

CentralNic's global business footprint



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Highlights

- A year of growth, particularly following the Instra acquisition. Group revenues grew by 113% to £22.13m (2015: £10.39m) and Adjusted EBITDA grew by 68% to £5.48m (2015: £3.25m).
- Profit before taxation of £1.16m (2015: £1.45m) after deduction of non-cash charges, acquisition costs and exceptional items.
- Recurring/subscription revenues increased to 81% of overall revenues (2015: 67%¹).
- Acquisition of Instra Group completed on 14 January 2016 for consideration of £18.60m (AU\$38.04m); contributing Retail revenue of £10.28m and Adjusted EBITDA of £2.21m.
- Wholesale Division maintained ranking as the world's number one new TLD registry services provider by volume, increasing market share to 32% (2015: 23%). Wholesale domains under management of 9.89m (2015: 3.39m) reflected volume-based promotions of new TLDs which present potential for future renewals.
- Enterprise revenues included £3.74m (2015: £3.22m) of premium domain name revenues and a full year of dnsXperts revenues.

¹ Recurring/subscription revenues include revenue from domain registrations, domain renewals and other recurring revenues stated before deferrals.

Introduction to CentralNic

CentralNic Group plc (LSE: CNIC) (“CentralNic”) is one of the world’s leaders in the domain name industry. It continuously develops to meet the domain market’s evolving challenges and opportunities. CentralNic currently comprises three profitable and growing operating divisions each with its own proprietary technology platform. The Wholesale Division powers domain names and sells them through an integrated network of third party retailers; the Retail Division sells domain names and related services to end users; and the Enterprise Division sells domain names and related services, consultancy services and licenses software to corporations.

Headquartered in London, the business operates globally, with customers in over 200 countries. The Group focuses on identifying and exploiting growth opportunities across its three divisions. It does this through winning new clients, launching new products and services, and acquiring other companies that enhance and accelerate the growth strategy.

The Wholesale Division

At the end of 2016, the industry statistics website ntldstats.com again ranked CentralNic’s Wholesale Division number one globally by volume of domains registered among “Registry Backends” for new Top-Level Domains. The two most important contributing factors behind this achievement are the Division’s technology platforms and operations, and the domain name inventory for which CentralNic is the exclusive global wholesaler.

Technology Platforms and Operations

CentralNic’s Wholesale Division powers specific domain names and is also their exclusive distributor through retailers globally. The DNS system which powers the domains is a global network of nameservers, with 50 locations geographically distributed around the world. CentralNic’s DNS assures the stability, security and resilience of the domain names supported by CentralNic. During 2016 this system maintained its unblemished record of 100% uptime for the 20th consecutive year.

Meanwhile CentralNic’s “registry engine” enables retailers around the world to sell an increasing range of internet domain names. It also handles billing and cash collection on behalf of registry clients – the rights holders to the domains that CentralNic distributes. CentralNic also supports its registry clients with value added services such as policy advice and sales and marketing. CentralNic’s registry engine experienced 99.96% uptime in 2016, comparing favourably with the standard 95% set by industry regulator ICANN.

CentralNic’s distribution platform integrates with around 1,500 retailers globally and through them the channel reaches out to over 100,000 resellers. For the past four years, China has been one of CentralNic’s most buoyant markets. This reflects a business development and operational focus on China that has positioned the Company to benefit from the unprecedented demand for domain names in that market.

Domain Name Inventory

Every Top-Level Domain extension, such as .com, .org and .co.uk has an exclusive Wholesaler (known in the domain name industry as a “registry backend”). CentralNic’s platform supports all five categories of domain name extensions: Country Code Domain Extensions such as .la, .cx and .fm; Second-Level Domain extensions such as .uk.com and .us.com; Generic Top-Level Domain extensions like .xyz and .online; “sponsored” domains for a specific purpose such as .coop, the internet designation for cooperatives; and finally “DotBrand” Top-Level Domains such as .stc for Saudi Telecom Corporation, which uses CentralNic’s wholesale platform to power domains not for sale but for the rights holder’s own use. During 2016 CentralNic retailed domain names to customers in over 200 countries globally through its multiple retail websites.

Instra Group was acquired during 2016. The acquisition brought with it one of the widest range of domain extensions offered by retailers in the industry. These domain extensions include around 150 Country Code Domain Extensions (ccTLD’s), large numbers of Generic Top-Level Domain extensions, as well as related offerings such as shared hosting. The Instra brands address demand from customer segments including mid-cap corporate businesses, small-medium enterprises, private individuals and domain name investors. Since acquiring the business the overall registered domains increased by over 40,000 – a growth rate of 12%, a pleasing result in the first period of ownership.

Domain extensions exclusively using the CentralNic platform in 2016

COUNTRY CODE TOP-LEVEL DOMAINS

.FM	.PW
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COUNTRY CODE TOP-LEVEL DOMAINS (DISTRIBUTED VIA CENTRALNIC SOFTWARE)

.LA	.CX	.AM
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SECOND-LEVEL DOMAIN EXTENSIONS

.AE.ORG	.AR.COM
.BR.COM	.CN.COM
.CO.COM	.COM.DE
.COM.FM	.COM.SE
.DE.COM	.EDU.FM
.EU.COM	.GB.COM
.GB.NET	.GOV.FM
.GR.COM	.HU.COM
.HU.NET	.IN.NET
.JP.NET	.JPN.COM
.KR.COM	.MEX.COM
.NET.FM	.NO.COM
.ORG.FM	.QC.COM
.RU.COM	.RADIO.AM
.RADIO.FM	.SA.COM
.SE.COM	.SE.NET
.UK.COM	.UK.NET
.US.COM	.US.ORG
.UY.COM	.ZA.BZ
.ZA.COM	

GENERIC TOP-LEVEL DOMAINS

.BAR	.COLLEGE
.DESIGN	.FANS
.FEEDBACK	.HOST
.STORE	.INK
.LOVE	.ONLINE
.PRESS	.PROTECTION
.REIT	.RENT
.REST	.SECURITY
.SITE	.SPACE
.STORE	.TECH
.THEATRE	.TICKETS
.WEBSITE	.WIKI
.XYZ	

GENERIC TOP-LEVEL DOMAINS LAUNCHED IN 2017

.ART	.FUN
.OBSERVER	.REALTY

NEW GENERIC TOP-LEVEL DOMAINS CONTRACTED BUT NOT LAUNCHED

.BASKETBALL	.CONTACT
.FAN	.FORUM
.PID	.RUGBY
.STORAGE	

SPONSORED TOP-LEVEL DOMAIN

.COOP

"DOTBRAND" TOP-LEVEL DOMAINS

.ETISALAT	.KFH
.STC	.STCGROUP
.VIVA	.WME
.بيتك	.اتصالات

RETAIL DIVISION

During 2016 CentralNic retailed domain names to customers in over 200 countries globally through its multiple retail websites, which included:

www.internetbs.net

www.buy.menu

www.buydomains.london

www.centralnicfintech.com

www.cymrudomains.com

www.registrar.vuelos

www.domain.build

www.domain.luxury

www.domains.asia

www.domains.bar

www.domains.rest

www.la, www.whatdomain.la, www.laodomains.la

www.register.reit

www.registrar.hoteles

www.tickets.domains

www.centralnicdomains.com

www.instra.com

www.onlydomains.com

www.asiaregistry.com

www.europeregistry.com

www.africaregistry.com

www.americaregistry.com

Introduction to CentralNic continued

Internetbs.net (IBS) is another group retail brand focused on a specific customer group – domain investors and internet professionals such as hosting and web design companies. These companies typically offer “trade” pricing and sophisticated tools for managing domain name portfolios. During 2016, it increased its overall registered domains by over 172,000 – a growth rate of 24%.

CentralNic’s other retail websites each specialise in domains under a single Top-Level Domain (.asia, .luxury, etc.) and they also sell additional services such as hosting, email and website builders.

Enterprise Division

The enterprise market is gaining in importance in the domain name industry, and CentralNic is addressing this market in several ways.

DotBrands

CentralNic provides technical services to companies seeking their own “DotBrand” TLDs. These are a newly introduced type of Intellectual Property (“IP”) which allows brands and company names to occupy the Top-Level of domain names previously restricted to country codes and generic terms like .com. As this new form of IP can be operated by a company, exclusively, globally and ongoing it has attracted significant interest in the corporate sector. DotBrand clients which use CentralNic’s technical and consulting services include Global 1000 companies such as Saudi Telecom Company, Etisalat and Kuwait Finance House.

Software

CentralNic acquired a high quality domain management software product, DomiNIC in 2013, and the company that supports the software, dnsXperts, in 2015. DomiNIC is a workflow management software for the registration and management of domain names, which can be used as an in-house tool by enterprise clients, or as technology enabling corporations with large SME customer bases to monetise those customers by selling them domain names. Some of the largest corporations in the German-speaking markets use DomiNIC, and CentralNic has started introducing it to other markets.

CentralNic also offers licenses to its registry software as a component of its offering to corporations launching DotBrand Top-Level Domains.

Domain Names

Like many of its peers, CentralNic has a revenue stream from the sale of premium domain names. These are particularly favoured by large companies for a number of uses. They may correspond to a company brand name, they may be easily memorable and marketable (like a two-letter .com domain or a common word), and they may already benefit from internet traffic comprising potential customers. CentralNic trades in its own portfolio, with approximately 37,500 premium domain names (with values ranging from a small premium over normal retail pricing to seven figure sums). It also brokers premium domain sales for third parties in exchange for a commission.

CentralNic is also a shareholder in and distributor of the .tickets TLD. This innovative new use of a top-level domain is intended to allow venues, artists, sports teams and other rights holders to retail tickets direct to consumers, while giving consumers the comfort of knowing that any website using a .tickets domain is legitimate.

CentralNic's key advantages

The dynamics of CentralNic's business are quite specific and attractive to investors, notably with high levels of recurring earnings

1. Attractive profit margins

The business continues to be profitable, with the Group delivering an Adjusted EBITDA margin of 25% in 2016. The business provides domains and related services across its 3 divisions, which themselves exhibit a range of Adjusted EBITDA margins: Wholesale 39% in 2016; Retail 17% and Enterprise 60% in Adjusted EBITDA contributions (before deduction of group overheads).

2. Cash precedes revenues

Across the Wholesale and Retail Divisions, CentralNic often receives payments prior to recognising revenues and this can be for domain registration terms of up to 10 years. A number of customers for both the Retail and Wholesale Divisions pre-fund their accounts.

3. Recurring and subscription revenues

Selling domain names is an annuity revenue business. Domain owners are required to make renewal payments typically on an annual basis. This means that a portion of CentralNic's revenues do not result from the current year's activities or market conditions, but from customers paying an annual fee (or multiples of an annual fee for multi-year registrations) to retain their existing website or domain name – a reliable and predictable earnings stream. New domain registrations demonstrate similar characteristics in terms of payment in advance by both existing and new customers.

4. Diversity of revenue sources

CentralNic's revenue in its Wholesale and Retail Divisions comprises millions of small value transactions, so individual customer retention risk is relatively low in this context. Exceptions are the high value transactions that would typically be included in the Enterprise Division such as sales of premium domain names and the non-recurring elements of licensing contracts.

5. Scalable business with largely fixed costs

CentralNic's business is scalable through automation as the core technical development work on the Group's platforms was completed years ago, and the ongoing development and operational costs are largely fixed. During 2016 CentralNic's wholesale business grew from 3.39 million domains under management to 9.89 million with relatively low cost increases in that division while maintaining normal technical service levels.

6. Exposure to growing markets

CentralNic's focus on emerging markets, especially China, gives it exposure to the faster growing markets in the domain industry. A recent press report highlights the relatively low penetration of domain names in China relative to the population size.

(Source: <http://www.domainpulse.com/2017/02/24/china-big-growth-market-domain-names-domain-pulse/>)

Access to the internet remains an underlying driver of demand for domain names, including in emerging markets. In September 2015, the United Nations adopted new Sustainable Development Goals (SDGs) for the planet and its people. Target 9c of the SDGs is "Significantly increase access to information and communications technology and strive to provide universal and affordable access to the Internet in least developed countries by 2020." This goal was supported by a global call to action led by Mark Zuckerberg in conjunction with the ONE campaign, in a 'Connectivity Declaration' supporting the UN and stating that internet access is "essential for achieving humanity's goals" and seeking to deliver it to everyone on Earth by 2020. CentralNic is delighted that its own commercial vision and activities match so closely with policy makers and leading organisations' goals and is well positioned to play its part in supporting the ongoing expansion of the internet.

7. Distribution network

CentralNic's global distribution channel is a significant asset, as one of the world's most extensive and well-established global distribution networks for domain names. Over 1,500 retailers are integrated directly with CentralNic's databases. This includes the world's largest and most recognised domain name retailers, such as Go Daddy and Alibaba's Hi-China. These in turn enable CentralNic to access over 100,000 resellers, worldwide.

While take up was initially slow, an increasing number of registrars have now been accredited by the industry regulator ICANN to sell domain names using new gTLDs. CentralNic and its clients have secured more registrars actively selling domains using their TLDs than any other wholesaler. At the time of writing, .XYZ, is actively sold via 183 accredited registrars, about 38% more than the TLD with the next highest number of active registrars with any CentralNic competitor, according to industry statistics website ntdstats.com.

8. Premium domain name portfolio

CentralNic owns and trades from its own portfolio of around 37,500 premium domain names, and has also been contracted to broker additional domain names on behalf of third parties. Values of these premium domains range from slightly higher than standard retail prices up to seven figure sums.

9. Proven Mergers and Acquisitions and integration expertise

CentralNic successfully initiated and completed the acquisition of the trade and assets of Internet BS Corp in 2014 and was able to grow its domains under management by over 170,000 (24%) in 2016, demonstrating its ability to grow the domain base. A larger acquisition, Instra Group, was completed in January 2016 and by the end of December 2016 its domains under management had grown to over 379,000 from 339,000 in December 2015.

10. Excellent clients and partners

A list of DotBrand and Generic TLD clients is shown overleaf.

Selected CentralNic clients


CentralNic Group PLC comprises three divisions: Wholesale, Retail and Enterprise.

Wholesale provides services and platforms for registry operators.

Retail offers domain names and associated products for individuals, businesses and domain professionals.

Enterprise delivers domain portfolio management products and services for businesses.



Daniel Negari

- CEO of XYZ & youngest registry operator in the world
- Successfully launched the #1 new gTLD .XYZ
- Also launched .college, .rent, .theatre, .security & .protection
- Google's new holding company, Alphabet, launched on a .xyz domain name – www.abc.xyz

.tech

.uk.com

co.com

.CX

.us.com



Radix

- New venture from serial entrepreneur Bhavin Turakhia
- In 2016 joined the billionaire club with his brother Diviank via a successful exit from media.net
- Arguably the world's best performing nTLD registry with 5 domains in the top 35 by volume



Wholesale

.tickets



Dot LA Marketing Company

- The official marketing entity for .LA – the city TLD for Los Angeles
- .LA is the country code domain extension for Lao PDR
- Chosen by Latin American registrants, from bloggers to corporate websites like intel.la and bendito.la

.rest

fm



Raymond King

- CEO of Top Level Design
- Successfully launched .wiki, .ink and .design TLDs
- Through Top LevelDesign, King is still pursuing his bid for .gay
- Director of ICANNWiki, & Founder and former CEO of Snapnames

.bar

.com.de

1 million accounts in 250 countries

BUY DOMAINS LONDON

Internet.BS

- Managing over 143,000 customer accounts
- Supporting customers from 210 countries



Instra

- Managing over 206,000 customer accounts
- Supporting customers from 247 countries



AMERICA REGISTRY



Only Domains

- Managing over 205,000 customer accounts
- Supporting customers from 250 countries



AFRICA REGISTRY



ASIA REGISTRY

Asia Registry

- Managing over 153,000 customer accounts
- Supporting customers from 245 countries



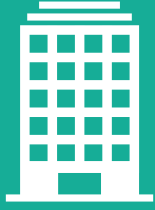
Europe Registry

- Managing over 245,000 customer accounts
- Supporting customers from 247 countries



Retail

Enterprise



Etisalat

- The Middle East's leading telecoms operator
- One of the largest corporations in the six Arab countries of the Gulf Cooperation Council
- Has a market value of approximately AED153 billion (US\$42 billion)
- Innovative pacesetters in the global telecoms industry



upc

William Morris Endeavor (WME)

- The world's largest diversified talent agency
- Have offices in Beverly Hills, New York City, London, Miami and Nashville
- Represents artists across all media platforms, specifically movies, television, music, theatre, digital and publishing

WME

finanz informatik
technologie service



swisscom

Saudi Telecom Company (STC)

- The largest telecoms services provider in the Middle East & North Africa
- Leading operator within the Kingdom of Saudi Arabia
- International presence extends to 11 countries
- Expanding presence in key regional growth markets

STC
الاتصالات السعودية



Kuwait Finance House (KFH)

- A pioneer of the banking phenomenon known as Islamic Finance
- First Islamic bank established in the State of Kuwait
- Currently one of the foremost Islamic Financial Institutions in the world

بيت التمويل الكويتي
Kuwait Finance House



SMART

ooredoo

Chairman's statement



2016 was a year of transformation for the CentralNic Group, delivering a step change in the scale and scope of the Group's operations. This was particularly noteworthy in our Retail Division, having completed the acquisition of the Instra Group in January 2016. There was also strong volume growth in our Wholesale Division as new Top-Level domain awareness increased. In a domain name sector that is consolidating, the increased scale delivered in 2016 evidences the Group's growth ambitions, in pursuit of enhanced returns for our shareholders.

Mike Turner Chairman

In my first full year as Chairman of the CentralNic Group I have been pleased with the Group's strategic development. We now have a more diverse business active in the majority of the world's geographic markets, notably with expansion of our retail services following the acquisition of the Instra Group. This is important to the future of our business, not least in providing a strong and comprehensive retail capability in close geographic proximity to emerging domain name markets, notably in the Asia Pacific region. Instra Group offers one of the broadest range of domain names of all domain name retailers as well as offering other related services, such as shared hosting. The result being a retail business exposed to the vast majority of the world's geographic markets. And as a long-established business, Instra also exhibits the characteristics that make the domain name industry attractive to investors, with relatively high levels of recurring revenues and healthy cash generation.

The completion of the Instra Group acquisition was a positive start to 2016, with the Group taking ownership on 14th January 2016. This prompted structural changes in our senior management team, combining our retail operations in one integrated division under the

leadership of Desleigh Jameson (who has continued as CEO of the enlarged Retail business). This had the effect of consolidating our retail operations under the management team in Australia and New Zealand, as defined in the Group's integration plan. Progress to date has focused on the operational integration, with synergy benefits including the consolidation of the Group's support functions into our service centre in New Zealand, consolidation of third party supplies and addressing any duplicated costs.

Our Retail Division sustained growth levels in domain volumes under management across all of our retail brands during this integration phase. Instra Group increased its domain names under management by 12% while Internet.BS, the Group's other main retail brand, by 24% – both largely due to growing demand for the new Top-Level Domains. I believe it will now be important to drive organic growth across all of our retail brands, assisted by tactical marketing initiatives focused on the products, segments and geographies of greatest interest to us. I look forward to seeing the Group's success as it strives for enhanced levels of retail customer acquisition in 2017.

Another significant development during 2016 was the increased adoption of domain names from the new Top Level Domain name programme. The new TLD programme is regarded as the biggest change in our industry for many years. It has brought hundreds of additional domain name choices for consumers while enabling greater choice for accredited retailers in terms of domain products to supply and promote. This industry-wide development has presented smaller players like CentralNic with the opportunity to expand both Wholesale and Retail operations. In addition, it has encouraged new industry participants and provided consumers with lower-priced mass market domains. It is particularly pleasing that, as a result of the first application round of new TLD's, CentralNic is contracted as registry service provider to some of the most successful new TLDs, including the leader by volume, .xyz. The .xyz domain achieved 5.8 million new registrations during 2016. While many of these were sold at low promotional prices, the domains present opportunities for higher priced future renewals. Given the larger base of domains under management and the enhanced increase in consumer awareness of new TLDs, we look forward to tracking new registration and renewals performance closely across all of our new TLD domains during 2017.

Across the CentralNic Wholesale portfolio of Top-Level Domains, our technical systems have coped admirably with the additional volumes registered in 2016 with nearly 10 million domains under the management of our Wholesale Division by the end of the year. This presents another step change in the scale of our operations and positions our Wholesale Division as a strong competitor for future growth opportunities. The Board is keen to achieve additional scale to enjoy the benefits of our automated wholesale platform and relatively low marginal costs.

The Group's strategy is focused on profitable growth. The Board is aligned behind the objectives of our acquisition programme alongside performance improvements within each of our Divisions. The Board is also committed to enhancing our recurring earnings model, partly achieved through further development of our Wholesale and Retail Divisions to increase their scale and improve their relative market positions.

The Enterprise Division presents interesting opportunities to grow revenues at relatively high margins by adopting a more service-led approach. We believe this will deliver additional recurring value to brand owners through domain name and online brand protection services. The Group continues to reduce reliance on non-recurring revenues, such as premium domain name sales. Our Enterprise business will continue to engage with major brand owners directly and via corporate channels as we seek to deploy our Enterprise services. In seeking to unlock the potential of our corporate-facing business, I am pleased we have recently been able to strengthen our management team with senior commercial hires, bringing considerable experience in this market segment.

Performance

I am pleased to report that 2016 was another very successful year, with the Group's financial performance in line with expectations.

The Group's revenue grew by 113% to £22.13m (2015: £10.39m). This included almost a full year of revenues from Instra Group, increased trading in valuable premium domain names on the secondary market and organic revenue growth in Internet.BS. Adjusted EBITDA also grew by 68% to £5.48m (2015: £3.25m) again in line with the plan, reflecting the growth in total revenues in part offset by the greater concentration of lower margin retail revenues. Profit before taxation was £1.16m (2015: £1.45m). Recurring and subscription revenues across the Group, before deferrals, increased to £17.23m (2015: £7.19m), which as a proportion of total revenues increased to 81% (2015: 67%).

