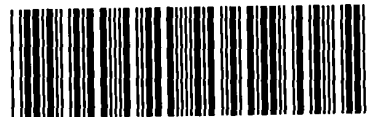


Company Registration No. 07772140

Netnames Group Limited

**Annual Report and Financial Statements
For the year ended 30 June 2016**

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Netnames Group Limited

Annual report and financial statements for the year ended 30 June 2016

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Netnames Group Limited

Strategic report

The Directors, in preparing this strategic report, have complied with s414C of the Companies Act 2006.

Principal activities

The principal activities of NetNames Group Limited and its subsidiaries (the Group) during the year were the provision of domain name management, brand protection and other internet related services to major corporate and SME clients.

Business review

The Directors are satisfied with the performance of the business in the year. The Group's revenues grew by 2.5% in the year despite the strengthening of the Pound against the Euro across the year. Approximately 40% of the Group's revenues were in Euros or other European currencies. Despite this impact, the business continues to attract significant new clients and expand the scope of services provided to existing clients. There was a significant weakening of the Pound against the Euro in June which has continued post year end, which will benefit the Group.

Cash flow generation from operations was strong in the year; in particular working capital management has improved as the impact of the new GTLD programme has matured.

The Group continued to invest in systems and technology. These investments have seen significant improvements in customer experience and operational efficiency. In addition, the group moved its Danish and French offices this year.

On 29 July 2016, the Group was acquired by Corporation Service Company (Europe) Limited. As part of the acquisition, the bank loan was repaid and the shareholder loan notes were cancelled.

In October 2015, the Group completed a refinancing of its lending facilities. The Group continued to work with the same consortium of lenders who had, as part of this refinancing, made substantial funds available to the Group for potential acquisition opportunities up until the point of repayment in July 2016.

The Group will continue to invest in and seek growth in its core activities, and it expects the growth in revenues and profitability to continue.

Key performance Indicators

The Directors measure the performance of the business based on EBITDA and external debt levels and in addition to revenue these metrics are considered to be the Key Performance Indicators of the business. Revenue for the year ended 2016 was £54,314k (2015: £53,000k). EBITDA, which is defined as operating profit before depreciation, amortisation, and foreign exchange, for the year ending 2016 was £6,253k (2015: £7,038k). The gross bank debt (before debt issue costs) as at 30 June 2016 was £39,536k (2015: £35,088k).

Principal risks and uncertainties

The Directors believe that the principal risks faced by the Group arise in the areas of its services, its technology platforms and the regulatory environment within which it operates.

The Group's services are primarily delivered over the internet through a complex technical infrastructure and therefore its availability and security are critical in delivering its services. The Group has processes, plans and safeguards in place to the extent it is reasonable or feasible to ensure the safety and continuity of the services it provides.

The internet and related technologies continue to develop. Given this operating environment there may be changes in the market, technology and operational methodologies. The Group has an ongoing programme of market and competitive review, service development and infrastructure enhancement, to respond to such threats and opportunities.

The Group operates in growing markets with varying degrees of competition in the different sectors it serves. In the corporate market, the Group has operations in Europe where it has a leading position. The Group also has operations in the USA and APAC. While its position in the USA and APAC continues to grow rapidly, this market is home to the Group's major corporate domain name management competitors. The SME and consumer market is large with

Netnames Group Limited

Strategic report (continued)

substantial competition and the Group differentiates its offering by combining cost effective solutions with high levels of service.

The Group's services and infrastructure are supported by skilled staff; from account management and customer service through to technical support. The Group is therefore reliant upon its ability to attract, train and retain the right mix of staff.

The Directors monitor the risks facing the Group on a regular basis.

Research and development

The Group operates within the rapidly developing internet environment. There are few, if any, proprietary systems available to meet its product requirements and as a result the Group has developed, in-house, the systems required to meet its customers' needs. In accordance with IAS 38 "Intangible Assets", development costs of £1,083k (2015: £971k) have been capitalised and carried forward as assets in the Consolidated Statement of Financial Position where they meet the criteria as prescribed in the Standard. Where costs do not meet the criteria to be capitalised they have been charged to the Consolidated Income Statement as they are incurred.

Environment

The Group recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by the Group's activities. Initiatives designed to minimise the company's impact on the environment include improving our energy use efficiency, paper use and recycling.

Financial risk management

Financial assets and financial liabilities are recognised on the balance sheet when the company becomes a party to the contractual provisions of the instrument. The financial instruments comprise primarily of cash, trade payables, trade receivables, borrowings and shareholder loan notes.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and foreign exchange risk.

The Group's principal financial assets are bank balances and cash, trade and other receivables, which represents the maximum exposure to credit risk in relation to financial assets. The principal credit risk is attributable to trade receivables. In order to mitigate this risk, the company operates strict credit control procedures. The credit risk on cash balances is limited because the counterparties are banks with high credit ratings.

The Group's cash deposits are highly liquid. The Directors seek to ensure sufficient liquidity is available to meet foreseeable needs.

Foreign exchange risk arises primarily due to revenue and expenses, together with the corresponding trade debtors and trade creditors being in foreign currencies. This is partly mitigated via natural hedging within the Group.

Further detail on the Group's approach to financial risk management is available in note 16 of these financial statements.

The report was approved by the Board of Directors and signed on behalf of the Board on 15 December 2016.



Director

Thomas Porth

15 December 2016

NetNames Group Limited

Directors' report

The Directors present the Annual Report and Accounts for the year ended 30 June 2016.

Directors

The Directors, who served throughout the year except as noted, were as follows

J Stoltzfus (appointed 29 July 2016)
T Porth (appointed 29 July 2016)
G McIlraith (resigned 29 July 2016)
P Greensmith (resigned 29 July 2016)
S Vaughan (appointed 1 January 2016, resigned 29 July 2016)
C Gurassa (resigned 31 December 2015)
A Land (appointed 30 July 2015, resigned 29 July 2016)
N Jordan (appointed 30 July 2015, resigned 29 July 2016)
N Turner (resigned 30 July 2015)
E Wielechowski (resigned 30 July 2015)

Directors' and officers' liability insurance and indemnities

The Company has purchased insurance to cover its Directors and officers against any costs arising from defending themselves in legal proceedings taken against them as a direct result of duties carried out on behalf of the Company.

Employees

NetNames Group offers a wide range of services to companies and relies on the knowledge and expertise of its staff. The Group endeavours to ensure that it consistently improves the Group's performance by attracting and retaining the right people and by developing the skills of its staff through training and development programmes.

Performance is rewarded on merit without regard to gender, age, race, colour, religion, sexual orientation or marital status. The Company encourages the involvement and participation of staff in building a successful business. Communication plays a key part in creating an environment in which all staff can contribute and develop to their full potential.

The Group gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

Where existing employees become disabled, it is the Group's policy to provide continuing employment wherever practicable in the same or alternative position and to provide appropriate training to achieve this aim.

Going concern

After making appropriate enquiries, the Directors have formed a judgement at the time of approving the accounts for the year ended 30 June 2016 that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the accounts. Further details can be found in note 1 part c of these financial statements.

Auditor

All of the Directors have taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information. The Directors are not aware of any relevant audit information of which the auditor is unaware.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Netnames Group Limited

Directors' report (continued)

Dividend

The Board do not recommend the payment of a dividend (2015: £nil).

