26 September 2017

7digital Group plc

(“7digital”, “the Group” or “the Company”)

Interim results for the half year ended 30 June 2017

7digital Group plc (AIM: 7DIG), the global leader in end-to-end digital music solutions, today announces its interim results for the half year ended 30 June 2017 (“H1”).

Highlights

- Strong sales momentum into the second half of the year
  - Total revenues up 17% on a pre currency movement basis and 9% on adjusted basis to £5.9m (H1 2016: £5.4m)
  - Licensing revenues up 33% to £4.0m (H1 2016: £3.0m)
  - MRR up 38% to £3.2m (H1 2016: £2.3m)
  - LBITDA reduced by 36% to £1.7m (H1 2016: £2.6m)

- Benefits from the acquisition of 24-7 Entertainment (“24-7”), effective from 1 June 2017, starting to come through with additional revenue of £530k in June as a result of the acquisition

- MediaMarktSaturn (“MMS”), Europe’s biggest electronics and entertainment retailer, becomes the Company’s largest shareholder following the acquisition of 24-7 Entertainment

- Contracts signed with MMS as part of the transaction with a value of £18.0m over three years

- Total combined value of other one/two year contracts signed in the period of £4.0m. These included contracts with all three major record labels, the re-launch of TriPlay's eMusic service in the US and a renewed contract with musical.ly across additional territories, with revenue to be recognised over the next year

- More than 65% of H2 licensing revenues (£7.5m out of £11.3m) already contracted or committed

- £2.9m raised through a placing and open offer in March 2017 which allowed the Company to broaden its shareholder base

- 7digital’s strategic decision to move into higher quality streaming or “Hi-Res” gains significant momentum:
  - Hi-Res files outsold traditional MP3 files in the Company’s download stores in every month of this period
  - The MQA format and technology, adopted 18 months ago by 7digital, gains significant traction and is endorsed by major and independent labels

- Creative revenues grew 17% on the same period in 2016 to £1.0m (H1 2016: £0.8m) with the division bringing an increasing number of synergistic benefits to our licensing and B2B operations

- Statutory loss for the period was £3.0m (H1 2016: statutory loss of £3.2m)

- Cash at period end of £0.9m ahead of pre-payments from MediaMarktSaturn in August and October

- The Board remains confident in its 2017 expectations and that 2018 will be a year of profitability and positive operating cash flow as the full benefits of 24-7 Entertainment are realised

Post Period End Highlights

- Several key contracts signed in Q3. Today, 7digital announces that it has signed a deal with Fender®, one of the world’s leading musical instrument companies, to provide technology and access to its music and metadata platform

Simon Cole, Chief Executive of 7digital, said:

“These results show clearly, after just one month, how transformational the acquisition of 24-7 and, with it, the relationship with MediaMarktSaturn will be for the Group. Our work to create a suite of new digital services for Europe’s biggest entertainment and electronics retailer has begun and will gain momentum in the second half and into 2018.

Our licensing revenues continue to see the results of the global growth in music streaming and, more particularly, the development of services in new markets and with new business models. In-flight entertainment, with our first client Global Eagle and today’s news of our new contract with Fender are just two examples.

We have always believed that the mature music streaming market will be about much more than “all you can eat” services for a fixed subscription. 7digital’s business is in providing the tools and the platform on which our customers build the myriad of ways in which people will consume digital music in the future.

Our healthy first half performance has continued into the second half of the year, our pipeline is strong and the Board is confident in meeting full year expectations for 2017 and seeing the full benefits of consolidation realised in 2018 and beyond.”

The information communicated in this announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) No. 596/2014.

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7digital Group plc

Chief Executive's Review

7digital is a global leader in end-to-end digital music solutions. 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. 7digital also offers radio production and music curation services, editorial strategy and content management expertise.

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

- Increasing the number and quality of customers we serve
- Consolidating our sector to bring the benefits of scale to a fixed cost base
- Improving the quality and predictability of our earnings by driving growth in recurring revenues
- Expanding our geographic coverage
- Continued investment in market leading technology to meet shifting technology trends and customer needs
- Maintaining strict control of our cost base to ensure that revenue growth is quickly reflected in improved overall Group profitability

Summary

The first half of 2017 was a period of further solid progress for 7digital.

