Annual Report 2016/2017

Empowering the serious marketer

dotdigital GROUP PLC

Corporate statement

dotmailer is the SaaS platform of the dotdigital Group Plc (LSE: DOTD). The platform empowers marketers in 150+ countries to use data to drive multi-channel automation campaigns that deliver superior results.

Contents

£32.0m ↑ 19%

Revenue

Up 19% from £26.9m

£10.1m ↑ 26%

EBITDA

Up 26% from £8.0m

2.42p ↑ 32%

Earning per share

Up 32% from 1.83p

£20.4m ↑ 18%

Cash position

As at 30 June 2017

Chairman's report

Achieving substantial success in a dynamic year.

Frank Beechinor-Collins
Non-Executive Chairman

Introduction

In a year defined by transformation, the Group has again delivered an impressive financial result, achieving revenue growth of 19% to £32.0m, profit before income tax of £8.1m and cash generation from operations of £8.8m. This leaves the business in a very strong cash position with over £20m in the bank.

The year began with the appointment of Milan Patel as our permanent Chief Executive Officer ("CEO"). Milan has orchestrated significant operational change during the years, leading to excellent financial results and positioning the business for substantial future growth.

This reorganisation sees a focus on 3 key strategic initiatives to deliver exceptional operational performance: geographical expansion, product innovation and wider strategic partnerships with global businesses. The first has seen the scaling up of dedicated offices in Australia, focused on both the Australian and Asia Pacific regions. This expansion is built on a business model of selling through partners into the fast-growing e-commerce market. The US office has been strengthened with a sales support function to facilitate this e-commerce focus. Product innovation has been expanded and is integral to the business' core culture.

Our software development team now comprises of 9 groups working with Agile methodologies to deliver three substantial product releases per annum, in recognition of the market trend towards automation and personalisation. Partnerships are key to the Company's data-driven future; the business has accelerated the development of rich functional integrations for e-commerce and CRM platforms, developing strategic partnerships and expanding our addressable market.

Operations

On the operational side, a reorganisation has taken place to support customers' present and future needs. This means prioritising ease of interaction, pricing models that maximise customer ROI and greater support structures to assist customer success. The business' expansion has also allowed Milan to promote several rising stars from within the business into roles with added responsibility and influence over the Group's future direction. These individuals will further support the Company's customer focus. I would like to thank Milan and his team for their fantastic contribution in a year of transition; they have built a strong platform for continued above-trend growth. I also would like to warmly welcome the 50 new colleagues that have joined us over the past year.

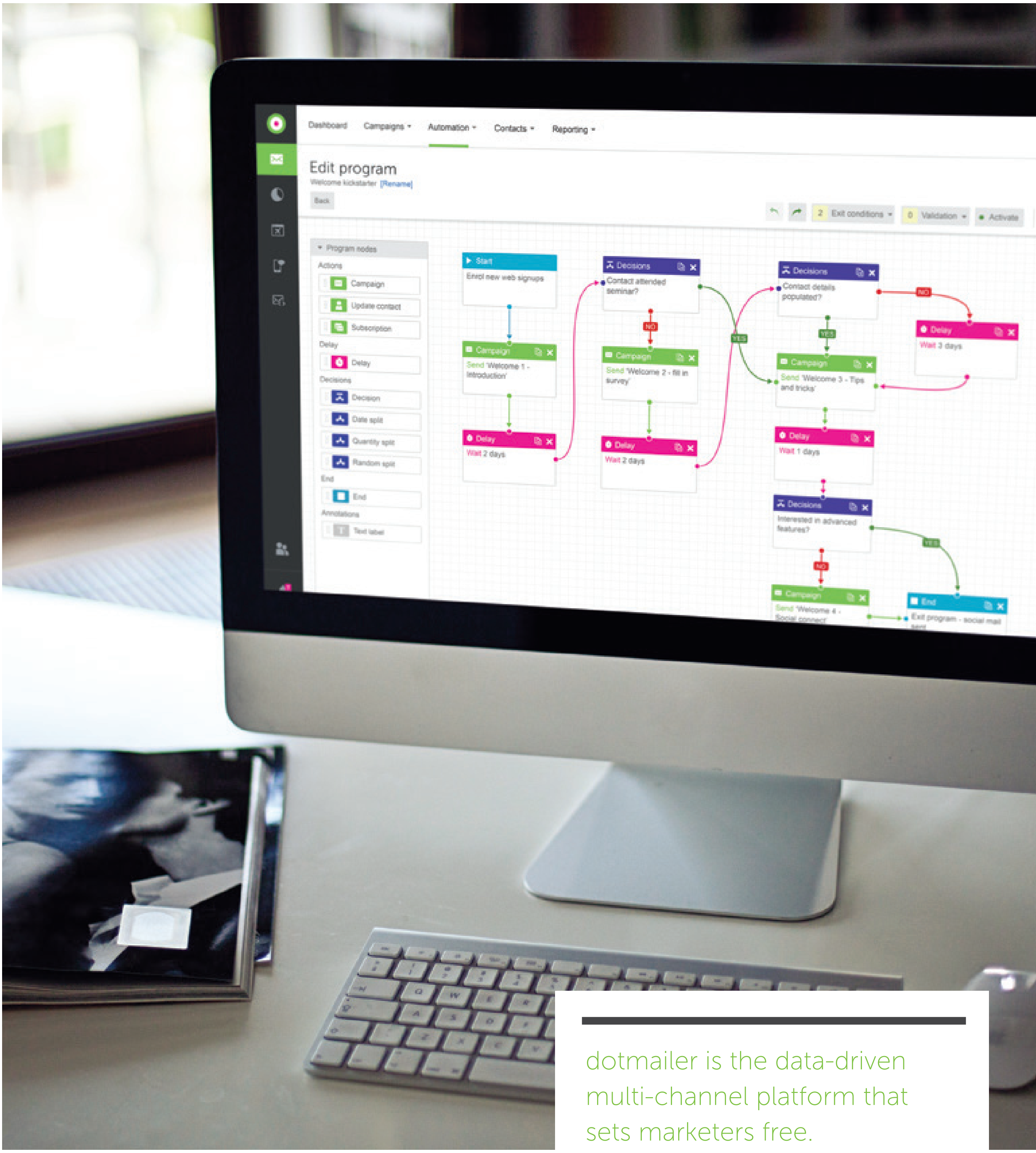
The SaaS industry is undergoing substantial growth and change, with the market expected to double in the next five years. A continued focus on our initiatives provides a solid foundation for growth. Data from Grand View suggests that the marketing automation market will grow to $8.6bn by 2025, giving us the confidence to continue to build out our multi-channel platform and invest in a world-class business.

This strong market and financial position is represented in the recent appointment of Phillip Blundell to the position of Interim Chief Financial Officer. Phillip will assist in delivering robust organic growth and explore pertinent acquisitions to accelerate the realisation of our key strategic goals.

Outlook

The first few months of the new financial year have started in line with our plan. Our international growth has accelerated, and our ability to attract new clients continues. Investment in new connectors and product features is being well received in the market. The Board remains confident in our ability to achieve the ambitious plan for the year and our capacity to integrate potential acquisitions. The Group's transition to a global leader in multi-channel marketing automation will continue, meeting the future needs of marketers and riding the wave of market growth in customer engagement.

Frank Beechinor-Collins
Non-Executive Chairman
16 October 2017



dotmailer is the data-driven multi-channel platform that sets marketers free.

TRUSTPILOT

G2 CROWD

dotmailer
EMPOWERING MARKETERS

Investment case

Our versatile and comprehensive model provides a compelling opportunity for investment.

1

Strategy

Clear and compelling strategy

- Focused only on two complementary markets – e-commerce and B2B
- Rapid product innovation supporting up and cross-sell opportunities
- International growth based on a proven blueprint
- Brand success has been extended through global strategic partners with more on the way

PREMIER TECHNOLOGY PARTNER

dotmailer is a Magento Premier Technology Partner

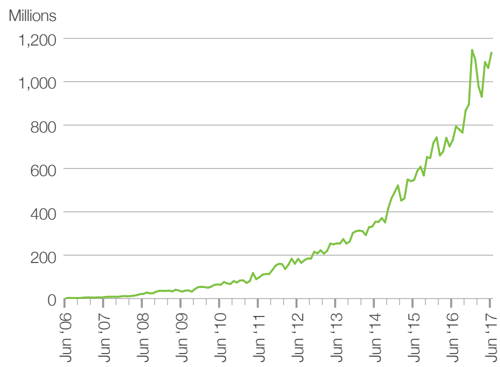
2

Scalable

Highly scalable platform and predictable financial model

- Software sold as a service
- Very diverse customer base with no customer accounting for more than 1% of revenue
- Profitable with significant cash balances
- 81% recurring revenues

Eleven-year graph showing dotdigital Group's Plc email send volume.



3

Growth

Attractive industry growth

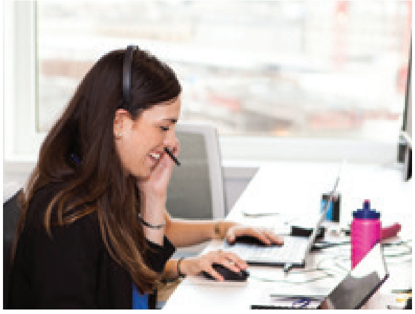
- Email marketing automation has proven superior ROI for marketers
- Global market for marketing automation, according to Grand View, is growing by double digits and predicted to be $8.6bn by 2025
- Marketers are predicted to send more emails in the next five years
- E-commerce remains the biggest sector for email, expected to double in next five years

A continued focus on our initiatives provides a solid foundation for growth.

4 Culture

The successful dotmailer culture

- Highly talented and motivated people focused on customer success
- Creative marketing approach to empower customers
- Flexible, extendable and effective product that drives retention and beats the competition
- Unique industry position with many competitors distracted



5 Leadership

Experienced management team

- Non-Executive Board steeped in the marketing automation story
- Executive team with proven track record of success
- Wider management team with the motivation to continue the profitable growth story
- Completely aligned to the strategic priorities of geographic growth, product innovation and building strong strategic partnerships

6 Outlook

Opportunities for superior growth

- Innovation to support marketing move to multi-channel and AI
- Ability to supplement with sensible technology acquisitions
- Attract further world-class partners to increase the addressable market
- New geographical markets with greater potential than UK alone

Empowering marketers with intelligent tools and people

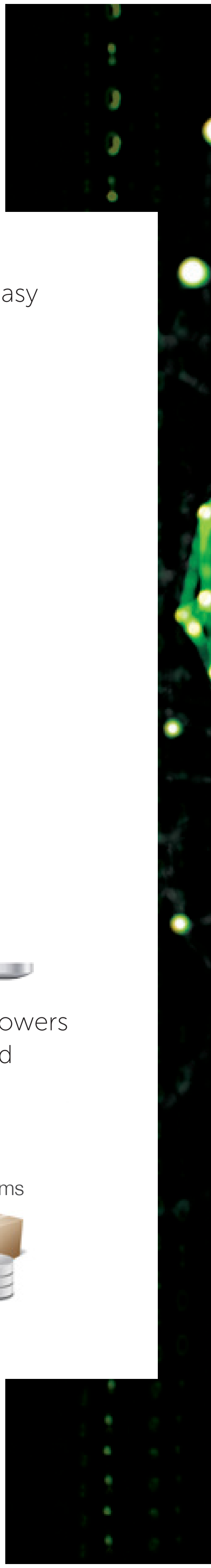
dotmailer and the platform itself is built around empowering customers to succeed and grow.

What does the dotmailer platform do?
dotmailer is a SaaS marketing platform that enables companies to create, test and send data-driven automated campaigns, including email. Our technology integrates with key business systems such as e-commerce platforms and CRMs, providing access to rich insights in real time; a powerful advantage in today's customer-centric market.

