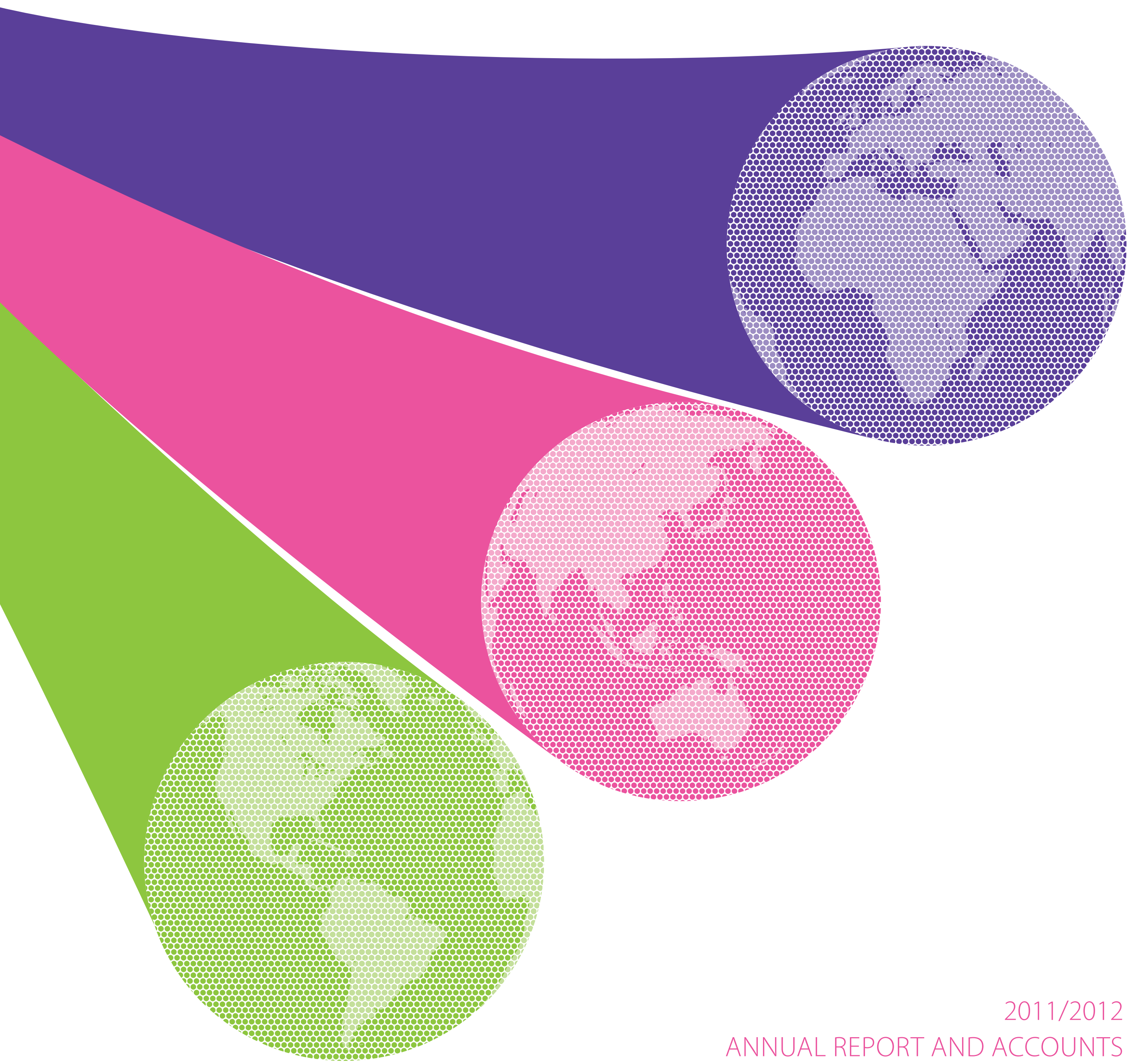
dotDigitalGroup plc

Innovating SaaS Technology
and Tools for Marketers



2011/2012
ANNUAL REPORT AND ACCOUNTS

OUR MISSION

Empowering clients to punch above their weight by providing the world's best digital marketing products.

OUR VALUES

Professional, expert and fun

Fast-paced but quality driven

Awesome is the required standard

Creative and geeky with the human touch

Approachable, sociable, welcoming and client-centric

Passionate about our client/supplier partnerships

Corporate but cool

Business-like, entrepreneurial but still a family

Committed to giving back to staff and society

Motivated, inspirational, innovative and accomplished

Easy to use space-age technologies

An unhidden agenda about clients success

Contents

BUSINESS SUMMARY

dotDigital Group Plc, are a leading provider of intuitive Software as a Service ("SaaS") technology and managed services to digital marketing professionals.

Our aim is to develop easy-to-use and visual SaaS marketing tools, for non-technical and non-creative users, that deliver smarter, quicker and easier design, creation and execution of campaign workflows across every digital channel, while enabling the use of marketing best practices and management controls.

dotDigitalGroup plc

Innovating SaaS Technology
and Tools for Marketers

dotMailer
dotMailer is a powerful email and cross-channel marketing automation platform with easy-to-use tools that enable large coporations and SME marketers to efficiently create, manage, execute and evaluate effective targeted campaigns.

dotSurvey
dotSurvey is a versatile and easy-to-use online survey tool that enables users to create, manage and execute fully branded interactive surveys, competitions and web forms to capture and evaluate data.

dotAgency
dotAgency provides digital solutions and search marketing services to large corporations and brands. dotAgency take a strategic approach to UX, web development and digital marketing to achieve clients' commercial objectives.

+34%
increase in turnover
to **£12m**

Continued strong cash generation with cash balances of
£4m
at year end

+31%
increase in EBITDA
to **£3.4m**

+25%
increase in profit before tax and exceptionals
to **£2.9m**

Visit dotDigital Group Plc's website for latest information and news.

dotMailer continues to be a **significant source of revenue growth** in the year with 1,813 new clients being added and increased 'corporate' client wins

dotSurvey the new online survey tool only launched in May now has **over 500 paying clients** and nearly 2,500 trial users

1,813
client wins including DHL, Nationwide, BBC Worldwide, Capita, Astra Zeneca, Esso, Ryman, Tarmac, Nicole Farhi, Nicky Clarke, EDF Energy, Virgin Train and Betfair

Clients in
156
countries

Early results from international expansion are encouraging with the international sales team being progressively built over the next year

Continued investment in **upgrading of our IT infrastructure** and further **significant product development**

Strengthening of the senior operational management team

CHAIRMAN'S STATEMENT

"We see our market moving toward providing multi-channel marketing automation solutions."

dotDigital is in very good shape and continues to make great progress in delivering value to its shareholders and other stakeholders.

Dear Shareholder
I am pleased to report that despite the general economic climate dotDigital has increased sales and profitability before exceptionals in the past year. This continued strong performance is a testament to the quality of the Company's business model with a strong emphasis on recurring revenue, cash generation and cost management.

I recognise that an effective board is central to the long-term sustainable success of the Company. We have worked hard to cultivate a strong team spirit through the on going review of the role and effectiveness of the Board combined with regular strategy reviews.

One of our non-Executive Directors, Nicholas Nelson, left the Board on 5th January 2012 and I would like to thank Nicholas for his valuable contribution to the business. It is my intention to appoint another non-Executive Director in the coming financial year.

Since joining the Company I have got to know many of our employees and have been repeatedly impressed by their enthusiasm, professionalism and dedication at every level of the organisation. On behalf of all our stakeholders, I thank our employees for their hard working contribution to another successful year.

I would also like to thank the Executive Management team for their continued commitment, hard work and passion in developing the business.

We are firmly committed to organic growth and we see a number of areas where we can develop our business. In the coming year we plan to increase our focus on geographic expansion, with particular emphasis on building our client list of larger businesses, by satisfying their demand for effective marketing automation solutions. We will continue to assess acquisition opportunities but only act when the Board believes acquisition represents excellent value.

We continue to innovate and develop products that stand out from the competition and the change in strategic focus on selling to larger enterprise organisations is starting to show excellent results.

Looking at the wider global situation, we see our market moving towards providing multi-channel marketing automation solutions and we believe our platform is well-positioned to compete in this space.

To conclude: as you will read in this Annual Report, dotDigital is in very good shape and continues to make great progress in delivering value to its shareholders and other stakeholders. The drivers of the business remain firmly in place. Despite current economic uncertainties, I am confident that we will continue to benefit in the years ahead from continued investment in our technology, our emphasis on the quality of our people and effective management of our costs.

Frank Beechinor-Collins
Chairman

CHIEF EXECUTIVE'S REPORT

"We will continue to focus on product innovation, understanding our clients' requirements and delivering return on investment for our clients."

Turnover and profits ahead of market expectations

Financial Overview

The Group has enjoyed another year of profitable growth with the final outcome for revenue and profits slightly ahead of analysts' expectations.

Turnover increased from £9m to £12m, a growth of 34% in the year and profit before tax and exceptional items grew from £2.3m to £2.9m a growth of 25%.

Overall the Board is delighted with the progress made against plans during the year, which reflect our continued focus on strong organic growth through new client acquisitions and investment in new products and services.

We have again focused on growing recurring revenues and profitability, while continuing to invest in people and product development to maintain future earnings. The total investment in hardware during the year was £0.3m and £1.1m in product research and development.

	Year end 30.6.12 £m	Year end 30.6.11 £m	% inc	Year end 30.6.10 £m
Turnover	**12.0**	9.0	34%	6.0
Pre-tax profits*	**2.9**	2.3	25%	1.4
EBITDA	**3.4**	2.6	31%	1.5

*Before exceptional items

Cash Position

We continue to be strongly cash generative with cash from operations growing in the year and cash balances at the year-end reaching £4m. Other than small operating leases there is no debt finance.

We have continued to invest in the future of the business with significant investment in upgrading the IT infrastructure and further significant product development.

Growth Strategy

By business unit the growth has been as follows:

SaaS Email Marketing Revenues & Email Managed Service from £6.9m to £9.5m – up 38%.

Services & Search from £2.1m to £2.5m – up 19%.

Continued strong cash generation

Watch Proactive Investors Interview of dotDigital Group's CEO, Peter Simmonds.

Peter Simmonds
Chief Executive and and Chief Financial Officer

> Multi-channel marketing is becoming one of the most sought-after categories in enterprise software/service.

Digital Landscape

Current research shows that companies are continuing to shift money from traditional marketing to internet marketing for its effectiveness and ability to attribute results to specific activity, demonstrating improved ROI.

The significant increase in time being spent consuming online media has had a direct impact on marketing spend. A 6% drop in time spent consuming print media has seen a 29% drop in advertising spend, where as internet has a significant 16% growth in time spent consuming media with an ad spend growth of 22%.

We believe, it is the email's value within the context of broader personalised marketing programs that is bringing new value to the channel. Although unverified, sources estimate 2.9 billion email accounts and over 100 billion subscribed email messages are being sent daily. Email's reach is unmatched despite the rapid adoption of alternative channels for engaging consumers online. Despite the attention and reports surrounding social media marginalising email, it remains the most logical centre for any multi-channel marketing platform.

As this trend persists the Board will continue to work with UK and international partners to identify and evaluate emerging opportunities for SaaS technology products across email and cross-channel online marketing to inform its product roadmap.

> Companies are continuing to shift money from traditional marketing to internet marketing for its effectiveness and ability to attribute results to specific activity.

Email's global reach is still unmatched despite the rapid adoption of alternative channels for engaging consumers

Pinterest
11m
monthly visitors

Email
2.9bn
accounts
100bn+ daily messages

Facebook
845m
active monthly users
2.7bn likes & comments/day

Foursquare
15m
accounts

Instagram
27m
accounts

Tumblr
48m
blog accounts

Google
95m
accounts

Twitter
300m
accounts
300m tweets/day

Multi-channel marketing is becoming one of the most-sought after categories in enterprise marketing software/service

Multi-Channel Marketing

Email Marketing Management

Email creation and management system driven by need to manage user interactions and messages across digital channels

Social Media Management

Engagement system for social consumer interaction

Social software leading convergence between earning, owned and paid channels

Traditional CRM

Customer data store

CRM system will play an important role in powering user level marketing campaigns dotMailer®

Email & Cross-Channel Marketing Automation

> User interfaces now have the ability to be translated into eight languages to support international client and partner growth plans.

dotMailer

Email marketing continues to perform extremely strongly both in terms of new clients and recurring revenues from existing clients, with dotMailer's monthly recurring revenue now accounting for over 60% of total revenue across the Company, which equates to approximately 38% growth year-on-year. The Group's total recurring revenue from all products and services, now accounts for 67% of total revenue.

New customer signups for dotMailer have continued to be a significant source of revenue growth in the year, with 1,813 new clients being added. Of particular note during 2011/12, is that enhancements to the dotMailer platform and changes to the structure of the sales team have significantly increased client wins in the 'corporate' segment. Our portfolio of blue chip clients now includes names such as DHL, Nationwide, BBC Worldwide, Capita, AstraZeneca, Esso, Ryman, Tarmac, Nicole Farhi, Nicky Clarke, EDF Energy, Virgin Train and Betfair.

Based on historic experience the lifetime value of a corporate client should be in excess of £40k compared to an average lifetime value of £4k for a SME client.

The combination of flexible pricing options, ease-of-use and advanced marketing features enables us to win clients from SME's to global corporates. Moving forward we see growth opportunities in the mid – large company requiring a self service provider – a niche where we believe dotMailer can dominate.

+38%

growth in SaaS Email Marketing Revenues & Email Managed Service.

dotMailer client portfolio includes:

EDF ENERGY

NICOLE FARHI

betfair.com

CRYSTAL PALACE F.C.

REISS

Nationwide

Hallmark

Watch dotMailer's email Drag & Drop Easy Editor video

dotMailer®

Email & Cross-Channel Marketing Automation

dotMailer software provides users with an efficient and effective marketing campaign management system with a suite of interactive, powerful and easy-to-use email and cross-channel marketing tools. Bought separately, or as part of a comprehensive cross-channel solution, email, mobile, social, landing page, ecommerce and survey tools can be managed from a single point running on dotMailer's highly secure and robust platform and infrastructure.

Small business or corporate enterprise users can create, manage, automate and analyse integrated digital maketing activity more efficiently and effectively to significantly improve their customer lead generation, conversion, and retention.

Email

Using dotMailer's email Drag & Drop Easy Editor and powerful administration and reporting features, users can easily create, manage and evaluate segmented email campaigns to drive conversion, retention and loyalty.

Mobile

Marketers can communicate effectively in a mobile world with easy SMS tools and mobile-optimised templates, allowing customer engagement anywhere at any time to drive instant responses and actions for maximum ROI.

Social

Businesses can manage and moderate social media marketing from one central hub, getting involved with fans in their space to build brand reputation and personality.

Landing Page Builder

Non-technical professionals can easily build microsites and landing pages so campaigns convert more, ensuring fully integrated campaigns by creating dedicated landing pages for each offering.

Shop

Shop builder makes it easy for small businesses to build and manage a successful ecommerce store, allowing users to get selling straight away with this quick shop and focus on sales, not the technical side of web design.

Survey

Marketers can create branded surveys, questionnaires, competitions and web forms in moments, enhancing databases and easily discovering more about customers, markets or employees.

