



INTERIM RESULTS

For the six months ended 31 December 2017

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Highlights

- Group revenue grew 25% to £18.8m from £15.0m in H1 2017
 - Organic revenue grew 17% to £17.5m (H1 2017: £15.0m)
 - Functionality revenue from additional services now annualised at £7.6m
- Group adjusted EBITDA grew 8% to £5.7m from £5.3m in H1 2017
- Cash balance at period end of £10.5m reflects cash outflow of £10.7m relating to Comapi Acquisition in November 2017
- Continued strong delivery against strategic pillars: product innovation, partnership development and geographic expansion
- Comapi acquisition provides further progress towards fully-fledged omnichannel offering
- Growing strength of platform enabling high quality data-led insights that drive better results and revenue for customers

Product innovation

- First channels now online from Comapi
- Launched additional features to support customer GDPR compliance
- Secured more than 10,000 customer domains to date, to further enhance security of the platform
- Launched a new cloud based Big Data infrastructure for storage of customer Insight data to underpin new machine learning and AI innovations

Partnership development

- Sales through strategic partners increased by 35% to £7.2m (H1 2017: £5.4m) – 63% e-commerce partners / 37% CRM partners
- dotmailer software bundled into the latest version of the Magento Ecommerce platform launched in November 2017, enhancing reach and visibility
- Shopify connector launched in July 2017 and client numbers now growing steadily
- Big Commerce, Woo Commerce, Shopware and Salesforce Commerce Cloud integrations have also gone live during the period

Geographic Expansion

- Core International sales represented 25% of total sales, up from 22% in H1 2017
- Core EMEA business continued to grow at double digit rate despite some sales cycle lengthening ahead of the introduction of GDPR in May 2018
- Revenue from the US region was up approximately 44% to \$3.3m, (H1 2017: \$2.3m) driven by channel partners and system integrators for Magento and Shopify
- APAC sales-team expansion and channel partners drove revenue from the region up approximately 75% to AUS\$0.9m, (H1 2017: AUS\$0.5m)

Operational Review

Our approach

dotdigital's model is based on the fact that consumers respond most positively to personalised, timely and channel-sensitive marketing campaigns. Ultimately, we seek to empower marketers to reach their customers in ways that engage them on their own terms. By first allowing customers to integrate broad and vast ecommerce and CRM data sets into a single platform, and then using leading-edge automation technology to support campaign development and execution, dotdigital ensures marketers can point to reliable returns on their investments and ultimately drive revenue for their brands.

For dotdigital, our 'software-and-a-service' model provides a high-quality and highly visible revenue stream with repeatable characteristics that underpins our future growth plans. Our products are sticky, and the relationships we have with a range of industry-leading ecommerce providers indicates the level of trust our industry has in our solution. We pursue a strategy which places organic growth at its core, and enables a virtuous cycle of product innovation, improved partner relationships, international expansion and inorganic activity which continues to drive dotdigital forward.

The Group's organic growth strategy continues to be focussed around three core areas:

1. Geographic expansion;
2. Developing strategic partnerships; and
3. Product innovation and features.

In the six months to 31 December 2017, key performance highlights against these areas were:

Geographic Expansion

EMEA

Whilst core international sales represented 25% of total sales, up from 22% in H1 2017, our core EMEA business continued to grow at a double digit rate.

This performance demonstrates the underlying strength of our offering, despite some customers lengthening their purchasing cycles ahead of the introduction of GDPR in May 2018. As clients assessed their customer data ahead of implementation, to comply, we saw some volatility in volume-related spending while these processes were worked through. We continue to work with our customers to help them ensure GDPR compliance and would expect normal spending patterns to resume following further guidance from the EU regulator. Furthermore, the improved data-sets resulting from the implementation efforts will likely lead to better data-driven insights for customers, improving ROI for them and growing revenue for dotdigital.

Specifically, within the UK, dotdigital continued to focus on extending its market leading position through product development and innovation resulting in an increasing number of new clients signing up to the platform. We pride ourselves on our customer service and have seen high levels of customer satisfaction over the last six months following on from enhancing our Account Management service in the second half of the last financial year. In addition, we continued to invest in our dedicated sales team for the EMEA region and build our future sales pipeline.