How do we empower marketers?
There's a good reason why email is still one of the most popular marketing channel: it delivers a return of investment of £39/$40 for every £1/$1 spent. The dotmailer platform has been built in a way that enables SMEs to maximize returns and scale quickly. We don't tie people down with tools they will not use and that is why every customer has access to our directory of partner apps which can be plugged in and changed as their company evolves.

Why do marketers choose dotmailer?
dotmailer is designed to make light work of advanced marketing automation. Campaign creation – whether it's a newsletter or an automated programme – is fast and uncomplicated thanks to slick 'drag and drop' functionality. Our customers love that they can measure and report on the success of their campaigns in real time, and have access to dedicated account management and support when they need it.

We encourage our customers to keep developing and growing, and they trust us to keep developing too. We publish our product roadmap for everyone to see and our next exciting landmark is multi-channel functionality.



> dotmailer is an integral part of our marketing strategy and email is critical to our success.
>
> **Stasha Johnston, Monin**

The choice of leading brands:

icelolly.com

ELEMIS

Superdry.

Dune London

Jack Wills

habitat

The National Gallery

Oliver Bonas

RICS

CNBC

Jet2.com

Paul Smith

Thoughts of the Chief Executive Officer

> A year of transformation for dotmailer has culminated in exciting global expansion.

It is with great pleasure that I share with you my thoughts on the past 12 months. In a time of change, we have welcomed innovation, implementing new ways of working across all our regions.

A year ago, I took over as permanent CEO of dotdigital Group Plc ("dotdigital") and proposed changes to our business that would aid globalisation and increase the addressable market. In the last 12 months, we have achieved both aims.

We have also optimised our sales and customer success process, listening hard to our customers in the international markets and investing in people to support their needs. The platform has evolved with new product functionality and integrations that continue to empower our customers.

We have made a lot of progress in simplifying the business to address global customer requirements, alongside strengthening our strategic partnerships and testing new international markets to penetrate.

For me, these entrepreneurial changes are inextricable from the people who have brought them to fruition. With the leadership, training and development programmes set up to support our rising stars, I can only feel confident about the business' future.

Although there was a slowdown in growth while implementing these changes, in H2 growth has accelerated to bring substantial and commendable growth across all regions, with benefits mounting from our positive behavioural shift.

I do sincerely hope that you enjoy reading more about our strategic progress in this Annual Report.

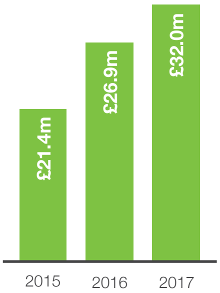
> We are empowering the serious marketer through our commitment to platform innovation and investment in international growth.

KPIs

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 which is set by the Board at the start of the year. Employee remuneration is specifically linked to these KPIs.

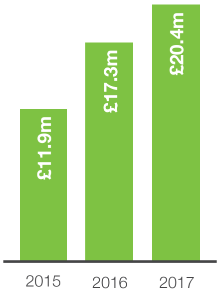
Revenue

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



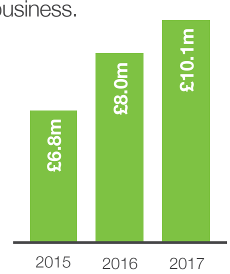
Cash position

We aim to have a strong cash position.



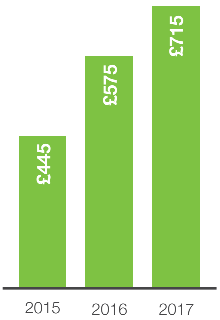
EBITDA

We aim to have double-digit earnings before interest, tax, depreciation and amortisation (EBITDA) growth from normal business.



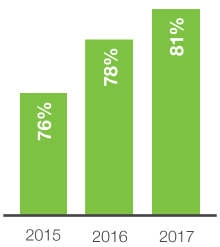
ARPU

We aim to continue to grow Average Revenue Per User (ARPU).



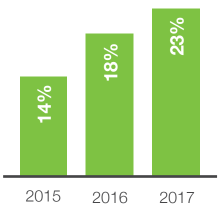
Recurring reveue

We aim to have recurring revenues of over 70%.



International

We aim to expand international revenue to over 33% from outside the UK.



Chief Executive Officer's report and financial review

Milan Patel
Chief Executive Officer

Key Highlights

	30.06.17 (£m)	30.06.16 (£m)	% increase
Revenue	32.0	26.9	19%
EBITDA	10.1	8.0	26%
Net Assets	28.6	23.7	21%
EPS (p)	2.42	1.83	32%
Cash	20.4	17.3	18%

Operational review

Revenue performance, which grew organically by 19%, was driven by strong growth from all three of our regional hubs. Our Europe, Middle East and Africa (EMEA) operation grew by 15% from £23.8m to £27.3m through a combination of higher value new client wins, an optimised sales process and the ability to continually monetise the advanced feature adoption to existing clients. New customers are also buying more sophistication upfront. This is evidenced by revenues from enhanced functionality-related monthly recurring charges now achieving £6.3m, which is an increase of 53%.

We continue to make strong progress within the international markets, with revenues outside of the core UK market growing by 48% and now representing 23% of the Group revenues. International expansion remains a core pillar in our organic growth strategy. The Group has added notable clients across its markets both locally and internationally in the B2B and e-commerce sectors, such as ICAEW, CNBC, Superdry, Jack Wills, BetFred and The Premier League amongst others.

In addition, we have continued to see our professional services offerings adding value to our customers, with the revenue now representing 10% of Group revenues at £3.3m.

During the year, the Group's Average Revenue Per User (ARPU) rose by 24% to spend levels of circa £715 per month. This was a result of continued focus on mid-market, enterprise clients and the Magento connector clients who spend on average over £1,420 per month. Overall volumes of messages sent out by dotmailer increased by 38% to 11.9bn from 8.6bn, reflecting the change in demographic but also increasing the recurring revenue growth and adding to the increase in ARPU to £715 per month.

We continued to see strong growth in the UK market. During the year we simplified our sales proposition by introducing value bundles that allow every customer to get the most out of the platform. We optimised the sales incentives to drive both monthly recurring revenues and the number of customers we were bringing onboard. The final change made was to refocus our Account Management strategy, which was previously completely focused on growing clients, to be more customer success-driven. This has resulted in improved customer satisfaction and retention.

Market

The marketing automation market is set to expand from $3.8bn in 2016 to $8.6bn by 2025, which shows a global compound annual growth rate (CAGR) of approximately 9.8% according to Inkwood Research. Currently email marketing automation represents 30% of the global market, closely followed by other channels such as mobile application marketing and social media marketing. According to the research, email marketing is anticipated to govern the marketing automation market. This is due to the increased adoptions of digitalisation and the channel's status as a relatively low cost but effective marketing method.

The retail segment is anticipated to lead the marketing automation space and this supports dotdigital's strategy to continue integrating with e-commerce platforms in order to increase the addressable market in this space.

North America, Europe and Asia will lead with the fastest growth in those markets. The Group currently has 3 separate hubs that mirror these markets, with a scalable infrastructure that has in-region data processing and storage to mirror these growth areas. The Group is therefore well placed to capture market share in those areas.

Geographic progress

North America

The revenue for our North American region grew by 16% to US$5m following successful changes in the period. H2 grew faster at 22% compared to 11% in H1 (in constant currency), which shows early signs of positive results from the improvements made; these included strengthening the management team and structure, enhancing the sales proposition, pushing for new partners in the region and building further e-commerce connectors to increase our addressable market. We continue to build a strong pipeline as we move further into the year. Some of the clients currently signed up in the region include Betsy Boo, Fannie May and HouserShoes.com.

Asia Pac (APAC)

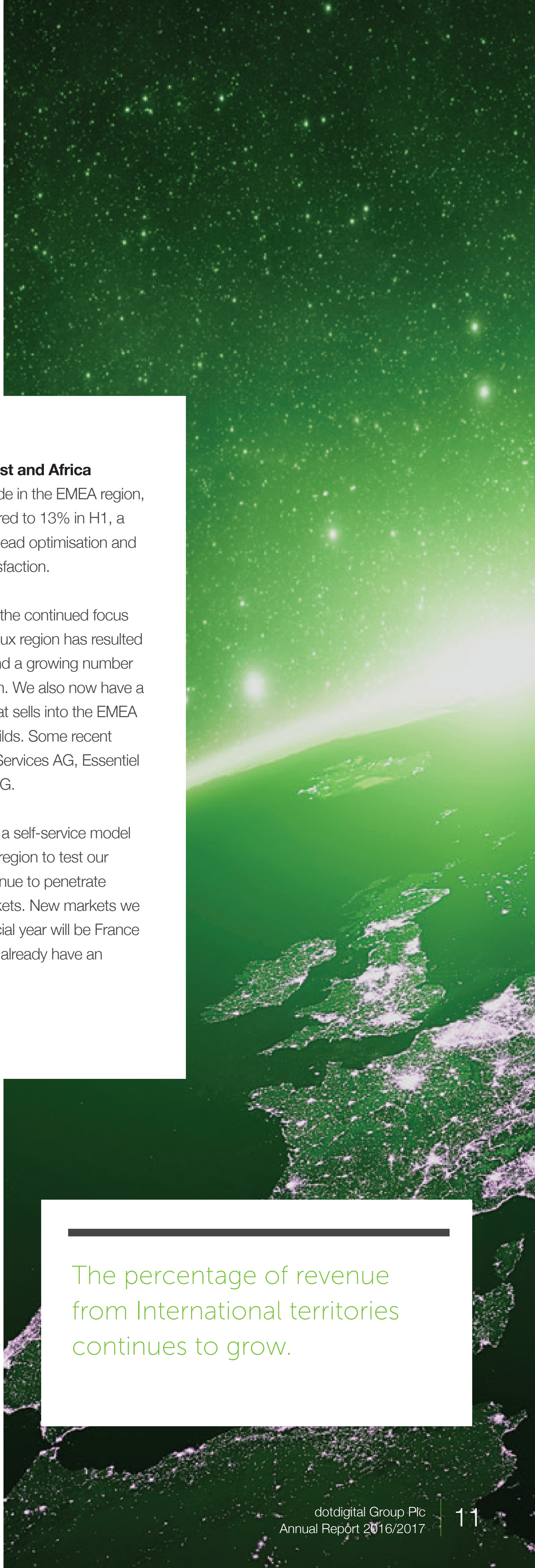
The growth from the APAC region of 112% saw revenues increasing from AUS$0.6m to AUS$1.2m, partly due to introducing a direct sales team which assisted in reducing sales cycles of new customers coming onboard. For customers to receive the best experience in that region we also added support, customer success and marketing teams to increase satisfaction and raise brand awareness. We continue to build strong relationships with our partners in Australia and Asia. We also continue to push further into Singapore, Indonesia, Vietnam and Hong Kong through our partners. Some of the wins we have seen have already include Fairfax Media, Spend-Less Shoes and Ultracenticals.

Europe, the Middle East and Africa

With all the changes made in the EMEA region, H2 grew at 18% compared to 13% in H1, a result of improved sales lead optimisation and increased customer satisfaction.

