iomart group plc

Interim Report

6 months ended 30 September 2008

The natural choice for business hosting

"Our ability to offer a 'soup to nuts' solution, from domain to data centre, including complex hosting requirements, gives us a unique place in the hosting marketplace."

Interim Report.
6 months ended 30 September 2008

Highlights

- £12.5 Million profit including gain from sale of Ufindus (Sept 2007 loss of £0.2m)

Financial

- Continuing operations performed well with combined revenue growth of 58% to £5.7m (Sept 2007 £3.6m)
- Net cash at end of period of £13.7m (Sept 2007 net debt of £0.6m)

Operations

- Strong customer base growth, 50% in iomart Hosting and 6,000 new customers in Easyspace.
- New iomart Hosting customers include HCL, Ufindus/BT, LSE and Stanley Gibbons.
- Increased sales of dedicated and virtual servers provides platform for significant future growth.
- Further development of managed hosted products to align with growth of cloud computing.

iomart group plc

£12.5M PROFIT

58% REVENUE GROWTH

£13.7M NET CASH

50% GROWTH IN HOSTING CUSTOMERS

"iomart energised by sale of Ufindus"

"Notts chosen for web firm's third UK base"

"Data centres and hosting set to serve up iomart's future growth"

"Firm keeps kids safe while surfing the internet"

"iomart gets smart"

"data centres power managed hosting growth for iomart"

"iomart wins eBay rival deal"

"iomart helps Emito link Pole-to-Pole"

The Group's hosting businesses have continued to make headlines throughout the year.

"We will focus on the delivery of dedicated and virtual servers, back up, email, security products and disaster recovery as well as bespoke complex hosting."

Angus MacSween, Chief Executive Officer

Introduction

I believe we can look back over this period with great satisfaction having made significant progress towards the achievement of the strategic goal we put in place some 18 months ago of focusing on our core competence of the provision of managed hosting solutions.

The implementation of that strategy began with the acquisition of our own datacentre capacity at the end of March 2007. We achieved a further significant milestone in the delivery of this strategy with the successful disposal of our non-core online directory operation, Ufindus, to BT during the period. The total consideration we received for this operation was £20m which resulted in a gain on disposal of £12.6m. The proceeds from this disposal have greatly strengthened our balance sheet and we find ourselves in the enviable position of being very well protected from any negative effects which may arise from the current economic climate.

We are very pleased with the substantial progress that we delivered within our managed hosting operations. It is our intention to use the proceeds from the disposal of Ufindus to further enhance our position within the managed hosting market as more organisations not only move core business activities onto the web but realise the value to be gained in outsourcing these services to a trusted partner. As a financially sound company with its own infrastructure and network we are well placed to take advantage of the trend towards delivery of service using the web and what is known as 'cloud computing'. As such we will focus on the delivery of dedicated and virtual servers, back up, email, security products and disaster recovery as well as bespoke complex hosting. Whilst we have a small number of colocation customers we will exercise restraint in selling space and power at the lower end of the market and concentrate on using our space for higher margin managed services.

Financial Performance – Continuing Operations

Revenues from our continuing operations grew 58% to £5.7m (Sept 2007 £3.6m). Both our Easyspace operation, which services the SME market, and our datacentre owning iomart Hosting operation contributed significantly to this growth. Easyspace grew revenues by 18% and iomart Hosting, which is still to a large extent a fledgling operation, saw a fourfold increase in revenues.

The EBITDA loss for the period reduced substantially, by 65% to £0.4m (Sept 2007 loss of £1.1m), as a result of improved performance by all operating divisions. iomart Hosting through the generation of substantial additional revenue, Easyspace through accelerated revenue growth from an already substantial base and Netintelligence through cost reduction.

Financial Performance – Discontinued Operations

From the start of the period until its disposal to BT on 9th July Ufindus contributed £0.5m of profit and in addition there was a gain of £12.6m arising from the sale. Consequently, discontinued operations contributed £13.1m to the Group's profitability in the period.

