun, Sendmail, Cisco and Oracle. Back up computers are used throughout the system to avoid single points of failure. Load balancing software allows the system to cope with high call volumes and rapid growth. Dual firewalls and authentication servers ensure internal network security.

The iomart point of presence is housed in a state-of-the-art co-location facility featuring round the clock professional monitoring of network services, fully redundant power backup and optimal environmental temperature control. Co-location and global backbone connectivity is provided by AboveNet, one of the world's premium Internet backbone providers.

STRATEGY

The Directors' objective is to create an integrated telecommunications and Internet company with a substantial customer base and a scalable infrastructure which can support the delivery of a wide range of services, especially those reliant upon broadband technology. The Directors recognise that iomart's market place is rapidly changing and therefore have adopted a flexible approach to achieving their objective.

In addition to the existing services that iomart offers, the Directors intend to provide additional services that can be charged for on a subscription or other paid basis such as mobile Internet access, ADSL, unified messaging services, conference calling facilities, VoIP and traditional voice telephony services. These products and services will be marketed through strong and appealing Internet brands and multiple pricing packages will be developed to suit the requirements of individual customers.

As iomart's Internet access and web hosting brands become more established, the Directors will evaluate the possibility of generating additional revenues from banner advertising and e-commerce.

The Directors intend to expand the Group's infrastructure as and when appropriate and to establish additional points of presence in different areas of the country in order to expand the Group's network.

It is intended that iomart's forecast organic growth will be supplemented by selective acquisitions of complementary Internet businesses. Examples of potential acquisition targets may include businesses that either have loyal customer bases, strong brand names or that can offer additional skills or market expertise.

In addition to offering value added services to iomart's customers the Directors' strategy in relation to developing the Internet access and web hosting sides of iomart's business may be summarised as follows:

Internet access

- Increase the membership base of Madasafish through continued advertising campaigns to establish and reinforce the brand.
- Establish new individualistic Internet brands such as Jings!
- Increasingly personalise the content and services offered by iomart's ISPs through data mining techniques.
- Offer consumers fixed price subscription or similar packages for Internet access and other services.
- continue DSL trials with a view to launching a national service.

In order to maximise usage of its infrastructure, the Group will selectively enter into agreements with other companies to provide their members with Internet access.



Web hosting

- Establish the WinBiz brand and grow its membership base.
- Develop further partnerships with other organisations to market iomart's web hosting package.
- Re-brand the WinBiz product for third parties and vertical markets.
- Provide ASP software solutions in areas such as mail services, document management and other office services.
- Offer SMEs fixed price packages for Internet access and other telephone services.

PREMISES

iomart's support centre is located in an 8,000 sq. ft. purpose built office in Stornoway on the Isle of Lewis which the Group has under lease until 2009. In addition to the Group's support centre, the customer service, network development and administration departments are all based in the same building. The building contains significant room for expansion and will be used to accommodate the Group's planned network operations centre and future growth in the number of support centre staff.

In addition to the Stornoway support centre, iomart has a lease on a 2,000 sq. ft. office in Glasgow where its head office is located. The Directors intend to relocate to larger premises in the Glasgow area shortly in order to cope with more head office staff and an additional telesales facility.

The Group's servers are predominantly hosted at a co-location facility in the Docklands area of London. The Directors are considering establishing additional points of presence in other areas of the country in order to expand the Group's network.

COMPETITION

iomart faces significant competition for the provision of both Internet access and web hosting services.

On the Internet access side, there are currently several hundred ISPs in the UK, many of which offer additional services such as email and proprietary content free of charge. In addition certain companies have recently launched new services that offer unlimited Internet access for a fixed monthly or annual charge and it may be that such pricing structures become the norm. On the web hosting side, there are numerous UK quoted companies that offer a service that is similar to iomart's.

Many of these providers outsource their access, content and helpdesk facilities. Others provide an element of their own services. The Directors believe that there are relatively few companies that have the ability to obtain full interconnection status and have their own network and support centre. The Directors believe ownership of a network infrastructure puts iomart in a strong position for the following reasons:

- it allows the Group to have a close relationship with the customer;
- it provides the Group with the flexibility to generate revenue from a number of areas such as content, access or applications;
- it provides the Group with the flexibility to market its products either directly or indirectly; and
- it provides the Group with greater control over service quality levels.

CURRENT TRADING AND PROSPECTS

iomart commenced generating revenue in August 1999 and in the period to 31 December 1999, generated total revenue of £0.3 million. In the first two months of the current year, Group revenue exceeded this amount.

Since the year end, the number of Madasafish users has increased by approximately 87 per cent. to 118,523 members as at 20 March 2000 and the total number of access minutes generated from the year end to 20 March 2000 was 62.4 million minutes. This level of trading has been in line with the Directors' expectations.

iomart has continued to expand its marketing channels through additional distribution partnerships with, amongst others, ABC Cinemas. The Group's own SME web hosting brand, WinBiz went live in March 2000.

The Directors believe that there are substantial opportunities in the Group's chosen markets and are of the opinion that the currently strong growth prospects for the Group will be enhanced through increased investment in marketing and telesales.

USE OF PROCEEDS AND REASONS FOR ADMISSION

It is currently expected that the Company will raise £20 million through the Placing and Public Offer. Assuming that the Company is successful in raising this amount and after deduction of all costs associated with the Placing and Public Offer, the net proceeds available to the Company are estimated to be £19 million.

The Directors intend to apply these proceeds to develop the Directors' strategy as set out above and to repay certain of the Group's indebtedness amounting to approximately £1.3 million. Specifically, the Directors will use the proceeds for marketing its ISP and web hosting services, product development, further developing the Group's network infrastructure and acquiring additional software and hardware. The balance of the proceeds from the Placing and Public Offer will be used for working capital and where appropriate to acquire other Internet businesses.

The Directors believe that the ability to finance acquisitions by issuing shares that are quoted on AIM may facilitate negotiations when seeking to acquire other complementary Internet businesses. The Directors also believe that having a quotation on AIM will encourage the attraction and retention of key employees through the use of share options.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Directors

Angus MacSween and Bill Dobbie both have considerable experience in the areas of telecommunications and the Internet and have successfully established businesses in these areas. Their experience is complemented by the technical expertise of Neil Finlayson and by the call centre expertise of Sarah Haran. The non-executive chairman, Nick Kuenssberg, and non-executive director, Fred Shedden, both have significant board level experience in public companies and have a range of skills complementary to those of the executive directors.

The Board recognises the need to appoint a finance director and is currently searching for an individual that will be able to fulfil this role. It is also the intention of the Directors to appoint another non-executive director to the Board in due course.

Nick Kuenssberg BA (Hons), FCIS, CIMgt, FInstD, Non-executive chairman (aged 57)

Nick has substantial public company experience in both an executive and non-executive capacity and has a special interest in corporate governance. His areas of particular expertise are finance and general management in a wide range of industry sectors including textiles, precision engineering, equipment hire, food processing and medical and educational products. He is currently chairman of a number of public and private companies including Stoddard International PLC, GAP Group Ltd and Canmore Partnership Ltd and is a non-executive director of Chamberlain & Hill plc and Sanmex International PLC. Previous board appointments include The Standard Life Assurance Company, Scottish Power UK plc, Coats Viyella plc and Dawson International plc. He has also been a visiting professor at Strathclyde Business School and chairman of the Institute of Directors in Scotland.

Angus MacSween, Chief executive (aged 43)

After a commission in the Royal Navy, Angus started a small telephone retail business, which he sold in 1988. He invested the proceeds of its sale to establish a new business, Teledata, specialising in premium rate telephone calls and later in the provision of support centre services. In March 1996, Teledata was purchased by Scottish Telecom where he became a director of a number of Scottish Telecom's trading subsidiaries until his resignation in June 1998. At Scottish Telecom, he was responsible for the development of the company's Internet division and the acquisition of a number of complementary businesses. In March 1999, Angus established AboveNet UK Limited in conjunction with Bill Dobbie. The two sold their interest in this business to Metromedia Fiber Networks Inc. in February 2000.



Bill Dobbie, MBA, BSc (Hons), Business development director (aged 41)

After nine years at Unisys in various technical, sales and International marketing roles, Bill joined Teledata in 1989 and assisted Angus MacSween in growing that company until its sale in March 1996. Bill also worked as a director of Scottish Telecom where he concentrated on the organic growth and organisational development of the company's support centre division as well as its Internet division. Bill was also an executive director of Demon Internet Limited after its acquisition by Scottish Telecom in March 1998.

Dr Neil Finlayson, Ph.D., BSc (Hons), Technical director (aged 40)

Neil joined iomart in January 1999, after nine years with BT Laboratories. Prior to this, Neil held several research posts at the University of Arizona researching optical electronics. Neil has over 15 years Internet development experience and specialises in particular in applications which integrate the web and normal telephone services such as VoIP and web conferencing. Neil is also a non executive director of Highlands and Islands Enterprise.

Sarah Haran, Customer service director (aged 34)

Prior to joining iomart, Sarah worked in the support centre divisions of Teledata and Scottish Telecom. During this time, she was responsible for establishing and subsequently managing major support centre and operations centres on behalf of Compaq Inc., Microsoft Inc., ScottishPower and Prestel Limited.

Fred Shedden, MA LLB, Non-executive director (aged 55)

Fred joined McGrigor Donald in 1967 and became a partner specialising in corporate matters in 1971. He became managing partner in 1985 and senior partner in 1993. He is due to retire from McGrigor Donald in April 2000. Fred has considerable experience of public companies and is currently on the board of the Martin Currie Japan Investment Trust plc and The Scottish Metropolitan Property PLC. He will join the board of Burn Stewart Distillers Plc on 30 March 2000. Previous board appointments include The Standard Life Assurance Company and Scottish Financial Enterprise.

Senior Management

The following are senior managers of iomart and play a major role in the operation of the Group's business.

Stewart Moir, CA, Financial Controller and Company Secretary (aged 45)

Stewart has assisted in the preparation of iomart's accounts since the Group was formed and was formally appointed as financial controller in January 2000. He qualified as a chartered accountant in 1977 and prior to joining iomart spent ten years at an accountancy practice specialising in audit and due diligence investigations including several companies in the field of telecommunications.

Iain Richardson, BEng (Hons), Applications development manager (aged 29)

Iain joined iomart in March 1999 and is responsible for application and web service development for iomart's products and services. His background is in software/web development and project management in the field of the Internet, multimedia and e-commerce. Prior to joining iomart, Iain worked for BT Laboratories on advanced web application and e-commerce.

Jan Schouten, BiT, Support centre manager (aged 38)

Jan joined iomart in December 1999 and is responsible for the day to day management of iomart's support centre. Prior to joining iomart, Jan spent one year with IBM GSC Greenock where he managed a 130 person support centre. Jan speaks three languages and has extensive European tele-marketing management experience in technical advice, sales and support centres.

Matthew Shipley, BA (Hons), Creative web designer (aged 28)

Matt joined iomart in February 1999 and is responsible for designing and implementing the Group's brands and visual solutions from initial concept through to the marketplace. He has ten years experience in the field of new media design and, prior to joining iomart, worked in the Advanced Applications area of BT research laboratories researching inventing and implementing 2D and 3D graphical user interfaces.

Ewan Simpson, BA (Hons), Sales and business development manager (aged 33)

Ewan joined iomart in January 2000. He has considerable experience in the business to business software market, selling through value added resellers and direct sales. Prior to joining iomart Ewan was a national sales manager at Sage plc.

Employees

As at 29 March 2000, the Group employed a total of 101 full time equivalent employees of which 83 were based in Stornoway and 18 were based in Glasgow. Further recruitment is being undertaken with the intention of introducing a telesales team in Glasgow and launching new products.

INTERESTS OF DIRECTORS AND LOCK-IN ARRANGEMENTS

Following the Placing and Public Offer, Angus MacSween and Bill Dobbie will be interested in 63.2 per cent. of the Company's issued Ordinary Share capital, assuming that the Offer Price is set at the mid-point of the Price Range. It is expected that the other Directors will be individually interested in less than one per cent. of the issued ordinary share capital after Admission. Angus MacSween and Bill Dobbie have invested in the Company for the long-term and in accordance with the AIM Rules have agreed not to dispose of their interests in the Ordinary Shares held on Admission for a period of at least 12 months from Admission. In addition, sales of Ordinary Shares by Angus MacSween and Bill Dobbie will be restricted to 25 per cent. of their individual holdings between 13 and 24 months after Admission and up to an aggregate limit of 50 per cent. of their individual holdings within three years of Admission.

