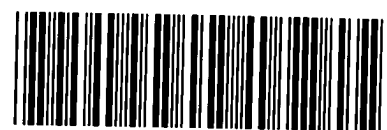


IOMART CLOUD SERVICES LIMITED

Report and Financial Statements

31 March 2017

TUESDAY



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IOMART CLOUD SERVICES LIMITED

REPORT AND FINANCIAL STATEMENTS 2017

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IOMART CLOUD SERVICES LIMITED

REPORT AND FINANCIAL STATEMENTS 2017

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

A MacSween
R Logan

SECRETARY

B Hall

REGISTERED OFFICE

Lister Pavilion
Kelvin Campus
West of Scotland Science Park
Glasgow
G20 0SP

BANKERS

Lloyds Banking Group
Bank of Scotland plc
235 Sauchiehall Street
Glasgow
G2 3EY

INDEPENDENT AUDITORS

Grant Thornton UK LLP
Level 8, 110 Queen Street
Glasgow
G1 3BX

SOLICITORS

Shepherd & Wedderburn LLP
5th Floor, 1 Exchange Crescent
Conference Square
Edinburgh
EH3 8UL

Pinsent Masons LLP
141 Bothwell Street
Glasgow
G2 7EQ

STRATEGIC REPORT

Year ended 31 March 2017

REVIEW OF THE BUSINESS

The company again enjoyed another very successful year with revenues and profits higher than last year achieved by continuing to deliver and expand upon a broad range of cloud solutions. In a similar manner to previous years the company continued to have high levels of recurring revenue with a number of customers on multi-year contracts for the provision of complex managed hosting solutions. Revenue growth has been bolstered by the continued organic growth of this customer base and churn rates across the company having remained stable.

The market for cloud services continues to grow and evolve. There is still a long runway of opportunity as the 'IT as a service' philosophy and delivery unfolds. There is an inevitability around this fundamental change in how IT is delivered but there is also a built in delay mechanism as systems, processes and applications are dealt with on a 'one by one' basis rather than in one full organisation wide swoop, as applications and workloads are individually considered for an upgrade, refresh or rewrite.

Security has again been in the headlines and it serves to show that on premise infrastructure is far more difficult to keep secure and available on a 24x7x365 basis than those in the cloud and in specialist datacentres, with 24x7x365 monitoring and management and with all the required perimeter defences in place.

We believe that the company, as part of the iomart Group, is one of the most compliant organisations with regard to security and certification in the sector. This will drive more opportunity for us, with our long experience of security whether it be infrastructure and network protection, detection and response to threats, access control, log management or compliance with various standards.

We are now less than a year away from the introduction of the new regulations around data security; the EU General Data Protection Regulation (GDPR). Our plans for the introduction of these regulations are well advanced both for our own requirements and also to help our customers understand the implications for their businesses.

Organisations today are confronted by an increasingly complex set of cloud decisions in terms of cost, value, effectiveness, complexity, security, data protection and compliance. Whatever the cloud challenge, iomart can assist all organisations in moving to the cloud whether it be private, public or hybrid approach. The long term recurring revenue opportunity for iomart remains compelling and we are well established as a major player in providing the flexible cloud solutions that businesses require.

The future success of cloud companies will be driven by their ability to address further towards the application layer as well as the underlying infrastructure. There is growing evidence of different market segments with distinct hosting and cloud requirements and characteristics. This is leading to a growing trend in specialisation in various verticals such as e-commerce or financial software and this is one reason why the hosting and cloud markets will be served by a wide variety of vendors and vendor types.

Our challenge is to continue to navigate through these early days of the further evolution of cloud adoption and to ensure we build the skills and resources necessary to be successful in that ever more complex space.

KEY PERFORMANCE INDICATOR REVIEW

	2017	2016
Revenue	£10,319,551	£9,768,225
Growth	6%	4%

Revenue from operations increased by 6% over the year to £10,319,551 (2016: £9,768,225) compared to growth of 4% in the previous year. As discussed above, this increase in revenue was driven by continued organic revenue growth combined with churn rates stabilising.