Net cashflow from operating activities was £3.32m (2015: £5.69m). The beneficial working capital movements in 2015 were unusual and did not recur to the same extent in 2016 due to a change in the mix of activity between prepaid and post-paid registrar accounts related to the new TLD's and also the timing of payments to registry operators. Across 2015 and 2016, total net cashflow from operating activities was broadly in line with Adjusted EBITDA across the same two year period.

In terms of divisional performance, the Instra acquisition boosted Retail business revenues significantly to £14.32m (2015: £3.41m). Instra Group contributed £10.28m of the growth, with organic growth from Internet.BS generating a further £0.64m increase. Instra's revenue performance was consistent with 2015 while the primary focus was on operational integration. Recent tactical marketing initiatives commenced in the first quarter of 2017, and are showing early promise as we focus on driving organic growth and optimising gross profit performance.

The Wholesale Division delivered net revenue of £3.18m (2015: £3.13m). There was a change in the mix during the year, masking underlying growth in revenues from new Top-Level Domains of £0.43m. The divisional result continues the trend of a lower average sale price from the generic Top-Level Domains combined with the expected decline in demand for the higher priced Second-Level Domains. Scaling up activity levels in this division remains an important priority given relatively low marginal costs, and we are well-positioned to do so given our credentials and the leading role we occupy in the new TLD programme.

The Group's Enterprise Division made steady progress in 2016, delivering revenue of £4.63m (2015: £3.86m). Revenues were again weighted towards non-recurring premium domain name sales and commissions of £3.74m (2015: £3.22m). Other revenues included £0.56m from a full year of dnsXperts (2015: £0.21m) and dot brand customer revenues of £0.17m (2015: £0.07m).

Chairman's statement continued

Dividend

It remains the intention of the Group to generate income returns for investors in the future as part of a progressive and commercially prudent dividend policy. However due to the continued expansion opportunities presented by the sector the Directors do not propose a final dividend in 2016. Dividend policy is reviewed annually.

Outlook

The outlook for the Group is promising, as we strive to deliver growth opportunities that enhance our profitability and increase our recurring revenue streams. Internet adoption continues to drive sustained demand for domain names, notably from emerging markets. The Group is well positioned to benefit from demand in these markets via its Retail and Wholesale businesses and will seek to leverage its platforms across additional geographies and language scripts as we move forward.

Awareness of the new Top-Level Domains is also increasing across a number of geographic markets, in part due to the marketing successes of our registry operator clients, notably in the Far East. This has created a larger base of domain names on our platform that are due to renew or expire in 2017. We look forward to seeing the trends in renewal performance as they emerge in the coming months.

Larger corporates present another segment of interest to us, with unlocked potential in selling domain names and related domain portfolio management and brand protection services. A combined channel and direct sales approach will be adopted by our commercial team. This will help build and convert opportunities from our sales pipeline, as well as identifying additional value that we can bring to corporate customers. Success will be important to us as we seek to reduce reliance on non-recurring revenues.

The Group is also focused on opportunities to accelerate our growth, via earnings enhancing acquisitions that deliver strategic benefits, such as market access or diversified products and services. The Board recognises the importance of acquisitions to accelerate our profitable growth, while adding scale and capability in a sector which is consolidating.

The amount of change in the business is significant, with activity levels high across each of our three divisions and with our mergers and acquisitions programme continuing to bring benefits and present new and interesting opportunities to the Group. I would like to take this opportunity to thank staff across the Group for their dedication to CentralNic and for their passion and drive to achieve our goals. I would also particularly like to thank our existing and new investors and lenders who have supported our team during a transformational year for the Group.

With continued progress in all areas of our business, at this stage of the year we remain confident in the outlook for 2017.



Mike Turner Chairman
9 May 2017

Chief Executive's report



In 2016 CentralNic has continued to deliver strong growth as well as strategic successes across the business.

Ben Crawford Chief Executive

Performance overview

CentralNic continued on its trajectory of rapid growth during 2016: achieving revenues of £22.13m (an increase of 113% over 2015), and Adjusted EBITDA of £5.48m (an increase of 68% over 2015). Our Retail and Enterprise Divisions experienced growth in Adjusted EBITDA and profit before taxation and there was growth in our new Top-Level Domain revenues in the Wholesale Division, as demand notably from the Chinese market emerged as one of the industry's principal growth drivers and where CentralNic has taken a leading role.

Our strategic successes were equally significant. In 2016 CentralNic increased the proportion of its revenues in the recurring category to 81% of its total revenues, which includes domain name renewals, new domain name registrations and other recurring revenues stated before deferrals. CentralNic grew its share of the new Top-Level Domain market from 23% to over 32%, increasing its share as the world's premier wholesaler of new Top-Level Domains by volume, in a year when the total number of domains using new Top-Level Domains rose from 11.2 million to over 27.6 million.

At the same time, we successfully acquired and integrated the domain retailer Instra Group, vastly increasing the inventory that we sell and giving us exposure to attractive new markets. And we continued to win new clients, launch new services and close significant sales.

At the end of the year the Group had cash balances of £9.90m (2015: £19.06m, of which £14.83m was used for the Instra acquisition in January 2016) and net cash balances of £7.28m (2015: £19.06m).

Wholesale Division

With revenues of £3.18m (2015: £3.13 million) in its Wholesale Division, CentralNic increased its lead as the world's leading wholesaler (or "Registry Backend Provider") of domain names using new gTLDs, from 23% market share at the end of 2015 to over 32% at the end of 2016. At the end of 2016 we had approaching 9 million new TLD names registered (the number two provider having around 6 million). CentralNic ended the year with six new TLDs in the ranks of the Top Twenty-five sellers by volume, from a total universe of around 1,200 launched in total. CentralNic's wholesale platform was able to supply domains to more retailers actively selling them than any competitor: in the table of TLDs with the highest number of retailers supporting them, CentralNic-distributed TLDs hold nine out of the top ten positions. (Source: industry statistics website ntdstats.com)

A number of factors are contributing to the success of CentralNic's Wholesale Division. These include our proven ability to win new business, which continued in 2016 with the addition of .store, .art, .fun and .fm to our customer base. We also soft-launched a second "Registry Gateway" wholesale platform in 2016, which provides the country code TLDs .am, .cx and .la to retailers globally.

CentralNic has notably supported new pricing and promotional strategies that have disrupted the traditional domain name wholesale model and captured most of the growth in the domain industry. As well as supporting premium-priced restricted TLDs like .reit for Real Estate Investment Trusts, CentralNic has supported its clients in launching marketing initiatives which have succeeded in achieving unprecedented registration numbers. For example, the 2nd anniversary .xyz marketing campaign in June 2016 boosted the number of .xyz registrations with over 3.6 million new domains registered in that month, increasing the total domains registered under .xyz to over 6.1 million domain names.

Chief Executive's report continued

CentralNic's focus on emerging markets, especially China, which predates our IPO in 2013, has proven prescient, as China has been the single largest market for domain names using new TLDs during 2015 and 2016, accounting for an estimated 60% of new TLD registrations. This demand has also propelled the country code .cn to become the world's second most registered domain extension after .com. We believe CentralNic is the most successful non-Chinese distributor of new TLDs in China, and it finished 2016 with four of its TLD clients being granted accreditation from China's Ministry for Industry and Information Technology, officially allowing those TLDs to be used for websites hosted in China.

Retail Division

CentralNic's Retail Division revenues in 2016 were £14.32m (2015: £3.41m), reflecting the significant increase in retailing activities following the acquisition of Instra Group in January 2016. This acquisition increased the breadth of domains offered by our retailers to include virtually all new gTLD extensions and most country code extensions, with CentralNic now ranked among the leading vendors of domains ranging from .law for lawyers to .ae for the United Arab Emirates. The Instra acquisition also gives CentralNic direct retail exposure to desirable customer segments, notably including small businesses in emerging markets and corporate customers who maintain large portfolios of domain names as part of their Intellectual Property and brand protection activities. Finally Instra Group gives CentralNic its first exposure to the shared hosting market, which exhibits attractive margins.

In 2016 the Retail Division also launched new dedicated websites for the Spanish language TLDs .hoteles, .vuelos and .passagens as well as for .law (under contract from Minds and Machines Plc).

Enterprise Division

CentralNic's Enterprise Division continued to grow in 2016, with revenues of £4.63m (2015: £3.86m).

Our premium domain name business performed well with revenue of £3.74m achieved during the year (2015: £3.22m). Notably, Accent Media, the Registry Operator for the .tickets TLD (in which CentralNic holds a c.10% minority equity stake) achieved one of the most successful Premium domain name sales under a new TLD, receiving USD200,000 for [broadway.tickets](#) in cash proceeds plus a 10% equity stake in that site, which is intended to be used to aggregate a market for theatre ticket sales on Broadway.

The recurring revenue components of our enterprise business continue to grow. With our assistance a number of corporate clients completed the ICANN processes required to obtain their own Dot Brand Top-Level Domains, with Saudi Telecom notably launching their new TLDs in 2016. Other corporate and government clients continue to license CentralNic software and use our support services to sell domains or manage them in-house.

Outlook

I am delighted to report a number of major steps forward in 2017.

Increased renewal revenues are expected to emerge in 2017, as the base of domains due to renew or expire has increased to 9.89m million domains in the Wholesale business (2015: 3.39 million) and 1.27 million in the Retail business (2015: 0.72 million). Renewal rates we have experienced in 2016 for .xyz and our other high volume TLDs are in line with our expectations.

New TLDs already launched on the CentralNic Wholesale platform in 2017 include .fun, .realty, .observer, and .art. In addition, there is a further pipeline of new TLDs in the process of contracting to migrate to the CentralNic Wholesale platform.

Additionally, the industry regulator ICANN continues its review of the new TLD programme as a first step towards opening future rounds of applications – meaning potential future opportunities for CentralNic.

In our Enterprise Division, we have identified online security and brand protection services for corporate customers as an important potential recurring revenue line of business. The Company has appointed two experienced executives from this segment – the former Commercial Operations Director and former Marketing Director of Group NBT (Netnames) – to lead revenue growth initiatives in this area.

Finally, following our successful acquisitions of Internet.bs and Instra Group, CentralNic has identified a number of acquisition targets with high levels of recurring earnings, which potentially would combine earnings accretion with strategic benefits as we seek to expand the Group's product and services suite, geographic reach and customer base. CentralNic is planning to further strengthen its leadership team in 2017 to accelerate its acquisition processes moving forward, and is in active discussions with the operator of the Slovakian ccTLD.

CentralNic continues to prove its ability to identify and exploit growth opportunities in the domain name services industry, by winning clients, launching new products and services and successfully acquiring and integrating other businesses. This dynamic and agile approach to a rapidly evolving market has driven CentralNic's 113% revenue growth in 2016, and we fully anticipate it will continue to serve the Group equally well in the future.



Ben Crawford, Chief Executive
9 May 2017

Strategic report

CentralNic's vision is to rapidly join the ranks of world leaders in the domain name and associated services industry (which include a number of multi-billion-dollar companies). It aims to achieve this through a combination of winning new customers, launching new services and acquiring businesses. CentralNic comprises three profitable divisions addressing some of the fastest growing segments of the internet: new Top-Level Domains; providing businesses in emerging markets with the tools to get online; and helping some of the world's largest companies with their next generation internet initiatives.

Strategy

In 2016 CentralNic grew revenues by 113% and Adjusted EBITDA by 68%, whilst achieving 81% recurring and subscription revenues¹. Profit before taxation was £1.16m (2015: £1.45m). It achieved this through a combination of organic growth and acquisitions. CentralNic's strategy for continuing its accelerated growth trajectory is to consistently increase its scale and scope of operations by:

- Developing and operating scalable software platforms to serve global markets with domain names and related services
- Identifying and exploiting relatively high growth areas of the domain industry, including taking a leading role in disruptive initiatives such as new Top-Level Domains, servicing country code domains, and focusing on demand from growth markets such as China
- Winning and retaining well-resourced partners with complementary objectives
- Sourcing and executing acquisition transactions that meet our strategic criteria including being earnings accretive with a strong recurring revenue base.

Supporting the strategy is a culture derived from the Group's entrepreneurial roots, with a Group-wide passion for entering and profitably competing in new markets. CentralNic's culture is characterised by the following qualities:

- a) A focus on growth and recurring high quality earnings
- b) A global perspective
- c) Innovation
- d) The best technology
- e) Expert and flexible client service
- f) Excellence in execution

¹ Recurring/subscription revenues include revenue from domain registrations, domain renewals and other recurring revenues stated before deferrals.

We would describe our business as a leading challenger brand in an exciting fast-paced sector. We are able to match and often exceed service levels provided by larger competitors. In turn we see our organisation transitioning from a smaller successful player into a global leader within the domain name industry.

Developing and operating scalable software platforms

CentralNic's software development teams have developed bespoke wholesale, retail and enterprise platforms. CentralNic's businesses operate these platforms, supporting the stages in the domain industry supply chain. CentralNic's Wholesale Division enables new TLD and ccTLD rights holders to supply their domains to an integrated network of around 1,500 retailers and through them over 100,000 resellers, including billing and cash collection services. Among these retailers only a relatively small number are accredited by the industry regulator ICANN, which in turn allows them to be supplied with new TLD domains. Through its wholesale platform CentralNic supplies more accredited registrars than any of its peers, and it will continue to supply new registrars as they become accredited.

CentralNic's retail platforms allow different categories of end users across ten different languages to register domain names and purchase the additional services required to deploy their websites and email. These platforms are presented to the buyers through a number of retail websites focused on different market segments. Finally, CentralNic's enterprise platforms allow corporations and domain investors to manage their valuable domain name portfolios.

As well as being operated by CentralNic's own businesses and offered to third parties on a Software as a Service (SaaS) or managed service basis, these software platforms are also licensed to third parties, including governments, telcos and other enterprise clients, as well as TLD registries,

Strategic report continued

Identifying and exploiting relatively high growth areas of the domain industry

Demand in growth markets may be driven by new inventory, such as the launch of a new "Dot Industry" domain name (like .law or .tickets), by a policy liberalisation or even by price reductions for a country code TLD, increasing a domain's addressable market. CentralNic's registrars are vigilant taking advantage of these opportunities in the markets they serve, often delivering strong results. For instance CentralNic's wholesale business is the leading non-Chinese wholesale supplier to the Chinese market, and CentralNic's registrars are the second highest sellers of both .law domains for law firms and .ae domains for the United Arab Emirates.

Growth opportunities also come from improvements in internet access levels in emerging markets, emanating from the adoption of smart phones, broadband connectivity and governmental support for local digital economic development. Here again, CentralNic is actively satisfying demand in these emerging markets.

Winning and retaining well-resourced partners with complementary objectives

As a platform-based business, CentralNic excels in its ability to acquire and retain entrepreneur and corporate clients to enable its ongoing growth.

For the Wholesale Division, CentralNic has sought out and won clients with excellent domain name inventories combined with the resources and know-how to successfully penetrate their chosen markets. This inventory includes a range of domain extensions with different business strategies – value-based mass market generic domains like .xyz and .website, and industry-specific TLDs such as .host, .tickets, and .bar. And for the country code market extensions such as .LA (the code for Laos repurposed for Los Angeles and Latin America), .FM (the code for Micronesia repurposed to represent radio and music streaming), and .PW (the code for Palau repurposed as "Professional Web"), and country specific Second-Level Domain extensions like .cn.com and .uk.com (which present alternative domain extensions to the country code Top Level Domains). CentralNic is active in developing a pipeline of new domains to add to its Wholesale platform.

Group-wide, CentralNic deploys a number of online customer acquisition strategies, including search engine and user interface optimisation, search engine marketing and email marketing. We also employ a number of offline techniques such as events and exhibitions, partnerships with registries and industry associations, outbound activity from our call centre and direct sales. Customer acquisition strategies are designed to deliver improving investment returns.

CentralNic also excels in customer retention, thanks to its philosophy of close collaboration with and adding value to its clients. For example, to bring more value to its clients, in addition to traditional "backend" technical and billing services, CentralNic offers expert advisers and account managers, as well as sales, marketing, policy and technical development resources on a fee for service or revenue share model. Our clients are provided with business information to track the services we provide, and have access to our entire team of experts, as well as designated account managers to ensure that our service is responsive and that the voice of the customer is clearly heard. This in turn positively influences the development of our products and services.

Sourcing and executing acquisition transactions that meet clear strategic criteria including being earnings accretive with a strong recurring revenues base.

The acquisition of Instra Group was a significant step forward in CentralNic's growth strategy, and the characteristics of this acquisition are representative of CentralNic's M&A strategy. CentralNic's systems for sourcing and evaluating acquisition prospects is an area of particular management and Board-level focus.

CentralNic identified the Instra Group as a target following careful evaluation, having attributes that satisfied a number of key criteria. Firstly, Instra Group enjoys substantial recurring revenues and a history of growth with a very broad range of domains supplied. Secondly, Instra addressed gaps identified in CentralNic's service offerings and market reach. This included an in-house 24x7 call centre, online marketing expertise, a corporate client base, access to key emerging markets and exposure to the hosting market.

Lastly, although a complex transaction due to the many territories in which Instra has a corporate presence, the Instra business was of sufficient scale to justify the required administration. The addition to CentralNic's revenues and Adjusted EBITDA has been substantial, making this a transformational acquisition for the Group. The criteria of low execution risk, meaningful scale and earnings contribution are also key to assessing acquisitions moving forward.

Financial performance

A review of the financial performance of the Group is provided in the Chief Financial Officer's report on page 18.

Key Performance Indicators

Details of the Key Performance Indicators are provided on page 18.

Principal risks and uncertainties facing the Group

The Directors have considered the principal risks and uncertainties facing the Group, the main ones are outlined below.

Regulatory

The businesses of both registries and registrars are subject to the legal and contractual environment. These are subject to change, not least in the ICANN community, and changes have the potential to influence business outcomes.

CentralNic satisfies ICANN technical and operational requirements, and maintains an active voice in the development of policy within the ICANN community.

Market

There is a risk that the market for domains owned by the Group or for which the Group provides registry and registrar services may not increase as quickly as expected or that the new TLDs may not generate the revenue levels anticipated by the Board.

In either case the Group's revenues could reduce below expectations with an impact on profitability.

The risk is mitigated to a degree by operating multiple lines of business exposed to many vertical markets and segments, some of which have very little reliance on new TLDs.

IT security

If the Group does not prevent security breaches or becomes susceptible to cyber-attacks, it may be exposed to lawsuits, lose customers, suffer harm to its reputation, and incur additional costs. Unauthorised access, computer viruses, accidents, employee error or malfeasance, intentional misconduct by computer "hackers", and other disruptions can occur that could compromise the security of the Group's infrastructure or confidential information.

The Group has created a resilient network infrastructure and Domain Name System server constellation, with failover secondary systems to ensure critical registry functions are maintained. The Wholesale business has been certified under ISO 27001/2013 for data security, thereby mitigating risk by adherence to international best practice.

Supplier risk

A number of the key technical services used by the Group are outsourced to key suppliers, thereby creating the potential for risk in the case of the failure or loss of a supplier.

In view of these risks, redundancies have been introduced between the suppliers and internal resources, ensuring that no single point of failure could result in the inability of CentralNic to meet its contractual or compliance obligations.

Currency risk

The Group reports its revenues and costs in British Pounds Sterling, whilst some of these revenues and costs may arise in currencies other than this. Fluctuations in exchange rates may adversely affect the Group's reported profits, and make its overseas contracts relatively less valuable.

CentralNic contracts are usually denominated in British Pounds Sterling, US Dollars, Euros or Australian Dollars and the Directors keep the currency exposure under regular review. The Directors consider the use of hedging instruments in the event that currency exposure is considered a material performance risk. A currency instrument was deployed to protect the Group's interests on completion of the acquisition of Instra Group.

Dependence on key personnel

The Group has a small management team and the loss of any key individual or the inability to attract appropriate personnel could impact upon the Group's future performance. Incentives and a performance culture remain an important focus to the achievement of the Group's objectives.

Other risk factors

In addition to the impact of the downturn of the world's economies, the Group may be adversely affected by other changes in economic, political, judicial, administrative, taxation or other regulatory or other unforeseen matters. For example the impact on the Group from the UK exiting the European Union is to emerge and will be monitored over the coming months and years.

This strategic report was approved by the Board of Directors on 9 May 2017 and signed on its behalf by:



Mike Turner Chairman

Chief Financial Officer's report



The acquisition of Instra improved the financial performance of the Group during 2016, creating a step-change in reported revenue and Adjusted EBITDA. It also enhanced the quality of the Group's earnings in line with our strategic objectives, providing greater visibility and diversity of earnings.

Glenn Hayward Chief Financial Officer

During 2016 the scale of the Group's activities was substantially enhanced by the acquisition of the Instra Group. The result was a step-change in revenues and Adjusted EBITDA contribution from the Retail Division, making this the largest revenue-generating division in the enlarged group. This helped to drive a significant 68% increase in the Group's Adjusted EBITDA, whilst profit before taxation declined by 20% due to the effect of non-cash charges.

Instra's results were included from the date of acquisition, the 14th January 2016. As such they present a near full-year contribution, with revenue of £10.28m and Adjusted EBITDA of £2.21m reported in 2016. The fair value of the consideration was £18.60m, having adjusted for the working capital acquired. The cash outflow for the acquisition was funded from an equity placing in December 2015, a £3.50m 3 year secured term facility drawn in January 2016 and existing cash balances.

The 2016 results for the Enterprise Division included premium domain trading from CentralNic's portfolio, contributing £3.74m of revenue (2015: £3.22m) and £2.88m Adjusted EBITDA (2015: £2.68m). Trading in premium domains represents an ongoing activity within the Group and provides opportunity to enhance earnings and available cash resources. Having said this, the Directors recognise that this is a more unpredictable source of earnings and hence invest the funds realised to increase the proportion of the Group's earnings from more predictable sources.