In accordance with an agreement made in October 1999, Angus MacSween and Bill Dobbie may transfer up to a total of 150,000 Ordinary Shares from their combined holdings to Virgin Net, or its nominee, at a price of 5p per share. In the event that this transfer were to take place, it would only occur 12 months after Admission.

SHARE OPTIONS

The Directors believe that equity incentives are and will continue to be a means of attracting, retaining and motivating key employees.

Unapproved share options over a total of 1,948,880 Ordinary Shares have been granted to certain Directors, other members of the senior management and a previous employee, further details of which are set out in paragraph 4(c) of Part VII of this document.

It is not envisaged that the exercise of these options will give rise to a charge for National Insurance contributions for the Company. However, if such a charge does arise, the Company's liability will effectively be funded by an increase in the exercise price payable under these options.

The Company has also established the Approved Scheme, the Unapproved Scheme and the SAYE Scheme conditionally on Admission. Further details of these arrangements are set out in paragraph 4(a) and 4(b) of Part VII of this document. It is proposed that options over a total of up to five per cent. of the Ordinary Shares in issue immediately following Admission may be granted to qualifying employees and Directors under the Unapproved Scheme with an exercise price which is not less than the Final Offer Price.

It is also proposed that options may be granted to qualifying employees and Directors under either the Unapproved Scheme or the Approved Scheme at an exercise price which is not less than the closing mid market price prevailing on the date of grant. However, the total number of Ordinary Shares issued or which may be issued pursuant to options granted under the Unapproved Scheme and the Approved Scheme may not exceed 10 per cent. of the Ordinary Shares in issue from time to time.

The mechanism used for determining the exercise price for options granted under the Unapproved Scheme is intended to fund the Company's liability to National Insurance contributions which will arise as a result of the exercise of these options.

The Directors intend to grant options over not more than 600,000 Ordinary Shares in total under the Unapproved Scheme and the Approved Scheme shortly after Admission.

Finally, it is proposed that following Admission, options over up to 1,000,000 Ordinary Shares will be granted under the SAYE Scheme to qualifying employees and Directors. In order to satisfy demand under the SAYE Scheme, the Directors have the authority to issue up to a maximum of five per cent. of the Ordinary Shares in issue from time to time.



CORPORATE GOVERNANCE

The Board recognises the existence of various guidelines setting out best practice in respect of corporate governance and the Directors will apply such guidelines to the management of the Company as they believe appropriate to a company of its size and nature. Audit and remuneration committees have been established, to operate with effect from Admission, each comprising the non-executive Directors and each with written terms of reference which clearly define the authority and duties of the committees. The audit committee will be chaired by Nick Kuenssberg and the remuneration committee will be chaired by Fred Shedden.

The audit committee will meet at least four times a year and will be responsible for ensuring that the financial performance, position and prospects of iomart are properly monitored and reported on. This committee will also be responsible for meeting the auditors and reviewing their reports relating to accounts and internal controls. The remuneration committee will review the performance of the executive Directors, set their remuneration, determine the payment of bonuses to executive Directors and consider the allocation of share options together with any attached performance targets to Directors and employees.

PART II

RISK FACTORS

Prior to making an investment decision, prospective investors in the Company should be aware of the risks associated with an investment in the Company. In addition to the other information in this document, the following factors should be carefully considered:

- The Group's trading results and future activities are likely to be affected by future changes to legislation or the regulatory regime relating to the Internet, the level of interconnect revenues and the general provision of telephony services.
- iomart is reliant upon certain key suppliers and marketing partners. The loss of any of these suppliers/partners may have an adverse impact on the Group.
- The Group is dependent upon certain key personnel for its continued success. Whilst the Group has entered into employment contracts with each of its key personnel with the aim of securing their services, the retention of their services cannot be guaranteed.
- Competition in the Group's two chosen markets of Internet service provision and the provision of web hosting and related services is very intense and may result in a decrease in iomart's user base and revenues. In particular, the recent increase in the number of low cost, subscription based providers of Internet access may result in iomart's ISPs becoming less competitive.
- The Group has expanded rapidly since it was established and further significant expansion is required for iomart to exploit potential opportunities. The Group's success is dependent on its ability to manage this growth and to recruit suitable personnel.
- The Group operates in markets which are subject to rapid technological advances. To remain competitive and to protect profit margins, the Group must offer, on a timely basis, new products and services which keep pace with such developments and must respond to customer requirements.
- The markets for certain of the Group's products and services have only begun to develop relatively recently. As such, demand for products and services in such markets is uncertain.
- Key components of iomart's future strategy are to establish and enhance its brands and to provide additional, more technically advanced products and services. The Group may not be able to achieve effectively these objectives.
- The Group is vulnerable to system failures which may damage its reputation and result in it losing users.
- iomart may need access to equity capital in the future in order to fund any period of sustained losses.
- Infringement of iomart's intellectual property rights could harm iomart's business.



PART III

DETAILS OF THE PLACING AND PUBLIC OFFER

Structure

By way of the Placing and Public Offer, the Company is proposing to raise £20 million, before expenses, through the issue of 15,748,032 new Ordinary Shares (based on the mid-point of the Price Range being 127 pence).

The Placing and Public Offer is not underwritten. If the Final Offer Price falls outside the Price Range, the number of new Ordinary Shares to be issued under the Placing and Public Offer will be subject to alteration. The Placing and Public Offer is conditional, *inter alia*, on the Placing Agreement being entered into, on a minimum of £13 million (before expenses) being raised for the Company and on Admission.

The Placing and Public Offer will be made by way of:

- a share placing to institutional investors and other clients of Peel Hunt (“the Placing”); and
- an offer to Qualifying Users (“the Public Offer”).

It is intended that not more than 10 per cent. of the new Ordinary Shares will be available under the Public Offer with the balance being made available through the Placing to institutional and a limited number of other investors in the UK. Certain restrictions that apply to the distribution of this document and the new Ordinary Shares in jurisdictions outside the UK are described in paragraph 8 of this Part III of this document.

Pricing and Allocation

All successful applicants will pay the same price for the new Ordinary Shares. The price for the new Ordinary Shares is expected to be between 110 pence and 145 pence per share, although the actual price could be above or below this range.

The Final Offer Price will be determined following the closure of the Placing and Public Offer by the Company after consultation with Peel Hunt. A number of factors will be considered in deciding the Final Offer Price, including the level and the nature of the demand for new Ordinary Shares and the objective of encouraging the development of an orderly after-market in the Ordinary Shares. Preferential allocation under the Public Offer will be given to persons who are signed up as Madasafish members prior to the closing of the Public Offer. Priority amongst Madasafish members will be given on such basis as the Company may determine after consultation with Peel Hunt. It is expected that places will be notified of the Final Offer Price and the number of Placing Shares being made available to them on 13 April 2000. It is also expected that applicants under the Public Offer will be notified of the Final Offer Price and their allocation of new Ordinary Shares by e-mail on 13 April 2000.

Dealing Arrangements

The Placing and Public Offer are subject to the satisfaction of conditions to be contained in the Placing Agreement, including the absence of any breach of warranty under the Placing Agreement and Admission occurring on or before 19 April 2000. Certain conditions are not capable of waiver. Further details of the Placing Agreement are set out in paragraph 12 of Part VII of this document.

Admission is expected to become effective, and dealings in the Ordinary Shares to commence, at 8.00am on 19 April 2000. It is intended that, where applicable, definitive share certificates in respect of the Placing and Public Offer will be distributed by 27 April 2000 or as soon thereafter as is practicable.

CREST

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument. The Articles of Association of the Company permit the holding of Ordinary Shares under the CREST system. The Company will apply for the Ordinary Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of

transactions in the Ordinary Shares following Admission may take place within the CREST system if any shareholder so wishes.

CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so. Investors applying for Ordinary Shares under the Placing may, however, elect to receive Ordinary Shares in uncertificated form if they are a system-member (as defined in the Uncertificated Securities Regulations 1995) in relation to CREST.

Ordinary Shares available under the Public Offer will not be available in uncertificated form and successful applicants will instead receive share certificates, which are expected to be distributed on 27 April 2000, or as soon thereafter as possible, to registered shareholders by post.

Lock In Arrangements

In accordance with the AIM Rules, Angus MacSween and Bill Dobbie have agreed not to dispose of their interests in the Ordinary Shares for a period of at least 12 months from Admission. In addition, sales of Ordinary Shares by Angus MacSween and Bill Dobbie will be restricted to 25 per cent. of their individual holdings between 13 and 24 months after Admission and to an aggregate limit of 50 per cent. of their individual holdings within three years of Admission.

The Public Offer

The detailed terms and conditions applicable to applicants under the Public Offer are set out below. Under the Public Offer, applications may be made to subscribe for new Ordinary Shares at the Final Offer Price. Applications must, however, be for new Ordinary Shares having a value at the Final Offer Price (when determined) of at least £250 and thereafter for either £500, £1,000, £2,000 or £5,000 for each individual application.

Applications by applicants under the Public Offer, in order to be valid, should be received by New Issues Department, IRG plc, P.O. Box No. 166, Bourne House, 34 Beckenham Road, Beckenham, Kent, BR3 4TH not later than 12 noon on 11 April 2000.

It is currently intended that up to a maximum number of 1,818,181 new Ordinary Shares will be reserved for the Public Offer representing 10 per cent. of the total number of new Ordinary Shares. Allocations of new Ordinary Shares under the Public Offer will be at the absolute discretion of Peel Hunt and the Company who may reject in whole or in part or scale down or vary applications or allocations under the Public Offer. In the event that demand for new Ordinary Shares exceeds the number of new Ordinary Shares available in the Public Offer, the Company, after consultation with Peel Hunt, will determine the basis of allocation of new Ordinary Shares. Accordingly, applicants may not receive all of the new Ordinary Shares they apply for and may not receive any at all. In determining the allocations, priority will be given to Madasafish members who are signed up prior to the closing of the Public Offer on such basis as the Company, after consultation with Peel Hunt, may determine.

Overseas Investors

The Public Offer is made only in the UK, and may not be accepted by any person not resident in the UK. The new Ordinary Shares offered by this document have not been, nor will they be, registered under the US Securities Act of 1933, as amended (the "Securities Act"), or under the applicable securities laws of Australia, Canada or Japan. The Ordinary Shares may not be offered or sold or delivered, directly or indirectly, in or into the United States, Australia, Canada or Japan or to or for the account or benefit of any national, resident or citizen of Australia, Canada or Japan or any person located in the United States. This document does not constitute an offer of, or the solicitation of an offer to subscribe for or buy, any of the Ordinary Shares offered hereby to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction without fulfilling any unfulfilled legal or regulatory requirements. This document has not been submitted to the clearance procedures of any authorities.



Terms and conditions of Application under the Public Offer:

1. Introduction

- (a) The Application Form published in connection with the Public Offer will be available on the iomart Public Offer website at www.issuesdirect.com/iomart to Qualifying Users.
- (b) Applicants who wish to apply for new Ordinary Shares under the Public Offer, must first register through the website located at www.issuesdirect.com/iomart or through the Company's madasafish ISP homepage located at www.madasafish.com. Qualifying Users will then be allocated a personal password which will enable them to obtain the prospectus and an Application Form from the Website. Copies of the prospectus, but not the application form, will also be available at the offices of Peel Hunt plc, 62 Threadneedle Street, London EC2R 8HP from 30 March 2000 until 14 days after the date of Admission.
- (c) Qualifying Users who wish to apply for new Ordinary Shares under the Public Offer should print out a copy of the Application Form from the Website. This should be completed in accordance with the instructions set out on the Application Form and after reading the terms and conditions of application set out below and in the Application Form. You must indicate on the Application Form the maximum amount to be subscribed, and then send it by post, together with a cheque or bankers draft (in £ Sterling) for that amount to New Issues Department, IRG plc, P.O. Box No. 166, Bourne House, 34 Beckenham Road, Beckenham, Kent, BR3 4TH, so as to reach it by no later than 12 noon on 11 April 2000. Cheques, banker's drafts or money orders should not be post-dated and should be made payable to "IRG plc - A/C iomart Group plc Public Offer" and crossed "A/C Payee".
- (d) It is expected that allocation of the new Ordinary Shares will be announced on 13 April 2000 and that dealings in the new Ordinary Shares will commence at 8.00 a.m. on 19 April 2000 or as soon thereafter as is practical.
- (e) It is expected that definitive share certificates will be dispatched to successful applicants under the Public Offer on or before 27 April 2000.