The most important event in the period was the successful acquisition in June of our only remaining significant European competitor, 24-7 Entertainment ("24-7") (the "Acquisition"), and, with it, the contract to supply its owner, MediaMarktSaturn, Europe's biggest electronics and entertainment retailer with our music services.

Our strategy over the last two years has been to consolidate the sector and create a business with scale which can benefit from a fixed cost base. Having acquired, last year, the Snowite business in France, the acquisition of 24-7 consolidates our position as the largest provider of B2B music services and is anticipated to increase 7digital licensing revenue in 2017 by approximately £5.0m, the majority of which will be recognised in H2 this year, and more than £8.0m in FY2018. The Acquisition is expected to be materially earnings enhancing in 2018 as the benefits of the economies of scale take hold.

Although the Acquisition was only concluded four weeks before the period end, its influence on our financial performance can already be seen in these results with an additional £530k of revenues in June as a direct result of the acquisition. Total Group turnover in the first half increased 9% to £5.9m (H1 2016: £5.4m) and by 17% on a pre currency movement basis to £6.1m (H1 2016: £5.2m). Within this, total licensing revenues rose by 33% to £4.0m (H1 2016: £3.0m). We have continued to improve the quality and mix of our revenues, with total monthly recurring revenues ("MRR") rising by 38% against the same period in 2016, giving a raised Gross Margin at 71%.

Improving sales momentum during the period saw the annualised total licensing exit MRR rise by 113% and annualised streaming exit MRR rise by 180% compared with June 2016.

We continue to focus on our cost base which was reduced by 3% to £6.2m (H1 2016: £6.4m) on the same period last year. Costs are expected to rise for a period during the second half of the year as we integrate the 24-7 business but these are expected to fall again in 2018 and as a result lead to higher profitability.

The Group continues to benefit from global acceleration of music streaming as an increasing number of clients use our platform to build new digital music services. The wirelessly connected world is rapidly bringing the capability of streamed music to a wide variety of new devices including home hi-fi, car dashboards and even aeroplanes. 7digital has customers providing services in all of these areas.

The BPI, the leading British music industry association, reported recently on the rise in audio streaming, which increased by approximately 604% worldwide in 2016 and is expected to overtake sales of physical music in the UK for the first time ever in 2017. Geoff Taylor, Chief Executive, BPI & BRIT Awards, said: "the global digital streaming market represents a huge new opportunity."

We also continue to be well placed to take advantage of the increasing momentum around higher quality or "Hi-Res" music streaming, thanks to our partnership with MQA. With MQA securing major and significant independent label support for its technology in 2017, we are seeing the growing demand for Hi-Res audio have an increasingly positive impact on all divisions of our business.

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 33% to £4.0m (H1 2016: £3.0m) with total June licensing revenues of £1.4m following the acquisition of 24-7 Entertainment.

Annualised exit MRR, which includes streaming and other platform licensing revenues, for June 2017 grew to £11.5m, an increase of 113% against June 2016 (£5.4m). Licensing fees included £0.8m (H1 2016: £0.7m) of initial set up fees paid by new customers, who we would expect to contribute to increasing MRR in H2 2017.

The successful acquisition of 24-7 Entertainment ("24-7) resulted in its previous owner, MediaMarktSaturn ("MMS"), Europe's biggest electronics and entertainment retailer, becoming one of our largest customers and shareholders. We are supporting MMS on a range of new and existing services, including a three-year contract for existing "Juke" music services in Germany and the Netherlands totalling £11.0m. A new contract to the value of £6.0m over its lifetime, including an initial set up fee of £1.4m, has also been agreed with MMS to develop several new digital music services. 24-7 has other significant customers which together account for anticipated annual revenues of £2.7m; one of these customers is Danish telecom operator TDC and 7digital now provides its 'Play Music' service, used by approximately 8% of the Danish population.