We have a strong growing pipeline, alongside an increased number of new customer sign ups, in the Nordics and Benelux markets.

US

dotdigital continues to make excellent progress with its US expansion plans. Revenues from the region were up 44% to \$3.3m (H1 2017: \$2.3m), largely driven by the success of our partnerships with Magento and Shopify. We continue to strengthen our partnerships, increase our addressable market and improve our brand awareness in the industry.

The US office now employs 28 people. The investment that we have made in bringing the right people into the business has further enhanced our customer retention, average customer value and accelerated new business growth.

The restructuring programme in the US was completed at the end of the last financial year and the business has seen an acceleration in revenue growth and customer success following this.

APAC

Performance during the first six months of the year was also strong in dotdigital's newest geography as we continue to convert a healthy sales pipeline, particularly in Australia, with revenues from the region up 75% to AUS\$0.9m, (H1 2017: AUS\$0.5m).

As in the US, efforts made in previous periods to establish channel partnerships have seen dotdigital progress in building valuable relationships from which we are now seeing growing sales in the region.

Internally, we have invested in expanding our direct APAC sales team to meet the growing demand for our services in the region. Whilst our business in APAC is at a relatively early stage, we are confident and optimistic about the opportunities in the region and continue to focus on ways to increase sales through partnerships, e-commerce integration and growth in our sales and customer success team.

During the period we have seen our brand strengthening in the Far East, through thought leadership events and partnerships, resulting in new customer wins in Singapore, Indonesia, Hong Kong and Thailand. As we continue to strengthen our relationships with our partners, we expect the impact to be seen over the next 12-18 months.

Partnerships

Our partnerships remain a key part of our organic growth strategy, and we saw notable advancements during the first six months of the year. Sales through strategic partners increased by 35% to £7.2m (H1 2017: £5.4m) and were driven by a number of important relationships with trusted partners at the heart of the ecommerce and CRM verticals.

Perhaps most notably, our dotmailer software was bundled into the latest version of the Magento Ecommerce platform, which was launched in November 2017. In being included as part of Magento's core platform, dotmailer can be seamlessly integrated to increase ease of use for consumers. In addition, integrations with Big Commerce, Woo Commerce, Shopware and Salesforce Commerce Cloud were also launched during the period.

We also continued to see take-up of the dotmailer ecommerce connectors. We also see a strong opportunity with the Microsoft Dynamics connector, as we continue to strengthen our relationship with senior individuals and further enhance our integration, which adds to the value proposition to our customers.

Product Innovation

We have added features and enhancements to our product in the last six months to ensure that we continue to adapt to the changing market and offer a comprehensive service to our customers.

A new campaign reporting tool was launched within dotmailer following customer feedback, allowing the customer to increase their insight into both how customers behave alongside the success of their campaigns.

It is critical that we continue to invest in both our own and our customers' data security and as a result we have secured more than 10,000 customer domains (through SSL, Secure Socket Layer) to date. With GDPR on the horizon, we have launched additional features - such as The Right to be Forgotten (data deletion and modification), Evidence of Consent and Data Subject Requests - to support our customers, with the aim to make compliance as easy as possible.

Comapi Acquisition

In addition to our organic growth strategy, we also continue to add to our offering through selected acquisition. During the period we completed the acquisition of Comapi, a fast-growing business focused in the omnichannel messaging and cloud communications market, for a cash consideration of £10.7m.

The acquisition marks a significant step forward in the development of the Company's platform to provide a fully integrated omnichannel and conversational commerce platform to support marketers. It further enables dotdigital to deliver aligned conversational messaging across relevant channels for our customers, including email, mobile push, SMS, Facebook messenger, Apple business messenger, Twitter and live chat.

The move positions dotdigital as one of the most advanced platforms on the market, making the business more relevant in the strategic mobile-first Asian market.

With new channels now online, we have already seen early signs of success from our combination with Comapi. The integration of Comapi is on track and we look forward to launching a fully integrated omnichannel platform at our dotmailer summit in April.

Financial Review

Revenue

Group revenue during the period grew 25% to £18.8m from £15.0m in H1 2017. This performance was driven primarily by new direct customer wins and through our partnerships. Recurring revenue now represents c80% of group revenues, enhancing visibility on future revenues.