By order of the Board

A handwritten signature in black ink, appearing to read 'T Porth', written over a horizontal line.

Thomas Porth
Director

15 December 2016

Netnames Group Limited

Directors' responsibilities statement

The Directors are responsible for preparing the Annual 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 Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including 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 of the Company and of the profit or loss of the Company for that year.

In preparing the parent Company financial statements, the Directors are required to:

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

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors: properly select and apply accounting policies;

- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's and the Group's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions and 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 2006. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

Independent auditor's report to the members of Netnames Group Limited

We have audited the financial statements of NetNames Group Limited for the year ended 30 June 2016 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity and the related notes 1 to 21, along with the Company's Balance Sheet, Statement of Changes in Equity and related notes 1 to 7. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101.

This report is made solely to the Company's members, 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 members 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 members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, 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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 June 2016 and of the Group's loss and the Parent Company's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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 by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company 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.



Richard Howe FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP,
Chartered Accountants and Statutory Auditor
London, United Kingdom
Date: 15 December 2016

Netnames Group Limited

Consolidated income statement for the year ended 30 June 2016

	Notes	Year ended 2016 £'000	Year ended 2015 £'000
Continuing operations			
Revenue	3	54,314	53,000
Cost of sales		(16,999)	(15,964)
Gross profit		37,315	37,036
Operating expenses		(44,433)	(40,278)
Operating loss	4	(7,118)	(3,242)
Goodwill impairment	9	-	(49,346)
Finance income	6	32	5
Finance expense	7	(22,856)	(20,607)
Loss before taxation		(29,942)	(73,190)
Taxation	8	2,000	1,609
Loss for the year attributable to equity holders		(27,942)	(71,581)

Consolidated statement of comprehensive income Year ended 30 June 2016

	2016 £'000	2015 £'000
Loss for the year	(27,942)	(71,581)
Other comprehensive income		
Exchange translation differences on translation of foreign operations	1,115	(27)
Total comprehensive loss for the year attributable to equity holders	(26,827)	(71,608)

The notes on pages 11 to 29 form part of these Consolidated Financial Statements

Netnames Group Limited

Consolidated statement of financial position As at 30 June 2016

	Notes	2016 £'000	2015 £'000
Assets			
Non-current assets			
Goodwill	9	39,070	38,775
Other intangible assets	9	31,484	38,126
Property, plant and equipment	10	2,093	2,145
		<u>72,647</u>	<u>79,046</u>
Current assets			
Trade and other receivables	12	9,930	11,422
Derivative financial instrument	17	10	-
Cash and cash equivalents		5,547	3,636
		<u>15,487</u>	<u>15,058</u>
Total assets		<u>88,134</u>	<u>94,104</u>
Liabilities			
Current liabilities			
Borrowings	15	(744)	(3,628)
Derivative financial instrument	17	-	(21)
Trade and other payables	14	(11,667)	(14,931)
Current tax liabilities		(231)	(132)
		<u>(12,642)</u>	<u>(18,712)</u>
Non-current liabilities			
Borrowings	15	(36,623)	(29,999)
Shareholder loan notes	15	(185,335)	(165,410)
Deferred tax liabilities	13	(4,863)	(7,086)
		<u>(226,821)</u>	<u>(202,495)</u>
Total liabilities		<u>(239,463)</u>	<u>(221,207)</u>
Net Liabilities		<u>(151,329)</u>	<u>(127,103)</u>
Capital and reserves			
Share capital	18	11	11
Share premium account		1,102	1,116
Translation reserve		599	(516)
Retained earnings		(153,041)	(127,714)
Total reserves		<u>(151,329)</u>	<u>(127,103)</u>

The financial statements of Netnames Group Limited registered number 07772140 were approved by the Board of Directors and authorised for issue on 15 December 2016.

Signed on behalf of the Board of Directors



T Porth
Director

The notes on pages 11 to 29 form part of these Consolidated Financial Statements

Netnames Group Limited

Consolidated statement of changes in equity for the year ended 30 June 2016

	Share capital £'000	Share premium £'000	Cumulative translation reserve £'000	Retained loss £'000	Total £'000
Year ended 30 June 2016					
Balance at 1 July 2015	11	1,116	(516)	(127,714)	(127,103)
Comprehensive gain/(loss) for the year	-	-	1,146	(27,942)	(26,827)
Transfer of A shares	-	(25)	-	-	(25)
Issue of D and E shares	-	11	-	-	11
Share-based payments	-	-	-	2,615	2,615
Balance at 30 June 2016	11	1,102	630	(153,041)	(151,298)
Year ended 30 June 2015					
Balance at 1 July 2014	11	1,116	(489)	(56,133)	(55,495)
Comprehensive loss for the year	-	-	(27)	(71,581)	(71,608)
Balance at 30 June 2015	11	1,116	(516)	(127,714)	(127,103)

Netnames Group Limited

Consolidated statement of cash flows for the year ended 30 June 2016

	Notes	2016 £'000	2015 £'000
Cash flow from operating activities			
Loss before taxation		(29,942)	(73,191)
Net finance expense		22,824	20,601
Depreciation	10	1,119	1,313
Amortisation	9	8,095	8,348
Goodwill impairment	9	-	49,346
Exchange differences	4	4,159	620
Share-based payments	16	2,615	-
Decrease in trade and other receivables	12	1,492	2,822
Decrease in trade and other payables	14	(3,264)	(2,722)
Cash generated from operations		7,098	7,137
Taxation paid		(82)	(333)
Net cash from operating activities		7,016	6,804
Investing activities			
Interest received	6	32	5
Purchase of property, plant and equipment	10	(1,067)	(1,913)
Development costs incurred	9	(1,083)	(971)
Net cash used in investing activities		(2,118)	(2,879)
Financing activities			
Interest paid on bank loan		(2,059)	(2,153)
Long term loan receipt		1,200	582
Long term loan repayment	17	(1,112)	(3,137)
Issue of shareholder loan notes	15	98	-
Repayment of shareholder loan notes	15	(226)	-
Interest paid on shareholder loan notes	15	(102)	-
Proceeds on issue of shares		2	-
Refinancing costs		(945)	-
Net cash used in financing activities		(3,144)	(4,708)
Net increase / (decrease) in cash and cash equivalents		1,754	(783)
Cash and cash equivalents at start of year		3,636	4,621
Effects of exchange rate changes		157	(202)
Cash and cash equivalents at end of year		5,547	3,636

The notes on pages 11 to 29 form part of these Consolidated Financial Statements.

NetNames Group Limited

Notes to the consolidated financial statements

1. Accounting policies

The accounting policies set out below, unless otherwise stated, have been applied consistently to all periods presented in these Financial Statements.

General Information

NetNames Group Limited ("the Company") and its subsidiaries (together "the Group") is a leading provider of domain names and internet-related services. Operating in ten countries, it has 364 employees.

a) Basis of preparation

The Consolidated Financial Statements have been prepared in accordance with EU endorsed International Financial Reporting Standards (IFRS) and the IFRIC interpretations issued by the IASB and the Companies Act 2006 applicable to companies reporting under IFRS. The Consolidated Financial Statements are prepared under the historical cost subject to adjustments to fair values on the date of acquisition for acquired entities.