Uniquely scalable, powerful and easy-to-use campaign creation & management system for small, midsize and corporate businesses

salesforce.com Success On Demand.™

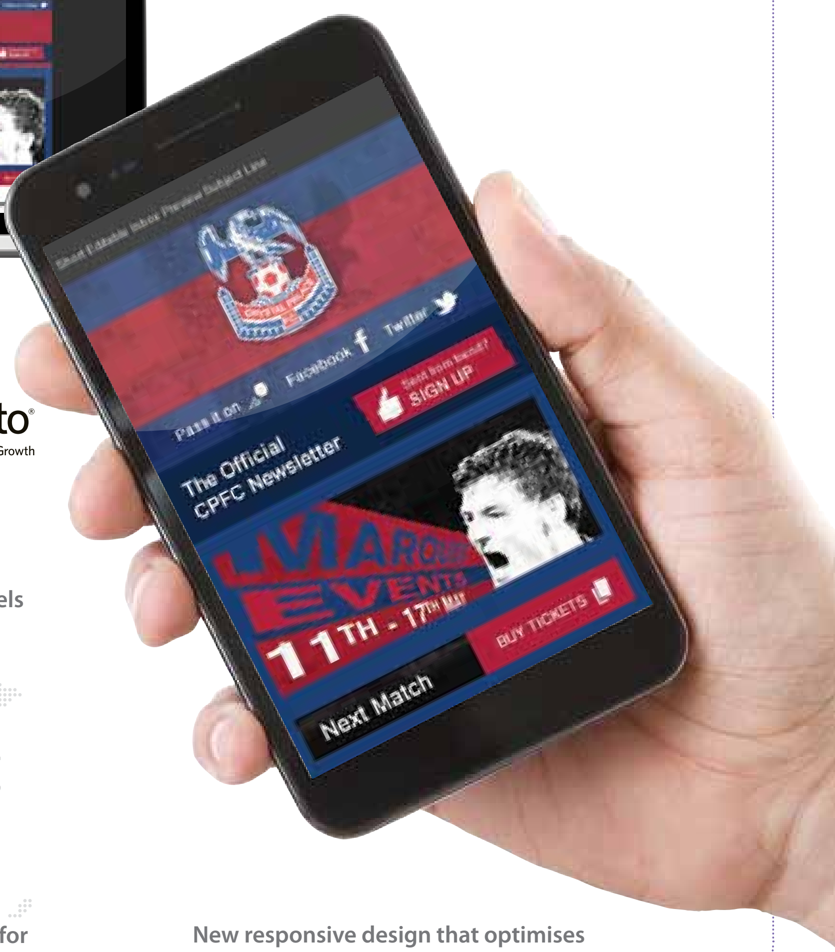
Magento® eCommerce Platform for Growth

Microsoft Dynamics

x.commerce

Powerful integrations creating new sales channels

Easy translation and white labelling technology for international client and partner growth



New responsive design that optimises campaigns for mobile

dotSurvey

Versatile, Powerful and Easy-To-Use Online Survey Tool

dotSurvey launched and marketed to existing client base in May 2012, now has over 500 paying clients and 2,500 trial users.

dotSurvey

dotSurvey our new online survey tool was launched from beta at the beginning of May and although only marketed initially to existing clients has now over 500 paying clients and nearly 2,500 trial users. The Board recognises the enormous potential of this division as can be demonstrated by growth in the sector. Although marketing spend is crucial to the strategy of scaling this business, the Board believes the quality of the product will soon develop a brand to equal others in the market.

> "dotSurvey – perfectly branded online surveys, created in minutes with our latest online survey tool. Built for total usability, dotSurvey makes it fantastically easy for users to create fully branded, professional online surveys and web forms that look just like they're part of their website."

dotSurvey's client portfolio includes:

DHL

VOLVO

LV=

Labour

Fitness First

Balfour Beatty

Watch dotSurvey's Introduction video.

dotSurvey

Versatile, Powerful and Easy-To-Use Online Survey Tool

With the versatility and power of dotSurvey, users can take this tool way beyond your average survey tool. With everything in the app editable and customisable, users can create highly professional forms, surveys, invitations, preference centres and much more.

Customer Feedback

dotSurvey enables users to gather valuable insight and feedback from customers, helping them to highlight successes and weaknesses within their business.

Employee Satisfaction

Employees are any businesses most valuable asset, so carrying out regular satisfaction surveys with dotSurvey helps businesses ensure employees are happy and moving the business forward.

Market Research

Using dotSurvey, businesses with a new product or idea that require initial customer or market feedback and insights can easily build, collect and report without any outside help.

Contact Forms

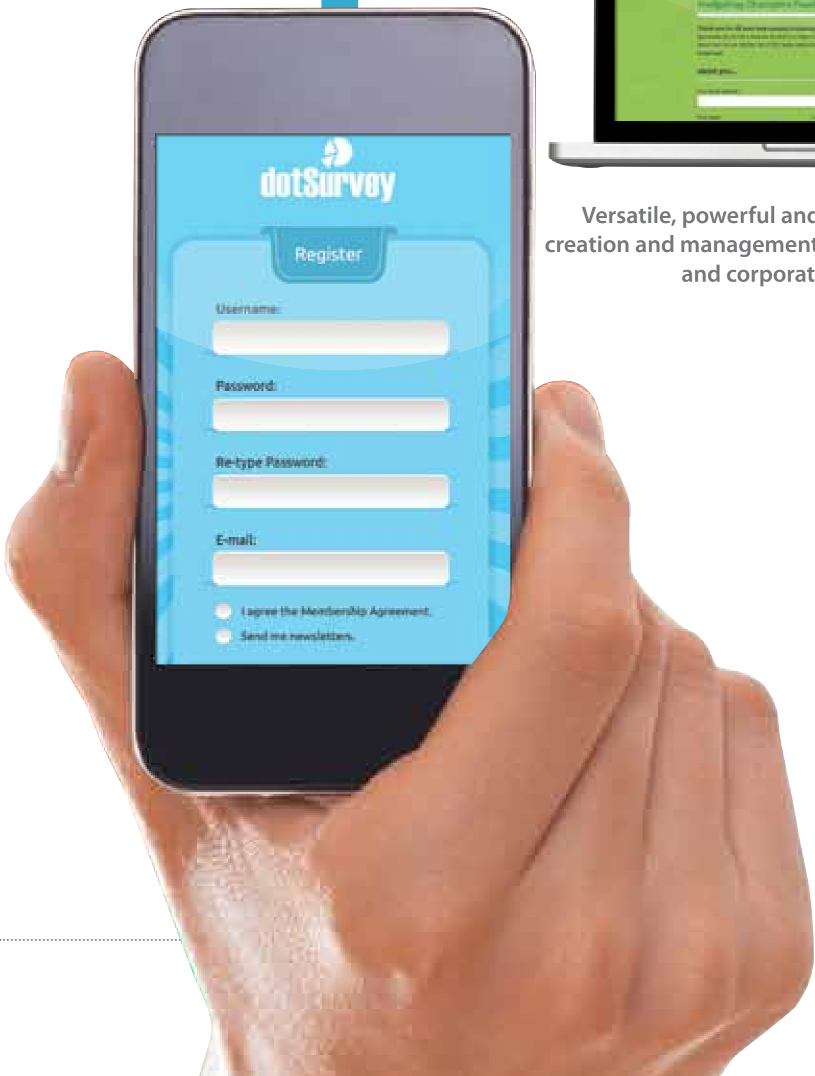
dotSurvey enables businesses to create website sign-up forms for visitors to register for more information or contact them. This data can be mapped into dotMailer to automate email campaigns.

Events Management

dotSurvey, with the power of dotMailer, allows businesses to manage and coordinate events, handling RSVPs, capturing special dietary requests, and tracking automated follow-up, confirmation and post-event emails.

Competitions

dotSurvey allows businesses to set up and manage competitions to grow or cleanse their customer database. Qualifying questions are sent out and responses received through email, social media or via a website.



Versatile, powerful and easy-to-use template creation and management system for small, midsize and corporate businesses

Uses dotMailer integration for deliverability and management creating upsell opportunity

dotAgency

Ecommerce Web Design and Search Marketing

The agency services and search division, accounts for around 20% of total revenue.

Services - Agency and Search

The Agency Services and Search division, which accounts for just under 20% of total revenue, grew revenues in the year by 19%.

We have appointed a new management team to head the combined Search and Agency team and strengthened the team in both search marketing and agency services.

While the growth in the Search division was behind management's expectations, we believe the organisational changes which have been made to this business during the second half of the year will enable us to deliver performance in line with revised plans during 2012/13.

Early signs are that these changes are being rewarded with some significantly higher-value client wins.

As a result of algorithm changes made by the major search engine during this period we have modified some of the search marketing methodologies, targeted different client profiles and recruited a new Head of Search Strategy. During June the Sywell office was closed and operations were transferred to the London office to improve knowledge sharing and fully integrate teams. Following the move of the Search Marketing team to London we have merged the Agency Services and Search Marketing team and created an operational management Board to run this business unit.

The final deferred consideration for the purchase of the search marketing business, dotSearch (previously Netcallidus), was made in November 2011. The accounts contain further non-cash IFRS3 based accounting adjustments in the final accounts to unwind the impact of contingent consideration that was estimated on the acquisition in May 2009 but that was not paid to the vendors.

"We have appointed a new management team to strengthen and head the combined search and agency team."

dotAgency's client portfolio Includes:

MYLA LONDON

NICOLE FARHI

Gio-Goi

Rodial nature·science·skincare

FAIRTRADE Guarantees a **better deal** for Third World Producers

REISS

CURZON · CINEMAS

dotAgency dotSearch Ecommerce Web Design & Search Marketing

dotAgency provide digital solutions and search marketing services to large corporations and brands. dotAgency take a strategic approach to UX, web development and digital marketing to achieve our clients' commercial objectives.

dotAgency are Magento silver-certified partners who have proven creative, technical and project management skills. We deliver superior solutions on desktop machines, mobiles and tablets. Our relationship with dotMailer ensures we always adopt best practice when it comes to automated email marketing and triggered campaigns to help customer acquisition, retention and recommendation.

Our approach to search marketing blends organic with paid and social marketing, to help our clients avoid dips in their traffic so their online business stays at peak performance. We help drive traffic to clients' sites to maximise cross-selling and up-selling.

Digital Strategy

We don't just build websites, we help clients build online business. Through data, research and experience we give clients a complete, integrated digital marketing service that is perfectly suited to their brand and brief. We work on clients' entire digital strategy; analysing end user's journey through email campaigns as well as web and mobile use (including social media) to measure and share the actions they are taking so they can be used to underpin a successful digital strategy.

Search Marketing

Our dedicated search team – dotSearch – create effective campaigns ensuring premium search engine positions attract the visitors who are of most value. To stay in tune with consumer behaviour, each client benefits from a tailored SEO plan which is continually reviewed and developed to ensure they achieve the best possible return on investment through the right strategy, key words, activity and language.

Creative Design

Visitors don't stay on a website for long if it looks ugly and is hard to navigate. At dotAgency, we work with our clients to create a site that suits their brand and keeps their visitors coming back. Our team of strategists, designers, UX researchers, user interface architects and HTML and JavaScript experts work in collaboration to build the site. Each of our website designs is tailored to suit its individual purpose.

Paid Search

We help our clients stay ahead of the competition by buying real estate on well-known search engines such as Google. Paid search campaigns can focus on brand protection or increasing market share. They can use behavioural targeting and localised PPC, or be tactical, reactive or trend-driven. Our Google Analytics-certified consultants recognise patterns in your site data and know exactly where to look to solve the cause of specific problems and convert more visits into revenue.

Ecommerce and CMS

Our professional team understands ecommerce and will work with our clients to create a website that meets all project requirements. Using Magento and Umbraco open source platforms, our project managers and technical teams build robust, high-performing sites while our account managers continue to make sites profitable long into the future.

Social Media

Social media websites are accessed by four out of five web users, and by creating effective online social media campaigns we help our clients benefit from this traffic.

Developing powerful and measurable traffic driving campaigns

MAGENTO SILVER INDUSTRY PARTNER

Cross-sales of dotMailer integration improve customer engagement and data management

Continued focus and success across winning and servicing large corporations and brands

CHIEF EXECUTIVE'S REPORT CONTINUED

The Company invested over £250k in new hardware

Investment in Hardware and Product R&D

Over the year, the Company, invested over £250k in new hardware for the technical infrastructure which supports its products, and in September 2012 moved to new offices to provide capacity for further growth.

The primary purpose of this investment was to provide greater capacity and scalability across all products, thereby ensuring that the Company can service its clients effectively, while continuing to grow the business. The hardware architecture has been configured with this future growth in mind, in that the layers upgraded can now be scaled out at a relatively low capital cost as the business requires it. The hardware acquired, is also the first phase of a larger technical implementation which will allow the Company to release several new major product features in the coming years. There was an immediate additional benefit; as well as providing the platform for future growth, many existing workloads are now processed faster, providing direct performance benefits to customers.

Significant development work on the dotMailer platform has been completed in the year, including integration with several major CRM products (including Dynamics and Salesforce), integration with the eBay X-Commerce fabric, translation of the user interface into eight languages and development of a new visual drag & drop email template editor. Each of these initiatives endorses our development spend and demonstrates that we are proactive in extending our offering to clients which boosts our capacity to increase client wins and grow revenues.

salesforce.com Success On Demand.

Magento eCommerce Platform for Growth

Microsoft Dynamics

x.commerce

Full integration with the major CRM platforms

Easy translation technology developed for international client and partner growth

dotMailer's Drag & Drop EasyEditor allows everyone to be an email designer with no HTML, coding or web design skills

Watch dotMailer's Salesforce Integration video.

> There has been considerable focus in the period on the strengthening of the senior operational management group who manage the on going business.

People

As part of the Board's strategy to position the business for further sustained growth, there has been a considerable investment in people during the year, with a key focus on adding experience and depth to the senior management of the business.

The appointment of Frank Beechinor-Collins as Chairman and Richard Kellett-Clarke FCA as senior independent Director in Spring 2011 has significantly strengthened the experience and working of the Board during the year.

Both Richard and Frank bring CEO-level experience of running an AIM business in related sectors. Richard has been appointed chair of the remuneration committee and audit committee during the year. It is the intention of the Directors to add a further non-Executive Director during 2012/13, subject to identifying a candidate with the requisite experience, skills and industry knowledge.

In 2011, the Board had identified a number of key business areas where additional skills and experience would be an essential element of delivering on the growth strategy. New key hires have been made in the following areas:

Employee Engagement	Head of HR
Systems Integration & Scaling	Senior Systems Architect, Head of Product Integration
Business Development	Director of Channel Development, Director of Marketing Communications
Business Operations	Head of Process Change, Director of Search & Agency Operations, Head of SEO Strategies

With ambitious growth plans for the future, the Board believes that hiring the best people and providing a culture where all staff are engaged in the business, is vital to the continued success, albeit this will have a short impact on cost/income ratios.

As part of the strategy to ensure the business has the talent and culture to maintain growth the Board took the decision to enter the 'Sunday Times 100 Best Companies to Work For' competition.

