

IOMART LIMITED

Report and Financial Statements

31 December 2000

**Deloitte & Touche
Lomond House
9 George Square
Glasgow
G2 1QQ**



REPORT AND FINANCIAL STATEMENTS 2000

CONTENTS	Page
Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	3
Auditors' report	4
Profit and loss account	5
Reconciliation of movement in shareholders' funds	6
Balance sheet	7
Notes to the accounts	8

REPORT AND FINANCIAL STATEMENTS 2000

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Angus MacSween
Bill Dobbie
Sarah Haran
Neil Finlayson
David Harrison

SECRETARY

Stewart Moir

REGISTERED OFFICE

Fleming Pavilion
Todd Campus
West of Scotland Science Park
Glasgow
G20 0XA

BANKERS

Bank of Scotland
235 Sauchiehall Street
Glasgow
G2 3EY

SOLICITORS

McGrigor Donald
Pacific House
70 Wellington Street
Glasgow
G2 6SB

AUDITORS

Deloitte & Touche
Lomond House
9 George Square
Glasgow
G2 1QQ

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2000.

ACTIVITIES

The principal activity of the company is the provision of internet services, including access, domain names, web hosting and e-mail management.

REVIEW OF DEVELOPMENTS

The results for the year are shown in the profit and loss account on page 5. The directors are confident of an improvement in the results in the year ahead.

DIVIDENDS

The directors do not propose a dividend, leaving the loss to be transferred to reserves.

DIRECTORS AND THEIR INTERESTS

The directors who held office during the period and their respective interests in the shares of the company were as follows:

	Ordinary shares of £1 each	
	31 December 2000	31 December 1999
	No	No
Angus MacSween	-	900,000
Bill Dobbie	-	600,000
Sarah Haran	-	-
Neil Finlayson	-	-
David Harrison (appointed 12 June 2000)	-	-

No director had any interest in the shares of the company at 31 December 2000. The interests of the directors in the ultimate parent undertaking, iomart Group plc, are shown in the accounts of that company.

AUDITORS

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed by order of the Board



Stewart Moir
Secretary
10 May 2001

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS' REPORT TO THE MEMBERS OF IOMART LIMITED

We have audited the financial statements on pages 5 to 13 which have been prepared under the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

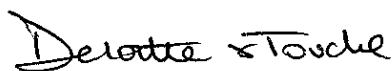
Basis of opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit 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 statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2000 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Chartered Accountants and Registered Auditors

10 May 2001

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2000

	Note	Year to 31 December 2000 £	Restated 18 months to 31 December 1999 £
TURNOVER: continuing operations	2	3,443,407	283,160
Cost of sales		(1,361,838)	(224,551)
Gross profit		<u>2,081,569</u>	<u>58,609</u>
Administrative expenses		(7,003,438)	(2,308,703)
Other operating income		<u>219,321</u>	<u>150,655</u>
		<u>(6,784,117)</u>	<u>(2,158,048)</u>
OPERATING LOSS: continuing operations	4	<u>(4,702,548)</u>	<u>(2,099,439)</u>
Interest received		7,296	21,112
Interest payable and similar charges	5	(480,791)	(85,063)
		<u>(473,495)</u>	<u>(63,951)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>(5,176,043)</u>	<u>(2,163,390)</u>
Tax on loss on ordinary activities	6	-	-
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL PERIOD		<u>(5,176,043)</u>	<u>(2,163,390)</u>
Retained loss brought forward		<u>(2,163,390)</u>	-
Retained loss carried forward		<u>(7,339,433)</u>	<u>(2,163,390)</u>

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

The profit and loss account for the comparative period represents 18 months trading.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**Year ended 31 December 2000**

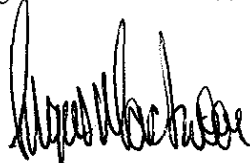
	Year to 31 December 2000 £	18 months to 31 December 1999 £
Opening shareholders' funds	(663,390)	-
Loss for the financial period	(5,176,043)	(2,163,390)
New share capital subscribed	-	1,500,000
Closing shareholders' funds	<u>(5,839,433)</u>	<u>(663,390)</u>

