S4 CAPITAL

Growth, integration, evolution

S4Capital plc
Annual Report and Accounts 2019

Our mission

To create a new era, new media solution embracing data, content and technology in an always-on environment for global, multinational, regional and local clients and for millennial-driven brands.

www.s4capital.com/annualreport19

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Financial highlights

Billings[1]

£455.8m

+671%

Like-for-like +46%

Pro-forma[2] **billings**

£513.2m

+47%

Revenue

£215.1m

+292%

Like-for-like +41%

Pro-forma revenue

£271.0m

+37%

Gross profit

£171.3m

+361%

Like-for-like +44%

Pro-forma gross profit

£224.2m

+39%

Operational EBITDA[4]

£33.4m

+612%

Like-for-like +51%

Pro-forma operational EBITDA

£45.0m

+47%

Operational EBITDA margin[5]

19.5%

+6.9 margin points

Like-for-like +0.9 margin points

Pro-forma operational EBITDA margin

20.1%

+1.1 margin point

Operating loss

-£3.8m

2018 -£8.5m

Pro-forma operating profit

£2.5m

2018 – £11.0m

Adjusted operating profit[6]

£31.1m

+671%

Like-for-like +51%

Pro-forma adjusted operating profit

£42.5m

+47%

Loss before income tax

-£9.2m

2018 – £9.1m

Pro-forma loss before income tax

-£2.8m

2018 – £16.4m

Adjusted result before income tax[7]

£25.8m

+660%

Like-for-like +69%

Pro-forma adjusted result before income tax

£37.1m

+58%

Basic loss per share

-2.7p

2018 -3.3p

Pro-forma basic loss per share

-1.3p

2018 -3.3p

Adjusted basic earnings per share

5.2p

+420%

Like-for-like +63%

Pro-forma adjusted basic earnings per share

6.0p

+54%

Market capitalisation at 1 May 2020

£884.9m

Share price at 1 May 2020

183.5p

For full reconciliation from statutory to non-GAAP measures, please refer to Note 25 and the unaudited preliminary results published on 18 March 2020.

Notes:

1. Billings is gross billings to clients including pass-through costs.
2. Pro-forma numbers relate to unaudited full year non-statutory and non-GAAP consolidated results in constant currency as if the Group had existed in full for the year and have been prepared under comparable GAAP with no consolidation eliminations.
3. Like-for-like is a non-GAAP measure relates to 2018 being restated to show the unaudited numbers for the previous year of the existing and acquired businesses consolidated for the same months as in 2019 applying currency rates as used in 2019.
4. Operational EBITDA is EBITDA adjusted for non-recurring items and recurring share-based payments and is a non-GAAP measure management uses to assess the underlying business performance.
5. Operational EBITDA margin is operational EBITDA divided by gross profit.
6. Adjusted operating profit is operating loss adjusted for non-recurring items and recurring share-based payments.
7. Adjusted result before income tax is loss before income tax adjusted for non-recurring items and recurring share-based payments.

Letter to shareowners
Covid-19: our response

Clearly the global impact of the tragic covid-19 pandemic has overtaken our stellar results for 2019 and any commentary in this annual report, writes Sir Martin Sorrell. I would like to take this opportunity to comment on the current crisis before we describe our performance in 2019 and the longer-term prospects.

Managing the crisis

At the time of going to press, our Coronavirus Crisis Group ('CCG') is meeting online every day to assess impact and actions on our people, clients and finances. It consists of the seven Executive Directors of S4Capital plc and Michel de Rijk, CEO of Asia Pacific. This is supplemented by periodic calls with the leaders of the nine additions to the Group since the foundational mergers with MediaMonks and MightyHive, along with regional and office heads. The agenda is the same – people, clients and finances.

People first

Firstly, and most importantly, our 2,500 people and their families in 30 countries are predominantly healthy and safe. As I write, we have two reported infections and no serious consequences. We are keeping a close eye on the implications of working from home, with a particular focus on any mental health and childcare issues. Our people, who are digital natives and used to 24/7 agility and flexibility, are practiced in this way of working and didn't need to adapt like others. We're very proud that our people have acclimatised so seamlessly. In line with others, our office in Shanghai has been up and running for several weeks, having been closed since Chinese New Year at the end of January.

Client resilience

On clients, we are seeing limited impact on revenue and gross profit. Our Content Practice (70% of our business) is resilient and relatively untouched, so far, maybe from 5%-10% down. Our Data, Analytics & Programmatic Practice (the other 30%) is more affected, around 10%-15% down from budget. However, in-housing programmes are being elongated, as lockdowns mean clients are unable to implement on-boarding due to difficulties in hiring and training, so we continue to provide hands on keyboards and staff. In addition, being added to the agency rosters of a number of major fast-moving consumer goods companies (fmcg) or consumer package goods companies (cpg) and a pharma company has helped maintain momentum.

Our clients break down currently into two buckets. The tech clients (who represent about half our gross profit) are continuing to spend their budgets, switching to 'purpose' campaigns in all senses of the word. They've become the big spenders. Amazon may now be the biggest in the world, outdistancing even Procter & Gamble. However, there are some signs currently of a desire to postpone spending until the second half of 2020, as long as CFOs agree not to snaffle the money later on in the year.

The other bucket is the fmcg or cpg, pharma and retail companies. Here, it's patchier. Budgets are being cut, but money is being moved to digital, which looks like a permanent change. While travel and hospitality and some retail clearly have been decimated, being locked up at home means that consumers have accelerated their use of new media to communicate, shop and buy and educate themselves and their children. Both online and linear TV audiences have blossomed

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with mandatory lockdowns, but online offers a more measurable, cheaper and more effective solution.

