Powering Customer Engagement

Annual Report
2017/2018

dotdigital GROUP PLC

Corporate statement

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

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dotmailer User Conference
London, April 2018

* After spending £10.7m on the acquisition of Comapi from cash reserves.

Chairman's report

Frank Beechinor-Collins
Non-Executive Chairman

Introduction

We have had another strong year with revenues of £43.1m up from £32.0m in 2017. Profitability has also increased in the period from £7.1m in 2017 to £8.6m in 2018. Cash at the year-end was just over £15.0m.

We have seen good progress against the three key strategic initiatives we highlighted in last year's annual report: geographical expansion, product innovation and wider strategic partnerships. Our return on investment in these initiatives is reflected in our continuing strong financial performance.

The business continues to deliver strong sales growth and we have made considerable progress in our international markets. We have seen continued growth in new customers as well as an increase in the average revenue we achieve from each customer (ARPU). Sales in the APAC region grew by 85% in the past year whilst organic growth in the US was 43%.

The most significant corporate event in the past financial year was the acquisition of the Comapi group of companies ("Comapi") which was completed in late 2017. Comapi continues to trade well and is now fully integrated into the Group. Our technical teams have worked hard to integrate the Comapi omni-channel functionality into dotmailer. We announced this functionality at our user conference in April and it was very well received. This acquisition was central to our strategy of becoming a data-driven omni-channel platform.

Our software development team has continued to make good progress. Our agile approach to development allows us to deliver three substantial product releases a year, where the focus has been on automation and personalisation. We have accelerated our investment in AI and machine learning, as this becomes more important to our clients in their engagement with their customers.

Partnerships with e-commerce platforms remain a cornerstone to our sales strategy and our most significant relationship is with Magento. During the year we announced that dotmailer functionality is now embedded in the latest generation of the Magento platform, M2. You may have noted the news over the summer that Magento has been acquired by Adobe. This announcement does not impact our existing partnership agreement and we have continued to see strong sales from Magento e-commerce clients. As disclosed previously we have strategic partnerships with other e-commerce vendors and we continue to develop these relationships in all our markets. We expect to see growth from partners in Big Commerce, Shopify and Shopware.

We did benefit from GDPR as clients increased activity in the run-in to the introduction of the legislation. Then we saw a small slow-down in sends volumes after GDPR came into effect. This was due to customers reducing their email lists as they attempted to conform with the new legislation. The impact of this was short lived and, at time of writing this, after the period end, clients have already been quickly rebuilding their lists. We were well prepared for GDPR, ensuring our platform was compliant, which, in turn, made it easy for our clients to comply. Anecdotal evidence indicates that many of our competitors were not as well prepared and lost customers as a result.

As our community of customers grows we continue to engage with them to ensure that we maintain our competitiveness. One example of this community is the dotmailer user conference which took place in London in April this year. There were over 1000 attendees from around the globe and they were able to engage with our technical and sales teams as well seeing the new functionality for the first time. Our marketing team is already well advanced in planning the 2019 conference which, I am informed, will be even larger than the 2018 event.

Phillip Blundell, who had joined the business as interim CFO, left the business in January 2018. He has been replaced by Paraag Amin as permanent CFO. Paraag has settled in well and has quickly established himself as a key member of both the Plc Board and Operations Board.

The Board proposes a dividend of 0.64p per share, an increase from last year when the dividend was 0.55p per share.

The operational objectives for this coming year are not too dissimilar to last year. We will continue to invest in developing our product, optimise our sales and customer success teams to maximise new business wins as well as capitalising on cross-sell opportunities across our existing user-base. We will also continue to drive expansion in other geographic markets.

I would like to take this opportunity to thank our Chief Executive Officer, Milan Patel, the Operational Board and our colleagues in the business for delivering another strong year of growth. Behind the scenes the beating heart of this business is a team of exceptional and energetic employees who continue to take dotdigital from strength to strength.

The business continues to deliver strong sales growth

Corporate governance

In order to fully comply with the QCA Code, the Nominations Committee is evaluating the balance of the Board going forwards; however, we believe the Board is appropriate for the business in its current stage of evolution.

The Board believes it is appropriate to have a senior independent Non-Executive Director and Richard Kellett-Clarke currently fulfils this role. Richard is available to shareholders where concerns have not been resolved through the normal channels of communication with the Board and for when such contact would be inappropriate.

The Board has sufficient members to contain the appropriate balance of skills and experience to effectively operate and control the business.

The Board carries out an evaluation of its performance annually, taking into account the Financial Reporting Council's Guidance on Board Effectiveness.

Outlook

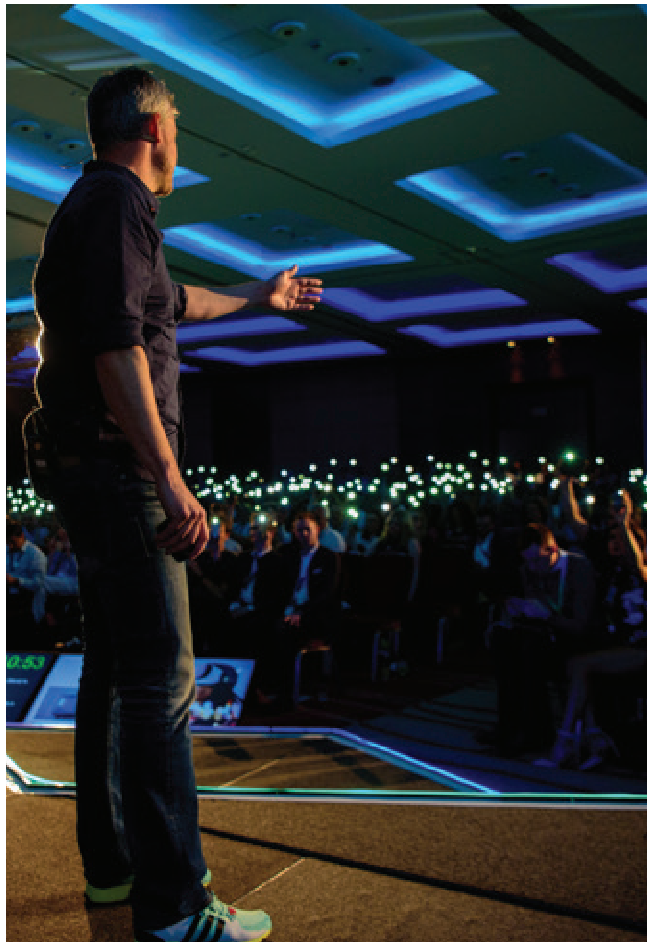
As we transition to becoming an AI-driven, omni-channel platform we are even better placed to capitalise on the opportunity of an £8.8bn global market for marketing automation. This market is growing at 14% a year and is expected to be valued at £19.3bn in 2023, according to the latest Forrester Research.

Further penetration of the e-commerce market remains a key objective for us and our connectors to these platforms are well received by customers. Our investment in technology and the acquisition of Comapi leaves us well positioned to capitalise on the market for 'conversational commerce' supporting a two-way dialogue between our clients and their customers.

All in all, we foresee another strong year ahead.

Frank Beechinor-Collins
Non-Executive Chairman
15 October 2018

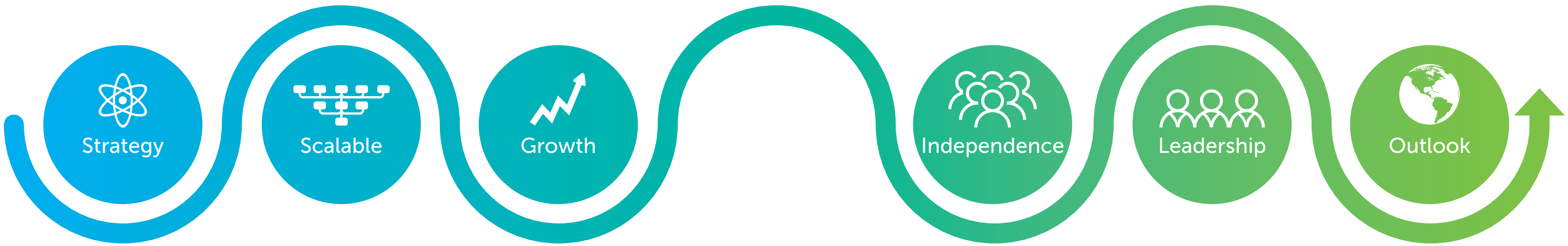
dotmailer User Conference
London, April 2018



Investment case

dotdigital is a leading, global, omni-channel, SaaS and communications automation platform, that enables our clients to communicate with their customers at the right time, with the right message, to the right person through the right channel.

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



Clear and compelling strategy

Focused only on two complimentary markets – e-commerce and B2B

Rapid product innovation supporting up and cross-sell opportunities

International growth based on proven blueprint

Brand success extended through global strategic partners and more on the way

Highly scalable platform

Software sold as a service

Predictable financial model

Very diverse customer base with no customer accounting for more than 1% of revenue

Profitable with significant cash balances

85% recurring revenues

Attractive industry growth

Email marketing automation has a proven superior ROI for marketers

Global market for marketing automation, according to Forrester Research, is growing double digit and predicted to be £19.3bn by 2023

Marketers are predicted to send more emails in next five years complemented with omni-channel features

E-commerce the biggest sector for email, expected to double in next five years

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

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

Superior growth outlook

Innovation to support marketing move to omni-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 customers with intelligent tools and people

The dotmailer platform allows teams of all sizes and specialisms to plan, execute and optimise omni-channel engagement campaigns. And with Comapi as part of the dotdigital Group, the power of programmable communication APIs is now at the fingertips of our customers.

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

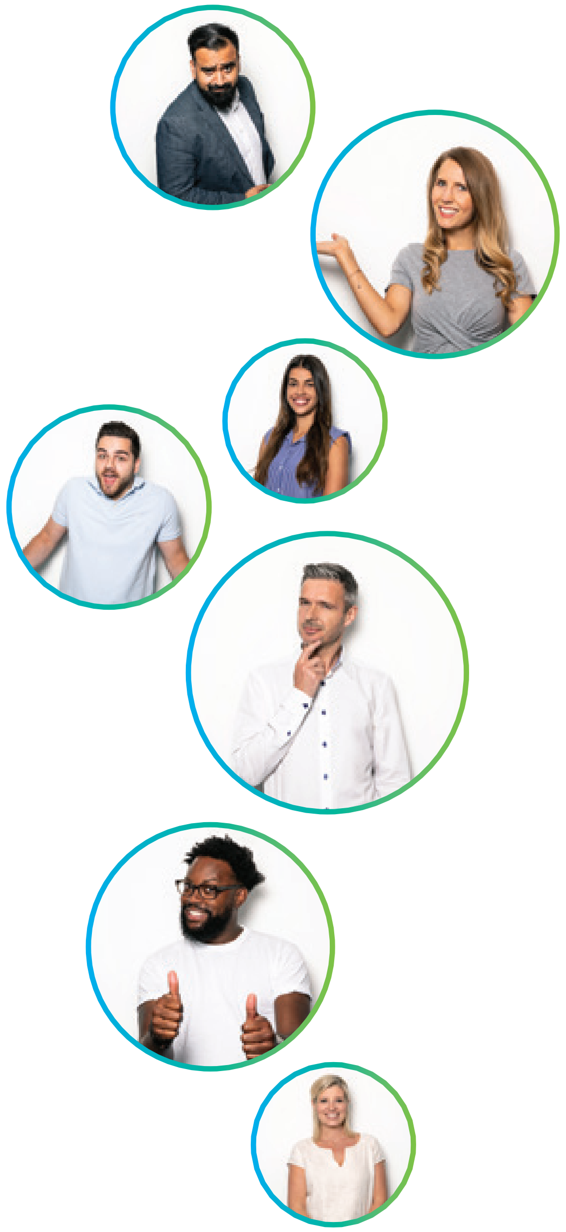
What does the dotmailer platform do?
dotmailer is a SaaS marketing platform that enables companies to create, test and send data-driven automated campaigns, including email. Our technology integrates with key business systems such as e-commerce platforms and CRMs, providing access to rich insights in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

What does the Comapi platform do?
The Comapi platform allows customers access to a suite of programmable APIs so they can integrate communications programs into existing platforms and send messages at scale in real time across multiple channels. Like dotmailer, they have a team of domain experts supporting customers and ensuring project success.

How do we empower marketers?
There's a good reason why email is still one of the most popular marketing channels: it delivers a return on investment of £39/$40 for every £1/$1 spent. The dotmailer platform has been built in a way that enables SMEs to maximise 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.

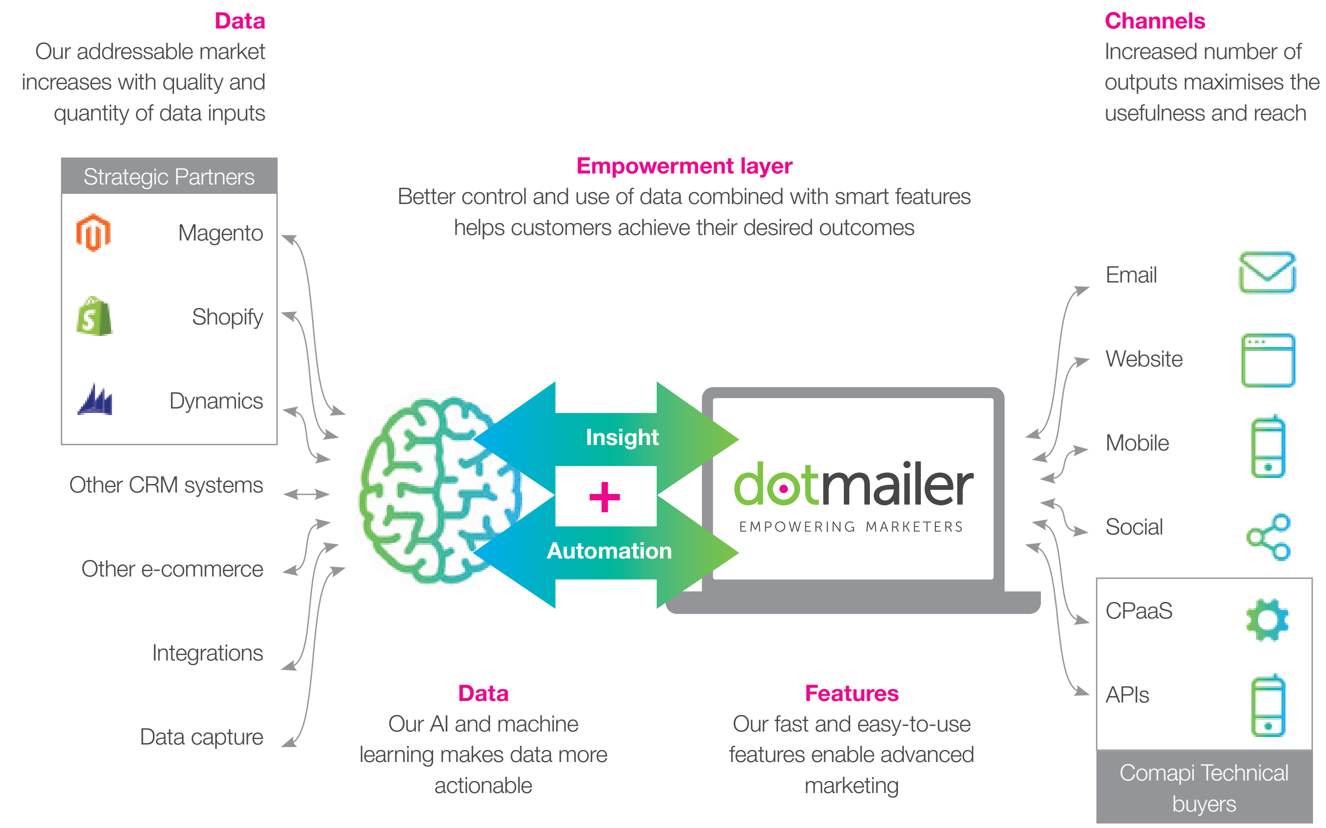
Why do customers choose dotmailer and Comapi?
The platform is designed to make light work of advanced marketing automation. Campaign creation – whether it's a newsletter or an automated programme – is fast and uncomplicated thanks to slick 'drag and drop' functionality. Our customers love that they can 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 omni-channel functionality.