	2017	2016
Adjusted EBITDA	£6,055,756	£5,699,037
Adjusted EBITDA margin	59%	58%

STRATEGIC REPORT

Year ended 31 March 2017

KEY PERFORMANCE INDICATOR REVIEW (CONTINUED)

Adjusted EBITDA represents earnings before interest, taxation, depreciation and amortisation ("EBITDA") and before share based payments. Over the year, adjusted EBITDA increased by 6% to £6,055,756 (2016: £5,699,037) and adjusted EBITDA margin increased to 59% (2016: 58%). Profitability in the company in the year was bolstered by the fact that we only saw a modest increase in administrative expenses relative to revenue growth. This was partially helped by an exchange gain recorded during the course of the year.

PRINCIPAL RISKS AND UNCERTAINTIES

The board of iomart Group plc, the parent company, has established a formal process to identify risks and uncertainties through the production and maintenance of a risk register. There are a number of potential risks and uncertainties which have been identified as a result of this process which could have a material impact on the company's future performance. These are not all the risks which the company's board has identified but those that the Directors currently consider to be the most material.

Staff

As with any service organisation the company is dependent on the skill, experience and commitment of its employees and especially a relatively small number of senior staff. The performance of the company could be adversely affected if the required staffing levels are not maintained. The company seeks to recruit and retain suitably skilled and experienced staff by offering a challenging and rewarding work environment. This includes competitive and innovative reward packages and a strong commitment to training and development.

Datacentre operation

The company makes use of datacentres provided by other iomart Group companies. Any downtime experienced at these datacentres would immediately have an impact on our ability to provide customers with the level of service they demand. Should the company be unable to provide the required level of service this could have an adverse effect on the company's performance through the loss of customers and reputation. The ongoing investment in preventative maintenance and lifecycle replacement programme by the iomart Group ensures the datacentres continue to deliver operational efficiency and effectiveness.

Network

The service we provide to customers is dependent on the continued operation of the fibre network which connects the iomart Group datacentre estate provided by other iomart Group companies. Should the network fail, there would be an adverse impact on customers. The Group has implemented a resilient network throughout its datacentre estate with no single points of failure to ensure the likelihood of network failure is minimised.

Key suppliers

The company is dependent on certain key suppliers for the continued operation of its business, the most significant of which are those for electricity, bandwidth and servers. Were any of these key suppliers to fail in their service provision to the company this could have an adverse effect on the company's ability to provide services to its customers. In all cases these supplies are obtained from reputable organisations chosen after a thorough selection process. After selection, the company actively seeks to maintain good relationships with the chosen suppliers. The company also seeks to maintain either several sources of supply or, in the case of electricity, alternative sources of power.

Search engine optimisation

A significant amount of the company's revenues are generated through consumers using internet search engines to acquire goods and services. Should the company's search engine optimisation performance deteriorate, this could have an adverse effect on the revenue of the company. The company continually monitors the position of its websites with respect to these search engines. Through the allocation of experienced staff, the company seeks to maintain or enhance the position of its websites for detection by internet search engines.

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



B Hall
Company Secretary

18 December 2017

IOMART CLOUD SERVICES LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 March 2017.

RESULTS AND DIVIDENDS

The results for the year are set out on page 7. The profit before taxation was £4,187,164 (2016: £4,183,174).

The directors do not recommend the payment of a dividend for the year ended 31 March 2017 (2016: £nil).

DIRECTORS AND THEIR INTERESTS

The following directors have held office throughout the year and to the date of this report:

A MacSween

S Haran (resigned 31 March 2017)

R Logan

The interests of the directors in the shares of the parent undertaking, iomart Group plc, are disclosed in that company's financial statements.

FUTURE DEVELOPMENTS

A review of future developments has been given in the Strategic Report on page 2.

RESEARCH AND DEVELOPMENT

The company develops cloud computing products including private cloud platforms, hybrid cloud platforms, virtual platforms, online backup and storage solutions and email related products.

