Company Registration No. 03958483

7digital Group plc

Consolidated Report and Financial Statements for the Year to 31 December 2016

7digital Group plc

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Chairman's Statement

I am pleased to report on another successful year 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 profitability by the year end with a profitable Q4 at a trading level.

At the same time the team has worked hard to position the business to take best advantage of the anticipated fast growth in music streaming. While we continue to have much to do, we believe we already offer current and potential customers the leading international b2b (business-to-business) platform and music rights capability to deliver music and radio streaming services, particularly following the demise of competitor Omnifone, and 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 predict that there will be further consolidation in the digital music industry, and that 7digital will be a beneficiary – and leader – of this consolidation.

Following a number of key appointments in 2015, we have continued our efforts to ensure we have the management depth, strength and expertise in place to take the business forward and realise its potential. During 2016, Matt Honey (who was previously Finance Director of UBC Media and joined 7digital in an interim role) agreed to serve as permanent Chief Financial Officer. Pete Downton, formerly Chief Commercial Officer, was appointed to the role of deputy CEO, Ed Kershaw was appointed as Chief Commercial Officer and Philippe Decottignies of Snowite was appointed Chief Technology Officer following our acquisition of that business. The company has already benefitted from those appointments during the past financial year.

Our progress in 2016 has been significant for the business and reflects the high quality and hard work of our staff. On behalf of the Board I would once again like to thank them for their commitment to 7digital.

I am excited for the future of 7digital. We are successfully 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
Chairman
5 June 2017

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

2016 was a year of good progress overall for 7digital in line with our stated strategy, as we delivered on our commitment to reach profit by the year end, recording a profitable Q4 at a trading level and a record sales month in December. Results for the year are in line with market expectations, including a gain from the strength of the dollar, and a strong second half performance gives us good momentum going into 2017.

We have seen our relationship with the music industry strengthened further and signed contracts with all three major labels during 2016 to help create new services. The music ecosystem continues to change as we anticipated and we are increasingly being seen as a service enabler to the digital music industry.

We successfully integrated our acquisition of Snowite, the leading French digital streaming music provider. The acquisition delivered against all of its key strategic and financial objectives, including annualised monthly recurring revenues of over £0.85m and the successful launch of a major new streamed music service in France for leading retailer Cdiscount.

We have continued to improve the quality and mix of our revenues, with total monthly recurring revenues ("MRR") rising by 13% against 2015, excluding the Guvera bad debt provision. Improving sales momentum during the period saw the annualized total licensing exit MRR for the year rise by 7% and annualised streaming exit MRR rise by 14%. Licensing revenues for the year rose by 5.0% compared with 2015 and by 15.3% excluding Guvera. Group turnover increased 15% to £11.9m (2015: £10.4m), as the Company delivered good growth across all revenue streams and, as anticipated, produced a strong performance in H2, with licensing revenues up 21% on H1.

Primarily reflecting bad debt provisions, our move to a cloud based IT system and the timing of our R&D tax credit, adjusted LBITDA increased to £3.7m (2015: £2.1m). We have focussed strongly on our cost base during the period and achieved annualised cost savings of £1m, including the previously indicated £0.5m overhead synergies from the Snowite acquisition.

2016 saw several key developments in the global digital music market, which included the closure of Omnifone, one of our key competitors. This, in addition to our market leading technology, broad music rights and deep industry relationships, has further strengthened 7digital's position within our marketplace and the barriers to entry for others who may wish to enter it.

The Company has benefitted from the global acceleration of music streaming over the past year and is ideally positioned to capitalise on the continued growth of streaming in 2017 and beyond. BPI, the leading British music industry association, announced recently that UK consumption had surged in 2016, with 45 billion audio streams served during the year (68% more than in 2015). Likewise, in the US, Nielsen reported streaming growth of 76% Year-on-Year. In addition, the three major music labels (Universal, Sony and Warner) all posted double-digit percentage boost in earnings throughout the year, driven by streaming.

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.

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. 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.

Licensing revenues rose by 5.0% to £6.8m (2015: £6.5m). Excluding Guvera, against whose revenue we made a full provision given its non-payment of outstanding fees, licensing revenues grew by 15.3% against 2015.

Annualised exit MRR, which includes streaming and other platform licensing revenues, for December 2016 grew to £6.2m, an increase of 7% against December 2015 (£5.8m). Licensing fees included £1.9m of initial set up fees paid by new customers, who we would expect to contribute to increasing MRR in 2017.

In line with a strategic emphasis on further developing commercial relationships with rights holders, 7digital has reached new agreements with all three of the world's major music labels. In addition to continuing to license and provide access to their catalogues for its customers, 7digital is helping to create new services for the labels across a number of geographies.

We have seen strong progress in the provision of high resolution audio in 2016, signing our first contract in H1 using the hi-res audio technology, MQA. A second phase of work for that streaming service also started in the last quarter, in anticipation of the forthcoming launch. The Group's strategy was further validated at the recent Consumer Electronics Show ("CES") in Las Vegas. The record industry and hardware manufacturers – including Sony and Samsung – came together at CES to highlight the benefits of higher quality digital sound. In particular, the MQA streaming technology which 7digital has pioneered received significant attention.

The Company has also announced since the year end that it has been contracted to partner with DTS, on the development of new high resolution audio solution prototypes for the automotive market. DTS currently provides dashboard-mounted audio for several leading brands and its portfolio of technology is integrated in more than two billion devices globally. This deal is a significant move for 7digital into the in-car vertical, an area of expected growth for the business in 2017, and connects the Company with third party automotive manufacturers for whom the prototypes are being developed.

2016 also saw the Company's client base continue to shift to major, tier one corporates, increasing the scale of our customers and continuing to improve the quality and predictability of our business and revenues. The Company signed a contract with Cdiscount, a leading e-commerce retailer in France, to launch its new streamed music service. Cdiscount generated profits last year of €1.765bn on a turnover of €2.741bn and enjoys a 34.4% total share of e-commerce in France (source: GfK).

During December 2016 we delivered 228m music streams to over 16m people, which compares to 72.6m streams delivered to approximately 3m people for the whole of 2015. The increase demonstrates the rapid growth in the usage of our platforms as well as our increasing geographic reach from servicing customers across 45 countries (2015: 33 countries).

The Company's growth in emerging markets is set to continue, with new services extending 7digital's reach into Africa, the Middle East and Caribbean. Several of the deals agreed in 2016 have the capacity to develop into further contracts for additional territories.

We also signed an agreement with musical.ly, the fast-growing global social media platform based around video and music with a strong and growing global footprint of over 100m users, and we expect monthly revenues from this agreement to increase over time. This agreement, in addition to our contract with grandPad®, a provider of technology solutions specifically designed for senior citizens, and our partnership with will.i.am, who launched his Dial wearable "smartcuff" device, are examples of how we can leverage our capabilities to enable and participate in disruptive new business models and product categories.

The merging of radio and music streaming continued in 2016 and the Company has been able to use its expertise in the production of high-quality content for broadcast and extensive experience in streaming to enable clients to extend broadcast radio brands into online services. In addition to the contracts with Global Radio and German national classical music broadcaster Klassik Radio, new contracts were agreed in H2 that will see the Company provide consultancy, app development services, and also license proprietary radio technology to clients for this purpose.