The principal accounting policies of the Group are set out below:

b) Basis of consolidation

The Consolidated Financial Statements of the Group comprise the financial statements of the Company and entities controlled by the Company (its subsidiaries) at the balance sheet date. Control is achieved where the Company has the power to govern the financial and operating policies of a subsidiary so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of in the year are included or excluded in the Consolidated Income Statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

c) Going concern

A review of business performance, together with a description of the Group's principal risks and uncertainties is set out in the Strategic Report and the Directors' Report. A description of the Group's borrowing facilities and its hedging strategy for interest is included in notes 15 and 17. As described in note 15, the Group's borrowings include senior bank facilities and loan notes from the Group's shareholders. Under the bank facilities, the Group is required to comply with various financial covenants which are tested quarterly. Post year end, all external debt was extinguished as described in note 21.

The Directors have prepared a budget for the year to 30 June 2017 and forecasts for the four subsequent years to 30 June 2021 for the purpose of their going concern review. The Directors have also considered certain revenue and cash flow sensitivities to the forecasts which take into account the continued economic uncertainties and the possible related impact on the Group's revenues.

After making enquiries, including consideration of the Group's principal risks and uncertainties and reviewing the forecasts and sensitivities, the Directors have concluded that they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

d) Business combinations

The Group uses the acquisition method of accounting to account for business combinations in accordance with IFRS 3 (revised) "Business combinations". The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values on the acquisition date.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

NetNames Group Limited

Notes to the consolidated financial statements

1. Accounting policies (continued)

General Information (continued)

e) Revenue recognition

Revenue is derived from the Group's principal activities which are the provision of domain names, web hosting, brand protection and other internet-related services and, in general, is measured as the fair value of the consideration received or receivable; and represents amounts receivable for services provided in the normal course of business, net of discounts, VAT and other sales-related taxes. Where services are billed in advance revenue is deferred until the services have been provided. The Group reports its revenue by service, which are described below together with the relevant revenue recognition policies applied.

- Corporate domain names - services include: annual or rolling contracts for management of domain name portfolios where services are billed in advance and revenue recognised evenly over the billing year, the basis on which services are supplied; registration of domain names where services are billed on a transactional basis and revenue recognised when the registration process is complete where the customer becomes the legal owner of the domain name registered; other short-term domain name related advisory and administrative services where these are billed either at commencement or on completion and revenue is recognised when these services are performed; domain name ancillary products and services where these are billed in advance and revenue recognised evenly over the billing year, the basis on which services are supplied; and domain name acquisitions, the sales and purchases of pre-registered domain names, where transactions are billed either in advance or in arrears, with revenue, representing the net margin, as these transactions are undertaken on a brokerage basis, being recognised when the transfer of the legal owner of the domain name being transacted has completed.
- Partner and reseller - services which enable ISPs and other intermediaries to offer their customers domain name registration services on a white-label basis using our systems. Revenue is recognised when the registration process is complete where the end customer becomes the legal owner of a domain name with billing taking place at process completion on a transactional basis.
- Online - services include domain name registration services, shared hosting, email, and other internet-related services. Domain names are billed on a transactional basis and revenue is recognised when the registration process is complete with the customer becoming the legal owner of the domain name registered. The other services are typically billed annually in advance and revenue is recognised evenly over the billing year as these services are provided in the same manner.
- Brand protection - services include monitoring the Internet for and providing advice on brand abuse, fraud, piracy and counterfeiting. Monitoring services are billed in advance, ranging from monthly to annual basis, and revenue is recognised in line with performance of these services. Advisory and consulting services are billed either at commencement or on completion and revenue is recognised on delivery of these services.

f) Goodwill

Goodwill represents the excess of the fair value of consideration over the fair value of the identifiable net assets at the date of their acquisition. Goodwill is recognised as an asset and reviewed annually for impairment. Any impairment is recognised immediately in the income statement and is not subsequently reversed. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit and loss on disposal. Goodwill is denominated in the functional currency in which the acquired entity operates.

g) Impairment of assets

Goodwill is allocated to the cash generating unit for the purposes of impairment testing. Goodwill is not amortised but reviewed annually for impairment. The recoverable amount of the cash generating unit to which the goodwill relates is tested annually for impairment or when events or changes in circumstances indicate that it might be impaired. The carrying values of property, plant and equipment and intangible assets other than goodwill are reviewed for impairment only when events indicate that the carrying value may be impaired.

In an impairment test, the recoverable amount of the cash generating unit or asset is estimated to determine the extent of any impairment loss. The recoverable amount is the higher of fair value less costs to sell, and the value-in-use to the Group. An impairment loss is recognised to the extent that the carrying value exceeds the recoverable amount.

In determining the cash generating unit's or asset's value-in-use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the cash generating unit or asset, that have not already been included in the estimate of future cash flows.

NetNames Group Limited

Notes to the consolidated financial statements

1. Accounting policies (continued)

General information (continued)

h) Other intangible assets

Intangible assets purchased separately, such as domain names, are capitalised at cost and amortised over their useful economic life. Intangible assets acquired through a business combination such as customer lists and intellectual property are initially measured at fair value and amortised over their useful economic life.

Intangible assets internally generated represent salaries, wages and other employment costs of personnel directly engaged in generating the asset, as per IAS 38 "Intangible Assets".

Amortisation of intangible assets is charged to the income statement on a straight-line basis over the estimated useful lives of each intangible asset. Intangible assets are amortised from the date they are available for use.

The estimated useful lives are as follows:

- domain names - 20 years
- technology-based assets - 5 to 8 years
- customer lists - 8 to 13 years
- development costs - 1 to 5 years

i) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. The cost of an item of property, plant and equipment comprises its purchase price and any costs directly attributable to bringing the asset into use.

Depreciation is calculated to write down the cost of all property, plant and equipment to their estimated residual value over their expected useful economic life as follows:

- computer equipment - 2 to 4 years
- fixtures, fittings and equipment - 3 years
- leasehold improvements - over the period of the lease

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

j) Research and development

An internally generated intangible asset arising from the Group's development is recognised only if all the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Internally generated intangible assets are amortised on a straight-line basis over their useful lives. The amortisation charge is included within operating expenses in the consolidated income statement.

Where no internally generated asset can be recognised, development expenditure is included as an expense in the year in which it is incurred.

NetNames Group Limited

Notes to the consolidated financial statements

1. Accounting policies (continued)

General information (continued)

k) Taxation

The tax expense represents the aggregate of the tax currently payable and movement in deferred tax. The tax currently payable is based on taxable profit for the year. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax assets are generally recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also charged or credited directly to equity.

However, deferred tax is not provided for temporary differences that arise: from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profits or loss; and on the initial recognition of goodwill.

l) Financial instruments

Financial assets and liabilities are recognised on the Group's consolidated statement of financial position when the Group becomes a party to the contractual terms of the financial instrument.

Financial assets – loans and receivables

- *Cash and cash equivalents*

Cash and cash equivalents include cash at bank and in hand and short-term deposits with a maturity of less than three months.

- *Trade and other receivables*

Trade receivables do not carry any interest and are stated at their fair value on initial recognition, and then subsequently at amortised cost as reduced by appropriate allowances for estimated irrecoverable amounts. Impairment provisions are recognised when there is objective evidence that the Group will be unable to collect all of the amounts due under the terms receivable.