Organic revenue grew 17% to £17.5m (H1 2017: £15.0m), in line with management expectations, with functional revenue (includes license fees and bolt-on functionality), now annualised at £7.6m.

The geographic split of revenues continued to diversify, with core international sales representing 25% of total sales in the period, up from 22% in H1 2017. Of that, revenues were up 44% in the US to \$3.3m (H1 2017: \$2.3m), and up 75% in APAC to AUS\$0.9m (H1 2017 AUS\$0.5m).

EBITDA

Group adjusted EBITDA grew 8% to £5.7m from £5.3m in H1 2017, which was in line with management expectations. Adjusted EBITDA excludes a one-off charge of £0.2m for the acquisition of Comapi. We continued to maintain an EBITDA margin of over 30%.

Balance Sheet & Cash Position

dotdigital continues to generate strong cash flow from its core operations. After total expenditure of £13.1m, largely due to the strategic acquisition of Comapi for a cash consideration of £10.7m, interim end net cash balance stood at £10.5m.

dotdigital continues to prioritise product development and during the period spent £1.7m on development (compared to £1.3m in H1 2017). The Group continues to maintain a healthy balance sheet with gross assets of £40.2m and no debt.

Dividend Policy

A dividend of 0.55p per ordinary share (an increase of 28% on the prior period, up from 0.43p) was proposed by the Company at the time of its Final Results in October last year, demonstrating a commitment from the Board to deliver value by focusing on total shareholder return.

This dividend was approved by shareholders at the Annual General Meeting on 19 December 2017 and paid on 31 January 2018.

The Group's dividend policy continues to be that a full review of dividends will be held at the time of the year end, therefore the Board is not proposing an interim dividend.

Summary & Outlook

The first half of 2017 was a transformational period for dotdigital, as the business continued to deliver against its organic growth strategy as well as making significant advancements in our offering through the acquisition of Comapi.

As clients prepare for the introduction of GDPR in May 2018, we have launched additional features to support compliance, and have successfully implemented gap analysis measures to ensure our own. As the regulation comes into force, the Board will continue to proactively monitor and assess any impact to dotdigital and assess how it can best help clients through any transition they undergo.

Based on dotdigital's strong performance during H1 2018 and the continued demand for our core product solutions we have seen at the beginning of the second half, the Board remains confident in its expectations for the full year.

Dotdigital Group Plc

Consolidated Income Statement
For the six months ended 31 December 2017

		6 months to 31 Dec 2017 Unaudited £'000s	6 months to 31 Dec 2016 Unaudited £'000s	12 months to 30 June 2017 Audited £'000s
Continuing operations				
Revenue	4	18,767	14,983	31,966
Cost of sales		<u>(3,163)</u>	<u>(1,955)</u>	<u>(4,459)</u>
Gross profit	4	15,604	13,028	27,507
Administrative expenses		(11,060)	(8,760)	(19,431)
Exceptional costs		<u>(199)</u>	<u>-</u>	<u>-</u>
Operating profit		4,345	4,268	8,076
Finance income		<u>3</u>	<u>14</u>	<u>15</u>
Profit before income tax		4,348	4,282	8,091
Income tax expense	5	<u>(356)</u>	<u>(627)</u>	<u>(945)</u>
Profit for the period attributable to the owners of the parent		<u>3,992</u>	<u>3,655</u>	<u>7,146</u>
Earnings per share from continuing operations				
(pence per share)				
Basic	7	1.35	1.24	2.42
Diluted	7	1.34	1.23	2.41
Adjusted basic	7	1.41	1.24	2.42
Adjusted diluted	7	1.41	1.23	2.41

Dotdigital Group Plc

Consolidated Statement of Comprehensive Income
For the six months ended 31 December 2017

	6 months to 31 Dec 2016 Unaudited notes £'000s	6 months to 31 Dec 2016 Unaudited £'000s	12 months to 30 June 2017 Audited £'000s
Profit for the period	3,992	3,655	7,146
Other comprehensive income			
Items that may be subsequently reclassified to profit and loss:			
Exchange differences on translating foreign operations	<u>(6)</u>	<u>(28)</u>	<u>(54)</u>
Total comprehensive income attributable to:			
Owners of the parent	4 <u><u>3,986</u></u>	<u><u>3,627</u></u>	<u><u>7,092</u></u>