The Wholesale Division generated consistent results year-on-year, with revenue of £3.18m (2015: £3.13m) and Adjusted EBITDA of £1.24m (2015: £1.40m). There was the expected mix effect, with reduced revenues from higher priced Second Level Domains offset by increased revenues from the new Top-Level domains. The wholesale division is well placed in the industry with demand growing for the new Top-Level

domains and an increased number of domains due to renew or expire in 2017 (Wholesale domain names under management stand at 9.89m at the end of 2016 (2015: 3.39m)). Trends in renewals will emerge during 2017.

Key Performance Indicators

In terms of the 2016 year financial results:

- Revenue £22.13m (2015: £10.39m)
- Adjusted EBITDA* £5.48m (2015: £3.25m)
- Profit before taxation £1.16m (2015: £1.45m)

* Excludes impact of share payment expense for the share options issued to Directors and Employees and acquisition costs and exceptional items

Growth in revenue of 113% was achieved during 2016, with revenue increasing to £22.13m (2015: £10.39m). Out of the total revenue growth of £11.74m, the Retail Division grew by £10.91m to £14.32m (2015: £3.41m). The growth mainly came from the Instra Group, with revenue consistent with 2015. Wholesale revenues were broadly flat due to mix effects at £3.18m (2015: £3.13m), while Enterprise revenues grew to £4.63m (2015: £3.86m) due in large part to premium domain trading.

The quality of the Group's earnings remains an important strategic priority for the Group and our investors, as we strive to increase the proportion of our revenues derived from predictable sources. This was one important factor in assessing the Instra acquisition, with virtually all of Instra's revenues, earnings and cashflow derived from new registrations and renewals of domain names and hosting contracts. This enabled the group to increase the proportion derived from recurring/subscription based revenues to 81% in 2016 (2015: 67%). The Group believes this is a useful measure in demonstrating progress towards an increasing proportion of annuity-based revenues.

Revenue performance in the Retail business included virtually a full year of Instra, which created a significant increase in scale, contributing £10.28m of revenue. On a proforma basis Instra Group revenues were broadly in line with prior year, with 2015 launch revenues from new TLD's not recurring at the same level in 2016, partly offset by accelerated demand for lower priced domains, such as .xyz and flagship store revenues. This combined with 2016 being a period of operational integration for Instra, which was a principal focus for management. Internet BS contributed £3.97m of revenues in the year (2015: £3.33m), boosted by sales of new TLDs and favourable deferral movements. Domains under management increased by 172,000 or 24% in Internet.BS, translating to 19% revenue growth. Demand for the new TLDs was most notable for .xyz on the Internet.BS site, offsetting a reduction in demand for .com domains. Adjusted EBITDA from Instra Group was £2.21m and from Internet BS was £0.36m (2015: £0.33m).

The Enterprise Division generated revenues of £4.63m (2015: £3.86m), largely due to trading in premium domain names from the Group's portfolio. Revenues from premium domain name trading and commissions received totalled £3.74m (2015: £3.22m).

Other Enterprise Division revenues also included a full year contribution from dnsXperts UG of £0.56m (2015: £0.21m), which became a subsidiary company in July 2015. Revenues included support and maintenance revenues for the DomiNIC portfolio domain management platform and service revenues for Datagroup Vega GmbH. The dnsXperts developers and project managers also worked on the EPP gateway project for the Group during 2016. Contracted dot Brand clients contributed £0.17m of revenues principally for the technical operation of the registries for their dot Brand Top-Level domains (2015: £0.07m) and there was also a registry software licence sale to a country-code Top-Level domain. These sales offset shortfalls in corporate consultancy revenues and DomiNIC revenues, which form areas of focus for the new Commercial Director as we seek to unlock their potential in 2017.

Revenue performance in the Wholesale Division reflected the continued change in mix and demand from the market, with the increase in demand for new Top-Level domains offsetting the expected decline in demand for the higher priced Second-Level Domains. The new TLD performance was very much about high volumes but at low initial prices, as the TLD operators sought to establish their presence in the market. Demand was notable from the Far East for .xyz and other mass-market domains, such as .online and .site. The result was revenue of £3.18m for the division (2015: £3.13m), with new TLDs contributing revenue growth of £0.43m (pre-deferrals). This helped to offset the reduction in SLD revenues and non-recurring consultancy from 2015.

The Wholesale Division significantly increased the scale of activity during 2016, with the platform serving 9.08 million new domain years registered (2015: 3.05 million) and 1.04 million domain years renewed (2015: 0.37 million). This expansion was partly driven by a low-priced promotion by .xyz in June 2016, with over 3.6 million domain years registered in that month

alone. The result is total domains under the management of the Wholesale Division totaling 9.89 million at the end of 2016 (2015: 3.39 million). The majority of these domains will be due for renewal or expiry during 2017.

Adjusted EBITDA, before the share based payment expense and acquisition deal fees and exceptional items, totalled £5.48m for the year (2015: £3.25m).

This result principally reflected the flow-down effect of the revenue growth in the Retail division, noting that this was planned to have a dilutive effect on profit margins. Retail Adjusted EBITDA totalled £2.42m during the year, principally due to Instra which contributed £2.21m (a 22% Adjusted EBITDA margin on revenues). Enterprise Adjusted EBITDA contribution increased to £2.79m (2015: £2.61m), offset by a slight reduction in Adjusted EBITDA from the Wholesale Division, which contributed £1.24m (2015: £1.40m).

AIM and corporate overheads, which have not been allocated by division, were consistent with the prior year at £0.96m (2015: £0.93m).

Acquisition costs and exceptional items totaled £1.26m (2015: £0.83m). The acquisition-related costs supporting the group's acquisition programme included a variety of deal completion and integration costs for Instra. There were also shut-down costs for the old Internet.BS entity, a commercial settlement agreement and related fees, and fees associated with treasury policy and compliance for the enlarged group.

Finance income includes the interest receivable from Jabella, a related party (see note 9 to the financial statements). Finance costs include £0.13m of expenses for the term loan arrangement fees and associated legal costs, as well as the cost for the hedging instrument used for the Instra acquisition.

Other non-cash expenses included a significant increase in the amortisation of intangible assets, totaling £2.07m (2015: £0.58m) reflecting the first period of charges for the Instra customer list, domain names and software acquired. They also include depreciation and the share based payments expense. In accordance with IFRS 2 Share Based Payments, we have included a £0.62m charge for Director and employee share options within administrative expenses (2015: £0.32m). This reflects additional awards made during 2016 for Instra and dnsXperts UG employees along with the full year effect of options awarded to Non-Executive Directors. Further details can be found in note 27 to the financial statements.

The Group's effective tax rate was 17.5% (2015: 37.7%) with the lower rate reflecting the tax effect of intercompany charges from efficient structuring of the Group following the Instra acquisition and overprovisions from 2015.

Basic earnings per share at 1.00 pence (2015: 1.40 pence) reflected the improved Adjusted EBITDA in the business but then offset by non-recurring acquisition costs, amortisation charges, exceptional items and non-cash charges. Diluted earnings per share, at 0.97 pence (2015: 1.36 pence), reflected the dilutive effect of the share options "in the money" at the average share

Chief Financial Officer's report continued

price for the year. Further details of the earnings per share calculations are provided in note 11 to the financial statements.

Pensions

The Group created a defined contribution pension scheme in June 2016 in line with the new auto-enrolment provisions in the UK. In Australia the Group operates a superannuation scheme in line with statutory requirements and in New Zealand a KiwiSaver scheme in line with the KiwiSaver Act 2006. The Group does not operate and has never operated any defined benefit schemes requiring actuarial valuations.

Dividends

It remains the intention of the Group to generate income returns for investors in the future as part of a progressive and commercially prudent dividend policy. However due to the continued expansion opportunities presented by the sector the Directors do not propose a final dividend in 2016.

Group statement of financial position

The Group had net assets of £25.22m at 31 December 2016 (2015: £20.05m), with the growth in net assets including the equity issued during the year (totalling £1.91m after fees; 2015: £11.62m), movements on the foreign exchange translation reserve mainly due to movements in AU\$/£STG exchange rates, and the retained profit for the year. Consideration shares were issued in relation to the Instra acquisition, with further details provided in note 19 to the financial statements.

The statement of financial position most notably reflects the inclusion of the Instra Group acquisition, which increases a number of the balances in 2016. The balances acquired are included in note 24 to the financial statements, and under notes 12 and 13 under "Acquisition of subsidiary".

As the Statement of Financial Position has materially changed due to the Instra acquisition in 2016, the table below which is an extract of the Group's Statement of Financial Position illustrates the constituent elements of the Group's position at 31st December 2016.

	Centralnic Group £'000	Instra Group £'000	Consoli- dation Entries £'000	Total Group 2016 £'000	Total Group 2015 £'000
ASSETS					
Non-current assets					
Intangible assets	5,202	122	24,498	29,822	5,390
Investments	22,101	–	(21,104)	997	997
Other non-current assets	724	2,044	–	2,768	168
	28,027	2,166	3,394	33,587	6,915
Current assets					
Other current assets	9,468	4,124	(1,673)	11,919	5,425
Cash and bank balances	7,549	2,353	–	9,902	19,060
	17,017	6,477	(1,673)	21,821	24,791
Total assets	45,044	8,643	1,721	55,408	31,706
EQUITY AND LIABILITIES					
Total equity	25,936	(486)	(231)	25,219	20,046
Non-current liabilities	2,168	3,023	3,235	8,426	910
Current liabilities	16,940	6,106	(1,283)	21,763	10,750
Total liabilities	19,108	9,129	1,952	30,189	11,660
Total equity and liabilities	45,044	8,643	1,721	55,408	31,706

Capital expenditure and investing activities

The most significant investment made during the year was the acquisition of the Instra Group, with further details of the acquisition entries provided under Business Combinations in note 24 to the financial statements. Intangible assets (including goodwill) acquired under fair value accounting are denominated in AU\$ and included the Instra customer list, goodwill, the registrar software systems and domain names including the platforms for the ongoing transactions of the trade. The total value of intangible assets acquired with Instra was AU\$47.82m (£23.34m).

In line with the appropriate treatment for translation of a foreign operation into the Group's presentational currency, both the tangible and intangible assets are translated at the closing rate generating foreign exchange differences as presented in notes 12 and 13 to the financial statements.

With the exception of goodwill, the Group's intangible assets are amortised in line with the accounting policy. The carrying value of customer lists and goodwill are tested annually for impairment, while the Directors also consider other intangible assets and investments for indications of impairment. Further details are provided in note 13 to the financial statements.

Capital expenditure on tangible assets was £0.15m during the year (2015: £0.05m). Expenditure on plant and equipment was again modest, reflecting the business model which has a relatively low capital expenditure requirement. Intangible asset additions totalled £0.35m (2015: £0.30m) including the costs of development activities satisfying the criteria detailed in note 3 part f to the financial statements. The slight increase related to capitalised development activities in Instra and dnsXperts UG.

Further details are provided in notes 12, 13 and 24 to the financial statements.

Cashflow and net cash

The cashflow statement for the Group includes two major themes, being the entries related to the financing and completion of the Instra acquisition and then the results of the ongoing operations of the business, taking into account the fluctuations in working capital.

Net cashflow from operating activities was lower than the previous year at £3.32m (2015: £5.69m). Across both years, the net cashflow from operating activities was in line with expectations relative to Adjusted EBITDA. 2015 had benefitted from favourable working capital movements as a result of the timing of increased payments owing to registry operators that were settled in early 2016 and the funds paid on account by registrars to support new TLD activity levels. In 2016 the more usual trend of favourable working capital movements continued but was offset by increased activity from post-pay registrars, notably in China. Other 2016 cash outflows included increased professional fees and investment in stock of domains for resale.

Investing activities were mainly due to the Instra acquisition, which completed in January 2016 with a subsequent settlement for working capital balances acquired. The net cash outflow related to the acquisition totalled AU\$30.30m (£14.83m) and was funded by a combination of the equity placing in December

2015 which had raised £9.40m net of fees, the £3.50m term loan facility and £1.93m from the Group's available cash resources. To mitigate the risk of adverse exchange rate fluctuations, the Group put in place a contracted hedging instrument to settle the cash element of the consideration.

Due to timings, the Group cash balance at the end of 2015 included the funds raised from the equity placing that were to be used for the Instra acquisition. As such, the balance at the end of 2015 was unusually high at £19.06m. The balance at the end of 2016 remained healthy at £9.90m.

Banking facilities

The £3.50m debt facility was drawn down in January 2016 and contributed to the funding of the Instra acquisition.

The principal terms of the debt facility include a capital sum of £3.50m amortising in equal quarterly instalments over a 3 year term, with interest repayments also settled quarterly based at a margin above LIBOR. The debt facility is secured over the material companies within the Group. Further detail is provided in note 23 of the financial statements.

Scheduled quarterly repayments were made during the year along with the release of associated finance costs.

Critical accounting policies

The Summary of the Group's Significant Accounting Policies is set out in note 3 to the Financial Statements.

The Group's Revenue recognition policy may be summarised as:

- Revenue from the sale of services is recognised when the amounts of revenue and cost can be measured reliably
- Domain sales are recognised over the period to which the underlying sales contract relates, which can be for periods between one and ten years. Revenues attributable to future periods are deferred to future periods and are included in "Deferred Revenues" and in the case of the Retail business, the direct costs, associated with domain name Retail revenues, that are payable to wholesale suppliers of the domains, are recognised in deferred costs
- Revenues from strategic consultancy and other similar services are recognised in proportion to the stage of completion of the work.

The Group makes estimates and assumptions regarding the future, which are regularly evaluated including expectations of the future that are considered reasonable given historic experience and current circumstances. In the future actual experience may differ from these estimates and assumptions.

The Board considers the carrying value of Intangible assets in particular given the relative materiality to the Group. While the Board acknowledges that estimates and assumptions could have a material impact on the carrying value of the intangible assets, the Board has considered the potential for impairment as well as the estimated useful lives of the assets and does not consider the carrying values to be impaired. Further details are provided in note 4 to the financial statements.

Group financial risk management

The Board reviews the financial risk management policy, noting that the Group is exposed to market risk, credit risk and liquidity risk arising from financial instruments. Further details of the Financial Risk Management Framework is provided in note 28 to the financial statements.

The Group's finance function is responsible for managing investment and funding requirements including cashflow monitoring and projections. The cashflow projections are reviewed regularly by the Board to ensure the Group has sufficient liquidity at all times to meet its cash requirements and execute its business strategy.

The Group's strategy is to finance its operations through the cash generated from operations and where necessary equity and debt finance, notably to support investing activities.


The Group's financial instruments comprise cash and various items such as trade and deferred receivables. The Group had £9.90m of cash at the year-end, with interest bearing financial assets bearing interest at fixed interest rates. Deposit risk is mitigated by the Directors setting policy that the Group only places deposits with banks and financial institutions with high credit ratings.

The Group's exposure to credit risk from trade receivables is relatively low, due to the fact that the business has traditionally dealt with customers who often pay at the point of sale or in advance. Where there are credit accounts, which is an increasing trend in the industry particularly for the larger domain name registrars, receivables are controlled through credit limits and regular monitoring.

Foreign currency risk

The Board notes that the Group has predominantly traded in US Dollars, Euros, GB Pounds Sterling and Australian Dollars, and considers the exposure to foreign currency risk to be acceptable. The Group has held reserves in each of these currencies to meet trading obligations as required. The currency risk is actively monitored through a periodic review of inflows and outflows by currency, including an assessment of the extent to which currencies are naturally hedged across the Group's business lines. Where this is not the case consideration is given to the use of hedging instruments.

In the case of the acquisition of the Instra Group, the cash element of the consideration was denominated in Australian Dollars (AU\$31.45m including the adjustment for acquired working capital). A participating forward contract was used in January 2016 to mitigate the effect of potential unfavourable movements in the exchange rates prior to completion of the acquisition.



Glenn Hayward Chief Financial Officer
9 May 2017

Board of Directors

The Board's principal duties include the provision of entrepreneurial leadership to the Group, setting strategy and overseeing business performance and compliance; deploying good corporate governance commensurate with the size and scope of the Group's activities.



Mike Turner Chairman (aged 56)

Mike Turner is a leading international mergers and acquisitions lawyer. He has over 30 years of experience working in London, New York and Los Angeles, advising private and publicly held clients on corporate transactions in technology, telecoms, advertising/marketing services, traditional/digital media, internet and e-commerce sectors. Mike is a Partner and International Head of Technology, Media and Communications at the international law firm Taylor Wessing. Previously, Mike was a General Partner responsible for technology investments at Oakfield Partners. Mike obtained an LLB at the University of Reading. He joined CentralNic as Chairman in September 2015.



Benjamin Crawford ("Ben") Chief Executive Officer (aged 51)

Ben Crawford is one of the best-known figures in the domain industry, and is frequently quoted on developments in the internet in the global media. Ben has been the Chief Executive Officer of CentralNic since 2009, successfully globalising the company into new markets including the Middle East, China, Japan and Russia, entering the gTLD market, listing on the AIM market and achieving growth organically, through winning new contracts, and via acquisitions. Ben is a specialist in global business and corporate development – his former positions included Founding President of Louise Blouin Media, integrating 11 acquisitions in three countries and launching artinfo.com; Managing Director of SportBusiness Group, where he launched the world's leading online gambling trade media Group, iGamingBusiness.com; and Executive Producer of the official website of the Sydney Olympic Games. Ben has an MBA from the Australian Graduate School of Management and a First Class Honours Degree from the University of Sydney.



Glenn Hayward Chief Financial Officer (aged 43)

Glenn joined CentralNic in February 2014, bringing 20 years' experience across a variety of sectors, with particular experience working with technology companies, most notably in the domain name industry. Most recently, Glenn worked as Executive Director, Business Development and Finance, for Nominet, the organisation which manages the .uk internet domain. Glenn has a bachelor's degree in Physics from the University of Birmingham and between 2011 and 2012 qualified in the Institute of Director's Certificate and then Diploma in Company Direction with distinctions. He also won Finance Director of the Future at the UK's Finance Director Excellence Awards 2011. Glenn qualified as a Chartered Accountant in 1998 while working for Morris & Co Chartered Accountants and is a Fellow of the Institute of Chartered Accountants (England and Wales).



Desleigh Jameson Executive Director (aged 46)

Desleigh Jameson is the Chief Executive of CentralNic's Retail Division, having joined the board following CentralNic's acquisition of the Instra Group in January 2016. She has more than 15 years of experience in retail management and start-ups. Prior to joining Instra, Desleigh was a director at Six Corporation Limited and the CEO of Retail Institute in New Zealand. She was also the founder of Allied Fastening Limited, a supplier of niche fastenings products to power utilities, construction, and engineering companies. Desleigh has an Executive MBA from the University of Auckland in New Zealand.



Iain McDonald Non-Executive Director (aged 46)

Iain McDonald is a global expert in technology and e-commerce, having had a strong track record in investing in early stage companies such as ASOS, The Hut Group, Eagle Eye Solutions, Anatwine and Metapack. He is an advisor to the William Currie Group, a family office founded by financier Bill Currie to invest mainly in technology and e-commerce companies. Iain is also a non-executive director of various of his investee companies, as well as other technology companies such as My Sale Group plc and Houseology Design Group Limited, and was nominated as a NED of the year in 2015 by the Sunday Times NED Awards. Previously, Iain was a top-ranked retail and e-commerce analyst and held positions in a number of UK investment banks. Iain graduated from the London School of Economics and Political Science (LSE), with a Bachelor of Science in Economics & Economics History.



Samuel Dayani Non-Executive Director (aged 40)

Samuel Dayani is a partner at the Joseph Samuel Group and responsible for managing the Group investments and business development. These include Real Estate, Medtech, Energy & Renewables, Fashion and Technology & Telecoms. From 2001-2005, Samuel was the Chief Operating Officer and then Managing Director of ViaVision Ltd, an interactive TV company on Sky, before it was sold to Yoomedia plc. Samuel graduated from Queen Mary College, University of London with a Bachelor of Science in Business and Biology in 2000.



Thomas Rickert Non-Executive Director (aged 47)

Thomas Rickert is an attorney-at-law in Germany. He is the owner of Rickert Rechtsanwalts-gesellschaft mbH, a law firm in Bonn. Thomas has extensive experience in the domain industry working on domain disputes as well as advising Registrars, Registry Service Providers and new gTLD applicants both on contractual as well as policy matters. Thomas is an expert speaker on domain related subjects both at the national and international level. Thomas was previously appointed by ICANN's Nominating Committee to serve on the Council of the Generic Names Supporting Organisation (GNSO), which is the body responsible for developing policy for generic domain names. He was also the co-chair of the Cross Community Working Group on enhancing ICANN accountability in the context of IANA Stewardship Transition.



Thomas Pridmore ("Tom") Non-Executive Director (aged 45)

Tom Pridmore began his career as a solicitor at Norton Rose, specialising in corporate finance, where he acted on behalf of institutional clients in relation to a variety of corporate finance and M&A activities. Tom then joined Flextech/Telewest Plc as Head of Corporate Strategy, where he was responsible for directing investment into strategic Internet and interactive television companies. In 2000, Tom co-founded the international fund manager and investment adviser Development Capital Management Limited. In this capacity he has set-up and managed real estate investment and development operations in Turkey, India, North Africa, Eastern Europe and the UK on behalf of both institutional and private clients.

Directors' report

Principal activities

CentralNic Group Plc is the ultimate holding company of a Group of companies.

The principal activities of the Group are the provision of domain name Wholesale (registry), Retail (registrar) and Enterprise services. A more comprehensive description of the Group's activities, performance, and likely developments are provided in the Chairman's statement, the Chief Executive's Report, the Strategic Report, the Chief Financial Officer's Report, the Corporate Governance Report and the Remuneration Report, which are incorporated by reference into this report.

A list of the subsidiary undertakings is disclosed in the Particulars of subsidiaries and Associates on page 73 of the Financial Statements.

Financial instruments

Details of the use of financial instruments and financial risk management are included in note 28 to the Financial Statements.

Results and dividends

Information on the results and dividends is provided in the Chairman's Statement and the Chief Financial Officer's Report.