BALANCE SHEET
31 December 2000

	Note	2000 £	1999 £
FIXED ASSETS			
Intangible assets	7	547,037	198,373
Tangible assets	8	3,843,363	1,290,774
		<u>4,390,400</u>	<u>1,489,147</u>
CURRENT ASSETS			
Debtors	9	1,659,293	369,705
Cash at bank and in hand		-	474,856
		<u>1,659,293</u>	<u>844,561</u>
CREDITORS: amounts falling due within one year	10	<u>(3,529,476)</u>	<u>(1,386,810)</u>
NET CURRENT LIABILITIES		<u>(1,870,183)</u>	<u>(542,249)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		2,520,217	946,898
CREDITORS: amounts falling due after more than one year	11	<u>(8,359,650)</u>	<u>(1,610,288)</u>
		<u>(5,839,433)</u>	<u>(663,390)</u>
CAPITAL AND RESERVES			
Called up share capital	12	1,500,000	1,500,000
Profit and loss account		<u>(7,339,433)</u>	<u>(2,163,390)</u>
TOTAL EQUITY SHAREHOLDERS' FUNDS		<u>(5,839,433)</u>	<u>(663,390)</u>

These financial statements were approved by the Board of Directors on 10 May 2001.

Signed on behalf of the Board of Directors



Angus MacSween
Director

NOTES TO THE ACCOUNTS
Year ended 31 December 2000**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 statements are prepared under the historical cost convention.

Restatement

Cost of sales and administrative expenses of the prior period have been restated to align them with the revised reporting structure of the group. The effect of this restatement amounts to a transfer of cost of sales to administrative expenses of £1,311,939 in the period to 31 December 1999.

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 lives of the assets. The rates of depreciation are as follows:

Short-term leasehold improvements	25% per annum
Computer software and equipment	Between 20% 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 instalments 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 accounts and taxation purposes, which are expected to reverse in the future, calculated at rates at which it is estimated 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 element 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 dial up access, ADSL and web services.

NOTES TO THE ACCOUNTS
Year ended 31 December 2000

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	Year to 31 December 2000 £	18 months to 31 December 1999 £
Directors' remuneration		
Aggregate emoluments	330,833	170,868
Pension contributions	1,250	-
	<u>332,083</u>	<u>170,868</u>

During the year the highest paid director received remuneration amounting to £82,500 (1999 - £48,718).

	No	No
Average number of persons employed		
Technical	20	10
Customer services	68	18
Sales and marketing	24	4
Administration	15	4
	<u>127</u>	<u>36</u>
	£	£
Staff costs during the year/period (including directors)		
Wages and salaries	2,282,122	637,321
Social security costs	209,649	58,910
	<u>2,491,771</u>	<u>696,231</u>

4. OPERATING LOSS

	Year to 31 December 2000 £	18 months to 31 December 1999 £
Operating loss is after charging/(crediting):		
Amortisation of intangible assets	162,142	83,931
Depreciation		
Owned assets	115,987	34,504
Leased assets	649,112	293,015
Rentals under operating leases	137,900	58,003
Revenue grants	(120,000)	(99,100)
Amortised deferred grant income	(89,264)	(18,432)
Auditors' remuneration	10,000	15,000

NOTES TO THE ACCOUNTS

Year ended 31 December 2000

5. INTEREST PAYABLE AND SIMILAR CHARGES

	Year to 31 December 2000 £	18 months to 31 December 1999 £
Exceptional charge on early redemption of loan	333,000	-
Bank loans, overdrafts and other loans repayable within five years	28,479	13,480
Finance leases and hire purchase contracts	119,312	71,583
	<u>480,791</u>	<u>85,063</u>

6. TAX ON LOSS ON ORDINARY ACTIVITIES

There is no tax charge in the period due to the availability of losses. Unrelieved losses of £6,875,000 are carried forward and are available to reduce the tax liability in respect of future trading profits.

7. INTANGIBLE ASSETS

	Software licences £
Cost	
At 1 January 2000	282,304
Additions	510,806
At 31 December 2000	<u>793,110</u>
Amortisation	
At 1 January 2000	83,931
Charge for the year	162,142
At 31 December 2000	<u>246,073</u>
Net book value	
At 31 December 2000	<u>547,037</u>
At 31 December 1999	<u>198,373</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2000

8. TANGIBLE FIXED ASSETS

	Short-term leasehold improve- ments £	Computer software and equipment £	Motor vehicles £	Office equipment £	Total £
Cost					
At 1 January 2000	49,602	1,552,913	6,000	9,778	1,618,293
Additions	196,584	2,929,313	-	191,791	3,317,688
At 31 December 2000	246,186	4,482,226	6,000	201,569	4,935,981
Depreciation					
At 1 January 2000	9,614	315,577	625	1,703	327,519
Charge for the year	35,993	696,473	1,500	31,133	765,099
At 31 December 2000	45,607	1,012,050	2,125	32,836	1,092,618
Net book value					
At 31 December 2000	200,579	3,470,176	3,875	168,733	3,843,363
At 31 December 1999	39,988	1,237,336	5,375	8,075	1,290,774

The net book value of the Company's tangible fixed assets include an amount of £3,172,826 (1999 - £1,095,582) in respect of assets held under finance leases and hire purchase contracts.