We are also seeing revenue growth in all of our major sales verticals as the streaming music industry expands:

In hardware, the Group signed a deal with an initial term of 3 years to power a subscription streaming service on the innovative "Prizm" smart audio player (www.meetprizm.com), now available in France with further territories to follow, which selects music according to the moods and tastes of the people in the room. We have also been working with Onkyo, the Japanese consumer electronics manufacturer, to redesign their music stores and load MQA content, and with DTS, a pioneer in audio solutions for automotive, mobile devices, home theatre systems and cinema, to develop new high-resolution audio solution prototypes for the automotive market.

New direct-to-consumer music services which signed on to use the 7digital platform in this period include TriPlay's eMusic service in the US. The HDmusicStream service, which we announced last year on an un-named basis within our interim results statement for the six months to 30 June 2016, is now expected to launch in H2 2017 and will use MQA technology to deliver studio quality music. 7digital will handle app development, host the music catalogue on its platform and deliver tracks to consumers.

Our expertise and technology capabilities in Hi-Res audio, via our partnership with MQA, is also resulting in additional work with the major labels and their artists, across both our licensing and creative divisions, by enabling companies across a range of sectors to include Hi-Res audio in their offering to consumers. Recent announcements by Sony Music Group and Merlin confirmed that MQA has secured major and significant independent label support for its technology. Along with Warner Music Group and Universal, who previously revealed partnerships with MQA, those labels will make their music catalogues and new releases available in the Hi-Res MQA format. Several mobile handset manufacturers, including LG, are preparing to launch new smartphones, which will include MQA as standard. We expect to see further results from our investments in MQA, and Hi-Res in general, in the second half.

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

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

The Group's growth in emerging markets has continued, with new services extending 7digital's reach and, as anticipated, several of the deals agreed in 2016 have developed into further contracts for additional territories. We renewed our agreement with musical.ly, one of the world's fastest growing social video networks. The new contract doubled the number of territories in which we provide access to music for the musical.ly service, extending its reach from 30 to 60 territories around the world.

Since the period end we have continued to make good progress in licensing, agreeing several key contracts as the digital music industry continues to expand into new areas of current music consumption. These have included an agreement, announced today, with Fender®, one of the world's leading musical instrument companies, to provide technology and access to music and metadata. 7digital will provide services to bolster Fender's suite of innovative online and mobile products.

The Group also recently announced its first in-flight client in Global Eagle Entertainment Inc., a leading worldwide provider of in-flight entertainment content to the airline industry, as well as a three-year deal with French company Deedo SAS to power a new streaming service across 27 markets and a two year deal with US-based company Fan Label, a dynamic new music fan engagement platform.

7digital Creative division

Our Creative division works on the production of audio, video and multimedia content both to enhance the services provided by our technology licensing division and also to create new content streams for digital services.

Examples of this work are the videos produced for Technics and MQA featuring leading artists explaining the benefits of higher quality digital music and audio entertainment news bulletins produced for Amazon's ground-breaking "Echo" wireless loudspeaker. Other customers for 7digital creative content include Sky Television, the BBC's national music radio networks, commercial radio stations and Yahoo! Europe.

As streaming music services using 7digital's technology platform increasingly rely on "playlisting" or "curation" of music for the more casual listener, 7digital's creative skills are beginning to be used by our clients to provide human input to this process. Our client Electric Jukebox, which recently launched its innovative service of music via connected TVs, has used 7digital Creative to compile specialised playlists in areas like Folk music and Jazz.

7digital Creative revenues grew 17% on the same period in 2016 to £1.0m (H1 2016: £0.8m) with the division continuing to win and retain business as a result of our broad capabilities and deep industry relationships.

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

7digital.com: the content division

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

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. Content revenues in the first half were £1.1m (H1 2016: £1.4m), with the comparative period last year 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. The Group has won similar work with major labels in 2017, with revenues now being recognised as higher-margin licensing revenues.