Although we were just outside the Top 100 this year, we were delighted to receive a star rating and a good understanding of areas for improvement in coming years. As part of the maturing of the business, the Board have committed to further investment in training, development and mentoring with the aim of attracting and retaining the best people.

During the year, the Company significantly enhanced the training and development programmes available and has provided all employees with access to bespoke key skills training, as well as continuing specific niche skills development across industry and professional skills development. The Group has seen a greater percentage of employees than ever before studying towards and achieving professional qualifications, equipping themselves and the business with specialist expertise.

The Board's commitment to an open and honest working environment continues with clear communication of business progress through weekly Company meetings; including an anonymous 'Ask the Board' questions slot, regular newsletters, and lunches for new and existing employees with the Board.

The Board strives to offer a competitive benefits package in order to attract and retain the best talent, including share option schemes and bonuses based on Company and individuals' performances. Total reward statements are now available to all employees to provide complete visibility into the total value of salaries, benefits and rewards earned through the year.

I would like to take this opportunity to thank all our staff for their tremendous commitment and performance over the past year.

Wayne Parker, 2011/12 Employee of the Year Celebration

> Being voted as dotDigital's Employee of the Year by my colleagues is an incredible honour, especially as the business employs so many talented people.

We will continue to develop powerful and easy-to-use tools that enable non-technical users to plan, design, execute and evaluate multi-channel campaigns.

Outlook for the Year Ahead

During 2012/13 we anticipate that changes to the dotMailer platform and the reorganisation within the sales and client services teams will further improve sales in the corporate sector. Recent client wins in this sector suggest that ease-of-use combined with powerful features, effective integrations and marketing automation is providing a good ratio of client wins from pitches attended. The recent addition of multiple language user interface options together with, a soon to be launched, social broadcast capability are also expected to help open opportunities with global organisations.

Early results from our international expansion are encouraging and we expect to build the international sales team progressively during 2012/13 where we see growth opportunities.

Initial feedback on the newly launched dotSurvey has been extremely positive and in quarter one of the new financial year we plan to run trial marketing campaigns to establish the customer acquisition costs of various digital marketing channels. Based on the results of this trial, the Board will agree a plan for significant focused marketing of this product both in the UK and globally.

During the year, we evaluated a number of potential acquisition opportunities of email marketing businesses. However, given that we would effectively be acquiring clients, and not the brand, the software platform or the management, in the opinion of the Directors none of the businesses evaluated were judged to be value enhancing when predicted future revenues and profits were compared to asking prices.

Although, we will continue to proactively seek and evaluate acquisitions, our strategy will focus upon successful organic growth and as a business we need to invest in cost-effective marketing to ensure the growth is maintained. With a product like the new online survey tool, the income is annuity-based and one of the key decisions required will be to determine the level of upfront marketing investment to generate future annuity income streams.

To maintain our record of strong organic growth we will continue to focus on product innovation, understanding our clients' requirements and delivering return on investment for our clients. We will also continue to selectively expand our international activities.

Early results from our international expansion are encouraging and we expect to build the international sales team.

Watch Proactive Investors Interview of dotDigital Group's COO, Tink Taylor and CTO, Simon Bird.

The Future

The product roadmap for the business will be based around the vision of a SaaS (cloud) based digital marketing automation platform, built to enable marketers to define prospect and client engagement communications in a highly visual way, to define triggered messages via multiple channels, where the content delivered is segmented, timely and relevant to the recipient, eg. the platform will deliver triggered messages for events such as shopping cart abandonment or web page bounce automatically and in real time.

Our passion for ease of use and visual tools for non-technical users will enable the design, creation, and execution of campaign workflows across every digital channel while enabling the use of marketing best practices and management controls.

> "The product roadmap for the business will be based around the vision of a SaaS (cloud) based digital marketing automation platform, built to enable marketers to define prospect and client engagement communications in a highly visual way via multiple channels, where the content delivered is segmented, timely and relevant to the recipient."

P A Simmonds
Chief Executive and Chief Financial Officer

dotMailer Platform Product Roadmap

"The Board strives to offer a competitive benefits package in order to attract and retain the best talent, including share option schemes and bonuses based on Company and individuals' performance."

During the past year, the Group continued with its on-going commitment to social responsibility in the market in which it operates, to its employees, suppliers and to the broader environment.

Clients

The Company prides itself on ensuring that our products and services are designed to meet the expectations of our clients and their customers. Feature forums allow clients to request features and vote on feature priority, feeding directly into the development schedules for our SaaS product offerings. dotAgency services are designed and delivered against a best-fit model; delivering projects that provide maximum return on investment for clients, on time and on budget.

The Group is committed to complete transparency with our clients, providing pricing structures that are clear, and offering packages that allow clients to deliver successful campaigns. A pricing calculator is provided for dotMailer licenses and packages to allow clients and potential clients to cost their campaigns, and our experienced sales team are able to assist clients in pricing guidance across all our products and services. dotMailer is also offered with a money-back guarantee to give clients maximum confidence in our products and services.

dotDigital products and services are supported by an expert team; giving access to support via email, telephone and live chat. We also provide additional managed services for our products, enabling our clients to deliver successful campaigns and projects.

Employees

The Group has continued to invest in the development of our people across the Group thus underpinning the critical role that our employees play in the success of the business.

The Board has significantly enhanced the training and development programme available, to provide all employees with access to bespoke key skills training, as well as continuing specific skills development in areas relating to the industry we operate in and, in addition, professional skills development. The Group now has a greater percentage of employees than ever before studying towards and achieving professional qualifications, equipping themselves and the business with specialist expertise.

The Board's commitment to an open and honest working environment continues with clear communication of business progress through weekly Company meetings; including an anonymous 'Ask the Board' questions slot, regular newsletters, and lunches for new and existing employees with the Board.

The Board strives to offer a competitive benefits package in order to attract and retain the best talent, including share option schemes and bonuses based on Company and individuals' performance. Total reward statements are now available to all employees to provide completely visibility into the total value of salaries, benefits and rewards earned through the year.

It is the policy of the Group to ensure that at all times there are equal opportunities for all employees with no discrimination on account of race, age, gender, sexual orientation, disability and political or religious beliefs. Our philosophy is to ensure that ability, contribution to the business and potential to develop are the determining factors in the selection, training, career development and promotion of all employees.

Investment in our offices continues, ensuring both a pleasant and safe working environment for all employees. Above all, the Board work continually to ensure that our work places are safe and comply with all relevant legislation; the Group has not been subject to sanctions or fines for environmental, health and safety or other infringements.

dotDigital adopts a charity each year; this year the Board elected to continue our partnership with Macmillan Cancer Support through our Big Pink campaign.

This year the Board has increased the commitment to sponsoring Louise Cook, the British Female Rally Champion.

Risks

The Board is cognisant of the need to monitor potential threats to the business and our workforce. To this end the Board has established a Risk Committee consisting of both non-Executive Directors and management. This committee meets regularly to evaluate on going risks to the business and this includes risks posed both to our employees and any potential risks to the business from suppliers and partners. Any recommendations by this committee are put directly to the Board for further discussion and implementation.

Community

Our roots within our community are very important. The Board are committed to working with our local and wider communities across our various sites to continue to build the connections that have been developed over the years.

dotDigital adopts a charity each year; this year the Board elected to continue our partnership with Macmillan Cancer Support through our Big Pink campaign. Some of the activities we supported in the past year included the Board pledging donations in conjunction with our entry to the Sunday Times 100 Best Companies and donating gifts at Christmas time to this charity.

The Group also offers its products and services to all charities at preferential rates, and we are very proud of our strong client base of charitable organisations including The Disabilities Trust, the Fairtrade Foundation and SeeAbility. This year, the Board has increased its commitment to sponsoring Louise Cook, the British Female Rally Champion. Louise masterminded a unique sponsorship programme to allow her to race and the Board are delighted to be able to support her on going successes on the rallying circuit.

Within our local communities, the Company provides work experience and internship opportunities for local students, and we actively recruit from the local talent pool. This year, we also introduced a new volunteering scheme which allows paid time off for all employees to volunteer on a number of programmes, including local environmental projects and fundraising events.

Environment

The very nature of dotDigital business activities works to move our clients away from traditional paper-based marketing methods by providing digital marketing channels, through email marketing, online surveys and by enhancing digital presence through websites and other online profile drivers.

Our modern offices are optimised to deliver an environmentally-friendly working environment, from power saving lights that are linked to motion sensors to low energy modern equipment. Our on going investment in our IT infrastructure means that the Group is continuously improving upon our environmental impact. Extensive recycling facilities are provided and along side day-to-day waste recycling, we also ensure old furniture and IT equipment are recycled or reused.

The Group actively aims to reduce the amount of consumables used and source our products responsibly, for example, our cleaning suppliers use eco-friendly cleaning consumables. Our employees are encouraged to travel for business by public transport where possible to reduce transportation emissions.

Suppliers

As part of the Groups' strong commitment to our local community, we aim to source local suppliers wherever possible. This is underlined by the fact that a number of our suppliers have been with the Company for many years and we consider our key suppliers as partners. dotDigital aims to work with partners and suppliers with similar ethical standards and values. At dotDigital, we understand the importance or fair and equal treatment, and particularly drive towards transparent and fair payment terms and processes.

OUR BOARD OF DIRECTORS

Peter Simmonds FCCA, aged 54
Chief Executive and Chief Financial Officer
Peter Simmonds commenced his career in 1976 as a trainee accountant with Unilever PLC and has over 30 years of experience at senior management and board level, principally in the areas of banking, insurance, finance, IT, outsourcing and software. As well as large company experience, he has considerable entrepreneurial experience having been involved at start-up or early stage of a number of companies in various industry sectors including consultancy services, vehicle leasing, software and internet solutions.

As well as being an experienced finance professional, Peter has considerable experience of acquisitions, disposals, post-acquisition integration, change management and creating cultures and structures to facilitate entrepreneurship and growth.

Simon Bird, aged 36
Chief Technical Officer
Simon Bird has developed an in-depth technical knowledge of the internet and its applications. Prior to co-founding dotDigital Group, he assisted in the development of a major internet access provider. He has provided services to a number of well-known companies and organisations helping create websites, intranets, extranets, content management systems and other online solutions.

"Tink" Ian Taylor, aged 39
Chief Operating Officer
Tink Taylor has many years' experience in the field of interactive electronic communications. Tink has wide-ranging experience in introducing the concept of digital marketing to companies large and small. He is an elected member of the Direct Marketing Association's Email Marketing Council and also a member of the Internet Advertising Bureau's E-communications Council. Tink was a judge for the Email and Virals category at the DMA awards.

"Skip" Gordon Fidura, aged 43
Client Services Director
Skip Fidura joined the dotDigital Group in January 2009 with a remit to build our digital strategy services offering. Skip has been in marketing for over 14 years, most recently as Email Partner at OgilvyOne London and prior to that as the Director of European Operations for Acxiom Digital. He has worked with clients such as BT, Kodak, hp, Intel, and Travelocity.co.uk. Skip is also Vice-Chairman of the UK DMA Email Marketing Council and was listed by Revolution Magazine as one of the 50 most influential people in new media.

Frank Beechinor-Collins, aged 48
Non-Executive Chairman
Frank Beechinor, was for 11 years, CEO of One Click HR, an AIM quoted IT/Human Resources business of which he was a co-founder. The Company operated in the UK and North America and had around 200 employees. Frank oversaw the successful sale of the business to ADP, a US$4bn NYSE listed company, for US$25m. In notable addition, Frank was for five years, Operations Director of GMCS, part of Grand Metropolitan, a UK-based training services provider, with several thousand employees. Frank brings a great deal of corporate experience to the Board, gained over 25 years of working for and running public and private companies. Frank has a strong track record in M&A and brings with him a quality network of contacts in the fields of managed services and Software as a Service (SaaS).

Richard Kellett-Clarke FCA, aged 57
Non-Executive Director
Richard Kellett-Clarke brings to the Board over 25 years of management experience in the turn round and strategic repositioning and recovery of creative businesses in CMCG, media, electronics and software industries. He was a founder of AFX NEWS Limited, now part of Thomson Reuters, and Sealed Media, now owned by Oracle. He has held numerous CFO roles in subsidiaries of large PLCs as well as the role of IT Director at Financial Times Information. He was part of the team as CFO which brought Picwick Group PLC to the main market and Brady PLC to AIM. He is currently the CEO of Idox PLC an AIM-listed specialist software, solutions and KM consultancy business.

Milan Patel ACCA ACSI, aged 28
Company Secretary & Financial Controller
Milan joined the Company in 2007 and was appointed Group Company Secretary in 2009. Milan is a member of the Association of Chartered Certified Accountants, an associate member of the Chartered Institute of Securities and Investments and holds a BA (Hons) degree in Accounting and Finance. Milan has over seven years experience in accounting and finance within the media and logistics industry. He has been responsible for the financial and legal aspects of the reverse acquisition of West End Ventures PLC, acquisition of Netcallidus, admission to Plus and the introduction to AIM. He is also responsible for the Group's functions in financial management and reporting, regulatory compliance, legal and corporate governance.

CORPORATE GOVERNANCE REPORT

The Board has decided to provide corporate governance disclosures in accordance with the principles and provisions of 'The Combined Code: Principles of Good Governance and the Code of Best Practice' ('the Code'). As part of this process Turnbull guidelines set out in 'Guidance for Directors on the Combined Code' have also been reviewed and are covered in the 'Internal Control' section. An explanation of how dotDigital Group Plc (the 'Group') has applied the principles and the extent to which the provisions in the Code have been complied with appears below.

Compliance Statement

(a) Directors

The details of the Group's Board, together with the Audit and Remuneration Committees, are set out on pages 23 and 24.

The Board meets monthly and is responsible for strategy, performance, approval of major capital projects and the framework of internal controls. The Board has a formal schedule of matters reserved for specific review and decision. 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 Board procedures are followed and that applicable rules and regulations are complied with. At the year end, there were four Executive Directors, one independent non-Executive Director and an independent non-Executive Chairman.

The current constitution of the Remuneration Committee and the Audit Committee is shown on pages 23 and 24.

Appointments to the Board are nominated by an Executive Director and then considered by the full Board.

The service contracts of the Executive Directors are less than one year and determinable by six months' notice.

(b) Directors' Remuneration

As set out on page 25, the remuneration of the Executive Directors is determined by the Remuneration Committee while that of the non-Executives is determined by the whole Board. The Directors are conscious of the importance of performance-related incentives and bonuses are paid based on performance as deemed appropriate by the Remuneration Committee. The Remuneration Committee use both financial and non-financial benchmarks to determine the Executive Director bonuses.

(c) Relations with Shareholders

The Group encourages two-way communications with all its shareholders and responds quickly to all requests or queries received.

All shareholders have at least twenty-one working days' notice of the annual general meeting at which all of the Directors and the Chairman are normally available for questions. Comments and questions are encouraged from the shareholders at the meeting.

(d) Accountability and Audit

(i) Financial Reporting

Detailed reviews of the performance and financial position of the Group are included in the Chief Executive's statement. The Board uses this and the Report of the Directors' on pages 26 to 30 to present a balanced and understandable assessment of the Group's position and prospects. The Directors' Responsibilities for the financial statements is described on page 30.