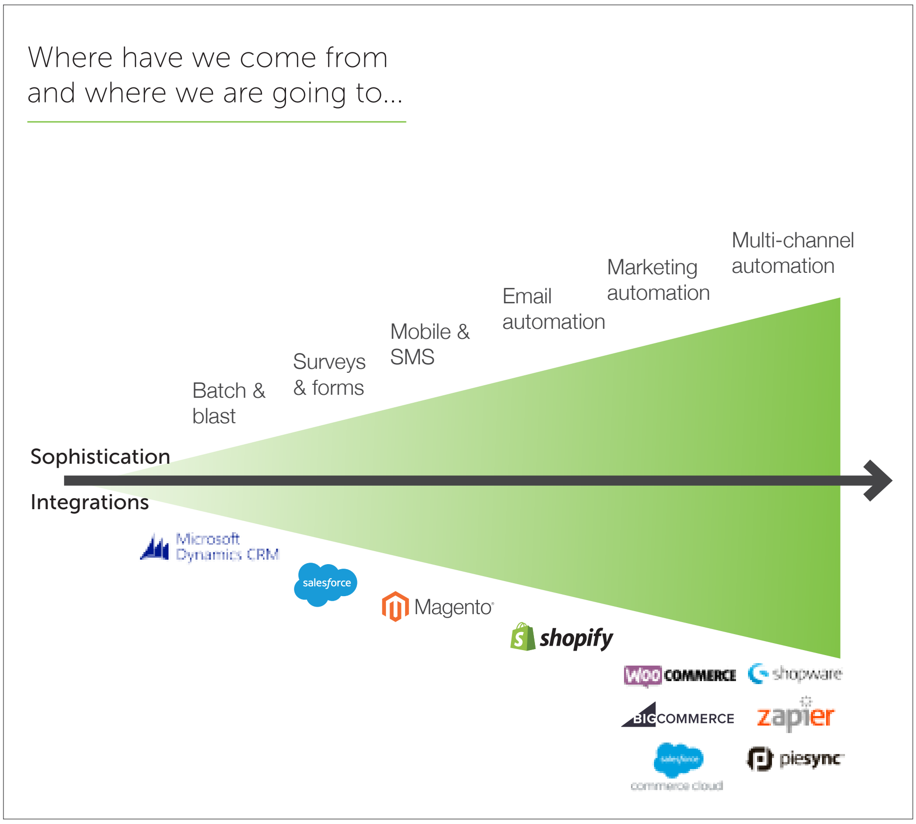
Although still early days, the continued focus in the Nordics and Benelux region has resulted in strong partnerships and a growing number of clients from that region. We also now have a dedicated sales team that sells into the EMEA region as the pipeline builds. Some recent client wins include Sika Services AG, Essentiel and Le Creuset Group AG.

We are also carrying out a self-service model trial in the South African region to test our propositions as we continue to penetrate further international markets. New markets we will test in the new financial year will be France and Germany where we already have an established client base.



The percentage of revenue from International territories continues to grow.

Chief Executive Officer's report and financial review continued



Product innovation

We continue to evolve our technology to be the world's best data-driven marketing automation platform. In the year, we have continued to scale the platform with in-region data processing and storage through cloud infrastructure in Europe, North America and Asia Pac. This expansion has proved to be very successful and puts us in a unique position against our competitors.

There were new connectors added in the year predominantly focused on e-commerce platforms, including Shopify and Shopify Plus, Big Commerce, Woo commerce and Shopware. These premium integrations increase our addressable market in the UK and overseas.

We have added three development teams as part of our continued commitment to accelerate functionality progress. These teams will allow us to build innovative functionality that gives us technology advantages over our competitors.The recurring revenue from our enhanced functionality increased by 53% compared to the previous year and now represents £6.3m of our Group revenues.

Strategic partnerships

Magento: We continued to invest in the development of the Magento Connector and the Magento partner relationship. The connector is now used by over 460 clients generating annualised recurring revenues of more than £6.2m. Though the initial uptake for Magento 2.0 was slower than predicted by Magento, we saw an increase of new customer sign ups using the connector in H2 with a good sales pipeline after Magento released version 2.1. The average revenue per month from Magento customers increased by 6% to £1,420.

Shopify: Our integrations with Shopify and ShopifyPlus has proved very popular with e-commerce companies with results outstripping initial predictions quite considerably. As a result we have optimistic predictions for growth from this strategic relationship this next financial year.

Other e-commerce connectors: We have continued to develop relationships with other e-commerce integration partners and will maintain this development as we move into the next financial year.

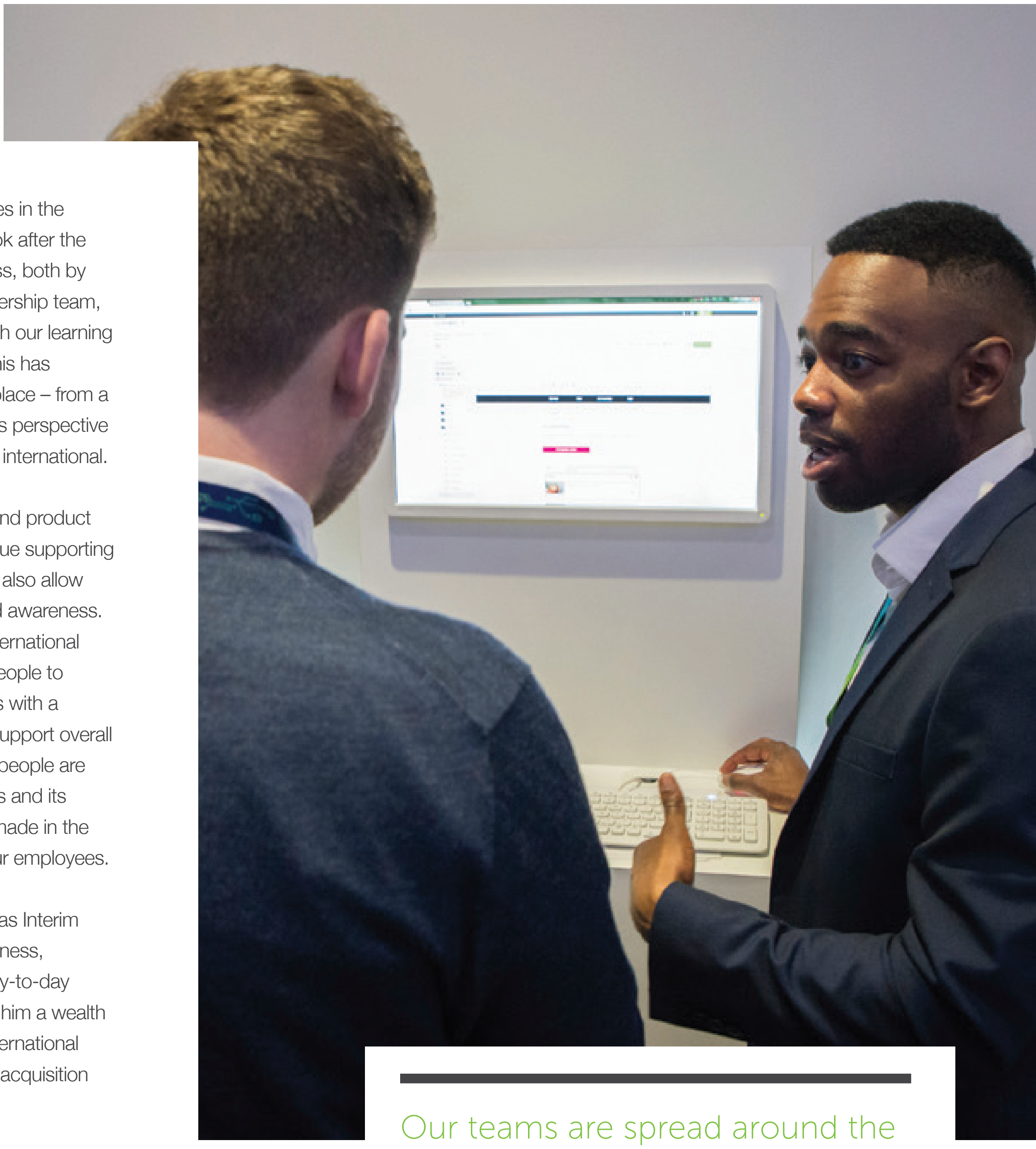
Salesforce and Microsoft Dynamics: As part of our commitment to our customers in the B2B marketing space we continued to add new functionality and build on our strategic relationships with the system integrators. These connectors are now used by over 440 clients generating annualised recurring revenues of more than £4.2m. The average revenue per month from these customers is approximately £1,000 per month.

People

We have made numerous changes in the senior management team that look after the day-to-day running of the business, both by adding new members to the leadership team, and promoting from within through our learning and development programme. This has strengthened the foundations in place – from a management bandwidth and skills perspective – as we become larger and more international.

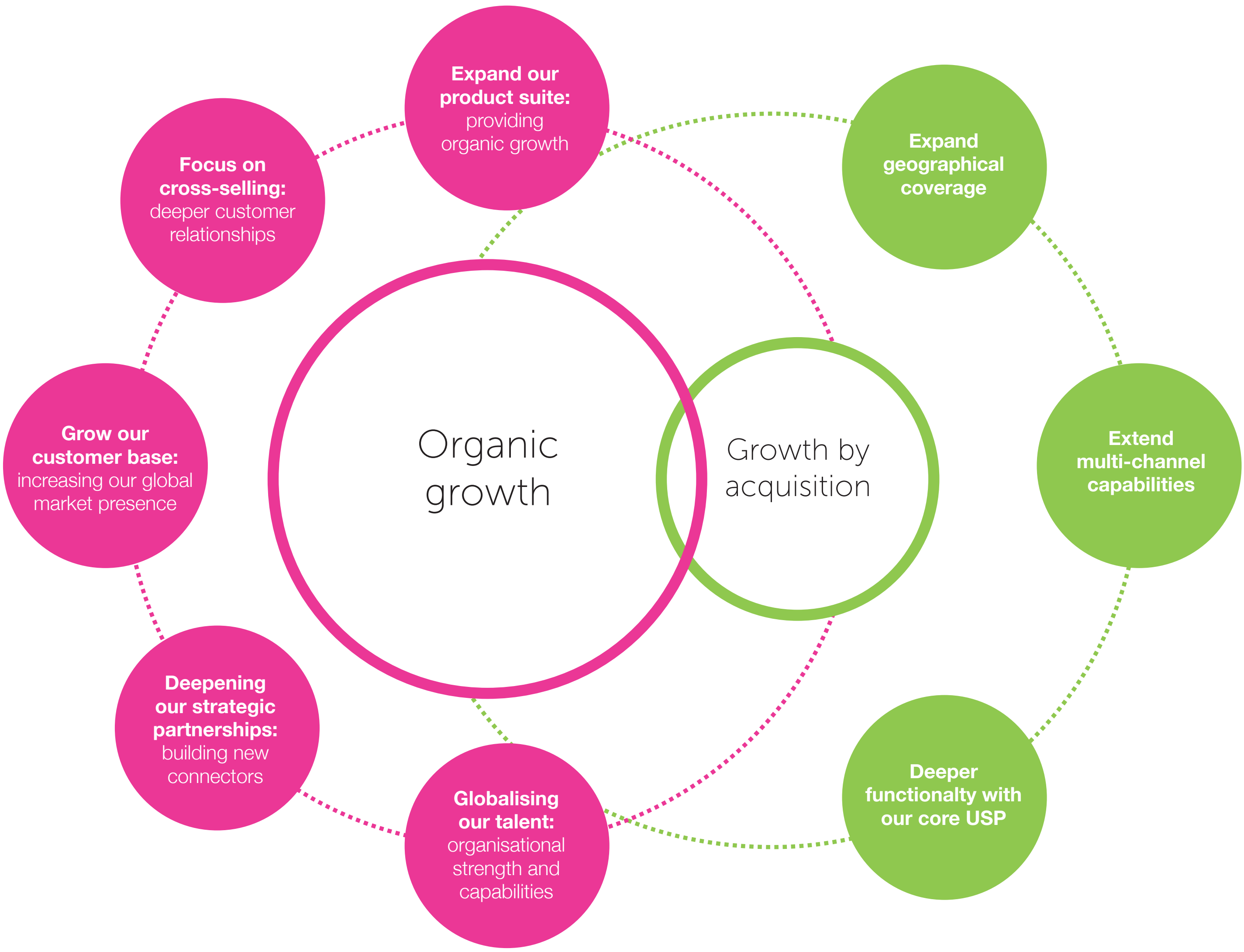
We invested in sales, marketing and product development in the year to continue supporting our product innovation goals, but also allow us to further develop global brand awareness. With the continued success of international markets, we added another 34 people to allow us to provide our customers with a scalable business model and to support overall business growth. We believe our people are crucially important to our business and its future; further investment will be made in the training and development of all our employees.

