



IOMART GROUP PLC INTERIM REPORT

6 months ended 30 September 2006

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iomart Group plc
Interim Results Announcement @ 30.9.06

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 2006.

Highlights:

- Total turnover at £13.9m up by 26.7%
- Netintelligence sales orders growing rapidly and now running at c.£200k per month
- Gross Margin maintained at 82%
- Operating profit at £1.6m up 13.7%
- Pre-tax profit at £1.5m up 11.7%
- Basic earnings per share unchanged at 1.75p (fully diluted up 1.2% at 1.71p)

Nick Kuenssberg, chairman, commented "These results show continuing substantial revenue growth. Sales in the first half at both Ufindus and Easyspace have contributed as planned. The new business model for Netintelligence, sold through an outbound sales process via telephone and web as a 'Software as a Service' (SaaS) product, has now gained real momentum and gives us confidence for the future.

In the coming months, we plan to invest further in promoting the growth of Netintelligence, underpinning Ufindus processes and generating additional Easyspace revenue.

Profit growth in the period has been restricted by an increased bad debt provision arising from weaknesses in business processes in Ufindus which are now being rectified. The EPS effect of an increased bad debt provision is expected to be offset by a reduced tax charge arising from the improving Netintelligence performance.

Since the end of the period, the Group has been cash positive and our expectations are for a good second half of the year with a growing contribution from Netintelligence and improving cash generation.

Chief Executive Officer's review

Netintelligence, which is a pure "Software as a Service" (SaaS) product, delivering end point security and control is now performing well. Following a reorganisation of our sales operation in the Spring and the foundation of our direct telesales team in June sales orders have grown quickly giving us confidence that Netintelligence, which has a relatively fixed cost base, will produce significant future profits. Where we previously had a very lumpy revenue stream in Netintelligence, we are now seeing consistent month on month growth, with a significant deferred revenue line giving good visibility of future earnings.

Monthly orders which continue to grow rapidly are now running at around £200k per month. We have recently concluded deals with BT to provide services to the customers of its wholesale managed broadband service, The Carphone Warehouse and launched a home security version of the product in the US under the brand name Safekeeper.

Alongside Easyspace and UfindUs this will give us three operations contributing to the profitability of the group, all with good prospects and all sharing an overall infrastructure built round our strategy of delivering web based services, also known as 'in the cloud' services or 'SaaS' from secure and resilient data centres. It is our ambition to become leading players in the 'SaaS' market as we believe the next few years will see a continuing massive shift towards hosted services generally.

Easyspace, which provides website hosting and domains remains a key contributor to our profitability, and we intend to invest further in growing this area by enhancing and adding to the services we provide. We now have a better understanding of our customers and their needs and our customer retention is continually improving. We are seeing demand for more complex hosting services and have established additional datacentre capacity to meet these needs.

Ufindus, which has grown quickly over the last two years, continues to gain market share in the web directory sector. We are now generating over 6 million searches and visits to customer websites per month, providing a substantial number of business opportunities to our customers. We believe UfindUs has become one of the UK's most used internet business directories, this being achieved with very modest marketing spend. However, that fast customer growth, alongside changes such as chip and pin and new regulation around credit card collections, has outstripped the business infrastructure leading to issues around debt and collections which in turn has required us to increase our bad debt provision in the period thereby adversely affecting our operating profit margin. We have taken steps to establish more robust systems and processes and are well down the road to establishing the infrastructure we need. In addition we have engineered a substantial shift to direct debit as the main method of payment for new customers.

Financials

Turnover on continuing operations for the period was £13.88m, up from £10.95m, which represents an increase of 27% over the corresponding period last year. Gross profit margins have been maintained at 82%.

Administrative expenses of £9.74m (restated previous year £7.58m) include a provision for bad debts of £0.93m (£0.37m) and a charge of £0.07m (£0.08m) for share based payments following the adoption of FRS 20. Since this charge in respect of share based payments is matched by an equal and opposite adjustment to profit and loss reserves our balance sheet reserves are unaltered as a result of complying with the standard.