(ii) Internal Control

The Board confirms that it has established the procedures necessary to implement the guidance set out in "Internal Control: Guidance for Directors on the Combined Code". The process of risk identification, evaluation and management has been considered by the Board. It is the intention that this will continue to be kept under constant review and will be considered at each Board meeting in the future. The Board is continuing to take steps to embed internal control and risk management further into the operations of the business and to deal with areas of improvement which come to management and the Board's attention.

The Directors acknowledge their responsibilities for the Group's system of internal financial control. Such a system can provide reasonable but not absolute assurance against material misstatement or loss. The Board confirms that the procedures necessary to comply with the provisions of the Code, including the guidance of Turnbull, have been in place throughout the year ended 30th June 2012 and up to the date of the Report of the Directors'. It has considered the major business risks and the control environment. Important control procedures, in addition to the day-to-day supervision of the business, include comparison of monthly management accounts to the budget.

(iii) Audit Committee and Auditors

The Audit Committee comprises Frank Beechinor-Collins and is chaired by Richard Kellett-Clarke. The Auditors of the Group may also attend part or all of each meeting and they have direct access to the committee for independent discussions, without the presence of the Executive Director, if required. The Audit Committee may examine any matters relating to the financial affairs of the Group, and to the Group's audit. This includes reviews of the annual accounts and announcements, accounting policies, compliance with accounting standards, the appointment and fees of auditors and other such related functions as the Board may require.

(iv) Going Concern Basis

After making enquiries, the Directors have formed a judgment, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

AUDIT COMMITTEE REPORT

The Audit Committee is a sub-committee of the Board. The responsibilities of the committee include:

- Reviewing the half-yearly and full year accounts and results announcements of the Company and any other formal announcements relating to the Company's financial performance and recommending them to the Board for approval;
- Reviewing the Group's systems for internal financial control and risk management;
- Monitoring and reviewing the effectiveness of the Group's internal accounting function and considering regular reports which arise;
- Considering the appointment of the external auditors, overseeing the process for their selection and making recommendations to the Board in relation to their appointment to be put to shareholders for approval at a general meeting;
- Monitoring and reviewing the effectiveness and independence of the external auditors, agreeing the nature and scope of their audit, agreeing their remuneration, and considering their reports on the Group's accounts, reports to shareholders and their evaluation of the systems of internal financial control and risk management.

Composition of the Audit Committee

The Audit Committee comprises Frank Beechinor-Collins and Richard Kellett-Clarke. The Chairman of the Audit Committee is Richard Kellett-Clarke. The Committee meets separately with the external auditors without management being present.

The Secretary to the committee is Milan Patel, the Company Secretary.

Main Activities of the Audit Committee

At its meeting on the 2nd October 2012, the Committee reviewed the Group's preliminary announcement of its results for the financial year 30th June 2012 and the draft report and accounts for that year. The Committee received reports from the external auditors on the conduct of their audit, their review of the accounts, including accounting policies and areas of judgment, and their comments on risk management and control matters. The Group's corporate social responsibility reporting arrangements and procedures were also reviewed.

The external auditors also presented their proposed fees and scope for the forthcoming year's audit. The Committee also reviewed the performance of both the internal accounting function and external auditors. The review of the external auditors was used to confirm the appropriateness of their reappointment and included assessment of their independence, qualification, expertise and resources, and effectiveness of their audit process.

The Audit Committee also reviewed the effectiveness of the Company's systems for internal financial control and risk management. The Committee reviewed the Group's credit control procedures and risks concerning IT controls.

Independence of External Auditors

Both the Board and the external auditors have safeguards in place to avoid the possibility that the auditors' objectivity and independence could be compromised. Our policy in respect of services provided by the external auditors is as follows:

- Audit related services – the external auditors are invited to provide services which, in their position as auditors, they must or are best placed to undertake. This includes formalities relating to borrowings, shareholders' and other circulars, various other regulatory reports and work in respect of acquisitions and disposals;
- Tax consulting – in cases where they are best suited, we use the external auditors. All other significant tax consulting work is put out to tender;
- General consulting – in recognition of public concern over the effect of consulting services on auditors' independence, our policy is that the external auditors are not invited to tender for general consulting work.

Internal management accounting

The Audit Committee reviewed the performance of the internal accounting function, the department's resource requirements and also approved the internal budgets for the year ended 30th June 2012. The Committee concluded that these budgets were both prudent and realistic in the context of the Group's ambitions.

R Kellett-Clarke

Richard Kellett-Clarke
Chairman of the Audit Committee

REMUNERATION COMMITTEE REPORT

The Remuneration Committee

The Remuneration Committee was established to keep under review the remuneration and terms of employment of Executive Directors and to recommend such remuneration and terms and changes thereof to the Board. The Committee's composition, responsibilities and operation comply with the Combined Code. In forming its remuneration policy, the Committee confirms that it has complied with the Combined Code. The Committee comprises Frank Beechinor-Collins and Richard Kellett-Clarke (Chairman).

The Secretary to the committee is Milan Patel, the Company Secretary.

Remuneration Policy

The Group's executive remuneration policy objectives are:

(a) To ensure that individual rewards and incentives are directly aligned with the performance of the Group and that of the interests of the shareholders;

(b) To maintain a competitive programme which enables the Group to attract and retain high calibre executives; and

(c) To determine the terms of employment and remuneration for Executive Directors.

Key Elements of Remuneration for Executive Directors

The Committee considers the key elements in total to ensure there is the right balance between reward for short-term success and long-term growth. For Executive Directors, this is summarised as follows:

Base Pay

Reviewed against:

- Salary levels in comparable sized companies listed on AIM;
- Market conditions and Company performance;
- Level of pay awards in rest of the business;
- Role and responsibility of the individual Director.

Benefits

Reviewed against:

- Total reward structure for all employees; and
- Provided on a market competitive basis.

Annual Bonus Scheme

Reviewed against:

- Group profit before tax (PBT) with an individual performance element linked to object delivery;
- Drive profitability and strategic change across the group;
- Delivery of the overall business strategy.

Service Contracts

On 7th January 2009, the Executive Directors each entered into a service contract with the Group, the terms of which commenced upon admission to PLUS Markets on the 2nd of February 2009. Each appointment runs for one year from that date and is terminable by six months' notice by either party to expire at the end of that year or at any time thereafter. The agreement contains restrictive covenants. Upon termination, no benefits (other than those accruing during the notice period) are due to the Director.

Employee Incentive Schemes

The Group has awarded share options under EMI, approved share option schemes to key employees who had completed their probation period at the date of grant. The Board considers the performance of staff in conjunction with the Group during the bi-annual review process. Discretionary bonuses are awarded based on individual and Group performance.

Approved by the Remuneration Committee

Signed on its behalf by

Richard Kellett-Clark
Chairman of Remuneration Committee

Directors' Emoluments

Executive Director	Salary/Fees	Benefits	12m period ended 30.6.12 Bonus	Pension	Total	Median Remuneration of AIM profitable companies*
P Simmonds	110,000	5,452	40,000	11,000	166,452	280,773
I Taylor	110,000	6,843	40,000	11,000	167,843	181,267
S Bird	110,000	6,843	40,000	11,000	167,843	181,267
G Fidura	77,000	4,200	12,000	2,310	95,510	
	407,000	**23,338**	**132,000**	**35,310**	**597,648**	

Executive Director	Salary/Fees	Benefits	12m period ended 30.6.11 Bonus	Pension	Total
P Simmonds	100,834	5,523	60,000	10,817	177,174
I Taylor	102,500	6,757	45,000	10,458	164,715
S Bird	102,500	6,757	55,000	10,458	174,715
G Fidura	76,000	4,200	21,000	2,280	103,480
	381,834	**23,237**	**181,000**	**34,013**	**620,084**

* Median Remuneration for AIM profitable companies is based on a Vitesse Media Research report of Directors' pay 2012.

Non-Executive Director	Salary/Fees	Benefits	12m period ended 30.6.12 Bonus	Pension	Total
F Beechinor-Collins	35,000				35,000
R Kellet-Clarke	31,591				31,591
N Nelson	18,214				18,214
	84,805				**84,805**

Non-Executive Director	Salary/Fees	Benefits	12m period ended 30.6.11 Bonus	Pension	Total
F Beechinor-Collins	5,833	-	-	-	5,833
R Kellet-Clarke	2,917	-	-	-	2,917
N Nelson	27,500	-	-	-	27,500
D Pacy	6,667	-	-	-	6,667
	42,917	**-**	**-**	**-**	**42,917**

Directors' Interests

The respective interests in the shares of the Company for the members of the Board at the year end and subsequent to that date are stated below:

Director	No. of Shares held as at 30.6.12	% Holding
P Simmonds*	19,959,999	7.25%
I Taylor	53,876,667	19.57%
S Bird	45,860,000	16.65%
F Beechinor-Collins**	674,194	0.24%
	120,370,860	**43.71%**

* 4.74% of Peter Simmonds holdings/voting rights has been held by Frank Nominees Limited who acts as the nominee for Alliance Trust Pensions Limited, which is the trustee of a SIPP established by Peter Anthony Simmonds. Frank Nominees is the vehicle used by Kleinwort Benson Limited to hold securities for clients, trusts, SIPPs etc. The beneficiary of the SIPP is Peter Anthony Simmonds.

** The 674,194 shares shown as being held by Mr Beechinor-Collins are owned by Curra Trust, a trust established for the benefit of his children and in which he has no beneficial interest.

Directors' Interest in Share Options

Under the Group's executive share option scheme the following Directors have the right to acquire Ordinary shares.

Executive Director	Grant Date	No. of Share options granted	Option Price (Pence)	Date First Exercisable	Expiry Date
G Fidura	22/10/2009	800,000	5.0	01/07/2010	01/02/2019
	11/11/2010	800,000	5.125	01/05/2012	31/12/2015
	13/10/2011	537,932	7.25	01/05/2012	01/02/2016

REPORT OF THE DIRECTORS

The Directors present their report with the financial statements of the Company and the Group for the year ended 30th June 2012.

Principal Activity

The principal activity of the Group in the year under review was that of Software as a Service for marketing.

Review of Business

During the year, the Group has shown significant growth in customer numbers, sales, and profits. Revenues grew from £9m in the year ended June 2011 to £12m for the year ended June 2012, an increase of 34%.

Post-tax profits grew from £1.91m in 12 months to June 2011 to £2.62m (excluding exceptional items) for the year ended June 2012; an increase of 37%.

Key Performance Indicators

The operations as a whole and the individual business units are managed and controlled using a variety of key performance indicators, appropriate to the goals they have been set. Examples of key performance indicators are:

	2012	2011	% Increase
Revenue	11,986,930	8,952,488	33.9%
EBITDA	3,429,893	2,626,311	30.6%
Volume of Sends	1,828,276,324	1,031,625,067	77.2%
New Clients	1,813	1,433	26.5%
Recurring Revenue as a %	70.4	68.4	

Key Risks & Uncertainties

(i) Supplier, Computer Hardware and Internet Reliability Related Risks

The Group rents space for its servers located at hosting centres and purchases bandwidth from service providers in the UK to run the software and services it supplies. Although, it spreads the risk of computer hardware failure across multiple servers in multiple hosting centres and to date, there have been no significant failures, there is no assurance of continuity of supply. An event resulting in a hosting centre going off-line for any significant period of time or the termination of provision of services by one of those hosting centres for any reason may result in significant loss of revenues and therefore materially harm the Group's business, operating results and financial condition. Similarly, events preventing or obstructing the servers from communicating over the internet, such as the future availability of a finite number of IP addresses, may restrict the capacity of the business.

(ii) ISP Reputation-Related Risks

A significant proportion of the Group's revenue is currently derived by charging a price per email for sending marketing emails on behalf of commercial marketing departments. The largest volume senders of emails tend to be companies sending to consumers. Consequently some of dotMailer's largest customers send large numbers of emails to consumers.

The EU anti-spam regulations and US CAN_SPAM laws place restrictions on what and when companies are allowed to send marketing emails to consumers. dotMailer rents the use of its software and servers for clients to upload their own email lists and send their email marketing campaigns. dotMailer acts as the data processor in all instances and neither owns lists nor provides third parties with data and is therefore not directly liable for any breaches of the EU or US anti-spam regulations. However, where clients are considered by email recipients to be sending unwanted emails, there is an inherent mechanism within most email clients to make a complaint against the sender. The level or number of complaints is recorded by the larger ISP's (Hotmail, Yahoo, AOL etc) against the IP address of the server sending the email; this complaint rate record establishes the reputation of each IP address.

An IP address with a poor reputation may not get a high level of delivery of emails.

dotMailer closely monitors the complaint rates for each of its clients and reacts quickly and accordingly to stop rogue campaigns. However, if too many new clients were to create and send campaigns which attracted high complaint rates, the reputation of dotMailer's sending IP addresses could be diminished. This diminished reputation could affect dotMailer's ability to win or retain new clients and therefore could significantly affect its planned growth in revenues.

dotMailer also faces risks from commercial and non-commercial anti-spam services. There are a number of organisations who provide a service to individuals and companies to help them reduce spam in their inbox; examples include Spamhaus and Spamcop. These organisations allow individuals to report an email as spam. This reporting can rapidly propagate the blacklisting of an IP address or domain used to send the reported email. This could impact on dotMailer's ability to deliver emails on behalf of other clients which could in turn impact on revenues.

It is also to be noted that as the ISP communities adopt ever tougher measure to deal with the problem of spam there is a risk that genuine marketing emails could be falsely labelled as spam and do not get delivered to the intended recipients.

(iii) Hacking and Information Security

Although in the opinion of the Group's Directors, the technical team at the Group takes sensible precautions against intrusions and loss of data and dotMailer employs a security manager to mitigate this risk, there is a possible risk that a hacking attack could result in a denial of service or loss of data.

(iv) Competitive Environment

Although the Group's revenues have consistently grown year-on-year, it competes in a competitive sector. Some of its competitors and potential competitors may have advantages over it in terms of financial backing, business size, broader brand recognition and coverage of other geographic markets globally. Their capacity to leverage their marketing expenditures across a broader range of potential customers, form relationships with brand owners or make acquisitions of complimentary products inherently increases the risk to the Group's business model.

(v) Hire and Retain Key Personnel

The Group depends on the continued contributions of the Group's senior management and other key personnel. The loss of the services of any of these executive officers or other key employees could harm the Group's business.

The future success of the Group also depends on its ability to identify, attract and retain highly-skilled technical, managerial and sales personnel. The Group faces intense competition for qualified individuals from numerous technology and marketing companies.

(vi) Development of Products

The digital marketing industry is fast-paced and rapidly adopts developing technologies. In order to stay competitive the Group needs to deploy resources to research and development activity and to constantly innovate.

The Group's growth will depend upon the development, commercialisation and marketing of new products. If this is not done successfully, then the growth of the Group may be impaired. There is also a risk that this activity may not result in a leading edge or competitive products being brought to market in time to maintain a competitive advantage. The Group may be unsuccessful in its efforts to develop products.

While the Group will continue to strive to ensure it is able to deliver products and services that meet the needs of its target clients, there is a risk that competitors may be first to the market with products that entice clients away from dotMailer.

(vii) Data Privacy

Evolving data privacy regulations around the world may restrict our clients' ability to collect, process, disclose and use personal information for marketing purposes which may impact on the use of digital marketing or its effectiveness.