Financial viability

Finally, in the troika of focus for the CCG, our finances remain strong. Despite having drawn down our bank revolvers out of caution and having made business combination cash payments for Circus, we remain cash positive with little or no debt. All non-essential costs have been reduced and the CCG has agreed to reduce its salaries from 1 April 2020, as summarised in the Remuneration Report, with no cash bonuses for 2019 converted from cash to share bonuses. I wonder how many companies are paying cash bonuses for 2019, when they have cancelled or postponed dividends for 2019. That's not shared pain with key stakeholders. Some are even paying bonuses for going backwards.

We are watching our receivables like hawks, particularly as some clients, even large ones, seek to extend payment terms. We have run cash-flow scenarios gaming substantial falls in revenue, with cost corrections, all of which indicate viability. So, financially, so far so good.

The unvarnished outlook

We believe in telling our various stakeholders how it is and not glossing over or varnishing the truth. And we have to develop a realistic narrative for our people, our most important asset. That narrative is that once we pass through the bloodbath of Q2 and a slightly improving Q3, we will be in the box seat strategically.

As a digital only, not first, community, focusing on first-party data driving the development of advertising content and programmatic, going to market as 'faster, better cheaper' and with a unitary one P&L structure, we will be ideally positioned to capitalise on accelerated digital transformation.

Accelerated digital transformation is inevitable, given the impact of coronavirus. Consumers have become more used to online behaviour. Media owners, some of whom have stopped their paper versions in the crisis, and which will not return, will accelerate the analogue to digital process. Finally, enterprise managers, who declined to move forward rapidly on disruptive digital transformation in relatively good times, now that they are facing a ravaging Q2 will be more prepared to take the digital leap forward and kitchen sink any associated costs, cash or book. So, while Q4 and 2021 may not be the sunny uplands, they will be full of opportunity – along with consolidation opportunities and good people and clients who have been abandoned by bankruptcies or the advertising holding companies.

Our results for Q1 of 2020 have shown little impact, with gross profit up 19% like-for-like, and understandably reflecting the impact of covid-19 on Asia Pacific and the beginnings of its impact on Western Europe and the Americas. You will be able to assess the situation in more detail when we announce our first quarter revenues and gross profit in early May.

To give you an idea of what we think our current position is, on the following page we reproduce extracts from a series of emails I have sent to all our people. In summary, whilst we're concerned about the short term, we're optimistic about the medium to long term. ▶

Letter to shareowners continued

The state of our nation

Extracts from a series of emails to all S4Capital people regarding the coronavirus pandemic, from Sir Martin Sorrell.

Dear all,

I know the management of all our businesses are communicating furiously with you and I have no wish to cut across their individual messages. However, I wanted you to have an overall S4 view on a regular basis.

First, and most importantly, I hope you, your families and friends are well and safe. Any issues let me know personally, as well as your direct reports. We're trying to help everyone we can, as much as we can.

If there's any good that will come from the impact of this wartime-like recession (it isn't like any other, except perhaps the World Wars), it will be that consumers, media owners and enterprises will accelerate their patterns of digital purchasing, usage and transformation programmes. So, we'll win through, as we're ideally positioned in digital content and media.

However, in the short term we must focus on the immediate changing needs of our clients, the needs of our people and liquidity.

January and February were both good revenue growth months, but the perfect storm – of the coronavirus and oil price collapse on top of an already slowing, trade war affected, world economy – will probably affect us from March.

We have to prepare for this. So, we are immediately controlling hiring, eliminating non-essential costs and signalling our leadership intent by cutting our compensation. The eight of us and the seven Non-Executive Directors will reduce their compensation by at least 50% or more, with effect from 1 April. We will take no cash bonuses for 2019. We are doing this to clearly signal to you that we want to maintain the fabric of our Company, during what we believe will be a short, sharp downturn. In essence, we'll be trying to balance revenue growth with our most important investment – in our people.

I expect Q2 to be very difficult for our clients, with historically huge and unprecedented falls in GDP and employment and Q3 to also be difficult (although less so). However, I think Q4 and Q1 2021 will signal a significant recovery, where our digital strengths and abilities will shine through.

I'm not sure that encouraging clients to 'spend, spend, spend' at this time makes any sense given the ferocity of this recession and its uniqueness. It's not like any other, as the existence of many companies and institutions is fundamentally threatened. While I'd agree that brands that behave badly will upset consumers and hobble their ultimate recoveries, that doesn't necessarily translate into spending money on advertising and marketing – more likely it translates into programmes that do good and help consumers directly, eg testing, medical equipment, vaccine development, cleanliness etc.

Clients are probably more accessible now than ever before and, in my experience, want to talk about the challenges they face and how they adapt. I'd urge you to review the proactive content programmes that Wesley ter Haar and Victor Knaap and their colleagues have put together and the programmatic programmes that Pete Kim and Christopher Martin and their colleagues have developed.

I remain of the view that we will be surprised by the snapback after this recession in Q4 and 2021. The speed of the descent, the extent of state aid in so many countries and medical advances on testing and therapy will, in my view, ensure a V-shaped recovery (or the shape of a reverse square root sign!). For us, that recovery will be super-charged by the acceleration of digital transformation at three levels – the consumer, the media owner and the enterprise owner.

So that's the state of our nation, so far. I know, first hand, what pressures we are all under – health, personal, professional, family, resources et al. We will do our utmost to support you in every way we can, in these unprecedently difficult times.

More updates to come. In the meantime, stay healthy, keep safe and send me feedback. I've received a lot of good thoughts, but we need more from every one of you. Every single person can make a contribution. I'm thinking of that 23 year-old engineer, who came up with a solution to save all 33 lives in the Chilean mining disaster, when any means of saving the miners seemed impossible. ■

Best wishes

Martin

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My fellow Directors and I are delighted to report our first full year results for the period ending 31 December 2019 to all our shareowners.

