

## **AIM CORPORATE GOVERNANCE DISCLOSURE & THE QCA CODE**

### **Corporate Governance**

#### **THE QUOTED COMPANIES ALLIANCE (QCA) CODE**

The London Stock Exchange recently changed the AIM Rules to require that all AIM-listed companies adopt and comply with a recognised corporate governance code. 7digital's Board of Directors has chosen to apply the ten principles set out by the Quoted Companies Alliance's Corporate Governance Code (the 'QCA Code'). We concur with the QCA's statement that "good governance is one of the foundations of a sustainable corporate growth strategy" and commit ourselves to compliance with these principles as they relate to delivering growth, maintaining a dynamic management framework, and building trust with shareholders and other relevant stakeholders.

The report below provides an explanation of how the Company applies each principle in the QCA Code. A further update, including notes on any changes since this set of disclosures, will be provided in our next annual report.

**Tamir Koch, Non-executive Chair**

*This disclosure was last reviewed and updated on 06 February 2020*

#### **THE PRINCIPLES OF THE QCA CODE**

##### **DELIVER GROWTH**

###### **Principle 1**

Establish a strategy and business model which promote long-term value for shareholders

###### **Application – as prescribed by the QCA**

The board must be able to express a shared view of the company's purpose, business model and strategy. It should go beyond the simple description of products and corporate structures and set out how the company intends to deliver shareholder value in the medium to long-term. It should demonstrate that the delivery of long-term growth is underpinned by a clear set of values aimed at protecting the company from unnecessary risk and securing its long-term future.

###### **How 7digital applies this principle**

7digital's business model and strategy is explained fully within the Strategic Report section on pages 7 to 9 of our Consolidated Report and Financial Statements for the Year to 31 December 2018. The key

challenges to the business and how those will be addressed is also detailed on pages 7 to 9 of the same document. This can be found at <http://about.7digital.com/reports> (“2018 Annual Report”).

7digital is a global “b2b” digital music and radio services company. The core of our business is the provision of robust and scalable technical infrastructure and extensive global music rights used to create music streaming and radio services for a diverse range of customers – including consumer brands, mobile carriers, broadcasters, automotive systems, record labels and retailers. We also offer radio production and music curation services, editorial strategy and content management expertise.

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

- Offering end-to-end music solutions that empower brands and innovators to offer unique content experiences
- Increasing the number of enterprise-level clients we serve
- Increasing focus in strategic growth markets such as MVNOs and automotive industries
- Improving the financial quality of our business by driving recurring revenues
- Expanding and leveraging our geographic coverage
- Continued investment in market leading technology to meet shifting technology trends and client needs
- Maintaining strict control of our cost base to ensure that revenue growth is quickly reflected in improved overall Group profitability

The Chief Executive’s Review is contained on pages 1 to 3 and the Chief Financial Officer’s Review is contained on pages 4 to 6 of our Consolidated Report and Financial Statements for the Year to 31 December 2018. These reviews, together with the information contained within the Directors’ Report, constitute the Business Review. The Business Review has been prepared solely to provide additional information to shareholders to assess the Group’s strategies and the potential for these strategies to succeed.

## **Principle 2**

Seek to understand and meet shareholder needs and expectations

### **Application – as prescribed by the QCA**

Directors must develop a good understanding of the needs and expectations of all elements of the company’s shareholder base. The board must manage shareholders’ expectations and should seek to understand the motivations behind shareholder voting decisions.

### **How 7digital applies this principle**

The Board of 7digital Group plc 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 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 Chair maintain a regular dialogue with institutional shareholders throughout the year. 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 and in response to ad hoc requests received by the Company.

The Company responds formally to all queries and requests for information from existing and prospective shareholders. These should be directed to [investorrelations@7digital.com](mailto:investorrelations@7digital.com). 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](http://about.7digital.com).

### **Principle 3**

Take into account wider stakeholder and social responsibilities and their implications for long-term success

#### **Application – as prescribed by the QCA**

Long-term success relies upon good relations with a range of different stakeholder groups both internal (workforce) and external (suppliers, customers, regulators and others). The board needs to identify the company's stakeholders and understand their needs, interests and expectations.

Where matters that relate to the company's impact on society, the communities within which it operates or the environment have the potential to affect the company's ability to deliver shareholder value over the medium to long-term, then those matters must be integrated into the company's strategy and business model.

Feedback is an essential part of all control mechanisms. Systems need to be in place to solicit, consider and act on feedback from all stakeholder groups.

#### **How 7digital applies this principle**

The key resources and relationships on which the business relies are identified in the Strategic Report (page 7) of our Consolidated Report and Financial Statements for the Year to 31 December 2018. These include a number of key customers, suppliers of music content (rights holders meaning both labels and

publishers), and qualified and experienced employees. Feedback is obtained by the Company from regular stakeholder meetings with labels and publishers, and 7digital works with key technology players (e.g. Amazon and its Alexa voice assistant) to stay at the forefront of emerging technologies.

