dotdigital GROUP PLC

Annual Report
2015/2016

Contents

Key highlights

Group revenues up 26% (from £21.4m to £26.9m)

EBITDA increase by 17% to £8.0m

Net cash generated from operating activities of £7.7m

Strong cash position of £17.3m as at 30 June 2016

Corporate statement

dotmailer is the email marketing platform of the dotdigital Group Plc (LSE: DOTD). The software enables more than 80,000 marketers in 150 countries to use advanced contact data to design, test and send powerful automated campaigns.

We understand what marketers need from a technology platform by providing easy-to-use tools that enable them to start small, act fast and scale quickly. Supported by world-class strategic, creative and managed services, we make it easy for our customers to achieve dramatic results that grow their business.

Chairman's statement

Frank Beechinor-Collins
Non-Executive Chairman

Activity on our platform continues to increase and customers sent 8.6 billion emails in 2015/16, up 50% since the previous year.

dotdigital Group Plc has had a successful 2015/16 financial year. The Group returned a profit before tax of £6.2m and EBITDA was slightly ahead of market expectations. We continue to be cash generative and ended up with cash reserves of £17.3m, up from £11.9m at the end of the last financial year.

We continue to make good progress with how we engage with customers and this past year has seen another rise in customer average monthly spend, an increase of 29% on the prior year. Activity on our platform continues to increase and customers sent 8.6 billion emails in 2015/16, up 50% since the previous year. By evolving our range of enhanced product features, which are sold on a recurring model, we grew this part of our business by 106% and this past year it accounted for £4m of sales.

Our overseas business has continued to grow and revenue outside the UK has increased by 58%. In January 2016 we appointed Dan Morris to head up our US operation and in June we moved out of a shared office into a permanent location in New York. Our US region revenues grew by 43% from US$3.0m to US$4.3m in this past year with particular focus on channel partner and Magento sales.

In Autumn 2015, Rohan Lock, previously Head of Sales in the UK, moved back to his native Australia to head up our operations there. Progress has been rather slower than we had planned as some of the major partners we signed have taken slightly longer to deliver their first business. Some of these partners operate across the Asia Pacific market and will be of great assistance as we build our customer base across the region.

dotdigital Group Plc already has customers in the Middle East and we plan to continue to build this market. During the second half of this financial year we have also started to market to potential clients in the Nordic and Benelux regions and we have had some good success.

Our services business has continued to grow in the past year, achieving 11% growth on the previous year with healthy margins. We have continued to invest considerably in our infrastructure ensuring that the business has the ability to offer the service expected by our customers as our business expands in both the volume of emails we send and the geographical markets in which we operate. To this end we moved our platform to the cloud in America and Europe with Australia going live early 2017.

Our policy on acquisitions continues as previously: our main focus is on organic growth but we will consider acquisition opportunities, should they arise, and only if they allow us to accelerate growth in a market or provide us with a technical advantage.

In December 2015 we received devastating news that Simone Barratt required surgery. She stepped away from the business to focus on her treatment and Milan Patel was appointed interim CEO.

Thankfully Simone's treatment went well but on 20 July 2016 we announced that she was not returning to the business in her role as CEO and she was also stepping down from the Board. We also announced at that time that Milan was appointed as the new permanent CEO. I would like to take this opportunity to thank Simone for her time in the business, initially as a Non-Executive Director and laterally as CEO, and wish her well as she returns to full health.

Milan Patel will continue as CFO until we appoint a new candidate for that role. A search process is currently underway and in the interim Milan is supported by George Kasparian (Non Board Finance Director), Tink Taylor and Peter Simmonds, who has committed extra days in the business until the new appointment is made.

Following the announcement of Brexit on 24 June we have assessed the impact of the vote to leave the EU. Our initial view is that the outcome, thus far, has not had any immediate effect on our business.

Email marketing continues to offer the best value and marketing return on investment. In addition, the fact we are continuing to grow our business outside the UK will also help mitigate against any slowdown in UK economy resulting from leaving the EU. The Board will keep the impact of Brexit under review.

I would like to take opportunity thank the team at dotdigital for their fantastic contribution to yet another successful year. I would like to say a special thank you to Milan for 'stepping up to the plate' during Simone's illness and for his continued hard work as he settles into the role of CEO.

Notwithstanding any unforeseen economic impact of Brexit and the forthcoming US elections, the outlook for the dotdigital Group Plc business over the coming years continues to be very promising. We will continue to look for business with interesting opportunities both in the UK and in overseas markets. We plan to continue to grow our business in new geographies both through direct sales and using our strategic partners. Under Milan's stewardship and a strong operating Board I have every confidence we will continue to grow our business and look forward to another successful year ahead.

Frank Beechinor-Collins
Non-Executive Chairman

"The support from dotmailer is exceptional and the team shows a genuine interest in understanding us as a business. If you're looking for powerful yet easily accessible email software, with gold medal account support, then look no further.

Marcus Forsey, Alexandra

The dotmailer platform

dotmailer

An email marketing automation platform
for digital marketers.

Continuing growth

The flagship product, dotmailer, is a powerful email and multi-channel marketing automation platform with easy-to-use tools that enable marketers to efficiently create, manage, execute and evaluate effective targeted campaigns.

In addition to its automation technologies, the Group also provides expert multi-channel marketing consultancy and services for businesses seeking to maximise customer acquisition, conversion and retention. The Group is headquartered in London and employed 220 staff at the end of June 2016.

Email continues to be the top-performing digital channel as confirmed in eConsultancy's 2015 Email Marketing Industry Census, with 68% rating the channel as Excellent or Good. This finding was echoed in the UK Direct Marketing Association report which shows the average ROI for email campaigns has actually risen 53% to £38 for every £1 spent in 2015.

Increased scalability

dotmailer is a well-established product and over the past eight years we have seen strong evidence of the scalability of the Group's platform with monthly sends volumes growing from under 5m sends per month to currently over 800m per month.

The Group has carried out significant development work on the dotmailer platform over the years, providing continuous innovation and functionality to its users.

This includes a highly compelling visual drag and drop email template design, drag and drop segmentation and query builder, drag and drop campaign automation, translation of the user interface into eight languages and responsive template toolkits that optimise display content and layout on mobile devices (smartphones and tablets). Our platform's ease of use, ease of integration and innovation combine to allow customers of all sizes and abilities to join us, and grow with us.

We now have in-region data processing and storage for the North America and Europe regions with Australia to go live early next year.

World-class integrations

The Company also has specialist and deep pre-built integrations with best-in-class ecommmerce platforms and CRM products such as Magento, Salesforce and Microsoft Dynamics CRM.

In addition the platform has been designed to integrate easily with clients' existing marketing technology and systems.

dotmailer has a broad customer base, with the five largest clients accounting for approximately 3% of total revenues (the top 20 clients account for less than 8% of total revenue).

To some extent, this reflects some of the Group's historical success in the SME space but, increasingly, the Group is gaining solid traction in the SME market in the UK, US and Asia Pacific.

A growing global business

As the benefits of dotmailer come to the fore around the world, the demand for our product is growing in new territories. In 2016/17, we're expanding our reach into additional regions such as Benelux, the Middle East, The Nordics and South Africa.

In July 2015 we opened a new base in Australia, enabling us to grow our presence in the Asia Pacific region. We now have offices in key time zones around the world, with more than 200 employees spread across the UK, the US, Belarus and Australia.

Not only do we have a total of six offices in North America, the UK and Australia, we also have a growing partner network servicing customers in every corner of the world.

Our platform works perfectly in these languages:

- French
- German
- Italian
- Dutch
- Spanish
- Portuguese
- Russian
- English

The software also supports the alphabetic characters of:

- Arabic
- Thai

Positive customer journeys

> Email marketing is an important part of our ecommerce strategy, because as we begin to look at customer experience, it gives us the opportunity to talk to our customers on a one-to-one basis.
>
> Jonny Stewart, ELEMIS

Consumer expectations are continually rising and so are the number of available marketing channels. It's never been more essential for companies to communicate intelligently with consumers throughout their journey with the brand, and email is the channel that enables them to keep up with customers' demands.

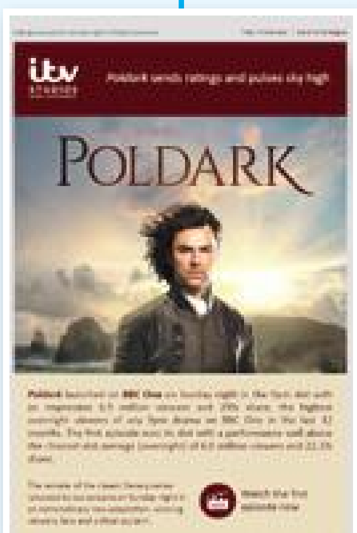
From an initial welcome message right through to the loyalty campaign which keeps customers coming back for more, email is the glue that binds together the customer experience of today.

It's cost-effective, scalable and delivers ROI like no other marketing channel can. And with our easy-to-use personalisation tools, our customers can make all of their contacts feel like the email was meant for them.

Awareness

Welcome emails are an invaluable opportunity for brands to introduce prospects to their key USPs and differentiate themselves from the competition.

These creative examples are indicative of emails our customers send to build positive customer journeys.

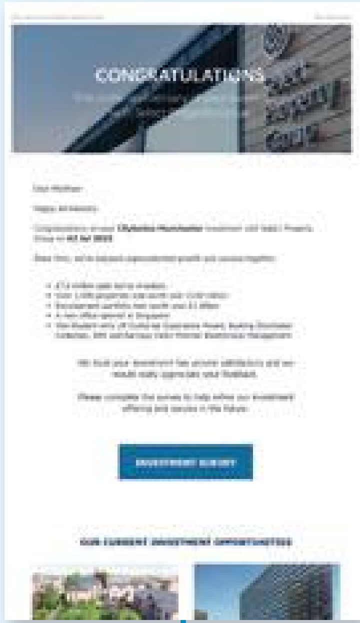


Research

During this stage, prospects are learning about their problem and the variety of solutions available. Automated abandoned browse and cart follow-up emails act as helpful reminders, driving prospects back to the site to convert.

Purchase

Here, marketers can use email to deliver automated thank you messages, as well as transactional emails such as confirmation and delivery notification.



Retention

Keeping customers engaged is an important factor for any company. So whether it's promoting a competition, introducing a loyalty programme or sending newsletters, retention emails can do just that.

Advocacy

Companies who've done a good job of satisfying the customer can use email to gain the testimonials and social proof that are so important in people's purchasing decisions.

Replenishment and renewals

Companies that sell a replenishable product or renewable service can encourage repeat purchases with well-timed reminder emails.

Our growth strategy

Enhancing shareholder value by focusing on profitable growth and product innovation.

Our shareholder base expects a low-risk approach to investment. Over the past eight years as a public company we have a good track record of testing, learning and then investing in growth opportunities. As the Company has grown we have also taken care to protect our core customer base whilst looking to deliver strong top-line growth through:

1

Geographic expansion

Our revenues from outside the UK have grown from 3% in 2012/2013, to 10% in 2013/2014, to 14% in 2014/2015 and now to 18% in 2015/16. We expect this % to increase through 2016/2017 with the bulk of these overseas revenues coming from the US, Nordics, Benelux, Middle East, South Africa and Asia Pacific as we start to focus our sales and marketing in these regions.

Our choice of strategic partners has been influenced by their geographic footprint to enable us to further penetrate other regions.

2

Product innovation

In 2015/2016 we delivered a number of significant new product features including, advanced personalisation, lead scoring, fully personalised landing pages and substantial enhancements to our market-leading integrations with Magento, Microsoft Dynamics CRM and Salesforce. From a revenue perspective we saw an increase in recurring revenues from technology of 106% especially our marketing automation functionality.

Going forward, in support of our international and partner growth strategy we will continue to globalise our product suite and our infrastructure. In addition, we have identified the following themes for our roadmap: platform extensibility, single customer view, real-time customer experience, predictive capabilities, ecommerce, email innovation, social and mobile. In 2016/17 we will also add more connectors into both the ecommerce and CRM space.

3

Strategic partnerships

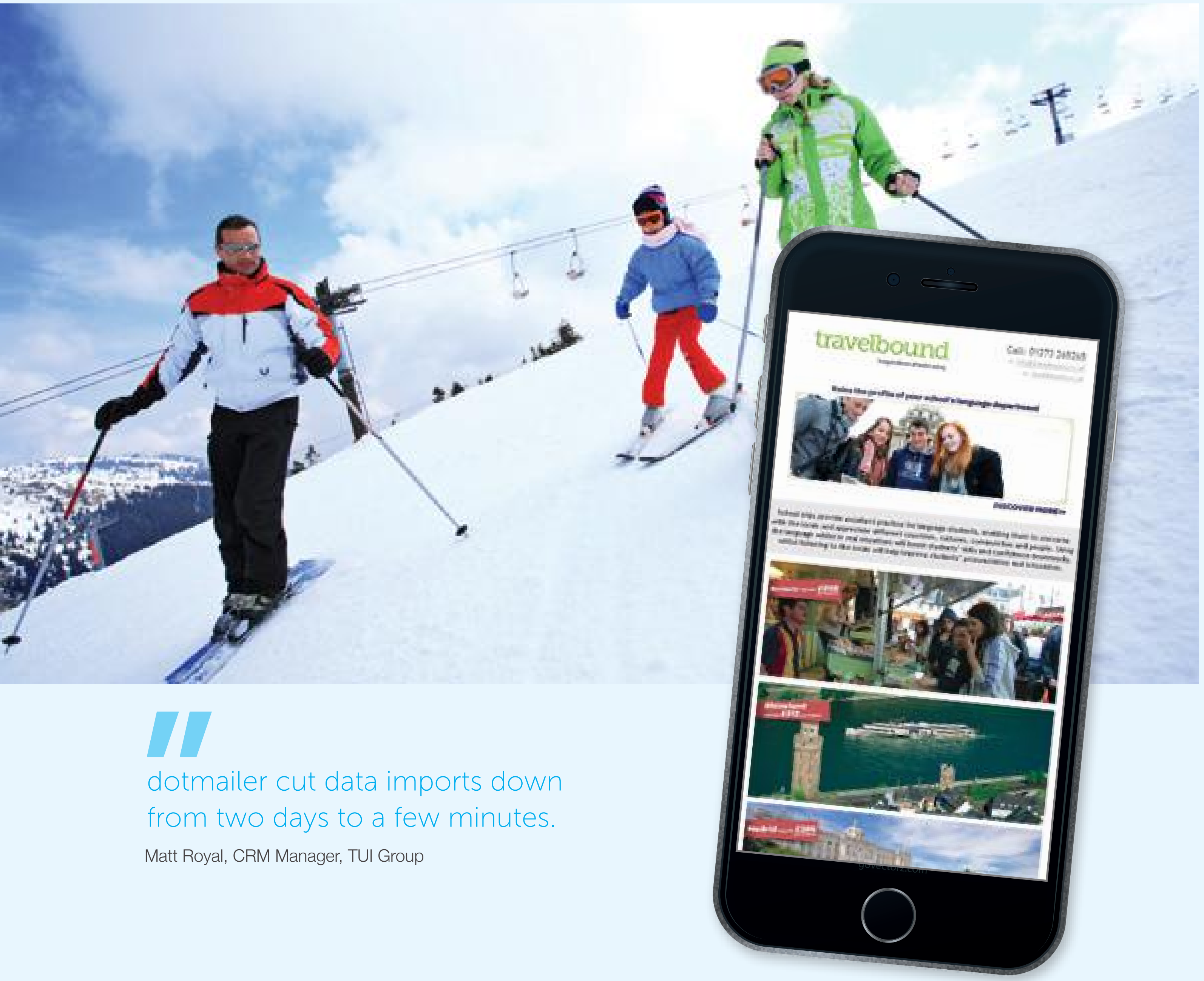
In 2015/2016 we continued to build on our existing partner relationships in ecommerce and CRM by focusing on our specialist connectors for Magento, MS Dynamics CRM and Salesforce. In the year Magento also named dotmailer as their only global Premier partner for marketing automation.

