Company Registration No. 03958483

7digital Group plc

Consolidated Report and Financial Statements for the Year to 31 December 2017

7digital Group plc

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Chairman's Statement

I would like to start with an apology for the late publication of our results. It is a situation we are not proud of but it is unconnected with the underlying health of our business. The process we have been through in the last few painful weeks leaves us with a more robust financial structure and a set of accounts that have now been through the most rigorous review.

As part of the audit for the year ended 31 December 2017, BDO were appointed as the company's new auditors in order to apply increased rigour as the company has gone through significant growth and change in the last 24 months, partly arising from two significant acquisitions.

In the course of the Audit, certain deficiencies in our preparation were brought to the attention of the Board. This resulted in the Group's auditor undertaking additional verification work and a detailed review of the Group's internal systems and accounting practices. During the extended Audit process, the Company's Audit Committee has met with the Auditors on a number of occasions and closely monitored the work. As a consequence, there has been a lengthy delay to the normal publication of our results. 7digital shares were suspended from trading on AIM on 2 July 2018 as a result of this delay.

The review has been both extensive and exhaustive and we are implementing BDO's recommendations on accounting records and controls. This is expected to resolve all accounting issues and the Audit Committee will continue to work with the Auditors to keep progress under review. Matt Honey, our previous CFO has resigned from the Company. We appointed an interim CFO in June; David Holmwood has previously served as FC at Universal Music in London and took charge of the audit and of implementing changes in our finance function. David has expressed an interest in taking the role on a permanent basis. The Board will conduct an appointment process and will evaluate David alongside external candidates. We expect this process to be complete by the end of September.

Notwithstanding these difficulties, I am pleased now to be able to report on another year of progress for 7digital, one in which the Group delivered against its key objectives of growing its customer base across identified target sectors, strengthened the quality and resilience of its revenue base and improved its overall financial performance. The Group delivered on the Board's commitment to achieving reduced losses in 2017. The Board and I remain confident that 2018 will see continued progress towards profitability and positive operating cash flow.

2017 has proven transformational for 7digital - most important was the Company's transaction with MediaMarktSaturn ("MMS"), Europe's biggest electronics and entertainment retailer, including the acquisition of 24-7 Entertainment ("24-7"). As part of the transaction, the Company signed contracts with MMS with a value of £18.0m over three years and MMS became 7digital's largest shareholder. Our work to create a suite of new digital services for Europe's biggest entertainment and electronics retailer began in 2017 and has gained significant momentum into 2018.

Overall, the Group continues to benefit from global acceleration of music streaming as an increasing number of clients use our platform to build new digital music services. The wirelessly connected world is rapidly bringing the capability of streamed music to a wide variety of new devices including home hi-fi, car dashboards and even aeroplanes. 7digital has customers providing services in all of these areas. Crucially, these technologies are enabling the music industry to serve the traditionally passive listener and opening up streaming services to a much larger market globally.

We believe we offer current and potential customers the leading international B2B platform and music rights capability to deliver music and radio streaming services. Our unmatched combination of market leading technology, broad music rights and deep industry relationships is creating significant barriers to entry for others in the sector. We predicted a year ago that there would be further consolidation in the digital music industry and that 7digital would be both a beneficiary and a leader of this consolidation. Our corporate transactions (two significant acquisitions, a major transaction with MMS, and two fundraise activities) have led the way in this regard. While we expect much more to come, the Company has already begun to benefit from this consolidation.

The company undertook two fundraising rounds. In March a successful Placing and Open Offer raised £2.9m Gross (£2.7m Net). In December 2017, 7digital undertook a further fundraising and experienced strong demand from both high quality institutional investors and private retail investors. A Placing by way of an accelerated bookbuild was heavily oversubscribed with 16 new institutional investors and raised £6.5 million for the Company. Taken together with a Subscription to raise £1.5 million and a significantly oversubscribed Open Offer which raised gross proceeds of £0.5 million, the Capital Raising raised approximately £8.5 million Gross (£8.1m Net) of new Capital. The proceeds of the Capital Raising are being used to position the Company to capitalise on all the growth opportunities of the PaaS (Platform as a Service) model.

Our solid progress throughout 2017 has been important for the business and reflects the valued contributions from our staff across all teams and in all locations globally. On behalf of the Board, I would once again like to thank them for their high-quality work and commitment to 7digital.

I would also like to share the recent formation of an Advisory Board to support the Group's US operations, particularly regarding strategic guidance and corporate partnership support. Industry veteran (and former CEO of Gracenote), John Batter, has joined 7digital as chair of our US Advisory Board.

Despite clear challenges, I am optimistic for the future of 7digital. We are implementing a clear strategy to pursue opportunities in a market that is developing as we anticipated and through which we are intent on delivering strong returns to shareholders.

Don Cruickshank
Chair
15 August 2018

7digital Group plc
Strategic Report
Chief Executive Officer's Review

2017 was a transformative year for 7digital. In line with our stated strategy, we benefited both from the anticipated changes in the digital music industry and our acquisition of a major competitor. Turnover is up 50%, and losses have been reduced; the second half of the financial year was profitable, setting us up well for continuing this momentum into 2018. We ended the year with a strengthened Balance Sheet, having completed a successful cash raise and added significant new institutions to our shareholder register.

Our business is in providing a platform that allows companies to create new digital music services; our revenues come from fees paid for access to that platform. The digital music industry until now has coalesced around music enthusiasts – the current streaming services do not address the majority of music consumers. There are around 160 million subscribers to the major consumer streaming services compared with the more than 3 billion people who listen to music every day.

We believe that this mass market will be addressed by a range of companies for whom music is adjunct to their main business. These companies will "bundle" music with devices, loyalty schemes and tariffs, creating customer loyalty and enabling the collection of data on user behaviour. Amazon is already providing an example of how this will work and their "Echo" voice activated loudspeaker with its bundled music and radio offering is presently the fastest growing area of streamed music. 7digital is working directly with Amazon on services for the Echo and is also developing music streaming services for other clients that will be available on the Echo.

Echo and other "smart speakers" are set to expand music listening significantly. Music Ally, an information service focused on the digital music business, reported on the burgeoning smart speaker category in March 2018 and compiled analyst predictions: "Canalys forecasts that 56.3m smart speakers will be sold globally this year, while Loup Ventures predicts around 58.3m units. Further on, Juniper Research expects smart speakers to be installed in 55% of US households by 2022 – 175m devices in 70m homes. Meanwhile, Accenture claims that these devices will be owned by one third of the online population in China, India, Brazil and Mexico as soon as the end of 2018".

As streaming continues to grow and new technology experiences on connected devices like the Echo become increasingly popular, we expect that more companies will begin to offer music services that cater to a mainstream audience more used to listening to traditional radio than the current batch of streaming experiences. We believe these companies need a supplier with access to an extensive music industry catalogue and a technology platform to deliver it anywhere in the world in licensed form to any device.

A good example of this trend is the work commenced this year with major European retailer MediaMarktSaturn ("MMS"). They are using 7digital to create a range of music services, from free, radio-like offerings linked to loyalty cards to full subscription services in 15 European territories.

The deal with MMS, and alongside it the successful acquisition in June of our only remaining significant business to business European competitor, 24-7 Entertainment ("24-7") (the "Acquisition"), was the most important event in 2017. We have now successfully taken on the former 24-7 clients, including MMS and Danish telco TDC, among others and have begun the work to integrate our technology platforms. The completion of this work will lead to significant overhead savings in the second half of 2018.

The Acquisition delivered against all of its key strategic and financial objectives, including contributing annualised monthly recurring revenues of over £5.6m and leading to the further contract to deliver new music services for MMS and migrate the existing "Juke" service in Germany onto the 7digital platform. The transaction has cemented our market leading position as a business-to-business platform in the rapidly growing market for streamed music and radio services. Most importantly, it led to a profitable H2 in 2017 and a significantly improved EBITDA loss for the year.

The Group's revenue is up 50% at £16.8m (2016: £11.2m). The Company's contracted and billed revenues for the period were in fact £18.7m, with revenues from major new client MMS at £7.0m. However, of this MMS revenue, £2m, including a proportion of setup fees, which have been paid in advance, is to be recognised in H1 2018 rather than in the 2017 financial period, leading to reported revenue of £16.8m. This accounting approach – detailed in the notes below – prepares the company for the impact of IFRS 15 in 2018.

We have continued to improve the quality and mix of our revenues, with total monthly recurring revenues ("MRR") rising by 71% against 2016. Improving sales momentum during the period saw the annualized total licensing exit MRR for the year rise by 23% and annualised streaming exit MRR rise by 31%. Licensing revenues for the year rose by 74% compared with 2016.

Gross Profit rose 55% to £12.0m (2016: £7.8m), with the margin rising again to 72% (2016: 69%), as the Company delivered good growth across all revenue streams.

The adjusted EBITDA loss has significantly reduced to £1.6m (2016: £4.3m adjusted EBITDA loss). We continue to focus on our cost base. Costs rose for a period during the second half of the year as we integrated the 24-7 business, but those are expected to fall again in 2018 as we converge our technology platforms.

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The Group continues to benefit from global acceleration of music streaming as an increasing number of clients use our platform to build new digital music services. The wirelessly connected world is rapidly bringing the capability of streamed music to a wide variety of new devices including home hi-fi, car dashboards and even aeroplanes. 7digital has customers providing services in all of these areas. Streaming is powering a return to growth in the music industry. The worldwide music market is rising again after 15 years of decline and streaming is expected to drive the majority of this growth with compound annual growth rate (CAGR) of 37% (2015-2020), according to Oddo Securities. By 2020, streaming is expected to be worth $11bn globally.

We are increasingly well placed as the supplier of choice to enable a growing number of current and potential customers who are looking to strengthen their consumer offer by delivering music and radio streaming services. The music industry recognises this change and the major labels are now customers of 7digital. In 2017, we established our position with the music industry through deals with the three major labels to provide services such as developing playlist tools, creating content to market their artist releases, and supplying technology and access to a global music catalogue for proprietary platforms.

We have made significant progress in the four key verticals we targeted in our strategy: retail, connected devices, telco/mobile and broadcast radio:-

Retail:

In the retail space, MediaMarktSaturn’s (MMS) transaction with 7digital and its launch of the Juke streaming service demonstrates that one of the world’s leading retailers is putting music at the forefront of its customer engagement strategy. Last year, Amazon mostly drove the massive change in the music marketplace, however, we believe that other retailers will respond to this challenge and seek to retain customers rather than simply stocking Amazon devices. Our sales pipeline supports this: active discussions are ongoing with some of the world’s leading retailers. MMS, Europe’s biggest retailer of entertainment, is the first example; their commitment to roll out a range of music services across Europe, integrated into their retail offering, has, by itself, transformed our business.

In addition, we have signed two content deals with Amazon, illustrating that we are at the forefront of the market for smart speakers, which are an increasingly important retail category. We recently announced a deal with one of the world’s largest suppliers of music to retail. The new client, who cannot be named for reasons of commercial confidentiality, is a market leader in this field, providing music in venues and commercial outlets throughout the world. This is the start of an expansive relationship with a company that is building significant value from the previously neglected background music market.

Connected devices:

7digital believes that voice and AI are set to be the catalysts for re-imagining music streaming in the home and car, where there is huge potential for growth over the next few years. In preparation for this large-scale change in the industry, 7digital announced a partnership with SoundHound, an innovative company specialising in sound recognition and voice-enabled conversational intelligence technologies. The partnership enhances 7digital’s capabilities to offer customers the latest AI-powered experiences to discover and consume music, as does our continued partnership with Will.i.am’s company i.am+ and its Omega voice assistant. This is one example of how 7digital is anticipating the ways in which consumption of digital music will change and is building the right network of partners to be able to deliver the listening experiences of the future.

Within the connected devices category, connected aeroplanes are set to yield further opportunities as more airlines look to offer improved and differentiated inflight entertainment services to their passengers. During 2017, 7digital signed a two-year deal with Global Eagle Entertainment Inc. (“Global Eagle”) to provide technology, access to music, web development expertise and rights holder reporting. Global Eagle is a leading worldwide provider of inflight entertainment content to the airline industry and offers Wi-Fi, movies, television, music, interactive software and portable inflight entertainment services to a number of regional and flagship carriers. Customers of “Global Eagle” include Southwest Airlines, Norwegian Air, Emirates, Japan Airlines, Singapore Airlines, Qatar Airways, Air France and Flydubai.

7digital has also been working with DTS, a pioneer in audio solutions for automotive, mobile devices, home theatre systems and cinema, to develop new high-resolution audio solution prototypes for the automotive market. This is another sub-section of the connected devices vertical that will yield further opportunities as voice technologies become more fully integrated with music services, allowing the driver to control their music listening more easily while on the move.

Telco/ mobile:

Mobile network operators and mobile-focused services continue to comprise a key client sector for 7digital. Following the Company’s acquisition of 24-7 from MMS, we provide services to Danish telco TDC, whose music service YouSee reaches approximately 8% of the Danish population (as subscribers) and has been shown to successfully reduce customer churn over its past 10 years of operation.

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2017 has seen further territory expansion of 7digital's relationship with popular mobile app musical.ly, one of the world's fastest growing social video networks. The new contract doubled the number of territories in which we provide access to music for the musical.ly service, extending its reach from 30 to 60 territories around the world.

We also agreed a three-year deal with French company Deedo SAS to power a new mobile-first streaming service across 27 markets. The focus of the service, which launched in 4 territories in Q4 2017, is to cater for listeners in Africa and the African expatriate community with Pan African music catalogues. 7digital provides technology, access to music and web app development for the service.

Broadcast radio:

We believe there are significant opportunities for the Company to provide services to the radio broadcasters that are coming under increasing pressure to compete with streaming services for listeners' time and engagement. While radio still has robust listening figures and curation skills to serve a loyal audience, it faces challenges from Spotify, Apple and Amazon. 7digital is already working with world-leading radio companies like Global Radio in the UK, Talpa in the Netherlands and the online aggregator of radio, TuneIn.

During the period, we strengthened our position in the merging of radio and music streaming with the acquisition of the FlowRadio® technology, platform and certain customers from Imagination Technologies Group plc ("IMG"). FlowRadio® is an internet radio aggregation service which offers instant access to over 25,000 stations worldwide. As part of the acquisition, 7digital has acquired responsibility for three staff and all current contracts from "IMG".

Our top 10 client accounts in 2017 represented 70% of the revenue and are expected to represent 60% of revenue for 2018.

Licensing division

Licensing is the core of our business, providing the platform and rights management expertise through which our B2B customers can create their own streamed music services, either standalone or bundled into their device or product offering. In line with the Company's Platform as a Service ("PaaS") model, typically, customers pay an initial set-up fee and then a fixed monthly licence fee for using our platform; in addition, we may also take a share of user related revenues generated by the service, including transaction and subscription revenues.

The Company has continued to make progress in signing new clients to its platform. Licensing revenues rose by 74% to £11.6m (2016: £6.7m). Annualised exit MRR, which includes streaming and other platform licensing revenues, for December 2017, grew to £7.7m, an increase of 23% against December 2016 (£6.2m). Licensing fees included £3.2m (2016: £1.8m) of One Off Revenues paid by new customers, who we would expect to contribute to increasing MRR in 2018. Within One Off Revenues are set up fees which are non-refundable and have previously been recognised at the time they are paid. In 2017, the total paid in setup fees was in fact £2.0m; however, we have deferred £527k of these fees into H1 2018 as we prepare to present future accounts under the new IFRS accounting standard which came into effect in January 2018 standard (see note 1: "accounting policies").

Our licensing revenues continue to see the results of the global growth in music streaming, and more particularly, the development of services in new markets and with new business models (such as inflight entertainment). 7digital's customers come from a variety of sectors, including retail, telcos, music labels, broadcasters, automotive, inflight, consumer brands, well-funded start-ups and pureplay streaming services.

7digital's strategic decision to move into higher quality streaming or "Hi-Res" has gained significant momentum. Hi-Res files outsold traditional MP3 files in the 7digital download stores in every month of this period. The MQA format and technology, adopted 2 years ago by 7digital, has gained traction and is endorsed by both major and independent labels. We are seeing the growing demand for Hi-Res audio have an increasingly positive impact on all divisions of our business.

In line with a strategic emphasis on further developing commercial relationships with rights holders, 7digital has continued to win new work with all three of the world's major music labels in 2017. In addition to licensing and providing access to their catalogues for customers, 7digital is helping to create new services for the labels across a number of geographies and earning direct revenues from the labels.

In addition to the 4 main sales verticals highlighted above (retail, connected devices, telco/ mobile and broadcast radio), we are also driving revenue growth in our other major sales verticals, including:

- **Consumer brands:** we announced a deal in Q3 2017 with Fender®, one of the world's leading instrument companies, to provide technology and access to our music and metadata platform. In addition, we have also been working with Onkyo, the Japanese consumer electronics manufacturer, to redesign their music stores and load MQA content
- **Hardware:** 7digital signed a three-year deal to power a subscription streaming service on the innovative "Prizm" smart audio player, now available in France with further territories to follow, which selects music according to the moods and tastes of the people in the room

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- **Pureplay music services:** In September, we announced a new contract with 8tracks, a popular digital music service based in the US. 8tracks was founded in 2008 and focuses on music discovery through crowd-curated playlists. TriPlay's eMusic, a direct-to-consumer service in the US, signed on to use the 7digital platform during 2017. 7digital has been working with a number of customers to prepare to deliver studio quality music to consumers using the MQA format. 7digital also signed a deal with US-based company Fan Label, a dynamic new music fan engagement platform, to provide access to our preview clip catalogue for a new service and handle licensing and rights holder reporting.

Since the period end we have continued to make good progress in licensing, agreeing several key contracts as the digital music industry continues to expand into new areas of current music consumption.

Creative division

Our Creative division is engaged in the creation of award winning audio, video and multimedia programming. This content is produced for broadcasters (such as the BBC's national radio networks, commercial radio stations and other broadcasters such as Sky Television), commissioned to enhance the services provided by our technology licensing division, or designed to create new content streams for digital services. It is a profitable business that brings an increasing number of synergistic benefits to our licensing and operations, in particular the ability to offer clients complementary knowledge and skillsets such as playlist curation and video or audio production.

As anticipated, Creative revenues were weighted towards the second half of the year and grew 6% on 2016 to £2.0m (2016: £1.9m). The division continues to win and retain business as a result of our broad capabilities and deep industry relationships.