The provision of licensed 'background' music on location at bars, restaurants, cafes and other venues is another area 7digital has identified as having potential for growth worldwide. Two new deals signed in H2 will see the Company power music services to create the ambience desired by business owners served by the clients.

Creative division
Our Creative division is engaged in the creation of award winning audio and video programming for broadcasters, receiving commissions from BBC's national radio networks, commercial radio stations and other broadcasters such as Sky Television. It is a profitable business that brings a number of synergistic benefits to our licensing 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 4% on 2015 to £1.9m (2015: £1.8m).

The division continues to win new business as a result of our broad capabilities and deep industry relationships. We were contracted to produce content for Audible, an Amazon company, and signed a deal with Sky Arts to produce TV coverage of the Cambridge Folk Festival for the fourth time. We continued our long and successful relationship with the BBC and we secured a number of contracts in 2016, including retention of the popular Sunday Morning show and winning the high-profile Jazz Now series commission (both BBC Radio 3).

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 2016 Content revenues rose by 30% to £2.6m (2015: £2.0m), benefitting from a contract with a major label to use 7digital's platform for the sales of music downloads direct from an artist's own website. A noticeable move 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.

Strengthened management
7digital has continued to strengthen its management team in 2016 with the permanent appointment of Matthew Honey as Chief Financial Officer. The Company also appointed Philippe Decottignies to the position of Chief Technology Officer, following the acquisition of Snowite, and Edward Kershaw to the role of Chief Commercial Officer. Pete Downton, previously Chief Commercial Officer, was promoted to a newly-created Deputy CEO role. All bring significant skills and sector experience and will help drive and manage the Group's sustained growth. The Group has already seen material benefits from these appointments.

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

Outlook

2016 was a successful year for the Group overall as we delivered against the Board's commitment to achieve profitability by the year-end, and returned a profit at a trading for the final quarter.

The Group continues 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 revenues and reduction of its cost base.

We have agreed heads of terms with MediaMarktSaturn to acquire 24/7 Entertainment, 7digital's only remaining significant European competitor, which would materially strengthen revenues and, in 2018, be earnings enhancing. This transaction remains subject to the completion of satisfactory due diligence and agreeing definitive legal documentation and therefore there can be no guarantee that the transaction will complete.

7digital has a strong pipeline and is enjoying increasing momentum, and the Board remains committed to being profitable at the operating level for the full year in 2017.

Simon Cole
Chief Executive
5 June 2017

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

Results for the Year to 31 December	2016 £'000	2015 £'000	Change £'000	%
Revenue	11,899	10,392	1,507	15%
Cost of Sales	(3,451)	(3,308)	(143)	-4%
Gross profit	**8,448**	**7,084**	**1,364**	**19%**
Other operating income	560	1,040	(480)	-46%
Other administration expenses	(12,712)	(10,227)	(2,485)	-24%
Adjusted LBITDA	**(3,704)**	**(2,103)**	**(1,601)**	**-76%**
Depreciation	(1,156)	(759)	(397)	-52%
Adjusted operating loss	**(4,860)**	**(2,862)**	**(1,998)**	**-70%**
Share based payments	4	(137)	141	103%
Exceptional items	(464)	(128)	(336)	-263%
Operating loss	**(5,320)**	**(3,127)**	**(2,193)**	**-70%**
Other gains and losses	-	(4,767)	4,767	100%
Taxation on continuing operations	(12)	(3)	(9)	-300%
Finance (cost)/gain	(13)	11	(24)	-218%
Loss for the period	**(5,345)**	**(7,886)**	**2,541**	**32%**

Revenue	2016 £'000	2015 £'000	Change	%
Monthly recurring revenue	4,930	4,944	(14)	0%
Set-up fees	1,900	1,560	340	22%
Licensing revenue	**6,830**	**6,504**	**326**	**5%**
Content	2,606	2,042	564	28%
Creative	1,912	1,819	93	5%
Foreign exchange	551	27	524	1,941%
Total Revenues	**11,899**	**10,392**	**1,507**	**15%**

Post the EU referendum vote in the UK, the Group benefitted substantially from the fall in the value of sterling as a significant proportion of its revenue is denominated on US dollars. The directors believe that these gains should be shown within revenue on an ongoing basis to reflect the global nature of the Group's business.

Our high-margin business-to-business ("b2b") revenues have continued to enjoy growth, rising by 5% overall, and in the strategically important monthly recurring revenues ("MRR") we remained flat at £4.9m. Set-up fees increased by 22%, underpinning MRR in 2017. There has been strong growth of 28% in content revenue as the company continued to manage the decline in download revenues whilst benefitting from increased trading directly with record labels.

The strength in the rise in the level of b2b revenues, and especially in the increase in our MRR, can be seen in the next table. This shows the exit rate of recurring revenues that was achieved at the end of the year, clearly illustrating how the business has over recent years moved from one dependent on download services to one which is benefitting from the growth in streaming services. The exit rate for streaming MRR has increased by 14%.

Exit MRR	2016 £'000	2015 £'000	Change	%
Streaming	3,934	3,450	484	14%
Downloads	897	935	(38)	-4%
Radio	1,203	1,218	(15)	-1%
Other	207	230	(23)	-10%
Total	**6,241**	**5,833**	**408**	**7%**

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

Both gross profit, and our gross margin have increased in the period, due to the rise in revenue across every segment. Gross profit has increased 19% for the second consecutive year to £8.4m, whilst our gross margin has risen from 68% to 71%.

Administration expenses have increased by 24% as we have the inclusion of 9 months of the operating costs of Snowite SAS (now rebranded as '7digital France') that was purchased during the year.

Adjusted Results

Adjusted LBITDA (which excludes return on investments, taxation, depreciation of tangible assets, amortisation of intangible assets, share based payments and exceptional items) was £3.7m (2015: adjusted LBITDA of £2.1m). The adjusted operating loss was £4.9m (2015: £2.9m).

Adjusting Items

7digital incurred exceptional costs of £464,000 (2015: £128,000) during the year. These relate to costs that were incurred in relation to the acquisition of Snowite SAS, corporate restructuring, a capital reduction and legal fees. The Group also has a share option scheme, which resulted in balancing credit of £4,000 (2015: debit £137,000).

Investment Loss

In 2015, the Group disposed of its remaining investment in audioBoom for £1.9m. This resulted in an impairment loss of £4.8m during the prior year.

Statutory Result

The Group made a loss for the period of £5.3m (2015: £7.9m).

Loss per share

Reported earnings per share was a loss of 4.69 pence per share (2015: loss of 7.31 pence).

Cash and cash flow

At 31 December 2016, the Group had a cash balance of £0.8m (2015: £1.7m), and saw overall cash outflows in 2016 of £0.8m (2015: £3.7m). This included a cash outflow of £0.5m from operating activities (2015: £4.7m), and £0.3m cash outflow on investing activities (2015: £1.0m inflow).

Dividend

During the year, 7digital did not pay an interim or final 2015 dividend (2015: no interim or final 2014 dividend). The Board of directors is not proposing a final dividend in the current year.

Matthew Honey
Chief Financial Officer
5 June 2017

7digital Group plc
Strategic Review
Strategy and Business Model

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 a 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 Unique, Smooth Operations, Above the Title and Entertainment News brands (Creative revenue).

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, one of the UK's first when launched in 2004. 7digital.com operates 20 download stores, of which 18 are country specific, one is offered to those located in the EU and one is offered globally. 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.

