10 March 2017

7digital Group plc

("7digital", "the Group" or "the Company")

Preliminary results for the year ended 31 December 2016

7digital Group plc (AIM: 7DIG), the digital music and radio services company, today announces its preliminary results for the full year ended 31 December 2016.

Highlights

- Improving sales momentum: profitable Q4 achieved as anticipated
  - Total revenues up 15% to £11.9m (2015: 10.4m) after currency gains
  - Annualised streaming exit monthly recurring revenue increased by 14% against 31 December 2015
  - 21% increase in licensing revenues H2 over H1

- All three major record labels now customers: 7digital recognised as enabler of new streaming services as the music industry transforms

- Hi-Res audio (in particular the MQA streaming technology) takes centre stage at the Consumer Electronics Show
  - 7digital the only b2b delivery platform for MQA
  - First contract using MQA due to launch in Q2 2017

- Snowite, the leading French digital streaming music provider, acquired in 2016, successfully integrated as 7digital France, delivering against all of its key strategic and financial objectives

- Strong global growth in platform: 228m music streams delivered to more than 16m people in the month of December 2016, compared to 72.6m streams to approximately 3m people for the whole of 2015

- Management team strengthened by new Chief Financial Officer, Chief Technology Officer and Chief Commercial Officer; the Group has already seen material benefits from these appointments

- Strong focus on cost base, with the Group achieving its target of £1m of annualised cost savings by the year-end (including £0.5m overhead synergies from the Snowite acquisition)

- Full year revenues of £11.9m (2015: £10.4m); adjusted LBITDA of £3.5m (2015: £2.1m), after £0.8m provision for bad debt at customer Guvera, costs relating to the move to a cloud-based IT system and reflecting the timing of R&D tax credit; the statutory loss for the period was £5.2m (2015: statutory loss of £7.9m)

- Cash at period end of £838,000

- Announcement today of agreed heads of terms with MediaMarktSaturn to acquire 24-7 Entertainment, 7digital's only remaining significant European competitor. If the acquisition proceeds it would materially strengthen revenues from 2017 and be earnings enhancing in 2018

Simon Cole, Chief Executive of 7digital, said:

"2016 was a year in which many of our strategic objectives were achieved, including the delivery of a final quarter of positive EBITDA. The year saw our position in the emerging digital music ecosystem further strengthened, with the industry's three major record labels becoming customers and our investments in readying our platform for Hi-Res audio delivery beginning to show return through new customer signings.

Our platform now delivers streams to over 16 million people worldwide – close to the level of Apple Music (20m subscribers) – through an increasingly diverse range of customers across a widening number of geographies. This growth will underpin long-term profitability as the music streaming industry develops to include mainstream listening.

Our strategy to consolidate the market for supply of business-to-business streaming services included last year's successful integration of the French business "Snowite". Today we are announcing that we have agreed heads of terms for the acquisition of our only remaining significant European competitor, 24-7 Entertainment, which will include the contract to supply its current

owner, MediaMarktSaturn, Europe's biggest electronics and entertainment retailer. We would expect to significantly strengthen our licensing revenues if the transaction completes as anticipated.

The proposed capital raising announced today will strengthen our balance sheet as we move into our next phase of growth, and we are grateful for the support of current and new shareholders who are participating.

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

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 the 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
- Improving the financial quality and predictability of our business by driving 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

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

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

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

We have continued to improve the quality and mix of our revenues, with total monthly recurring revenues ("MRR") rising by 13% against 2016, excluding the Guvera bad debt provision. Improving sales momentum during the period saw the annualized total licensing exit MRR for the year rise by 7% and annualised streaming exit MRR rise by 14%. Licensing revenues for the year rose by 5.0% compared with 2015 and by 15.3% excluding Guvera. Group turnover increased 15% to £11.9m (2015: £10.4m), as the Company delivered good growth across all revenue streams and, as anticipated, produced a strong performance in H2, with licensing revenues up 21% on H1.

Primarily reflecting bad debt provisions, our move to a cloud based IT system and the timing of our R&D tax credit, adjusted LBITDA increased to £3.5m (2015: £2.1m). We have focussed strongly on our cost base during the period and achieved annualised cost savings of £1m, including the previously indicated £0.5m overhead synergies from the Snowite acquisition.

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

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

We are increasingly well placed as the supplier of choice to enable a growing number of current and potential customers who are looking to strengthen their consumer offer by delivering music and radio streaming services.