Financial liabilities – held at amortised cost

- *Trade payables*

Trade payables are not interest bearing and are stated at their fair value on initial recognition, and then subsequently at amortised cost.

- *Loans and borrowings*

Bank borrowings represent interest bearing loans which are recorded at fair value on initial recognition, being proceeds received net of direct issue costs. Finance charges are accounted for on an accruals basis and are recognised in the income statement over the term of the borrowing using the effective interest rate method.

- *Capital*

Financial instruments issued by the Group are treated as equity if the holders have only a residual interest in the assets of the Group after the deduction of all liabilities. The Group's ordinary shares are classified as equity instruments. For the purposes of the disclosures given in note 18 the Group considers its capital to comprise its ordinary share capital, share premium and accumulated retained earnings.

- *Derivatives*

Derivatives are measured at fair value through the income statement. Any assets/liabilities are recognised in the statement of financial position. Further details relating to derivatives can be seen in note 17 ii.

NetNames Group Limited

Notes to the consolidated financial statements

1. Accounting policies (continued)

General information (continued)

m) Foreign currencies

Transactions in foreign currencies are translated into the functional currency, Sterling, at the rate ruling on the date of the transaction. Exchange differences arising from the movement in rates between the date of transaction and the date of settlement are taken to the income statement as they arise.

Assets and liabilities (including goodwill and intangible assets) of overseas subsidiaries are translated into Sterling at the rate ruling on the balance sheet date. The results of these subsidiaries are translated at an average rate of exchange for the year.

Exchange gains or losses arising on the translation of the opening net assets of an overseas subsidiary, together with exchange differences arising on the use of the average rate of exchange, are taken directly to shareholders' equity and recognised in the cumulative translation reserve. On disposal of a foreign subsidiary, the cumulative translation differences are recycled to the income statement and recognised as part of the gain or loss on disposal.

The main foreign currency exchange rates used in the financial statements to consolidate the overseas subsidiaries are as follows:

	Closing rate 2016	Average rate 2016	Closing rate 2015	Average rate 2015
US Dollar	1.34	1.48	1.57	1.58
Euro	1.21	1.34	1.42	1.32
Danish Krone	8.99	9.99	10.57	9.83

n) Leases

Assets held under finance leases and hire purchase contracts are capitalised at their fair value on the inception of the leases and depreciated over the shorter of the period of the lease and the estimated useful economic life of the assets. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding and are charged to the income statement. Operating lease rentals are charged to the income statement in equal amounts over the lease term.

o) Retirement benefit costs

The Company makes contributions to a defined contribution plan for Directors and employees. The amount charged to the income statement in respect of pension costs is the contributions payable in the year.

p) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

q) Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 16.

NetNames Group Limited

Notes to the consolidated financial statements

1. Accounting policies (continued)

General information (continued)

r) Adoption of new and revised IFRSs

New IFRS accounting standards and interpretations adopted in the year

The following standards, amendments and interpretations are new and effective for the year ended 30 June 2016 and have been adopted. None of the pronouncements had a material impact on the Group's consolidated results, assets or liabilities:

- IAS 19 Employee Benefits (amendments) effective 1 February 2015
- Annual Improvements cycle to IFRSs 2011-2013 effective 1 January 2015
- Annual Improvements cycle to IFRSs 2010-2012 effective 1 February 2015

New IFRS accounting standards and interpretations not yet adopted

During the year the IASB has issued the following standards and amendments, which are effective for reporting years beginning after the date of these financial statements:

- Annual Improvements cycle to IFRSs 2012-2014 effective 1 January 2016
- IFRS 11 (Amendment) Joint Arrangements effective 1 January 2016
- Amendments to IAS 16 Property Plant and Equipment and IAS 38 Intangible Assets effective 1 January 2016
- Amendments to IAS 16 Property Plant and Equipment and IAS 41 Agriculture effective 1 January 2016
- IAS 27 (Amendment) Separate Financial Statements effective 1 January 2016
- IAS 1 (Amendment) Presentation of Financial Statements effective 1 January 2016
- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests In Other Entities and IAS 28 Investments in Associates and Joint Ventures effective 1 January 2016
- IFRS 9 Financial instruments (not yet endorsed for use in the EU)
- IFRS 15 Revenue From Contracts With Customers (not yet endorsed for use in the EU)
- IFRS 16 Leases effective 1 January 2019

The impact of IFRS 15 and IFRS 16 are still being evaluated. No other changes are expected to have a material effect on the Group's financial statements.

2. Critical accounting estimates and judgements

In preparing the Consolidated Financial Statements, the Directors have to make judgements on how to apply the Group's accounting policies and make estimates about the future. The critical judgements that have been made in arriving at the amounts recognised in the Consolidated Financial Statements and the key sources of estimation uncertainty that have significant risks of causing a material adjustment to the carrying value of assets and liabilities in the next financial year are discussed below:

Acquisitions

When acquiring a business, the Directors have to make judgements and best estimates about the fair value allocation of the purchase price and where material seek appropriate competent and professional advice before making any such allocations.

Deferred tax on business combinations

The recognition of a deferred tax asset in respect of trading losses is based on the assessment of future profits around which there is always a degree of uncertainty.

Impairment reviews

The Group performs an annual impairment review on goodwill in accordance with the accounting policy stated above. The recoverable amounts of the cash generating unit have been determined based on value-in-use calculations. These calculations require the use of estimates (note 9). The use of this method requires the estimation of future cash flows and the determination of a discount rate in order to calculate the present value of the cash flows.

NetNames Group Limited

Notes to the consolidated financial statements

2. Critical accounting estimates and judgements (continued)

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes (note 8). There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

Useful lives of intangible assets and property, plant and equipment

Intangible assets are amortised and property, plant and equipment are depreciated over their useful lives. Useful lives are based on the Directors' estimates of the year that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the income statement in specific periods.

NIC accrual

The cost of sales in respect of NIC fee purchases is accrued by reference to the gross margin for each top level domain.

3. Revenue analysis

The Group reports operating performance of the business by revenue from each of its following services: domain name services - management of corporate domain name portfolios; reseller services - white-labelled domain name registration services for ISPs and other intermediaries; online services - domain names, shared hosting, email, and other internet-related services; and brand protection services - monitoring the Internet for brand abuse, fraud, piracy and counterfeiting.

	2016 £'000	2015 £'000
Revenue by service		
Corporate domain names	31,565	33,228
Reseller	13,194	11,105
Online	3,750	4,028
Brand protection	5,805	4,639
Total revenue	54,314	53,000

Other geographical information

The Group operates in four main geographic areas: UK, other European countries, USA and APAC

	Revenue 2016 £'000	Revenue 2015 £'000
UK	18,958	18,038
Other European countries	28,257	27,417
USA	5,545	5,665
APAC	1,554	1,880
Total operations	54,314	53,000
Finance income (note 6)	32	5
Total revenue per IAS 18	54,346	53,005

NetNames Group Limited

Notes to the consolidated financial statements

4. Operating loss

Operating loss is stated after charging:

	2016 £'000	2015 £'000
Depreciation of owned assets	1,119	1,313
Other intangibles amortisation		
– acquired	7,483	7,583
– internally generated	612	765
Operating lease rentals		
– land and buildings	1,155	1,081
– other	44	37
Auditor's remuneration		
– Group audit fee	161	152
– Company audit fee	10	10
– taxation services	149	155
Foreign exchange losses	4,159	620

5. Information regarding employees

Staff costs (including Directors' emoluments) incurred in the year were as follows:

	2016 £'000	2015 £'000
Wages and salaries	17,457	17,414
Social security costs	1,758	1,762
Share-based payments	2,615	-
Pension costs	519	531
	<u>22,349</u>	<u>19,707</u>

Average number of employees during the year:

	2016 Number	2015 Number
Administrative	50	50
Operational	308	308
	<u>358</u>	<u>358</u>

Key management has been defined as the Executive and the Non-executive Directors of NetNames Group Limited.

