IOMART GROUP PLC INTERIM REPORT

6 months ended 30 September 2004

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iomart Group plc
Interim Results Announcement @ 30.9.04

iomart Group plc ("iomart"), the Glasgow based software and web-services business, presents its consolidated interim results for the six month period ended 30 September 2004.

Financial highlights

- total turnover at £6.4m, up 121% on previous year with annualised revenues at c. £18m
- maiden profit for the period of £167k and fully diluted earnings per share of 0.24p (adjusted EPS 0.50p)
- minority interest in iomart Internet Limited acquired at a cost of £2.2m
- net cash inflow from operating activities and cash of £2.1m on hand

Operational highlights

- £12m acquisition of Easyspace Limited completed
- web services business now has 190,000 customers
- three acquisitions including EasySpace trading profitably
- NetIntelligence version 4 launched November as end-point security ASP service

Prospects

- NetIntelligence positioning extended to family and SME market
- webservices business profitability well established
- significant customer base provides platform for cross selling and continuing growth

Nick Kuenssberg, chairman, commented:

The work invested in the three web service acquisitions and the buy-in of the iomart Internet minority are proving fruitful and will provide a solid platform for future development. We anticipate strong organic growth and further acquisition opportunities in the sector.

The NetIntelligence enterprise security and content management products have been reconfigured in Version 4 and are being rolled out in November to provide ASP services suitable for family, SME and corporate customers. A channel based market approach beginning in 2005 should create further opportunities in the coming year.

The £6.25m placing for the Easyspace acquisition demonstrates shareholder confidence in the group's management; we are grateful for this. The group now has traction and, with maiden half-year earnings of 0.24p per share, the establishment of a fourth sales office and annualised sales of c £18m, we look forward to a satisfactory second half-year and a healthy 2005/06.

Chief Executive Officer's review

The first half of the year has been rewarding with the successful acquisition of Easyspace and continuing organic sales growth in our webservices business. We are adding more than 1,700 net new customers per month and now have 190,000 customers including around 140,000 from the Easyspace acquisition.

There are differences in average revenue per annum per customer within the various divisions of the group, but gross margins overall are healthy at around 80%. We are working to increase the revenue per customer and building a growing recurring revenue stream.

NetIntelligence continues to evolve as an effective solution in the network security space where our product functionality is increasingly relevant. Whilst large corporate sales are slow to close, we are gaining sales in the SME market and we have recently launched a home product centred around complete security for the family. This is a web based product ideal for broadband users and we are exploring a number of opportunities with a variety of ISPs and Telcos.

Our mailfilter product is gaining sales in all market sectors and we intend to put more sales resource into that area to capitalise on the current demand. Our contract with BT is progressing satisfactorily.

Financials

Turnover on continuing operations for the period was £6,105k, up from £2,772k, which represents an increase of 120% over the corresponding period. Turnover from Easyspace Limited from the date of acquisition was £323k. Total gross profit margin was 77%. This is lower than previously because of higher search engine costs in the first half. We have reduced these costs and gross margins should recover to 80% plus for the whole year.

Administrative expenses of £4,847k for the six-month period include £50k of restructuring costs in respect of the integration of Internetters Limited and Easyspace Limited and are in line with our budget.

The operating profit for the period was £85k (30 September 2003 – loss £779k) and the profit for the financial period £167k (30 September 2003 – loss £698k). Fully diluted earnings per share were 0.24p (adjusted EPS 0.50p), compared to a loss per share of 1.25p.

Cash balances at 30 September were £2,094k and net debt, after raising £3,500k of bank finance for acquisitions, was £1,570k.

Prospects

We are confident that we can continue to build on our organic growth, that we can integrate and grow our recent acquisition, and that we can make a significant impact with NetIntelligence.

We look forward to building on our success into the second half of the year and beyond.