The operating profit for the period was £1.64m (restated previous year £1.44m). Due to the improved performance of Netintelligence we are now required to create a deferred tax asset arising out of previously accumulated tax losses, the effect of which has been to reduce the tax charge for the period by £0.2m. Consequently the net profit was £1.36m (£1.34m) and fully diluted earnings per share were 1.71p compared to 1.69p.

Cash balances at 30 September were £0.75m and net debt was £4.54m.

Prospects

We believe that our overall strategic positioning of providing web based services "in the cloud" has left all three of our lines of business ideally positioned to take full advantage of the continuing growth opportunities that undoubtedly exist.

In particular we believe our perseverance with Netintelligence is proving to be fully justified. The opportunities that exist for our current product are many including the enormous potential in the US market into which we have already taken our first exploratory steps.

The EPS effect of an increased bad debt provision is expected to be offset by a reduced tax charge arising from the improving Netintelligence performance.

Since the end of the period, the Group has been cash positive and our expectations are for a good second half of the year with a growing contribution from Netintelligence and improving cash generation.

Angus MacSween
Chief Executive Officer

15 November 2006

| | | 6 months ended | | Year ended |
|--|-------|----------------|-----------|------------|
| | | 30.9.06 | 30.9.05 | 31.3.06 |
| | | Unaudited | Restated | Restated |
| | Notes | £ 000 | Unaudited | Audited |
| | | | £ 000 | £ 000 |
| TURNOVER | | | | |
| Continuing operations | | 13,876 | 10,952 | 24,306 |
| Cost of sales | | (2,499) | (1,928) | (4,361) |
| GROSS PROFIT | | 11,377 | 9,024 | 19,945 |
| Administrative expenses (restated amounts) | 2 | (9,737) | (7,581) | (15,707) |
| OPERATING PROFIT | | 1,640 | 1,443 | 4,238 |
| Net interest | | (138) | (104) | (214) |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | | 1,502 | 1,339 | 4,024 |
| Taxation | | (142) | - | (170) |
| PROFIT FOR THE FINANCIAL PERIOD | | 1,360 | 1,339 | 3,854 |
| Earnings per ordinary share (pence) | 3 | | | |
| Basic | | 1.75p | 1.75p | 5.02p |
| Fully diluted | | 1.71p | 1.69p | 4.82p |

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

| | | 30.9.06 | 30.9.05 | 31.3.06 |
|--|--------------|------------------|------------------|-----------------|
| | Notes | Unaudited | Restated | Restated |
| | | £ 000 | Unaudited | Audited |
| | | | £ 000 | £ 000 |
| FIXED ASSETS | | | | |
| Intangible assets | | 13,061 | 13,879 | 13,470 |
| Tangible assets | | 1,226 | 905 | 918 |
| | | <hr/> | <hr/> | <hr/> |
| | | 14,287 | 14,784 | 14,388 |
| CURRENT ASSETS | | | | |
| Debtors | 4 | 12,689 | 7,564 | 10,614 |
| Deferred tax asset | | 718 | 1,200 | 945 |
| Cash at bank and in hand | | 753 | 1,390 | 1,279 |
| | | <hr/> | <hr/> | <hr/> |
| | | 14,160 | 10,154 | 12,838 |
| CREDITORS: amounts falling due within one year | | | | |
| | | <hr/> | <hr/> | <hr/> |
| | | (8,448) | (6,998) | (7,167) |
| NET CURRENT ASSETS | | | | |
| | | <hr/> | <hr/> | <hr/> |
| | | 5,712 | 3,156 | 5,671 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | | |
| | | <hr/> | <hr/> | <hr/> |
| | | 19,999 | 17,940 | 20,059 |
| CREDITORS: amounts falling due after more than one year | | | | |
| | | <hr/> | <hr/> | <hr/> |
| | | (1,131) | (1,885) | (1,373) |
| | | <hr/> | <hr/> | <hr/> |
| | | 18,868 | 16,055 | 18,686 |
| CAPITAL AND RESERVES | | | | |
| Called up share capital | | 793 | 770 | 773 |
| Capital redemption reserve | | 1,200 | 1,200 | 1,200 |
| Share premium account | | 7,270 | 6,172 | 6,203 |
| Profit and loss account | | 9,605 | 7,913 | 10,510 |
| | | <hr/> | <hr/> | <hr/> |
| TOTAL EQUITY SHAREHOLDERS' FUNDS | | | | |
| | | <hr/> | <hr/> | <hr/> |
| | | 18,868 | 16,055 | 18,686 |