We also welcome Phillip Blundell as Interim Chief Financial Officer for the business, who is supporting me with the day-to-day responsibilities. Phillip brings with him a wealth of experience, both in growing international businesses and implementing an acquisition growth strategy.



Our teams are spread around the globe. However they are all united by one goal: a commitment to customer success.

Chief Executive Officer's report and financial review continued



Acquisitions

We have been investigating opportunities beyond organic growth. We do have very strict value enhancing criteria to finding strategic acquisitions. The areas we would consider making an acquisition in are:

1) Companies that can help us expand into new geographic markets or allow us to grow faster in a market that we currently operate within;
2) Companies that can allow us to build on our multi-channel capabilities, beginning initially in the mobile and social marketing space; and
3) Companies that can add new functionality (e.g. artifical intelligence) that will add value to our customer base within the mid- and small enterprise market.

> "Our strong financial position and management team means we're ideally placed to add growth by acquisition.

Financial review

Revenues

The Group achieved revenue growth of 19% (2016: 26%), which delivered record overall revenues of £32.0m. The quality of the revenue growth is evidenced by recurring revenues increasing to 81%, up from 78% last year. The Group continued to grow internationally with revenues accounting for 23% of the Group's total.

Business model

The Group generates the majority of its revenues from annual message plans which are recognised equally over the life of the contract. In addition, we sell upgrade packages to customers allowing them to use additional modules and features of our platform. For more sophisticated customers we will build customised functionality and integrations so that they can maximise the use of their customer data. These professional services contracts are recognised as revenue as the work is performed. For the legacy customers who contract on a 'pay as you go', basis revenue is recognised in the month the sends are delivered.

Gross margins

The gross margin for the period was 86%, slightly down on last year, due to the indirect model of selling in our international regions and continued investment in direct marketing to build long-term annuity revenues.

Operating expenses

EBITDA grew by 26% from £8.0m to £10.1m, part of this growth was due to the improvement in margins from moving the infrastructure into the cloud which now allows the platform to scale globally. Investments that have been made in previous years in product development and sales and marketing are also paying off.

Operating expenses as a percentage of revenues dropped from 65% to 61%, reflecting better staff utilisation and a significant drop in bad debt charge which originally represented less than 3% of revenue.

Balance sheet

There was strong cash management in the year with cash generated from operations of £8.8m (2016: £8.0m). The cash at the end of the period was standing at £20.4m which represents an increase of 18%. The Group continues to be debt free and maintains a healthy balance sheet. A combination of highly efficient cash collection process and an incentivisation push to move more customers onto Direct Debit and ACH Collection helped with the year-end position.

Trade receivables have only grown by 16% in the year reflecting revenue growth and good cash management. Overall receivables have grown 26% as a result of a large increase in prepayments due to the move to the hybrid cloud infrastructure.

The Group continues to invest heavily in the software platform to increase functionality around marketing automation and in building connectors to e-commerce and CRM platforms to allow our customers to make the most of their data and provide excellent customer engagement. This continued investment is demonstrated by the increase in product development of £2.2m.

Tax

The Group continues to grow its profitability and this feeds into the tax charge, which has increased by 12% to £0.9m. This is an effective tax rate of 10.5%.

EPS

In the year the adjusted EPS increased by 32% to 2.42p (2016: 1.83p) and adjusted diluted EPS has increased to 2.41p (2016: 1.83p). The increase in EPS is driven by the increased profitability and the reduction in the effective tax rate to 10.5% from 14%.

Dividend policy

We are pleased to announce that the Board has conducted its review of its organic business plan for the next three years. This included evaluating the cash needs required for opportunities in organic growth to increase shareholder value and capital expenditure. The Board has decided that it will continue to keep a progressive dividend in line with EBITDA growth. Therefore, subject to approval at the AGM in December 2017, the Board proposes that the Group will pay a final dividend of 0.55 pence per ordinary share; to be payable at the end of January 2018.

Outlook

The first few months of the new financial year have started very well and in line with our plan. There has been an increase in the customer numbers across all regions compared to the previous year. As we look forwards we continue to invest in the product to further strengthen our position as an innovator as the platform continues to evolve to be a data-driven multi-channel marketing automation platform with artificial intelligence and machine learning, which empowers our customers to get a return on investment from their digital marketing. The market continues its very strong growth which puts us in an advantageous position to capitalise on our organic growth strategy.

The Group has a strong position in changing markets and the Board remains confident about the future growth prospects, assuming that there is no adverse change in market conditions and delivery against the strategy plan.

Milan Patel
Chief Executive Officer
16 October 2017

Phillip Blundell
Interim Chief Financial Officer
16 October 2017

Risks, mitigations and impact

Risk area	Impact	Mitigation of risk
Data privacy	Certain laws and regulations require or may require the Group and its customers 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 proposed legislation could 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 an in-email link. Such laws and regulations could restrict customers' ability to collect and use email addresses, web browsing data and personal information, which may reduce demand for its products.	• Operation of an open-door policy, including the sharing of policies relating to security, compliance and data privacy. • Maintenance of a public-facing Trust Centre communicating important information. • Research into the impact of new or altered legislation to inform free resources. The Group actively contributes to the digital marketing space to advocate best practice and make sure its customers' needs are represented. • Provisioning of global instances of the platform, allowing customers in these regions to overcome data sovereignty constraints. • Preparation for upcoming regulatory alterations, including the General Data Protection Regulation (GDPR), through process change, platform innovation and audits of both data and processes.
Implementation of cloud service providers	A crucial implementation migrated the dotmailer platform to a hybrid cloud infrastructure; cloud service providers now host the platform's web application. An event resulting in multiple cloud data centre failing, for any significant period, or termination of services by a cloud provider, may negatively impact the Group's business, operating results and financial condition. The nature of cloud computing means that the majority of the dotmailer platform is on shared infrastructure that is more of a target for cyber-attacks.	• Informed choice of best-of-breed cloud computing providers (Microsoft Azure and Amazon AWS), the architecture of which facilitates quick recovery in the event of a single data region failure. • Development and implementation of three self-sufficient global instances of the platform to serve local customers and avoid global customer impact in the event of a regional outage. • Inheritance of economies of scale and pioneering technology from aforementioned providers, including computing power, bandwidth, and security.
Supplier, computer hardware and internet reliability-related risks	An event resulting in a loss of functionality at, or a total loss of, a data centre that hosts send components for a prolonged period will result in sub-optimal service, potentially leading to a loss in revenues. In addition, events preventing or obstructing the platform's communication abilities, such as the blacklisting of IP addresses at major internet service providers, incur revenue loss.	• Architecture of the platform is designed with baked-in resilience to cater for single points of failure. • Continual evaluation of suppliers and technologies with the prioritization of send volume, scalability and resiliency. • Continual investment in and maintenance of the Group's currently owned IP addresses to ensure global reputability and use optimization.
Information security and cyber risks	The ever evolving, sophisticated nature of the cyber threat landscape poses an ongoing risk to the Group. Revenue depends on the availability of computer systems, an attack against which could significantly impact the Group's ability to function. An attack impacting the confidentiality, integrity, or availability of systems and data would negatively impact the Group's reputation and therefore its ability to retain and attract new customers.	• Continual investment in cyber security under the guidance of the Group's dedicated information security function. • Implementation of regular vulnerability scanning, third-party penetration testing, and security update schedules to proactively detect and remediate against the latest threats. • Engendering a business-wide vigilance against threats through education on security and privacy.
Maximise investment in growing high performance teams	Failure to attract, hire, develop and retain high performing individuals will reduce the ability to achieve the Group's goals.	• Commitment to the delivery of a comprehensive programme of formal and informal learning and development opportunities aligned to the needs and goals of the business. • Regular evaluation of the benefits to ensure market competitivity.

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.	• Continual revenue growth year-on year and reinvestment in new product features, best-in-class customer support and service offerings, enhanced brand recognition and service delivery. • A global marketing presence to attract new customers. • Further improvement of dotmailer's renowned user experience. • Research and Development into big data solutions to underpin a new Artificial Intelligence/Machine Learning platform.
International expansion	Reliance on revenues relating to a single region increases the risk of revenue loss if that region was to experience an economic decline. Further, the Group's geographic expansion increases the risk of certain successful UK policies and practices proving less successful and providing a poorer level of service and assurance in new territories.	• Continual increase in international revenues. • Successful exploration into options relating to geographic expansion above and beyond the UK and US, with recent launches in Asia, the Nordics, Benelux and South Africa; further plans to grow into Western Europe. • Constant review by the executive team for growth opportunities in additional territories. • Proactive hiring of senior individuals in new regions who are experienced in developing successful international business models alongside quality local hires to deliver impeccable region-specific services.
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, abuse complaints from providers are not dealt with properly, bad customer data generates multiple complaints through ISPs or third-party spam are blacklisted, these impact the platform's overall ability to effectively deliver email.	• Provision of, and ongoing investment into many core platform services to filter known or bad data that may not comply with EU, Asia Pacific or US anti-spam regulations. • Development of the Group's deliverability team and consultancy services for customers focused on email delivery, data quality and legislative compliance. • Demonstration of commitment to anti-abuse through admittance to various industry groups, such as the Messaging, Malware and Mobile Anti-Abuse Working Group (M3AAWG), the Email Sender and Provider Coalition (ESPC). • Continuation of the Group's Board of Directors' role at both M3AAWG and the ESPC who's membership includes Google, Microsoft, Yahoo!, Comcast and AOL. • Proactive handling of abuse complaints generated by customer emails, including account suspension and agreement termination.
Development and maintenance of products	There is a possible risk that without continued investment into new products, maintenance and enhancement of old products and expansion into new sectors, the growth of the Group will be impaired.	• Continued realisation of revenue growth from product investment. • Innovation and increased development of new core product offerings in the multi-channel marketing automations space, facilitating new revenue opportunities and increasing the average recurring revenue of the Group's existing customers. • A constant focus on enabling unrestrained customer growth through the ease of dotmailer's best-of-breed integrations. • Continued evaluation and optimization of product performance in the technology landscape to reduce maintenance overheads.
Evolving technology and customer requirements	Failure to anticipate or respond to evolving technological channels and customer requirements or to introduce competitive enhancements and new features may impact growth and customer retention. The introduction of new solutions by competitors potentially makes the Group's solutions less competitive.	• Remaining a credible provider of multi-channel marketing SaaS solutions through constant investment in and development of new solutions, partnerships and enhancements. • Development of a strategy that facilitates the implementation of rapidly changing technologies anticipating client requirements and frequent product enhancements. • Dedication to remaining relevant to both the B2B and B2C verticals, reducing risk through the breadth of the platform's solutions; this differentiates dotmailer from its competitors. • Continued emphasis on recruiting and retaining leading experts. • Continued focus on combining email marketing and automation capabilities with the need for supporting more conversational channels and leveraging data to drive decisions.

Corporate social responsibility report

dotdigital continues to invest time and resource into Corporate Social Responsibility (CSR), ensuring employees, partners and the broader communities are both considered and supported.

Clients

Ensuring our products and services reflect the needs of our current clients and prospects is of paramount importance. Encouraging and acting on client feedback and research is a key component of our product roadmap and development schedules.

Clear and appropriate pricing structures supported by an efficient billing and invoicing system ensure our clients have full transparency with regards to the costs of using the dotdigital SaaS platform and services.

Employees

The Group is fully committed to encouraging the 'employee voice' and acting on the feedback we receive. Whether by informal discussion or by our annual employee satisfaction survey, the opinion and feedback provided by our employees is vital to shaping the business.

Support for our employees' Learning & Development (L&D) has been a primary focus for the business over the last year, with significant investment made to the provision of internal and external training. We have delivered training in over 30 different learning topics including; sales and account management, presentation skills and line management, along with a full programme of general business and communication 'soft skills' training. This has resulted in over 5,000 employee training hours being delivered last year.

With the continuing focus on international expansion, this L&D investment has included delivery of training to our New York operations teams.

