

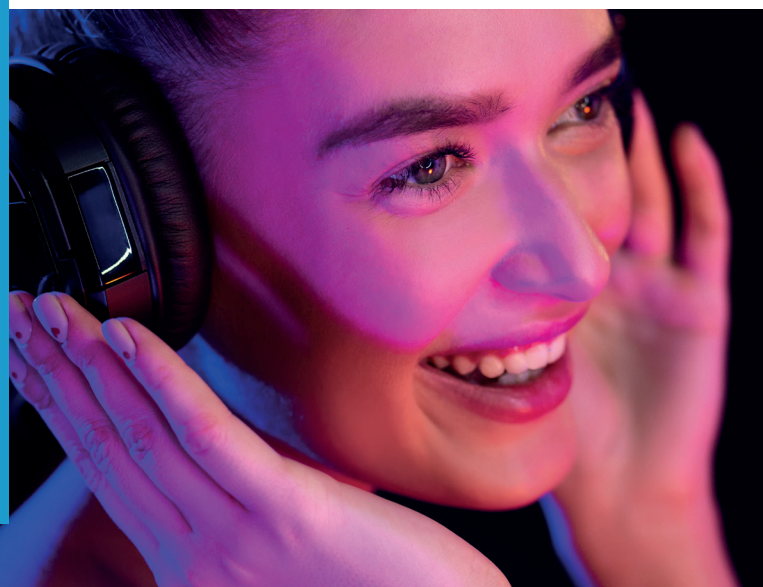
7digital
Annual
Report and
Accounts
2019



We are the Global Leader in end-to-end digital solutions

We partner with our clients to create unique captivating music experiences that keep users connected and engaged.

Our Music Platform-as-a-Service and Branded music solutions effortlessly remove complexity and keep our clients ahead of the innovation curve.



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FINANCIAL HIGHLIGHTS

Year ended 31 December 2019

Group Revenue
£9.3 million
 (2018: £19.9m)

Gross Margin
67.7 per cent
 (2018: 74.0 per cent)

Adjusted EBITDA Loss
£2.8 million
 (2018: £2.5m)
(see note 6 page 55 for definition)

**Group Revenue from
 On-going Operations***
£8.2 million
 (2018: £9.3m)

**Gross Margin from
 On-going Operations***
64.0 per cent
 2018: 62.0 per cent

Loss Per Share
0.47 pence
 (2018: 2.97p)

Gross Profit
£6.3 million
 (2018: £14.7m)

Operating Loss
£5.6 million
 (2018: £12.1m)

**after excluding the
 termination of Juke
 contract (major customer)
 during the year*

NEW BOARD, INVESTMENT AND MANAGEMENT CHANGES

- Newly appointed board leaders **Tamir Koch** and **David Lazarus** widely recognised for technology entrepreneurship and executive leadership
- **£4.1 million funding in 2019**, in cash and conversion of shareholders loans, to reposition the company, stabilise the business and secure future growth
- **Paul Langworthy** promoted to CEO and **Michael Juskiewicz** appointed CFO to oversee implementation of **new strategy**



SUCCESSFULLY EXECUTING THE NEW STRATEGY

- Repositioned 7digital as a music technology company and the global leader in B2B music solutions
- Streamlining the technology offering – supporting both established markets and new business models and verticals with greater profit margins
- Successfully delivered annualised cost savings of over £6.0 million, reducing operational cost run rate by over 50% since beginning of the year
- New contract wins, contract expansions and renewals show growing demand for digital music services in new entertainment formats

CHAIRMAN'S STATEMENT



Tamir Koch
Chairman

28 September 2020

I am pleased to present my maiden Annual Report and Accounts which sets out how we've significantly advanced 7digital as a business by refocusing the strategy, securing the financial support and putting in place the right management team to execute on this strategy. Our excellent executive team and employees deserve the credit for delivering the financial and strategic results set out in this Annual Report.

We are proud of being a growing business and of the important contributions we make to the industry and wider society. At a time of uncertainty in the global economy, we believe business has an important role to play in creating opportunities across the globe. By growing and sustaining an economically strong and responsible business over the long-term, guided by a clear purpose, we make a positive and significant impact not just for our clients and our people, but also for the economy and society.

INVESTMENT AND REFOCUSSED STRATEGY

I was proud to lead a group of successful entrepreneurs and business leaders in providing the required financial support to move the business forward. We have provided a cash injection of £5m in the first 12 months of taking charge of the Group. However, we also recognised that a change of strategy and management team was required to suit the changing business environment. We were pleased to promote Paul Langworthy, the Group's former COO to take this business to the next level as the Chief Executive Officer. He has not disappointed us. Working together, we set about a plan to bring the business to break even as quickly as possible.

This new strategy, as described in greater detail on pages 8 to 9, saw us considerably reduce our cost base by moving away from the development and support of bespoke, customer-specific services. From an operational standpoint, this has enabled us to streamline our technology estate as well as the associated costs and staffing levels. We also retired a number of legacy radio technology services that were no longer strategic for 7digital and improved our technology efficiency through the use of cloud-based services. As a result, we were able to reduce the Group's operational cost run rate by over 50% since the beginning of the year and successfully deliver annualised cost savings of

With a more stable financial platform in place, the Group has been able to focus on delivering a world-leading, cloud-based, music platform-as-a-service that provides true global coverage at scale. By moving from bespoke modular solutions to a highly productised technology offering, we are now able to support a myriad of business use cases while operating with much greater profit margins.

STAKEHOLDER ENGAGEMENT

Regular engagement, dialogue with and feedback from 7digital's material internal and external stakeholders are important to the success of 7digital and a core element of its business model.

Understanding stakeholders' views informs and assists the decision-making processes and helps us to achieve our aims, objectives and strategy. In keeping with the requirements of Section 172 (1) of the UK Companies Act 2006, pages 10 to 11, record 7digital's key stakeholder groups, their material issues and how the Group engages with them. Each stakeholder group requires a tailored engagement approach to foster effective communication and mutually beneficial relationships.

COVID-19

The rapid spread of the coronavirus and resulting COVID-19 global pandemic has had a small impact on the Group, primarily on cash-in; management have taken action to mitigate and minimise the effect. The Group was already fully operational from home as a result of existing infrastructure. 7digital is now showing strong commercial momentum, a clearer and more defined strategy with significant refinancing.

Finally, I would like to thank Paul Langworthy, our CEO, Michael Juskiewicz, our CFO, and our Executive Team for their efforts. Many thanks to my Board colleagues for their considerable contribution. We all appreciate the dedication, skills and professionalism of our employees.

Mostly, I would like to thank our loyal shareholders for their ongoing support.

We all are committed to creating substantial value for our shareholders. 7digital is well positioned to benefit from growing markets, and I look forward to reporting on our progress.

CHIEF EXECUTIVE OFFICER'S REVIEW



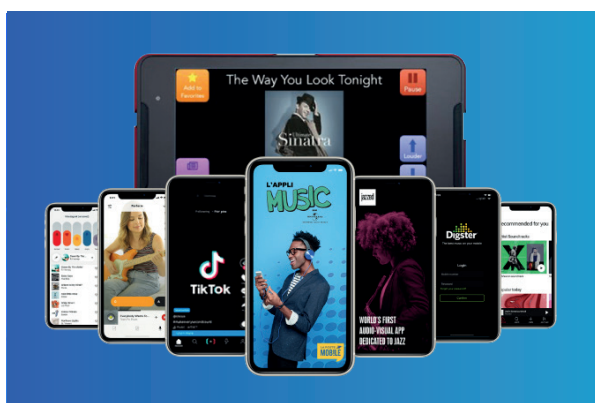
Paul Langworthy
Chief Executive Officer

28 September 2020

Like the Chairman, I am also pleased to be reporting my maiden Annual Report and Accounts following my appointment as Chief Executive Officer in July 2019. The second half of 2019 was a period of critical changes and refocused resources required to make a turnaround for the company, customers and employees. By taking advantage of the core technology and industry relationships, the management team and the Board successfully worked together to lay the foundation for how we position, sell, develop and deliver our technology to current and future clients. The Group won new business, streamlined operations and is on a path to financial stability.

By contrast, in the first half of 2019, the Group was significantly impacted by the loss of our largest contract with European retailer MediaMarktSaturn to provide the music streaming service for its wholly owned subsidiary, Juke Entertainment GmbH ("Juke"). The Group had to take immediate action and agreed the sale of select technology from the company, and the transfer of staff to TDC Group for a total consideration of €1.375m. This technology, which was only used by one customer, had become unprofitable to maintain.

As a result of the changes and progress made in the second half, I am pleased to report that the Group's revenue from operations (after adjusting for the loss of the Juke contract) declined only by 12% in 2019 to £8.2m. However, gross profit%, on the same basis, increased by 2% to £5.2m. The statutory operating loss for 2019 decreased 54% to £5.6m (2018: £12.1m).



WINNING NEW BUSINESS AND RENEWING IMPORTANT CONTRACTS

In spite of a difficult year and poor market sentiment, we were able to renew existing customer contracts and sign new deals with a number of innovative companies in fast-growing sectors.

We signed an initial one-year deal with Dubset, a rights technology company that identifies and collects royalties within mix content. The Group also entered significant partnerships in other fast-growing sectors.

In a key validation of our technology platform, Fender and 7digital worked together to bring Fender Songs to market. Launched in October 2019, this new mobile app from global music instruments manufacturer Fender allows aspiring musicians to practice and play along with chords and lyrics to millions of their favourite songs. The app uses 7digital's platform and audio fingerprinting service and global music catalogue to identify and access the music being played, extracting the chords for users in real time.

We were also awarded an initial one year-long contract to provide our music-as-a-service platform in support of an innovative new music streaming company. The full premium service was launched in a single European market and is in the process of rolling out to several additional countries.

This commercial momentum accelerated post year-end as the Group's music platform-as-a-service was used to launch jazzed, the world's first dedicated audio-visual streaming service for jazz and jazz-influenced music. This deal epitomises the growing opportunity for premium streaming services catering to more specific tastes, genres and geographies.

In addition to jazzed, we have signed multiple new contracts and contract renewals. This includes a new contract to power Single Music, a Shopify-integrated, direct-to-fan distribution platform, as well as a contract renewal with GrandPad, the first purpose-built tablet for people over the age of 75. The Group has also renewed its contract with Universal Music France to support its streaming service through French MVNO La Poste Mobile, and fan-facing music playlist service Digster.

CHIEF EXECUTIVE OFFICER'S REVIEW

COVID-19 AND OUTLOOK

As the gravity and impact of the COVID-19 public health emergency became clear, our shift to virtualised applications and cloud-based storage ensured a seamless and secure transition to remote working. As a result, we retained our full client roster, although some new contracts and renewals in the pipeline were shifted from Q2 to Q3 or Q4 2020. The Group also took the prudent step to implement further cost-saving measures, which are expected to generate in-year savings of approximately £500k in 2021.

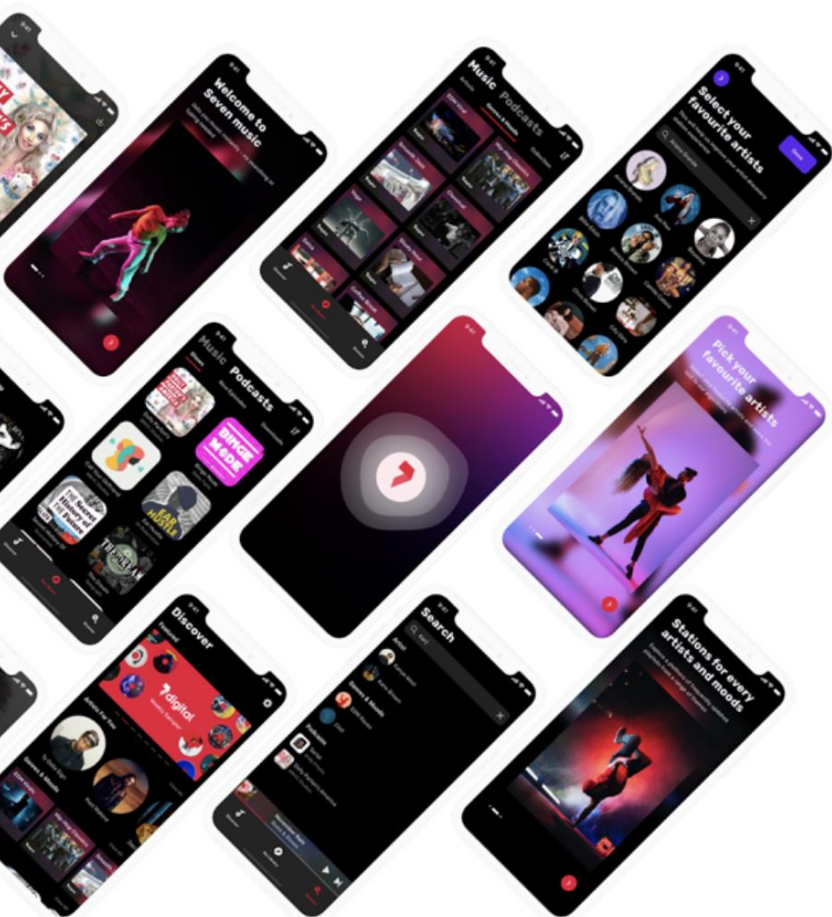
Looking to the future, I am upbeat about 7digital's prospects and the growing number of opportunities for us to capitalise on with our best-in-breed music platform. Streaming is being adopted by consumers at a staggering pace, accounting for 56% of all music sales in 2019 and driving a fifth consecutive year of growth, according to the IFPI. The lockdowns implemented as a result of the coronavirus pandemic have only further accelerated this adoption, leading to a rise in home entertainment streaming as well as other formats.

In addition to new diversification of streaming services and models, we are seeing a number of trends emerge for which we have a strong product-market fit and we see meaningful growth and revenue opportunities from well-funded and enterprise businesses that consider music a vital component in their own customer engagement and growth strategies.

These sectors include:

- **Fitness and health:** we are currently engaging with a number of fitness companies looking to incorporate new licensing models, digital content and music services, ranging from virtual cycling and running to more traditional gyms.
- **Social media platforms:** following the success of TikTok and the popularity of video and audio user-generated content, we are discussing opportunities with several global companies that are either similar services or more disruptive variances to the existing offering.
- **Virtual-live market:** the rapidly emerging live stream market is attracting much attention and we expect servicing operators in this space to become a valuable new pillar in the 7digital ecosystem.

7digital's leading technology offering, global music catalogue and industry expertise makes the Group well placed to capitalise on the growing demand for digital music services to improve existing customer offerings and power new entertainment formats. With financially supportive majority shareholders and an extensive pipeline of deals, we are on track to achieve operational profitability in the second half of 2020 and deliver value for our shareholders.



CHIEF FINANCIAL OFFICER'S REVIEW



Michael Juskiewicz
Chief Financial Officer

28 September 2020

INTRODUCTION

On 4 January 2019, the Group announced that its largest customer, MediaMarktSaturn ("MMS"), had indicated that it may wish to change the current arrangements and that this could involve 7digital taking more responsibility for certain aspects of the service or the service being closed with a resulting termination payment becoming due and payable to the Group. On 1 March 2019, 7digital announced that it had accepted settlement of, and release from, all outstanding contracts and commitments relating to the Juke music service for an immediate payment by Juke of €4,000,000. Further, Juke agreed to write off all interest payments and £250,000 of the principal amount of the convertible loan note issued to Juke (as announced on 26 October 2018). 7digital settled a further £500,000 balance of the convertible loan note principal amount from the proceeds of the Agreement.

Following the loss of the MMS contracts, the platform was used by only one customer and had become unprofitable for the Group to maintain. On 2 May 2019, the Group announced the sale of bespoke technology from the Danish business and transfer of staff to TDC Group ("TDC"), the largest telecommunications company in Denmark. The sale transferred control of bespoke technology, and the resources to maintain it, to TDC.

The consideration was €1.375m, of which £1.0m was paid to 7digital in cash during 2019 being equivalent to the net value of the assets sold. The remainder of the cash consideration was retained by TDC to cover certain potential liabilities of which £47k was released by TDC to the Group in April 2020 to the extent that it is not required to meet such liabilities and is subject to customary post-closing adjustments. The annualised losses eliminated from the business totalled around £1.6m. This sale meant that 7digital would focus its resources on its productised, cloud-hosted technology.

On 13 May 2019, Magic Investments S.A. (a technology investment holding company) ("Magic") bought the remaining loans from the existing shareholders at face value of £0.6m.

On 7 June 2019, a consortium, comprising Magic and Shmuel Koch Holdings Limited ("SKH") subscribed for, an aggregate

of, 634,132,641 shares at 0.01 pence per share, to raise £1.3 million (before expenses). On the same date, Magic agreed to capitalise the outstanding £585,932 principal and accrued interest of the Convertible Loan Notes at the Exchange Price of 0.02p into 332,915,704 shares with a discount of 12%. A number of changes to the Board were proposed, conditional upon the passing of the Resolutions at the General Meeting held on 25 June 2019.