2016/2017 we plan to focus on developing a robust global reseller network, whilst our direct sales team continues to grow our organic direct business. Additionally, we are excited about early progress in developing key strategic partnerships that will drive our presence globally.

> "As an international brand, dotmailer allows us to handle multiple languages. We're operating in seven countries currently and this is going to expand over the coming years.
>
> **Doug Taylor, Slendertone**

Travel and leisure

As the travel and leisure industry continues to flex around shifting consumer shopping habits and emerging technologies, companies are using email as an essential component to deliver exceptional customer experiences.



"dotmailer cut data imports down from two days to a few minutes.

Matt Royal, CRM Manager, TUI Group

"I use email to cement customer relationships and loyalty.

Ian Jennings, Managing Director,
Explorer Travel Insurance

TUI is the largest leisure, travel and tourism company in the world, covering nearly 80 tour operators and operating from 18 countries.

The TUI Group went through a successful three-year programme to integrate email, CRM, web and sales reporting. This project has not only given the company a common platform and a massively increased ability to send out effective communications, it has also helped TUI to understand its market better.

Manual tasks like data imports were extremely labour-intensive for the team at the TUI Group, as Matt Royal, the company's CRM Manager, explains, "Before we implemented dotmailer, it could take as long as two days to extract addresses for segmenting campaigns, import the data, create a pretty basic email and send it out. This was a major pain point, so when we were showed that dotmailer could complete the same task in a few minutes, the decision to migrate became a no-brainer."

Explorer Travel Insurance is an online specialist, with 80% of its new sales coming through digital channels. The insurance marketplace is particularly competitive – so the company's challenge is to keep prices and costs down, while also developing customer relationships to foster repeat business.

One aspect of providing memorable customer service is maintaining high-quality communications. "I wanted to use email to cement customer relationships and loyalty, which meant putting in a lot more effort than just banging out reminders that a policy is due to expire" said Ian Jennings, Managing Director.

For the team at Explorer, email isn't just a tool to push its products; it's a way to keep the brand front of mind by providing useful, interesting content throughout the year. "We use email creatively – so we provide a mix of background content, like competitions, and special offers that will just remind them we're here and maybe trigger a response when they need cover."

Our travel and leisure sector client base is growing with a wide spectrum of companies, including airlines, specialist travel insurers, holiday extras providers and package holiday firms.

Our culture

The dotmailer platform is built to be flexible and easy to work with. As a Company, we like to think we're the same. We continue to invest in the development of our people and other initiatives that build upon the great culture that is at the heart of our business.

> "Everyone at dotmailer is knowledgeable and helpful, making it a great place to work.
>
> Louisa Smith, HR Assistant

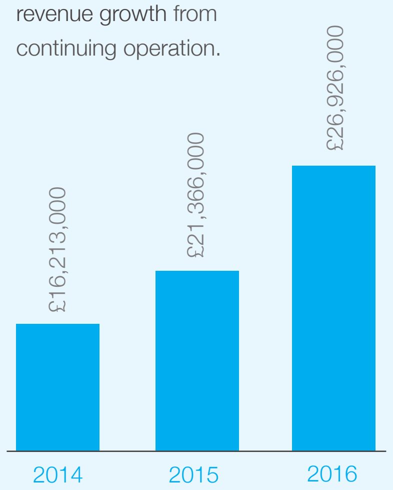
Key performance indicators

We use our key performance indicators (KPIs) to measure our business. These indicators provide us with the visibility of both our strategic and financial performance. Employee remuneration is specifically linked to these KPIs.

Financial

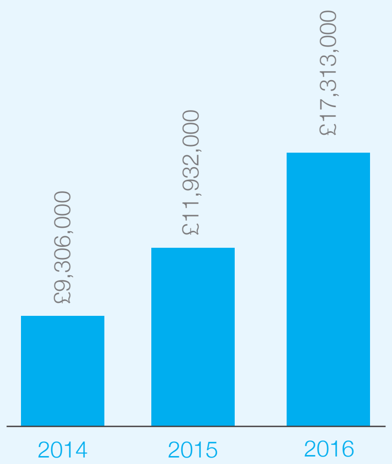
Revenue

We aim to deliver double-digit organic revenue growth from continuing operation.



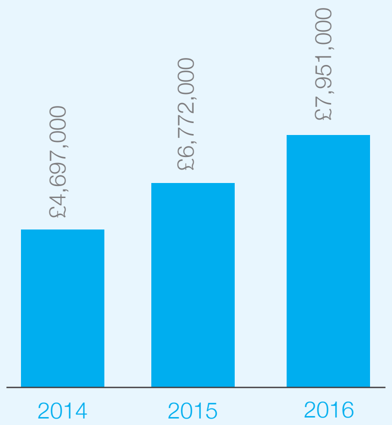
Cash position

We aim to have a strong cash position.



EBITDA

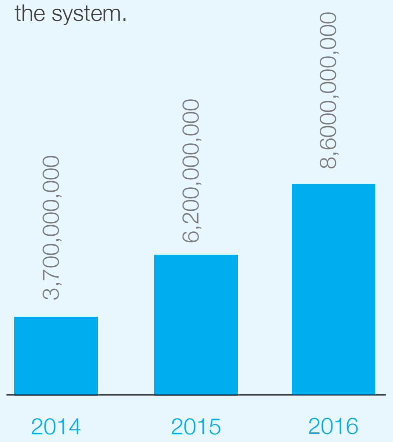
We aim to have a positive earnings before interest, tax, depreciation and amortisation (EBITDA) growth.



Strategic

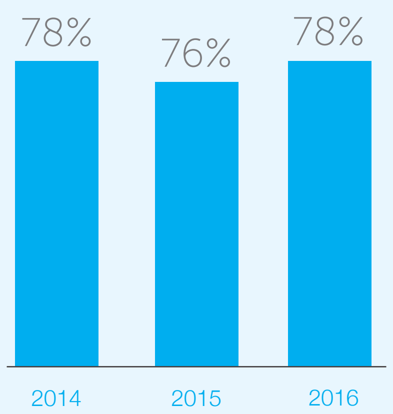
Emails sent

We aim to keep increasing the volume of emails sent through the system.



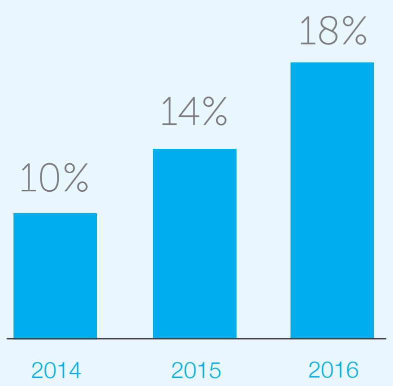
Recurring revenue

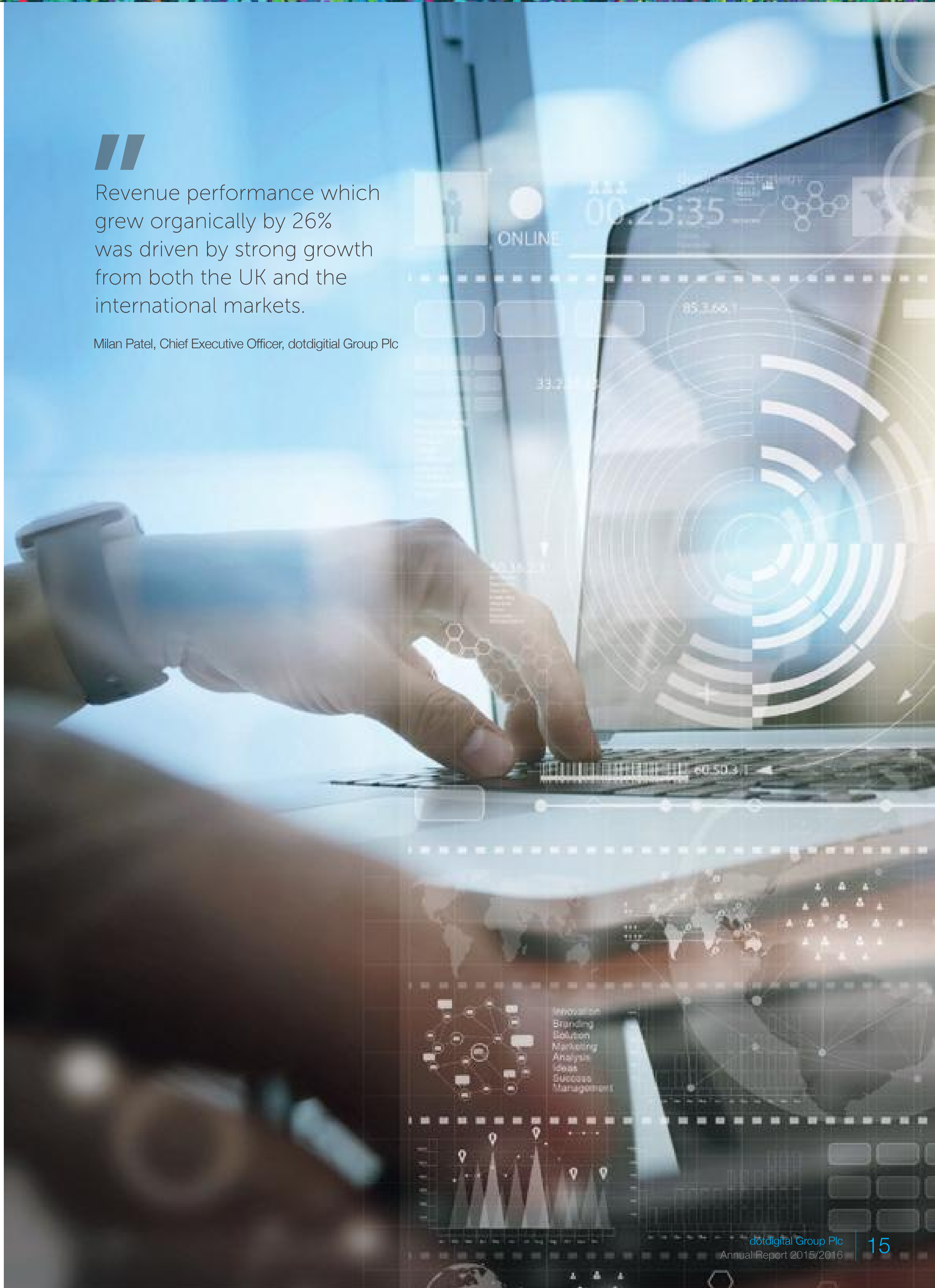
We aim to have recurring revenues of over 70%.



International growth

We aim to expand revenue from outside of the UK.





> Revenue performance which grew organically by 26% was driven by strong growth from both the UK and the international markets.