7digital Group plc
Strategy Review
Principal Risks and Uncertainties

Principal risks and uncertainties

While the Group turned a trading level profit in Q4 2016, it was loss making for the year. The goal of reaching profit for the full year of 2017 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, the directors believe that the Group is well placed to continue to grow the business in order to reach profitability in the medium term.

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 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 and 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 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. There can, however, be no assurance that growth in the market for its products and services will occur, or occur at the rate envisaged by the Group.

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. Furthermore, 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. 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.

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.

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 18, 29 and 39.

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

Matthew Honey
Company Secretary

69 Wilson Street
London EC2A 2BB
5 June 2017

7digital Group plc
Governance
Board of Directors

Sir Donald Cruickshank, Independent Non-Executive Chairman
Don has served as a director of Qualcomm Incorporated since June 2005. 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 Chairman 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.

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, re-joined 7digital in June 2016 having originally worked with Simon Cole and Tim Blackmore 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 has since been involved with a number of other businesses across a broad range of industries from post production TV editing to international aid development consulting at IMC Worldwide Ltd, where Matt is a non-executive director.

Pete Downton, Chief Commercial Officer
Pete joined 7digital in June 2014, assuming overall responsibility for its commercial strategy. He brings over 15 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 Tecnologies 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.

Eric Cohen, Senior Independent Non-Executive Director
Eric was formerly 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.

Paul McGowan, Non-Executive Director
Paul founded retail restructuring group Hilco UK in 2000 in a joint venture with Hilco, where he currently serves as Executive Chairman to the company. Paul is also currently the Chairman 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.

Mark Foster, Independent Non-Executive Director
Mark has spent much of his career in the music industry, in a succession of Marketing and International roles, at Arista, Polydor and Warner Music, including time in Paris as Marketing Director of both of Warner's French affiliates. Mark's previous roles include spearheading the international expansion of streaming subscription service Deezer and leading the restructuring and international growth of Arts Alliance's production, finance, distribution and marketing operations.

Anne de Kerckhove, Independent Non-Executive Director
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 Iron Group. Previously, Anne was the Managing Director EMEA for Videology, one of world's largest ad technology platforms. As their European leader, she drove their 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 Midem, Mipcom, MIPTV and Le Web. 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 from McGill University and an MBA from INSEAD. Anne is also an angel investor and helped fund leading start-ups throughout the world including metail, the world's first virtual fitting room powering leading e-tailers such as Tesco and Warehouse.

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 2016. The Corporate Governance Statement on pages 15 to 17 forms part of this report.

Business review and future developments

The Chief Executive's Review is contained on pages 2 to 4 and the Chief Financial Officer's Review is contained on pages 5 to 6; 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 Statement of Comprehensive Income on page 22. As in the previous year, the Board of Directors is not proposing a final dividend for the year ended 31 December 2016.

Directors and their interests

The names of the directors serving during the year and their interests at 31 December 2016 were as follows:

	2016		**2015**	
	Number of ordinary shares	**Ordinary shares under options**	**Number of ordinary shares**	**Ordinary shares under options**
S A Cole	**2,481,046**	**576,222**	2,173,875	422,222
P Downton	**53,319**	**393,177**	37,038	272,667
M Honey (appointed 16 June 2016)	**200,000**	**200,000**	-	-
J C Dent (resigned 31 March 2016)	**-**	**-**	37,038	263,334
B Drury (resigned 28 April 2016)	**-**	**-**	12,767,913	376,903
D Cruickshank	**943,000**	**447,762**	-	447,762
E Cohen	**-**	**-**	-	-
H Yassaie (resigned 7 February 2016)	**-**	**-**	-	-
A de Kerckhove	**23,433**	**-**	4,135	-
M Foster	**17,243**	**-**	2,155	-
P McGowan (appointed 14 January 2016)	**250,000**	**-**	-	-

At 31 December 2016, the following directors' interests were also noted:

1. Of the ordinary shares shown as beneficially held by S A Cole, 2,453,151 were held by a nominee account.
2. P McGowan is the Executive Chairman of Hilco UK that indirectly holds 21,977,066 ordinary shares.
3. All of the ordinary shares shown as beneficially held by D Cruickshank were held by a nominee account.
4. All of the ordinary shares shown as beneficially held by P McGowan were held by a nominee account.
5. All of the shares shown as beneficially held by M Honey were held by a nominee account

Further to the shares shown above, additional shares have also accrued to the following Non-executive Directors in relation to their remuneration:

	A de Kerckhove	**M Foster**	**E Cohen**	**P McGowan**	**D Cruickshank**	**Total**
Accrued number of ordinary shares	162,827	77,736	564,118	388,679	1,278,612	2,471,972

It is the intention of the Board of Directors to issue these shares during 2017.

The Company has established a tax efficient EMI option scheme and an "unapproved" share option 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 this scheme may have a vesting schedule and/or performance conditions attached. 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	576,722	0	0.0p	10 June 2017	9 March 2020
Matthew Honey	200,000	0	0.0p	01 June 2018	30 May 2019
Pete Downton	393,177	0	0.0p	10 July 2018	9 March 2020

There are a number of performance conditions relating to the financial periods ending December 2015, 2016, 2017 and 2018 attached to these options. These options were granted during the course of the last three years and no options were exercised, lapsed or forfeited during the year. During the year options relating to Chris Dent and Ben Drury lapsed upon their resignation.

In addition, Don Cruickshank has options over 447,762 shares, of which 373,135 are current exercisable. The remaining 74,627 become exercisable within 6 months.

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 5 June 2017, 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
Goodmans Capital Investment Limited	21,977,066	13.75%	13.75%
Miton Asset Management	19,420,511	12.15%	12.15%
DC Thompson & Co Limited	7,394,857	4.63%	4.63%
Edale Europe Absolute Master Fund	7,101,105	4.44%	4.44%
Spreadex Limited	5,286,632	3.31%	3.31%

Capital structure

The Group is primarily funded through readily available cash and working capital management. The Group acquired some debt as part of the acquisition of Snowite SAS in April 2016. Details of the debt are shown in Note 11.

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. As at 31st December 2016 the Company had one class of ordinary share that carries no right to fixed income. Each share carries the right to one vote at general meetings of the Company. During the year the Company carried out a Capital Reduction to create distributable reserves. The movements involved are shown on page 44 as part of the Reconciliation of Shareholders Funds.

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 26.

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 15 to 17.

Under a resolution passed at the Company's last AGM on 28th April 2016, 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.

Re-election of directors

All the directors 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 page 9.

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 28,336 shares in Treasury (2015: 203,697). During the year, 175,361 treasury shares were issued to employees in lieu of cash bonuses and 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 Review on pages 7 to 8. The financial position of the Group, its cash flows and liquidity position are described in the Finance Review on pages 5 to 6. In addition, note 29 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 2016 show that the Group generated an LBITDA for the period of £3.7 million (2015: £2.1 million), and with cash used in operating activities of £0.5 million (2015: £4.7 million) and a net decrease in cash and cash equivalents of £0.8 million in the year (2015: increase of £3.7 million). The Group balance sheet also showed cash reserves at 31 December 2016 of £0.8 million (2015: £1.7 million).

The financial statements have been prepared on a going concern basis, which assumes that the Group will be able to access sufficient resources to enable it to continue trading for the foreseeable future.