	2016 £'000	2015 £'000
Directors' emoluments	1,871	1,168
Compensation for loss of office	-	-
Share-based payments	1,998	-
Pension costs	39	38
	<u>3,908</u>	<u>1,206</u>
Emoluments paid to the highest director	<u>1,928</u>	<u>710</u>

NetNames Group Limited

Notes to the consolidated financial statements

6. Finance income

	2016 £'000	2015 £'000
Bank interest	32	5

7. Finance expense

	2016 £'000	2015 £'000
Loan interest payable	21,571	19,588
Other interest payable	777	289
Loan amortisation charge	508	730
	<u>22,856</u>	<u>20,607</u>

8. Taxation

a) Analysis of tax expense

	2016 £'000	2015 £'000
Current tax		
UK corporation tax	-	-
Foreign tax	733	407
Adjustments in respect of prior years	(510)	(61)
Total current tax expense	<u>223</u>	<u>346</u>
Deferred tax (note 13)		
Origination and reversal of temporary differences	(1,972)	(1,478)
Prior year deferred tax	(251)	(477)
Total deferred tax credit	<u>(2,223)</u>	<u>(1,955)</u>
Total tax credit (note 8b)	<u>(2,000)</u>	<u>(1,609)</u>

NetNames Group Limited

Notes to the consolidated financial statements

8. Taxation (continued)

b) Tax expense reconciliation

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	2016 £'000	2015 £'000
Loss before taxation	(29,942)	(73,191)
Loss before taxation multiplied by standard rate of corporation tax in the UK of 20% (2015: 20.75%)	(5,988)	(15,187)
Effects of:		
Expenses not deductible for tax purposes	3,783	13,397
Unrecognised deferred tax movement	1,286	754
Adjustment to prior year tax charge	(510)	(61)
Income not assessable to tax	-	(63)
Deferred tax prior year adjustment	(251)	-
Group relief utilised	(38)	-
Difference in overseas tax rates	193	(29)
Effects of changes in rate of tax	(475)	(420)
Total tax charge (note 8a)	(2,000)	(1,609)

The Finance (No 2) Act 2015, which provides for reductions in the main rate of corporation tax from 20% to 19% effective from 1 April 2017 and to 18% effective from 1 April 2020, was substantively enacted on 26 October 2015. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date.

The closing deferred tax liability as at 30 June 2016 has been calculated at 18% reflecting the tax rate at which the deferred tax liability is expected to be reversed in future periods.

The Government intends to enact further reductions in the main tax rate down to 17% effective from 1 April 2020. As this tax rate was not substantively enacted at the balance sheet date, the relevant rate reduction is not yet reflected in these financial statements in accordance with IAS 10, as it is a non-adjusting event occurring after the reporting period.

We estimate that the future rate change to 17% would further reduce our UK deferred tax liability recognised at 30 June 2016 from £4,863k to £4,602k. The actual impact will be dependent on our deferred tax position at that time.

NetNames Group Limited

Notes to the consolidated financial statements

9. Goodwill and intangible assets

	Domain names £'000	Technology £'000	Customer lists £'000	Development costs £'000	Other Intangible assets £'000	Goodwill £'000	Total £'000
Cost							
At 1 July 2015	23	4,540	58,349	3,540	66,452	38,775	105,227
Capitalised during the year	-	-	-	1,083	1,083	-	1,083
Impairment	-	-	-	-	-	-	-
Foreign exchange movements	-	-	370	-	370	295	665
At 30 June 2016	23	4,540	58,719	4,623	67,905	39,070	106,975
Amortisation							
At 1 July 2015	8	3,254	23,470	1,594	28,326	-	28,326
Charge for the year	2	908	6,573	612	8,095	-	8,095
Foreign exchange movements	-	-	-	-	-	-	-
At 30 June 2016	10	4,162	30,043	2,206	36,421	-	36,421
Net book value							
At 30 June 2016	13	378	28,676	2,417	31,484	39,070	70,554
At 30 June 2015	15	1,286	34,879	1,946	38,126	38,775	76,901

Goodwill impairment tests

During the year, goodwill and other intangibles were reviewed for impairment in accordance with the Group's accounting policies. It was determined that there is one cash generating unit following the Group's strategy to streamline operations and simplify the Group structure.

The recoverable amounts of the cash generating unit were determined from value-in-use calculations. These calculations were based on cash flow projections from approved budgets and forecasts, past performance and Directors' expectations of future performance of the relevant cash generating unit which cover a five-year period. Other key assumptions used in these calculations were the pre tax discount rate of 15.6% (2015: 13.9%) based on the standard rate of UK corporation tax and a terminal EBITDA growth rate of 2.4% (2015: 2.4%). As a result of these tests, no impairment (2015: £49,346k) was recognised.

If the key assumptions were changed by 1%, the impact upon the calculated value in use would not result in an impairment and would be as follows:

% Change	Discount rate £m	Terminal growth £m
+1.0	(9.7)	5.2
-1.0	8.1	(4.5)

NetNames Group Limited

Notes to the consolidated financial statements

10. Property plant and equipment

	Computer equipment £'000	Fixtures fittings and equipment £'000	Leasehold improvements £'000	Total £'000
Cost				
At 1 July 2015	3,089	495	1,073	4,657
Additions	708	163	196	1,067
At 30 June 2016	3,797	658	1,269	5,724
Depreciation				
At 1 July 2015	1,976	209	327	2,512
Provided in year	759	143	217	1,119
At 30 June 2016	2,735	352	544	3,631
Net book value				
At 30 June 2016	1,062	306	725	2,093
At 30 June 2015	1,113	286	746	2,145

11. Investments

All subsidiaries have been included in the consolidation. Details of the all subsidiary undertakings at 30 June 2016 are as follows:

	Country of Incorporation and operation	Proportion of voting equity held
NetNames Holdco 1 Limited **	UK	100%
NetNames Holdco 2 Limited */**	UK	100%
NetNames Holdings Limited */**	UK	100%
NetNames Operations Limited*	UK	100%
Group NBT Limited *	UK	100%
NetNames Limited *	UK	100%
Easily Limited *	UK	100%
NetNames Brand Protection Holdings Limited */**	UK	100%
NetNames Brand Protection Limited *	UK	100%
NetNames USA Inc. *	USA	100%
Ascio Technologies Inc. *	USA	100%
NetNames France Holdings SAS */**	France	100%
NetNames SAS *	France	100%
NetNames European Holdings A/S */**	Denmark	100%
NetNames A/S *	Denmark	100%
NetNames GmbH *	Germany	100%
Ascio GmbH *	Germany	100%
Domain Trustees GmbH*	Germany	100%
NN Sweden AB *	Sweden	100%
NetNames AS *	Norway	100%
NetNames GmbH *	Switzerland	100%
Web IP Pty Limited*	Australia	100%
Adicio Pte Ltd*	Singapore	100%
Domain Management Limited*	Hong Kong	100%

* These investments are not held directly by the ultimate holding company.