Directors

The Company was incorporated on 19 June 2013, with a view to becoming the parent company of the Group after admission to AIM. The admission was completed on 2 September 2013, and at this time the Board was expanded.

In 2016 there were changes in Board members to reflect the development of the business. The Directors who served during the year were as follows:

Executive Directors

Benjamin Crawford (Chief Executive Officer)

Glenn Hayward (Chief Financial Officer and Company Secretary)

Robert Pooke (Executive Director) – resigned from Board on 5 February 2016

Desleigh Jameson (Executive Director) – appointed to the Board on 5 February 2016

Non-Executive Directors

Mike Turner (Non-Executive Chairman)

Samuel Dayani

Thomas Rickert

Thomas Pridmore

Iain McDonald

The biographical details of the Directors are provided on pages 22 and 23 of this report.

Two Directors will retire at the Company's Annual General Meeting, and being eligible will offer themselves for re-election.

The Directors and their interests in the shares in the Group

The Directors of the Company, and their interests in the shares and share options of the Company, are shown in the Remuneration Report on pages 31 to 33 of this report.

Transactions with any parties related to the Directors are disclosed in note 25 to the Financial Statements.

Directors conflicts of interest

Each Director is required, in accordance with the provisions of the Companies Act 2006, to declare any interests that may give rise to a conflict of interest with the Company on appointment and subsequently as they arise. Where such a conflict or potential conflict arises, the Board is empowered under the Company's Articles of Association to consider and authorise such conflicts as appropriate.

Articles of Association

The Company's Articles of Association set out the Company's internal regulation and cover such matters as the rights of shareholders, the appointment and removal of Directors and the conduct of Board and general meetings.

A copy of the Company's Articles of Association is available on the Group's website (<https://www.centralnic.com/investors/reports>).

Subject to the provisions of legislation, the Company's Articles of Association and any directions given by resolutions of the shareholders, the Board may exercise all powers of the Company and may delegate authorities to committees and management as it sees fit. Details of the committees of the Board and their activities are contained in the Corporate Governance Report on pages 28 to 30 of this report.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Principal risks and uncertainties

The board's assessment of the principal risks and uncertainties, together with the mitigating factors are presented in the strategic report on pages 15 to 17.

Substantial shareholders

In addition to the Directors Interests disclosed in the Remuneration Report, and in accordance with Part 22 of the Companies Act 2006, the Company has been notified that the following shareholder's interests exceeded 3% of the Company's ordinary share capital in issue at 30 April 2017:

	Ordinary shares	Percentage
Erin investments	21,630,382	22.56%
Kestrel Partners LLP	16,573,093	17.28%
Living Bridge VC LLP	8,983,019	9.37%
Schroder	7,509,131	7.83%
Jabella	5,687,891	5.93%
Herald Investment Management Ltd	5,025,000	5.24%
UBS Private Banking (R Pooke)	3,750,000	3.91%
Natwest FIS Nominees	3,699,000	3.86%
Unicorn Asset Management	3,611,479	3.77%
Milton Asset Management Ltd	3,250,000	3.39%
Estate of Antonio Lentino	3,047,042	3.18%

No substantial shareholders have different voting rights to other holders of the share capital of the Company.

Corporate governance

The Corporate Governance Report, on pages 28 to 30 is incorporated into this report by reference.

Corporate responsibility

The Board recognises its employment, environmental and health and safety responsibilities, and devotes appropriate resources towards monitoring and improving compliance with existing standards.

Management and staff

CentralNic's management team has been assembled to ensure the Group has the number of people and range of skills required to deliver the business strategy and to support the expansion of the Group as it becomes an increasingly international business. The team is diverse and brings functional expertise across a number of disciplines including technical and operational delivery, finance, law, marketing and sales.

While the business is managed under budgetary controls, the Directors focus on ensuring there is succession planning in place as is appropriate for a business of our size. We also

ensure there is regular communication of information affecting our managers and their teams, to ensure all employees are kept up to date with issues affecting them.

Our staff and consultants represent a number of different nationalities, and we are pleased by the gender diversity in our business.

The executive leaders within the business recognise the importance of engaging with employees and do so informally on a day to day basis. We often use a cascade approach to employee communications, with the heads of departments disseminating appropriate information to their teams, including those situated in various locations around the world.

While we do not believe that human rights issues are a significant risk to our business currently, we are conscious that as we expand into new international markets issues of human rights may become more significant. The Directors keep all aspects of business development under review, and act with caution and integrity to ensure all our activities and specifically business development activities are respectful of human rights.

The Board recognises the importance of engaged employees working within the Group and how they are vital to the future success of the business. However, given the size of the Group and the specialist nature of its technical operations, there is dependency on a few key individuals and this is discussed further in the Risks and Uncertainties on page 17.

The Group is committed to achieving equal opportunities and to complying with anti-discrimination legislation. The Group is committed to offering employees and job applicants equal and fair opportunity to benefit from employment without regard to their sex, sexual orientation, marital status, race, religion or belief, age or disability.

Communication with employees is primarily through formal and informal meetings and through the use of the Group's information systems.

The Group has a policy of share participation for employees across the Group at all levels.

Standards accreditations

CentralNic's wholesale business is certified against ISO 27001 (Information security management), ISO 9001 (Quality management system) and ISO 22301 (Business continuity management) having achieved ISO22301 accreditation during 2016. These certifications are internationally recognised and provide CentralNic's stakeholders with additional levels of assurance as to the technical integrity of the Group's IT systems.

Directors' report continued

Anti-bribery and corruption, anti-money laundering and sanctions compliance

CentralNic conducts business ethically, maintains financial integrity and strives to behave responsibly in our business dealings.

The Group Directors and its senior management are committed to ensuring strict adherence to our anti-bribery and corruption policy, and compliance with anti-bribery and corruption laws. The Group also maintains and ensures adherence to its policies in relation to Anti-Money Laundering and Trade Sanctions and Embargoes, again to comply with relevant laws across the relevant jurisdictions.

All Directors, employees and consultants have received training in maintaining the highest standards of professional conduct and are aware of the need to carry out business fairly, honestly and openly. Clear lines of communication and responsibility are in place to report any incidences or suspected incidences of abuse to provide an effective, trusted reporting mechanism.

Environment

The Group is committed to operating in an environmentally responsible manner. The Directors consider environmental impact when making decisions.

The community, charitable and political donations

The Directors consider the impact on the community when making decisions. During the year charitable donations totalling £300 were made (2015: £218).

The Group made no political donations during the year, either in the UK or overseas.

Policy on the payment of creditors

The Group's policy is to agree terms and conditions for its business transactions with suppliers and to endeavour to abide by these terms and conditions, subject to the supplier meeting their obligations.

No one supplier is considered to be essential to the business of the Group.

R&D activity

The Group undertakes research and development activities to enhance its competitive position in its chosen markets, drawing on skilled development resource from across the Group.

Health and safety

The Directors and senior management are committed to providing for the welfare, health and safety of the Group's employees and have procedures in place, including regular monitoring by third party specialists, to ensure compliance with our legal and contractual obligations.

Business continuity

The Group has built a resilient technology infrastructure, designed to provide data security and continuity of service. The Board recognises the ongoing importance of resilience to cyber threats and invests in primary and secondary data centres along with a distributed domain name server constellation operated by the Group and third party providers. The Board keeps the infrastructure requirements under review and adopts a continuous improvement approach to further investment, within appropriate parameters, as business activities expand. The technical provision, alongside customer support, is considered one of the most significant aspects of Business Continuity.

Statement of Directors responsibilities in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Strategic Report, Directors' Report, Annual Report and the group and parent company financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare group and parent company financial statements for each financial year. Under that law, they are required to prepare the group financial statements in accordance with International Reporting Standards (IFRSs) as adopted by the European Union (EU) and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 group and parent company and of their profit or loss for that year. In preparing each of the group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable 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 group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the parent 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 group and the

parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' report and Strategic Report that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the website. Legislation in the United Kingdom concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. The work carried out by the auditors does not involve the consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred in the accounts since they were initially presented on the website.

Disclosure of audit information

The Directors confirm that, as at the date of approval of this annual report and these financial statements, so far as each Director is aware there is no relevant audit information of which the Company's auditor is unaware and that he or she has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Going concern

The Directors have in place procedures to review the forecasts and budgets for the coming year, which have been drawn up with appropriate regard for both the macroeconomic environment in which the Group operates and the particular circumstances influencing the Domain Name industry and the Group itself. These were prepared with reference to historic and current industry knowledge, contracted trading activities, and prospects that relate to the future strategy of the Group. As a result, at the time of approving the financial statements, the Directors consider that the Company and the Group have sufficient resources to continue in operational existence for the foreseeable future and that it is appropriate to adopt the going concern basis in the preparation of the financial statements.

As with all forecasts, the Directors cannot guarantee that the going concern basis will remain appropriate given the inherent uncertainty relating to future events. Principal areas of Uncertainty and Risks are highlighted on page 17.

Auditors

The Company's independent external auditors, Crowe Clark Whitehill LLP, were initially appointed on 17 July 2013 and were most recently reappointed at the Company's Annual General

Meeting of 28 June 2016. It is proposed by the Board they be put forward for reappointment as auditors and a resolution concerning their reappointment will be proposed at the forthcoming AGM.

Registered office

35-39 Moorgate, London EC2R 6AR

Registered number: 08576358

Approved by the Board and signed on its behalf by:



Mike Turner Chairman
9 May 2017

Cautionary statement

Under the Companies Act 2006, a Company's Directors' Report is required, among other matters, to contain a fair review by the Directors of the Group's business, through a balanced and comprehensive analysis of the development and performance of the business of the Group and the position of the Group at the year end, consistent with the size and complexity of the business.

The Directors' Report set out above, including the Chairman's Statement, the Chief Executive's Report, and the Chief Financial Officer's Report incorporated into it by reference (together with the Directors' Report), has been prepared only for the shareholders of the Company as a whole, and its sole purpose and use is to assist shareholders to exercise their governance rights. In particular, the Directors' Report has not been audited or otherwise independently verified. The Company and its Directors and employees are not responsible for any other purpose or use or to any other person in relation to the Directors' Report.

The Directors' Report contains indications of likely future developments and other forward-looking statements that are subject to risk factors associated with, among other things, the economic and business circumstances occurring from time to time in the countries, sectors and business segments in which the Group operates. These factors include, but are not limited to, those discussed under Principal Risks and Uncertainties. These and other factors could adversely affect the Group's results, strategy and prospects. Forward-looking statements involve risks, uncertainties and assumptions. They relate to events and/or depend on circumstances in the future which could cause actual results and outcomes to differ materially from those currently anticipated. No obligation is assumed to update any forward looking statements, whether as a result of new information, future events or otherwise.

Corporate governance

Board governance and policy

The Directors appreciate the value of good corporate governance and have regard to the provisions of the Corporate Governance Guidelines for Smaller Quoted Companies, published from time to time by the Quoted Companies Alliance, to the extent that they believe it is appropriate in light of the size, stage of development and resources of an AIM-quoted company.

The Board comprises a Non-Executive Chairman, three executive directors and four non-executive directors. The Board meets regularly to consider the business strategy, performance and the framework of internal controls. To enable the Board to discharge its duties, all Directors receive appropriate and timely information. Briefing papers are distributed to all Directors in advance of Board meetings. All Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that the Board procedures are followed and that applicable rules and regulations are complied with.

In addition, procedures are in place to enable the Directors to obtain independent professional advice in the furtherance of their duties, if necessary, at the Company's expense.

In line with the requirements of the UK Corporate Governance Code and the Company's Articles of Association, the Group has voluntarily chosen that two Directors will retire at the Annual General Meeting and being eligible, will offer themselves for re-election.

Board Committees

The Company has established Audit, Nomination and Remuneration Committees.

The terms of reference for the three committees were reviewed during the year and are available for inspection on request from the Company Secretary.

Audit Committee

The Audit Committee has Iain McDonald as Chairman and other members of the Committee include Mike Turner, Thomas Rickert and Thomas Pridmore. The Chief Financial Officer is invited to and regularly does attend the Committee meetings, as does the Chief Executive Officer.

The primary responsibilities of the Committee, having due regard for the interests of Shareholders include:

- Monitoring the integrity of the half yearly and annual financial statements and formal announcements regarding the Group's financial performance
- Reviewing significant accounting policies, areas of significant estimates and judgments and disclosures in financial reports
- Monitoring the quality and effectiveness of internal control procedures and risk management systems

- Considering the requirement for Internal Audit, taking into account the size, distribution and nature of the Company and the Group and its operations
- Reviewing the external auditor reports relating to the Company's accounting and internal control procedures
- Overseeing the Board's relationship with the external auditors, including their continued independence and making recommendations to the Board on the selection of external auditors.

The Audit Committee is required to meet at least twice a year. During the year the Committee met on four occasions.

The appointment of the independent external auditor is approved by the shareholders annually. The independent auditor's audit of the financial statements is conducted in accordance with International Standards on Auditing, ISA (UK and Ireland) issued by the Auditing Practices Board.

It is noted that the external auditor also operates procedures designed to safeguard their objectivity and independence.

The Audit Committee reviews all fees related to non-audit work, and the committee reviews any material non-audit work prior to commencement. Details of auditor fees can be found in note 7 to the financial statements.

Remuneration Committee

The Group's Remuneration Committee is responsible, on behalf of the Board, for developing remuneration policy. Details of objectives and policy are provided in the Remuneration Report on pages 31 to 33.

The Remuneration Committee has Tom Pridmore as its Chairman and other members of the Committee include Mike Turner, Samuel Dayani and Thomas Rickert.

The primary responsibilities of the Committee, having due regard for the interests of Shareholders include:

- Determining and agreeing with the Board the remuneration policy for the Chairman of the Board, the non-Executive Directors and the Executive Directors and other senior managers
- Reviewing the design of share incentive plans for approval by the Board and determining the award policy to Executive Directors and personnel under existing plans
- Determining the remainder of the remuneration packages (principally salaries, bonus and pension) for the Executive Directors and senior management including any performance-related targets
- Reviewing and noting remuneration trends across the Group

- Co-ordinating with the Nominations Committee in relation to the remuneration to be offered to any new Executive Director; and
- Taking responsibility for the selection criteria and if appropriate selecting, appointing and setting terms of reference for any remuneration consultants engaged to advise the Committee.

The Remuneration Committee was created in September 2013 and is required to meet at least twice a year. During 2016 the Committee met on three occasions.

It is the Group's policy that Executive Directors' service contracts contain at least a 3 month notice period.

Nominations Committee

The Group's Nominations Committee has the power and authority to carry out a selection process of candidates before proposing new appointments to the Board.

The Nominations Committee has Mike Turner as its Chairman and other members of the Committee include Iain McDonald, Thomas Rickert and Tom Pridmore.

The Nominations Committee was created in September 2013 and is required to meet at least once a year. During 2016 the Committee met on one occasion.

The Group has adopted a policy for Directors and key employee share dealings which is appropriate for an AIM-quoted Group. The Directors comply with Rule 21 of the AIM rules relating to Director's dealings and take reasonable steps to ensure compliance by the Group's applicable employees. During 2016 the Group implemented a revised Dealing code to comply not just with Rule 21 but also the new requirements contained in the Market Abuse Regulation which came into force on 3 July 2016. The Directors approved the Group's amended Dealing Code, having taken legal advice.

The Executive and Non-Executive Directors service contracts are available for inspection by shareholders on request to the Company Secretary.

The Chairman and Non-Executive Directors do not participate in agenda items at any meeting when discussions in respect of matters relating to their own position take place.

Risk management and internal controls

The Board has primary responsibility for establishing and maintaining the Group's financial and non-financial controls, as well as identifying the major risks facing the Group.

Internal control systems are designed to meet the particular needs of the Group and the risks to which it is exposed. By their nature, internal controls can provide reasonable but not absolute assurance against material misstatement or loss.

The Executive Directors and Senior Management have specific responsibilities for aspects of the Group's affairs and have regular discussions to address operational matters, as well as considering the skill sets required in their teams to maintain the internal controls required.

Accounting procedures

The financial processes and control systems are kept under regular review by the Executives with oversight from the Board, with a view to further evolution and improvement as the Group's activities expand. This includes the maintenance of and adherence to a Financial Procedures Board Memorandum which is reviewed and updated periodically.

Accounting procedures are managed on a day to day basis by the Finance team. Responsibility levels are set and agreed with the Board, with authority delegated to appropriate responsible managers as well as the Executive. Segregation of duties is deployed to the degree this is practical and efficient, noting the size and geographic distribution of the Group.

Monthly management accounts are reported to the Board, under IFRS (EU) with the content aligned to the Group's management information requirements. The Board reviews the accounts in detail during each Board meeting and requests further information as the need arises. Comparisons to approved budgets and forecasts are prepared with associated commentary provided.

The Company prepares annual Budgets which are reviewed by the Board. The Budgets are then updated during the year to provide latest forecasts.

Capital expenditure is regulated by the Budget process, and is kept under regular review during the year. Investment appraisal techniques, using discounted cashflow projections, are deployed in relation to material investments and are reviewed by the Board as part of good governance such that material transactions that are significant in terms of their size or type are only undertaken after Board review.

The Board acknowledges that there are processes in place for identifying, evaluating and managing risks faced by the Group, and places emphasis on continuous process improvement.

Corporate governance continued

Corporate responsibility, the environment and health and safety

The Group is committed to maintaining and promoting high standards of business integrity. Company values, which incorporate the principles of corporate social responsibility and sustainability, guide the Group's relationships with its stakeholders including clients, employees and the communities and environment in which the Group operates.

The Group's approach to sustainability addresses both our environmental and social impacts, supporting the Group's vision to remain an employer of choice, while meeting client demands for socially responsible partners. By way of example the Group companies have arranged and promoted a number of ACE (Athletics, Community and Environmental) activities in the past. The Company is also certified by the Carbon Neutral Company.

The Group respects local laws and customs while supporting international laws and regulations. These policies have been integral in the way Group companies have done business in the past and will continue to play a central role in influencing the Group's practice in the future.

Communications with shareholders

The Board regards the importance of effective communication with shareholders as essential.

Relations with shareholders are managed principally by the Chief Executive Officer, Chief Financial Officer and the Chairman, and meetings are regularly held with institutional investors and analysts during the year.

The Chairman, Chief Executive Officer, the Chief Financial Officer and if required other Executive and Non-Executive Directors make themselves available for meetings with major shareholders either individually or collectively. The Group's shareholders are invited to attend the AGM at which the majority of Directors are present. The Group's Nominated Advisors and Joint Brokers also convey shareholder opinions to the Chairman and Chief Executive Officer and these are discussed with the Board.

The Group's website contains information on current business activities, including the annual and interim results.

Annual General Meeting date

The Annual General meeting will be convened in accordance with the provisions of the Companies Act 2006. The Annual General Meeting will take place on 7 June 2017 at 10.00am at the offices of the Company's solicitors:

DWF LLP
20 Fenchurch Street
London
EC3M 3AG

The proposed resolutions together with proxy forms and this annual report will be distributed to shareholders by the 10 May 2017, if not before.

Remuneration report

As the Company is an AIM listed company, it is not required to present a Directors' Remuneration report. However, the Board has chosen to do so in line with evolving best practice.

Remuneration Committee

The membership of the Committee and the principal activities are detailed in the Corporate Governance section of the annual report on pages 28 to 30.

Remuneration policy

The Company's remuneration policy is focused on being able to attract, retain and incentivise management with the appropriate skills and expertise to realise the Group's strategic objectives and align managements' interests with those of shareholders.

In particular the Remuneration Committee seeks to link payment to performance and as a result create a performance culture within the business.

The Directors believe that it is important to properly motivate and reward key senior employees and executives and to do so in a manner that aligns their interests with the interests of the Shareholders. The Directors also recognise the importance of ensuring that all employees are engaged, incentivised and identify closely with the profitability of the Company.

Directors remuneration

The average number of staff employed by the Group is included in note 8 to the financial statements.

Disclosure of the remuneration for key management personnel, as required under IAS 24, is also detailed in note 8 to the financial statements.

In terms of the remuneration of the Company's Directors, entries to profit and loss included in the Statement of Comprehensive Income include:

	Salaries & fees £'000	Bonus £'000	Pension £'000	Share-based payments £'000	2016 £'000	2015 £'000
Non-Executive Directors						
Samuel Dayani	45	–	–	–	45	25
Thomas Rickert	45	–	–	56	101	38
Tom Pridmore	50	–	–	56	106	40
Mike Turner	40	–	–	112	152	12
Iain McDonald	53	–	–	50	103	–
Executive Directors						
Robert Pooke	67	–	–	–	67	67
Ben Crawford	168	60	–	118	346	423
Glenn Hayward	174	25	11	80	290	248
Desleigh Jameson	141	41	5	26	213	–
	783	126	16	498	1,423	853

Included in the Directors' salaries and fees above is a charge of £67,000 including payment for Robert Pooke's contractual notice period which expires in February 2017 (2015: £67,000).

Included in the Directors' salaries and fees above is a charge of £nil in the year to the Company and Group by Laura Trading LLC (2015: £25,000) of which Samuel Dayani has a controlling interest. A charge of £45,000 is also included in the year to the Company and Group by Samuel Dayani (2015: £nil).

Included in the Directors' salaries and fees above is a charge of £11,250 in the year to the Company and Group by Thomas Rickert (2015: £25,000).

Included in the Directors' emoluments above is a charge of £66,272 in the year to the Company and Group by Ben Crawford FZE (2015: £254,000) of which Ben Crawford has a controlling interest.

Included in the Directors' salaries and fees above is a charge of £40,000 to the Company and Group by Taylor Wessing LLP (2015: £11,667), a partnership where Mike Turner is a partner.

Share options

Prior to admission to AIM CentralNic established an unapproved share option scheme under which certain key executives and employees were invited to participate.

In addition, again prior to AIM admission, CentralNic also granted options under an Enterprise Management Incentive Scheme (EMI) under separate EMI option agreements to certain qualifying key executives and employees. These options were rolled over into the Company during 2013.