On 18 July 2019, Paul Langworthy, the Group's current Chief Operating Officer and key contributor to the revised business strategy, succeeded John Aalbers as Chief Executive Officer and as a Director of the Group. With my background as the CFO of eMusic, I took on the role of Chief Financial Officer and was appointed to the Board on 20 September 2019.

On 20 September 2019, the Group announced that it had raised a further £1.88m through a subscription of 937,900,000 new Ordinary shares of 0.01 pence to new and existing shareholders.

On 25 September 2019, the Group announced that it had completed an oversubscribed conditional Placing. The Placing of 130,848,460 new Ordinary Shares raised approximately £0.3 million (before expenses) at an issue price of 0.01 pence per share on 4 October 2019.

During the year the Group secured a total of £4.1 million (gross) in funding.

RESULTS AND FINANCIAL KEY PERFORMANCE INDICATORS

The Group's revenue from operations (after adjusting for the loss of the Juke contract as shown on the table on page 7) declined by 12% in 2019 to £8.2m (2018: £9.3m).

On-going gross profit% increased to 64.0%, a rise of 2 percentage points to £5.2m, as a result of growth in high-margin B2B licensing revenues which now represents a greater share of the total sales mix. The statutory operating loss for 2019 decreased 54% to £5.6m (2018: £12.1m). The adjusted EBITDA loss for 2019 increased 10% to £2.8m (2018: £2.5m) and this is reconciled to the operating loss in note 6 on page 55.

The decrease in 2019 statutory operating loss is due to decrease in administration expenses by 52.1% largely due to the significant payroll and technology cost reductions implemented by the new management under Paul Langworthy, the incoming CEO, to align the business with the new strategy going forward.

The loss per share decreased by 84% to 0.47 pence (2018: 2.97 pence).

CHIEF FINANCIAL OFFICER'S REVIEW

Revenue	2019 reported £'000	2019 ongoing* £'000	2018 reported £'000	2018 ongoing* £'000	Change ongoing*	Change ongoing* %
Licensing revenue	5,341	4,227	13,410	4,046	181	4%
Content	2,390	2,390	3,933	2,704	-314	-12%
Creative	1,572	1,572	2,569	2,569	-997	-39%
Total Revenues	9,303	8,189	19,912	9,319	-1,130	-12%
Gross Margin	6,297	5,239	14,727	5,816	-577	-10%
Gross Margin%	68.0%	64.0%	74.0%	62.0%	+2.0%	

Expenditure

Administrative expenses	2019 £'000	2018 £'000	Change	%
Underlying Administrative Expenses	11,235	19,918	-8,683	-43.6%
Other Adjusted Administrative Expenses	1,802	7,305	-5,503	
Total Administrative expenses	13,037	27,223	14,186	-52.1%

* after excluding the termination of Juke contract (major customer) during the year

OTHER ADJUSTING ITEMS

Other adjusting items for the year total £1.8m of which £0.7m relates to corporate restructuring, £0.5m to legal fees relating to fund raising and contingency planning, £0.4m of expenses and provisions relating to the closure of the Danish business and £0.2m as a legal provision for an ongoing litigation issue.

DIVIDEND

During the year, 7digital did not pay an interim or final 2019 dividend (2018: no interim or final 2018 dividend). The Board of directors is not proposing a final dividend in the current year.

SHAREHOLDER LOANS

On 8 February 2019, the Group received notice of conversion from one holder in respect of £193,858 (including interest) of the Facility at a conversion price of 1p pursuant to which 19,385,843 ordinary shares were issued. Following conversion an aggregate of £1,311,691 of the facility remained outstanding.

On 1 March 2019, the Group agreed to a €4m settlement from MMS under the MMS Settlement Agreement noted above. Out of the loan payable of £0.75m plus accrued interest of £27k, £0.5m was settled against the above €4m and £0.25m, together with the accrued interest of £27k, was forgiven by MMS. Following settlement of MMS's share of the Facility, an aggregate of £561,691 of the facility remained outstanding.

On 11 April 2019 the Group received a notice from the holder in respect of a tranche of the Facility, due to non-payment of interest. The Notice related to outstanding Facility and interest amounting to £325,570. Following receipt of the Notice, the outstanding amount became due and payable by 3 May 2019. The remaining tranche under the Facility of £0.25m plus accrued interest remained outstanding to another loan note holder.

On 13 May 2019 the remaining Facility was sold to Magic. Magic entered into a standstill agreement with the Group pursuant to which it agreed not to seek early redemption or conversion of the Facility before 30 June 2019 except in certain limited circumstances (including a major equity issuance or the insolvency of the Group).

On 7 June 2019 Magic agreed to capitalise the outstanding £585,932 principal and accrued interest of the Facility held by it into 332,915,704 new Ordinary Shares (at a 12 per cent. discount to the Issue Price).

CASH AND CASH FLOW

As of 31 December 2019, the Group had a cash balance of £0.1m (2018: £0.5m).

Net cash outflows in 2019 totalled £0.3m (2018: outflow £6.4m). The reduction was largely driven from a decrease in operating cash outflow of 38% as a result of the effective cost reduction efforts implemented by the new management team, issuance of share capital to the consortium and the sale of the Danish platform.

STRATEGIC REPORT

Strategy and Business model

7digital is the global leader in B2B end-to-end digital music solutions. The core of our business is the provision of robust and scalable technical infrastructure combined with extensive global music rights used to create music streaming and radio services for a diverse range of customers – including consumer and social media brands, online fitness companies, mobile carriers, broadcasters, automotive systems, record labels and retailers. We also offer radio production and music curation services.

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

- Offering flexible, productised, end-to-end music solutions;
- Increasing the number of clients we serve in strategic, well-funded market verticals;
- Improving the financial quality of our business by driving recurring SaaS and PaaS revenues;
- Expanding and leveraging our geographic coverage;
- Continued investment in market leading technology to meet shifting technology trends, user consumption, and client needs;
- Applying strict control of our cost base to ensure that revenue growth is quickly reflected in improved overall Group profitability; and
- Establishing and maintaining a partner channel program for scaling sales into the identified target market verticals.

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

Licensing

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

The Group's revised strategy has seen it aggressively target enterprise customers with large, existing consumer bases of their own. 7digital's primary offering to these customers would be an API-based "turn-key" music services platform, which enterprises can leverage to service any model or business needs.

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

In addition to providing an open API-based platform from which third parties can build their own services 7digital has obtained music licences in many countries in regions including North America, Latin America, Europe, Asia-Pacific and Africa. These licences are obtained from hundreds of individual record labels, music publishers and music collecting societies. Music licences vary from country to country and by usage type.



Content

7digital.com is a licensed digital music store available in almost 20 countries. The 7digital.com music download store offers a catalogue of high-quality digital music from the major labels and independent aggregators in Europe, North America and parts of Asia-Pacific. Users have the option to download their purchases as zip files or by using the 7digital download manager to input directly into their media player of choice. 7digital has apps for different devices as well as an HTML5, mobile optimised web store.

Creative

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

Principal risks and uncertainties

The Group has received significant funding since the middle of 2019 and early 2020. On 3 September 2020, the Group raised £6m (gross) of new equity financing and on 28 September 2020 secured a revolving credit facility of £1m. This money will see the business reach profitability in the second half of 2020.

There is a risk that the global pandemic could slow the anticipated demand for the Group's services or that customers may terminate their contracts. However, with the execution of the revised strategy, the directors believe that the Group is well placed to grow the business, even with a focus on reducing costs.

The Group is a "b2b" provider of services to customers that may be in competition with companies that are seen as industry leaders. It is possible that developments by either the direct competition, or the competitors to customers, will render the Group's current and proposed products and services obsolete. However, 7digital's position in the market and strong relationship with the major record companies mean we have huge support to help grow the market by significantly lowering the barriers to entry for new services and formats for music consumption outside of the £9.99 All You Can Eat subscription service. The Group's product roadmap is regularly evaluated against the developing marketplace to ensure that we remain competitive.

The market in which the Group operates has seen a number of significant changes, such as the shift from physical sales, to digital 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 and that its success will be driven by how well it can execute in the market. The Group subscribes to the leading music market research service MIDiA and holds regular meetings with their leading analyst to monitor trends in the marketplace and therefore anticipate developments. There can, however, be no assurance that growth in the market for its products and services will occur at the rate envisaged by the Group.

STRATEGIC REPORT Section 172

Section 172 of the Companies Act requires that a director of the Group is managing in the best interests of all stakeholders – Customers, Suppliers, Employees and Shareholders.

In the spirit of above, the Directors of 7digital, strive to maintain a reputation for high but fair standards in the best interest of its stakeholders.

Our primary focus is on our customers and here we regard our relationships and channels of communications of paramount importance. We operate in a sensitive environment between Right holders and Service Providers, Commercial Entities and Brands, and as such ensure that we meet all the standards required by our Customers and our Suppliers, such as Privacy, Information Governance, Reporting and Rights Compliance.

The Board is focused on delivering value for Shareholders underpinned by motivated Employees delivering "ahead of the curve" technology solutions to market and above average delivery of service to customers. In achieving the foregoing, the Group focuses on continued strategic innovation via a policy of market validation and product development funded through organic investment plus capital raises, as agreed at shareholder meetings, and supported by clearly communicated vision and direction.

In our communication to Shareholders the Board is clear in terms of its short, medium and long-term strategy and maintains an open-door approach to Shareholders seeking additional clarity on any issue. The Board release notices on a regular basis informing Shareholders of developments in areas of business progress, non-confidential strategic decisions and any change to Group policy. Risks and opportunities are set out in this strategic review.

Employees

The Group is small and, while clear management structures are in place, all Employees, if required, have direct access to the Executive Directors daily and, if necessary, to the Chairman. The Group retains HR services to ensure the fair and equitable treatment of Employees. The Group promotes a policy of promoting from within supported by training and mentorship. We encourage diverse thinking and recognise strengths and contribution to the business. Finally, we recognise that as a responsible organisation we identify and deliver on our social responsibility. In late 2019, we have established an approach to engaging with colleagues to take their perspectives into account in our decision making and planning and share with them our strategy and progress in regular all hands meetings. Our employee opinion survey, first launched in 2019, told us that:

- 93% of employees say that they feel their colleagues are at a "high" or "good" engagement
- 84% of employees say they feel valued
- 85% feel that their work fits their strengths

The results from our employee opinion survey help shape how we run the business and the focus on areas that will make a real difference to our colleagues, such as managing stress, networking cross-company, and take advantage of 360 reviews to improve cross-level communication. Finally, we recognise that as a responsible organisation we identify and deliver on our social responsibility.

Customers

We engage and build our relationships with our customers in a number of ways, from tech- and product-driven updates that improve efficiency and transparency in operations and standards of performance, to our face-to-face interactions with our "white glove" standard customer service. In the last 12 months, we developed new services to improve our engagement with clients including quarterly business reviews to report on account performance, user and account level analytics, technology roadmap, and new partnerships supported. In addition, we have introduced a questionnaire to gather important feedback from the QBR and gain further insight into 7digital's performance to further deliver on specific customer interests.

Fundraising

During the year, as detailed in the Chief Financial Officer's Review on pages 6 to 7, the Group raised £4.1m through funding; £3.3m of which was received in cash and £0.8m was funded by the conversion of the principal and accrued interest balances of the Shareholder loans.

Cost control and cash management

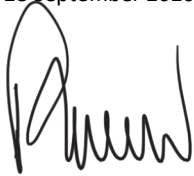
As part of the comprehensive cost reduction programme and the Group reorganisation, headcount was reduced through employee redundancies and termination of contractors. Operational expenses were further reduced by the rationalisation of external vendors.

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

Paul Langworthy
CEO

Lower Lock, Water Lane, London, NW1 8JZ

28 September 2020

A handwritten signature in black ink, appearing to be 'Paul Langworthy', written over a horizontal line.

EXECUTIVE DIRECTORS (presently in office):



Paul Langworthy, Chief Executive Officer (appointed 18 July 2019)

Paul Langworthy was appointed CEO of 7digital in July 2019, to lead the restructuring and repositioning of the Group as a global leader in B2B music solutions. Under his leadership, the Group has refocused to capitalize on the flexibility and scalability of the 7digital platform technology and catalogue to power unique and diversified customer experiences on behalf of enterprises and brands in the music streaming space. Previously COO, Paul was responsible for organizing the business to meet its strategic goals and objectives. Paul joined 7digital in April 2013 and has become a driving force in the Group's operations. Initially managing the Group's content supply chain, he later took leadership of 7digital's Client Operations teams. Paul also oversaw operations within the Production businesses that became part of 7digital Group plc following the 2014 merger with UBC Media. With 18 years of experience in digital and content operations, Paul has worked across all aspects of the digital supply chain including metadata, rights, scheduling, asset management and distribution. Prior to 7digital, Paul oversaw Content Operations at digital TV service YouView. He also spent over nine years with Universal Music Group within the label's International Digital Supply Chain Management division.



Michael Jusekwicz, Chief Financial Officer (appointed 20 September 2019)

Michael is an experienced technology, media and finance executive who currently also holds the position of CFO & Head of Corporate Development at eMusic. Michael spent over 10 years working in investment banking, mergers & acquisitions, and capital markets at the TMT groups of Bank of America Merrill Lynch, Nomura, and Cyndx. Michael has also acted as interim CFO of Export Now, a cross border focused e-commerce company, and gained experience working for the international accounting firm BDO. He holds an MBA from the University of Chicago Booth School of Business and a Bachelor of Science with a double major in both Accounting and Economics from Tel Aviv University. Michael was appointed the Group Company Secretary on 25 September 2019.

NON-EXECUTIVE DIRECTORS (presently in office):



Tamir Koch, Chair (appointed 14 July 2019)

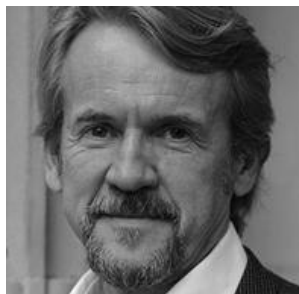
Koch is President TriPlay Inc. an online music and audiobook store and brand which started trading in 1998 and is focused on discovery and sales of independent music and artists. Most recently Tamir has led the eMusic Blockchain Project, seeking to provide a decentralised approach to music distribution and rights management to facilitate the utilisation of blockchain within the music industry. Tamir has previously founded several successful start-ups including Orca Interactive and Dotomi. Orca was sold to Emblaze Systems in 2000, which then floated Orca on AIM. It was subsequently acquired by France Telecom in 2008. Dotomi was acquired by ValueClick in 2011.



David Lazarus, (appointed 14 July 2019)

David is an industrialist and international entrepreneur. David spent six years at Lloyds of London as an accredited Lloyds Broker attending to Insurance and Re-Insurance. David is currently an Executive Director of the RAM Hand-to-Hand Couriers Group, a leader in the Courier, Logistics and Express Parcel Industry in Southern Africa. The RAM Group operates from approximately 40 hubs, with approximately 1,700 vehicles and over 2,800 staff across Southern Africa. David is also a member of the Young Presidents Organisation. David has been involved in several international businesses, including having knowledge of the various investments of Magic.

INDEPENDENT NON-EXECUTIVE DIRECTORS (presently in office):

**Mark Foster**

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

**Helen Patricia Gilder (appointed 6 February 2020)**

Helen brings a wealth of experience from her time as CFO at AIM-listed ZOO Digital Group plc, where she was part of the team taking the business from tech start up to success in the international entertainment industry. Since leaving ZOO in 2018 Helen has built a portfolio of NED and advisory roles in a range of businesses and is chairperson of a small charity. Helen qualified with the Institute of Chartered Accountants in England and Wales in 1991.

PREVIOUS EXECUTIVE DIRECTORS (who served during part of the year):

John Aalbers, Chief Executive Officer (appointed April 2019 resigned 18 July 2019)

John has an extensive track record, specialising in building early and mid-stage technology companies. His most recent role was as CEO of Arts Alliance Media where he established the company as the undisputed leader in operational support software for the cinema industry, before managing the successful sale to Luxin Rio of China. Prior to that, John was in the Telecommunications sector where he held roles including CEO of Volubill and numerous senior positions with CGI and Intec Telecom Systems (now CSG International).

Julia Hubbard, Chief Financial Officer (appointed April 2019 resigned 19 September 2019)

She is an accomplished CFO with experience in building high-growth companies and managing strategic turnarounds. Julia has valuable expertise in business direction, financial strategy, debt and equity fundraising, investor and stakeholder relationship management, and M&A management. Julia has held senior positions throughout the TMT, travel, construction, engineering and publishing sectors, including roles at AIM-listed Amino Technologies, lastminute.com Group, CSC Media and TV Travel Group, among others.

Simon Cole, Chief Executive Officer (resigned 1 April 2019)

Simon co-founded The Unique Broadcasting Company Limited in 1989 in partnership with Tim Blackmore, having pioneered the market for national sponsored programmes whilst at Piccadilly Radio, where he was Head of Programmes. Unique floated on the London Stock Exchange as part of UBC Media Group plc with Simon as Chief Executive and in 2014, UBC merged with 7digital via a reverse takeover. Simon has been awarded a fellowship of the Radio Academy and is also a Non-executive Director at Melody VR which is a part of EVR Holdings plc. Simon was appointed as an advisor of the Group from 1 June 2020.