** These are intermediate holding companies.

Except for the intermediate holding companies, the above companies are involved in the provision of domain name, brand protection or other internet related services.

NetNames Group Limited

Notes to the consolidated financial statements

12. Trade and other receivables

	2016 £'000	2015 £'000
Trade receivables	4,228	6,027
Other receivables	324	179
Prepayments and accrued income	5,378	5,216
	<u>9,930</u>	<u>11,422</u>

All amounts shown under receivables fall due for payment within one year. The fair values of trade and other receivables are the same as the book values as credit risk has been addressed as part of impairment provisioning and due to the short-term nature of the amounts receivable, they are not subject to other ongoing fluctuations in market rates.

13. Deferred tax

Deferred tax has been calculated at 18% in respect of UK companies and at the appropriate rate for foreign subsidiary undertakings.

The Group only recognises deferred tax assets to the extent that future taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets of £3,266k (2015: £5,011k) have not been recognised due to the uncertainty over generating sufficient taxable profits in the future.

The movement in the deferred tax account is shown below:

Deferred tax liability

	2016 £'000	2015 £'000
Liabilities		
At start of period	7,086	9,025
Prior period adjustment	(288)	(477)
Effect of changes in tax rate	-	-
Foreign exchange revaluation	26	8
Origination and reversal of temporary differences	(1,961)	(1,470)
At end of period	<u>4,863</u>	<u>7,086</u>

This amount is represented by:

	2016 £'000	2015 £'000
Excess depreciation over capital allowances	(42)	(39)
Short-term temporary differences	(9)	(31)
Intangible assets	4,914	7,220
Tax losses	-	(64)
	<u>4,863</u>	<u>7,086</u>

NetNames Group Limited

Notes to the consolidated financial statements

14. Trade and other payables

	2016 £'000	2015 £'000
Trade payables	1,621	2,102
Other taxation and social security taxes	1,243	2,018
Other payables	2,444	2,164
Accruals and deferred income	6,359	8,647
	<u>11,667</u>	<u>14,931</u>

Settlement of trade and other payables is in accordance with our terms of trade established with our suppliers. The fair values of trade and other payables are the same as the book values and due to the short-term nature of the amounts payable, they are not subject to ongoing fluctuations in market rates.

15. Loans and borrowings

	2016 £'000	2015 £'000
Current: Secured bank loan	744	3,628
Non-current: Secured bank loan	36,623	29,999
Non-current: Unsecured shareholder loan notes	185,335	165,410
	<u>222,702</u>	<u>199,037</u>

Bank loan

On 13 December 2011, NetNames Holdings Limited (formerly Group NBT Holdings Limited), a bidco set up as a 100% subsidiary of NetNames Holdco 2 Limited (formerly Group NBT Holdco 2 Limited) by funds managed or advised by HgCapital LLP entered into financing documentation in order to refinance the purchase of the shares in NetNames Operations Limited (formerly known as Group NBT Limited). The documentation consisted of the senior facilities agreement ("SFA") an inter-creditor agreement and various security and ancillary documentation.

NetNames Holdings Limited and Netnames Holdco 2 Limited have provided a guarantee under the SFA pursuant to a debenture dated 13 December 2011. In addition, certain subsidiaries have provided guarantees in the form of security over their assets.

On 15 October 2014, £165,000 was drawdown to fund the deferred consideration in relation to the acquisition of Web IP Pty Ltd and a further £417,000 was drawdown on 3 June 2015 to fund the deferred consideration in relation to the acquisition of Adicio Pte Ltd.

On 9 October 2015, the SFA was amended and the total debt drawn was converted into Euros of €48,431,757, effective from 13 October 2015. This amended facility is available until 31 December 2020, with set repayments scheduled on a bi-annual basis.

The maturity of the loan is shown in note 17. In the above table, the loans are stated net of unamortised issue costs of £2,167,127 (2015: £1,460,561). These costs are allocated to the Consolidated Income Statement over the term of the facility based on the level of amortisation of the loans per the SFA agreement. The Group has charged to the Consolidated Income Statement issue costs of £507,939 (2015: £730,281) during the year.

The facility was fully repaid post year end. See note 21 for further details.

To mitigate the Group's exposure to interest rate risk, the Group entered into an interest rate cap with the banks. See note 17 ii for further details.

Shareholder loan notes

The shareholder loan notes represent an initial loan of £110,324,000 with new subscriptions of £350,000 during the year. There was a repayment of £226,000 of loan notes together with accrued interest of £102,000. The remaining accrued interest is £74,887,000. Interest is charged at 12% per annum. The loan notes were cancelled on 29 July 2016. See note 21 for further details.

NetNames Group Limited

Notes to the consolidated financial statements

16. Share-based payments

During the year, D shares were issued to key management personnel. The shares vested on the grant date and would result in a potential payment to the recipients when any proceeds, repayment or distribution of any amount is received by Netnames Group Limited in respect of its B Ordinary Shares in Netnames Holdco 1 Limited on an exit event, subject to various hurdles.

The fair value at grant date was calculated by using a probability weighted fair value model based on a volatility of 25% and an expected outcome of 3 years.

The Group recognised total expenses of £2,615,000 (2015: nil) related to these equity-settled share-based payment transactions.

17. Financial Instruments

This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

The Group's financial instruments at 30 June 2016 comprised: trade and other receivables; cash and cash equivalents; loans and borrowings; trade and other payables and an interest rate cap.

Fair value of financial instruments

All the Group's financial instruments are carried at amortised cost.

The Group believes that there is no material difference between the book and fair value of its financial instruments, in the current year, due to the instruments bearing interest at floating rates or being of a short to medium-term nature.

We have categorised financial instruments held at valuation into a three-level fair value hierarchy, based on the priority of the inputs to the valuation technique in accordance with IFRS 13. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, we base the category level on the lowest priority level input that is significant to the fair value measurement of the instrument in its entirety. We have estimated the fair values of the Group's outstanding interest rate derivatives by calculating the present value of future cash flows, using appropriate market discount rates, representing Level 2 fair value measurements as defined by IFRS 13. We have not categorised any financial instruments as Level 1 or Level 3.

General objectives, policies and procedures

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies, to the Executive Directors and senior management.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible, without unduly affecting the Group's competitiveness and flexibility.

i) Credit risk

Credit risk refers to the possibility that a financial loss will occur as a result of a customers' inability to meet its financial obligations.

Credit risk arises principally from the Group's trade and other receivables. Potential customers are subjected to credit verification procedures before credit terms are granted. The quality of existing debt which has not been provided for is considered to be collectable and procedures are in place to monitor trade receivables on an ongoing basis to minimise exposure to bad debts. Trade receivables are only written off once all methods of collection have been exhausted.

The maximum exposure to credit risk is the trade receivable balance at the year end. The Group has no significant exposure to large or key customers.