The results and positive impact from this training have been significant; therefore, a similar level of investment is planned for the coming year.

Community and business partnership

The Group has a strong connection with the local Croydon community and its supporting organisations. Working with Croydon Council and key local businesses, including IKEA, MIND & Kier Highways, we are proud to be leaders of a new initiative to create the 'Croydon Good Employer Charter'.

Launched earlier this year, we have been pivotal in designing the charter and leading by example to be the first employer to gain the

accreditation. The corner stones of the charter ensure: fair pay (paying the London Living Wage), employing local wherever possible, employee opportunity and equality and engaging local suppliers of services. We look forward to continuing this work, encouraging and supporting hundreds of local businesses to adopt the charter, achieve accreditation and support 'good employment' in the area.

Charitable support

dotdigital and its employees remain keen supporters of local and national organisations and charities.

Through fundraising events such as bake sales, sponsored endeavours and social events this year, our employees have raised money for Macmillan Cancer Support, Comic Relief, NSPCC and the Breck Foundation.

Feedback received from our employees suggested there was an even greater appetite to support charities. Therefore, as part of a wider range of key enhancements to our employee benefits this year we have created a new programme which allows each employee to elect to take 2 days paid leave each year to participate in activities to support charities and good causes. Employees are free to propose how they will use their time and interest and uptake in this new programme is already allowing the business to further support good causes.

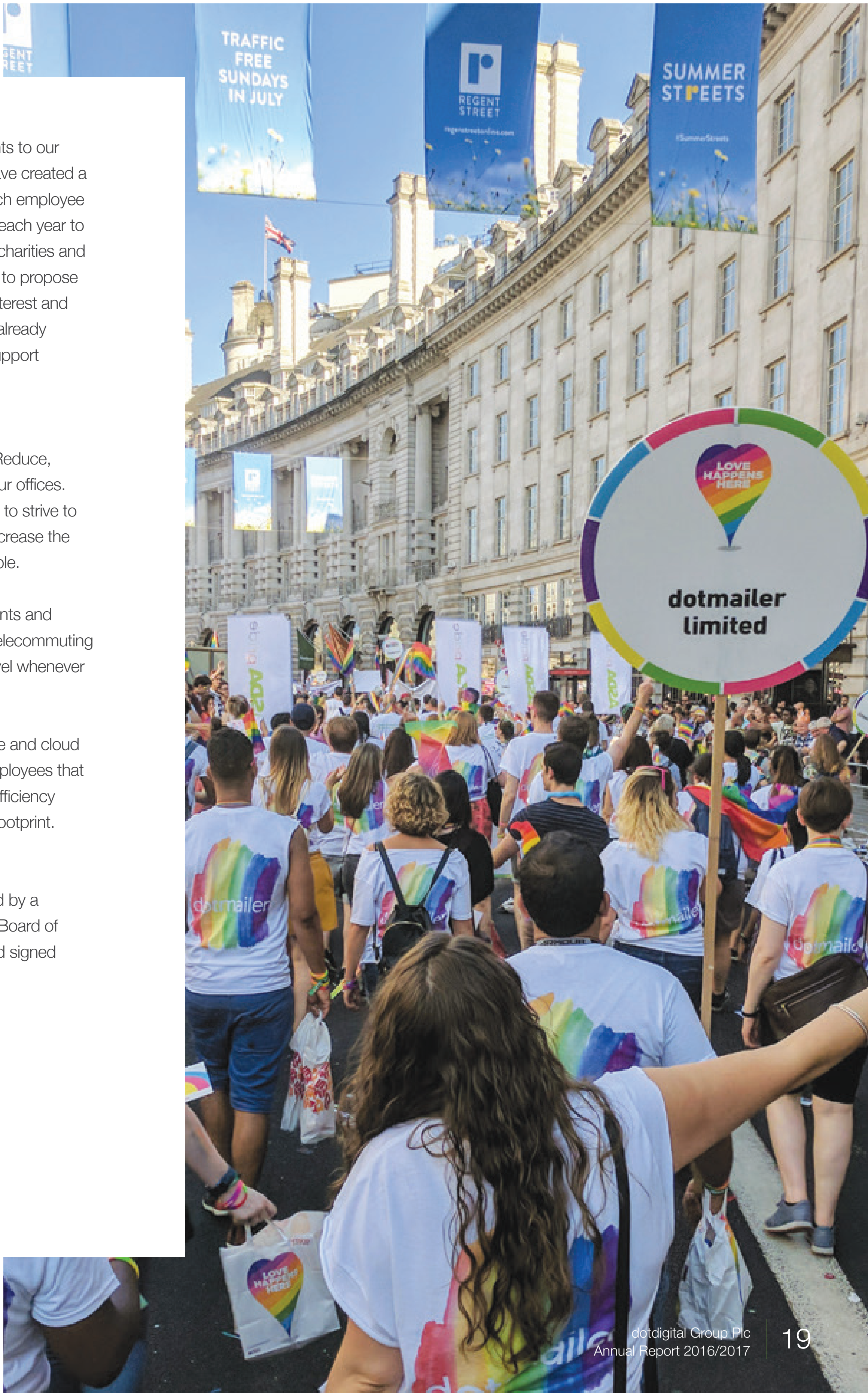
Environmental partnership
Our tried and tested adoption of Reduce, Reuse, Recycle runs through all our offices. As a digital business, we continue to strive to reduce printing and waste, and increase the levels of recycling wherever possible.

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

Ensuring we work with data centre and cloud partners and hardware for our employees that set industry standards in energy efficiency ensures we minimize our energy footprint.

Strategic report
The strategic report was approved by a duly authorised committee of the Board of Directors on 16 October 2017 and signed on its behalf by:

Milan Patel
Chief Executive Officer
16 October 2017



Board of Directors

Milan Patel FCCA ACSI

Chief Executive Officer

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 and 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 was responsible for the Group's functions in financial management and reporting, regulatory compliance, legal and corporate governance for the business prior to being made permanent CEO of the Company. He also brings substantial strategic financial and commercial experience to the Board. As well as financial acumen, he has developed a broad range of operational competencies, a grasp of strategic objectives, clear leadership, international business development, and strong decisive management skills.

Milan is now responsible for leading the executive team, vision and growth strategy for the business. More specifically Milan is leading our international growth strategy, accelerated product innovation, developing strategic partnerships and investigation of potential acquisitions. He has a strong track record of delivery of performance against plan.

Phillip Blundell ACA

Interim Chief Financial Officer

Phillip was appointed to the Board in July 2017. He has significant AIM-quoted experience having held senior financial and operational roles with both Intelligent Environments Group plc and Eagle Eye solutions Group Plc, totalling 18 years. He qualified as a Chartered Accountant in 1987 with Coopers & Lybrand, now part of PwC.

He also held senior finance roles at Thomson, Nortel and Ocean Software, providing finance support to international expansion as well as strategic acquisitions.

Phillip has considerable strategic experience in growing software businesses both organically and inorganically and has been appointed to assist Milan in taking the Group to the next level.

Frank Beechinor-Collins **Non-Executive Chairman**

Frank was for 11 years, CEO of One Click HR, an AIM-quoted technology business which he was a co-founder. Frank oversaw the successful sale of the business to ADP, a $4bn NYSE-listed company in 2011. Frank brings a great deal of corporate experience to the Board, gained over 25 years of working for and running public and private companies.

Frank has a strong track record in M&A and brings with him a quality network of contacts in the fields of managed services and Software as a Service. He is also currently Chairman of Redstone Connect plc, a leading provider of smart building infrastructure and agile workplace technology. Frank is CEO of Cadence Performance Ltd, a chain of specialist cycling performance centres and is Chairman at Food Choice at Work ltd, a spin-out business from University College Cork.

Richard Kellett-Clarke CA CMA **Non-Executive Director**

Richard has 40 plus years of experience in a variety of finance, IT, operational board and Plc board roles, all involved in the turnaround and strategic repositioning and recovery of creative, businesses in FMCG, media, electronics, and software.

He was a founder and later CEO of AFX News, a global financial newswire (now Thomson Reuters) and Sealed Media Ltd, a digital rights software management business (now Oracle), and more recently the CEO of Idox PLC where he grew the business 15 fold over nine years through organic and acquisitive growth before moving to a NED role last year. He has also had experience in the flotation of businesses on the main and AIM market as the CFO of Pickwick Group Plc and Brady Plc. Currently he holds two public NED roles and a number of advisory roles.

Peter Simmonds FCCA **Non-Executive Director**

Peter 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 is FCCA Qualified and currently also holds board positions in the role of Chairman at Cloudcall Group plc and D4T4 Solutions plc (both AIM-quoted companies) and in July 2016 he was appointed as a Non-Executive Director of Eckoh plc and on 6th October 2016 he was appointed as a board member of The Quoted Companies Alliance.

Simon Bird **Co-Founder**

Simon 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.

'Tink' Ian Taylor **Co-Founder**

Tink has 20 years' experience in the field of digital communications and has introduced digital marketing to companies large and small. Tink has been pivotal in the development of digital marketing since its outset in both the UK and the US. He served as a key and influential member of the UK Direct Marketing Association's Email Marketing Council and also the Internet Advertising Bureau since 2006.

In 2014 Tink was elected as Advisory Committee Member of the Board of the US Direct Marketing Association's Email Experience Council (EEC) and has judged the USA DMA email awards. Tink first launched dotmailer in the US at the back end of 2012 and later took dotmailer to APAC in 2015. He is currently a strategic advisor to dotmailer and the Plc Board.

Corporate governance report

The Board has sought to comply with the Quoted Companies Alliance (QCA) Corporate Governance Code for Small and Mid-sized Quoted Companies 2013, along 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.

Compliance statement

(a) Directors

The details of the Group's Board, together with the Audit and Remuneration Committee, are set out on page 20 to 25.

The Board met 11 times in the year 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.

All Directors had a record of full attendance at all board and committee meetings. The Nomination Committee met twice and comprises of Frank Beechinor-Collins, Richard Kellett-Clarke and Peter Simmonds. The Committee is responsible for identifying and proposing prospective candidates to the Directors for consideration and appointment by the Board as a whole. The Risk Committee met four times in the year and consists of Frank Beechinor-Collins, Richard Kellett-Clarke, Milan Patel and Peter Simmonds, it is responsible for identifying and mitigating potential risks and weaknesses in control procedures. The current composition of the Remuneration Committee and the Audit Committee is shown on page 23 to 25.

The service contracts of the Executive Directors run for one year and are 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 24 and 25 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 uses 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 21 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 26 to 27 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 27.

(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 2017 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 of Frank Beechinor-Collins and 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 judgement, 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 of 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 Company Secretary George Kasparian.

Main activities of the Audit Committee

At its meeting on 10 October 2017 the Committee reviewed the Group's preliminary announcement of its results for the financial year 30 June 2017 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 judgement, 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 2018. 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 George Kasparian, 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;
- Driving 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

Richard Kellett-Clarke
Chairman of Remuneration Committee

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
	12-month period to 30.06.17							
S J Barratt	24	–	–	–	–	123	147	–
S Bird	6	6	–	–	12	–	24	–
M Patel	247	10	125	–	25	–	407	–
I Taylor	120	20	–	–	13	–	153	–
	397	**36**	**125**	**–**	**50**	**123**	**731**	**–**

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	66	3	–	–	–	69	–
	138	**3**	**–**	**1**	**–**	**142**	

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
	12-month period to 30.06.16							
S J Barratt	183	3	–	137	–	114	437	423,409
S Bird	54	3	–	–	13	–	70	–
M Patel	205	9	125	–	20	–	359	–
I Taylor	120	18	–	–	12	–	150	–
	562	**33**	**125**	**137**	**45**	**114**	**1,016**	**423,409**

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**	

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
F Beechinor-Collins**	199,194	0.07
S Bird	17,558,996	5.93
R Kellett-Clarke	390,000	0.13
M Patel	1,575,927	0.53
P Simmonds*	2,491,470	0.84
I Taylor	29,776,667	10.05
	51,992,254	**17.55**

* 1,477,972 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 Frank 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

None of the Directors had an interest in share options.