Outlook

The Board believes that the enlargement of the Group has significantly strengthened our market position and will bring materially enhanced revenue against a fixed cost base. Our healthy first half performance has continued into the second half of the year, our pipeline is strong and the Board is confident in meeting full year expectations for 2017 and seeing the full benefits of consolidation realised in 2018 and beyond.

7digital Group plc

Financial review

Results for the six months ending 30 June	2017 £'000	2016 £'000	Change	%
Revenue	5,937	5,443	494	9%
Cost of Sales	(1,702)	(1,923)	(221)	12%
Gross profit	**4,235**	**3,520**	**715**	**20%**
Other operating income	298	250	48	19%
Other administration expenses	(6,219)	(6,398)	(179)	3%
Adjusted LBITDA	**(1,686)**	**(2,628)**	**(942)**	**36%**
Depreciation	(647)	(451)	196	-44%
Adjusted operating loss	**(2,333)**	**(3,079)**	**(746)**	**24%**
Share based payments	(15)	16	31	-191%
Exceptional items	(626)	(116)	510	-440%
Operating loss	**(2,974)**	**(3,179)**	**(205)**	**6%**
Taxation on continuing operations	(1)	(46)	45	98%
Finance charges	-	5	5	-100%
Loss for the period	**(2,975)**	**(3,220)**	**(245)**	**8%**

This review covers the consolidated results of 7digital Group plc.

Revenue breakdown

Revenue	2017 £'000	2016 £'000	Change	%
Monthly recurring revenue	3,188	2,316	872	38%
Set-up fees	848	727	121	17%
Licensing revenue	**4,036**	**3,043**	**993**	**33%**
Content	1,117	1,367	(250)	-18%
Creative	982	837	145	17%
Foreign exchange	(198)	196	(394)	-201%
Total Revenues	**5,937**	**5,443**	**494**	**9%**

Total Group turnover increased 9% to £5.9m (H1 2016: 5.4m). Within this, total licensing revenues rose by 33% to £4.0m (H1 2016: £3.0m)

Content revenues in the first half were £1.1m (H1 2016: £1.4m), with the comparative period last year 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 web-site.

7digital Creative revenues grew 17% on the same period in 2016 to £1.0m (H1 2016: £0.8m) with the division continuing to win and retain business as a result of our broad capabilities and deep industry relationships

Gross profit has increased 20% to £4.2m (2016: £3.5m). The gross margin for the period increased to 71% (2016: 65%).

Adjusted LBITDA and operating loss
In the six months to 30 June 2017, the Group decreased its adjusted LBITDA to £1.7m (2016: LBITDA £2.6m). The Group's adjusted operating loss decreased to £2.3m from £3.1m.

Operating loss
The operating loss has decreased to £3m from £3.2m.

Statutory loss
The Statutory loss for the period has decreased by 8% to £3m from £3.2m.

Cash flow & cash position
In the six months to 30 June 2017, the Group had a cash outflow from operating activities of £2.3m (H1 2016: £0.6m). At 30 June 2017 cash in bank was £0.9m (H1 2016: £1.1m).

Loss per share
In the six months to 30 June 2017 the Company reported a basic and diluted loss per share of 2.13 pence.

7digital Group plc

Condensed consolidated statement of comprehensive income

Six months ended 30 June 2017 (unaudited)

	Notes	Unaudited six months ended 30 June 2017 £'000	Unaudited six months ended 30 June 2016 £'000	Audited full year ended 31 Dec 2016 £'000
Continuing operations				
Revenue	2	**5,937**	**5,443**	11,899
Cost of sales		**(1,702)**	**(1,923)**	(3,451)
Gross profit		**4,235**	**3,520**	8,448
Other income	3	**298**	**250**	560
Administrative expenses		**(7,507)**	**(6,949)**	(14,328)
Adjusted operating loss		**(2,333)**	**(3,079)**	(4,860)
- Share based payments		**(15)**	**16**	4
- Exceptional items	5	**(626)**	**(116)**	(464)
Operating loss	4	**(2,974)**	**(3,179)**	(5,320)
Finance Income		**-**	**6**	6
Finance cost		**-**	**(1)**	(19)
Loss before tax		**(2,974)**	**(3,174)**	(5,333)
Taxation on continuing operations		**(1)**	**(46)**	(12)
Total comprehensive income attributable to owners of the parent company		**(2,975)**	**(3,220)**	(5,345)
Loss per share (pence)				
Basic and diluted		**(2.13)**	**(2.87)**	(4.69)