Dotdigital Group Plc

**Consolidated Statement of Financial Position
For the six months ended 31 December 2017**

	<i>notes</i>	6 months to 31 Dec 2017 Unaudited £'000s	6 months to 31 Dec 2016 Unaudited £'000s	12 months to 30 June 2017 Audited £'000s
Assets				
<i>Non-current assets</i>				
Goodwill		12,140	609	609
Intangible assets		5,105	3,712	4,519
Property, plant and equipment		<u>1,404</u>	<u>1,267</u>	<u>1,033</u>
		<u>18,649</u>	<u>5,588</u>	<u>6,161</u>
<i>Current assets</i>				
Trade and other receivables		11,106	8,504	7,847
Cash and cash equivalents		<u>10,497</u>	<u>18,928</u>	<u>20,428</u>
		<u>21,603</u>	<u>27,432</u>	<u>28,275</u>
Total assets	4	<u>40,252</u>	<u>33,020</u>	<u>34,436</u>
Equity attributable to the owners of the parent				
Called up share capital	10	1,482	1,478	1,481
Share premium		6,321	6,138	6,290
Reverse acquisition reserve		(4,695)	(4,695)	(4,695)
Other reserves		331	231	305
Retranslation reserve		(52)	(20)	(46)
Retained earnings		<u>29,298</u>	<u>24,293</u>	<u>25,306</u>
Total equity		<u>32,685</u>	<u>27,425</u>	<u>28,641</u>

Dotdigital Group Plc

Consolidated Statement of Financial Position
For the six months ended 31 December 2017

	6 months to 31 Dec 2017 Unaudited £'000s	6 months to 31 Dec 2016 Unaudited £'000s	12 months to 30 June 2017 Audited £'000s
Liabilities			
<i>Non-current liabilities</i>			
Financial instruments	17	-	-
Deferred tax	767	687	814
	<u>784</u>	<u>687</u>	<u>814</u>
<i>Current liabilities</i>			
Trade and other payables	6,532	4,230	4,440
Current tax payable	251	678	541
	<u>6,783</u>	<u>4,908</u>	<u>4,981</u>
Total liabilities	<u>7,567</u>	<u>5,595</u>	<u>5,795</u>
Total equity and liabilities	<u>40,252</u>	<u>33,020</u>	<u>34,436</u>

Dotdigital Group Plc

Consolidated Statement of Changes in Equity
For the six months ended 31 December 2017

	Share capital	Share premium	Retained earnings	Other reserves	Reverse acquisition reserve	Re-translation reserve	Total
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
As at 1 July 2016	1,473	6,138	20,611	174	(4,695)	8	23,709
Profit for the period	-	-	3,655	-	-	-	3,655
Retranslation reserve	-	-	-	-	-	(28)	(28)
Issue of share capital	5	-	-	-	-	-	5
Reserve transfer	-	-	27	(27)	-	-	-
Share based payments	-	-	-	84	-	-	84
As at 31 December 2016	1,478	6,138	24,293	231	(4,695)	(20)	27,425
As at 1 January 2017	1,478	6,138	24,293	231	(4,695)	(20)	27,425
Profit for the period	-	-	3,491	-	-	-	3,491
Dividends	-	-	(2,479)	-	-	-	(2,479)
Issue of share capital	3	152	-	(3)	-	-	152
Reserve transfer	-	-	1	(1)	-	-	-
Retranslation reserve	-	-	-	-	-	(26)	(26)
Share based payments	-	-	-	78	-	-	78
As at 30 June 2017	1,481	6,290	25,306	305	(4,695)	(46)	28,641
As at 1 July 2017	1,481	6,290	25,306	305	(4,695)	(46)	28,641
Profit for the period	-	-	3,992	-	-	-	3,992
Retranslation reserve	-	-	-	-	-	(6)	(6)
Issue of share capital	1	31	-	-	-	-	32
Reserve transfer	-	-	-	-	-	-	-
Share based payments	-	-	-	26	-	-	26
As at 31 December 2017	1,482	6,321	29,298	331	(4,695)	(52)	32,685

Dotdigital Group Plc
Consolidated Statement of Changes in Equity
For the six months ended 31 December 2017

- Share capital is the amount subscribed for shares at nominal value.
- Share premium represents the excess of the amount subscribed for Share Capital over the nominal value net of the share issue expenses.
- Retained earnings represents the cumulative earnings of the Group attributable to equity shareholders.
- The reverse acquisition reserve relates to the adjustment required to account the reverse acquisition in accordance with International Financial Reporting Standards.
- Other reserves relate to the charge for the share based payments in accordance with International Financial Reporting Standard 2.
- Retranslation reserve relates to the retranslation of a foreign subsidiary into the functional currency of the Group.