Milan Patel, Chief Executive Officer, dotdigitial Group Plc

Risks, mitigations and impact

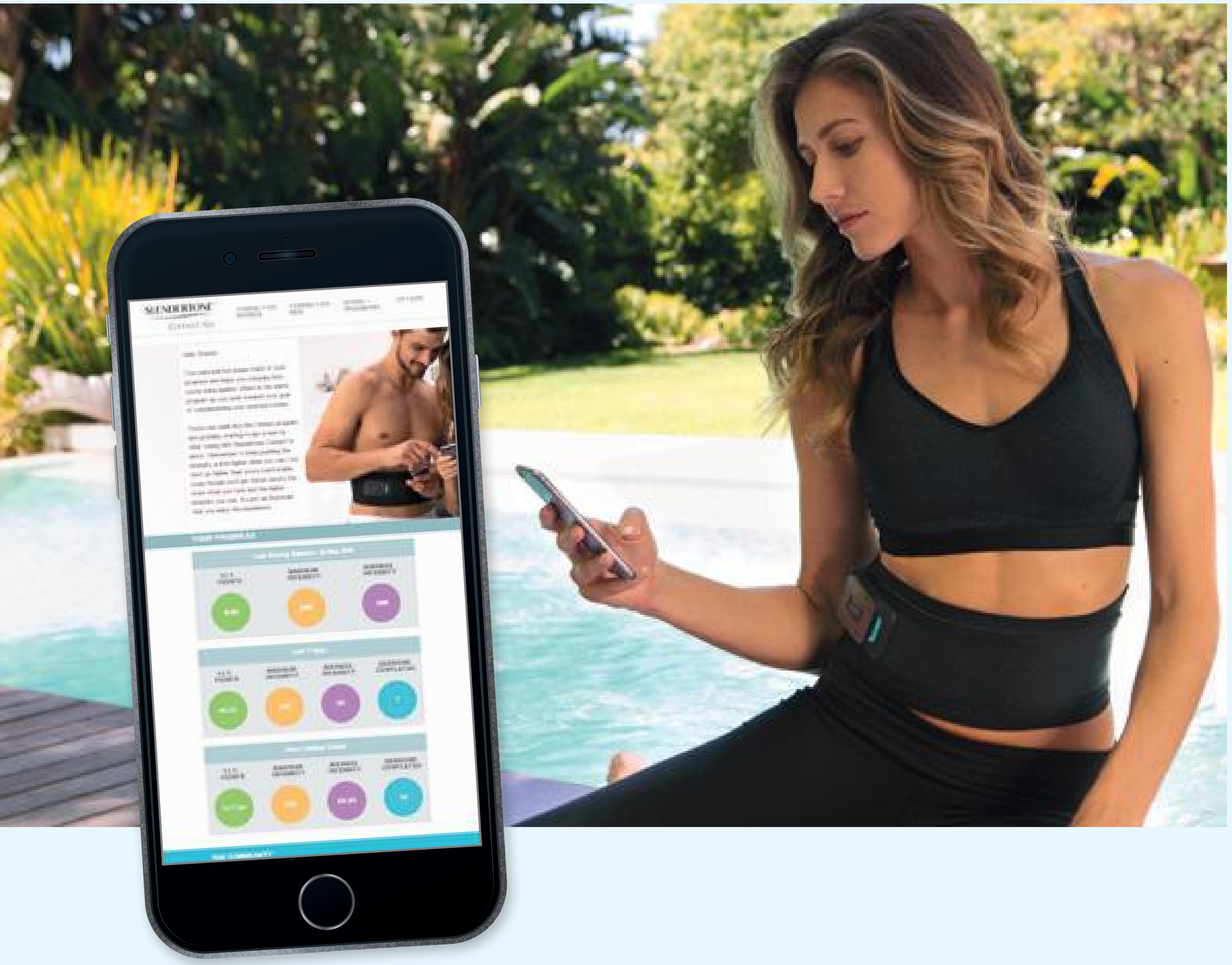
Risk area	Impact	Mitigation of risk
Utilisation of cloud service providers	A key strategy implemented by the Group was to migrate the dotmailer platform to a hybrid cloud infrastructure, utilising cloud service providers to host the web application functions of the platform. An event resulting in multiple cloud data centre failing, for any significant period of time or the termination of services by one of these cloud providers for any reason may result in a significant loss of revenues and therefore materially harm the Group's business, operating results and financial condition. The nature of cloud computing also means that a majority of the dotmailer platform will sit on shared infrastructure that is more of a target for cyber-attacks.	Best of breed Cloud computing providers were chosen by the Group to deliver the services (Microsoft Azure and Amazon AWS) and the dotmailer platform has been architected to be able to recover in the event of a single data region failure within an acceptable recovery time. By utilising cloud service providers, economies of scale are inherited from the provider in terms of computing power, bandwidth, and security technologies, mitigating other corporate risks.
Supplier, computer hardware and internet reliability-related risks	An event resulting in a loss of a data centre that hosts the send components of the platform for a prolonged period of time will result in sub-optimal service for customers that may lead to a loss in revenues. Also events preventing or obstructing the platform from communicating over the internet, such as the blacklisting of IP addresses at major internet service providers, may result in a loss of revenues.	The design of the platform along with the system's architecture has multiple levels of resilience built in to cater for single points of failure. The Group continuously evaluates its key suppliers as part of its risk management process and diversifies these where possible, to improve resiliency. There is continued investment into dotmailer's currently owned IP addresses, maintaining these to be reputable for sending email globally, and utilising them to maximum effect.
Information Security & Cyber Risks	The ever evolving, sophisticated nature of the cyber threat landscape poses an ongoing risk to the group. Revenue is dependent on the availability of computer systems, and as such, an attack against the groups networks could have a significant impact on its ability to function properly. A successful attack impacting the Confidentiality, Integrity, or Availability of systems and data would have a negative impact on the Group's reputation and therefore its ability to retain and attract new clients.	A dedicated Information Security function exists to manage the security program across the business. Regular vulnerability scanning, penetration testing, and security update schedules are in place to proactively detect and remediate against the latest threats, and policies and procedures are in place to detect and respond to incidents. The recent migration of the core dotmailer platform to Microsoft Azure has enabled the Group to take advantage of additional security features to help further protect against attacks, and the Group continues to invest further in people, processes, and technology to further reduce exposure in this area.
Data privacy	Such laws and regulations require or may require the Group and its 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 the Group's clients'. ability to collect and use email addresses, web browsing data and personal information, which may reduce demand for its products.	The Group operates an open door policy whereby it shares its policies relating to security, compliance and data privacy. dotmailer has a public-facing Trust Centre where customers and prospects can view this information online. Its features also assist customers to be compliant with current legislation and in most cases automates these compliance processes. The Group's staff research the impact of new legislation to its customers (and in some cases are actively involved in the creation of the legislation & industry best practise) and publish related communications including white papers and blogs. Its executive actively contributes to the digital marketing space to advocate best practice and make sure its customers' needs are represented.
Internet service providers (ISPs) reputation and internet browser, related risks	As a large proportion of the Group's revenue is derived by charging a price per email for sending marketing emails on behalf of customers, the impact of not being able to deliver these or deliver these without engagement tracking for any reason is significant. If internet browsers detect hyperlinks as a phishing threat, if abuse complaints from providers are not dealt with properly, if bad customer data generates multiple complaints through ISPs or third party spam blacklists, these impact the platform's overall ability to effectively deliver email.	dotmailer provides a number of services as part of the core product to filter known or bad data that may not comply with EU, Asia Pacific or US anti-spam regulations. Continued investment in reputation & security related product development with the addition of more third party data feeds to filter bad data continues to reduce the risk. Through its admittance to various industry groups, such as the Email Sender and Provider Coalition (ESPC), the Group has demonstrated its commitment to implementing industry best practice in anti-abuse. dotmailer holds a board of directors' role at the Email Sender and Provider Coalition, who's membership includes Google, Microsoft, Yahoo!, Comcast and AOL among other global email inbox providers. It also provides a number of consultancy services to its customers to better improve their email delivery, data quality and compliance with privacy and anti-spam legislation. Through its expansion of its deliverability team, the Group continues to work closely with ISPs, email receivers and third party anti-abuse vendors by proactively dealing with abuse complaints generated by customer emails. Whilst dotmailer acts as the data processor on behalf of its customers, and is not directly liable for breach of the EU, Asia Pacific or US anti-spam regulations, it does take these breaches seriously, suspending or terminating customer service agreements if necessary.

Risk area	Impact	Mitigation of risk
Competitive environment	The sector the Group operates in is competitive. The impact of competitors having more features, increased financial backing, better brand recognition and better global coverage increases the risk to the Group's business model.	The Group continues to grow revenues year-on year and reinvests to deliver new product features, best-in-class customer support and service offerings, enhanced brand recognition, improved service delivery and markets globally to attract new customers. Several established Enterprise ESPs now form the foundation of various "Marketing Clouds" – IBM Marketing Cloud (Silverpop), Oracle Marketing Cloud (Responsys, Eloqua), Salesforce Marketing Cloud (ExactTarget, Pardot), and Adobe Marketing Cloud (Neolane). These platforms have the broadest product offerings, including tools to coordinate marketing campaigns across digital channels, although tend to innovate through acquisition and do not react quickly to market changes. Another competitor, Campaign Monitor, has stated in September that they shall create 100 new positions in the UK over the next two years, with a new London office to support its European activities, stating that they have 25, based within the UK. We therefore expect to see increasing competition from this vendor, which have a business model historically based on both agency partnerships and direct sales. We increasingly see a mix of competition and opportunity with Mailchimp at the smaller business end, with some prospective customers looking for their next step in email platform by choosing dotmailer and others with adopting Mailchimp due to the simplicity of their needs and the lower price points.
International expansion	As the business expands into new geographic territories there is a risk that policies, processes and practices that have worked successfully in the UK market will not provide the high level of service and assurance that would have been delivered in the UK market.	The Group will place an emphasis on hiring senior people with experience of developing successful international business models, whilst hiring quality local people in important International territories. The Group will also utilise the services of expert advisers as and when necessary. Management information, business intelligence, audits and risk appraisals will be updated and monitored to ensure they reflect the International nature of the business.
Investment in growing high performance teams	Failure to attract, hire, develop & retain individuals who positively contribute to our high performing teams is critical to the support of achieving our corporate goals.	In addition to the continual investment made in acquiring additional talent, both in the UK and Internationally, we are focussed on the delivery of a comprehensive programme of formal and informal learning and development opportunities that are aligned to the needs and goals of the business.
Development and maintenance of products	There is a possible risk that without continued investment into new products, enhancement of old products and into new sectors the growth of the Group will be impaired. As new products are developed, and the technology landscape changes, the maintenance burden of existing products increases and without continued investment maintaining those products they may become unusable and could affect the Group's revenue.	Investment into the Group's product offerings continues to enable good growth. Innovation and increased development of new core product offerings in the marketing automations space has opened up more revenue opportunities and increased the average recurring revenue of the Group's existing customers. Ease of use of the dotmailer offerings and the ability to offer flexibility to integrate and connect to best-of-breed products continue to enable the Group's customers to grow at their pace without constraints. The Group constantly reviews individual product performance and the technology landscape and makes decisions to optimise its product portfolio if necessary to reduce maintenance overheads. A focus for the coming year is to continue to develop new features and connectors that allow our customers to more easily interact with their customer data and to further enhance our proposition to the ecommerce and CRM sector, which will allow the dotmailer platform to compete even more favourably in this growing market.
Evolving technology and customer requirements	Failure to respond to evolving technological channels and customer requirements or to introduce competitive enhancements and new features may make the dotmailer solution less competitive. The introduction of new solutions by competitors potentially makes the Group's solutions less attractive or easy to sell. Failure to anticipate client requirements and successfully develop new solutions or features may impact growth and retention of existing clients.	Investment in development of new solutions, partnerships with best-of breed third parties and enhancements to the platform means that the Group remains a credible provider of multi-channel marketing SaaS solutions. SaaS development requires implementation of rapidly changing technologies, adhering to standards and regulations, anticipating client requirements and frequent product enhancements. The Group has not aligned itself to a single vertical, neither B2B nor B2C, and this strategy is purposeful for risk reduction. Where competitors introduce new solutions generally targeted at verticals, the breadth of the dotmailer platform, providing solutions across sectors, still differentiates dotmailer from its competitors. It delights customers, enabling them to grow and adapt without the need to change their marketing platform. This in conjunction with, a continued emphasis in recruiting and retaining expert technical and marketing professionals, has enabled the Group to innovate within its sector. We are continuing to see email marketing and marketing automation as key drivers in the buying decision and combining these capabilities with the market driven need for leveraging data to drive decisions and personalisation remains a key focus for the Group.

Ecommerce

We have a huge client portfolio of ecommerce brands, particularly because of our Premier Technology Partnership with leading ecommerce platform Magento.

From fashion and lifestyle retailers to beauty and B2B ecommerce, we work with the likes of Barbour, Fred Perry, ELEMIS, Science in Sport, Slendertone and Dormify.



Slendertone is a world leader in providing products that improve muscle tone and body shape. It was the first company to produce an Electro-Muscle Stimulation toning belt cleared for market by the US Food and Drug Administration (FDA), and has gone on to sell over 6.1m products worldwide.

With the explosion in the popularity of wearable devices, Slendertone wanted to develop a clever way to keep customers engaged after the purchase. This led to the creation of the brand's app-driven Connect Abs product. Each user takes a unique path with the product and, as such, the brand has developed a number of re-engagement programmes to help those who've gone off track.

"The automated emails we're sending as part of our Connect Abs app, which is a component of the toning belt, are a success story for us. We've considered the different journeys our customers take once they've purchased a product. For example, what happens when they start a toning programme? And what happens when they finish a toning programme? So far, we've seen a 21% success rate in encouraging people to pick their belt back up and start toning again," said Doug Taylor, CRM Manager.

Dormify breaks the rules of traditional dorm decor with a fashion-forward approach to styling small spaces. It creates and curates exclusive products specifically designed for fashion-minded college girls, merchandising them into easy-to-shop looks to make decorating stress-free and fun.

The dotmailer for Magento connector has empowered Dormify's small yet savvy team to find clever ways to engage its customers and deliver the personalised, relevant experience they expect.

Automated campaigns and triggered programmes, which leverage everything from behavioural to transactional data, have been a winner for Dormify. Triggered emails now account for 27% of Dormify's total email revenue.

> We're able to automate aspects of the process, like generating dynamic coupon codes and shopping cart abandonment behaviour within Magento and into dotmailer.

Nicole Gardner, Dormify, COO

Other ecommerce brands we work with include:

Chief Executive's Officer's report

Milan Patel
Chief Executive Officer

Our performance is a result of continued strong organic growth, high margins and long-term recurring revenues generated from the dotmailer marketing automation product.

Introduction

I am pleased to announce that the Group delivered strong organic revenue growth of 26% which was in line with market expectations. Our earnings before interest, tax, depreciation and amortisation (EBITDA) and profit before tax were both £0.3m ahead of the consensus market forecasts.

This performance is a result of continued strong organic growth, high margins and long-term recurring revenues generated from the dotmailer marketing automation product.

Financial highlights

	30.06.16 (£m)	30.06.15 (£m)	% increase
Revenue	**26.9**	21.4	26
EBITDA	**8.0**	6.8	17
Net assets	**23.7**	18.4	29
EPS	**1.83**	1.63	12

Review of 2015/16

Revenue performance, which grew organically by 26%, was driven by strong growth from both the UK and the international markets. The UK operation grew by 21% from £18.3m to £22.0m through a combination of higher value new client wins and continually being able to monetise the advanced feature adoption by our existing clients through the ability to bolt on extensions and build their own marketing cloud. This is evidenced by revenues from functionality related monthly recurring charges now achieving over £4m, which is an increase of 106%. We continue to make progress within the international markets with revenues outside of the UK increasing by 58% to £4.9m. This remains a focus for the coming year.

The Group has added notable clients across its markets both locally and internationally in the B2B and B2C sectors. Some of these include: Vogue UK, Handelsbanken, Saville Group, Dune, Hawes and Curtis, Paul Smith, Eurostar International, Osprey Europe, Edcon, Mr Price and Sol Lingerie.

In addition, we have seen a strong performance from our professional services offerings, with an increase in revenue from £2.8m to approximately £3.1m, which delivers gross margins in the region of 60%.

During the year, the Group's average monthly spend per client rose by 29% to spend levels of circa £575 per month. This is as a result of continued focus on mid-market, enterprise clients and the Magento connector clients who spend on average of over £1,300 per month.

EMEA (Europe, Middle East & Africa)

EMEA has performed strongly, with growth in the UK of 21% driven by the upselling of advanced functionality to our existing client base and a reasonable number of new client sign-ups with a high spend level. We have also seen good traction within South Africa and Middle East, with high-value clients being signed. In building the dotmailer brand within EMEA, we have seen an increased number of leads and traffic to the site in Western Europe. Senior management, with the support of the Board of Directors, are investigating both the potential and benefit of implementing a self-serve model. This model would take advantage of website traffic we're seeing from outside of the UK, and in the markets where we do not currently operate. The end goal will be to test the market proposition in new territories with a relatively low investment.

Through the partnership with Magento and the joint marketing efforts, we are increasingly seeing partnership referrals from both system integrators and technology partners in the Nordics and Benelux regions. Encouragingly there has been an increase in the number of clients coming on board from the Netherlands. Although it is too early to tell, the dotmailer proposition has also been well received within United Arab Emirates and South Africa, where we have seen numerous client sign-ups in this financial year. Our aim is to continue to market into both these regions and assess our sales strategy in the coming period.

North America

Our US region has continued to perform well with revenues growing by 43% from US $3.0m to $4.3m although this was slightly slower than originally anticipated because of delayed progress in recruiting good talent in the US market. During the year we also hired new talent who are focused on business development, and have also invested in new hires within services; the latter is to support future growth in this region and we expect this to start to drive growth late in the 2016/17 financial year.

Additionally the pricing and bundles strategy has been adapted through the learnings we took operating within the US to be more competitive. The move away from monthly pricing based on volume of messages to the number of contacts stored is showing good signs of acceptance from prospects.

A key decision made in the year was to postpone the opening of the West Coast and mid-US office and this will be reassessed once the pricing and leadership have seen demand build. Therefore the plan going forward is to continue to sell and service these regions from our East Coast office.

We were in search of a Channel Director to build our channel strategy and take advantage of new partners and indirect relationships. However, due to the competitive environment, we decided to engage a consultancy to assist us in building a channel partner programme. The partner program has now been implemented and is being controlled by the new EVP for the North American region.

Chief Executive's Officer's report continued

Asia Pacific
We initially entered the Asia Pacific market through creating a hub from Australia and using an indirect channel model focused on sales on our Magento connector. When we entered into the Asia Pacific market, we chose to work with partners that already had a solid client base in the region. This strategy was slow to gain traction in the beginning, however relationships are now very strong. In June we took the decision, through the feedback we received to build a team which is selling directly into both Australia and the broader Asia Pacific region. Early signs have been promising. We have seen revenues of AU$0.6m in the first 12 months of establishing our Sydney office.

