

**Company Registration No. 07772140**

**NetNames Group Limited**

**Annual Report and Financial Statements  
For the year ended 30 June 2014**

FRIDAY



\*L443ATMB\*

LD6

27/03/2015

#103

COMPANIES HOUSE

# **NetNames Group Limited**

## **Annual report and financial statements for the year ended 30 June 2014**

<b>Contents</b>	<b>Page</b>
Strategic report	1
Directors' report	3
Directors' responsibilities statement	5
Independent auditor's report	6
Consolidated income statement	7
Consolidated statement of comprehensive income	7
Consolidated statement of financial position	8
Consolidated statement of changes in equity	9
Consolidated statement of cash flows	10
Notes to the consolidated financial statements	11
Company balance sheet	34
Notes to company financial statements	35

# 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 pleased with the performance of the business in the year. The company has yet again achieved growth and has continued to service existing clients well whilst also securing a number of new clients. In addition to this during the year the Group acquired two businesses, Web IP Pty Ltd in Australia and Adicio Pte Ltd in Singapore to further strengthen the international reach of the Group. Turnover across the Group increased 4.4% to £50.1m after taking into consideration the considerable strengthening of sterling which has a negative impact on the Group's consolidated revenue. The Group ended the year with cash of £4.6m and is well positioned to exploit new markets and opportunities with undrawn acquisition facilities of £10.1m.

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. EBITDA, which is defined as operating profit before depreciation, amortisation, exceptional items and foreign exchange, for the year ending 2014 was £9,634k (2013: £8,467k). The gross bank debt (before debt issue costs) as at 30 June 2014 was £37,643k (2013: £50,440k).

### 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.

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 and has a leading position. It also has operations in the USA and APAC. While its position in the USA and APAC is rapidly growing, this market is home to the Group's major corporate domain name management competitors. The SME and consumer market is large with 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 fulfilment 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 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.

# NetNames Group Limited

## Strategic report

### 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 and trade receivables.

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 and restricts trading relationships to primarily blue-chip clients. 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 and to invest cash assets safely and profitably.

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 23 October 2014.



Director

Paul Greensmith

23 October 2014

# **NetNames Group Limited**

## **Directors' report**

The Directors present the Annual Report and Accounts for the year ended 30 June 2014.

### **Directors**

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

C Gurassa

G McIlraith

P Greensmith

N Turner

E Wielechowski

A King (resigned on 8 May 2014)

G Wicks (resigned on 1 October 2013)

### **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.

### **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 2014 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 for the year ended 30 June 2014. Further detail on the basis with which the Directors continue to adopt the going concern basis in preparing the accounts can be found in note 1 part c of these financial statements.

### **Strategic report**

Details of financial risk management, research and development and future developments have been included within the Strategic Report and form part of this report by cross reference.

# **NetNames Group Limited**

## **Directors' report**

### **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.

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them as auditor will be proposed at the next Annual General Meeting.

The board of Directors do not recommend the payment of a dividend (2013: £nil).

By order of the Board



**Paul Greensmith**  
Director

23 October 2014

# **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). 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 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 2014 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes 1 to 21, along with the Company's Balance Sheet and related notes 1 to 9. 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).

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 2014 and of the Group's loss and the Parent Company's result 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 UK GAAP; 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.



Emma Cox BA ACA (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP,  
Chartered Accountants and Statutory Auditor  
London, United Kingdom  
23 October 2014



# NetNames Group Limited

## Consolidated income statement for the year ended 30 June 2014

	Notes	Year ended 2014 £'000	Year ended 2014 Exceptional items £'000	Year ended 2014 Total £'000	Year ended 2013 £'000	Year ended 2013 Exceptional items £'000	Year ended 2013 Total £'000
<b>Continuing operations</b>							
Revenue	3	50,081	-	50,081	47,980	-	47,980
Cost of sales		(13,734)	-	(13,734)	(12,302)	-	(12,302)
<b>Gross profit</b>		<b>36,347</b>		<b>36,347</b>	<b>35,678</b>		<b>35,678</b>
Operating expenses		(36,118)	(3,966)	(40,084)	(35,246)	(6,555)	(41,801)
<b>Operating profit/(loss)</b>	4	<b>229</b>	<b>(3,966)</b>	<b>(3,737)</b>	<b>432</b>	<b>(6,555)</b>	<b>(6,123)</b>
Finance income	6	58	-	58	192	-	192
Finance expense	7	(18,481)	-	(18,481)	(17,554)	-	(17,554)
<b>Loss before taxation</b>		<b>(18,194)</b>	<b>(3,966)</b>	<b>(22,160)</b>	<b>(16,930)</b>	<b>(6,555)</b>	<b>(23,485)</b>
Taxation	8	2,679	-	2,679	1,074	-	1,074
<b>Loss for the year from continuing operations</b>		<b>(15,515)</b>	<b>(3,966)</b>	<b>(19,481)</b>	<b>(15,856)</b>	<b>(6,555)</b>	<b>(22,411)</b>
<b>Discontinued operations</b>							
Profit for the year from discontinued operations		-	-	-	-	2,815	2,815
<b>Loss for the year attributable to equity holders</b>		<b>(15,515)</b>	<b>(3,966)</b>	<b>(19,481)</b>	<b>(15,856)</b>	<b>(3,740)</b>	<b>(19,596)</b>