A strong understanding of consumer trends and behaviours is particularly important to the Company. 7digital commissions and considers consumer insight on a regular basis, and ensures that the findings are used to inform the business model and strategy going forward (for example, supporting and driving the Company's shift of focus from downloads to streaming in recent years).

Internal stakeholders are another key resource for the Company. Senior management - including the executive directors - engage with staff through regular All Hands meetings which are conducted via livestream for the benefit of those in other countries or working remotely, and recorded for those unable to join. At the All Hands meetings, questions from staff are encouraged. The Company also has a regular staff newsletter.

#### **Principle 4**

Embed effective risk management, considering both opportunities and threats, throughout the organisation

#### **Application – as prescribed by the QCA**

The board needs to ensure that the company's risk management framework identifies and addresses all relevant risks in order to execute and deliver strategy; companies need to consider their extended business, including the company's supply chain, from key suppliers to end-customer.

Setting strategy includes determining the extent of the exposure to the identified risks that the company is able to bear and willing to take (risk tolerance and risk appetite).

#### **How 7digital applies this principle**

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 intends to evaluate the requirement for internal audit on an ongoing basis.

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 perform an informal review of the Group's control systems during the financial year.

## **MAINTAIN A DYNAMIC MANAGEMENT FRAMEWORK**

### **Principle 5**

Maintain the board as a well-functioning, balanced team led by the chair

#### **Application – as prescribed by the QCA**

The board members have a collective responsibility and legal obligation to promote the interests of the company, and are collectively responsible for defining corporate governance arrangements. Ultimate responsibility for the quality of, and approach to, corporate governance lies with the chair of the board. The board (and any committees) should be provided with high quality information in a timely manner to facilitate proper assessment of the matters requiring a decision or insight.

The board should have an appropriate balance between executive and non-executive directors and should have at least two independent non-executive directors. Independence is a board judgement. The board should be supported by committees (e.g. audit, remuneration, nomination) that have the necessary skills and knowledge to discharge their duties and responsibilities effectively.

Directors must commit the time necessary to fulfil their roles.

#### **How 7digital applies this principle**

The Company is controlled through a Board of Directors, which at 06 February 2020 comprised six directors: two executive directors (including one independent director) and four non-executive directors (including the Chair and a second independent director). The Company also intends to appoint a further independent director to the Board. The role of the Chair and that of the Chief Executive are separate with defined responsibilities.

Mark Foster and Helen Gilder are considered independent by the Board. With a further independent director set to be appointed, the Board considers that it will have an appropriate balance of independence and specific expertise.

Matters of company strategy, setting of annual budgets and any changes to forecasts are matters reserved for the Board. At least once a year, the Board meets to establish company strategy in the light of the changing marketplace and this strategy is then reviewed at the regular Board meetings and compared with performance.

During 2018, the total number of formal meetings of the Board of 7digital Group plc was nine. The attendance at formal scheduled meetings of the Board was as follows:

	<b>Number of Board Meetings attended</b>	<b>Number of eligible Board Meetings</b>
S Cole	9	9 ( <i>resigned April 2019</i> )
M Honey	3	5 ( <i>resigned August 2018</i> )
D Holmwood	3	3 ( <i>resigned April 2019</i> )
D Cruickshank	9	9 ( <i>resigned June 2019</i> )
E Cohen	8	9 ( <i>resigned June 2019</i> )
P McGowan	2	3 ( <i>resigned September 2018</i> )
A de Kerckhove	7	9 ( <i>resigned September 2019</i> )
M Foster	8	9
P Downton	8	9 ( <i>resigned May 2019</i> )

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

During 2018, the Audit Committee (then comprising Donald Cruickshank, Eric Cohen and Mark Foster) met formally four times. In the same period, the Remuneration Committee (then comprising Donald Cruickshank, Eric Cohen and Anne de Kerckhove) formally met four times.

## **Principle 6**

Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities

### **Application – as prescribed by the QCA**

The board must have an appropriate balance of sector, financial and public markets skills and experience, as well as an appropriate balance of personal qualities and capabilities. The board should understand and challenge its own diversity, including gender balance, as part of its composition.

The board should not be dominated by one person or a group of people. Strong personal bonds can be important but can also divide a board.

As companies evolve, the mix of skills and experience required on the board will change, and the board composition will need to evolve to reflect this change.

## **How 7digital applies this principle**

As of 06 February 2020, the following directors serve on the board of 7digital Group plc:

### **EXECUTIVE DIRECTORS:**

Paul Langworthy, Chief Executive Officer  
Michael Juskiewicz, Chief Financial Officer

### **NON-EXECUTIVE DIRECTORS:**

Tamir Koch, Chair  
David Lazarus  
Mark Foster (Independent)  
Helen Gilder (Independent)

The Company also intends to appoint a further independent director to the Board.

The non-executive directors bring a wide range of experience and expertise to the Group's affairs, which allows them to constructively challenge and help develop proposals and strategy, scrutinise performance and controls and take decisions objectively in the interests of the Group. Taken together, the Board's directors have the relevant skills and capabilities required by the business, including in the areas of music, radio, technology, retail, e-commerce, marketing, innovation and finance. Directors are able to request funds to engage third party advisers and undertake training, at the company's cost, as required.