A view from the top
Shot on 2 March 2020 on the 61st floor of Marc Benioff's Salesforce Tower – the highest you can get in San Francisco without breaking the law – our panel discusses growth, integration, diversity and client challenges, as well as some predictions for 2020.
Watch the conversation at www.s4capital.com/annualreport19

Left to right:
Scott Spirit, Chief Growth Officer, S4Capital
Lanya Zambrano, Founder and President, Firewood
Sir Martin Sorrell, Executive Chairman, S4Capital

Letter to shareowners continued

// We are starting to increasingly consolidate our strategic, client content and data and programmatic offer at the S4Capital level //

Expansion and integration

In 2019, we continued to build our existing and new client base, with significant new assignments from Google, SoFi, Amazon, Netflix, Facebook, P&G, Nestlé, The Coca-Cola Company, AB Inbev, Vodafone, Merck, Shiseido, Akzo Nobel and Ace Hardware. Our current pipeline is still at approximately last year's level.

2019 also saw significant strengthening and deepening of our content and data and programmatic practices. All nine additions are being rebranded over time to the MediaMonks content brand and the MightyHive data and programmatic brand. Separate offices are being consolidated on a city-by-city basis, as existing leases end and property consolidation opportunities arise, which look as though they will accelerate post covid-19.

- MediaMonks added Caramel Pictures, a robotic food and drink studio; BizTech, an Adobe specialist; IMA, an influencer marketing agency; Firewood, the largest Silicon Valley digital agency; announced WhiteBalance, an Indian-based creative digital agency; and, finally, after the year end, Circus, a Latin American digital agency.
- MightyHive added data and programmatic consultancy ProgMedia in Latin America and two data and analytics consultancies, UK-based ConversionWorks and Korea-based MightyHive Korea.

We are also starting to increasingly consolidate our strategic, client content and data and programmatic offer at the S4Capital level. Our focus on geographical expansion, particularly in Asia Pacific, was further underlined by the appointment of Scott Spirit to the Board of S4Capital plc and as Chief Growth Officer. The Board was also strengthened by the appointment of three female Non-Executive Directors. Elizabeth Buchanan has extensive media agency experience in Australasia and the US. Naoko Okumoto is well versed in Japanese and Silicon Valley internet businesses, and Hong Kong-based Margaret Ma Connolly has a grounding in Asia Pacific and, particularly, China.

1

Outstanding growth

We thought it would be most useful to compare the reported results not only with last year's reported results, but also on an unaudited like-for-like[1] and unaudited pro-forma[2] basis, particularly given the rapid inorganic expansion of your Company in 2019.

- Billings[3] were £455.8 million, up 671% on reported, up 46% like-for-like and up 47% pro-forma. Controlled billings, that is billings we influenced in addition to billings that flowed through our income statement, were approximately $2.6 billion.
- Revenue was £215.1 million, up 292% reported, 41% like-for-like and 37% pro-forma.
- Gross profit was £171.3 million, up 361% reported, 44% like-for-like and 39% pro-forma.
- Operational EBITDA was £33.4 million, up 612% on reported, 51% like-for-like and 47% pro-forma. Operational EBITDA margin was 19.5% versus 12.6% reported in 2018, 18.6% like-for-like and 20.1% pro-forma.
- Adjusted basic net result per share was 5.2p versus 1.0p in 2018, 3.2p like-for-like and 6.0p pro-forma. Result for the period was £10.0 million (loss), versus a reported £8.1 million (loss) in 2018, like-for-like of £17.2 million (loss) and pro-forma of £.5.7 million (loss). Basic and diluted net result per share were 2.7p per share (loss), versus 3.3p (loss) in 2018, like-for-like 4.7p (loss) per share and pro-forma 1.3p per share (loss).
- Year-end net cash was £23.8 million, despite taking out a £42.4 million loan to partly fund the MediaMonks combination.
- In line with our first-half statement in September 2019, operational EBITDA margins improved significantly in the second half from 13.7% to 23.5%, as the first half increased investment in people yielded higher productivity in the second half.
- Pro-forma billings were £513.2 million.
- Pro-forma revenue was £271.0 million and pro-forma gross profit was £224.2 million up 37% and 39% respectively on 2018.
- Pro-forma operational EBITDA was £45.0 million, up 47% on 2018, with operational EBITDA margin at 20.1%, up 1.1 margin points on the previous year.
- Pro-forma adjusted operating profit excluding adjusting items of £40.0 million, was £42.5 million, up 47% on the previous year.
- Pro-forma adjusted result before income tax profits was £37.1 million versus £23.6 million in the previous year, up 58%.
- Pro-forma adjusted result for the period was £27.0 million, up 52%.
- Adjusted pro-forma basic earnings per share before exceptional items were 6.0p, up from 3.9p in the previous year.

In accordance with our previously announced policy, your Board will not declare a dividend, particularly bearing in mind the need to balance funding future growth versus immediate shareowner return, but will be considering the payment of a nominal dividend in the future.

Notes:

1. Like-for-like is a non-GAAP measure relates to 2018 being restated to show the unaudited numbers for the previous year of the existing and acquired businesses consolidated for the same months as in 2019 applying currency rates as used in 2019.
2. Pro-forma numbers relate to unaudited full year non-statutory and non-GAAP consolidated results in constant currency as if the Group had existed in full for the year and have been prepared under comparable GAAP with no consolidation eliminations.
3. Billings is gross billings to clients including pass-through costs.

Letter to shareowners continued

Geographic performance

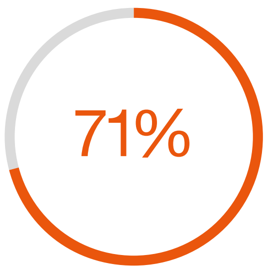
On a pro-forma basis, the Americas accounted for 71% of gross profit against 72% in 2018. Europe, Middle East & Africa represented 22% of gross profit against 24% in 2018. Asia Pacific represented 7% of gross profit against 4% in 2018. Gross profit was up 39% in the Americas, 27% in Europe, Middle East & Africa and 107% in Asia Pacific.