Licensing division

Licensing is the core of our business, providing the platform and rights management expertise through which our b2b customers can create their own streamed music services, either standalone or bundled into their device or product offering. Typically, customers pay an initial set-up fee and then a fixed monthly licence fee for using our platform; in addition, we may also take a share of user related revenues generated by the service, including transaction and subscription revenues.

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

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

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

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

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

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

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

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

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

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

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

Creative division

Our Creative division is engaged in the creation of award winning audio and video programming for broadcasters, receiving commissions from the BBC's national radio networks, commercial radio stations and other broadcasters such as Sky Television. It is a profitable business that brings a number of synergistic benefits to our licensing operations, in particular the ability to offer clients complementary knowledge and skillsets such as playlist curation and video or audio production.

As anticipated, Creative revenues were weighted towards the second half of the year and grew 5% on 2015 to £1.9m (2015: £1.8m).

The division continues to win new business as a result of our broad capabilities and deep industry relationships. We were contracted to produce content for Audible, an Amazon company, and signed a deal with Sky Arts to produce TV coverage of the Cambridge Folk Festival for the fourth time. We continued our long and successful relationship with the BBC and we secured a

number of contracts in 2016, including retention of the popular Sunday Morning show and winning the high-profile Jazz Now series commission (both BBC Radio 3).

Content division

The Content division includes revenue from the lower margin legacy sales of digital music downloads by the Group direct to consumers and higher margin one off projects from record labels. In 2016 Content revenues rose by 28% to £2.6m (2015: £2.0m), benefitting from a contract with a major label to use 7digital's platform for the sales of music downloads direct from an artist's own website. A noticeable move towards Hi-Res digital music files is allowing the group to positively manage the decrease in digital music download sales as consumers move to streaming.

Strengthened management

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

Outlook

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

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

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

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

Financial Review

Results for the Year to 31 December	2016 £'000	2015 £'000	Change	%
Revenue	11,899	10,392	1,507	15%
Cost of Sales	(3,451)	(3,308)	(143)	4%
Gross profit	**8,448**	**7,084**	**1,364**	**19%**
Other operating income	560	1,040	(480)	-46%
Other administration expenses	(12,557)	(10,225)	(2,332)	23%
Adjusted LBITDA	**(3,549)**	**(2,101)**	**(1,448)**	**69%**
Depreciation	(1,135)	(761)	(374)	49%
Adjusted operating loss	**(4,684)**	**(2,862)**	**(1,822)**	**64%**
Share based payments	4	(137)	141	103%
Exceptional items	(464)	(128)	(336)	263%
Operating loss	**(5,144)**	**(3,127)**	**(2,017)**	**65%**
Other gains and losses	-	(4,767)	4,767	100%
Taxation on continuing operations	(12)	(3)	(9)	-300%
Finance gain/(cost)	(13)	11	(24)	-218%
Loss for the period	**(5,169)**	**(7,886)**	**2,717**	**34%**

Revenue	2016 £'000	2015 £'000	Change	%
Monthly recurring revenue	4,930	4,944	(14)	0%
Set-up fees	1,900	1,560	340	22%
Licensing revenue	**6,830**	**6,504**	**326**	**5%**
Content	2,606	2,042	564	28%
Creative	1,912	1,819	93	5%
Foreign exchange	551	27	524	1941%
Total Revenues	**11,899**	**10,392**	**1,507**	**15%**

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

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

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

Exit MRR	2016 £'000	2015 £'000	Change	%
Streaming	3,934	3.450	484	14%
Downloads	897	935	(38)	-4%
Radio	1,203	1,218	(15)	-1%
Other	207	230	(23)	-10%
Total	**6,241**	**5,833**	**408**	**7%**

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

Administration expenses have increased by 23% as we have the inclusion of 9 months of the operating costs of Snowite SAS (now rebranded as '7digital France') that was purchased during the year.

Adjusted Results
Adjusted LBITDA (which excludes return on investments, taxation, depreciation of tangible assets, amortisation of intangible assets, share based payments and exceptional items) was £3.5m (2015: adjusted LBITDA of £2.1m). The adjusted operating loss was £4.7m (2015: £2.9m).

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

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

Statutory Result
The Group made a loss for the period of £5.2m (2015: £7.9m).

Loss per share
Reported earnings per share was a loss of 4.53 pence per share (2015: loss of 7.31 pence).

Cash and cash flow
At 31 December 2016, the Group had a cash balance of £0.8m (2015: £1.7m), and saw overall cash outflows in 2016 of £0.8m (2015: £3.7m). This included a cash outflow of £0.5m from operating activities (2015: £4.7m), and £0.3m cash outflow on investing activities (2014: £1.0m inflow).