The Board have prepared financial forecasts and projections, taking account of the reasonable potential fluctuations in trading performance, which show that the Group will have adequate resources to continue in existence for the foreseeable future. These forecasts and projections are dependent on the Group successfully securing additional external finance as and when required.

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.

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 2016 represented 58 days of purchases (31 December 2015: 45 days of purchases).

Auditor
Hazlewoods 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. The audit was last put out to competitive tender following the reverse acquisition in 2014.

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.

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,

Matthew Honey
Company Secretary
69 Wilson Street
London EC2A 2BB
5 June 2017

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. However, the Board considers that at this stage in the Group's development the expense of full compliance with the Code is not appropriate.

The Company is controlled through a Board of Directors, which at 31 December 2016 comprised eight directors: three executive directors, four independent non-executive directors and one non-executive director. Short biographies of each director are set out on page 9. The role of the Chairman and that of the Chief Executive are separate. The senior independent non-executive director is currently Eric Cohen.

The Chairman is responsible for the leadership of the Board, ensuring its effectiveness in all aspects of its role and setting its agenda. The Chairman also ensures that the directors receive accurate, timely and clear information and that there is effective communication with shareholders. The Chairman 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 bi-monthly 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.

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.

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

E Cohen, A de Kerckhove and M Foster are considered to be independent by the Board.

All directors are subject to election by shareholders at the first opportunity after appointment and at each subsequent AGM of the company. Details of directors submitted for re-election at the forthcoming AGM are provided on page 9. 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.

7digital Group plc
Governance
Corporate Governance Statement

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

	Number of Board Meetings attended	Number of eligible Board Meetings
S Cole	8	8
J Dent	2	2
B Drury	2	2
M Honey	7	7
D Cruickshank	8	8
E Cohen	8	8
P McGowan	6	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 Chairman'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 13 and the auditor's statement on the respective responsibilities of directors and the auditor is included within their report on page 20

Internal controls and risk management

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, but 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). In accordance with Provision C.2.1 of the UK Corporate Governance Code, the directors performed a review of the Group's control systems during the financial year.

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 chairman, 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. Following the reverse acquisition of 7digital Group, Inc. in 2014, the new Audit Committee made the decision to review the auditors of the Group, and put the audit of the Group out to competitive tender. The tender process was led by the Chairman of the Audit Committee, with relevant assistance from the Chief Financial Officer. The tender process resulted in no change to the audit firm, who are now in their fifth 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. During the current and preceding financial year there were no non-audit services provided by the auditors.

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 18. The Remuneration Committee formally met once during the period.

Relations with shareholders
The Board is committed to maintaining good communications with shareholders. The Chief Executive maintained a regular dialogue with institutional shareholders throughout the year. 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.

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 Chairman invites shareholders' questions to the Board.

7digital Group plc
Governance
Directors’ Remuneration Report

Unaudited information

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 2016 for the 7digital Group was as follows:

	Salary & Fees £'000	**Salary & Fees Payable in Shares £’000**	**Bonus £'000**	**Taxable benefits £'000**	**Pension contribution £'000**	**Total 2016 £'000**	Total 2015 £'000
Executive							
S.A. Cole	156		15	6	6	**183**	171
P Downton	115		8	10	4	**137**	72
M Honey	113		10	-		**123**	-
J.C. Dent	64		-	-	3	**67**	115
B Drury	-		-	-	-	**-**	128
Non-executive							
D Cruickshank (1)	-	50	-	-	-	**50**	50
E Cohen (2)	-	25	-	-	-	**25**	25
H Yassaie (3)	-	-	-	-	-	**-**	-
R Smith (3)	-	-	-	-	-	**-**	-
A de Kerckhove (4)	29	11	2	-	-	**42**	20
M Foster (5)	25	5	3	-	-	**33**	17
P McGowan (6)	-	-	-	-	-	**-**	-
B Drury	8	-	-	1	-	**9**	-
Total	510	91	38	17	13	**669**	598

(This information is audited)

(1) D Cruickshank receives a fee of £50,000 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. Additionally he was granted 447,762 share options with an exercise price of 0.0p. These options become exercisable in six tranches at six-month intervals. 373,135 options are currently exercisable under this plan.

(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) H Yassaie and R Smith did not take a fee. However, instead of a fee being paid personally, a fee of £12,500 was paid directly to Imagination Technologies plc.

(4) 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.

(5) 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.

(6) 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.

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

We have audited the Group financial statements of 7digital Group plc for the year ended 31 December 2016 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement (set out on page 13), the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements with the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Emphasis of Matter
In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 concerning the Group's ability to continue as a going concern. The Group is currently in the final stages of completing a significant acquisition. In order to continue operations for the next 12 months, the Group is dependent on the completion of the transaction, cost cutting measures and contracting with significant new customers and the directors have prepared forecasts on this basis. This condition indicates the existence of a material uncertainty which may cast doubt as to the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Opinion on financial statements
In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of our knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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; or
- Adequate accounting records have not been kept by the Group, or returns adequate for our audit have not been received from branches not visited by us; or
- The Group financial statements are not in agreemnet with the accounting records and returns.

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

Other matters

We have reported separately on the Parent Company financial statements of 7digital Group plc for the year ended 31 December 2016 and on the information in the Directors' Remuneration Report that is described as having been audited.

Scott Lawrence (Senior Statutory Auditor)
for and on behalf of Hazlewoods LLP
Chartered Accountants and Statutory Auditor
Cheltenham
5 June 2017

7digital Group plc

Consolidated Statement of Comprehensive Income
Year ended 31 December 2016

	Notes	**Year to 31 Dec 2016 £'000**	Year to 31 Dec 2015 £'000
Continuing operations			
Revenue	2	**11,899**	10,392
Cost of sales		**(3,451)**	(3,308)
Gross profit		**8,448**	7,084
Other Income	5	**560**	1,040
Administrative expenses	4	**(14,328)**	(11,251)
Adjusted operating loss		**(4,860)**	(2,862)
- Share based payments	26	**4**	(137)
- Exceptional items	3	**(464)**	(128)
Operating loss		**(5,320)**	(3,127)
Other gains and losses	14	**-**	(4,767)
Finance income	8	**6**	12
Finance cost	8	**(19)**	(1)
Loss before tax		**(5,333)**	(7,883)
Taxation on continuing operations	9	**(12)**	(3)
Total comprehensive income attributable to owners of the parent company		**(5,345)**	(7,886)
Loss per share (pence)			
Basic and diluted	10	**(4.69)**	(7.31)

7digital Group plc

Consolidated Statement of Financial Position
31 December 2016

	Notes	**2016**	2015
		£'000	£'000
Assets			
Non-current assets			
Intangibles	12	**2,303**	416
Property, plant and equipment	13	**475**	704
		2,778	1,120
Current assets			
Inventory: work-in-progress	16	**142**	54
Patent	16	**35**	7
Trade and other receivables	17	**3,575**	4,502
Cash and cash equivalents		**838**	1,656
		4,590	6,219
Total assets		**7,368**	7,339
Current liabilities			
Trade and other payables	18	**(6,731)**	(3,804)
Provisions for liabilities and charges - current	19	**(462)**	(170)
		(7,193)	(3,974)
Net current (liabilities)/assets		**(2,603)**	2,245
Non-current liabilities			
Loans	11	**(1,519)**	-
Provisions for liabilities and charges – non current	19	**(227)**	-
		(1,746)	-
Total liabilities		**(8,939)**	(3,974)
Net (liabilities)/assets		**(1,571)**	3,365
Equity			
Share capital	20	**11,575**	10,843
Share premium account		**-**	17,278
Treasury reserve	22	**(5)**	(42)
Other reserves	21	**(4,301)**	(4,547)
Retained earnings		**(8,840)**	(20,167)
Total equity		**(1,571)**	3,365