7digital Group plc

Condensed consolidated statement of financial position

As at 30 June 2017 (unaudited)

	Notes	Unaudited 30 Jun 2017 £'000	Unaudited 30 Jun 2016 £'000	Audited 31 Dec 2016 £'000
Assets				
Non-current assets				
Intangible assets	6, 7	**3,192**	2,025	2,303
Property, plant and equipment		**529**	619	475
		3,721	2,644	2,778
Current assets				
Inventory: work-in-progress		**224**	172	142
Trade and other receivables		**7,016**	4,730	3,575
Patent		**43**	-	35
Cash and cash equivalents		**910**	1,108	838
		8,193	6,010	4,590
Total assets		**11,914**	8,654	7,368
Current liabilities				
Trade and other payables		**(10,391)**	(6,532)	(6,731)
Provisions for liabilities and charges - current		**(423)**	(10)	(462)
		(10,814)	(6,541)	(7,193)
Net current assets		**(2,621)**	(532)	(2,603)
Non-current liabilities				
Bank loan				
Other long term liabilities		**(1,367)**	(941)	(1,519)
Provision for Liabilities and charges – non current		**(227)**	(381)	(227)
		(1,594)	(1,322)	(1,746)
Total liabilities		**(12,408)**	(7,863)	(8,939)
Net assets		**(494)**	790	(1,571)
Equity				
Share capital		**12,248**	11,575	11,575
Share premium account		**3,372**	17,278	-
Treasury reserve		**(5)**	(5)	(5)
Reverse acquisition reserve		**(4,430)**	(4,430)	(4,301)
Other reserves		**129**	(100)	-
Retained earnings		**(11,808)**	(23,528)	(8,840)
Total Equity		**(494)**	790	(1,571)

7digital Group plc

Condensed consolidated cash flow statement

Six months ended 30 June 2017 (unaudited)

	Notes	Unaudited six months ended 30 June 2017 £'000	Unaudited six months ended 30 June 2016 £'000	Audited full year ended 31 Dec 2016 £'000
Loss for the period		**(2,974)**	(3,220)	(5,345)
Adjustments for:				
Taxation		**1**	46	12
Interest		**-**	(6)	13
Foreign Exchange		**198**	(196)	(551)
Amortisation of intangible assets		**471**	314	746
Depreciation of fixed assets		**176**	189	410
Share based payments		**-**	-	176
Share option valuation adjustment		**15**	(16)	(4)
Decrease in provisions		**(39)**	(160)	(27)
Increase/(decrease) in accruals and deferred income		**2,895**	868	1,355
Decrease in inventories		**(82)**	(110)	(116)
(Increase)/decrease in trade and other receivables		**(3,210)**	110	1,432
Increase/(decrease) in trade and other payables		**273**	1,582	1,445
Cash flows from operating activities		**(2,276)**	(598)	(454)
Taxation		**(1)**	(46)	(12)
Net interest		**-**	6	(13)
Net cash used in operating activities		**(2,277)**	(639)	(479)
Investing activities				
Purchase of property, plant and equipment		**(135)**	(28)	(448)
Acquisition of cash from subsidiary		**1,143**	-	-
Acquisition of subsidiary		**(888)**	109	109
Purchase of intangible asset		**(288)**	(186)	-
Net cash (used) / generated from investing activities		**(168)**	(105)	(339)
Financing activities				
Repayment of Loans		**(152)**	-	-
Proceeds from issue of ordinary share capital		**2,867**	-	-
Net cash generated from in financing activities		**2,715**	-	-
Net increase/(decrease) in cash and cash equivalents		**270**	(744)	(818)
Cash and cash equivalents at beginning of period		**838**	1,656	1,656
Effect of foreign exchange rate changes		**(198)**	196	-
Cash and cash equivalents at end of period		**910**	1,108	838