Connectors
Further recruitment was made into the platform engineering team combined with an increased emphasis on enhancing our Microsoft Dynamics, Salesforce and Magento connectors. As part of our continued commitment to scalability, we have put these connectors into our cloud hosting environment and plan to add additional functionality to further penetrate this opportunity.

CRM
There has been an increased uptake of our CRM connectors with new prospects starting with some form of integration to make the data synchronisation process painless. We have recently partnered with OroCRM which targets midsize B2B ecommerce. The development of the connector has started and is scheduled to be complete in early January 2017. It is expected that we will continue to devote further resources to CRM integrations in 2017.

Ecommerce
In the year, dotmailer was named the exclusive global premier partner for its Magento connector in the marketing automation space. We are proud to have our connector endorsed by Magento who are the market leaders for midmarket ecommerce solutions. However, uptake to their Magento Version 2 platform has been slower than anticipated due to ecommerce clients being risk averse and waiting for Version 2.1. This has now been released by Magento, which has started to see strong pipeline of this version in all regions across the world.

Going forward, our aim is to continue to build and develop strong relationships with Magento and its system integrators. In the period, monthly recurring revenues from this connector have continued to show strong growth of 25% year-on-year spend, with the average monthly client spend being considerably higher at £1,300 per month compared to £575 per month for the entire client base.

At the same time there has been a rise in other ecommerce platforms such as Woo Commerce, and Shopify+ within the mid-market segment, so we are evaluating the opportunity of building connectors into these platforms.

Technology, product development and support
Throughout this year we have rearchitected the dotmailer system with the use of Hybrid cloud infrastructure, which is a very innovative way of building scale. The data processing and storage is now done through using Microsoft Azure cloud technology. We currently have both North America and Europe covered, with the plan of deploying Asia Pacific early 2017. This will give dotmailer a unique selling point by having the ability to process data, in three separate continents, from a data privacy, latency and redundancy perspectives. With the move to the cloud another added advantage is that it provides burst for processing and storage during seasonal demands such as Christmas, Black Friday and Cyber Monday as opposed to having to invest further in hardware.

The tenets of our product development strategy remain 'Ease of Use' and 'Ease of Intergration'. Our highly skilled developers continue to create functionality that makes it easy for marketers to understand, deliver complex marketing processes and integrate with best-of-breed platforms they already use. The product steering team are now looking to build further functionality that matches our tenets and fits the sweet spot characteristics of our customers.

> "The dotties is one of our new initiatives, which is exclusively for dotmailer customers and partners, and is designed to celebrate email marketing excellence.
>
> Milan Patel, Chief Executive Officer, dotmailer





Photographs from the dotties email marketing award evening.

We have continued to invest in our support team as we have started to build more of an international presence, with highly skilled in-region teams, which help and support our connectors, solve complex support issues and provide round-the-clock assistance to all our customers.

People
After a six month term as Interim Chief Executive Officer following Simone's departure from the business, I have taken over this position permanently as of July 2016. Throughout the interim period we continued to deliver on the original organic strategy set by Simone at the beginning of the year.

We have also made some changes in the senior management team which looks after the day-to-day management of the business. The main area of change is within sales and operations.

The Global EVP of sales has been replaced by the Chief Marketing Officer, who is now responsible for both sales and marketing teams in the UK, to allow closer alignment and to give more transparency on the end-to-end sales funnel management. This has allowed us to create local sales leaders in every region.

Following the year end the COO departed and the Board has taken the decision to split the responsibilities amongst the senior team with customer success being a core CEO focus. This will also allow the direct reports to ensure prioritisation of customer experience in the short-term.

We believe our people are so important for our business and its future and therefore further investment will be made in the training and development of all our employees. We are also looking to appoint a CFO who will be able to mentor the Finance Director and support me with the day-to-day responsibilities.

Cash generation
The business continues to be highly cash generative, with cash at the end of the period standing at £17.3m, which represents an increase of 45% on the prior year (2015: £11.9m) after capital expenditure and product development of £2.1m. The Group continues to be debt free and maintains a healthy balance sheet. Highly efficient cash collection processes, along with over 40% of the monthly UK recurring revenue being collected by Direct Debit, have contributed to the Group's strong cash position at the year end. This is combined with the implementation of enhanced global strategies through ACH collection and a global card payment processor.

Chief Executive's Officer's report continued

Dividend policy

I am pleased to announce that the Board has conducted its review of its business plan for the next three years. This included evaluating the cash needs required for opportunities in organic growth to increase shareholder value, capital expenditure and any possible future acquisitions that could be earnings enhancing. It has decided that it will keep a progressive dividend in line with EBITDA growth, supplemented by special dividends from time to time.

Therefore, subject to approval at the AGM in December 2016, the Board proposes that the Group will pay a regular dividend of 0.43 pence per ordinary share; and in addition, for this reporting period and also proposes a special dividend of 0.41 pence per ordinary share, both to be payable at the end of January 2017.

Growth strategy

During the year we evaluated a number of potential acquisition opportunities in the email marketing space. However, as in prior years, none of the businesses evaluated would create long-term shareholder value when integration risks and migration of clients was factored in. We will continue to consider acquisition opportunities of bolt-on technologies, whitelabels of our product and other email service providers. We anticipate further organic growth by focussing on the following three key areas:

1 Geographic expansion

International expansion investment will be higher to gain wider brand awareness and market presence within EMEA, North America and Asia Pacific. We will continue to test the market appetite and proposition in these regions to understand which will generate the highest returns for our modest spend in sales and marketing. As we start to gain traction and see opportunities in any specific territory, we will adapt our model for these markets. Following this we could offer initially a self-serve product followed by or combined with a direct sales team. The infrastructure for this will be the three main hubs in the UK, US and Australia.

2 Product innovation

We will continue to diversify our revenues by integrating with new technologies within the ecommerce and CRM space. We'll also look for any other technology platforms that make it easier for our midmarket customers to achieve an increased return on investment from their marketing campaigns. To date we have been able to monetise the functionality that we build through incremental recurring functionality charges which are sold onto our new and existing customers as and when they need them. This will continue to remain a very high priority for me.

3 Strategic partnerships

We will continue to work closely with Magento on joint marketing efforts for more sign-ups to the Magento Version 2.1 and subsequently increasing the use within that community of the dotmailer platform. We have also started to develop further partnerships with PayPal to bring a one click purchase offering for our ecommerce clients.

"

dotmailer is in complete alignment with Magento's strategy of making ecommerce as easy as possible.

Mark Lavelle, CEO, Magento Commerce

Looking forward

With the combination of both a self-serve model and the direct sales team approach, we will be able to penetrate further into the EMEA, North American and Asia Pacific regions. Early indications are encouraging although as expected it will take some time to increase the brand presence in those markets. We have seen increased numbers of customers from Netherlands, South Africa, UAE and parts of Western Europe combined with the core UK market seeing growth in digital marketing budgets.

In readiness for an increased focus on international revenue growth, we now have a platform that is globally scalable both from an infrastructure and global payments solution perspective. The self-serve model will start to be deployed during the second quarter of the new financial year. By the third quarter we expect to have data processing and storage within the three central hub regions, which will be a unique selling point for prospects and clients especially in the Australian region.

After the initial venture into the Australian region, we have now put in a direct sales team and support network for them following the learnings from being there for 12 months. As a direct consequence, early signs indicate an increased number of sign-ups from customers and early pipeline build-up from the Asian markets.

The Magento Version 2.1 pipeline is accelerating globally, which is encouraging for us as we try to take advantage of both an existing client migration from Version 1 to 2, and a new ecommerce installation within the midmarket and small enterprise space. We will continue to build and develop our relationship to take advantage of this, and continue to build new strategic relationships with the technology partners we integrate with.

With the increased focus last year on building the partner programme by the use of an outside consultancy firm, we have seen good growth in the international partner network and the existing relationships will strengthen as we go into the new financial year.

The ongoing investment in CRM connectors and other advanced functionality development has helped the Group continue to increase functionality based recurring charges which should lower attrition levels in our customer base. We will continue to add new integrations with best-of-breed technology platforms that target the mid-market and small enterprise space as a high priority for the platform engineering team.

The Board will continue to assess the impact of Brexit and macro-economic uncertainty over the coming year.

In summary, our approach for 2017 will be further refinement of the partner programme and developing strategic partnerships. There will also be global expansion into the EMEA, North America and Asia Pacific regions through a self-serve model and introduction of direct sales teams. We will continue to build new integrations into more ecommerce and CRM platforms which focus on the mid-market and small enterprise space.

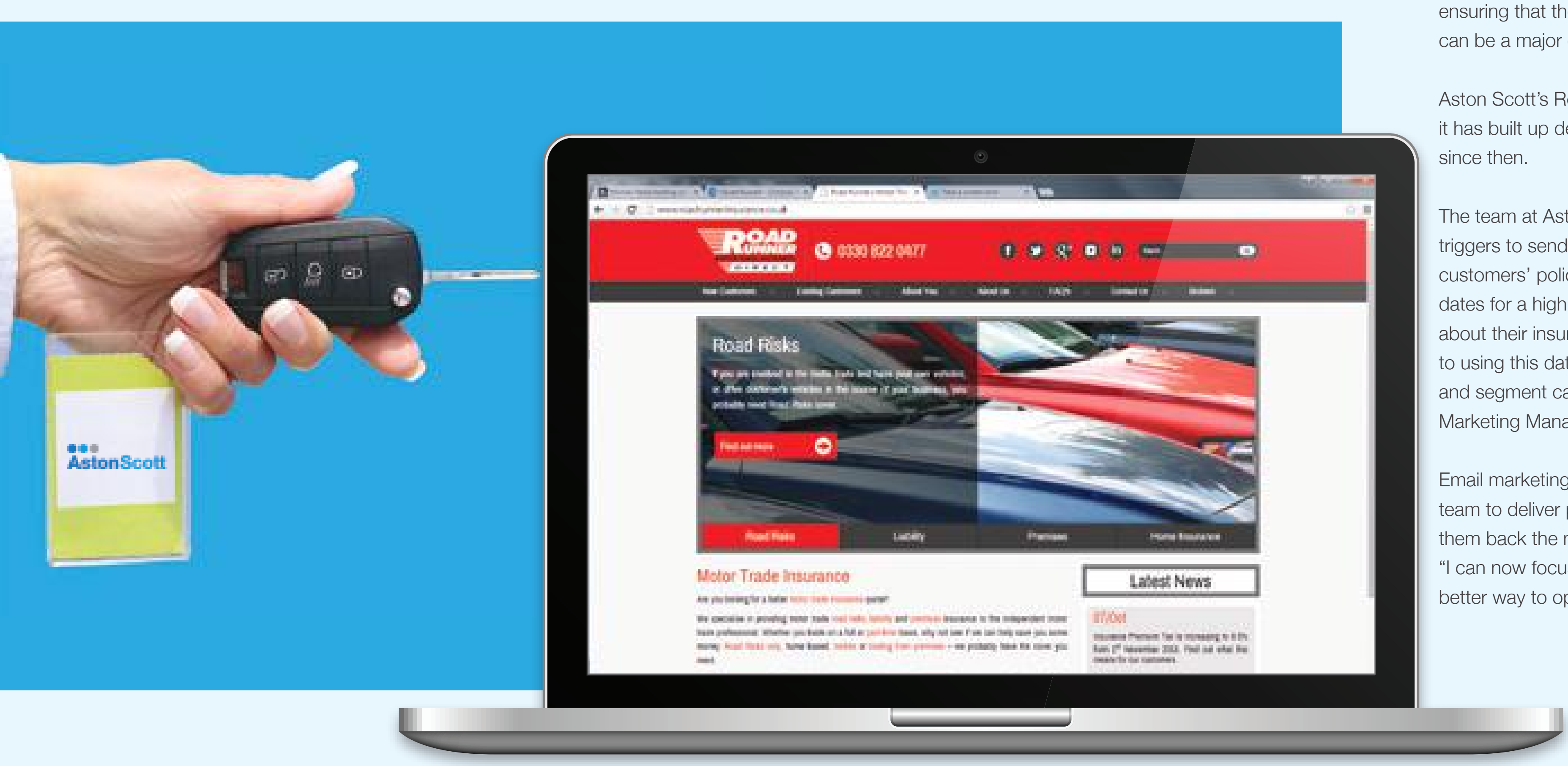
The Board believes that the dotmailer platform, with its ease-of-use proposition, deep integrations, professional services, growing list of global partners and its scalability, is well placed to continue to generate strong organic growth; not only from the markets it currently operates in today, but wider into the global markets it is looking to enter.

Milan Patel
Chief Executive Officer
18 October 2016

Finance and insurance

From retail banking and insurance to currency card providers, we offer a secure, stable platform to businesses operating in regulated industries.

In fact, in 2016 we were the first email service provider (ESP) to become EU-US Privacy Shield certified and we're proud to be the only ESP that's truly encrypted.



> As a result of introducing email automation, we've saved around 20% of our time just from not having to move information between multiple systems.

Ben Read, Group Marketing Manager, Aston Scott

AstonScott

Aston Scott is a specialist insurance broker with an enviable track record of producing innovative and unusual risk transfer solutions for niche markets.

The insurance industry gets just one chance a year to do business with clients, so keeping them aware of their broker, as well as ensuring that the renewal proposal is timely, relevant and accurate can be a major challenge.

Aston Scott's RoadRunner product was launched in 2005, and it has built up detailed data on everyone they've had contact with since then.

The team at Aston Scott uses a set of automation rules and triggers to send out renewal reminders in the weeks before customers' policies are about to expire. "We know the renewal dates for a high percentage [of customers], and a lot of detail about their insurance requirements and preferences. The key to using this data successfully in marketing is to personalise and segment campaigns," said Ben Read, Aston Scott's Group Marketing Manager.

Email marketing automation has done more than just allow the team to deliver personalized renewal content at scale - it's given them back the most precious commodity of all: time. As Ben puts it "I can now focus on outcomes rather than inputs, which is a much better way to operate."

FAIRFX

FAIRFX provides prepaid foreign currency cards which can be topped up at any time, offer low exchange rate and transaction fees, and come with the added security of Chip & PIN. However, a major problem faced by FAIRFX is that customers can sometimes get confused about how they work.

FAIRFX found that that the FAQs section of its website was generating a lot of traffic. Utilising the dotmailer WebInsight tool, FAIRFX created a series of emails that answered these questions before people asked them, reducing helpdesk calls and improving the customer experience. Now, customers automatically receive an email with tailored content relevant to their browsing habits.

Another automated program FAIRFX has used dotmailer to implement is the birthday program. Turnover generated from this campaign rose by more than 300% in just eight months, all from a simple 'Happy birthday' message.

Other finance and insurance brands we work with include:

Santander · Barclays Capital · LV= Liverpool Victoria · Invesco · Explorer Travel Insurance

Corporate social responsibility report

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.

As a company admitted to trading on AIM, dotdigital is not required to produce a corporate social responsibility report. However, the Directors believe that in the interest of transparency a brief commentary should be included.

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 are offered to allow clients to request features and vote on feature priority, which feeds directly into the development schedules for our SaaS product offerings.

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.

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's ongoing commitment to ensuring our employees continue to experience ample opportunity for learning and development. This is a blended approach of internal and external courses as well ensuring Managers create an environment and opportunity that encourages all employees to further their careers through; promotion, special projects, overseas secondments and ongoing learning.

The focus for the current delivery of formal external training includes; sales training, leadership and management, presentation and communication, client management, team working and negotiation.