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 5 June 2017 and were signed on its behalf by:

Matthew Honey
Director

7digital Group plc

Consolidated Cash Flow Statement
Year ended 31 December 2016

	Notes	Year to 31 Dec 2016 £'000	Year to 31 Dec 2015 £'000
Loss for the period		**(5,345)**	(7,886)
Adjustments for:			
Taxation		**12**	3
Interest		**13**	(11)
Foreign exchange		**(551)**	(27)
Amortisation of intangible assets		**746**	277
Depreciation of fixed assets		**410**	484
Loss on sale of investment		**-**	4,767
Share based payments		**176**	-
Share option valuation adjustment		**(4)**	137
(Decrease) in provisions		**(27)**	(18)
Increase/(Decrease) in accruals and deferred income		**1,355**	(263)
(Increase) in inventories		**(116)**	(18)
Decrease/(increase) in trade and other receivables		**1,432**	(1,406)
Increase/(Decrease) in trade and other payables		**1,445**	(730)
Cash flows from operating activities		**(454)**	(4,691)
Taxation		**(12)**	(3)
Net interest		**(13)**	11
Net cash used in operating activities		**(479)**	(4,683)
Investing activities			
Disposal of investment		**-**	1,828
Purchase of property, plant, equipment and bespoke software		**(448)**	(848)
Cash acquired with subsidiary	11	**109**	-
Net cash (used) in / generated from investing activities		**(339)**	980
Net (decrease) in cash and cash equivalents		**(818)**	(3,703)
Cash and cash equivalents at beginning of period		**1,656**	5,312
Effect of foreign exchange rate changes		**-**	47
Cash and cash equivalents at end of period		**838**	1,656

7digital Group plc

Consolidated Statement Changes in Equity
Year ended 31 December 2016

	Notes	Share capital £'000	Share premium account £'000	Treasury reserves £'000	Other reserves (Note 21) £'000	Retained earnings £'000	**Total £'000**
At 1 January 2015		10,833	17,278	(216)	(1,456)	(15,311)	**11,128**
Loss for the period		-	-	-	-	(7,886)	**(7,886)**
Other comprehensive income for the period		-	-	-	(3,091)	2,915	**(176)**
Share based payment	26	10	-	172	-	115	**299**
At 1 January 2016		10,843	17,278	(42)	(4,547)	(20,167)	**3,365**
Loss for the period		-	-	-	-	(5,345)	**(5,345)**
Other comprehensive income for the period		-	-	-	82	(565)	**(483)**
Capital reduction	27	-	(17,278)	-	-	17,278	**-**
Acquisition of subsidiary		732	-	-	(12)	-	**720**
Share based payment	26	-	-	37	176	(41)	**172**
At 31 December 2016		**11,575**	**-**	**(5)**	**(4,793)**	**(8,840)**	**(1,571)**

Notes to the financial statements
Year ended 31 December 2016

1. Accounting policies

General information
7digital Group plc is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 47.

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 2015 have been delivered to the Registrar of Companies. The financial information for the year ended 31 December 2016 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 2015. New standards, amendments and interpretations to existing standards, which have been adopted by the Group for the year ended 31 December 2016, have been listed below.

New standards and interpretations
The following new and amended IFRSs have been adopted during the year:

- Amendments to IAS 32: Offsetting Financial Assets and Financial Liabilities
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (effective 1 January 2016)*
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (effective 1 January 2016)*
- Amendments to IAS 27: Equity Method in Separate Financial Statements (effective 1 January 2016)*
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective 1 January 2016)*
- Amendments to IAS 1: Disclosure Initiative (effective 1 January 2016)*
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (effective 1 January 2016)*
- Annual improvements 2012-2014 (effective 1 January 2016) *

The above amendment has not had any significant impact on the Group's financial statements. The Group has not yet adopted certain new standards, amendments and interpretations to existing standards, which have been published but are only effective for the Group's accounting periods beginning on or after 1 January 2017 . The new pronouncements are listed below:

- FRS 7 Financial Instruments (IFRS 9 Disclosures) (effective 1 January 2018)
- IFRS 15: Revenue from Contracts with Customers (effective 1 January 2018)*
- IFRS 9: Financial Instruments (effective 1 January 2018)
- IFRS 16 Leases (1 January 2019)

* Not yet endorsed for use in the EU

1. Accounting policies (continued)

Key accounting policies

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 Review on pages 7 to 8. The financial position of the Group, its cash flows and liquidity position are described in the Finance Review on pages 5 to 6. In addition, note 29 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 2016 show that the Group generated an LBITDA for the period of £3.7 million (2015: £2.1 million), and with cash used in operating activities of £0.5 million (2015: £4.7 million) and a net decrease in cash and cash equivalents of £0.8 million in the year (2015: increase of £3.7 million). The Group balance sheet also showed cash reserves at 31 December 2016 of £0.8 million (2015: £1.7 million).

The financial statements have been prepared on a going concern basis, which assumes that the Group will be able to access sufficient resources to enable it to continue trading for the foreseeable future.

The Board have prepared financial forecasts and projections, taking account of the reasonable potential fluctuations in trading performance, which show that the Group will have adequate resources to continue in existence for the foreseeable future. These forecasts and projections are dependent on the Group successfully securing additional external finance as and when required.

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.

Revenue

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

- Sale of programmes and content: the value of goods and services supplied is recognised on delivery of content. Production costs are recognised on the same date as the relevant revenue.
- Sale of software: the value of goods and services supplied is recognised on delivery.

Exceptional items

Exceptional items are those items the Group considers to be non-recurring or material in nature that should be brought to the reader's attention in understanding the Group's financial performance.

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.

1. Accounting policies (continued)

Foreign currency (continued)
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.

Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

Depreciation is calculated under the straight-line method to write off the depreciable amount of the assets over their estimated useful lives. Depreciation of an asset does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. The principal annual rates used for this purpose are between 3 and 5 years.

The depreciation method, useful lives and residual values are reviewed, and adjusted if appropriate, at the end of each reporting period to ensure that the amounts, method and periods of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of the property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when the cost is incurred and it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. The carrying amount of parts that are replaced is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred. Cost also comprises the initial estimate of dismantling and removing the asset and restoring the site on which it is located for which the Group are obligated to incur when the asset is acquired, if applicable.

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.

Fixed asset investments
Fixed asset investments are shown at cost less provision, if appropriate, for any impairment.

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. 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.

1. Accounting policies (continued)

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.

Taxation

The tax expense for the period comprises current 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 current income 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 and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

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.

Share based compensation

The Group issues equity settled share based payments to certain Directors and employees, which have included grants of shares, warrants and options in the current year. Equity settled share based payments are measured at fair value at the date of grant, with the charge being recognised within the statement of comprehensive income over the period of service to which the grant relates.