Dotdigital Group Plc
Consolidated Statement of Cash Flows
For the six months ended 31 December 2017

	<i>notes</i>	6 months to 31 Dec 2017 Unaudited £'000s	6 months to 31 Dec 2016 Unaudited £'000s	12 months to 30 June 2017 Audited £'000s
Cash flow from operating activities	9	3,192	3,113	8,813
Tax paid		(591)	(420)	(685)
Net cash generated from operating activities		2,601	2,693	8,128
Cash flow from investing activities				
Purchase of subsidiary		(9,736)	-	-
Purchase of intangible fixed assets		(1,718)	(964)	(2,379)
Purchase of tangible fixed assets		(327)	(128)	(375)
Cash introduced from acquisitions		158	-	-
Sale of tangible fixed assets		-	-	48
Interest received		3	14	15
Net cash used in investing activities		(11,620)	(1,078)	(2,691)
Cash flows from financing activities				
Equity dividends paid		-	-	(2,479)
Loan repayment related to acquisition		(942)	-	-
Loan repayment		(2)	-	-
Share issue		32	-	157
Net cash generated from financing activities		(912)	-	(2,322)
(Decrease)/Increase in cash and cash equivalents		(9,931)	1,615	3,115
Cash and cash equivalents at beginning of period		20,428	17,313	17,313
Cash and cash equivalents at end of period.		10,497	18,928	20,428

The above does not include the effect of foreign exchange rate changes on cash and cash equivalents due to its immaterial nature.

Dotdigital Group Plc

Notes to interim financial statements For the six months ended 31 December 2017

1. GENERAL INFORMATION

dotdigital Group Plc is a company incorporated in England and Wales and quoted on the AIM market.

2. BASIS OF INFORMATION

These consolidated interim financial have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and on a historical basis, using the accounting policies which are consistent with those set out in the Group's annual report and accounts for the year ended 30 June 2017. The interim financial information for the six months to 31 December 2017, which complies with IAS 34 'Interim Financial Reporting' has been approved by the Board of Directors on 27 February 2018.

The unaudited interim financial information for the period ended 31 December 2017 does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006. The comparative figures for the year ended 30 June 2017 are extracted from the statutory financial statements which have been filed with the Registrar of Companies and contain an unqualified audit report and did not contain statements under Section 498 to 502 of the Companies Act 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2017, as described in those financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total earnings.

4. SEGMENTAL REPORTING

On the 21 November 2017, the Group completed the acquisition of the Comapi group of companies ("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 web-based marketing services. The chief operating decision maker considers the Group's only reportable segment to be by geographical location this being UK, US and rest of the world("RoW") operations are shown below:

	6 months to 31 December 2017			
	UK	US	RoW	Total
	Operations	Operations	Operations	Total
	£'000s	£'000s	£'000s	£'000s
Income statement				
Revenue	14,403	2,516	1,848	18,767
Gross profit	11,909	2,082	1,613	15,604
Profit before income tax	<u>2,423</u>	<u>828</u>	<u>1,097</u>	<u>4,348</u>
Total comprehensive income attributable to the owners of the parent	<u><u>2,345</u></u>	<u><u>526</u></u>	<u><u>1,115</u></u>	<u><u>3,986</u></u>

Dotdigital Group Plc

**Notes to interim financial statements
For the six months ended 31 December 2017**

4. SEGMENTAL REPORTING (cont...)

	UK Operations £'000s	US Operations £'000s	RoW Operations £'000s	Total £'000s
Financial position				
Total assets	37,378	2,166	708	40,252
Net current assets	<u>12,607</u>	<u>1,726</u>	<u>487</u>	<u>14,820</u>

The UK operations includes Comapi as its turnover and expenses arise solely from operations within the UK, though Comapi delivers messages to over 200 countries around the world on behalf of its customers. The revenue from Comapi was £1.3m and the profit before tax was £0.1m from the date of acquisition to the end of the period.

