

Shazam Entertainment Limited

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2017



Company Registration No. 3998831

Shazam Entertainment Limited

DIRECTORS AND ADVISERS

DIRECTORS

A Fisher
R Riley
C Barton
N Marovac
M Murphy
L Zalaznick
R Kroluk

SECRETARY

B Kerle

REGISTERED OFFICE

Shazam Entertainment Limited
26 – 28 Hammersmith Grove
London W6 7HA

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

BANKERS

Barclays Bank plc
Level 27, 1 Churchill Place
London
E14 5HP

Shazam Entertainment Limited

STRATEGIC REPORT

The directors present their strategic report on the Group for the year ended 31 December 2017.

Business review

During the year the Group continued expanding the international distribution of its services with significant contracts with major brands and blue chip companies. The Group expects to continue to invest in the marketing of its services and undertake new product development.

On 10 December 2017, certain shareholders of the Company entered into conditional agreements to sell their shares in Shazam Entertainment Limited to Apple Operations Europe Limited ('Apple'). See note 24 for further information.

The results for the Group show turnover for the year ended 31 December 2017 of £40.8m (period ended 31 December 2016: £40.3m) and a loss on ordinary activities before taxation of £17.7m (period ended 31 December 2016: £3.7m) as the company invested in a number of strategic growth initiatives and incurred a number of one time transaction related expenses. Excluding exceptional 2017 expenses (transaction costs) of £9.6m (period ending 31 December 2016: nil) and a foreign exchange loss of £1.7m (period ended 31 Dec 2016: gain of £4.3m), operationally, the Group saw year on year growth in profit after tax. Advertising sales turnover continues to be the primary commercial focus for Shazam which experienced strong year over year growth. As at 31 December 2016, the Group had net assets of £28.8m (2016: £37.9m). This movement is largely based on transaction cost related accruals.

Research and future developments

Shazam continues to develop and improve methodology and systems for real time music identification and interaction via smart client applications on mobile phones and tablets and is looking to further develop these applications.

Principal risks and uncertainties

The management of the business and execution of the company's strategy are subject to a number of risks.

The key business risks and uncertainties affecting the company are considered to be from existing and new competitors, availability of skilled resource and the global economy. These risks are all managed and mitigated through close executive management review and line management ownership. Major issues are covered by formal company policies which are approved at board level where of sufficient materiality.

Financial risk management

The key financial risk is represented by exchange rate fluctuation, the majority of which relates to USD. This is managed through a combination of natural hedging, by matching USD income with USD expenses and foreign exchange transactions to reduce or eliminate downside risk from exchange rate movements. Following the 2016 referendum that led to Britain's decision to leave the EU, there have been significant foreign exchange movements that resulted in realised and unrealised gains of £4.3m, which have been recognised in the Consolidated Income Statement. Interest rate fluctuation does not currently significantly affect the company.

Credit risk management

Credit risk is the risk that one party to a financial instrument will cause a financial loss for that other party by failing to discharge an obligation. Group policies are aimed at minimising such losses, and require that deferred

Shazam Entertainment Limited


STRATEGIC REPORT

terms are only granted to customers who demonstrate an appropriate payment history and/or satisfy credit worthiness procedures. Shazam. Details of the Group's debtors are shown in note 13 to the financial statements.

Key performance indicators

Shazam continues to grow its user base and reached over 400 million annual active users in 2017 (2016: 300 million). Turnover, as disclosed on page 9, is the main financial KPI of the business. Given the current size and straightforward nature of the business, the company's directors are of the opinion that further analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

On behalf of the board



A Fisher
Chairman

12 July 2018

Shazam Entertainment Limited

DIRECTORS' REPORT

The directors present their report and the audited consolidated financial statements of the Shazam Entertainment Limited Group for the year ended 31 December 2017. Future developments and financial risk management are discussed within the Strategic report and are therefore not included here.

Principal activities

The principal activity of the Group and Company during the financial year was the worldwide provision of audio recognition services via mobile phone and tablets for use with music and advertising.

Results and dividends

The results for the Group show turnover for the year ended 31 December 2017 of £40.8m (period ended 31 December 2016: £40.3m) and a loss on ordinary activities before taxation of £17.7m (period ended 31 December 2016: £3.7m). Advertising sales continues to be the primary commercial focus for Shazam which experienced strong year over year growth.

The directors are unable to recommend a dividend in respect of the year ended 31 December 2017 (year ended 31 December 2016: £nil).

Directors

The following directors have held office throughout the financial year and up to the date of this report, unless otherwise stated:

A Fisher
R Riley
C Barton
N Marovac
M Murphy
L Zalaznick
R Krolik

Liability insurance

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and currently remains in place. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance of £20.0m.