## Consolidated statement of comprehensive income Year ended 30 June 2014

	2014 £'000	2013 £'000
<b>Loss for the year</b>	<b>(19,481)</b>	<b>(19,596)</b>
<b>Other comprehensive income</b>		
Exchange translation differences on translation of foreign operations	(86)	272
<b>Total comprehensive loss for the year attributable to equity holders</b>	<b>(19,567)</b>	<b>(19,324)</b>

The notes on pages 11 to 33 form part of these Consolidated Financial Statements

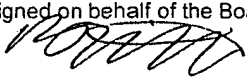
# NetNames Group Limited

## Consolidated statement of financial position As at 30 June 2014

	Notes	2014 £'000	2013 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill	9	88,373	86,817
Other intangible assets	9	45,793	52,630
Property, plant and equipment	10	1,545	769
		<u>135,711</u>	<u>140,216</u>
<b>Current assets</b>			
Trade and other receivables	12	14,244	9,163
Cash and bank balances		4,621	24,900
		<u>18,865</u>	<u>34,063</u>
<b>Total assets</b>		<u>154,576</u>	<u>174,279</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Borrowings	15	(2,911)	(2,540)
Derivative financial instrument	16	(30)	(104)
Trade and other payables	14	(17,653)	(17,786)
Current tax liabilities		(224)	(607)
		<u>(20,818)</u>	<u>(21,037)</u>
<b>Non-current liabilities</b>			
Borrowings	15	(32,541)	(45,470)
Shareholder loan notes	15	(147,687)	(131,864)
Deferred tax liabilities	13	(9,025)	(11,836)
		<u>(189,253)</u>	<u>(189,170)</u>
<b>Total liabilities</b>		<u>(210,071)</u>	<u>(210,207)</u>
<b>Net liabilities</b>		<u>(55,495)</u>	<u>(35,928)</u>
<b>Capital and reserves</b>			
Share capital	17	11	11
Share premium account		1,116	1,116
Cumulative translation reserve		(489)	(403)
Retained earnings		(56,133)	(36,652)
<b>Total reserves</b>		<u>(55,495)</u>	<u>(35,928)</u>

The financial statements of NetNames Group Limited registered number 07772140 were approved by the Board of Directors and authorised for issue on ~~23 October~~ 2014.

Signed on behalf of the Board of Directors

  
P Greensmith  
Director

The notes on pages 11 to 33 form part of these Consolidated Financial Statements

## NetNames Group Limited

### Consolidated statement of changes in equity for the year ended 30 June 2014

	Share capital £'000	Share premium £'000	Cumulative translation reserve £'000	Retained loss £'000	Total £'000
<b>Year ended 30 June 2014</b>					
Balance at 1 July 2013	11	1,116	(403)	(36,652)	(35,928)
Comprehensive loss for the year	-	-	(86)	(19,481)	(19,567)
<b>Balance at 30 June 2014</b>	<b>11</b>	<b>1,116</b>	<b>(489)</b>	<b>(56,133)</b>	<b>(55,495)</b>
<b>Year ended 30 June 2013</b>					
Balance at 1 July 2012	10	990	(674)	(17,057)	(16,731)
Comprehensive loss for the year	-	-	271	(19,595)	(19,324)
Issue of share capital	1	126	-	-	127
<b>Balance at 30 June 2013</b>	<b>11</b>	<b>1,116</b>	<b>(403)</b>	<b>(36,652)</b>	<b>(35,928)</b>