2. Offer to Subscribe for Ordinary Shares

- (a) The Public Offer is being made by Peel Hunt as agent of the Company to the extent and for the purposes referred to in this document. Applications must be made on the Application Form. By completing and delivering an Application Form you as the applicant and, if signing on behalf of another individual, that person, will be agreeing with the Company in the terms set out in paragraphs 2(b) to 8 (inclusive) below.
- (b) You agree that you are offering to acquire at the Final Offer Price up to the number of new Ordinary Shares that may be subscribed for using the amount specified by you in the Application Form being the amount that you wish to invest (or any smaller amount in respect of which your offer is accepted) provided that your application must be for a minimum of £250, and thereafter for either £500, £1,000, £2,000 or £5,000, subject to these terms and conditions, the terms of the Application Form, this document and the Memorandum and Articles of Association of the Company.
- (c) You authorise IRG plc as receiving agent, to send to you on behalf of Peel Hunt and the Company a definitive share certificate for the number of new Ordinary Shares for which your application is accepted and/or to send a sterling cheque for any monies returnable (without interest) crossed "Account Payee" or your cheque, banker's draft or money order, in each case by post at the risk of the person(s) entitled to it, to your address (or in the case of joint applicants, to the first named applicant as set out in your Application Form), and to ensure that your name (and the name of any joint applicants) is/are placed on the register of members of the Company in respect of the new Ordinary Shares for which your application is accepted.
- (d) In consideration of Peel Hunt and the Company agreeing that they will not prior to Admission (or such later date as the Company and Peel Hunt may agree) allot, issue or sell to any person any of the new Ordinary Shares other than by means of the procedures referred to in this document and as a collateral contract between you and the parties referred to in paragraph 2(a) above which will

become binding on despatch by post or delivery to IRG plc of your Application Form, you agree that your application may not be revoked by you until after 31 May 2000 in the event that Admission has not taken place.

- (e) You undertake to pay the Final Offer Price for the new Ordinary Shares (payable in full on application) in respect of which your application is accepted and warrant that your remittance will be honoured on first presentation, failing which you will not be entitled to receive a share certificate, nor to enjoy or receive any rights in respect of such new Ordinary Shares unless and until you make payment in cleared funds for such new Ordinary Shares and such payment is accepted by IRG plc (which acceptance shall be in its absolute discretion and on the basis that you indemnify IRG plc and the Company in respect of any costs, expenses, losses or liabilities arising out of or in connection with the failure of your remittance to be honoured on first presentation) and, that at any time prior to unconditional acceptance by IRG plc of such late payment, the Company may (and without prejudice to any other rights) terminate the agreement to allocate new Ordinary Shares to you without liability to you and may re-allocate such new Ordinary Shares to another person in which case you will not be entitled to any refund or payment in respect of such new Ordinary Shares (other than the refund to you at your risk of any proceeds of the remittance accompanying your Application Form, without interest) and in the event of termination you will pay the Company, on demand, such amount as may be certified on its behalf as being necessary to compensate the Company for any losses, costs and expenses incurred or expected to be incurred as a result of your remittance not being honoured on first presentation and as a result of termination.
- (f) You agree that any share certificate to which you or any of the persons specified in paragraph 2(c) above may become entitled and monies returnable to you may be retained pending clearance of your remittance or pending investigation of any suspected breach of any of the warranties contained in paragraph 6 below and that any interest accruing on such retained monies shall accrue to and for the benefit of the Company.
- (g) You agree, on request by IRG plc, to disclose promptly in writing to IRG plc such information as they may request in connection with your application and authorise them to disclose any information relating to your application which either of them may consider appropriate.
- (h) You agree that any share certificate in respect of new Ordinary Shares to which you or any of the persons specified in paragraph 2(c) above may become entitled and monies returnable to you may be retained pending clearance of your remittance, investigation of any suspected breach of these terms and conditions and any verification of identity which is, or which IRG plc consider may be required for the purposes of the Money Laundering Regulations 1993 and that any interest accruing on such retained monies shall accrue to and for the benefit of the Company.
- (i) You agree that, if evidence of identity satisfactory to IRG plc is not provided on or before 11 April 2000, the Company may terminate the contract of allocation with you and, as soon as is reasonably practicable your application monies will be returned to the bank or other account on which the cheque or other remittance accompanying your application was drawn and you agree that, in such event, you will have no claim against the Company, Peel Hunt or IRG plc or any of their respective officers, agents or employees in respect of the balance of your application monies, if any (such balance being retained by the Company as compensation for breach of contract), or for any loss arising from the price, the timing or the manner of such sale or otherwise in connection therewith.
- (j) You agree that you are not applying on behalf of a person engaged in money laundering.
- (k) You undertake to ensure that, in the case of an application signed by someone else on your behalf, the original of the relevant power of attorney (or a complete copy certified by a solicitor or notary) is enclosed with your Application Form.
- (l) If your Application Form is not completed correctly or is amended or if the accompanying cheque, banker's draft or money order is for the wrong amount or currency or if your Application Form is not accompanied by a power of attorney or other authority or documents (including any documents to satisfy the Money Laundering Regulations 1993) where required, it may still be treated as valid. In these circumstances, the Company's decision as to whether to treat your application as valid and,



how to construe, amend or complete it, shall be final. You will not, however, be treated as having offered to invest a higher amount than is indicated in your application.

- (m) Any application may be rejected or scaled down in whole or in part. Applications will not be accepted in names that are, or are suspected to be, fictitious, or which are otherwise unsuitable for share registration purposes.

3. Acceptance of your offer

- (a) Peel Hunt may on behalf of the Company accept your offer to subscribe for new Ordinary Shares under the Public Offer (if your application is received by the due date, valid (or treated as valid), processed and not rejected) by notifying acceptance to IRG plc.
- (b) The Company will endeavour to satisfy valid applications on Application Forms. However, if demand for new Ordinary Shares exceeds the number of new Ordinary Shares available in the Public Offer, the Company, in consultation with Peel Hunt, will determine the basis of allocation of new Ordinary Shares. Accordingly, you may not receive all of the new Ordinary Shares you apply for and you may not receive any at all. In allocating the new Ordinary Shares, priority will be given to Madasafish members who are signed up prior to the closing of the Public Offer on such basis as the Company, after consultation with Peel Hunt, may determine.

4. Conditions

- (a) The contract arising from acceptance of applications (in whole or in part) under the Public Offer will be entered into by you (if you are a successful applicant) and Peel Hunt acting for itself and as agent on behalf of the Company under which you will be required to subscribe for the new Ordinary Shares at the Final Offer Price in respect of which your application has been accepted and will be conditional upon: (a) Admission becoming effective in accordance with the AIM Rules on or before 19 April 2000 or such later date as Peel Hunt and the Company may agree (not being later than 30 May 2000), (b) the Placing Agreement referred to in Part VII of this document being entered into and becoming wholly unconditional and (c) the right of termination referred to at paragraph 8(e) below not having been exercised prior to Admission.
- (b) You will not be entitled to exercise any remedy of rescission for innocent misrepresentation (including pre-contractual representations) at any time after acceptance. This does not affect any other right you may have.

5. Return of application monies

If any application is not accepted or if any contract created by acceptance does not become unconditional the application monies will be returned to you by post at the risk of the applicant(s) not later than 27 April 2000. If any application is accepted for a smaller number of new Ordinary Shares than that offered, subject as hereinafter provided, the balance of the amount paid on application (as the case may be) will be returned by cheque crossed "Account Payee" in favour of the relevant payee without interest by post at the risk of the applicant(s) not later than 27 April 2000. In the meantime, application monies will be retained by IRG plc in an account designated for the purposes of the Public Offer and any interest accrued on the application monies shall be retained by, and for the benefit of, the Company. The cheque and/or banker's draft and/or money order accompanying your application may be presented on receipt and before acceptance of your application, but this will not constitute acceptance of your application, (either in whole or in part). The proceeds of this presentation will be held pending acceptance and, if your application is accepted and the conditions of paragraph 4 above are satisfied, will be applied in discharging the total amount due for the new Ordinary Shares you have been allocated. Share certificates and surplus application monies (if any) may be retained pending clearance of the applicant's cheque and/or banker's draft and/or money order. The right is also reserved to reject any application in respect of which the applicant's cheque, banker's draft or, as the case may be, money order has not been cleared on first presentation and, in any event by 12 noon on 18 April 2000. The Company (or Peel Hunt as the agent of the Company) may require an applicant to pay interest or other resulting costs (or both) if the cheque, banker's draft or money order accompanying his application is not honoured on first presentation. No refund cheques will be issued for

amounts less than the Final Offer Price and any such amount will be donated to a charity nominated by the Company. Sums refunded will be paid in sterling.

6. Warranties

By completing and submitting an Application Form, you:

- (a) warrant that, if the laws of any territory outside the UK are relevant to your application, in connection with your application, you have complied with all such laws, obtained all governmental and other consents which may be required, complied with all requisite formalities and paid any issue, transfer or other taxes due in connection with your application in any territory, other than the UK, and that you have not taken any action or omitted to take any action which will or may result in Peel Hunt, the Company, IRG plc or any of their respective officers, agents or employees acting in breach of the regulatory or legal requirements of any territory outside the UK in connection with the Public Offer or your application;
- (b) warrant that, if you sign an Application Form on behalf of somebody else or a corporation, you have the authority to do so and that such other person will be bound accordingly and will be deemed also to have given the confirmations, warranties and undertakings contained in these terms and conditions and undertake to enclose your power of attorney or other authority (or a complete copy thereof duly certified by a solicitor) where required by the instructions contained in the guide to completing the Application Form and otherwise comply with such instructions;
- (c) confirm that, in making an application, neither you nor any person on whose behalf you are applying is relying on any information or representation in relation to the Company or to any other member of the Group not contained in this document and you agree that none of Peel Hunt, the Company, the Directors, IRG plc or any person acting on behalf of them or any person responsible solely or jointly for this document, or any part of it, shall have any liability for any such information or representation;
- (d) agree that, having had the opportunity to obtain and read this document, you shall be deemed to have notice of all information and representations concerning the Company or any other member of the Group contained in this document;
- (e) acknowledge that no person is authorised in connection with the Public Offer to give any information or to make any representation other than as contained in this document and, if given or made, any information or representation must not be relied upon as having been given or made by Peel Hunt, the Company, or IRG plc;
- (f) warrant that you are not a person who is under 18 years of age on the date of your application;
- (g) agree that all documents in connection with the Public Offer and any returned monies will be sent at your risk and may be sent by post to you at your address (or, in the case of joint applicants in the Public Offer, the address of the first-named applicant) set out in the Application Form;
- (h) warrant that, in the case of an application made on an Application Form only one application (whether in your sole name or jointly) has been made by you or on your behalf in the Public Offer;
- (i) warrant that you are not applying as, or as nominee or agent of, a person who is or may be a person mentioned in any of sections 67, 70, 83 or 93 of the Finance Act 1986 (depository receipts and clearance services); and
- (j) warrant that you are a resident of the UK and are not, and are not acting on behalf of, a person in any other jurisdiction.

7. Money Laundering

- (a) You agree that, in order to ensure compliance with the Money Laundering Regulations 1993, IRG plc may at its absolute discretion require verification of identity from any person lodging an Application Form who either (i) tenders payment by way of banker's draft or cheque or money order drawn on, or by way of telegraphic transfer or similar electronic means from, an account in the name of another person or persons or (ii) appears to IRG plc to be acting on behalf of some other person. In the former
-



case, verification of identity of the applicant may be required. In the latter case, verification of identity of any persons on whose behalf the applicant appears to be acting may be required. Failure to provide the necessary evidence of identity may result in application(s) being rejected or delays in the despatch of documents.

- (b) If you are making the application as agent for one or more persons, you should indicate in the Application Form whether you are a UK or EU regulated person or institution and specify your status.