Shazam Entertainment Limited

DIRECTORS' REPORT

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). 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 group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

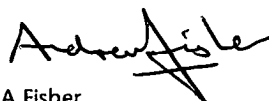
In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the group and company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group and company's auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the annual general meeting

On behalf of the board



A Fisher
Chairman

12 July 2018

Shazam Entertainment Limited

Independent auditors' report to the members of Shazam Entertainment Limited

Report on the audit of the financial statements

Opinion

In our opinion, Shazam Entertainment Limited's group financial statements and parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the consolidated and company balance sheet; the consolidated income statement and consolidated other comprehensive income; the consolidated statement of cash flows; the consolidated and company statement of changes in equity; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and parent company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial

Shazam Entertainment Limited

Independent auditors' report to the members of Shazam Entertainment Limited

statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

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 year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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

Shazam Entertainment Limited

Independent auditors' report to the members of Shazam Entertainment Limited

Other Required Reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



Brian Henderson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

12 July 2018

Shazam Entertainment Limited

Consolidated Income Statement

For the year ended 31 December 2017

	Note	Year ended 31-Dec 2017 £	Year ended 31-Dec 2016 £
TURNOVER	5	40,841,482	40,285,108
Cost of sales		(2,409,528)	(2,742,850)
Gross profit		38,431,954	37,542,258
Recurring administrative expenses		(45,652,193)	(39,856,420)
Non-recurring/exceptional expenses		(9,635,023)	-
Share based payment charge	21	(971,381)	(1,750,238)
Administrative expenses		(56,258,597)	(41,606,658)
OPERATING LOSS	6	(17,826,643)	(4,064,400)
Interest receivable and similar income	8	116,047	100,978
Interest payable and similar expenses	8	(29)	(24,081)
LOSS BEFORE TAXATION		(17,710,625)	(3,987,503)
Tax on loss	9	(27,505)	319,258
LOSS FOR THE FINANCIAL YEAR		(17,738,130)	(3,668,245)

All results derive from continuing operations.

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the Company profit and loss account. The loss for the Company for the year was £13,625,929 (year ended 31 December 2016: profit of £1,639,464).

Shazam Entertainment Limited
Statement of Other Comprehensive Income
For the year ended 31 December 2017

	Year ended 31-Dec 2017 £	Year ended 31-Dec 2016 £
LOSS FOR THE FINANCIAL YEAR	<u>(17,738,130)</u>	<u>(3,668,245)</u>
Currency translation differences	(548,535)	1,205,510
TOTAL COMPREHENSIVE EXPENSE FOR THE FINANCIAL YEAR	<u>(18,286,665)</u>	<u>(2,462,735)</u>

Shazam Entertainment Limited

Consolidated and Company Balance Sheets

As at 31 December 2017

	Note/(s)	Group		Company	
		31-Dec 2017	31-Dec 2016	31-Dec 2017	31-Dec 2016
		£	£	£	£
FIXED ASSETS					
Intangible assets	10a, 10b	6,072,771	7,070,267	465,318	-
Tangible assets	11a, 11b	720,179	1,166,567	223,749	420,076
Investments	12	-	-	14,958,146	14,935,813
		<u>6,792,950</u>	<u>8,236,834</u>	<u>15,647,213</u>	<u>15,355,889</u>
CURRENT ASSETS					
Debtors	13	15,885,775	18,149,907	90,770,516	61,771,072
Cash at bank and in hand		21,973,490	27,846,354	19,486,091	23,625,817
		<u>37,859,265</u>	<u>45,996,261</u>	<u>110,256,607</u>	<u>85,396,889</u>
CREDITORS: Amounts falling due within one year	14	(15,797,952)	(8,091,304)	(69,728,445)	(31,950,616)
NET CURRENT ASSETS		<u>22,061,313</u>	<u>37,904,957</u>	<u>40,528,162</u>	<u>53,446,273</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>28,854,263</u>	<u>46,141,791</u>	<u>56,175,375</u>	<u>68,802,162</u>
NET ASSETS		<u>28,854,263</u>	<u>46,141,791</u>	<u>56,175,375</u>	<u>68,802,162</u>
CAPITAL AND RESERVES					
Called up share capital	17	3,239,018	3,238,983	3,239,018	3,238,983
Share premium account		84,728,694	84,578,959	84,728,694	84,578,959
Other reserves		10,500,198	9,528,817	10,500,198	9,528,817
Accumulated losses		(69,613,647)	(51,204,968)	(42,292,535)	(28,544,597)
TOTAL EQUITY		<u>28,854,263</u>	<u>46,141,791</u>	<u>56,175,375</u>	<u>68,802,162</u>

The notes on pages 15 to 38 are an integral part of these financial statements. The financial statements on pages 9 to 38 were authorised for issue by the board of directors on 12 July 2018 and were signed on its behalf by:


R Riley
Director

Shazam Entertainment Limited
Registered number 3998831

Shazam Entertainment Limited

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Note	Called up share capital	Share premium account	Other reserves (note 18)	Accumulated losses	Total equity
		£	£	£	£	£
Balance as at 1 January 2016		3,238,964	84,523,143	9,073,932	(50,037,586)	46,798,453
Loss for the financial year		-	-	-	(3,668,244)	(3,668,244)
Foreign exchange translation		-	-	-	1,205,509	1,205,509
Settlement of employee share options		19	55,816	-	-	55,835
Share based payment credit	21	-	-	1,750,238	-	1,750,238
Exercised and lapsed options		-	-	(1,295,353)	1,295,353	-
Balance as at 31 December 2016 and 1 January 2017		3,238,983	84,578,959	9,528,817	(51,204,968)	46,141,791
Loss for the financial year		-	-	-	(17,738,130)	(17,738,130)
Foreign exchange translation		-	-	-	(670,549)	(670,549)
Settlement of employee share options		35	149,735	-	-	149,770
Share based payment credit	21	-	-	971,381	-	971,381
Exercised and lapsed options		-	-	-	-	-
Balance as at 31 December 2017		3,239,018	84,728,694	10,500,198	(69,613,647)	28,854,263