The Group has not reported the different lines of businesses as separate operating segments as they do not meet the qualitative threshold under IFRS 8 Operating Segments.

	6 months to 31 December 2016			
	UK Operations £'000s	US Operations £'000s	RoW Operations £'000s	Total £'000s
Income statement				
Revenue	11,747	1,839	1,397	14,983
Gross profit	10,273	1,554	1,201	13,028
Profit before income tax	<u>2,852</u>	<u>512</u>	<u>918</u>	<u>4,282</u>
Total comprehensive income attributable to the owners of the parent	<u>2,360</u>	<u>356</u>	<u>911</u>	<u>3,627</u>
Financial position				
Total assets	31,119	1,483	418	33,020
Net current assets	<u>21,109</u>	<u>1,099</u>	<u>316</u>	<u>22,524</u>

Dotdigital Group Plc

**Notes to interim financial statements
For the six months ended 31 December 2017**

4. SEGMENTAL REPORTING (cont...)

	12 months to 30 June 2017			
	UK	US	RoW	Total
	Operations	Operations	Operations	Total
	£'000s	£'000s	£'000s	£'000s
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	921	2,242	7,092
Financial position				
Total assets	32,578	1,556	302	34,436
Net current assets	21,961	1,120	213	23,294

5. INCOME TAX EXPENSE

Analysis of the tax charge from continuing operations:

	6 months to 31 Dec 2017	6 months to 31 Dec 2016	12 months to 30 June 2017
	Unaudited	Unaudited	Audited
	£'000	£'000	£'000
Current tax on profits for the period	403	655	847
Deferred tax on origination and reversal of timing differences	(47)	(28)	98
	356	627	945

6. DIVIDENDS

The proposed final dividend of £1,627,056 for the year ended 30 June 2017 of 0.55p per share was paid on the 31 January 2018.

Dotdigital Group Plc
Notes to interim financial statements
For the six months ended 31 December 2017

7. EARNINGS PER SHARE

	6 months to 31 Dec 2017 Unaudited	6 months to 31 Dec 2016 Unaudited	12 months to 30 June 2017 Audited
Continuing operations			
Earnings per Ordinary share:			
Basic (pence)	1.35	1.24	2.42
Diluted (pence)	1.34	1.23	2.41
Adjusted basic (pence)	1.41	1.24	2.42
Adjusted diluted (pence)	<u>1.41</u>	<u>1.23</u>	<u>2.41</u>

	6 months to 31 Dec 2017 Unaudited £'000s	6 months to 31 Dec 2016 Unaudited £'000s	12 months to 30 June 2017 Audited £'000s
Profit for the period from continuing operations for the purpose of basic earnings per share excluding discontinued operations	3,992	3,655	7,146
Adjusted profit for the period from continuing operations for the purpose of basic earnings per share excluding discontinued operations	<u>4,191</u>	<u>3,655</u>	<u>7,146</u>

Weighted average number of shares in issue as follows:

	6 months to 31 Dec 2017 Unaudited	6 months to 31 Dec 2016 Unaudited	12 months to 30 June 2017 Audited
Weighted average number			
Basic	296,283,322	294,981,963	295,457,101
Diluted	<u>297,924,652</u>	<u>296,251,618</u>	<u>296,518,859</u>

The adjusted profit for the period, adjusted basic earnings per ordinary share and adjusted diluted earnings per ordinary share exclude exceptional costs of £0.2m relating to one-off acquisitions costs of Comapi.

Dotdigital Group Plc
Notes to interim financial statements
For the six months ended 31 December 2017

8. GOODWILL

Group	As at 31 Dec 2017 Unaudited £'000s	As at 31 Dec 2016 Unaudited £'000s	As at 30 June 2017 Audited £'000s
Cost			
At beginning of period	4,121	4,121	4,121
Additions	<u>11,531</u>	<u>-</u>	<u>-</u>
At end of period	<u>15,652</u>	<u>4,121</u>	<u>4,121</u>
Amortisation			
At beginning of period	3,512	3,512	3,512
Impairment	<u>-</u>	<u>-</u>	<u>-</u>
At end of period	<u>3,512</u>	<u>3,512</u>	<u>3,512</u>
Net book value at end of period	<u>12,140</u>	<u>609</u>	<u>609</u>

On the 21 November 2017, the Group acquired all the voting rights of Comapi for a purchase consideration of £10.7m in cash in exchange for all Comapi shares. 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 £11.5m 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.

