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IOMART GROUP PLC INTERIM REPORT

6 months ended 30 September 2002

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Interim Results Announcement

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 2002.

Financial highlights

- losses reduced to £1.25m for first half-year (2.3p per share v 5.7p per share)
- ongoing sales growing each month
- operational cash burn reduced to under £100k per month
- web service sales running in excess of £200k per month
- cash balances at £5m

Operational highlights

- version 3 of NetIntelligence product launching 21 November 2002
- blue chip client list piloting NetIntelligence with increasing uptake
- second call centre office selling web services opened in NW England
- historical problems have been resolved allowing focus on two businesses

Nick Kuenssberg, chairman, commented:

"The executive team has now cleared all the issues relating to the German Canbox venture and the two telecoms businesses sold. This has allowed the company to focus on software and web-services. The software product in the enterprise security market is the ground-breaking NetIntelligence portfolio increasingly recognised as adding value to large populations of PC users. The web-services business, spear-headed by two sales offices in Lancaster and Barrow, is currently achieving sales of over £200k per month. Allied to an effective reduction in costs of approximately 30% since early 2002, we now believe that the company will be breaking even on a monthly basis at the EBITDA level by the end of the financial year with prospects of further growth beyond that. While we still have £5m in cash, we remain conservative in terms of cash utilisation in order to be able to achieve maximum leverage in a consolidating market-place."

Enquiries:
Angus MacSween
Chief Executive Officer
0141 931 7000

Chief Executive Officer's review

In my report for the 15 months to 31 March 2002, I set out the way forward for iomart. We would build on our two business divisions, NetIntelligence and web-services, whilst continuing to cut our costs.

I am pleased to report that we have made considerable progress on both these fronts. Our monthly revenues have grown by more than 100% over the six-month period from around £85k in April 2002 to over £200k in October 2002, all achieved by organic growth. At the same time we have reduced our monthly costs by more than 30%.

The latest release of NetIntelligence, due to be launched on 21 November, is the culmination of many months of development work which puts the product in the vanguard of security and content management software worldwide. Our challenge now is to gain market share and visibility in a crowded and somewhat depressed marketplace where we still find IT spending continually delayed and deferred.

I believe that NetIntelligence is a world-class product for which the market globally is very large. Interest in it is growing daily and the sales pipeline continues to improve. Our main competitors are Surfcontrol and Websense, both successful companies producing profits and cash. Early customers include NTL, Scottish Building Society, KBC Peel Hunt plc, The Institute of Chartered Accountants of Scotland and many other well-known names. In addition a number of resellers including Fujitsu, Unisys and Energis are now active.

Our web-services division continues to meet and beat its original targets and is producing around one thousand new customers per month. Not only is this due to begin producing profits shortly on a month by month basis, but the recurring revenue element of the products bodes well for next year's revenues. We will focus more attention in the coming months on service delivery and customer satisfaction to ensure a high level of customer retention in the coming years, as well as initiating new product development to enhance our offerings and increase our revenue per customer.

Financials

We reported in May that our German operation, Canbox Technologies GmbH, was to be closed with effect from 30 June 2002. However in May 2002 the management of Canbox offered to acquire the company and on 31 May 2002 we sold 80% of our shareholding to the management in a deal which ensured that there would be no additional costs or liabilities for the Group. We retained an investment of 20% in the company, which has been treated as a trade investment in these accounts and has been provided for in full. The results of Canbox for the period until the sale of the majority of our shareholding have been included as discontinued activities and have resulted in no net profit or loss to the Group.

Turnover on continuing operations for the period was £0.81 million, which represents an increase of 53% over the previous six months' turnover of £0.53 million, while the gross profit margin was 85% compared with 50%. The increase in the gross profit margin reflects the change in emphasis of the web-services division from providing services to other companies' customers, where a revenue share is payable, to growing our own customer base.