GOVERNANCE

Board of Directors

Pete Downton, Deputy Chief Executive Officer (resigned 8 March 2019)

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

PREVIOUS INDEPENDENT NON-EXECUTIVE DIRECTORS

(who served during part of the year):

Sir Donald Cruickshank, Chair (resigned 26 June 2019)

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

Eric Cohen (resigned 26 June 2019)

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

Anne de Kerckhove (resigned 31 August 2019)

Anne has over 15 years' experience in leading some of the fastest growing technology, media and entertainment companies in Europe. Anne is currently the CEO of Freespee, the conversation platform company. Previously, Anne was CEO of Iron Group and Iron Capital an investment fund and payment enabler in the subscription economy. Before that Anne was the Managing Director EMEA for Videology, one of world's largest ad technology platforms where she drove expansion in over 16 countries in just under 3 years and was Global Director of Reed Elsevier, responsible for the B2B Entertainment Division, which included leading events such as MIPCOM. From 2003 to 2009, Anne was COO and International Managing Director at Inspired Gaming Group, overseeing the company from its launch to IPO and expansion into 12 countries. Anne has a Bachelor of Commerce from McGill University and an MBA from INSEAD. Anne is an angel investor in over 20 companies, including Andela and metail. Anne also sits on the board of 888.com.

GOVERNANCE

Directors' Report

The Board of Directors present their annual report and the audited financial statements for the year ended 31 December 2019. The Corporate Governance Statement on pages 20 to 22 forms part of this report.

Business review and future developments

The Chief Executive's Review is contained on pages 4 to 5, the Chief Financial Officer's Review is contained on pages 6 to 7 and Governance Report on pages 20 to 22; these reviews and reports, together with the information contained within the Directors' Report constitute the Business Review. The Business Review has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for these strategies to succeed.

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

Results and dividends

The Group's financial results for the year are shown in the Consolidated Income Statement on page 33. As in the previous year, the Board of Directors is not proposing a final dividend for the year ended 31 December 2019.

Directors' indemnities

The Group has made qualifying third-party indemnity provisions for the benefit of its directors that were made during the year and remain in force at the date of this report. Directors' and officers' indemnity insurance with an annual limit of £1 million is maintained.

Substantial shareholders

At 23 September 2020 notification of beneficial interests in 3% or more of the Company's issued share capital are as follows:

	Number of Shares	% of issued share capital	% of voting rights
Magic Investments S.A. Limited	742,436,219	27.41%	27.41%
Shmuel Koch Holdings	445,012,126	16.43%	16.43%
Mr Joseph D Samberg	445,000,000	16.43%	16.43%
Hargreaves Lansdown PLC	169,364,181	6.25%	6.25%
Interactive Investor Trading	93,260,915	3.44%	3.44%
LAS Investments	89,000,000	3.29%	3.29%
Mr Noam Band	89,000,000	3.29%	3.29%

Capital structure

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

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year, are shown in note 21.

During 2019, the Company carried out a Capital subdivision of shares. This created new class of Ordinary 0.01p shares that carry full voting rights; and Deferred 0.99p shares, along with the existing Deferred 9p shares, that carry limited voting rights. The Ordinary shares carry no right to fixed income. Each Ordinary share carries the right to one vote at general meetings of the Company. Details of the share capital can be found in note 21.

There are no specific restrictions on the size of a holding or on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. Details of employee share schemes are set out in note 26.

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

GOVERNANCE Directors' Report

(continued)

With regards to the appointment and replacement of directors, the Company is governed by its Articles of Association, the Companies Act 2006 and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of directors are described in the Main Board Terms of Reference, copies of which are available on request and the Corporate Governance Statement on pages 20 to 22.

Please refer to the post balance sheet note 27.

Financial risk management

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

Re-election of directors

The directors who retire by rotation in accordance with the Articles of Association will offer themselves for re-election at the Company's Annual General Meeting ("AGM"). The Board has considered the requirements of the QCA Corporate Governance Code in respect of these matters and believes that these members continue to be effective and to demonstrate their commitment to their role, the Board and the Group. Brief particulars of all directors can be found on pages 12 to 14.

Going concern

Summary

On 21 February 2020, a short term loan of £500k was signed with CSS Alpha (BVI) Limited. The loan is repayable over 12 months in equal parts starting from 28 March 2020 with interest based on 1.5% of the outstanding balance. The loan is guaranteed by one of the Directors.

On 3 September 2020, 7digital announced the placing of 266,666,667 new Ordinary Shares of 0.01p each, which raised £6m at an issue price of 2.25 pence per share. The net proceeds of the fundraising will be used to meet the immediate working capital requirements of the Group and support immediate and medium term commercial growth opportunities, in particular within home fitness, artist monetisation, and social media.

Background to and reasons for the placing and subscription

The music industry is undergoing a period of change and opportunity whereby revenue sources are changing, and growing. Whereas five years ago revenues were dominated mainly by music sales and live performances, today streaming has displaced download music sales and COVID-19 has shut down live performances for much of 2020 and is likely to continue to impact live performances in the medium term. In addition, as music streaming has gained in popularity, music listening on social video platforms has begun to outpace DSP streaming services.

7digital has an advanced, scalable, cloud-based platform and the Directors believe that the Company is positioned to take advantage of new sources of growth brought on by the changing industry as well as the new opportunities and models accelerated by the COVID-19 pandemic. This is supported by a number of renewals and new contracts over the last year, including with Triller, eMusic and a global technology company in August 2020. In particular 7digital has identified potentially significant emerging opportunities within social media, home fitness and artist monetisation channels.

Social Media

Music is becoming the driving force behind the growth of user-generated content ("UGC") social media platforms and the global success of Tik Tok is shifting the paradigm in how fans discover, share and create music. The Directors believe that social media enterprises will continue to develop new models to extend their reach and in doing so will need a partner in providing new user experiences.

7digital is able to provide access to its global catalogue, platform scale, rights and reporting to serve the sizeable and rapidly-growing user demand for world-wide social enterprises. Its platform enables users of social media platforms to access, sample and stream from its global catalogue while also ensuring accurate reporting back to record labels and rights holders.

(continued)

The Company recently announced a new contract with Triller and the Directors believe that the platform will be of interest to other social media enterprises as music is integrated into new services.

Home Fitness

The fitness industry is a \$94 billion global industry with an estimated 183 million paying subscribers. Hardware and digital bundled offerings like Peloton have popularised app-based training, and, as COVID-19 has closed gyms, there has been an accelerated shift to on-demand online fitness. This has presented a trend for which the Company has a strong product-market fit. The Directors also anticipate the pandemic will create interest from non-traditional companies in fitness and sport/leisure retail wanting to participate in digital music services to drive loyalty.

7digital's offering is a total fitness solution that includes a pre-licensed fitness music catalogue, content delivery, reporting and rightsholder payments, curation and playback of playlists for recording live classes. The Directors expect to announce a platform/licensing contract with in-home cycling providers and have a pipeline of potential additional high-profile global companies.

Artist Monetisation

With the shutdown of the live music industry in 2020 in response to the spread of COVID-19, 7digital and eMusic are partnering to create a platform that creates new ways for artists to engage with music fans and recoup the income lost from ticket sales. eMusic Live, a new livestream platform built to make online performances commercially viable for music artists, will appeal to artists, managers and labels looking for new ways to monetise music consumption through sponsorships, music and merchandise. eMusic Live will be powered using 7digital's technology platform, which provides access to the Company's global catalogue of music tracks in standard and hi-res audio. As the platform expands it is expected to also utilise 7digital's expertise in B2B music solutions and flexible services, combined with eMusic's B2C technology and functionality, to introduce new solutions for the live music industry. The platform will offer an integrated artist-specific 7digital storefront to enable artists to sell their music catalogue or promote their latest release, thereby facilitating more exposure for their music and more value from sales.

On 28 September 2020, the Group secured a £1m overdraft facility with Investec for a period of 36 months guaranteed by two of the Directors; this attracts 6% interest above Investec bank rate on the drawn portion of the facility and 2% on the undrawn portion.

COVID-19

In March 2020, the World Health Organisation declared a global pandemic due to the COVID-19 virus that has spread across the globe, causing different governments and countries to enforce restrictions on people movements, a stop to international travel, and other precautionary measures. This has had a widespread impact economically and a number of industries have been heavily impacted. This has resulted in impacts on certain industries and a more general need to consider whether budgets and targets previously set are realistic in light of these events.

As described on page 5, the COVID-19 pandemic has had a minimal impact on our business and the Board believes that the business is well positioned to be able to navigate through the impact of COVID-19 due to the strength and flexibility of its service proposition.

Brexit

The United Kingdom ('UK') formally left the European Union ('EU') on 30 January 2020. The period of time from when the UK voted to exit the EU on 23 June 2016 and the formal process initiated by the UK government to withdraw from the EU, or Brexit, created volatility in the global financial markets. The UK now enters a transition period, being an intermediary arrangement covering matters like trade and border arrangements, citizens' rights and jurisdiction on matters including dispute resolution, taking account of The EU (Withdrawal Agreement) Act 2020, which ratified the Withdrawal Agreement, as agreed between the UK and the EU. The transition period is currently due to end on 31 December 2020 and ahead of this date, negotiations are ongoing to determine and conclude a formal agreement between the UK and EU on the aforementioned matters.

The Group operates subsidiaries in many countries. The Directors currently deem that the effects of the UK's current transitional period outside the EU and the impact of ongoing discussions with the EU will not have a significant impact on the Group's operations due to the global geographical footprint of the business and the nature of its operations.

GOVERNANCE

Directors' Report

(continued)

Conclusion

The Directors have reviewed 7digital's going concern position taking account of its current business activities, financial forecasts and factors likely to affect its future financial position, as set out in this Annual report which include 7digital's objectives, policies and processes for managing its capital and its financial risk management objectives. Considering the global coronavirus (COVID-19) pandemic, the global economic uncertainties and impact on delayed sales cycles, the Directors have undertaken an elevated scrutiny to the cashflow forecasts covering a period of at least 12 months from the date of approval of the financial statements. Cashflow forecasts have been prepared based on a range of scenarios including, but not limited to, no further debt or equity funding, existing customer churn, no new contracted sales revenue and cost reductions.

Having assessed the sensitivity analysis on cashflows including the funding of £6m and the security of the newly agreed credit facility, together with the significant current business momentum from new customers such as Triller, the launch of eMusic Live and growing demand for streaming and digital music solutions, the Directors strongly believe 7digital will continue to operate as a going concern for the foreseeable future, being 12 months from their signing of their financial statements.

Environmental policy

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

Policy and practice on payment of creditors

Each Group Company is responsible for agreeing the details of terms and conditions relating to transactions with its suppliers where goods and services have been supplied in accordance with the relevant terms and conditions of the contract. Trade creditors for the Group at 31 December 2019 represented 241 days of purchases (31 December 2018: 171 days of purchases).

Auditor

BDO LLP were reappointed as the auditors for the year ended 31 December 2019.

Directors' statement as to the disclosure of information to the auditor

Each of the persons who is a director at the date of approval of this annual report confirms that:

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

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

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare Group and Parent Company financial statements for each financial year. Under that law, the directors are required to prepare Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The Parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Company. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

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

(continued)

In preparing the Parent Company financial statements, the directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

Mark Foster
Director

Lower Lock, Water Lane, London, NW1 8JZ
28 September 2020

A handwritten signature in dark ink, appearing to read 'M Foster', with a horizontal line underneath.

GOVERNANCE

Corporate Governance Statement

For the purposes of AIM Rule 26, the recognised corporate governance code that the Board has decided to apply is the Quoted Companies Alliance Corporate Governance Code 2018 ('QCA Code'). The Board believes the QCA Code provides the most appropriate framework of governance arrangements for the Company, considering the size and stage of development of the Company's business. The following information is provided to explain how the Company complies with the QCA Code.

The Board supports the principles and aims of the Code and intends to ensure that the Group observes the provisions of the Code as it grows, as far as is practical.

Board Composition

The Company is controlled through a Board of Directors, which at 31 December 2019 comprised four directors: two executive directors, one non-executive director and one independent non-executive director. Short biographies of each director are set out on pages 12 to 14. The role of the Chair and that of the Chief Executive are separate. Mark Foster and Helen Gilder (appointed post year-end) are considered independent by the Board.

Tamir Koch, the Chair, is not considered by the Board to be independent by virtue of the fact that he is Executive Chair of Triplay Inc. which is a substantial shareholder. David Lazarus is not considered by the Board to be independent by virtue of the fact that he is Executive Chair of Magic Investments SA which is a substantial shareholder.

Board Role

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

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

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

Skills and Expertise

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

Strategy and Corporate Governance

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

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

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

GOVERNANCE

Corporate Governance Statement

(continued)

The Group carries insurance to indemnify directors for claims made against them in relation to their duties, with the exception of any losses incurred as a result of their wilful negligence. Cover with an annual limit of £1 million is maintained.

Board Evaluation and Re-election

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

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

Meeting Frequency

During the year, the total number of formal meetings of the Board of 7digital Group plc was 20. The attendance at formal scheduled meetings of the Board was as follows:

	Number of Board Meetings attended	Number of eligible Board Meetings
P Langworthy	2	<i>2 Appointed July 2019</i>
M Juskiewisz	1	<i>1 Appointed September 2019</i>
T Koch	4	<i>4 Appointed July 2019</i>
D Lazarus	3	<i>4 Appointed July 2019</i>
M Foster	19	19
J Aalbers	12	<i>12 Appointed April 2019; Resigned July 2019</i>
J Hubbard	12	<i>13 Appointed April 2019; Resigned September 2019</i>
S Cole	5	<i>5 Resigned April 2019</i>
P Downton	3	<i>4 Resigned March 2019</i>
D Cruickshank	14	<i>16 Resigned June 2019</i>
E Cohen	12	<i>16 Resigned June 2019</i>
A de Kerckhove	14	<i>18 Resigned August 2019</i>
D Holmwood	4	<i>4 Resigned April 2019</i>

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

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

The Executive Directors are full time employees and the Non-Executive Directors are required to devote sufficient time to discharge the duties of their office.

Financial reporting

The Board places considerable emphasis on ensuring that all communications with shareholders present a balanced and transparent assessment of the Group's position and prospects. The Board or a subcommittee of the Board reviews and approves results announcements, interim reports, annual reports, the chair's AGM statement and trading updates prior to their release. The Statement of Directors' Responsibility in respect of the preparation of financial statements is set out on pages 18 to 19 and the auditor's statement on the respective responsibilities of directors and the auditor is included within their report on pages 26 to 32.

Committees of the Board

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

GOVERNANCE

Corporate Governance Statement

(continued)

Audit Committee

The Audit Committee consists of Mark Foster (the Chair until February 2020) and Helen Gilder (appointed February 2020; Chair from February 2020). The Audit Committee has primary responsibility for monitoring the integrity of the financial statements of the Group; reviewing the Group's internal financial controls; ensuring that the financial performance of the Group is properly measured and reported on; and for reviewing reports from the Group's auditor relating to the Group's accounting and internal financial controls. The Chief Financial Officer and other senior management also attend committee meetings by invitation. The Committee has unrestricted access to the Company's auditor. The Audit Committee met formally three times during the period. The Committee reviews arrangements by which staff of the Company may raise in confidence concerns about improprieties in matters of financial reporting or other matters and investigates appropriate follow-up action.

The Audit Committee recommends to the Board the appointment, re-appointment or removal of the external auditor. During 2019 the Audit Committee made the decision to re-engage BDO for a third year of service.

Remuneration Committee

The Remuneration Committee consists of Tamir Koch, as chairman, Mark Foster and Helen Gilder (appointed February 2020). Further details of the Committee's remit are contained in the Directors' Remuneration Report on pages 23 to 24. The Remuneration Committee did not formally meet during the period.

Risk Register

A risk register has been implemented in Q1 2020 to improve process, enhance and strengthening internal controls and managing risk.

Relations with shareholders

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

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

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

Constructive use of the AGM

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

GOVERNANCE

Directors' Remuneration Report

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

Remuneration Committee

The Board has established a Remuneration Committee with formally delegated duties and responsibilities. The Remuneration Committee consists of Tamir Koch, as chairman, Mark Foster and Helen Gilder (appointed February 2020). The provisions of the QCA Code recommend that as Company Chairman, Tamir Koch, should not be a member of the Committee. However, it was considered that Tamir's experience and knowledge is of considerable value to the Committee and as a result he has been appointed a member of the Committee. The Remuneration Committee has responsibility for determining executive directors' terms and conditions of service, including remuneration and grant of options under the Share Option Schemes.