## NetNames Group Limited

### Consolidated statement of cash flows for the year ended 30 June 2014

	Notes	2014 £'000	2013 £'000
<b>Cash flow from operating activities</b>			
Loss before taxation		(22,160)	(20,670)
Gain on disposal of discontinued operations		-	(2,815)
Finance expense		18,423	17,362
Depreciation	10	673	413
Amortisation	9	8,144	7,573
Exchange differences	4	635	49
(Increase)/decrease in trade and other receivables	12	(4,847)	1,295
Decrease in trade and other payables	14	(173)	(1,596)
		<hr/>	<hr/>
Cash generated from operations		695	1,611
Taxation paid		(516)	(1,782)
		<hr/>	<hr/>
<b>Net cash from operating activities</b>		<b>179</b>	<b>(171)</b>
<b>Investing activities</b>			
Interest received	6	58	192
Purchase of property, plant and equipment	10	(1,450)	(301)
Development costs incurred	9	(1,593)	(976)
Purchase of subsidiary undertakings	20	(2,192)	-
Net cash acquired / (disposed) with subsidiary undertaking	20	126	(41)
Net proceeds from disposal of subsidiary undertaking	20	-	22,815
		<hr/>	<hr/>
<b>Net cash (used in) / from investing activities</b>		<b>(5,051)</b>	<b>21,689</b>
<b>Financing activities</b>			
Interest paid		(2,494)	(3,100)
Long term loan receipt		-	506
Long term loan repayment	16	(12,797)	(1,894)
Proceeds from issue of share capital	17	-	127
		<hr/>	<hr/>
<b>Net cash used in financing activities</b>		<b>(15,291)</b>	<b>(4,361)</b>
		<hr/>	<hr/>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(20,163)</b>	<b>17,157</b>
<b>Cash and cash equivalents at start of year</b>		<b>24,900</b>	<b>7,614</b>
		<hr/>	<hr/>
Effects of exchange rate changes		(116)	129
		<hr/>	<hr/>
<b>Cash and cash equivalents at end of year</b>		<b>4,621</b>	<b>24,900</b>
		<hr/>	<hr/>

The notes on pages 11 to 33 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 356 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 historic 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 16. As described in note 16, 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.

The Directors have prepared forecasts for the Group to June 2016 for the purpose of their going concern review. These forecasts show that the Group will comply with its financial covenants throughout the forecast year, as well as operating within its available facilities. 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 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.

# NetNames Group Limited

## Notes to the consolidated financial statements

### 1. Accounting policies (continued)

#### General information (continued)

##### 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.

##### 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.

# NetNames Group Limited

## Notes to the consolidated financial statements

### 1. Accounting policies (continued)

#### General information (continued)

##### 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.

##### 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 an original maturity year 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.



# NetNames Group Limited

## Notes to the consolidated financial statements

### 1. Accounting policies (continued)

#### General information (continued)

- 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 17 the Group considers its capital to comprise its ordinary share capital, share premium and accumulated retained earnings.

#### 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 2014	Average rate 2014	Closing rate 2013	Average rate 2013
US Dollar	1.70	1.64	1.55	1.57
Euro	1.25	1.20	1.17	1.21
Danish Krone	9.30	8.97	8.72	9.03

#### 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.

## NetNames Group Limited

### Notes to the consolidated financial statements

#### 1. Accounting policies (continued)

##### General information (continued)

##### q) 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 2014 and have been adopted. None of the pronouncements had a material impact on the Group's consolidated results, assets or liabilities:

- Annual Improvements cycle to IFRSs 2009-2011 effective 1 January 2013
- IFRS 7 (Amendment) Financial Instruments: Disclosures effective 1 January 2013
- IAS 1 (Amendment) Presentation of Items of Other Comprehensive Income effective 1 July 2012
- IAS 19 Employee Benefits (revised) effective 1 January 2013
- IAS 27 (revised) Separate Financial Statements effective 1 January 2013
- IAS 28 (revised) Investment in Associates and Joint Ventures effective 1 January 2013
- IFRS 10 Consolidated Financial Statements effective 1 January 2013
- IFRS 11 Joint Arrangements effective 1 January 2013
- IFRS 12 Disclosure of Interests in Other Entities effective 1 January 2013
- IFRS 13 Fair Value Measurement effective 1 January 2013

None of the other new standards, interpretations and amendments, also effective for the first time from 1 July 2012, have had a material effect on the financial statements.

##### r) Adoption of new and revised IFRSs

###### *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:

- IAS 39 (Amendment) Novation of Derivatives and Continuation of Hedge Accounting effective 1 January 2014
- IAS 36 (Amendment) recoverable Amount Disclosures for Non-Financial Assets effective 1 January 2014
- IAS 27 (Amendment) Separate Financial Statements effective 1 January 2014
- IAS 32 (Amendment) Offsetting Financial Assets and Liabilities effective 1 January 2014
- IFRS 10 Consolidated Financial Statements effective 1 January 2014
- IFRS 12 Disclosures of Interest in Other Entities effective 1 January 2014

None of the changes are expected to have a material effect on the Group's financial statements.