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8. GOODWILL (cont...)

Provisional Fair value of assets acquired

	£'000s
Assets	
Non-current assets	
Intangibles assets	-
Property, plant and equipment	42
	42
Current assets	
Trade and other receivables	1,258
Cash and cash equivalents	158
	1,416
Total assets	1,458
Liabilities	
Non-current liabilities	
Debt	20
	20
Current liabilities	
Trade and other payables	3,233
	3,233
Total liabilities	3,253
Total	(1,795)

Acquisition costs of £0.2m were recognised in the Consolidated Income Statement under exceptional costs.

As at 31 December 2017, the Group had not obtained all information required on the valuation of all identifiable intangible assets acquired from Comapi. This will be completed during the measurement in accordance with IFRS 3 revised.

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8. GOODWILL (cont...)

Goodwill is allocated to the Group's two cash generating units identified, that being Dotmailer and Comapi. The goodwill addition in the period ended 31 December 2017 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.

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9. RECONCILIATION OF PROFIT BEFORE CORPORATION TAX TO NET CASH GENERATED FROM OPERATIONS

	6 months to 31 Dec 2017 Unaudited £'000s	6 months to 31 Dec 2016 Unaudited £'000s	12 months to 30 June 2017 Audited £'000s
Profit before income tax from all operations	4,348	4,282	8,091
Adjustments for:			
Depreciation and amortisation	1,124	1,003	2,038
Loss on disposal of fixed assets	3	-	(58)
Share based payments	26	84	162
Unpaid share capital	-	5	-
Finance income	(3)	(14)	(15)
Currency revaluation	(4)	(28)	(54)
Increase/(Decrease) in trade and other receivables	(2,103)	(2,298)	(1,641)
Decrease/(Increase) in trade and other payables	(199)	79	290
Net cash from operations	3,192	3,113	8,813

10. CALLED UP SHARE CAPITAL

During the period ended 31 December 2017, 250,000 Ordinary Shares of £0.005 per share (31 December 2016: 788,696 Ordinary Shares of £0.005 per share, 30 June 2017: 1,453,696 Ordinary Shares of £0.005 per share) were issued.

The issued share capital as at 31 December 2017 was 296,488,485 Ordinary Shares of £0.005 per share (31 December 2016: 295,573,485 Ordinary Shares of £0.005 per share, 30 June 2017: 296,238,485 Ordinary Shares of £0.005 per share as per the audited accounts).

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11. RELATED PARTY NOTE

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

Key management remuneration:

Key management include Directors and non-executive Directors

The remuneration paid for key management for employee services are as follows:

	6 months to 31 Dec 2017 Unaudited £'000s	6 months to 31 Dec 2016 Unaudited £'000s	12 months to 30 June 2017 Audited £'000s
Remuneration and other short term benefits	346	301	558
Pension cost	17	24	50
	363	325	608

	6 months to 31 Dec 2016 Unaudited £'000s	6 months to 31 Dec 2016 Unaudited £'000s	12 months to 30 June 2017 Audited £'000s
	9	10	-
	1	1	2
	10	11	2

The following transactions were carried out with related parties

Sale of services

Entities controlled by non - executive director of the Group:

Cloudcall - Email marketing services	9	10	-
Cadence Performance Ltd - Email marketing services	1	1	2
	10	11	2

Year end balances arising from the sale of services

Entities controlled by non-executive directors of the Group:

Cloudcall - Email marketing services	-	1	-
	-	1	-

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12. SUBSEQUENT EVENTS TO 31 DECEMBER 2017

As at the date of these statements and the date they were approved by the Board of Directors there were no such events to report.

Copies of this interim statement are available from the Company at its registered office at, No 1 London Bridge London, SE1 9BG. The interim financial information document will also be available on the Company's website www.dotdigitalgroup.com.