Examples of the work produced by 7digital's Creative division in 2017 include audio and video entertainment news bulletins for Amazon's ground breaking "Echo" wireless smart speakers, video content featuring leading artists to celebrate key catalogue anniversaries for Warner Music Group, video documentaries on gaming for BBC Radio 1's iPlayer channel, and a bestselling podcast series for Amazon's Audible service.

The Group retained BBC Radio 2 programmes Pick of the Pops, The Folk Show and The Golden Hour in the latest commissioning round and there are other opportunities for the Group to add to these with the new 'Compete or Compare' commissioning process, whereby a minimum of 60% of BBC Radio hours will be open to competition from independent content producers by 2022.

Content division

The Content division includes revenue from the lower margin legacy sales of digital music downloads by the Group direct to consumers and higher margin one off projects from record labels. In 2017 Content revenues grew by 21% to £3.2m (2016: £2.6m). As in 2016, a continued shift towards Hi-Res digital music files is allowing the group to positively manage the decrease in digital music download sales as consumers move to streaming.

As anticipated, Hi-Res continues to increase as a proportion of content sales, with year-on-year Hi-Res sales showing 100% growth and with Hi-Res audio outselling MP3 audio every month in the year.

Re-Structure

In the second half of 2017, 7digital began a re-structuring which will continue into 2018 with the aim of reducing costs and converging the platforms and operations that have been brought together by the acquisitions of Snowite Sarl in 2016 and 24-7 Entertainment ApS in 2017. This resulted in the closure of the Company's office in Paris during the period with the redundancy of 7 staff.

Outlook

2017 was a year of progress for the Group overall.

The Group continued to expand its customer base across an increasing range of geographies, strengthen its relationships with the music industry and improve the quality of its business through the quality of its revenues.

7digital has a strong pipeline and is enjoying increasing momentum, and the Board remains committed to being profitable at PBT level during the second half of 2018. The Board believes that the enlargement of the Group has significantly strengthened our market position and will bring materially enhanced revenue against a fixed cost base. The acquisition of 24-7 and the deepening relationship with significant shareholder MMS provides the right foundation to see the full benefits of consolidation realised in 2018 and beyond.

Simon Cole
Chief Executive
15 August 2018

7digital Group plc
Strategic Report
Chief Financial Officer's Review

Introduction

The Chairman has referred in his report to the appointment of BDO as the Group's new auditors in December 2017. In conjunction with the change of Auditor, we have looked at all areas of our Accounting Practices and Accounting Policies and ensured that we have embedded best practice where possible. This review has led to the correction of a number of accounting errors relating to prior periods which are shown in detail in note 1. Many of the errors relate to the accounting for acquisitions in recent years.

The overall effect of these changes to the Income Statement increases the prior loss by £142k. Most of the Balance Sheet movements are reclassifications. Nevertheless, it has been important to make these prior period changes in line with IAS8 which we also believe presents a clearer picture of the true underlying performance of the business in those periods.

Following an extensive review we have restated the accruals held for payments due to Labels for historic content sales. The accrual had built up over some years and has now been reviewed and determined that the accrual had been overstated for some time. It has been reduced by £773k back dated prior to 31 December 2015.

As a step forward in preparation for IFRS 15, we have robustly reviewed our policy regarding the timing of recognition of One-Off Revenues. In particular we often receive Set Up fees from customers prior to the delivery of a new service contract. In the past these (generally non-refundable fees) have been taken to revenue when charged. We have reviewed the timings and as a result we have not needed to restate 2016 revenue, but we have reduced 2017 Revenue by £527k and deferred this forward into 2018 Revenue instead.

Lastly, following a detailed review we have concluded that our accounting system was erroneously setup with regard to the way it made automated Foreign Exchange revaluation journals during 2016. The effects have been reversed and have caused the following restatements: Revenue in 2016 was reduced by £241k, offset by a reduction in administration expenses of the same amount, leaving no net effect on Reported Losses.

Results

The Group Revenue grew by 50% in 2017 to £16.8m (2016: £11.2m) and Gross profit increased by 55% to £12.0m. Our overall gross margin also increased to 72% from 69%.

The Operating loss for 2017 was £4,971k (2016: £5,462k) being an improvement of £491k. The EBITDA loss for 2017 was £1,608k (2016: £4,310k) being an improvement of £2,702k and is reconciled to the Operating loss in note 6.

The Loss per share was 2.74 pence (2016: 4.81 pence).

Dividend

During the year, 7digital did not pay an interim or final 2016 dividend (2016: no interim or final 2015 dividend). The Board of directors is not proposing a final dividend in the current year.

Revenue

Shown in the table below: our high-margin business-to-business ("b2b") Licensing revenues have continued to enjoy growth, rising by 74% overall, with the strategically important Monthly Recurring Revenues ("MRR") up 71% to £8.4m (2016: £4.9m). One Off Revenues increased by 82% to £3.2m (2016: £1.7m).

Revenue	**2017 £'000**	**2016 £'000**	**Change**	**%**
Monthly recurring revenue	8,432	4,930	3,502	71%
One Off Revenues	3,184	1,749	1,435	82%
Licensing revenue	**11,616**	**6,679**	**4,937**	**74%**
Content	3,167	2,625	542	21%
Creative	2,018	1,912	106	6%
Total Revenues	**16,801**	**11,216**	**5,585**	**50%**

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The Licensing Revenue Exit rate for Monthly Recurring Revenues increased by 23% year on year. The Exit MRR rate is calculated by taking the MRR revenues in the last month of the period and multiplying them by 12.

The table below breaks out the Exit MRR rates for all elements of Licensing revenue. Within this the Exit MRR rate for our targeted growth business of Streaming increased by 31%. The MRR for Downloads increased by 88% due to trade acquired within the 24-7 acquisition. Radio MRR declined by 52% due to reduced business with our one remaining client in this small sector.

Exit MRR	**2017 £'000**	**2016 £'000**	**Change**	**%**
Streaming	5,159	3,934	1,225	31%
Downloads	1,690	897	793	88%
Radio	581	1,203	(622)	-52%
Other	260	207	53	26%
Total	**7,690**	**6,241**	**1,449**	**23%**

Expenditure

Other administration expenses increased by 27% as we have the inclusion of 7 months of the operating costs of 24-7 Entertainment ApS (now rebranded as '7digital Denmark') which was acquired during the year.

Cash and cash flow

At 31 December 2017, the Group had a cash balance of £6,978k (2016: £838k) and saw overall cash inflows in 2017 of £6,498k (2016: £1,737k cash outflow). This included a cash inflow of £127k from operating activities (2016: £1,362k cash outflow), £4,394k cash outflow on investing activities (2016: £349k outflow), and £10,694k cash inflow on financing activities (2016: Nil).

Mark Foster
Director
15 August 2018

7digital Group plc
Governance
Strategic Report

Strategy and Business model
7digital is a global "b2b" digital music and radio services company. The core of our business is the provision of robust and scalable technical infrastructure and extensive global music rights used to create music streaming and radio services for a diverse range of customers – including consumer brands, mobile carriers, broadcasters, automotive systems, record labels and retailers. We also offer radio production and music curation services, editorial strategy and content management expertise.

Our strategy is to grow revenues, profitability and shareholder returns through:

- Offering end to end music solutions
- Increasing the number of clients we serve
- Improving the financial quality of our business by driving recurring revenues
- Expanding and leveraging our geographic coverage
- Continued investment in market leading technology to meet shifting technology trends and client needs
- Maintaining strict control of our cost base to ensure that revenue growth is quickly reflected in improved overall Group profitability

7digital's core platform provides its customers with access to cloud-based software that allows them to create and develop their own music services. 7digital operates business–to–business technology and music services (Licensing revenue), business–to–consumer music services under the 7digital brand (Content revenue), and content production under the 7digital Creative brand.

Licensing
7digital's core business is to provide an API for third parties that wish to create digital music services, either standalone or bundled within their own device or product offering. 7digital's platform simplifies access to music by offering a combination of a licenced music catalogue alongside the cloud-based technology platform and client-side software, being software hosted by 7digital's clients. These are needed to create on-demand music streaming and download services, radio style services and other services. The 7digital platform is open, with open-source code wrappers to reduce complexity and time to market for its potential customers and can be used for building products on any type of connected device.

Typically, customers pay a set-up fee and monthly licence fees for using the 7digital platform and 7digital will also take a revenue share of any music-based revenue generated by the service, including transaction or subscription revenues.

In addition to providing an open API based platform from which third parties can build their own services, 7digital also provides client-side software applications for the leading OS and device platforms, including Android, iOS, BlackBerry, Windows 8 and Windows Phone, Tizen, Firefox OS, HTML5 and Sonos.

7digital has obtained music licences in 82 countries in North America, Latin America, Europe, Asia-Pacific and Africa. These licences are obtained from hundreds of individual record labels, music publishers and music collecting societies. Music licences vary from country to country and by usage type.

Content
7digital.com is a licensed digital music store available in 18 countries. The 7digital.com music download store offers a catalogue of high quality digital music from the major labels and independent aggregators in Europe, North America and parts of Asia-Pacific. Users have the option to download their purchases as zip files or by using the 7digital download manager to input directly into their media player of choice. 7digital has apps for different devices as well as an HTML5, mobile optimised web store.

Creative
7digital produces approximately 1,200 hours of video and audio content every year. The content companies benefit from regular commissions from BBC's national radio networks as well as one-off commissions from other broadcasters, such as Sky Television. Key programmes include 'Sounds of the Sixties' and 'Pick of the Pops' on Radio 2 and the 'Radcliffe and Maconie Show' on Radio 6. Our Entertainment News content is distributed to around 150 commercial radio stations.

Principal risks and uncertainties
While the Group turned a trading level profit during H2 2017, it was loss making for the year. The goal of reaching profit for the full year of 2018 is reliant on continuing to win new "b2b" licensing business. There is a risk that management will be unable to secure new contracts or that the anticipated demand for the Group's services will not materialise. However, sales performance is monitored weekly and the directors believe that the Group is well placed to continue to grow the business in order to reach profitability in the medium term.

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Our marketplace

The market in which the Group operates continues to be fragmented and competitive and new players are entering the market. These are in the shape of failed Direct to Consumer ("d2c") streaming services offering their technology as a co-branded offer. However, that technology is currently limited to supporting a £9.99 All-You-Can-Eat subscription service; we are not seeing huge demand in this space and neither do we believe it is where we will see growth in the streaming market. The Group is a "b2b" provider of services to customers that may be in competition with companies that are seen as industry leaders. It is possible that developments by either the direct competition, or the competitors to customers, will render the Group's current and proposed products and services obsolete. However, 7digital's position in the market and much strengthened relationship with the major record companies mean we have huge support to help evolve and grow the market away from the technology giants. The Company's product roadmap is regularly evaluated against the developing marketplace to ensure that we remain competitive.

The market in which the Group operates has seen a number of significant changes, such as the shift from physical sales, through to downloads, and then onto streaming. The Group's competitors, or the competitors of the Group's customers, may announce or develop new products, services or enhancements that better meet the needs of customers or the end consumers. Further, new competitors, or alliances among competitors, could emerge. Increased competition may cause price reductions, reduced gross margins and loss of market share, any of which could have a material adverse effect on the Group's business, financial condition and results of operations.

The directors believe that the overall market for the Group's products and services will continue to grow, as the broadcast radio industry and the recorded music industry continue to converge. The Company subscribes to the leading music market research service Midia and holds regular meetings with their leading analyst to monitor trends in the marketplace and therefore anticipate developments. There can, however, be no assurance that growth in the market for its products and services will occur at the rate envisaged by the Group.

Customer mix

The Group relies on a number of key customers. The business plan produced by management assumes new and continuing revenue strands by key customers. If existing contracts were to be terminated or new revenue strands failed to materialise, this could affect the projected growth of the Group. Our Client services team is in regular contact with all the Company's clients in order to deal promptly with any issues that arise. 7digital's production businesses are dependent on the BBC as a key client and as such are vulnerable to the retendering process and BBC budget cuts. However, in the last twelve months, after lobbying from 7digital and others, the BBC has, in fact, announced an increased commitment to Independent Production. Failure by the BBC, as well as other key clients, to fulfil or renew existing contracts, sign up to new revenue streams, or become insolvent themselves, could have a material adverse effect on the financial condition of the Group.

Suppliers

The Group has a number of key suppliers of music content. The Group believe that these content rights that it has built up over a number of years are key to the success of the business and are also a significant barrier to entry to new competition within the market. There is no certainty that the rights holders will not limit or change the way or the price at which the Group is able to use the music content.

Brexit

With staff based in three Continental European locations and customers throughout Europe, the UK's exit from the European Union in March 2019 creates uncertainty in some areas of the Group's business. The likely effects and the Group's mitigating actions are being closely monitored by management as the terms of Brexit are defined.

Staff

The Group depends on qualified and experienced employees, especially in relation to development staff, to enable it to generate and retain business. Should the Group be unable to attract new employees or retain existing employees this could have a material adverse effect on its ability to grow or maintain its business. Retention of the key executives of the Group is recognised as a risk and is managed by the incentive and remuneration arrangements referred to on pages 19, and 49.

Approved by the Board of Directors and signed on behalf of the Board,

Mark Foster
Director
69 Wilson Street
London EC2A 2BB
15 August 2018

7digital Group plc
Governance
Board of Directors

EXECUTIVE DIRECTORS:

Simon Cole, Chief Executive Officer
Simon co-founded The Unique Broadcasting Company Limited in 1989 in partnership with Tim Blackmore, having pioneered the market for national sponsored programmes whilst at Piccadilly Radio, where he was Head of Programmes. Simon has been awarded a fellowship of the Radio Academy.

Matthew Honey, Chief Financial Officer
Matt, a chartered accountant, originally worked with Simon Cole at The Unique Broadcasting Company where he was the Financial Director from 1992 to 2000 and Managing Director of the technology and digital radio side of the business from 2000 to 2008. Matt was then involved with a number of other businesses across a broad range of industries from post production TV editing to international aid development consulting before re-joining 7digital in June 2016. Matt has now resigned and left the company, post year end.

Pete Downton, Deputy Chief Executive Officer
Pete joined 7digital in June 2014, assuming overall responsibility for its commercial strategy. He brings over 20 years of operational and strategic experience within the heart of the nascent digital music and consumer technology businesses to the role. Prior to 7digital, Pete held key leadership roles at Imagination Technologies, including responsibility for content and consumer experiences across both the Imagination Technologies and PURE businesses. Before joining Imagination, Pete spent over a decade working for Warner Music Group, holding senior management positions in the company's International Marketing and Business Development teams.

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Sir Donald Cruickshank, Chair
Don has served as a director of Qualcomm Incorporated from June 2005 to June 2016. Don's career has included assignments at McKinsey & Co. Inc., Times Newspapers, Virgin Group plc, Wandsworth Health Authority and the National Health Service in Scotland. He served as Director General of Oftel from 1993 to 1998. He has been chair of the following: Action 2000 (1997-2000), SMG plc (1999-2004), The London Stock Exchange (2000-2003), Clinovia Group Limited (2004-2007), Formscape Group Limited (2003- 2006). Don was a member of the Financial Reporting Council (2001-2007). He holds an MA degree in Law and an honorary LLD degree from the University of Aberdeen and an MBA degree from Manchester Business School.

Eric Cohen
Eric is currently Chief Development Officer at InterDigital, Inc. Previously, he served as Senior Vice President, Corporate Development at Dolby Laboratories, Inc., where he oversaw corporate development, mergers and acquisitions activities, and corporate strategy. Prior to that, Eric was formerly a Managing Director and senior member of the technology investment banking team at Cowen and Company. Eric, held the position of Managing Director at J.P.Morgan and also worked for 11 years at Credit Suisse First Boston. Eric holds a BS degree from Brown University and an MBA degree from Stanford University.

Mark Foster
Mark has spent much of his career in the music industry, in a succession of Marketing and International roles for all three major labels, including time in Paris as Marketing Director for Warner Music France. Returning to London as Vice President of European Marketing, Foster oversaw pan-regional marketing strategy before founding Warner Music International's New Media Division. After leaving Warner, he launched and ran Deezer in the UK and Ireland, then was appointed CEO for Arts Alliance, a leading global player in Event Cinema. Since 2015, he has developed a portfolio of NED and chair roles for a range of businesses, including highly-respected entertainment analysts MIDiA Research, and has led the digital transformation strategy for Moat Homes, a major Housing Association. In addition, he acts as advisor and brand ambassador for a number of start-ups and scale-ups in the digital entertainment and creative industries.

Anne de Kerckhove
Anne has over 15 years' experience in leading some of the fastest growing technology, media and entertainment companies in Europe. Anne is currently the CEO of Freespee, the conversation platform company. Previously, Anne was CEO of Iron Group and Iron Capital an investment fund and payment enabler in the subscription economy. Before that Anne was the Managing Director EMEA for Videology, one of world's largest ad technology platforms where she drove expansion in over 16 countries in just under 3 years. Prior to joining Videology she was Global Director of Reed Elsevier, responsible for the B2B Entertainment Division, which included leading events such as MIPCOM. From 2003 to 2009, Anne was COO and International Managing Director at Inspired Gaming Group, overseeing the company from its launch to IPO and expansion into 12 countries. Anne has a Bachelor of Commerce

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from McGill University and an MBA from INSEAD. Anne is an angel investor in over 20 companies, including Andela and metail. Anne also sits on the board of 888.com.

NON-EXECUTIVE DIRECTOR:

Paul McGowan
Paul founded retail restructuring group Hilco UK in 2000 in a joint venture with Hilco, where he currently serves as Executive chair to the company. Paul is also currently the chair of HMV, the entertainment retailer, as well as Denby Pottery Group in the UK and the KRAUS Flooring group in Canada. Paul is a qualified Chartered Accountant.

7digital Group plc
Governance
Directors' Report

The Board of Directors present their annual report and the audited financial statements for the year ended 31 December 2017. The Corporate Governance Statement on pages 16 to 18 forms part of this report.

Business review and future developments
The Chief Executive's Review is contained on pages 2 to 5 and the Chief Financial Officer's Review is contained on pages 6 to 7; these reviews, together with the information contained within the Directors' Report constitute the Business Review. The Business Review has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for these strategies to succeed.

The Business Review contains certain forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

Results and dividends
The Group's financial results for the year are shown in the Consolidated Income Statement on page 31. As in the previous year, the Board of Directors is not proposing a final dividend for the year ended 31 December 2017.