# **NetNames Group Limited**

## **Notes to the consolidated 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 a significant risk 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 tests annually whether goodwill has suffered any impairment, 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 choice of a discount rate in order to calculate the present value of the cash flows. Actual outcomes may vary.

#### ***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 estimated gross margin for each top level domain.

# NetNames Group Limited

## Notes to the consolidated financial statements

### 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.

	2014 £'000	2013 £'000
<b>Revenue by service</b>		
Corporate domain names	31,048	31,105
Reseller	9,654	8,685
Online	5,053	5,383
Brand protection	4,326	2,807
<b>Total revenue</b>	<b>50,081</b>	<b>47,980</b>

### Other geographical information

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

	Revenue 2014 £'000	Revenue 2013 £'000
UK	18,647	18,215
Other European countries	27,259	26,385
USA	3,912	3,380
APAC	263	-
<b>Total operations</b>	<b>50,081</b>	<b>47,980</b>
Interest income (note 6)	58	192
<b>Total revenue per IAS 18</b>	<b>50,139</b>	<b>48,172</b>

# NetNames Group Limited

## Notes to the consolidated financial statements

### 4. Operating profit/(loss)

Operating profit/(loss) is stated after charging:

		2014 £'000	2013 £'000
Depreciation of owned assets		673	413
Other intangibles amortisation	– acquired	7,495	7,492
	– internally generated	649	81
Operating lease rentals	– land and buildings	1,127	1,316
	– other	-	13
Auditor's remuneration	– Group audit fee	165	268
	– Company audit fee	10	15
	– taxation services	176	551
	– corporate finance services	107	997
	– other services	115	215
Foreign exchange losses		635	49
Exceptional items	– staff costs	1,591	2,567
	– legal and professional	1,003	2,691
	– systems related costs	507	1,265
	– other costs	865	32

The Group's exceptional items have arisen primarily as result of the migration of overseas finance functions to the UK, setting up co location IT servers, migration of legacy acquisitions onto the Group's accounting software and domain platform migrations, primarily relating to the Group's French and Swedish businesses.

### 5. Information regarding employees

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

	2014 £'000	2013 £'000
Wages and salaries	17,010	18,233
Social security costs	1,689	2,288
Pension costs	429	311
	<u>19,128</u>	<u>20,832</u>

Average number of employees during the year:

	2014 Number	2013 Number
Administrative	58	56
Operational	283	281
	<u>341</u>	<u>337</u>

# NetNames Group Limited

## Notes to the consolidated financial statements

### 5. Information regarding employees (continued)

#### Key management remuneration

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

	2014 £'000	2013 £'000
Directors' emoluments	1,163	1,029
Compensation for loss of office	40	-
Pension costs	38	27
	<u>1,241</u>	<u>1,056</u>
Emoluments paid to the highest director	<u>693</u>	<u>494</u>

### 6. Finance income

	2014 £'000	2013 £'000
Bank interest	58	186
Other interest	-	6
	<u>58</u>	<u>192</u>

### 7. Finance expense

	2014 £'000	2013 £'000
Bank interest payable	-	6
Loan interest payable	17,873	16,758
Other interest payable	369	310
Loan amortisation charge	239	480
	<u>18,481</u>	<u>17,554</u>

# NetNames Group Limited

## Notes to the consolidated financial statements

### 8. Taxation

#### a) Analysis of tax expense

	2014 £'000	2013 £'000
<b>Current tax</b>		
UK corporation tax	-	-
Foreign tax	470	1,125
Adjustments in respect of prior years	(327)	(186)
<b>Total current tax expense</b>	<u>143</u>	<u>939</u>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(2,854)	(1,435)
Effects of changes in rate of tax	-	(545)
Prior year deferred tax	32	(33)
<b>Total deferred tax credit</b>	<u>(2,822)</u>	<u>(2,013)</u>
<b>Total tax credit (note 8b)</b>	<u>(2,679)</u>	<u>(1,074)</u>