8. Miscellaneous

- (a) To the extent permitted by law, all representations, warranties and conditions, express or implied and whether statutory or otherwise, (including, without limitation, pre-contractual representations but excluding any fraudulent representation) are expressly excluded in relation to the new Ordinary Shares, the Placing and the Public Offer.
- (b) Save where the context requires otherwise, terms defined in this document bear the same meaning when used in the Application Form and in the guide to completing the Application Form. In the case of a joint application in the Public Offer, references in these terms and conditions to “you” or the “applicant” are to each joint applicant (and “you” shall be construed accordingly) and the liability of joint applicants is joint and several.
- (c) The rights and remedies of the Company, Peel Hunt and IRG plc under these terms and conditions are in addition to any rights and remedies which would otherwise be available to any of them and the exercise or partial exercise of any one will not prevent the exercise of others or full exercise.
- (d) The Company reserves the right (subject to Peel Hunt’s agreement) to delay the closing time of the Public Offer from 12 noon on 11 April 2000 by giving notice to the London Stock Exchange and informing all Qualifying Users by e-mail. In this event, the revised closing time will be published in such manner as the Company in its absolute discretion may determine subject to compliance with the AIM Rules and Peel Hunt’s agreement.
- (e) If the Placing Agreement is entered into, it will be capable of termination in certain circumstances at any time prior to Admission. If the Placing Agreement is so terminated, applications received up to the date of termination will automatically lapse, applications received after that date will be of no effect and any application monies relating thereto will be returned to you without interest. The Company and Peel Hunt each expressly reserves the right to determine not to proceed with the Public Offer. If such right is exercised, the Public Offer will lapse and any monies received in respect of the Public Offer will be returned to Applicants without interest.
- (f) You agree that all applications, acceptances of applications and contracts resulting from them under the Public Offer shall be governed by and construed in accordance with English law and that you submit to the jurisdiction of the English courts and agree that nothing shall limit the right of Peel Hunt or the Company to bring any action, suit or proceedings arising out of or in connection with any such applications, acceptances or contracts in any other manner permitted by law or in any court of competent jurisdiction.
- (g) You agree that neither Peel Hunt nor IRG plc nor Issues Direct plc will treat you as their customer by virtue of an application being accepted and that neither Peel Hunt nor IRG plc nor Issues Direct plc will be responsible to you for providing to you the protections afforded to their customers and that neither Peel Hunt nor IRG plc nor Issues Direct plc will owe you any duties or responsibilities concerning the price of the new Ordinary Shares or concerning the suitability of the new Ordinary Shares for you as an investment or (save as expressly set out in these terms and conditions) otherwise in connection with the Public Offer.
- (h) Any communications to be sent by email as referred to in this document, will be sent to your Madasafish email address if you are a Madasafish member, or if you are not a Madasafish member, to the email address which you provided when you registered to become a Qualifying User. Failure to

receive any notice or communication sent by email shall not invalidate such notice or communication and neither the Company, Peel Hunt nor Issues Direct plc shall be liable for any failure to receive any email.

- (i) Only persons applying for new Ordinary Shares under the Public Offer may rely on the information and representations contained in this document and, to the extent permitted by law, any liability for this document to any other person is hereby excluded by the Company, Peel Hunt, IRG plc and any other person responsible solely or jointly for this document, or any part of it.
- (j) The dates and times referred to in these terms and conditions may be altered by the Company (subject to the agreement of Peel Hunt).
- (k) Neither the Company, nor Peel Hunt, nor IRG Plc shall be liable if the electronic version of this prospectus accessed through the website at www.issuesdirect.com/iomart is inconsistent in any respect with the printed version of this prospectus which is available from Peel Hunt, 62 Threadneedle Street, London EC2R 8HP. In the event of their being any inconsistency between the electronic version of this prospectus and the printed version, the printed version shall prevail.



PART IV

ACCOUNTANTS' REPORT ON IOMART GROUP PLC

The following is the text of a report received from Deloitte & Touche, reporting accountants for the Placing and Public Offer:

**Deloitte &
Touche**

17 Blythswood Square
Glasgow
G2 4AD



The Directors
iomart Group plc
80 Berkeley Street
Glasgow
G3 7DS

The Directors
Peel Hunt plc
62 Threadneedle Street
London
EC2R 8HP

30 March 2000

Dear Sirs

iomart Group plc (the "Company")

We report on the financial information set out below. This financial information has been prepared for inclusion in the prospectus dated 30 March 2000 relating to the Admission of the Company to the Alternative Investment Market (the "Prospectus").

Basis of preparation

The Company was incorporated on 28 February 2000.

On 28 February 2000 the Company issued 2 ordinary shares at £1 per share. On 14 March 2000, the Company issued 1,499,998 ordinary shares at £1 per share and entered into a share exchange with iomart Limited, on a share for share basis at par value. On 21 March 2000 the Company subdivided the 1,500,000 £1 ordinary shares into 150,000,000 1 pence Ordinary Shares and converted 120,000,000 of such Ordinary Shares into 1 pence deferred shares. On 21 March 2000 the Company repurchased the 120,000,000 deferred shares for a nil consideration.

The Company has not yet traded and no dividends have been declared or paid.

The financial information set out in this report is based on the audited non-statutory accounts of iomart Group plc for the period from incorporation on 28 February 2000 to 21 March 2000, to which no adjustments were considered necessary.

Responsibility

The financial statements set out below are the responsibility of the directors of iomart Group plc who approved their issue.

The Directors of iomart Group plc are responsible for the contents of the Prospectus in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the financial statements underlying the financial information. It also included an assessment of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information set out below gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the iomart Group plc as at 21 March 2000.

Consent

We consent to the inclusion in the Prospectus of this report and accept responsibility for this report for the purposes of paragraph 45(8)(b) of Schedule 1 to the Public Offers of Securities Regulations 1995.

Balance sheet

	<i>Notes</i>	<i>21 March 2000 £'000</i>
Fixed assets:		
Investments	1	1,500
Net assets		<u>1,500</u>
Capital and reserves:		
Called up Share Capital		
30,000,000 Ordinary 1 pence shares	2	300
Capital redemption reserve	3	<u>1,200</u>
		<u>1,500</u>

Notes

1. Investments

The investment is 1,500,000 £1 shares in iomart Limited, acquired on 14 March 2000 in a share for share exchange.

2. Called up Share Capital

Authorised
50,000,000 Ordinary 1 pence shares 500

Called up
30,000,000 Ordinary 1 pence shares 300

3. Capital Redemption reserve

Capital Redemption Reserve 1,200

Yours faithfully

Deloitte & Touche
Chartered Accountants



PART V

ACCOUNTANTS' REPORT ON IOMART LIMITED

The following is the text of a report received from Deloitte & Touche, reporting accountants for the Placing and Public Offer:

**Deloitte &
Touche**

17 Blythswood Square
Glasgow
G2 4AD



The Directors
iomart Group plc
80 Berkeley Street
Glasgow
G3 7DS

The Directors
Peel Hunt plc
62 Threadneedle Street
London
EC2R 8HP

30 March 2000

Dear Sirs

iomart Limited (“iomart”)

We report on the financial information set out below. This financial information has been prepared for inclusion in the Prospectus dated 30 March 2000 relating to the Admission of the iomart Group plc to the Alternative Investment Market (the “Prospectus”).

Basis of preparation

The financial information set out in this report is based on the audited financial statements of iomart Limited for the eighteen month period ended 31 December 1999 to which no adjustments were considered necessary.

On 28 February 2000 iomart Group plc was incorporated and on 14 March 2000 acquired all of the share capital of iomart Limited by way of a share for share exchange.

Responsibility

The financial statements set out below are the responsibility of the directors of iomart Group plc who approved their issue.

The Directors of iomart Group plc are responsible for the contents of the Prospectus in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that recorded by the auditors who audited the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information set out below gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the Group as at the date stated and of its losses, cash flows and recognised gains and losses for the period then ended.

Consent

We consent to the inclusion in the Prospectus of this report and accept responsibility for this report for the purposes of paragraph 45 (1)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995.



PROFIT AND LOSS ACCOUNT

		<i>Eighteen month period ended 31 December 1999</i>
	<i>Notes</i>	<i>£'000</i>
Turnover	2	
Continuing operations		283
Cost of sales		<u>(1,536)</u>
Gross loss		(1,253)
Administrative expenses		(997)
Other operating income		<u>151</u>
Operating loss	3	<u>(2,099)</u>
Net Interest payable	5	<u>(64)</u>
Loss on ordinary activities before taxation		(2,163)
Tax on loss on ordinary activities	6	<u>-</u>
Loss on ordinary activities after taxation		<u>(2,163)</u>
Retained loss for the period		<u><u>(2,163)</u></u>

iomart Limited has made no recognised gains or losses in the above period, other than as shown above in the profit and loss account. Consequently no statement of total recognised gains and losses has been presented.

The profit and loss account represents trading for 15 months.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Period ended 31 December 1999

	<i>Eighteen month period ended 31 December 1999</i>
	<i>£'000</i>
Loss for the period	(2,163)
New share capital subscribed	<u>1,500</u>
Net reduction in shareholders funds	(663)
Opening shareholders funds	<u>-</u>
Closing shareholders funds	<u><u>(663)</u></u>

BALANCE SHEET

		<i>31 December</i>
		<i>1999</i>
	<i>Notes</i>	<i>£'000</i>
Fixed assets		
Tangible assets	7	1,291
Intangible assets	8	198
		<u>1,489</u>
Current assets		
Debtors	9	370
Cash at bank and in hand		475
		<u>845</u>
Creditors: amounts falling due within one year	10	<u>(1,387)</u>
Net current liabilities		<u>(542)</u>
Total assets less current liabilities		947
Creditors: amounts falling due after more than one year	11	<u>(1,610)</u>
		<u>(663)</u>
Capital and reserves		
Called up share capital	12	1,500
Reserves		(2,163)
Equity shareholders' funds		<u>(663)</u>



CASH FLOW STATEMENT

		<i>Eighteen month period ended 31 December 1999</i>
	<i>Notes</i>	<i>£'000</i>
Net cash outflow from operating activities		
	14	(1,000)
Returns on investments and servicing of finance	15	(64)
Taxation		-
Capital expenditure and financial investment	16	(498)
Net cash outflow before financing		(1,562)
Financing	17	2,037
Increase in cash		<u>475</u>

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	<i>Eighteen month period ended 31 December 1999</i>
	<i>£'000</i>
Increase in cash in the period	475
Cash inflows from increase in debt and lease financing	<u>(537)</u>
Change in net debt resulting from cashflows	(62)
New hire purchase and finance leases	1,404
Opening debt	<u>-</u>
Closing debt	<u>(1,466)</u>

NOTES TO THE FINANCIAL INFORMATION

1. Accounting policies

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial information is prepared under the historical cost convention.

Intangible fixed assets

Software licences are capitalised as intangible assets and amortised over the period of the licence.

Tangible fixed assets

Depreciation is provided on cost in equal annual instalments over the estimated useful life of the assets.

The rates of depreciation are as follows:

Short term leasehold improvements	25% per annum
Computer software and equipment	Between 25% and 50% per annum
Office equipment and vehicles	25% per annum

Grants

Amounts receivable under capital grants are treated as deferred income, and credited to the profit and loss account by installments on a basis consistent with the depreciation policy. Revenue grants are credited to the profit and loss account in line with the expenditure to which they relate.

Deferred taxation

Deferred taxation is provided on timing differences, arising from the different treatment of items for accounting and taxation purposes which are expected to reverse in the future, calculated at the rates at which it is expected that tax will arise.

Leases

Assets obtained under finance leases and hire purchase contracts are capitalised at their fair value on acquisition and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding.

Operating lease rentals are charged to income in equal annual amounts over the lease term.

Development expenditure

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

2. Turnover

Turnover comprises revenue from connectivity, web hosting and web design services excluding VAT.



3. Information regarding directors and employees

	<i>Period ended 31 December 1999 £'000</i>
Staff costs (including directors' emoluments) incurred during the period as follows:	
Wages and salaries	637
Social security costs	59
	<u>696</u>
Average number of persons employed:	
Technical	10
Customer services	18
Sales and marketing	4
Administration	4
	<u>36</u>
The directors of iomart Limited received the following remuneration:	
Emoluments (excluding pension contributions)	<u>171</u>

The following directors have share options in the company:

	<i>Options Granted During the period</i>	<i>At 31 December 1999</i>	<i>Exercise Price £</i>
Neil Finlayson	23,962	23,962	1
Sarah Haran	23,962	23,962	1

No options lapsed or were exercised during the period.