Our long-term objective is to achieve a geographic distribution of 40% in the Americas, 20% in Europe, Middle East & Africa and 40% in Asia Pacific, particularly given the likely continuing rise of China and India.

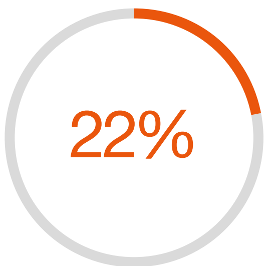
2,500
people

Gross profit by region

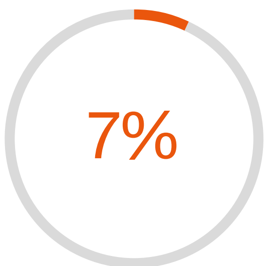
The Americas

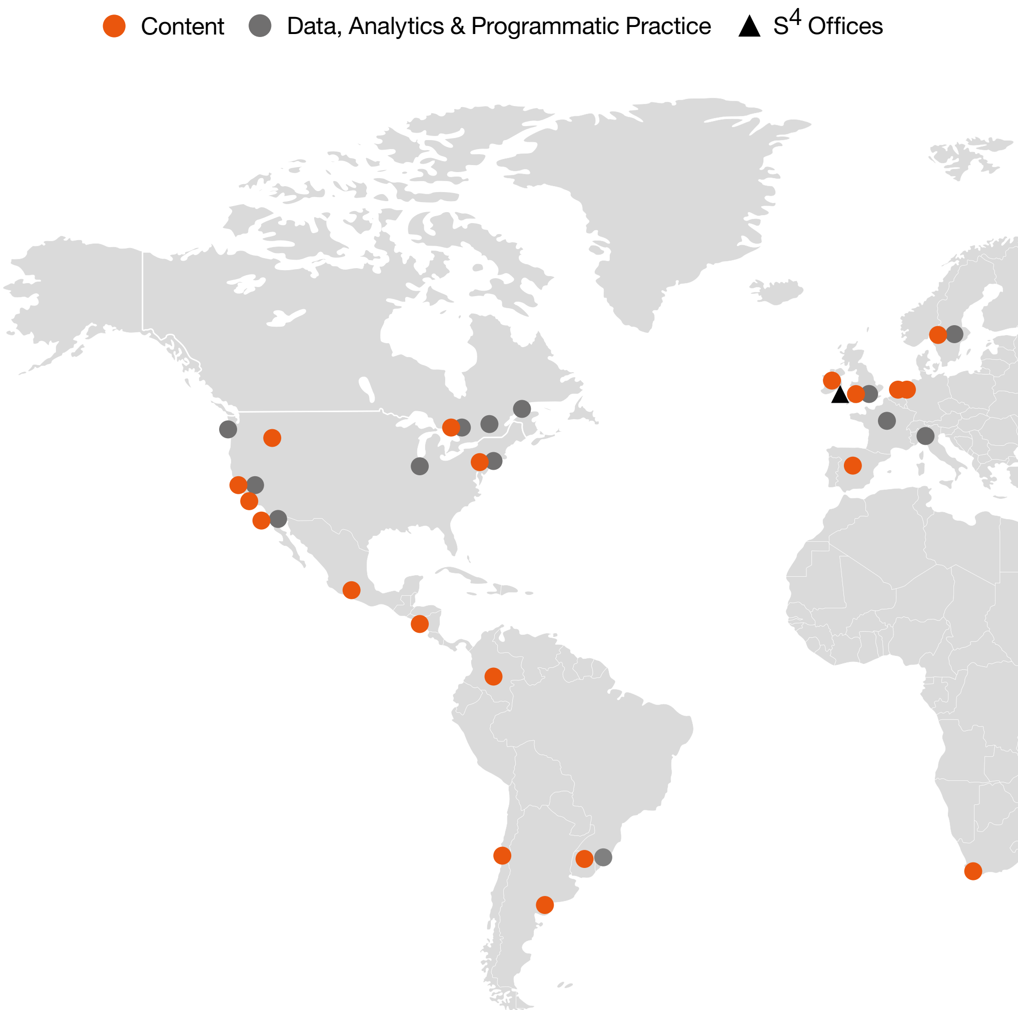


Europe, Middle East & Africa



Asia Pacific





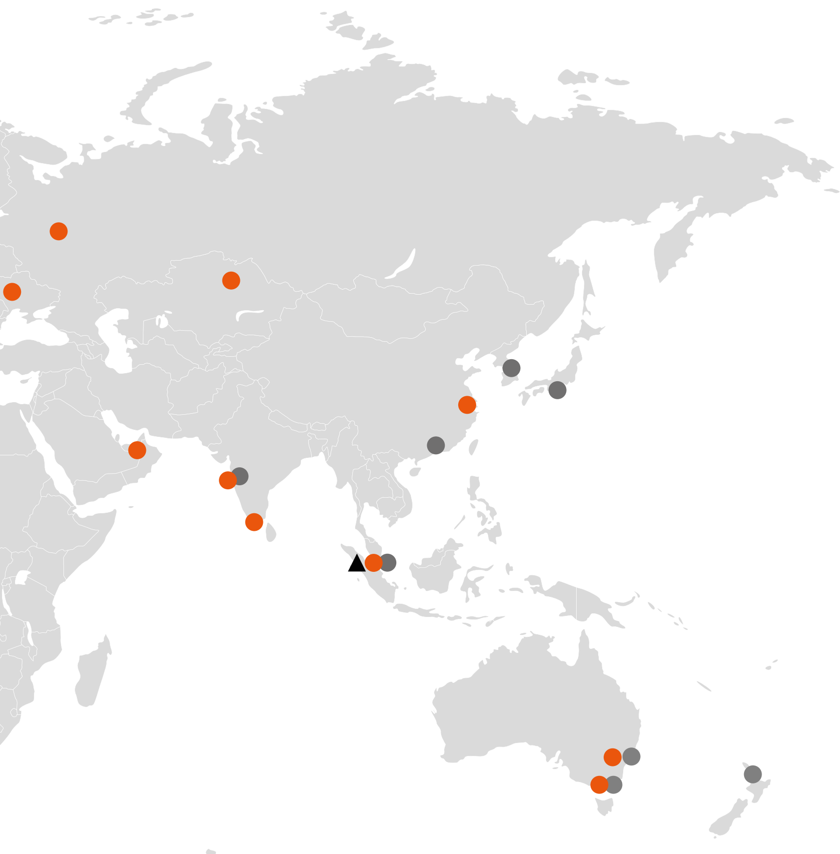
30
countries

1
unitary structure

Practice performance

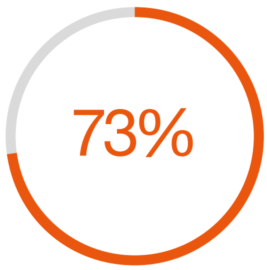
On a pro-forma basis, digital content accounted for 73% of gross profit against 76% in 2018. The Data, Analytics & Programmatic Practice represented 27% of gross profit against 24% in 2018. Gross profit was up 33% at the Content Practice and 59% at the Data, Analytics & Programmatic Practice.

Our long-term objective is to achieve a practice distribution around 60% content and 40% data, analytics and programmatic, emphasising the growing importance of digital video.

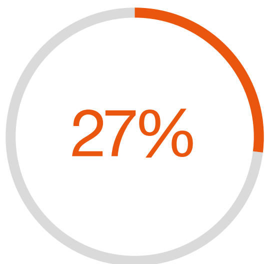


Gross profit by practice

Content



Data, Analytics & Programmatic



Letter to shareowners continued

Growing responsibly

In 2019, your Company upped its game in Environment, Society and Governance (ESG) matters.

- We actively track our CO_2 emissions and perform better than average compared to a sample of other companies.
- We have committed to achieve zero greenhouse gas emissions by 2024, in response to the World Economic Forum 2020 Davos Manifesto.
- Last year, we averaged a 1.01 female-to-male ratio in our Content Practice and 0.80 in our Media Practice (now Data, Analytics & Programmatic).