Governments and supervising authorities have enacted, and may in the future enact, laws and regulations concerning the solicitation, collection, processing, disclosure or use of consumers' personal information. Evolving and changing regulations regarding personal data and personal information, both within the European Union and elsewhere, especially relating to classification of IP addresses, machine identification, location data and other information, may impact our business. Such laws and regulations require or may require us and our clients to implement privacy and security policies, permit consumers to access, correct or delete personal information stored or maintained by such companies, inform individuals of security incidents that affect their personal information, and, in some cases, obtain consent to use personal information for certain purposes. Other possible legislation could, if enacted, impose additional requirements and prohibit the use of certain technologies, such as those that track individuals' activities on web pages or record when individuals click on a link contained in an email message. Such laws and regulations could restrict our clients' ability to collect and use email addresses, web browsing data and personal information, which may reduce demand for our solutions.

(viii) Evolving Technology and Customer Requirements

Failure to respond to evolving technological and customer requirements or to introduce competitive enhancements and new features, may mean our SaaS solutions could become less competitive.

To remain a credible provider of multi-channel marketing SaaS solutions, we must continue to invest in research and development of new solutions and enhancements to our platform. The process of developing new technologies, products and services is complex and expensive and requires highly-skilled and talented software engineers and marketing expertise. SaaS development requires implementation of rapidly changing technologies, adhering to standards and regulations, anticipating client requirements and frequent product enhancements. The introduction of new solutions by competitors potentially makes our solutions less attractive or easy to sell. The success of our planned enhancements and new solutions depend on many factors, including user interface design, quality assurance testing, customer acceptance and training and good marketing communication. Failure to anticipate client requirements and successfully develop new solutions or features may impact growth and retention of existing clients.

Dividends

No dividends will be distributed for the year ended 30th June 2012.

It is the Directors' strategy to achieve capital growth on the strength of a consistency cash generative trading performance. During the last financial year, cash reserves grew as a result of strong trading performance. Accordingly, the Directors believe that it is inappropriate to propose a dividend based on this strategy to invest in further growth.

Future Outlook

The Group provides digital marketing services across a range of areas. Each of these areas have shown market growth significantly above that of the UK economy. The Board believes that our widespread brand recognition and strong product range will continue to present opportunities to expand and diversify profitability in the coming year.

Directors

Except as noted, the Directors shown below have held office during the period from 1st July 2011 to the date of this report.

- S Bird
- P A Simmonds
- I Taylor
- G Fidura
- R Kellett-Clarke
- F Beechinor-Collins
- N Nelson (Resigned 5th January 2012)

Group's Policy on Payment of Creditors

The Group does not have a formal code that it follows with regard to payments to suppliers. It agrees payments terms with its suppliers at the time it enters into a binding contract for the supply of goods and services. The Company seeks to abide by these payment terms whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms. The average creditor day for the year is 25 (2011- 25 days).

Publication of Accounts on Company Website

Financial statements are published on the Company's website. The maintenance and integrity of the website is the responsibility of the Directors. The Directors responsibility also extends to the financial statements contained therein.

Indemnity of Officers

The Group purchases Directors' and Officers' insurance against their costs in defending themselves in legal proceedings taken against them in that capacity, and in respect of damages resulting from the unsuccessful defence of any proceedings.

Financial Instruments

Details of the Group's risk management objectives and policies together with its exposure to financial risk are set out in Note 21 to the financial statements.

The purpose of the policies is to ensure that adequate cost-effective funding is available to the Group and exposure to financial risk – interest rate, liquidity and credit risk is minimised.

Research and Development

In the markets in which the Group operates, effective research and development is vital to maintaining competitive advantage and securing future income streams.

Going Concern

After making appropriate enquires, the Directors consider that the Company and the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis preparing the financial statements.

Events after the Reporting Period

There are no events after the date of this report or the date the financial statements were approved by the Board of Directors which impact on the figures as presented.

The Directors who served during the period and their beneficial interests in the shares of the Group as recorded in the Register of Directors' interests at 30th June 2012 are as follows:

Directors	30.6.12 Number of shares held	Percentage Shareholding %	30.6.11 Number of shares held	Percentage Shareholding %
S Bird	45,860,000	16.65	52,860,000	19.22
I Taylor	53,876,667	19.57	60,860,000	22.13
P Simmonds	19,959,999*	7.25	19,943,333*	7.25
N Nelson	375,000	0.14	4,075,000	2.73
F Beechinor-Collins	674,194**	0.24	674,194**	0.25

* Frank Nominees Limited holds 4.74% in respect of Peter Simmonds holding/voting rights act as nominee for Trust Alliance Pensions Limited. Frank Nominees is a vehicle used by Kleinwort Benson Limited to hold securities for clients, trusts, SIPPs etc. The beneficiary of the SIPP is Peter Anthony Simmonds.

** The 674,194 share shown as being held by Mr Beechinor-Collins are owned by Curra Trust, a trust established for the benefit of his children and in which he has no beneficial interest.

The Directors who served during the period and their beneficial interests in share options in the Group, as recorded in the register of Directors' interests as at 30th June 2012 are as follows:

Executive Directors	30.6.12 Number of options held	30.6.11 Number of options held
G Fidura	2,137,930	1,600,000

Substantial Interests

On 26th September 2012, the following parties had notified the Group of a beneficial interest that represents 3% or more of the Group's issued share capital at that date:

Shareholders	2012 Number of shares held	Percentage Shareholding %
I Taylor	53,876,667	19.57
S Bird	45,860,000	16.25
Newedge Group SA	30,300,000	11.00
BlackRock Inc.	30,085,218	10.93
P Simmonds	19,959,999	7.25
Legal and General Group PLC	19,192,000	6.97
BlackRock Smaller Companies Trust PLC	10,275,494	3.73

REPORT OF THE DIRECTORS CONTINUED

Listing
The Group's Ordinary shares have been traded on London Alternative Investment Market (AIM) since 29 March 2011. Zeus Capital are the Group's nominated advisors and together with Charles Stanley Securities are the joint brokers. The closing mid market share price at 30th June 2012 was 11.25p (2011: 7.125p).

Statement of Directors' Responsibilities
The Directors are responsible for preparing the Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether the Group and Parent Company financial statements have been prepared in accordance with IFRS's as adopted by the European Union subject to any materials departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Statement as to Disclosure of Information to Auditors
So far as the Directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Group's Auditors are unaware, and each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Group's Auditors are aware of that information.

Auditors
The Auditors, Jeffreys Henry LLP, will be proposed for re-appointment at the forthcoming Annual General Meeting.

On behalf of the Board

P A Simmonds
Director
8th October 2012

REPORT OF THE INDEPENDENT AUDITORS

We have audited the financial statements of dotDigital Group Plc for the year ended 30th June 2012, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes of equity, company statement of changes in equity, consolidated statement of financial position, company statement of financial position, consolidated statement of cash flows, company statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 auditors 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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the presentation of the financial statements. In addition, we read all the financial and non-financial information in the Chairman's and Chief Executive's report, Corporate Social Responsibility Report, Corporate Governance Report, Audit Committee Report, Remuneration Committee Report and Report of the Directors to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the Parent Company's affairs as at 30th June 2012 and of the Group's profit and Group's and Parent Company's cash flow for the year then ended;
- 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 IFRSs as adopted by the European Union and as applies in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Sanjay Parmar
Senior Statutory Auditor
For and on behalf of Jeffreys Henry LLP (Statutory Auditors)
Finsgate 5-7 Cranwood Street, London, EC1V 9EE

8th October 2012

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30TH JUNE 2012

	Notes	30.6.12 £	30.6.11 (restated) £
Continuing operations			
Revenue		11,986,930	8,952,488
Cost of sales		(874,718)	(647,142)
Gross profit		**11,112,212**	**8,305,346**
Administrative expenses		(8,239,391)	(6,000,351)
Operating profit before exceptional items		**2,872,821**	**2,304,995**
Exceptional items: Cost relating to listing on AIM		-	(119,826)
Exceptional items: Impairment of goodwill due to adjustment to contingent consideration		(1,186,516)	-
Operating profit		**1,686,305**	**2,185,169**
Finance costs	5	(682)	(1,468)
Finance income including exceptional items	5	1,087,837	1,127,862
Profit before income tax	6	**2,773,460**	**3,311,563**
Income tax expense	7	(305,985)	(273,743)
Profit for the year		**2,467,475**	**3,037,820**
Profit attributable to:			
Owners of the parent		**2,467,475**	**3,037,820**
Earnings per share expressed in pence per share:	9		
Basic		0.90	1.16
Diluted		0.88	1.07
Adjusted excluding exceptional items		0.94	0.78
Adjusted diluted excluding exceptional items		0.92	0.72

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30TH JUNE 2012

	30.6.12 £	30.6.11 £
Profit for the year	**2,467,475**	**3,037,820**
Other comprehensive income	-	-
Total comprehensive income for the year	**2,467,475**	**3,037,820**
Total comprehensive income attributable to:		
Owners of the parent	**2,467,475**	**3,037,820**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 30TH JUNE 2012

	Notes	30.6.12 £	30.6.11 £
Assets			
Non-current assets			
Goodwill	10	2,934,045	4,120,561
Intangible assets	11	1,753,057	990,557
Property, plant and equipment	12	404,395	238,124
		5,091,497	**5,349,242**
Current assets			
Trade and other receivables	14	2,198,292	1,658,044
Cash and cash equivalents	15	4,020,349	2,568,265
		6,218,641	**4,226,309**
Total assets		**11,310,138**	**9,575,551**
Equity attributable to the owners of the parent			
Called up share capital	16	1,376,811	1,374,861
Share premium	17	4,754,853	4,737,053
Reverse acquisition reserve	17	(4,695,465)	(4,695,465)
Other reserves	17	127,343	70,160
Retained earnings	17	8,201,817	5,734,342
Total equity		**9,765,359**	**7,220,951**
Liabilities			
Non-current liabilities			
Financial liabilities			
Financial instruments	19	-	1,243,492
Deferred tax	22	24,616	-
Current liabilities			
Trade and other payables	18	1,334,581	1,007,743
Financial liabilities - borrowings			
Interest bearing loans and borrowings	19	-	6,076
Tax payable		185,582	97,289
		1,520,163	1,111,108
Total liabilities		**1,544,779**	**2,354,600**
Total equity and liabilities		**11,310,138**	**9,575,551**

The financial statements were approved and authorised for issue by the Board of Directors on 8th October 2012 and were signed on its behalf by

P A Simmonds
Director
Company registration number: 06289659 (England and Wales)

COMPANY STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 30TH JUNE 2012

	Notes	30.6.12 £	30.6.11 £
Assets			
Non-current assets			
Investments	13	7,511,030	8,704,468
		7,511,030	**8,704,468**
Current assets			
Trade and other receivables	14	12,684	25,746
Cash and cash equivalents	15	83,293	235,274
		95,977	**261,020**
Total assets		**7,607,007**	**8,965,488**
Equity attributable to the owners of the parent			
Called up share capital	16	1,376,811	1,374,861
Share premium	17	4,754,853	4,737,053
Other reserves	17	127,343	70,160
Retained earnings	17	129,063	498,060
Total equity		**6,388,070**	**6,680,134**
Liabilities			
Non-current liabilities			
Financial liabilities - borrowings			
Interest bearing loans and borrowings	19	-	1,243,492
Current liabilities			
Trade and other payables	18	1,218,937	1,041,862
Total liabilities		**1,218,937**	**2,285,354**
Total equity and liabilities		**7,607,007**	**8,965,488**

The financial statements were approved and authorised for issue by the Board of Directors on 8th October 2012 and were signed on its behalf by

P A Simmonds
Director
Company registration number: 06289659 (England and Wales)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30TH JUNE 2012

	Share capital £	Retained earnings £	Share premium £
Balance at 1st July 2010	1,292,500	2,696,522	4,533,754
Issue of share capital	67,467	-	65,533
Reclassification of equity	14,894	-	137,766
Transactions with owners	82,361	-	203,299
Profit for the year	-	3,037,820	-
Transactions with owners	-	3,037,820	-
Balance at 30th June 2011	**1,374,861**	**5,734,342**	**4,737,053**
Issue of share capital	1,950	-	17,800
Transactions with owners	1,950	-	17,800
Profit for the year	-	2,467,475	-
Total comprehensive income	-	2,467,475	-
Balance at 30th June 2012	**1,376,811**	**8,201,817**	**4,754,853**

	Unissued share capital £	Reverse acquisition reserve £	Other reserves £	Total equity £
Balance at 1st July 2010	152,660	(4,695,465)	29,493	4,009,464
Issue of share capital	-	-	-	133,000
Share based payment	-	-	40,667	40,667
Reclassification of equity	(152,660)	-	-	-
Transactions with owners	(152,660)	-	40,667	173,667
Profit for the year	-	-	-	3,037,820
Total comprehensive income	-	-	-	3,037,820
Balance as at 30th June 2011	**-**	**(4,695,465)**	**70,160**	**7,220,951**
Issue of share capital	-	-	-	19,750
Share based payment	-	-	57,183	57,183
Transactions with owners	-	-	57,183	76,933
Profit for the year	-	-	-	2,467,475
Total comprehensive income	-	-	-	2,467,475
Balance at 30th June 2012	**-**	**(4,695,465)**	**127,343**	**9,765,359**

- Share capital is the amount subscribed for shares at nominal value.
- Share premium represents the excess of the amount subscribed for share capital over the nominal value of the net share issue expenses.
- Retained earnings represents the cumulative earnings of the Group attributable to equity shareholders.
- Unissued share capital relate to the shares due to be issued in relation to the acquisition of dotSearch Limited (previously known as Netcallidus Limited).
- The reverse acquisition reserve relates to the adjustment required to account the reverse acquisition in accordance with International Financial Reporting Standards.
- Other reserves relate to the charge for the share based payment in accordance with International Financial Reporting Standard 2.