4. Operating loss for the eighteen month period is stated after charging/(crediting):

	<i>Period ended 31 December 1999 £'000</i>
Amortisation of intangible assets	84
Depreciation on tangible assets:	
- own assets	35
- leased assets	293
Auditor's remuneration	15
Amortised deferred grant	(18)
Revenue grants	99
Rentals under operating leases	<u>58</u>

5. Interest receivable, payable and similar charges

	<i>Period ended 31 December 1999 £'000</i>
Bank interest received	21
Bank loans and overdraft	(13)
Finance leases and hire purchase contracts	(72)
	<u>(64)</u>

6. Taxation

There is no tax charge due to the losses incurred.

7. Tangible fixed assets

	<i>Short-term leasehold improvements £'000</i>	<i>Computer equipment £'000</i>	<i>Motor vehicles £'000</i>	<i>Office equipment £'000</i>	<i>Total £'000</i>
Cost					
At 7 July 1998	-	-	-	-	-
Additions	50	1,553	6	10	1,619
At 31 December 1999	<u>50</u>	<u>1,553</u>	<u>6</u>	<u>10</u>	<u>1,619</u>
Depreciation					
At 7 July 1998	-	-	-	-	-
Charge for the year	10	315	1	2	328
At 31 December 1999	<u>10</u>	<u>315</u>	<u>1</u>	<u>2</u>	<u>328</u>
Net book value					
At 31 December 1999	<u>40</u>	<u>1,238</u>	<u>5</u>	<u>8</u>	<u>1,291</u>

8. Intangible fixed assets

	<i>£'000</i>
Computer software	
Cost	
At 7 July 1998	-
Additions	282
At 31 December 1999	<u>282</u>
Depreciation	
At 7 July 1998	-
Charge for year	84
At 31 December 1999	<u>84</u>
Net book Value	
At 31 December 1999	<u>198</u>



9. Current assets

	<i>31 December</i> 1999 £'000
Trade debtors	127
Other debtors	140
Prepayments and accrued income	103
	<u>370</u>

10. Creditors: amounts falling due within one year

	<i>31 December</i> 1999 £'000
Trade creditors	712
Obligations under finance lease and hire purchase contracts	422
Other creditors	24
Accrued charges and deferred income	229
	<u>1,387</u>

11. Creditors: amounts falling due after more than one year

	<i>31 December</i> 1999 £'000
Bank loan	1,000
Obligations under finance lease and hire purchase contracts	518
Accrued charges and deferred income	92
	<u>1,610</u>

The bank loan is secured by a floating charge over the assets of the company. Interest is charged at 2 per cent. above base rate. The loan is repayable in full on the earlier of either admission to The Stock Exchange, at which point the bank may subscribe for up to 35 per cent. of the share capital of the company at par, or in October 2004. The 35 per cent. option is made up of two separate options with their own separate terms and conditions, one for 30 per cent. and the other for 5 per cent. (see note 20). The Company has the right to terminate the 30 per cent. option by pre-paying the £1 million term loan together with an early settlement fee.

12. Called up share capital

	<i>31 December</i> 1999 £'000
Authorised	
10,000,000 ordinary shares of £1 each	10,000
Called up and allotted	
1,500,000 ordinary shares of £1 each	<u>1,500</u>

Two shares were issued at par on the incorporation of iomart Limited and 999,998 shares were issued at par on 31 January 1999. The authorised share capital was increased by 9,000,000 shares to 10,000,000 shares on 1 March 1999 and on 25 March 1999, 500,000 shares were issued at par to provide further working capital to iomart Limited.

13. Operating lease commitments

	<i>Eighteen month period ended 31 December 1999 £'000</i>
Leases which expire:	
Within one year	8
Within two to five years	-
After five years	44
	<u>52</u>

14. Reconciliation of operating loss to net cash outflow from activities

	<i>£'000</i>
Operating loss	(2,099)
Depreciation of tangible fixed assets	328
Amortisation of intangible assets	84
Increase in debtors	(370)
Increase in creditors	1,057
	<u>(1,000)</u>

15. Returns on investments and servicing of finance

	<i>£'000</i>
Bank Interest received	21
Bank and other loan interest paid	(13)
Finance lease at hire purchase interest paid	(72)
	<u>(64)</u>

16. Capital expenditure and finance investment

	<i>£'000</i>
Payments to acquire tangible fixed assets	(216)
Payments to acquire intangible fixed assets	(282)
	<u>(498)</u>

17. Financing

	<i>£'000</i>
Issue of share capital	1,500
New loans	1,000
Repayment of hire purchase and finance leases	(463)
	<u>2,037</u>



18. Analysis of changes in net funds

	<i>Cashflow</i> <i>£'000</i>	<i>Other</i> <i>non cash changes</i> <i>£'000</i>	<i>At</i> <i>31 December</i> <i>1999</i> <i>£'000</i>
Cash at bank and in hand	475	-	475
Bank loan	(1,000)	-	(1,000)
Finance leases and hire purchase	463	(1,404)	(941)
	<u>(537)</u>	<u>(1,404)</u>	<u>(1,941)</u>
	<u>(62)</u>	<u>(1,404)</u>	<u>(1,466)</u>

19. Related party transactions

During the period iomart Limited purchased services from AboveNet Limited, a company in which A MacSween and W Dobbie were directors and shareholders, of £72,338. At the period end there is an amount due to AboveNet Limited of £50,760.

During the period iomart Limited paid rent of £17,500 to A MacSween.

On 27 March 1999 iomart Limited entered into a ten-year property rental agreement with Highlands and Islands Enterprise. The rent is £55,000 per annum with a two year rent free period. N Finlayson, a director of iomart Limited, is also a director of Highlands and Islands Enterprise.

All the above transactions were carried out at arms' length.

Directors, as noted in note 3, and employees have options over 6.1 per cent. of the company's share capital.

20. Post balance sheet events

On 14 March 2000, iomart Limited was acquired by iomart Group plc, on a share for share basis.

The terms and conditions of the £1 million bank loan were renegotiated and transferred to iomart Group plc on 23 March 2000 and, the Bank of Scotland irrevocably undertook not to exercise the 30 per cent. option provided that Admission occurs prior to 30 May 2000 and the £1 million bank loan is repaid by iomart Group plc with an early settlement fee of £330,000. This arrangement is consistent with the right of the Company to pre-pay this loan and terminate the 30 per cent. option.

Yours faithfully

Deloitte & Touche
Chartered Accountants

PART VI
PRO FORMA STATEMENT OF NET ASSETS OF THE GROUP

The unaudited pro forma statement of net assets of the Group following Admission is set out below has been prepared for illustrative purposes only. Due to its nature, the statement may not give a true picture of the Group's financial position. It is designed to give only an indication of the net assets of the Group following completion of the Placing and Public Offer and has been prepared on the basis of the notes set out below.

	<i>iomart Group plc</i>		<i>iomart Limited</i>		<i>Adjustments</i>		<i>Pro forma</i>
	<i>at 21 March</i>	<i>at 31 December</i>	<i>Consolidation</i>	<i>Placing and</i>	<i>Public Offer</i>		
	<i>2000</i>	<i>1999</i>	<i>(Note 2)</i>	<i>(Note 3)</i>			
	<i>(Note 1)</i>	<i>(Note 1)</i>	<i>(Note 2)</i>	<i>(Note 3)</i>			
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>			<i>£'000</i>
Fixed assets							
Tangible assets	1,500	1,291	(1,500)	-			1,291
Intangible assets	-	198	-	-			198
	<u>1,500</u>	<u>1,489</u>	<u>(1,500)</u>	<u>-</u>			<u>1,489</u>
Current assets							
Debtors	-	370	-	-			370
Cash at bank and in hand	-	475	-	19,000			19,475
	-	845	-	19,000			19,845
Creditors: amount falling due within one year	-	(1,387)	-	-			(1,387)
Net current assets/(liabilities)	<u>1,500</u>	<u>(542)</u>	<u>(1,500)</u>	<u>19,000</u>			<u>18,458</u>
Creditors: amount falling due after more than one year	-	(1,610)	-	-			(1,610)
Net assets/(liabilities)	<u><u>1,500</u></u>	<u><u>(663)</u></u>	<u><u>(1,500)</u></u>	<u><u>19,000</u></u>			<u><u>18,337</u></u>

Notes:

- The figures above have been extracted from the balance sheet of iomart Group plc set out in Part IV of this document and the balance sheet of iomart Limited set out in Part V of this document.
- The consolidation adjustment reflects the consolidation of iomart Group plc and iomart Limited.
- The Placing and Public Offer adjustment reflects the net proceeds receivable by the Company from the Placing and Public Offer totalling £19,000,000, net of estimated expenses of £1,000,000.
- No account has been taken of trading since 31 December 1999.



The following is the text of a report received from Deloitte & Touche, reporting accountants for the Placing and Public Offer:

**Deloitte &
Touche**

17 Blythswood Square
Glasgow
G2 4AD



The Directors
iomart Group plc
80 Berkeley Street
Glasgow
G3 7DS

The Directors
Peel Hunt plc
62 Threadneedle Street
London
EC2R 8HP

30 March 2000

Dear Sirs

iomart Group plc (“the Company”)

We report on the unaudited pro forma combined net assets statement (“the pro forma financial information”) set out in Part VI of the prospectus dated 30 March 2000 issued by the Company. The pro forma financial information has been prepared for illustrative purposes only to provide information about how the proposed Placing and Public Offer might have affected the financial information presented.

Responsibilities

It is the responsibility solely of the Directors of the Company to prepare the pro forma financial information. It is our responsibility to form an opinion on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that imposed by regulation 13(1)(d) of the Public Offers of Securities Regulations 1995.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and the Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the Directors of the Company.

Opinion

In our opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Company; and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed.

Yours faithfully

Deloitte & Touche

PART VII

GENERAL INFORMATION

1. Responsibility

The Directors of iomart Group plc, whose names appear on page 6 of this document, accept responsibility for the information contained in this document including individual and collective responsibility for compliance with the POS Regulations. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts, and there is no other material information the omission of which is likely to affect the import of such information.

2. Incorporation, registration and Group structure

- (a) The Company was incorporated and registered in Scotland as a public limited company on 28 February 2000 under the Act with the name iomart Group plc and with the registered number SC204560. The liability of the members of the Company is limited.
- (b) The registered office and principal place of business of the Company in the United Kingdom is 80 Berkeley Street, Glasgow, G3 7DS.
- (c) The Company is a member of a group of companies. iomart is a wholly owned subsidiary of the Company.

3. Share capital history

The following changes have occurred in the share capital of the Company.

- (a) At incorporation the authorised share capital of the Company was £1.5 million divided into one million five hundred thousand shares of £1 each of which two were issued fully paid to the subscribers to the Memorandum of Association.
- (b) On 21 March 2000 a written resolution of the Company was passed to:
 - (i) subdivide each of the existing Ordinary Shares of £1 each in the capital of the Company into Ordinary Shares of 1p each;
 - (ii) convert 72,000,000 of the Ordinary Shares arising on the subdivision referred to at paragraph (i) above registered in the name of Angus MacSween and 48,000,000 of the Ordinary Shares arising on the subdivision referred to at paragraph (i) above registered in the name of William Dobbie into deferred shares of 1p each (“deferred shares”);
 - (iii) approve the entering into of a contract by the Company to buy back the deferred shares for no consideration and reduce the share capital of the Company accordingly; and
 - (iv) amend the Memorandum of Association of the Company with respect to its objects.
- (c) On 29 March 2000 written resolutions of the Company were passed, conditional upon Admission:
 - (i) to increase the authorised share capital of the Company to £1,000,000 divided into 100,000,000 Ordinary Shares of 1p each
 - (ii) to adopt new articles of association
 - (iii) to approve the rules of the Schemes and the SAYE Scheme
 - (iv) to authorise the Directors for the purposes of Section 80 of the Act to allot Ordinary Shares for cash or otherwise up to an aggregate nominal amount of £700,000, such authority to expire on 29 March 2005, save that the Company may before such expiry make an offer or agreement which would or might require Ordinary Shares to be allotted after such expiry and the Directors may allot Ordinary Shares in pursuance of such offer or agreement as if the authority conferred thereby had not expired.