- Across S4Capital we donated to 28 charities and, in addition, aim to contribute to society and the needs of the planet with our Projects for Good, which are all related to the United Nation's Sustainable Development Goals. In 2019, we delivered 20 Projects for Good.
- We also launched S4 Impact Day globally, a volunteering day when all our 2,500 people in 30 countries can tangibly give back to the communities of which they are a part.
- In Governance, we significantly enhanced the Board with the addition of four new Directors, three female: one Australian, one Chinese and one Japanese.

You can read more about our ESG activities and performance on pages 14 to 15 and see some of our Projects for Good at www.s4capital.com/sustainability.

The right model for the new marketing age

All-in-all, we were firing on all cylinders in 2019, with like-for-like revenue and gross profit up 41% and 44% and pro-forma revenue and gross profit growth of 37% and 39% and an adjusted operational EBITDA margin of almost 20%, after central costs.

Our business model

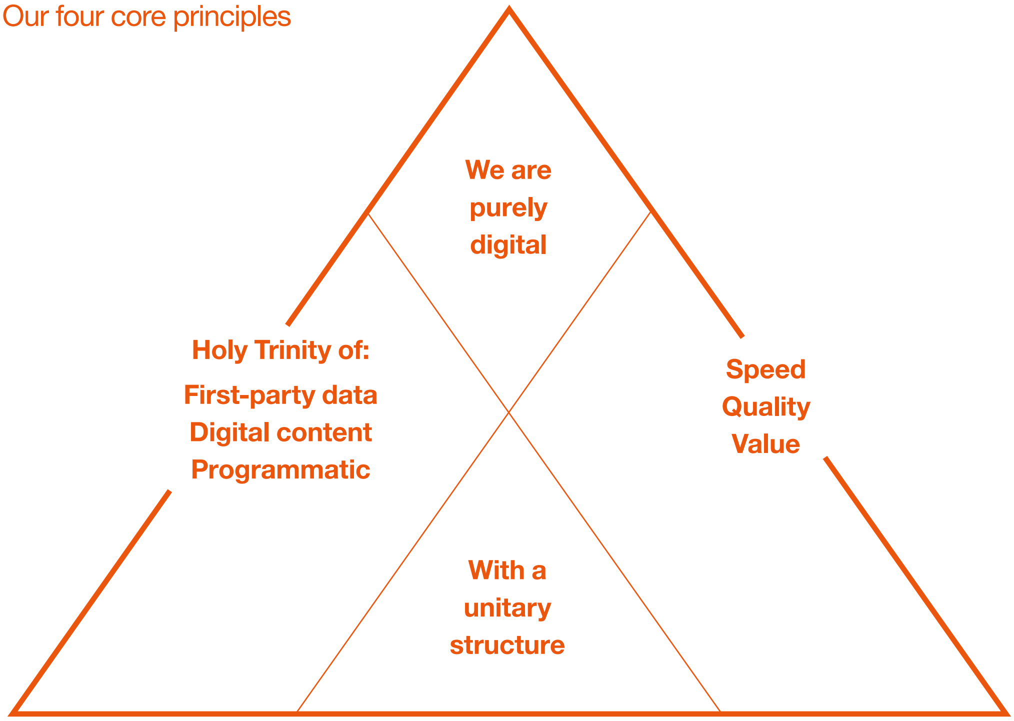
A new agile, flexible model for client engagement

Managed service 'agency' offering	Hybrid/embedded model	In-housing model
Control relinquished		**Control taken**

S4 CAPITAL

Content Practice	MEDIA MONKS
Data, Analytics & Programmatic Practice	MIGHTYHIVE

Our four core principles



This performance is planned to continue into 2020, with budgets and plans targeting strong revenue and gross profit, and with Q1 gross profit like-for-like growth of 19% despite the initial impact of covid-19.