The comparative figures for the financial year ended 31 March 2006 are an extract of the company's statutory accounts for that financial year restated to reflect the adoption of FRS 20. 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.

This report was approved by the board of directors on 15 November 2006.

| | Notes | 6 months ended | | Year ended |
|--|-------|--------------------|--------------------------------|------------------------------|
| | | 30.9.06 | 30.9.05 | 31.3.06 |
| | | Unaudited £ 000 | Restated Unaudited £ 000 | Restated Audited £ 000 |
| Net cash (outflow)/inflow from operating activities | 5 | (154) | 274 | 362 |
| Returns on investments and servicing of finance | | | | |
| Bank interest received | | 3 | 14 | 29 |
| Bank and other loan interest paid | | (134) | (118) | (241) |
| Finance lease and hire purchase interest paid | | (7) | (2) | (2) |
| Net cash outflow from returns on investments and servicing of finance | | (138) | (106) | (214) |
| Taxation | | (150) | 123 | 123 |
| Capital expenditure | | | | |
| Payments to acquire tangible fixed assets | | (301) | (275) | (478) |
| Proceeds of disposal of fixed assets | | 23 | - | - |
| | | (278) | (275) | (478) |
| Acquisitions and disposals | | | | |
| Payment of deferred consideration | | - | (28) | (34) |
| Equity dividends paid | | (1,282) | (958) | (958) |
| Cash outflow before financing | | (2,002) | (970) | (1,199) |
| Financing | | | | |
| Issue of ordinary shares | | 36 | 67 | 101 |
| Repayment of bank loan | | (438) | (438) | (863) |
| Capital element of finance lease rentals | | (44) | (99) | (113) |
| Net cash outflow from financing | | (446) | (470) | (875) |
| Decrease in cash in the period | | (2,448) | (1,440) | (2,074) |
| Reconciliation of net cash flow to movement in net debt | | | | |
| Decrease in cash in period | | (2,448) | (1,440) | (2,074) |
| Cash outflows from debt and lease financing | | 482 | 537 | 976 |
| Change in net funds from cash flows | | (1,966) | (903) | (1,098) |
| Opening net debt | | (2,278) | (1,104) | (1,104) |
| Inception of finance leases | | (296) | - | (76) |
| Closing net debt | | (4,540) | (2,007) | (2,278) |

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 2006 have, except as stated below, 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 2006, except as stated below.

During the period the company adopted FRS 20 'Share Based Payments' which applies to AIM listed companies for accounting periods commencing on or after 1 January 2006.

Under FRS 20, the fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted has been measured using an option pricing model taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options expected to vest. This has resulted in prior year adjustments to the previously reported figures for the six months ended 30 September 2005 and for the year ended 31 March 2006, details of which are given in Note 2. The charge in respect of the share based payments is matched by an equal and opposite adjustment to profit and loss reserves, thereby having no net impact on the Group's closing reserves.