Shazam Entertainment Limited

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Note	Called up share capital	Share premium account	Other reserves (note 18)	Accumulated losses	Total equity
		£	£	£	£	£
Balance as at 1 January 2016		3,238,964	84,523,143	9,073,932	(34,952,091)	61,883,948
Profit for the financial year		-	-	-	1,639,464	1,639,464
Foreign exchange translation		-	-	-	3,472,677	3,472,677
Settlement of employee share options		19	55,816	-	-	55,835
Share based payment credit	21	-	-	1,750,238	-	1,750,238
Exercised and lapsed options		-	-	(1,295,353)	1,295,353	-
Balance as at 31 December 2016 and 1 January 2017		3,238,983	84,578,959	9,528,817	(28,544,597)	68,802,162
Loss for the financial year		-	-	-	(13,625,929)	(13,625,929)
Foreign exchange translation		-	-	-	(122,009)	(122,009)
Settlement of employee share options		35	149,735	-	-	149,770
Share based payment credit	21	-	-	971,381	-	971,381
Exercised and lapsed options		-	-	-	-	-
Balance as at 31 December 2017		3,239,018	84,728,694	10,500,198	(42,292,535)	56,175,375

Shazam Entertainment Limited

CONSOLIDATED STATEMENT OF CASHFLOWS

For the year ended 31 December 2017

	Note	Year ended 31-Dec 2017 £	Year ended 31-Dec 2016 £
Net cash used in operating activities	19	(4,838,598)	(1,042,818)
Taxation (paid)/received		(27,505)	319,258
Net cash used in operating activities		(4,866,103)	(723,560)
Cash flow from investing activities			
Purchase of tangible fixed assets		(185,063)	(283,591)
Interest received		116,047	100,978
Net cash used in investing activities		(69,016)	(182,613)
Cash flow from financing activities			
Proceeds from issue of share capital (net of costs of issue)		149,770	55,835
Interest paid		(29)	(24,081)
Net cash generated from financing activities		149,741	31,754
Net (decrease) in cash and cash equivalents		(4,785,378)	(874,419)
Cash and cash equivalents at the beginning of the year		27,846,354	27,639,829
Exchange (losses)/gains on cash and cash equivalents		(1,087,486)	1,080,944
Cash and cash equivalents at the end of the year		21,973,490	27,846,354
Cash and cash equivalents consists of:			
Cash at bank and in hand		21,973,490	27,846,354
Cash and cash equivalents		21,973,490	27,846,354

Shazam Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL INFORMATION

Shazam Entertainment Limited and its subsidiaries (together "the Group") provide audio and visual recognition services via mobile phone and tablets for use with music and brand advertising. The company is a private company limited by shares and is incorporated and domiciled in England. The address of its registered office is 26-28 Hammersmith Grove, London W6 7HA.

2. STATEMENT OF COMPLIANCE

The Group and individual financial statements of Shazam Entertainment Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The company has adopted FRS 102 in these financial statements.

Basis of preparation

These consolidated and separate financial statements are prepared on a going concern basis, under the historical convention. The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group and company accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

The company has taken advantage of the exemption in section 408 of the Companies Act from disclosing its individual profit and loss account.

Going concern

The Group meets its day-to-day working capital requirements through its cash on hand. The Group's forecasts and projections show that the Group should be able to operate within the level of its current facilities. After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its financial statements.

Exemptions for qualifying entities under FRS102

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of, and no objection to, the use of exemptions by the Company's shareholders.

The Company has taken advantage of the following exemptions:

- From preparing a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flows, included in these financial statements, includes the Company's cash flows;
- From the financial instruments disclosures, required under FRS 102 paragraphs 11.39 to 11.48A and paragraphs 12.26 to 12.29, as the information is provided in the consolidated financial statement disclosures;

Shazam Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Exemptions for qualifying entities under FRS102

- From disclosing share based payment arrangements, required under FRS 102 paragraphs 26.18(c), 26.19 to 26.21 and 26.23, concerning its own equity instruments. The Company financial statements are presented with the consolidated financial statements and the relevant disclosures are included therein;

Basis of consolidation

The Group consolidated financial statements include the financial statements of the company and all of its subsidiary undertakings made up to 31 December 2017.

A subsidiary is an entity controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Where the Group owns less than 50% of the voting powers of an entity but controls the entity by virtue of an agreement with other investors which give it control of the financial and operating policies of the entity it accounts for that entity as a subsidiary.

Where a subsidiary has different accounting policies to the Group, adjustments are made to those subsidiary financial statements to apply the Group's accounting policies when preparing the consolidated financial statements.

Any subsidiary undertakings or associates sold or acquired during the year are included up to, or from, the dates of change of control or change of significant influence respectively.

Where control of a subsidiary is lost, the gain or loss is recognised in the consolidated income statement. The cumulative amounts of any exchange differences on translation, recognised in equity, are not included in the gain or loss on disposal and are transferred to retained earnings. The gain or loss also includes amounts included in other comprehensive income that are required to be reclassified to profit or loss but excludes those amounts that are not required to be reclassified.