Overall Financial Performance

Overall our recorded profit for the period was £12.5m (Sept 2007 loss of £0.2m) and EPS 12.53p.

At the end of the period the Group had net cash of £13.7m (Sept 2007 net debt of £0.6m) with a further £2.0m to be received in the future, subject to certain conditions, in respect of the deferred consideration on the disposal of Ufindus. Our finances are therefore in a very healthy state which provides us with a strong base from which to take the Group forward.

Operation Review

Managed Hosting

Our managed hosting operation has two main trading brands. iomart Hosting our datacentre owning division servicing the needs of the corporate market and Easyspace, which addresses the SME market.

We have made good progress in iomart Hosting adding in excess of 30 customers in the period with a heavy bias toward managed services which has improved our overall average rack rate. Additionally, there is a strong pipeline of new business despite the economic climate. Whilst we are seeing potential customers carefully examine their budgets and timetables there is still momentum towards delivering secure resilient services over the web and a continuing trend of outsourcing, with a growing recognition that savings can be achieved by outsourcing hardware, applications and skillsets.

We have also taken the opportunity over the period to move our Netintelligence operation into iomart Hosting as we seek to deliver a more comprehensive range of

"we can look back over this period with great satisfaction" managed services within an overall integrated approach.

Easyspace has performed well with 18% year on year revenue growth. We are seeing a shift towards less shared hosting as customers' businesses mature and they require either dedicated or virtual servers and we are investing in these areas to ensure we maintain and grow our market share. The number of customers continues to grow and we have a number of new initiatives to launch to maintain the growth.

Current trading and outlook

With a much stronger balance sheet than we have ever had and with healthy cash balances we are well positioned to take advantage of opportunities as they arise. We still believe we operate in a market space which will continue to grow as more retail and other transactional services continue to migrate on to the web and with customers looking to maximise value by outsourcing. We have good visibility of revenues for the second half and look forward to another period of healthy growth. It is our intention, provided the remainder of the year turns out as expected, to reintroduce a dividend policy at the end of the current financial year.

Angus MacSween, Chief Executive Officer.

"With a much stronger balance sheet than we have ever had and with healthy cash balances we are well positioned to take advantage of opportunities as they arise"

"Our virtualisation skills enable us to build, deploy and manage customer platforms with a much higher level of complexity, increasing the range of managed services that we provide."

Consolidated Interim Income Statement. Six months ended 30 September 2008

	Note	Unaudited 6 months to 30/09/08 £'000	Unaudited & Restated 6 months to 30/09/07 £'000	Restated Year to 31/03/08 £'000
CONTINUING OPERATIONS				
Revenue		5,701	3,610	8,116
Cost of sales		(2,637)	(2,013)	(3,920)
Gross profit		**3,064**	**1,597**	**4,196**
Administrative expenses		(3,921)	(2,962)	(6,463)
Operating loss		**(857)**	**(1,365)**	**(2,267)**
Analysed as:				
Earnings before interest, tax, depreciation and amortisation		**(378)**	**(1,085)**	**(1,590)**
Depreciation		(419)	(275)	(618)
Amortisation of intangible assets		(60)	(5)	(59)
Finance income		207	22	73
Finance costs		(58)	(61)	(122)
Loss before taxation		**(708)**	**(1,404)**	**(2,316)**
Taxation		63	270	528
Loss for the period from continuing operations		**(645)**	**(1,134)**	**(1,788)**
DISCONTINUED OPERATIONS				
Profit for the year from discontinued operations	4	516	969	2,141
Profit on disposal of discontinued operations	4	12,598	-	-
Net result from discontinued operations		**13,114**	**969**	**2,141**
TOTAL OPERATIONS				
Profit/(loss) for the period from total operations		**12,469**	**(165)**	**353**
Basic and diluted earnings per share				
Continuing operations				
Basic earnings per share	2	(0.65)p	(0.99)p	(1.80)p
Fully diluted earnings per share	2	(0.65)p	(0.99)p	(1.80)p
Total operations				
Basic earnings per share	2	12.53 p	(0.17)p	0.35 p
Fully diluted earnings per share	2	12.53 p	(0.17)p	0.35 p