2. Share based payments

The effect of the adoption of FRS 20 has been to increase administrative expenses and thereby reduce profits for each financial period, including prior year adjustments, as follows:

| | 6 months ended | 6 months ended | Year ended |
|---------------------------------|-----------------------|-----------------------|-------------------|
| | 30.9.06 | 30.9.05 | 31.3.06 |
| | Unaudited | Restated | Restated |
| | £ 000 | Unaudited | Audited |
| | | £ 000 | £ 000 |
| Charge for share based payments | 68 | 78 | 160 |

3. Earnings per share

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

| | 6 months ended | 6 months ended | Year ended |
|------------------------------------|-----------------------|-----------------------|-------------------|
| | 30.9.06 | 30.9.05 | 31.3.06 |
| | Unaudited | Restated | Restated |
| | £ 000 | Unaudited | Audited |
| | | £ 000 | £ 000 |
| Profit for the financial period | 1,360 | 1,339 | 3,854 |
| | Number of | Number of | Number of |
| | shares | shares | shares |
| | 000 | 000 | 000 |
| Weighted average number of shares: | | | |
| For basic earnings per share | 77,513 | 76,727 | 76,933 |
| Exercise of share options | 1,768 | 2,654 | 3,155 |
| For diluted earnings per share | 79,281 | 79,381 | 80,088 |

4. Debtors

| | 6 months ended | | Year ended |
|---------------------------------------|----------------|--------------|---------------|
| | 30.9.06 | 30.9.05 | 31.3.06 |
| | Unaudited | Restated | Restated |
| | £ 000 | Unaudited | Audited |
| | | £ 000 | £ 000 |
| Trade debtors | 4,609 | 2,648 | 4,344 |
| Amounts due on deferred payment terms | 6,707 | 4,068 | 5,421 |
| Other debtors | 1,373 | 848 | 849 |
| | <u>12,689</u> | <u>7,564</u> | <u>10,614</u> |

5. Reconciliation of operating profit to net cash inflow from operating activities

| | 6 months ended | | Year ended |
|---|----------------|------------|------------|
| | 30.9.06 | 30.9.05 | 31.3.06 |
| | Unaudited | Restated | Restated |
| | £ 000 | Unaudited | Audited |
| | | £ 000 | £ 000 |
| Operating profit | 1,640 | 1,443 | 4,238 |
| Share based payments | 68 | 78 | 160 |
| Depreciation | 289 | 255 | 521 |
| Amortisation of intangible assets | 409 | 410 | 819 |
| Gain on disposal of fixed assets | (23) | - | - |
| Increase in debtors | (1,990) | (2,432) | (5,396) |
| (Decrease)/increase in creditors | (547) | 520 | 20 |
| | <u>(154)</u> | <u>274</u> | <u>362</u> |
| Net cash (outflow)/inflow from operating activities | | | |

6. Analysis of change in net debt

| | At 31.3.06 | Inception of | Cash flow | At 30.9.06 |
|--------------------------|----------------|----------------|----------------|----------------|
| | £ 000 | finance leases | £ 000 | £ 000 |
| | | £ 000 | | |
| Cash at bank and in hand | 1,279 | - | (526) | 753 |
| Bank overdrafts | (1,320) | - | (1,922) | (3,242) |
| Bank loan | (2,173) | - | 438 | (1,735) |
| Finance leases | (64) | (296) | 44 | (316) |
| | <u>(2,278)</u> | <u>(296)</u> | <u>(1,966)</u> | <u>(4,540)</u> |
| Net debt | | | | |

7. Availability of interim reports

Interim reports will be sent to all shareholders on 1 December 2006. 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.

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 September 2006 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 7. 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. Our responsibilities do not extend to any other information.

This report is made solely to the company in accordance with guidance contained in APB Bulletin 1999/4 "Review of Interim Financial Information". 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 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 policies and presentation applied to the interim figures should be 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 guidance contained in Bulletin 1999/4 "Review of Interim Financial Information" issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of 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 International Standards of Auditing (UK & Ireland) 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 2006.

Grant Thornton UK LLP
Chartered Accountants
Glasgow

15 November 2006

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.

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