#### 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:

	2014 £'000	2013 £'000
Loss before taxation (after profit on discontinued operations)	(22,160)	(20,670)
Loss before taxation multiplied by standard rate of corporation tax in the UK of 22.50 % (2013: 23.75%)	(4,986)	(4,909)
<b>Effects of:</b>		
Expenses not deductible for tax purposes	3,015	3,860
Tax exempt gain on disposal	-	(1,270)
Unrecognised deferred tax movement	851	1,128
Adjustment to prior year tax charge	92	(222)
Tax loss not recognised	-	977
Income not assessable to tax	-	(456)
Difference in overseas tax rates	(1,411)	357
Effects of changes in rate of tax	(240)	(539)
<b>Total tax charge (note 8a)</b>	<u>(2,679)</u>	<u>(1,074)</u>

The Finance Act 2013, which provides for a reductions in the main rate of corporation tax from 23% to 21% effective from 1 April 2014 and to 20% effective from 1 April 2015, was substantively enacted on 2 July 2013. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date.

## 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	Intangible assets £'000	Goodwill £'000	Total £'000
<b>Cost</b>							
At 1 July 2013	22	4,540	58,928	976	64,466	86,817	151,283
Capitalised during the year	-	-	-	1,593	1,593	1,960	3,553
Foreign exchange movements	-	-	(287)	-	(287)	(404)	(691)
<b>At 30 June 2014</b>	<b>22</b>	<b>4,540</b>	<b>58,641</b>	<b>2,569</b>	<b>65,772</b>	<b>88,373</b>	<b>154,145</b>
<b>Amortisation</b>							
At 1 July 2013	3	1,438	10,313	81	11,836	-	11,835
Charge for the year	3	908	6,584	649	8,143	-	8,144
<b>At 30 June 2014</b>	<b>6</b>	<b>2,346</b>	<b>16,897</b>	<b>730</b>	<b>19,979</b>	<b>-</b>	<b>19,979</b>
<b>Net book value</b>							
<b>At 30 June 2014</b>	<b>16</b>	<b>2,194</b>	<b>41,744</b>	<b>1,839</b>	<b>45,793</b>	<b>88,373</b>	<b>134,166</b>
At 30 June 2013	19	3,102	48,614	895	52,630	86,817	139,447

#### 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 an eight-year period. Other key assumptions used in these calculations were the discount rate applied to future cash flows, 14% and a terminal growth rate of 3% for revenues. As a result of these tests, no impairment provisions are considered necessary. Under a sensitised case, impairment would be considered if terminal growth rates were below 1.5%.



## 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
<b>Cost</b>				
At 1 July 2013	930	180	165	1,275
Additions	1,455	18	-	1,473
Exchange differences	(20)	(2)	(2)	(24)
<b>At 30 June 2014</b>	<b>2,365</b>	<b>196</b>	<b>163</b>	<b>2,724</b>
<b>Depreciation</b>				
At 1 July 2013	355	80	71	506
Provided in year	588	36	37	661
Exchange differences	10	1	1	12
<b>At 30 June 2014</b>	<b>953</b>	<b>117</b>	<b>109</b>	<b>1,179</b>
<b>Net book value</b>				
At 30 June 2014	1,412	79	54	1,545
At 30 June 2013	575	100	94	769

# NetNames Group Limited

## Notes to the consolidated financial statements

### 11. Investments

All subsidiaries have been included in the consolidation. Details of the principal subsidiary undertakings at 30 June 2014 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 Limited *	UK	100%
NetNames 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 Holdings ApS *	Denmark	100%
NetNames A/S *	Denmark	100%
NetNames GmbH *	Germany	100%
Ascio 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%

\* 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.

### 12. Trade and other receivables

	2014 £'000	2013 £'000
Trade receivables	6,270	5,321
Other receivables	500	443
Prepayments and accrued income	7,474	3,399
	<u>14,244</u>	<u>9,163</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.

# NetNames Group Limited

## Notes to the consolidated financial statements

### 13. Deferred tax

Deferred tax has been calculated at 20% 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 £5,960k (2013: £5,350k) 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*

	2014 £'000	2013 £'000
Liabilities		
At start of period	11,836	15,126
Prior period adjustment	32	(34)
Effect of changes in tax rate	(1,390)	(545)
Released on disposal of subsidiary undertaking	-	(1,277)
Origination and reversal of temporary differences	(1,453)	(1,434)
<b>At end of period</b>	<b>9,025</b>	<b>11,836</b>

This amount is represented by:

	2014 £'000	2013 £'000
Excess depreciation over capital allowances	(49)	(151)
Short-term temporary differences	38	22
Intangible assets	9,105	12,034
Tax losses	(69)	(69)
	<b>9,025</b>	<b>11,836</b>

### 14. Trade and other payables

	2014 £'000	2013 £'000
Trade payables	2,524	3,487
Other taxation and social security taxes	1,600	1,597
Other payables	2,616	2,908
Accruals and deferred income	10,913	9,794
	<b>17,653</b>	<b>17,786</b>

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.