NetNames Group Limited

Notes to the consolidated financial statements

17. Financial instruments (continued)

Trade receivables and cash are summarised as follows:

	Trade receivables 2016 £'000	Cash and cash equivalents 2016 £'000	Trade receivables 2015 £'000	Cash and cash equivalents 2015 £'000
Up to 30 days	1,268	5,547	2,697	3,636
Past due but not impaired:				
30 to 90 days	1,878	-	2,380	-
More than 90 days	1,455	-	1,562	-
Gross	4,601	5,547	6,639	3,636
Less: allowance for impairment	(373)	-	(612)	-
Net	4,228	5,547	6,027	3,636

Movements on the Group provision for impairment of trade receivables are as follows:

	2016 £'000	2015 £'000
Opening balance	612	775
Written off amounts	(505)	(266)
Additional provisions	266	128
Recovered amounts	-	(25)
Closing balance	373	612

ii) Market risk

Market risk refers to fluctuations in interest rates and exchange rates. The prior year swap was settled on 9 October 2015. An interest rate cap was entered into on 12 November 2015. The company holds the following interest rate cap as at 30 June 2016:

Bank	Interest rate cap %	Notional amount €'000	Fair value £'000
Lloyds Banking Group plc	0.25	22,890	9
HSBC Bank plc	0.25	7,630	1

a) Interest risk

The Group analyses the interest rate exposure on a quarterly basis and analyses the sensitivity of the net result for the year to a possible change in interest rates of +1% and -1%. The impact of a 1% increase in EURIBOR would increase finance expenses and decrease net assets by £246,000. A 1% decrease would have no effect.

b) Currency risk

The Group has overseas subsidiaries, which operate in Continental Europe and the USA. Their activities and net assets are denominated in the functional currencies of the operating units. The Group's principal exposure to exchange rate fluctuations arises on translation of the overseas net assets and results into Sterling for accounting purposes. In addition the Group as a whole is exposed to transactions which give rise to foreign exchange risk. The Group reviews its exposure on an on-going basis. The foreign currency monetary assets and liabilities are as follows:

NetNames Group Limited

Notes to the consolidated financial statements

17. Financial Instruments (continued)

	Sterling £'000	US Dollar £'000	Euro £'000	Other Currencies £'000	Total £'000
As at 30 June 2016					
Trade and other receivables	689	228	1,726	1,909	4,552
Cash and cash equivalents	1,647	684	1,348	1,868	5,547
Trade and other payables	(4,583)	(277)	(1,701)	(3,863)	(10,424)
Loans	(185,335)	-	(39,534)	-	(224,869)
	<u>(187,582)</u>	<u>635</u>	<u>(38,161)</u>	<u>(86)</u>	<u>(225,194)</u>
As at 30 June 2015					
Trade and other receivables	1,483	178	1,290	3,254	6,205
Cash and cash equivalents	1,646	282	295	1,413	3,836
Trade and other payables	(10,011)	(485)	(1,416)	(1,000)	(12,912)
Loans	(200,497)	-	-	-	(200,497)
	<u>(207,379)</u>	<u>(25)</u>	<u>169</u>	<u>3,667</u>	<u>(203,568)</u>

The Group's currency exposures are in part minimised due to the redenomination of the bank loan from Sterling to Euro on 9 October 2015. Natural hedging also occurs through costs and revenues incurred in the same currency. The exposures that arise give rise to net currency gains or losses which are recognised in the Consolidated Income Statement. Such exposures reflect the monetary assets and liabilities of the Group that are not denominated in the operating or functional currency of the operating unit involved. At 30 June 2016 if exchange rates had moved by +10% or -10% over and above the rates at the year end, the change in monetary assets and liabilities would be +/- £3,746,000.

iii) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due, and to replace funds when they are withdrawn.

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably, by the use of medium-term and long-term facilities. At the balance sheet date all borrowing facilities were held with a consortium of banks comprising Lloyds Banking Group plc, HSBC Bank plc and The Royal Bank of Scotland plc. The Group believes that there is a low likelihood on there being an immediate call on its liabilities.

The table below analyses the Group's financial liabilities by remaining contractual maturities, at the balance sheet date, and financial assets which mitigate liquidity risk. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	More than 5 years £'000	Total £'000
At 30 June 2016					
Trade and other receivables	4,552	-	-	-	4,552
Cash and cash equivalents	5,547	-	-	-	5,547
Trade and other payables	(9,325)	(920)	(172)	(7)	(10,424)
Loans	-	(1,178)	(38,356)	(110,448)	(149,982)
Loan interest	-	-	-	(74,887)	(74,887)
	<u>774</u>	<u>(2,098)</u>	<u>(38,528)</u>	<u>(185,342)</u>	<u>(225,194)</u>

NetNames Group Limited

Notes to the consolidated financial statements

17. Financial instruments (continued)

At 30 June 2015

Trade and other receivables	6,206	-	-	-	6,206
Cash and cash equivalents	3,636	-	-	-	3,636
Trade and other payables	(10,783)	(1,762)	(360)	(8)	(12,913)
Loans	-	(4,358)	(30,730)	(110,323)	(145,411)
Loan interest	-	-	-	(55,086)	(55,086)
	<u>(941)</u>	<u>(6,120)</u>	<u>(31,090)</u>	<u>(165,417)</u>	<u>(203,568)</u>

iv) Capital

As described in note 18, the Group considers capital to comprise its ordinary share capital, share premium and accumulated retained earnings. In managing its capital, the Group's primary objective is to ensure its continued ability to provide a consistent return for its equity shareholders through a combination of capital growth and distributions. The Group considers the appropriate type of funding according to its requirements.

18. Called up share capital

	2016 Number	2016 £'000	2015 Number	2015 £'000
Allotted, called up and fully paid ordinary shares of 1 pence each				
At 1 July 2015				
Class A	1,110,305	10	1,110,305	10
Class B	17,200	1	17,200	1
	<u>1,127,505</u>	<u>11</u>	<u>1,127,505</u>	<u>11</u>
At 30 June 2016				
	<u>1,127,505</u>	<u>11</u>	<u>1,127,505</u>	<u>11</u>

The Company has four classes of ordinary shares, class A, B, D and E none of which carry any rights to fixed income.

On 16 March 2016, 12,979 class C shares (allotted and issued with a nominal value of £0.001) were repurchased and cancelled by the NetNames Group. 1,060 class D shares and 5 class E shares were issued to managers of the NetNames Group. The class D and E shares were allotted, issued and fully paid with a nominal value of £0.00001.

Reserves

The following describes the nature and purpose of each reserve within capital and reserves:

Reserves	Description and purpose
Share capital	Amount subscribed for share capital at nominal value
Share premium	Amount subscribed for share capital in excess of nominal value
Currency translation	Gains and losses arising on retranslating the net assets of overseas operations into Sterling
Retained profit	Cumulative net gains and losses recognised in the Consolidated Income Statement

NetNames Group Limited

Notes to the consolidated financial statements

19. Operating lease commitments

At 30 June 2016 the Group had the following operating lease commitments:

	2016 £'000	2015 £'000
Land and buildings		
In one year or less	62	333
Between one and five years	3,067	2,342
	<u>3,129</u>	<u>2,675</u>
Other		
In one year or less	73	3
Between one and five years	126	331
	<u>199</u>	<u>334</u>

20. Related parties

All transactions with subsidiary undertakings have been eliminated on consolidation.