Net operating expenses of £2.08 million for the six-month period include £0.08 million of restructuring costs in respect of further redundancies and show a substantial reduction from the £13.90 million, including £3.02 million of restructuring costs, reported for the fifteen months ended 31 March 2002.

The operating loss for the period was £1.37 million and the loss before tax was £1.25 million. The loss per share was 2.3p.

Cash balances at 30 September were £5.03 million and net funds were £4.24 million.

Prospects

Whilst still some distance from profitability we are closing the gap monthly and with additional relatively modest sales of the high gross margin NetIntelligence products our losses would diminish very quickly.

We clearly have enough cash to see us through to profitability but we intend to manage our cash carefully to allow for expansion when we do begin to generate cash and profits.

Angus MacSween
Chief Executive Officer

12 November 2002

CONSOLIDATED PROFIT AND LOSS ACCOUNT
SIX MONTHS ENDED 30 SEPTEMBER 2002

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	6 months ended 30 September 2002 Unaudited £ 000	6 months ended 30 September 2001 Unaudited £ 000	15 Months ended 31 March 2002 Audited £ 000
TURNOVER			
Continuing operations	805	783	1,719
Discontinued	46	1,890	3,680
Total turnover	851	2,673	5,399
Cost of sales	(137)	(1,897)	(3,339)
GROSS PROFIT			
Continuing operations	688	497	1,027
Discontinued	26	279	1,033
Gross profit	714	776	2,060
Administrative expenses	(2,005)	(4,919)	(11,079)
Restructuring expenses	(76)	(998)	(3,021)
Total administrative expenses	(2,081)	(5,917)	(14,100)
Other operating income	-	93	203
Net operating expenses	(2,081)	(5,824)	(13,897)
OPERATING LOSS			
Continuing operations	(1,367)	(2,133)	(6,976)
Discontinued	-	(2,915)	(4,861)
Group operating loss	(1,367)	(5,048)	(11,837)
Profit on sale of businesses	-	1,829	3,609
LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST	(1,367)	(3,219)	(8,228)
Net interest	99	155	327
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	(1,268)	(3,064)	(7,901)
Tax on loss on ordinary activities	-	-	-
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE PERIOD	(1,268)	(3,064)	(7,901)
Equity minority interests	18	-	5
LOSS FOR THE FINANCIAL PERIOD	(1,250)	(3,064)	(7,896)
Loss per ordinary share (pence)			
Basic	(2.3p)	(5.7p)	(14.7p)

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

CONSOLIDATED BALANCE SHEET
30 SEPTEMBER 2002

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	Notes	30 September 2002 Unaudited £ 000	30 September 2001 Unaudited £ 000	31 March 2002 Audited £ 000
FIXED ASSETS				
Intangible assets		221	974	279
Tangible assets		809	3,017	1,011
		1,030	3,991	1,290
CURRENT ASSETS				
Debtors	**3**	1,124	2,050	927
Cash at bank and in hand		5,032	7,548	6,519
		6,156	9,598	7,446
CREDITORS: amounts falling due within one year	**3**	(2,417)	(3,409)	(2,513)
NET CURRENT ASSETS		3,739	6,189	4,933
TOTAL ASSETS LESS CURRENT LIABILITIES		4,769	10,180	6,223
CREDITORS: amounts falling due after more than one year		(385)	(1,457)	(571)
EQUITY MINORITY INTERESTS		30	-	12
		4,414	8,723	5,664
CAPITAL AND RESERVES				
Called up share capital		538	538	538
Capital redemption reserve		1,200	1,200	1,200
Share premium account		19,087	19,087	19,087
Profit and loss account		(16,411)	(12,102)	(15,161)
TOTAL EQUITY SHAREHOLDERS' FUNDS		4,414	8,723	5,664

This report was approved by the board of directors on 12 November 2002.

The comparative figures for the financial year ended 31 March 2002 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.

The comparative figures for the six months ended 30 September 2001 have not previously been reported and have not been audited or subject to formal review by the company’s auditors.