# NetNames Group Limited

## Notes to the consolidated financial statements

### 15. Loans and borrowings

	2014 £'000	2013 £'000
Current: Secured bank loan	2,911	2,540
Non-current: Secured bank loan	32,541	45,470
Non-current: Unsecured shareholder loan notes	147,687	131,864
	<u>183,139</u>	<u>179,874</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.

On 16 December 2011 £50,000,000 was drawn in connection with the re-financing. On 30 March 2012, a further £2,500,000 was drawn down under the facility in connection with the acquisition of Cedel AB. These loans bear interest based on LIBOR plus a margin as defined in the SFA. NetNames Holdings and its parent 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 30 September 2013, £16,500,000 of the loans were prepaid.

On 17 April 2014 £1,910,000 was drawn down against the acquisition facility to fund the acquisition of Web IP Pty Ltd a further £490,000 was drawn down on 30 April 2014 to fund the acquisition of Adicio Pte Ltd.

The remaining facility will be repaid in set amounts over the term of the loan. The maturity of the loan is shown in note 17. In the above table, the loans are stated net of unamortized issue costs of £2,190,800 (2013: £2,430,000). The Group has charged to the Consolidated Income Statement issue costs of £239,159 (2013: £480,000) in respect of these facilities. 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.

To mitigate the Group's exposure to interest rate risk, the Group entered into three interest swap agreements with the banks.

#### Shareholder loan notes

The shareholder loan notes represent an initial loan of £110,324,000 together with interest accrued of £37,363,333. Interest is charged at 12% per annum. The loan notes are repayable on the earlier of an exit event or 22 September 2021.

### 16. 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 2014 comprised: trade and other receivables; cash and cash equivalents; loans and borrowings; trade and other payables and interest rate SWAPS

#### 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-term nature.

# NetNames Group Limited

## Notes to the consolidated financial statements

### 16. Financial instruments (continued)

#### *Fair value of financial instruments (continued)*

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 swaps 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.

Trade receivables and cash are summarised as follows:

	Trade receivables 2014 £'000	Cash and cash equivalents 2014 £'000	Trade receivables 2013 £'000	Cash and cash equivalents 2013 £'000
Up to 30 days	2,984	4,621	4,886	24,900
Past due but not impaired:				
30 to 90 days	1,745	-	1,061	-
More than 90 days	2,316	-	494	-
Gross	7,045	4,621	6,441	24,900
Less: allowance for impairment	(775)	-	(1,083)	-
Net	6,270	4,621	5,358	24,900

## NetNames Group Limited

### Notes to the consolidated financial statements

#### 16. Financial instruments (continued)

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

	2014 £'000	2013 £'000
Opening balance	1,083	944
Acquisition of subsidiary	11	-
(Decrease) / Increase in provisions	(291)	381
Written-off amounts	-	130
Recovered amounts	(28)	(372)
Closing balance	775	1,083

#### ii) Market risk

Market risk refers to fluctuations in interest rates and exchange rates. The company hold the following interest rate swaps as at 30 June 2014:

Bank	Interest rate £'000	Notional amount £'000	Fair value £'000
Lloyds Banking Group plc	0.7615	15,547	(16)
HSBC Bank plc	0.7615	7,487	(7)
The Royal Bank of Scotland plc	0.7615	7,487	(7)
		30,521	(30)

#### 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 reasonable possible change in interest rates of +1% and -1%. The impact on the income and net assets of a 1% change would be up to £115,477. The gain or loss potential is then compared to the limits determined by the Directors.

# NetNames Group Limited

## Notes to the consolidated financial statements

### 16. Financial instruments (continued)

#### 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:

	Sterling £'000	US Dollar £'000	Euro £'000	Other Currencies £'000	Total £'000
<b>As at 30 June 2014</b>					
Trade and other receivables	2,194	511	2,786	1,279	6,770
Cash and cash equivalents	1,246	149	2,243	983	4,621
Trade and other payables	(9,509)	(328)	(4,985)	(1,231)	(16,053)
Loans	(185,331)				(185,331)
	<u>(191,400)</u>	<u>332</u>	<u>44</u>	<u>1,031</u>	<u>(189,993)</u>
<b>As at 30 June 2013</b>					
Trade and other receivables	1,987	428	2,477	872	5,764
Cash and cash equivalents	23,447	805	218	430	24,900
Trade and other payables	(9,001)	(1,317)	(1,964)	(2,659)	(14,941)
Loans	(179,874)	-	-	-	(179,874)
	<u>(163,441)</u>	<u>(84)</u>	<u>731</u>	<u>(1,357)</u>	<u>(164,151)</u>

The Group's currency exposures are in part minimised as natural hedging 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 2014 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 +/- £140,000.