The further expansion and maturity of our international operations presents additional challenges and opportunities when considering the attraction and retention of employees. As such, we have invested in ensuring our US benefits and working environments are attractive to current employees and fit-for-purpose to support our continued strategic growth plans.

Employee engagement and equal opportunity
The Group's policy and commitment is to ensure, fairness, equal opportunity and elimination of all forms of discrimination for all employees across the group.

This extends to ensuring that all recruitment and selection is completed on the basis of the job-related criteria and appointments made on the merits of the individual's abilities.

As a positive example of our commitment we are delighted to be working with our employees to create and support the dotmailer LGBT Network. The LGBT Network will be open to anyone interested in the work of the network, independently from their sexual or gender identities. Creating an environment in which all staff can be comfortable about their sexual orientation or gender identity is therefore important to maximising the effectiveness of staff.

Business partnership
dotdigital believe that strong and effective partnerships within our business community, is an important factor that promotes mutual success for our partners and suppliers. As dotdigital continues to act on its strategy of global growth, we will build upon our UK experience in; the USA, Australia and beyond.

Our constantly evolving and expanding partner network is key to developing close business relationships through informal and formal events, meet-ups and seminars. We share the advantage of our cutting edge office space to support and host an increasing number of such events. The business benefits that these close relationships provide are immediate and obvious to all involved.

Community partnership
The charity support and fundraising activities driven by our employees continues to grow and develop. Either as individuals or as part of the dotCommunity & dotFoundation networks, our employees have supported a number of charities raising £4,300 for Macmillan Cancer Research UK, NSPCC, Breck Foundation, Mind, Surviving Antidepressants, The Eve Appeal & Breast Cancer.

In addition, dotmailer has continued to develop its community links with Croydon. A current focus for this work is to directly support Croydon Council's 'Croydon Good Employer' Charter by co-chairing a steering group and adding the weight of, dotmailer, a well-respected Croydon business to the charter initiative.

Environmental partnership
Our tried and tested adoption of reduce, reuse, recycle runs through all our offices. As a digital business we continue to strive to reduce printing and waste and increase the levels of recycling wherever possible.

Our office hot-desking arrangements and flexible approach to appropriate telecommuting ensure we avoid unnecessary travel whenever possible.

Ensuring we work with datacentre partners that set industry standards in energy efficiency ensures we minimize our energy footprint.

Suppliers
As a part of the Group's 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 Group for many years and we consider our key suppliers as partners. The Group aims to work with partners and suppliers with similar ethical standards and values. At dotdigital we understand the importance of fair and equal treatment, and particularly drive towards transparent and fair payment terms and processes.

Risks
The Board is aware 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.

Strategic report
The strategic report was approved by a duly authorised committee of the Board of Directors on 18 October 2016 and signed on its behalf by:

Milan Patel
Chief Executive Officer
18 October 2016

Board of Directors

Milan Patel, FCCA ACSI

Chief Executive Officer,
Chief Finance Officer,
Company Secretary

Milan joined the Company in 2007 and was appointed Group Company Secretary in 2009, CFO in 2015 and CEO in 2016.

Milan is a fellow member of the Association of Chartered Certified Accountants, an associate member of the Chartered Institute of Securities and Investments.

He has been responsible for the 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. He also brings substantial strategic financial experience to the Board.

As well as financial accumen he has developed a broad range of operational competencies, a grasp of strategic objectives, clear leadership and strong decisive management skills.

Simon Bird

Co-Founder

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 in helping create websites, intranets, extranets, content management systems and other online solutions.

He is prominent on the tech entrepreneur scene and heavily involved in the selection, recruitment and retention of dotmailer's technical partners.

Ian "Tink" Taylor

Co-Founder

Tink Taylor has 20 years' experience in digital marketing in both the UK and now the US. Since 2006 he has been an influential member of the UK Direct Marketing Association's Email Marketing Council and also a member of the Internet Advertising Bureau's e-communications council.

In 2014, Tink was elected as Advisory Committee Member of the Board of the US Direct Marketing Association's Email Experience Council. He constantly strives to help individual organisations, and the industry as a whole, to develop and progress.

Frank Beechinor-Collins

Non-Executive Chairman

Frank Beechinor, was for 11 years, CEO and co-founder of One Click HR, an AIM quoted IT/Human Resources business which operated in the UK and North America and had around 200 employees. Frank oversaw the successful sale of the business to ADP, a $4bn NYSE listed company, for US $25m.

Frank brings a great deal of corporate experience and a strong track record in M&A to the Board, gained over 25 years of working for and running public and private companies. Frank is also currently a Non-Executive Chairman of Redstone Connect Plc an AIM-listed business.

Peter Simmonds, FCCA

Non-Executive Director

Peter Simmonds was Chief Executive Officer of dotmailer and then dotdigital Group Plc for eight years from 2007 to 2015. Following his retirement in June 2015 he stepped down into the role of Non-Executive Director. Peter commenced his career in 1976 as a trainee accountant with Unilever Plc and has nearly 40 years of commercial experience mostly at senior management and board level, principally in the areas of software, banking, insurance and outsourcing.

He has considerable business entrepreneurial experience having been involved at start up or early stage of a number of companies in various industry sectors. Peter also has experience of business acquisition and post-acquisition integration. Peter currently also holds board positions in the role of Chairman at Cloudcall Group plc and IS Solutions plc (both AIM-quoted companies). In July 2016 he was appointed as a Non-Executive Director of Eckoh plc and on 6 October 2016 he was appointed as a board member of The Quoted Companies Alliance.

Richard Kellett-Clarke, FCA

Non-Executive Director

Mr Richard Kellett-Clarke brings to the Board over 25 years of management experience in the turnround 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 was part of the team as CFO which brought Pickwick Group PLC to the main market and Brady Plc to AIM. He is currently the CEO of Idox Plc an AIM listed specialist software and services business.

Corporate governance report

The Board has sought to comply with a number of provisions of the 2014 UK Corporate Governance Code ("the Code") in so far as it considers them to be appropriate for a company of their size and nature. They make no statement of compliance with the Code overall and do not 'explain' in detail any aspect of the Code with which the Group does not comply.

Compliance statement

(a) Directors

The details of the Group's Board, together with the Audit and Remuneration Committee, are set out on pages 33 and 34.

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 three Executive Directors, two independent Non-Executive Directors and an independent Non-Executive Chairman.

The current composition of the Remuneration Committee and the Audit Committee is shown on pages 33 and 34.

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

The service contracts of the Executive Directors runs for one year and terminable by six months' notice, by either party to expire at the end of that year or any time thereafter.

(b) Directors' remuneration

As set out on pages 34 and 35 the remuneration of the Executive Directors is determined by the Remuneration Committee, whilst 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 clear 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 36 to 37 to present a balanced and understandable assessment of the Group's position and prospects. The Directors' responsibility for the financial statements is described on page 37.

(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 30 June 2016 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, Peter Simmonds and is chaired by Richard Kellett-Clarke (FCA). 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 Directors 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 review of the annual accounts and announcements, accounting policies, compliance with accounting standards, the appointment and fees of auditors and such other 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 Group and any other formal announcements relating to the Group'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, Peter Simmonds 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 George Kasparian.

Main activities of the Audit Committee

At its meeting on 11 October 2016 the Committee reviewed the Group's preliminary announcement of its results for the financial year 30 June 2016 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 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 30 June 2017. The Committee concluded that these budgets were both prudent and realistic in the context of the Group's ambitions.

Remuneration Committee report

The Remuneration Committee

The Group discloses the following information on Directors' remuneration mindful of Rule 19 of the AIM rules and the fact that as the Company is quoted on AIM, it is not required to comply with the Main Market UK Listing Rules or those aspects of the Companies Act to listed companies regarding the disclosure of Directors' remuneration.

The Committee comprises Richard Kellett-Clarke (Chairman) and Frank Beechinor-Collins. The Secretary to the committee is Milan Patel, Chief Executive Officer, Chief Financial Officer and 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

- Aligned to total reward structure for all employees;
- Provided on a market-competitive basis.

Annual Bonus Scheme

- Group 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

The Executive Directors each entered into a service contract with the Group. 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 Enterprise Management Incentive (EMI), an approved share option scheme 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 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-Clarke
Chairman of Remuneration Committee

	12-month period to 30.06.16							
Executive Directors	Salary/Fees £'000	Benefits £'000	Bonus £'000	Ex-gratia payment £'000	Pension £'000	Share-based payment £'000	Total £'000	Number of outstanding options
I Taylor	120	18	–	–	12	–	150	–
S Bird	54	3	–	–	13	–	70	–
M Patel	205	9	125	–	20	–	359	–
S J Barratt	183	3	–	137	–	114	437	423,409
	562	**33**	**125**	**137**	**45**	**114**	**1,016**	**423,409**

	12-month period to 30.06.16						
Non-Executive Directors	Salary/Fees £'000	Benefits £'000	Bonus £'000	Pension £'000	Share-based payment £'000	Total £'000	Number of outstanding options
F Beechinor-Collins	39	–	–	1	–	40	–
R Kellett-Clarke	33	–	–	–	–	33	–
P Simmonds	65	1	–	–	–	66	–
	137	**1**	**–**	**1**	**–**	**139**	

	12-month period to 30.06.15						
Executive Directors	Salary/Fees £'000	Benefits £'000	Bonus £'000	Pension £'000	Share-based payment £'000	Total £'000	Number of outstanding options
P Simmonds	175	8	75	18	–	276	–
I Taylor	125	8	25	12	–	170	–
S Bird	120	10	25	14	–	169	–
M Patel	159	11	75	15	20	280	1,427,397
S J Barratt	77	–	–	–	–	77	–
	656	**37**	**200**	**59**	**20**	**972**	**1,427,397**

Non-Executive Directors	Salary/Fees £'000	Benefits £'000	Bonus £'000	Pension £'000	Share-based payment £'000	Total £'000	Number of outstanding options
F Beechinor-Collins	35	–	–	1	–	36	
R Kellett-Clarke	30	–	–	–	–	30	
S J Barratt	44	–	–	–	–	44	
	109	**–**	**–**	**1**	**–**	**110**	

Directors' interests

The respective interests, all of which are beneficial, in the shares of the Company for the members of the Board at the year end are stated below:

	No of shares held	% Holding
I Taylor	36,776,667	12.48
S Bird	17,558,996	5.96
P Simmonds*	3,991,470	1.35
M Patel	1,575,927	0.53
S J Barratt	463,000	0.16
F Beechinor-Collins**	320,000	0.11
R Kellett-Clarke	199,194	0.07
	60,885,254	**20.65**

* 2,977,972 of Peter Simmonds holdings/voting rights have been held by Frank Nominees Limited which 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 199,194 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 Directors	Grant date	No. share options granted	Option price (pence)	Date first exercisable	Expiry date
S J Barratt	20/06/16	423,409	£Nil	20/06/16	20/12/16

Report of the Directors

The Directors present their report with the financial statements of the Company and the Group for the year ended 30 June 2016. Information relating to principal activity, review of business, key performance indicators and future outlook is included within the strategic report.

Principal activity

The principal activity of the Group in the year under review was that of providing intuitive software as a service ("SaaS") and managed services to digital marketing professionals.

Review of business

During the year the Group has shown significant growth from continuing operations in customer numbers, sales and profits. Revenues grew from £21.4m in the year ended June 2015 to £26.9m for the year ended June 2016, an increase of 26%.

Pre-tax profit grew from £5.2m in 12 months to June 2015 to £6.2m for the year ended June 2016, an increase of 19%.

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 from the Group are:

	2016 (£m)	2015 (£m)	% increase
Revenue	26.9	21.4	26%
EBITDA	8.0	6.8	17%
Volume of sends (m)	8,640	5,760	50%

Dividends

The Board proposes a dividend payment of £2,476,000 comprising an ordinary dividend of 0.43p and a special dividend of 0.41p per ordinary share (2015: £1,041,000 0.36p per ordinary share) to be distributed to shareholders in respect of the Group's reported performance. The Board's dividend policy will be reviewed annually in line with ensuring that there is adequate cash within the business to maintain a high-growth strategy.

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 30 June 2016 are as follows:

	30.6.16		30.6.15	
Directors	Number of shares held	Percentage shareholding %	Number of shares held	Percentage shareholding %
I Taylor	36,776,667	12.48	39,276,667	13.69
S Bird	17,558,996	5.96	31,276,667	10.90
P Simmonds	3,991,470*	1.35	7,073,841	2.46
M Patel	1,575,927	0.53	1,048,530	0.37
S J Barratt	463,000	0.16	377,500	0.13
R Kellett-Clarke	320,000	0.11	320,000	0.11
F Beechinor-Collins	199,194**	0.07	299,194	0.10

*Frank Nominees Limited holds 2,977,972 shares in respect of Peter Simmonds holding/voting rights acting as nominee for Alliance Trust 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 199,194 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.

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 30 June 2016 are as follows:

Executive Directors	30.6.16 Number of options held	30.6.15 Number of options held
M Patel	–	1,427,397
S J Barratt	423,409	–

Substantial interests

On 10 October 2016, 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:

Shareholder	Number of shares held	Percentage shareholding %
I Taylor	36,776,667	12.48
Lion Trust Asset Management	36,093,503	12.24
S Bird	17,558,996	5.96
Slater Investments Ltd	16,770,000	5.69
JO Hambro Capital Management	14,895,000	5.05
Herald Investment Management	13,490,804	4.58
Franklin Templeton Fund Management	13,000,000	4.41
Alliance Global Investors GmbH	9,608,100	3.26
NFU Mutual	9,473,000	3.21
Polar Capital LLP	9,470,067	3.21
Hargreave Hale Ltd	9,250,000	3.14

Future outlook

The Group provides email and cross-channel marketing technology and services. Each of these areas has shown market growth significantly above that of the UK economy. The Board believes that our widespread brand recognition and strong product will continue to present opportunities to expand and diversify profitability in the coming year.

Directors

The Directors shown below have held office during the whole of the period from 1 July 2015 to the date of this report.

S Bird
P A Simmonds
I Taylor
R Kellett-Clarke
F Beechinor-Collins
M Patel
S J Barratt (resigned 20/07/16)

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.

Product development

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

Going concern

After making appropriate enquiries, 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 in 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.

Listing

The Group's ordinary shares have been traded on London Alternative Investment Market (AIM) since 29 March 2011. N+1 Singer are the Group's nominated adviser and together with Finncap are the joint brokers. The closing mid-market share price at 30 June 2016 was 40.50p (2015: 34.25p).

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 judgments and accounting estimates that are reasonable and prudent;
- state whether the Group and Parent Company financial statements have been prepared in accordance with IFRSs as adopted by the European Union subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 reappointment at the forthcoming Annual General Meeting.