Engagement Cloud

Connecting data to channels via intelligent tools



Thoughts of the Chief Executive Officer

Milan Patel
Chief Executive Officer

It is with great pleasure that I share with you my thoughts on the past 12 months. In a time of changing regulations within a rapidly evolving environment, we have accelerated innovation through the addition of Comapi to the Group, which takes us further into the omni-channel sphere.

We have continued to deliver on my vision of expanding our geographic footprint and increasing the addressable market through the integrations we build into our strategic partners. This year we completed the acquisition of Comapi, which is now fully integrated into the Group. This has allowed dotdigital to expand its messaging channels capability and provide our customers with a platform that delivers across more channels, as they focus on personalisation and relevancy based on the data they hold on their target customers.

As part of our commitment to our B2B marketing customers, we added new functionality and continue to build our relationships with Microsoft for our integration into Microsoft Dynamics CRM and Salesforce. These connectors are now used by over 503 clients and generate annualised recurring revenues of more than £6m.

Our sales and customer success process has also been optimised, listening to our customers, investing in people to support their needs, educating our customers on GDPR and building functionality within the platform that assists customers with their compliance. The platform has evolved through our combined development efforts and integration of Comapi functionality, which continues to empower customers on their marketing and transactional-based messaging.

We have made great progress on the continuous investment in our international regions both from adding people in the regions, to supporting our clients to address their requirements, alongside investing in and strengthening relationships with strategic partners in the e-commerce and CRM space. This has led to an acceleration in our international organic growth, across all regions.

A year of continued delivery against our strategic growth pillars

The strengthening in foundations of the business, both from a platform and people perspective, sets us in a strong position to take available opportunities for long-term growth. With the leadership training and development programmes set up to support growth in our people, we are confident about the future of the business and the direction we are travelling. This year, we opened an office in Los Angeles, as we continue to work with our partners to expand market share in North America and entered directly into Germany to help bolster our brand awareness and cultivate and cement partnerships within the market.

Whilst our customers were embedding regulation changes and implementing new data privacy policies, there was a slight slowdown in organic growth in the EMEA region. Following the implementation date (25 May 2018), we saw a strong quarter four, both in new customer sign-ups and growth in spend. This was only made possible through our marketing of specific GDPR functionality built to support customers and prospects and continued education to our existing customers.

I hope that you enjoy reading more about our strategic progress within this annual report.

We are empowering our customers through our commitment to platform innovation and investment in international growth

Artificial Intelligence

Our task-orientated AI reduces the strain of repetitive tasks whilst increasing engagement rates

Product recommendations
Built using Google BigQuery, at the click of a button we turn product and order data into product recommendations

Data watchdog
Data watchdog automatically quarantines 'high risk' files to predict and prevent you from complaints and issues

Send-time optimisation
Send campaigns at the time most likely to be read by every individual. It's self-learning, constantly refining, giving you time back

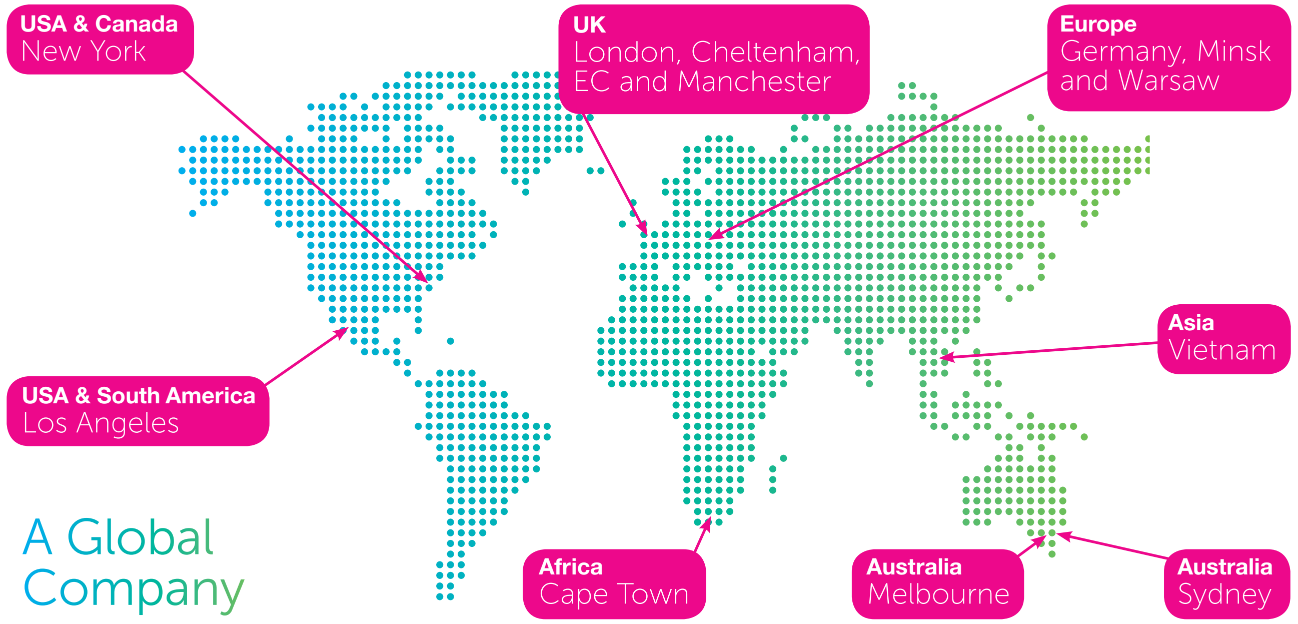
Automated Reputation Manager (ARM)
ARM works tirelessly in the background to protect the reputation of our customers and improve deliverability rates

Native Artifical Intelligence baked into dotmailer

Chief Executive Officer's report and financial review

Milan Patel
Chief Executive Officer

Revenues outside of the core UK market excluding the Comapi acquisition grew by 33%



A Global Company

Key Highlights

	30.06.18 (£m)	30.06.17 (£m)	% increase/ (decrease)
Revenue	**43.1**	32.0	35%
Adjusted EBITDA	**12.5**	10.3	22%
Net Assets	**36.6**	28.6	28%
Adjusted EPS (p)	**3.16**	2.47	28%
Cash*	**15.0**	20.4	(27%)

* After spending £10.7m on the acquisition of Comapi from cash reserves.

Operational Review

Total revenue in the year grew by 35% to £43.1m, of which organic revenue growth was 15% and the remainder as a result of the Comapi acquisition, which contributed £6.2m for a period of seven and a half months, from mid-November 2017. We saw double-digit growth in the EMEA region (excluding Comapi) of 11%, from £27.3m to £30.4m, despite regulatory change in the European market. This growth was also helped through a combination of higher value new client wins, an increase in the number of new customers (we saw a 26% increase in new customers signed up), our ability to continually monetise advanced features alongside the additional marketing channels adopted by existing clients. This is evident by revenues from enhanced functionality and licence fees monthly recurring charges now achieving £8.9m, which is an increase of 41%.

We have seen substantial progress in the international markets, with revenues outside of the core UK market (excluding the Comapi acquisition) growing by 33% and now represent 26% of the Group's revenues. International expansion remains a core pillar in our organic growth strategy. The Group has added notable clients across its market both locally and internationally.

In addition, we have continued to see strong growth from a professional service offering (excluding Comapi) which is adding value to our customers, with the revenues growing 24% to £4.1m.

During the year, dotmailer's average revenue per user rose by 18% from £715 per month to £845 per month. This was the result of continued focus on mid-market, enterprise clients and customers that use the Magento integration spending on average over £1,500 per month. dotmailer saw an increase of 26% in new customers signing up which represents circa. 680 clients. Overall volume of messages sent out by dotmailer increased by 21% to 14.4bn from 11.9bn, reflecting the change in demographic but also increasing the recurring revenue growth and adding to the increasing ARPU. The other area adding to the expansion is the new channels that are being sold following the integration of Comapi.

We saw double-digit growth from the UK market, which was slightly impacted by regulation change. GDPR caused slight delays in monthly message revenue coming through following sign-up to the dotmailer platform, whilst customers got ready for their own compliance in the necessary departments that needed to get involved to validate the technology chosen (typically legal and IT). As we went past the implementation date in May, we have seen sales cycles normalising. In the year, we have also refocused on a customer success strategy that is even more attentive and value focused. This has resulted in improved customer satisfaction and retention.

Market

The marketing automation market is set to expand from £8.8bn in 2017 to £19.3bn by 2023, which shows a global compound annual growth rate (CAGR) of approximately 14% according to Forrester 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 across those markets. The Group currently has three separate hubs that mirror these markets, with a user interface translated into multiple languages and 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

Revenue in our North American region accelerated. It grew by 43% (excluding Comapi) to $7.1m following the successful changes and investment through the period. Changes that were made in the period were to strengthen the channel management team and increase the number of people within the region to support our customers. The e-commerce connectors that have been built and enhanced in the year have also helped expand the addressable market in the region. We continue to invest in the region with the opening of the West Coast office that will allow closer client and partner interaction in the region and continue to build a strong pipeline in the market.

APAC

Growth from the APAC region of 85% (excluding Comapi) saw revenues increasing from AUS$1.2m to AUS$2.1m, partly due to the continuous relationships with the channel partners and the increase in conversion of prospects to clients by our direct sales team. For the best customer experience in APAC, we continue to invest in our support, customer success and the sales teams. Strong relationships are building in Far East Asia to help raise brand awareness and thought leadership. Early signs are good with the introduction of our omni-channel strategy, with Asia being heavily focused on mobile marketing.

EMEA

EMEA saw revenue growth of 11% (excluding Comapi) from £27.3m to £30.4m. We still see strong double-digit growth from the region. EMEA revenue were slightly impacted in the first half of the financial year by delays, in customer spending, ahead of GDPR implementation. As anticipated, the region's sales cycles have normalised post GDPR. The region saw an increase in the number of customers signed up following the changes made in the training and development program for the sales and customer success teams.

The continued focus on the Nordics and Benelux region has resulted in stronger partnerships and growing revenue stream in the region. With the early success in the market, we continue to add to the dedicated channel managers and sales teams that sell into the EMEA market as the pipeline builds. We have started to test the German market with employees in-region as our partnership with Shopware strengthens. Shopware is the largest e-commerce platform in Germany for mid-market clients. We continue to develop stronger partnerships with system integrators and raise brand awareness in that market.

During the period, we withdrew the self-service offering from the South African market and some of the early learnings we took from the test was that the platform was well placed to serve the needs of mid-market and enterprise clients which will only transact with us through the direct sales team in the EMEA region.

Product innovation

We continue to invest in research and development of our technology, aiming to be the world's best data-driven marketing and customer engagement platform. In the year we've continued to scale the platform across all regions. The acquisition of Comapi that was completed in November 2017 has accelerated the platform development with new omni-channel features being integrated into the platform for upsell opportunities to existing customers and attracting more marketeers that are sophisticated in the digital marketing strategies. The move into omni-channel, although early days, has proved to be successful and puts us in a unique position against our competitors.

There were many enhancements made to connectors with the introduction of a Salesforce Commerce Cloud and Shopware solutions. With the premium integrations that we have built into e-commerce platforms, this now allows us to address at least 50% of midmarket e-commerce merchants globally.

As part of a continued commitment to accelerating functionality progress, we continue to add globally to our development teams.

Chief Executive Officer's report and financial review continued

dotmailer's omni-channel world

With the acquisition of Comapi, we have broadened our channels, added two-way conversations and enhanced the quality of data

This has helped diversify revenue streams and drive better results for customers

These teams will allow us to continue innovating our technology which will give us a stronger competitive advantage. Next year will also see an acceleration in development within the artificial intelligence and machine learning space. We have released significant features that take us into this space. The data science team has also been added to our product development teams. The recurring revenues from our enhanced functionality increased by 41% (excluding Comapi) compared to the previous year and now represent £8.9m of the Group's revenues.

Strategic partnerships

Magento: We continue to enhance the connector to make it easy for our customers to attribute better ROI from their digital marketing campaigns from the value proposition we provide. We have continued to deepen our relationship with the release of Magento bundling in November 2017, where the platform ships with the core codebase to their customers using Magento version 2.2 or newer. Magento was recently acquired by Adobe and, after speaking to their senior executives, we are pleased to report that it is business as usual with our partnership. The connector is now used by over 670 clients and generating annualised recurring revenues of more than £9.2m. We continue to see strong pipelines building and good level of take-up from the Magento customer base. The average revenue per month from Magento customers increased by 7% to £1,512 per month.

Shopify: The Shopify connector now serves over 40 clients. We continue to add new functionality that helps the retailer build out their digital marketing strategies. Average monthly recurring revenues from these clients is £1,032 per month. The pipeline and partnership continue to build, and we feel optimistic in growth from this partnership in the next financial year.

Big Commerce: It is still early days with the Big Commerce connector which we continue to enhance. dotmailer has been named as the first Europe-based Elite partner which will help in endorsing our connector. Both companies continue to work on the go to market strategies and promotion of the dotmailer platform to their e-commerce merchants.

Other e-commerce connectors: We have continued to develop relationships with the like of Shopware and Salesforce Commerce cloud including adding new e-commerce integration partners globally. We will maintain this development as we move into the next financial year.

As part of our commitment to our B2B marketing customers, we added new functionality and continue to build our relationships with Microsoft for our integration into Microsoft Dynamics CRM and Salesforce. These connectors are now used by over 503 clients and generate annualised recurring revenues of more than £6m. As there is more value being put in data by our customers for personalisation and targeting we see a good upsell opportunity and attracting more integrated clients. We have seen our significant growth in ARPUs from the Dynamics connector clients increasing 42% to £1,405 per month.