Directors' indemnities
The company has made qualifying third-party indemnity provisions for the benefit of its directors that were made during the year and remain in force at the date of this report. Directors' and officers' indemnity insurance with an annual limit of £2 million is maintained.

Substantial shareholders
At 15 August 2018, notification of beneficial interests in 3% or more of the Company's issued share capital are as follows:

	Number of Shares	% of issued share capital	% of voting rights
Miton Asset Management	49,625,832	12.42%	12.42%
24/7 Entertainment GmbH	48,238,955	12.07%	12.07%
City Financial Investment Company Limited	42,750,000	10.70%	10.70%
Killik & Co	28,329,926	7.09%	7.09%
Goodmans Inc	21,977,066	5.50%	5.50%
Walker Crips	16,320,981	4.08%	4.08%
Barclays Stockbrokers Limited	15,170,736	3.80%	3.80%
Hargreaves Landsdown (Nominees)	14,362,238	3.60%	3.60%
Interactive Investor Trading Limited	13,946,489	3.49%	3.49%
Herald Investment Management Limited	12,500,000	3.13%	3.13%

Capital structure
The Group is primarily funded through readily available cash and working capital management.

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year, are shown in note 20.

During the year the Company carried out a Capital subdivision of shares. This created two classes of share; Ordinary 1p shares that carry full voting rights; and 9p Deferred shares that carry limited voting rights. The 1p Ordinary shares carry no right to fixed income. Each Ordinary 1p share carries the right to one vote at general meetings of the Company. Details of the share capital can be found in note 20.

There are no specific restrictions on the size of a holding or on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.
Details of employee share schemes are set out in note 25.

7digital Group plc
Governance
Directors' Report

(continued)

No person has any special right of control over the Company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of directors, the Company is governed by its Articles of Association, the Companies Act and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of directors are described in the Main Board Terms of Reference, copies of which are available on request and the Corporate Governance Statement on pages 16 to 18.

Under a resolution passed at the Company's last AGM on 28th June 2017, the Company has authority to issue ordinary shares and/or make market purchases each to an aggregate nominal value equal to fifteen per cent of the aggregate nominal ordinary share capital as shown in the audited accounts.

Financial risk management
Consideration of principal risks and uncertainties are included on pages 8 to 9 of the Strategic Report including the management of financial risks. These are also outlined further in note 28.

Re-election of directors
The directors who retire by rotation in accordance with the Articles of Association will offer themselves for re-election at the Company's Annual General Meeting ("AGM"). The Board has considered the requirements of the UK Corporate Governance Code in respect of these matters and believes that these members continue to be effective and to demonstrate their commitment to their role, the Board and the Group. Brief particulars of all directors can be found on pages 10 to 11.

Acquisition of the Company's own shares
The company did not purchase any shares into Treasury during the year. At the end of the period, the company had no shares in Treasury (2016: 28,336). During the year, 28,336 treasury shares were issued to employees to settle the exercising of share options.

Going concern
The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 8 to 9. The financial position of the Group, its cash flows and liquidity position are described in the Chief Financial Officer's Review on pages 6 to 7. In addition, note 28 to the financial statement includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposures to credit risk and liquidity risk.

The financial statements at 31 December 2017 show that the Group generated an loss for the year of £4.7m (2016: loss of £5.5m), and with cash generated in operating activities of £0.2m (2016: £1.4m cash used) and a net increase in cash and cash equivalents of £6.1m in the year (2016: decrease of £0.8m). The Group balance sheet also showed cash reserves at 31 December 2017 of £7.0m (2016: £0.8 million).

These financial statements have been prepared on the going concern basis. The directors have reviewed 7digital's going concern position taking account of its current business activities, budgeted performance and the factors likely to affect its future development, and include the Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposure to credit and liquidity risks.

The directors have prepared cashflow forecasts covering a period of 18 months from the date of these preliminary results. The Group is confident in the budgets set and market forecasts, on this basis the Group will be able to operate within its existing facilities. Clearly the timeline required to close sales contracts and the order value of individual sales can vary considerably. The Group has therefore secured Letters of Intent from two major shareholders who have indicated support on standard market terms should extra Working capital be required.

The directors believe that taken as a whole, the factors described above enable the Group to continue as a going concern for the foreseeable future. These Financial Statements do not include the adjustments that would be required if the Group was unable to continue as going concern.

The Board has concluded that no matters have come to its attention which suggests that the Group will not be able to maintain its current terms of trade with customers and suppliers. The Group's forecasts for the combined Group, including due consideration of the continued operating losses of the Group, and projections, taking account of reasonably possible changes in trading performance and the opportunity for cost cutting, indicate that the Group has sufficient cash available to continue in operational

(continued)

existence throughout the forecast period and beyond. The Board has considered various alternative operating strategies should these be necessary and are satisfied that revised operating strategies could be adopted if and when necessary. As a consequence, the Board believes that the Group is well placed to manage its business risks, and longer term strategic objectives, successfully. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Employee involvement
The Group places considerable value on the involvement of its employees and encourages the development of employee involvement in each of its operating companies through both formal and informal meetings. It is the Group's policy to ensure that employees are made aware of significant matters affecting the performance of the Group through information bulletins, informal meetings, team briefings, internal newsletters and the Group's website.

Employment policy
The Group acknowledges the vital role that all employees play in its success through their skills, initiative and commitment. The Group endorses and supports the principles of equal opportunities and always fully considers applications by disabled persons. The policy in respect of staff that become disabled whilst employed is to train and assist them wherever practicable to continue within the Group. It is the policy of the Group to consider individuals on their merit and to make employment decisions on a non-discriminatory basis in compliance with its legal obligations. The Group's policy is to ensure that, as far as is reasonably practicable, working environments exist which will minimise risk to the health and safety of employees.

Environmental policy
In appreciating the importance of good environmental practice, the Group seeks to ensure that its operations cause minimum detrimental impact on the environment. The Group's objective is to comply with all relevant environmental legislation and to promote effective environmental management throughout its businesses.

Policy and practice on payment of creditors
Each Group Company is responsible for agreeing the details of terms and conditions relating to transactions with its suppliers where goods and services have been supplied in accordance with the relevant terms and conditions of the contract. Trade creditors for the Group at 31 December 2017 represented 86 days of purchases (31 December 2016: 58 days of purchases).

Auditor
BDO LLP were formally appointed as the company's auditor on 6th December 2017 following the resignation of Hazlewoods LLP. BDO LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Directors' statement as to the disclosure of information to the auditor
Each of the persons who is a director at the date of approval of this annual report confirms that:
- so far as the directors are aware, there is no relevant audit information of which the Group's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

7digital Group plc
Governance
Directors’ Report

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

Company law requires the directors to prepare Group and Parent Company financial statements for each financial year. Under that law, the directors are required to prepare Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The Parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Company. 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 of the profit or loss of the Company for that period. In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company’s ability to continue as a going concern.

In preparing the Parent Company 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 applicable UK Accounting Standards have been followed; and
- 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 transactions and disclose with reasonable accuracy at any time the financial position of the Company 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 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.

Approved by the Board of Directors and signed on behalf of the Board,

Mark Foster
Director
69 Wilson Street
London EC2A 2BB

15 August 2018

7digital Group plc
Governance
Corporate Governance Statement

The Listing Rules require that listed companies (but not companies traded on the AIM market of the London Stock Exchange ("AIM") incorporated in the UK should state in their report and accounts whether they comply with the UK Corporate Governance Code ("the Code") and identify and give reasons for any area of non-compliance. The Company is listed on AIM and therefore no disclosure is required. However, a number of voluntary disclosures have been made. The Board supports the principles and aims of the Code and intends to ensure that the Group observes the provisions of the Code as it grows, as far as is practical. The Board considers that at this stage in the Group's development the expense of full compliance with the Code is not appropriate, however the Board has made reference to the Quoted Companies Alliance Corporate Governance Code for Small and Mid-Size Companies (the "QCA Code").

Board Composition

The Company is controlled through a Board of Directors, which at 31 December 2017 comprised eight directors: three executive directors, four independent non-executive directors including the Chair, and one non-executive director. Short biographies of each director are set out on page 10. The role of the Chair and that of the Chief Executive are separate. E Cohen, A de Kerckhove and M Foster are considered independent by the Board.

D Cruickshank was considered by the Board to be independent on the date of his appointment as Chair of the Board. P McGowan is not considered by the Board to be independent by virtue of the fact that he is Executive Chair of Hilco UK, which is a substantial shareholder.

Board Role

The chair is responsible for the leadership of the Board, ensuring its effectiveness in all aspects of its role and setting its agenda. The chair also ensures that the directors receive accurate, timely and clear information and that there is effective communication with shareholders. The chair also facilitates the effective contribution of the other non-executive directors and ensures constructive relations between executive and non-executive directors. The Chief Executive's responsibilities are concerned with managing the Group's business and implementing Group strategy.

The Board's role is to provide entrepreneurial leadership of 7digital within the framework of prudent and effective controls that enable risk to be assessed and managed. The Board is responsible for setting the Company's strategic aims and for ensuring the financial and human resources are in place for the Company to meet its objectives and to review management performance. The Board is also responsible for setting the Company's values and standards and ensuring that its obligations to its shareholders are understood and met. The Board dispatches its role by holding regular meetings, at which:

- the monthly management accounts, including budgets and prior year comparatives, are reviewed;
- strategy is set and policy is debated;
- all significant investment and acquisition opportunities are reviewed and, if appropriate, approval is given; and
- any proposed changes to internal control and operating policies are debated.

Skills and Expertise

The non-executive directors bring a wide range of experience and expertise to the Group's affairs, which allows them to constructively challenge and help develop proposals and strategy, scrutinise performance and controls and take decisions objectively in the interests of the Group.

Strategy and Corporate Governance

An updated description of the Company's business model, and a strategic report is included in this report at pages 8 to 9. The Company's Board composition and the areas of skill and expertise detailed above have been designed to support the Company's next stage of growth.

The Board is responsible for maintaining a sound system of internal control to safeguard shareholders' investments and the Company's assets. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss. The Board has considered the need for an internal audit function and has concluded that the internal control systems in place are appropriate for the size and complexity of the Company.

The Board is also responsible for the identification and evaluation of major risks faced by the Group and for determining the appropriate course of action to manage those risks. The Board has put in place the procedures necessary to implement and comply with the guidance; Internal Control: Guidance for Directors as issued by the Financial Reporting Council (Revised). The directors performed an informal review of the Group's control systems during the financial year.

The Group carries insurance to indemnify directors for claims made against them in relation to their duties, with the exception of any losses incurred as a result of their wilful negligence. Cover with an annual limit of £2 million is maintained.

Board Evaluation and Re-election

Procedures around performance evaluation of the Board are conducted informally while individual director evaluation is conducted formally by the chair. The Board continues to evaluate the current balance of skills and determine whether the Board composition is appropriate for the business, and in order to propel the Company to further growth as anticipated. Progress as to this process will be reported in due course to shareholders, and further updates provided.

One-third of the directors must retire from office by rotation at each annual general meeting (AGM) and all directors appointed since the date of the last AGM must put themselves forward for re-election.

Meeting Frequency

During the year, the total number of formal meetings of the Board of 7digital Group plc was eight. The attendance at formal scheduled meetings of the Board was as follows:

	Number of Board Meetings attended	**Number of eligible Board Meetings**
S Cole	8	8
M Honey	8	8
D Cruickshank	8	8
E Cohen	8	8
P McGowan	5	8
A de Kerckhove	8	8
M Foster	8	8
P Downton	8	8

In addition, there were a number of informal meetings of the Board.

The Company has adopted the Market Abuse Regulation for Directors' dealings as applicable to AIM companies.

Financial reporting

The Board places considerable emphasis on ensuring that all communications with shareholders present a balanced and transparent assessment of the Group's position and prospects. The Board or a subcommittee of the Board reviews and approves results announcements, interim reports, annual reports, the chair's AGM statement and trading updates prior to their release. The Statement of Directors' Responsibility in respect of the preparation of financial statements is set out on page 16 and the auditor's statement on the respective responsibilities of directors and the auditor is included within their report on pages 22 to 30.

Committees of the Board

The Board has two standing committees, being the Audit Committee and the Remuneration Committee each of which operates within defined terms of reference.

Audit Committee

The Audit Committee consists of D Cruickshank as chair, E Cohen and M Foster. The Audit Committee has primary responsibility for monitoring the integrity of the financial statements of the Group; reviewing the Group's internal financial controls; ensuring that the financial performance of the Group is properly measured and reported on; and for reviewing reports from the Group's auditor relating to the Group's accounting and internal financial controls. The Chief Financial Officer and other senior management also attend committee meetings by invitation. The Committee has unrestricted access to the Company's auditor. The Audit Committee met formally twice during the period. The Committee reviews arrangements by which staff of the Company may raise in confidence concerns about improprieties in matters of financial reporting or other matters and investigates appropriate follow-up action.

The Audit Committee recommends to the Board the appointment, re-appointment or removal of the external auditor. During 2017 the new Audit Committee made the decision to review the auditors of the Group and put the audit of the Group out to competitive

(continued)

tender. The tender process was led by the Chief Financial Officer and M Foster, on behalf of the Audit Committee. The tender process resulted in a change to the audit firm. This is BDO's first year of service.
The Committee considers all proposals for non-audit services and ensures that these do not impact on the objectivity and independence of the auditor. The Audit Committee in its meetings with the external auditor reviews the safeguards and procedures developed by the auditor to counter threats or perceived threats to their objectivity and independence and assess the effectiveness of the external audit. The Group's policy on non-audit services performed by the external auditor is to address any issues on a case-by-case basis.

Remuneration Committee
The Remuneration Committee consists of D Cruickshank as chairman, E Cohen and A de Kerckhove. Further details of the Committee's remit are contained in the Directors' Remuneration Report on page 19. The Remuneration Committee formally met four times during the period.

Relations with shareholders
The Company recognises that shareholder support is instrumental in the future growth of the Company. The Board is committed to maintaining and further developing communications with shareholders. The Chief Executive and Chairman maintained a regular dialogue with institutional shareholders throughout the year, with further opportunities for shareholder contact during the presentation rounds prior to the cash fundraise. In addition, the executive directors give presentations to analysts and hold one-to-one formal meetings with the Group's key shareholders immediately following the announcement of the Group's full year and interim results. The Group obtains independent feedback on these meetings through its corporate brokers, and this feedback is disclosed to the Board.

The Company responds formally to all queries and requests for information from existing and prospective shareholders. In addition, the non-executive directors are available to shareholders to ensure that any potential concerns can be raised directly. The Group's Annual Report and Accounts, final and interim announcements, trading statements and press releases are available on its website at about.7digital.com.

Further, the Company has invested in shareholder analysis by analysts Argus Vickers to enable further shareholder outreach and dialogue.

Constructive use of the AGM
The Board uses the Annual General Meeting to communicate with both institutional and private shareholders. Resolutions are proposed on each substantially separate issue and the agenda includes a resolution to adopt the Group's Annual Report and Accounts. Details of the proxy votes for and against each resolution are announced after the result of the hand votes is known. Before the formal business of the AGM is undertaken, the Chair invites shareholders' questions to the Board.

7digital Group plc
Governance
Directors' Remuneration Report

As an AIM-listed company, 7digital Group plc is not required to disclose a Directors' Remuneration Report; however, the Company has opted to make a voluntary disclosure.

Remuneration Committee

The Board has established a Remuneration Committee with formally delegated duties and responsibilities. The Remuneration Committee consists of D Cruickshank as chairman, E Cohen and A de Kerckhove. The provisions of the UK Corporate Governance Code recommend that as Company Chairman, D Cruickshank should not be a member of the Committee. However, it was considered that D Cruickshank's experience and knowledge is of considerable value to the Committee and as a result he has been appointed a member of the Committee. The Remuneration Committee has responsibility for determining executive directors' terms and conditions of service, including remuneration and grant of options under the Share Option Schemes.

Remuneration policy for executive directors

The Company's policy on executive director remuneration is to:

- Attract and retain high-quality executives by paying competitive remuneration packages relevant to each director's role, experience and the external market; and
- Incentivise directors to maximise shareholder value through share options and the payment of an annual bonus

Directors' service contracts

The executive director S Cole has a 12-month rolling service agreement with the Company. M Honey and P Downton have 6-month rolling service agreements with the Company.

The remuneration of each of the directors for the year ended 31 December 2017 for the 7digital Group was as follows:

	Salary & Fees £'000	**Salary & Fees Payable in Shares £'000**	**Gain on exercise of share options £'000**	**Bonus £'000**	**Taxable benefits £'000**	**Pension contribution £'000**	**Total 2017 £'000**	Total 2016 £'000
Executive								
S.A. Cole	170			45	7	6	**228**	183
P Downton	136			17	-	4	**157**	137
M Honey	160			23	5	-	**188**	123
J.C.Dent							**-**	67
Non-executive								
D Cruickshank (1)	25	25	24	-	-	-	**74**	50
E Cohen (2)	-	25		-	-	-	**25**	25
A de Kerckhove (3)	33	5		-	-	-	**38**	42
M Foster (4)	25	5		-	-	-	**30**	33
P McGowan (5)	-	25		-	-	-	**25**	-
B Drury	-	-		-	-	-	**-**	9
Total	549	85	24	85	12	10	**765**	669

(This information is audited)

(1) D Cruickshank received a fee of £50,000 per annum. Half of this fee was payable in shares based on the share price at 30th June 2017. Additionally, in December 2017 he exercised 477,762 share options with an exercise price of 0.0p. These options had been granted in June 2014. On the day of exercise, the mid-market price was 5.0p resulting in a gain of £24k.

(2) E Cohen receives a fee of £25,000 per annum. This fee is payable in shares at the end of each 6-month period based on the share price at the end of each period.

(3) A de Kerckhove receives fees of £30,000 per annum. £5,000 of this fee is payable in shares at the end of each 6-month period based on the share price at the end of each period. In addition to the non-executive fee, A de Kerckhove receives £8,000 per annum for her role as President of 7digital SAS.

(4) M Foster receives fees of £30,000 per annum. £5,000 of this fee is payable in shares at the end of each 6-month period based on the share price at the end of each period.

(5) P McGowan did not take a fee. However, instead of a fee being paid personally, Amcomri Asset Management Limited receives a fee of £25,000 per annum. This fee is payable in shares at the end of each 6-month period based on the share price at the end of each period.