(v) to authorise the Directors for the purposes of Section 95 of the Act to allot Ordinary Shares for cash pursuant to the authority to allot conferred on the Directors referred to in paragraph 1(c)(iv) as if Section 89(1) of the Act did not apply to such allotment, such authority to expire on the date of the Annual General Meeting to be held in 2001 or the date falling 15 months from 29 March 2000, whichever is the earlier, provided that such authority is limited to:

- (a) the allotment of Ordinary Shares pursuant to the Placing and Public Offer;
- (b) the allotment of Ordinary Shares pursuant to the Schemes and the SAYE Scheme; and
- (c) the allotment otherwise than pursuant to paragraphs (i) and (ii) above of Ordinary Shares having an aggregate nominal value of £71,000, which will be equivalent to approximately 15 per cent. of the ordinary share capital of the Company in issue following the Placing and Public Offer (assuming that 15,748,032 Ordinary Shares are issued pursuant to the Placing and Public Offer).

(d) The authorised and issued share capital of the Company at the date of this document are as follows:

	<i>Authorised</i>		<i>Issued (fully paid)</i>	
	<i>Number</i>	<i>£</i>	<i>Number</i>	<i>£</i>
Ordinary Shares	30,000,000	300,000.00	30,000,000	300,000

(e) Following the Placing and Public Offer, the authorised and issued share capital of the Company on Admission are expected to be as follows (assuming that 15,748,032 Ordinary Shares are issued pursuant to the Placing and Public Offer):

	<i>Authorised</i>		<i>Issued (fully paid)</i>	
	<i>Number</i>	<i>£</i>	<i>Number</i>	<i>£</i>
Ordinary Shares	100,000,000	1,000,000.00	47,326,979	473,269.79

4. Options

(a) Discretionary Share Option Schemes

(i) Introduction

The Company established the Approved Scheme and the Unapproved Scheme on 29 March 2000 conditionally on Admission. The Approved Scheme conforms to the relevant provisions of Schedule 9 to the Income and Corporation Taxes Act 1988 relating to approved share option schemes. The Unapproved Scheme does not conform to those provisions, and options granted under that Scheme will be unapproved options. The Inland Revenue has already indicated that the Approved Scheme is in a form capable of approval and a formal application will in due course be made to the Inland Revenue for approval of the Approved Scheme.

(ii) Constitution

The Schemes are governed by their rules and will be administered by the remuneration committee of the Company (the "Committee").

(iii) Eligibility

The Committee may grant options under the Approved Scheme to any employee of the Group and to any director of the Group who works at least twenty five hours each week. No option may be granted under the Approved Scheme to any such director or employee within the period of two years prior to his normal retirement date. Options may be granted under the Unapproved Scheme to any employee or director of the Group.

(iv) Grant of options

Options may be granted at any time other than during a close period. No option may be granted after the tenth anniversary of the date of commencement of the Schemes. No option may be assigned or transferred in any way, although the executors or personal representatives of a deceased option holder may in certain circumstances exercise options held by him. No consideration is payable for the grant of an option.

The Committee may where appropriate impose specific objectives or other conditions which will generally have to be satisfied before an option can be exercised.

(v) Acquisition price

The acquisition price payable for each Ordinary Share on exercise of an option under the Unapproved Scheme will be determined by the Committee but will be either (a) an amount which is not less than the Final Offer Price, or (b) an amount which is not less than the market value of an Ordinary Share at the date of grant. The acquisition price payable for each Ordinary Share on exercise of an option under the Approved Scheme will be not less than the market value as at the date of grant as agreed in advance with the Shares Valuation Division of the Inland Revenue.

(vi) Individual limits

No person may at any time hold options granted under the Approved Scheme over Ordinary Shares having a total market value at the time of grant of option of more than £30,000.

(vii) Company Limits

At any time the total of:

- (a) the aggregate nominal value of all Ordinary Shares issued or which may be issued pursuant to options granted under the Unapproved Scheme with an acquisition price which is determined by reference to the Final Offer Price shall not exceed 5 per cent. of the nominal value of the ordinary share capital of the Company immediately following Admission;
- (b) the aggregate nominal value of all Ordinary Shares issued or which may be issued under options granted under the Schemes and all Ordinary Shares issued under all other employee share schemes of the Company (other than savings-related share option schemes) shall not exceed 10 per cent. of the nominal value of the ordinary share capital of the Company then in issue.

In determining whether the above limit has been complied with no account is taken of any option which has been disclaimed or lapsed or of options granted before Admission.

(viii) Exercise and lapse of options

Subject to the satisfaction of any applicable condition of exercise, options granted under the Approved Scheme may be exercised in whole or in part at any time and from time to time after the earliest of the third anniversary of the date of grant, the death of the option holder, or the option holder ceasing to be a director or employee of any company within the Group by reason of (a) injury or disability, or (b) retirement, or (c) at the discretion of the Committee, for any other reason. In exceptional circumstances the Committee may resolve that options granted under the Approved Scheme should become exercisable before the third anniversary of the date of grant. Options granted under the Unapproved Scheme may be exercised in whole or in part at any time after the date of grant. Again, the exercise of options granted under the Unapproved Scheme is subject to the satisfaction of any conditions of exercise.

Options lapse on the earlier of:-

- the tenth anniversary of the date of grant;
- twelve months after the death of the option holder;
- the date of cessation of employment or directorship (unless such cessation is for a reason mentioned in (a), (b) or (c) in the foregoing paragraph, in which case they will lapse six months after such cessation, or, in the case of an option which immediately before the cessation is not exercisable, six months after it becomes exercisable. The Committee has a discretion to vary the time of exercise in such cases).
- six months after any takeover or reconstruction or the passing of a resolution for the voluntary winding up of the Company; and
- the bankruptcy of the option holder.



(ix) Takeovers etc

In the event of a takeover of the Company, a compromise or arrangement under section 425 of the Act or section 110 of the Insolvency Act 1986 or a voluntary winding up of the Company, options may be exercised within six months.

In the event of a takeover of the Company, options granted under the Approved Scheme may, with the consent of the acquiring company, be released in consideration for the grant of new options over shares in the acquiring company which have the same value as the options released.

(x) Variation of share capital

In the event of any capitalisation, or rights issue, consolidation, sub-division, reduction or other variation of share capital of the Company, the number of Ordinary Shares subject to each option and the price payable on exercise shall be adjusted in such manner as the Company's auditors confirm to be fair and reasonable and, in the case of options granted under the Approved Scheme, as the Board of Inland Revenue shall approve.

(xi) Alteration

The Committee may from time to time alter or add to all or any of the rules of the Option Schemes. All alterations to the Approved Scheme must be approved by the Inland Revenue before becoming effective.

No alteration or addition may be made which would materially and adversely affect the rights of an option holder as regards an option granted prior to the alteration or addition.

(xii) General

All Ordinary Shares issued under the Schemes will rank *pari passu* with all other Ordinary Shares other than in relation to dividends which have a record date prior to the date of issue.

(b) *Savings Related Share Option Scheme*

(i) Introduction

The Company established the SAYE Scheme on 29 March 2000 conditionally on Admission. The SAYE Scheme conforms with the provisions of Schedule 9 to the Income and Corporation Taxes Act 1988 relating to approved savings-related share option schemes. The Inland Revenue has already indicated that the rules of the SAYE Scheme are in a form capable of approval and a formal application will in due course be made to the Inland Revenue for approval of the SAYE Scheme.

(ii) Constitution

The SAYE Scheme is governed by its rules, and will be administered by the remuneration committee of the Company (the "Committee").

(iii) Eligibility

All employees and full time directors of the Group will be eligible to have options granted to them.

(iv) Grant of options

Options may be granted at any time. No option may be granted after the tenth anniversary of the adoption of the SAYE Scheme. No option may be assigned or transferred in any way, although the executors or personal representatives of a deceased option holder may in certain circumstances exercise options held by him. No consideration is payable for the grant of an option.

(v) Acquisition price

The acquisition price payable for each Ordinary Share on exercise of an option is the higher of the nominal value and such price as the Committee may determine, being not less than 80 per cent. of the market value of an Ordinary Share at the date of invitation to apply for the grant of options as agreed in advance with the Shares Valuation Division of the Inland Revenue.

(vi) Individual limits

Each eligible employee will be given the opportunity to apply for an option over a number of Ordinary Shares, the total acquisition price of which does not exceed the total of the monthly contributions and bonus repayable under the *save-as-you-earn* contract which must be entered into as a condition of the grant of the option. The bonus payable under the savings contract is equal to 2.75

monthly contributions after 3 years, 7.5 monthly contributions after 5 years, and 13.5 monthly contributions after 7 years. Subject to the Committee's ability to restrict the choice of savings contracts which may be entered into in relation to any particular grant of options, each employee will therefore have the choice of applying for options over Ordinary Shares with an aggregate acquisition price of either 38.75, 67.5 or 73.5 times the monthly contribution. The amount of the monthly contribution under the SAYE Scheme when added to the monthly contribution being made under any other savings contract must not exceed £250 per month or such higher amount as may from time to time be permitted by the legislation under which the SAYE Scheme is to be approved.

(vii) Exercise and lapse of options

In normal circumstances an option may be exercised only during the period of six months commencing on the date that the bonus under the related savings contract is payable (i.e. the third, fifth or seventh anniversary of the commencement of the savings contract). Earlier exercise is permitted on the option holder's death, retirement at normal retirement age, or if the employee's employment is terminated by reason of redundancy, injury or disability or if the company by which the individual is employed ceases to be a subsidiary of the Company or if the undertaking in which he is employed is sold outside the Group.

In such circumstances the option is exercisable only to the extent of the amount of contributions then made under the related savings contract and any interest or bonus payable thereon. The option will lapse if an employee becomes bankrupt or if he stops paying his monthly contributions under the savings contract, and will normally also lapse if an employee ceases to be employed for any other reason during the period of three years from the date of grant of the option. If the employee ceases to be employed after that period, he may exercise his options during the period of six months after the cessation of employment.

Early exercise of an option, to the extent referred to above, is also permitted in the event of a change in control, reorganisation or amalgamation or voluntary winding up of the Company.

(viii) Company Limits

At any time the total of the aggregate nominal value of all Ordinary Shares issued or which may be issued pursuant to options granted under the SAYE Scheme and/or any other savings-related share option scheme operated by the Company shall not exceed 5 per cent. of the nominal value of the ordinary share capital of the Company then in issue.

In determining whether the above limit has been complied with no account is taken of any option which has been disclaimed or lapsed or of options granted before Admission.

(ix) Takeovers etc.

In the event of a takeover of the Company, a compromise or arrangement under Section 425 of the Act or a voluntary winding up of the Company, options may be exercised within six months.

In the event of a takeover, options under the SAYE Scheme may, with the consent of the acquiring company, be released in exchange for the grant of new options over shares in the acquiring company which have the same value as the options released.

(x) Variation of share capital

In the event of any capitalisation or rights issue the number of Ordinary Shares subject to each option and the price payable on exercise shall be adjusted to preserve the value of the options in such manner as the Company's auditors confirm to be fair and reasonable and the Board of Inland Revenue shall approve.

(xi) Alteration

The Committee may from time to time alter or add to all or any of the rules of the SAYE Scheme. All alterations require to be approved by the Inland Revenue before becoming effective.

No alteration or addition may be made which would adversely affect the rights of an option holder as regards an option granted prior to the alteration or addition.



(xii) General

All Ordinary Shares issued under the SAYE Scheme will rank *pari passu* with all other Ordinary Shares of the Company other than in relation to dividends which have a record date prior to the date of issue.

(c) *Other Employee Options*

(i) Introduction

Prior to March 1999, options over 97,444 Ordinary Shares in iomart Limited were granted to certain Directors and members of the senior management. Following the reorganisation, these options have now been replaced with options over 1,948,880 Ordinary Shares. These options are unapproved options.

(ii) Constitution

The terms and conditions attaching to each option have been documented in an award agreement (the "Agreement") entered into between the Company and each of the relevant option holders.

(iii) Acquisition Price

The acquisition price payable for each Ordinary Share on the exercise of an option pursuant to an Agreement can not be less than £0.05.

(iv) Exercise and Lapse of Options

Subject to the satisfaction of any applicable performance condition set out in the relevant Agreement, each option will become exercisable in respect of one third of the Ordinary Shares over which it is granted on 11 May 2000. Each option will become exercisable in respect of a further one third of the Ordinary Shares over which it was granted on 11 February 2001 and will become exercisable in respect of the final one third of Ordinary Shares over which it was granted on 11 February 2002. If an option holder dies, his option will immediately become exercisable in respect of all the Ordinary Shares over which it was granted.