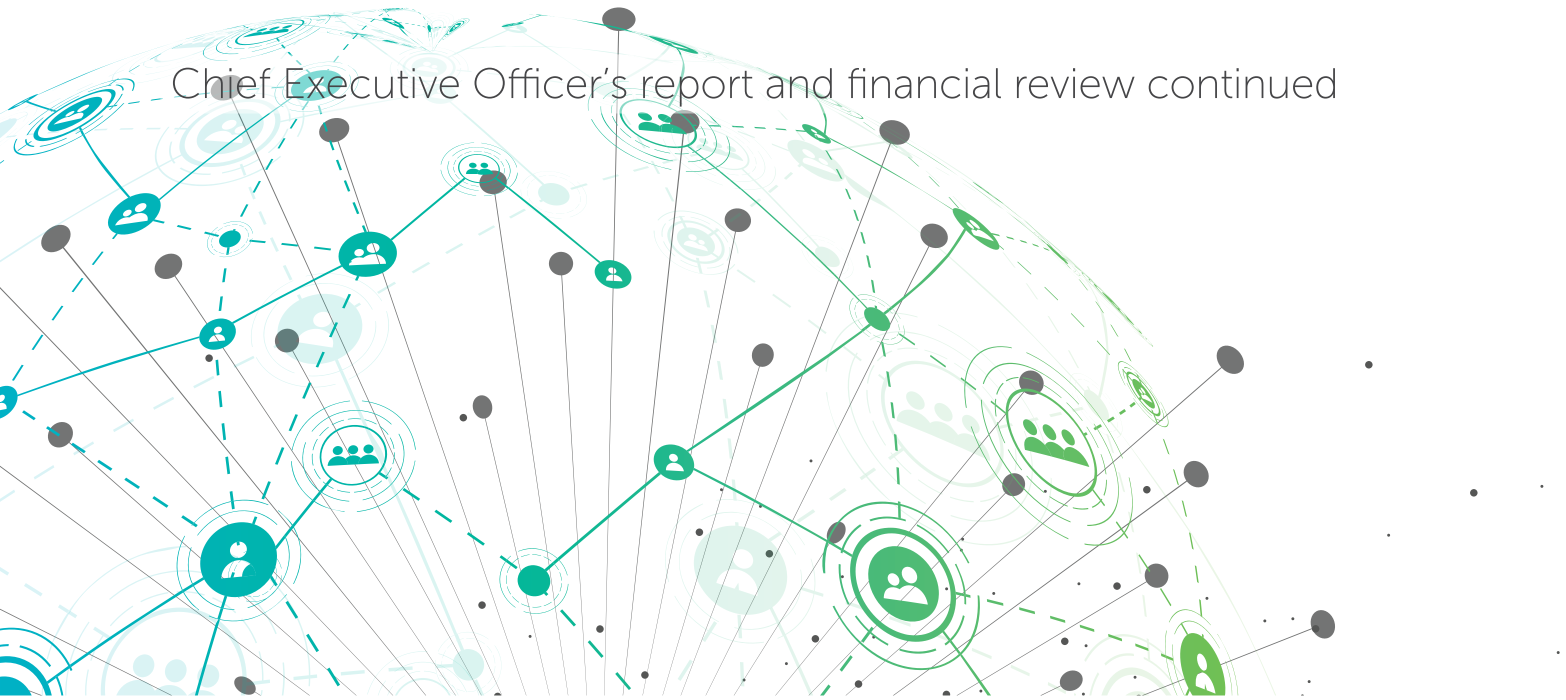
People

We have continued to strengthen and develop 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.

We invested in sales, customer success, 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 41 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 Paraag Amin as Chief Financial Officer for the business, who is supporting me with the day-to-day responsibilities. Paraag brings with him a wealth of experience in financial and operational analysis and comes with a broad experience in the industry and public markets. He also has experience in several departments through the business he founded.

Chief Executive Officer's report and financial review continued



Acquisitions

In the year, we completed the acquisition of Comapi, which was a business focused on omni-channel messaging and cloud communications market for a cash consideration of £10.7m (which includes the payment of loans in Comapi), with a potential consideration of £1.2m in share options for the management team dependent on them achieving specific performance targets over a two-year post-acquisition period and remaining with the business. The acquisition will:

- Extend dotdigital's marketing automation platform to provide an industry-leading solution offering fully integrated omni-channel and conversational commerce support to marketers
- Enable dotdigital to deliver aligned conversational messaging across channels including email, mobile push, SMS, Facebook messenger, Apple business messenger, Twitter and live chat
- Enable dotdigital customers to meet consumer demand for a more personalised communication experience and
- Position dotdigital as the most advanced platform on the market and make dotdigital more relevant in the strategic mobile-first Asian market.

We continue to investigate opportunities beyond organic growth. We do have very strict value-enhancing criteria to finding strategic acquisitions. The areas in which we consider making an acquisition 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 bring new functionality (e.g. artificial intelligence) that will add value to our customer base within the mid- and small enterprise market.

Financial review

Revenues

The Group achieved revenue growth of 35% (15% excluding Comapi; 2017: 19%), which delivered record overall revenues of £43.1m. The quality of the revenue growth is evidenced by stable recurring revenues of 85%. The Group continued to grow internationally with revenues accounting for 22% of the Group's total (26% excluding Comapi). Comapi contributed £6.2m of revenue in the seven and half months that it has been part of the Group.

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 offer 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.

Gross margins

The gross margin for the period was 79%, impacted by the consolidation of Comapi (87% excluding Comapi; 2017: 86%). We continue to see value in both the direct and indirect models of selling in our international regions, and hence continue to invest in building long-term annuity revenues.

Operating expenses

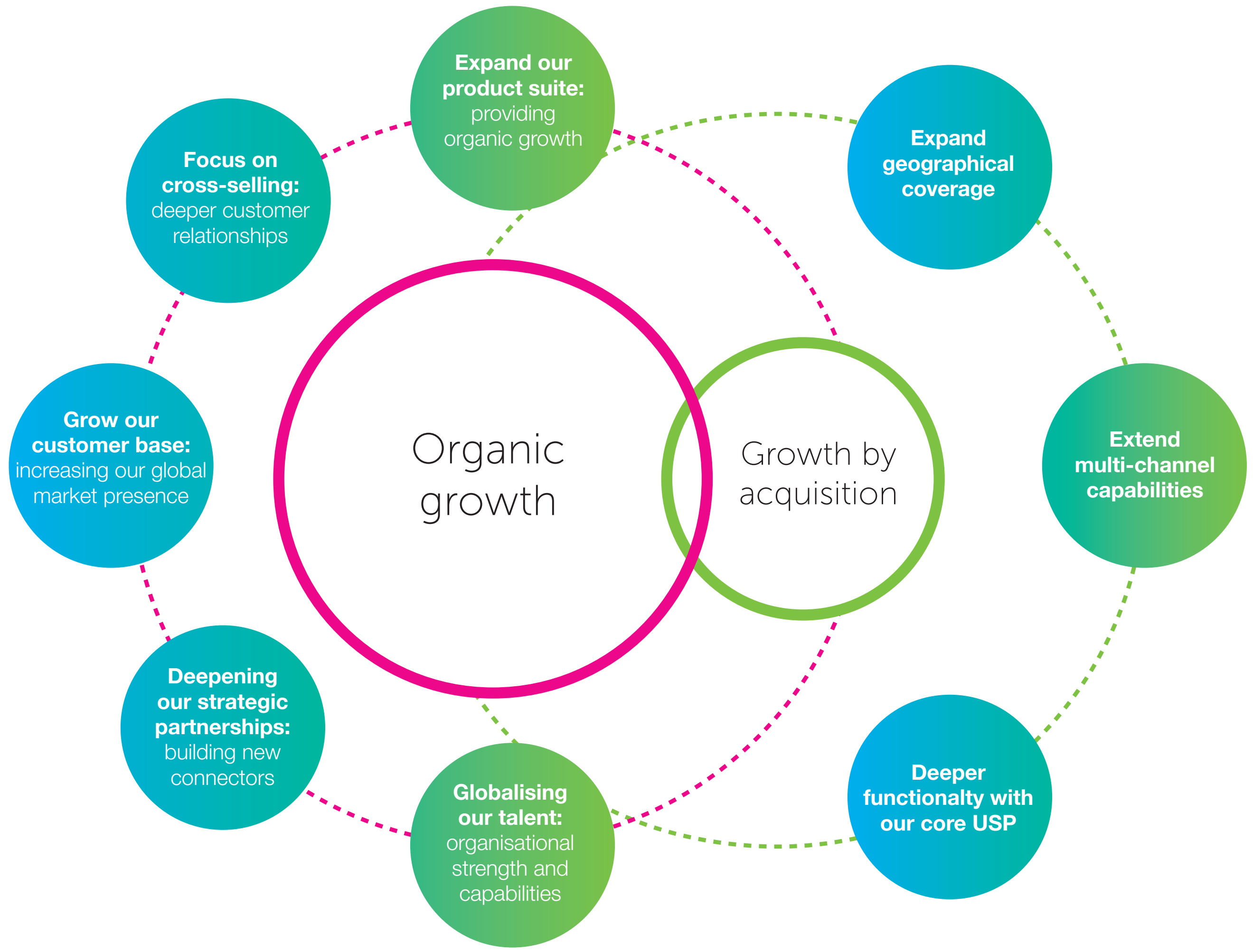
Adjusted EBITDA grew by 22% from £10.3m to £12.5m. Part of this growth was due to the improvement in margins from moving the infrastructure into the cloud last year and hence seeing the full benefit this year. Investments that have been made in previous years in product development and sales and marketing are also paying off.

Operating expenses as a percentage of revenues dropped from 61% to 56%, reflecting the growth in revenue. dotdigital continues to invest in people in the areas of development, sales and marketing, particularly within the regional offices, to continue enhancing and adding to the product suite.

> It's hard for me to say how much easier my job has become since coming onboard with dotmailer. The platform's ease of use has enabled me to share my email responsibility with the wider team; they're now more empowered than ever to create highly engaging content.
>
> **Shaun Munoz**
> *Virgin Active*

Growth Strategy

Our strong financial position and management team mean we're ideally placed to add growth by acquisition



Chief Executive Officer's report and financial review continued

We're at the very start of our relationship with dotmailer but I'm already hugely impressed.

Richard Jones
Head of CRM, T. M. Lewin

Balance sheet

There was strong cash management in the year with cash generated from operations of £13.1m (2017: £8.8m). The cash at the end of the period was standing at £15.0m (2017: £20.4m), despite the acquisition of Comapi for a cash consideration of £10.7m. The Group continues to be debt free and maintains a healthy balance sheet. A combination of a highly efficient cash collection process and an incentivisation push to move more customers onto direct debit and automated credit card collection helped with the year-end position.

Trade receivables have only grown by 12% (excluding Comapi) in the year reflecting revenue growth and good cash management. Overall receivables have grown 40% (excluding Comapi) as a result of a large increase in prepayments due to the move to the hybrid cloud infrastructure and deferred commission.

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 £2.1m.

Goodwill

£9.1m of Goodwill reflects the acquisition of Comapi in the year, for a cash consideration of £10.7m. Identifiable intangible assets included £1.2m of technology and £1.2m customer relationships which will be amortised over 10 and 9 years respectively.

Tax

The Group continues to grow its profitability; however this is not reflected within the tax charge, which is now £0.7m with an effective tax rate of 2.8%, the reason being enhanced R&D tax credits and favourable movement in share-based payments.

EPS

In the year the adjusted basic EPS increased by 28% to 3.16p (2017: 2.47p) and adjusted diluted EPS has increased to 3.12p (2017: 2.46p). The increase in adjusted EPS is driven by the increased profitability and the reduction in the effective tax rate to 2.8% from 10.5%.

Dividend policy

As announced last year, the Board conducted its review of its organic business plan for the following three years. This included evaluating the cash needs required for opportunities in organic growth to increase shareholder value and capital expenditure. The Board decided that it will continue to keep a progressive dividend in line with EBITDA growth. Therefore, subject to approval at the AGM in December 2018, the Board proposes that the Group will pay a final dividend of 0.64 pence per ordinary share (2017: 0.55p); to be payable at the end of January 2019.

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 ahead we continue to invest in both our people and the product, to further strengthen our position as an innovator as the platform continues to evolve to be a data-driven, omni-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 planned strategy.

Milan Patel
Chief Executive Officer
15 October 2018

Paraag Amin
Chief Financial Officer
15 October 2018

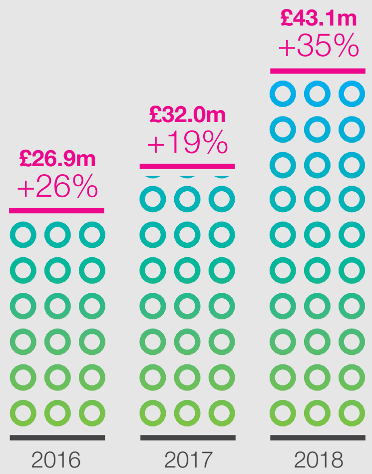
Key Performance Indicators

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

Financial

Revenue

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



Cash position

We aim to have a strong cash position.

Adjusted EBITDA

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

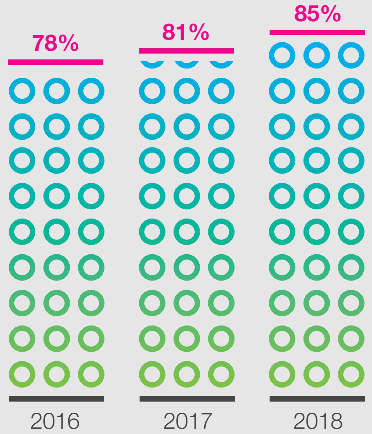
Strategic**

ARPU

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

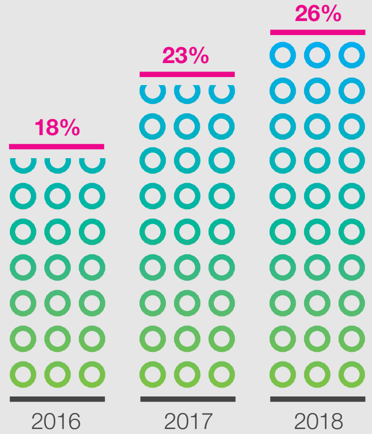
Recurring revenue

We aim to have recurring revenues of over 70%.