Remuneration policy for executive directors

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

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

The remuneration of each of the directors (as audited) for the year ended 31 December 2019 for the 7digital Group was as follows:

	Salary & Fees £'000	Share based payments £'000	Settle- ment £'000	Bonus £'000	Taxable benefits £'000	Pension contribution £'000	Total 2019 £'000	Total 2018 £'000
Executive								
P Langworthy	101	55	-	45	-	4	205	-
S.A. Cole	197	210	-	25	-	12	444	251
J Aalbers	193	-	-	-	-	7	200	-
J Hubbard	143	-	15	-	-	5	163	-
P Downton	110	-	10	-	5	4	129	177
M Juskiewicz	54	-	-	-	-	-	54	-
Non-executive								
M Foster (1)	37	15	-	-	-	-	52	33
D Cruickshank (2)	27	-	-	-	-	-	27	79
A de Kerckhove (3)	27	-	-	-	-	-	27	45
E Cohen (4)	4	3	-	-	-	-	7	33
H Gilder (5)	6	-	-	-	-	-	6	-
Total	899	283	25	70	5	32	1,314	618

(1) M Foster received a fee of £36,875; his annual fee rose from £27.5k to £50k per annum in August 2019. He is owed a fee payable in shares of £25,000 (4,166,667 shares).

(2) D Cruickshank received a fee of £27,125 for the period 1 January 2019 up to his date of resignation.

(3) A de Kerckhove received a fee of £21,667 and a non-executive fee of £5,200 for her role as President of 7digital SAS, both were for the period 1 January 2019 up to her date of resignation.

(4) E Cohen received a fee of £4,063 for the period 1 January 2019 up to his date of resignation. He is owed a fee payable in shares of £7,500 (1,250,000 shares)..

(5) H Gilder received a fee of £5,833 for the last two months of the year prior to appointment in February 2020.

P McGowan, a director who resigned in 2018, has a fee payable in shares of £28,482 (4,747,024 shares).

Total employer national insurance contributions relating to Directors' remuneration were £127,426.70.

GOVERNANCE

Directors' Remuneration Report

(continued)

Directors and their interests

The directors who held office at 31 December 2019 had the following interest in the ordinary share capital of the Company at the end of the year:

	2019		2018	
	Number of ordinary shares	Ordinary shares under options	Number of ordinary shares	Ordinary shares under options
D Lazarus (1)	742,436,219	-	-	-
T Koch (2)	445,012,126	-	-	-
M Foster	587,943	-	587,943	-
P Langworthy	25,572	2,783,334	21,146	2,977,734

At 31 December 2019, the following directors' interests were also noted:

- 742,436,219 were held by Magic Investments SA of which D Lazarus is a director.
- 445,012,126 were held by a Shmuel Koch Holdings, of which T Koch is a director.

During the year no shares were issued to Non-executive Directors in lieu of remuneration. At 31 December 2019 5,416,667 (2018: 989,011) shares are due to be issued.

	Accrued gross number of ordinary shares remaining due at 31 Dec 2018	Shares issued during year in lieu of remuneration	Shares forfeited during year due to resignations	Shares accrued during the year in lieu of remuneration	Accrued gross number of ordinary shares remaining due at 31 Dec 2019
D Cruickshank	549,451	-	(549,451)	-	-
A de Kerckhove	109,890	-	(109,890)	-	-
M Foster	54,945	-	-	4,111,722	4,166,667
E Cohen	274,725	-	-	975,275	1,250,000
Total	989,011	-	(659,341)	5,086,997	5,416,667

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

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

	Share Options	Currently Exercisable	Exercise price	Earliest exercise date	Latest exercise date
P Langworthy	2,783,334	0	0.0p	08 Aug 2020	29 Aug 2021
S A Cole	4,933,334	0	0.0p	08 Aug 2020	29 Aug 2021

There are a number of performance conditions relating to the financial periods ending December 2016, 2017, 2018 and 2019 attached to these options. Of these options granted, the table below shows the options issued, exercised, lapsed or forfeited during 2019:

	Share Options held at 31 December 2018	Issued	Forfeited	Lapsed	Share Options held at 31 December 2019
Paul Langworthy	2,977,734	-	(153,333)	(41,067)	2,783,334

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF 7DIGITAL GROUP PLC

Opinion

We have audited the financial statements of 7digital Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2019 which comprise the consolidated income statement and statement of comprehensive income, the consolidated statement of financial position, the consolidated cash flow statement, the consolidated statement of changes in equity, the parent company statement of financial position, the parent company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies.

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

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF 7DIGITAL GROUP PLC

Conclusions relating to going concern

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

- 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 or the 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.

Key audit matters

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

Key audit matter	How we addressed the key audit matter in the audit
<p>Revenue Recognition</p> <p>See accounting policy in note 1 and note 2 Revenue</p> <p>As explained in the accounting policy, the group has a number of revenue streams for which the accounting treatment must be individually considered.</p> <p>The majority of the revenues are from licences for B2B streaming contracts held, where the significant risk of material misstatement arises from the existence of revenue recognised for set up fees and monthly recurring fees due to the judgement requirement in determining when performance obligations are satisfied.</p> <p>With content revenue the significant risk is over-statement of revenue recognised.</p> <p>With creative revenue, the significant risk is cut-off at the year-end, with judgement being applied to the amount of revenue to be recognised and accrued or deferred at the year-end.</p>	<p>Our audit procedures included assessing the appropriateness of the revenue recognition policies implemented in accordance with adoption of applicable accounting standards over the different revenue streams.</p> <p>For licence revenue a sample of key contracts were selected for testing, assessing whether the revenue existed by agreeing to contract and licence keys issued and determining whether revenue was recognised in accordance with the contractual terms, the group's revenue recognition policy and applicable accounting standards.</p> <p>For content revenue, we agreed a sample of receipts from the third party service providers' statements to the relevant bank statements.</p> <p>For creative revenue, for a sample of contracts entered into during the current period we calculated a revenue expectation and compared to the revenue recognised by the group. For revenue spanning the year end, the accrued and deferred revenue elements were recalculated by reference to the contract and the actual work completed at the year-end date.</p> <p>Key observations:</p> <p>Based on the procedures performed we consider that revenue has been recognised appropriately in accordance with the group's revenue recognition accounting policy.</p>

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF 7DIGITAL GROUP PLC

<p>Valuation of content cost of sales and related content accruals</p> <p>See key estimates and judgements in note 1.1</p> <p>The group's content cost comprises amounts payable to music label suppliers and publishers. This is an area with a high level of complexity in calculating and monitoring the royalty rates payable to the artists or writers of the songs played/sold, due to varied pricing structures, resulting in a blended rate being applied. Consequently, there is a risk that the liability within the financial statements is incorrectly estimated leading to the content cost in the consolidated income statement and the content cost accrual at the year-end being materially misstated.</p> <p>The accrued balance for content costs is £1.96m (2018: £1.1m).</p>	<p>We have assessed managements estimates in calculating the content cost of sale and associated accrual by:</p> <ul style="list-style-type: none"> • reference to the prior year, checking a consistent estimation approach was adopted by management • verifying the reasonableness of the blended gross margin rate applied to arrive at the content cost of sale, based on historical label content invoices received • assessing the accuracy and completeness of the content sales by comparing to the sales reports from the third party service providers and cash receipts testing on a sample basis • Recalculating the content costs of sales using the above blended gross margin rate and total content sales • For a sample of content supplier invoices received during the year and post year end, compared the invoice to the subsequent utilisation or estimated content accrual respectively to assess the valuation of the content accrual. <p>Key observations:</p> <p>Based on the procedures performed, we found the estimates relating to the contest cost and related accrual to be reasonable.</p>
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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF 7DIGITAL GROUP PLC

Going Concern

As detailed in note 1, the Group has undertaken a significant fundraise during the year and subsequent to the balance sheet date. The unprecedented impact of COVID-19 on the business and wider world economies has resulted in uncertainties on the ability of companies to continue operating as going concerns, and has raised additional audit risks. As a result, the Directors have considered the impact of the recent Covid-19 outbreak as part of the Group's going concern analysis and have modelled a range of reasonably possible outcomes with the new fundraising and bank overdraft facility obtained during the time of the pandemic, including an extreme stress test scenario.

Considering, the recent pandemic and the group continuing to incur losses, the directors have successfully secured a fundraise of £5.65m (net) through placement and subscription of shares and a £1m overdraft facility to sustain its immediate working capital needs.

Due to the significance of this matter and given the judgements involved in forecasting cash flows of the group we determined that going concern is a key audit matter.

We challenged management's modelled scenarios covering a period of at least 12 months from the date of approval of the financial statements including the stress test scenario, which was based on significantly reduced trading for a period of 12 months.

We agreed the cash of £ 5.65 million received on 16 Sept 2020, following the Group's fundraise through placement and subscription of shares to the bank statement.

We examined the terms of the new £1m overdraft facility secured by the Group, focusing on the covenants per the agreement, to check that the Group could remain compliant for the next 12 months, when considering the stress test model prepared.

We assessed the integrity of the cash flow model and agreed cash at hand within the Group at 28 September 2020 to bank statement, supporting the modelled scenarios prepared by management.

We assessed the assumptions made for the renewal of contracts and new customer contract wins for reasonableness, by reference to historical renewal rates and new wins.

We reviewed the mitigating actions being undertaken by directors to manage and conserve cash for reasonableness.

We assessed management's disclosures in relation to the COVID-19 pandemic and its potential impact checking that these are consistent with management's stress test scenario and the Board's view of the current market conditions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF 7DIGITAL GROUP PLC

Our application of materiality

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

Materiality

Materiality for the group as a whole was set at £95k (2018: £198k), which represents 1% (2018:1%) of group revenue. For the Group, revenue provides a consistent year on year basis for determining materiality due to the group making losses each year and has been determined to be the most relevant performance measure to the stakeholders of the group.

Materiality for the parent company was set at £39k (2018: £46k), which represents 1% (2018: 1%) of adjusted expenditure (2018: revenue). The basis for materiality has been amended as the parent company is no longer a trading entity and is purely the holding company for the group.

Performance Materiality

Based upon our assessment of the risks within the group and the group's control environment, performance materiality for the group financial statements was set at £66k (2018: £ 139k), being 70% (2018: 70%) of materiality. Performance materiality for the parent company was set at £27k (2018 : 32k), being 70% of materiality.

Component materiality levels applied ranged from £15k to £66k (2018: £26k to £112k).

Reporting Threshold

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £4k (2018: £8k), which is 4% (2018: 4%) of materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment, including the group's system of internal control, and assessing the risks of material misstatement in the financial statements at the group level.

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

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

The group consists of six trading entities. Four of the trading entities, one being the holding company, are based in the UK and were considered significant components for the purposes of our audit. Full scope audits were performed for these entities. Further to this there are two non-significant trading entities, one within the US and one in France as well as other non-trading entities for which analytical procedures were performed. All audit procedures were performed by the group audit team. The significant components audited for the group reporting purposes accounted for 91% of the group's revenue and 100% of the group's total assets.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF 7DIGITAL GROUP PLC

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report and accounts other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF 7DIGITAL GROUP PLC

Use of our report

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

BDO LLP

Nicole Martin (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor

London, UK

28 September 2020

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

CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

		Year to 31 Dec 2019	Year to 31 Dec 2018
	Notes	£'000	£'000
Revenue	2	9,303	19,912
Cost of sales		<u>(3,006)</u>	<u>(5,185)</u>
Gross profit		6,297	14,727
Other Income	5	1,103	371
Administrative expenses		<u>(13,037)</u>	<u>(27,223)</u>
Adjusted operating loss	6	(3,358)	(4,599)
- Share based payments	26	(239)	(173)
- Foreign exchange		(238)	(48)
- Other adjusting items	3	(1,802)	(7,305)
Operating loss	4	(5,637)	(12,125)
Finance income	9	-	31
Finance cost	9	<u>(172)</u>	<u>(101)</u>
Loss before tax		(5,809)	(12,195)
Taxation on continuing operations	10	<u>(3)</u>	<u>334</u>
Loss for the year attributable to owners of the parent company		(5,812)	(11,861)
Loss per share (pence)			
Basic and diluted	11	<u>(0.47)</u>	<u>(2.97)</u>

Consolidated Statement of Comprehensive Income

		Year to 31 Dec 2019	Year to 31 Dec 2018
	Notes	£'000	£'000
Loss for the year		(5,812)	(11,861)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	22	<u>184</u>	<u>(43)</u>
Other comprehensive loss		(5,628)	(11,904)
Total comprehensive loss attributable to owners of the parent company		(5,628)	(11,904)

The notes from pages 38 to 70 form part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2019

	Notes	2019 £'000	2018 £'000
Assets			
Non-current assets			
Intangible assets	12	-	1,175
Property, plant and equipment	13	51	128
Right-of-use assets	14	1,321	-
		1,372	1,303
Current assets			
Trade and other receivables	16	1,631	5,784
Contract assets	2	255	458
Cash and cash equivalents		149	461
		2,035	6,703
Total assets		3,407	8,006
Current liabilities			
Trade and other payables	17	(7,009)	(9,739)
Loans and borrowings	18	-	(1,306)
Derivative liability	18	-	(257)
Contract liabilities	2	(335)	(1,149)
Lease liability	14	(472)	-
Provisions for liabilities and charges	19	(768)	(303)
		(8,584)	(12,754)
Net current liabilities		(6,549)	(6,051)
Non-current liabilities			
Other payables	17	(676)	(1,066)
Contract liabilities	2	(7)	(141)
Lease liability	14	(1,186)	-
Provisions for liabilities and charges	19	-	(125)
		(1,869)	(1,332)
Total liabilities		(10,453)	(14,086)
Net liabilities		(7,046)	(6,080)
Equity			
Share capital	21	14,817	14,420
Share premium account	21	12,043	8,294
Other reserves	22	(2,845)	(3,268)
Retained earnings		(31,061)	(25,526)
Total deficit		(7,046)	(6,080)

The financial statements were approved by the Board and authorised for issue on 28 September 2020 and are signed on its behalf by:

28 September 2020
Director



The notes from pages 38 to 70 form part of the financial statements.

CONSOLIDATED CASHFLOW STATEMENT **Year ended 31 December 2019**

		Year to 31 Dec 2019	Year to 31 Dec 2018
	Notes	£'000	£'000
Loss for the year		(5,812)	(11,861)
Adjustments for:			
Taxation	10	3	(334)
Finance Cost	9	172	101
Profit on sale of fixed assets		(125)	(11)
Foreign exchange	4	238	48
Amortisation of intangible assets	12	228	1,839
Amortisation of right-of-use asset	14	415	-
Depreciation of fixed assets	13	77	251
Impairment of intangible fixed assets	12	-	3,946
Impairment of tangible fixed assets	13	-	131
Share based payments	26	239	173
Increase/(decrease) in provisions	19	340	(9)
Decrease in accruals and deferred income		(1,190)	(3,639)
Decrease in trade and other receivables		3,793	778
(Decrease)/increase in trade and other payables		<u>(2,658)</u>	<u>1,732</u>
Cash flows used in operating activities		(4,280)	(6,855)
Taxation	10	19	(44)
Interest income received	9	-	1
Interest expense paid	9	(31)	(39)
Net cash used in operating activities		(4,292)	(6,937)
Investing activities			
Purchase of property, plant and equipment, and intangible assets		-	(1,000)
Proceeds from sale of intangible and tangible fixed assets		1,073	11
Net cash generated/(used) in investing activities		1,073	(989)
Financing activities			
Proceeds from issuance of share capital (net)		3,313	-
Proceeds from issuance of shareholder loans	18	-	1,500
Principal paid on lease liabilities	14	(352)	-
Net cash generated from financing activities		2,961	1,500
Net decrease in cash and cash equivalents		(258)	(6,426)
Cash and cash equivalents at beginning period		461	6,978
Effect of foreign exchange rate changes		(54)	(91)
Cash and cash equivalents at end of year		149	461

The notes from pages 38 to 70 form part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY **Year ended 31 December 2019**

	Notes	Share capital £'000	Share premium account £'000	Reverse acquisition reserve (note 22) £'000	Foreign exchange translatio n reserve (note 22) £'000	Merger reserve (note 22) £'000	Shares to be issued (note 22) £'000	Retained earnings £'000	Total £'000
At 31 December 2018		14,420	8,294	(4,430)	35	959	168	(25,526)	(6,080)
Comprehensive income/(loss) for the year									
Loss for the year		-	-	-	-	-	-	(5,812)	(5,812)
Other comprehensive income		-	-	-	184	-	-	-	184
Total comprehensive income/(loss) for the year		-	-	-	184	-	-	(5,812)	(5,628)
Contributions by and distributions to owners								-	
Share issued (net of costs)	21	397	3,749	-	-	-	-	-	4,146
Share based payments	26	-	-	-	-	-	239	-	239
Capital contribution	18	-	-	-	-	-	-	277	277
Total contributions by and distributions to owners		397	3,749	-	-	-	239	277	4,662
At 31 December 2019		14,817	12,043	(4,430)	219	959	407	(31,061)	(7,046)

The notes from pages 38 to 70 form part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY **Year ended 31 December 2019**

	Notes	Share capital £'000	Share premium account £'000	Reverse acquisition reserve (note 21) £'000	Foreign exchange translation reserve (note 21) £'000	Merger reserve (note 21) £'000	Shares to be issued (note 21) £'000	Retained earnings £'000	Total £'000
At 31 December 2017 as previously stated		14,404	8,232	(4,430)	78	959	26	(12,837)	6,432
Adjustment on the adoption of IFRS 15		-	-	-	-	-	-	(344)	(344)
Prior year adjustments		-	-	-	-	-	-	(484)	(484)
1 January 2018 as restated		14,404	8,232	(4,430)	78	959	26	(13,665)	5,604
Comprehensive loss for the year									
Loss for the year		-	-	-	-	-	-	(11,861)	(11,861)
Other comprehensive loss		-	-	-	(43)	-	-	-	(43)
Total comprehensive loss for the year		-	-	-	(43)	-	-	(11,861)	(11,904)
Contributions by and distributions to owners								-	
Share issued	21	16	62	-	-	-	-	-	78
Share based payments	26	-	-	-	-	-	142	-	142
Total contributions by and distributions to owners		16	62	-	-	-	142	-	220
At 31 December 2018		14,420	8,294	(4,430)	35	959	168	(25,526)	(6,080)

The notes from pages 38 to 70 form part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

1. Accounting policies

General information

7digital Group plc is a public company, limited by shares and incorporated in the United Kingdom (England and Wales) under the Companies Act 2006. The address of the registered office is given on page 82.