# NetNames Group Limited

## Notes to the consolidated financial statements

### 16. Financial instruments (continued)

#### 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
<b>At 30 June 2014</b>					
Trade and other receivables	6,770	-	-	-	6,770
Cash and cash equivalents	4,621	-	-	-	4,621
Trade and other payables	(10,188)	(5,865)	-	-	(16,053)
Loans	-	(3,091)	(34,552)	(110,323)	(147,966)
Loan interest	-	-	-	(37,364)	(37,364)
	<u>1,203</u>	<u>(8,956)</u>	<u>(34,552)</u>	<u>(147,687)</u>	<u>(189,993)</u>
<b>At 30 June 2013</b>					
Trade and other receivables	5,738	26	-	-	5,764
Cash and cash equivalents	24,900	-	-	-	24,900
Trade and other payables	(11,688)	(3,253)	-	-	(14,941)
Loans	-	(2,540)	(15,500)	(140,294)	(158,334)
Loan interest	-	-	-	(21,540)	(21,540)
	<u>18,950</u>	<u>(5,767)</u>	<u>(15,500)</u>	<u>(161,834)</u>	<u>(164,151)</u>

(2013: Trade receivables of £724,000, cash and cash equivalents of £41,000 and £313,000 of trade and other payables have been excluded from the above calculation as these form part of the disposal group sold on 1 July 2013).

#### iv) Capital

As described in note 17, 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.



# NetNames Group Limited

## Notes to the consolidated financial statements

### 17. Called up share capital

	2014 Number	2014 £'000	2013 Number	2013 £'000
Allotted, called up and fully paid ordinary shares of 1 pence each				
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>

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

On the 21 May 2014, 12,979 class C shares were issued to managers of the NetNames Group, the Class C shares were allotted and issued with a nominal value of £0.001 but remain unpaid at 30 June 2014.

### 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

### 18. Operating lease commitments

At 30 June 2014 the Group had the following operating lease commitments:

	2014 £'000	2013 £'000
<b>Land and buildings</b>		
In one year or less	106	81
Between one and five years	1,261	2,242
After five years	6,361	-
	<u>7,728</u>	<u>2,323</u>
<b>Other</b>		
In one year or less	27	13
Between one and five years	400	35
	<u>427</u>	<u>48</u>

## NetNames Group Limited

### Notes to the consolidated financial statements

#### 19. 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 2014 payments of £117,846 (2013: £110,000) were made to HgCapital LLP by a subsidiary company in respect of directors' services. At the year end there was an outstanding liability of £26,925 (2013: £50,000).

#### 20. Acquisitions during the period

##### Web IP Pty Ltd Acquisition

On 30<sup>th</sup> April 2014 the Group acquired 100% of the voting share capital in Web IP Pty Ltd for a cash consideration of £1.8m (AUD 3.35m). Web IP Pty Ltd had £66,832 (AUD 120,599) of net cash balances at acquisition.

Web IP Pty Ltd is based in Melbourne and is a provider of domain name management services in Australia. The acquisition was made in order to gain entry into the APAC market. Web IP Pty Ltd was formed in 2008. Had Web IP Pty Ltd been part of the NetNames Group from 1 July 2013 the profit of the Group would have been higher by £110,646.

	Book value of assets acquired £'000	Fair value adjustments £'000	Fair value £'000
Intangible fixed assets	12	-	12
Tangible fixed assets	5	-	5
Current assets	198	-	198
Cash at bank	67	-	67
Current liabilities	(126)	-	(126)
Deferred tax	(18)	-	(18)
	138	-	138
Goodwill			1,658
<b>Consideration</b>			<b>1,796</b>
Satisfied by: Cash consideration			1,796
Effects on Group cash flow:			
Cash consideration			1,796
Cash balances on acquisition			(67)
<b>Net cash outflow</b>			<b>1,729</b>

# NetNames Group Limited

## Notes to the consolidated financial statements

### 20. Acquisitions during the period (continued)

#### Adicio Pte Ltd Acquisition

On 30<sup>th</sup> April 2014 the Group acquired 100% of the voting share capital in Adicio Pte Ltd for a cash consideration of £0.4 (SGD 0.8m). Adicio Pte Ltd had £59,279 (SGD 125,109) of net cash balances at acquisition.