International

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



* After spending £10.7m on the acquisition of Comapi, paid in full using cash resources

** Does not include the acquisition of Comapi

Risks, impact and mitigations

Risk area	Impact	Mitigation of risk
Data privacy	Certain laws and regulations such as the General Data Protection Regulation ("GDPR") 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 and messaging space to advocate best practice and make sure its customers' needs are represented. • Provisioning of global instances of the platforms, allowing customers in certain regions to overcome data sovereignty constraints. • Introduction of new processes and policies in compliance with GDPR. • Ongoing monitoring of the regulatory environment, including any initial compliance actions made under GDPR and developments of the California Consumer Privacy Act and e-Privacy Regulation.
Implementation of cloud service providers	The Group utilises public cloud providers to host its platforms and products. 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 platforms are on a shared infrastructure that is more of a target for cyber-attacks.	• Informed choice of best-of-breed cloud computing providers (the Group has selected Microsoft Azure, Amazon AWS, and Google Cloud Platform), the architecture of which facilitates quick recovery in the event of a single data region failure. • Development and implementation of resilient 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 message 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, will incur revenue loss. The Group relies on a range of upstream providers to deliver SMS messages; a change in relationship with one or more of these providers, or one or more of these providers no longer being able to operate, could impact the Group's profitability.	• The platforms are architected with resilience to cater for single points of failure. • Continual evaluation of suppliers and technologies with the prioritisation of send volume, scalability and resiliency, and business continuity. • Continual investment in and maintenance of the Group's currently owned IP addresses to ensure global reputability and use optimisation. • Frequently reviewing the most profitable upstream provider routing options, and negotiating contracts regularly based on current and anticipated volume.

Risk area	Impact	Mitigation of risk
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 all aspects of cyber-security under the guidance of the Group's dedicated information security function. • Attainment of the UK government-backed Cyber Essentials Plus Certification, implementation of regular vulnerability scanning, third-party penetration testing, and security update schedules to proactively detect and remediate against the latest threats. • The continual promotion of a security culture within the business via various awareness initiatives.
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 message for sending emails and SMS 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 messages.	• Provision of, and 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). • Proactive handling of abuse complaints generated by customer messaging, including account suspension and agreement termination.
Risks related to key platform integrations	The Group is increasingly investing in integration with third-party platforms to provide an enhanced product feature set – for example, Shopify, Facebook, and Google. These platforms all have various contractual bases for access and the Group maintains its obligations carefully. However, any future change in the terms granting the Group access may impact our continued ability to integrate our product with these platforms.	• Creation and maintenance of strong relationships with these platforms. • Where possible, creation of revenue-sharing arrangements so there is mutual commercial benefit. • Continuous review of competing functionality from other vendors. • Ensuring our platform policies align with the third parties.
Brexit	The Group has a large business footprint within the United Kingdom; both in terms of staff headcount, and in terms of the customer base. Brexit (the expected departure of the United Kingdom from the European Union at the end of March 2019) still has a number of unknowns and these present some amount of risk with regards to the Group. Many of our UK-based staff are citizens from other EU countries; at the time of this report being released, there is not yet a full understanding of their right to work in the UK post-Brexit. In addition, a changing legislative environment between a post-Brexit UK, and EU, may place additional regulatory burdens on the Group which make it harder to operate with EU-based companies.	• Internal HR team reviewing strategies for dealing with EU staff, depending on Brexit negotiation outcomes. • Research and monitoring of legislative environment, particularly in relation to data transfers between the UK and EU and vice-versa. • Internal departments reviewing strategies to address data storage and transfer, depending on Brexit negotiations outcomes.
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 competitiveness. • Expansion into new territories increases accessible talent pools the Group can hire in.

Risks, impact and mitigations continued

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 improved service delivery. • A global marketing presence to attract new customers. • Further improvement of the products' renowned user experience, including hiring dedicated user experience professionals. • Increased tighter integration of the Group's newly acquired business unit Comapi, in order to provide a broader and more competitive product feature set.
International expansion	Reliance on revenues relating to a single region increases the risk of revenue loss if that region were 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, US and APAC. • 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.
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 omni-channel customer engagement 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 and flexibility of the Group's best-of-breed integrations. • Continued evaluation and optimisation 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 omni-channel customer engagement 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. • Continued emphasis on recruiting and retaining leading experts. • Continued focus on combining email marketing and automation capabilities with the market-driven need for supporting more conversational channels and leveraging data to drive decisions.
Loss of a strategic partnership	If a strategic partner no longer allowed a dotmailer connector, there is a risk that our customer may not migrate onto another platform to which we have a connector.	• We have built connectors into dotmailer for all major e-commerce and CRM platforms, such that if our customer migrates onto another platform, we would be able to accommodate the switch.

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

Focusing on customer success has allowed us to understand our clients' needs to even greater degree, ensuring our products and services are a match for marketing requirements of our clients, partners and prospects. Investing in processes and internal systems ensures our clients have full clarity around the costs of partnering with dotdigital.

Employees

Employee engagement remains a key focus and measure of the Group's success. Retaining and developing our employees and providing opportunities for growth is a key attribute of the Group. We are delighted and proud that in excess of 28% of the positions filled were internal moves and promotions.

As the Group has expanded, we have ensured that all the benefits and opportunities are shared and made available across all parts of the Group and all office locations. This is an important factor in harnessing the global employee collective.

Community and business partnership

The Group's support for local organisations continues to be a strong part of our ethos. Building on the support and chairmanship of the Good Employer Charter and a public advocate for support of the London Living Wage, we are proud to have been able to support local authority programmes such as the 'Summer Reading Challenge' which encourages children's engagement with learning and reading. We look forward to presenting the prize to the Croydon Winner of this competition.

The Group has strong ties to the LGBT community. Its members are committed to creating a more inclusive workplace where all staff can feel comfortable about who they are. As a Group, we celebrate the incredible diversity of all our employees. For the second year in a row, we are proud to have marched at London Pride.

Charitable support

Our dotCommunity group support all our employees in charitable activities. From quiz nights to bake sales, a host of local and national charities have been supported.

We are proud to have the Macmillan Cancer Support team visit our most recent bake sale, which raised awareness and engagement in the support of this deserving cause.

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 minimise our energy footprint.

Strategic report

The strategic report was approved by a duly authorised committee of the Board of Directors on 15 October 2018 and signed on its behalf by:

Milan Patel
Chief Executive Officer
15 October 2018

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 Group's admission to ISDX 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 Group. 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, mergers and acquisitions, 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.

Paraag Amin CFA
Chief Financial Officer

Paraag was appointed to the Board in February 2018. He has significant public market experience having held senior roles at a number of investment banks within equity asset management, research and specialist sales, totalling 15 years, as well as previously founding his own business in the digital marketing space.

Paraag qualified as a Chartered Financial Analyst in 2004 with Goldman Sachs. He also held senior roles within equities at Citi, ABN Amro, RBS, Credit Suisse, Peel Hunt and Canaccord Genuity.

He is responsible for the Group's functions in financial management and reporting, regulatory compliance and legal and corporate governance for the business. He also brings substantial strategic, financial and commercial experience to the Board 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 of 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. From 2014 to July 2018 he was Chairman of Redstone Connect plc, an AIM-quoted smart building infrastructure business. Following a restructuring Redstone Connect was rebranded SmartSpace Software Plc and Frank stepped into the role of CEO. He is co-founder 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 and operational roles with PLC and PE businesses, all involved in either the expansion through acquisition or the turnaround and strategic repositioning and recovery of creative, businesses in FMCG, media, electronics, and software.

He was a founder and later CEO of a global news business and a digital rights software business. He is currently a non-executive director of Idox PLC and the senior independent director to the Group and a consultant to a number of SMEs.

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). In July 2016 he was appointed as a non-executive director of Eckoh plc and in October 2016 he was appointed as a board member of The Quoted Companies Alliance. Peter resigned from the board of Ecko plc as at 14 December due to a recommendation made by a proxy advisory firm prior to the dotdigital Group AGM in December 2017.

'Tink' Ian Taylor
Founder & President

Tink is Founder and President of dotmailer and dotdigital Group Plc (founded in 1999). He 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, serving as an elected and influential member of the UK Direct Marketing Association's Email Marketing Council and chairing the partnership and deliverability working parties. Tink has judged and later chaired the Email, Mobile & Agency categories at the UK DMA's awards for over half a decade. He has also served on the Email Marketing Council at UK Internet Advertising Bureau since 2006.

In 2014, Tink was elected to the Board of the US Direct Marketing Association's Email Experience Council (EEC). He chairs the nomination committee and has since 2016 acted as a judge for the EEC email marketing awards.

He 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. Tink constantly strives to help individual organisations, and the industry as a whole, to develop and progress, acting as a serial tech advisor and investor outside of dotmailer.

Corporate governance report

As an AIM-quoted company, we recognise the importance of applying sound governance principles in the successful running of the Group. The Board has elected to comply with the Quoted Companies Alliance (QCA) Corporate Governance Code and will report annually on our compliance with the code and any exceptions.

Compliance statement

1. Establish a strategy and business model which promotes long-term value for shareholders (fully complies)

   The strategy and business operations of the Group are set out in the Strategic Report on pages 2 to 21 of the Group's annual report. The risk section of the annual report are on pages 18 to 20 and deals with the challenges the business faces and how these challenges are mitigated/addressed.

   The Chief Executive Officer is responsible for the leadership and day-to-day management of the Group. This includes formulating and recommending the Group's strategy for Board approval and then executing the approved strategy. You can find a full description of the roles of the Board and the founder at www.dotdigitalgroup.co.uk.

   Our simple and transparent business model has consistently delivered value to our shareholders.

2. Seek to understand and meet shareholders' needs and expectations (fully complies)

   `The Group seeks regular dialogue with both existing and potential new shareholders either through the management team, investor relations or through the Company analysts, ensuring its strategy, business model and performance are clearly understood as well as to understand the needs and expectations of shareholders.

   The Chief Executive Officer and Chief Finance Officer meet regularly with investors and analysts via investor roadshows, attend investor conferences and carry out capital markets days to provide them with updates on the Group's business and obtain feedback regarding the market's expectations of the Group through the brokers or direct feedback to the management team.

   The Board invites communication from its private investors and encourages participation by them at the Annual General Meeting (AGM). All Board members are present at the AGM and are available to answer questions from shareholders. Notice of the AGM is at the least 21 clear days and the business of the meeting is conducted with separate resolutions, voted by proxy and with the result of the voting being clearly indicated throughout the meeting. The results of the AGM are subsequently published on the Company's corporate website and are announced through a regulatory information service.

   Our Senior Independent Director, Richard Kellett-Clarke, is available to shareholders where concerns have not been resolved through the normal channels of communication with the Board and for when such contact would be inappropriate.

   The Board believes that they have successfully engaged with their shareholders in the past and will continue to do so going forward.

3. Take into account wider stakeholder and social responsibilities and their implications for long-term success (fully complies)

   We are committed to meeting with customers to seek their regular feedback to ensure a high level of customer service and to improve our platform. We have various channels for customers and prospects to communicate with the Group whether it be through the messaging channels or the customer success executives. The feedback is then reviewed on a regular basis by senior management team of the Group.

   The Group is mindful of its corporate social responsibilities and the need to build and maintain strong relationships across a range of stakeholder groups. As a Company, we regard this as a key principle in what we do. The Group has established a Social Committee that consists of employees across all departments and seniority levels to engage with stakeholders to help enrich communities. The corporate social responsibility report can be found on page 21.

   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. Our employees are at the heart of our business and we consistently strive to train and develop them for career progression.

   The Board closely monitors the results of the Company's Employee Engagement Survey to address where possible any concerns raised and ensure the alignment of interests between the Company and its employees. This alignment is vital to shaping the business. An example of this has been the successful roll-out of a new benefit programme for all staff as a result of staff feedback.

4. Embed effective risk management, considering both opportunities and threats, throughout the organisation (fully complies).

   The Group's system of internal controls, identification of significant risks and reviewing its effectiveness are the responsibility of the Board. These systems are designed to mitigate the risk of failure to achieve the business objectives. These systems can only provide reasonable, but not absolute, assurance against material misstatement or loss.

   There is an ongoing process for identifying, evaluating and managing the Group's significant risks and this is regularly reviewed by the Risk Committee and the Board. The Group also keeps an active risk register which is also formally reviewed by the Committee on a quarterly basis.

   The internal control procedures are delegated to Executive Directors and senior management in the Group, operating within clearly defined terms set by the Risk Committee. The Board regularly reviews the internal control procedures in light of the ongoing assessment of the Group's significant risks and is reviewed on a quarterly basis.

   On a monthly basis, the management accounts, including a comprehensive financial report, are reviewed by the Board in order to provide effective monitoring of financial performance.

	Board		Audit Committee		Risk Committee		Remuneration Committee		Nomination Committee	
	Attended	Total	Attended	Total	Attended	Total	Attended	Total	Attended	Total
Executive Directors										
Milan Patel	12	12			2	2				
Philip Blundell	6	6			1	1				
Paraag Amin	5	5			1	1				
Non-Executive Directors										
Frank Beechinor-Collins	12	12	1	1			2	2	1	1
Richard Kellett-Clarke	12	12	1	1			2	2	1	1
Peter Simmonds	12	12							1	1
Tink Taylor	11	12								
Simon Bird	7	12								

   A summary of the principal risks and uncertainties facing the Group, as well as mitigating actions, are set out on pages 18 to 20.

5. Maintain the Board as a well-functioning, balanced team led by the Chair (partially complies)

   The Group is managed by a Board of Directors chaired by Frank Beechinor-Collins. The Board is responsible for taking all major strategic decisions and also addressing any significant operational matters. In addition, the Board reviews the risk profile along with the Risk Committee of the Group and ensures that an adequate system of internal control is in place. Management information systems are in place to enable the Board to make informed decisions to properly discharge their duties. A formal schedule of Matters Reserved for the Board was adopted as at the Board on 25 September 2018 and will be reviewed annually.

   The Board currently consists of two Executive Directors, one Founder and two Independent Non-Executive Directors and one Non-Executive Director who does not meet the independent criteria set out by the QCA code on Corporate Governance. Each of the Non-Executives spends a minimum of two days a month on dotdigital Group business matters. Both the Independent Non-Executive Directors are considered by the Board to be independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement in accordance with the QCA Code. In order to fully comply by this principle, the Nominations Committee is evaluating the balance of the Board, however the Board is appropriate for the business in its current stage of growth.

   The Board believes it is appropriate to have a Senior Independent Non-Executive Director and Richard Kellett-Clarke currently fulfils this role. Richard is available to shareholders where concerns have not been resolved through the normal channels of communication with the Board and for when such contact would be inappropriate.

   The Board has sufficient members to contain the appropriate balance of skills and experience to effectively operate and control the business.

   Roles of the Chairman and the Chief Executive are separate, with their roles and responsibilities clearly defined and set out in writing. The Chairman's main responsibility is the leadership and management of the Board and its governance. He meets regularly and separately with the Chief Executive and the Non-Executive Directors to discuss matters for the Board.

   The Chief Executive is responsible for the leadership and day-to-day management of the Group. This includes formulating and recommending the Group's strategy for Board approval and executing the approved strategy.