(continued)

Total employer national insurance contributions relating to remuneration paid to Directors' were £100,669 (2016: £59,502)

Directors and their interests
The names of the directors serving during the year and their interests at 31 December 2017 were as follows:

	2017		2016	
	Number of ordinary shares	Ordinary shares under options	Number of ordinary shares	Ordinary shares under options
S A Cole	**3,481,046**	**776,222**	**2,481,046**	**576,222**
P Downton	**53,319**	**593,177**	**53,319**	**393,177**
M Honey	**603,847**	**400,000**	**200,000**	**200,000**
D Cruickshank	**4,718,605**	-	**943,000**	**447,762**
E Cohen	**1,208,489**	-	-	-
A de Kerckhove	**134,557**	-	**23,433**	-
M Foster	**500,617**	-	**17,243**	-
P McGowan	**4,686,097**	-	**250,000**	-

At 31 December 2017, the following directors' interests were also noted:
1. Of the ordinary shares shown as beneficially held by S A Cole, 3,453,151 were held by a nominee account.
2. All of the shares shown as beneficially held by M Honey were held by a nominee account
3. Of the ordinary shares shown as beneficially held by D Cruickshank, 2,962,231 were held by a nominee account.
4. All of the shares shown as beneficially held by E Cohen were held by a nominee account
5. Of the ordinary shares shown as beneficially held by M Foster, 403,847 were held by a nominee account.
6. All of the ordinary shares shown as beneficially held by P McGowan were held by a nominee account.
7. P McGowan is the Executive Chair of Hilco UK that indirectly holds 21,977,066 ordinary shares.

During the year shares were issued to Non-executive Directors in lieu of remuneration. The shares issued are included in the table above. At 31st December 2017 571,428 (2016: 2,471,972) shares are due to be issued.

	Accrued gross number of ordinary shares due at 31 Dec 2016	Shares issued during year in lieu of remuneration	Shares forfeited during year in lieu of tax payable	Shares accrued during the year in lieu of remuneration	Accrued gross number of ordinary shares remaining due at 31 Dec 2017
D Cruickshank	1,278,612	1,278,612	-	-	-
A de Kerckhove	162,827	111,124	90,919	86,835	47,619
M Foster	77,736	79,527	37,425	86,835	47,619
E Cohen	564,118	516,933	243,263	434,173	238,095
P McGowan	388,679	397,635	187,122	434,173	238,095
Total	**2,471,972**	**2,383,831**	**558,729**	**1,042,016**	**571,428**

The Company has established a tax efficient EMI option scheme, an "unapproved" share option scheme and a French Share Award Scheme pursuant to which the CEO, CFO, Deputy CEO and other members of staff have been or may be granted share options. Options granted under these schemes have a vesting schedule and for Senior Management, performance criteria are defined.

The number, exercise price and earliest and latest dates of exercise of options over ordinary shares in the Company held by Directors at the end of the year were as follows:

	Share Options	Currently Exercisable	Exercise price	Earliest exercise date	Latest exercise date
Simon Cole	776,722	0	0.0p	10 June 2017	4 Aug 2021
Matthew Honey	400,000	0	0.0p	01 June 2018	4 Aug 2021
Pete Downton	593,177	0	0.0p	10 July 2018	4 Aug 2021

(continued)

There are a number of performance conditions relating to the financial periods ending December 2015, 2016, 2017, 2018 and 2019 attached to these options. These options were granted during the course of the last four years and no options were exercised, lapsed or forfeited during the year.

Independent Auditor's Report to the members of 7digital Group plc

Opinion

We have audited the financial statements of 7digital Group PLC (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2017 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated cash flow statement, the consolidated statement of changes in equity, the parent company balance sheet, the parent company reconciliation of shareholders' funds and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 *Reduced Disclosure Framework* (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's loss 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 United Kingdom Generally Accepted Accounting Practice; 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 group and the parent 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.

Material uncertainty related to going concern

We draw your attention to Note 1 to the financial statements which explains that the group may require further funding, although no confirmed binding or unconditional funding arrangements are in place, in order to continue to settle its obligations as they fall due and to continue as a going concern.

The matters explained in Note 1 indicate that a material uncertainty exists that may cast significant doubt on the group and parent's ability to continue as a going concern. These financial statements do not include the adjustments that would result if the group and the parent company were unable to continue as a going concern. Our opinion is not modified in respect of this matter.

Given the judgements involved in forecasting cash flows of the group, we considered going concern to be a Key Audit Matter. We performed the following work in response to this key audit matter.

Our response

We obtained an understanding of management's working capital management strategy from discussion with management.

Our specific audit testing relating to going concern included:

- Performing a detailed review of the group's cash flow forecast for the period to 31 December 2019 to assess the reasonableness of the forecasts based on our understanding of the group's historical performance and future plans;
- Sensitising the cash flow forecast prepared by management;
- Checking the integrity of the cash flow model and confirming the opening cash balance.
- Considering the impact of any significant post reporting date events and reviewing the conditional Letters of Intent provided by two of the shareholders;
- Reviewing the appropriateness of the disclosure mades within the financial statements.

Independent Auditor's Report to the members of 7digital Group plc

Key audit matters

In addition to the matter described in the material uncertainty related to going concern section, key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	Our response
Revenue recognition Due to the different elements of the contracts entered into by the group and the length of those contracts also varying, the key risk of material misstatement arises both from the recognition of set up fees, revenue around the year end (cut-off) and the revenue recognition policy itself, as detailed within note 1 of these financial statements, ensuring it has been recognised in accordance with IFRS as adopted by the European Union, with particular attention given to IAS 18. Cut-off risk arises around the correct apportionment of revenue to the correct accounting period and subsequent amount accrued or deferred at the year end.	Our audit procedures included assessing the appropriateness of the revenue recognition policies implemented over the different revenue streams, being content, licensing and creative. Encompassing all revenue streams a sample of key contracts were selected for testing, assessing whether the revenue recognised was in line with the contractual terms, the group's recognition policy and the relevant accounting standards. Through analysing a sample of contracts entered into during both the prior and current periods a revenue expectation was calculated and compared to the revenue recognised by 7Digital. For any contracts spanning the year end, the accrued and deferred revenue elements of the contract were recalculated. Contracts which include set-up fees were reviewed to ensure that the revenue has been appropriately recognised. Through our revenue testing and discussion with the directors we identified that foreign exchanges differences had been taken to revenue as opposed to administrative expenses. An analysis has been performed to identify the impact in both the prior and current years which has lead to audit adjustment being raised and posted as noted below.

Independent Auditor's Report to the members of 7digital Group plc

Capitalisation of development costs	
See accounting policy in note 1 and intangible assets note (note 13). The Group capitalises costs in relation to the development, and enhancement, of the software utilised in the offering of the service to the Group's customers. In accordance with IAS 38, management's policy is to capitalise development expenditure on internally developed software products if the costs can be measured reliably and the resulting asset meets the relevant criteria. Development costs not satisfying the relevant criteria and expenditure on the research phase or maintenance of internal projects are recognised in the income statement as incurred. There is a risk that the judgemental criteria outlined under IAS 38 are not met and therefore development costs are incorrectly capitalised.	Our procedures included considering whether the development costs capitalised met the criteria for capitalisation under IAS 38 and subsequently whether the process capturing time spent on each project operated accurately over the period. Through the review of supporting documentation, in the form of salary and time information, we have reviewed these mechanics. A sample of capitalised projects during the year were discussed with the development team and the CEO to gain an understanding of the project, conclude on the stage of development and the ability for the asset to generate future economic benefits for the business, by reviewing the cash flow forecasts of the group. For each intangible asset substantively sampled the related capitalised costs were agreed back to supporting documentation and against the relevant criteria for capitalisation under IAS38, obtaining support for the asset created. Where external consultants were utilised in developing an intangible asset, a sample of these costs were traced back to supporting documentation, in the form of purchase invoices.
Acquisition of 24-7 Entertainment ApS	
See accounting policy in note 1, and the business combinations note (note 12) and the intangibles assets note (note 13). On 19 June 2017, the Group acquired 100% of the share capital of Danish software company 24-7 Entertainment ApS. There are risks present as a result of management's requirement to make significant judgements in assessing the fair values of consideration and of the assets and liabilities acquired. Management have engaged external valuations experts to undertake the purchase price allocation exercise required. We focused on this area because the fair value adjustments, which included the creation of intangible assets and associated deferred tax liabilities, were judgemental in nature and also material. The acquisition resulted in the group acquiring, on consolidation, goodwill and intangible assets of £688,000 and £509,000 respectively.	Our procedures included ensuring the investment within 7Digital Group Plc (parent company), in addition to the intangible assets and goodwill created on consolidation have been accounted for in accordance with IFRS 3 and in are line with the underlying calculations and assumptions within the purchase price allocation for the group. The directors obtained external valuations for the acquired intangible assets. Utilising our own valuations experts, we evaluated the valuation methodologies used for each type of asset and satisfied ourselves that the methodology was appropriate and consistent with market practice. Furthermore, specific audit procedures have been performed over the acquisition balance sheet to ensure there no material errors are present and the accounting policies adopted were consistent with the group.

Independent Auditor's Report to the members of 7digital Group plc

Investments and impairment of intangibles (incl. Goodwill	
See accounting policy in note 1 and the acquisition note (note 12) and the intangible assets note (note 13). *Parent* As a result of the acquisition of 24-7 Entertainment ApS in June 2017, prior acquisitions and holdings of existing group subsidiary companies 7digital Group Plc (the company) now holds investments of £3,760,000. In the parent company accounts there is a risk that the carrying value of the investment in the acquired and legacy subsidiary companies is too high, and thus should be impaired. Management performed a review which resulted in an impairment charge of £5,222,000 being recognised in the parent company. *Group* On consolidation the group holds goodwill and intangible assets of £688,000 and £5,469,000 respectively arising from the acquisition of 24-7 Entertainment ApS in 2017 and the acquisition of Snowite SAS in 2016. Goodwill, where applicable, should be allocated to each of the group's cash generating units ("CGU's"). Further, an annual impairment review is required by management to ensure the level of goodwill is supported by the performance and position of the underlying CGU where impairment indicators exist. Management performed a review which did not indicate any impairment. At year-end there are risks present over both the intangible assets and goodwill: • **Intangible assets** – risk over the valuation of the separately identified intangibles and the subsequent risk at year end as to whether any impairment indicators exist; • **Goodwill** – risk that the recoverable amount of goodwill is lower than its year end carrying amount.	In relation to the impairment of the investments, intangible assets and goodwill balances recognised in both the group and the company accounts, our procedures included analysing the detailed impairment review performed by management, reviewing the underlying calculations of the discounted cashflow, through testing the inputs of the calculation. The main areas of focus were: • **Group cashflow forecast -** ensuring that the short and long term revenue and cost growth rates used were consistent with the 2017 trading activity, whilst performing an analysis over budget vs actuals for 2018; • **The discount rate** - reviewed against the weighted average cost of capital ("WACC") rates utilised by comparable firms; • **Sensitised forecasts** to ensure that there was sufficient headroom in the calculations.

Independent Auditor’s Report to the members of 7digital Group plc

Prior year restatements

Through our prior year file review and detailed audit testing during the current year audit we identified a number of prior year restatements which are set out in note 1, which have had a material effect on the 2016 financial statements. Further information regarding these prior year adjustments is set out in note 1 but a high level analysis can be seen below including how we have addressed the issue.

There are a number of prior year adjustments identified in the prior year, which have led to an increase in loss for the year in 2016 of £142,000 and an increase in net assets of £631,000 at 31 December 2016, with these being:

- **Treatment of acquisition of Snowite SAS in April 2016** – This consists of three elements as noted below:
  - A £546,000 of deferred tax liability had to be recognised in connection with the deferred tax arising on the separable identified intangible assets. This £546,000 should have been recognised as an increase in the value of these intangible assets at the time of acquisition but was erroneously recognised as goodwill.
  - A total of £1,519,000 of various creditor balances which were acquired when the Snowite business was purchased out of administration were incorrectly classified as ‘Bank loans’. These amounts represent a number of different creditors, including local tax authorities that were owed money by the business prior to its acquisition by the Group. A deferred payment plan for settlement of these liabilities was agreed when the Group purchased the business however the transactions are neither legally nor in substance bank borrowings.
  - The acquisition included a put option arrangement which was not accounted for in the prior year. This did not result in a change in the Snowite acquisition accounting but resulted in a financial liability being recognised at 31 December 2016 of £114,000.

- **Classification of foreign exchange differences directly in revenue –** In the 2016 financial statements certain movements in foreign exchange were recognised directly within revenue. This is in contravention of the requirements of IFRS as foreign exchange differences do not satisfy the definition of revenue. A gain of £551,000 in 2016 was recognised directly within revenue in the group financial statements.

In relation to each of the prior year restatements identified we reviewed the underlying calculations performed by management to assess the completeness and accuracy of the adjustments proposed. This included testing the schedules presented and reviewing the revised treatment against our understanding of the nature of the transactions from our work completed on both the 2017 figures and our review of the predecessor auditor working papers. We also reviewed each of the restatements to ensure that the impact was being recognised in the correct financial year.

We also reviewed the disclosures made within the financial statements to verify that these accuracy reflected the details of each restatement made and that the correcting entries had been correctly recognised.

• **Presentation of share based payments to non-exec directors in lieu of salary** - The group has two types of share based payments which consists of (i) a share option scheme made available to a number of employees and (ii) share based payments provided to non-executive directors in lieu of salary. In the 2016 financial statements the disclosure of these transactions was neither clear nor in line with the disclosure requirements of IFRS. • **Content accruals –** From our audit work performed over the content accruals in the current year we identified that the accrual has been over accrued as at the 2016 year end, and for previous years. • **Under recognition of revenue** – From our audit work performed over the revenue recognised we identified that £109,000 had been under-recognised in 2016 in connection with one contract. • **Reclassification of work in progress** – In the 2016 financial statements £142,000 of work in progress was incorrectly classified as inventories. • **Classification of patents** – In the 2016 financial statements £35,000 of patents were incorrectly classified as current assets. • **Presentation of intergroup loan** – During our review of the PLC company balance sheet it was identified that an intergroup loan with 7digital Group Inc of £1,197,000, that was previously a third party loan prior to a group restructuring, was incorrectly presented in the financial statements as a third party creditor.	

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Materiality

Materiality for the group as a whole was set at £259,000, which represents 1.5% of group revenue. Materiality for the parent company was set at £53,000, which represents 1.5% of the parent company revenue. Revenue provides a consistent year on year basis for determining materiality due to the group making losses each year and has been concluded as the most relevant performance measure to the stakeholders of the group. The rationale behind 1.5% is a consequence of the audit being our first year and the complex transactions in the year over the acquisition.

Independent Auditor's Report to the members of 7digital Group plc

Performance Materiality

In considering individual account balances and classes of transactions we apply a lower level of materiality (performance materiality) in order reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

Based upon our assessment of the risks within the group and the group's control environment, performance materiality for the financial statements was set at £181,000, being 70% of materiality.

As a result of a number of prior year adjustments raised during the course of the audit and current year adjustments identified during the audit, the materiality utilised to conduct the audit was reviewed. Due to the fact that we have conducted all significant group subsidiaries to statutory materiality, considerably lower than group materiality, it was concluded that there is no requirement to reduce the group materiality level.

Performance materiality levels used for the key component identified within the group were based upon the same benchmarks and percentages detailed for the group, due to each component being consistent in both nature, audit risks identified and control environment to the group as a whole. In the current year, for the UK components, each of which is subject to individual statutory audit procedures, the materiality levels and performance materiality levels applied ranged from £2,000 to £138,000 and £1,000 to £97,000 respectively. The materiality and performance materiality applied to non-UK components was £194,000 and £136,000 respectively.

Reporting Threshold

The reporting threshold is the amount below which identified misstatements are considered as being clearly trivial. We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £12,500, which is 5% of materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment,

including the group's system of internal control, and assessing the risks of material misstatement in the financial statements at the group level.

In determining the scope of our audit we considered the size and nature of each component within the group to determine the level of work to be performed at each in order to ensure sufficient assurance was gained to allow us to express an opinion on the financial statements of the group as a whole.

We obtained an understanding of the internal control environment related to the financial reporting process and assessed the appropriateness, completeness and accuracy of group journals and other adjustments performed on consolidation.

The group consists of eleven active entities based in Europe and the US, with the majority of trade arising within the UK entities. Eight of the group entities are based in the UK, one being the holding company. Further to this there are trading entities within the US, France and Denmark

Classification of component

Due to eight of the active entities being based in the UK and thus requiring a statutory audit, a lower level of materiality has been utilised for these entities, therefore reducing the aggregation risk on consolidation. Testing has been performed over the consolidation process including a review of consolidation adjustment and journals and analysis of all key judgements areas. Further analytical procedures were performed to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information arising in the remaining components not subject to audit being the US, Denmark and France where limited procedures have been performed. The significant UK components audited for the group reporting purposes accounted for 87% of the group's revenue and 90% of the group's total assets.

Independent Auditor's Report to the members of 7digital Group plc

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 the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement , 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 the 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.

Independent Auditor's Report to the members of 7digital Group plc

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.

Use of our report

This report is made solely to the parent 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 parent 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 parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Andrew Viner (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor

London

15 August 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

7digital Group plc

Consolidated Income Statement
Year ended 31 December 2017

	Notes	Year to 31 Dec 2017	Year to 31 Dec 2016
			Restated
		£'000	£'000
Continuing operations			
Revenue	2	**16,801**	11,216
Cost of sales		**(4,766)**	(3,446)
Gross profit		**12,035**	7,770
Other Income	5	**509**	560
Administrative expenses		**(17,515)**	(13,792)
Adjusted operating loss	6	**(3,761)**	(5,603)
- Share based payments	25	**(86)**	(172)
- Foreign exchange		**(417)**	777
- Exceptional items	3	**(707)**	(464)
Operating loss	4	**(4,971)**	(5,462)
Finance income	9	**1**	6
Finance cost	9	**(56)**	(19)
Loss before tax		**(5,026)**	(5,475)
Taxation on continuing operations	10	**380**	(12)
Loss for the year attributable to owners of the parent company		**(4,646)**	(5,487)
Loss per share (pence)			
Basic and diluted	11	**(2.74)**	(4.81)

Consolidated Statement of Comprehensive Income

	Notes	Year to 31 Dec 2017	Year to 31 Dec 2016
		£'000	£'000
Loss for the year		**(4,646)**	(5,487)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	21	**74**	152
Other comprehensive income		**(4,572)**	(5,335)
Total comprehensive loss attributable to owners of the parent company		**(4,572)**	(5,335)

The notes from pages 36 to 65 form part of the financial statements.