DISABLED EMPLOYEES

The company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

EMPLOYEE INVOLVEMENT

During the year, the policy of providing employees with information about the company has been continued through internal media methods in which employees have also been encouraged to present their suggestions and views on the company's performance. Regular meetings are held between local management and employees to allow a free flow of information and ideas.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report and Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws) including Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

IOMART CLOUD SERVICES LIMITED

DIRECTORS' REPORT (CONTINUED)

STATEMENT OF DIRECTORS' RESPONSIBILITIES (CONTINUED)

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

AUDITORS

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 485(4) Companies Act 2006. 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



B Hall
Company Secretary

18 December 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF IOMART CLOUD SERVICES LIMITED

We have audited the financial statements of iomart Cloud Services Limited for the year ended 31 March 2017 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 101 "Reduced Disclosure Framework".

This report is made solely to the company's member, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's member those matters we are required to state to them in an auditor's 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 and the company's member as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on pages 4 and 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken during the course of the audit:

- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Robert K Hannah
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Glasgow
18 December 2017

IOMART CLOUD SERVICES LIMITED

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2017

	Note	2017 £	2016 £
TURNOVER	3	10,319,551	9,768,225
Cost of sales		(2,010,322)	(1,595,551)
GROSS PROFIT		8,309,229	8,172,674
Administrative expenses		(4,124,501)	(4,001,787)
OPERATING PROFIT	4	4,184,728	4,170,887
Interest receivable and similar income	5	2,436	12,287
Interest payable	6	-	-
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		4,187,164	4,183,174
Tax on profit on ordinary activities	8	(753,617)	(776,136)
PROFIT FOR THE FINANCIAL YEAR		<u>3,433,547</u>	<u>3,407,038</u>
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR		<u>3,433,547</u>	<u>3,407,038</u>

All of the activities of the company are classed as continuing.

The accompanying accounting policies and notes form an integral part of these financial statements.

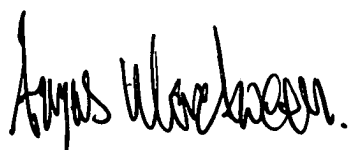
IOMART CLOUD SERVICES LIMITED

STATEMENT OF FINANCIAL POSITION

As at 31 March 2017

	Note	2017 £	2016 £
FIXED ASSETS			
Intangible fixed assets	9	2,428,069	2,011,760
Tangible fixed assets	10	1,738,629	1,871,886
Non-current deferred tax asset	12	237,056	286,369
		<u>4,403,754</u>	<u>4,170,015</u>
CURRENT ASSETS			
Debtors	11	9,131,943	5,442,370
Cash at bank and in hand		148,766	196,743
		<u>9,280,709</u>	<u>5,639,113</u>
CREDITORS: amounts falling due within one year	13	<u>(2,786,939)</u>	<u>(2,571,973)</u>
NET CURRENT ASSETS		<u>6,493,770</u>	<u>3,067,140</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>10,897,524</u>	<u>7,237,155</u>
NET ASSETS		<u>10,897,524</u>	<u>7,237,155</u>
CAPITAL AND RESERVES			
Called up share capital	14	1,500,000	1,500,000
Share based payments reserve	16	464,920	238,098
Revaluation reserve		7,175	7,175
Profit and loss account		8,925,429	5,491,882
SHAREHOLDERS' FUNDS		<u>10,897,524</u>	<u>7,237,155</u>

These financial statements were approved by the Board of Directors and authorised for issue on 18 December 2017 and are signed on their behalf by:



A MacSween
Director

Company number: SC187413

The accompanying accounting policies and notes form an integral part of these financial statements.

IOMART CLOUD SERVICES LIMITED

STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2017

Changes in equity	Share capital £	Share based payments reserve £	Revaluation reserve £	Profit and loss account £	Total £
Balance at 1 April 2015	1,500,000	143,658	7,175	2,084,844	3,735,677
Profit for the financial year	-	-	-	3,407,038	3,407,038
Total comprehensive income	-	-	-	3,407,038	3,407,038
Share based payments (note 16)	-	94,440	-	-	94,440
Total transaction with owner	-	94,440	-	-	94,440
Balance at 31 March 2016	1,500,000	238,098	7,175	5,491,882	7,237,155
Profit for the financial year	-	-	-	3,433,547	3,433,547
Total comprehensive income	-	-	-	3,433,547	3,433,547
Share based payments (note 16)	-	226,822	-	-	226,822
Total transaction with owner	-	226,822	-	-	226,822
Balance at 31 March 2017	1,500,000	464,920	7,175	8,925,429	10,897,524

The accompanying accounting policies and notes form an integral part of these financial statements.