Options lapse on the earlier of:

- the tenth anniversary of the date of grant;
- twelve months after the date of the option holder's death;
- the date of cessation of employment or directorship (unless such cessation is by reason of (a) injury or disability, or (b) retirement or (c) at the discretion of the Board, for any other reason, in which case the option will remain exercisable (but only to the extent that it was exercisable immediately before the cessation) for a period of six months);
- six months after any takeover or reconstruction or the passing of a resolution for the voluntary winding up of the Company;
- the bankruptcy of the option holder.

(v) Takeovers etc

In the event of a takeover of the Company, a compromise or arrangement under Section 425 of the Act or Section 110 of the Insolvency Act 1986 or a voluntary winding up of the Company, options will immediately become exercisable in respect of all the Ordinary Shares over which they are granted for a period of six months.

(vi) Variation of share capital

In the event of any capitalisation or rights issue, consolidation, sub-division, reduction or other variation of share capital of the Company the number of Ordinary Shares subject to each option and the price payable on exercise shall be adjusted in such manner as the Company's auditors confirm to be fair and reasonable.

5. Directors

(a) *Interests in the share capital of the Company*

As at the date of this document, the interests of the Directors and (so far as is known to the Directors or could with reasonable diligence be ascertained by them) persons connected with the Directors (within the

meaning of Section 346 of the Act), in the share capital of the Company, as required to be notified to the Company pursuant to Sections 324 and 328 of the Act or as required to be shown in the register maintained under Section 325 of the Act, are as follows:

	<i>No. of Ordinary Shares</i>	<i>Percentage of issued share capital</i>	<i>No. of Ordinary Shares under option</i>
Nick Kuenssberg	-	-	-
Angus MacSween	18,000,000	60%	-
Bill Dobbie	12,000,000	40%	-
Neil Finlayson	-	-	479,240
Sarah Haran	-	-	479,240
Fred Shedden	-	-	-
	<u>30,000,000</u>	<u>100%</u>	<u>958,480</u>

All of the above Ordinary Shares are beneficially held by each director.

(b) On Admission

Following Admission, the interests of the Directors and persons connected with the Directors in the share capital of the Company are expected to be as follows:

	<i>No. of Ordinary Shares</i>	<i>Percentage of issued share capital</i>	<i>No. of Ordinary Shares under option</i>
Nick Kuenssberg	19,685	0.1%	70,990
Angus MacSween	17,955,000	37.9%	-
Bill Dobbie	11,970,000	25.3%	-
Neil Finlayson	-	-	479,240
Sarah Haran	4,000	0.0%	479,240
Fred Shedden	15,748	0.1%	47,327
	<u>29,964,433</u>	<u>63.3%</u>	<u>1,076,797</u>

Note: The above table assumes that 15,748,032 Ordinary Shares are issued pursuant to the Placing and Public Offer at 1.27p, being the mid-point of the Price Range.

The 4,000 Ordinary Shares in which Sarah Haran will be interested will be registered in the name of her husband. Other than this, all of the above Ordinary Shares are beneficially held by each Director.

(c) Terms of employment

On 29 March 2000 Angus MacSween entered into a service agreement with the Company to take effect upon Admission for his employment as Chief Executive of the Company at an annual salary of £90,000. A discretionary bonus is payable of up to 50 per cent. of the basic salary and a pension contribution is payable at the rate of twice the contribution made by the employee subject to a maximum contribution by the Company of 10 per cent. of basic salary. A company car is provided and Mr MacSween is entitled to participate in any private health care scheme that may be introduced. The agreement is terminable on twelve months' notice to be given at any time on or after 31 March 2002. The agreement contains restrictive covenants relating to competition, customers, suppliers and employees and provides for the protection of the intellectual property of the Company. Mr MacSween is a full time employee of the Company.

On 29 March 2000 Bill Dobbie entered into a service agreement with the Company to take effect upon Admission for his employment as Business Development Director of the Company at an annual salary of £90,000. A discretionary bonus is payable of up to 50 per cent. of the basic salary and a pension



contribution is payable at the rate of twice the contribution made by the employee subject to a maximum contribution by the Company of 10 per cent. of basic salary. A company car is provided and Mr Dobbie is entitled to participate in any private health care scheme that may be introduced. The agreement is terminable on twelve months' notice to be given at any time on or after 31 March 2002. The agreement contains restrictive covenants relating to competition, customers, suppliers and employees and provides for the protection of the intellectual property of the Company. Mr Dobbie is a full time employee of the Company.

On 29 March 2000 Neil Finlayson entered into a service agreement with the Company to take effect upon admission for his employment as Technical Director of the Company at an annual salary of £55,000. A discretionary bonus is payable of up to 50 per cent. of the basic salary and a pension contribution is payable at the rate of twice the contribution made by the employee subject to a maximum contribution by the Company of 10 per cent. of basic salary. A company car is provided and Mr Finlayson is entitled to participate in any private health care scheme that may be introduced. The agreement is terminable on twelve months' notice to be given at any time on or after 31 March 2002. The agreement contains restrictive covenants relating to competition, customers, suppliers and employees and provides for the protection of the intellectual property of the Company. Mr Finlayson is a full time employee of the Company.

On 29 March 2000 Sarah Haran entered into a service agreement with the Company to take effect upon Admission for her employment as Customer Services Director of the Company at an annual salary of £50,000. A discretionary bonus is payable of up to 50 per cent. of the basic salary and a pension contribution is payable at the rate of twice the contribution made by the employee subject to a maximum contribution by the Company of 10 per cent. of basic salary. A company car is provided and Ms Haran is entitled to participate in any private health care scheme that may be introduced. The agreement is terminable on twelve months' notice to be given at any time on or after 31 March 2002. The agreement contains restrictive covenants relating to competition, customers, suppliers and employees and provides for the protection of the intellectual property of the Company. Ms Haran is a full time employee of the Company.

The non-executive Directors are engaged for an initial fixed term of 1 year and thereafter their engagement will continue until terminated by the Company giving twelve months' prior notice or the Director giving twelve months' prior notice. Nick Kuenssberg will be paid an annual fee of £25,000. Fred Shedden will be paid an annual fee of £20,000.

(d) Estimate of remuneration

The aggregate emoluments paid by iomart to the Directors for the financial period ended 31 December 1999 were £171,000. Under the arrangements in force as at the date of this document which are referred to in paragraph 4(c), it is estimated that the aggregate emoluments payable by iomart to the current Directors for the financial year ending 31 December 2000 will amount to £330,000, excluding discretionary bonuses (if any).

(e) Directors' interests in transactions

The following are transactions entered into by the Company with Directors in the 12 months preceding the date of this document:

- (a) Missives of let were entered into between Angus MacSween (1) and iomart Limited (2) on 27 and 28 July 1999 in relation to the lease by iomart Limited of premises at 80 Berkeley Street, Glasgow. The lease continues from month to month until terminated by either party giving 9 months written notice to the other. The rent payable by iomart Limited is £30,000 per annum, exclusive of Value Added Tax.
- (b) On 14 March 2000 a contract was entered into between the Company (1) and Angus MacSween and Bill Dobbie (2) in terms of which the Company acquired the whole issued share capital of iomart Limited in exchange for the issue of 1,499,998 Ordinary Shares of £1 each in the capital of the Company credited as fully paid.

-
- (c) On 21 March 2000 a contract was entered into between the Company (1) and Angus MacSween and Bill Dobbie (2) in terms of which the Company bought back and cancelled in aggregate 120,000,000 deferred shares of 1p each registered in the names of Angus MacSween and Bill Dobbie for no consideration.

(f) Directorships

The Directors currently hold the following directorships and have held the following directorships within the five years immediately preceding the date of this document:

Nicholas Christopher Dwelly Kuenssberg

Current Directorships:

iomart Group plc
Canmore Partnership Ltd
Scottish Environment Protection Agency
Chamberlin & Hill plc
Sanmex International plc
Stoddard International PLC
Scottish Legal Aid Board
GAP Group Limited
Citizens Theatre Limited
Scottish International Piano Competition Limited
Louis de Poortere Limited
The David Hume Institute
Stoddard Trustees Limited
Stoddard Group Limited
Douglas Reyburn & Company Limited
Lyle Carpets Limited
BMK Limited
Templeton Carpets Limited
Templeton Spinning Limited
Henry Widnell & Stewart Limited
British Carpets Limited
Stoddard International (1998) Limited
Sekers Menswear Limited
Margaret Fabrics Limited
Sekers Developments Limited
Associated Haute Couture Fabrics Limited
Sekers Mills Limited
Sekers Trading Company Limited
London Drapes International Limited
Bonded Carpets Limited
BMK (Holdings) Limited
Nordale Wools Limited
Stoddard Carpets Limited
Stoddard Trading Limited
GAP Holdings Limited

Directorships held in the last 5 years:

Bio-Logic Remediation Ltd
Baxi Partnership Ltd
David A Hall Ltd
Dawson International Plc
The Standard Life Assurance Company
Scottish Power UK PLC
Wm R Stewart & Sons (Hacklemakers) Limited
The Association for Management Training & Education in Scotland



Murdo Angus MacSween

Current Directorships:

iomart Group plc
iomart Limited
City Business Parks Limited
Adabrock Development Company Limited
iomairt NIS
Lasair Information Services Limited
Rebel Telecom Limited
iomart.com Limited

Directorships held in the last 5 years:

AboveNet UK Limited
Teledata (Holdings) Limited
The CallCentre Service Limited
Teledata (Outsourcing) Limited
Ring-a-Round Limited
Teledata Scotland Limited
Clubcall Telephone Services Limited
The Information Service Limited
Clubline Services Limited
Prestel On-Line Limited
Quetzal Limited
Camjar plc
Telephone Information Services plc
Spotlight Trading Limited
Telephone International Media Holdings Limited
Telephone International Media Limited
TIM Limited
Copperteam Limited

William Dobbie

Current Directorships:

iomart Group plc
iomart Limited
Biebod Developments Limited
Rebel Telecom Limited
iomart.com Limited
Quetzal Limited

Directorships held in the last 5 years:

AboveNet UK Limited
Teledata (Holdings) Limited
The CallCentre Service Limited
Telephone (Outsourcing) Limited
Spellout Computers Limited
Ring-a-Round Limited
Teledata Scotland Limited
Clubcall Telephone Services Limited
The Information Service Limited
Clubline Services Limited
Prestel On-Line Limited
EuroPacific Scotland Limited
Cityscape Global Media Limited
Cityscape Internet Services Limited
Cityscape Limited

Demon Internet Limited
Demon Limited
Dispatch Publishing Limited
Locomotive Software Developments Limited
Locomotive Software Group Limited
Citiproducts Limited
The IP Systems Operation Limited
Turnpike Limited
Turnpike 1996 Limited

Neil Finlayson

Current Directorships:

iomart Group plc
iomart Limited
Highlands & Islands Enterprise
iomairt NIS

Directorships held in the last 5 years:

Western Isles Enterprise Company Limited
Cuan Ard Press Limited

Sarah Haran (née Adams)

Current Directorships:

iomart Group plc
iomart Limited

Alfred Charles Shedden

Current Directorships:

iomart Group plc
Martin Currie Japan Investment Trust plc
The Scottish Metropolitan Property Plc
McGrigor Donald Trustees Limited
MDM Trustees Limited
Moore House Nominees Limited
Pacific House Nominees Limited
MGD Property Company Limited
Legal Resources Limited
McGrigor Donald Services
20.20 Executive Group Limited

Directorships held in the last 5 years:

The Standard Life Assurance Company
Scottish Financial Enterprise

(g) Other information on Directors

Fred Shedden is currently a partner in McGrigor Donald, the Company's solicitors who will receive a fee from the Company in respect of the Placing and Public Offer. Fred will resign as a partner from McGrigor Donald with effect from 30 April 2000. Angus MacSween and Bill Dobbie are the sole partners in Adabrock Broadcasting Company which has ceased to trade.

6. Substantial shareholders

(a) Interests in the share capital of the Company

Save for the interests of the Directors, which are set out in paragraph 5(a) and (b) above, The Directors are not aware of any person who is, or will on Admission be, directly or indirectly interested in 3 per cent. or more of the Company's issued share capital other than Bank of Scotland, which has, conditional upon Admission, exercised an option to subscribe for 1,578,947 Ordinary Shares. Assuming new Ordinary Shares



are issued at the mid-point of the Price Range, Bank of Scotland will have an effective interest in 3.3 per cent. of the issued share capital of the Company following Admission.