7digital Group plc

Consolidated Statement of Financial Position
31 December 2017

	Notes	2017 £'000	2016 Restated £'000	2015 Restated £'000
Assets				
Non-current assets				
Intangible assets	13	**6,157**	2,201	416
Property, plant and equipment	14	**324**	475	704
		6,481	2,676	1,120
Current assets				
Trade and other receivables	16	**7,002**	3,826	4,556
Cash and cash equivalents		**6,978**	838	1,663
		13,980	4,664	6,219
Total assets		**20,461**	7,340	7,339
Current liabilities				
Trade and other payables	17	**(11,917)**	(6,080)	(3,031)
Provisions for liabilities and charges	18	**(34)**	(143)	(170)
		(11,951)	(6,223)	(3,201)
Net current assets/(liabilities)		**2,029**	(1,559)	3,011
Non-current liabilities				
Other payables	17	**(1,367)**	(1,511)	-
Deferred tax liability	19	**(308)**	(546)	-
Provisions for liabilities and charges	18	**(403)**	-	-
		(2,078)	(2,057)	-
Total liabilities		**(14,029)**	(8,280)	(3,201)
Net assets/(liabilities)		**6,432**	(940)	4,138
Equity				
Share capital	20	**14,404**	11,575	10,843
Share premium account		**8,232**	-	17,278
Treasury reserve	21	**-**	(5)	(42)
Other reserves	21	**(3,367)**	(4,301)	(4,547)
Retained earnings		**(12,837)**	(8,209)	(19,394)
Total equity		**6,432**	(940)	4,138

These financial statements for company registration number 03958483, which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flow, the Consolidated Statement of Changes in Equity and related Notes 1 to 29 were approved by the Board of Directors on 15 August 2018 and were signed on its behalf by:

Mark Foster
Director

The notes from pages 36 to 65 form part of the financial statements.

7digital Group plc

Consolidated Cashflow Statement
Year ended 31 December 2017

	Notes	Year to 31 Dec 2017 £'000	Year to 31 Dec 2016 Restated £'000
Loss for the year		**(4,646)**	(5,487)
Adjustments for:			
Taxation	10	**(380)**	12
Net interest	9	**55**	13
Foreign exchange	4	**417**	(551)
Amortisation of intangible assets	13	**1,738**	883
Depreciation of fixed assets	14	**415**	410
Share based payments	25	**86**	172
Increase in provisions	18	**294**	(27)
Increase/(decrease) in accruals and deferred income		**4,393**	1,381
(Increase)/decrease in trade and other receivables		**(2,742)**	1,216
Increase/(decrease) in trade and other payables		**222**	1,559
Cash flows used in operating activities		**(148)**	(419)
Taxation	10	**-**	(12)
Net interest	9	**(55)**	(13)
Net cash generated/(used) in operating activities		**(203)**	(444)
Investing activities			
Purchase of property, plant and equipment, and intangible assets		**(4,575)**	(483)
Net cash inflow on acquisition of a subsidiary		**297**	109
Net cash (used) / generated from investing activities		**(4,278)**	(374)
Financing activities			
Proceeds from issuance of share capital		**10,599**	-
Net cash generated from / (used in) financing activities		**10,599**	-
Net increase / (decrease) in cash and cash equivalents		**6,118**	(818)
Cash and cash equivalents at beginning period		**838**	1,663
Effect of foreign exchange rate changes		**22**	(7)
Cash and cash equivalents at end of year		**6,978**	838

The notes from pages 36 to 65 form part of the financial statements.

7digital Group plc

Consolidated Statement of Changes in Equity
Year ended 31 December 2017

	Notes	Share capital £'000	Share premium account £'000	Treasury reserves £'000	Reverse acquisition reserve (Note 21) £'000	Foreign exchange translation reserve (Note 21) £'000	Merger reserve (Note 21) £'000	Shares to be issued (Note 21) £'000	Retained earnings £'000	**Total £'000**
At 1 January 2017		11,575	-	(5)	(4,430)	35	(82)	176	(8,209)	**(940)**
Comprehensive income for the year										
Loss for the year		-	-	-	-	-	-	-	(4,646)	**(4,646)**
Other comprehensive income		-	-	-	-	43	-	-	-	**43**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**43**	**-**	**-**	**(4,646)**	**(4,603)**
Contributions by and distributions to owners										
Transfer from treasury		-	-		-	-	-	(10)	10	**--**
Share based payments		-	-		-	-	-	26	30	**56**
Other		-	-		-	-	-		(2)	**(2)**
Cost of capital raises		-	(678)		-	-	-			**(678)**
Issue of share capital	26	2,829	8,910	5	-	-	1,041	(166)	(20)	**12,599**
Total contributions by and distributions to owners		**2,829**	**8,232**	**5**	**-**	**-**	**1,041**	**(150)**	**18**	**11,975**
At 31 December 2017		**14,404**	**8,232**	**-**	**(4,430)**	**78**	**959**	**26**	**(12,837)**	**6,432**

7digital Group plc

Consolidated Statement of Changes in Equity
Year ended 31 December 2017

	Notes	Share capital £'000	Share premium account £'000	Treasury reserves £'000	Reverse acquisition reserve (Note 21) £'000	Foreign exchange translation reserve (Note 21) £'000	Merger reserve (Note 21) £'000	Shares to be issued (Note 21) £'000	Retained earnings £'000	**Total £'000**
At 1 January 2016		10,843	17,278	(42)	(4,430)	(117)	-	-	(19,394)	**4,138**
Comprehensive income for the year										
Loss for the year		-	-	-	-	-	-	-	(5,487)	**(5,487)**
Other comprehensive income		-	-	-	-	152	-	-	(565)	**(413)**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**152**	**-**	**-**	**(6,052)**	**(5,900)**
Contributions by and distributions to owners										
Capital reduction	27	-	(17,278)	-	-	-	-	-	17,278	**-**
Acquisition of subsidiary		732	-	-	-	-	(82)	-	-	**650**
Transfer from Treasury				37		-	-	-	(37)	**-**
Share based payments	26	-	-	-	-	-	-	176	(4)	**172**
Total contributions by and distributions to owners		**732**	**(17,278)**	**37**	**-**	**-**	**(82)**	**176**	**17,237**	**822**
At 1 January 2017		**11,575**	**-**	**(5)**	**(4,430)**	**35**	**(82)**	**176**	**(8,209)**	**(940)**

The notes from pages 36 to 65 form part of the financial statements.

1. Accounting policies

General information

7digital Group plc is a public company incorporated in the United Kingdom (England and Wales) under the Companies Act. The address of the registered office is given on page 66.

The Group prepares its consolidated financial statements in accordance with International Accounting Standards ("IAS") and International Financial Reporting Standards ("IFRS") as adopted by the EU. The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments. The principal accounting policies set out below have been consistently applied to all the periods presented in these financial statements; except as stated below.

Basis of Preparation

Statutory accounts for the year ended 31 December 2017 have been delivered to the Registrar of Companies. The financial information for the year ended 31 December 2017 contained in these results has been audited.

The financial information contained in these results has been prepared using the recognition and measurement requirements of International Financial Reporting Standards (IFRSs) as adopted by the EU. The accounting policies adopted in these results have been consistently applied to all the years presented and are consistent with the policies used in the preparation of the financial statements for the year ended 31 December 2016. New standards, amendments and interpretations to existing standards, which have been adopted by the Group for the year ended 31 December 2017, have been listed below.

New standards and interpretations

New and amended standard issued in the year have not had a significant impact on the financial statements. At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB and adopted by the EU but are not yet effective, and have not been adopted early by the Group. Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's financial statements is provided below.

- IFRS 9: Financial Instruments (effective 1 January 2018)
- IFRS 15: Revenue from Contracts with Customers (effective 1 January 2018)
- IFRS 16 Leases (effective 1 January 2019)

In relation to IFRS9 and the measuring of the impairment of trade receivables, the Group anticipates adopting the simplified approach available under IFRS 9 to calculate impairment provisions based on their life-time expected losses, instead of having to closely monitor changes in credit risk with the counterparty. Under this approach, the Group will measure impairment losses based upon a probability weighted approach to expected loss, even if no indicators of impairment exist at the balance sheet date. Potentially, this will result in impairment provisions being recognised at an earlier stage than currently. As a result, the Group is currently undertaking a review of its trade receivable provisioning policies, which will be complete by the issue of our interim results for the period ended 30th June 2018, in which the full impact will be disclosed and recognised. There will also be minor changes to the disclosures in the financial statements in order to comply with the new standard.

The Group's current revenue recognition policies are set out on page 38. IFRS 15 will replace IAS 18 *Revenue and IAS 11 Construction Contracts*. The central principles of IFRS 15 revolve around identifying "separate performance obligations" to the customer and recognising the identified consideration for those obligations as they are delivered to the customer. The Group currently recognises revenues related to the download of Content and the provision of Creative services when they are delivered to the customer and, as a result, the Group currently does not anticiapte any material change in the profile of recognistion of this revenue. In respect of the provision of our software platform, the Group currently recognises set up revenues as an initial fee at the start of the contractual agreement. Subsequent licensing of maintenance revenues are recognised on a straight-line basis over the the period of the contractual agreement. The Group is currently undertaking a review of its existing revenue recognition policies in respect of services connected to the software platform as well as its Content and Creative revenues to establish whether the profile of recognition of those revenues may change on adoption. IFRS 16 will replace IAS 17 Leases. It will require nearly all leases to be recognised on the balance sheet as liabilities,

1. Accounting policies (continued)

including those currently recognised a operating leases, with corresponding assets being created. The existing opearting lease commitments of the Group are disclosed in note 23. The Group will conduct a systematic review to quantify the exact impact of adoption of the standard. A number of IFRS and IFRIC intepretations are also currently in issue which are not relevant for the Group's activities and which have not therfore been adopted in prepared these financial statements.

Going concern

The Group and parent company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 8 to 9. The financial position of the Group, its cash flows and liquidity position are described in the Finance Review on pages 6 to 7. In addition, note 28 to the financial statement includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposures to credit risk and liquidity risk.

The financial statements at 31 December 2017 show that the Group generated an loss for the year of £4.7m (2016: loss of £5.5m), and with cash generated in operating activities of £0.2m (2016: £1.4m cash used) and a net increase in cash and cash equivalents of £6.1m in the year (2016: decrease of £0.8m). The Group balance sheet also showed cash reserves at 31 December 2017 of £7.0m (2016: £0.8 million). The parent company generated a loss for the year of £4.1m (2016: £1.4m) and showed cash reserves at 31 December of £6.0m (2016: £0.4m).

These financial statements have been prepared on the going concern basis. The directors have reviewed 7digital's going concern position taking account of its current business activities, budgeted performance and the factors likely to affect its future development, and include the Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposure to credit and liquidity risks.

The directors have prepared cash flow forecasts covering a period of 18 months from the date of these results. The Group is confident in the budgets set and market forecasts, on this basis the Group and parent company will be able to operate within its existing cash reserves and facilities. Clearly the timeline required to close sales contracts and the order value of individual sales can vary considerably. The Group has therefore secured non-binding Letters of Intent from two major shareholders who have indicated conditional support on standard market terms should extra Working capital be required. Should these conditions not be met, the Group and parent company would need to seek alternative methods of finance. This matter indicates that a material uncertainty exists that may cast significant doubt on the group and parent's ability to continue as a going concern. These financial statements do not include the adjustments that would result if the group and the parent company were unable to continue as a going concern. The directors believe that taken as a whole - the factors described above enable the Group to continue as a going concern for the foreseeable future. These financial statements do not include the adjustments that would be required if the Group was unable to continue as going concern.

The Board has concluded that no matters have come to its attention which suggests that the Group will not be able to maintain its current terms of trade with customers and suppliers. The Group's forecasts for the combined Group, including due consideration of the continued operating losses of the Group, and projections, taking account of reasonably possible changes in trading performance and the opportunity for cost cutting, indicate that the Group has sufficient cash available to continue in operational existence throughout the forecast period and beyond. The Board has considered various alternative operating strategies should these be necessary and are satisfied that revised operating strategies could be adopted if and when necessary. As a consequence, the Board believes that the Group is well placed to manage its business risks, and longer term strategic objectives, successfully. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subisidiairies made up to 31 December each year. The results of the subsidiairies acquired or disposed of during the year are included in the consolidated income statement using the acquisition method from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of the subisidiairies to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations

On acquisition, the assets and liabilities and contingent liabilities of a subisidiary are measured at their fair values at the date of acquistion. Any excess of the cost of acquisition over their fair values of the identifiable net assets acquired is

1. Accounting policies (continued)

recognised as goodwill, which is allocated to Cash-Generating Units ("CGUs"). Goodwill is reviewed for impairment at least annnually. Any impairment is recognised immediately in the income statements and is not subsequently reversed.

Investment in subsidiaries
The consolidated financial statements incorporate the financial statements of the Company and investees controlled by the Group (its subsidiaries). The company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

The results of subsidiaries acquired or disposed of during the year are included in total comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate, using accounting polices with those of the parent. All intra group transactions, balances, income and expenses are eleminated in full on consolidation.

Revenue
Revenue represents amounts receivable for services provided in the normal course of business, and excludes intra-group sales, Value Added Tax and trade discounts. Revenue comprises:

Licensing revenues
7digital defines licensing revenues as fees earned both for access to our platform and for development work on that platform in order to adapt functions to customer needs. The Board considers that the provision of Technology Licensing Services comprises three separately identifiable components:

The fees compromise three categories;

1. Set up fees which grant initial access to the platform, allow use of our catalogue and associated metadata and mark the start of work to define a client's exact requirements and create the detailed specifications of a service. These are non-refundable, paid up front and revenue is recognised over the period of the set up phase of the contract in accordance with the contractual terms, which is generally the period from commencement of the set up phase to the period that the monthly licence fees are eligible to commence. Revenue relating to the set up phase is generally taken on a straight line basis over the set up period.
2. Monthly development and support fees which cover the costs of developer and customer support time. These are usually fixed and are paid monthly once a service has been specified in detail; they are calculated at commercial rates based on the number of developer or support days required. These are generally "b2b" sales where there are service contracts in place to provide ongoing support over a period of time. Revenue is recognised over the term of the contract on a straight line basis.
3. Usage fees which cover certain variable costs like bandwidth which can be re-charged to clients with an administrative margin.

These accounts have been prepared using the Company's existing policies. From January 1 2018, IFRS 15 will demand a new approach to technology licensing revenues and the Board and its Audit Committee expect that the treatment of these fees may differ for future years.

Content ("Download") revenues
Content revenues are recognised as the value of services supplied, on delivery of the content.

Creative revenues
Creative revenues relate to sale of programmes and other content. The value of the goods and services supplied are recognised on delivery of the programme or content. Production costs are recognised on the same date as the relevant revenue.

1. Accounting policies (continued)

Exceptional items
Exceptional items are those items the Group considers to be non-recurirng or material in nature that should be brought to the readers' attention in understanding the Group's financial statements. Exceptional items consist of one-off acquisition costs, costs related to non-recurring legal and statutory events, restructuring costs and other items which are not expected to re-occur in future years.

Foreign currency
For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in Pounds Sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items, are included in profit and loss for the year.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average monthly rate of exchange ruling at the date of the transaction, unless exchange rates fluctuate significantly during that month, in which case the exchange rates at the date of transactions are used.

Intangible assets
Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives.

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques (see section related to critical accounting judgements and key areas of estimation uncertainty below).

Intangible assets (Bespoke Applications) arising from the internal development phase of projects is recognised if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- The intention to complete the intangible asset and use or sell it
- The ability to use or sell the intangible asset
- How the intangible asset will generate probable future economic benefits
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Internally generated intangible assets are amortised over their useful economic lives on a straight-line basis, over 3 years.

1. Accounting policies (continued)

Property, plant and equipment
Items of property, plant and equipment are initially recognised at cost. As well as the purchased price, cost includes directly attributable costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognised within provisions.

Depreciation is provision on all items of property, plant and equipment, so as to write off their carrying value over their expected useful economic lives. It is provided at the following rates:

Property	- 20% per annum straight line
Computer equipment	- 33.33% per annum straight line
Fixtures and fittings	- 33.33% per annum straight line

Impairment of tangible and other intangible assets
Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually at the financial year end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the smallest group of assets to which it belongs for which there are separately identifiable cash flows; its cash generating units ('CGUs'). Goodwill is allocated on initial recognition to each of the Group's CGUs that are expected to benefit from a business combination that gives rise to the goodwill.

Impairment charges are included in profit or loss, except to the extent they reverse gains previously recognised in other comprehensive income. An impairment loss recognised for goodwill is not reversed.

Cash and cash equivalent
Cash and cash equivalents comprise cash on hand and demand deposits and other short-term, highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Government grants
Government grants, including research and development credits are recognised when it is reasonable to expect that the grants will be received and that all related conditions will be met, usually on submission of a valid claim for payment. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

Financial instruments

Classification
Financial instruments are classified and accounted for according to the substance of the contractual arrangement, as financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities. Where shares are issued, any component that creates a financial liability of the company is presented as a liability on the balance sheet.

Recognition and measurement
All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

1. Accounting policies (continued)

Fair value through profit or loss
Such financial instruments are carried in the consolidated statement of financial position at fair value with changes in fair value recognised in the consolidated statement of comprehensive income. The Group does not hold or issue derivative instruments for speculative purposes. Other than these derivative financial instruments, the Group does not have any liabilities held for trading nor has it designated any financial liabilities as being at fair value through profit or loss.

Impairment
Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss.

Operating leases
Rentals payable under operating leases are charged against income on a straight-line basis over the lease term. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

Share-based payments
The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is measured by use of an appropriate valuation model. The Black-Scholes option pricing model has been used to value the share options plans.

Taxation
The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a charge attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The deferred tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date. Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

Critical accounting judgements and key areas of estimation uncertainty

Valuation of intangible assets on acquisition
On acquiring a business, the Group is required to consider the existence or otherwise of intangible assets. On identification of these assets, such as intellectual property, technical know-how, brands and customer relationships, the Group considers the cash flows expected to arise from existing relationships, which is a judgement. Separable intangibles recognised during the year was £1,197k (2016: £2,201k).