IOMART CLOUD SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2017

1. COMPANY INFORMATION

iomart Cloud Services Limited is a private limited company incorporated and domiciled in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 1 of this report. The nature of the Company's operations and its principal activity is the provision of cloud computing hosting services with a high degree of virtualisation.

2. ACCOUNTING POLICIES

Statement of compliance

These financial statements have been prepared in accordance with applicable accounting standards and in accordance with Financial Reporting Standard 101 – 'The Reduced Disclosure Framework' (FRS 101). The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have all been applied consistently throughout the year unless otherwise stated.

The financial statements have been prepared on a historical cost basis and are presented in Sterling (£).

Disclosure exemptions adopted

In preparing these financial statements the Company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore, these financial statements do not include:

- a statement of cash flows and related notes;
- the requirement of IAS 24 related party disclosures to disclose related party transactions entered into between two or more members of the iomart Group as they are wholly owned within the iomart Group;
- disclosure of key management personnel compensation;
- capital management disclosures;
- disclosures in respect of financial instruments; and
- the effect of future accounting standards not adopted.

Going concern

After reviewing the Company's forecasts and projections, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

Parent company

The Company is a wholly owned subsidiary of iomart Group plc which prepares publicly available consolidated financial statements in accordance with IFRS. This Company is included in the consolidated financial statements of iomart Group plc for the year ended 31 March 2017. These accounts are available from iomart Group plc, Lister Pavilion, Kelvin Campus, West of Scotland Science Park, Glasgow, G20 0SP.

Intangible assets

Product development costs

Expenditure on research (or the research phase of an internal project) is recognised as an expense in the period in which it is incurred. Development costs that are directly attributable to a project's development phase are recognised as intangible assets and are capitalised when incurred, provided they meet the following recognition requirements:

- completion of the intangible asset is technically feasible so that it will be available for use or sale;
- the Company intends to complete the intangible asset and use or sell it;
- the Company has the ability to use or sell the intangible asset;
- the intangible asset will generate probable future economic benefits;
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2017

2. ACCOUNTING POLICIES (CONTINUED)

Intangible assets (continued)

Development costs not meeting the criteria for capitalisation are expensed as incurred. The only development costs not deemed to meet these criteria in the Company are in relation to developments by a specific team which develop new products that are supported by the Company's customer control panel. Development costs capitalised are amortised on a straight-line basis over the estimated useful life of the asset. The estimated useful life is deemed to be three years for all development projects capitalised. Amortisation charges are recognised through profit or loss in the period in which they are incurred.

Software

Software is recognised at cost on purchase and amortised on a straight-line basis over its useful economic life, which does not generally exceed five years.

Impairment of assets

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of related business combinations and represent the lowest level at which management monitors goodwill.

Cash-generating units to which goodwill has been allocated are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the assets' (or cash-generating units) carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect current market assessments of the time value of money and asset-specific risk factors.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit.

All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment loss is reversed if the assets' or cash-generating units' recoverable amount exceeds its carrying amount.

Property, plant and equipment

Property, plant and equipment is initially recognised at acquisition cost, including any costs directly attributable to bringing the assets to the location and condition necessary for them to be capable of operating in the manner intended by the Company's management.

Property, plant and equipment is subsequently measured at cost less accumulated depreciation and impairment losses.

IOMART CLOUD SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2017

2. ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

Depreciation is recognised on a straight-line basis to write down the cost less estimated residual value of property, plant and equipment. The following useful lives are applied:

Freehold property	30 years
Leasehold property	4 years
Computer equipment	3-4 years
Motor vehicles	4 years
Fixtures and fittings	10 years
Office equipment	4 years

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in profit or loss within other income or other expenses.