(b) Controlling shareholders

As at the date of this document, Angus MacSween and Bill Dobbie have an effective interest in 60 per cent. and 40 per cent. respectively of the issued share capital of the Company. Assuming new Ordinary Shares are issued at the mid-point of the Price Range, Angus MacSween and Bill Dobbie will have an effective interest in 37.9 per cent. and 25.3 per cent. respectively of the issued share capital of the Company following Admission. Angus MacSween and Bill Dobbie may, directly or indirectly, jointly or severally through such interests continue to exercise control over the Company.

7. Memorandum of Association

The Company's principal objects are to act as a holding company. The objects are set out in full in Clause 4 of the Company's memorandum of association.

8. Articles of Association

The Company's Articles of Association (the "Articles"), which were adopted by Special Resolution on 29 March 2000 conditionally on Admission, contain, *inter alia*, provisions to the following effect:

(a) Voting

Subject to any rights or restrictions attaching to any shares, on a show of hands every member who (being an individual) is present in person or by proxy, or (being a corporation) is present by a duly authorised representative not being himself a member or entitled to vote, shall have one vote and on a poll every member shall have one vote for every share of which he is the holder.

(b) Dividends

Subject to the provisions of the act, the Company may by ordinary resolution declare dividends in accordance with the respective rights of the members, but no dividend shall exceed the amount recommended by the Directors.

Except as otherwise provided by the rights attaching to shares, all dividends shall be declared and paid and shall be apportioned and paid proportionately to the amounts paid up on the nominal value of the shares during any portion or portions of a period in respect of which the dividend is paid.

A general meeting declaring a dividend may, upon the recommendation of the Directors, direct that it shall be satisfied wholly or partly by the distribution of assets and where any difficulty arises in regard to the distribution, the Directors may settle the same and in particular may issue fractional certificates and fix the value for distribution of any assets and may determine that cash shall be paid to any member upon the footing of the value so fixed in order to adjust the rights of members and may vest any assets in trustees.

No dividend or other moneys payable in respect of a share shall bear interest against the Company unless otherwise provided by the rights attached to the share.

(c) Return of capital

If the Company is wound up, the liquidator may, with the sanction of an extraordinary resolution of the Company and any other sanction required by the Act, divide among the members in specie the whole or any part of the assets of the Company.

(d) Share transfers

The Directors may, in the case of shares in certificated form in their absolute discretion and in the case of shares in uncertificated form in the circumstances permitted by the Uncertificated Securities Regulations 1995 (the "Regulations"), refuse to register a transfer of any shares (not being fully paid shares) provided that where any such shares are admitted to the Official List of the London Stock Exchange or to trading on the Alternative Investment Market, such discretion may not be exercised so as to prevent dealings in such

shares taking place on an open and proper basis. The Directors may also refuse to register a transfer of shares in certificated form unless the instrument of transfer:

- (i) is lodged at the place where the register of members of the Company is situate accompanied by the relevant share certificate(s), and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer (and, if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do);
- (ii) is in respect of only one class of share; and
- (iii) is in favour of not more than four persons jointly.

Subject to the provisions of the Act and the Regulations, the Directors may determine that any class of shares may be held in uncertificated form and that title to such shares may be transferred by means of a “relevant system” (as such term is defined in the Articles of Association) or that shares of any class should cease to be held and transferred as set out above.

If the Directors refuse a transfer they shall within two months after the date on which the transfer was lodged with the Company (in the case of shares held in certificated form), or a proper instruction attributable to CRESTCo was received by the Company (in the case of shares held in uncertificated form), send to the transferee notice of refusal.

(f) Changes in class rights

Subject to the provisions of the Act and the Regulations, the rights attaching to any class of shares may be varied or abrogated, either with the consent in writing of the holders of three-fourths in nominal amount of the issued shares of the relevant class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holder of that class.

(g) Borrowing powers

The Directors may exercise all the powers of the Company to borrow money and to mortgage and charge its undertaking, property and its uncalled capital or any part thereof and to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

9. Working capital

In the opinion of the Company, having made due and careful enquiry and having regard to available bank facilities and the net proceeds of the Placing and Public Offer, the working capital available to the Group will, from the time that the Ordinary Shares are admitted to AIM, be sufficient for its present requirements, that is for at least 12 months following Admission.

10. Taxation

The following paragraphs, which are intended as a general guide only and are based on current legislation and Inland Revenue practice as at the date of this document, summarise advice received by the Directors of the Company as to the position of shareholders who are resident or ordinarily resident in the United Kingdom for tax purposes and who beneficially hold their shares as investments rather than trading stock. Any shareholder who is in any doubt as to their tax position, or who is subject to tax in a jurisdiction other than the United Kingdom, is strongly recommended to consult their professional advisers.

Dividends

- (a) There is no United Kingdom withholding tax on dividends and since 6 April 1999, no advance corporation tax.
- (b) An individual shareholder who is resident (for tax purposes) in the United Kingdom and who receives a dividend paid by the Company will currently be entitled to receive a tax credit equal to one ninth of the dividend (or 10 per cent. of the combined total of the dividend paid and the tax credit). The individual will be taxable upon the total of the dividend and the related tax credit which will be



regarded as the top slice of the individual's income. An individual shareholder who is not liable to income tax at a rate greater than the basic rate (currently 23 per cent.) will pay tax on the dividend and the related tax credit at the dividend income ordinary rate (currently 10 per cent.). Accordingly, the tax credit will be treated as satisfying the individual's liability to income tax in respect of the dividend. To the extent that the aggregate of the dividend and related tax credit (taken together with other taxable income) exceeds the individual's threshold for the higher rate of income tax the individual will, to that extent, pay tax on the aggregate of the dividend and related tax credit at the dividend income upper rate (currently 32.5 per cent.). Accordingly, a shareholder who is a higher rate taxpayer will have further income tax to pay at the rate of 22.5 per cent. on the aggregate of the dividend and related tax credit (equivalent to 25 per cent. of the net dividend). Tax credits are generally no longer repayable to shareholders with no tax liability. However, shareholders who hold their shares in an Individual Savings Account or a Personal Equity Plan will be entitled to recover the tax credits on dividends paid by the Company before 6 April 2004.

- (c) Subject to exceptions for certain insurance companies and companies which hold shares as trading stock, a shareholder that is a company resident (for tax purposes) in the United Kingdom and that receives a dividend paid by the Company will not be liable to corporation tax or income tax on the dividend.
- (d) Subject to certain exceptions for Commonwealth citizens, citizens of the Republic of Ireland, residents of the Isle of Man or the Channel Islands, nationals of states which are part of the European Economic Area and certain others, the right of a shareholder who is not resident (for tax purposes) in the United Kingdom to claim payment of any part of the tax credit in respect of a dividend received from the Company will depend on the existence and terms of any double tax treaty between the United Kingdom and the country in which the holder is resident. Shareholders who are not resident in the United Kingdom for tax purposes should consult their own tax advisers concerning their tax liabilities on dividends received, whether they are entitled to claim any part of the tax credit and, if so, the procedure for doing so. Non-United Kingdom resident shareholders may also be subject to taxation on dividends in their country of tax residence.

Taxation on capital gains for shareholders

If a shareholder disposes of all or any of his or its Ordinary Shares, he or it may, depending on the shareholder's particular circumstances, incur a liability to taxation on chargeable gains.

Stamp duty and stamp duty reserve tax ("SDRT")

- (a) Except as mentioned in paragraph (c) below, no liability to stamp duty or SDRT will arise on the issue or allotment of new Ordinary Shares by the Company pursuant to the Placing and Public Offer.
- (b) Except as mentioned in paragraph (c) below, the transfer of existing Ordinary Shares by the existing Shareholder will be liable to ad valorem stamp duty at the rate of 0.5 per cent. (with the amount of duty being rounded up to £5) of the amount or value of the consideration paid, or if an unconditional agreement to transfer such shares is not immediately completed by a duly stamped transfer, or where the transfer is effected under CREST, SDRT at the rate of 0.5 per cent. of the amount or value of the consideration paid.
- (c) Where any charge to stamp duty or SDRT arises under section 67, 70, 93 or 96 of the Finance Act 1986 (which broadly apply where ordinary shares are transferred or, in certain circumstances, are issued to persons who issue depository receipts or provide clearance services, or their nominees or agents), stamp duty at the higher of 1.5 per cent. (with the amount of duty being rounded up to £5) or SDRT at the higher rate of 1.5 per cent. (as appropriate) will be payable on the amount or value of the consideration paid for the issue or transfer.

11. Sponsorship Agreement

Under the Sponsorship Agreement dated 30 March 2000 between the Company, the Directors and Peel Hunt:

- (a) Peel Hunt has agreed (i) to act as the Company's sponsoring nominated adviser for the purpose of the AIM Rules in relation to Admission, the Placing and Public Offer (together "the AIM Flotation"), (ii) to act as the Company's nominated broker for the purpose of the AIM Rules in relation to the AIM Flotation, (iii) to make the Public Offer as agent for the Company, and (iv) to act, on a sole and exclusive basis, as the Company's book building agent in respect of the AIM Flotation and, in particular, to use its reasonable endeavours to seek expressions of interest in new Ordinary Shares from bona fide institutional and other prospective investors, to use its reasonable endeavours to assess the demand from such prospective investors for new Ordinary Shares and to report to the Company on such demand;
- (b) the Company has agreed to pay the costs of the AIM Flotation and has given certain warranties and an indemnity to Peel Hunt;
- (c) the executive Directors have given certain warranties about the Group and themselves to Peel Hunt;
- (d) the non-executive Directors have given certain warranties about themselves to Peel Hunt; and
- (e) certain Directors have undertaken not to dispose of Ordinary Shares as referred to in Part I of this document.

The Sponsorship Agreement will terminate automatically if the Placing Agreement is not entered into by 15th May 2000 or, once the Placing Agreement has been entered into, the Placing Agreement is terminated in accordance with its terms.

12. Placing Agreement

Prior to the announcement of the Final Offer Price, the Company, its executive Directors and Peel Hunt are expected to enter into a Placing Agreement under which it is expected that:

- (a) Peel Hunt will agree to use its reasonable endeavours to procure subscribers for new Ordinary Shares pursuant to the Placing with a view to raising up to £20 million in gross subscription proceeds for the Company;
- (b) Peel Hunt will be entitled, on Admission, to a fee and to a commission equal three per cent of the gross proceeds of the AIM Flotation if the Final Offer Price is in excess of 143 pence or, otherwise, a commission equal to two per cent of such proceeds;
- (c) the Company and its executive Directors will give certain additional warranties to Peel Hunt;
- (d) the Company will agree to allot and issue new Ordinary Shares for the purpose of the AIM Flotation;
- (e) the obligations of the Company and Peel Hunt will be subject to certain conditions including (i) the gross proceeds of the AIM Flotation being at least £13 million, (ii) there being no material breach of the Sponsorship Agreement or the Placing Agreement by the Company or any Director, and (iii) Admission occurring on or before 19 April 2000 (or such later date and/or time as Peel Hunt and the Company may agree in writing); and
- (f) Peel Hunt will have the right to terminate its obligations in certain circumstances prior to Admission.

13. Other information

- (a) Assuming 15,748,032 Ordinary Shares are issued pursuant to the Placing and Public Offer at 127p per share, being the mid-point of the Price Range, the expenses of the Placing and Public Offer and Admission are estimated at £1 million, excluding VAT, and are payable by the Company.
- (b) The minimum amount which, in the opinion of the Directors, must be raised under the Placing and Public Offer to provide the sums required in respect of the matters specified in paragraph 21 of Schedule 1 of the POS Regulations is £13 million, £1 million of which will be used to fund the



expenses of the Placing and Public Offer, £1.3 of which will be used to repay certain of the Company's indebtedness and the balance of which will be used for working capital.

- (c) The financial information set out in this document relating to iomart Group plc and iomart Limited do not constitute statutory accounts within the meaning of Section 240 of the Act. Deloitte & Touche have made a report under Section 235 of the Act upon the statutory accounts of iomart Limited in respect of the period to which the financial information relates. The report was unqualified and did not contain a statement under Section 237 (2) or (3) of the Act. The statutory accounts for iomart Limited for the period ended 31 December 1999 have been delivered to the Registrar of Companies in Scotland pursuant to Section 242 of the Act.
- (d) Copies of this document will be available to the public free of charge from Peel Hunt, at 62 Threadneedle Street, London EC2R 8HP, during normal office hours, Saturdays and Sundays excepted, from the date of this document until a date 14 days following Admission.

30 March 2000