7digital Group plc

Condensed consolidated statement of changes in equity

Six months ended 30 June 2017 (unaudited)

	Share capital £'000	Share premium account £'000	Treasury reserves £'000	Other reserves £'000	Retained earnings £'000	**Total £'000**
At 1 January 2016	10,843	17,278	(42)	(4,548)	(20,167)	**3,364**
Loss for the period	-	-	-	-	(3,220)	**(3,220)**
Other comprehensive income for the period	-	-	-	18	(88)	**(70)**
Acquisition of subsidiary	732	-	-	-	-	**732**
Share based payment		-	37	-	(53)	**(16)**
At 30 June 2016	11,575	17,278	(5)	(4,530)	(23,528)	**790**
Loss for the period	-	-	-	-	(2,125)	**(2,125)**
Other comprehensive income for the period	-	-	-	64	(477)	**(413)**
Capital Reduction	-	(17,278)	-	-	17,278	**-**
Acquisition of subsidiary	--	-	-	(11)	-	**(11)**
Share based payment	-	-	-	176	12	**188**
At 1 January 2017	11,575	-	(5)	(4,301)	(8,840)	**(1,571)**
Loss for the period	-	-	-	-	(2,975)	**(2,975)**
Other comprehensive income for the period	-	-	-	-	7	**7**
Capital raise	442	2,426	-	-	-	**2,868**
Acquisition of subsidiary	231	946	-	-	-	**1,177**
Share based payment	-	-	-	-	-	**-**
At 30 June 2017	**12,248**	**3,372**	**(5)**	**(4,301)**	**(11,808)**	**(494)**

1. Presentation of financial information and accounting policies

Basis of preparation

The condensed consolidated financial statements are for the six months to 30 June 2017.

The combined financial information has been prepared in accordance with 7digital Group plc accounting policies. 7digital Group plc accounting policies are in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and as issued by the International Accounting Standards Board, and are set out in the 7Digital Group plc Annual Reports and Financial Statements 2016, with the exception of the application of new accounting standards.

The information for the six months ended 30 June 2017 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The information for the year ending 31 December 2016 is taken from the Annual Reports and Financial Statements 2016 of 7digital Group plc.

Liquidity and going concern

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

The directors have prepared cashflow forecasts and a funding plan through to profitability, covering a period of at least 12 months from the date of these financial statements.

As such, the directors believe that the Group can continue to operate as a going concern.

Estimates and judgments

The preparation of a condensed set of financial statements requires management to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities at each period end. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis.

In preparing these condensed set of consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were principally the same as those applied to the Group's consolidated financial statements for the year ended 31 December 2016.

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, the Group compares the consideration paid with the fair value of the assets acquired. Amortisation is calculated using the straight-line method over the expected useful life of the intangible. For Bespoke Software and Intellectual Property contained within software the expected useful life is estimated at three years.

2. Business and geographical segments

Business segments

	Unaudited six months to 30 Jun 2017 £'000	Unaudited six months to 30 Jun 2016 £'000	Audited full year ended 31 Dec 2016 £'000
Revenue			
Licensing	**4,036**	**3,043**	6,830
Content	**1,117**	**1,367**	2,606
Production	**982**	**837**	1,912
Foreign Exchange	**(198)**	**196**	551
Total	**5,937**	**5,443**	11,899
Operating profit/(loss)			
Licensing	**3,526**	**2,771**	6,162
Content	**31**	**127**	750
Production	**546**	**423**	985
Unallocated	**(7,219)**	**(6,946)**	(13,777)
Total	**(3,116)**	**(3,625)**	(5,880)
Other income	**298**	**250**	560
Other gains and losses	**-**	**-**	6
Net finance costs	**(156)**	**201**	(19)
Taxation	**(1)**	**(46)**	(12)
Loss for the year	**(2,975)**	**(3,220)**	(5,345)

Geographical information

	Revenue		Non-current assets	
Unaudited six months to 30 June	**2017**	2016	**2017**	2016
Continuing Operations	**£'000**	£'000	**£'000**	£'000
United Kingdom	**2,651**	1,473	**3,123**	970
Europe	**1,076**	859	**598**	919
Rest of World	**2,408**	2,914	**-**	-
Foreign Exchange	**(198)**	196	**-**	-
	5,937	5,443	**3,721**	1,889

3. Other income

Other income relates to research and development tax credits which are receivable from HMRC at the end of the period.