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 2017. 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 £26.9m in the year ended June 2016 to £32.0m for the year ended June 2017, an increase of 19%.

Operating profit grew from £6.2m in 12 months to June 2016 to £8.1m for the year ended June 2017, an increase of 31%.

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:

	2017	2016	% increase
Revenue	£32.0m	£26.9m	19%
EBITDA	£10.1m	£8.0m	26%
ARPU	£715	£575	24%

Dividends

The Board proposes a dividend payment of £1,629,312 comprising an ordinary dividend of 0.55p (2016: £2,477,272 ordinary dividend of 0.43p and special dividend of 0.41p 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 the cash needs required for opportunities in organic growth to increase shareholder value and capital expenditure.

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 2017 are as follows:

	30.6.17		30.6.16	
Directors	Number of shares held	Percentage shareholding %	Number of shares held	Percentage shareholding %
F Beechinor-Collins	199,194**	0.07	199,194**	0.07
S Bird	17,558,996	5.93	17,558,996	5.96
R Kellett-Clarke	390,000	0.13	320,000	0.11
M Patel	1,575,927	0.53	1,575,927	0.53
P Simmonds	2,491,470*	0.84	3,991,470*	1.35
I Taylor	29,776,667	10.05	36,776,667	12.48

*Frank Nominees Limited holds 1,477,972 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 Frank 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 2017 are as follows:

Executive Directors	30.6.17 Number of options held	30.6.16 Number of options held
S J Barratt	–	423,409

Substantial interests

On 4 October 2017, 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 %
Liontrust Asset Management	59,730,575	20.16
Ian 'Tink' Taylor, Co-Founder & President	29,776,667	10.05
Simon Bird, Co-Founder & President	17,558,996	5.93
Slater Investments Ltd	17,417,123	5.88
Canaccord Genuity Group Inc	13,550,714	4.57
Herald Investment Management	10,490,804	3.54
Highclere International Investors	10,187,214	3.44
Franklin Templeton Fund Management	9,500,000	3.21
J O Hambro Capital Management	9,200,000	3.11

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 2016 to the date of this report.

S J Barratt (resigned 20 July 2016)
F Beechinor-Collins
S Bird
P Blundell (appointed 26 September 2017)
R Kellett-Clarke
M Patel
P A Simmonds
I Taylor

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 2017 was 67.5p (2016: 40.5p).

Statement of Directors' responsibilities

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

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether the Group and Parent Company financial statements have been prepared in accordance with 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
16 October 2017

Report of the independent auditor

Opinion

We have audited the financial statements of dotdigital Group Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 30 June 2017 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 notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 June 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRS's as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.
Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

Our audit approach

Overview

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

- Capitalisation of Development costs
- Valuation of investments and intangible assets.
- Share-based payment charges

These are explained in more detail below

Materiality:

Group financial statements:

- £460,000 (30 June 2016: £400,000)
- Based on the average of the following:
  - a. 1% of Revenue
  - b. 2.5% of Gross Assets
  - c. 10% of Net Profit

Company financial statements:

- £71,000 (30 June 2016: £50,000)
- Based on the same parameters set out as the Group financial statements, above.

Audit scope

- We conducted audits of the complete financial information of dotdigital Group Plc, dotmailer Limited, dotmailer Inc., dotsearch Europe Limited, dotmailer Pty Limited, dotmailer SA Pty Limited and dotmailer Development Limited.
- We performed specified procedures over certain account balances and transaction classes at other Group companies.
- Taken together, the Group companies over which we performed our audit procedures accounted for 100% of the absolute profit before tax (i.e. the sum of the numerical values without regard to whether they were profits or losses for the relevant reporting units) and 100% of revenue.

Key audit matters

Key audit matter	How our audit addressed the key audit matter
Capitalisation of Development costs During the year the company capitalised costs of £2,378,253 (30 June 2016: £1,570,379) in relation to the platform and process improvements. These capitalised costs are being amortised over five years. The Directors have assessed whether the costs meet the criteria for capitalisation and whether there are any indicators of impairment. The adjusted consolidated profit before tax, which is considered by management to be a key metric and is discussed in their discussion of KPIs, is directly impacted by the amount of costs capitalised and the amounts included in the reconciliation of the adjusted income measures. We focused on whether the costs capitalised met the criteria for capitalisation and whether, those costs were classified as ongoing projects or process improvements costs.	We considered whether the nature of the costs met the criteria for the costs to be capitalised. We vouched a sample of the costs capitalised that relate to specific projects and created add on functions with the system. We agreed a sample of the internal staff costs capitalised to supporting calculations, time records and payroll calculations. In both cases, we considered whether the nature of the costs met the criteria for the costs to be capitalised. We considered whether the Directors' policy for the treatment of such costs was reasonable and, on a sample basis, assessed whether the costs included in the reconciliation were in line with the Directors' policy. We found no material exceptions in our testing.
Investments / Intangibles carrying value The Company had investments of £5,186,604 at the year ended 30 June 2017 (30 June 2016: £5,186,497). The Directors have confirmed all investments, including additions were correctly calculated and being held at cost. The Group had capitialised development costs of £4,341,785 at the year ended 30 June 2017. The Directors have confirmed all intangibles, including additions were correctly calculated. The Company had goodwill of £608,503 at the year ended 30 June 2017 (30 June 2016: £608,503). The Directors have confirmed goodwill is carried correctly.	The net assets of the main subsidiary exceeds that of the investment carrying value, supported by robust performance with no going concern issues. The analysis work undertaken by Directors shows that the Group is expected to remain cash generative and profitable based on their technology. We have understood and assessed the methodology used by the Directors in this analysis and determined it to be reasonable. Intangibles are only assessed for impairment when indicators of impairment exist. We have considered the life cycle, public perception through the share price of the Company and the fair value of intangibles held by the Company. As all the capitalised intangibles relate to products that dotmailer is using to enhance its product we consider it reasonable that no impairment has been recognised in the period.
Share-based payment charge The charge for the year is made up as follows: Options granted £162,089 All share options and warrants that vest in the period have been reviewed for the purpose of calculating an appropriate share-based payment charge. The Black-Scholes model has been used to value the options and warrants at the grant date. Options have estimated vesting periods based on management's assumptions and the share-based payment is spread evenly over this period from the date of grant. Warrants vested on the grant date and the share-based payment was fully charged to the profit and loss during the year. There is therefore judgment in the valuation of share-based payments, owing to the estimation uncertainty that exists around future vesting periods.	We have understood and assessed the methodology utilised to estimate the Company's share-based payment charge calculations and checked that the calculation of the provision was mathematically accurate. We found no material exceptions in our testing. We have audited the share-based payment by reviewing the key inputs used in the model for reasonableness. The key input most subjective is that of expected future volatility. We have reviewed management's calculation of the expected volatility of 30% based on similar tech companies and determined the estimation to be reasonable.

Report of the independent auditor continued

Our application of materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgment, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£460,000 (30 June 2016: £400,000).	£71,000 (30 June 2016: £50,000).
How we determined it	Based on the average of 10% of profit before tax, 1.5% of gross assets and 1% of Revenue.	Based on the average of 10% of loss before tax and 1.5% of gross assets.
Rationale for benchmark applied	We believe that profit before tax is a primary measure used by shareholders in assessing the performance of the Group whilst gross asset values and revenue are a representation of the size of the Group; both are generally accepted auditing benchmarks.	We believe that profit before tax is a primary measure used by shareholders in assessing the performance of the Company whilst gross asset values are a representation of the size of the Company; both are generally accepted auditing benchmarks.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £5,000 and £460,000.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £23,000 (Group audit) (30 June 2016: £20,000) and £3,550 (Company audit) (30 June 2016: £1,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

An overview of the scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgments, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group financial statements are a consolidation of 7 reporting units, comprising the Group's operating businesses and holding companies.

We performed audits of the complete financial information of dotdigital Group Plc, dotmailer Limited, dotmailer Inc., dotsearch Europe Limited, dotmailer Pty Limited, dotmailer SA Pty Limited and dotmailer Development Limited reporting units, which were individually financially significant and accounted for 100% of the Group's revenue and 100% of the Group's absolute profit before tax (i.e. the sum of the numerical values without regard to whether they were profits or losses for the relevant reporting units). We also performed specified audit procedures over goodwill and other intangible assets, as well as certain account balances and transaction classes that we regarded as material to the Group at the 7 reporting units, one based in the United States of America, one in Australia, one in Belarus and another in South Africa.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement set out on page 30, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Parent Company to cease to continue as a going concern.

Report of the independent auditor continued

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Use of this report

This report, including the opinions, has been prepared for and only for the Parent Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other matters which we are required to address

We were appointed as auditors by the Company at the Annual General Meeting on 20 December 2016. Our total uninterrupted period of engagement is 10 years, covering the periods ending 30 June 2009 to 30 June 2017. The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting our audit. Our audit opinion is consistent with the additional report to the audit committee.

Jonathan Isaacs
Senior Statutory Auditor

For and on behalf of
Jeffreys Henry LLP, Statutory Auditor
Finsgate 5-7 Cranwood Street
London EC1V 9EE

16 October 2017

Financial statements

Contents

Consolidated income statement

For the year ended 30 June 2017

	Notes	30.6.17 £'000	30.6.16 £'000
Continuing operations			
Revenue		**31,966**	**26,926**
Cost of sales		(4,459)	(3,395)
Gross profit		**27,507**	**23,531**
Administrative expenses	6	(19,431)	(17,367)
Operating profit		**8,076**	**6,164**
Finance income	5	15	51
Profit before income tax	6	**8,091**	**6,215**
Income tax expense	7	(945)	(847)
Profit for the year from continuing operations		**7,146**	**5,368**
Profit for the year attributable to the owners of the parent		7,146	5,368
Earnings per share from continuing operations (pence per share)			
Basic	10	2.42	1.83
Diluted	10	2.41	1.83

Consolidated statement of comprehensive income

For the year ended 30 June 2017

	Notes	30.6.17 £'000	30.6.16 £'000
Profit for the year		**7,146**	**5,368**
Other comprehensive income			
Items that may be subsequently reclassified to profit and loss:			
Exchange differences on translating foreign operations		**(54)**	**11**
Total comprehensive income attributable to:			
Owners of the parent		**7,092**	**5,379**
Total comprehensive income for the year			
Comprehensive income from continuing operations		**7,092**	**5,379**

Consolidated statement of financial position

For the year ended 30 June 2017

	Notes	30.6.17 £'000	30.6.16 £'000
Assets			
Non-current assets			
Goodwill	11	609	609
Intangible assets	12	4,519	3,684
Property, plant and equipment	13	1,033	1,142
		6,161	**5,435**
Current assets			
Trade and other receivables	15	7,847	6,206
Cash and cash equivalents	16	20,428	17,313
		28,275	23,519
Total assets		**34,436**	**28,954**
Equity attributable to the owners of the parent			
Called up share capital	17	1,481	1,473
Share premium	18	6,290	6,138
Reverse acquisition reserve	18	(4,695)	(4,695)
Other reserves	18	305	174
Retranslation reserve	18	(46)	8
Retained earnings	18	25,306	20,611
Total equity		**28,641**	**23,709**
Liabilities			
Non-current liabilities			
Deferred tax	22	814	716
Current liabilities			
Trade and other payables	19	4,440	4,151
Current tax payable		541	378
		4,981	4,529
Total liabilities		**5,795**	**5,245**
Total equity & liabilities		**34,436**	**28,954**

The financial statements were approved and authorised for issue by the Board of Directors on 16 October 2017 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 2017