   The Board meets monthly, at least 12 times a year, and more frequently if necessary. In addition to this the Board attends an annual strategy meeting which also includes senior Directors outside of the Board. The table above shows attendance for the period July 2017 to June 2018.

6. Ensure that, between them, the directors have the necessary up-to-date experience, skills and capabilities (partially complies)

   The Board considers its current composition and overall size to be both appropriate and suitable with the adequate skills, experience and capabilities to make informed decisions, evaluate performance and constructively criticise strategy.

   The composition of the Board is reviewed annually basis by the Nomination Committee, which is currently evaluating the gender composition of the Board. The Board is fully committed to the appointment of the right skills that are required to grow shareholder value. One third of the directors retire at the AGM in rotation in accordance with the Company's Articles of Association, thereby providing shareholders the ability to decide on the election of the Company's Board. Non-Executive Directors that do not meet the independence criteria will also stand for election annually, which will allow shareholders to voice their opinion. Their biographical details can be found on pages 22 and 23.

Corporate governance report continued

The Nomination Committee through a thorough evaluation of the skills, knowledge and experiences of a proposed new Director makes recommendations to the Board who then make the final decision on the appointment of a new member.

Throughout the year, the Directors receive updates on corporate governance matters from either the Company Secretary or the Company's Nominated Advisors.

To ensure that the Board continue to develop their skills and keep up to date with market developments they have access to independent professional advice which will be at the expense of the Company. In addition, all members of the Board have access to the support and advice of the Company Secretary who is responsible for the induction programme of new members.

7. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement (partially complies)

   The Nominations Committee is responsible for Board evaluation. The Committee in the past has carried out informal Board performance evaluations but has now embarked on this formal process for the Board and questionnaires have been circulated to ensure they comply with this principle. The learnings from this process will be addressed in the coming months. The Committee intends to conduct an internal evaluation on an annual basis, and that process will be repeated for each of the Committees of the Board. The results will be used by the Nominations Committee for its approach to succession planning.

8. Promote a corporate culture that is based on ethical values and behaviours (fully comply)

   We are committed to acting ethically and with integrity in all our business relationships. The Company recognises the benefits of a diverse workforce and is committed to providing a working environment that is free from discrimination. The Company seeks to promote the principles of equality and diversity in all its dealings with employees, workers, job applicants, clients, customers, suppliers, contractors, agencies and the public. Our people are the difference – hence we aim to hire, keep and train the best. We continue to encourage our unique and supportive culture, which we believe sets us apart from other companies. Our comprehensive set of policies and procedures cover all of our operations. They are constantly updated and communicated to relevant employees. We also within the organisation have numerous policies that are communicated to all employees that have been adopted by the Group for us to be compliant with our ethical and cultural values that we promote within the business.

9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board (fully comply)

   The Board is supported by a Remuneration Committee, Audit Committee and Nomination Committee. Any matters that fall outside the responsibility of these committees are then dealt with by the Board. The role and responsibilities of the Chairman, Chief Executive and other Directors can be found separately. The details of the Committee are contained within their written terms of reference which can be found on the Group's website.

   Throughout the year the Chairman of each committee feeds back to the Board any issues which require further consideration by the Board. Each of the Board committees has the ability to use external advisors as they see fit in furtherance of the duties which are at the Company's expense. Further details of the composition and meetings of these committees can be found within the annual report.

10. Communicate how the Group is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders (fully comply)

    The Company is committed to open communication with all its shareholders. Communications with shareholders is predominantly through the Annual Report and AGM. The last AGM results can be found on the Group's website. Other communications are in the form of full-year and half-year announcements, periodic market announcements (as appropriate), one-to-one meetings and investor road shows. The Remuneration Committee report is included on pages 28 to 32.

    The Group's website www.dotdigitalgroup.co.uk is regularly updated and users can register to be alerted via email when announcements or details of presentations and events are posted on the website. Annual reports and notices of meetings for at least the last five years can be found on the Group's website.

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 and Richard Kellett-Clarke. The Chairman of the Audit Committee is Richard Kellett-Clarke, CA CMA. 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 4 October 2018 the Committee reviewed the Group's preliminary announcement of its results for the financial year to 30 June 2018 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 ending 30 June 2019. The Committee concluded that these budgets were both prudent and realistic in the context of the Group's ambitions.

Whistleblowing

The Group has in place a whistleblowing policy which sets out the formal process by which an employee of the Group may, in confidence, raise concerns about possible improprieties in financial reporting or other matters.

Approval

This report was approved by the Board on 4 October 2018 and sign on its behalf by:

Richard Kellett-Clarke
Chairman of the Remuneration Committee

Remuneration Committee report

Statement from the Chairman of the Remuneration Committee

I am pleased to present the Remuneration Committee Report for 2018, which sets out the remuneration earned and paid to the Directors in the year ended 30 June 2018.

As an AIM-listed company, dotdigital Group Plc is not required to comply with the remuneration reporting requirements applicable to fully listed companies in the UK. However, the Committee has taken into account these regulations in the preparation of this report for the year as a matter of best practice.

The Committee operates under a defined set of Terms of Reference, which were approved and adopted at year end and which can be found at https://www.dotdigitalgroup.com/wp-content/uploads/2018/09/Remmuneration-committee-Terms-of-Reference.pdf. It is intended that these will be kept under continuous review to ensure they remain appropriate and reflect any changes in legislation, regulation or best practice.

The annual report on remuneration provides details of the amounts earned in respect of the year ended 30 June 2018 and how the directors' remuneration policy has operated.

The annual report on remuneration, detailed on pages 28 to 32, is subject to an advisory shareholder vote at the 2019 AGM.

Review of the year ended 30 June 2018

During the year, the Committee worked to embed the Long-Term Incentive Plan (LTIP) into the Group incentive mechanism for the Executive and Senior Directors in the Group. The first awards under the LTIP were granted following shareholder approval at the 2017 AGM.

During the year, dotdigital announced the appointment of Paraag Amin as Chief Financial Officer. The Committee carefully considered the salary and agreed a base of £164,000. This decision is in line with our policy of preferring the salary of new appointees to be brought gradually up to the market median level over time, subject to the demonstrated performance of the individual in the role over the period.

As described earlier in the annual report the Group has performed well during the year, delivering strong revenue of £43.1m and total profit before tax excluding exceptional costs of £10.0m. Consequently, the Executive Directors earned an annual cash bonus equivalent to 26% of salaries.

The Committee remains committed to a fair and responsible approach to executive pay whilst ensuring it remains in line with best practice and appropriately incentivises Executive Directors over the longer term to deliver the Group's strategy. The Board remains focused on ensuring that the Group retains and develops the talents needed to deliver on its growth targets.

Accordingly, the Committee determined it was appropriate to award the Chief Executive Officer a salary increase in the year to closely align the base pay to bring them closer to the median pay of similar size profitable companies.

Outlook for 2019

A key focus in the year will be the new governance requirements for AIM-listed companies and how these will be applied to both the remuneration and Corporate Governance of the business.

It is intended that an annual review of the effectiveness of the Committee by both the Board and the Committee itself is underway and changes will be made as a result of feedback from the review.

A Share Incentive Plan will also be established for employees to be able to own shares in the Group which closer aligns them with the shareholder value creation and will increase employee retention.

On behalf of the Board

Richard Kellett-Clarke

Richard Kellett-Clarke
Chairman of the Remuneration Committee
15 October 2018

Directors' Remuneration Policy

This section sets out the Directors' remuneration policy. The Committee considers the remuneration policy annually to ensure that it continues to underpin the Group's strategy.

Key principles

The main aim of the Group's policy is to align the interests of Executive Directors with the Group's growth strategy and long-term creation of shareholder value. The policy is designed to remunerate the Executive Directors competitively and appropriately and allows them to share in this success and the value delivered to shareholders.

The policy is based on the following principles:

- Promote shareholder value creation and support the business growth strategy;
- Ensure that the interests of the Directors are aligned with the long-term interests of shareholders;
- Deliver a competitive level of pay for the Directors sufficient to attract, retain and motivate individuals; and
- Ensure that an appropriate proportion of the package is determined by targets linked to the Group's performance.

Executive Directors' Remuneration Policy

Component	Purpose and link to strategy	Operation	Maximum	Performance measure
Base salary	Fixed remuneration to provide a competitive base salary to attract, motivate and retain directors with the experience and capabilities to achieve the strategic aims.	Reviewed annually against salary surveys for market rate, Group performance, role and experience.	No overall maximum has been set however they are reviewed in the wider context of the Group.	Not applicable
Benefits	To provide market-competitive benefits package.	Receive benefits in line with market practice, these include company car/allowance, private medical, income protection & death in service insurance.	Set a level deemed appropriate by the Remuneration Committee.	Not applicable
Pension	To provide an appropriate level of retirement benefit.	Executive Directors are eligible to participate in the Group's pension plan.	Pension contributions are up to a maximum of 5% of base salary and are paid in addition to base salary.	Not applicable
Annual bonus	Rewards performance against annual targets which supports the strategic direction of Group.	Awards are based on annual performance. Amount paid out is determined by the Committee after the year end based on performance against targets. Any bonus earned is paid in cash	The maximum annual bonus opportunity is 100% of base salary.	Performance measures are set at the start of the year annually and are aligned with key financial, strategic and/or personal targets. Currently 100% of the bonus is based on total profit before tax (PBT) performance.
LTIP	To drive and reward the achievement of longer term objectives, support retention and promote share ownership for Executive Directors.	The Company has adopted a new LTIP. Awards can be made over conditional shares and/or nil cost or nominal cost share options. Vesting will be subject to the achievement of specified performance conditions over a period of three years. Awards may be subject to malus provisions at the discretion of the Committee.	The normal maximum LTIP opportunity is 150% of the individual's base salary where annual grants are to be made or 450% of salary where end-to-end awards, rather than annual grants.	Relevant performance measures are set that reflect underlying business performance. For awards granted in 2017, the vesting of awards will be subject to three years cumulative total shareholder return. Stretching targets are required for maximum pay-out.

Remuneration Committee report continued

Explanation of performance measures

Performance measures are selected that are aligned with the performance of the Group and the interests of shareholders. Stretching performance targets are set each year for the annual bonus and long-term incentive awards. When setting these performance targets, the Committee will consider several different reference points, which may include the Group's business plan and strategy and the economic environment.

The annual bonus is based on PBT performance which is a key financial performance metric of the Group.

The LTIP is based on total shareholder return performance as the Committee considers this to be a key measure of long-term business performance.

The Committee retains the ability to adjust or set different performance measures if events occur which cause the Committee to determine that the measures are no longer appropriate, and that amendment is required so that they can achieve their original purpose.

Awards and options may be adjusted in the event of a variation of share capital in accordance with the rules of the LTIP.

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.

Non-Executive Directors' Remuneration Policy

The remuneration policy for the Non-Executive Directors is to pay fees necessary to attract an individual of the talent required, taking into consideration the size of the business and the time commitment of the role.

Details are set out in the table below:

Approach to setting fees	Basis of fees	Other Items
The fees of the Non-Executive Directors are agreed by the Chairman and Chief Executive. Fees are reviewed annually. Fees are set taking into account the level of responsibility, relevant experience and specialist knowledge of each Non-Executive Director.	Fees may include a basic fee and additional fees for further responsibilities. Fees are paid in cash.	Non-Executive Directors do not receive any benefits or pension contributions. Travel and other reasonable expenses incurred in the course of performing their duties are reimbursed.

Details of current Executive Directors' 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.

Statement of consideration of shareholder views

The Committee considers shareholder feedback received on remuneration matters, including issues raised at the AGM as well as any additional comments received during any other meetings with shareholders.

Remuneration

The Directors' emoluments for the year ended 30 June 2018 are as follows:

	12-month period to 30.06.18							
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
P Amin	70	–	10	–	4	–	84	–
S Bird	22	–	–	–	1	–	23	–
P Blundell	67	–	–	40	5	–	112	–
M Patel	265	12	130	–	13	145	565	1,375,000
I Taylor	125	2	–	–	3	–	130	–
	549	**14**	**140**	**40**	**26**	**145**	**914**	**1,375,000**

*Share-based payment charge relates to the outstanding end-to-end LTIP options that were approved at the AGM on 19 December 2017 at the year end.

Non-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
F Beechinor-Collins	41	–	–	–	–	–	41	–
R Kellet-Clarke	35	–	–	–	–	–	35	–
P Simmonds	45	–	–	–	–	–	45	–
	121	**–**	**–**	**–**	**–**	**–**	**121**	**–**

	12-month period to 30.06.17							
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
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	Ex-gratia payment £'000	Pension £'000	Share-based payment £'000	Total £'000	Number of outstanding options
F Beechinor-Collins	39	–	–	–	1	–	40	–
R Kellet-Clarke	33	–	–	–	–	–	33	–
P Simmonds	66	3	–	–	–	–	69	–
	138	**3**	**–**	**–**	**1**	**–**	**142**	**–**

Remuneration Committee report continued

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 stated below:

	No of shares held	% Holding
F Beechinor-Collins**	199,194	0.07
S Bird	13,558,996	4.55
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	9.99
	47,992,254	**16.10**

* 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

Under the Group's executive share option scheme, the following Director has the right to acquire ordinary shares:

Director	Grant date	No. of share options granted	Option price (pence)	Date first exercisable	Expiry date
M Patel	19/12/17	1,375,000	0.5	18/12/20	18/12/22

Composition of the Remuneration Committee

The Remuneration Committee comprises independent Non-Executive Directors, namely Richard Kellett-Clarke (Chairman) and Frank Beechinor-Collins. The Committee makes recommendations to the Board on Executive Directors' service agreements and remuneration. In doing so it has undertaken relevant research to ensure that remuneration levels are competitive with the industry average. The Committee met two times during the year.

The Chief Executive attends meetings and provides information and support as requested. He is not present when his own remuneration package is considered.

Advisors

During the year, the Committee did not receive any external advice.

Approval

This report was approved by the Board on 15 October 2018 and signed on its behalf by:

Richard Kellett-Clarke

Chairman of Remuneration Committee

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 2018.

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") via a leading omni-channel marketing automation platform 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 £32.0m in the year ended June 2017 to £43.1m for the year ended June 2018, an increase of 35%.

Operating profit grew from £8.1m in the 12 months to June 2017 to £9.2m for the year ended June 2018, an increase of 14%.

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:

	2018	2017	% increase
Revenue	£43.1m	£32.0m	35%
Adjusted EBITDA	£12.5m	£10.3m	22%
ARPU	£845	£715	18%

Dividends

The Board proposes a dividend payment of £1,907,396 comprising an ordinary dividend of 0.64p per ordinary share (2017: £1,629,312 ordinary dividend of 0.55p 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.