9. DEBTORS

	2000 £	1999 £
Trade debtors	469,846	127,279
Other debtors	446,121	139,658
Prepayments and accrued income	743,326	102,768
	1,659,293	369,705

Included within other debtors is £40,500 in respect of an amount overpaid to Adabrock Broadcasting Company, a partnership owned by Bill Dobbie and Angus MacSween. This amount was repaid after the year end. This represents the maximum amount outstanding during the year and attracted no interest.

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2000 £	1999 £
Bank overdraft	119,691	-
Trade creditors	1,142,145	712,359
Obligations under finance leases and hire purchase contracts	1,064,884	422,341
Other taxes and social security	108,942	23,380
Accruals and deferred income	1,093,814	228,730
	3,529,476	1,386,810

The bank overdraft is secured by a bond and floating charge over the assets of the company.

NOTES TO THE ACCOUNTS
Year ended 31 December 2000

11. CREDITORS: AMOUNTS FALLING DUE OUTWITH ONE YEAR

	2000 £	1999 £
Bank loan	-	1,000,000
Deferred income	88,767	92,162
Obligations under finance leases and hire purchase contracts	1,514,983	518,126
Amounts owed to group companies	6,755,900	-
	<u>8,359,650</u>	<u>1,610,288</u>

The bank loan was repayable in full on the earlier of either an admission to the Stock Exchange, or in October 2004. The bank loan was repaid in full on 19 April 2000, the date of admission of iomart Group plc to the Alternative Investment Market.

The obligations under finance leases and hire purchase contracts are secured by the related assets, and are all repayable within 5 years.

The amounts owed to group companies have no fixed repayment terms and attract a zero rate of interest.

During the year the bank loan was repaid in full.

12. CALLED UP SHARE CAPITAL

	2000 £	1999 £
Authorised		
10,000,000 ordinary shares of £1 each	<u>10,000,000</u>	<u>10,000,000</u>
Called up, allotted and fully paid		
1,500,000 ordinary shares of £1 each	<u>1,500,000</u>	<u>1,500,000</u>

13. CAPITAL COMMITMENTS

	2000 £	1999 £
Contracted for but not provided	<u>140,050</u>	<u>-</u>

14. OPERATING LEASE COMMITMENTS

	Land and Buildings 2000 £	Other 2000 £	Land and Buildings 1999 £	Other 1999 £
Leases which expire:				
Within one year	30,000	-	7,500	-
Within two to five years	225,000	6,640	-	-
After five years	267,214	-	44,000	-
	<u>522,214</u>	<u>6,640</u>	<u>51,500</u>	<u>-</u>

NOTES TO THE ACCOUNTS**Year ended 31 December 2000****15. RELATED PARTY TRANSACTIONS**

During the year the group purchased services of £255,000 (1999 - £72,000) from Abovenet Limited in respect of bandwidth usage and recharged them £33,000. Angus MacSween and Bill Dobbie were directors and shareholders in Abovenet Limited for part of the period. At the year end there is an amount due to Abovenet Limited of £53,000 (1999 - £51,000) and an amount due from Abovenet Limited of £33,000 (1999 - nil).

During the year the company paid rent of £30,000 (1999 - £17,500) to Adabrock Broadcasting Company, a partnership in which Angus MacSween and Bill Dobbie are partners. There was also an overpayment made to Adabrock Broadcasting Company amounting to £40,500 which remained outstanding at the year end. The amount has been repaid after the year end.

On 27 March 1999 the company 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. Neil Finlayson, a director of the company, is also a director of Highlands and Islands Enterprise. There are no outstanding balances at the year end (1999 - £nil).

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

16. ULTIMATE PARENT UNDERTAKING

The ultimate parent company is iomart Group plc, a company registered in Scotland. At the year end a balance of £6,755,900 (1999 nil) was due to iomart Group plc. Copies of the accounts of iomart Group plc are available from the registered office of the company.