Financial assets

All financial assets are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets other than those categorised as at fair value through profit or loss are recognised at fair value plus transaction costs on initial recognition. Financial assets categorised as at fair value through profit or loss are recognised initially at fair value, with transaction costs expensed through profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents and most other receivables fall into this category of financial instruments.

Provision against other receivables is made when there is objective evidence that the Company will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows. An assessment for impairment is undertaken at least at each reporting date.

Financial derivatives such as forward foreign exchange contracts are carried at fair value through profit or loss subsequent to initial recognition.

Financial liabilities

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities categorised as at fair value through profit or loss are recorded initially at fair value; all transaction costs are recognised immediately in profit or loss. All other financial liabilities are recorded initially at fair value, net of direct issue costs.

Financial liabilities categorised as at fair value through profit or loss are re-measured at each reporting date at fair value, with changes in fair value being recognised through profit or loss. All other financial liabilities are recorded at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance costs through profit or loss. A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged, cancelled or when it expires. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Cash and cash equivalents

Cash comprises cash on hand and demand deposits which is presented as cash at bank and in hand in the statement of financial position.

Cash equivalents comprise short-term, highly liquid investments with maturities of three months or less from inception that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are presented as part of current asset investments in the statement of financial position.

IOMART CLOUD SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2017

2. ACCOUNTING POLICIES (CONTINUED)

Turnover

Revenue from the sale of software licences is recognised once the licence has been delivered and all significant obligations in relation to the sale have been fulfilled. Revenue from one-off services is recognised on completion.

Revenue from ongoing services, including mail filter and software maintenance, is recognised on a straight line basis over the life of the contract with the unearned portion of the revenue being included in creditors as deferred revenue.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the reporting date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit or loss.

Operating expenses

Operating expenses are recognised in profit or loss upon utilisation of the service or as incurred.

Taxation

Current tax is the tax currently payable based on taxable profit for the year. Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. In addition, tax losses available to be carried forward, as well as other income tax credits to the Company, are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates and laws that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the period end.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the Statement of Comprehensive Income, except where they relate to items that are recognised directly in other comprehensive income or equity in which case the related deferred tax is also recognised in other comprehensive income or equity accordingly.

Pensions

The Company contributes to an auto-enrolment pension scheme and also to a number of personal pension schemes on behalf of some senior employees. The pension costs charged against operating profit are the contributions payable to the schemes in respect of the accounting period.

Share based payments

Where equity settled share options are awarded by the parent company to employees of this Company, the fair value of the options at the date of grant is charged to profit or loss over the vesting period with a corresponding entry in other reserves.

Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest.

Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of comprehensive income over the remaining vesting period.

IOMART CLOUD SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2017

2. ACCOUNTING POLICIES (CONTINUED)

Operating leases

Rentals applicable to operating leases where substantially all of the benefits and risk of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Profit from operations

Profit from operations comprises the results of the Company before interest receivable and similar income, interest payable and similar charges, corporation tax and deferred tax.

Capital and reserves

Capital and reserves comprise the following:

- “Called up share capital” represents the nominal value of equity shares.
- “Profit and loss account” represents all current and prior period retained profits and losses.
- “Shared based payment reserve” represents share-based remuneration plans which are ultimately recognised as an expense through profit or loss.
- “Revaluation reserve” represents gains/losses arising on the revaluation of the Company's property. This reserve is not a distributable reserve.

Key judgements and sources of estimation uncertainty

There is not considered to be any material judgements or estimates in this entity which could potentially have a material impact on the financial statements.

3. TURNOVER

	2017 £	2016 £
Geographical market by destination		
United Kingdom	9,352,200	8,997,352
Rest of the World	967,351	770,873
	<u>10,319,551</u>	<u>9,768,225</u>

All turnover originates from one class of business which is the provision of cloud computing hosting services with a high degree of virtualisation.