Highest paid Director

The Companies Act 2006 requires certain disclosures about the remuneration of the highest paid Director taking into account emoluments, gains on exercise of share options and amounts receivable under long-term incentive schemes. On this basis, the highest paid Director in the year was Milan Patel and details of his remuneration are disclosed in the Remuneration Committee Report.

Strategic report

The strategic report covers pages 2 to 21.

Supplier payment policy

The Group's policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction and to ensure that suppliers are made aware of the terms of payment and to abide by the terms of payment. The average trade creditors for the Group, expressed as a number of days, were 249 days (2017: 98 days).

Directors' interests

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 2018 are as follows:

	30.06.18		30.06.17	
Director	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	13,558,996	4.55	17,558,996	5.96
R Kellett-Clarke	390,000	0.13	390,000	0.13
M Patel	1,575,927	0.53	1,575,972	0.53
P Simmonds	2,491,470*	0.84	2,491,470*	0.84
I Taylor	29,776,667	9.99	29,776,667	10.05

* 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 2018 are as follows:

Director	30.6.18 Number of options held	30.6.17 Number of options held
M Patel	1,375,000	–

Report of the Directors continued

Substantial interests

On 30 September 2018, 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 %
Lion Trust Asset Management	57,395,147	19.30
Ian 'Tink' Taylor, Founder & President	29,776,667	10.01
Slater Investments Ltd	17,544,272	5.90
Simon Bird	13,558,996	4.56
Highclere International Investors	11,669,575	3.92
Franklin Templeton Fund Management	9,775,000	3.29
J O Hambro Capital Management	9,137,865	3.07

Future outlook

The Group provides omni-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 period from 1 July 2017 to the date of this report.

P Amin (appointed 15 February 2018)
F Beechinor-Collins
S Bird (resigned 9 August 2018)
P Blundell (resigned 30 January 2018)
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 22 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 advisor and together with Finncap are the joint brokers. The closing mid-market share price at 30 June 2018 was 75.0p (2017: 67.5p).

Related party transactions

Disclosures relating to related party transactions are set out in note 25 to the consolidated financial statements.

Charitable and polictal donations

No charitable or political donations were made by the Company.

Charitable donations made by the Group in the year were £1,694 (2017: £1,598).

Employees

The number of employees and their remuneration is set out in note 4.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

The Group complies with all applicable labour laws in the respective jurisdictions in which it operates.

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual 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.

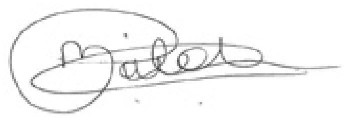
Statement as to disclosure of information to Auditors

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
15 October 2018

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 2018 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union, as applied in accordance with the provision of the Companies House Act 2006.

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 2018 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 IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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 judgement, 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
- Accounting for the acquisition of Comapi

These are explained in more detail below.

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, dotmailer Development Limited, dotmailer LLC, Dynmark International Ltd, Donky Networks Ltd and Dynmark S.p. z.o.o.
- 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 Group capitalised internally generated development costs of £4,376,645 (30 June 2017 – £2,243,687). These capitalised costs are being amortised over five years. The development cost additions represents resources the Group has invested in the development of new innovative technology products for marketing professionals. As part of the Comapi acquisition, Technology additions introduced on acquisition of £1,200,000 represents the cost that would be incurred to build the entire Comapi platform had the acquisition not occurred. The useful life of this intangible asset is assessed to have a finite life of 10 years. The Customer Relationships introduced on acquisition of £1,205,126 represents the value of high value customer contracts within Comapi. The useful life of this intangible asset is assessed to have a finite life of 9 years. 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. The Directors have assessed whether the costs meet the criteria for capitalisation and whether there are any indicators of impairment.	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 assessed the assumptions made by management in deriving the valuation of the Technology additions from the Comapi acquisition. We reviewed the workings provided by management and considered the reasonableness. We compared the useful life of 10 years and benchmarked this against industry standards. We reviewed the workings on the Customer Relationship addition and assessed the key inputs deriving the customer churn.
Investments / Intangibles carrying value The Company had investments of £14,923,115 at the year ended 30 June 2018 (30 June 2017: £5,186,604). The Group had intangible assets of £9,787,354 at the year ended 30 June 2018 (30 June 2017: £4,518,312). Impairment of assets ("IAS 36") states that assets must be assessed for indicators of impairment at each reporting period, for all cash-generating units ("CGUs"). Should such indicators exist the recoverable amount of the asset will be compared to the carrying value, and if the carrying value exceeds the recoverable amount, the difference is recorded as an impairment loss. The Company had goodwill of £9,679,608 at the year ended 30 June 2018 (30 June 2017: £608,503). The goodwill on acquisition of Comapi is £9,070,398.	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 the Directors shows that the Group is expected to remain cash generative and profitable based on their technology. We have understood and assessed 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 the combined dotmailer and Comapi entity are using to enhance its product we consider it reasonable that no impairment has been recognised in the period. Management preformed a separate impairment review for Comapi to consider if any impairments were required. The key model inputs have been assessed. We tested management's assumption that no impairment existed by carrying out sensitivity analysis through changing the assumptions used and re-running the cash flow forecast.

Report of the independent auditor continued

Key audit matters continued

Key audit matter	How our audit addressed the key audit matter
Share-based payment charge The charge for the year is made up as follows: Options granted £449,923 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 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. We have also reviewed the volatility of dotdigitial Group's share price and assessed for reasonableness.
Accounting for the acquisition of Comapi In November 2017 the Group acquired Comapi. The total consideration is £10.7m paid in cash. The acquisition has resulted in the recognition of goodwill of £9.1m and intangible assets of £2.9m. Judgement has been applied by management in determining these amounts. Management are required to determine the fair value of the acquired assets and liabilities, including intangibles. The key assumptions in valuing the intangible assets include the selection of valuation methodology, estimates of customer churn and forecast cash flows. In respect of this acquisition, we identified the key risk as the valuation of acquired intangible assets.	We have reviewed the Group's methodology for acquisition accounting and assessed whether it has been performed in accordance with IFRS 3 Business Combinations in respect of the fair value of intangible assets. We have performed an assessment on the appropriateness of key assumptions of customer churn and asset replacement costs, as well as the assumptions used in order to derive the forecast cash flows and discount rate. We have performed sensitivity analysis on the customer churn and the forecast cash flows.

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	£545,000 (30 June 2017: £460,000).	£172,000 (30 June 2017: £71,000).
How we determined it	Based on the average of 10% of profit before tax, 1% of gross assets and 1% of revenue.	Based on the average of 10% of loss before tax and 1% 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 loss 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 £2,000 and £485,000.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £27,250 (Group audit) (30 June 2017: £23,000) and £8,600 (Company audit) (30 June 2017: £3,550) 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 11 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, dotmailer Development Limited, dotmailer LLC, Dynmark International Ltd, Dynmark S.p z.o.o., and Donky Networks Ltd 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 11 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.

Report of the independent auditor continued

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 35, 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at:

www.frc.org.uk/auditorsresponsibilities

This description forms part of our auditor's report.

Other matters which we are required to address

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.

Use of this report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Sanjay Parmar
Senior Statutory Auditor
For and on behalf of

Jeffreys Henry LLP, Statutory Auditor
Finsgate
5-7 Cranwood Street
London EC1V 9EE

15 October 2018

Financial Statements

Contents

Consolidated income statement

For the year ended 30 June 2018

	Notes	30.6.18 £'000	30.6.17 £'000
Continuing operations			
Revenue		43,094	31,966
Cost of sales	7	(9,074)	(4,459)
Gross profit		**34,020**	**27,507**
Administrative expenses	7	(23,979)	(19,269)
Share based payments		(450)	(162)
Exceptional costs	5	(357)	–
Operating profit		**9,234**	**8,076**
Finance income	6	9	15
Profit before income tax	7	**9,243**	**8,091**
Income tax expense	8	(685)	(945)
Profit for the year from continuing operations		**8,558**	**7,146**
Profit for the year attributable to the owners of the parent		8,558	7,146
Earnings per share from continuing operations (pence per share)			
Basic	11	2.89	2.42
Diluted	11	2.85	2.41
Adjusted Basic	11	3.16	2.47
Adjusted Diluted	11	3.12	2.46

Consolidated statement of comprehensive income

For the year ended 30 June 2018

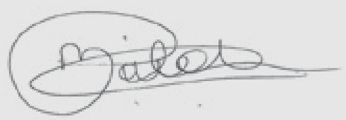
	Notes	30.6.18 £'000	30.6.17 £'000
Profit for the year		**8,558**	**7,146**
Other comprehensive income			
Items that may be subsequently reclassified to profit and loss:			
Exchange differences on translating foreign operations		20	(54)
Total comprehensive income attributable to:			
Owners of the parent		**8,578**	**7,092**
Total comprehensive income for the year			
Comprehensive income from continuing operations		**8,578**	**7,092**

Consolidated statement of financial position

For the year ended 30 June 2018

	Notes	30.6.18 £'000	30.6.17 £'000
Assets			
Non-current assets			
Goodwill	12	9,680	609
Intangible assets	13	9,787	4,519
Property, plant and equipment	14	1,046	1,033
		20,513	**6,161**
Current assets			
Trade and other receivables	16	12,953	7,847
Cash and cash equivalents	17	15,005	20,428
		27,958	28,275
Total assets		**48,471**	**34,436**
Equity attributable to the owners of the parent			
Called up share capital	18	1,490	1,481
Share premium	19	6,791	6,290
Reverse acquisition reserve	19	(4,695)	(4,695)
Other reserves	19	661	305
Retranslation reserve	19	(26)	(46)
Retained earnings	19	32,331	25,306
Total equity		**36,552**	**28,641**
Liabilities			
Non-current liabilities			
Deferred tax	23	1,697	814
Current liabilities			
Trade and other payables	20	10,217	4,440
Financial liabilities – borrowings			
– Interest bearing loans		5	–
Current tax payable		–	541
		10,222	4,981
Total liabilities		**11,919**	**5,795**
Total equity & liabilities		**48,471**	**34,436**

The financial statements were approved and authorised for issue by the Board of Directors on 15 October 2018 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 2018

	Notes	30.6.18 £'000	30.6.17 £'000
Assets			
Non-current assets			
Investments	15	14,924	5,187
		14,924	**5,187**
Current assets			
Trade and other receivables	16	1,105	4,633
Cash and cash equivalents	17	646	591
		1,751	5,224
Total assets		**16,675**	**10,411**
Equity attributable to the owners of the parent			
Called up share capital	18	1,490	1,481
Share premium	19	6,791	6,290
Other reserves	19	661	305
Retained earnings	19	5,761	2,239
Total equity		**14,703**	**10,315**
Liabilities			
Current liabilities			
Trade and other payables	20	1,972	96
Total liabilities		**1,972**	**96**
Total equity & liabilities		**16,675**	**10,411**

The financial statements were approved and authorised for issue by the Board of Directors on 15 October 2018 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 2018

	Called up share capital £'000	Retained earnings £'000	Share premium £'000
Balance as at 1 July 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**
Issue of share capital	9	-	501
Dividends	–	(1,627)	–
Transfer in reserves	–	94	–
Share-based payment	–	–	–
Transactions with owners	9	(1,533)	501
Profit for the year	–	8,558	–
Other comprehensive income	–	–	–
Total comprehensive income	–	8,558	–
Balance as at 30 June 2018	**1,490**	**32,331**	**6,791**

	Retranslation reserve £'000	Reverse acquisition reserve £'000	Other reserves £'000	Total equity £'000
Balance as at 1 July 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**
Issue of share capital	-	-	-	510
Dividends	-	-	-	(1,627)
Transfer in reserves	-	-	(94)	–
Share-based payments	-	-	450	450
Transactions with owners	-	-	356	(667)
Profit for the year	-	-	-	8,558
Other comprehensive income	20	-	-	20
Total comprehensive income	20	-	-	8,578
Balance as at 30 June 2018	**(26)**	**(4,695)**	**661**	**36,552**

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 net of the 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 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.

Company statement of changes in equity

For the year ended 30 June 2018

	Called up share capital £'000	Retained earnings £'000	Share premium £'000	Other reserves £'000	Total equity £'000
Balance as at 1 July 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 payments	–	–	–	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**
Issue of share capital	9	–	501	–	510
Dividends	–	(1,627)	–	–	(1,627)
Transfer in reserves	–	94	–	(94)	–
Share-based payments	–	–	–	450	450
Transactions with owners	9	(1,533)	501	356	(667)
Profit for the year	–	5,055	–	–	5,055
Total comprehensive income	–	5,055	–	–	5,055
Balance as at 30 June 2018	**1,490**	**5,761**	**6,791**	**661**	**14,703**

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 net of the share issue expenses.

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 2018

	Notes	30.6.18 £'000	30.6.17 £'000
Cash flows from operating activities			
Cash generated from operations	28	13,129	8,813
Tax paid		(501)	(685)
Net cash generated from operating activities		**12,628**	**8,128**
Cash flows from investing activities			
Purchase of subsidiary, net of cash acquired*		(9,578)	–
Purchase of intangible fixed assets		(6,876)	(2,379)
Purchase of tangible fixed assets		(475)	(375)
Sale of tangible fixed assets		–	48
Interest received		9	15
Net cash flows used in investing activities		**(16,920)**	**(2,691)**
Cash flows from financing activities			
Equity dividends paid		(1,627)	(2,479)
Loan repayments		(14)	–
Share issue		510	157
Net cash flows from financing activities		**(1,131)**	**(2,322)**
(Decrease)/Increase in cash and cash equivalents		**(5,423)**	**3,115**
Cash and cash equivalents at beginning of year	29	20,428	17,313
Cash and cash equivalents at end of year	29	**15,005**	**20,428**

* Cash acquired £157,884, please refer to note 12.

Company statement of cash flows

For the year ended 30 June 2018

	Notes	30.6.18 £'000	30.6.17 £'000
Cash flows from operating activities			
Cash generated from operations	28	10,909	2,274
Net cash generated from operating activities		**10,909**	**2,274**
Cash from investing activities			
Purchase of investments		(9,737)	–
Net cash flows from investing activities		**(9,737)**	–
Cash flows from financing activities			
Equity dividends paid		(1,627)	(2,479)
Share issue		510	157
Net cash flows from financing activities		**(1,117)**	**(2,322)**
Increase in cash and cash equivalents		**55**	**(48)**
Cash and cash equivalents at beginning of year	29	591	639
Cash and cash equivalents at end of year	29	**646**	**591**

Notes to the consolidated financial statements

For the year ended 30 June 2018

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 33.

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 2017 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 2017 and have not been early adopted.