Where the Group has established employee benefit trusts ("EBT") and is the sponsoring entity, notwithstanding the legal duties of the trustees, the Group considers that it has "de facto" control of such entities. Such arrangements are accounted for as assets and liabilities of the sponsoring company and included in the consolidated financial statements as appropriate. The Company's equity instruments held by the EBT are accounted for as if they were the Company's own equity and are treated as treasury shares. No gain or loss is recognised in profit or loss or other comprehensive income on the purchase, sale or cancellation of the Company's own equity held by the EBT.

All intra-Group transaction, balances, income and expenses are eliminated on consolidation.

The parent company has taken the exemption available under section 408 of the Companies Act 2006 and does not present a parent company income statement.

Foreign currency

The Group financial statements are presented in pound sterling and are rounded to the nearest pound.

The Company's functional and presentation currency is pound sterling.

Shazam Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Foreign currency

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions. At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

The trading results of Group undertakings are translated into sterling at the closing exchange rates for the year. The assets and liabilities of overseas undertakings, including goodwill and fair value adjustments arising on acquisition, are translated at the exchange rates ruling at the year end. Exchange adjustments arising from the retranslation of opening net investments and from the translation of the profits or losses at average rates are recognised in Other Comprehensive Income and allocated to non-controlling interests as appropriate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for services rendered, net of discounts and rebates allowed by the Group and value added taxes.

The Group recognises revenue when a) the amount of revenue can be measured reliably; b) it is probable that future economic benefits will flow to the entity and c) when the specific criteria related to each of the Group's sales channels have been met, as described below.

- (a) Usage income from audio recognition services carried out in a period. Some agreements allow for advance payment of such fees and revenue is spread accordingly. Minimum period guarantees apply in some instances and revenue is spread over the explicit periods.
- (b) Exclusivity fees and fees for recurring contractual rights, relating to music recognition services. Some agreements allow for one-off upfront exclusivity fees in which case revenue is recognised at the point the contract starts. Upfront fees for recurring contractual rights are spread over the appropriate period.
- (c) Implementation and development income is recognised over the period from the delivery of the software to the point at which there are no significant vendor obligations remaining.
- (d) Maintenance fees and recurring licence fees are spread over the contract period.
- (e) Advertising income is recognised evenly over a defined period in accordance with the contractual terms entered into.
- (f) All other income, including subscription & affiliate fees, is fully recognised in the period to which it relates.

Employee benefits

The Group provides a range of benefits to employees, including annual bonus or quarterly commission arrangements, paid holiday arrangements and defined contribution pension plans.

Shazam Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Employee benefits

Defined contribution pension plans

The Group operates a number of country-specific defined contribution plans for its employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Once the contributions have been paid the Group has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the plan are held separately from the Group in independently administered funds.

Annual bonus plan and quarterly commission plan

The Group operates a number of annual bonus and quarterly commission plans for employees. An expense is recognised in the income statement when the Group has a legal or constructive obligation to make payments under the plans as a result of past events and a reliable estimate of the obligation can be made.

Share-based payments

The Group provides share-based payment arrangements employees.

In prior years, the Group accounted for the share based payment charge as equity-settled arrangements and were measured at fair value (excluding the effect on non-market based vesting conditions) at the date of grant. The fair value was expensed over the vesting period. The amount recognised as an expense was adjusted to reflect the actual number of options that would vest.

In December 2017, the Shazam Board changed the employee share scheme to cash settled arrangements. Cash settled share options are measured at fair value at the balance sheet date. The Group recognises a liability at the balance sheet date based on these fair values, taking into account the estimated number of options that will actually vest and the current proportion of the vesting period. Changes in the value of this liability are recognised in the income statement.

Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively. Current or deferred taxation assets and liabilities are not discounted.

Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Shazam Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Taxation

Deferred tax

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated, using the straight-line method, to allocate the depreciable amount of the assets to their residual values over their estimated useful lives as follows:

Intellectual property	5 to 10 years
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Amortisation is charged to Administrative expenses in the profit and loss account. Where factors, such as technological advancement or changes in market price, indicate that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances. The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

Tangible assets

Tangible assets are stated at cost (or deemed cost) less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bring the asset to its working condition for its intended use, dismantling and restoration costs.

Depreciation on assets is calculated, using the straight-line method, to allocate the depreciable amount to their residual values over their estimated useful lives as follows:

Fixtures, fittings and equipment	5 years
General hardware	3 years
Computer equipment	2 years

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in the profit and loss account.

Leased assets

At inception the Group assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

Operating leased assets

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

Incentives received to enter into an operating lease are credited to the profit and loss account, to reduce the lease expense, on a straight-line basis over the period of the lease.

Shazam Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments – Company

Investment in subsidiary undertakings are held at cost less accumulated impairment losses.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

Provisions and contingencies

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past event; it is probably that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in provision due to passage of time is recognised as a finance cost.

Contingencies

Contingent liabilities are not recognised, except those acquired in a business combination. Contingent liabilities arise as a result of past events when a) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or b) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Group's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

Financial instruments

Financial assets

Basic financial assets, including trade and other receivables, cash and bank balances and investments in commercial paper, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method. At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease to the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not been previously recognised. The impairment reversal is recognised in profit or loss.