4. PROFIT BEFORE TAXATION

	2017 £	2016 £
Profit before taxation is stated after charging/(crediting):		
Depreciation of tangible assets – owned assets	585,830	596,348
Depreciation of tangible assets – leased assets	-	2,223
Amortisation of intangible assets	1,058,376	835,139
Operating lease expenditure	185,000	185,000
Auditors' remuneration for audit services	8,000	8,000
(Gain)/loss on foreign exchange transactions	(47,481)	12,164

IOMART CLOUD SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2017

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2017 £	2016 £
Bank interest	2,436	483
Other interest	-	11,804
	<u>2,436</u>	<u>12,287</u>

6. DIRECTORS AND EMPLOYEES

Number of employees

The average monthly number of employees (including directors) during the year was:

	2017 No.	2016 No.
Administrative staff	1	1
Technical staff	21	18
Sales and marketing staff	10	11
	<u>32</u>	<u>30</u>

Employee costs were:

	£	£
Wages and salaries	1,652,665	1,416,420
Social security costs	176,415	177,683
Staff costs recharged from other Group companies	426,115	214,925
Other pension costs (note 7)	24,647	30,380
Share based payments	226,822	94,440
	<u>2,506,664</u>	<u>1,933,848</u>

The Directors are employed and remunerated by other companies in the iomart Group. They do not receive any remuneration specifically for their services as Directors of the Company (2016 - £nil).

7. PENSION COSTS

	2017 £	2016 £
Contributions paid by the company for the year	<u>24,647</u>	<u>30,380</u>

IOMART CLOUD SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2017

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2017 £	2016 £
Analysis of the tax charge		
Tax on profit on ordinary activities – current year	620,668	652,116
Adjustments in relation to prior years	6,737	587
Total current taxation charge	627,405	652,703
Origination and reversal of temporary differences	47,009	210,973
Adjustments in relation to prior years	-	(119,358)
Effect of changes in tax rates	79,203	31,818
Total deferred taxation charge (note 12)	126,212	123,433
Total taxation charge	753,617	776,136

	2017 £	2016 £
Factors affecting the tax credit for the current year		
Profit on ordinary activities before taxation	4,187,164	4,183,174
Tax at 20% (2016 - 20%) thereon:	837,433	836,635
Effects of:		
Expenses not deductible for tax purposes	49,364	22,888
Movement in unprovided deferred tax relating to development costs	(16,978)	112,082
Movement in deferred tax relating to changes in tax rates	79,203	31,818
Tax effect of change in accounting policy	-	52,424
Adjustments in current tax relating to prior years	6,737	587
Movement in deferred tax relating to prior years	-	(119,358)
Research and development tax credit	(199,623)	(160,940)
Relief for exercise of share options	(2,519)	-
Total taxation charge for the year	753,617	776,136

IOMART CLOUD SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2017

9. INTANGIBLE FIXED ASSETS

	Goodwill £	Computer software £	Development costs £	Total £
Cost				
At 1 April 2016	37,499	2,390,440	3,078,316	5,506,255
Additions	-	706,904	767,781	1,474,685
At 31 March 2017	37,499	3,097,344	3,846,097	6,980,940
Amortisation				
At 1 April 2016	-	1,399,450	2,095,045	3,494,495
Charge for the year	-	443,096	615,280	1,058,376
At 31 March 2017	-	1,842,546	2,710,325	4,552,871
Net book value				
At 31 March 2016	37,499	990,990	983,271	2,011,760
At 31 March 2017	37,499	1,254,798	1,135,772	2,428,069

10. TANGIBLE FIXED ASSETS

	Freehold property £	Leasehold property £	Computer equipment £	Motor vehicles £	Fixtures & fittings £	Office equipment £	Total £
Cost							
At 1 April 2016	495,000	343,312	6,488,598	12,179	530,647	1,110,725	8,980,461
Additions	-	-	443,253	-	-	9,320	452,573
At 31 March 2017	495,000	343,312	6,931,851	12,179	530,647	1,120,045	9,433,034
Accumulated depreciation							
At 1 April 2016	41,250	343,312	5,241,302	11,622	408,014	1,063,075	7,108,575
Charge for the year	16,500	-	511,682	557	29,113	27,978	585,830
At 31 March 2017	57,750	343,312	5,752,984	12,179	437,127	1,091,053	7,694,405
Net book value							
At 31 March 2016	453,750	-	1,247,296	557	122,633	47,650	1,871,886
At 31 March 2017	437,250	-	1,178,867	-	93,520	28,992	1,738,629

The net book value of assets held under finance lease at 31 March 2017 was computer equipment of £nil (2016: £nil). Depreciation charged in the year to 31 March 2017 on computer equipment held under finance was £nil (2016: £2,223).