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

Basis of Preparation

Statutory accounts for the year ended 31 December 2019 have been delivered to the Registrar of Companies. The financial information for the year ended 31 December 2019 contained in these results has been audited.

The financial information contained in these results has been prepared using the recognition and measurement requirements of International Financial Reporting Standards (IFRSs) as adopted by the EU. The accounting policies adopted in these results have been consistently applied to all the years presented and are consistent with the policies used in the preparation of the financial statements for the year ended 31 December 2019. New standards, amendments and interpretations to existing standards, which have been adopted by the Group for the year ended 31 December 2019, have been listed below.

New standards and interpretations

a) New standards, interpretations and amendments effective from 1 January 2019.

New standards impacting the Group that have been adopted in the annual financial statements for the year ended 31 December 2019, and which have given rise to changes in the Group's accounting policies are:

- IFRS 16 *Leases* (IFRS 16) refer note 14

The Group adopted IFRS 16 using the modified retrospective approach, with recognition of transitional adjustments on the date of initial application (1 January 2019), without restatement of comparative figures. The Group elected to apply the practical expedient to not reassess whether a contract is or contains a lease at the date of initial application. Contracts entered into before the transition date that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. The definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

b) New standards, interpretations and amendments not yet effective.

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the group has decided not to adopt early. The most significant of these is:

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Definition of Material)
- IFRS 3 Business Combinations (Amendment – Definition of Business)
- Revised Conceptual Framework for Financial Reporting

New and amended standards and Interpretations issued by the IASB that will apply for the first time in the next annual financial statements are not expected to impact the Group as they are either not relevant to the Group's activities or require accounting which is consistent with the Group's current accounting policies.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

1. Accounting policies (continued)

Going concern

Summary

On 21 February 2020, a short term loan of £500k was signed with CSS Alpha (BVI) Limited. The loan is repayable over 12 months in equal parts starting from 28 March 2020 with interest based on 1.5% of the outstanding balance. The loan is guaranteed by one of the Directors.

On 3 September 2020, 7digital announced the placing of 266,666,667 new Ordinary Shares of 0.01p each, which raised £6m at an issue price of 2.25 pence per share. The net proceeds of the fundraising will be used to meet the immediate working capital requirements of the Group and support immediate and medium term commercial growth opportunities, in particular within home fitness, artist monetisation, and social media.

Background to and reasons for the placing and subscription

The music industry is undergoing a period of change and opportunity whereby revenue sources are changing, and growing. Whereas five years ago revenues were dominated mainly by music sales and live performances, today streaming has displaced download music sales and COVID-19 has shut down live performances for much of 2020 and is likely to continue to impact live performances in the medium term. In addition, as music streaming has gained in popularity, music listening on social video platforms has begun to outpace DSP streaming services.

7digital has an advanced, scalable, cloud-based platform and the Directors believe that the Company is positioned to take advantage of new sources of growth brought on by the changing industry as well as the new opportunities and models accelerated by the COVID-19 pandemic. This is supported by a number of renewals and new contracts over the last year, including with Triller, eMusic and a global technology company in August 2020. In particular 7digital has identified potentially significant emerging opportunities within social media, home fitness and artist monetisation channels.

COVID-19

In March 2020, the World Health Organisation declared a global pandemic due to the COVID-19 virus that has spread across the globe, causing different governments and countries to enforce restrictions on people movements, a stop to international travel, and other precautionary measures. This has had a widespread impact economically and a number of industries have been heavily impacted. This has resulted in impacts on certain industries and a more general need to consider whether budgets and targets previously set are realistic in light of these events.

As described on page 5, the COVID-19 pandemic has impacted our business but the Board believes that the business is well positioned to be able to navigate through the impact of COVID-19 due to the strength and flexibility of its service proposition.

Brexit

The United Kingdom ('UK') formally left the European Union ('EU') on 30 January 2020. The period of time from when the UK voted to exit the EU on 23 June 2016 and the formal process initiated by the UK government to withdraw from the EU, or Brexit, created volatility in the global financial markets. The UK now enters a transition period, being an intermediary arrangement covering matters like trade and border arrangements, citizens' rights and jurisdiction on matters including dispute resolution, taking account of The EU (Withdrawal Agreement) Act 2020, which ratified the Withdrawal Agreement, as agreed between the UK and the EU. The transition period is currently due to end on 31 December 2020 and ahead of this date, negotiations are ongoing to determine and conclude a formal agreement between the UK and EU on the aforementioned matters.

The Group operates subsidiaries in many countries. The Directors currently deem that the effects of the UK's current transitional period outside the EU and the impact of ongoing discussions with the EU will not have a significant impact on the Group's operations due to the global geographical footprint of the business and the nature of its operations.

Facility

On 28 September 2020, the Group secured a £1m overdraft facility with Investec for a period of 36 months guaranteed by two of the Directors; this attracts 6% interest above Investec bank rate on the drawn portion of the facility and 2% on the undrawn portion.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

1. Accounting policies (continued)

Conclusion

The Directors have reviewed 7digital's going concern position taking account of its current business activities, financial forecasts and factors likely to affect its future financial position, as set out in this Annual report which include 7digital's objectives, policies and processes for managing its capital and its financial risk management objectives. Considering the global coronavirus (COVID-19) pandemic, the global economic uncertainties and impact on delayed sales cycles, the Directors have undertaken an elevated scrutiny to the cashflow forecasts covering a period of at least 12 months from the date of approval of the financial statements. Cashflow forecasts have been prepared based on a range of scenarios including, but not limited to, no further debt or equity funding, existing customer churn at different churn rates, no new contracted sales revenue, delayed sales, cost reductions, both limited and extensive, and a combination of these different outcomes.

Having assessed the sensitivity analysis on cashflows including the funding of £6m and the security of the newly agreed credit facility, together with the significant current business momentum from new customers including Triller, the launch of eMusic Live and growing demand for streaming and digital music solutions, the Directors strongly believe 7digital will continue to operate as a going concern for the foreseeable future, being 12 months from their signing of their financial statements.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2019.

All subsidiaries are controlled by the Group and are included in the consolidated financial statements; the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

1. Accounting policies (continued)

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships, such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date, if an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Subsidiaries

Subsidiaries are entities controlled by the Group, the Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Loss of control

When the Group loses control over a subsidiary, it de-recognises the assets and liabilities of the subsidiary, and any non-controlling interests and other components of equity. Any resulting gain or loss is recognised in the profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Revenue

The group comprises of mainly three types of revenues

- 1) Licencing fees (also known as B2B sales)
 - a. Setup Fees
 - b. Monthly development and support fees
 - c. Usage fees
- 2) Content ("download") revenues (also known as B2C sales)
- 3) Creative revenues

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

1. Accounting policies (continued)

Each type of revenue is detailed below

Revenue comprises of:

I. Licensing revenues

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

The description of the licence fees comprise three categories;

1. **Set-up fees** : Set up fees which grant initial access to the platform, allow use of our catalogue and associated metadata and mark the start of work to define a client's exact requirements and create the detailed specifications of a service.
2. **Monthly development and support fees** which cover the costs of developer and customer support time. These are usually fixed and are paid monthly once a service has been specified in detail; they are calculated at commercial rates based on the number of developer or support days required.
3. **Usage fees** which cover certain variable costs like bandwidth which can be re-charged to clients with an administrative margin are recognised at point in time based on usage.

II. Content ("download") revenues

Content revenues are recognised at the value of services supplied and on delivery of the content. The group manages a number of content stores and the income is recognised in the month it relates to. Majority of the revenue converts directly to cash; any accrued revenue converts to trade receivables within 30days.

III. Creative revenues

Creative revenues relate to the sale of programmes and other content. 7digital also undertakes bespoke radio programming for its customers. As the programmes are being created the associated revenue is accrued/deferred until such time as the programme is delivered and accepted by the client. At this time the accrued revenue converts to trade receivables. These mainly include the production of weekly radio programmes, as well as the one-off production of episodes. In case of one-off productions which required the Group to provide progress reports to its customers and where the company has no alternative use of the program produced, the group recognises revenue over the period i.e. based on percentage of completion, for the rest of the regular programs and contents, where the company does not own the IP, the group measures the revenue based on delivery of the content i.e. at a point in time.

Contracts with multiple performance obligations

Many of the Group's contracts include a variety of performance obligations, including Licencing revenue (set-up fees, monthly revenue for using 7digital's API licence platform and usage fees), however may not be distinct in nature. Under IFRS 15, the Group evaluates the segregation of the agreed goods or services based on whether they are 'distinct'. If both the customer benefits from them either on its own or together with other readily available resources, and it is 'separately identifiable' within the contract.

To determine whether to recognise revenue, the Group follows a 5-step process:

- Identifying the contract with customers
- Identifying the performance obligations
- Determining the transaction price
- Allocating the transaction price to the performance obligations
- Recognising revenue when/ as performance obligations are satisfied.

Performance Obligations and timing of revenue recognition

Revenue generated from B2B customer contracts often identify separate goods/services, with these generally being the access of the API license platform, and the associated monthly licence maintenance fees and content usage fees.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

1. Accounting policies (continued)

The list of obligations as per the contract that are deemed to be one performance obligation in case of licencing revenue are (B2B):

- The licenses provide access to the 7D platform
- The development and support fees which cover the costs of developer and customer support time
- Usage fees which cover certain variable costs like bandwidth and content.

A key consideration is whether licencing fees give the customer the right to use the API Licence as it exists when the licence is granted, or access to API which will, amongst other considerations, be significantly updated during the API licence period.

The group grants the customer a limited, revocable, non-exclusive and non-transferable licence in the Territory during the Term, to use the 7digital API and the content to enable the provision of the Music Service to the End Users via Application.

Set-up fees represent an obligation under the contract, which is not a distinct performance obligation, as the customer is not able to access the platform without them. These are therefore spread over the period of the contract agreed initially with the customers.

Monthly licence maintenance fees indicate service contracts that provide ongoing support over a period of time. Revenue is recognised over the term of the contract on a straight-line basis.

In the case of Creative Revenue, the sole performance obligation is to deliver the content specified as per contract, whether this be the delivery of regular content throughout the year (e.g. a radio series), or the production of a longer, one-off episode.

The only obligation for the group is to deliver the content production agreed in the contract. Control and risks are passed to the customer on delivery of the episode produced, news bulletins etc. The right to the IP varies from project to project. If the customer suggests a specific programme idea to tender, they will then own the underlying rights of the recordings and the IPR is exclusive to customer; 7digital's only performance obligation would be to produce the content.

In the case of one-off productions for an identifiable customer contract where 7digital is required to update the client on the progress of work completed, the Group applies an output method to determine the stage of completion and amount of revenue to recognize.

Payment terms vary depending on the specific product or service purchased. With licence fees, the set-up fees element is invoiced and paid upfront, while monthly maintenance revenues and usage fees are normally invoiced on a monthly basis. In the case of download sales, the cost is paid immediately by the customer upon download of the music/songs content from the 7digital platform. In the case of creative revenues, the payment terms are generally 50% on signing with the balance on delivery. All contracts are subject to these standard payment terms, to the extent that the parties involved expressly agree in writing that the conflicting terms of any agreement shall take precedence.

In the case of fixed-price contracts, the customer pays the fixed amount based on a monthly schedule. If the services rendered by the company exceed the payment, a contract asset (Accrued Income) is recognised; if the payments exceed the services rendered, a contract liability (Deferred Revenue) is recognised.

Determine transaction price and allocating to each performance obligation

The transaction price for licencing fees (set-up fees and monthly licence fee) is fixed as per contract and is explicitly noted in the contract. In the case of usage fees, the per gigabyte fee is determined and agreed in the contract. In the case of creative revenue, the transaction fees for radio services and one-off series is determined by taking into account the length of the production (this may vary for commercials, radio programs, tv shows, series, etc.). Any variations in transaction price are agreed and charged additionally depending on the obligations to be performed. None of the five factors (i.e. variable consideration, constraining estimates of variable consideration, the existence of a significant financing component in the contract, non-cash consideration, and consideration payable to a customer identified) are particularly relevant to 7digital's customer contracts. The transaction price included in 7digital's contracts is generally easily identifiable and is for cash consideration.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

1. Accounting policies (continued)

Other adjusting items

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

Foreign currency

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

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

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

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

Intangible assets

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

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques.

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

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

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

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

Property, plant and equipment

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

1. Accounting policies (continued)

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

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

Impairment of tangible and other intangible assets

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

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

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

Cash and cash equivalent

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

Government grants

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

Financial instruments

Financial assets and financial liabilities are recognised when a Company becomes a party to the contractual provisions of the instruments.

Initial Recognition:

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss and ancillary costs related to borrowings) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are charged to the Statement of Profit and Loss over the tenure of the financial assets or financial liabilities.

Classification and Subsequent Measurement: Financial Assets

The Company classifies financial assets as subsequently measured at amortised cost, Fair Value through Other Comprehensive Income ("FVOCI") or Fair Value through Profit or Loss ("FVTPL") on the basis of following:

- the entity's business model for managing the financial assets and
- the contractual cash flow characteristics of the financial asset.

Amortised Cost:

A financial asset shall be classified and measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

1. Accounting policies (continued)

In case of financial assets classified and measured at amortised cost, any interest income, foreign exchange gains or losses and impairment are recognised in the Statement of Profit and Loss.

Fair Value through OCI:

A financial asset shall be classified and measured at fair value through OCI if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Fair Value through Profit or Loss:

A financial asset shall be classified and measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through OCI.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

For financial assets at FVTPL, net gains or losses, including any interest or dividend income, are recognised in the Statement of Profit and Loss.

Classification and Subsequent Measurement: Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or 'other financial liabilities'.

Financial Liabilities at FVTPL:

Financial liabilities are classified as at FVTPL when the financial liability is held for trading or is a derivative (except for effective hedge) or are designated upon initial recognition as FVTPL.

Gains or Losses, including any interest expense on liabilities held for trading, are recognised in the Statement of Profit and Loss.

Other Financial Liabilities:

Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortised cost using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost on initial recognition.

Interest expense (based on the effective interest method), foreign exchange gains and losses, and any gain or loss on derecognition is recognised in the Statement of Profit and Loss.

Impairment of financial assets:

Expected credit losses are recognized for all financial assets subsequent to initial recognition other than financial assets in FVTPL category. For financial assets other than trade receivables, as per IFRS 9, the Group recognises 12 month expected credit losses for all originated or acquired financial assets if at the reporting date the credit risk of the financial asset has not increased significantly since its initial recognition. The expected credit losses are measured as lifetime expected credit losses if the credit risk on financial asset increases significantly since its initial recognition.

Impairment provisions for trade receivables are recognised based on the simplified approach within IFRS 9 using the lifetime expected credit losses. During this process the probability of the non-payment of the trade receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within cost of sales in the consolidated statement of comprehensive Income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

1. Accounting policies (continued)

The impairment losses and reversals are recognised in Statement of Profit and Loss.

De-recognition of financial assets and financial liabilities:

The Company de-recognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises an associated liability for amounts it has to pay.

On de-recognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in OCI and accumulated in equity is recognised in the Statement of Profit and Loss.

The Company de-recognises financial liabilities when and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability de-recognised and the consideration paid and payable is recognised in the Statement of Profit and Loss.

Financial liabilities and equity instruments:

- Classification as debt or equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

- Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a Company are recognised at the proceeds received.