Reference	Title	Summary	Application date of standard	Application date of Group
IFRS 2	Share Based Payments	Amendments to clarify the classification and measurement of share based transactions	Periods beginning on or after 1 January 2018	1 July 2018
IFRS 3	Business Combinations	Amendments resulting from the annual review cycle	Periods beginning on or after 1 January 2019	1 July 2019
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 9	Financial Instruments	Amendments regarding the interaction of IFRS 4 and IFRS9	Periods beginning on or after 1 January 2018	1 July 2018
IFRS 9	Financial Instruments	Amendments regarding prepayment features with negative compensation and modifications of financial liabilities	Periods beginning on or after 1 January 2019	1 July 2019
IFRS 11	Joint Arrangements	Amendments resulting from the annual review cycle	Periods beginning on or after 1 January 2019	1 July 2019
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 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
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 Group. The Group does not intend to apply any of these pronouncements early. In regard to IFRS 15, the Board has initiated a project to assess the likely impact ahead of its implementation and expects this to have an immaterial impact on the financial statements for the year ended 30 June 2018 of circa £500k on revenue.

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

Basis of consolidation

In the period ended 2009, the Company acquired via a share for share exchange the entire issued share capital of dotmailer Limited, whose principal activity is that of providing SaaS via a leading omni-channel marketing automation platform and managed services to digital marketing professionals.

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.

The Group applies the acquisition method to account for business combinations. In the statement of financial position, the acquiree's identifiable assets and liabilities are initially recognised at their fair values at the acquisition date.

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 omni-channel marketing services to other businesses, and services are either provided on a usage basis or fixed price bespoke contract. Revenue from contracts is 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.

Notes to the consolidated financial statements continued

For the year ended 30 June 2018

2. Accounting policies continued

Dividends

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

Goodwill

Goodwill represents the excess of the fair value of the consideration over the fair values of the identifiable net tangible and intangible assets acquired and is allocated to cash generating units.

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. 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 asset;

  – 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.

- *Technology*

  Technology represents the cost that would be incurred to build the entire Comapi platform had the acquisition not occurred. The useful life of this intangible asset is assessed to have a finite life of 10 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.

Customer relationships

This represents the value of high-value customer contracts within Comapi. The useful life of this intangible asset is assessed to have a finite life of nine 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.

- *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.

Notes to the consolidated financial statements continued

For the year ended 30 June 2018

2. Accounting policies continued

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

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

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

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

- *Cash and cash equivalents*
  Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows
- *Trade receivables*
  Trade receivables are recognised initially at the lower of their original invoiced value and recoverable amount. A provision is made when it is likely that the balance will not be recovered in full. Terms on receivables range from 30 to 90 days.
- *Financial liabilities and equity*
  Financial liabilities and equity are recognised on the Group's statement of financial position when the Group becomes a party to a contractual provision of an instrument. Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of transaction costs.

  The Group's financial liabilities include trade payables and accrued liabilities.
- *Trade payables*
  Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Terms on accounts payable range from 10 to 90 days.

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

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

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

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

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

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

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

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

The reverse acquisition reserve relates to the adjustment required by accounting for the reverse acquisition in accordance with IFRS 3 'Business combinations'.

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

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

Functional currency translation
– Functional and presentation currency

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

– Transaction and balances

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

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

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

Critical accounting 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 data-driven omni-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.

(b) Valuation of intangibles
The recognition of business combinations requires the excess of the purchase price of acquisitions over the net book value of assets acquired to be allocated to the assets and liabilities of the acquired entity. The Group makes judgements and estimates in relation to the fair value allocation of the purchase price. If any unallocated portion is positive it is recognised as goodwill and if negative, it is recognised in the consolidated income statement.

Judgement is required in determining the fair value of identifiable assets, liabilities and contingent assets and liabilities assumed in a business combination and the fair value of the consideration payable. Calculating the fair values involves the use of significant estimates and assumptions, including expectations about future cash flows, discount rates and the lives of assets following purchase.

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 12 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

Notes to the consolidated financial statements continued

For the year ended 30 June 2018

2. Accounting policies continued

Further detail on the estimates and assumptions we make in our share-based compensation are included in note 27 to the financial statements. The charge made to income statement for period is also disclosed here.

(c) Depreciation and amortisation

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

(d) Bad debt provision

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

3. Segmental reporting

On the 21 November 2017, the Group completed the acquisition of Comapi whose line of business is the provision of omni-channel messaging and cloud communication. dotmailer's single line of business remains the provision of data-driven omni-channel marketing automation. The chief operating decision-maker considers the Group's segments to be by geographical location, this being UK, US and rest of the world ("RoW") operations and by business activity, this being dotmailer and Comapi as shown below:

Geographical revenue and results

30.6.2018	UK £'000	US £'000	RoW £'000	Total £'000
Income statement				
Revenue	33,471	5,257	4,366	43,094
Gross profit	25,412	4,578	4,030	34,020
Profit before income tax	5,180	1,877	2,186	9,243
Total comprehensive income attributable to the owners of the parent	**4,640**	**1,732**	**2,186**	**8,558**
Financial position				
Total assets	45,136	2,183	942	48,261
Net current assets	15,260	1,804	672	17,736

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 (2017: none).

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**	**967**	**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

Business activity revenue and results

30.6.2018	Dotmailer £'000	Comapi* £'000	Total £'000
Income statement			
Revenue	36,891	6,203	43,094
Gross profit	32,266	1,754	34,020
Profit before income tax	8,619	624	9,243
Total comprehensive income attributable to the owners of the parent	**7,936**	**622**	**8,558**
Financial position			
Total assets	44,413	3,848	48,261
Net current assets/(liabilities)	17,944	(208)	17,736

30.6.2017	Dotmailer £'000	Comapi* £'000	Total £'000
Income statement			
Revenue	31,966	–	31,966
Gross profit	27,507	–	27,507
Profit before income tax	8,091	–	8,091
Total comprehensive income attributable to the owners of the parent	**7,146**	**–**	**7,146**
Financial position			
Total assets	34,436	–	34,436
Net current assets	23,294	–	23,294

*The numbers included within Comapi are from the date of acquisition being 21 November 2017.

4. Employees and Directors

	30.6.18 £'000	30.6.17 £'000
Wages and salaries	14,149	11,217
Social security costs	1,562	1,146
Other pension costs	291	252
	16,002	12,615

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

	30.6.18	30.6.17
Directors	5	6
Sales and Marketing product	150	120
Development and system engineers	71	56
Administration	53	56
	279	238

During the year the Group also capitalised staff-related costs of £4,023,222 (2017: £2,072,417) in relation to internally generated development costs.

5. Exceptional costs

Exceptional costs incurred in the year relate to the one-off acquisition costs of Comapi of £208,805 (2017: £nil) and amortisation of acquired intangibles of £148,110 (2017: £nil).

Notes to the consolidated financial statements continued

For the year ended 30 June 2018

6. Net finance income

	30.6.18 £'000	30.6.17 £'000
Finance income:		
Deposit account interest	9	15
	9	15

7. Operating profit

Costs by nature

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

	30.6.18 £'000	30.6.17 £'000
Direct marketing	4,586	2,073
Outsourcing	2,121	186
Other costs	2,367	2,200
Total cost of sales	**9,074**	**4,459**

	30.6.18 £'000	30.6.17 £'000
Staff-related costs (inc Directors emoluments) – note 4	16,002	12,615
Operating leases: Land and buildings	937	954
Operating leases: Other	38	43
Audit remuneration	49	40
Amortisation of intangibles	1,971	1,544
Depreciation charge	495	494
Legal, professional and consultancy fees	518	424
Computer expenditure	2,161	1,809
Bad debts	22	8
Foreign exchange (gains)/losses	124	(21)
Travel and subsistence costs	501	425
Office running	152	158
Staff welfare	406	301
Other costs	603	475
Total administration costs	**23,979**	**19,269**

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

	30.6.18 £'000	30.6.17 £'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	37	28
– non-audit fees: Tax and review of interim accounts	4	4
	49	**40**

8. Income tax expense

Analysis of the tax charge from continuing operations:

	30.6.18 £'000	30.6.17 £'000
Current tax on profits for the year	259	847
Deferred tax on origination and reversal of timing differences	426	98
	685	**945**

Factors affecting the tax charge:

	30.6.18 £'000	30.6.17 £'000
Profit on ordinary activities before tax	**9,243**	**8,091**
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2017: 19.75%)	1,756	1,598
Effects of:		
Expenses not deductible	137	12
Research and development enhanced claim	(1,908)	(1,004)
Expenditure permitted on exercising options	(217)	(141)
Overseas tax losses	72	64
Capital allowances in excess of depreciation	419	318
Total income tax	**259**	**847**

Deferred tax was calculated using the rate 19% (2017: 19.75%). For further details on deferred tax see note 23.

Taxation for each region is calculated at the rates prevailing in the respective jurisdiction

A reduction in the UK corporation tax rate to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. UK deferred tax assets and liabilities have been recognised at the rate applying in the period they are expected to unwind.

9. Profit 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 profit before exceptional items for the financial year was £5,055,276 (2017: loss: £390,345)

10. Dividends

Amounts recognised as distributions to equity holders in the period.

	30.6.18 £'000	30.6.17 £'000
Paid dividend for year end 30 June 2018 of 0.505p (2017: 0.857p) per share	1,505	2,449
Proposed dividend for the year end 30 June 2018 of 0.64p (2017: 0.55p) per share	**1,907**	**1,629**

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.

11. 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.

Adjusted earnings per share is based on the consolidated profit deducting the acquisition related exceptional costs and share-based payment.

A number of non-IFRS adjusted profit measures are used in this annual report and financial statements. Adjusting items are excluded from our headline performance measures by virtue of their size and nature, in order to reflect management's view of the performance of the Group. Summarised below is a reconciliation between statutory results to adjusted results. The Group believes that alternative performance measures such as adjusted EBITDA are commonly reported by companies in the markets in which it competes and are widely used by investors in comparing performance on a consistent basis without regard to factors such as depreciation and amortisation, which can vary significantly depending upon accounting methods (particularly when acquisitions have occurred), or based on factors which do not reflect the underlying performance of the business. The adjusted profit after tax earnings measure is also used for the purpose of calculating adjusted earnings per share.

Notes to the consolidated financial statements continued

For the year ended 30 June 2018

11. Earnings per share continued

Reconciliations to earnings figures used in arriving at adjusted earnings per share are as follows:

	30.6.18 £'000	30.6.17 £'000
From continuing operations		
Profit for the year attributable to the owners of the parent	**8,558**	**7,146**
Amortisation of acquisition-related intangible fixed asset (see note 13)	148	–
Other exceptional costs	209	–
Share-based payment	450	162
Adjusted profit for the year attributable to the owners of the parent	**9,365**	**7,308**

Management does not consider the above adjustments to reflect the underlying business performance.

The other exceptional costs relate to one-off acquisition costs of Comapi.

	30.6.18		
From continuing operations	Earnings £'000	Weighted average number of shares	Per share Amount Pence
Basic EPS			
Profit for the year attributable to the owners of the parent	8,558	296,596,304	2.89
Adjusted Basic EPS			
Adjusted profit for the year attributable to the owners of the parent	9,365	296,596,304	3.16
Options and warrants	–	3,728,052	–
Diluted EPS			
Profit for the year attributable to the owners of the parent	8,558	300,324,356	2.85
Adjusted Diluted EPS			
Adjusted profit for the year attributable to the owners of the parent	**9,365**	**300,324,356**	**3.12**

	30.6.17		
From continuing operations	Earnings £'000	Weighted average number of shares	Per share Amount Pence
Basic EPS			
Profit for the year attributable to the owners of the parent	7,146	295,457,101	2.42
Adjusted Basic EPS			
Adjusted profit for the year attributable to the owners of the parent	7,308	295,457,101	2.47
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
Adjusted Diluted EPS			
Adjusted profit for the year attributable to the owners of the parent	**7,308**	**296,518,839**	**2.46**

Weighted average number of shares

	30.6.18 Shares	30.6.17 Shares
Basic EPS	296,596,304	295,457,101
Diluted EPS	300,324,356	296,518,839

12. Goodwill

Group

	30.6.18 £'000	30.6.17 £'000
Cost		
At 1 July	4,121	4,121
Additions	9,071	–
At 30 June	13,192	4,121
Amortisation		
At 1 July	3,512	3,512
Impairment	–	–
At 30 June	3,512	3,512
Net book value	**9,680**	**609**

On 21 November 2017, the Group acquired all the voting rights of Comapi for a cash consideration of £10.7m (which includes the payment of loans in Comapi) in exchange for all Comapi shares, with a potential consideration of £1.2m in share options for the management team, dependent on them achieving specific performance targets over a two-year post-acquisition period and remaining with the business. Comapi's business is the provision of omni-channel messaging and cloud communication.

The Directors believe the acquisition will:

- Extend dotdigital's marketing automation platform to provide an industry-leading solution offering fully integrated omni-channel and conversational commerce support to marketers
- Enable dotdigital to deliver aligned conversational messaging across channels including email, mobile push, SMS, Facebook messenger, Apple business messenger, Twitter and live chat
- Enable dotdigital customers to meet consumer demand for a more personalised communication experience and
- Position dotdigital as the most advanced platform on the market and make dotdigital more relevant in the strategic mobile-first Asian market.

Goodwill of £9.1m was recognised on the acquisition, being the excess of the purchase consideration over the provisional fair value of net assets acquired as set out below and represents Comapi's platform, key customer relationships, employee knowledge and skills and the acceleration of bringing the technology to our platform rather than building in-house.

Provisional Fair value of assets acquired

	£'000s
Net assets acquired	
Identifiable intangible assets	
Technology	1,205
Customer relationships	1,200
Deferred tax recognised on identifiable intangible assets	
Technology	(228)
Customer relationships	(229)
Development costs	501
Property, plant and equipment	42
Trade and other receivables	1,156
Cash and cash equivalents	158
Trade and other payables	(2,497)
Tax payable	(643)
Net identifiable assets acquired	665
Goodwill	9,071
Total consideration	9,736
Purchase consideration	9,736
Cash acquired	(158)
Consideration of net cash acquired	9,578

The results of the acquired entity which have been consolidated in the income statement from 22 November 2017 contributed £6.2m of revenues and a profit of £0.6m to the profit attributable to equity shareholders of the Group during the year. Had Comapi been acquired at the start of the year, the contribution would have been £10.0m of revenue and a profit of £0.4m.

Goodwill is allocated to the Group's two cash generating units identified, that being dotmailer and Comapi. The goodwill addition in the year ended 30 June 2018 relates to the acquisition of Comapi and the goodwill at the beginning of the period relates to dotmailer.

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 to the Group's two trading activities and business segments. This has been tested for impairment during the current period 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% (2017: 10%). The valuations indicate sufficient headroom such that a reasonably possible change in key assumptions would not result in impairment of goodwill.