Consolidated Interim Balance Sheet. As at 30 September 2008

		Unaudited 30/09/08 £'000	Unaudited 30/09/07 £'000	Audited 31/03/08 £'000
ASSETS				
Non-current assets				
Intangible assets – goodwill		16,550	18,525	18,525
Intangible assets – development costs		264	407	669
Intangible assets - software		28	37	51
Deferred tax asset		814	440	826
Lease deposit		884	884	884
Deferred consideration receivable on disposal		1,000	-	-
Property, plant and equipment		8,591	8,212	8,310
		28,131	**28,505**	**29,265**
Current assets				
Cash and cash equivalents		14,010	588	743
Deferred consideration receivable on disposal		1,000	-	-
Trade and other receivables	3	2,092	3,367	3,121
		17,102	**3,955**	**3,864**
Total assets		**45,233**	**32,460**	**33,129**
LIABILITIES				
Non-current liabilities				
Deferred consideration due on acquisition		(4,800)	(4,800)	(4,800)
Non-current borrowings		(96)	(158)	(187)
		(4,896)	**(4,958)**	**(4,987)**
Current liabilities				
Trade and other payables		(4,966)	(4,412)	(4,789)
Current borrowings		(223)	(1,051)	(672)
		(5,189)	**(5,463)**	**(5,461)**
Total liabilities		**(10,085)**	**(10,421)**	**(10,448)**
Net assets		**35,148**	**22,039**	**22,681**
EQUITY				
Share capital		1,002	994	994
Capital redemption reserve		1,200	1,200	1,200
Share premium		17,583	17,541	17,541
Retained earnings		15,363	2,304	2,946
Total equity		**35,148**	**22,039**	**22,681**

Consolidated Interim Cash Flow Statement. Six months ended 30 September 2008

	Unaudited 6 months to 30/09/08 £'000	Unaudited & Restated 6 months to 30/09/07 £'000	Audited & Restated year to 31/03/08 £'000
Operating loss	**(857)**	**(1,365)**	**(2,267)**
Depreciation	419	275	618
Amortisation	60	5	59
Share based payments	23	94	92
Movement in deposits	-	(884)	(884)
Movement in trade receivables	(379)	(295)	(34)
Movement in trade payables	496	28	238
Cash flow from operations	**(238)**	**(2,142)**	**(2,178)**
Cash generated from discontinued operation	463	1,131	2,702
Net cash flow from/(used in) operating activities	**225**	**(1,011)**	**524**
Cash flow from investing activities			
Purchase of property, plant and equipment	(894)	(105)	(393)
Capitalisation of development costs	(119)	-	(250)
Purchase of intangible assets - software	(8)	(9)	(23)
Payment for acquisition subsidiary	-	(4,800)	(4,800)
Receipt from disposal of discontinued operation	14,602	-	-
Investing activities of discontinued operation	(99)	(244)	(496)
Net cash from/(used in) investing activities	**13,482**	**(5,158)**	**(5,962)**
Cash flow from financing activities			
Issue of shares	50	-	-
Repayment of finance leases	(93)	(77)	(197)
Repayment of borrowings	(436)	(438)	(876)
Receipt of cash from share placing	-	10,466	10,466
Interest received	117	22	73
Interest paid	(58)	(61)	(124)
Financing activities of discontinued operation	(20)	(3)	(9)
Net cash from/(used in) financing activities	**(440)**	**9,909**	**9,333**
Net increase in cash and cash equivalents	**13,267**	**3,740**	**3,895**
Cash and cash equivalents at the beginning of the period	743	(3,152)	(3,152)
Cash and cash equivalents at the end of the period	**14,010**	**588**	**743**

Consolidated Interim Statement of Changes in Equity. Six months ended 30 September 2008