Shazam Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

Financial assets

Financial assets are derecognised when a) the contractual rights to the cash flows from the asset expire or are settled, or b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or c) despite having retained some significant risk and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Financial liabilities

Basic financial liabilities, including trade and other payables, bank loans, loans from fellow Group companies and preference shares that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Related party transactions

The Group discloses transactions with related parties which are not wholly owned within the same Group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the directors, separate disclosure is necessary to understand the effect of the transactions on the Group financial statements.

Shazam Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTY

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

5 TURNOVER

A breakdown of sales by geographical markets has not been disclosed since in the opinion of the directors, this information would be seriously prejudicial to the interests of the company.

Shazam Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

6 Operating Loss

	Group	
	Year ended	Year ended
	31-Dec	31-Dec
	2017	2016
	£	£
Operating loss is stated after charging/(crediting):		
Wages and salaries	22,682,759	21,794,827
Social security costs	1,915,993	1,831,272
Other pension costs	415,298	410,216
Share based payments	971,381	1,750,238
Total staff costs	25,985,431	25,786,553
Profit on disposal of tangible assets	(8,496)	(25,514)
(Gain)/loss on Impairment of trade receivables	(95,068)	651,293
Depreciation of tangible assets	576,516	629,645
Amortisation of intangible assets	1,469,368	1,462,814
Operating lease charges	2,476,105	2,315,275
Foreign exchange losses/(gains)	1,720,130	(4,322,285)
Fees payable to Company's auditors and their associates for the audit of parent Company, subsidiary entities and the Group's consolidated financial statements	63,280	52,500
Fees payable to the company's auditors and their associates for other services:		
- Tax compliance services	96,116	82,605
- Non audit services	532,893	64,900
Total amount payable to the Company's auditors and their associates	692,289	200,005

Non recurring/exceptional costs of £9.6m, relating to transaction costs, have been recognised in the income statement in the period ending 31 December 2017 (period ending 31 December 2016: nil). See note 24 for more details.

Shazam Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

7 Employees and Directors

	Year ended 31-Dec 2017	Year ended 31-Dec 2016
	No.	No.
Employees		
The average monthly number of persons (including executive directors) employed by the Group during the year was:		
Management and administration	<u>225</u>	<u>221</u>
Directors	£	£
The directors' emoluments were as follows:		
Aggregate emoluments	964,616	1,014,364
Sums paid to third parties for directors' services	20,000	20,000
	Year ended 31-Dec 2017 £	Year ended 31-Dec 2016 £
Highest paid director		
The highest paid director's emoluments were as follows:		
Emoluments and benefits under long-term incentive schemes	595,038	585,830
Contributions to defined contribution pension scheme	<u>4,092</u>	<u>4,072</u>
	<u>599,130</u>	<u>589,902</u>
Key management compensation		
Key management includes the directors and members of senior management. The compensation paid or payable to key management for employee services is as follows:		
Aggregate emoluments	<u>2,057,067</u>	<u>1,940,459</u>

Shazam Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

8 Interest

	Year ended 31-Dec 2017 £	Year ended 31-Dec 2016 £
INTEREST RECEIVABLE AND SIMILAR INCOME		
Bank interest received	116,047	100,978
INTEREST PAYABLE AND SIMILAR EXPENSES		
Loan interest paid	(29)	(24,081)

Shazam Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

9 TAX ON LOSS ON ORDINARY ACTIVITIES

	Year ended 31-Dec 2017 £	Year ended 31-Dec 2016 £
Tax expense included in profit or loss		
Current tax:		
UK corporation tax on results of the year	-	-
Foreign tax	101,860	(319,258)
R&D tax credit payment	(74,355)	-
Total current tax	27,505	(319,258)
	Year ended 31-Dec 2017 £	Year ended 31-Dec 2016 £
Loss before taxation	(17,710,625)	(3,987,503)
Loss multiplied by standard rate of corporation tax in the UK of 19.25% (year ended 31 December 2016: 20%)	(3,409,295)	(797,501)
Effects of:		
Expenses not deductible for tax purposes	249,214	421,762
Tax loss not utilised	3,049,102	346,652
Capital allowances less than depreciation and other timing differences	110,979	21,142
Foreign tax deduction claimed	-	7,945
Foreign tax suffered	101,860	(319,258)
R&D tax credit payment	(74,355)	-
Tax on loss	27,505	(319,258)

The group has trading losses of approximately £31m (year ended 31 December 2016: £30m) which, subject to agreement with HM Revenue and Customs, are available to carry forward and offset future profits of the same trade.

A deferred tax asset of £5.3m (year ended 31 December 2016: £4.7m) has not been recognised in the financial statements in respect of these losses as there is insufficient certainty as to the timing of future profits available to offset them.

Tax rate changes

In 2015, the Government announced a reduction in the CT rate from 20% to 19% for the Financial Years beginning 1 April 2017, 1 April 2018 and 1 April 2019 with a further reduction from 19% to 18% for the Financial Year beginning 1 April 2020. A further 1% reduction for the Financial Year 2020 was subsequently announced. The deferred tax balances at 31 December 2017 are measured at the revised rate of 17% (31 December 2016: 17%).