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

Consolidated Statement of Comprehensive Income

	Year to 31 Dec 2016 £'000	Year to 31 Dec 2015 £'000
Continuing operations		
Revenue	**11,899**	10,392
Cost of sales	**(3,451)**	(3,308)
Gross profit	**8,448**	7,084
Other Income	**560**	1,040
Administrative expenses	**(14,152)**	(11,251)
Adjusted operating loss	**(4,684)**	(2,862)
- Share based payments	**4**	(137)
- Exceptional items	**(464)**	(128)
Operating loss	**(5,144)**	(3,127)
Other gains and losses	**-**	(4,767)
Finance income	**6**	12
Finance cost	**(19)**	(1)
Loss before tax	**(5,157)**	(7,883)
Taxation on continuing operations	**(12)**	(3)
Loss from operations attributable to owners of the parent company	**(5,169)**	(7,886)
Fair value gain on investment	**-**	-
Total comprehensive income attributable to owners of the parent company	**(5,169)**	(7,886)
Loss per share (pence)		
Basic and diluted	**(4.53)**	(7.31)

Consolidated Statement of Financial Position

	2016	2015
	£'000	£'000
Assets		
Non-current assets		
Intangible	**1,757**	416
Property, plant and equipment	**475**	704
	2,232	1,120
Current assets		
Inventory: work-in-progress	**142**	55
Patent	**35**	7
Trade and other receivables	**3,575**	4,502
Cash and cash equivalents	**838**	1,656
	4,590	6,220
Total assets	**6,822**	7,340
Current liabilities		
Trade and other payables	**(6,731)**	(3,804)
Provisions for liabilities and charges - current	**(143)**	(170)
	(6,874)	(3,974)
Net current assets/(liabilities)	**(2,284)**	2,246
Non-current liabilities		
Loans	**(1,519)**	-
	(1,519)	-
Total liabilities	**(8,393)**	(3,974)
Net assets	**(1,571)**	3,366
Equity		
Share capital	**11,575**	10,843
Share premium account	**-**	17,278
Treasury reserve	**(5)**	(42)
Other reserves	**(4,477)**	(4,546)
Retained earnings	**(8,664)**	(20,167)
Total equity	**(1,571)**	3,366

Consolidated Cash Flow Statement

	Year to 31 Dec 2016 £'000	Year to 31 Dec 2015 £'000
Loss from continuing operations		
Profit/ (loss) from discontinued operations	(5,169)	(7,886)
Loss for the period		
Adjustments for:		
Taxation	12	3
Interest	13	(12)
Foreign exchange	(551)	(27)
Amortisation of intangible assets	746	277
Depreciation of fixed assets	389	484
Loss on sale of investment	-	4,767
Share option valuation adjustment	(4)	137
(Decrease) in provisions	(27)	(18)
Increase/(Decrease) in accruals and deferred income	1,354	(263)
(Increase) in inventories	(115)	(18)
Decrease/(increase) in trade and other receivables	1,453	(1,405)
Decrease/(increase) in trade and other payables	1,445	(730)
Cash flows from operating activities	(454)	(4,691)
Taxation	(12)	(3)
Net interest	(13)	12
Net cash used in operating activities	(479)	(4,682)
Investing activities		
Disposal of investment	-	1,828
Purchase of property, plant, equipment and bespoke software	(447)	(848)
Acquisition of subsidiary	108	-
Net cash (used) in / generated from investing activities	(339)	980
Net (decrease) in cash and cash equivalents	(818)	(3,702)
Cash and cash equivalents at beginning of period	1,656	5,312
Effect of foreign exchange rate changes	-	46
Cash and cash equivalents at end of period	838	1,656

Consolidated Statement of Changes in Equity

	Share capital	Share premium account	Treasury reserves	Other reserves	Retained earnings	**Total**
	£'000	£'000	£'000	£'000	£'000	**£'000**
At 1 January 2015	10,833	17,278	(216)	(1,456)	(15,311)	**11,128**
Loss for the period	-	-	-	-	(7,886)	**(7,886)**
Other comprehensive income for the period	-	-	-	(3,091)	2,915	**(176)**
Share based payment	10	-	174	-	115	**299**
At 1 January 2016	10,843	17,278	(42)	(4,547)	(20,167)	**3,365**
Loss for the period	-	-	-	-	(5,169)	**(5,169)**
Other comprehensive income for the period	-	-	-	82	(565)	**(483)**
Capital reduction	-	(17,278)	-	-	17,278	**-**
Acquisition of subsidiary	732	-	-	(12)	-	**720**
Share based payment		-	37	-	(41)	**(4)**
At 31 December 2016	**11,575**	**-**	**(5)**	**(4,477)**	**(8,664)**	**(1,571)**

1. Accounting policies

Basis of Preparation

The financial information for the year ended 31 December 2015 and the year ended 31 December 2016 contained in these preliminary results does not constitute the company's statutory accounts for those years.