	Share capital £000's	Capital Redemption Reserve £000's	Share premium account £000's	Retained earnings £000's	Total £000's
Balance at 1 April 2007	**994**	**1,200**	**17,541**	**2,375**	**22,110**
Loss in the period	-	-	-	(165)	**(165)**
Share base payments	-	-	-	94	**94**
Balance at 30 September 2007	**994**	**1,200**	**17,541**	**2,304**	**22,039**
Profit in the period	-	-	-	518	**518**
Share base payments	-	-	-	49	**49**
Deferred tax on share based remuneration	-	-	-	75	**75**
Balance at 31 March 2008	**994**	**1,200**	**17,541**	**2,946**	**22,681**
Profit in the period	-	-	-	12,469	**12,469**
Share base payments	-	-	-	23	**23**
Deferred tax on share based remuneration	-	-	-	(75)	**(75)**
Issue of shares for option redemption	8	-	42	-	**50**
Balance at 30 September 2008	**1,002**	**1,200**	**17,583**	**15,363**	**35,148**

1. Accounting policies

The interim financial information does not constitute statutory financial statements for the purpose of section 240 of the Companies Act 1985. The figures for the year ended 31 March 2008 have been extracted from the Group Financial Statements for that year. Those financial statements have been delivered to the Registrar of Companies and included an independent auditors' report, which was unqualified.

The interim financial information has been prepared using the same accounting policies and estimation techniques as will be adopted in the Group financial statements for the year ending 31 March 2009. The Group financial statements for the year ended 31 March 2008 were prepared under International Financial Reporting Standards. These interim financial statements have been prepared on a consistent basis and format; however IAS 34 ‘Interim Financial Reporting’ has not been applied in full.

The comparative figures for 30 September 2007 and 31 March 2008 in both the Consolidated Income Statement and the Consolidated Cash Flow Statement have been restated to reflect the discontinued operation in accordance with International Financial Reporting Standards (IFRS).

2. Earnings per share

The calculations of earnings per share are based on the following results and numbers:

Continuing operations	6 months to 30/09/08	6 months to 30/09/07	Year to 31/03/08
	£'000	**£'000**	**£'000**
Loss for the financial period and basic earnings attributed to ordinary shareholders	(645)	(1,134)	(1,788)
	No	**No**	**No**
Weighted average number of ordinary shares:	**000**	**000**	**000**
For basic earnings per share	99,486	99,436	99,458
Exercise of share options	-	-	-
For diluted earnings per share	**99,486**	**99,436**	**99,458**
Basic earnings per share	(0.65)p	(1.14)p	(1.80)p
Fully diluted earnings per share	(0.65)p	(1.14)p	(1.80)p

Discontinued operations

	£'000	£'000	£'000
Profit from discontinued operations for the financial period and basic earnings attributed to ordinary shareholders	516	969	2,141
Profit on disposal of discontinued operation	12,598	-	-
Total profit from discontinued operations	**13,114**	**969**	**2,141**
	No	**No**	**No**
Weighted average number of ordinary shares:	**000**	**000**	**000**
For basic earnings per share	99,486	99,436	99,458
Exercise of share options	961	1,630	1,759
For diluted earnings per share	**100,447**	**101,066**	**101,217**
Basic earnings per share	13.18 p	0.97 p	2.15 p
Fully diluted earnings per share	13.18 p	0.97 p	2.15 p

Total operations

	£'000	£'000	£'000
Profit/(loss) for the financial period and basic earnings attributed to ordinary shareholders	12,469	(165)	353
	No	**No**	**No**
Weighted average number of ordinary shares:	**000**	**000**	**000**
For basic earnings per share	99,486	99,436	99,458
Exercise of share options	961	-	1,759
For diluted earnings per share	**100,447**	**99,436**	**101,217**
Basic earnings per share	12.53 p	(0.17)p	0.35 p
Fully diluted earnings per share	12.53 p	(0.17)p	0.35 p

For periods where the Group made a loss, there was no dilutive effect from the potential exercise of options.