The fair value is measured using a Black-Scholes framework. 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 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

Forecasting

The Group prepares medium-term forecasts based on Board approved budgets and 3-year financial models. These are used to support judgements in the preparation of the Group's financial statements including the decision on whether to recognise deferred tax assets and for the Group's going concern assessment.

Revenue recognition

Management considers the detailed criteria for the recognition of revenue from the sale of goods and services set out in IAS 18 Revenue, in particular whether the Group had transferred to the buyer the significant risks and rewards of ownership of the goods.

Notes to the financial statements
Year ended 31 December 2016

2. Business and geographical segments

Business segments

For management purposes, the Group is organised into three continuing operating divisions – Content, Licensing and Creative. The principal activity of the Content division is the sales of digital music direct to consumers. The principal activity of Licensing is the creation of software solutions for managing and delivering digital content. 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.

	Content		Licensing		Creative		Unallocated		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
Revenue	**2,606**	2,012	**6,830**	6,509	**1,912**	1,844	**551**	27	**11,899**	10,392
Segment's result (gross profit)	**750**	215	**6,162**	5,923	**985**	919	**551**	27	**8,448**	7,084
Other income	**-**	-	**-**	-	**-**	-	**560**	1,040	**560**	1,040
Corporate expense	**-**	-	**-**	-	**-**	-	**(14,328)**	(11,251)	**(14,328)**	(11,251)
Operating profit/(loss)	**750**	215	**6,162**	5,923	**985**	919	**(13,217)**	(10,184)	**(5,320)**	(3,127)
Other gains and losses									**-**	(4,767)
Financing income									**6**	12
Financing costs									**(19)**	(1)
Tax charge									**(12)**	(3)
Loss for the year									**(5,345)**	(7,886)
Other segment items:										
Capital additions									**2,814**	848
Depreciation									**410**	482
Amortisation									**746**	277

Revenue from the Group's largest customer in the year was £1,379,000 (2015: £1,822,000). There were no other customers that formed greater than 10% of external revenues within the years ended 31 December 2016 and 2015.

During 2016, the value of Sterling against the US Dollar weakened significantly resulting in foreign exchange gains for the Group. This movement of £551,000 (2015: £27,000) has been shown within revenue.

Geographical information

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

	Revenue		Non-current assets	
	2016	2015	**2016**	2015
Continuing Operations	**£'000**	£'000	**£'000**	£'000
United Kingdom	**4,272**	3,724	**2,705**	1,120
Europe	**2,265**	1,252	**73**	-
Rest of World	**5,362**	5,416	**-**	-
	11,899	10,392	**2,778**	1,120

3. Exceptional items

	2016	2015
	£'000	£'000
Acquisition costs	**(82)**	(16)
Capital reduction	**(25)**	-
Exceptional legal fees	**(105)**	-
Corporate restructuring	**(252)**	(112)
	(464)	(128)

On 07 April 2016, 7digital Group plc announced the successful acquisition Snowite SAS. 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 07 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, the Group settled a patent infringement claim. The settlement and associated legal fees were classified as exceptional items due to the size and their one-off nature.

During 2016, the Group incurred costs relating to restructuring the business, the main items being synergies due to the acquisition of Snowite SAS. During 2015, the Group closed their Luxembourg office following changes in EU VAT rules, which resulted in restructuring costs. These costs have also been classified as exceptional items due to the one-off nature and magnitude.

4. Operating loss for the year

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

	2016	2015
	£'000	£'000
Net foreign exchange profit	**(551)**	(27)
Amortisation of intangible	**746**	277
Depreciation of property, plant & equipment	**410**	482
Operating lease payments - land and buildings	**525**	452
Loss on disposal of investment	**-**	4,767
Share based payment expense	**(4)**	137
Research and development expenditure	**1,485**	1,707

5. Other operating income

The other operating income earned by the Group in the current year of £560,000 relates to Research & Development tax credits. In 2015, £490,000 of the amount relates to claims made for previous years, with the remaining £550,000 being in relation to the amount due from HMRC with respect to 2015.

6. Auditor's remuneration

	2016	2015
	£'000	£'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**18**	18
Fees payable to the Company's auditor for other services to the Group		
The audit of the Company's subsidiaries pursuant to legislation	**26**	26
Total audit fees	**44**	44
Non-audit fees:		
Total non-audit fees	**-**	-
Total fees paid to Company's auditor	**44**	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.

7. Staff costs

The average monthly number of persons employed by the Group during the year, including executive directors, was 131 (2015: 127). Staff costs in the Group are presented in administrative expenses.

	2016	2015
	No.	No.
Number of production, R & D, and sales staff	**102**	97
Number of management and administrative staff	**29**	30
	131	127

	2016	2015
	£'000	£'000
Wages and salaries	6,966	5,857
Social security costs	768	682
Other pension costs	178	188
Share based payments	(4)	137
	7,908	6,864

8. Interest

	2016	2015
	£'000	£'000
Bank interest received	6	12
Other charges similar to interest	(19)	(1)
	(13)	11

9. Tax

Corporation tax is calculated at 20% (2015: 20.25%) of the estimated assessable profit for the year.

Current tax	£'000	£'000
UK corporation tax on the results for the year	-	-
Foreign tax suffered	12	3
Total current tax charge	12	3

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

	2016	2015
	£'000	£'000
Profit/(loss) before tax	(5,333)	(7,883)
Tax at UK corporation tax rate of 20% (2015: 20.25%)	(1,069)	(1,596)
Tax effect of expenses that are not deductible in determining taxable profit	153	1,096
Fixed asset differences	11	97
Deferred tax not recognised	374	(381)
Foreign tax suffered	12	3
Income not taxable for tax purposes	(102)	(211)
Adjustments in respect of prior periods	-	(481)
Additional deduction for R&D expenditure	(386)	(458)
Adjust closing deferred tax to average rate of 20%	1,024	711
Adjust opening deferred tax to average rate of 20%	(635)	(75)
Difference in tax rates	(53)	-
R&D tax credit	188	231
Tax credit receivable	495	1,067
Tax credit and effective tax rate for the year	12	3

At the balance sheet date, the Group has unrecognised deferred tax assets of £5,801,811 at a rate of 17% (2015: £5,695,344 (18%)) 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.

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

		31 Dec 2016	
	Loss	**Weighted average number of shares**	**Per share amount**
Basic and Diluted EPS	**£'000**	**Thousand**	**Pence**
Loss attributable to shareholders:	**(5,345)**	**114,030**	**(4.69)**

		31 Dec 2015	
Basic and Diluted EPS	£'000	Thousand	Pence
Loss attributable to shareholders:	(7,886)	107,873	(7.31)

11. Acquisition

On 08 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:

	31-Mar-16	**Fair Value Adjustment**	**Adjusted**
	£	**£**	**£**
Goodwill	64	(64)	**-**
Other intangible assets	831	(831)	**-**
Property plant and equipment	40	-	**40**
Financial assets	36	-	**36**
Trade and other receivables	421	-	**421**
Cash and cash equivalents	109	-	**109**
Bank loans	(898)	-	**(898)**
Trade and other payables	(1,259)	-	**(1,259)**
	(656)	(895)	**(1,551)**
Intangible assets recognised under IFRS3			**1,655**
Goodwill			**546**
Total consideration			**650**

The transaction was satisfied by a share swap of 7,320,000 ordinary shares at a value of 10 pence per share 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 negotiated a reduction in the amount of the debt existing at the time of the purchase within Snowite and to be repaid by the Group, from €1.8m to €1.7m (£1,519,000). The terms of repayment agreed are over 8 years starting on 7th April 2017, payable in equal instalments with no interest; and
- 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% 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 there after.