Share based compensation
The fair value of share based payments is measured using a Black-Scholes valuation model. The Directors have used judgement in the calculation of the fair values of the share based compensation which has been granted during the period, and different assumptions in the model would change the financial result of the business. The total share based payment charge recognised during the year amounted to £86k (2016: £172k).

The number of shares issued in lieu of services is based on the remuneration due at specificed dates divided by the share price on that date.

Notes to the financial statements
Year ended 31 December 2017

1. Accounting policies (continued)

Measurement of impairment of goodwill and intangibles assets
As set out on page 38 the carrying value of goodwill and intangible assets is reviewed for impairment at least annually. In determining whether goodwill or intangible assets are impaired, an estimation of the value in use of the cash generating unit (CGU) to which the goodwill and intangible assets have been allocated is required. This calculation of value in use requires estimates to be made relating to the timing and amount of future cash flows expected from the CGU, and suitable discount rates based on the Group's weighted average cost of capital adjusted to reflect the specific economic environment of the relevant CGU. These estimates have been used to conclude that no impairment is required to either goodwill or intangible assets, but are judgemental in nature. Further disclosure of these estimates, together with the sensitivity of the underlying impairment calculations to changes in these estimates are provided in note 13 to the financial statements.

Revenue recognition
Management considers the detailed criteria for the recognition of revenue from the sale of goods and services as set out in the Group's accounting policy, in particular whether the Group had transferred to the buyer the significant risks and rewards of ownership of the goods.

Capitalisation of internally developed software
Distinguishing the research and development phases of a new customised software project and determining whether the recognition requirements for the capitalisation of development costs are met requires judgement. After capitalisation, management monitors whether the recognition requirements continure to be met and whether there are any indicators that capitalised costs may be impaired.

Correction of prior period errors

Restatement of 2015:

The directors have considered and revised the cost of sales accruals held relating to content revenues. As a result, the directors have concluded that the accruals held at 31 December 2015 were £773k too high, and have restated the accruals at 1 January 2016 and 31 December 2016 by this amount. The impact of the correction of this prior period error was to reduce brought forward loss reserves at 1 January 2016 by £773k and to reduce trade payables by the same amount. There was no effect on the 2016 Income Statement.

Restatement of 2016:

On 8 April 2016, 7digital Group plc acquired a French software company Snowite SAS out of administration (see note 12). The difference between the consideration paid and the fair value of the net assets acquired was incorrectly identified and accounted for as goodwill in the prior year, whereas the directors have subsequently concluded that the balance should have been accounted as part of the bespoke application intangible asset. As a result, the directors have restated the prior period balance sheet and amortised the resulting bespoke application intangible asset. The impact of the correction of this prior period error was to reclassify the £546k of goodwill originally recognised to bespoke application intangible assets and to recognise amortisation in the 2016 income statement of £137k, increasing the loss for the year by the same amount.

In addition, the directors have recognised an additional liability of £114k to reflect the shareholder put option liability, which was incorrectly excluded from the prior period financial statements. The impact of the correction was to increase finance costs in 2016, thereby increasing the loss for the prior period by the same amount.

The directors have found that £109k of revenue was under accrued at the end of 2016, which has now been adjusted, increasing revenue by £109k.

The directors have identified that foreign exchange gains of £551k were incorrectly recognised within revenue in the prior period, whereas they should have been correctly recognised within administrative expenses. As a result, the directors have restated both revenue and administrative expenses for the year ended 31 December 2016. The result of this prior period adjustment was to reduce revenue and administrative expenses by £551k respectively. There was no impact on the net assets of the Group at 31 December 2016. In addition, further amounts of foreign exchange misstatement have been found and corrected as follows: reducing Revenue by £241k, reducing Cost of Sales by £5k and reducing administrative expenses by £236k.

Notes to the financial statements
Year ended 31 December 2017

1. Accounting policies (continued)

In the prior year the Group recognised work done on behalf of third parties as work in progress within inventory. The directors have subsequently concluded that as the Group did not legally own the right to the value under those contracts that these amounts should be presented as other debtors. Accordingly, the balance sheet for the year ended 31 December 2016 has been restated. The impact of this restatement was to increase trade receivables by £142k and to reduce inventories (work-in-progress) by the same amount. There was no impact on the net assets of the Group at 31 December 2016.

In the prior year the Group presented patents as current assets. The directors have subsequently concluded that that these assets meet the definition of intangible assets and should have been presented as such. Accordingly, the prior period balance sheet has been restated to reclassify those patents as intangible assets. The impact of this restatement was to increase intangible assets and reduce current assets by £35k respectively. There was no impact on the net assets of the Group at 31 December 2016.

In the prior year, liabilities assumed as part of the acquisition of Snowite SAS (see note 12) were classified as loans in the Statement of Financial Position. The directors have subsequently concluded that these liabilities represent other payables rather than loans. Accordingly, the amounts payable of £122k and £1,397k due within one year and after one year respectively have been reclassified to Trade and other Payables within the Statement of Financial Position at 31 December 2016. There was no impact on the net assets of the Group at 31 December 2016.

In the prior year 477,762 options issued to a non-executive director under a separate arrangement to the group's enterprise management scheme (set out in note 25) were excluded from the disclosure of total options. The disclosures in note 25 have been updated to include these additional options in the 2016 figures. In addition, the share based payment disclosures excluded the charges related to options provided to non-executive directors in lieu of salary. The disclosures have been updated to show the total share based payment charges exercised as well as the split between charges recognised in connection with options granted to non-executive directors. In addition, the presentation of share based payments and the issue of shares to non-executive directors in the Statement of Changes in Equity in 2016 has been simplified to aid reconciliation with other related disclosures. There has been no impact on the net assets of the group as at 31 December 2016 as a result of these adjustments.

Notes to the financial statements
Year ended 31 December 2017

1. Accounting policies (continued)

A summary of the prior period adjustments described above is set out in the table below:

Impact on equity (increase/(decrease) in equity)	2016 As previously stated	Increase/ (Decrease)	2016 Restated
	£'000	£'000	**£'000**
Balance sheet (extract)			
Intangible assets	2,303	(102)	**2,201**
Property, plant and equipment	475	-	**475**
Inventory	142	(142)	**-**
Patents	35	(35)	**-**
Cash and cash equivalents	838	-	**838**
Trade and other receivables	3,575	251	**3,826**
Loans	(1,519)	1,519	**-**
Trade and other payables due within one year	(6,731)	651	**(6,080)**
Trade and other payables due after more than one year	-	(1,511)	**(1,511)**
Provisions for liabilities and charges	(689)	-	**(689)**
Net (liabilities)	(1,571)	631	**(940)**
Other equity	7,269	-	**7,269**
Retained earnings	(8,840)	631	**(8,209)**
Total equity	(1,571)	631	**(940)**

Impact on statement of profit or loss(increase/(decrease) in profit)	2016	Increase/ (Decrease)	2016 Restated
	£'000	£'000	**£'000**
Statement of profit or loss (extract)			
Revenue	11,899	(683)	**11,216**
Administrative expenses	(14,328)	536	**(13,792)**
Other expenses	(2,891)	5	**(2,886)**
Operating loss	(5,320)	(142)	**(5,462)**
Loss for the year attributable to owners of the parent company	(5,345)	(142)	**(5,487)**

Basic and diluted loss per share for the prior year have also been restated to account for the correction of these errors. The impact was to increase both basic and diluted loss per share by 0.12p per share.

Notes to the financial statements
Year ended 31 December 2017

1. Accounting policies (continued)

Impact on equity (increase/(decrease) in equity)	2015 As previously stated	Increase/ (Decrease)	**2015 Restated**
	£'000	£'000	**£'000**
Balance sheet (extract)			
Intangible assets	416	-	**416**
Property, plant and equipment	704	-	**704**
Inventory	54	-	**54**
Patents	7	-	**7**
Cash and cash equivalents	1,656	-	**1,656**
Trade and other receivables	4,502	-	**4,502**
Loans	-	-	**-**
Trade and other payables due within one year	(3,804)	773	**(3,031)**
Trade and other payables due after more than one year	-	-	**-**
Provisions for liabilities and charges	(170)	-	**(170)**
Net assets/(liabilities)	3,365	773	**4,138**
Other equity	23,532	-	**23,532**
Retained earnings	(20,167)	773	**(19,394)**
Total equity	3,365	773	**4,138**

2. Business and geographical segments

Business segments

For management purposes, the Group is organised into three continuing operating divisions – Licensing, Content and Creative. The principal activity of Licensing is the creation of software solutions for managing and delivering digital content. The principal activity of the Content division is the sales of digital music direct to consumers. The principal activity of Creative is the production of audio and video programming for broadcasters. These divisions comprise the Group's operating segments for the purposes of reporting to the Group's chief operating decision maker, the Chief Executive Officer.

	Licensing		Content		Creative		Unallocated		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
Revenue from external customers	**11,616**	6,679	**3,167**	2,625	**2,018**	1,912	**-**	-	**16,801**	11,216
Segment's result (gross profit)	**9,436**	6,167	**1,939**	798	**660**	805	**-**	-	**12,035**	7,770
Other income	-	-	-	-	-	-	**509**	560	**509**	560
Corporate expense	-	-	-	-	-	-	**(17,515)**	(13,792)	**(17,515)**	(13,792)
Operating profit/(loss)	**9,436**	6,167	**1,939**	798	**660**	805	**(17,006)**	(13,232)	**(4,971)**	(5,462)
Other gains and losses									**-**	-
Financing income									**1**	6
Financing costs									**(56)**	(19)
Tax charge									**380**	(12)
Loss for the year									**(4,646)**	(5,487)

Other segment items:	**£'000**	£'000
Capital additions	**4,575**	2,814
Depreciation	**415**	410
Amortisation	**1,738**	883

Revenue from the Group's largest customer in the year was £4.9m (2016: £1.4m). There were no other customers that formed greater than 10% of external revenues within the years ended 31 December 2017 and 2016.

Geographical information

The Group's revenue from external customers and information about its segments by geographical location is detailed below:

	Revenue		Non-current assets	
	2017	2016	**2017**	2016
Continuing Operations	**£'000**	£'000	**£'000**	£'000
Germany	**5,152**	348	**6,594**	2,603
United Kingdom	**3,527**	4,273		-
United States of America	**3,446**	4,139	**61**	-
Denmark	**1,284**	-	**(793)**	-
France	**1,154**	943	**619**	73
Rest of Europe	**1,567**	1,063	**-**	-
Rest of World	**671**	450	**-**	-
	16,801	11,216	**6,481**	2,676

All revenues are derived from the provision of services.

3. Exceptional items

	2017	2016
	£'000	£'000
Acquisition costs	(268)	(82)
Capital reduction costs	-	(25)
Exceptional legal fees	(80)	(105)
Corporate restructuring	(359)	(252)
	(707)	(464)

On 19th June 2017, 7digital Group plc announced the successful acquisition of 24-7 Entertainment ApS. As part of this transaction the Group incurred a variety of legal and professional fees which have been classified as exceptional items due to their one-off nature.

On 7th July 2016, the High Court approved the cancellation of the balance standing to the credit of the Company's share premium account. As part of this capital reduction, the Group incurred a variety of legal and professional fees which have been classified as exceptional items due to their one-off nature.

During 2016 and 2017, the Group incurred legal fees in relation to the settlement of patent infringement claims. The settlement and associated legal fees were classified as exceptional items due to the size and nature.

During 2017, the Group incurred costs relating to restructuring the business following the acquisition of Snowite SAS in March 2016 and aquistion of 24-7 Entertainment ApS in June 2017. The main items being the removal of cost duplication in technical, management and sales areas.

£439k (2016: £382k) of the exceptional items for the year ended 31 December 2017 are deductible for corporation tax purposes.

4. Operating loss for the year

Operating loss for the year has been arrived at after charging:

	2017	2016
	£'000	£'000
Net foreign exchange loss/(gain)	417	(777)
Amortisation of intangible	1,738	883
Depreciation of property, plant & equipment	415	410
Operating lease payments - land and buildings	649	525
Share based payment expense (note 25)	86	172
Research and development expenditure	1,085	1,485

5. Other operating income

The other operating income earned by the Group in the current year of £509k (2016: £560k) relates to Research & Development tax credits.

6. Reconciliation of non-IFRS financial KPIs

The Group uses a number of key performance indicators to monitor the performance of the business. This note reconciles these key performance indicators to individual lines in the financial statements. In the Directors' view it is important to consider the underlying performance of the business during the year. Therefore, the directors have used certain alternative performance measures (AMPs) which are not IFRS compliant metrics. The main effect has been that the APMs exclude exceptional items, amortisation, depreciation and share based payments to reflect the underlying cash utilisation for the performance of the business. The APMs are consistent with those established within the prior year annual report and their derivation is set out in the table below.

Reconciliation of adjusted operating loss and EBITDA loss	**2017**	2016
	£'000	£'000
Statutory operating loss	**(4,971)**	(5,462)
Exceptional items	**707**	464
Foreign exchange	**417**	(777)
Share based payment	**86**	172
Adjusted operating loss	**(3,761)**	(5,603)
Depreciation and amortisation	**2,153**	1,293
Adjusted EBITDA loss	**(1,608)**	(4,310)

7. Auditor's remuneration

	2017	2016
	£'000	£'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**30**	18
Fees payable to the Company's auditor for other services to the Group		
The audit of the Company's subsidiaries pursuant to legislation	**58**	26
Total audit fees	**88**	44
Non-audit fees:		
Other services	**51**	-
Total non-audit fees	**51**	-
Total fees paid to Company's auditor	**139**	44

A description of the work of the Audit Committee is set out in the Corporate Governance Statement and includes an explanation of how auditor's objectivity is safeguarded when non-audit services are provided by the auditor.

Notes to the financial statements
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8. Staff costs

The average monthly number of persons employed by the Group during the year, including executive directors, was 140 (2016: 131). Staff costs in the Group are presented in administrative expenses.

	2017	2016
	No.	No.
Number of production, R & D, and sales staff	115	102
Number of management and administrative staff	25	29
	140	131

	2017	2016
	£'000	£'000
Wages and salaries	6,574	6,966
Social security costs	1,174	768
Other pension costs	326	178
Share based payments (note 26)	86	(4)
	8,160	7,908

Details of the directors' remuneration are provided in the Directors Remuneration Report on pages 19 to 20.

9. Interest

	2017	2016
	£'000	£'000
Bank interest received	1	6
Other charges similar to interest	(56)	(19)
	(55)	(13)

Notes to the financial statements
Year ended 31 December 2017

10. Tax

Corporation tax is calculated at 19.25% (2016: 20%) of the estimated assessable profit for the year.

	2017	2016
Current tax	**£'000**	£'000
UK corporation tax on the results for the year	-	-
Foreign tax suffered	**39**	12
Adjustment in respect of prior period	**(2)**	-
Total current tax charge	**37**	12

	2017	2016
Deferred tax	**£'000**	£'000
Origination and reversal of timing differences	**(335)**	-
Effect of increased/decreased tax rate on opening balance	-	-
Adjustments in respect of prior periods	**(82)**	-
Total deferred tax charge/(credit)	**(417)**	-
Tax on profit on ordinary activities	**(380)**	12

The charge for the year can be reconciled to the profit per statement of comprehensive income as follows:

	2017	2016
	£'000	£'000
Profit/(loss) before tax	**(5026)**	(5,475)
Tax at UK corporation tax rate of 19.25% (2016: 20%)	**(968)**	(1,095)
Fixed asset differences	**(19)**	11
Expenses not deductible for tax purposes	**54**	215
Income not taxable for tax purposes	**(118)**	(102)
Adjustments to tax charge in respect of previous periods	**(84)**	-
Additional deduction for R&D expenditure	**(384)**	(386)
Adjust closing deferred tax to average rate of 19.25%	**642**	1,024
Adjust opening deferred tax to average rate of 19.25%	**(650)**	(635)
Deferred tax not recognised	**1,132**	339
R&D tax credit	**0**	188
Foreign taxation	**37**	12
Difference in tax rates	**(157)**	(54)
Tax credit receivable	**477**	495
Movement on deferred tax on business combinations	**(342)**	-
Tax credit and effective tax rate for the year	**(380)**	12

At the balance sheet date, the Group has unrecognised deferred tax assets of £4,842,727 at a rate of 17% (2016: £5,801,811 (17%)) in respect of unused trading tax losses which have not been recognised on the grounds that there is insufficient evidence that these will be recoverable. These assets will be recovered when future tax charges are sufficient to absorb these tax benefits.

11. Earnings per share

Basic earnings per share is calculated by dividing the loss attributable to shareholders by the weighted average number of ordinary shares in issue during the year. IAS 33 requires presentation of diluted EPS when a company could be called upon to issue shares that would decrease earnings per share, or increase the loss per share. For a loss-making company with outstanding share options, net loss per share would be decreased by the exercise of options. Therefore the antidilutative potential ordinary shares are disregarded in the calculation of diluted EPS. Total potential ordinary shares which are outstanding at 31 December 2017 are 5,820,327 (2016: 5,313,500) which relate to the employee share options and shares to be issued to the non-executive directors under the terms of their service contracts (see Directors Report, Directors Remuneration Report and note 25).

Reconciliation of the profit and weighted average number of shares used in the calculation are set out below:

		31 Dec 2017	
	Loss	**Weighted average number of shares**	**Per share amount**
Basic and Diluted EPS	**£'000**	**Thousand**	**Pence**
Loss attributable to shareholders:	**(4,646)**	**169,580**	**(2.74)**

		31 Dec 2016 (Restated)	
Basic and Diluted EPS	£'000	Thousand	Pence
Loss attributable to shareholders:	(5,487)	114,030	(4.81)

12. Acquisitions

31 December 2017

On 19th June 2017, 7digital Group plc acquired a Danish software company 24-7 Entertainment ApS from 24-7 Entertainment GmbH, a 100% owned subsidiary of MediaMarktSaturn, a German public company that is Europe's largest retailer of consumer electronics. The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below:

	31-May-17	Fair Value Adjustment	Adjusted
	£'000	£'000	£'000
Tangible fixed assets	185	-	**185**
Intangible fixed assets	9	500	**509**
Other non-current assets	52	-	**52**
Trade and other receivables	382	-	**382**
Cash	1,138	-	**1,138**
Trade and other payables	(731)	-	**(731)**
Deferred tax provision	-	(110)	**(110)**
	1,035	390	**1,425**
Goodwill			**688**
Total consideration			**2,113**

The consideration has been settled as follows:	**£'000**
Cash	**841**
Issue of new shares	**1,272**
	2,113

The transaction was satisfied by an issue of 23,144,616 ordinary shares at a value of 1 pence per share in 7digital Group plc for 100% of the shareholding in 24-7 Entertainment ApS ("24-7") and cash of £841k. The market value at the time of the transaction of 5.5 pence with a 7.5% lock up discount per share was used in the calculation of the share consideration. The primary reason for the acquisition was to acquire 24-7's customer base. The difference between the adjusted fair value of the net assets and the consideration has been classified as goodwill. None of the goodwill is expected to be deductible for tax purposes. The goodwill represents the opportunity to generate future sales opportunities with the acquired customer base.