Shazam Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

10a INTANGIBLE ASSETS – GROUP	Intellectual Property Rights £
Cost	
At 1 January 2017	14,890,985
Additions	471,872
At 31 December 2017	15,362,857
Accumulated amortisation	
At 1 January 2017	7,820,718
Charged in the year	1,469,368
At 31 December 2017	9,290,086
Net book value	
At 31 December 2017	6,072,771
At 31 December 2016	7,070,267

On 21 November 2011, the group purchased certain core intellectual property rights from Broadcasting Monitoring Inc, a company based in the USA. This asset is amortised on a straight-line basis over a period of ten years, which represents the directors' best estimate of the asset's useful economic life. During 2017 Shazam acquired two patents for a total of £471,872. They are being amortised over their useful life of 6 years.

10b INTANGIBLE ASSETS – COMPANY	Intellectual Property Rights £
Cost	
At 1 January 2017	262,846
Additions	471,872
At 31 December 2017	734,718
Accumulated amortisation	
At 1 January 2017	262,846
Charged in the year	6,554
At 31 December 2017	269,400
Net book value	
At 31 December 2017	465,318
At 31 December 2016	-

Shazam Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

11 a TANGIBLE ASSETS - GROUP	Fixtures, fittings and equipment	General hardware	Computer equipment	Total
	£	£	£	£
Cost				
At 1 January 2017	2,537,807	3,163,265	595,420	6,296,492
Additions	30,714	31,818	122,531	185,063
Disposals	-	-	(66,324)	(66,324)
Foreign exchange translation	(98,499)	(27,782)	(27,502)	(153,783)
At 31 December 2017	2,470,022	3,167,301	624,125	6,261,448
Accumulated depreciation				
At 1 January 2017	1,643,676	3,014,033	472,216	5,129,925
Charged in the year	356,377	93,726	126,413	576,516
Disposals	-	-	(65,891)	(65,891)
Foreign exchange translation	(52,232)	(22,121)	(24,928)	(99,281)
At 31 December 2017	1,947,821	3,085,638	507,810	5,541,269
Net book value				
At 31 December 2017	522,201	81,663	116,315	720,179
At 31 December 2016	894,131	149,232	123,204	1,166,567

11 b TANGIBLE ASSETS - COMPANY	Fixtures, fittings and equipment	General hardware	Computer equipment	Total
	£	£	£	£
Cost				
At 1 January 2017	1,431,961	2,851,065	277,658	4,560,684
Additions	3,207	13,607	46,318	63,132
Disposals	-	-	(26,650)	(26,650)
At 31 December 2017	1,435,168	2,864,672	297,326	4,597,166
Accumulated depreciation				
At 1 January 2017	1,144,434	2,785,298	210,876	4,140,608
Charged in the year	146,451	48,939	63,635	259,025
Disposals	-	-	(26,216)	(26,216)
At 31 December 2017	1,290,885	2,834,237	248,295	4,373,417
Net book value				
At 31 December 2017	144,283	30,435	49,031	223,749
At 31 December 2016	287,527	65,767	66,782	420,076

Shazam Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

12 Investments

	Company £
Shares in group undertakings	
At 1 January 2017	14,935,813
Additions	22,334
Impairment	(1)
	<hr/>
At 31 December 2017	14,958,146
	<hr/> <hr/>

In February 2017, Shazam incorporated a new entity in Germany. An investment of £22,334 was made in the share capital of the entity.

In December 2017, Shazam Entertainment Limited impaired a £1 investment held in Shazam Entertainment Trustees Ltd, to nil. It is intended to strike this company off in 2018.

In the opinion of the directors the aggregate value of the company's investment in subsidiary undertakings is not less than the amount included in the balance sheet.

The company holds the share capital of the following companies:

Company	Country of registration or incorporation	Shares held	
		Class	%
Shazam Media Services Inc (trading)	USA	Ordinary	100
Shazam Media Services (Australia) Pty Ltd (trading)	Australia	Ordinary	100
Shazam Entertainment Trustees Limited (Impaired to nil in Dec 2017)	UK	Ordinary	100
Shazam Investments Limited I Intellectual Property holding company)	UK	Ordinary	100
Shazam Media Services Gmbh(trading)	Germany	Ordinary	100

Shazam Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

13 DEBTORS

	Group		Company	
	31-Dec 2017	31-Dec 2016	31-Dec 2017	31-Dec 2016
	£	£	£	£
Due within one year:				
Trade debtors	7,364,857	7,698,245	4,279,016	4,026,769
Amounts owed by group undertakings	-	-	79,139,033	48,306,220
Other debtors	587,036	692,202	5,622	12,444
Prepayments and accrued income	4,049,512	4,680,237	3,462,475	4,345,577
Amounts owed by group undertakings (see note 22)	3,884,370	-	3,884,370	-
Due after more than one year:				
Amounts owed by group undertakings (see note 22)	-	5,079,223	-	5,080,062
	<u>15,885,775</u>	<u>18,149,907</u>	<u>90,770,516</u>	<u>61,771,072</u>

Trade debtors are stated after provisions for impairment of £951,815 (2016: £1,171,487).