IOMART CLOUD SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2017

11. DEBTORS

	2017 £	2016 £
Amounts falling due within one year		
Trade debtors	1,325,556	1,872,023
Prepayments and accrued income	895,801	986,788
Other debtors	167,936	161,617
Amounts owed by group undertakings	6,742,650	2,421,942
	<u>9,131,943</u>	<u>5,442,370</u>
Amounts falling due after more than one year		
Deferred taxation (note 12)	237,056	286,369
	<u>9,368,999</u>	<u>5,728,739</u>

12. DEFERRED TAXATION

	2017 £	2016 £
The deferred taxation included in the statement of financial position is as follows:		
Included in debtors: amounts falling due after more than one year (note 11)	237,056	286,369
Included in creditors: amounts falling due within one year (note 13)	(188,981)	(112,082)
	<u>48,075</u>	<u>174,287</u>
The movement in deferred taxation during the year was:		
Balance brought forward	174,287	297,720
Profit and loss account movement arising during the year (note 8)	(126,212)	(123,433)
Balance carried forward	<u>48,075</u>	<u>174,287</u>
The balance of deferred taxation consists of the tax effect of timing differences in respect of:		
Capital allowances	237,056	286,369
Development costs	(188,981)	(112,082)
	<u>48,075</u>	<u>174,287</u>

IOMART CLOUD SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2017

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2017 £	2016 £
Trade creditors	334,644	66,585
Other taxation and social security	469,907	486,130
Accruals	474,682	319,768
Deferred income	698,057	935,293
Corporation tax	620,668	652,115
Deferred taxation (note 12)	188,981	112,082
	<u>2,786,939</u>	<u>2,571,973</u>

14. SHARE CAPITAL

	2017 £	2016 £
Authorised:		
10,000,000 ordinary shares of £1 each	<u>10,000,000</u>	<u>10,000,000</u>
Allotted, called up and fully paid:		
1,500,000 ordinary shares of £1 each	<u>1,500,000</u>	<u>1,500,000</u>

15. FINANCIAL COMMITMENTS

Lease Commitments

At 31 March 2017 the company had commitments under non-cancellable operating leases as follows:

	<u>Land and buildings</u>	
	2017 £	2016 £
Within one year	185,000	185,000
Between two and five years	740,000	740,000
In over five years	416,250	601,250
	<u>1,341,250</u>	<u>1,526,250</u>

Pension commitments

The company contributes to an auto-enrolment pension scheme and also to a defined contribution pension scheme on behalf of some senior staff. The total pension cost which is charged against profits represents contributions payable by the company and amounted to £24,647 (2016 – £30,380).

IOMART CLOUD SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2017

16. SHARE BASED PAYMENTS

The company allows employees to participate in the following share based payment schemes which the company's parent, iomart Group plc, operates: Enterprise Management Incentive scheme, Sharesave scheme, a number of other approved schemes and a number of unapproved schemes. All schemes are settled in equity only and are summarised below.

Scheme Description	Vesting Period	Maximum Term	Performance Criteria	Requirement to remain in employment
Enterprise Management Incentive Scheme	Between 1 and 3 years from grant	10 years after date of grant	As set by the remuneration committee of iomart Group plc	Yes
Unapproved Schemes	3 years from grant	10 years after date of grant	As set by the remuneration committee of iomart Group plc	Yes
Sharesave Scheme	3 years from grant	6 months after vesting date	No criteria set	Yes

The performance criteria as set by the Remuneration Committee are based on the achievement of annual objectives and continuous employment.