Following the acquisition, 24-7 Entertainment ApS was renamed 7digital ApS.

Acquisition costs have been included within administrative expenses in the income statement and amounted to £268k (see note 3).

7digital ApS does not generate any third party revenue, it only has intragroup revenue generated through recharging its costs plus an admin fee to 7digital Group plc. These recharges for the seven months from 1st June 2017 to the reporting date were £3.0m, but did not contribute to total Group revenue. In the same period 7digital ApS generated an intragroup profit after exceptional items of £0.1m. If the business had been acquired on 1st January 2017, additional intragroup revenues of £3.0m and intragroup profits after exceptional items of £0.1m would have been incorporated.

12. Acquisitions (continued)

31 December 2016

On 8th April 2016, 7digital Group plc acquired a French software company Snowite SAS out of administration. The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below:

As restated (see note 1)	**31-Mar-16**	**Fair Value Adjustment Restated**	**Adjusted Restated**
	£'000	**£'000**	**£'000**
Goodwill	64	(64)	-
Other intangible assets	831	1,370	2,201
Property plant and equipment	40	-	40
Financial assets	36	-	36
Trade and other receivables	421	-	421
Cash and cash equivalents	109	-	109
Deferred Taxation	(546)	-	(546)
Trade and other payables	(1,611)	-	(1,611)
	(656)	1,306	650
Equity			650
Total consideration			650

The transaction was satisfied by a share swap of 7,320,000 ordinary shares in 7digital Group plc for 100% of the shareholding in Snowite SAS. The market value at the time of the transaction of 8.875 pence per share was used in the calculation of the consideration. The primary reason for the acquisition was to acquire Snowite's software and IP. The difference between the adjusted fair value of the net assets and the consideration have been classified as intangible assets and will be amortised over a 3 year period in line with the Group policy on bespoke software.

As part of the purchase the Group agreed with three of the original institutional shareholders in Snowite who received 3,056,894 shares in 7digital Group plc as part of the consideration that after a 12-month prohibition on selling, if they are unable to sell their shares in the public market, 7digital Group plc would purchase 75% of their shares at a strike price of 8.75p over a 4-year period, 10% in year 1 and then c.21.7% each year thereafter. Included within the consideration is a liability of £114k in relation to the potential additional cash payment that would have been required at 31 December 2016. Subsequent adjustments to this provision are taken directly to the Consolidated Income Statement within Administrative expenses. In 2017 this charge was £36k. The financial liability is included in note 17.

Snowite SAS incurred a loss after exceptional items of £562k for the nine months from 30th March 2016 to 31st December 2016 and has contributed £1.3m to revenue. If the business had been acquired on 1st January 2016, additional revenues of £303k and loss after exceptional items of £79k would have brought the combined revenues and loss after exceptional items for the Group to £11.7m and £5.3m respectively.

Restatement of prior period balances

In the prior year, the difference between the consideration paid and the fair value of the net assets acquired was incorrectly identified and accounted for as goodwill in the prior year, whereas the Directors have subsequently concluded that the balance should have been accounted for as a bespoke application intangible asset. As a result, the directors have restated the prior period balance sheet and amortised the resulting bespoke application intangible asset. For further details see note 1. In addition; (i) amounts previously classified as bank loans have been reclassified as other payables as they represent amounts due to former creditors of Snowite SAS, rather than amounts due under formal banking facilities and (ii) a liability has been made to recognise the consideration relating to an agreement with 3 of the shareholders as detailed above.

13. Intangibles

	Restated Bespoke applications £'000	Customer list £'000	Goodwill £'000	Restated Total £'000
Cost				
At 1 January 2016 (as restated – note 1)	1,050	-	-	1,050
Acquisitions (as restated – note 1)	2,202	-	-	2,202
Additions	431	-	-	431
Patents	35	-	-	35
At 31 December	3,718	-	-	3,718
Acquisitions	-	509	688	1,197
Additions	4,497	-	-	4,497
At 31 December 2017	**8,215**	**509**	**688**	**9,412**
Amortisation				
At 1 January 2016	634	-	-	634
Charge for year (as restated – note 1)	883	-	-	883
At 31 December	1,517	-	-	1,517
Charge for year	1,650	88	-	1,738
At 31 December 2017	**3,167**	**88**	**-**	**3,255**
Net book value				
At 31 December 2017	**5,048**	**421**	**688**	**6,157**
At 31 December 2016	2,201	-	**-**	2,201
At 31 December 2015	416	-	-	416
Useful lives	3-5 years	3-5 years		

Amortisation charges are included within the administrative expenses within the Income Statement. The useful life of each group of intangible assets varies according to the underlying length of benefit expected to be received.

Impairment testing of goodwill

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. Accordingly, the goodwill acquired on the acquisition of 24-7 Entertainment ApS was tested for impairment during the year.

The recoverable amounts of the CGU to which the goodwill relates was determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, future cash flows and growth rates during the period. Future cash flows of the CGU were based upon 2018 Board approved budgets extrapolated over a five-year period with no assumed growth in sales, but a 5% increase per annum in costs. A pre-tax discount rate of 16.0% was applied to the cashflows, reflecting current market assessment of the time value of money and the risks specific to the CGU. The impairment review indicated that no impairment was present and that any reasonable sensitivity to the key assumptions did not result in the requirement for an impairment.

14. Property, plant and equipment

	Property	Computer equipment	Fixture and fittings	Vehicle	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 2016	404	1,368	119	19	1,910
Additions	39	96	2	4	141
Acquisitions	-	40	-	-	40
At 31 December 2016	443	1,504	121	23	2,091
Additions	-	139	4	-	143
Acquisitions	-	172	-	-	172
Disposals	(39)	(20)	-	(4)	(63)
At 31 December 2017	**404**	**1,795**	**125**	**19**	**2,343**
Depreciation					
At 1 January 2016	206	916	77	7	1,206
Charge for year	81	298	25	6	410
At 31 December 2016	287	1,214	102	13	1,616
Charge for year	81	316	18	-	415
Released on disposals	-	(8)	-	(4)	(12)
At 31 December 2017	**368**	**1,522**	**120**	**9**	**2,019**
Net book value					
At 31 December 2017	**36**	**273**	**5**	**10**	**324**
At 31 December 2016	156	290	19	10	475
At 31 December 2015	198	452	42	12	704

15. Investment in subsidiary undertakings

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given in Note B to the Parent Company financial statements.

16. Trade and other receivables

	2017	2016 Restated (Note 1)	2015 Restated (Note 1)
	£'000	£'000	£'000
Amount receivable for the sale of goods	**7,022**	3,906	3,758
Allowance for doubtful debts	**(1,943)**	(1,387)	(738)
Net trade receivables	**5,079**	2,519	3,020
Other debtors	**821**	387	314
Accrued income	**910**	615	958
Prepayments	**192**	305	264
	7,002	3,826	4,556

The average credit period taken on sales of goods and services is 110 days (2016: 82 days, 2015 (140 days). No interest is charged on receivables. Trade receivables are provided for based on estimated irrecoverable amounts from the sale of goods and services, determined by reference to past default experience and likelihood of recovery as assessed by the directors.

Before accepting any new material customer, the Group uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. The directors believe that the trade receivables that are past due but not impaired are of a good credit quality.

Included in the Group's trade receivable balance are debtors with a carrying amount of £2.8m (2016: £1.0m, 2015: £1.7m) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 213 days (2016: 165 days, 2015: 167 days).

Customers that represent more than 5% of the total balance of trade receivables are:

	2017	2016	2015
	£'000	£'000	£'000
Customer A	**2,324**	1,174	836
Customer B	**1,357**	365	731
Customer C	**1,254**	297	75
Customer D	**608**	229	-
Customer E	-	123	212

Ageing of past due but not impaired receivables

	2017	2016	2015
	£'000	£'000	£'000
30-60 days	**826**	403	264
60-90 days	**286**	177	562
90-120 days	**1,710**	156	145
120+ days	-	235	732
Total	**2,822**	971	1,703

16. Trade and other receivables (continued)

Movement in the allowance for doubtful debts

	2017	2016	2015
	£'000	£'000	£'000
Balance at the beginning of the period	**1,387**	738	489
Impairment losses recognised	**556**	1,285	443
Written off as bad debt	**-**	(636)	(78)
Amounts recovered during the period	**-**	-	(116)
Balance at the end of the period	**1,943**	1,387	738

In determining the recoverability of trade receivables the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date.

Ageing of impaired trade receivables

	2017	2016	2015
	£'000	£'000	£'000
Current	**-**	82	46
30-60 days	**-**	101	29
60-90	**-**	14	31
90-120	**7**	56	23
120+	**1,936**	1,134	609
Total	**1,943**	1,387	738

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

17. Trade and other payables

		As restated (note 1)	As restated (note 1)
Current Liabilities	**2017**	2016	2015
	£'000	£'000	£'000
Trade payables	**3,212**	1,422	512
Other taxes and social security	**613**	1,087	302
Other payables	**476**	347	351
Accrued costs	**3,124**	2,553	1,413
Deferred income	**4,492**	671	453
	11,917	6,080	3,031
Non Current Liabilities			
Other payables	**1,367**	1,511	-
	1,367	1,511	-

17. Trade and other payables (continued)

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 127 (2016: 58 days, 2015: 45 days). The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

In March 2016 the Group acquired Snowite SAS (now 7digital France SAS). As part of the acquisition it negotiated a reduction in the amount of some of the existing liabilities within Snowite SAS, at the time of the purchase, to €1.7m (£1.5m). Terms of repayment were also agreed to be over 8 years starting on 7th April 2017. For the first two years repayments were set at 8% of the debt and then at 14% for each year thereafter. No interest is payable.

A total amount of £1.4m (2016: £1.5m) remains repayable under this agreement at the balance sheet date. Of this balance, £1.2m (2016: £1.4m) falls due for repayment after more than one year.

The directors consider that the carrying amount of trade payables approximates to their fair value.

18. Provisions

	Dilapidation £'000	Group restructuring £'000	Other provisions £'000	**Total £'000**
At 1 January 2016 (as restated – note 1)	125	-	45	**170**
Increase in provision	-	-	6	**6**
Release of provision			(33)	**(33)**
At 1 January 2017	125	-	18	**143**
Increase in provision	-	278	16	**294**
Utilisation of provision	-	-	-	**-**
Release of provision	-	-	-	**-**
At 31 December 2017	125	278	34	**437**
Of which is: current	-	-	34	**34**
Of which is: non-current	125	278	-	**403**

A dilapidations provision is held to cover the estimated costs of returning the Group's main office space to as it was at the commencement of the lease. The lease, which has 5 years and 3 months remaining on it at 31st December 2017 is currently being renegotiated.

A provision for further Group restructuring costs has been made to cover plans approved by the board at 31st December 2017 and that were implemented in Q1 2018.

19. Deferred tax

The deferred taxation provision included in the Statement of Financial Position, together with the charge/(credits) made to the Income Statement is set out below:

	Deferred tax £'000
At 1 January 2016	-
Charge/(credit) to income	546
At 31 December 2016	546
At 1 January 2017	546
Arising on acquisition	111
Charge/(credit) to income	(349)
At 31 December 2017	308

20. Share capital

	2017 No. of shares	2016 No. of shares	2015 No of shares
Allotted, called up and fully paid:			
Ordinary share of £0.10 each	-	115,751,517	108,431,517
Ordinary share of £0.01 each	398,638,987	-	-
Deferred share of £0.09 each	115,751,517	-	-

	2017	2016	2015
Allotted, called up and fully paid	**£'000**	£'000	£'000
At 1 January	11,575	10,843	10,833
Shares issued in the period			
Vendor consideration shares	231	732	-
Capital fundraising	2,566	-	-
Issued to employees/directors in lieu of salary	25	-	-
Share options	7	-	10
At 31 December	14,404	11,575	10,843

In 2016, the Group acquired Snowite SAS. Consideration was paid using ordinary shares.

On 28 March 2017, the Company carried out a capital subdivision of shares. This created two classes of share; ordinary 1p shares that carry full voting rights; and 9p deferred shares that carry limited voting rights. Neither the 1p ordinary shares, nor 9p deferred shares, carry a right to fixed income. Each ordinary 1p share carries the right to one vote at general meetings of the Company.

On 19th June 2017, in connection with the acquisition of 24-7 Entertainment ApS, the Group issued 23,144,616 Ordinary shares (see note 12).

20. Share capital (continued)

During the year, the Company issued 256,615,165 Ordinary shares via two placement offers. Total funds raised before professional fees and broker costs associated with the raises, amounted to £11.3m.

21. Other reserves

The Reverse acqusition reserve was created upon the application of reverse acqusition accounting relating to the purchase of 7digital Group Inc, by UBC Media plc on 10 June 2014.

The Foreign exchange translation reserve relates to cumulative foreign exchange differences of translation of foreign operations.

The Merger reserve relates to the difference between the nominal value of shares issued as part of an acquistion and the fair value of the assets transferred.

Shares to be issued represent a reserve to cover shares to be issued to Non-Executive directors in lieu of salary for the period between 1st July 2017 and 31st December 2017. These shares were issued during 2018.

The treasury reserve represents the cost of shares in 7digital Group plc purchased in the market and held by 7digital Group plc in treasury. The number of shares held in treasury at 31 December 2017 was Nil (2016: 28,336) and were valued at £Nil (2016: £5,264).

22. Operating lease arrangements

The Group as lessee	2017 £'000	2016 £'000
Minimum lease payments under operating leases recognised as an expense in the year	**743**	525

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2017 £'000	2016 £'000
Within one year	**710**	498
In the second to fifth year inclusive	**26**	123
	736	621

Operating lease payments represent rentals payable by the Group for its office properties and equipment. Property leases are negotiated for an average term of ten years and equipment for an average term of five year.

23. Retirement benefit schemes

Defined contribution schemes

The Group operates defined contribution retirement benefit schemes for qualifying employees. The total cost charged to income of £326k (2016: £178k) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. As at 31 December 2017, contributions due in respect of the current reporting period of £25k had not been paid over to the schemes (2016: £98k).

24. Related party transactions

During the year, the Group recognised £105k (2016: £197k) of revenue from HMV Digital Limited, of which Paul McGowan is also a Director. The revenue relates to licensing of software. At 31 December 2017, the Group was owed £13k (2016: £60k). The Group also incurred £5k (2016: £8k) of costs relating to royalties due.

During the year, the Group paid £Nil (2016: £33k) to Kinetic Helm Limited, a company associated with Matthew Honey. The amounts relate to directorship services provided prior to Matt becoming an employee of the Group on 1st June 2016. These emoluments have been included in the Directors' Remuneration Report.

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

Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual directors is provided in the audited part of the Directors' Remuneration Report on page 20.

	2017	2016
	£'000	£'000
Short- term employment benefits	**832**	656
Post-employment benefits	**10**	13
	842	669

25. Share-based payments

79 members of staff hold options to subscribe for shares in the Company under the 7digital Group plc enterprise management incentive scheme (approved by the Board on 10 June 2014). The Performance Share Plan is a "free" share award with an effective exercise price of £nil. All awards are subject to an Earnings per Share (EPS) performance condition. The performance period is three years. Further details of these conditions are set out in the Directors' Report. Awards are normally forfeited if the employee leaves the Group before the awards vest.

	2017 Options	**Weighted average exercise price (pence)**	2016 Options	Weighted average exercise price (pence)
Outstanding at the beginning of the period	3,319,291	-	3,537,712	-
Granted during the period	3,360,000	-	1,796,010	-
Forfeited during the period	(498,000)	-	(1,990,320)	-
Exercised during the period	(752,392)	-	(24,111)	-
Outstanding at the end of the period	5,428,899	-	3,319,291	-
Exercisable at the end of the period	293,222	-	-	-

During the period, 752,392 shares were exercised (2016: 24,111). There are 5,248,899 options outstanding at 31 December 2017 (2016: 3,537,712) of which 293,222 (2016: nil) are exercisable. Their remaining weighted average contractual life is 1,005 days (2016: 295 days).

25. Share-based payments (continued)

The fair value of the share options has been calculated using the Black-Scholes model at the grant date. The key inputs into the Black-Scholes model are detailed below:

	2017 Options	2016 Options
Share price at date of grant	**8.25p**	6.12p
Exercise price	**0.00p**	0.00p
Volatility	**100%**	100%
Option life	**3 yrs**	3 yrs
Risk-free interest rate	**0.5%**	0.5%

In total a £86k (2016: £172k) has been recognised in the statement of comprehensive income related to equity settled share based payment charges in respect of share options.

Included within these charges are equity settled share based payment charges of £85k (2016: £176k) reflecting share awards to non-executive directors during the year. At 31 December 2017 571,428 shares (2016: 2,471,971 shares) were due to be issued to non executive directors under the terms of their service contracts and as disclosed within the Directors Report and Directors Remuneration Report. The number of shares due are based on the remuneration due at specificed dates divided by the share price on that date.

The total share based payment charge to the Consolidated Income Statement is £86k (2016: £172k). This is reflected in the Consolidated Statement of Changes in Equity as:

	2017 £'000	2016 £'000
Share based payments	**56**	172
Issuance of shares	**30**	-
	86	172

The issuance of shares relates to the shares issued to some non-executive directors in lieu of their remuneration. Further details can be found in the Directors Remuneration Report on pages 19 to 20.

26. Capital reduction

During 2016, the High Court approved the cancellation of the Company's share premium account therefore creating distributable reserves that have been transferred to retained earnings. The Capital Reduction has no effect on the overall net asset position of the Company.

27. Post balance sheet events

As at the date of the signing of these accounts there have been no material post balance sheet events.