	Notes	30.6.17 £'000	30.6.16 £'000
Assets			
Non-current assets			
Investments	14	5,187	5,186
		5,187	**5,186**
Current assets			
Trade and other receivables	15	4,633	7,102
Cash and cash equivalents	16	591	639
		5,224	7,741
Total assets		**10,411**	**12,927**
Equity attributable to the owners of the parent			
Called up share capital	17	1,481	1,473
Share premium	18	6,290	6,138
Other reserves	18	305	174
Retained earnings	18	2,239	5,080
Total equity		**10,315**	**12,865**
Liabilities			
Current liabilities			
Trade and other payables	19	96	62
Total liabilities		**96**	**62**
Total equity & liabilities		**10,411**	**12,927**

The financial statements were approved and authorised for issue by the Board of Directors on 16 October 2017 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 2017

	Called up share capital £'000	Retained earnings £'000	Share premium £'000
Balance as at 1 July 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**
Issue of share capital	8	–	152
Dividends	–	(2,479)	–
Transfer in reserves	–	28	–
Share-based payment	–	–	–
Transactions with owners	8	(2,451)	152
Profit for the year	–	7,146	–
Other comprehensive income	–	–	–
Total comprehensive income	–	7,146	–
Balance as at 30 June 2017	**1,481**	**25,306**	**6,290**

	Retranslation reserve £'000	Reverse acquisition reserve £'000	Other reserves £'000	Total equity £'000
Balance as at 1 July 2015	**(3)**	**(4,695)**	**(25)**	**18,391**
Issue of share capital	–	–	–	794
Share repurchase	–	–	–	–
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**
Issue of share capital	–	–	(3)	157
Dividends	–	–	–	(2,479)
Transfer in reserves	–	–	(28)	–
Share-based payments	–	–	162	162
Transactions with owners	–	–	131	(2,160)
Profit for the year	–	–	–	7,146
Other comprehensive income	(54)	–	–	(54)
Total comprehensive income	(54)	–	–	7,092
Balance as at 30 June 2017	**(46)**	**(4,695)**	**305**	**28,641**

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 2017

	Called up share capital £'000	Retained earnings £'000	Share premium £'000	Other reserves £'000	Total equity £'000
Balance as at 1 July 2015	**1,435**	**1,534**	**5,382**	**(25)**	**8,326**
Issue of share capital	38	–	756	–	794
Dividends	–	(1,054)	–	–	(1,054)
Share repurchase	–	–	–	–	–
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**
Issue of share capital	8	–	152	(3)	157
Dividends	–	(2,479)	–	–	(2,479)
Transfer in reserves	–	28	–	(28)	–
Share-based payment	–	–	–	162	162
Transactions with owners	8	(2,451)	152	131	(2,160)
Profit for the year	–	(390)	–	–	(390)
Total comprehensive income	–	(390)	–	–	(390)
Balance as at 30 June 2017	**1,481**	**2,239**	**6,290**	**305**	**10,315**

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. Other reserves relate 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 2017

	Notes	30.6.17 £'000	30.6.16 £'000
Cash flows from operating activities			
Cash generated from operations	27	8,813	7,997
Tax paid		(685)	(335)
Net cash generated from operating activities		**8,128**	**7,662**
Cash flows from investing activities			
Purchase of intangible fixed assets		(2,379)	(1,570)
Purchase of tangible fixed assets		(375)	(502)
Sale of tangible fixed assets		48	–
Interest received		15	51
Net cash flows used in investing activities		**(2,691)**	**(2,021)**
Cash flows from financing activities			
Equity dividends paid		(2,479)	(1,054)
Share issue		157	794
Net cash flows (used)/from financing activities		**(2,322)**	**(260)**
Increase in cash and cash equivalents		**3,115**	**5,381**
Cash and cash equivalents at beginning of year	28	17,313	11,932
Cash and cash equivalents at end of year	28	**20,428**	**17,313**

Company statement of cash flows

For the year ended 30 June 2017

	Notes	30.6.17 £'000	30.6.16 £'000
Cash flows from operating activities			
Cash generated from operations	27	2,274	733
		2,274	**733**
Net cash generated from operating activities			
Cash flows from financing activities			
Equity dividends paid		(2,479)	(1,054)
Share issue		157	794
Share repurchase		–	–
Net cash flows (used)/from financing activities		**(2,322)**	**(260)**
Increase in cash and cash equivalents		**(48)**	**473**
Cash and cash equivalents at beginning of year	28	639	166
Cash and cash equivalents at end of year	28	**591**	**639**

Notes to the consolidated financial statements

For the year ended 30 June 2017

1. General information

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

2. Accounting policies

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards 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 Company

There are no IFRSs or IFRIC interpretations that are effective for the first time in the financial year beginning on or after 1 July 2016 that would be expected to have a material impact on the Company.

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 2016 and have not been early adopted:

Reference	Title	Summary	Application date of standard	Application date of Group
IFRS 4	Insurance Contracts	Amendments regarding the interaction of IFRS 4 and IFRS9	Periods beginning on or after 1 January 2018	1 July 2018
IFRS 15	Revenue from Contracts with Customers	Original issue	Periods beginning on or after 1 January 2018	1 July 2018
		Amendments to defer the effective date	Periods beginning on or after 1 January 2018	1 July 2018
		Clarifications to IFRS	Periods beginning on or after 1 January 2018	1 July 2018
IAS 7	Statement of Cash Flows	Amendments as a result of the Disclosure initiative	Periods beginning on or before 1 January 2017	1 July 2017
IAS 12	Income Taxes	Amendments regarding the recognition of deferred tax for unrealised losses	Periods beginning on or before 1 January 2017	1 July 2017
IAS 40	Investment Property	Amendments to clarify transfers or property to, or from, investment property.	Periods beginning on or after 1 January 2018	1 July 2018
IFRS 1, IFRS 2, IAS 28	Annual improvements 2014-2016 Cycle	Amendments resulting	Annual periods beginning on and after 1 January 2018	1 July 2018
IFRS 16	Leases	Original issue	Annual periods beginning on or after 1 January 2019	1 July 2019
IFRS 9	Financial Instruments	Amendments regarding the interaction of IFRS 4 and IFRS9	Periods beginning on or after 1 January 2018	1 July 2018
Amendments to IFRS 12	Disclosure of interests in other entities	Amendments resulting from Annual Improvements 2014-2016 (Clarifying Scope)	Annual periods beginning on or after 1 January 2017	1 July 2017
Amendments to IFRIC 22	Foreign Currency transactions and advance consideration	Amendments to clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.	Annual periods beginning on or after 1 January 2019	1 July 2019
IFRIC 23	Uncertainty over income tax treatment	Address how to reflect uncertainty in accounting for income tax	Annual periods beginning on or after 1 January 2019	1 July 2019

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 company. The Company does not intend to apply any of these pronouncements early. In regard to IFRS15, the Board has initiated a project to assess the likely impact ahead of its implementation. The Board does not expect this to have a material impact on the financial statements.

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

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 IFRS3 '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.

Notes to the consolidated financial statements continued

For the year ended 30 June 2017

2. Accounting policies continued

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 of 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 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.

Notes to the consolidated financial statements continued

For the year ended 30 June 2017

2. Accounting policies continued

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 estimates and judgements

The Group makes certain estimates and assumptions regarding the future. Estimates and judgements 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 below:

Judgements

(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 judgements:

- 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) *Estimated impairment 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 judgements 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.

Notes to the consolidated financial statements continued

For the year ended 30 June 2017

2. Accounting policies continued

(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 judgements 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:

	30.6.2017			
	UK £'000	US £'000	RoW £'000	Total £'000
Income statement				
Revenue	24,743	3,907	3,316	31,966
Gross profit	21,291	3,293	2,923	27,507
Profit before income tax	4,779	1,062	2,250	8,091
Total comprehensive income attributable to the owners of the parent	**3,929**	**867**	**2,250**	**7,146**
Financial position				
Total assets	32,578	1,556	302	34,436
Net current assets	21,961	1,120	213	23,294

Revenue from external customers is attributed to the geographical segments noted above based on the customers' location. There were no customers who account for more than 10% revenue (2016: none).

	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

4. Employees and Directors

	30.6.17 £'000	30.6.16 £'000
Wages and salaries	11,217	9,667
Social security costs	1,146	1,036
Other pension costs	252	243
	12,615	**10,946**

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

	30.6.17	30.6.16
Directors	6	7
Sales and Marketing product	120	100
Development and system engineers	56	43
Administration	56	54
	238	**204**

During the year the Group also capitalised staff-related costs of £2,072,417 (2016: £1,338,915) in relation to internally generated development costs.

5. Net finance income

	30.6.17 £'000	30.6.16 £'000
Finance income:		
Deposit account interest	15	51
	15	**51**

6. Operating profit before exceptional items

Costs by nature

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

	30.6.17 £'000	30.6.16 £'000
Direct marketing	2,073	1,984
Outsourcing	186	172
Other costs	2,200	1,239
Total cost of sales	**4,459**	**3,395**

	30.6.17 £'000	30.6.16 £'000
Staff-related costs (inc Directors emoluments) – note 4	12,615	10,946
Operating leases: Land and buildings	954	865
Operating leases: Other	43	48
Audit remuneration	40	37
Amortisation of intangibles	1,544	1,330
Depreciation charge	494	450
Legal, professional and consultancy fees	424	289
Computer expenditure	1,809	1,236
Bad debts	8	801
Foreign exchange losses	(21)	(246)
Travelling	425	471
Office running	158	174
Other costs	938	966
Total administration costs	**19,431**	**17,367**

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

	30.6.17 £'000	30.6.16 £'000
Fees payable to the Company's auditor for the audit of Parent Company and consolidated financial statements	8	8
Fees payable to the Company's auditor for other services		
– audit of Company subsidiaries	28	25
– non-audit fees: Tax and review of interim accounts	4	4
	40	**37**

Notes to the consolidated financial statements continued

For the year ended 30 June 2017

7. Income tax expense

Analysis of the tax charge from continuing operations:

	30.6.17 £'000	30.6.16 £'000
Current tax on profits for the year	847	514
Deferred tax on origination and reversal of timing differences	98	333
	945	**847**

Factors affecting the tax charge:	30.6.17 £'000	30.6.16 £'000
Profit on ordinary activities before tax	8,091	6,215
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19.75% (2016: 20.75%)	1,598	1,243
Effects of:		
Expenses not deductible	12	164
Research and development enhanced claim	(1,004)	(670)
Expenditure permitted on exercising options	(141)	(465)
Overseas tax (profits)/losses	64	(15)
Capital allowances in excess of depreciation	318	257
Total income tax	**847**	**514**

Deferred tax was calculated using the rate 19.75% (2016: 19.75%). 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 £390,345 (2016: profit: £4,601,353).

9. Dividends

Amounts recognised as distributions to equity holders in the period.

	30.6.17 £'000	30.6.16 £'000
Paid dividend for year end 30 June 2017 of 0.857p (2016: 0.357p) per share	2,449	1,054
Proposed dividend for the year end 30 June 2017 of 0.55p (2016: 0.84p) per share	**1,629**	**2,476**

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 0.55p is a general dividend (2016: 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:

From continuing operations	30.6.17 Earnings £'000	Weighted average number of shares	Per share Amount Pence
Basic EPS			
Profit for the year attributable to the owners of the parent	7,146	295,457,101	2.42
Options and warrants	–	1,061,738	–
Diluted EPS			
Profit for the year attributable to the owners of the parent	**7,146**	**296,518,839**	**2.41**

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.