To reflect existing commitments, the options granted in June 2013 for the unapproved option scheme and the EMI scheme vest in 12 equal instalments at 3 month intervals following the Admission (so that the options have fully vested). The unapproved options granted on 14 October 2013 vest 3 years after the date of grant (so again these options have fully vested).

Remuneration report continued

Ben Crawford participates in both the June 2013 and October 2013 unapproved scheme, and Donald Baladasan (a former Director) participates in the June 2013 unapproved scheme. Glenn Hayward is the only Director who participates in the EMI scheme, with options granted on 28 April 2015. The EMI options granted to Glenn Hayward vested on 10 February 2017.

During the year Desleigh Jameson joined the Board as an Executive Director, following the completion of the Instra acquisition. As such Desleigh Jameson was granted options

in the unapproved scheme in February 2016 with a vesting date of 14 January 2019. Unapproved options were also issued to Non-Executive Directors during the year. In the case of Mike Turner and Iain McDonald these options were issued with a vesting date to coincide with the third anniversary of their appointments, namely 15 September 2018 and 26 October 2018. There were also further unapproved options issued to Tom Pridmore and Thomas Rickert, both with a vesting date of 3 February 2019.

Options issued to the Directors during the year were as follows:

Issued on 4 February 2016

	Number of options granted	Exercise price	Expected vesting date	Total number of options held following the grant	Options held as % of existing share capital
Mike Turner	750,000	40p	15 Sept 2018	750,000	0.78%
Iain McDonald	350,000	40p	26 Oct 2018	350,000	0.37%
Tom Pridmore	350,000	40p	3 Feb 2019	438,000	0.46%
Thomas Rickert	350,000	40p	3 Feb 2019	438,000	0.46%
Desleigh Jameson	200,000	40p	14 Jan 2019	200,000	0.21%

These share incentive arrangements are designed to support the strategy of generating significant sustainable value for shareholders by linking the rewards for executives and the board with the value created for Shareholders and thereby aligning the interests of key executives with those of Shareholders.

Shares acquired or options granted under any share incentive arrangements operated by the Company will be limited in total to 10 per cent of the Company's issued share capital from time to time.

The table below shows the outstanding share options issued to Directors and former Directors at 31 December 2016:

	Number of options	Exercise price	Options granted
Outstanding at 1 January 2016			
Ben Crawford	1,316,000	10p	1 June 2013
Donald Baladasan (former Director)	52,083	10p	1 June 2013
Ben Crawford	850,000	55p	14 October 2013
Thomas Rickert	88,000	55p	14 October 2013
Tom Pridmore	88,000	55p	14 October 2013
Glenn Hayward	500,000	35p	28 April 2015
Total	2,894,083		
Outstanding at 31 December 2016			
Ben Crawford	1,316,000	10p	1 June 2013
Donald Baladasan (former Director)	52,083	10p	1 June 2013
Ben Crawford	850,000	55p	14 October 2013
Thomas Rickert	88,000	55p	14 October 2013
Tom Pridmore	88,000	55p	14 October 2013
Glenn Hayward	500,000	35p	28 April 2015
Mike Turner	750,000	40p	4 February 2016
Iain McDonald	350,000	40p	4 February 2016
Thomas Rickert	350,000	40p	4 February 2016
Tom Pridmore	350,000	40p	4 February 2016
Desleigh Jameson	200,000	40p	4 February 2016
Total	4,894,083		

No options were exercised during the year by the Directors or former Directors and no options have expired. All options expire within 10 years of grant.

Further details are provided in relation to share based payments in note 27 to the financial statements.

In addition, a further 2,150,083 options over ordinary shares were in issue at 31 December 2016, being held by the Group's employees. This number has not changed since the end of the year as no further options have been issued.

The IFRS2 charge in the year for all share option plans relating to the Directors was £497,806 (2015: £242,810).

On 31 December 2016, the closing market price of CentralNic Group plc ordinary shares was 47 pence. The highest and lowest price of these shares in the year were 56.5 pence on 29 February 2016 and 39.5 pence on 7 to 9 September 2016 respectively.

Directors' interests

(a) As at 31 December 2016, the interests of the Directors (including Directors who were appointed during the year and those who retired), including persons connected with the Directors within the meaning of section 252 of the Companies Act 2006, in the issued share capital of the Company are as follows:

	Ordinary Shares	Percentage
Erin Invest & Finance Ltd*	21,630,382	22.56%
UBS Private Banking Nominees Ltd (R Pooke)**	3,750,000	3.91%
Jabella Group Ltd***	5,687,891	5.93%
Natwest FIS Nominees****	3,699,000	3.86%
Iain McDonald*****	11,500	0.01%

* The beneficial holder of Erin and Natwest FIS Nominee Limited is the father of Samuel Dayani, a Director of the Company

** 5,687,891 Ordinary Shares are held by Jabella Group Limited in which Robert Pooke has a 32.0 per cent. interest

*** Jabella Group Limited is a BVI company owned inter alia, by Erin and Robert Pooke.

**** 5,687,891 Ordinary Shares are held by Jabella Group Limited in which Natwest FIS Nominee Limited has a 8.40 per cent interest

***** Iain McDonald has an interest, held through a contract for difference, in 11,500 ordinary shares in the Company.

There are no changes to this information as at the date of this report.

(b) Save as disclosed in this annual report, none of the Directors nor any members of their families, nor any person connected with them within the meaning of section 252 of the Act, has any interest in the issued share capital of the Company or its subsidiaries.

(c) Save as disclosed in this annual report, as at the date of this Document, no Director has any option over any warrant to subscribe for any shares in the Company.

(d) None of the Directors nor any members of their families, nor any person connected with them within the meaning of section 252 of the Act, has a related financial product (as defined in the AIM Rules) referenced to the Ordinary Shares.

(e) None of the Directors is or has been interested in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company and which was effected by the Company and remains in any respect outstanding or unperformed.

(f) There are no outstanding loans made or guarantees granted or provided by the Company to or for the benefit of any Director other than disclosed in notes 16 and 25 to the financial statements.

(g) Save as disclosed in this Annual report, there are no potential conflicts of interest between any duties to the Company of the Directors and their private interests or their other duties.

Independent Auditors' report

to the Members of CentralNic Group plc

We have audited the financial statements of CentralNic Group plc for the year ended 31 December 2016 which comprise the Group Statement of Financial Position and Parent Company Balance Sheet, the Group Statement of Comprehensive Income, the Group Cash Flow Statement, the Group and Parent Statement of Changes in Equity and the related notes.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRS) 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, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (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 auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's and the parent company's profit 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, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

Stephen Bullock

Senior Statutory Auditor

For and on behalf of

Crowe Clark Whitehill LLP

Statutory Auditor

St Bride's House
10 Salisbury Square
London
EC4Y 8EH

9 May 2017

Consolidated statement of comprehensive income

for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Revenue	5,6	22,129	10,393
Cost of sales		(14,462)	(5,533)
Gross profit		7,667	4,860
Administrative expenses		(5,637)	(3,085)
Share based payments expense		(621)	(316)
Operating profit		1,409	1,459
Adjusted EBITDA*		5,483	3,254
Depreciation	12	(125)	(72)
Amortisation of intangible assets	13	(2,066)	(578)
Acquisition costs and exceptional items		(1,262)	(829)
Share based payments expense	27	(621)	(316)
Operating profit		1,409	1,459
Finance income	9	18	33
Finance costs	9	(270)	(2)
Finance income – net	9	(252)	31
Share of loss of investments accounted for using the equity method		–	(36)
Profit before taxation	7	1,157	1,454
Income tax expense	10	(202)	(548)
Profit after taxation attributable to equity shareholders		955	906
Items that may be reclassified subsequently to profit and loss			
Exchange difference on translation of foreign operation		1,910	(1)
Cash flow hedges – effective portion of changes in fair value	17	(245)	245
Total comprehensive income for the financial year attributable to equity shareholders		2,620	1,150
	Note	2016 Pence	2015 pence
Earnings per share			
Basic (pence)	11	1.00	1.40
Diluted (pence)	11	0.97	1.36

* Earnings before interest, tax, depreciation and amortisation, acquisition costs, exceptional items and non-cash charges.

All amounts relate to continuing activities.

The notes on pages 39 to 65 form an integral part of these financial statements.

Consolidated statement of financial position

as at 31 December 2016

	Note	2016 £'000	2015 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	161	65
Intangible assets	13	29,822	5,390
Deferred receivables	14	1,486	295
Investments	15	997	997
Deferred tax assets	21	1,121	168
		33,587	6,915
Current assets			
Trade and other receivables	16	11,529	5,425
Inventory		390	61
Derivative financial instruments	17	–	245
Cash and bank balances	18	9,902	19,060
		21,821	24,791
Total assets		55,408	31,706
EQUITY AND LIABILITIES			
Equity			
Share capital	19	96	92
Share premium	19	16,545	16,522
Merger relief reserve	19	1,879	–
Share based payments reserve		2,004	1,390
Foreign exchange translation reserve		1,910	–
Foreign currency hedging reserve		–	245
Retained earnings		2,785	1,797
Total equity		25,219	20,046
Non-current liabilities			
Other payables	20	3,820	845
Deferred tax liabilities	21	3,282	65
Borrowings	23	1,324	–
		8,426	910
Current liabilities			
Trade and other payables and accruals	22	19,947	10,349
Taxation payable		783	401
Borrowings	23	1,033	–
		21,763	10,750
Total liabilities		30,189	11,660
Total equity and liabilities		55,408	31,706

These financial statements were approved and authorised for issue by the Board of Directors on 9 May 2017 and were signed on its behalf by:



Mike Turner Chairman

Company Number: 08576358

The notes on pages 39 to 65 form an integral part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2016

	Share capital £'000	Share premium £'000	Merger relief reserve £'000	Share based payments reserve £'000	Foreign exchange translation reserve £'000	Foreign currency hedging reserve £'000	Retained earnings £'000	Total £'000
Balance as at 31 December 2014	61	4,935	–	1,018	1	–	885	6,900
Profit for the year	–	–	–	–	–	–	906	906
Other comprehensive income								
Translation of foreign operation	–	–	–	–	(1)	–	–	(1)
Cash flow hedge	–	–	–	–	–	245	–	245
Total comprehensive income for the year	–	–	–	–	(1)	245	906	1,150
Transactions with owners								
Issue of new shares	31	12,277	–	–	–	–	–	12,308
Share issue costs	–	(690)	–	–	–	–	–	(690)
Share based payments	–	–	–	316	–	–	–	316
Share based payments – reclassify lapsed options	–	–	–	(6)	–	–	6	–
Share based payments – deferred tax asset	–	–	–	62	–	–	–	62
Balance as at 31 December 2015	92	16,522	–	1,390	–	245	1,797	20,046
Profit for the year	–	–	–	–	–	–	955	955
Other comprehensive income								
Translation of foreign operation	–	–	–	–	1,910	–	–	1,910
Cash flow hedge	–	–	–	–	–	(245)	–	(245)
Total comprehensive income for the year	–	–	–	–	1,910	(245)	955	2,620
Transactions with owners								
Issue of new shares	4	23	1,879	–	–	–	–	1,906
Share based payments	–	–	–	621	–	–	–	621
Share based payments – reclassify lapsed options	–	–	–	(33)	–	–	33	–
Share based payments – deferred tax asset	–	–	–	26	–	–	–	26
Balance as at 31 December 2016	96	16,545	1,879	2,004	1,910	–	2,785	25,219

- Share capital represents the nominal value of the company's cumulative issued share capital.
- Share premium represents the cumulative excess of the fair value of consideration received for the issue of shares in excess of their nominal value less attributable share issue costs and other permitted reductions.
- Merger relief reserve represents the cumulative excess of the fair value of consideration received for the issue of shares in excess of their nominal value less attributable share issue costs and other permitted reductions. Where the consideration for shares in another company includes issued shares, and 90% of the equity is held in the other company.
- Retained earnings represent the cumulative value of the profits not distributed to shareholders, but retained to finance the future capital requirements of the CentralNic Group.
- Share based payments reserve represents the cumulative value of share based payments recognised through equity.
- Foreign exchange translation reserve represents the cumulative exchange differences arising on Group consolidation.
- Foreign currency hedging reserve represents the effective portion of changes in the fair value of derivatives.

The notes on pages 39 to 65 form an integral part of these financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Cash flow from operating activities			
Profit before taxation		1,157	1,454
Adjustments for:			
Depreciation of property, plant and equipment		124	71
Amortisation of intangible assets		2,066	578
Reclassification of intangible assets		752	448
Finance income/(cost) – net		130	(1)
Share based payments		621	316
Share of result of associate		–	36
Increase in trade and other receivables		(4,066)	(2,649)
Increase in trade and other payables and accruals		3,350	5,839
Increase in inventories		(278)	(1)
Cash flow from operations		3,856	6,091
Income tax paid		(538)	(405)
Net cash flow generated from operating activities		3,318	5,686
Cash flow used in investing activities			
Purchase of property, plant and equipment		(145)	(43)
Purchase of intangible assets		(350)	(104)
Acquisition of a subsidiary, net of cash acquired	24	(14,831)	12
Net cash flow used in investing activities		(15,326)	(135)
Cash flow used in financing activities			
Proceeds from borrowings (net)		2,625	–
Proceeds from issuance of ordinary shares		23	11,618
Payment of deferred consideration		(36)	(1,159)
Net cash flow generated from/(used in) financing activities		2,612	10,459
Net (decrease)/increase in cash and cash equivalents		(9,396)	16,010
Cash and cash equivalents at beginning of the year		19,060	3,056
Exchange gains/(losses) on cash and cash equivalents		238	(6)
Cash and cash equivalents at end of the year		9,902	19,060

The notes on pages 39 to 65 form an integral part of these financial statements.

Notes to the consolidated financial statements

for the year ended 31 December 2016

1. General information

(a) Nature of operations

CentralNic Group Plc is the UK holding company of a group of companies which are engaged in the provision of global domain name services. The company is registered in England and Wales. Its registered office and principal place of business is 35-39 Moorgate, London, EC2R 6AR.

The CentralNic Group provides Wholesale ("registry"), Retail ("registrar") and Enterprise services and strategic consultancy for new Top Level Domains ("TLDs"), Country Code TLD's ("ccTLDs") and Second-Level Domains ("SLDs") and it is the owner and registrant of a portfolio of domain names, which it uses as SLD domain extensions and for resale on the domain name aftermarket.

(b) Component undertakings

The principal activities of the subsidiaries and other entities included in the financial statements are presented within the Particulars of Subsidiaries and Associates on page 73 of these financial statements.

2. Application of IFRS

(a) Basis of preparation

The financial statements are measured and presented in sterling (£), unless otherwise stated, which is the currency of the primary economic environment in which many of the entities operate. They have been prepared under the historical cost convention, except for financial instruments that have been measured at fair value through profit and loss.

The financial statements have been prepared on the going concern basis, which assumes that the Group will continue to be able to meet its liabilities as they fall due for the foreseeable future. The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS") issued by the International Accounting Standards Board ("IASB"), including related interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The Directors have reviewed forecasts and budgets for the coming year having regard to both the macroeconomic environment in which the group operates, historic and current industry knowledge and contracted trading activities and the future strategy of the Group. As a result of that review the Directors consider that it is appropriate to adopt the going concern basis of preparation.

(b) Standards, amendments and interpretations to published standards not yet effective

A number of new standards and amendments to standards and interpretations have been issued but are not yet effective and in some cases have not yet been adopted by the EU.

The Directors do not expect that the adoption of these standards will have a material impact on the financial statements of the company in future periods, except that IFRS 9 will impact both the measurement and disclosures of financial instruments, IFRS 15 may have an impact on revenue recognition and related disclosures and IFRS 16 will have an impact on the recognition of operating leases. The directors are completing their detailed review of these standards and will give a clearer indication of the potential impact in the next set of financial statements.

The Directors continue to monitor the impact of future changes to the reporting requirements but do not believe the proposed changes will significantly impact the financial statements.

3. Summary of significant accounting policies

The financial statements have been prepared on the historical cost basis, as explained in the accounting policies set out below, which has been prepared in accordance with IFRS. The principal accounting policies are set out below.

(a) Basis of consolidation

The consolidated financial statements include the financial statements of all subsidiaries. The financial year ends of all entities in the group are coterminous.

Notes to the consolidated financial statements continued

3. Summary of significant accounting policies continued

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control over the operating and financial decisions is obtained and cease to be consolidated from the date on which control is transferred out of the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

All intercompany balances and transactions, including recognised gains arising from inter-group transactions, have been eliminated in full. Unrealised losses are eliminated in the same manner as recognised gains except to the extent that they provide evidence of impairment.

(b) Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised in profit or loss. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

(c) Functional and foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in pounds sterling (£) the Group's and the Company's presentational currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except where deferred in other comprehensive income as qualifying cash flow hedges and qualifying net-investment hedges. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within finance income or finance costs. All other foreign exchange gains and losses are recognised in profit and loss within administrative expenses.

3. Summary of significant accounting policies [continued](#)

(iii) Group companies

The results and financial position of all of the Group entities, none of which has the currency of a hyper-inflationary economy that have a functional currency different from the presentation currency of the Group are translated as follows:

- a) assets and liabilities for each statement of financial position are translated at the closing rate at the date of that statement of financial position;
- b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing at the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions).
- c) All resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

(d) Financial instruments

Financial assets and liabilities are recognised in the statements of financial position when CentralNic or one of the CentralNic Group entities has become a party to the contractual provisions of the instruments.

The CentralNic Group's financial assets and liabilities are initially measured at fair value plus any directly attributable transaction costs. The carrying value of the CentralNic Group's financial assets, primarily cash and bank balances, and liabilities, primarily CentralNic's payables and other accrued expenses, approximate their fair values.

Financial instruments are offset when the CentralNic Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

Financial instruments recognised in the pro forma aggregated statements of financial position are disclosed in the individual policy statement associated with each item.

(i) Financial assets

On initial recognition, financial assets are classified as either financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables financial assets, or available-for-sale financial assets, as appropriate.

Trade and other receivables

Trade and other receivables (including deposits and prepayments) that have fixed or determinable payments that are not quoted in an active market are classified as other receivables, deposits, and prepayments. Other receivables, deposits, and prepayments are measured at amortised cost using the effective interest method, less any impairment loss. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Derivative financial instruments

Cash flow hedge

Derivatives are initially recognised at fair-value on the date a derivative contract is entered into and are subsequently re-measured at their fair-value. The method of recognising the resulting gain or loss depends on whether the derivative is designated a hedging instrument, and if so, the nature of the item being hedged.

The Group has only undertaken hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives which are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of derivative instruments used for hedging purposes are set out in note 17.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion, if any, is recognised immediately in the income statement.

Notes to the consolidated financial statements continued

3. Summary of significant accounting policies continued

Amounts accumulated in equity are reclassified to profit and loss in the period or periods that the hedged item affects profit and loss. When a hedging instrument expires or is sold, or where a hedge no longer meets the criteria for hedge accounting any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss which was reported in equity is immediately transferred to the income statement.

Cash and bank balances

Cash and bank balances comprise cash balances that are subject to insignificant risk of changes in their fair value, and are used by the CentralNic Group in the management of its short-term commitments.

(ii) Financial liabilities and equity instruments

Financial liabilities are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to financial liabilities are reported in profit or loss. Distributions to holders of financial liabilities are classified as equity and charged directly to equity.

Financial liabilities

Financial liabilities comprise long-term borrowings, short-term borrowings, trade and other payables and accruals, measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Equity instruments issued by the CentralNic Group are recognised at the proceeds received, net of direct issue costs.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from proceeds.

Dividends on ordinary shares are recognised as liabilities when approved for appropriation.

(e) Property, plant, and equipment

Property, plant and equipment, including leasehold improvements and office furniture and equipment, are stated at cost less accumulated depreciation and impairment losses, if any.

Depreciation is calculated using the methods below to write off the depreciable amount of the assets over their estimated useful lives. Depreciation of an asset does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. The principal annual rates used for this purpose are:

	UK	Australia	New Zealand	Germany
Depreciation method	Reducing Balance	Reducing Balance	Reducing Balance	Straight Line
Computer equipment	60% – 65%	25%	25%	33%
Furniture and fittings	15% – 20%	5-10%	5-20%	10%

The depreciation method, useful lives and residual values are reviewed, and adjusted if appropriate, at the end of each reporting period to ensure that the amounts, method and periods of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the asset.

Subsequent component replacement costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when the cost is incurred and it is probable that the future economic benefits associated with the asset will flow to the CentralNic Group and the cost of the asset can be measured reliably. The carrying amount of parts that are replaced is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred. Cost also comprises the initial estimate of dismantling and removing the asset and restoring the site on which it is located for which the CentralNic Group are obliged to incur when the asset is acquired, if applicable.

3. Summary of significant accounting policies [continued](#)

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising from de-recognition of the asset is recognised in profit or loss. The revaluation reserve included in equity is transferred directly to retained profits on retirement or disposal of the asset.

(f) Intangible assets

Intangible assets represent amounts paid to acquire the rights to own and act as registrant for a portfolio of domain names or amounts in respect of such intangible assets originally included at directors valuation but treated as deemed cost on transition to IFRS which, for the purposes of these financial statements, was 1 January 2010.

The useful economic life for the software acquired as part of the Internet BS and Instra acquisitions is five years with the customer list acquired being amortised over ten years.

Capitalised domain names have a finite useful life and are measured at cost less accumulated amortisation and impairment losses, if any. Domain names are amortised on an annual basis at the rate of 10% to 20% reducing balance.

Domain names not held for resale are included in the balance sheet at amortised cost and classified as "Domain names" and amortised over their useful lives. Domain names held for resale are included in the balance sheet at the lower of cost and net realisable value and classified as stock held for sale, no amortisation being charged. If a decision is taken to sell a domain name previously included in intangible assets it is reclassified as stock at net book value prior to sale.

Development costs that the CentralNic Group incurs for identifiable and unique software will be capitalised, where the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated that the asset will probably generate future economic benefits; and
- the expenditure attributable to the software product during its development can be reliably measured.