On behalf of the Board

Milan Patel
Chief Executive Officer
18 October 2016

Report of the independent auditor

We have audited the financial statements of dotdigital Group Plc for the year ended 30 June 2016, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit 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 Officer's report, Corporate Social Responsibility report, Corporate Governance report, Audit Committee report, Remuneration Committee report and Directors' report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- Give a true and fair view of the state of the Group's and the Parent Company's affairs as at 30 June 2016 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 and Strategic report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

Jonathan Isaacs
Senior Statutory Auditor

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

18 October 2016

Financial statements

Contents

Consolidated income statement
For the year ended 30 June 2016

	Notes	30.6.16 £'000	30.6.15 £'000
Continuing operations			
Revenue		**26,926**	**21,366**
Cost of sales		(3,395)	(2,292)
Gross profit		**23,531**	**19,074**
Administrative expenses	6	(17,367)	(13,858)
Operating profit		**6,164**	**5,216**
Finance income	5	51	27
Profit before income tax	6	**6,215**	**5,243**
Income tax expense	7	(847)	(587)
Profit for the year from continuing operations		**5,368**	**4,656**
Profit for the year attributable to the owners of the parent		5,368	4,656
Earnings per share from continuing operations (pence per share)			
Basic	10	1.83	1.63
Diluted	10	1.83	1.61

Consolidated statement of comprehensive income
For the year ended 30 June 2016

	Notes	30.6.16 £'000	30.6.15 £'000
Profit for the year		**5,368**	**4,656**
Other comprehensive income			
Items that may be subsequently reclassified to profit and loss:			
Exchange differences on translating foreign operations		**11**	**3**
Total comprehensive income attributable to:			
Owners of the parent		**5,379**	**4,659**
Total comprehensive income for the year			
Comprehensive income from continuing operations		**5,379**	**4,659**

Consolidated statement of financial position
For the year ended 30 June 2016

	Notes	30.6.16 £'000	30.6.15 £'000
Assets			
Non-current assets			
Goodwill	11	609	609
Intangible assets	12	3,684	3,444
Property, plant and equipment	13	1,142	1,097
		5,435	**5,150**
Current assets			
Trade and other receivables	15	6,206	5,328
Cash and cash equivalents	16	17,313	11,932
		23,519	17,260
Total assets		**28,954**	**22,410**
Equity attributable to the owners of the parent			
Called up share capital	17	1,473	1,435
Share premium	18	6,138	5,382
Reverse acquisition reserve	18	(4,695)	(4,695)
Other reserves	18	174	(25)
Retranslation reserve	18	8	(3)
Retained earnings	18	20,611	16,297
Total equity		**23,709**	**18,391**
Liabilities			
Non-current liabilities			
Deferred tax	22	716	383
Current liabilities			
Trade and other payables	19	4,151	3,437
Current tax payable		378	199
		4,529	3,636
Total liabilities		**5,245**	**4,019**
Total equity & liabilities		**28,954**	**22,410**

The financial statements were approved and authorised for issue by the Board of Directors on 18 October 2016 and were signed on its behalf by

Milan Patel
Director
Company registration number: 06289659 (England and Wales)

Company statement of financial position
For the year ended 30 June 2016

	Notes	30.6.16 £'000	30.6.15 £'000
Assets			
Non-current assets			
Investments	14	5,186	5,186
		5,186	**5,186**
Current assets			
Trade and other receivables	15	7,102	3,124
Cash and cash equivalents	16	639	166
		7,741	3,290
Total assets		**12,927**	**8,476**
Equity attributable to the owners of the parent			
Called up share capital	17	1,473	1,435
Share premium	18	6,138	5,382
Other reserves	18	174	(25)
Retained earnings	18	5,080	1,534
Total equity		**12,865**	**8,326**
Liabilities			
Current liabilities			
Trade and other payables	19	62	150
Total liabilities		**62**	**150**
Total equity & liabilities		**12,927**	**8,476**

The financial statements were approved and authorised for issue by the Board of Directors on 18 October 2016 and were signed on its behalf by

Milan Patel
Director
Company registration number: 06289659 (England and Wales)

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

	Called up share capital £'000	Retained earnings £'000	Share premium £'000
Balance as at 1 July 2014	**1,414**	**12,211**	**5,147**
Issue of share capital	21	–	235
Share repurchase	–	–	–
Dividends	–	(570)	–
Share-based payment	–	–	–
Transactions with owners	21	(570)	235
Profit for the year	–	4,656	–
Other comprehensive income	–	–	–
Total comprehensive income	–	4,656	–
Balance as at 30 June 2015	**1,435**	**16,297**	**5,382**
Issue of share capital	38	–	756
Dividends	–	(1,054)	–
Share-based payment	–	–	–
Transactions with owners	38	(1,054)	756
Profit for the year	–	5,368	–
Other comprehensive income	–	–	–
Total comprehensive income	–	5,368	–
Balance as at 30 June 2016	**1,473**	**20,611**	**6,138**

	Retranslation reserve £'000	Reverse acquisition reserve £'000	Other reserves £'000	Total equity £'000
Balance as at 1 July 2014	**(6)**	**(4,695)**	**82**	**14,153**
Issue of share capital	–	–	–	256
Share repurchase	–	–	(213)	(213)
Dividends	–	–	–	(570)
Share-based payments	–	–	106	106
Transactions with owners	–	–	(107)	(421)
Profit for the year	–	–	–	4,659
Other comprehensive income	3	–	–	3
Total comprehensive income	3	–	–	4,659
Balance as at 30 June 2015	**(3)**	**(4,695)**	**(25)**	**18,391**
Issue of share capital	–	–	–	794
Dividends	–	–	–	(1,054)
Share-based payments	–	–	199	199
Transactions with owners	–	–	199	(61)
Profit for the year	–	–	–	5,368
Other comprehensive income	11	–	–	11
Total comprehensive income	11	–	–	5,379
Balance as at 30 June 2016	**8**	**(4,695)**	**174**	**23,709**

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

Retained earnings represents the cumulative earnings of the Group attributable to equity shareholders.

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

Retranslation reserve relates to the retranslation of foreign subsidiaries into the functional currency of the Group.

The reverse acquisition reserve relates to the adjustment required to account for the reverse acquisition in accordance with International Financial Reporting Standards.

Other reserves relates to the charge for the share-based payment in accordance with International Financial Reporting Standard 2 and shares repurchased in the year classified as treasury shares.

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

	Called up share capital £'000	Retained earnings £'000	Share premium £'000	Other reserves £'000	Total equity £'000
Balance as at 1 July 2014	**1,414**	**2,423**	**5,147**	**82**	**9,066**
Issue of share capital	21	–	235	–	256
Dividends	–	(570)	–	–	(570)
Share repurchase	–	–	–	(213)	(213)
Share-based payment	–	–	–	106	106
Transactions with owners	21	(570)	235	(107)	(421)
Loss for the year	–	(319)	–	–	(319)
Total comprehensive income	–	(319)	–	–	(319)
Balance as at 30 June 2015	**1,435**	**1,534**	**5,382**	**(25)**	**8,326**
Issue of share capital	38	–	756	–	794
Dividends	–	(1,054)	–	–	(1,054)
Share-based payment	–	–	–	199	199
Transactions with owners	38	(1,054)	756	199	(61)
Profit for the year	–	4,600	–	–	4,600
Total comprehensive income	–	4,600	–	–	4,600
Balance as at 30 June 2016	**1,473**	**5,080**	**6,138**	**174**	**12,865**

- Share capital is the amount subscribed for shares at nominal value.
- Retained earnings represents the cumulative earnings of the Company attributable to equity shareholders.
- Share premium represents the excess of the amount subscribed for share capital over the nominal value of the net share issue expenses.
- Other reserves relates to the charge for the share-based payment in accordance with International Financial Reporting Standard 2 and shares repurchased in the year classified as treasury shares.

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

	Notes	30.6.16 £'000	30.6.15 £'000
Cash flows from operating activities			
Cash generated from operations	27	7,997	5,667
Tax paid		(335)	(263)
Net cash generated from operating activities		**7,662**	**5,404**
Cash flows from investing activities			
Purchase of intangible fixed assets		(1,570)	(1,612)
Purchase of tangible fixed assets		(502)	(667)
Sale of tangible fixed assets		–	1
Interest received		51	27
Net cash flows used in investing activities		**(2,021)**	**(2,251)**
Cash flows from financing activities			
Equity dividends paid		(1,054)	(570)
Share issue		794	256
Share repurchase		–	(213)
Net cash flows (used)/from financing activities		**(260)**	**(527)**
Increase in cash and cash equivalents		**5,381**	**2,626**
Cash and cash equivalents at beginning of year	28	11,932	9,306
Cash and cash equivalents at end of year	28	**17,313**	**11,932**

Company statement of cash flows
For the year ended 30 June 2016

	Notes	30.6.16 £'000	30.6.15 £'000
Cash flows from operating activities			
Cash generated from operations	27	733	584
		733	**584**
Net cash generated from operating activities			
Cash flows from financing activities			
Equity dividends paid		(1,054)	(570)
Share issue		794	256
Share repurchase		–	(213)
Net cash flows (used)/from financing activities		**(260)**	**(527)**
Increase in cash and cash equivalents		**473**	**57**
Cash and cash equivalents at beginning of year	28	166	109
Cash and cash equivalents at end of year	28	**639**	**166**

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 36.

2. Accounting policies

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and those parts of 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.

New and amended standards adopted by the Group

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 July 2015 that would be expected to have a material impact on the Group.

Standards, interpretations and amendments to published standards that are not yet effective

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 July 2015 and have not been early adopted:

Reference	Title	Summary	Application date of standard	Application date of Group
IFRS 2	Share-based payment	Classification and measurement of share-based payment transactions	Periods beginning on or after 1 January 2018	1 July 2018
IFRS 7	Financial instruments: disclosures	Deferral of mandatory effective date of IFRS 9 and amendments to transition disclosures	Periods beginning on or after 1 January 2015	1 July 2015
IFRS 9	Financial instruments	Finalised version, incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition	Periods beginning on or after 1 January 2018	1 July 2018
IFRS 10	Consolidated financial statements	Amendments regarding the application of the consolidation exceptions	Periods beginning on or after 1 January 2016	1 July 2016
IFRS 12	Disclosure of interest in other entities	Amendments regarding the application of the consolidation exceptions	Periods beginning on or after 1 January 2016	1 July 2016
IFRS 14	Regulatory deferral accounts	Original issue of standard	Periods beginning on or after 1 January 2016	1 July 2016
IFRS 15	Revenue from contracts with customers	Original issue of standard	Periods beginning on or after 1 January 2018	1 July 2018
IFRS 16	Leases	Original issue of standard	Periods beginning on or after 1 January 2019	
IAS 1	Presentation of financial statements	Amendments resulting from the disclosure initiative	Periods beginning on or after 1 January 2016	1 July 2016
IAS 7	Statement of cash flows	Disclosure initiatives	Periods beginning on or after 1 January 2017	1 July 2017
IAS 12	Income taxes	Amendments regarding the recognition of deferred tax assets for unrealised losses	Periods beginning on or after 1 January 2017	1 July 2017
IAS 16	Property, plant and equipment	Amendments regarding the clarification of acceptable methods of depreciation and amortisation	Periods beginning on or after 1 January 2016	1 July 2016
IAS 19	Employee benefits	Amendments resulting from September 2014 Annual Improvements to IFRSs	Periods beginning on or after 1 January 2016	1 July 2016
IAS 27	Separate financial statements	Amendments reinstating the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements	Periods beginning on or after 1 January 2016	1 July 2016
IAS 38	Intangible assets	Amendments regarding the clarification of acceptable methods of depreciation and amortisation	Periods beginning on or after 1 January 2016	1 July 2016

The Directors anticipate that the adoption of these standards and the interpretations in future periods will have no material impact on the financial statements of the Group.

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

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 principal 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 30 April 2008. However, in accordance with IFRS 3 'Business combinations' the equity structure appearing in the consolidated financial statements reflects the equity structure of the legal parent dotdigital Group 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 prepared on the same basis.

The following accounting treatment has been applied in respect of the acquisition of dotdigital Group Plc:

- The assets and liabilities of dotdigital Group 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. Intercompany transactions, balances and unrealised gains on transactions between Group companies have been eliminated on consolidation.

As a result of applying reverse acquisition accounting since 30 January 2009, 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 its estimates on historical results, taking into 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.

Going concern

The Directors, at the time of approving the financial statements, have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Directors' report.

Operating profit

Operating profit is stated after charging operating expenses but before finance costs.

Dividends

Final dividend distributions to the Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders while interim dividends distributions are recognised in the period in which the dividends are declared and paid.

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.

Investments in subsidiaries

Investments are held as non-current assets at cost less any provision for impairment. Where the recoverable amount of the investment is less than the carrying amount, impairment is recognised.

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 four to five 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 technically viable product, the related expenditure is separately 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 and, until economic benefit can be received and recognised, this expense is taken to the income statement and useful lives are reviewed on an annual basis. Amortisation is charged from the point when the asset is available for use.

  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 their useful life.

  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 for 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 assets;
  - 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.

- *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.

Property, plant and equipment

Tangible non-current assets are stated at historical cost less accumulated 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 is based on the cost of the 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:	over the term of the lease
Fixtures and fittings:	25% on cost
Computer equipment:	25% on cost

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

Capital risk management

The Group manages its 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 equivalents and equity attributable to the owners of the parent as disclosed in the statement of changes in equity.

Taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax

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 the related deferred income asset is realised or deferred income tax liability is settled.

Operating leases

Rent payable under operating leases is not recognised in the Group's statement of financial position. Such costs are expensed 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.

Financial instruments

Financial assets and financial liabilities are recognised on the statement of financial position when an entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the income statement.

- *Financial assets*

  The Group's accounting policies for financial assets are set out below.

  Management determine the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and, where allowed and appropriate, revaluate this designation at every reporting date.

  All financial assets are recognised on a trade date when, and only when, the Group becomes a party to the contractual provisions of an instrument. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except for those finance assets classified as at fair value through profit or loss ('FVTPL'), which are initially measured at fair value.

  Financial assets are classified into the following specified categories: financial assets at FVTPL, 'held-to-maturity' investments, 'available for sale' (AFS) financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of recognition.

  Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

  At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

  Loans and receivables (including trade receivables, prepayments, deposits and other receivables, cash and bank balances) are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. At each reporting date subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in the statement of comprehensive income when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

- *Cash and cash equivalents*

  Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

- *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.

- *Financial liabilities and equity*

  Financial liabilities and equity are recognised on the Group's statement of financial position when the Group becomes a party to a contractual provision of an instrument. Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of transaction costs.

  The Group's financial liabilities include trade payables and accrued liabilities.

- *Trade payables*

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

Foreign currency risk

Currency risk is the risk that the holding of foreign currencies will affect the Group's position as a result of a change in foreign currency exchange rates. The Group has no significant foreign currency risk as most of the Group's financial assets and liabilities are denominated in functional currencies of relevant Group entities. Accordingly, no quantitative market risk disclosures or sensitivity analysis for currency risks have been prepared.

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

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting exchange differences are recognised in other comprehensive income.

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 IFRS 3 "Business combinations".

Other reserves relate to the charge for share-based payments in accordance with IFRS 2 "Share-based payments".

Share-based payments

For equity-settled share-based payment transactions the Group, in accordance with IFRS 2 "Share-based payments" measures 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 vest immediately, the expense is recognised in full.

Functional currency translation

- *Functional and presentation currency*

  Items included in the financial statements of 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 is this currency the financial statements are presented in.

- *Transaction and balances*

  Foreign currency transactions are translated into the functional 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

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments as identified by the Board of Directors.

Critical accounting adjustments

The Group makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed overleaf.