During the year, options over 11,188 ordinary shares (2016: nil) were exercised and the average market price at the exercise dates was 304.0p (2016: £nil). Options over 40,468 ordinary shares were granted under the unapproved scheme (2016: nil) with an average exercise price of 1p (2016: £nil). No options over ordinary shares were granted under the sharesave scheme (2016: 15,707 options granted with an average exercise price of 194.8p). Options over 8,832 (2016: 3,611) lapsed under the sharesave scheme with an average exercise price of 191.5p (2016: 191.4p). Options over 80,000 (2016: nil) lapsed under the unapproved scheme with an average exercise price of 173.0p (2016: £nil).

As disclosed in note 6, a share based payment charge of £226,822 (2016: £94,440) has been recognised in the statement of comprehensive income during the year in relation to the above schemes. The fair value of the employee services received is valued indirectly by valuing the options granted using the Black-Scholes option pricing model, which worked on the following assumptions for the options granted in the year:

Grant date	30 Sept 2016
Vesting date	30 Sept 2017
Variables used	
Share price at grant date	278.25p
Volatility	65%
Dividend yield	0.93%
Number of employees holding options/units	2
Option/award life (years)	10
Expected life (years)	3.25
Risk free rate	0.8%
Expectations of meeting performance criteria	100%
Fair value	269.0p
Exercise price per share	1.0p

i) Expected volatility was determined at the date of grant from historic volatility, adjusted for events that were not considered to be reflective of the volatility of the share price going forward; and

ii) Risk free rate was calculated based on the average Bank of England zero coupon yields

IOMART CLOUD SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2017

16. SHARE BASED PAYMENTS (CONTINUED)

The movement in options during the year in respect of the Company's ordinary shares of 1p each under the various share option schemes are as follows:

	2017		2016	
	Weighted average exercise price per share (p)	Number of share options	Weighted average exercise price per share (p)	Number of share options
Outstanding at start of year	111.89	517,479	90.23	385,383
Granted	1.00	40,468	175.52	135,707
Forfeited	174.84	(88,832)	191.40	(3,611)
Expired	-	-	-	-
Exercised	191.40	(11,188)	-	-
Outstanding at end of year	87.94	457,927	111.89	517,479
Exercisable at end of year	83.73	362,121	82.31	357,419

Summary of share options that were outstanding at the year end:

	Range of exercise prices per share (p)	Share options – outstanding			Share options – exercisable		
		Outstanding shares	Weighted average exercise price per share (p)	Weighted average remaining contractual life (years)	Outstanding shares	Weighted average exercise price per share (p)	Weighted average remaining contractual life (years)
Unapproved schemes	1.0 – 173.0	307,887	81.22	4.4	227,419	79.35	2.7
Enterprise management incentive scheme	87.5	130,000	87.50	3.7	130,000	87.50	3.7
Sharesave scheme	191.4 – 194.8	20,040	194.00	1.6	4,702	191.40	0.3
As at 31 March 2017		457,927	87.94	4.1	362,121	83.73	3.1
Unapproved schemes	46.5 – 173.0	347,419	111.70	5.7	227,419	79.35	3.7
Enterprise management incentive scheme	87.5	130,000	87.50	4.7	130,000	87.50	4.7
Sharesave scheme	191.4 – 194.8	40,060	192.73	2.0	-	-	-
As at 31 March 2016		517,479	111.89	5.2	357,419	82.31	4.1

17. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The ultimate parent company and controlling party is iomart Group plc, a company registered in Scotland, which heads the smallest and largest group in which the results of iomart Cloud Services Limited are consolidated.

The consolidated financial statements are available from iomart Group plc, Lister Pavilion, Kelvin Campus, West of Scotland Science Park, Glasgow, G20 0SP.

18. RELATED PARTY TRANSACTIONS

As permitted by FRS 101, related party transactions with iomart Group plc and its other wholly owned subsidiaries have not been disclosed. Related party transactions regarding remuneration and dividends paid to key management (only directors are deemed to fall into this category) of the Company have been disclosed in note 28 of the iomart Group plc financial statements.