HgCapital LLP manages funds that hold a controlling interest in the Group. During the year ended 30 June 2016 payments of £157,644 (2015: £99,107) were made to HgCapital LLP by a subsidiary company in respect of directors' services. At the year end there was an outstanding liability of £30,009 (2015: £24,000).

21. Post balance sheet events

On 29 July 2016, the NetNames Group was acquired by Corporation Service Company (Europe) Limited. As part of the acquisition, the bank loan was repaid and the shareholder loan notes were cancelled.

22. Ultimate controlling party

Following the purchase of the NetNames Group on 29 July 2016, the immediate parent undertaking is Corporation Services Company (Europe) Limited, a company incorporated in England and Wales. The ultimate parent company is WMB Holdings Inc., a privately held corporation in Wilmington, Delaware, USA. Copies of the consolidated financial statements of WMB Holdings Inc. can be obtained from 2711 Centerville Road, Wilmington, Delaware, 19808, USA.

NetNames Group Limited

Company balance sheet

	Notes	2016 £'000	2015 £'000
Fixed assets			
Investments	3	1,000	1,000
Current assets			
Trade and other receivables	4	86	85
Current liabilities			
Trade and other payables	5	(159)	(160)
Net assets		<u>927</u>	<u>925</u>
Capital and reserves			
Called up share capital	6	11	11
Share premium account		1,102	1,116
Profit and Loss account		<u>(186)</u>	<u>(202)</u>
Shareholders' funds		<u>927</u>	<u>925</u>

These financial statements of NetNames Group Limited, registration number 07772140, were approved by the Board of Directors and authorised for issue on 15 December 2016.

Signed on behalf of the Board of Directors



Thomas Porth
Director

The notes on pages 32 to 34 form part of these Financial Statements

Netnames Group Limited

Company statement of changes in equity for the year ended 30 June 2016

	Notes	Share capital £'000	Share premium £'000	Profit and loss account £'000	Total £'000
Year ended 30 June 2016					
Balance at 1 July 2015	6	11	1,116	(202)	925
Transfer of A shares	6	-	(25)	-	(25)
Issue of D and E shares	6	-	11	-	11
Share-based payments		-	-	2,615	2,615
Loss for the financial year	2	-	-	(2,599)	(2,599)
Balance at 30 June 2016		11	1,102	(186)	927

Notes to company financial statements for the year ended 30 June 2016

1. Accounting policies

Basis of preparation

The Company meets the definition of a qualifying entity under Financial Reporting Standard (FRS 101) 'Reduced Disclosure Framework' issued by the Financial Reporting Council. Accordingly, in the year ended 30 June 2016 the Company has changed its accounting framework from pre-2015 UK GAAP to FRS 101 and has, in doing so, applied the requirements of IFRS 1.6 - 33 and related appendices.

These Financial Statements present financial information for NetNames Group Limited as a separate entity, and have been prepared in accordance with the historical cost convention, the Companies Act 2006 and FRS 101. This is the first year that the Company has presented its financial statements under FRS 101. The Company's consolidated financial statements, prepared in accordance with IFRSs as adopted by the European Union, are separately presented. The principal accounting policies adopted in these Company Financial Statements are set out below and, unless otherwise indicated, have been consistently applied for all years presented.

The principal accounting policies adopted are set out below.

Investments

Investments held as fixed assets are stated at cost less any provision for impairment in value. Where applicable, the Company takes advantage of merger relief, recording the investment in the Company's balance sheet at the fair value of the shares issued, with any premium included within the merger reserve.

Impairment of fixed assets

The need for any fixed asset impairment write-down is assessed by comparison of the carrying value of the asset against the higher of its net realisable value and value in use.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except the recognition of deferred tax is limited to the extent that the Company anticipates making sufficient taxable profits in the future to absorb the reversal of underlying timing differences. Deferred tax liabilities and assets are not discounted.

Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions.

2. Result for the financial year

The Company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements.

The Company's loss for the year ended 30 June 2016 under FRS 101 was £2,599,000 (2015: £nil).

Fees paid to Deloitte LLP and its associates for audit and other services to the Company itself are not disclosed in the individual accounts of NetNames Group Limited because the Company's consolidated accounts are required to disclose such fees on a consolidated basis.

Notes to company financial statements for the year ended 30 June 2016

3. Investments

	Shares in subsidiary undertakings £'000
Cost	
At 1 July 2015 and 30 June 2016	1,000
At 30 June 2016	
Provision	
At 30 June 2015 and 30 June 2016	-
Net book value	
At 30 June 2016	1,000
At 30 June 2015	1,000

Details of all subsidiary undertakings at 30 June 2016 are as follows:

	Country of incorporation and operation	Proportion of voting equity held
NetNames Holdco 1 Limited **	UK	100%
NetNames Holdco 2 Limited */**	UK	100%
NetNames Holdings Limited */**	UK	100%
NetNames Operations Limited*	UK	100%
Group NBT Limited *	UK	100%
NetNames Limited *	UK	100%
Easily Limited *	UK	100%
NetNames Brand Protection Holdings Limited */**	UK	100%
NetNames Brand Protection Limited *	UK	100%
NetNames USA Inc. *	USA	100%
Ascio Technologies Inc. *	USA	100%
NetNames France Holdings SAS */**	France	100%
NetNames SAS *	France	100%
NetNames European Holdings A/S */**	Denmark	100%
NetNames A/S *	Denmark	100%
NetNames GmbH *	Germany	100%
Ascio GmbH *	Germany	100%
Domain Trustees GmbH*	Germany	100%
NN Sweden AB *	Sweden	100%
NetNames AS *	Norway	100%
NetNames GmbH *	Switzerland	100%
Web IP Pty Limited*	Australia	100%
Adicio Pte Ltd*	Singapore	100%
Domain Management Limited*	Hong Kong	100%

* These investments are not held directly by the ultimate holding company.

** These are intermediate holding companies.

Except for the intermediate holding companies, the above companies are involved in the provision of domain name, brand protection or other internet related services.

Notes to company financial statements for the year ended 30 June 2016

4. Trade and other receivables

	2016 £'000	2015 £'000
Amounts owed by group undertakings	86	85

5. Trade and other payables

	2016 £'000	2015 £'000
Amounts owed to group undertakings	159	160

6. Called up share capital

	2016 Number	2016 £'000	2015 Number	2015 £'000
Allotted, called up and fully paid ordinary shares of 1 pence each				
At 1 July 2015				
Class A	1,110,305	10	1,110,305	10
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The Company has four classes of ordinary shares, class A, B, D and E none of which carry any rights to fixed income.

On 16 March 2016, 12,979 class C shares (allotted and issued with a nominal value of £0.001) were repurchased and cancelled by the NetNames Group. 1,060 class D shares and 5 class E shares were issued to managers of the Netnames Group. The class D and E shares were allotted, issued and fully paid with a nominal value of £0.00001.

7. Related parties

The Company has taken advantage of FRS 8 Related Party Disclosures in not disclosing transactions with Group undertakings as 100% of its shares are controlled within the Group which is headed by NetNames Group Limited. There are no transactions with external related parties.

8. Post balance sheet events

The Company has changed its year end to 31 December so as to coterminous with the ultimate parent company. The next financial statements to be filed will be the 6 month period to 31 December 2017.