Judgments

(a) *Capitalisation of development costs*

Our business model is underpinned by our email and cross-channel marketing automation platform, dotmailer. Internal activities are continually undertaken to enhance and maintain the product in a bid to stay ahead of our competition. Management review the work of developers during the period and make the following judgments:

- Internal work relating to product development is reviewed against IAS 38 criteria and will be capitalised if management feel the criteria have been met.
- Internal work relating to the maintenance of existing products is expensed to the income statement and accounted for in payroll costs.

Estimates and assumptions

(a) *Impairment testing of goodwill*

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 flow forecasts which have been discounted at 10%. 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.

Further details on the estimates and assumptions we make in our annual impairment testing of goodwill are included in note 11 to the financial statements. At the period end, based on the assumptions, there was no indication of impairment to the carrying value of goodwill.

(b) *Share-based compensation*

Key management believe that there will not be only one acceptable choice for estimating the fair value of share-based payment arrangements. The judgments and estimates that management apply in determination of the share-based compensation are summarised below:

- Selection of a valuation model
- Making assumptions used in determining the variables used in a valuation model

  i. expected life

  ii. expected volatility

  iii. expected dividend yield

  iv. interest rate.

Further detail on the estimates and assumptions we make in our share-based compensation are included in note 26 to the financial statements. The charge made to income statement for period is also disclosed here.

(c) *Depreciation and amortisation*

The Group depreciates short leasehold, fixtures and fittings, computer equipment and amortises computer software, internally generated development costs and domain names on a straight-line method over the estimated useful lives. The estimated useful lives reflect the Directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's short leasehold fixtures and fittings, computer equipment, computer software, internally generated development costs and domain names.

(d) *Bad debt provision*

We perform ongoing credit evaluations of our customers and grant credit based upon past payment history, financial condition and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful accounts is established based upon specific situations and overall industry conditions. Hence the provision is maintained for potential credit losses based upon management's assessment of the expected collectability of all accounts receivable. In making this assessment, management take into consideration (i) any circumstances of which we are aware regarding a customer's inability to meet its financial obligations and (ii) our judgments as to potential prevailing economic conditions in the industry and their potential impact on the Group's customers.

3. Segmental reporting

The Group's single line of business is the provision of web-based marketing services. The chief operating decision-maker considers the Group's only reportable segment to be by geographical location, this being UK, US and rest of the world ("RoW") operations as shown below:

	30.6.2016			
	UK £'000	US £'000	RoW £'000	Total £'000
Income statement				
Revenue	22,056	3,022	1,848	26,926
Gross profit	19,298	2,565	1,668	23,531
Profit before income tax	4,244	504	1,467	6,215
Total comprehensive income attributable to the owners of the parent	**3,398**	**539**	**1,442**	**5,379**
Financial position				
Total assets	27,410	1,014	530	28,954
Net current assets	17,791	756	443	18,990

Revenue from external customers is attributed to the geographical segments noted above based on the customers' location. There were no customers who accounted for more than 10% of revenue (2015: None).

	30.6.2015			
	UK £'000	US £'000	RoW £'000	Total £'000
Income statement				
Revenue	18,274	1,860	1,232	21,366
Gross profit	16,676	1,602	796	19,074
Profit before income tax	3,476	971	796	5,243
Total comprehensive income attributable to the owners of the parent	**2,895**	**968**	**796**	**4,659**
Financial position				
Total assets	21,591	819	–	22,410
Net current assets	12,964	660	–	13,624

In the year ending 30 June 2016, revenue from the US has been disclosed separately as it has exceeded 10% of the Group's revenue. The comparatives have thus been re-stated.

4. Employees and Directors

	30.6.16 £'000	30.6.15 £'000
Wages and salaries	9,667	7,711
Social security costs	1,036	871
Other pension costs	243	221
	10,946	**8,803**

The average monthly number of employees during the year is as follows

	30.6.16	30.6.15
Directors	7	7
Sales and Marketing	100	84
SEO and Product Developers	43	48
Administration	54	47
	204	**186**

During the year the Group also capitalised staff-related costs of £1,338,915 (2015: £1,549,066) in relation to internally generated development costs.

5. Net finance income

	30.6.16 £'000	30.6.15 £'000
Finance income:		
Deposit account interest	51	27
	51	**27**

6. Operating profit before exceptional items

Costs by nature

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

	30.6.16 £'000	30.6.15 £'000
Direct marketing	1,984	1,516
Outsourcing	172	415
Other costs	1,239	361
Total cost of sales	**3,395**	**2,292**

	30.6.16 £'000	30.6.15 £'000
Staff-related costs (inc Directors emoluments) – note 4	10,946	8,803
Operating leases: Land and buildings	865	834
Operating leases: Other	48	44
Audit remuneration	37	38
Amortisation of intangibles	1,330	1,159
Depreciation charge	450	397
Legal, professional and consultancy fees	289	417
Computer expenditure	1,236	828
Bad debts	801	103
Foreign exchange losses	(246)	61
Travelling	471	351
Office running	174	217
Other costs	966	606
Total administration costs	**17,367**	**13,858**

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

	30.6.16 £'000	30.6.15 £'000
Fees payable to the Company's auditor for the audit of Parent Company and consolidated financial statements	8	7
Fees payable to the Company's auditor for other services		
– audit of Company subsidiaries	25	27
– non-audit fees: Tax and review of interim accounts	4	4
	37	**38**

7. Income tax expense

Analysis of the tax charge from continuing operations:

	30.6.16 £'000	30.6.15 £'000
Current tax on profits for the year	514	262
Deferred tax on origination and reversal of timing differences	333	325
	847	**587**

Factors affecting the tax charge:	30.6.16 £'000	30.6.15 £'000
Profit on ordinary activities before tax	6,215	5,243
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20.75% (2014: 22.50%)	1,243	1,088
Effects of:		
Expenses not deductible	164	20
Research and development enhanced claim	(670)	(747)
Expenditure permitted on exercising options	(465)	(238)
Overseas tax (profits)/losses	(15)	(46)
Capital allowances in excess of depreciation	257	185
Total income tax	**514**	**262**

Deferred tax was calculated using the rate 19.75% (2015: 20%). For further details on deferred tax see note 22.

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 before exceptional items for the financial year was £4,601,353 (2015: £318,852).

9. Dividends

Amounts recognised as distributions to equity holders in the period.

	30.6.16 £'000	30.6.15 £'000
Final dividend for year end 30 June 2016 of 0.357p (2015: 0.2p) per share	1,054	570
Proposed dividend for the year end 30 June 2016 of 0.84p (2015: 0.36p) per share	**2,476**	**1,041**

The proposed final dividend is subject to approval by the shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The 0.84p is broken down between a general dividend of 0.43p and a special dividend of 0.41p.

10. Earnings per share

Earnings per share data is based on the consolidated profit using 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:

	30.6.16		
From continuing operations	Earnings £'000	Weighted average number of shares	Per share Amount Pence
Basic EPS			
Profit for the year attributable to the owners of the parent	5,368	293,095,257	1.83
Options and warrants	–	977,555	–
Diluted EPS			
Profit for the year attributable to the owners of the parent	**5,368**	**294,072,812**	**1.83**

There was no difference in the weighted average number of shares used in the calculation of basic and diluted earnings per share as the effect of notionally dilutive shares were anti-dilutive.

10. Earnings per share continued

From continuing operations	30.6.15 Earnings £'000	30.6.15 Weighted average number of shares	30.6.15 Per share Amount Pence
Basic EPS			
Profit for the year attributable to the owners of the parent	4,656	284,804,914	1.63
Options and Warrants	–	5,001,766	–
Diluted EPS			
Profit for the year attributable to the owners of the parent	**4,656**	**289,806,680**	**1.61**

Weighted average number of shares	30.6.16 Shares	30.6.15 Shares
Basic EPS	293,095,257	284,804,914
Diluted EPS	294,072,812	289,806,680

11. Goodwill

Group

Cost	30.6.16 £'000	30.6.15 £'000
At 1 July		
At 30 June	4,121	4,121
Amortisation		
At 1 July	3,512	3,512
Impairment	-	-
At 30 June	3,512	3,512
Net book value	**609**	**609**

Goodwill arising on business combinations is not amortised but is reviewed for impairment on an annual basis, or more frequently if there are indications that goodwill may be impaired. Goodwill acquired in a business combination is allocated, at acquisition, to cash generating units (CGUs) that are expected to benefit from that business combination.

The carrying amount of goodwill relates wholly to the Group's single trading activity and business segment. This has been tested for impairment during the current financial year by comparison with the recoverable amounts of the CGU.

Recoverable amounts for CGUs are based on the higher of value in use and fair value less costs to sell. The recoverable amounts of the CGU have been determined from value in use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. The key assumptions for the value in use calculations are those regarding discount rates, growth rates, and expected changes in margins. Management estimates discount rates using pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to the CGUs. Changes in income and expenditure are based on past experience and expectations of the future changes in the market. The pre-tax discount rate used to calculate the value in use is 10% (2015 – 10%). The valuations indicate sufficient headroom such that a reasonably possible change in key assumptions would not result in impairment of goodwill.

12. Intangible assets

Group

	Computer software £'000	Internally generated development costs £'000	Domain names £'000	Totals £'000
Cost				
At 1 July 2015	274	6,625	16	6,915
Additions	88	1,482	–	1,570
At 30 June 2016	**362**	**8,107**	**16**	**8,485**
Amortisation				
At 1 July 2015	228	3,227	16	3,471
Amortisation for the year	36	1,294	–	1,330
At 30 June 2016	**264**	**4,521**	**16**	**4,801**
Net book value				
At 30 June 2016	**98**	**3,586**	**–**	**3,684**

	Computer software £'000	Internally generated development costs £'000	Domain names £'000	Totals £'000
Cost				
At 1 July 2014	274	5,013	16	5,303
Additions	–	1,612	–	1,612
At 30 June 2015	**274**	**6,625**	**16**	**6,915**
Amortisation				
At 1 July 2014	195	2,102	15	2,312
Amortisation for the year	33	1,125	1	1,159
At 30 June 2015	**228**	**3,227**	**16**	**3,471**
Net book value				
At 30 June 2015	**46**	**3,398**	**–**	**3,444**

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

13. Property, plant and equipment

Group

	Short leasehold £'000	Fixtures & fittings £'000	Computer equipment £'000	Totals £'000
Cost				
At 1 July 2015	395	401	1,354	2,150
Additions	49	47	406	502
At 30 June 2016	**444**	**448**	**1,760**	**2,652**
Depreciation				
At 1 July 2015	95	203	755	1,053
Depreciation for the year	52	90	315	457
At 30 June 2016	**147**	**293**	**1,070**	**1,510**
Net book value				
At 30 June 2016	**297**	**155**	**690**	**1,142**

13. Property, plant and equipment continued

Group	Short leasehold £'000	Fixtures & fittings £'000	Computer equipment £'000	Totals £'000
Cost				
At 1 July 2014	288	308	888	1,484
Additions	107	93	467	667
Disposals	–	–	(1)	(1)
At 30 June 2015	**395**	**401**	**1,354**	**2,150**
Depreciation				
At 1 July 2014	47	112	498	657
Depreciation for the year	48	91	258	397
Eliminated on disposal	–	–	(1)	(1)
At 30 June 2015	**95**	**203**	**755**	**1,053**
Net book value				
At 30 June 2015	**300**	**198**	**599**	**1,097**

14. Investments

Company	Shares in Group undertakings 30.6.16 £'000	Shares in Group undertakings 30.6.15 £'000
Cost		
At 1 July and 30 June	8,705	8,705
Amortisation		
At 1 July and 30 June	3,519	3,519
Net book value		
At 30 June	**5,186**	**5,186**

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

Subsidiaries	Nature of business	Class of share	Proportion of voting power held %:
dotmailer Limited	Web- and email-based	Ordinary	100
	marketing	Ordinary A	100
dotsurvey Limited	Dormant	Ordinary	100
dotsearch Europe Limited	Branch company	Ordinary	100
dotcommerce Limited	Dormant	Ordinary	100
doteditor Limited	Dormant	Ordinary	100
dotSEO Limited	Dormant	Ordinary	100
dotagency Limited	Dormant	Ordinary	100
dotmailer Inc	Web- and email-based marketing	Ordinary	100
dotmailer Pty Limited	Web- and email-based marketing	Ordinary	100

All of the above subsidiaries have been included within the consolidated results.

All the above companies with the exception of dotmailer Inc and dotmailer Pty Limited were incorporated in England and Wales. dotmailer Inc was incorporated in Delaware (US) and dotmailer Pty Limited was incorporated in New South Wales (Australia).

15. Trade and other receivables

	Group 30.6.16 £'000	Group 30.6.15 £'000	Company 30.6.16 £'000	Company 30.6.15 £'000
Current:				
Trade receivables	5,559	4,589	–	–
Less: Provision for impairment of trade receivables	(824)	(343)	–	–
Trade receivables – net	4,735	4,246	–	-
Other receivables	137	39	–	–
Amounts owed by Group undertakings	–	–	7,080	3,108
VAT	–	–	9	7
Prepayments and accrued income	1,334	1,043	13	9
	6,206	**5,328**	**7,102**	**3,124**

Further details on the above can be found in note 21.

Included within prepayments is an amount of £271,680 (2015: £121,998) in relation to deferred commission which is considered to be long-term.

16. Cash and cash equivalents

	Group 30.6.16 £'000	Group 30.6.15 £'000	Company 30.6.16 £'000	Company 30.6.15 £'000
Bank accounts	17,313	11,932	639	166
	17,313	**11,932**	**639**	**166**

Further details on the above can be found in note 21.

17. Called up share capital

Allotted, issued, fully paid number	Nominal value	30.6.16 £'000	30.6.15 £'000
294,784,789 (2015: 287,002,065)	£0.005	1,473	1,435
		1,473	1,435

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

On 17 July 2015 a number of employees exercised their share options increasing the issued share capital by 1,510,000 shares at a premium price of between 5p and 7.5p.

On 7 August 2015 a number of employees exercised their share options increasing the issued share capital by 1,200,000 shares at a premium price of between 5p and 7.5p.

On 6 November 2015 a number of employees exercised their share options increasing the issued share capital by 1,887,397 shares at a premium price of between 5p and 18.15p.

On 20 November 2015 a number of employees exercised their share options increasing the issued share capital by 1,027,397 shares at a premium price of 18.15p.

On 9 December 2015 a number of employees exercised their share options increasing the issued share capital by 1,557,930 shares at a premium price of between 5p and 7.5p.

On 6 June 2016 a number of employees exercised their share options increasing the issued share capital by 600,000 shares at a premium price of between 5p and 18.15p.