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30TH JUNE 2012

	Share capital £	Retained earnings £	Share premium £
Balance at 30th June 2010	1,292,500	(329,205)	4,533,754
Issue of share capital	67,467	-	65,533
Reclassification of equity	14,894	-	137,766
Transactions with owners	82,361	-	203,299
Profit for the year	-	827,265	-
Total comprehensive income	-	827,265	-
Balance at 30th June 2011	**1,374,861**	**498,060**	**4,737,053**
Issue of share capital	1,950	-	17,800
Transactions with owners	1,950	-	17,800
Profit for the year	-	(368,997)	-
Total comprehensive income	-	(368,997)	-
Balance at 30th June 2012	**1,376,811**	**129,063**	**4,754,853**

	Unpaid Share capital £	Other reserves £	Total equity £
Balance at 1st July 2010	152,660	29,493	5,679,202
Issue of share capital	-	-	133,000
Reclassification of equity	(152,660)	-	-
Share based payment	-	40,667	40,667
Transactions with owners	(152,660)	40,667	173,667
Profit for the year	-	-	827,265
Total comprehensive income	-	-	827,265
Balance at 30th June 2011	**-**	**70,160**	**6,680,134**
Issue of share capital	-	-	19,750
Share based payment	-	57,183	57,183
Transactions with owners	-	57,183	76,933
Profit for the year	-	-	(368,997)
Total comprehensive income	-	-	(368,997)
Balance at 30th June 2012	**-**	**127,343**	**6,388,070**

- Share capital is the amount subscribed for shares at nominal value.
- Share premium represents the excess of the amount subscribed for share capital over the nominal value of the net share issue expenses.
- Retained earnings represents the cumulative earnings of the Group attributable to equity shareholders.
- Unissued share capital relate to the shares due to be issued in relation to the acquisition of dotSearch Limited (previously known as Netcallidus Limited)
- Other reserves relate to the charge for the share based payment in accordance with International Financial Reporting Standard 2.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30TH JUNE 2012

	Notes	30.6.12 £	30.6.11 £
Cash flows from operating activities			
Cash generated from operations	26	3,274,841	2,462,734
Interest paid		(682)	(1,468)
Tax paid		(193,076)	(478,461)
Net cash generated from operating activities		**3,081,083**	**1,982,805**
Cash flows from investing activities			
Contingent consideration on acquisition of subsidiary		(164,100)	-
Purchase of intangible fixed assets		(1,172,867)	(657,172)
Purchase of tangible fixed assets		(314,788)	(160,624)
Sale of tangible fixed assets		637	-
Interest received		8,445	5,034
Net cash used in investing activities		**(1,642,673)**	**(812,762)**
Cash flows from financing activities			
Loan repayments in period		(6,076)	(12,395)
Share issues		19,750	133,000
Net cash generated from financing activities		**13,674**	**120,605**
Increase in cash and cash equivalents		**1,452,084**	**1,290,648**
Cash and cash equivalents at beginning of year	27	2,568,265	1,277,617
Cash and cash equivalents at end of year	**27**	**4,020,349**	**2,568,265**

COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30TH JUNE 2012

		30.6.12 £	30.6.11 £
Cash flows from operating activities			
Cash generated from operations	28	(236,478)	(257,589)
Net cash from operating activities		**(236,478)**	**(257,589)**
Cash flows from investing activities			
Contingent consideration on acquisition of subsidiary		(164,100)	-
Net cash from investing activities		**(164,100)**	**-**
Cash flows from financing activities			
Loan from/(to) Group companies		228,847	(25,469)
Share issue		19,750	133,000
Net cash from financing activities		**248,597**	**107,531**
Decrease in cash and cash equivalents		**(151,981)**	**(150,058)**
Cash and cash equivalents at beginning of year	**29**	**235,274**	**385,332**
Cash and cash equivalents at end of year	**29**	**83,293**	**235,274**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2012

1. General Information
dotDigital Group Plc ("dotDigital") is a Company incorporated in England and Wales and quoted on the AIM Market. The address of the registered office is disclosed on the inside back cover of the financial statements. The principal activity of the Group is described on page 26.

2. Accounting Policies
Basis of Preparation
These financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

The Group has applied all accounting standards and interpretations issued by the International Accountancy Standards Board and International Accounting Interpretations Committee effective at the time of preparing the financial statements.

The financial statements are presented in sterling (£), rounded to the nearest pound.

New and Amended Standards Adopted by the Company
There are no IFRSs or IFRIC interpretations that are effective for the first time in this financial period that would be expected to have a material impact on the Group.

Standards, Interpretations and Amendments to Published Standards that are not yet Effective
There are no other IFRSs or IFRIC interpretation that are not yet effective that would be expected to have a material impact on the group.

Basis of Consolidation
In the period ended 2009, the Company acquired via a share for share exchange the entire issued share capital of dotMailer Limited, whose principle activity is that of web and email based marketing.

Under IFRS 3 'Business combinations' the dotMailer Limited share exchange has been accounted for as a reverse acquisition. Although these consolidated financial statements have been issued in the name of the legal parent, the Company it represents in substance is a continuation of the financial information of the legal subsidiary, dotMailer Limited. The following accounting treatment has been applied in respect of the reverse acquisition:

- The assets and liabilities of the legal subsidiary, dotMailer Limited are recognised and measured in the consolidated financial statements at their pre combination carrying amounts, without restatement to their fair value;
- The retained reserves recognised in the consolidated financial statements for the beginning of the prior period reflect the retained reserves of dotMailer Limited to 30th April 2008. However, in accordance with IFRS3 'Business combinations' the equity structure appearing in the consolidated financial statements reflects the equity structure of the legal parent dotDigital Plc, including the equity instruments issued under the share exchange to effect the business combination;
- A reverse acquisition reserve has been created to enable the presentation of a consolidated balance sheet which combines the equity structure of the legal parent with the non statutory reserves of the legal subsidiary;
- Comparative numbers are based upon the consolidated financial statements of the legal subsidiary, dotMailer Limited for the year ended 30th June 2009 apart from the equity structure which reflects that of the parent.
- The following accounting treatment has been applied in respect of the acquisition of dotDigital Plc:
- The assets and liabilities of dotDigital Plc are recognised and measured in the consolidated financial statements at their fair value at the date of acquisition.
- The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the date of acquisition, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Subsidiaries
A subsidiary is an entity whose operating and financing policies are controlled by the Group. Subsidiaries are consolidated from the date on which control was transferred to the Group. Subsidiaries cease to be consolidated from the date the Group no longer has control. Inter Company transactions, balances and unrealised gains on transactions between Group companies have been eliminated on consolidation.

As a result of applying reverse acquisition accounting in the prior period, the consolidated IFRS financial information of dotDigital Group Plc is a continuation of the financial information of dotMailer Limited.

Revenue Recognition
Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value added tax returns, rebates and discounts after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured and it is probable that the future economic benefits will flow to the entity. The Group bases it's estimates on historical results, taking in to consideration the type of customer, the type of transaction and the specifics of each arrangement.

The Group sells web based marketing services to other businesses and services are either provided on a usage basis or fixed price bespoke contract. Revenue from contracts are recognised under percentage of completion method based on a percentage of services performed to date as a percentage of the total services to be performed.

Goodwill
Goodwill represents the excess of the fair value of the consideration over the fair values of the identifiable net tangible and intangible assets acquired.

Under IFRS 3 "Business Combinations" goodwill arising on acquisitions is not subject to amortisation but is subject to annual impairment testing. Any impairment is recognised immediately in the income statement and not subsequently reversed.

Intangible Assets
Intangible assets are recorded as separately identifiable assets and recognised at historical cost less any accumulated amortisation. These assets are amortised over their useful economic lives 4-5 years, with the charge included in administrative expenses in the income statement.

Intangible assets are reviewed for impairment annually. Impairment is measured by determining the recoverable amount of an asset or cash generating unit (CGU) which is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

- *Domain Names*

  Acquired domain names are shown at historical cost. Domain names have a finite life and are carried at cost less accumulated amortisation. Amortisation is calculated using straight line method to allocate the cost of domain names over their useful lives of four years.

- *Software*

  Acquired software and websites are shown at historical cost. They have a finite life and are carried at cost less accumulated amortisation. Amortisation is calculated using straight line method to allocate the cost of software and websites over their useful lives of four years.

- *Product Development*

  Product development expenditure is capitalised when it is considered that there is a commercially and viable technically product, the related expenditure is separable identifiable and there is a reasonable expectation that the related expenditure will be exceeded by future revenues. Following initial recognition, product developments are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of these intangible assets are assessed to have a finite life of five years. Amortisation is charged on assets with finite lives, this expense is taken to the income statement and useful lives are reviewed on an annual basis. Amortisation is provided at the following annual rates' commencing from the date the asset is developed to a stage at which the Company can receive economic benefits from the asset.

Property, Plant and Equipment

Tangible non current assets are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits are associated with the item will flow to the Company and the cost of the item can be measured reliably. the carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. Depreciation is provided at the following rates in order to write off each asset over its estimated useful life and are based on the cost of assets less residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Short leasehold:	25% on cost
Fixtures and fittings:	25% on cost
Computer equipment:	25% on cost

The asset's residual values and useful economic lives are reviewed and adjusted, if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater then its estimated recoverable value.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other (losses) or gains in the income statement. When devalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

Borrowings

Borrowings are recognised at their fair value net of transaction costs incurred. They are classified as current liabilities unless the Group has an unconditional right to defer the settlement of the liability of at least 12 months after the balance sheet date.

Borrowing costs are recognised in the income statement in the period in which they are incurred.

Capital Risk Management

The Group manages it's capital to ensure it is able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of, cash and cash equivalents, short term finance and equity attributable to the owners of the parent as disclosed in the Statement of Changes in Equity.

Taxation

Current taxes are based on the results shown in the financial statements and are calculated according to local tax rules, using tax rates enacted or substantially enacted by the balance sheet date.

Deferred Taxation

Deferred income 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.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary difference will be utilised.

Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when they related deferred income asset is realised or deferred income tax liability is settled.

Research and Development

Research expenditure is recognised as an expense when incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- It is technically feasible to complete the intangible asset so that it will be available of use or resale;
- Management intends to complete the intangible asset and use or sell it;
- There is an ability to use or sell the intangible;
- It can be demonstrated how the intangible asset will generate possible future economic benefits;
- Adequate technical, financial and other resource to complete the development and to use or sell the intangible asset are available; and
- The expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which they are ready for use on a straight line basis over its useful life.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 30TH JUNE 2012

2. Accounting Policies continued

Operating Leases

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance the accounting policy applicable to that asset.

Other leases are operating leases and are not recognised in the Group's statement of financial position on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total expense, over the term of the lease.

Use of Estimates and Judgements

The Group makes judgements, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, income and expenses. The resulting accounting estimates calculated using these judgements and assumptions will, by definition, seldom equal the related actual results but are based on historical experience and expectations of future events. The estimates and underlying assumptions are reviewed on a ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision effects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below:

- *Impairment of Non Financial Assets (excluding Goodwill)*

  At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

  Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

  If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

  Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

- *Plant and Equipment, Intangible Assets & Impairment of Goodwill*

  Intangible assets excluding goodwill and plant and equipment are amortised or depreciated over their useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to the estimates used can result in significant variations in the carrying value.

  The Group assesses the impairment of plant and equipment and intangible assets subject to amortisation or depreciation whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

  Additionally, goodwill arising on acquisitions is subject to impairment review. The Group's management undertakes an impairment review of goodwill annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable.

  The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent in the application of the Group's accounting estimates in relation to plant and equipment and intangible assets affect the amounts reported in the financial statements, especially the estimates of the expected useful economic lives and the carrying values of those assets. If business conditions were different, or if different assumptions were used in the application of this and other accounting estimates, it is likely that materially different amounts could be reported in the Group's financial statements.

  The Directors have carried out a detailed impairment review in respect of goodwill. The Group assesses at each reporting date whether there is an indication that an asset may be impaired, by considering the net present value of discounted cash flows forecasts which have been discounted at 6.67%. The cash flow projections are based on the assumption that the Group can realise projected sales. A prudent approach has been applied with no residual value being factored. At the period end, based on these assumptions there was an indication of impairment of the value of goodwill for dotSearch. See note 10 for details.

  However, if the projected sales do not materialise there is a risk that the value of the intangible assets shown above would be impaired.

- *Share-based Compensation*

  The fair value of options and warrants are determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates if any, in the income statement, with corresponding adjustment to equity.

- *Contingent Considerations*

  The future consideration payable to the vendors of DotSearch (previously known as Netcallidus) in respect to the contingent consideration (earnouts) is based on the Directors' best estimate of future obligations which are dependent on the future anticipated profits after tax. It is assumed that the operating Company improves profits in line with the Directors' estimates. When earnouts are to be settled by both cash and equity consideration, the fair value of the consideration is obtained by discounting the amounts expected to be payable in the future to their present value. Reviews of the fair values are undertaken at each period end with any resulting adjustments being made through the Group's income statement.

2. Accounting Policies continued

Contingent Consideration

Contingent consideration is measured at fair value at the time of the acquisition. If the amount of the contingent consideration changes as a result of a post acquisition event (such as meeting profit targets) the accounting for the change in consideration depends on whether the additional consideration is in cash or equity. If it is in equity the original amount is not recalculated but if the change is in cash or other assets the change is recorded in the income statement.

Trade Receivables

Trade receivables are recognised initially at the lower of their original invoiced value and recoverable amount. A provision is made when it is likely that the balance will not be recovered in full. Terms on receivables range from 30 to 90 days.

Equity

Share capital is the amount subscribed for shares at their nominal value.

Share premium represents the excess of the amount subscribed for the share capital over the nominal value of the respective shares net of share issue expenses.

Retained earnings represent the cumulative earnings of the Group attributable to equity Shareholders.

The reverse acquisition reserve relates to the adjustment required by accounting for the reverse acquisition in accordance with IFRS3 'Business Combinations'.

Other reserves relate to the charge for share based payments in accordance with IFRS2 'Share Based Payments'.

Share Based Payments

For equity settled share based payment transactions the Group, in accordance with IFRS 2 "Share Based Payments" measuring their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted. The fair value of those equity instruments is measured at the grant date using the trinomial method. The expense is apportioned over the vesting period of the financial instrument and is based on the number which is expected to vest and the fair value of those financial instruments at the date of grant. If the equity instruments granted vested immediately, the expense is recognised in full.

The assumptions on the expected life of share options, volatility of shares and risk free yield to maturity and expected dividend yield on shares are used in the fair value calculation of the share options outstanding at the year end (see note 26).

Trade Payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Terms on accounts payables range from 10 to 90 days.

Functional Currency Translation

- *Functional and Presentation Currency*

  Items included in the financial statements if the Company are measured using the currency of the primary economic environment in which the entity operates (functional currency), which is mainly pounds sterling (£) and it this currency the financial statements are presented in.

- *Transaction and Balances*

  Foreign currency transactions are translated in to the presentation currency using exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Employee Benefit Costs

The Group operates a defined contribution pension scheme. Contributions payable by the Group's pension scheme are charged to the income statement in the period in which they relate.

Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 30TH JUNE 2012

3. Segmental Reporting

The Groups' primary reporting format is business segments and its second format is geographical segments. The Group only operates in a single business and geographical segment. The Group's single line of business is the provision of web based marketing services, whilst the geographical segment in which it operates is currently restricted to the UK. Accordingly no segmental information for business segment or geographical segment is required.

4. Employees and Directors

	30.6.12 £	30.6.11 £
Wages and salaries	5,603,058	3,964,709
Social security costs	644,961	460,752
Other pension costs	89,152	36,178
	6,337171	**4,461,639**

The average monthly number of employees during the year was as follows:

	30.6.12	30.6.11
Directors	7	6
Sales	49	27
Web designers and developers	77	88
Administration	41	12
	174	**133**

5. Net Finance Income

	30.6.12 £	30.6.11 £
Finance income:		
Exceptional item (see note 13)	1,079,392	1,122,828
Deposit account interest	8,445	5,034
	1,087,837	**1,127,862**
Finance costs:		
Loan	682	1,125
Interest payable	-	343
	682	**1,468**
Net finance income	**1,087,155**	**1,126,394**

The exceptional item outlined above under finance income relates to the revision of the contingent consideration due in relation to the acquisition of dotSearch Limited (previously known as Netcallidus Limited) in 2011. IFRS 3 relating to business combinations directs that any revaluations to the consideration should be credited to the income statement as financial income. See note 13 for further details.