28. Financial instruments

Capital risk management
The Group manages its capital to ensure that entities in the Group will be able to meet their financial obligations as they arise while maximising the return to stakeholders. The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Notes 19 to 22. The Group has external liabilities by way of the debts owed on the purchase of Snowite SAS in March 2016 and as disclosed in Note 17. It does not have access to committed borrowing facilities, and is not subject to externally imposed capital requirements.

Categories of financial instruments

Financial Instruments		Restated	Restated
	2017	2016	2015
Financial assets	**£'000**	£'000	£'000
Cash and cash equivalents	**6,978**	838	1,656
Trade and other receivables	**5,820**	2,906	3,334
Financial liabilities at amortised cost			
Trade and other payables	**(8,180)**	(5,833)	(3,049)
Financial liabilities at fair value through profit and loss			
Derivative financial instrument (put option – see note 12)	**(150)**	(114)	-

The carrying amounts of financial assets and financial liabilities not carried at FVTPL approximate their fair values.

Financial instruments measured at fair value

			Restated
	2017	2016	2015
	£'000	£'000	£'000
Level 2			
Derivative financial instruments	**(78)**	(114)	-

There were no transfers between levels during the period. The valuation technique used to measure the fair value of the derivative financial instrument utilises the observable market price of the Company's shares adjusted to the fixed price of the unerlying host contract.

There were no changes to the valuation techniques during the year.

Financial and market risk management objectives
It is, and has been throughout the year under review, the Group's policy not to use or trade in derivative financial instruments. The Group's financial instruments comprise its cash and cash equivalents and various items such as trade debtors and trade creditors that arise directly from its operations. The main purpose of the financial assets and liabilities is to provide finance for the Group's operations in the year.

7digital Group plc

Notes to the financial statements
Year ended 31 December 2017

28. Financial instruments (continued)

Currency risk management
The Group has exposure to foreign currency risk due to subsidiaries in France, Denmark and United States. The Group manages the risk by holding cash in numerous currencies to avoid foreign exchange charges on payments and receipts.

The carrying value of the Group's short term foreign currency denominated assets and liabilities are set out below

	GBP BU's			USD BU's			DKK BU's		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Assets/(Liabilities)									
GBP	0	0	0	0	0	0	(55,583)	0	0
USD	1,694,004	1,442,604	690,430	0	0	0	(5,686)	0	0
EUR	1,647,447	(65,111)	105,711	139	0	0	(6,361)	0	0
DKK	(37,525)	0	0	0	0	0	0	0	0
Other	96,928	19,913	(8,511)	(103,783)	80,813	0	0	0	0
Totals	3,400,854	1,397,406	787,630	(103,644)	80,813	0	(67,630)	0	0

The majority of the Group's financial assets are held in Sterling but movements in the exchange rate of the Euro and US dollar against Sterling have an impact on both the result for the year and equity. Sensitivity to reasonably possible movement in the Euro and US dollar exchange rates can be measured on the basis that all other variables remain constant. The effect on profit and equity of strengthening or weakening of the Euro or US dollar in relation to Sterling by 10% would result in a movement of +/- £197k (2016: £361k) in relation to the Euro and £271k (2016: £196k) in relation to the US dollar.

Interest rate risk management and sensitivity
The Group's policy is to ensure that it maximises the interest income on surplus cash. This involves placing cash in a mix of fixed rate and floating rate short-term deposits. There is no prescribed ratio of fixed to floating rate. Due to the current level of cash and the current rates of interest the Group is not exposed to any significant interest rate risk.

Credit risk management
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities after assessing credit quality using independent rating agencies and if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure is continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits.

On going credit evaluation is performed on the financial condition of accounts receivable. The credit risk on liquid funds is limited because the counterparties are banks with high credit-rating assigned by international credit-rating agencies. The carrying amount of financial assets recorded in the financial statements, which is net impairment losses, represents the Group's maximum exposure to credit risk.

Liquidity risk management
The Group's policy throughout the year has been to ensure continuity of funds. The Group manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Notes to the financial statements
Year ended 31 December 2017

28. Financial instruments (continued)

Liquidity and interest risk tables
All trade and other payables are non-interest bearing and fall due within one month. The agreed term of repayment of the loan relating to the purchase of Snowite SAS is over 8 years starting 7th April 2017, payable in equal instalments with no interest.

The following table sets out the contractual maturities (representing the undiscounted contractual cash-flows) of financial liabilities:

	2017	2016	2015
Within 12 months	**£'000**	£'000	£'000
Trade payables	**3,161**	1,422	512
Other payables	**302**	225	351
	3,463	1,647	863

	2017	2016	2015
More than 12 months	**£'000**	£'000	£'000
Other payables	**1,392**	1,519	-

Fair value of financial instruments
The fair value of other non-derivative financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

Cash at bank and short-term bank deposits
Cash is held within the following institutions:

	2017	2016	2015
	£'000	£'000	£'000
Barclays Bank	**6,490**	576	799
Danske Bank	**272**	-	-
HSBC Bank	**26**	54	463
Paypal	**111**	71	241
Bank of West	**59**	53	14
ING	**-**	-	138
CIC Bank	**15**	44	-
Others	**5**	40	1
	6,978	838	1,656

7digital Group plc
Parent Company Statement of Financial Position
For the year ended 31 December 2017

	Notes	2017 £'000	2016 As restated £'000
Assets			
Non-current assets			
Intangibles	B	**1,729**	-
Fixed asset investments	C	**3,760**	6,772
		5,489	6,772
Current assets			
Debtors			
- due after more than one year	D	**-**	1,208
- due within one year	D	**20,595**	8,601
Cash at bank and in hand		**5,951**	378
		26,546	10,187
Creditors: amounts falling due within one year	E	**(9,873)**	(1,644)
Net current assets		**16,673**	8,543
Total assets less current liabilities		**22,162**	15,315
Provisions for liabilities and charges - non-current		**-**	(14)
Net assets		**22,162**	15,301
Capital and reserves			
Called up share capital	F	**14,404**	11,575
Share premium account		**8,232**	-
Shares to be issued		**26**	176
Own shares		**-**	(5)
Profit and loss account		**(500)**	3,555
Shareholders' funds		**22,162**	15,301

Result for the year
As permitted by section 408 of the Companies Act 2006 the Company has not elected to present its own profit and loss account for the year. 7digital Group plc reported a loss for the financial year ended 31 December 2017 of £4,055k (2016: loss £1,446k).

This Company Statement of Financial Position and related notes for company registration number 03958483 were approved by the Board of Directors on 15 August 2018 and were signed on its behalf by

Mark Foster
Director

7digital Group plc
Parent Company Statement of changes in Equity
For the years ended 31 December 2017 and 2016

Statement of changes in Equity for the year ended 31 December 2017

	Share capital £'000	Share premium account £'000	Shares to be issued £'000	Own shares £'000	Profit and Loss account £'000	**Total £'000**
At 1 January 2017	**11,575**	**-**	**176**	**(5)**	**3,555**	**15,301**
Comprehensive income for the year						
Loss for the year	-	-	-	-	(4,055)	**(4,055)**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(4,055)**	**(4,055)**
Contributions by and distributions to owners						
Issuance of shares	2,597	8,838	(176)	5	-	**11,264**
Share based payments	-	-	26	-	-	**26**
Cost of capital raises		(678)				**(678)**
Acquisition of subsidiary	232	72	-	-	-	**304**
Total contributions by and distributions to owners	**2,829**	**8,232**	**(150)**	**5**	**-**	**10,916**
At 31 December 2016	**14,404**	**8,232**	**26**	**-**	**(500)**	**22,162**

Statement of changes in Equity for the year ended 31 December 2016

	Share capital £'000	Share premium account £'000	Shares to be issued £'000	Own shares £'000	Profit and Loss account £'000	**Total £'000**
At 1 January 2016	**10,843**	**17,278**	**-**	**(42)**	**(12,236)**	**15,843**
Comprehensive income for the year						
Loss for the year (restated – see note A)	-	-	-	-	(1,446)	**(1,446)**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(1,446)**	**(1,446)**
Contributions by and distributions to owners						
Capital reduction	-	(17,278)	-	-	17,278	**-**
Acquisition of subsidiary	732	-	-	-	-	732
Share based payments	-	-	176	37	(41)	172
Total contributions by and distributions to owners	**732**	**(17,278)**	**176**	**37**	**17,237**	**904**
At 31 December 2016	**11,575**	**-**	**176**	**(5)**	**3,555**	**15,301**

The notes from pages 68 to 73 form part of the financial statements.

7digital Group plc
Notes to the Parent Company financial statements
Year ended 31 December 2017

A. Principal accounting policies

7digital Group plc is a company incorporated in the United Kingdom (England and Wales) under the Companies Act 2006.

The parent company financial statements are presented as required by the Companies Act 2006. They have been prepared in accordance with applicable law and accounting standards in the United Kingdom. The Company balance sheet and related notes have been prepared under the historical cost convention and in accordance with Financial Reporting Standards 100 Application of Financial Reporting Requirements (FRS100) and 101 Reduced Disclosures Framework. The company has taken advantage of the follwing disclosure exemptions in preparing these financial statements, a permittd by FRS 101 Reduced disclosure fraemeowork:

- the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 *Share-based payment;*
- the requirements of IFRS 7 *Financial Instruments: Disclosures;*
- the requiremnt of paragraphs 91 to 99 of IFRS 13 *Fair value measurement;*
- the requirement in paragraph 38 of IAS 1 *Presentation of Financial Statements* to presnt comparative information in respect of:
    - paragrpah 79(a)(iv) of IAS1:
    - pararaph 118(e) of IAS 38 *Intangible Assets*
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D and 111 of IAS 1 *Presentation of financial statements;*
- the requirments of paragraphs 134 to 136 of IAS 1 *Presenation of financial statements*;
- the requirments of IAS 7 *Statement of Cashflows;*
- the requirements of paragraphs 30 and 31 of *IAS 8 Accounting policies, changes in accounting estimates and errors:*
- the requiirement of paragraphs 17 and 18A of *IAS24 Related party disclosures;*
- the requiremnts in IAS 24 *Related party disclosures* to disclose related party transactions entered into between two or more members of a group; and
- the requrements of paragraphs 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 *Impairment of assets.*

These financial statements are spearate financial statements.

Where required, equivalent disclosures are given in the Group's consolidated financial statements in notes to 29.

Foreign currency

Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit and loss for the year.

Intangible assets
Intangible assets acquired as part of acquisition of a business are stated at fair value less accumulated amortisation and any impairment losses are stated at cost less accumulated depreciation and impairment losses, if any.

Intangible assets (Bespoke applications) arising from the internal or external development phase of projects is recognised if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- The intention to complete the intangible asset and use or sell it
- The ability to use or sell the intangible asset
- How the intangible asset will generate probable future economic benefits
- The availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Internally and externally generated intangible assets are amortised over their useful economic lives on a straight-line basis, typically over 3 years.

Research expenditure is recognised as an expense in the period in which it is incurred.

Impairment of tangible and other intangible assets
The Company reviews, at least annually, the carrying amounts of its tangible and intangible assets compared to the recoverable amounts to determine whether those assets have suffered an impairment loss. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss had been recognised for the asset in prior years.

Cash and cash equivalent
Cash and cash equivalents comprise cash on hand and demand deposits and other short-term, highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Fixed asset investments
Investments in subsidiaries are accounted for at cost less impairment in the Company's financial statements.

Classification
Financial instruments are classified and accounted for according to the substance of the contractual arrangement, as financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities. Where shares are issued, any component that creates a financial liability of the company is presented as a liability on the balance sheet. The corresponding dividends relating to the liability component are charged as interest expenses in the profit and loss account.

Recognition and measurement
All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Impairment
Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss.

7digital Group plc
Notes to the Parent Company financial statements
Year ended 31 December 2017

A. Accounting policies (continued)

Share-based payments
The Company issues equity settled share based payments to certain Directors and employees, which have included grants of shares and options in the current year. The fair value determined at the grant date is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is measured by use of an appropriate valuation model. The Black-Scholes option pricing model has been used to value the share options plans.

Going concern
The directors have made enquiries and have a reasonable expectation tha the Company has adequate rsources to continue in existence for the foreseeable future. For this reason they continue to adopte dthe going concern basis in preparing the financial statements. A more detailed review of going concern can be found in the Group's consolidated financial statements on page 13.

Prior period adjustment
The Company identified certain accounting errors which have been adjusted as a prior period restatement in the parent company financial statements. These adjustment errors related to intercompany loan movements, intercompany interest and share option charges, all of which had accidentally been reported twice. There was no impact on the Consolidated financial statements.

Critical accounting judgements and key sources of estimation uncertainity
In the application of the Company accounting policies, which are described above, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period which the estimate is revised if the revisions affect only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

There are no critical judgements, apart form those involving estimates, that directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Employees
The average number of employees throughout 2017 was 19 (2016: 15). Staff costs amounted to £1.9m (2016: £1.5m). Information about the remuneration of directors is provided in the audited part of the Directors' Remuneration Report on page 20 of the consolidated financial statements.

Correction of prior period errors
The directors have identified that certain intergroup charges were accounted for twice in the year ending 31 December 2016 in error. As a result, both company profit and amounts due from group undertakings in the prior year were overstated by an amount of £1,634,000. Accordingly, the directors have restated amounts due from group undertakings at 31 December 2016 and profit for the year ended 31 December 2016 to correct the error. The result of this prior period adjustment was to reduce amounts due from group undertakings and retained earnings at 1 January 2016 by £1,634,000.

The directors have recognised an additional liability of £114k to reflect the shareholder put option liability, which was incorrectly excluded from the prior period financial statements. The impact of the correction was to increase finance costs in 2016, thereby increasing the loss for the prior period by the same amount

Impact on equity (increase/(decrease) in equity)	2016 As previously stated	Increase/ (Decrease)	**2016 Restated**
	£'000	£'000	**£'000**
Balance sheet (extract)			
Fixed asset investments	6,772	-	**6,772**
Trade and other receivables	11,443	(1,634)	**9,809**
Cash	378	-	**378**
Trade and other payables	(1,530)	(114)	**(1,644)**
Provisions for liabilities and charges	(14)	-	**(14)**
Net (liabilities)	17,049	(1,748)	**15,301**
Other equity	11,746	-	**11,746**
Retained earnings	5,303	(1,748)	**3,555**
Total equity	17,049	(1,748)	**15,301**

B. Intangibles

	Bespoke applications £'000	**Total £'000**
Cost		
At 1 January 2016	-	-
Additions	-	-
At 31 December 2016	-	-
Additions	1,932	1,932
At 31 December 2017	**1,932**	**1,932**
Amortisation		
At 1 January 2016	-	-
Charge for year	-	-
At 31 December 2016	-	-
Charge for year	203	203
At 31 December 2017	**203**	**203**
Net book value		
At 31 December 2017	**1,729**	**1,729**
At 31 December 2016	-	-

C. Fixed asset investments

	£'000
Cost	
At 1 January 2016	17,921
Additions in year	1,732
At 31 December 2016	19,653
Additions in year	2,210
At 31 December 2017	**21,863**
Provision for impairment	
At 1 January 2016	(12,881)
Charge for the year	-
At 31 December 2016	**(12,881)**
Charge for the year	(5,222)
At 31 December 2017	(18,103)
Net book value at 31 December 2017	**3,760**
Net book value at 31 December 2016	6,772

Related subsidiaries, joint ventures and associates

	Ordinary shares held at 31 December 2017	**Principle activity**	**Country of incorporation**
Subsidiaries			
The New Unique Broadcasting Company Limited	**100%**	Radio production	England and Wales
Smooth Operations (Productions) Limited	**100%**	Radio production	England and Wales
Unique Interactive Limited	**100%**	Technical audio and data delivery services	England and Wales
7digital Trading Limited	**100%**	HR Services	England and Wales
7digital Limited	**100%**	Music streaming and download services	England and Wales
SD Music Stores Limited	**100%***	Music download services	England and Wales
7digital, Inc	**100%***	Music streaming and download services	Delaware, United States of America
7digital Group, Inc	**100%**	Holding company	Delaware, United States of America
7digital SAS	**100%**	Music streaming services	France
Oneword Radio Limited	**100%***	Dormant	England and Wales
UBC Interactive Limited	**100%***	Dormant	England and Wales
7digital ApS	**100%**	Music streaming services	Denmark

* indicates indirect investment of the company

The directors subjected the carrying value of investments to an impairment test during the year. The recoverable amount of each investment was considered by reference to the cash generating unit (CGU)to which it relates. The future cashflows of each CGU were estimated based upon the 2018 Boad approved budets, extrapolated into perpeuity with an assumed growth rate of 2.5%. A pre-tax discount factor of 12.0% was then applied to those forecast cashflows to derive the recoverable amount. The director's assessment indicated that no impairment to the carrying value of the investments in subsidiaries was required.

7digital Group plc
Notes to the Parent Company financial statements
Year ended 31 December 2017

D. Debtors

	2017	2016
Due after one year:	**£'000**	£'000
Amounts owed by group undertakings	**-**	1,208

Due within one year:	**£'000**	£'000
Trade Debtors	**637**	-
Other debtors	**508**	-
Amounts owed by group undertakings	**19,450**	8,601
	20,595	8,601

E. Creditors: amounts falling due within one year

	2017	2016
	£'000	£'000
Trade creditors	**828**	73
Other creditors	**205**	914
Accruals and deferred income	**3,578**	543
Amounts owed to group undertakings	**5,262**	-
	9,873	1,530

F. Share capital

	2017	2016
	£'000	£'000
Allotted, called up and fully paid:		
2016: 115,751,517 ordinary shares of 10p each	**-**	11,575
398,638,987 ordinary shares of £0.01 each (2016: Nil)	**3,986**	-
115,751,517 deferred shares of £0.09 each (2016: Nil)	**10,418**	-

During the year, the Company carried out a capital subdivision of shares. This created two classes of share; ordinary £1p shares that carry full voting rights; and £9p deferred shares that carry limited voting rights. The 1p ordinary shares carry no right to fixed income. Each ordinary £1p share carries the right to one vote at general meetings of the Company.

GENERAL INFORMATION AND ADVISORS

Registered office
69 Wilson Street
London EC2A 2BB

Country of Incorporation
England and Wales

Registered number
03958483

Nominated adviser and broker
Arden Partners plc
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London
EC2N 1AR

Solicitors
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London
EC2Y 5EB

Principal bankers
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Registrars
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The Registry
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Auditor
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