Notes to the consolidated financial statements continued

For the year ended 30 June 2018

13. Intangible assets

Group

	Customer relationships £'000	Technology £'000
Cost		
At 1 July 2017	–	–
Additions	–	–
Introduced on acquisition	1,205	1,200
At 30 June 2018	**1,205**	**1,200**
Amortisation		
At 1 July 2017	–	–
Amortisation for the year	–	–
Introduced on acquisition	78	70
At 30 June 2018	**78**	**70**
Net book value		
At 30 June 2018	**1,127**	**1,130**

Group

	Computer software £'000	Internally generated development costs £'000	Domain names £'000	Totals £'000
Cost				
At 1 July 2017	497	10,351	16	10,864
Additions	94	4,377	-	4,471
Introduced on acquisition	215	558	21	3,199
At 30 June 2018	**806**	**15,286**	**37**	**18,534**
Amortisation				
At 1 July 2017	320	6,009	16	6,345
Amortisation for the year	76	1,891	4	1,971
Introduced on acquisition	215	57	11	431
At 30 June 2018	**611**	**7,957**	**31**	**8,747**
Net book value				
At 30 June 2018	**195**	**7,329**	**6**	**9,787**

	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**

Development cost additions represents resources the Group has 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.

Technology represents the cost that would be incurred to build the entire Comapi platform had the acquisition not occurred. Customer relationships represent the value of high-value customer contracts within Comapi.

14. Property, plant and equipment

Group

	Short leasehold £'000	Fixtures & fittings £'000	Computer equipment £'000	Totals £'000
Cost				
At 1 July 2017	499	534	1,393	2,426
Additions	46	88	341	475
Disposals	–	(28)	(18)	(46)
Introduced on acquisition	68	50	284	402
Exchange differences	(1)	(1)	–	(2)
At 30 June 2018	**612**	**643**	**2,000**	**3,255**
Depreciation				
At 1 July 2017	214	379	800	1,393
Depreciation for the year	62	91	342	495
Eliminated on disposals	–	(24)	(17)	(41)
Introduced on acquisition	64	34	264	362
Exchange differences	–	1	(1)	–
At 30 June 2018	**340**	**481**	**1,388**	**2,209**
Net book value				
At 30 June 2018	**272**	**162**	**612**	**1,046**

	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**

15. Investments

Company

	Shares in Group undertakings 30.6.18 £'000	Shares in Group undertakings 30.6.17 £'000
Cost		
At 1 July 2017	8,706	8,705
Additions	9,737	1
At 30 June 2018	**18,443**	**8,706**
Amortisation		
At 1 July and 30 June	3,519	3,519
Net book value		
At 30 June	**14,924**	**5,187**

Notes to the consolidated financial statements continued

For the year ended 30 June 2018

15. 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 Ltd	Holding company	Ordinary	100
dotmailer SA Pty	Development hub	Ordinary	100
dotmailer LLC	Development hub	Ordinary	100
Dynmark International Ltd	Omni-channel communication platform	Ordinary	100
Dynmark S.p z.o.o	Omni-channel communication platform	Ordinary	100
Donky Networks Ltd	Omni-channel communication platform	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, dotmailer Pty Limited and Dynmark S.p. z.o.o 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, dotmailer LLC was incorporated in the Republic of Belarus and Dynmark S.p. z.o.o. was incorporated in Poland.

16. Trade and other receivables

	Group		Company	
	30.6.18 £'000	30.6.17 £'000	30.6.18 £'000	30.6.17 £'000
Current:				
Trade receivables	8,677	6,425	–	–
Less: Provision for impairment of trade receivables	(403)	(502)	–	–
Trade receivables – net	8,274	5,923	-	-
Other receivables	151	111	-	-
Amounts owed by Group undertakings	-	-	966	4,609
VAT	-	-	12	14
Tax receivables	312	-	-	-
Prepayments and accrued income	4,216	1,813	127	10
	12,953	**7,847**	**1,105**	**4,633**

Further details on the above can be found in note 22.

Included within prepayments is an amount of £852,504 (2017: £621,065) in relation to deferred commission which is considered to be long-term.

17. Cash and cash equivalents

	Group		Company	
	30.6.18 £'000	30.6.17 £'000	30.6.18 £'000	30.6.17 £'000
Bank accounts	15,005	20,428	646	591
	15,005	**20,428**	**646**	**591**

Further details on the above can be found in note 22.

18. Called up share capital

Allotted, issued, fully paid number	Nominal value	30.6.18 £'000	30.6.17 £'000
298,030,565 (2017: 296,238,485)	£0.005	1,490	1,481
		1,490	**1,481**

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

On 28 November 2017, a number of employees exercised their share options, increasing the issued share capital by 250,000 shares at a premium price of 95.5p.

On 11 May 2018, a number of employees exercised their share options, increasing the issued share capital by 1,542,080 shares at a premium price of 91.5p.

19. Reserves

Group	Retained earnings £'000	Share premium £'000	Reverse acquisition reserve £'000	Retranslation reserve £'000	Other reserves £'000	Totals £'000
As at 1 July 2017	25,306	6,290	(4,695)	(46)	305	27,160
Issue of share capital	–	501	–	–	–	501
Dividends	(1,627)	–	–	–	–	(1,627)
Profit for the year	8,558	–	–	–	–	8,558
Transfer of reserves	94	–	–	–	(94)	–
Other comprehensive income: Currency translation	–	–	–	20	–	20
Share-based payment	–	–	–	–	450	450
Balance as at 30 June 2018	**32,331**	**6,791**	**(4,695)**	**(26)**	**661**	**35,062**

Group	Retained earnings £'000	Share premium £'000	Reverse acquisition reserve £'000	Retranslation reserve £'000	Other reserves £'000	Totals £'000
As at 1 July 2016	20,611	6,138	(4,695)	8	174	22,236
Issue of share capital	–	152	–	–	(3)	149
Dividends	(2,479)	–	–	–	–	(2,479)
Profit for the year	7,146	–	–	–	–	7,146
Transfer in reserves	28	–	–	–	(28)	–
Other comprehensive income: Currency translation	–	–	–	(54)	–	(54)
Share-based payment	–	–	–	–	162	162
Balance as at 30 June 2017	**25,306**	**6,290**	**(4,695)**	**(46)**	**305**	**27,160**

Notes to the consolidated financial statements continued

For the year ended 30 June 2018

19. Reserves continued

Company

	Retained earnings £'000	Share premium £'000	Share-based payments £'000	Totals £'000
As at 1 July 2017	2,239	6,290	305	8,834
Issue of share capital	-	501	–	501
Dividends	(1,627)	–	–	(1,627)
Profit for the year	5,055	–	–	5,055
Transfer of reserves	94	–	(94)	–
Share-based payment	–	–	450	450
As at 30 June 2018	**5,761**	**6,791**	**661**	**13,213**

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

20. Trade and other payables

	Group		Company	
	30.6.18 £'000	30.6.17 £'000	30.6.18 £'000	30.6.17 £'000
Current:				
Trade payables	6,184	1,194	15	52
Amounts owed to Group undertakings	-	-	1,913	-
Social security and other taxes	480	415	-	-
Other payables	60	32	-	-
VAT	989	830	-	-
Accruals and deferred income	2,504	1,969	44	44
	10,217	**4,440**	**1,972**	**96**

Further details on liquidity and interest rate risk can be found in note 22.

21. Leasing agreements

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

	30.06.18		
	Land & buildings £'000	Others £'000	Totals £'000
Within one year	1,094	45	1,139
Between two to five years	1,310	55	1,365
	2,404	**100**	**2,504**

	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**

Operating leases represent rents payable by the Group for its office properties and car leases. 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.

22. 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 are 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	
	30.6.18 £'000	30.6.17 £'000	30.6.18 £'000	30.6.17 £'000
Financial assets				
Trade and other receivables	12,953	7,847	139	24
Bank balances	15,005	20,428	646	591
	27,958	28,275	785	615
Financial liabilities				
Trade payables	6,184	1,194	15	52
Amounts owed to Group undertakings	-	-	1,913	-
Accrued liabilities and other payables	4,033	3,246	44	44
	10,217	4,440	1,972	96

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 quarterly 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 £7,233,000 (2017: £2,056,000) are expected to mature in less than a year.

Notes to the consolidated financial statements continued

For the year ended 30 June 2018

22. Financial instruments and risk management continued

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 2018 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:

	30.6.18 £'000	30.6.17 £'000
0-30 days	6,172	4,845
30-60 days	720	67
More than 60 days	1,785	1,513
	8,677	**6,425**

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

	30.6.18 £'000	30.6.17 £'000
0-30 days	-	8
30-60 days	-	8
More than 60 days	403	486
	403	**502**

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

	30.6.18 £'000	30.6.17 £'000
As at 1 July	502	824
Provision for impairment	40	82
Receivable written off in the year	(72)	(65)
Unused amount reversed	(67)	(339)
As at 30 June	**403**	**502**

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 £2,041,922 (2017: £1,581,391) of which £402,985 (2017: £460,837) 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 (2017: £nil) and amounts payable over one year are nil (2017: £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.

23. Deferred tax

	30.6.18 £'000	30.6.17 £'000
As at 1 July	814	716
Current year provision	426	98
Provision on recognition of intangibles on acquisition	457	–
	1,697	**814**

The deferred tax liability above comprises the following temporary differences:

	30.6.18 £'000	30.6.17 £'000
Capital allowances in excess of depreciation	607	113
R&D relief in excess of amortisation	1,204	858
Share option relief	(114)	(157)
	1,697	**814**

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.

24. Capital commitments

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

25. 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:

			30.6.18 £'000	30.6.17 £'000
Sale of services				
Cadence Performance	Entity under common directorship	Email marketing services	2	2
Cloudcall Group Plc	Entity under common directorship	Email marketing services	16	–
			18	**2**
Year end balances arising from sale of services				
Cloudcall Group Plc	Entity under common directorship	Email marketing services	16	–
			16	**–**

Directors

	30.6.18 £'000	30.6.17 £'000
Aggregate emoluments	701	558
Ex-gratia payment	40	–
Company contributions to money purchase pension scheme	26	50
Share-based payments from the LTIP options granted	145	123
	912	**731**

Directors' pay summary does not include Non-Executive Directors.

Notes to the consolidated financial statements continued

For the year ended 30 June 2018

25. Related party disclosures continued

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

	30.6.18 £'000	30.6.17 £'000
Salaries	395	372
Other benefits	12	10
Pension costs	13	25
Share-based payments on the LTIP options granted	145	–
	565	407

Company

The following transactions were carried out with related parties:

			30.6.18 £'000	30.6.17 £'000
Year end balances arising from sales/purchase of services				
dotmailer Limited	Subsidiary	Payables	(5,350)	(5,338)
			(5,350)	**(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/from related parties

		30.6.18 £'000	30.6.17 £'000
dotmailer Limited	Subsidiary		
As at 1 July		9,950	12,417
Loans advanced		97	40
Loans repaid		(12,606)	(2,507)
		(2,559)	**9,950**

26. 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, dotmailer LLC, Dynmark International Ltd, Dynmark S.p. z.o.o. and Donky Networks Ltd.

27. 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 £450,000 (2017: £162,000).

Vesting conditions of the options dictate that employees must remain in the employment of the Group for the whole period to qualify.

Movement in issued share options during the year

The table illustrates the number and weighted average exercise price (WAEP) of, and movements in, share options during the period. The options outstanding at 30 June 2018 had a WAEP of 9.43p (2017: 33.35p) and a weighted average contracted life of 4.16 years (2017: 2.67 years) and their exercise prices ranged from 0.5p to 68.50p. All share options are settled in form of equity issued.

	30.06.18		30.6.17	
	No of options	WAEP	No of options	WAEP
Outstanding at the beginning of the period	2,540,145	33.35p	4,101,029	26.69p
Granted during the year	2,984,197	0.5p	230,985	68.50p
Forfeited/cancelled during the period	–	0p	706,460	35.30p
Exchanged for shares	1,792,080	28.46p	1,088,409	694.91p
Outstanding at the end of the period	3,732,262	9.43p	2,540,145	33.35p
Exercisable at the end of the period	517,080	34.57p	500,000	15.63p

The weighted average share price at the date of the exercise for share options exercised during the period was 28.46p (2017: 694.91p).

	19 December 2017	21 November 2017	20 June 2017	25 November 2015	28 November 2014	18 October 2013
Number of options granted	1,375,000	1,609,197	230,985	809,160	1,525,000	3,554,794
Share price at grant date	85.95p	78.30p	68.50p	40.50p	29.00p	17.82p
Exercise price	0.50p	0.50p	68.50p	40.25p	28.50p	18.25p
Option life in years	5 years	5 years	5 years	5 years	5 years	5 years
Risk-free rate	1.33%	1.33%	1.33%	1.33%	1.35%	1.40%
Expected volatility	30%	30%	30%	30%	30%	30%
Expected dividend yield	1%	1%	1%	1%	0%	0.4%
Fair value of options/warrants	81p	74p	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.

The share options granted on 21 November 2017 were in respect of the acquisition of Comapi to the management team for retention and performance post acquisition.

The share options granted on 19 December 2017 were following the approval of the LTIP scheme at the AGM on 19 December 2017 and the end-to-end awards that were granted to the Chief Executive Officer.

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

	Group		Company	
	30.6.18 £'000	30.6.17 £'000	30.6.18 £'000	30.6.17 £'000
Current				
Profit before tax from all operations	9,243	8,091	5,055	(390)
Currency revaluation	20	(54)	–	–
Depreciation	2,614	2,038	–	–
Gain/(loss) on disposal of fixed assets	2	(58)	–	–
Share-based payments	450	162	450	162
Finance income	(9)	(15)	–	–
	12,320	**10,164**	**5,505**	**(228)**
(Increase)/decrease in trade receivables	(4,794)	(1,641)	3,528	2,469
Increase/(decrease) in trade payables	5,603	290	1,876	33
Cash generated from operations	**13,129**	**8,813**	**10,909**	**2,274**

29. 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 2016	17,313	639
As at 30 June 2017	20,428	591
As at 30 June 2018	**15,005**	**646**

30. Project development

During the period the Group incurred £4,376,645 (2017: £2,243,687) in development investments. All resources utilised in development have been capitalised as outlined in the accounting policy governing this area.

31. 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 2018

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

Company Secretary:
G Kasparian

Auditors:
Jeffreys Henry LLP
Statutory Auditor
Finsgate 5-7 Cranwood Street
London
EC1V 9EE

Nomad/broker:
N+1 Singer
1 Bartholomew Lane
London
EC2N 2AX

Joint broker:
Finncap
60 New Broad Street
London
EC2M 1JJ

Solicitors:
BPE Solicitors LLP
St James House
St James Square
Cheltenham
GL50 3PR

Registered office:
No. 1 London Bridge
London
SE1 9BG

Registered number:
06289659 (England and Wales)

www.dotdigitalgroup.com

London
No.1 London Bridge
London
SE1 9BG
United Kingdom

New York
333 7th Avenue
Floor 18
New York
NY 10001
USA

Sydney
Suite 1404
167 Macquarie Street
Level 14
Sydney, 2000
Australia

Cape Town
Floor number 6
Suite 602, No. 2
76 Regent Road
The Point Centre
Sea Point
Cape Town 8060
South Africa