6. Operating Profit before Exceptional Items

Costs by Nature

Profit from continuing operations has been arrived at after charging/(crediting):-

	30.6.12 £	30.6.11 £
Direct Marketing	380,391	365,399
Outsourcing	475,926	255,630
Other Costs	18,401	26,113
Total cost of sales	874,718	647,142

6. Operating Profit before Exceptional Items continued

	30.06.12 £	30.06.11 (Restated) £
Staff related costs (inc Directors emoluments)	5,426,918	4,020,736
Operating leases: Land and buildings	354,533	321,463
Operating leases: Other	67,936	42,795
Audit remuneration	31,537	59,878
Amortisation of intangibles	410,367	225,697
Depreciation charge	146,705	95,621
Legal, professional and consultancy fees	505,236	312,713
Computer expenditure	409,007	201,207
Bad debts	202,220	142,268
Foreign exchange gains	(2,368)	(18,035)
Travelling	207,656	131,037
Office running	182,790	109,978
Other costs	296,854	354,993
Total administration expenses	8,239,391	6,000,351

Audit Remuneration

During the year the Group obtained the following services from the Group's auditor at costs detailed below:

	30.6.12 £	30.6.11 £
Fees payable to the Group's auditor of annual accounts	31,537	35,000
Under provision of fees paid to Groups auditor in relation to the previous year	-	18,000
Non audit fees: All other services	5,343	6,787
	36,880	**59,787**

7. Income Tax

Analysis of the Tax Charge

	30.6.12 £	30.6.11 £
Current tax:		
Tax	281,369	273,743
Deferred tax	24,616	-
Total tax charge in income statement	**305,985**	**273,743**

Factors affecting the tax charge

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

	30.6.12 £	30.6.11 £
Profit on ordinary activities before tax	2,773,460	3,311,563
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 25% (2011 - 28%)	693,365	927,238
Effects of:		
Expenses not deductible	112,686	108,816
Research and development enhanced claim	(559,640)	(291,397)
Effect of profits within marginal rate	(6,114)	(9,314)
Expenditure permitted on exercising options	-	(136,184)
Prior year under provision	15,792	-
Exceptional item: impairment of goodwill	296,629	-
Exceptional item: adjustment to contingent consideration	(269,848)	(314,392)
Capital allowances in excess of depreciation	(1,501)	(11,024)
Total income tax	**281,369**	**273,743**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 30TH JUNE 2012

8. Profit/(Loss) of Parent Company

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's loss for the financial year was £368,997 (2011: profit of £827,265).

9. Earnings per Share

Earnings per share data is based on the consolidated profit and the weighted average number of shares in issue of the parent company. Basic earnings per share are calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated using the weighted average number of shares adjusted to assume the conversion of all dilutive potential Ordinary shares.

Reconciliations are as follows:-

		30.6.12	
	Earnings £	Weighted average number of shares	Per share amount pence
Basic EPS			
Net income attributable to owners of the parent	2,467,475	275,019,565	0.90
Diluted EPS			
Net income attributable to owners of the parent	2,467,475	281,111,611	0.88
Adjusted EPS			
Effect of exceptional items:			
- Impairment of goodwill	1,186,516	-	-
- Reversal of financial instrument (see note 13)	(1,079,392)	-	-
Adjusted earnings	**2,574,599**	**275,019,565**	**0.94**
Effect of dilutive shares			
Options & Warrants	-	6,092,046	-
Adjusted Diluted EPS			
Adjusted earnings	**2,574,599**	**281,111,611**	**0.92**

		30.6.11	
	Earnings £	Weighted average number of shares	Per share amount pence
Basic EPS			
Net income attributable to owners of the parent	3,037,820	261,891,138	1.16
Diluted EPS			
Net income attributable to owners of the parent	3,037,820	284,159,360	1.07
Adjusted EPS			
Effect of exceptional items:			
- Cost relating to listing on AIM	119,862	-	-
- Release of financial instrument (see note 13)	(1,122,828)	-	-
Adjusted earnings	**2,034,854**	**261,891,138**	**0.78**
Effect of dilutive shares			
Options & Warrants	-	22,268,222	-
Adjusted Diluted EPS			
Adjusted earnings	**2,034,854**	**284,159,360**	**0.72**

10. Goodwill

Group

	£
Cost	
At 1st July 2011	
and 30th June 2012	4,120,561
Amortisation	
Impairment (see note 13)	1,186,516
At 30th June 2012	1,186,516
Net book value	
At 30th June 2012	**2,934,045**
Cost	
At 1st July 2010	
and 30th June 2011	4,120,561
Net book value	
At 30th June 2011	**4,120,561**

Group

Impairment test for goodwill

Goodwill is allocated to the Group's single cash generating units identified, that being dotMailer Limited and dotSearch (previously known as Netcallidus) Limited.

dotMailer Limited

The recoverable amount of a cash generating unit is determined based on value in use calculations. These calculations use pre tax cash flow projections based on financial budgets approved by management covering the five year period to 30th June 2017.

The key assumptions use to prepare the financial budgets are as follows:

Revenue growth rates:	2013	11.00%
	2014	30.00%
	2015	30.00%
	2016	30.00%
	2017	30.00%
Pre tax discount rate:	All years	6.67%
Income tax rate:	All years	25.00%

The key assumptions used to prepare the financial budgets are based on a combination of historical experience and current industry knowledge and trends.

dotSearch (previously known as Netcallidus) Limited

Revenue growth rates:	2013	(18.00)%
	2014	53.00%
	2015	20.00%
	2016	20.00%
	2017	20.00%
Pre tax discount rate:	All years	6.67%
Income tax rate:	All years	25.00%

The key assumptions used to prepare the financial budgets are based on a combination of historical experience and current industry knowledge and trends.

The cash flow forecasts used in the value in use calculations have not been extended beyond the five year period covered by management's financial budgets.

Incorporating the above assumptions the value of the expected goodwill to be realised in future periods has diminished to the effect of £1,186,516 (2011: Nil) and therefore this has been reflected in the value of goodwill carried forward by way of an impairment. See note 13 for further details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 30TH JUNE 2012

11. Intangible Assets

Group

	Computer software £	Development costs £	Domain names £	Totals £
Cost				
At 1st July 2011	147,955	1,209,923	12,971	1,370,849
Additions	51,329	1,118,538	3,000	1,172,867
At 30th June 2012	**199,284**	**2,328,461**	**15,971**	**2,543,716**
Amortisation				
At 1st July 2011	65,180	307,715	7,397	380,292
Amortisation for year	46,766	360,192	3,409	410,367
At 30th June 2012	**111,946**	**667,907**	**10,806**	**790,659**
Net book value				
At 30th June 2012	**87,338**	**1,660,554**	**5,165**	**1,753,057**

	Computer software £	Development costs £	Domain names £	Totals £
Cost				
At 1st July 2010	125,301	579,540	8,836	713,677
Additions	22,654	630,383	4,135	657,172
At 30th June 2011	**147,955**	**1,209,923**	**12,971**	**1,370,849**
Amortisation				
At 1st July 2010	32,825	117,280	4,490	154,595
Amortisation for year	32,355	190,435	2,907	225,697
At 30th June 2011	**65,180**	**307,715**	**7,397**	**380,292**
Net book value				
At 30th June 2011	**82,775**	**902,208**	**5,574**	**990,557**

Development cost additions represents resources the Group have invested in the development of new innovative and ground breaking technology products for marketing professionals. This platform allows marketing professionals to create, send and automate marketing campaigns. Following development of the products the Group intends to licence the use of the platform.

12. Property, Plant and Equipment

Group

	Short leasehold £	Plant and machinery £	Fixtures and fittings £	Computer equipment £	Totals £
Cost					
At 1st July 2011	11,875	8,536	174,945	418,140	613,496
Additions	-	-	17,321	297,467	314,788
Disposals	-	(5,794)	-	-	(5,794)
At 30th June 2012	**11,875**	**2,742**	**192,266**	**715,607**	**922,490**
Depreciation					
At 1st July 2011	10,126	3,482	119,726	242,038	375,372
Charge for year	864	2,026	24,573	119,242	146,705
Eliminated on disposal	-	(3,982)	-	-	(3,982)
At 30th June 2012	**10,990**	**1,526**	**144,299**	**361,280**	**518,095**
Net book value					
At 30th June 2012	**885**	**1,216**	**47,967**	**354,327**	**404,395**

12. Property, Plant and Equipment continued

	Short leasehold £	Plant and machinery £	Fixtures and fittings £	Computer equipment £	Totals £
Cost					
At 1st July 2010	11,875	5,577	144,974	290,446	452,872
Additions	-	2,959	29,971	127,694	160,624
At 30th June 2011	**11,875**	**8,536**	**174,945**	**418,140**	**613,496**
Depreciation					
At 1st July 2010	9,100	1,719	93,719	175,215	279,753
Charge for year	1,026	1,763	26,007	66,823	95,619
At 30th June 2011	**10,126**	**3,482**	**119,726**	**242,038**	**375,372**
Net book value					
At 30th June 2011	**1,749**	**5,054**	**55,219**	**176,102**	**238,124**

13. Investments

Company

	Shares in Group undertakings £
Cost	
At 1st July 2011	8,704,468
Amortisation	
Impairment (see note 13)	1,193,438
At 30th June 2012	**1,193,438**
Net book value	
At 30th June 2012	**7,511,030**

	Shares in Group undertakings £
Cost	
At 1st July 2010	
and 30th June 2011	8,704,468
Net book value	
At 30th June 2011	**8,704,468**
At 30th June 2010	8,704,468

The Group or the Company's investments at the balance sheet date in the share capital of companies include the following:

Subsidiaries

dotMailer Limited

Nature of business: Web and email based marketing

Class of shares:	Proportion of voting power held %
Ordinary	100.00
Ordinary A	100.00

	30.6.12 £	30.6.11 £
Aggregate capital and reserves	7,530,683	4,872,612
Profit for the year	2,658,071	2,008,026

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 30TH JUNE 2012

13. Investments continued

dotAgency Limited

Nature of business: Dormant

Class of shares:	Proportion of voting power held %
Ordinary	100.00

	30.6.12 £	30.6.11 £
Aggregate capital and reserves	1,000	1,000

Company

dotCommerce Limited

Nature of business: Dormant

Class of shares:	Proportion of voting power held %
Ordinary	100.00

	30.6.12 £	30.6.11 £
Aggregate capital and reserves	1,000	1,000

dotEditor

Nature of business: Dormant

Class of shares:	Proportion of voting power held %
Ordinary	100.00

	30.6.12 £	30.6.11 £
Aggregate capital and reserves	1,000	1,000

dotSEO

Nature of business: Dormant

Class of shares:	Proportion of voting power held %
Ordinary	100.00

	30.6.12 £	30.6.11 £
Aggregate capital and reserves	1,000	1,000

dotSearch (previously known as Netcallidus) Limited

Nature of business: Internet and website services

Class of shares:	Proportion of voting power held %
Ordinary, B, C & D	100.00

	30.6.12 £	30.6.11 £
Aggregate capital and reserves	499,549	297,677
Profit for the year	201,872	207,095

13. Investments continued

Below are the Parent Company's indirect holdings:

Indirect Holding

dotSearch Europe (previously known as Netcallidus Europe) Limited

Country of incorporation: England and Wales

Nature of business: Branch Company

Class of shares:	Proportion of voting power held %
Ordinary	100.00

	30.6.12 £	30.6.11 £
Aggregate capital and reserves	(33,275)	(3,566)
Profit for the year	(29,709)	(4,566)

On 17th May 2010 the Group acquired the entire share capital of dotSearch (previously known as Netcallidus) Limited a company registered in England and Wales for an initial consideration of £1,152,660 and which had an additional contingent consideration of £2,366,320 totalling £3,518,980. The Group's principal activity is the provision of internet and website services. Obtaining control of dotSearch (previously known as Netcallidus) Limited allows the Group to incorporate the customer base in to its own while providing additional expertise to further develop and market its SEO products.

The following summarises the major classes of consideration transferred and the recognised amounts of assets and liabilities assumed at the acquisition date:

Consideration transferred:	Discounted fair value £
Cash	1,000,000
Equity instruments (14,200,930 shares)	152,660
	1,152,660

The number of shares issued in respect of the consideration transferred was based on 1.075p per share* which was the mid-market price as at 30th June 2010.

* Pre 1 for 5 share consolidation in February 2011.

Identifiable assets acquired and liabilities assumed:

	Book and Fair Value £
Goodwill	45,000
Property, plant and equipment	2,532
Trade and other receivables	88,349
Deposits, cash and cash equivalents	41,407
Taxation	(84,598)
Trade and other payables	(40,768)
Net assets	**51,922**

Goodwill:

	£
Purchase consideration:	3,518,980
Fair value of net assets acquired	51,922
Goodwill acquired	3,467,058
Goodwill acquired from purchase of subsidiary	45,000
	3,512,058

The acquisition related costs related to external legal fees and due diligence fees totalling £66,163 have been included in administrative expenses in the consolidated statement of comprehensive income for the previous reporting period.

The contingent consideration arrangement required the Group to pay the former owners of dotSearch (previously known as Netcallidus) Limited additional consideration in a combination of cash and equity in the Group. As made reference to in the previous year's financial statements an interim payment was due to be made on finalising the profit after tax figures based on 4 times the profit after tax in the year ended 30th June 2012 less any amounts that had been paid previously.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 30TH JUNE 2012

13. Investments continued

On 24th November 2011, the Board of Directors presented an early settlement package to the pre-existing shareholders of dotSearch (previously known as Netcallidus) Limited which consisted of the payments made previously and an additional cash settlement of £164,100 which was accepted unanimously. With the acceptance of the package all remaining contingent consideration previously provided for in the financial statements, totalling £1,079,392 has been written to the income statement as finance income in accordance with IFRS 3 regarding business combinations.

The level of after tax profits generated from this investment as at the date above and as at 30th June 2012, was lower than expected based on the Vendor's forecast at the time of the acquisition which needed to be used under IFRS 3 to determine the contingent consideration that may have been payable, under the conditions of accounting standard IAS38 it has resulted in an impairment to the value of goodwill generated on the acquisition of £1,186,516 which also has been charged to the income statement.

The net effect on the income statement of both the financial income and the impairment of the investment has resulted in a charge of £107,124.

14. Trade and Other Receivables

	Group		Company	
	30.6.12 £	30.6.11 £	30.6.12 £	30.6.11 £
Current:				
Trade receivables	1,950,066	1,452,776	-	-
Other receivables	18,054	34,630	-	-
VAT	-	-	-	11,739
Prepayments and accrued income	230,172	170,638	12,684	14,007
	2,198,292	**1,658,044**	**12,684**	**25,746**

15. Cash and Cash Equivalents

	Group		Company	
	30.6.12 £	30.6.11 £	30.6.12 £	30.6.11 £
Cash in hand	43	394	-	-
Bank accounts	4,020,306	2,567,871	83,293	235,274
	4,020,349	**2,568,265**	**83,293**	**235,274**

16. Called up Share Capital

Allotted, issued and fully paid

	Class Number	Nominal value	30.6.12 £	30.6.11 £
275,362,065 (2011: 274,972,065)	Ordinary	£0.005	1,376,811	1,374,861
			1,376,811	**1,374,861**

The holders of Ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

During the reporting period the Company undertook the following transactions involving the issuing and reclassifying issued share capital:

On 13th March 2012 a number of employees exercised their share options increasing the issued share capital by 190,000 shares issued at premium price of 5p.