The role of Company Secretary is fulfilled by Michael Juskiewicz.

## **Principle 7**

Evaluate board performance based on clear and relevant objectives, seeking continuous improvement

### **Application – as prescribed by the QCA**

This board should regularly review the effectiveness of its performance as a unit, as well as that of its committees and the individual directors.

The board performance review may be carried out internally, or ideally, externally facilitated from time to time. The review should identify development or mentoring needs of individual directors or the wider senior management team.

It is healthy for membership of the board to be periodically refreshed. Succession planning is a vital task for boards. No member of the board should become indispensable.

## **How 7digital applies this principle**

Procedures around performance evaluation of the Board are conducted informally while individual director evaluation is conducted formally by the Chair. The Board has sought external advice and assistance from recruitment specialists on engaging additional non-executive directors with relevant experience. In addition to this advice, the Board seeks advice in the normal course of business from

auditors, lawyers and tax compliance specialists.

Individual executive directors are evaluated by the Remuneration Committee. 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 in our Annual Report and Interim Statement and individual appointments will be announced through the RNS.

At least 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. In fact, company practice has been that all Directors offer themselves for re-election at each AGM.

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 recommendations of the QCA 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.

## **Principle 8**

Promote a corporate culture that is based on ethical values and behaviours

### **Application – as prescribed by the QCA**

The board should embody and promote a corporate culture that is based on sound ethical values and behaviours and use it as an asset and a source of competitive advantage.

The policy set by the board should be visible in the actions and decisions of the chief executive and the rest of the management team. Corporate values should guide the objectives and strategy of the company.

The culture should be visible in every aspect of the business, including recruitment, nominations, training and engagement. The performance and reward system should endorse the desired ethical behaviours across all levels of the company.

The corporate culture should be recognisable throughout the disclosures in the annual report, website and any other statements issued by the company.

### **How 7digital applies this principle**

The Board promotes a healthy corporate culture by requiring that all staff adhere to a Code of Conduct. Charity initiatives are supported on a company-level, through a programme of charity fundraising and by offering all staff the opportunity to designate three days in the year to volunteering for their chosen causes. Sustainability is also important and staff are all encouraged to consider their individual (as well as the company's) impact on the environment through recycling schemes and limiting the use of printed

materials. The Company in 2018 set up a Diversity Working Group committed to ensuring that 7digital Group plc is a progressive and inclusive place to work. The group has a mandate to identify opportunities and make recommendations around a whole host of areas that will promote diversity and create an environment of equality and openness. The Company encourages flexible working arrangements.

## **Principle 9**

Maintain governance structures and processes that are fit for purpose and support good decision-making by the board

### **Application – as prescribed by the QCA**

The company should maintain governance structures and processes in line with its corporate culture and appropriate to its:

- Size and complexity; and
- Capacity, appetite and tolerance for risk.

The governance structures should evolve over time in parallel with its objectives, strategy and business model to reflect the development of the company.

### **How 7digital applies this principle**

The Board's 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.

## Committees of the Board

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

### Audit Committee

The Audit Committee comprises Helen Gilder as Chair, Mark Foster and Michael Juskiwicz. The Audit Committee has primary responsibility for monitoring the integrity of the financial statements of the Group; reviewing the Group's internal financial controls; assessing risk; 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 Committee has unrestricted access to the Company's auditor. 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. The Committee considers all proposals for non-audit services and ensures that these do not impact on the objectivity and independence of the auditor. The Audit Committee in its meetings with the external auditor reviews the safeguards and procedures developed by the auditor to counter threats or perceived threats to their objectivity and independence and assess the effectiveness of the external audit. The Group's policy on non-audit services performed by the external auditor is to address any issues on a case-by-case basis.

### Remuneration Committee

The Remuneration Committee will comprise Mark Foster as Chair, a newly appointed Independent Director and Tamir Koch. Paul Langworthy will also attend on subjects when needed. Further details of the Committee's remit are contained in the Directors' Remuneration Report on page 19 of the Company's Consolidated Report and Financial Statements for the Year to 31 December 2018.

## **BUILD TRUST**

### **Principle 10**

Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.

#### **Application – as prescribed by the QCA**

A healthy dialogue should exist between the board and all of its stakeholders, including shareholders, to enable all interested parties to come to informed decisions about the company.

In particular, appropriate communication and reporting structures should exist between the board and all constituent parts of its shareholder base. This will assist:

- The communication of shareholders' views to the board; and
- The shareholders' understanding of the unique circumstances and constraints faced by the company.

It should be clear where these communication practices are described (annual report or website).

### **How 7digital applies this principle**

The Board recognises the need for effective communication between the company and its shareholders. The Company communicates its strategy through the Annual Report and Accounts, the Annual General Meeting, and meetings with institutional shareholders.

A full report from the Remuneration Committee can be found in the Directors' Remuneration report section (pages 20-22) of the Consolidated Report and Financial Statements for the Year to 31 December 2018.

Historical annual reports and other governance-related material (including notices of general meetings) can be found in the Reports section of <http://about.7digital.com/investors>.