Your Company's purely digital model based on first-party data fuelling digital advertising content and data and programmatic is resonating with clients. Our tag line of 'speed, quality, value' (a more elegant version of 'faster, better, cheaper') and our unitary, one P&L structure also appeal strongly. The imperative will be to move beyond brand awareness and brand trial to client conversion at scale.

As with the Company's three-year plan for the period 2019-2021, which we are more than on track on, its three-year plan for 2020-2022 calls for a doubling of revenue and gross profit organically over pro-forma 2019, with an improvement in EBITDA margin. ■

Martin Sorrell

Sir Martin Sorrell
Executive Chairman

Peter Rademaker
Group Chief Financial Officer

The Group's strategy is to merge with, rather than acquire, complementary businesses to encourage buy-in, rather than sell-outs, from our businesses. Within parts of this annual report, we use the conventional accounting term of acquisition for reporting purposes.

Sustainability and corporate responsibility

Your Board has overall responsibility for the important issues and initiatives that fall under the sustainability and corporate responsibility umbrella, delegating implementation to our management teams.

The Group has announced 11 business combinations since its inception. Each business combination the Group completes strengthens our talent pool and brings refreshing perspectives. These viewpoints present the Group with opportunities for reflection on its existing sustainability and corporate responsibility principles. In addition, we can reflect on initiatives to explore new ways of delivering on the Group's core commitment to responsible growth and to enable all our people to maximise their potential. We are also proud to support MediaMonks in its corporate social responsibility report, published annually, which sets out the actions it takes to become a more responsible company, both from a social and environmental angle, as well as the methods it employs to integrate corporate social responsibility into its business model.

Find out more about our Sustainability strategy and Projects for Good at www.s4capital.com/sustainability.

GHG emissions

As a company admitted to the Official List, the Group is required to measure and report its direct and indirect greenhouse gas emissions. This marks the first year that we have reported on greenhouse gas emissions and we can report the following:

	Electricity	Gas
MediaMonks London (usage based on average of 30 employees for period Jan-Dec 2019)	36,363 kwh	4,141 kwh
MightyHive Windsor (usage based on average of 25 employees for period Oct-Dec 2019)	3,346 kwh	2,478 kwh
MightyHive London (usage based on average of 21 employees for period Jan-Dec 2019)	15,000 kwh	Nil
S4Capital London head office (usage based on average of 4 employees for period Jan-Dec 2019)	17,601 kwh	5,227 kwh

Our people

The talent, passion and hard work of our people is at the core of what we do. It is critical for the successful execution of the Group's strategy that we attract, motivate and retain people of the very highest quality.

Our commitment to cultivating a work environment with high-level satisfaction and personal development for our people has been at the heart of our growth story. In January 2019, MightyHive was named one of Built in NYC's Best Midsize Companies to Work For. Over the 2019 financial year we have been joined by over 1,300 people in five different geographies. This includes all of the people who joined in October 2019 from Firewood Marketing, which was recently recognised as one of the top workplaces in advertising, marketing, media and ad tech by the AdAge Best Place to Work 2020 survey.

The Board is pleased to be able to support management in their focus on their people. S4Capital provides longer-term incentivisation to over 835 people at MediaMonks and MightyHive. In addition, the S4Capital Employee Benefit Trust has the added benefit of encouraging integration and co-operation between the Group's businesses: in keeping with the Group's strategy to operate on a unitary basis, its people are primarily incentivised at the Group level, not by business-level earn-outs.

The Board aims to ensure that all our people work in an environment that supports diversity and fosters a culture of dignity and respect.

It is committed to supporting employment policies and practices that support equal opportunities and non-discrimination, and that exceed mere compliance with relevant local legislation and accepted practice.

The Group's policies and practices of equal opportunities and non-discrimination ensure that an individual's ability, aptitude and talent are the sole determinants in recruitment, training, career development and progression opportunities, rather than their age, beliefs, physical challenges, ethnic origin, gender, marital status, race, religion or sexual orientation.

Human rights

We are committed to our obligations to comply with the Modern Slavery Act 2015. MediaMonks has been a member of the United Nations Global Compact (UNGC) since 2012. The UNGC is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with 10 universally accepted principles, including in the areas of human rights and employment.

Gender diversity as at 31 December 2019	Female	Male	Total
Directors of S4Capital plc	4	10	14
Senior executives	54	110	164
Group people	746	907	1,653[1]

Note:

1. Excludes Circus Marketing, WhiteBalance and BizTech Kazakhstan and Russia.

Section 172(i) statement

Section 172 of the Companies Act requires Directors to take into consideration the interests of stakeholders in their decision making. This section serves as our Section 172(i) statement and further information about the Board's approach to engagement with stakeholders is set out in the following pages.

The Board considers, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its shareowners as a whole (having regard to the stakeholders and matters set out in Section 172(i)(a-f) of the Act in the decisions taken during the year ended 31 December 2019).

Our mission is to create a new era, new media solution embracing data, content and technology in an always-on environment for global multinational, regional and local clients and for millennial-driven brands. The Board recognise that engagement with the Company's stakeholders is critical to the success of the business in realising this mission. The Directors continue to have regards to the interest of our people and the Company's other stakeholders, including the impact of its activities on the community, the environment and the Company's reputation when making decisions. We recognise that promoting the long-term sustainability and success of the Company is intertwined with creating value for, and engagement with, our stakeholders. It should therefore be at the core of our business.

Engagement with stakeholders is not new and has been a part of the business since its inception, but the obligation to include the Section 172(i) statement presents an opportunity to illustrate to you how your Board engages with stakeholders and how this has impacted on your Company's decisions and strategies.