Adicio Pte Ltd is based in Singapore and is a provider of domain name management services in south east Asia. Adicio Pte Ltd was formed in 2002. Had Adicio Pte Ltd been part of the NetNames Group from the 1<sup>st</sup> July 2013 the profit of the Group would have been higher by £101,605.

	Book value of assets acquired £'000	Fair value adjustments £'000	Provisional Fair value £'000
Current assets	45	-	45
Cash at bank	59	-	59
Current liabilities	(10)	-	(10)
Deferred tax	-	-	-
	94	-	94
Goodwill			302
<b>Consideration</b>			<b>396</b>
Satisfied by: Cash consideration			396
Effects on Group cash flow:			
Cash consideration			396
Cash balances on acquisition			(59)
<b>Net cash outflow</b>			<b>337</b>

### 21. Ultimate controlling party

According to the register maintained by the Company, discretionary fund management clients of HgCapital LLP (holding through Rowan Nominees Limited) held a significant interest in the ordinary shares of the company at 30 June 2014. The Directors consider there not to be an ultimate controlling party as none of the individual discretionary fund management clients of HgCapital LLP has an ownership of more than 20% of the issued share capital of the Company.

## NetNames Group Limited

### Company balance sheet

	Notes	2014 £'000	2013 £'000
<b>Fixed assets</b>			
Investments	3	1,000	1,000
Trade and other receivables	4	85	85
Trade and other payables	5	(160)	(160)
<b>Net assets</b>		<u>925</u>	<u>925</u>
<b>Capital and reserves</b>			
Called up share capital	6	11	11
Share premium account	7	1,116	1,116
Profit and loss account		<u>(202)</u>	<u>(202)</u>
<b>Shareholders' funds</b>		<u>925</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 23 October 2014.

Signed on behalf of the Board of Directors



**Paul Greensmith**  
Chief Financial Officer

The notes on pages 35 to 37 form part of these Financial Statements

# NetNames Group Limited

## Notes to company financial statements for the year ended 30 June 2014

### 1. Accounting policies

#### Basis of preparation

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 United Kingdom Accounting Standards (UK Generally Accepted Accounting Practice). 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.

In accordance with FRS 18 Accounting Policies, the Directors have reviewed the accounting policies of the Company as set out below and consider them to be appropriate.

The principal accounting policies are:

#### 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.

### 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 result for the year ended 30 June 2014 under UK GAAP was £nil (2013: loss of £202,000).

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.

### 3. Investments

	Shares in subsidiary undertakings £'000
<b>Cost</b>	
At 1 July 2013 and 30 June 2014	1,000
<b>At 30 June 2014</b>	
<b>Provision</b>	
At 30 June 2013 and 30 June 2014	-
<b>Net book value</b>	
At 30 June 2014	1,000
<b>At 30 June 2013</b>	1,000

## NetNames Group Limited

### Notes to company financial statements for the year ended 30 June 2014

#### 3. Investments (continued)

Details of the principal subsidiary undertakings at 30 June 2014 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 Limited *	UK	100%
NetNames 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 Holdings ApS *	Denmark	100%
NetNames A/S *	Denmark	100%
NetNames GmbH *	Germany	100%
Ascio 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%

\* 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.

#### 4. Trade and other receivables

	2014 £'000	2013 £'000
Amounts owed by group undertakings	85	85

#### 5. Trade and other payables

	2014 £'000	2013 £'000
Amounts owed to group undertakings	160	160

# NetNames Group Limited

## Notes to company financial statements for the year ended 30 June 2014

### 6. Called up share capital

	2014 Number	2014 £'000	2013 Number	2013 £'000
<b>Allotted, called up and fully paid ordinary shares of 1 pence each</b>				
At 1 July 2013	1,127,500	11	1,127,500	10
At 30 June 2014	1,127,500	11	1,127,500	10

### 7. Statement of movements on reserves

	Share capital £'000	Share premium £'000	Profit and loss account £'000
At 30 June 2013	11	1,116	(202)
At 30 June 2014	11	1,116	(202)

### 8. Reconciliation of movements in shareholders' funds

	2014 £'000	2013 £'000
Retained result for the financial year	-	(202)
New share capital subscribed	-	1
Share premium on issued shares	-	126
Net decrease to shareholders' funds	-	(75)
Opening shareholders' funds	925	1,000
Closing shareholders' funds	925	925

### 9. 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.