4. Operating loss for the year

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

	Unaudited six months ended 30 Jun 2017 £'000	**Unaudited six months ended 30 Jun 2016 £'000**	Audited full year ended 31 Dec 2016 £'000
Amortisation of intangible	**471**	**172**	746
Depreciation of property, plant & equipment	**176**	**201**	410
Bad debt provisions and write offs	**213**	**818**	1,120
Share based payment expense	**(15)**	**(16)**	(4)
Staff costs	**3,858**	**3,800**	7,736

5. Exceptional items

	Unaudited six months ended 30 June 2017 £'000	Unaudited six months ended 30 June 2016 £'000	Audited full year ended 31 Dec 2016 £'000
Acquisition costs	**(318)**	(24)	(82)
Capital Reduction	**-**	-	(25)
Cash Raise Fees	**(267)**	-	-
Exceptional Legal Fees	**(8)**	-	(105)
Restructuring costs	**(33)**	(92)	(252)
	(626)	(116)	(464)

6. Acquisition

On 20 June 2017, 7digital Group plc acquired a Danish software company 24/7 Entertainment ApS from MediaMarktSaturn. The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below:

	31 May 2017 £'000	Fair Value Adjustment £'000	**Adjusted at 30 Jun 2017 £'000**
Tangible Fixed Assets	186,178	-	**186,178**
Intangible Fixed Assets	8,057	(8,057)	**-**
Other Non Current Assets	52,386	-	**52,386**
Trade receivables	-	-	**-**
Other debtors	49,602	-	**49,602**
Prepaid expenses and deferred charges	136,637	-	**136,637**
Cash Balances	1,143,207	-	**1,143,207**
Payroll and Corporate taxes	(47,387)	-	**(47,387)**
Trade Payables	(21,182)	-	**(21,182)**
Accruals and Provisions	(423,317)	-	**(423,317)**
	1,084,182	(8,057)	**1,076,125**
Intangible assets			**508,649**
Goodwill			**571,437**
Deferred tax provision			**(88,782)**
Total consideration			**2,067,428**

The transaction was satisfied by the issue of 23,144,616 ordinary shares at a value of £0.055p per share in 7digital Group plc for 100% of the shareholding in 24/7 Entertainment ApS. In addition, 7digital Group plc also agreed to pay an initial cash payment of £0.9m in respect of the cash which remained on the balance sheet of 24-7 at acquisition. The primary reason for the acquisition was to acquire 24/7 Entertainment's customers. Identifiable intangible assets acquired have been valued at fair value and the balance between the adjusted fair value of the net assets, the value of the identifiable intangible assets and the consideration has been classified as Goodwill. The identifiable intangible assets will be amortised over a 3 year period in line with the Group policy on bespoke software and the value of the Goodwill will be reviewed for any impairment annually.

7. Intangible assets

	Bespoke applications £'000	Goodwill £'000	**Intangible assets £'000**
Cost			
At 31 December 2016	3,137	546	**3,683**
Additions	789	571	**1,360**
At 30 June 2017	3,926	1,117	**5,043**
Depreciation			
At 31 December 2016	1,380	-	**1,380**
Charge for period	471	-	**471**
At 30 June 2017	1,851	-	**1,851**
Net book value			
At 31 December 2016	1,757	546	**2,303**
At 30 June 2017	2,075	1,117	**3,192**

8. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed within the financial statements or related notes.

9. Post balance sheet event

There have been no material events post 30 June 2017.