The stakeholder voice is heard by the Board throughout the year by information provided by management and also by direct engagement with stakeholders. We ensure that stakeholder considerations are taken into account through discussions at meetings of the Board and its committees, as well as informally in the day-to-day activities of the business. On pages 17 to 20 we set out who we consider to be our principal stakeholders, including information on our methods of engagement with them, and the impact of such engagement on the Company's decisions and strategies.

The Directors are fully aware of their responsibilities to promote the success of the Company in accordance with Section 172 of the Act. Our intention is to behave responsibly and ensure that management operate the business in a responsible manner, operating within the high standards of business conduct and good governance expected of us.

Engagement with stakeholders

Our stakeholders

Understanding what matters to stakeholders will only be achieved by building strong, constructive relationships and engaging regularly. We value the diverse perspectives that a broad range of stakeholders, representing different and often competing interests, can bring to our decision making. Not only that, we recognise that engagement with stakeholders is a vital part in the execution of our long-term strategy. Our clients, our people and our shareowners are our key stakeholder groups.

Our clients are at the core of our strategic thinking. It is in response to their needs that we seek to be faster, better, cheaper. We are acutely focused on how their needs continue to develop in the always-on 24/7 digital world we all now inhabit.

It is the talent, passion and hard work of our people that enable us to deliver the most effective and imaginative solutions for our clients.

We rely on our shareowners to finance our activities and the continuing expansion of our business. As such, engagement with them, creating value for them and shaping our future decisions based on the results of our engagement with them is critical to the long-term success of the Company.

The relationships we build with stakeholders are subject to robust governance to ensure the insights generated are taken into account in decision making at executive and Board level.

What are the key interests of our stakeholders?

- Our clients – the provision of first-party data to fuel creative content and digital media planning and digital content, the design and development of digital creative content and provision of programmes to allow our clients to efficiently plan and deliver audience-focused campaigns.
- Our people – a positive environment to work, physical and mental health and wellbeing, investment in personal, development and career progression, support for flexible and agile working, equal opportunities, inclusion and diversity, promoting equal pay and honest communications.
- Our shareowners – robust financial accounts, sustainable, long-term growth in the Company and its share price, sound investment and merger decisions and effective communication of strategy.
- Our communities – creation of social value, supporting sustainability initiatives and community employment and education.
- Our suppliers – a productive and fair working relationship through collaboration, innovation and shared values.

Our key stakeholders and how we engage with them

Clients

- Our mission for S4Capital is driven by engagement with our clients and our mantra of ‘speed, quality, value’.
- We have combined best-in-class practices on a single profit-centre basis, promoting alignment, an integrated service offering and emphasising transparency to clients.

How we engage with our clients

- In today’s always-on environment, we work alongside our clients on a day-by-day, hour-by-hour basis, helping them communicate with their audiences in a continuous loop.
- We continuously evolve how we communicate and deliver our services based on client feedback.
- For some clients, we co-locate or embed our people, which not only facilitates clear communication, collaboration and teamwork, but also leaves a light environmental footprint.

Engagement outcome: example

As our financial results show, we continue to build our existing and new client base, with significant assignments from some of the world’s top companies and at a local level. Our retention and new business rate is strong, often boosted by cross-practice pitches and referrals.

Section 172(i) statement continued

People

- Our aim is to grow the world's brightest talent to create a skilled, diverse workplace, producing outstanding work for our clients.
- It is essential that we keep all our people engaged, motivated and productive to meet our clients' need for 'speed, quality, value'.
- We therefore have to provide sufficient opportunities, interesting roles and new challenges to enable our people to spend fulfilling careers within the business.

How we engage with our people

- To attract the brightest new talent to our business, our practices offer student outreach programmes, supportive internships and comprehensive inductions for new hires.
- We help our people develop career path development plans, and provide mentoring, training and digital learning, as well as opportunities for international exchanges.
- To assist with the wellbeing and health of our people, our practices provide wellness programmes and support for individuals, all within a strong culture of mutual respect and understanding.
- A diverse and inclusive workplace brings a wealth of cross-cultural advantages to our people and our clients.
- Although we are one of the most gender-balanced companies in the industry, we know there is a general imbalance across the digital world. We are addressing this through proactive female and diversity engagement programmes, supportive internal networks and industry initiatives to change the status quo.
- Our culture is one of openness and transparency, where everyone has a voice and is free to raise questions and issues of concern.
- Our unitary structure, with a single P&L, gives our people a sense of common values, shared goals and a collaborative spirit. This leads to the pooling of skills and knowledge and innovative client solutions.

Engagement outcome: example

Employee Resource Groups (ERGs) join MightyHive people based on shared life experiences to support each other, enhance career development, and receive support from MightyHive to develop programming to advance diversity and inclusion at the Company. The groups celebrate not only diversity in gender, age, orientation and backgrounds, but also diversity in thinking, perspectives, life stages and levels of experience.

Shareowners

- Our intention is to behave responsibly towards our shareowners and treat them fairly and equally, so that they may fully benefit from the successful execution of our vision and strategy. It is important that shareowners have confidence in the Company and how it is managed, given their investment in the business. We rely on them to finance our activities and the continuing expansion of our business and their trust in us is key to sustaining continuous investment. In addition, engagement with shareowners gives us a broad insight into their priorities, which influences our own decision making and our strategic direction.
- We create value for shareowners, in the short term, through our commitment to high-ethical standards of business conduct, strong corporate governance and acting with integrity so shareowners can have confidence in the way we do business. In the long term, it is our goal to create value for shareowners by providing an appropriate return through long-term growth.

How we engage with shareowners

- The Directors have regular contact with existing shareowners and potential shareowners in S^{4}Capital. Sir Martin Sorrell (Executive Chairman), Peter Rademaker (Chief Financial Officer) and Scott Spirit (Chief Growth Officer) and, where necessary, practice heads communicate via email, calls and face-to-face meetings with shareowners.