Derivative financial instruments:

The Company enters into derivative financial instruments viz. a residual of the convertible loan instrument. The Company does not hold derivative financial instruments for speculative purposes. Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Fair value measurement

A number of assets and liabilities included in the Group's financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

- Level 1: Quoted prices in active markets for identical items (unadjusted)
- Level 2: Observable direct or indirect inputs other than Level 1 inputs and
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments Include

- current liabilities (level 3) – Monte-Carlo model

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

1. Accounting policies (continued)

Share-based payments

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

Taxation

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

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

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

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

Leases

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

IFRS 16 was adopted 1 January 2019 without restatement of comparative figures.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the group if it is reasonably certain to assess that option; and
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the group is contractually required to dismantle, remove or restore the leased asset.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

1. Accounting policies (continued)

The effect of adoption of IFRS 16 as at 1 January 2019 :

	£'000
Assets	
Right-of-use asset	1,862
Less accruals (net)	(126)
<i>Total assets</i>	<u>1,736</u>
Liabilities	
Lease liability	(1,862)
<i>Total liabilities</i>	<u>(1,862)</u>

The present value of the lease payments is based on applying a discount rate which is either the interest rate implicit in the lease or the incremental borrowing rate. The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	£'000
Operating lease commitments as at 31 December 2018	2,902
Removal of elements not relevant to IFRS16 (service charges)	(719)
	<u>2,183</u>
 Weighted average incremental borrowing rate as at 1 January 2019	 7.0%
Discounted operating lease commitments at 1 January 2019	<u>1,862</u>
 Lease liability recognised at 1 January 2019	 <u><u>1,862</u></u>

1.1 Critical accounting judgements and key areas of estimation uncertainty

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

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

Content cost of sales

Content cost of sales is determined at an average rate of sales and is consistent with previous years. The directors believe that this calculation is deemed to be the most effective method of determining the true cost of content considering varied pricing structures agreed with all the label suppliers and publishers.

Creative revenue

Management considers the detailed criteria for the recognition of creative revenue as set out in the Group's accounting policy, in particular whether the Group determines the appropriate apportionment of revenue to the correct accounting period and subsequent amount accrued or deferred at the year end.

Impairment of accounts receivables

The management and directors have made certain estimates and judgements in the application of IFRS 9 when measuring expected credit losses and the assessment of expected credit loss provisions required for accounts receivable balances. (see note 16).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

1. Accounting policies (continued)

1.1 Critical accounting judgements and key areas of estimation uncertainty (continued)

Other adjusting items

The management and directors considers items of income and expenses as other adjusting items where the nature of the item, or its magnitude, is material and likely to be non-recurring in nature so as to assist the user of the financial statements to better understand then results of the core operations of the group. Details of other adjusting items are shown in note 3.

2. Revenue

2.1 Revenue from contracts with customer

The Group has disaggregated revenue into various categories in the following table which is intended to:

- depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic data; and
- enable users to understand the relationship with revenue segments information provided in 2.2 below

	Licensing		Content		Creative		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<i>Primary Geographical Markets</i>								
UK	807	773	621	1,278	1,549	2,099	2,977	4,150
USA	2,198	2,279	592	632	-	88	2,790	2,999
Germany	1,397	7,333	117	70	-	-	1,514	7,403
Denmark	-	1,388	-	1,038	-	-	-	2,426
France	35	299	-	-	-	-	35	299
Other	904	1,338	1,060	915	23	382	1,987	2,635
	5,341	13,410	2,390	3,933	1,572	2,569	9,303	19,912
<i>Product Type</i>								
Set-up fees	528	211	-	-	-	-	528	211
Monthly service fees and usage fee	4,813	13,199	-	-	-	-	4,813	13,199
Production	-	-	-	-	1,572	2,569	1,572	2,569
Download/streaming	-	-	2,390	3,933	-	-	2,390	3,933
	5,341	13,410	2,390	3,933	1,572	2,569	9,303	19,912
<i>Contract Counterparties</i>								
Direct to consumer (online)	-	-	2,390	3,933	-	-	2,390	3,933
B2B	5,341	13,410	-	-	1,572	2,569	6,913	15,979
	5,341	13,410	2,390	3,933	1,572	2,569	9,303	19,912
<i>Timing of transfer of goods and services</i>								
Over time	5,341	13,410	-	-	-	48	5,341	13,458
Point in Time (on delivery)	-	-	2,390	3,933	1,572	2,521	3,962	6,454
	5,341	13,410	2,390	3,933	1,572	2,569	9,303	19,912

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

2. Revenue (continued)**2.1 Revenue from contracts with customer (continued)**

Contract balances	Contract Assets 2019 £'000	Contract Assets 2018 £'000	Contract Liabilities 2019 £'000	Contract Liabilities 2018 £'000
At 1 January	458	100	(1,289)	(4,492)
Cumulative catch-up adjustment	-	-	-	(344)
1 January (Restated)	458	100	(1,289)	(4,836)
Transfers in the period from the contract assets to trade receivables	(441)	(469)	-	-
Amounts included in contract liabilities that were recognised as revenue during the period	-	-	1,174	3,835
Excess of revenue recognised over cash (or rights to cash) being recognised during the period	238	827	-	-
Cash received in advance of performance and not recognised as revenue during the period	-	-	(227)	(289)
	255	458	(342)	(1,290)

The aggregate amount of the transaction price of the remaining performance obligations amounting to £335k (2018: £1,149k) are all expected to be released within the next 12 months; £7k (2018: £141k) released in the following year.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

2. Revenue (continued)

2.2 Business segments

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

	Licensing		Content		Creative		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Revenue from external customers	5,341	13,410	2,390	3,933	1,572	2,569	9,303	19,912
Segment's result (gross profit)	4,993	12,739	469	849	835	1,139	6,297	14,727
Depreciation	(50)	(218)	(22)	(14)	(5)	(19)	(77)	(251)
Amortisation	(228)	(1,839)	-	-	-	-	(228)	(1,839)
Impairment	-	(4,077)	-	-	-	-	-	(4,077)
Other adjusted cost–development costs expensed (see note 3)	(162)	(2,715)	-	-	-	-	(162)	(2,715)
Settlement income included in Other Income	1,000						1,000	-
Segment profit/(loss)	5,553	3,890	447	835	830	1,120	6,830	5,845
Remainder of other income							103	371
Amortisation of right to use asset							(415)	-
Corporate expenses							(12,155)	(18,341)
Financing income							-	31
Financing costs							(172)	(101)
Tax charge							(3)	334
Loss for the year							(5,812)	(11,861)
Other segment items:							£'000	£'000
Capital additions							-	1,000

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

2. Revenue (continued)

Revenue from the Group's largest customer in the year was £1.0m (2018: £7.7m) and revenue from the second largest customer in the year was £0.5m (2018: £2.4m). There were no other customers that formed greater than 10% of external revenues within the years ended 31 December 2019 and 2018.

2.3 Geographical information

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

	Revenue		Non-current assets	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Continuing Operations				
United Kingdom	2,977	4,150	1,498	1,304
United States of America	2,790	2,999	-	-
Germany	1,514	7,403	-	-
Denmark	-	2,426	-	-
France	35	299	-	-
Rest of Europe	1,366	1,553	-	-
Rest of World	621	1,082	-	-
	9,303	19,912	1,498	1,304

All revenues are derived from the provision of services.

3. Other adjusting items

	2019	2018
	£'000	£'000
Impairment of intangibles (i)	-	(2,135)
Costs/impairment relating to closure of French business (ii)	-	(992)
Costs/impairment relating to closure of Denmark business (iii)	(254)	(1,237)
Development costs expensed on legacy Denmark platform (iv)	(162)	(2,715)
Corporate restructuring releases/(provision) (v)	(694)	(226)
Exceptional legal fees (vi)	(464)	-
Legal provision (vii)	(228)	-
	(1,802)	(7,305)

- (i) In 2018 the Group tested intangibles annually for impairment, or more frequently if there are indications that the assets might be impaired. Accordingly, certain bespoke applications have been impaired during the year resulting in a charge of £2,135k.
- (ii) In 2018, due to the cessation of the French operations in Snowite SAS, a provision of £287k has been made for closing down the operations and an impairment of £705k for the intangible assets, as the directors consider these have a zero fair value.
- (iii) In May 2019 the Group sold select technology from the Parent Company and its Denmark subsidiary, 24 -7 Entertainment ApS, and transferred staff to TDC Group, a large telecommunications company based in Denmark (see note 12). In 2019, a provision of £254k has been made for the closing down of the Danish operations. In 2018, fair value adjustments relating to goodwill of £688k and to customer lists of £418k were made (see note 12) and the 24-7 Entertainment ApS tangible assets of £131k were fully impaired (see note 13).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

3. Other adjusting items (continued)

- (iv) During the normal course of business the group would have capitalised £162k (2018: £2,715k) in respect of development costs associated with the Denmark platform, which was sold in 2019 as described in (iii) above. Due to the sale of this platform these costs have not been capitalised and are reflected in the profit and loss account.
- (v) During 2019, the Group incurred costs of £649k (2018: £226k) to former directors on garden leave and for employee redundancies all relating to organisational restructuring.
- (vi) In 2019 the Group incurred legal fees in relation to funding of £264k, legal costs relating to planning for supposed insolvency £120k and finalisation of the settlement agreement with Media-Saturn-Holding £80k.
- (vii) During 2018 a civil action was brought by a former US customer against the parent company for failure to deliver services specified in their Term Sheet. No contract was ever put in place with this customer. The breach of contract claim is for: i) consequential damages for loss of future profits in an amount to be determined at trial; ii) compensatory damages including but not limited to the contract amount of USD200k; iii) punitive damages in an amount to be determined by a jury; (iv) attorney's fees, costs, and expenses; and (v) pre-and post-judgment interest. 7digital's legal team made a motion to dismiss the claims, however in the event that the claims are upheld, the Group estimates that damages would be in the region of USD300k/£228k, with an appropriate provision being made.

£1,582k (2018: £3,228k) of the Other adjusting items for the year ended 31 December 2019 are deductible for corporation tax purposes.

4. Operating loss for the year

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

	2019	2018
	£'000	£'000
Net foreign exchange loss	238	48
Amortisation of intangible assets	228	1,839
Amortisation of right to use asset (see note 14)	415	-
Depreciation of property, plant & equipment	77	251
Profit on sale of fixed assets	(125)	(11)
Operating lease payments - land and buildings (see note 23)	-	1,290
Share-based payment expense (see note 26)	239	173

5. Other operating income

In 2019, the Group agreed a settlement of €4m/£3.4m with Media-Saturn-Holding GmbH, of which £0.5m was used as payment for Shareholders fund (see note 18) and £1.9m cleared down outstanding trade-related balances; resulting in a net settlement income of £1,000k. As part of the settlement agreement Media-Saturn-Holding GmbH agreed to forgive £250k of outstanding loans plus associated unpaid interest of £27k. The total amount forgiven was £277k which is disclosed as a capital contribution (see note 18).

The remaining other operating income earned by the Group in the current year of £103k (2018: £371k) relates to Research & Development tax credits.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

6. Reconciliation of non-IFRS financial KPIs

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

Reconciliation of adjusted operating loss and adjusted EBITDA loss	2019	2018
	£'000	£'000
Statutory operating loss	(5,637)	(12,125)
Other adjusting items (see note 3)	1,802	7,305
Foreign exchange	238	48
Share-based payment expense	239	173
Adjusted operating loss	(3,358)	(4,599)
Profit on sale of fixed assets	(125)	-
Depreciation and amortisation	720	2,090
Adjusted EBITDA loss	(2,763)	(2,509)

7. Auditor's remuneration

	2019	2018
	£'000	£'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	120	120
Fees payable to the Company's auditor for other services to the Group		
The audit of the Company's subsidiaries pursuant to legislation	-	-
Total audit fees	120	120
Non-audit fees:		
Other services	-	-
Total non-audit fees	-	-
Total fees payable to Company's auditor	120	120

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

8. Staff costs

The average monthly number of persons employed by the Group during the year, including executive directors, was 81 (2018: 147). Staff costs in the Group are presented in administrative expenses.

	2019	2018
	No.	No.
Number of production, R&D, and sales staff	65	121
Number of management and administrative staff	16	26
	<u>81</u>	<u>147</u>
	2019	2018
	£'000	£'000
Wages and salaries	4,659	6,294
Redundancy payments	259	97
Social security costs	573	854
Other pension costs	159	511
Share-based payments (note 26)	239	173
	<u>5,889</u>	<u>7,929</u>

Details of the directors' remuneration are provided in the Directors Remuneration Report on pages 23 to 24.

9. Finance income and cost

	2019	2018
	£'000	£'000
Bank interest receivable	-	1
Rental deposit retained	-	19
Other income	-	11
Finance income	<u>-</u>	<u>31</u>
	2019	2018
	£'000	£'000
Shareholders interest payable	(7)	(64)
Other charges similar to interest	(17)	(37)
Interest expenses on leased liability (see note 14)	(148)	-
	<u>(172)</u>	<u>(101)</u>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

10. Tax

Corporation tax is calculated at 19% (2018: 19.25%) of the estimated assessable profit for the year.

	2019	2018
	£'000	£'000
Current tax		
UK corporation tax on the results for the year	-	-
Foreign tax suffered	3	35
Adjustment in respect of prior period	-	(61)
Total current tax charge/(credit)	3	(26)
Deferred tax		
Origination and reversal of timing differences	-	(374)
Adjustments in respect of prior periods	-	66
Total deferred tax charge/(credit)	-	(308)
Tax on loss on ordinary activities	3	(334)

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

	2019	2018
	£'000	£'000
Loss before tax	(5,809)	(12,195)
Tax at UK corporation tax rate of 19% (2018: 19.25%)	(1,104)	(2,317)
Fixed asset differences	-	2
Expenses not deductible for tax purposes	136	940
Income not taxable for tax purposes	(30)	(208)
Additional deduction for R&D expenditure	(34)	(133)
Adjustments to R&D in respect of previous periods	22	-
Adjustments to tax charge in respect of previous periods	-	(61)
Adjustments to tax charge in respect of previous periods - deferred tax	-	66
Adjust closing deferred tax to average rate of 19% (2018: 19%)	-	752
Adjust opening deferred tax to average rate of 19% (2018: 19%)	(40)	(651)
Deferred tax not recognised	979	1,459
Foreign taxation	3	35
Difference in tax rates	(8)	(219)
Tax credit receivable	79	309
Deferred tax movement on business combinations	-	(308)
Tax credit / (credit)	3	(334)

At the balance sheet date, the Group has unrecognised deferred tax assets of £5,880,728 at a rate of 17% (2018: £6,393,798 (17%)) in respect of unused trading tax losses which have not been recognised on the grounds that there is insufficient evidence that these will be recoverable. These assets will be recovered when future tax charges are sufficient to absorb these tax benefits.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

11. Earnings per share

Basic earnings per share is calculated by dividing the loss attributable to shareholders by the weighted average number of ordinary shares in issue during the year. IAS 33 requires presentation of diluted EPS when a company could be called upon to issue shares that would decrease earnings per share, or increase the loss per share. For a loss-making company with outstanding share options, net loss per share would be decreased by the exercise of options. Therefore the antidilutive potential ordinary shares are disregarded in the calculation of diluted EPS. Total potential ordinary shares which are outstanding at 31 December 2019 are 19,059,858 (2018: 13,912,308) which relate to the employee share options and shares to be issued to the non-executive directors under the terms of their service contracts (see Directors Report, Directors Remuneration Report and note 26).

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

31 Dec 2019			
	Loss	Weighted average	Per share amount
Basic and Diluted EPS	£'000	number of shares	Pence
	Thousand		
Loss attributable to shareholders:	<u>(5,812)</u>	<u>1,244,214</u>	<u>(0.47)</u>
31 Dec 2018			
	£'000	Thousand	Pence
Loss attributable to shareholders:	<u>(11,861)</u>	<u>399,430</u>	<u>(2.97)</u>

12. Intangibles

	Bespoke applications	Customer list	Goodwill	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2018	8,215	509	688	9,412
Additions	803	-	-	803
At 31 December 2018	9,018	509	688	10,215
Disposals	(5,813)	(509)	(688)	(7,010)
At 31 December 2019	3,205	-	-	3,205
Accumulated Amortisation and impairment				
At 1 January 2018	3,167	88	-	3,255
Charge for the year	1,836	3	-	1,839
Impairment losses	2,840	418	688	3,946
At 31 December 2018	7,843	509	688	9,040
Charge for year	228	-	-	228
Disposals	(4,866)	(509)	(688)	(6,063)
At 31 December 2019	3,205	-	-	3,205
Net book value				
At 31 December 2019	-	-	-	-
At 31 December 2018	1,175	-	-	1,175
At 31 December 2017	5,048	421	688	6,157
Useful lives	3-5 years	3-5 years		

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

12. Intangibles (continued)

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

On 29 May 2019 the Danish Platform, with a carrying value of £948k was sold to a Danish communications company, TDC Group for £951k. The customer list and goodwill, initially originating from the acquisition of Danish Platform, were deemed disposed.