From continuing operations	30.6.16 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**

Weighted average number of shares	30.6.17 Shares	30.6.16 Shares
Basic EPS	295,457,101	293,095,257
Diluted EPS	296,518,859	294,072,812

11. Goodwill

Group

Cost	30.6.17 £'000	30.6.16 £'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**

Notes to the consolidated financial statements continued

For the year ended 30 June 2017

11. Goodwill continued

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% (2016: 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 2016	362	8,107	16	8,485
Additions	135	2,244	–	2,379
At 30 June 2017	**497**	**10,351**	**16**	**10,864**
Amortisation				
At 1 July 2016	264	4,521	16	4,801
Amortisation for the year	56	1,488	–	1,544
At 30 June 2017	**320**	**6,009**	**16**	**6,345**
Net book value				
At 30 June 2017	**177**	**4,342**	**–**	**4,519**

	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**

Development cost additions represents resources the Group have invested in the development of new innovative and ground breaking technology products for marketing professionals. This platform allows them to create, send and automate marketing campaigns. Following development of the products the Group intends to licence 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 2016	444	448	1,760	2,652
Additions	55	86	234	375
Disposals	–	–	(601)	(601)
At 30 June 2017	**499**	**534**	**1,393**	**2,426**
Depreciation				
At 1 July 2016	147	293	1,070	1,510
Depreciation for the year	67	86	341	494
Eliminated on disposal	–	–	(611)	(611)
At 30 June 2017	**214**	**379**	**800**	**1,393**
Net book value				
At 30 June 2017	**285**	**155**	**593**	**1,033**

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**

14. Investments

Company	Shares in Group undertakings 30.6.17 £'000	Shares in Group undertakings 30.6.16 £'000
Cost		
At 1 July 2016	8,705	8,705
Additions	1	–
At 30 June 2017	**8,706**	**8,705**
Amortisation		
At 1 July and 30 June	3,519	3,519
Net book value		
At 30 June	**5,187**	**5,186**

Notes to the consolidated financial statements continued

For the year ended 30 June 2017

14. Investments continued

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 marketing	Ordinary	100
		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
dotmailer Development Limited	Holding company	Ordinary	100
dotmailer SA Pty	Development hub	Ordinary	100
dotmailer LLC	Development hub	Ordinary	100

All of the above subsidiaries have been included within the consolidated results. All the above companies with the exception of dotmailer Inc, dotmailer SA Pty, dotmailer LLC and dotmailer Pty Limited were incorporated in England and Wales. dotmailer Inc was incorporated in Delaware (US), dotmailer Pty Limited was incorporated in New South Wales (Australia), dotmailer SA Pty was incorporated in South Africa and dotmailer LLC was incorporated in the Republic of Belarus.

15. Trade and other receivables

	Group		Company	
	30.6.17 £'000	30.6.16 £'000	30.6.17 £'000	30.6.16 £'000
Current:				
Trade receivables	6,425	5,559	–	–
Less: Provision for impairment of trade receivables	(502)	(824)	–	–
Trade receivables – net	5,923	4,735	–	-
Other receivables	111	137	–	–
Amounts owed by Group undertakings	–	–	4,609	7,080
VAT	–	–	14	9
Prepayments and accrued income	1,813	1,334	10	13
	7,847	**6,206**	**4,633**	**7,102**

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

Included within prepayments is an amount of £621,065 (2016: £271,680) in relation to deferred commission which is considered to be long-term.

16. Cash and cash equivalents

	Group		Company	
	30.6.17 £'000	30.6.16 £'000	30.6.17 £'000	30.6.16 £'000
Bank accounts	20,428	17,313	591	639
	20,428	**17,313**	**591**	**639**

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

17. Called up share capital

Allotted, issued, fully paid number	Nominal value	30.6.17 £'000	30.6.16 £'000
296,238,485 (2016: 294,784,789)	£0.005	1,481	1,473
		1,481	**1,473**

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

On 16 November 2016 a number of employees exercised their share options increasing the issued share capital by 788,696 shares at a premium price of 0p.

On 28 February 2017 a number of employees exercised their share options increasing the issued share capital by 525,000 shares at a premium price of 28.5p.

On 28 June 2017 a number of employees exercised their share options increasing the issued share capital by 140,000 shares at a premium price of 50p.

18. Reserves

Group

	Retained earnings £'000	Share premium £'000	Reverse acquisition reserve £'000
As at 1 July 2016	20,611	6,138	(4,695)
Issue of share capital	–	152	–
Dividends	(2,479)	–	–
Profit for the year	7,146	–	–
Transfer of reserves	28		
Other comprehensive income: Currency translation	–	–	–
Share-based payment	–	–	–
Balance as at 30 June 2017	**25,306**	**6,290**	**(4,695)**

	Retranslation reserve £'000	Other reserves £'000	Totals £'000
As at 1 July 2016	8	174	22,236
Issue of share capital	–	(3)	149
Dividends	–	–	(2,479)
Profit for the year	–	–	7,146
Transfer of reserves	–	(28)	–
Other comprehensive income: Currency translation	(54)	–	(54)
Share-based payment	–	162	162
Balance as at 30 June 2017	**(46)**	**305**	**27,160**

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	–
Share repurchase	–	–	–
Dividends	(1,054)	–	–
Profit for the year	5,368	–	–
Currency translation	–	–	–
Share-based payment	–	–	–
Balance as at 30 June 2016	**20,611**	**6,138**	**(4,695)**

Notes to the consolidated financial statements continued

For the year ended 30 June 2017

18. Reserves continued

	Retranslation reserve £'000	Other reserves £'000	Totals £'000
As at 1 July 2015	(3)	(25)	16,956
Issue of share capital	–	–	756
Share repurchase	–	–	–
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**

Company	Retained earnings £'000	Share premium £'000	Share-based payments £'000	Totals £'000
As at 1 July 2016	5,080	6,138	174	11,392
Issue of share capital	–	152	(3)	149
Dividends	(2,479)	–	–	(2,479)
Profit for the year	(390)	–	–	(390)
Transfer of reserves	28	–	(28)	–
Share-based payment	–	–	162	162
As at 30 June 2017	**2,239**	**6,290**	**305**	**8,834**

	Retained earnings £'000	Share premium £'000	Other reserves £'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**

19. Trade and other payables

	Group		Company	
	30.6.17 £'000	30.6.16 £'000	30.6.17 £'000	30.6.16 £'000
Current:				
Trade payables	1,194	1,351	52	11
Amounts owed to Group undertakings	–	–	–	4
Social security and other taxes	415	571	–	–
Other payables	32	222	–	1
VAT	830	710	–	–
Accruals and deferred income	1,969	1,297	44	46
	4,440	**4,151**	**96**	**62**

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:

	30.06.17		
	Land & buildings £'000	Others £'000	Totals £'000
Within one year	591	27	618
Between two to five years	3,024	7	3,031
	3,615	**34**	**3,649**

	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**

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	
	30.6.17 £'000	30.6.16 £'000	30.6.17 £'000	30.6.16 £'000
Financial assets				
Trade and other receivables	7,847	6,206	24	22
Bank balances	20,428	17,313	591	639
	28,275	**23,519**	**615**	**661**
Financial liabilities				
Trade payables	1,194	1,351	52	11
Accrued liabilities and other payables	3,246	2,800	44	47
	4,440	**4,151**	**96**	**58**

Notes to the consolidated financial statements continued

For the year ended 30 June 2017

21. Financial instruments and risk management continued

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 £2,056,000 (2016: £2,283,000) 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 2017 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:

	30.6.17 £'000	30.6.16 £'000
0-30 days	4,845	2,795
30-60 days	67	1,243
More than 60 days	1,513	1,521
	6,425	**5,559**

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

	30.6.17 £'000	30.6.16 £'000
0-30 days	8	6
30-60 days	8	87
More than 60 days	486	731
	502	**824**

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

	30.6.17 £'000	30.6.16 £'000
As at 1 July	824	343
Provision for impairment	82	789
Receivable written off in the year	(65)	(259)
Unused amount reversed	(339)	(49)
As at 30 June	**502**	**824**

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 £1,581,391 (2016: £1,541,197) of which £460,837 (2016: £730,350) was provided for. The Group felt that the remainder would be collected post year end as they were with long-standing relationships, and 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 a 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 (2016: £nil) and amounts payable over one year are nil (2016: £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

	30.6.17 £'000	30.6.16 £'000
As at 1 July	716	383
Current year provision	98	333
	814	**716**

The deferred tax liability above comprises the following temporary differences:

	30.6.17 £'000	30.6.16 £'000
Capital allowances in excess of depreciation	113	91
R&D relief in excess of amortisation	858	708
Share option relief	(157)	(83)
	814	**716**

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.

Notes to the consolidated financial statements continued

For the year ended 30 June 2017

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:

			30.6.17 £'000	30.6.16 £'000
Sale of services				
Cadence Performance	Entity under common directorship	Email marketing services	2	2
			2	**2**

Directors

	30.6.17 £'000	30.6.16 £'000
Aggregate emoluments	558	858
Ex-gratia payment	–	137
Company contributions to money purchase pension scheme	50	46
Share-based payments	–	114
	608	**1,155**

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

	30.6.17 £'000	30.6.16 £'000
Salaries	372	183
Ex-gratia payment	–	137
Other benefits	10	3
Pension costs	25	–
Share-based payments	–	114
	407	**437**

Company

The following transactions were carried out with related parties:

			30.6.17 £'000	30.6.16 £'000
Year end balances arising from sales/purchase of services				
dotmailer Limited	Subsidiary	Payables	(5,338)	(5,338)
			(5,338)	**(5,338)**

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

		30.6.17 £'000	30.6.16 £'000
dotmailer Limited	Subsidiary		
As at 1 July		12,417	6,388
Loans advanced		40	6,069
Loans repaid		(2,507)	(40)
		9,950	**12,417**

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), doteditor Limited (Dormant) dotmailer Developments Limited, dotmailer SA Pty and dotmailer LLC.

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 £162,000 (2016: £199,600).

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 2017 had a WAEP of 33.35p (2016: 26.69p) and a weighted average contracted life of 2.67 years (2016: 3.2 years) and their exercise prices ranged from 13p to 68.50p. All share options are settled in the form of equity issued.

	30.06.17		30.6.16	
	No of options	WAEP	No of options	WAEP
Outstanding at the beginning of the period	4,104,029	26.69p	10,938,790	14.83p
Granted during the year	230,985	68.50p	1,439,029	29.02p
Forfeited/cancelled during the period	706,460	35.30p	491,066	21.46p
Exchanged for shares	1,088,409	694.91p	7,782,724	10.22p
Outstanding at the end of the period	2,540,145	33.35p	4,104,029	26.69p
Exercisable at the end of the period	500,000	15.63p	1,063,409	8.00p

The weighted average share price at the date of the exercise for share options exercised during the period was 694.91p (2016: 40.32p)

	20 June 2017	25 November 2015	28 November 2014	18 October 2013
Number of options granted	230,985	809,160	1,525,000	3,554,794
Share price at grant date	68.50p	40.50p	29.00p	17.82p
Exercise price	68.50p	40.25p	28.50p	18.25p
Option life in years	5 years	5 years	5 years	5 years
Risk free rate	1.33%	1.33%	1.35%	1.40%
Expected volatility	30%	30%	30%	30%
Expected dividend yield	1%	0%	0%	0.4%
Fair value of options/warrants	12.04p	6.46p	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.

Notes to the consolidated financial statements continued

For the year ended 30 June 2017

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

	Group		Company	
	30.6.17 £'000	30.6.16 £'000	30.6.17 £'000	30.6.16 £'000
Current				
Profit before tax from all operations	8,091	6,215	(390)	4,600
Currency revaluation	(54)	11	–	–
Depreciation	2,038	1,787	–	–
Loss on disposal of fixed assets	(58)	–	–	–
Share-based payments	162	199	162	199
Finance income	(15)	(51)	–	–
	10,164	**8,161**	**(228)**	**4,799**
(Increase)/decrease in trade receivables	(1,641)	(878)	2,469	(3,978)
Increase/(decrease) in trade payables	290	714	33	(88)
Cash generated from operations	**8,813**	**7,997**	**2,274**	**733**

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 2015	11,932	166
As at 30 June 2016	17,313	639
As at 30 June 2017	**20,428**	**591**

29. Project development

During the period the Group incurred £2,243,687 (2016: £1,428,558) 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 2017

Directors:

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F Beechinor-Collins
I Taylor
S Bird
P Simmonds
R Kellett-Clarke

Company Secretary:

G Kasparian

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