Statutory accounts for the year ended 31 December 2015 have been delivered to the Registrar of Companies. The financial information for the year ended 31 December 2016 contained in these preliminary results has not been audited.

The financial information contained in these preliminary results has been prepared using the recognition and measurement requirements of International Financial Reporting Standards (IFRSs) as adopted by the EU. The accounting policies adopted in these preliminary results have been consistently applied to all the years presented and are consistent with the policies used in the preparation of the financial statements for the year ended 31 December 2015. New standards, amendments and interpretations to existing standards, which have been adopted by the Group for the year ended 31 December 2016, have not been listed since they have no material impact on the financial information.

Liquidity and going concern

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

The directors have prepared cashflow forecasts covering a period of at least 12 months from the date of these preliminary results. If the proposed capital raising (as announced on 10 March 2017) completes and the forecast is achieved, the Group will be able to operate within its existing facilities, however the timeline required to close sales contracts and the order value of individual sales continues to vary considerably, which constrain the ability to accurately predict revenue performance.

The directors have concluded that the circumstances set forth above represent a material uncertainty, which may cast significant doubt about the Group's ability to continue as a going concern. However they believe that taken as a whole, the factors described above enable the Group to continue as a going concern for the foreseeable future. These preliminary results do not include the adjustments that would be required if the Group was unable to continue as going concern.

Principal risks and uncertainties

The Group is currently loss making and is reliant on continuing to win new b2b licensing business in order to drive it to profitability. There is a risk that management will be unable to secure new contracts or that the anticipated demand for the Group's services will not materialise. However, the directors believe that the Group is well placed to continue to grow the business in order to reach profitability in the medium term.

The market in which the Group operates is fragmented and competitive and new players may enter the market. Furthermore, the Group is a b2b provider of services to customers that may be in competition with companies that are seen as industry leaders. It is possible that developments by either the direct competition, or the competitors to customers, will render the Group's current and proposed products and services obsolete.

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

The directors believe that the overall market for the Group's products and services will continue to grow, as the broadcast radio industry and the recorded music industry continue to converge. There can, however, be no assurance that growth in the market for its products and services will occur, or occur at the rate envisaged by the Group.

The Group relies on a number of key customers. The business plan produced by management assumes new and continuing revenue strands by key customers. If existing contracts were to be terminated or new revenue strands failed to materialise, this could affect the projected growth of the Group. Furthermore, 7digital's creative businesses are dependent on the BBC as a key client and as such are vulnerable to the retendering process and BBC budget cuts. Failure by the BBC, as well as other key clients, to fulfil or renew existing contracts, sign up to new revenue streams, or become insolvent themselves, could have a material adverse effect on the financial condition of the Group.

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

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

2. Business and geographical segments

Business segments

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

	Content		Licensing		Creative		Unallocated		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
Revenue	**2,606**	2,012	**6,830**	6,508	**1,912**	1,845	**551**	27	**11.899**	10,392
Segment's result (gross profit)	**750**	215	**6,162**	5,923	**985**	919	**551**	27	**8,448**	7,084
Other income	**-**	-	**-**	-	**-**	-	**560**	1,040	**560**	1,040
Corporate expense	**-**	-	**-**	-	**-**	-	**(14,152)**	(11,251)	**(14,152)**	(11,251)
Operating profit/(loss)	**750**	215	**6,162**	5,923	**985**	919	**(13,041)**	(10,184)	**(5,144)**	(3,127)
Other gains and losses									**-**	(4,767)
Financing income									**6**	12
Financing costs									**(19)**	(1)
Tax charge									**(12)**	(3)
Loss for the year									**(5,169)**	(7,886)
Other segment items:										
Capital additions									**2,488**	848
Depreciation									**389**	484
Amortisation									**746**	277

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

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

Geographical information

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

	Revenue		Non-current assets	
	2016	2015	**2016**	2015
Continuing Operations	**£'000**	£'000	**£'000**	£'000
United Kingdom	**4,272**	3,724	**2,159**	1,120
Europe	**2,265**	1,252	**73**	-
Rest of World	**5,362**	5,416	**-**	-
	11,899	10,392	**2,232**	1,120

3. Exceptional items

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

On 07 April 2016, 7digital Group plc announced the successful acquisition Snowite SAS. As part of this transaction the Group incurred a variety of legal and professional fees which have been classified as exceptional items due to their one-off nature.