13. Property, plant and equipment

	Property £'000	Computer equipment £'000	Fixture and fittings £'000	Vehicle £'000	Total £'000
Cost					
At 1 January 2018	404	1,795	125	19	2,343
Additions	-	197	-	-	197
Acquisitions	-	-	-	-	-
Released on disposals	-	(15)	-	(19)	(34)
At 31 December 2018	404	1,977	125	-	2,506
Released on disposals	-	(443)	(5)	-	(448)
At 31 December 2019	404	1,534	120	-	2,058
Accumulated depreciation and amortisation					
At 1 January 2018	368	1,522	120	9	2,019
Charge for year	36	210	5	-	251
Impairment losses	-	131	-	-	131
Released on disposals	-	(14)	-	(9)	(23)
At 31 December 2018	404	1,849	125	-	2,378
Charge for year	-	77	-	-	77
Released on disposals	-	(443)	(5)	-	(448)
At 31 December 2019	404	1,483	120	-	2,007
Net book value					
At 31 December 2019	-	51	-	-	51
At 31 December 2018	-	128	-	-	128
At 31 December 2017	36	273	5	10	324

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

14. Leases

The Group leased a property that originally ran until April 2023. In February 2020, on agreement with the landlord the lease was terminated, and the Group vacated the premises. The Group has adopted IFRS 16 on the date of application and determined the value of the lease and the right to use asset based on the rental payments from the period 1 January 2019 to April 2023.

Right-of-use asset

	Land and buildings
	£'000
Right-of-use asset	1,862
Less accruals (net)	(126)
As at 1 January 2019	1,736
Amortisation	(415)
At 31 December 2019	1,321

Lease liability

	Land and buildings
	£'000
As at 1 January 2019	1,862
Interest expense	148
Lease payments	(352)
At 31 December 2019	1,658
<i>Analysed:</i>	
Current	472
Non-current	1,186
Total	1,658

The group terminated the existing lease contract in February 2020 and in August 2020, it signed a new lease for 3 years (see note 27).

15. Investment in subsidiary undertakings

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

16. Trade and other receivables

	2019	2018
	£'000	£'000
Trade receivable for the sale of goods	1,851	4,610
Less: Provision for impairment of trade receivables	(1,014)	(408)
Net trade receivables	837	4,202
Other debtors	382	667
R&D credits receivable	412	815
Prepayments	-	100
Total financial assets at amortised cost (excluding cash & cash equivalents)	1,631	5,784

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

16. Trade and other receivables (continued)

The average credit period taken on sales of goods and services is 33 days (2018: 79 days). No interest is charged on receivables. Trade receivables are provided for based on estimated irrecoverable amounts from the sale of goods and services, determined by reference to past default experience and likelihood of recovery as assessed by the directors. Before accepting any new material customer, the Group uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. The directors believe that the trade receivables that are past due but not impaired are of a good credit quality. The Group adopts a policy that each new customer is analysed individually for credit worthiness before the Group's standard payment and delivery terms and conditions are offered.

The management assessed the requirement for general bad debt provision under IFRS 9. The expected loss rates are based on the combination of the Group's historical credit losses experienced over the three-year period prior to the period end coupled with forward looking information. Management also note that the Group generally has a consistent recovery rate on trade and other receivables, due to a significant amount of work being completed for reputable businesses. However, Management does note that dealings with smaller businesses can be difficult at times to recover funds owed and as such, provisions have been raised based on historic knowledge of each client's credit risk. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Included in the Group's trade receivable balance are debtors with a carrying amount of £0.3m (2018: £2.3m), which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 97 days (2018: 60 days). During the year the Group provided for certain accounts receivable balances relating to revenue recognised during 2019, where the collection of the outstanding amounts is uncertain.

As at 31 December 2019 the lifetime expected loss provision for trade receivables is:

	Current	More than 30 days past due	More than 60 days past due	More than 120 days past due	Total £'000
Expected loss rate	2%	7%	20%	92%	
Gross carrying amount	274	275	296	1,006	1,851
Loss provision	7	18	59	930	1,014

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

	2019 £'000	2018 £'000
Customer A	350	2,329
Customer B	209	381
Customer C	162	261
Customer D	136	200
Customer E	117	192
Customer F	101	-

Movement in the allowance for doubtful debts:

	2019 £'000	2018 £'000
Balance at the beginning of the period	408	1,943
Impairment losses recognised	717	408
Written off as bad debt	(111)	(1,943)
Balance at the end of the period	<u>1,014</u>	<u>408</u>

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

17. Trade and other payables

Current Liabilities	2019	2018
	£'000	£'000
Trade payables	3,101	4,990
Other taxes and social security	565	984
Other payables	674	500
Accrued costs	2,669	3,246
Corporation tax	-	19
	<u>7,009</u>	<u>9,739</u>
Non-Current Liabilities		
Other payables	676	1,066
	<u>676</u>	<u>1,066</u>

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 241 (2018: 171 days). The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

In March 2016 the Group acquired Snowite SAS (now 7digital France SAS). As part of the acquisition it negotiated a reduction in the amount of some of the existing liabilities within Snowite SAS, at the time of the purchase, to €1.7m (£1.5m). Terms of repayment were also agreed to be over 8 years starting on 7th April 2017. For the first two years repayments were set at 8% of the debt and then at 14% for each year thereafter. No interest is payable. The parent company has guaranteed the repayments of £245k.

A total amount of £1.0m (2018: £1.1m) remains repayable under this agreement at the balance sheet date. Of this balance, £0.7m (2018: £0.9m) falls due for repayment after more than one year. On 16 September 2020 the Group received confirmation that the long term portion of £676K was forgiven by the French authorities.

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

18. Financial Liabilities

	2019	2018
	£'000	£'000
Current		
Convertible debt	-	1,306
Embedded derivative	-	257
	<u>-</u>	<u>1,563</u>

During the year the convertible loan from shareholders including the derivative instrument have been converted and forgiven, through the below series of events:

On 8 February 2019, £193,858 (including interest of £5,549) of the £1.5 million Shareholder loan facility was converted to 19,385,843 ordinary shares of 1p each.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

18. Financial Liabilities (continued)

On 4 January 2019, Juke GmbH, a wholly owned subsidiary of Media-Saturn-Holding GmbH, decided to discontinue their music services and their contract with the Group. On 1 March 2019, a settlement was agreed on the termination of all outstanding contracts and commitments relating to the Juke music service for an immediate payment by Juke of €4.0m. Further, Juke agreed to forgive £250,000 of the principal amount of the convertible loan, the balance of the principal amount of £500,000 was paid from the proceeds of the termination settlement and all associated interest payments totalling £27,239 were forgiven. The total amount forgiven of £277k is accounted and disclosed as a capital contribution in the statement of changes in equity.

On 7 June 2019, the remaining £585,932 (including interest £24,241) of the £1.5 million facility was converted to 332,915,704 ordinary shares of 0.01p each.

19. Provisions

	Dilapidation	Provision for closure of business	Legal provision	Other provisions	Total
	£'000	£'000	£'000	£'000	£'000
At 1 January 2019	125	288	-	15	428
Increase in provision	-	255	228	91	574
Release of provision	-	(234)	-	-	(234)
At 31 December 2019	125	309	228	106	768
Of which is: current	125	309	228	106	768
Of which is: non-current	-	-	-	-	-

A dilapidations provision is held to cover the estimated costs of returning the Group's main office space to as it was at the commencement of the lease (see note 14).

On 4 October 2019, the Danish entity was liquidated by the local authorities; a provision has been made of £255k for possible associated outstanding liabilities.

In 2018 a provision of £288k relating to the closing of operations in Snowite SAS was made; during 2019 £234k of this provision has been utilised.

During 2018 a civil action was brought by a former US customer against the parent company for failure to deliver services specified in their Term Sheet. No contract was ever put in place with this customer. The breach of contract claim is for: i) consequential damages for loss of future profits in an amount to be determined at trial; ii) compensatory damages including but not limited to the contract amount of USD200k; iii) punitive damages in an amount to be determined by a jury; (iv) attorney's fees, costs, and expenses; and (v) pre-and post-judgment interest. 7digital's legal team made a motion to dismiss the claims, however in the event that the claims are upheld, estimate that damages would be in the region of USD300k/£228k.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

20. Deferred tax

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

	Deferred tax liability £'000
At 1 January 2019	-
Charge/(credit) to income	-
At 31 December 2019	-
At 1 January 2018	308
Credit to income	(308)
At 31 December 2018	-

21. Share capital

	2019 No. of shares	2018 No. of shares
Allotted, called up and fully paid:		
Ordinary shares of 0.01p each	2,455,419,294	-
Ordinary shares of £0.01 each	-	400,236,646
Deferred shares of 0.99p each	419,622,489	-
Deferred shares of £0.09 each	115,751,517	115,751,517
	2019	2018
Allotted, called up and fully paid	£'000	£'000
At 1 January	14,420	14,404
Shares issued in the period		
Capital fundraising	397	-
Issued to employees/directors in lieu of salary	-	15
Share options exercised	-	1
At 31 December	14,817	14,420

- i. On 8 February 2019, £193,858 (including interest) of the £1.5 million Shareholder loan facility was converted in to 19,385,843 ordinary shares of 1p each.
- ii. In order for the Company to lawfully allot the shares as described in iii and iv below, all the 419,622,489 shares of 1p each were converted into 419,622,489 deferred shares of 0.99p each and 419,622,489 ordinary shares of 0.01p each on 7 June 2019. The deferred shares of 0.99p each carry limited voting rights.
- iii. On 7 June 2019, £585,932 (including interest) of the £1.5 million Shareholder loan facility was converted to 332,915,704 ordinary shares of 0.01p each; share premium was increased by £552,640.
- iv. On 7 June 2019, a number of shareholders, including Magic Investments S.A. (a tech investment holding company) ("Magic") and Shmuel Koch Holdings Limited ("SKH") subscribed for, an aggregate of, 634,132,641 ordinary shares at 0.01p each, to raise £1.3 million (before expenses). Share premium was increased by £1,204,852.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

21. Share capital (continued)

- v. On 20 September 2019, 937,900,000 shares of 0.01p each were issued to the market to raise £1,875k (before expenses); share premium was increased £1,780,504.
- vi. On 4 October 2019, a further 130,848,460 ordinary shares of 0.01p were issued to the market to raise £261,697; share premium was increased by £210,527 net of share issue expenses.

22. Other reserves

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

The Foreign exchange translation reserve of £184k profit (2018: £43k loss) relates to cumulative foreign exchange differences on translation of foreign operations.

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

The Shares to be issued includes £231k (2018: increase £89k) relating to the fair value at grant date of the share options that can be exercised in future years and £8k (2018: £53k) for the fair value of the shares to be issued to Non-Executive directors in lieu of salary as at December 2019 (see Directors' Remuneration Report pages 23 to 24 and note 26).

23. Operating lease arrangements

The only lease has been accounted for under IFRS 16 (see note 14). There are no short term operating leases.

24. Defined contribution pension schemes

The Group operates defined contribution retirement benefit schemes for qualifying employees. The total cost charged to income of £159k (2018: £511k) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. As at 31 December 2019, contributions due in respect of the current reporting period of £41k had not been paid over to the schemes (2018: £33k).

25. Related party transactions

During the year, the Group paid £6.4k (2018: £9.6k) to MIDiA Research for music market research services, a company of which Mark Foster was a director during 2019. At 31 December 2019, the Group owed £nil (2018: £6.4k).

During the year, the Group invoiced and recognised \$228k of revenue to eMusic (a subsidiary of TriPlay Inc.), a group which Tamir Koch was a director of during 2019. At 31 December 2019, the Group was owed £209k; £164k of this amount has been provided for at the year end.

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

Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual directors is provided in the audited part of the Directors' Remuneration Report on pages 23 to 24.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

25. Related party transactions (continued)

	2019 £'000	2018 £'000
Wages and salaries	999	704
Social security costs	113	101
Pension costs to defined contribution scheme	32	24
Share-based payments	283	-
	<u>1,427</u>	<u>829</u>

26. Share-based payments

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

	2019 Options	Weighted average exercise price (pence)	2018 Options	Weighted average exercise price (pence)
Outstanding at the beginning of the period	13,912,308	-	5,428,899	-
Granted during the period	-	-	11,500,000	-
Forfeited during the period	(5,016,140)	-	(2,881,258)	-
Exercised during the period	-	-	(135,333)	-
Outstanding at the end of the period	<u>8,896,168</u>	<u>-</u>	<u>13,912,308</u>	<u>-</u>
Exercisable at the end of the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

During the period, nil shares were exercised (2018: 135,333). There are 8,896,168 options outstanding at 31 December 2019 (2018: 13,912,308) of which nil (2018: nil) are exercisable. Their remaining weighted average contractual life is 604 days (2018: 1,224 days).

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

	2018 Options
Share price at date of grant	5.85p
Exercise price	0.00p
Volatility	100%
Option life	3 yrs.
Risk-free interest rate	0.5%

At 31 December 2019 £61k (2018: £53k) was accrued for shares to be issued to non executive directors under the terms of their service contracts and as disclosed within the Directors’ Report and Directors’ Remuneration.

Also included within these charges are equity settled share based payment charges of £nil (2018: £31k) reflecting share awards to non-executive directors during the year.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

26. Share-based payments (continued)

The total expense recognised for the year ending 31 December 2019 arising from equity-settled share-based payment transactions amounted to £239k (2018 - £173k) and the share-based payment reserve as at 31 December 2019 amounted to £407k (2018 - £168k).

The issuance of shares relates to the shares issued to some non-executive directors in lieu of their remuneration. Further details can be found in the Directors' Remuneration Report on pages 23 to 24.

27. Post balance sheet events

On 21 February 2020, a short term loan of £500k was signed with CSS Alpha (BVI) Limited. The loan is repayable over 12 months in equal parts starting from 28 March 2020 with interest based on 1.5% of the outstanding balance. The loan is guaranteed by one of the Directors.

On 12 August 2020, following the termination of the old lease (see note 14), a new lease agreement was signed with Labs relating to a property in Camden, NW1. The initial period of the agreement is for 35 months starting from 1 July 2020, with a total cost of £1.4m.

On 3 September 2020, 7digital announced the placing of 266,666,667 new Ordinary Shares of 0.01p each, which raised £6m at an issue price of 2.25 pence per share. The net proceeds of the fundraising will be used to meet the immediate working capital requirements of the Group and support immediate and medium term commercial growth opportunities, in particular within home fitness, artist monetisation, and social media.

On 16 September 2020 the Group received confirmation that the long term portion of £676K was forgiven by the French authorities.

On 28 September 2020, the Group secured a £1m overdraft facility with Investec for a period of 36 months guaranteed by two of the Directors; this attracts 6% interest above Investec bank rate on the drawn portion of the facility and 2% on the undrawn portion.

The rapid spread of the coronavirus and resulting COVID-19 global pandemic has had a small impact on the Group, primarily on cash-in; management have taken action to mitigate and minimise the effect. The Group was already fully operational from home as a result of existing infrastructure.

28. Financial instruments

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to meet their financial obligations as they arise while maximising the return to stakeholders. The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 21 and 22. The Group has external liabilities by way of the debts owed on the purchase of Snowite SAS in March 2016 and as disclosed in note 17. It does not have access to committed borrowing facilities, and is not subject to externally imposed capital requirements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

28. Financial instruments (continued)

Categories of financial instruments

	2019	2018
	£'000	£'000
Financial assets at amortised cost		
Cash and cash equivalents	149	452
Trade and other receivables	2,646	6,388
Financial liabilities at amortised cost		
Trade and other payables	(7,004)	(10,091)
Borrowings (Convertible Loan Note)	-	(1,306)
Put options	(123)	(196)
Financial liabilities at fair value through profit and loss		
Embedded derivative (see note 18)	-	(257)

Put Options

As part of the 2016 acquisition of Snowite, the Group agreed with three of the original institutional shareholders that if they are unable to sell the 3,056,894 shares in 7digital Group they received in the public market, 7digital Group plc would purchase 75% of their shares at a strike price of 8.75p over a 4-year period starting from March 2016, 10% in year 1 and then c.21.7% each year thereafter. As at 31 December 2019, the three institutional shareholders still retain all their shares in 7digital Group plc. The value of the options at 31 December 2019 is £123k (2018: £196k). Adjustments to this provision are taken directly to the Consolidated Income Statement within Administrative expenses. In 2019 this credit was £73k (2018: £47k). The financial liability is included in note 18.

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

Financial instruments measured at fair value

	2019	2018
	£'000	£'000
Level 3		
Embedded derivative (see note 18)	-	(257)

The embedded derivative liability has been converted/forgiven during the year as described in note 18.

Financial and market risk management objectives

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

Currency risk management

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

28. Financial instruments (continued)

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

	GBP BU's			USD BU's			DKK BU's		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
Assets/(Liabilities)									
GBP	-	-	-	-	-	-	-	(538,151)	(55,583)
USD	619,120	162,683	1,694,004	-	-	-	-	(41,484)	(5,686)
EUR	(511,810)	1,548,206	1,647,447	-	139	139	-	(98,672)	(6,361)
Other	(440,127)	(130,135)	59,403	(41,444)	(63,473)	(103,783)	-	-	-
Totals	(332,817)	1,580,754	3,400,854	(41,444)	(63,334)	(103,644)	-	(678,307)	(67,630)

The majority of the Group's financial assets are held in Sterling but movements in the exchange rate of the Euro and US dollar against Sterling have an impact on both the result for the year and equity. Sensitivity to reasonably possible movement in the Euro and US dollar exchange rates can be measured on the basis that all other variables remain constant. The effect on profit and equity of strengthening or weakening of the Euro or US dollar in relation to Sterling by 10% would result in a movement of +/- £47k (2018: £142k) in relation to the Euro and +/- £44k (2018: £44k) in relation to the US dollar.