12. Intangibles

	Bespoke applications £'000	Goodwill £'000	Total £'000
Cost			
At 1 January 2015	994	-	994
Additions	352	-	352
Disposals	(294)	-	(294)
At 31 December 2015	1,050	-	1,050
Additions	2,087	546	2,633
At 31 December 2016	**3,137**	**546**	**3,683**
Amortisation			
At 1 January 2015	649	-	649
Disposals	277	-	277
Charge for year	(292)	-	(292)
At 31 December 2015	634	-	634
Charge for year	746	-	746
At 31 December 2016	**1,380**	**-**	**1,380**
Net book value			
At 31 December 2016	**1,757**	**546**	**2,303**
At 31 December 2015	416	-	416

During the year, the Group acquired Snowite SAS including an acquisition of software which will be amortised over 3 years in line with the Group's policy. Included in the figures above is £1,655,000 of cost and £414,000 of amortisation, adding £1,241,000 to the net book value of intangibles.

13. Property, plant and equipment

	Property £'000	Computer equipment £'000	Fixture and fittings £'000	Vehicle £'000	Total £'000
Cost					
At 1 January 2015	404	1,411	228	19	2,062
Additions	-	454	42	-	496
Disposals	-	(497)	(151)	-	(648)
At 31 December 2015	404	1,368	119	19	1,910
Additions	39	136	2	4	181
Disposals	-	-	-	-	-
At 31 December 2016	**443**	**1,504**	**121**	**23**	**2,091**
Depreciation					
At 1 January 2015	125	1,048	195	4	1,372
Charge for year	81	365	33	3	482
Disposals	-	(497)	(151)	-	(648)
At 31 December 2015	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**
Net book value					
At 31 December 2016	**156**	**290**	**19**	**10**	**475**
At 31 December 2015	198	452	42	12	704

14. Investment in asset for sale

	2016	2015
	£'000	£'000
Cost and net book value		
At 1 January	**-**	6,625
Acquisition of subsidiary	**-**	-
Disposal	**-**	(6,625)
Fair value adjustment	**-**	-
At 31 December	**-**	-

The amounts included above represent investments in Audioboom Group plc ("Audioboom"), an AIM listed company, which was acquired as part of the reverse acquisition of 7digital Group plc. During 2015, the Group disposed of their remaing interest in Audioboom Group plc with a book value of £6.63m for net consideration of £1.86m resulting in a loss of £4.77m recognised in the Income Statement.

15. Subsidiaries

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. Inventories

	2016	2015
	£'000	£'000
Work-in-progress	**142**	54
Patents	**35**	7
	177	61

17. Trade and other receivables

	2016	2015
	£'000	£'000
Amount receivable for the sale of goods	**3,797**	3,758
Allowance for doubtful debts	**(1,387)**	(738)
Net Receivables	**2,410**	3,020
Other debtors	**245**	260
Accrued income	**615**	958
Prepayments	**305**	264
	3,575	4,502

The average credit period taken on sales of goods and services is 78 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 £971,000 (2015: £1.7 million) 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 165 days (2015: 167 days).

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

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

Ageing of past due but not impaired receivables

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

Movement in the allowance for doubtful debts

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

Included in the allowance for doubtful debts there are no individually impaired trade receivables which have been placed under liquidation (2015: £nil). Any impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the expected liquidation proceeds. The Group does not hold any collateral over these balances.

Ageing of impaired trade receivables

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

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

18. Trade and other payables

	2016	2015
	£'000	£'000
Trade payables	**1,422**	512
Other taxes and social security	**1,087**	302
Other payables	**225**	351
Accrued costs	**3,326**	2,186
Deferred income	**671**	453
	6,731	3,804

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 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.

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

19. Provisions

	Deferred tax provision £'000	Dilapidation £'000	Employer's NI provision £'000	Legal provision £'000	**Total £'000**
At 1 January 2016	-	125	45	-	**170**
Acquisition of subsidiary	-	-	-	-	**-**
Increase in provision	546	-	-	6	**552**
Utilisation of provision	-	-	-	-	**-**
Release of provision	-	-	(33)	-	**(33)**
At 31 December 2016	546	125	12	6	689
Of which is: current	319	125	12	6	**462**
Of which is: non-current	227	-	-	-	**227**

20. Share capital

	2016	2015
	No. of shares	No. of shares
Allotted, called up and fully paid:		
Ordinary A share of £0.10 each	**115,751,517**	108,431,517

	2016	2015
Allotted, called up and fully paid	**£'000**	£'000
At 1 January	**10,843**	10,833
Shares issued in the period		
Vendor consideration shares	**732**	-
Share options	**-**	10
At 31 December	**11,575**	10,843

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

As at 31st December 2016, the Group had one class of ordinary shares which carry no right to fixed income.

Notes to the financial statements
Year ended 31 December 2016

21. Other reserves

	Reverse acquisition reserve	Foreign exchange translation reserve	Asset for sale reserve	Merger reserve	Shares to be issued	**Other capital reserves**
	£'000	£'000	£'000	£'000	£'000	**£'000**
At 1 January 2015	(4,430)	(31)	3,004	-	-	**(1,457)**
Other comprehensive income	-	(86)	(3,004)	-	-	**(3,090)**
At 31 December 2015	(4,430)	(117)	-	-	-	**(4,547)**
Other comprehensive income	-	82	-	-	-	**82**
Acquisition of subsidiary	-	70	-	(82)	-	**(12)**
Share based payments	-	-	-	-	176	**176**
At 31 December 2016	(4,430)	35	-	(82)	176	**(4,301)**

22. Treasury reserve

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 2016 was 28,336 (2015: 203,697), and were valued at £5,264 (2015: £42,090).

23. Operating lease arrangements

The Group as lessee

	2016	2015
	£'000	£'000
Minimum lease payments under operating leases recognised as an expense in the year	**525**	452

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:

	2016	2015
	£'000	£'000
Within one year	**498**	452
In the second to fifth year inclusive	**123**	560
	621	1,012

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.

24. Retirement benefit schemes

Defined contribution schemes

The Group operates defined contribution retirement benefit schemes for qualifying employees. The total cost charged to income of £178,000 (2015: £188,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. As at 31 December 2016, contributions due in respect of the current reporting period of £98,022 had not been paid over to the schemes (2015: £39,444).

25. Related party transactions

During the year, the Group recognised £197,000 (2015: £175,000) of revenue from HMV Digital Limited, of which Paul McGowan is also a Director. The revenue relates to licensing of software. At 31 December 2016, the Group was owed £60,000 (2015: £93,000). The Group also incurred £8,000 (2015: £nil) of costs relating to royalties due.

During the year, the Group paid £33,000 (2015: £nil) 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.

	2016	2015
	£'000	£'000
Short- term employment benefits	**656**	582
Post-employment benefits	**13**	16
	669	598

26. 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).