On 22nd June 2012 a number of employees exercised their share options increasing the issued share capital by 200,000 shares issued at premium price of 5p.

17. Reserves

Group

	Retained earnings £	Share premium £	Revaluation reserve £	Other reserves £	Totals £
At 1st July 2011	5,734,342	4,737,053	(4,695,465)	70,160	5,846,090
Profit for the year	2,467,475	-	-	-	2,467,475
Cash share issue	-	17,800	-	-	17,800
Share based payment	-	-	-	57,183	57,183
At 30th June 2012	**8,201,817**	**4,754,853**	**(4,695,465)**	**127,343**	**8,388,548**

Group

	Retained earnings £	Share premium £	Unissued share capital £
At 1st July 2010	2,696,522	4,533,754	152,660
Profit for the year	3,037,820	-	-
Cash share issue	-	65,533	-
Reclassification of equity	-	137,766	(152,660)
At 30th June 2011	**5,734,342**	**4,737,053**	**-**

Group

	Reverse acquisition reserve £	Other reserves £	Totals £
At 1st July 2010	(4,695,465)	29,493	2,716,964
Profit for the year			3,037,820
Cash share issue	-	-	65,533
Share based payment	-	40,667	40,667
Reclassification of equity	-	-	(14,894)
At 30th June 2011	**(4,695,465)**	**70,160**	**5,846,090**

Company

	Retained earnings £	Share premium £	Other reserves £	Totals £
At 1st July 2011	498,060	4,737,053	70,160	5,305,273
Profit for the year	(368,997)	-	-	(368,997)
Cash share issue	-	17,800	-	17,800
Share based payment	-	-	57,183	57,183
Reclassification of equity	-	-	-	-
At 30th June 2012	**129,063**	**4,754,853**	**127,343**	**5,011,259**

18. Trade and Other Payables

	Group		Company	
	30.6.12 £	30.6.11 £	30.6.12 £	30.6.11 £
Current:				
Trade payables	224,097	204,894	27,326	71,516
Amounts due to related parties (see note 24)	-	-	1,155,443	926,596
Social security and other taxes	328,828	272,669	-	-
Other payables	141,582	33,404	-	
Accruals and deferred income	160,740	183,042	34,000	43,750
VAT	479,334	313,734	2,168	-
	1,334,581	**1,007,743**	**1,218,937**	**1,041,862**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 30TH JUNE 2012

19. Financial Liabilities - Borrowings

	Group		Company	
	30.6.12 £	30.6.11 £	30.6.12 £	30.6.11 £
Current				
Bank loans	-	6,076	-	-
	-	**6,076**	**-**	**-**
Non-current:				
Contingent consideration	-	1,243,492	-	1,243,492
	-	**1,243,492**	**-**	**1,243,492**

Included in the prior year non-current other financial liabilities is the present value of the contingent consideration due on the purchase of the entire share capital of dotSearch (previously known as Netcallidus) Limited. During the year the pre-existing share holders of dotSearch (previously known as Netcallidus) Limited accepted a final cash settlement of £164,100 resulting in an excess contingent consideration provision of £1,079,392 which has been take to the income statement as an exceptional item, see note 13 for further information.

20. Leasing Agreements

Minimum lease payments under non cancellable operating leases fall due as follows

	30.6.12		
	Land and Buildings £	Other £	Total £
Within one year	66,496	40,465	106,961
Between two to five years	-	26,293	26,293
	66,496	**66,758**	**133,254**

	30.6.11		
	Land and Buildings £	Other £	Total £
Within one year	134,928	39,774	174,702
Between two to five years	33,155	27,928	61,083
	168,083	**67,702**	**235,785**

21. Financial Instruments

The Group's activities expose it to a number of financial risks that include credit risk, liquidity risk and cash flow interest rate risk. These risks, and the Group's policies for managing them have been applied consistently throughout the year and are set out below:

The Group hold no financial or non other financial instruments other than those utilised in the working operations of the Group and that listed in this note.

Interest Rate Risk

The Group's interest rate risk arises from interest bearing assets and liabilities. The Group has in place a policy of maximising finance income by ensuring that cash balances earn a market rate of interest; offsetting where possible, cash balances and by forecasting and financing its working capital requirements. As at the end of the reporting period the Group was not exposed to any movement in interest rates in regard to loans and achieved less than 1% interest on cash holdings.

The term "shares" indicates the value of ordinary share capital to be issued should targets be met and discount factors not change. Any changes resulting in revaluations of the consideration due in following reporting periods will be charged to the income statement.

The Group's working capital requirements are managed through regular monitoring of the overall cash position and regularly updated cash flow forecasts to ensure there are sufficient funds available for its operations.

Liquidity Risk

The Group's working capital requirements are managed through regular monitoring of the overall position and regularly updated cash flow forecasts to ensure there are funds available for its operations. Management forecasts indicate no new borrowing facilities will be required in the upcoming financial period.

Credit Risk

Credit risk arises principally from the Group's trade receivables which comprise amounts due from customers. Prior to accepting new customers a credit check is obtained. As at 30th June 2012 there were no significant debts pass their due period which had not been provided for. The maturity of the Groups trade receivables is as follows:

21. Financial Instruments continued

	As at 30.06.12 £	As at 30.06.11 £
0-30 days	1,424,999	1,030,966
30-60 days	20,306	268,425
More than 60 days	504,761	188,475
	1,950,066	**1,487,866**

The Group minimises its credit risk by profiling all new customers and monitoring existing client of the Group for changes in their initial profile. The level of trade receivables passed due the average collection period consisted of a value of £522,814 of which £211,333 was provided for. The Group felt that the remainder would be collected post year end as they were with long standing relationships, the risk of default is considered to be low and write offs due to bad debts are extremely low. The Group has no significant concentration of credit risk, with the exposure spread over a large number of customers.

The credit risk on liquid funds is low as the counterparts are banks with high credit ratings assigned by international credit ratings.

Details as to maximum fair values the Group's financial assets and liabilities can be found in the consolidated statement of financial position.

Capital Policy

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide optimal returns for shareholders and to maintain an efficient capital structure to reduce the cost of capital.

In doing so the Group's strategy is to maintain a capital structure commensurate with a strong credit rating and to retain appropriate levels of liquidity headroom to ensure financial stability and flexibility. To achieve this, the Group monitors key credit metrics, risk and fixed charge cover to maintain this position. In addition the Group ensures a combination of appropriate short term and long term liquidity headroom.

During the year the Group had a short term loan balance of £nil (2011- £6,072) and amounts payable over one year are nil. The Group had a strong cash reserve to utilise for any short term capital requirements that were needed by the Group.

The Group has continued to look for a further long term investments or acquisitions and therefore to maintain or re-align the capital structure, the Group may adjust when dividends are paid to shareholders, return capital to shareholders, issue new shares or borrow from lenders.

22. Deferred Tax

	30.6.12 £
At 30th June 2011	-
Current year provision	24,616
At 30th June 2012	**24,616**

23. Capital Commitments

The Company and Group have no capital commitments as at the year end.

24. Related Party Disclosures

Group

The following transactions were carried out with related parties

Sale of services			30.06.12 £	30.06.11 £
Codence performance	Entity under common directorship	Email marketing services	42	-
			42	**-**

Sales of services are based on the price lists in force and at terms that would be available to third parties.

Purchase of services			30.06.12 £	30.06.11 £
Haggie Financial LLP*	Entity under common directorship	Financial PR	-	5,155
Nexus Financial LLP*	Entity under common directorship	Financial PR	-	20,709
Hansard Communications Ltd*	Entity under common directorship	Financial PR	-	2,621
F Beechinor-Collins**	Entity under common directorship	Consultancy services	53,913	-
			53,913	**28,485**

* N Nelson a non-Executive Director of the Group had interests in the above companies. These companies provide financial public relation services to the Group.

** Consultancy services to assist with international expansion and development of channel sales strategy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 30TH JUNE 2012

24. Related Party Disclosures continued

Year end balances arising from sales/purchases of services			30.06.12 £	30.06.11 £
Hansard Communications Ltd	Entity under common directorship	Payables	-	2,261
F Beechinor- Collins	Entity under common directorship	Payables	(2,656)	-

The receivables and payables are unrestricted in nature and bear no interest. No provision's are held against receivables from related parties.

Key management compensation

Key management includes directors, non-executive directors and the Company secretary. The compensation paid for key management for employee services are shown below

	30.06.12 £	30.06.11 £
Remuneration and other short term employee benefits	911,113	842,523
Share-based payments	10,168	7,821
	921,281	**850,344**

Directors	30.06.12 £	30.06.11 £
Aggregate emoluments	602,290	778,988
Aggregate gains on exercise of share options	-	483,333
Company contributions to money purchase pension scheme	47,510	34,013
	649,800	**1,296,334**

Information in relation to the highest paid Director is as follows:

	30.06.12 £	30.06.11 £
Salaries	156,000	163,500
Other benefits	843	757
Pension costs	11,000	10,458
	167,843	**174,715**

Company

The following transactions were carried out with related parties

Purchase of services			30.06.12 £	30.06.11 £
Haggie Financial LLP*	Entity under common directorship	Financial PR	-	5,155
Nexus Financial LLP*	Entity under common directorship	Financial PR	-	20,709
Hansard Communications Ltd*	Entity under common directorship	Financial PR	-	2,621
			-	**28,485**

* N Nelson a non-Executive Director of the Group had interests in the above companies. These companies provide financial public relation services to the Group.

Year end balances arising from sales/purchases of services			30.06.12 £	30.06.11 £
Hansard Communications Ltd	Entity under common directorship	Payables	-	2,261
dotMailer Limited	Subsidiary	Payables	1,165,930	926,596
dotSearch Limited	Subsidiary	Receivable	10,217	-

The receivables and payables are unrestricted in nature and bear no interest. No provision's are held against receivables from related parties.

Key Management Compensation

Key management includes Directors, non-Executive Directors and the Company Secretary. The compensation paid for key management for employee services are shown below

	30.06.12 £	30.06.11 £
Remuneration and other short term employee benefits	84,805	42,917
	84,805	**42,917**

Directors	30.06.12 £	30.06.11 £
Aggregate emoluments	84,805	42,917
	84,805	**42,917**

25. Ultimate Controlling Party

There is no ultimate controlling party of the Group. dotDigital Group PLC acts as the Parent Company to dotMailer Limited, dotSearch (previously known as Netcallidus) Limited, dotAgency Limited (Dormant), dotSEO Limited (Dormant), dotCommerce Limited (Dormant) & dotEditor Limited (Dormant). The Company also indirectly controls dotSearch Europe (previously known as Netcallidus Europe) Limited.

26. Share-based Payment Transactions

The measurement requirements of IFRS 2 have been implemented in respect of share options that were granted after 7th November 2002. The expense is recognised for share based payments made during the year is £57,183 (2011- £40,667)

Also on 13th October 2011 the Board of Directors also granted 8,177,930 (2011: 6,800,000) options to employees of the Group exercisable on or after 1st May 2012 until 1st February 2016. Vesting conditions of the options dictate that employees must remain in the employment of the Group for the whole period to qualify.

Movement in issued share options during the year

The table illustrates the number and weighted average exercise price (WAEP) of, and movements in share options during the period

	30.6.12		30.6.11	
	No of options	WAEP	No of options	WAEP
Outstanding at the beginning of the period	11,722,000	5.00p	18,785,333	1.35p
Granted during the year	8,177,930	6.54p	6,800,000	5.00p
Forfeited/cancelled during the period	1,600,000	6.54p	370,000	5.00p
Exchanged for shares	390,0 00		13,493,333	
Outstanding at the end of the period	17,909,930	7.25p	11,722,000	4.22p
Exercisable at the end of the period	Nil		Nil	

The weighted average exercise price (WAEP) in regards to the comparatives have been restated to reflect the share consolidation undertaken in February 2010.

The fair value of the options granted in the year have been calculated using the Black Scholes model assuming the inputs shown below:

Grant date	13th October 2011
Number of options granted	8,177,930
Share price at grant date	6.53p
Exercise price at grant date	7.25p
Risk free rate	2.43%
Option life	4.25
Expected volatility	7.83%
Expected dividend yield	0%
Fair value of option	0.33p

27. Group Reconciliation of Profit before Income Tax to Cash Generated from Operations

	30.6.12 £	30.6.11 £
Profit before income tax	2,773,460	3,311,563
Exceptional item: impairment of goodwill	1,186,516	-
Depreciation charges	557,072	321,318
Loss on disposal of fixed assets	1,175	-
Share based payment	57,183	40,667
Finance costs	682	1,468
Finance income	(1,087,837)	(1,127,862)
	3,488,251	**2,547,154**
Increase in trade and other receivables	(540,248)	(423,399)
Increase in trade and other payables	326,838	338,979
Cash generated from operations	**3,274,841**	**2,462,734**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 30TH JUNE 2012

28. Group Cash and Cash Equivalents

The amounts disclosed on the statement of cash flow in respect of cash and cash equivalents are in respect of these statement of financial position amounts:

Year ended 30th June 2012	30.6.12 £	1.7.11 £
Cash and cash equivalents	4,020,349	2,568,265
	4,020,349	**2,568,265**

Year ended 30th June 2011	30.6.11 £	1.7.10 £
Cash and cash equivalents	**2,568,265**	**1,277,617**

29. Company Reconciliation of Profit/(Loss) before Income Tax to Cash Generated from Operations

	30.6.12 £	30.6.11 £
Profit /(Loss) before income tax	(368,977)	827,265
Exceptional item: impairment of goodwill	1,193,438	-
Share options	57,183	40,667
Finance income	(1,079,392)	(1,122,828)
	(197,768)	**(254,896)**
Increase in trade and other receivables	1,323	(9,181)
Increase in trade and other payables	(40,033)	6,488
Cash generated from operations	**(236,478)**	**(257,589)**

30. Company Cash and Cash Equivalents

The amounts disclosed on the statement of cash flow in respect of cash and cash equivalents are in respect of this statement of financial position amounts:

Year ended 30th June 2012	30.6.12 £	1.7.11 £
Cash and cash equivalents	83,293	235,274

Year ended 30th June 2011	30.6.11 £	1.7.10 £
Cash and cash equivalents	235,274	385,332

31. Research & Development

During the period the Group incurred nil (2011: nil) in research costs and £1,118,538 (2011- £630,383) in development investments. All resources utilised in research and development has been categorised as outlined in the accounting policy governing this area.

32. Post balance Sheet Events

There are no post balance sheet events which impact the Group's financial statements.

33. Prior Period Adjustment

On 1st July 2011 the Board of Directors re categorised the nature of some expenditure items from administrative to cost of sales. The impact of this on the comparative figures on the income statement are as follows:

	30.06.11 £	Effect of change £	30.06.11 (restated) £
Continuing operations			
Revenue	8,952,488	-	8,952,488
Cost of Sales	-	(647,142)	(647,142)
Gross profit	**8,952,488**	**-**	**8,305,346**
Administrative expenses	(6,647,493)	647,142	(6,000,351)
Operating profit before exceptional items	**2,304,995**	**-**	**2,304,995**
Profit for the year	**3,037,820**	**-**	**3,037,820**

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