Costs capitalised in relation to computer software development may relate to either:

- completely separable software, or;
- enhancements of existing software which are clearly identifiable as new modules within the system or new features which enable the asset to generate additional future economic benefit. For the avoidance of doubt this excludes the ongoing maintenance to the existing software.

Directly attributable costs that are capitalised as part of the software product include the employee costs and an appropriate portion of the relevant overheads.

Computer software development recognised as assets are amortised over their estimated useful lives, which are determined by the Directors.

Costs for development initiatives that the CentralNic Group undertakes that are not otherwise allocable to specific domain names or projects are charged to expense through profit and loss when incurred.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets are tested for impairment annually if facts and circumstances indicate that impairment may exist. In the event that the expected future economic benefits of the intangible assets are no longer probable or expected to be recovered, the capitalised amounts are written down to their recoverable amount through profit and loss.

Notes to the consolidated financial statements continued

3. Summary of significant accounting policies continued

(g) Impairment

(i) Impairment of financial assets

Financial assets not categorised at fair value through profit or loss are assessed at the end of each reporting period to determine whether there is any objective evidence of impairment. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event(s) had an impact on the estimated future cash flows of the asset. Objective evidence that financial assets are impaired includes default or delinquency by a debtor and the restructuring of an amount due to the CentralNic Group on terms that the CentralNic Group would not consider otherwise.

An impairment loss in respect of a financial asset measured at amortised cost, including other receivables and deposits, is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against the amounts receivable.

When the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(ii) Impairment of non-financial assets

The carrying values of non-financial assets, other than deferred tax assets, are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of the asset is the higher of the asset's fair value less cost to sell and their value-in-use, which is measured by reference to discounted future cash flows.

An impairment loss is recognised if the carrying value of the asset exceeds its recoverable amount.

(g) Impairment

(ii) Impairment of non-financial assets

An impairment loss is recognised in profit or loss immediately.

In respect of assets other than goodwill, a subsequent increase in the recoverable amount of an asset is treated as a reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in profit or loss immediately.

(h) Cash and cash equivalents

Cash and bank balances comprise of cash in hand, bank balances, deposits with financial institutions and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(i) Employee benefits

Short-term employee benefits, including wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the CentralNic Group.

(j) Leases

Assets held under leases are classified as operating leases and are not recognised in the CentralNic Group's statement of financial position. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as part of the total lease expense, over the term of the lease.

(k) Taxation

Taxation for the year comprises of current and deferred tax.

Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

3. Summary of significant accounting policies [continued](#)

Deferred tax liabilities are recognised for all taxable temporary differences other than those that arise from goodwill or excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the business combination costs or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. The carrying amounts of deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transactions either in other comprehensive income or directly in equity and deferred tax arising from a business combination is included in the resulting goodwill or excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the business combination costs.

(l) Share based payments

Employees (including Directors and Senior Executives) of the Group receive remuneration in the form of share-based payment transactions, whereby these individuals render services as consideration for equity instruments ("equity-settled transactions"). These individuals are granted share option rights approved by the Board which can only be settled in shares of the respective companies that award the equity-settled transactions. Share option rights are also granted to these individuals by majority shareholders over their shares held. No cash settled awards have been made or are planned.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant individuals become fully entitled to the award ("vesting point"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments and value that will ultimately vest. The statement of comprehensive income charge for the year represents the movement in the cumulative expense recognised as at the beginning and end of that period.

The fair value of share-based remuneration is determined at the date of grant and recognised as an expense in the statement of comprehensive income on a straight line basis over the vesting period, taking account of the estimated number of shares that will vest. The fair value is determined by use of Black Scholes model method.

(m) Provisions, contingent liabilities and contingent assets

Provisions are recognised if, as a result of a past event, the CentralNic Group has a present legal or constructive obligation, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount can be made. Provisions are reviewed at the end of each financial reporting period and adjusted to reflect the current best estimate. Where effect of the time value of money is material, the provision is the present value of the estimated expenditure required to settle the obligation.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence of one or more uncertain future events not wholly within the control of the CentralNic Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised in the financial statements but is disclosed in the notes to the financial statements. When a change in the probability of a contingent outflow occurs so that the outflow is probable, a liability will be recognised as a provision.

A contingent asset is a probable asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the CentralNic Group. The CentralNic Group does not recognise contingent assets but discloses their existence where inflows of economic benefits are probable, but not virtually certain.

Notes to the consolidated financial statements continued

3. Summary of significant accounting policies continued

(n) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the course of ordinary activities, net of discounts and sales related taxes.

Revenue from the sale of services is recognised when the amounts of revenue and cost can be measured reliably. In particular:

(i) Sale of Wholesale (“registry”) services for domain names (“Wholesale Domain sales”)

Revenue from the provision of wholesale and similar services under contracts for the sale of domain names by registrars and re-sellers reflect the period over which the underlying sales contract has been entered into by the registrar or re-seller, which can be for periods of between one and ten years. Revenues attributable to future periods are deferred to future periods and included in ‘Deferred revenues’.

Revenue from strategic consultancy and similar services is recognised in profit and loss in proportion to the stage of completion of the assignment at the reporting date. The stage of completion is determined based on completion of work performed to date as a percentage of total services to be performed.

(ii) Sale of Retail (“registrar”) services for domain names (“Retail Domain sales”)

Revenue from the provision of retail and similar services under contracts for the sale of domain names by registrants and re-sellers reflect the period over which the underlying sales contract has been entered into by the registrant or re-seller, which can be for periods of between one and ten years. Revenues attributable to future periods are deferred to future periods and included in ‘Deferred revenues’. These revenues are matched to deferred wholesale costs which cover the same period of the underlying sale.

(iii) Sale of Enterprise services including premium domain names (“Enterprise including Premium Domain Name Sales”)

Revenue from enterprise services and premium domain name sales are recognised in profit and loss at the point of sale. Revenue from the provision of computer software to a customer is recognised when the Group has delivered the related software and completed all of the adaptations required by the customer for either the whole contract or for a specific milestone deliverable within the contract. Where no adaptations are required revenue is recognised on delivery.

Revenue from strategic consultancy and similar services is recognised in profit and loss in proportion to the stage of completion of the assignment at the reporting date. The stage of completion is determined based on completion of work performed.

(o) Investment in associates

An associate is an entity over which the CentralNic Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The CentralNic Group’s investments in its associates and joint ventures are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the CentralNic Group’s share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment individually.

The statement of profit or loss reflects the CentralNic Group’s share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the CentralNic Group’s OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the CentralNic Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the CentralNic Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the CentralNic Group’s share of profit or loss of an associate and a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the associate or joint venture.

The financial information of the associate or joint venture are prepared for the same reporting period as the CentralNic Group. When necessary, adjustments are made to bring the accounting policies in line with those of the CentralNic Group.

At each reporting date, the CentralNic Group determines whether there is objective evidence that the investment in its associate or joint venture is impaired. If there is such evidence, the CentralNic Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss as ‘Share of profit of an associate or joint venture’ in the statement of profit or loss and other comprehensive income.

3. Summary of significant accounting policies [continued](#)

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

4. Critical accounting judgments and key sources of estimating uncertainty

In the application of the CentralNic Group's accounting policies, which are described in note 3, the Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not apparent from other sources. The estimates and assumptions are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date that have a significant risk of causing a significant adjustment to the carrying amounts of assets and liabilities in the Financial statements:

Impairment testing

The recoverable amounts of individual non-financial assets are determined based on the higher of the value-in-use or the fair value less costs to sell. These calculations will require the use of estimates and assumptions. It is reasonably possible that assumptions may change, which may impact the Directors' estimates and may then require a material adjustment to the carrying value of tangible and intangible assets.

The Directors review and test the carrying value of tangible and intangible assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. For the purposes of performing impairment tests, assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets or liabilities. If there are indications that impairment may have occurred, estimates will be prepared of expected future cash flows for each group of assets.

Expected future cash flows used to determine the value in use of tangible and intangible assets will be inherently uncertain and could materially change over time. The carrying value of the Group's tangible and intangible assets are disclosed in notes 12 and 13 respectively.

Estimation of useful life

The charge in respect of periodic amortisation and depreciation is derived after determining an estimate of an asset's expected useful life. The useful lives of the assets are determined by management at the time the asset is acquired and are reviewed continually for appropriateness.

Share based payments

The fair value of share-based remuneration is determined at the date of grant and recognised as an expense in the statement of comprehensive income on a straight line basis over the vesting period, taking account of the estimated number of shares that are expected to vest. The fair value is determined by use of Black Scholes model method.

Acquisition accounting and goodwill

Where the Group undertakes business combinations, the cost of acquisition is allocated to identifiable net assets and contingent liabilities acquired and assumed by reference to their estimated fair values at the time of acquisition. The remaining amount is recorded as goodwill. The valuation of identifiable net assets involves an element of judgement related to projected results. Fair values that are stated as provisional are not finalised at the reporting date and final fair values may be determined that are materially different from the provisional values stated.

Judgement was exercised on use of the acquisition method of accounting in respect of the acquisition of the Instra Group. Further details are set out in note 24.

Notes to the consolidated financial statements continued

5. Segment analysis

CentralNic is an independent global domain name service provider. It provides Wholesale, Retail and Enterprise services and it is the owner and registrant of a portfolio of domain names, which it uses as SLD domain extensions. Operating segments are prepared in a manner consistent with the internal reporting provided to the management as its chief operating decision maker in order to allocate resources to segments and to assess their performance. These reportable operating segments includes the aggregation of certain operating units. Management reviews the activities of the CentralNic Group in the segments disclosed below:

2016						
	Revenue £'000	Adjusted EBITDA £'000	Non-current assets £'000	Current assets £'000	Non-current liabilities £'000	Current liabilities £'000
Wholesale Domain Sales	3,176	1,237	2,901	12,614	1,775	13,578
Retail Domain Sales	14,320	2,417	30,564	8,848	6,651	8,159
Enterprise including Premium Domain Name Sales	4,633	2,785	122	359	–	26
Group overheads including costs associated with public company status	–	(956)	–	–	–	–
	22,129	5,483	33,587	21,821	8,426	21,763

2015						
	Revenue £'000	Adjusted EBITDA £'000	Non-current assets £'000	Current assets £'000	Non-current liabilities £'000	Current liabilities £'000
Wholesale Domain Sales	3,129	1,403	2,711	20,544	585	8,522
Retail Domain Sales	3,405	174	4,198	4,116	325	2,154
Enterprise including Premium Domain Name Sales	3,859	2,608	6	131	–	74
Group overheads including costs associated with public company status	–	(931)	–	–	–	–
	10,393	3,254	6,915	24,791	910	10,750

The geographical locations of the non-current and current assets and non-current and current liabilities are located in the following geographic territories.

2016				
	Non-current assets £'000	Current assets £'000	Non-current liabilities £'000	Current liabilities £'000
UK	3,266	13,781	5,010	13,786
North America	–	33	–	(123)
Europe	9	135	–	26
ROW	30,312	7,872	3,416	8,074
	33,587	21,821	8,426	21,763

2015				
	Non-current assets £'000	Current assets £'000	Non-current liabilities £'000	Current liabilities £'000
UK	3,066	19,902	585	2,412
North America	2	948	–	705
Europe	6	54	–	162
ROW	3,841	3,887	325	7,471
	6,915	24,791	910	10,750

6. Revenue

The CentralNic Group's revenue is generated from the following geographical areas:

	2016 £'000	2015 £'000
Wholesale Domain Sales		
UK	805	902
North America	904	997
Europe	451	458
ROW	1,016	772
	3,176	3,129

	2016 £'000	2015 £'000
Retail Domain Sales		
UK	1,215	350
North America	3,416	744
Europe	3,723	1,260
ROW	5,966	1,051
	14,320	3,405

	2016 £'000	2015 £'000
Enterprise including Premium Domain Name Sales		
UK	4	–
North America	3,745	3,286
Europe	575	246
ROW	309	327
	4,633	3,859

Enterprise including premium domain name sales by nature are subject to annual variation depending on customer demand.

The following table shows customers that represented 10% or more of the wholesale domain sales:

	2016 £'000	2015 £'000
Customer A	287	393
Customer B	189	333
Other customers	2,700	2,403
	3,176	3,129

No single customer contributes greater than 10% or more of the retail domain sales.

The enterprise including premium domain name sales were principally driven by premium domain name sales of £3,744,000 (2015: £3,221,000) of which £3,555,000 was made to one customer (2015: £3,079,000 to one customer).

Notes to the consolidated financial statements continued

7. Profit before taxation

The profit before taxation is stated after charging the following amounts.

	2016 £'000	2015 £'000
Employee benefit expense – wages and salaries	3,057	1,192
Employee benefit expense – social security	275	171
Employee benefit expense – pension	132	–
Employee benefit expense – share payments	123	73
Staff Consultancy fees	567	516
Directors' remuneration – fees and salaries	925	649
Directors' remuneration – share payments	498	243
Operating Leases – land & buildings	148	42
Fees payable to the Company's auditor for the audit of Parent Company and consolidated financial statements	95	35
Net (gain) on foreign currency translation	(567)	(211)
Depreciation and amortisation expense	2,190	649

8. Employee information

The average number of persons employed by the group (excluding directors) during the year were 87 (2015: 30), analysed by category, as follows;

	2016 £'000	2015 £'000
Management and finance	7	3
Technical	29	13
Sales and Marketing	21	8
Administrative	6	3
Operations	24	3

Key management personnel

Total remuneration of key management personnel being the directors and key senior personnel is £1,810,000 (2015: £1,018,000), and is set out below in aggregate for each of the categories specified in IAS24, related party disclosures.

	2016			2015		
	Directors £'000	Senior key personnel £'000	Total £'000	Directors £'000	Senior key personnel £'000	Total £'000
Short-term benefits	925	363	1,288	649	105	754
Share based payments expense	498	24	522	243	21	264
	1,423	387	1,810	892	126	1,018

9. Finance income and costs

	2016 £'000	2015 £'000
Interest income on loans to related parties	18	18
Re-measurement of fair value of pre-existing interest in acquire	–	15
Finance income	18	33
Interest expense on short-term bank borrowings	–	(2)
Interest expense on long-term bank borrowings	(104)	–
Finance costs in relation to long-term bank borrowings	(128)	–
Cash flow hedges	(38)	–
Finance costs	(270)	(2)
Net finance (costs)/income	(252)	31

10. Income tax expense

	2016 £'000	2015 £'000
Current tax on profits for the year	282	593
Adjustments in respect of prior years	(48)	–
Current income tax	234	593
Deferred income tax (note 21)	(32)	(45)
Income tax expense	202	548

A reconciliation of the current income tax expense applicable to the profit before taxation at the statutory tax rate to the current income tax expense at the effective tax rate of CentralNic is as follows:

	2016 £'000	2015 £'000
Profit before taxation	1,157	1,454
Tax calculated at domestic tax rates applicable to profits in the respective countries	158	404
Tax effects of:		
– Expenses not deductible for tax purposes	82	123
– Unutilised tax losses	10	21
– Adjustments in respect of prior years	(48)	–
Income tax expense	202	548

The Company provides for income taxes on the basis of its income for financial reporting purposes, adjusted for items that are not assessable or deductible for income tax purposes, in accordance with the regulations of domestic tax authorities.

The effective rate of tax for the year is 17.5% (2015: 37.7%).

In the UK, the applicable statutory tax rate for 2016 is 20% (2015: 20%).

In the USA, federal taxes are due at 15% on taxable income. Under California tax legislation a statutory minimum of \$800 of state tax is due.

In Germany, federal taxes are due at 15% on taxable income. With an additional 5.5% solidarity surcharge due on the income tax. A community business tax of c.17% is also levied with rates determined by the municipality.

In addition, for the current year, included within the domestic tax rates applicable to profits are Australia where income tax is due at 30% of taxable income and New Zealand, where income tax is due at 28% on taxable income.

Notes to the consolidated financial statements continued

11. Earnings per share

Earnings per share has been calculated by dividing the consolidated profit after taxation attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period.

Diluted earnings per share has been calculated on the same basis as above, except that the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares (arising from the Group's share option scheme and warrants) into ordinary shares has been added to the denominator. There are no changes to the profit (numerator) as a result of the dilutive calculation.

	2016	2015
Profit after tax attributable to owners (£'000)	955	906
Weighted average number of shares:		
Basic	95,632,390	64,537,714
Effect of dilutive potential ordinary shares	2,745,348	1,953,680
Diluted	98,377,738	66,491,394
Earnings per share:		
Basic (pence)	1.00	1.40
Diluted (pence)	0.97	1.36

12. Property, plant and equipment

	Computer equipment £'000	Furniture and fittings £'000	Total £'000
Cost			
At 1 January 2015	311	36	347
Additions	45	2	47
At 31 December 2015	356	38	394
Additions	139	6	145
Acquisition of Subsidiary	31	32	63
Exchange differences	51	25	76
Disposals	(12)	–	(12)
At 31 December 2016	565	101	666
Accumulated depreciation			
At 1 January 2015	226	31	257
Charge for the year	71	1	72
At 31 December 2015	297	32	329
Charge for the year	112	13	125
Exchange differences	45	18	63
Disposals	(12)	–	(12)
At 31 December 2016	442	63	505
Property, plant, and equipment, net			
At 31 December 2016	123	38	161
At 31 December 2015	59	6	65

Depreciation of property, plant and equipment is included in administrative expenses in the consolidated statement of comprehensive income.

13. Intangible assets

	Domain names £'000	Software £'000	Customer list £'000	Goodwill £'000	Total £'000
Cost or deemed cost					
At 1 January 2015	3,164	960	2,548	1,379	8,051
Additions	–	104	–	194	298
Reclassification	(835)	–	–	–	(835)
Exchange differences	11	–	–	–	11
At 31 December 2015	2,340	1,064	2,548	1,573	7,525
Additions	–	350	–	–	350
Acquisition of Subsidiary	1,121	1,615	8,738	11,774	23,248
Reclassification	(2,295)	–	–	–	(2,295)
Exchange differences	–	265	1,430	1,956	3,651
At 31 December 2016	1,166	3,294	12,716	15,303	32,479
Amortisation					
At 1 January 2015	1,707	99	127	–	1,933
Charge for the year	142	181	255	–	578
Reclassification	(387)	–	–	–	(387)
Exchange differences	11	–	–	–	11
At 31 December 2015	1,473	280	382	–	2,135
Charge for the year	196	640	1,230	–	2,066
Reclassification	(1,544)	–	–	–	(1,544)
At 31 December 2016	125	920	1,612	–	2,657
Intangible assets, net					
At 31 December 2016	1,041	2,374	11,104	15,303	29,822
At 31 December 2015	867	784	2,166	1,573	5,390

Amortisation of intangible assets is included in administrative expenses in the consolidated statement of comprehensive income.

Certain domain names previously held as intangible assets were reclassified to stock held for resale in the 2016 and the 2015 periods.

Goodwill and customer list

The Group tests goodwill recognised through business combinations annually for impairment. Additions to goodwill arose through the business combinations outlined in note 24. The carrying value of goodwill and the customer list is allocated to the respective segments as follows:

	Customer list		Goodwill	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Retail Division	11,104	2,166	15,189	1,379
Enterprise Division	–	–	114	194
Total carrying value	11,104	2,166	15,303	1,573

The recoverable amount of goodwill of £15,303,000 (2015: £1,573,000) and customer list of £11,104,000 (2015: £2,166,000) at 31 December 2016, is determined based on a value in use using cash flow projections from financial budgets approved by senior management covering a five year period. Cash flow projections beyond the five year timeframe are extrapolated by applying a flat growth rate in perpetuity. The pre-tax discount rate applied to the cash flow projections is 10.0%. As a result of the analysis, management did not identify any impairment of goodwill.

Goodwill in the enterprise division has decreased in the year due to an amount due to the parent company on acquisition of dnsXperts in 2015 of £80,000 previously treated as a cost of acquisition being reclassified as being due from the Company. An amount of £80,000 is now included within other receivables.

Notes to the consolidated financial statements continued

13. Intangible assets continued

The assumptions used in the cash flow projections were as follows:

Retail Division	Internet BS	Instra
Revenue – compounded annual growth rate	12%	12%
Gross margin – before staff and IT costs	13%	59%
Administration expenses – compounded annual growth rate	5%	10%

Discount rates

Discount rates represent the current market assessment of the risks specific to the CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its WACC, with appropriate adjustments made to reflect the risks specific to the CGU and to determine the pre-tax rate. The cost of equity is derived from the expected return on investment by the Group's investors.

Management consider that no reasonable change in these key assumptions would cause the carrying amount of this asset to exceed its value in use.

14. Deferred receivables

	2016 £'000	2015 £'000
Deferred costs	1,486	295
	1,486	295

15. Investments

Available for sale investments carried at fair value

	£'000
At 31 December 2015	997
Additions	–
At 31 December 2016	997

The Company owns less than 20% of the following undertakings which are incorporated in the United Kingdom (UK):

Name	Place of incorporation/ establishment	Principal activities	Issued and paid-up/ registered capital	Effective interests
Accent Media Ltd	UK	Domain registry operator	Ordinary shares	10.4%

This investment is categorised in the fair value hierarchy under Level 3 as no observable market data was available

The fair value of the investment at 31 December 2016, has been assessed using recent investment price, supported by information available to the Directors regarding cashflow forecasts. The key significant unobservable inputs include cumulative average growth rate, weighted average cost of capital and expected operating margins. A reasonable change to the input assumptions, such as 2% change in weighted average cost of capital would lead to an increase or decrease in the value of this investment of approximately £250,000. The valuation method applied to this investment (price of recent investment) is considered the most appropriate with regard to the stage of the development of the business and the IPEVCV guidelines. In applying the price of recent investment valuation methodology, the basis used is the initial cost of the investment.