	2016 Options	**Weighted average exercise price**	2015 Options	Weighted average exercise price
Outstanding at the beginning of the period	**3,059,950**	**-**	2,955,102	**-**
Granted during the period	**1,796,010**	**-**	1,585,377	-
Forfeited during the period	**(1,990,320)**	**-**	(873,070)	-
Exercised during the period	**(24,111)**	**-**	(607,459)	-
Outstanding at the end of the period	**2,841,529**	-	3,059,950	-
Exercisable at the end of the period	-	-	566,455	-

During the period, 24,111 shares were exercised (2015: 607,459). There are 2,841,529 options outstanding at 31 December 2016 (2015: 3,059,950) of which nil (2015: 566,455) are exercisable.

The fair value of the outstanding share options has been calculated using the Black-Scholes model. The Black-Scholes model values each share option at market value based on the grant date.

At 31 December 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.

27. 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.

28. Post balance sheet events

On 28 March 2017, the Group completed a placing and open offer raising approximately £2.6m after costs. The new shares were admitted to trading on 29 March 2017. At the same time and in addition, 7digital Group plc also carried out a capital reorganisation to reduce the nominal value of the ordinary shares from 10p to 1p and announced the potential acquisition of 24/7 Entertainment ApS.

29. 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 20 to 22. The Group does not have any external borrowings, does not have access to committed borrowing facilities, and is not subject to externally imposed capital requirements.

Categories of financial instruments

Financial Instruments

	2016	2015
Financial assets	**£'000**	£'000
Cash and cash equivalents	**838**	1,656
Loan and receivables	**2,655**	3,280
Financial liabilities at amortised cost		
Trade and other payables	**(4,973)**	(3,049)
Loans	**(1,519)**	-

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

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.

Currency risk management

The Group has exposure to foreign currency risk due to subsidiaries in France and United States. The Group manages the risk by holding cash in numerous currencies to avoid foreign exchange charges on payments and receipts. The Group is exposed to translation variances on consolidation. The Group translates balances from foreign subsidiaries relating to the Income Statement at the monthly average exchange rate and balances relating to the Statement of Financial Position at the year-end exchange rate.

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.

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.

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.

Independent auditor's report to the members of 7digital Group plc

We have audited the Parent Company financial statements of 7digital Group plc for the year ended 31 December 2016 which comprise the Parent Company Balance Sheet, the Parent Company Reconciliation of Shareholders' Funds and the related Notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibility (set out on page 13), the directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements, with the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Emphasis of Matter

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 of the Group accounting policies above concerning the Group and Company's ability to continue as a going concern. The Company is currently in the final stages of completing a significant acquisition. In order to continue operations for the next 12 months, the Group and Company is dependent on the completion of the transaction, cost cutting measures and contracting with significant new customers and the directors have prepared forecasts on this basis. This condition indicates the existence of a material uncertainty which may cast doubt as to the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

Opinion on financial statements

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the Parent Company financial statements.

Matters on which we are required to report by exception

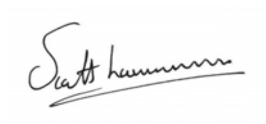
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Independent auditor's report to the members of 7digital Group plc

Other matters

We have reported separately on the Group financial statements of 7digital Group plc for the year ended 31 December 2016.



Scott Lawrence (Senior Statutory Auditor)
For and on behalf of Hazlewood's LLP
Chartered Accountants and Statutory Auditor
Cheltenham
5 June 2017

7digital Group plc
Parent Company Statement of Financial Position and Reconciliation of Shareholder's Funds
For the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Fixed asset investments	B	**6,772**	5,040
Current assets			
Debtors			
- due after more than one year	C	**1,278**	1,138
- due within one year	C	**10,165**	10,576
Cash at bank and in hand		**378**	129
		11,821	11,843
Creditors: amounts falling due within one year	D	**(1,530)**	(995)
Provisions for liabilities and charges - current		**-**	-
Net current assets		**10,291**	10,848
Total assets less current liabilities		**17,063**	15,888
Provisions for liabilities and charges - non-current		**(14)**	(45)
Net assets		**17,049**	15,843
Capital and reserves			
Called up share capital	E	**11,575**	10,843
Share premium account		**-**	17,278
Shares to be issued		**176**	-
Own shares		**(5)**	(42)
Profit and loss account		**5,303**	(12,236)
Shareholders' funds		**17,049**	15,843

This Company Balance Sheet and related notes for company registration number 03958483 were approved by the Board of Directors on 5 June 2017 and were signed on its behalf by

Matthew Honey
Director

Reconciliation of Shareholders Funds as at 31st December 2016

	Share capital £'000	Share premium account £'000	Shares to be issued £'000	Own shares £'000	Accumulated profits £'000	**Total £'000**
At 31 December 2015	**10,843**	**17,278**	**-**	**(42)**	**(12,236)**	**15,843**
Profit for the period	-	-	-	-	302	**302**
Capital reduction	-	(17,278)	-	-	17,278	**-**
Acquisition of subsidiary	732	-	-	-	-	**732**
Share based payment	-	-	176	37	(41)	**172**
At 31 December 2016	**11,575**	**-**	**176**	**(5)**	**5,303**	**17,049**

7digital Group plc
Notes to the Parent Company financial statements
For the year ended 31 December 2016

A. Principal accounting policies

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 hisotircal cost convention and in accordance with Financial Reporting Standards 100 Application of Financial Reporting Requirements (FRS100) and 101 Reduced Disclosures Framework.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies.

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 profit for the financial period ended 31 December 2016 of £302,000 (2015: loss £1,620,000).

The average number of employees throughout 2016 was 15 (2015: 15). Staff costs amounted to £1.5m (2015: £1.0m). Information about the remuneration of directors is provided in the audited part of the Directors' Remuneration Report on page 18 of the consolidated financial statements.

Fixed asset investments

Fixed asset investments are shown at cost less provision, if appropriate, for any impairment.

B. Fixed asset investments

	£'000
Cost	
At 1 January 2015	20,380
Additions in year	-
Disposals	(2,459)
At 31 December 2015	17,921
Additions in year	1,732
Disposals	-
At 31 December 2016	**19,573**
Provision for impairment	
At 1 January 2015	(810)
Additions in year	(12,071)
At 31 December 2015	(12,881)
Additions in year	-
At 31 December 2016	**(12,881)**
Net book value at 31 December 2016	**6,772**
Net book value at 31 December 2015	5,040

B. Fixed asset investments (continued)

Principal subsidiaries, joint ventures and associates

	Ordinary shares held at 31 December 2016	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

* indicates indirect investment of the company

C. Debtors

	2016	2015
Due after one year:	**£'000**	£'000
Amounts owed by group undertakings	**1,278**	1,138
Due within one year:	**£'000**	£'000
Other debtors	**10,165**	10,520
Prepayments and accrued income	**-**	57
	10,165	10,576

D. Creditors: amounts falling due within one year

	2016	2015
	£'000	£'000
Trade creditors	**73**	39
Other creditors	**914**	611
Accruals and deferred income	**543**	345
	1,530	995

E. Share capital

	2016	2015
Allotted, called up and fully paid:		
115,751,517 ordinary shares of 10p each (2015: 108,431,517 of 10p each)	**11,575**	10,843

As at 31st December 2016 the Company has one class of ordinary shares which carry no right to fixed income as detailed in Note 20 of the Consolidated Financial Statements.

7digital Group plc
General Information & Advisers

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England and Wales

Registered number
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