Angus MacSween
Chief Executive Officer
16 November 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

SIX MONTHS ENDED 30 SEPTEMBER 2004

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	6 months ended		Year ended
	30.9.04 Unaudited £ 000	30.9.03 Unaudited £ 000	31.3.04 Audited £ 000
TURNOVER			
Continuing operations	6,105	2,772	6,592
Acquisitions	323	132	771
Total turnover	6,428	2,904	7,363
Cost of sales	(1,496)	(393)	(1,589)
GROSS PROFIT			
Continuing operations	4,722	2,388	5,194
Acquisitions	210	123	580
Gross profit	4,932	2,511	5,774
Administrative expenses	(4,797)	(3,247)	(6,560)
Restructuring expenses	(50)	(43)	(43)
Total administrative expenses	(4,847)	(3,290)	(6,603)
OPERATING PROFIT/(LOSS)			
Continuing operations	48	(755)	(938)
Acquisitions	37	(24)	109
OPERATING PROFIT/(LOSS)	85	(779)	(829)
Net interest	22	61	109
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	107	(718)	(720)
Research and development tax credit	71	-	123
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE PERIOD	178	(718)	(597)
Equity minority interests	(11)	20	(59)
PROFIT/(LOSS) FOR THE FINANCIAL PERIOD	167	(698)	(656)
Earnings/(loss) per ordinary share (pence) (Note 2)			
Basic	0.26p	(1.25p)	(1.14p)
Fully diluted	0.24p		
Adjusted earnings/(loss) per ordinary share (pence) (Note 2)			
Basic	0.52p	(1.21p)	(1.04p)
Fully diluted	0.50p		

There have been no recognised gains or losses attributable to the shareholders other than the profit for the current financial period and the losses for the preceding financial periods and accordingly, no statement of total recognised gains and losses is shown.

CONSOLIDATED BALANCE SHEET
30 SEPTEMBER 2004

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	30.9.04 Unaudited £ 000	30.9.03 Unaudited £ 000	31.3.04 Audited £ 000
FIXED ASSETS			
Intangible assets	14,588	471	748
Tangible assets	626	466	517
	15,214	937	1,265
CURRENT ASSETS			
Debtors	3,554	1,406	2,145
Cash at bank and in hand	2,094	3,537	3,025
	5,648	4,943	5,170
CREDITORS: amounts falling due within one year	(5,816)	(1,739)	(2,070)
NET CURRENT (LIABILITIES)/ASSETS	(168)	3,204	3,100
TOTAL ASSETS LESS CURRENT LIABILITIES	15,046	4,141	4,365
CREDITORS: amounts falling due after more than one year	(2,674)	(268)	(220)
EQUITY MINORITY INTERESTS	-	-	(129)
	12,372	3,873	4,016
CAPITAL AND RESERVES			
Called up share capital	754	592	598
Capital redemption reserve	1,200	1,200	1,200
Share premium account	27,940	19,812	19,907
Profit and loss account	(17,522)	(17,731)	(17,689)
TOTAL EQUITY SHAREHOLDERS' FUNDS	12,372	3,873	4,016

This report was approved by the board of directors on 16 November 2004.

The comparative figures for the financial year ended 31 March 2004 are an extract of the company's statutory accounts for that financial year. Those accounts have been reported on by the company's auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified and did not contain a statement under section 237 (2) or (3) of the Companies Act 1985.

CONSOLIDATED CASH FLOW STATEMENT

SIX MONTHS ENDED 30 SEPTEMBER 2004

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	Notes	6 months ended 30.9.04 Unaudited £ 000	6 months ended 30.9.03 Unaudited £ 000	Year ended 31.3.04 Audited £ 000
Net cash inflow/(outflow) from operating activities	3	82	(870)	(1,311)
Returns on investments and servicing of finance				
Bank interest received		42	63	112
Bank and other loan interest paid		(19)	-	-
Finance lease and hire purchase interest paid		(11)	(22)	(37)
Net cash inflow from returns on investments and servicing of finance		12	41	75
Taxation		4	-	334
Capital expenditure				
Payments to acquire tangible fixed assets		(291)	(210)	(444)
Proceeds of disposal of fixed assets		1	-	2
Net cash outflow from capital expenditure		(290)	(210)	(442)
Acquisitions and disposals				
Purchase of subsidiary undertakings	4	(14,448)	(308)	(576)
Net cash acquired with subsidiary		2,147	169	173
		(12,301)	(139)	(403)
Cash outflow before financing		(12,493)	(1,178)	(1,747)
Financing				
Issue of ordinary shares		8,189	779	880
Issue of shares to minority interest		-	50	100
Bank loan (net of arrangement fee)		3,466	-	-
Repayment of hire purchase and finance leases		(93)	(156)	(250)
Net cash inflow from financing		11,562	673	730
Decrease in cash in the period		(931)	(505)	(1,017)

Reconciliation of net cash flow to movement in net (debt)/funds

	30.9.04	30.9.03	31.3.04
Decrease in cash in period	(931)	(505)	(1,017)
Cash (inflows)/outflows from debt and lease financing	(3,373)	156	250
Change in net funds from cash flows	(4,304)	(349)	(767)
Opening net funds	2,734	3,501	3,501
Closing net (debt)/funds	(1,570)	3,152	2,734

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1. Accounting policies

The interim financial information does not constitute statutory accounts for the purpose of section 240 of the Companies Act 1985. The figures for the year ended 31 March 2004 have been extracted from the Group accounts for that year. Those financial statements have been delivered to the Registrar of Companies and included an auditors' report, which was unqualified.