3. Trade and other receivables

	6 months to 30/09/08 £'000	6 months to 30/09/07 £'000	Year to 31/03/08 £'000
Trade receivables	582	3,764	3,255
Less provision for impairment	(97)	(1,905)	(1,608)
Trade receivables (net)	485	1,859	1,647
Other receivables	180	234	92
Prepayments and accrued income	1,427	1,274	1,382
Trade and other receivables	**2,092**	**3,367**	**3,121**

4. Discontinued operation

The Group announced on 9 July 2008 the sale of the Ufindus business unit. The Ufindus operations represent an identifiable division of the Group and as such has been disclosed as a discontinued operation for the period ended 30 September 2008. A single amount is shown on the consolidated income statement representing the post-tax result of the discontinued operation for the period until disposal. Additionally the post-tax profit arising from the disposal of the operation has been recognised within the Discontinued Operations section of the consolidated income statement. The table below provides further detail of the amounts shown in the income statement.

Discontinued operation financial performance	6 months to 30/09/08 £'000	6 months to 30/09/07 £'000	Year to 31/03/08 £'000
Revenue	3,321	6,021	11,933
Cost of sales	(521)	(842)	(1,581)
Gross profit	**2,800**	**5,179**	**10,352**
Administrative expenses	(2,284)	(4,210)	(8,209)
Operating profit	**516**	**969**	**2,143**
Finance costs	-	-	(2)
Profit from discontinued operation before taxation	**516**	**969**	**2,141**
Taxation	-	-	-
Profit from discontinued operation after taxation	**516**	**969**	**2,141**

4. Discontinued operation *(continued)*

Disposal of discontinued operation	6 months to 30/09/08 £000's
Total consideration	20,006
Payment received to settle intercompany debt	(2,347)
Net consideration for shares	**17,659**
Less: • Assets associated with discontinued operations	(752)
• Costs associated with disposal	(4,309)
Profit on disposal before taxation	**12,598**
Taxation	-
Profit on disposal after taxation	**12,598**

Of the total consideration, £2 million has been placed into escrow against warranty claims and subject to any warranty claims, £1 million will be released after 6 months and the remainder will be released after 24 months.

5. Availability of interim reports

Interim reports will be sent to all shareholders on 15 December 2008. 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 and in accordance with Rule 20 of the AIM Rules, available from the Company's website at www.iomartgroup.com.

Introduction

We have been engaged by the company to review the financial information in the half-yearly financial report for the six months ended 30 September 2008 which comprises the condensed consolidated interim income statement, condensed consolidated interim balance sheet, condensed consolidated interim statement of changes in equity and the condensed consolidated interim cash flow statement and the related notes 1 to 5 set out on pages 7 to 14. We have read the other information contained in the half yearly financial report which comprises only the interim results announcement and the chief executive’s statement and considered whether it contains any apparent misstatements or material inconsistencies with the information in the financial information.

This report is made solely to the company in accordance with guidance contained in ISRE (UK and Ireland) 2410, "Review of Interim Financial Information performed by the Independent Auditor of the Entity". Our review work has been undertaken so that we might state to the company those matters we are required to state to them in a 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 conclusion we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The AIM rules of the London Stock Exchange require that the accounting policies and presentation applied to the interim figures are consistent with those which will be adopted in the annual accounts having regard to the accounting standards applicable for such accounts.

As disclosed in Note 1, the interim financial statements of the group are prepared in accordance with the accounting policies which will be adopted in the financial statements for the year ending 31 March 2009.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the financial information in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the financial information in the half-yearly financial report for the six months ended 30 September 2008 is not prepared, in all material respects, in accordance with the basis of accounting described in Note 1.

GRANT THORNTON UK LLP
REGISTERED AUDITOR
CHARTERED ACCOUNTANTS
Glasgow

9 December 2008

Notes: The maintenance and integrity of the iomart Group plc website is the responsibility of the directors: the interim review does not involve consideration of these matters and, accordingly, the company's reporting accountants accept no responsibility for any changes that may have occurred to the interim report since it was initially presented on the website.

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

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