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Shazam Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

14 Creditors: Amounts falling due within one year

	Group		Company	
	31-Dec	31-Dec	31-Dec	31-Dec
	2017	2016	2017	2016
	£	£	£	£
Trade creditors	1,013,005	1,320,618	701,379	1,156,768
Amounts owed to group undertakings	-	-	57,005,118	26,646,857
Other creditors	247	33,571	-	63,668
Other taxation and social security	617,053	609,529	559,443	518,296
Accruals and deferred income	14,167,647	6,127,586	11,462,505	3,565,027
	<u>15,797,952</u>	<u>8,091,304</u>	<u>69,728,445</u>	<u>31,950,616</u>

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

15 POST EMPLOYMENT BENEFITS

Defined contribution scheme

The Group operates a number of country-specific defined contribution plans for its employees. The amount recognised as an expense for the defined contribution schemes was £415,298 (2016: £410,216).

Shazam Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

16 FINANCIAL INSTRUMENTS

	Year ended 31-Dec 2017 £	Year ended 31-Dec 2016 £
Group		
The Group has the following financial instruments:		
Financial assets that are debt instruments measured at amortised cost		
- Trade receivables	7,364,857	7,698,245
- Other receivables	587,036	692,202
	<u>7,951,893</u>	<u>8,390,447</u>
Financial liabilities measured at amortised cost		
- Trade creditors	(1,013,005)	(1,320,618)
- Accruals and deferred income	(14,167,647)	(6,127,586)
- Other creditors	(247)	(33,571)
	<u>(15,180,899)</u>	<u>(7,481,775)</u>
Company		
The Company has the following financial instruments:		
Financial assets that are debt instruments measured at amortised cost		
- Trade receivables	4,279,016	4,026,769
- Other receivables	5,622	12,444
- Amounts owed by group undertakings	79,139,033	48,306,220
- Investment in subsidiaries	14,958,146	14,935,813
	<u>98,381,817</u>	<u>67,281,246</u>
Financial liabilities measured at amortised cost		
- Trade creditors	(701,379)	(1,156,768)
- Amounts owed to group undertakings	(57,005,118)	(26,646,857)
- Accruals and deferred income	(11,462,505)	(3,565,027)
- Other creditors	-	(63,668)
	<u>(69,169,002)</u>	<u>(31,432,320)</u>

Shazam Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

17 Called up share capital

	Group & Company	
	31-Dec	31-Dec
	2017	2016
	£	£
Allotted, issued and fully paid:		
926,577,235 (31 December 2016: 917,845,484) ordinary shares of £0.000004 each	3,707	3,671
12,665,394 (31 December 2016: 12,665,394) Preferred "A" shares of £0.20 each	2,533,079	2,533,079
46,977,819 (31 December 2016: 46,977,819) Preferred "B" shares of £0.01 each	469,778	469,778
884,388,863 (31 December 2016: 884,388,863) Preferred "C" shares of £0.0001 each	88,439	88,439
231,324,405 (31 December 2016: 231,324,405) Preferred "C1" shares of £0.0001 each	23,132	23,132
465,117,290 (31 December 2016: 465,117,290) Preferred "C2" shares of £0.000001 each	465	465
171,026,077 (31 December 2016: 171,026,077) Preferred "C3" shares of £0.000004 each	684	684
167,827,889 (31 December 2016: 167,827,889) Preferred "C4" shares of £0.000004 each	671	671
163,109,106 (31 December 2016: 163,109,106) Preferred "C5" shares of £0.000004 each	652	652
140,000,000 (31 December 2016: 140,000,000) Founder shares of £0.000004 each	560	560
1,178,506,981,040,000 (31 December 2016: 1,178,506,981,040,000) Deferred shares of £0.0000000001 each	117,851	117,851
	3,239,018	3,238,983

During the year 8,731,751 (2016: 4,971,949) ordinary shares were issued for cash. The nominal value of these shares was £35 (2016: £19).

All shares rank pari passu except:

- The Preferred "A" shares, Preferred "B" shares, Preferred "C" shares, Preferred "C1" shares, Preferred "C2" shares, Preferred "C5" shares and Founders Shares can all be converted into Ordinary shares based on various ratios and conditions as indicated in the company's Articles.
- The Preferred "A" shares, Preferred "B" shares, Preferred "C", Preferred "C1" shares, Preferred "C2" share, Preferred "C3", Preferred "C4" and Preferred "C5" shares are entitled to dividends declared in relation to the Ordinary shares.
- The Founder Shares and Deferred shares have no voting or dividend rights. The Deferred shares have no participation rights.
- The Company has the right to repurchase all holdings of Deferred shares at £0.01.

Shazam Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

18 Other Reserves

Group and Company	Capital redemption reserve £	Share based payment reserve £	Warrant reserve £	Total £
Balance as at 1 January 2017	2,065,516	7,422,214	41,087	9,528,817
Share based payment charge	-	971,381	-	971,381
Exercised and lapsed options	-	-	-	-
Balance as at 31 December 2017	<u>2,065,516</u>	<u>8,393,595</u>	<u>41,087</u>	<u>10,500,198</u>

Warrant reserve

There are 8,217,290 (year ended 31 December 2016: 8,217,290) warrants in issue that can be exercised over Preferred "C1" shares at an exercise price of £0.013971, and 2,669,479 warrants in issue that can be exercised over ordinary shares at an exercise price of \$0.149847 (year ended 31 December 2016: 2,669,479).