16. Trade and other receivables

	2016 £'000	2015 £'000
Trade receivables	5,361	1,855
Accrued revenue	1,123	225
Deferred costs	3,315	1,486
Prepayments	163	110
Prepaid finance costs	–	350
Supplier payments on account	376	333
Amounts due from shareholders	747	729
Other receivables	444	337
	11,529	5,425

As of 31 December 2016, trade receivables of £451,000 (2015: £209,000) were past due but not impaired. These primarily relate to four customers for whom there is considered a low risk of default. Deferred costs reflect the wholesale cost of domain names in the Internet BS and Instra retail businesses. Supplier payments on account reflect payments to domain name registries for use against future wholesale domain purchases within the Internet BS and Instra retail businesses.

The prepaid finance costs relate to the debt facility agreement signed on 8 December 2015, see note 24.

Amounts due from shareholders represent amounts due from Jabella Group Limited, a shareholder during the period. Amounts due from Jabella Group Limited were interest free until 31 August 2013, from which time the balance accrued interest at 2% above LIBOR (2016: £17,749; 2015: £18,032). The loan was granted in August 2011 for an initial term of five years, the balance is currently £747,000. The loan is now repayable on demand.

The directors are reviewing the terms of the loan and consider the loan to be fully recoverable. The directors consider that the fair value of this receivable is not materially different from the carrying value.

17. Derivative financial instruments

	2016 £'000	2015 £'000
Forward foreign exchange contracts – cash flow hedges	–	245
	–	245

On 18 December 2015, CentralNic entered into two forward foreign exchange option contracts in relation to the funding of the acquisition of the Instra Group.

The principal amount of the first contract was to purchase AUD\$30m at an effective exchange rate of AUD2.068 per pound sterling with an expiry date of 7 January 2016. In the event that the prevailing spot rate at the date of expiration was favourable to this rate then the contract would effectively purchase AUD\$15m with a strike price of AUD2.068 per pound sterling and the remaining AUD\$15m would be purchased at the prevailing spot rate.

As at 31 December 2015, the hedged transactions denominated in a foreign currency were considered highly probable to occur and subsequently did so in January 2016.

Notes to the consolidated financial statements continued

18. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following:

Amounts held on deposit	2016 £'000	2015 £'000
GBP *	939	11,403
USD	7,428	6,307
EUR	1,171	1,347
AUD	203	–
NZD	159	–
Other	2	3
	9,902	19,060

* The 2015 cash balances include the net proceeds of the equity placing completed on the 29 December 2015. These funds were subsequently used to complete the acquisition of the Instra Group in January 2016, see note 24.

19. Share capital

The Company's issued and fully paid share capital is as follows:

	Number	Share capital £'000	Share premium £'000	Merger relief £'000
At 1 January 2016	92,007,481	92	16,522	–
Consideration shares in respect of the Instra acquisition 14 January 2016 (see note 24)	3,656,450	4	–	1,879
Share options exercised 8 February 2016	20,417	–	2	–
Share options exercised 27 July 2016	210,000	–	21	–
At 31 December 2016	95,894,348	96	16,545	1,879

On 14 January 2016 the company issued 3,656,450 new ordinary shares to the estate of Antonio Frank Lentino of 0.1 pence each at 40 pence per share. A merger relief reserve of £1,879,415 was created on the issue of these shares reflecting the fair value of those shares at 51.5 pence per share.

The Company has no authorised share capital.

20. Non-current other payables

	2016 £'000	2015 £'000
Deferred revenue	3,820	845
	3,820	845

21. Deferred tax

	Share-based Payments £'000	Losses £'000	Other temporary differences £'000	Total £'000
Deferred tax assets				
At 1 January 2015	74	–	–	74
(Charge)/credit to income	32	–	–	32
(Charge)/credit to equity	62	–	–	62
At 31 December 2015	168	–	–	168
Acquisition of subsidiary	–	–	835	835
(Charge)/credit to income	79	194	(357)	(84)
(Charge)/credit to equity	26	–	–	26
Exchange differences	–	–	176	176
At 31 December 2016	273	194	654	1,121

	Intra intangible assets £'000	Other temporary differences £'000	Total £'000
Deferred tax liabilities			
At 1 January 2015	–	72	72
Credit/(charge) to income	–	(7)	(7)
Credit/(charge) to equity	–	–	–
At 31 December 2015	–	65	65
Acquisition of subsidiary	3,002	–	3,002
Credit/(charge) to income	(399)	(18)	(417)
Credit/(charge) to equity	–	–	–
Exchange differences	632	–	632
At 31 December 2016	3,235	47	3,282

22. Trade and other payables and accruals

	2016 £'000	2015 £'000
Accounts payable	3,120	2,425
Accrued expenses	4,596	1,859
Other taxes and social security	220	81
Deferred consideration	–	36
Deferred revenue	7,375	3,126
Customer payments on account	4,602	2,779
Accrued interest	22	3
Other liabilities	12	40
	19,947	10,349

Notes to the consolidated financial statements continued

23. Borrowings

	2016 £'000	2015 £'000
Non-current		
Bank borrowings	1,458	–
Prepaid finance costs	(134)	–
	1,324	–
Current		
Bank borrowings	1,167	–
Prepaid finance costs	(134)	–
	1,033	–
Total borrowings	2,357	–

Bank borrowings relate to the £3.5m secured debt facility entered into with Silicon Valley Bank on 8 December 2015 and drawn down on 12 January 2016 to part fund the initial cash consideration of the Instra acquisition. Interest for the period has been accrued at the applicable margin plus LIBOR. The term of the loan is 3 years with quarterly loan and interest repayments.

24. Business combinations

On 14 January 2016 Centralnic Group completed the acquisition of the entire share capital of the companies forming the Instra Group for a total consideration of AU\$38m, consisting of AU\$30m in cash plus a cash adjustment for working capital at completion of AU\$1.4m, AU\$3.9m in shares in Centralnic Group plc, plus an adjustment for the reclassification of loans due to the company on completion of AU\$2.7m.

The primary reason for the business combination was to expand the retail division's footprint so that it benefits from exposure to the majority of the world's geographic and emerging domain name markets.

The following table summarises the consideration to acquire the share capital of the Instra Group and the provisional fair value of the assets and liabilities at the acquisition date in line with Group accounting policies.

Consideration	AU\$'000	£'000
Cash	30,000	14,560
Adjustment for working capital	1,449	829
Total cash consideration	31,449	15,389
Equity Instruments (3,656,450 ordinary shares)	3,863	1,883
Assumption of loans due from the estate of Antonio Frank Lentino	2,725	1,323
Total consideration	38,037	18,595

24. Business combinations continued

Fair value recognised on acquisition

	AUS\$'000	£'000
Assets		
Intangible assets – customer list	18,005	8,738
Intangible assets – software	3,275	1,589
Intangible assets – domain names	2,310	1,121
Other intangible assets	52	25
Property, plant & equipment	129	63
Trade receivables	815	395
Other receivables	8,199	3,979
Deferred income tax asset	1,919	931
Cash	1,150	558
	35,854	17,399
Liabilities		
Trade payables	391	190
Other payables and accruals	1,835	891
Deferred Revenue	13,513	6,558
Deferred income tax liability	6,384	3,098
Other income tax liabilities	(127)	(62)
	21,996	10,675
Total identifiable net assets at fair value	13,858	6,724
Goodwill arising on acquisition	24,179	11,871
Purchase consideration	38,037	18,595

The fair value of the 3,656,450 ordinary shares issued as part of the consideration paid was based on 51.5 pence per share based on the share price on the date of issue 14 January 2016. The mid-market foreign exchange rate was used at 12 noon on 13 January 2016 being the business day pre-completion.

AU\$5m of the cash consideration has been placed in to an escrow account and, subject to any claims, will be released to the vendor over 5 years in equal instalments on the anniversary of the completion date.

The cash consideration was funded by the equity placing of the 29 December 2015, together with a new secured debt facility comprising a £3.5m term loan with the remainder from existing cash balances held by the Group.

Acquisition related costs of £77,000 (2015: £604,000) have been recognised in the income statement, with a further £577,000 being charged to the share premium account in 2015 in relation to the placing which took place on 29 December 2015.

For the post-completion period to 31st December 2016 revenues of £10.28m (AU\$18.58m) and Adjusted EBITDA of £2.21m (AU\$4.00m) have been generated by the Instra group.

Goodwill arising on acquisition primarily relates to the inherent value of the acquired brands, goodwill in relation to employees and the multiple registry accreditations which enables the Instra Group to position itself as a global domain name retailer.

Notes to the consolidated financial statements continued

25. Related party disclosures

(a) Ultimate controlling party

The company is not controlled by any one party

(b) Related party transactions

Key management are considered to be the directors and key management personnel. Compensation has been disclosed in note 8, while further information can be found in the Remuneration Report on page 31.

(i) Shareholders

Balances outstanding with shareholders:

	2016 £'000	2015 £'000
Jabella Group Limited	747	729

Amounts due from Jabella Group Limited were interest free until 31 August 2013, from which time the balance accrued interest at 2% above LIBOR (2016: £17,749; 2015: £18,032).

Transactions with two members of Erin Investments & Finance Limited:

	2016 £'000	2015 £'000
Operating lease payments	73	42

(ii) Non-Executive Directors

During the year CentralNic engaged with Rickert Rechtsanwaltsgesellschaft mBH, of which Thomas Rickert has a controlling interest, to provide legal services in relation to the purchase of intangible assets and advise on potential acquisitions. The fees for 2016 were £20,000 (2015 £52,000).

26. Commitments

Operating lease commitments

At the end of each of the reporting periods, the minimum lease payments under non-cancellable leases are payable as follows:

	2016 £'000	2015 £'000
Less than one year	136	42
Between one and five years	28	–
	164	42

The Group leases office space at the following locations, all of which are operating leases:

London, UK. The lease agreement was entered into on 1st January 2010 for an initial term of 6 years and has been subsequently extended to 1 April 2018.

Melbourne, Australia. The original lease agreement expired on 30th November 2016, with the lease being extended on a month by month basis with a three month notice period.

Napier, New Zealand. The lease agreement was entered into on 1st August 2012 for an initial term of 3 years, with the right to renew every 3 years. The final expiry date is 31st July 2021.

Bonn, Germany. The lease agreement was entered into on 1st January 2015 for an initial term of 3 years. The lease will renew each year for a further year unless either party terminates with 6 months notice.

The Group leases equipment under various operating leases. These leases typically run for periods from one month to five years.

27. Share options and warrants

Share Options

The share option scheme, which was adopted by CentralNic during 2013, was established to reward and incentivise the executive management team and staff for delivering share price growth. The option schemes are all equity settled.

The share option scheme is administered by the Remuneration Committee.

There were 2,820,000 options granted during 2016 (2015: 1,144,000). Out of the 7,044,166 outstanding options (2015: 4,604,583), 3,230,166 options (2015: 2,019,583) were exercisable. Options exercised in 2016 resulted in 230,417 shares (2015: 75,834) being issued at a weighted average price of 10p each. The share prices at the dates options were exercised were between 45p and 50p. In addition, 150,000 options lapsed during the year (2015: 19,583).

A charge of £621,204 (2015: £316,199) has been recognised in the statement of comprehensive income for the year relating to these options.

These fair values were calculated using the Black Scholes option pricing model. The inputs into the model were as follows:

Date of options grant	1 June 2013	14 October 2013	28 April 2015	28 April 2015	5 May 2015
Options granted	2,530,000	1,026,000	537,000	500,000	107,000
Stock price	10p	55p	35p	35p	33.5p
Exercise price	10p	57p	35p	35p	33.5p
Interest rate	5%	5%	5%	5%	5%
Volatility	75%	75%	75%	75%	75%
Vesting period	½ per quarter from the date of grant	3 years from the date of grant	3 years from the date of grant	10 Feb 2017	3 years from the date of grant
Time to maturity	10 years	10 years	10 years	10 years	10 years

Date of options grant	4 Feb 2016	4 Feb 2016	4 Feb 2016	4 Feb 2016	4 Feb 2016	29 August 2016	29 August 2016
Options granted	700,000	750,000	350,000	48,000	419,000	318,000	235,000
Stock price	51p	51p	51p	51p	51p	43p	43p
Exercise price	40p	40p	40p	51p	40p	40p	40p
Interest rate	5%	5%	5%	5%	5%	4%	4%
Volatility	75%	75%	75%	75%	75%	52%	52%
Vesting period	3 years from the date of grant	15 Sept 2018	26 Oct 2018	3 years from the date of grant	14 Jan 2019	14 Jan 2019	3 years from the date of grant
Time to maturity	10 years	10 years	10 years	10 years	10 years	10 years	10 years

Options are exercisable in accordance with the contracted vesting schedules. The expected volatility was determined with reference to similar entities trading on AIM.

Notes to the consolidated financial statements continued

27. Share options and warrants continued

Details of the share options outstanding at the year-end are as follows:

	Number 31 Dec 2016	WAEP* 31 Dec 2016	Number 31 Dec 2015	WAEP* 31 Dec 2015
Outstanding at 1 January	4,604,583	26p	3,551,000	23p
Granted during year	2,820,000	40p	1,144,000	34p
Exercised during year	(230,417)	10p	(75,834)	10p
Lapsed during year	(150,000)	10p	(14,583)	10p
Outstanding at 31 December	7,044,166	32p	4,604,583	26p
Exercisable at 31 December	3,230,166	25p	2,019,583	10p

* weighted average exercise price.

The weighted average remaining contractual life of the options outstanding at the statement of financial position date is 7.8 years.

Warrants

On 12 August 2013, CentralNic Group executed a warrant instrument to create and issue warrants to Zeus Capital to subscribe for an aggregate of 1,772,727 ordinary shares. The warrants will expire six years after admission and were exercisable after the first anniversary of admission (2 September 2014) at the placing price of 55p. The ordinary shares to be allotted and issued on the exercise of any or all of the warrants will rank for all dividends and other distributions declared after the date of the allotment of such shares but not before such date and otherwise pari passu in all respects with the ordinary shares in issue on the date of such exercise allotment.

These fair values were calculated using the Black Scholes warrant pricing model. The inputs into the model were as follows:

	Warrants issued 12 August 2013
Warrants Granted	1,772,727
Stock price	55p
Exercise price	55p
Interest rate	5%
Volatility	75%
Time to maturity	6 years

A charge of £675,409 was recognised in the share premium account in 2013.

28. Financial instruments

The CentralNic Group is exposed to market risk, credit risk and liquidity risk arising from financial instruments. The CentralNic Group's overall financial risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the CentralNic Group's financial performance. The group does not trade in financial instruments.

The principal financial instruments used by the CentralNic Group, from which financial instrument risk arises, are as follows:

	2016 £'000	2015 £'000
Current financial assets		
Loan and receivables		
Trade and other receivables	11,365	5,314
Inventory	390	61
Cash and cash equivalents	9,902	19,060
	21,657	24,435
Current financial liabilities measured at amortised costs		
Trade and other payables and accruals	19,947	10,349
Loan and borrowing	1,033	–
	20,980	10,349

28. Financial instruments *continued*

(a) Financial risk management framework

The Directors' risk management policies are established to identify and analyse the risks faced by the CentralNic Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

(i) Market risk

Foreign currency risk

The CentralNic Group is exposed to foreign currency risk on transactions and balances that are denominated in a currency other than its functional currency, primarily US Dollars\$. Foreign currency risk is monitored on an on-going basis to ensure that the net exposure is at an acceptable level.

The CentralNic Group's exposure to foreign currency risk is minimal as it trades predominantly in US Dollars, Euros, GB Pound Sterling and Australian Dollars. Exposure to currency risk is negated by the CentralNic Group holding adequate reserves in these four currencies to meet trading and provisioned obligations as the need arises.

As the group evolves, foreign currency risk will be monitored more closely given exposure to additional markets and currencies. The foreign currency risk was mitigated on the acquisition of the Instra Group through the participating forward contract agreed.

The carrying amounts of the CentralNic Group's financial instruments are denominated in the following currencies at 31 December 2016:

	Other currencies £'000	GBP £'000	Total £'000
Current financial assets			
Loan and receivables			
Trade and other receivables	7,946	3,419	11,365
Inventory	56	334	390
Cash and cash equivalents	8,963	939	9,902
	16,965	4,692	21,657
Current financial liabilities measured at amortised costs			
Trade and other payables	15,711	4,236	19,947
Loan and borrowing	–	1,033	1,033
	15,711	5,269	20,980

The sensitivity analyses in the table below details the impact of changes in foreign exchange rates on the CentralNic Group's post-tax profit or loss for the year ended 31 December 2016.

It is assumed that the named currency is strengthening or weakening against all other currencies, while all the other currencies remain constant.

If the GBP strengthened or weakened by 10% against the other currencies, with all other variables in each case remaining constant, then the impact on the CentralNIC Group's post-tax profit or loss would be gains or losses as follows:

	Strengthen	Weaken
	£'000	
2016		
USD	+/-	743
EUR	+/-	117
AUD	+/-	20

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The CentralNic Group's exposure to interest rate risk arises mainly from interest-bearing financial assets and liabilities. The Directors' policy is to obtain the most favourable interest rates available.

As at each of 31 December 2015 and 2016, CentralNic Group's short-term interest-bearing financial instruments bore interest at fixed interest rates, with the long-term debt facility entered into with SVB bearing interest at a margin plus LIBOR.

Notes to the consolidated financial statements continued

28. Financial instruments continued

	2016 £'000	2015 £'000
Cash and bank balances	9,902	19,060
Effect of interest rate change of 100 basis points	+/- 99	+/- 190

Equity price risk

The CentralNic Group does not have any quoted investments as at each of 31 December 2015 and 2016 and as such does not have significant exposure to equity price risk. At 31 December 2015 and 2016 the CentralNic Group held an unquoted investment in Accent Media of \$1.6m (£1.0m) which represents a shareholding of 10.4% of the share capital.

(ii) Credit risk

The CentralNic Group's exposure to credit risk arises mainly from counterparty's failure to meet its obligation to settle a financial asset, primarily other receivables. The Directors consider the CentralNic Group's exposure to credit risk arising from trade receivables to be minimal as the CentralNic Group is often paid at the outset or in advance. Credit risk arising from other receivables is controlled through monitoring procedures, including credit approvals and credit limits.

The CentralNic Group uses ageing analysis to monitor the credit quality of the trade receivables. Any receivables having significant balances past due or more than 90 days, which are deemed to have higher credit risk, are monitored individually. Analysis of the trade receivables past due is disclosed in note 16.

For cash and bank balances, the Directors minimise the CentralNic Group's credit risk by dealing exclusively with banks and financial institution counterparties with high credit ratings.

The carrying amounts of financial assets at the end of the reporting periods represent the maximum credit exposure.

	2016 £'000	2015 £'000
Deferred receivables	1,486	295
Other receivables, deposits and inventory	11,755	5,375
Cash and bank balances	9,902	19,060
	23,143	24,730

(iii) Liquidity risk

Liquidity risk is the risk that the CentralNic Group will encounter difficulty in settling its financial obligations that are settled with cash or another financial asset. The Directors' objective is to maintain, as much as possible, a level of its cash and bank balances adequate enough to ensure that there will be sufficient liquidity to meet its liabilities when they fall due.

The following set forth the remaining contractual maturities of financial liabilities as at:

£'000	Carrying amount	Total	Within 1 year	1 – 5 years
31 December 2015				
Trade and other payables and accruals	11,194	11,194	10,349	845
	11,194	11,194	10,349	845
31 December 2016				
Trade and other payables and accruals	23,767	23,767	19,947	3,820
Borrowings	2,357	2,357	1,033	1,324
	26,124	26,124	20,980	5,144

(b) Capital risk management

The Directors define capital as the total equity of CentralNic. The Directors' objectives when managing capital are to safeguard the CentralNic Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Directors may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

28. Financial instruments *continued*

The Directors manage CentralNic's capital based on debt-to-equity ratio. The debt-to-equity ratio is calculated as net debt divided by total equity. Net debt is calculated as total liabilities less cash and cash equivalents.

The debt-to-equity ratio of the CentralNic Group as at the end of each of the reporting periods was as follows:

	2016 £'000	2015 £'000
Total liabilities	30,189	11,660
Less: cash and bank balances	(9,902)	(19,060)
Net debt/(cash)	20,287	(7,400)
Total equity	25,219	20,046
Debt-to-equity ratio	0.80	n/a

The net cash of the CentralNic Group as at the end of each of the reporting periods was as follows:

	2016 £'000	2015 £'000
Cash and bank balances	9,902	19,060
Less: borrowings (excluding prepaid finance costs)	(2,625)	–
Net cash	7,277	19,060

(c) Fair values of financial instruments

In addition to the fair value of financial instruments disclosed elsewhere in the financial statements, the following carrying amounts of the financial assets and liabilities reported in the consolidated financial statements approximate their fair values:

£'000	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Trade and other receivables and inventory	11,755	11,755	5,375	5,375
Deferred receivables	1,486	1,486	295	295
Cash and bank balances	9,902	9,902	19,060	19,060
	23,143	23,143	24,730	24,730
Trade and other payables and accruals	23,767	23,767	11,194	11,194
	23,767	23,767	11,194	11,194

(d) Fair value hierarchy

Financial instruments carried at fair value are analysed by the levels in the fair value hierarchy. The different levels are defined as follows:

- Level 1:** Fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2:** Fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3:** Fair value measurements derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2016	Level 1	Level 2	Level 3	Total
Available for sale investments	–	–	997	997
Derivative financial instruments	–	–	–	–
2015	Level 1	Level 2	Level 3	Total
Available for sale investments	–	–	997	997
Derivative financial instruments	–	–	245	245

Company statement of financial position

as at 31 December 2016

	Note	2016 £'000	2015 £'000
ASSETS			
Fixed assets			
Investments	7	4,575	536
Current assets			
Derivative financial instruments	11	–	245
Other debtors, deposits and prepayments	8	22,022	17,095
Cash and bank balances		335	–
		22,357	17,340
Total assets		26,932	17,876
LIABILITIES			
Current liabilities			
Creditors – amounts falling due within one year			
Trade and other payables and accruals	10	969	668
Borrowings		1,033	–
		2,002	668
Non-current liabilities			
Creditors – amounts falling due after one year			
Borrowings		1,324	–
		1,324	–
Total liabilities		3,326	668
Net assets		23,605	17,208
CAPITAL AND RESERVES			
Share capital	9	96	92
Share premium	9	16,545	16,522
Merger relief reserve	9	1,879	–
Share based payments reserve		1,720	736
Foreign currency hedging reserve		–	245
Retained earnings		3,365	(387)
Shareholders funds		23,605	17,208

The profit for the year including other comprehensive income was £857,000 (December 2015: loss of £1,340,000).