18. Reserves

Group

	Retained earnings £'000	Share premium £'000	Reverse acquisition reserve £'000
As at 1 July 2015	16,297	5,382	(4,695)
Issue of share capital	–	756	–
Dividends	(1,054)	–	–
Profit for the year	5,368	–	–
Other comprehensive income: Currency translation	–	–	–
Share-based payment	–	–	–
Balance as at 30 June 2016	**20,611**	**6,138**	**(4,695)**

	Retranslation reserve £'000	Other reserves £'000	Totals £'000
As at 1 July 2015	(3)	(25)	16,956
Issue of share capital	–	–	756
Dividends	–	–	(1,054)
Profit for the year	–	–	5,368
Other comprehensive income: Currency translation	11	–	11
Share-based payment	–	199	199
Balance as at 30 June 2016	**8**	**174**	**22,236**

Group

	Retained earnings £'000	Share premium £'000	Reverse acquisition reserve £'000
As at 1 July 2014	12,211	5,147	(4,695)
Issue of share capital	–	235	–
Share repurchase	–	–	–
Dividends	(570)	–	–
Profit for the year	4,656	–	–
Currency translation	–	–	–
Share-based payment	–	–	–
Balance as at 30 June 2015	**16,297**	**5,382**	**(4,695)**

	Retranslation reserve £'000	Other reserves £'000	Totals £'000
As at 1 July 2014	(6)	82	12,739
Issue of share capital	–	–	235
Share repurchase	–	(213)	(213)
Dividends	–	–	(570)
Profit for the year	–	–	4,656
Other comprehensive income: Currency translation	3	–	3
Share-based payment	–	106	106
Balance as at 30 June 2015	**(3)**	**(25)**	**16,956**

Company	Retained earnings £'000	Share premium £'000	Share-based payments £'000	Totals £'000
As at 1 July 2015	1,534	5,382	(25)	6,891
Issue of share capital	–	756	–	756
Dividends	(1,054)	–	–	(1,054)
Profit for the year	4,600	–	–	4,600
Share-based payment	–	–	199	199
As at 30 June 2016	**5,080**	**6,138**	**174**	**11,392**

	Retained earnings £'000	Share premium £'000	Other reserves £'000	Totals £'000
As at 1 July 2014	2,423	5,147	82	7,652
Issue of share capital	–	235	–	235
Share repurchase	–	–	(213)	(213)
Dividends	(570)	–	–	(570)
Loss for the year	(319)	–	–	(319)
Share-based payment	–	–	106	106
As at 30 June 2015	**1,534**	**5,382**	**(25)**	**6,891**

19. Trade and other payables

	Group		Company	
	30.6.16 £'000	30.6.15 £'000	30.6.16 £'000	30.6.15 £'000
Current:				
Trade payables	1,351	853	11	16
Amounts owed to Group undertakings	–	–	4	4
Social security and other taxes	571	498	–	–
Other payables	222	349	1	91
VAT	710	574	–	–
Accruals and deferred income	1,297	1,163	46	39
	4,151	**3,437**	**62**	**150**

Further details on liquidity and interest rate risk can be found in note 21.

20. Leasing agreements

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

	30.06.16		
	Land & buildings £'000	Others £'000	Totals £'000
Within one year	374	46	420
Between two to five years	1,118	39	1,157
	1,492	**85**	**1,577**

	30.06.15		
	Land & buildings £'000	Others £'000	Totals £'000
Within one year	232	19	251
Between two to five years	1,490	12	1,502
	1,722	**31**	**1,753**

Operating leases represent rents payable by the Group for its office properties. Leases are negotiated for an average term of five years and rentals are fixed on an average of two years with the option to extend for a further five years at the prevailing market rate at the time.

21. Financial instruments and risk management

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

The Group holds no financial or other non-financial instruments other than those utilised in the working operations of the Group and that listed in this note. It's the Group's policy not to trade in derivative contracts.

Principal financial instruments

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

- Trade receivables
- Cash and cash equivalents
- Trade and other payables

Financial instruments by category

The following table sets out the financial instruments as at the reporting date:

	Group		Company	
	30.6.16 £'000	30.6.15 £'000	30.6.16 £'000	30.6.15 £'000
Financial assets				
Trade and other receivables	6,206	5,328	22	16
Bank balances	17,313	11,932	639	166
	23,519	**17,260**	**661**	**182**
Financial liabilities				
Trade payables	1,351	853	11	16
Accrued liabilities and other payables	2,800	2,584	47	130
	4,151	**3,437**	**58**	**146**

The fair value of the financial assets and financial liabilities is equal to their carrying values. All financial assets are categorised as loans and receivables and all financial liabilities are categorised as financial liabilities at amortised costs.

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's Risk Committee. The Board receives monthly reports from the Risk Committee through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below:

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 reporting date the Group was not exposed to any movement in interest rates as it has no external borrowings and therefore is not exposed to interest rate risk. No sensitivity analysis has been prepared.

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.

Trade and other payables of £2,283,000 (2015: £2,365,000) are expected to mature in less than a year.

Credit risk

Credit risk arises principally from the Group's trade receivables, as there are no trade receivables within the Company, which comprise amounts due from customers. Prior to accepting new customers a credit check is obtained. As at 30 June 2016 there were no significant debts past their due period which had not been provided for. The maturity of the Group's trade receivables is as follows:

	30.6.16 £'000	30.6.15 £'000
0-30 days	2,795	2,311
30-60 days	1,243	813
More than 60 days	1,521	1,465
	5,559	**4,589**

The maturity of the Group's provision for impairment is as follows:

	30.6.16 £'000	30.6.15 £'000
0-30 days	6	2
30-60 days	87	2
More than 60 days	731	339
	824	**343**

The movement in the provision for the impairment is as follows:

	30.6.16 £'000	30.6.15 £'000
As at 1 July	343	336
Provision for impairment	789	103
Receivable written off in the year	(259)	(47)
Unused amount reversed	(49)	(49)
As at 30 June	**824**	**343**

The Group minimises its credit risk by profiling all new customers and monitoring existing customers of the Group for changes in their initial profile. The level of trade receivables older than the average collection period consisted of a value of £1,541,197 (2015: £1,486,597) of which £730,350 (2015: £339,962) was provided for. The Group felt that the remainder would be collected post year end as they were with longstanding 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 rating bodies. The majority of the Company's cash holdings are held at NatWest Bank which has an BBB+ credit rating.

The carrying value of both financial assets and liabilities approximates to fair value.

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 (2015: £nil) and amounts payable over one year are nil (2015: £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

	30.6.16 £'000	30.6.15 £'000
As at 1 July	383	58
Current year provision	333	325
	716	**383**

The deferred tax liability above comprises the following temporary differences:

	30.6.16 £'000	30.6.15 £'000
Capital allowances in excess of depreciation	91	103
R&D relief in excess of amortisation	708	679
Share option relief	(83)	(399)
	716	**383**

Deferred tax provision relates to taxes to be levied by the same authority on the same entity expected to be settled at the same time. As such deferred tax assets and liabilities have been offset.

23. Capital commitments

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

24. Related party disclosures

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Group

The following transactions were carried out with related parties:

			30.6.16 £'000	30.6.15 £'000
Sale of services				
Redstone Connect Plc	Entity under common directorship	Email marketing services	–	4
Cadence Performance	Entity under common directorship	Email marketing services	2	3
			2	**7**

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

			30.6.16 £'000	30.6.15 £'000
Purchase of services				
Barratts of Old Ltd	Entity under common directorship	Consultancy services*	–	8
			–	**8**

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

Directors

	30.6.16 £'000	30.6.15 £'000
Aggregate emoluments	858	1,002
Ex-gratia payment	137	–
Company contributions to money purchase pension scheme	46	60
Share-based payments	114	20
	1,155	**1,082**

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

	30.6.16 £'000	30.6.15 £'000
Salaries	183	234
Ex-gratia payment	137	–
Other benefits	3	11
Pension costs	–	15
Share-based payments	114	20
	437	**280**

The highest paid Director did not exercise any share options in the year (2015: 660,000).

Company

The following transactions were carried out with related parties:

			30.6.16 £'000	30.6.15 £'000
Year end balances arising from sales/purchase of services				
dotmailer Limited	Subsidiary	Payables	(5,338)	(3,280)
			(5,338)	**(3,280)**

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

Loans to related parties

		30.6.16 £'000	30.6.15 £'000
Year end balances arising from sales/purchase of services			
dotmailer Limited	Subsidiary	6,388	5,681
Loans advanced		6,069	751
Loans repaid		(40)	(44)
		12,417	**6,388**

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 Europe Limited, dotmailer Inc, dotmailer Pty Limited, dotagency Limited (Dormant), dotsurvey Limited (Dormant), dotSEO Limited (Dormant), dotcommerce Limited (Dormant) and doteditor Limited (Dormant).

26. Share-based payment transactions

The measurement requirements of IFRS 2 have been implemented in respect of share options that were granted after 7 November 2002. The expense recognised for share-based payment made during the year is £199,600 (2015: £106,000).

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. The options outstanding at 30 June 2016 had a WAEP of 29.69p (2015: 14.43p) and a weighted average contracted life of 3.2 years (2015: 2.1 years) and their exercise prices ranged from 0p to 44.50p. All share options are settled in form of equity issued.

	30.06.16		30.6.15	
	No of options	WAEP	No of options	WAEP
Outstanding at the beginning of the period	10,938,790	14.83p	13,923,790	8.82p
Granted during the year	1,439,029	29.02p	2,275,000	29.53p
Forfeited/cancelled during the period	491,066	21.46p	1,040,000	16.56p
Exchanged for shares	7,782,724	10.22p	4,220,000	6.06p
Outstanding at the end of the period	4,104,029	26.69p	10,938,790	14.43p
Exercisable at the end of the period	1,063,409	8.00p	8,462,724	10.44p

The weighted average share price at the date of the exercise for share options exercised during the period was 40.32p (2015: 30.52p).

	20 June 2016	26 April 2016	25 November 2015	10 April 2015	28 November 2014	18 October 2013
Number of options granted	423,409*	206,460	809,160	750,000	1,525,000	3,554,794
Share price at grant date	44.25p	45.00p	40.50p	31.50p	29.00p	17.82p
Exercise price	£nil	44.50p	40.25p	31.50p	28.50p	18.25p
Option life in years	5 years	5 years	5 years	5 years	5 years	5 years
Risk free rate	1.33%	1.33%	1.33%	1.33%	1.35%	1.40%
Expected volatility	30%	30%	30%	30%	30%	30%
Expected dividend yield	1.7%	1%	1%	0%	0.%	0.4%
Fair value of options/ warrants	29.26p	7.23p	6.46p	5.64p	5.33p	3.31p

Expected volatility was determined by calculating the historical volatility of the Group's share price from the date it listed to the grant date of the share option. The expected life used in the model is based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

* The share options issued on the 20 June 2016 were to Simone Barratt as part of her remuneration package during her time as CEO of the Group and were based on her achieving certain performance criteria. These share options were granted as an unapproved share option scheme at a £Nil exercise price and were released immediately, upon her being a good leaver as per the share option scheme agreed at the AGM on 15 December 2015.

27. Group reconciliation of profit before corporation tax to cash generated from operations

	Group		Company	
	30.6.16 £'000	30.6.15 £'000	30.6.16 £'000	30.6.15 £'000
Current				
Profit before tax from all operations	6,215	5,243	4,600	(319)
Currency revaluation	11	3	–	–
Depreciation	1,787	1,556	–	–
Loss on disposal of fixed assets	–	(1)	–	–
Share-based payments	199	106	199	106
Finance income	(51)	(27)	–	–
	8,161	**6,880**	**4,799**	**(213)**
(Increase)/decrease in trade receivables	(878)	(1,666)	(3,978)	721
Increase/(decrease) in trade payables	714	453	(88)	76
Cash generated from operations	**7,997**	**5,667**	**733**	**584**

28. Group cash and cash equivalents

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

	Group £'000	Company £'000
As at 1 July 2014	9,306	109
As at 30 June 2015	11,932	166
As at 30 June 2016	**17,313**	**639**

29. Project development

During the period the Group incurred £1,482,558 (2015: £1,611,929) in development investments. All resources utilised in development have been capitalised as outlined in the accounting policy governing this area.

30. Post balance sheet events

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

Company information
For the year ended 30 June 2016

Directors:
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I Taylor
R Kellett-Clarke
F Beechinor-Collins
M Patel
P Simmonds

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M Patel

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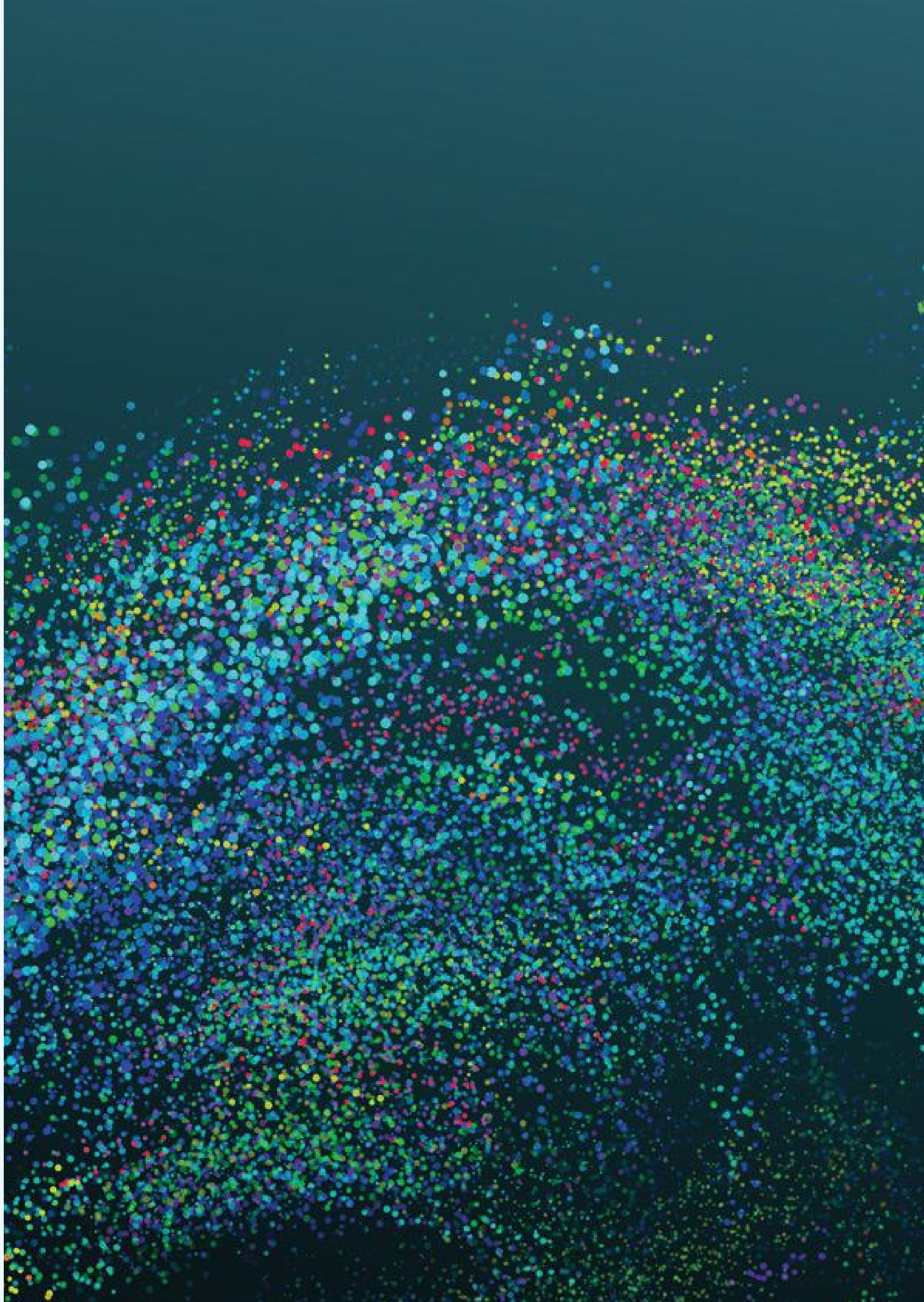

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