CONSOLIDATED CASH FLOW STATEMENT
SIX MONTHS ENDED 30 SEPTEMBER 2002

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	Notes	6 months ended 30 September 2002 Unaudited £ 000	6 months ended 30 September 2001 Unaudited £ 000	Year ended 31 March 2002 Audited £ 000
Net cash outflow from operating activities	2	(1,024)	(4,024)	(7,833)
Returns on investments and servicing of finance				
Bank interest received		118	275	587
Bank and other loan interest paid		-	(3)	(3)
Finance lease and hire purchase interest paid		(58)	(117)	(257)
Net cash inflow from returns on investments and servicing of finance		60	155	327
Capital expenditure				
Payments to acquire tangible fixed assets		(43)	(262)	(656)
Proceeds of disposal of fixed assets		-	3	135
Payments to acquire intangible fixed assets		-	-	(56)
Net cash outflow from capital expenditure		(43)	(259)	(577)
Acquisitions and disposals		-	2,053	4,030
Cash outflow before financing		(1,007)	(2,075)	(4,053)
Financing				
Repayment of hire purchase and finance leases		(480)	(567)	(1,454)
Net cash outflow from financing		(480)	(567)	(1,454)
Decrease in cash in the period		(1,487)	(2,642)	(5,507)

Reconciliation of net cash flow to movement in net funds

	6 months ended 30 September 2002 Unaudited £ 000	6 months ended 30 September 2001 Unaudited £ 000	Year ended 31 March 2002 Audited £ 000
Decrease in cash in period	(1,487)	(2,642)	(5,507)
Cash outflows from debt and lease financing	480	567	1,454
Change in net funds from cash flows	(1,007)	(2,075)	(4,053)
New hire purchase and finance leases	-	-	(101)
Opening net funds	5,244	7,878	9,398
Closing net funds	4,237	5,803	5,244

1. Accounting policies

The interim results have been prepared using accounting policies consistent with those set out in the group financial statements for the fifteen month period ended 31 March 2002.

2. Diluted earnings per share

Diluted EPS is not presented in respect of outstanding share options since none of the options are dilutive.

3. Debtors and creditors

Creditors due within 1 year includes an amount of £650,000 due to BT in respect of charges for ADSL services supplied under a contract with iomart Limited, one of the group companies. The ADSL business was sold in January 2002 and the contract with BT is in the process of being assigned to the purchaser of the business. All charges for the ADSL service are chargeable by iomart Limited to the purchaser and a corresponding amount of £650,000 is included in debtors. Both the debtor and the creditor were settled during October 2002.

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

	6 months ended		**Year ended**
	30 September 2002 Unaudited £ 000	**30 September 2001 Unaudited £ 000**	**31 March 2002 Audited £ 000**
Operating loss	(1,367)	(5,048)	(11,837)
Depreciation	245	627	1,549
Amortisation of intangible assets	58	300	499
Write down of tangible fixed assets	-	235	1,452
Write down of intangible fixed assets	-	-	506
Loss on sale of fixed assets	-	-	15
Foreign exchange translation differences	-	(4)	18
(Increase)/decrease in debtors	(197)	128	907
Increase/(decrease) in creditors	237	(262)	(942)
Net cash outflow from operating activities	(1,024)	(4,024)	(7,833)

5. Analysis of change in net funds

	At 31 March 2002 £ 000	Cash flow £ 000	At 30 September 2002 £ 000
Cash at bank and in hand	6,519	(1,487)	5,032
Finance leases and hire purchase	(1,275)	480	(795)
Net funds	5,244	(1,007)	4,237

6. Availability of interim reports

Interim reports will be sent to all shareholders on 29 November 2002. Copies of the interim report will be available for collection from the offices of **KBC Peel Hunt Ltd**, 62 Threadneedle Street, London, EC2R 8HP, 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 2002 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.

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 2002.

Deloitte & Touche
Chartered Accountants
Glasgow

12 November 2002

Notes: A review does not provide assurance on the maintenance and integrity of the 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

www.iomart.com