Shazam Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

19 NOTES TO THE CASHFLOW STATEMENT

	Year ended 31-Dec 2017 £	Year ended 31-Dec 2016 £
Operating loss for the financial year	(17,826,643)	(4,064,400)
Adjustments for:		
Depreciation of tangible fixed assets	576,516	629,645
Amortisation of intangible assets	1,469,368	1,462,814
Decrease/(Increase) in debtors	2,264,132	(2,458,956)
Increase in creditors	7,706,648	1,637,841
Share based payment charge	971,381	1,750,238
Net cash outflow from operating activities	(4,838,598)	(1,042,818)

Analysis of changes in net debt

	1 January 2017 £	Cash flow £	Exchange movements £	31 December 2017 £
Cash at bank and in hand	27,846,354	(4,785,378)	(1,087,486)	21,973,490
Net funds	27,846,354	(4,785,378)	(1,087,486)	21,973,490

20 COMMITMENTS UNDER OPERATING LEASES

At 31 December 2017 and 31 December 2016 the Group had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2017 £	2016 £
Payments due:		
Not later than one year	1,609,947	2,069,811
Later than one year and not later than five years	1,376,836	3,109,504
Later than five years	-	54,997
	2,986,783	5,234,312

The Group had no other off-balance sheet arrangements.

Shazam Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

21 SHARE BASED PAYMENTS

Restricted stock share scheme

The company operates a restricted stock share scheme. Selected employees and non executive directors of the Company have been offered the rights to purchase restricted shares in the Company.

Restrictions include a three to four year vesting period, continuous employment or appointment and an uncertain future exit event. There are no performance criteria for the stock vesting. The restricted stock vests evenly over the three to four year period with a one year cliff (unless a release event occurs).

No restricted stock shares were issued during the financial year.

The fair value of the cost to the company has been calculated by taking into account the price offered from investors at the previous funding rounds together with the historic and future expected performance of the company. The company charges this cost over the vesting life of the related stock instruments.

Restricted stock units activity

The following table summarises activity for restricted stock units during the financial year:

	Shares	Weighted average exercise price £
Outstanding at beginning of the year	104,401,715	£0.000435
Exercised	<u>(104,401,715)</u>	£0.000435
Outstanding at the end of the year	<u>(0)</u>	£0.000435

Of the restricted stock units outstanding at the end of the year all had vested (2016: 95,656,938).

Shazam Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

21. SHARE BASED PAYMENTS

Share options scheme

The company has established an Enterprise Management Incentive Scheme ("EMI") and an Unapproved Share Option Scheme ("Unapproved"). Generally, options vest over a forty eight month period, with a one year cliff, and expire on the tenth anniversary from date of grant, although the vesting period can be varied at the discretion of the Directors. All options granted prior to 1 April 2013 have a fixed exercise price of £0.000004; those granted between 1 April 2013 and 28 February 2014 have a fixed exercise price of £0.02/\$0.03; those granted between 28 February 2014 and 31 January 2015 previously had a fixed exercise price of £0.04/\$0.07, they were repriced to £0.028/\$0.04 via a Board resolution in 2016; those granted after 31 January 2015 have a fixed exercise price of £0.056/\$0.084 they were repriced to £0.028/\$0.04 via a Board resolution in 2016. One executive has been granted options with a fixed exercise price of £0.106. All grants during the 2017 financial year have an exercise price of £0.024/\$0.030 The company grants shares throughout the year on an ad-hoc basis. All options granted become exercisable on vesting subject to the employee remaining in employment.

In December 2017, the Shazam Board changed the employee share scheme to cash settled arrangements. Cash settled share options are measured at fair value at the balance sheet date. The Group recognises a liability at the balance sheet date based on these fair values, taking into account the estimated number of options that will actually vest and the current proportion of the vesting period. Changes in the value of this liability are recognised in the income statement.

The impact of recognising the fair value of the share options under the 'EMI' and 'Unapproved' schemes as an expense under FRS102 is £971,381 (2016: £1750,238).

Share options activity

The following table summarises activity for share options during the financial year:

Share options activity

	Shares	Weighted average exercise price £
Outstanding at beginning of the year	377,897,897	£0.035785
Granted	142,575,321	£0.028000
Exercised	(3,762,566)	£0.018877
Lapsed	(17,672,433)	£0.026851
Outstanding at the end of the year	<u>499,038,219</u>	£0.034005

22 RELATED-PARTY TRANSACTIONS

In 2014, funds were extended to Broadcast Music Inc, an entity which holds an investment in the company. This loan is denominated in USD, bears no interest and is recoverable upon the sale of BMI's interest in the company. The closing balance sheet position for the company was £3,884,370 (2016: Due after than one year: £5,079,233) (see note 13) which is deemed to be current given management's expectation of this event.

There are no other related party transactions in the year

Shazam Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

23 CONTROLLING PARTY

The Company is owned by a number of private shareholders and companies, none of whom own more than 20% of the issued share capital of the Company. Accordingly, there is no parent entity nor ultimate controlling party.

24 NON ADJUSTING POST BALANCE SHEET EVENT

On 10 December 2017, certain shareholders of the Company entered into conditional agreements to sell their shares in Shazam Entertainment Limited to Apple Operations Europe Limited ('Apple'). On satisfaction of the conditions in these agreements, Apple are to acquire the entire issued share capital of Shazam. Satisfaction of the conditions has been delayed by a Phase II competition investigation into the acquisition by the European Commission and, as at the date of signing of these accounts, such conditions have yet to be satisfied in their entirety.