On 07 July 2016, the High Court approved the cancellation of the balance standing to the credit of the Company's share premium account. As part of this capital reduction, the Group incurred a variety of legal and professional fees which have been classified as exceptional items due to their one-off nature.

During 2016, the Group settled a patent infringement claim. The settlement and associated legal fees were classified as exceptional items due to the size and their one-off nature.

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

4. Operating loss for the year

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

	2016	2015
	£'000	£'000
Net foreign exchange (profit)/losses	**(551)**	(27)
Amortisation of intangibles	**746**	277
Depreciation of property, plant & equipment	**410**	482
Operating lease payments - land and buildings	**525**	452
Loss on disposal of investment	**-**	4,767
Staff costs	**7,626**	6,727
Share based payment expense	**(4)**	137
Research and development expenditure	**1,485**	1,707

5. Other operating income

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

6. Earnings per share

Basic earnings per share is calculated by dividing the loss attributable to shareholders by the weighted average number of ordinary shares in issue during the year. IAS 33 requires presentation of diluted EPS when a company could be called upon to issue shares that would decrease earnings per share, or increase the loss per share. For a loss-making company with outstanding share options, net loss per share would be decreased by the exercise of options. Therefore the antidilutative potential ordinary shares are disregarded in the calculation of diluted EPS. Reconciliation of the profit and weighted average number of shares used in the calculation are set out below:

		31 Dec 2016	
	Loss	**Weighted average number of shares**	**Per share amount**
Basic and Diluted EPS	**£'000**	**Thousand**	**Pence**
Loss attributable to shareholders:	**(5,169)**	**114,030**	**(4.53)**

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

7. Acquisition

On 08 April 2016, 7digital Group plc acquired a French software company Snowite SAS out of administration. The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below:

	31-Mar-16	Fair Value Adjustment	Adjusted
	£	£	£
Goodwill	64	(64)	-
Other intangible assets	831	(831)	-
Property plant and equipment	40	-	**40**
Financial assets	36	-	**36**
Trade and other receivables	421	-	**421**
Cash and cash equivalents	109	-	**109**
Bank loans	(898)	-	**(898)**
Trade and other payables	(713)	-	**(713)**
	(110)	(895)	**(1,005)**
Goodwill			**1,655**
Total consideration			**650**

The transaction was satisfied by a share swap of 7,320,000 ordinary shares at a value of 10 pence per share in 7digital Group plc for 100% of the shareholding in Snowite SAS. The market value at the time of the transaction of 8.875 pence per share was used in the calculation of the consideration. The primary reason for the acquisition was to acquire Snowite's software and IP. The difference between the adjusted fair value of the net assets and the consideration have been classified as intangible assets and will be amortised over a 3 year period in line with the Group policy on bespoke software.

As part of the purchase, the Group has negotiated with the French Commercial Courts a slight reduction in the amount of the debt existing at the time of the purchase within Snowite and to be repaid by the Group, from €1.8m to €1.7m. The terms of repayment agreed are over 8 years (following a 1 year moratorium), payable in equal instalments with no interest.

Other Shareholder Information

Management share option grants

During the year Matt Honey, the Group's CFO, and Ed Kershaw, the Group's COO, were awarded nil paid share options as part of their pre-agreed remuneration package. These options were awarded on 22 September 2016 and due to an administrative oversight were not announced at the relevant time. Further details of the options are set out below:

Name	*Number of ordinary shares under option awarded*	*Total number of ordinary shares under option after award*	*Exercise period of awarded options*	*Vesting criteria for awarded options*	*%'age of issued share capital of newly awarded options*
Matt Honey	200,000	200,000	1st June 2018 to 30th May 2019	50% subject to performance targets	0.17%
Ed Kershaw	100,000	100,000	14th April 2019 to 13th April 2020	50% subject to performance targets	0.09%

Preliminary Announcement

- Copies of this document are available from the Company's registered office at 69 Wilson Street, London, EC2A 2BB
- These preliminary results will be available on the 7digital Group plc website from 10 March 2017: http://about.7digital.com/financial-information