These financial statements were approved and authorised for issue by the Board of Director's on 9 May 2017 and were signed on its behalf by:



Mike Turner Chairman

Company Number: 08576358

The notes on pages 68 to 72 form an integral part of these financial statements.

Company statement of changes in equity

for the period ended 31 December 2016

	Share capital £'000	Share premium £'000	Share based payments reserve £'000	Merger relief £'000	Foreign currency hedging £'000	Retained earnings £'000	Total £'000
Balance as at 31 December 2014	61	4,935	964	–	–	(618)	5,342
Total comprehensive income for the year	–	–	–	–	–	(1,585)	(1,585)
Other comprehensive income for the year							
– cash flow hedge	–	–	–	–	245	–	245
Issue of new shares	31	12,277	–	–	–	–	12,308
Share issue costs	–	(690)	–	–	–	–	(690)
Share based payments	–	–	(222)	–	–	–	(222)
Share based payments							
– reclassify lapsed options	–	–	(6)	–	–	6	–
Share based payments							
– prior period adjustment	–	–	389	–	–	–	389
Dividend received	–	–	–	–	–	1,810	1,810
Balance as at 31 December 2015 (as previously reported)	92	16,522	1,125	–	245	(387)	17,597
Profit for the year	–	–	–	–	–	1,102	1,102
other comprehensive income for the year							
– cash flow hedge	–	–	–	–	(245)	–	(245)
Issue of new shares	4	23	–	1,879	–	–	1,906
Share issue costs	–	–	–	–	–	–	–
Share based payments	–	–	473	–	–	–	473
Share based payments							
– deferred tax asset	–	–	122	–	–	–	122
Dividend received	–	–	–	–	–	2,650	2,650
Balance as at 31 December 2016	96	16,545	1,720	1,879	–	3,365	23,605

- Share capital represents the nominal value of the company's cumulative issued share capital.
- Share premium represents the cumulative excess of the fair value of consideration received for the issue of shares in excess of their nominal value less attributable share issue costs and other permitted reductions.
- Merger relief reserve represents the cumulative excess of the fair value of consideration received for the issue of shares in excess of their nominal value less attributable share issue costs and other permitted reductions. Where the consideration for shares in another company includes issued shares, and 90% of the equity is held in the other company.
- Retained earnings represent the cumulative value of the profits not distributed to shareholders, but retained to finance the future capital requirements of the Company
- Share based payments reserve represents the cumulative value of share based payments recognised through equity.
- Foreign currency hedging reserve represents the effective portion of changes in the fair value of derivatives.

The notes on pages 68 to 72 form an integral part of these financial statements.

Notes to the Company financial statements

for the year ended 31 December 2016

1. General information

Nature of operations

CentralNic Group Plc ("the Company") is the UK holding company of a group of companies which are engaged in the provision of global domain name services. The company is registered in England and Wales. Its registered office and principal place of business is 35-39 Moorgate, London, EC2R 6AR.

2. Basis of preparation

The financial statements have been prepared in accordance with the historical cost convention as modified by the revaluation of certain fixed assets. The financial statements have been prepared in accordance with FRS 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland and the Companies Act 2006. The principal accounting policies are described below. They have all been applied consistently throughout the period.

3. Significant accounting policies

(a) Going concern

At 31 December 2016, the Company had net current assets of £20,355,000 (2015: £16,672,000) with the main current asset being amounts owed from its subsidiaries amounting to £21,818,000 (2015: £16,719,000). The Company has assessed its ongoing costs with cash generated by its subsidiaries to ensure that it can continue to settle its debts as they fall due.

The Directors have, after careful consideration of the factors set out above, concluded that it is appropriate to adopt the going concern basis for the preparation of the financial statements and the financial statements do not include any adjustments that would result if the going concern basis was not appropriate.

(b) Investments

Investments held as fixed assets are stated at cost less provision for impairment.

(c) Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Taxation arising on disposal of a revalued asset is split between the profit and loss account and the statement of changes in equity on the basis of the tax attributable to the gain or loss recognised in each statement.

3. Significant accounting policies [continued](#)

(d) Financial instruments

Financial assets and liabilities are recognised in the statements of financial position when the Company has become a party to the contractual provisions of the instruments.

The Company's financial assets and liabilities are initially measured at fair value plus any directly attributable transaction costs. The carrying value of the Company's financial assets, primarily cash and bank balances, and liabilities, primarily the Company's payables and other accrued expenses, approximate their fair values.

(i) Financial assets

On initial recognition, financial assets are classified as either financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables financial assets, or available-for-sale financial assets, as appropriate.

Trade and other receivables

Trade and other receivables (including deposits and prepayments) that have fixed or determinable payments that are not quoted in an active market are classified as other receivables, deposits, and prepayments. Other receivables, deposits, and prepayments are measured at amortised cost using the effective interest method, less any impairment loss. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Derivative financial instruments

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged items affect profit or loss.

(ii) Financial liabilities and equity instruments

Financial liabilities are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to financial liabilities are reported in profit or loss. Distributions to holders of financial liabilities are classified as equity and charged directly to equity.

Financial liabilities

Financial liabilities comprise long-term borrowings, short-term borrowings, trade and other payables and accruals, measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

(e) Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

(f) Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.



Notes to the Company financial statements continued

3. Significant accounting policies continued

(g) Parent company disclosure exemptions

In preparing the separate financial statements of the parent company, advantage has been taken of the following disclosure exemptions available in FRS 102:

- Only one reconciliation of the number of shares outstanding at the beginning and end of the period has been presented as the reconciliations for the group (see note 19 in the notes to the group financial statements) and the parent company would be identical. Hence, the parent company has not disclosed this reconciliation in its notes to the financial statements;
- Disclosures in respect of the parent company's financial instruments and share-based payment arrangements have not been presented as equivalent disclosures have been provided in respect of the group as a whole;
- No disclosure has been given for the aggregate remuneration of the key management personnel of the parent company as their remuneration is included in the totals for the group as a whole; and
- No cash flow statement has been presented for the parent company.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 3, the Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not apparent from other sources. The estimates and assumptions are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date that have a significant risk of causing a significant adjustment to the carrying amounts of assets and liabilities in the Financial statements:

Share based payment

The fair value of share-based remuneration is determined at the date of grant and recognised as an expense in the statement of comprehensive income on a straight line basis over the vesting period, taking account of the estimated number of shares that will vest. The fair value is determined by use of Black Scholes model method.

Recognition of deferred tax assets

The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future against which the reversal of temporary differences can be deducted. To determine the future taxable profits, reference is made to the latest available profit forecasts. Where the temporary differences are related to losses, relevant tax law is considered to determine the availability of the losses to offset against the future taxable profits.

5. Profit for the financial period

The Company has taken advantage of section 408 of the Companies Act 2006 and, consequently, a profit and loss account for the Company alone has not been presented. The Company's profit for the financial period was £857,000 (2015: loss £1,340,000) which included a net gain on foreign currency translation of £2,511,000 (2015: loss £7,900). The Company's profit for the financial year has been arrived at after charging auditor's remuneration payable to Crowe Clark Whitehill LLP for audit services to the company of £59,028 (2015: £35,126).

6. Employees and directors' remuneration

Staff costs during the period by the Company were as follows:

	2016 £'000	2015 £'000
Non-executive directors fees	507	154
Executive directors	670	738
	1,177	892

The average number of employees of the company during the period was:

	2016 Number	2015 Number
Directors and management	2	2
	2	2

7. Investments

	£'000
At 31 December 2015 (as previously reported)	536
Share Options in respect of prior years	(389)
At 31 December 2015 (restated)	147
Additions – acquisition of Instra Group of companies	4,317
Share options issued on behalf of subsidiaries	148
Share options – deferred tax	(37)
At 31 December 2016	4,575

8. Debtors

	2016 £'000	2015 £'000
Amounts owed by group undertakings	21,818	16,719
Prepaid finance costs	–	350
Deferred tax asset	181	–
Other debtors	23	26
	22,022	17,095

9. Share capital and share premium

Details of the Company's share capital are set out in note 19 to the consolidated financial statements.

Notes to the Company

financial statements continued

10. Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Trade creditors	173	113
Accruals and deferred income	348	552
Accrued Interest	22	3
Taxation payable	426	–
	969	668

11. Derivative financial instruments

	2016 £'000	2015 £'000
Forward foreign exchange contracts – cash flow hedges	–	245
	–	245

On 18 December 2015, the Company entered into two forward foreign exchange option contracts in relation to the funding of the acquisition of the Instra Group.

The principal amount of the first contract was to purchase AUD\$30m at an effective exchange rate of AUD2.068 per pound sterling with an expiry date of 7 January 2016. In the event that the prevailing spot rate at the date of expiration was favourable to this rate then the contract would effectively purchase AUD\$15m with a strike price of AUD2.068 per pound sterling and the remaining AUD\$15m would be purchased at the prevailing spot rate.

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2016 were nil (2015: AUD\$30m).

As at 31 December 2015, the hedged transactions denominated in a foreign currency were considered highly probable to occur and subsequently did so in January 2016.

Particulars of subsidiaries and associates

Centralnic Group PLC's interest is 100% in the issued ordinary share capital of these undertakings included in the consolidated accounts.

Subsidiary	Country of incorporation and principal operations	Principal activity	Registered office
Centralnic Limited	England and Wales	Domain registry services provider	35-39 Moorgate, London, EC2R 6AR
TLD Registrar Solutions Limited	England and Wales	Domain registrar services provider	35-39 Moorgate, London, EC2R 6AR
Hoxton Domains Limited	England and Wales	Aftermarket domain services	35-39 Moorgate, London, EC2R 6AR
Instra Holdings (UK) Ltd	England and Wales	Holding Company	35-39 Moorgate, London, EC2R 6AR
Instra Holdings (Aus) Pty Ltd	Australia	Holding Company	Level 2, 222-225 Beach Road, Mordialloc, Victoria, VIC3195
Instra Holdings (NZ) Ltd	New Zealand	Holding Company	C/o Grant Thornton New Zealand Ltd, L4, 152 Fanshawe Street, Auckland, 1010, New Zealand

The companies listed below are 100% subsidiaries of Group Companies and only have ordinary share capital unless otherwise stated.

Parent Company	Subsidiary	Country of incorporation and principal operations	Principal activity	Registered office
Centralnic Limited	Centralnic USA Limited	USA	US sales office	21700 Oxnard Street, Suite 1030, Woodland Hills, California
Centralnic Limited	GB.com Limited	England and Wales	Dormant – holds domain name	35-39 Moorgate, London, EC2R 6AR
Centralnic Limited	Whois Privacy Limited	England and Wales	Dormant	35-39 Moorgate, London, EC2R 6AR
Centralnic Limited	dnsXperts UG	Germany	Domain management software services	Beueler Bahnhofplatz 18, 53225 Bonn
TLD Registrar Solutions Limited	Internet Domain Service BS Corp	Commonwealth of The Bahamas	Domain registrar services provider	Ocean Centre, Montagu Foreshore, East Bay Street, Nassau, New Providence, The Bahamas.
TLD Registrar Solutions Limited	Whois Privacy Corp	Commonwealth of The Bahamas	Domain registrar services provider	Postal Address: PO Box SS-19084, Nassau, New Providence, The Bahamas
Instra Holdings (UK) Ltd	Domain Directors (Europe) Ltd	England and Wales	Domain registrar services provider	35-39 Moorgate, London, EC2R 6AR
Instra Holdings (UK) Ltd	Europe Registry Ltd	England and Wales	Domain registrar services provider	35-39 Moorgate, London, EC2R 6AR
Instra Holdings (UK) Ltd	Instra Corporation (Europe) Ltd	England and Wales	Domain registrar services provider	35-39 Moorgate, London, EC2R 6AR
Instra Holdings (UK) Ltd	White Label Domains SDN BHD B12	Malaysia	Domain registrar services provider	No/ 36B, 2nd floor, Jalan Tun Mohd Fuad 2. Taman Tun Dr Ismail, Kuala Lumpur, Wilayah Persekutuan, 60000, Malaysia
Instra Holdings (UK) Ltd	Domain Directors (Finland) Oy	Finland	Domain registrar services provider	Accounting Services Tilmatic Ltd, Malminkatu 16, Voimatalo, 6/F, FL-00100 Helsinki
Instra Holdings (UK) Ltd	Sublime Technologies (France) Sarl	France	Domain registrar services provider	8 Rue Des Carmes 17000, La Rochelle, France
Instra Holdings (UK) Ltd	Domain Directors (France) Sarl	France	Domain registrar services provider	8 Rue Des Carmes 17000, La Rochelle, France
Instra Holdings (UK) Ltd	Tunglim International Pty Limited	Hong Kong	Domain registrar services provider	Unit 903-905, 9/F., Kowloon Centre., 33 Ashley Road, TsimShaTsui, Kowloon, Hong Kong
Instra Holdings (UK) Ltd	Sublime Technology Limited	Hong Kong	Domain registrar services provider	Unit 903-905, 9/F., Kowloon Centre., 33 Ashley Road, TsimShaTsui, Kowloon, Hong Kong
Instra Holdings (UK) Ltd	Domain Directors CA Inc	Canada	Domain registrar services provider	505 15183 Russell Avenue, White Rock Burnaby, BC, V4B2P4, Canada
Instra Holdings (Aus) Pty Ltd	Domain Directors PTY Ltd	Australia	Domain registrar services provider	Level 2, 222 Beach Road, Mordialloc, VIC 3195
Instra Holdings (Aus) Pty Ltd	Ozenum PTY Ltd	Australia	Domain registrar services provider	Level 2, 222 Beach Road, Mordialloc, VIC 3195
Instra Holdings (Aus) Pty Ltd	Instra Corporation PTY Limited	Australia	Domain registrar services provider	Level 2, 222 Beach Road, Mordialloc, VIC 3195
Instra Corporation PTY Limited	Instra Domain Directors B.V.	The Netherlands	Domain registrar services provider	Beechavenue 54 80, 1119PW, Schiphol-Rijk
Instra Corporation PTY Limited	Instra Corporation PTE Ltd	Singapore	Domain registrar services provider	20 Cecil Street, #14-01 Equity Plaza, Singapore, 049705
Instra Corporation PTY Limited	Domain Escrow Services Limited	England and Wales	Domain registrar services provider	35-39 Moorgate, London, EC2R 6AR
Instra Corporation PTY Limited	Instra-Internet Services One-person LLC	Greece	Domain registrar services provider	1 Dimokraatias Square, Thessaloniki, 54629, Greece
Instra Holdings (NZ) Ltd	Instra Corporation Limited	New Zealand	Domain registrar services provider	C/o Grant Thornton New Zealand Ltd, L4, 152 Fanshawe Street, Auckland, 1010, New Zealand
Instra Holdings (NZ) Ltd	Only Domains Limited	New Zealand	Domain registrar services provider	C/o Grant Thornton New Zealand Ltd, L4, 152 Fanshawe Street, Auckland, 1010, New Zealand
Instra Holdings (NZ) Ltd	Private Ranger Limited	New Zealand	Domain registrar services provider	Level 31 Vero Centre, 48 Shortland Street, Auckland Central, Auckland, 1010, New Zealand

Shareholder information

Financial calendar

Annual General Meeting

The Annual General Meeting will be held on Wednesday, the 7 June 2017 at 10.00am at the offices of the Company's solicitors:

DWF LLP
20 Fenchurch Street
London EC3M 3AG

Announcements

- Half-year results for 2017 are expected in September 2017.
- Full year results for 2017 are expected in April 2018.

Dates are correct at the time of printing, but are subject to change.

Directors

Mike Turner (Chairman)
Benjamin Crawford (Chief Executive Officer)
Glenn Hayward (Executive Director)
Desleigh Jameson (Executive Director)
Samuel Dayani (Non-Executive Director)
Thomas Rickert (Non-Executive Director)
Thomas Pridmore (Non-Executive Director)
Iain McDonald (Non-Executive Director)

Registered office

35-39 Moorgate
London EC2R 6AR

Company Secretary

Glenn Hayward

Company website

www.centralnic.com

Nominated Adviser and Broker

Zeus Capital Limited
82 King Street
Manchester M2 4WQ

41 Conduit Street
London W1S 2YQ

3 Brindleyplace
Birmingham B1 2JB

Joint Broker

Peel Hunt LLP
Moor House
120 London Wall
London EC2Y 5ET

Auditors

Crowe Clark Whitehill LLP
St Bride's House
10 Salisbury Square
London EC4Y 8EH

Solicitors to the Company

DWF LLP
20 Fenchurch Street
London EC3M 3AG

Taylor Wessing LLP
5 New Street Square
London, EC4A 3TW

Solicitors to the Nominated Adviser and Broker

DAC Beachcroft LLP
100 Fetter Lane
London EC4A 1BN

Financial PR

Abchurch Communications
125 Old Broad St
London EC2N 1AR

Bankers

Silicon Valley Bank
Alphabeta
14-18 Finsbury Square
London EC2A 1BR

HSBC Bank plc
89 Buckingham Palace Road
London SW1W 0QL

Company Registrars

Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Capita Asset Services is our registrar and they offer many services to make managing your shareholding easier and more efficient.

Share portal

The Share Portal is a secure online site where you can manage your shareholding quickly and easily. You can:

- View your holding and get an indicative valuation
- Change your address
- Arrange to have dividends paid into your bank account
- Request to receive shareholder communications by email rather than post
- View your dividend payment history
- Make dividend payment choices
- Buy and sell shares and access a wealth of stock market news and information
- Register your proxy voting instruction
- Download a stock transfer form.

To register for the Share Portal just visit www.signalshares.com. All you need is your investor code, which can be found on your share certificate or your dividend tax voucher.

Customer support centre

Alternatively, you can contact Capita's Customer Support Centre which is available to answer any queries you have in relation to your shareholding:

By phone – UK – 0871 664 0300 (UK calls cost 12p per minute plus network extras). From overseas – +44 371 664 0300. Lines are open 9.00am to 5.30pm, Monday to Friday, excluding public holidays.

By email – shareholderenquiries@capita.co.uk

By post – Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

Sign up to electronic communications

Help us to save paper and get your shareholder information quickly and securely by signing up to receive your shareholder communications by email.

Registering for electronic communications is very straightforward. Just visit www.signalshares.com. All you need is your investor code, which can be found on your share certificate or your dividend tax voucher.

Donate your shares to charity

If you have only a small number of shares which are uneconomical to sell you may wish to donate them to charity free of charge through ShareGift (Registered Charity 10528686). Find out more at www.sharegift.org.uk or by telephoning 020 7930 3737.

Share fraud warning

Share fraud includes scams where investors are called out of the blue and offered shares that often turn out to be worthless or non-existent, or an inflated price for shares they own. These calls come from fraudsters operating in 'boiler rooms' that are mostly based abroad.

While high profits are promised, those who buy or sell shares in this way usually lose their money.

The Financial Conduct Authority (FCA) has found most share fraud victims are experienced investors who lose an average of £20,000, with around £200m lost in the UK each year.

PROTECT YOURSELF

If you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free company or research reports, you should take these steps before handing over any money:

- Get the name of the person and organisation contacting you.
- Check the Financial Services Register at <http://www.fca.org.uk/> to ensure they are authorised.
- Use the details on the FCA Register to contact the firm.

- Call the FCA Consumer Helpline on 0800 111 6768 if there are no contact details on the Register or you are told they are out of date.
- Search our list of unauthorised firms and individuals to avoid doing business with.

REMEMBER: if it sounds too good to be true, it probably is!

If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme (FSCS) if things go wrong.

REPORT A SCAM

If you are approached about a share scam you should tell the FCA using the share fraud reporting form at <http://www.fca.org.uk/scams>, where you can find out about the latest investment scams. You can also call the Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

Identity theft

Tips for protecting your shares in the Company:

- Ensure all your certificates are kept in a safe place or hold your shares electronically in CREST via a nominee.
- Keep correspondence from us and Capita in a safe place and destroy any unwanted correspondence by shredding.
- If you change address, inform Capita in writing or update your address online via the shareholder portal. If you receive a letter from Capita regarding a change of address but have not moved, please contact them immediately.
- Consider having your dividend paid directly into your bank. This will reduce the risk of the cheque being intercepted or lost in the post. If you change your bank account, inform Capita of the details of your new account. You can do this by post or online via the shareholder portal.
- If you are buying or selling shares, only deal with brokers registered and authorised to carry out that type of business.
- Be wary of phone calls or e-mails purporting to come from us or Capita asking you to confirm personal details or details of your investment in our shares. Neither we nor Capita will ever ask you to provide information in this way.



Glossary

Top Level Domain or 'TLD'

The suffix attached to internet domain names e.g., .com, .net

Second Level Domain or 'SLD'

A domain that is directly below a top-level domain e.g. uk.com

Country Code Top Level Domain or 'ccTLD'

An Internet top-level domain generally used or reserved for a country, a sovereign state, or a dependent territory e.g., .uk, .jp

Domain Name System or 'DNS'

A hierarchical distributed naming system for computers, services, or any resource connected to the Internet or a private network

Domain Name Registrar

An organisation or commercial entity that manages the reservation of Internet domain names

Registry Service Provider

A company that performs the technical functions of a TLD on behalf of the TLD owner or licensee. The registry service provider keeps the master database and operates DNS servers to allow computers to route Internet traffic using the DNS

Internet Corporation for Assigned Names and Numbers or 'ICANN'

A non-profit private organisation that was created to oversee a number of Internet-related tasks previously performed directly on behalf of the U.S. government

Registry Operator

An entity that maintains the database of domain names for a given top-level domain and generates the zone files which convert domain names to IP addresses. It is responsible for domain name allocation and technically operates its top-level domain, sometimes by engaging a Registry Service Provider

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