The interim financial information has been prepared using the same accounting policies and estimation techniques as set out in the Group accounts for the year ended 31 March 2004.

2. Earnings per share

The calculations of earnings/(loss) per share are based on the following profits/(losses) and numbers of shares:

	6 months ended		Year ended
	30.9.04	**30.9.03**	**31.3.04**
	Unaudited	**Unaudited**	**Audited**
	£ 000	**£ 000**	**£ 000**
Adjusted earnings per share is calculated as follows:			
Profit/(loss) for the financial year	167	(698)	(656)
Amortisation	171	19	59
Adjusted earnings/(loss)	338	(679)	(597)
	Number of shares	**Number of shares**	**Number of shares**
Weighted average number of shares:			
For basic earnings per share	64,711,976	55,823,950	57,649,489
Exercise of share options	3,558,709		
For diluted earnings per share	68,270,685		

FRS 14 requires presentation of diluted EPS when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. For a loss making company with outstanding share options, net loss per share would only be increased by the exercise of out-of-the-money options. Since it seems inappropriate to assume that option holders would act irrationally and there were no other diluting future share issues, diluted EPS has not been presented for the 6 months ended 30 September 2003 or for the year ended 31 March 2004.

3. Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities

	6 months ended		Year ended
	30.9.04	**30.9.03**	**31.3.04**
	Unaudited	**Unaudited**	**Audited**
	£ 000	**£ 000**	**£ 000**
Operating profit/(loss)	85	(779)	(829)
Depreciation	195	137	320
Amortisation of intangible assets	171	19	59
Increase in debtors	(1,168)	(573)	(1,429)
Increase in creditors	799	326	568
Net cash inflow/(outflow) from operating activities	**82**	**(870)**	**(1,311)**

4. Purchase of subsidiaries

	6 months ended 30.9.04 Unaudited £ 000	6 months ended 30.9.03 Unaudited £ 000	Year ended 31.3.04 Audited £ 000
Net assets acquired:			
Tangible fixed assets	14	17	19
Debtors	170	40	128
Cash at bank	2,147	169	173
Creditors	(2,034)	(246)	(384)
Minority interest	140	-	-
	437	(20)	(64)
Goodwill	14,011	477	794
	14,448	457	730
Satisfied by:			
Cash	14,358	308	576
Deferred consideration	90	149	154
	14,448	457	730

On 19 May 2004 the company acquired the minority interest in iomart Internet Limited, making it a 100% subsidiary and on 9 September 2004 the company acquired 100% of the issued share capital of Easyspace Limited.

5. Analysis of change in net funds

	At 31.3.04 £ 000	Cash flow £ 000	At 30.9.04 £ 000
Cash at bank and in hand	3,025	(931)	2,094
Bank loan	-	(3,466)	(3,466)
Finance leases and hire purchase	(291)	93	(198)
Net (debt)/funds	2,734	(4,304)	(1,570)

6. Availability of interim reports

Interim reports will be sent to all shareholders on 2 December 2004. Copies of the interim report will be available for collection from the offices of KBC Peel Hunt Ltd, 111 Old Broad Street, London, EC2N 1PH, for a period of 1 month from the date of despatch.

INDEPENDENT REVIEW REPORT TO IOMART GROUP PLC

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Introduction

We have been instructed by the company to review the financial information for the six months ended 30 September 2004 which comprises the consolidated profit and loss account, the consolidated balance sheet, the consolidated cash flow statement, the reconciliation of net cash flow to movement in net funds and related notes 1 to 6. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company, in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are also responsible for ensuring that the accounting polices and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom auditing standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 September 2004.

Deloitte & Touche LLP
Chartered Accountants
Glasgow

16 November 2004

Notes: A review does not provide assurance on the maintenance and integrity of the Group's website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial information since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

iomart Group plc,
Fleming Pavilion, Todd Campus, West of Scotland Science Park,
Glasgow, G20 0XA

Tel: +44 (0)141 931 7000 • Fax: +44 (0)141 931 7001

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