Interest rate risk management and sensitivity

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

Credit risk management

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

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

Liquidity risk management

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

Liquidity and interest risk tables

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

28. Financial instruments (continued)

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

	2019	2018
	£'000	£'000
Within 12 months		
Trade payables	3,101	4,990
Other payables	325	222
Lease liability	472	-
	<u>3,898</u>	<u>5,212</u>
More than 12 months		
Other payables	676	870
Lease liability	1,186	-
	<u>1,862</u>	<u>870</u>

Fair value of financial instruments

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

Cash at bank and short-term bank deposits

Cash is held within the following institutions:

	2019	2018	2017
	£'000	£'000	£'000
Barclays Bank	132	324	6,490
HSBC Bank	4	36	26
Bank of West	2	7	59
CIC Bank	11	23	15
Others	-	71	388
	<u>149</u>	<u>461</u>	<u>6,978</u>

29. Contingent liabilities

The group does not have any contingent liabilities.

PARENT COMPANY STATEMENT OF FINANCIAL POSITION
For the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Assets			
Non-current assets			
Intangibles	B	-	1,176
Tangibles	C	39	63
Right-of-use asset	D	1,321	-
Fixed asset investments	E	-	1,000
		<u>1,360</u>	<u>2,239</u>
Current assets			
Trade and other receivables	F	248	1,987
Contract assets		-	252
Cash at bank and in hand		1	19
		<u>249</u>	<u>2,258</u>
Current liabilities			
Trade and other payables	H	(1,308)	(4,344)
Loans and borrowings	I	-	(1,306)
Derivative liabilities	I	-	(257)
Contract liabilities		-	(417)
Lease liability	D	(472)	-
Provision for liabilities and charges	J	(829)	(517)
		<u>(2,609)</u>	<u>(6,841)</u>
Net current liabilities		<u>(2,360)</u>	<u>(4,583)</u>
Total assets less current liabilities		<u>(1,000)</u>	<u>(2,344)</u>
Non-current liabilities			
Other payables	H	-	(197)
Lease liability		(1,186)	-
Provision for liabilities and charges	J	-	(111)
		<u>(1,186)</u>	<u>(308)</u>
Total liabilities		<u>(3,795)</u>	<u>(7,149)</u>
Net liabilities		<u>(2,186)</u>	<u>(2,652)</u>
Capital and reserves			
Called up share capital	K	14,817	14,420
Share premium account		12,043	8,294
Shares to be issued		407	168
Profit and loss account		<u>(29,453)</u>	<u>(25,534)</u>
Shareholders' deficit		<u>(2,186)</u>	<u>(2,652)</u>

Result for the year

As permitted by section 408 of the Companies Act 2006 the Company has not prepared its own profit and loss account for the year. 7digital Group plc reported a loss for the financial year ended 31 December 2019 of £4,196k (2018: loss £21,608k).

This Company Statement of Financial Position and related notes were approved by the Board of Directors on 28 September 2020 and were signed on its behalf by

Paul Langworthy, Director

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY For the years ended 31 December 2019 and 2018

Statement of changes in Equity for the year ended 31 December 2019

	Share capital £'000	Share premium account £'000	Shares to be issued £'000	Profit and Loss account £'000	Total £'000
At 1 January 2019	14,420	8,294	168	(25,534)	(2,652)
Comprehensive loss for the year					
Loss for the year	-	-	-	(4,196)	(4,196)
Total comprehensive loss for the year	-	-	-	(4,196)	(4,196)
Contributions by and distributions to owners					
Shares issued	397	3,749	-	-	4,146
Share based payments	-	-	239	-	239
Capital contribution	-	-	-	277	277
Total contributions by and distributions to owners	397	3,749	239	277	4,662
At 31 December 2019	14,817	12,043	407	(29,453)	(2,186)

Statement of changes in Equity for the year ended 31 December 2018

	Share capital £'000	Share premium account £'000	Shares to be issued £'000	Profit and Loss account £'000	Total £'000
At 1 January 2018	14,404	8,232	26	(500)	22,162
Comprehensive loss for the year					
Prior year adjustments				(805)	(805)
Change in accounting policy – IFRS 9 <i>Financial Instruments (see note G)</i>	-	-	-	(2,621)	(2,621)
At 1 January 2018	14,404	8,232	26	(3,926)	18,736
Comprehensive loss for the year					
Loss for the year	-	-	-	(21,608)	(21,608)
Total comprehensive loss for the year	-	-	-	(21,608)	(21,608)
Contributions by and distributions to owners					
Shares issued	16	62	-	-	78
Share based payments	-	-	142	-	142
Total contributions by and distributions to owners	16	62	142	-	220
At 31 December 2018	14,420	8,294	168	(25,534)	(2,652)

The notes from pages 73 to 81 form part of the financial statements.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2019

A. Principal accounting policies

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

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

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

These financial statements are separate financial statements.

Where required, equivalent disclosures are given in the Group's consolidated financial statements in notes 1 to 29.

Foreign currency

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

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

Intangible assets

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

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

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

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2019

A. Principal accounting policies (continued)

The amount initially recognised for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. Internally and externally generated intangible assets are amortised over their useful economic lives on a straight-line basis, typically over 3 years.

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

Impairment of tangible and other intangible assets

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

Cash and cash equivalent

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

Fixed asset investments

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

Classification

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

Recognition and measurement

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

Impairment

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

Share-based payments

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

Going concern

These financial statements have been prepared on the going concern basis. Please refer to the Directors Reports on pages 15 to 19 for further going concern commentary.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2019

A. Principal accounting policies (continued)

IFRS 9 "Financial Instruments"

IFRS 9 Financial Instruments replaces the existing guidance in IAS 39 Financial Instruments Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected loss model for calculating impairment on financial assets as is set out in the Group's accounting policy on page number 44 to 46.

Impairment provisions for receivables from related parties and loans to related parties are recognised based on a forward-looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those where the credit risk has not increased significantly since initial recognition of the financial asset, twelve month expected credit losses along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

Leases

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

IFRS 16 was adopted 1 January 2019 without restatement of comparative figures.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the group if it is reasonably certain to assess that option; and
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the group is contractually required to dismantle, remove or restore the leased asset.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease. When the group revises its estimate of the term of any lease.

Critical accounting judgements and key sources of estimation uncertainty

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

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

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2019

A. Principal accounting policies (continued)

Investment in subsidiary is carried at cost under IAS 27 in the financials are to be tested for impairment at each reporting date as per IAS 36. The impairment standard requires the management to estimate the recoverable amount of the asset and compare it with the carrying value in the books to measure any impairment. For estimating the recoverable amount of the "Investment in subsidiary" the management relies upon; the net asset position of the subsidiary as on the balance sheet date, which brings the necessary assurance about the recoverability of the investment.

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

Employees

The average number of employees throughout 2019 was 14 (2018: 22). Staff costs amounted to £1.8m (2018: £1.9m). Information about the remuneration of directors is provided in the audited part of the Directors' Remuneration Report on pages 23 to 24 of the consolidated financial statements.

B. Intangibles

	Bespoke applications £'000
Cost	
At 1 January 2019	2,086
Disposals	(2,086)
At 31 December 2019	-
Amortisation	
At 1 January 2019	910
Charge for year	228
Disposals	(1,138)
At 31 December 2019	-
Net book value	
At 31 December 2019	-
At 31 December 2018	1,176
At 31 December 2017	1,833

On 29 May 2019 the Danish Platform, with a carrying value of £948k was sold to a Danish communications company, TDC Group (see note 12) for £951k.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
For the year ended 31 December 2019

C. Tangibles

	Computer equipment £'000
Cost	
At 1 January 2019 and at 31 December 2019	<u>69</u>
Depreciation	
At 1 January 2019	6
Charge for year	24
At 31 December 2019	<u>30</u>
Net book value	
At 31 December 2019	<u>39</u>
At 31 December 2018	<u>63</u>
At 31 December 2017	<u>-</u>

D. Leases

The Company leased a property that originally ran until April 2023. In February 2020, on agreement with the landlord the lease was terminated, and the Company vacated the premises. The Company has adopted IFRS 16 on the date of application and determined the value of the lease and the right to use asset based on the rental payments from the period 1 January 2019 to April 2023.

Right-of-use asset	Land and buildings £'000
Right-of-use asset	1,862
Less accruals (net)	(126)
As at 1 January 2019	1,736
Amortisation	(415)
At 31 December 2019	<u>1,321</u>
Lease liability	Land and buildings £'000
As at 1 January 2019	1,862
Interest expense	148
Lease payments	(352)
At 31 December 2019	<u>1,658</u>
<i>Analysed:</i>	
Current	472
Non-current	1,186
Total	<u>1,658</u>

The company terminated the existing lease contract in February 2020 and in August 2020, it signed a new lease for 3 years (see note 27).

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2019

E. Fixed asset investments

	£'000
Cost	
At 1 January 2019 and at 31 December 2019	21,769
Provision for impairment	
At 1 January 2019	(20,769)
Impairment during the year	(1,000)
At 31 December 2019	(21,769)
Net book value at 31 December 2019	-
Net book value at 31 December 2018	1,000
Net book value at 31 December 2017	3,665

Related subsidiaries, joint ventures and associates

	Ordinary shares held at 31 December 2019	Principle activity	Country of incorporation	Registered office
Subsidiaries				
7digital Limited	100%	Music streaming and download services	England and Wales	***
7digital Creative Limited	100%	Radio production	England and Wales	***
7digital Trading Limited	100%	HR Services ²	England and Wales	***
7digital Group, Inc.	100%	Holding company ³	Delaware, United States of America	369 Pine Street, Suite 103, San Francisco, CA 94104 USA
7digital, Inc	100%	Music streaming and download services ³	Delaware, United States of America	369 Pine Street, Suite 103, San Francisco, CA 94104 USA
7digital SAS	100%	Non-trading	France	21 Rue Aristade Briand Espace Aristide 92170 Vanves France
7digital Wing India Private Limited	100%	Non-trading	India	D-202, Polite Hermitage, Sec 18 Shivtej Nagar, Chinchwad Pune MH 411019 India
Smooth Operations (Productions) Limited	100%	Dormant	England and Wales	***
Unique Interactive Limited	100%	Dormant	England and Wales	***
Oneword Radio Limited – dissolved 28 January 2020	100% ¹	Dormant	England and Wales	***
UBC Interactive Limited – dissolved 28 January 2020	100% ¹	Dormant	England and Wales	***
7digital ApS – dissolved 3 October 2019				
SD Music Stores Limited - dissolved 26 February 2019				
7digital Projects Limited – dissolved 22 October 2019				

¹ indicates indirect investment of the company

² ceased trading on 31 March 2020.

³ non trading from 1 January 2020, dissolved with its immediate holding company, 7digital Group, Inc, on 22 May 2020.

*** registered office is Lower Lock, Water Lane, London UK NW1 8JZ.

The directors subjected the carrying value of investments to an impairment test at the year end. The director's assessment indicated that the carrying value of the investments in subsidiaries should be fully impaired at 31 December 2019.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
For the year ended 31 December 2019

F. Debtors

	2019	2018
	£'000	£'000
Due within one year:		
Trade Debtors	-	163
R&D credits receivable	139	281
Other debtors	109	143
Prepayments	-	65
Amounts owed by group undertakings	-	1,335
	248	1,987

G. Amounts owed by related parties

The directors have reviewed the amounts owed by related parties and believe there are significant doubts as to the future recoverability of these balances, and as such, a provision for doubtful debts (impairment loss) of £2.7m (2018: £21k) has been raised in the Company statement of financial position.

H. Trade and other payables:

	2019	2018
	£'000	£'000
Current Liabilities		
Trade creditors	410	2,273
Other taxes and social security	391	175
Other creditors	248	14
Accruals	259	1,700
Amounts owed to group undertakings	-	186
	1,308	4,348
Non-Current Liabilities		
Other payables	-	197
	-	197

I. Loans and borrowings

	2019	2018
	£'000	£'000
Current		
Convertible debt	-	1,306
Embedded derivative	-	257
	-	1,563

On 8 February 2019, £193,858 (including interest of £5,549) of the £1.5 million Shareholder loan facility was converted to 19,385,843 ordinary shares of 1p each.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2019

I. Loans and borrowings (continued)

On 4 January 2019, Juke GmbH, a wholly owned subsidiary of Media-Saturn-Holding GmbH, decided to discontinue their music services and their contract with the Group. On 1 March 2019, a settlement was agreed on the termination of all outstanding contracts and commitments relating to the Juke music service for an immediate payment by Juke of €4.0m. Further, Juke agreed to forgive £250,000 of the principal amount of the convertible loan, the balance of the principal amount of £500,000 was paid from the proceeds of the termination settlement and all associated interest payments totalling £27,239 were forgiven. The total amount forgiven of £277k is accounted and disclosed as a capital contribution in the statement of changes in equity.

On 7 June 2019, the remaining £585,932 (including interest £24,241) of the £1.5 million Shareholder loan facility was converted to 332,915,704 ordinary shares of 0.01p each.

J. Provision for liabilities and charges

	Provision for closure of businesses (note a) £'000	Other provisions £'000	Legal provision (note b) £'000	Total £'000
At 1 January 2019	621	7	-	628
Provision for closure of Danish operations	255	-	-	255
Reduction in partial guarantee of subsidiary loan	(42)	-	-	(42)
Release of provision for closure of French operations	(280)	-	-	(280)
Litigation provision	-	-	228	228
Other	-	40	-	40
At 31 December 2019	554	47	228	829
Of which is: current	554	47	228	829
Of which is: non-current	-	-	-	-

Note a

On 4 October 2019, the Danish entity was liquidated by the local authorities; a provision has been made of £255k for possible associated outstanding liabilities.

In 2018 a provision was made in the standalone books of the parent company, as the parent company has guaranteed all the half yearly repayments of a loan in the French entity Snowite SAS up to 30 April 2020. During the year the guarantee provision was reduced by £42k representing the amounts paid against the loan in 2019 by the French entity. At the year end, the parent company still guaranteed €288k/£245k of future payments.

In 2018 a provision of £288k relating to the closing of operations in Snowite SAS was made; during 2019 £280k of this provision has been utilised.

Note b

During 2018 a civil action was brought by a former US customer against the parent company for failure to deliver services specified in their Term Sheet. No contract was ever put in place with this customer. The breach of contract claim is for: i) consequential damages for loss of future profits in an amount to be determined at trial; ii) compensatory damages including but not limited to the contract amount of USD200k; iii) punitive damages in an amount to be determined by a jury; (iv) attorney's fees, costs, and expenses; and (v) pre-and post-judgment interest. 7digital's legal team made a motion to dismiss the claims, however in the event that the claims are upheld, estimate that damages would be in the region of USD300k/£228k.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
For the year ended 31 December 2019

k. Share capital

	2019	2018
	£'000	£'000
Allotted, called up and fully paid:		
2,455,419,294 ordinary shares of 0.01p each (2018: nil)	245	-
419,622,489 deferred shares of 0.99p each (2018: nil)	4,154	-
Nil ordinary shares of 1p each (2018: 400,236,646)	-	4,002
115,751,517 deferred shares of 9p each (2018: 115,751,517)	<u>10,418</u>	<u>10,418</u>

- i. On 8 February 2019, £193,858 (including interest) of the £1.5 million Shareholder loan facility was converted in to 19,385,843 ordinary shares of 1p each.
- ii. In order for the Company to lawfully allot the shares as described in iii and iv below, all the 419,622,489 shares of 1p each were converted into 419,622,489 deferred shares of 0.99p each and 419,622,489 ordinary shares of 0.01p each on 7 June 2019. The deferred shares of 0.99p each carry limited voting rights.
- iii. On 7 June 2019, £585,932 (including interest) of the £1.5 million Shareholder loan facility was converted to 332,915,704 ordinary shares of 0.01p each; share premium was increased by £552,640.
- iv. On 7 June 2019, a number of shareholders, including Magic Investments S.A. (a tech investment holding company) ("Magic") and Shmuel Koch Holdings Limited ("SKH") subscribed for, an aggregate of, 634,132,641 ordinary shares at 0.01p each, to raise £1.3 million (before expenses). Share premium was increased by £1,204,852.
- v. On 20 September 2019, 937,900,000 shares of 0.01p each were issued to the market to raise £1,875k (before expenses); share premium was increased £1,780,504.
- vi. On 4 October 2019, a further 130,848,460 ordinary shares of 0.01p were issued to the market to raise £261,697; share premium was increased by £210,527.

l. Post balance sheet events

Refer to the Group's post balance sheet events in note 27 on page 67.

GENERAL INFORMATION AND ADVISORS
For the year ended 31 December 2019

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