- After each quarterly results announcement and major transaction, we have held extensive roadshows in London with investors such as Merian, TT International, Herald, Canaccord Genuity, Columbia Threadneedle, Rathbones, Bestinver, Odey, Lombard Odier, Gresham House, Investec, Tosca and others. We have also participated in broker-arranged roadshows in London, New York, Los Angeles, Boston, San Francisco, Geneva, Zurich, Vancouver, Toronto and Frankfurt to meet existing and prospective investors.
- The Directors (including Victor Knaap, Wesley ter Haar, Pete Kim and Christopher S. Martin) also regularly attend investor conferences and invitations from analysts to speak.
- The Directors' meetings with shareowners serve to keep them informed on the business and allow the Company to gain valuable feedback and advice.
- Unlike some other smaller listed companies who issue their shares only to institutional shareowners in share placings, we allow all shareowners to participate in our equity fundraisings. We carried out a placing and open offer to shareowners in October 2019 in order to raise additional equity. We value our AGM and general meetings as an opportunity to meet all shareowners and thank them for their support, as well as hear their feedback and perspectives on the Company. Should we look to raise additional equity finance in the future, we will seek to allow existing shareowners to participate where possible.

Engagement outcome: example

The Company successfully raised £100 million through its placing and open offer in October, to fund the acquisition of Firewood Marketing and to support its investment strategy. This could not have been achieved without the support of our shareowners.

Communities

- We contribute to society by actively sharing our talents and digital expertise and offering it to local social initiatives and charity projects.

How we engage with our communities

- Our practices and people are involved in many projects at a local level: from student outreach and teaching coding to young people, to participating in drives to collect food, toys and donations at holiday times.
- Launched in 2019, S4 Impact Day is a global S4Capital volunteering initiative where all of our 2,500 people in 30 countries can tangibly give back to the communities of which they are a part.

Engagement outcome: example

In the US, MediaMonks supports Nest's endeavour to educate people about energy poverty with The Power Project. This is a fundraising platform allowing people to search zip codes to learn about energy poverty in their communities and make a direct donation. People within the community in need can also use the site to find aid programmes that already exist in the area.

Suppliers

- We rely on suppliers to help deliver our services to clients and maintain our productivity, as well as helping to make our supply chain as sustainable as possible.
- Strong relationships with suppliers can bring innovative approaches and solutions that create shared value.

How we engage with our suppliers

- We aim to have a fair and transparent relationship with our suppliers and partners through regular dialogue on performance and CSR matters.

Engagement outcome: example

To monitor the impact on its total environmental footprint, MediaMonks tracks the CSR policies of the largest suppliers in the countries where it operates to assess their sustainability levels.

Section 172(i) statement continued

Principal decisions of the Board

Decision	Placing a total of 70,422,535 new Ordinary Shares, 36,506,852 through a firm placing and 33,915,683 through the placing of an open offer, of £0.25 each at an issue price of 142p per new Ordinary Share raising an amount of £100 million. Further details are included in the Placing Memorandum of the Company of 8 October 2019 (Memorandum).
Context	The principal use of the net proceeds of the share issue was to pay (i) the cash consideration of up to $76.7 million, due under the Firewood merger agreement, (ii) approximately £2.7 million is expected to be used to meet other expenses arising in connection with the Firewood merger and (iii) the remaining approximately £32.5 million to be used for general corporate purposes, cash consideration on potential acquisitions and implementing the Company's strategy. A financial summary of the acquisitions during the year are included in Note 4 of the financial statements. Firewood is the largest independent digital content agency in Silicon Valley making use of the embedded model. MediaMonks management believed that the combination presented a compelling opportunity to create a highly-differentiated service offering underpinned by strategic consulting, efficient premium creative and content production, performance media and technology services that are all delivered via hybrid in-housing and embedded models.
Stakeholder considerations	The Memorandum contains an overview of the considered risk factors. The risk factors relate to risks to the merger as such, the industry and operations of the Group, the Group's strategy, legal and regulatory risks and risks related to the Ordinary Shares. A specific consideration that was assessed in detail is the material proportion of revenue from large clients. Firewood receives a significant proportion of its income from a small number of large clients, including Google and other Google Partners. MightyHive is a certified partner across a broad spectrum of Google products, working with dozens of Google Partners. Consequently, following the Firewood merger, Google has become the Group's most significant client and generates a higher percentage of the Group's revenue as compared to previous financial years. The Directors and MediaMonks management believe this contributes to the Group's stated goal to have scaled relationships with its largest clients. The Directors further believe that strengthening the Group's relationship and aligning with new era marketers like Google will position the Group for growth.
Strategic actions supported by the Board	Based on strategic rationale and expected benefits (such as a deeper exposure to the US and digital marketing, expanding the Group's largest client relationships, broadening the Group's technology client portfolio and costs synergies) the Board believed that the Firewood merger would further enhance the implementation of the Company's objective of creating a new era, new media solution embracing data, content and technology in an always-on environment for global, multinational, regional and local clients and for millennial-driven digital brands.
Outcome	Admission took place on 25 October 2019.

Principal risks and uncertainties

The success of the Group depends in part on the proper management of risk. The Group has therefore implemented a governance structure to identify and monitor relevant risks and evaluate the likelihood of such risks manifesting and their potential impact. Once identified, the Group then seeks to formulate and deploy mitigating strategies.

The Board, through the Audit and Risk Committee, has overall responsibility for the risk management and mitigation process. The Board places a particular emphasis on the scope and nature of the relevant risks when determining how the Group should seek to achieve its strategic objectives.

The Group's strategy is to build a purely digital multinational advertising and marketing services business, initially, given its embryonic origins, by mergers. In the context of future organic- and business combination-driven growth, the Board is prepared to accept a certain level of risk to build a multinational business that is able to compete with established competitors and capitalise on the digitally-led disruption of the advertising and marketing services sector.

The Group's approach to risk is kept under review. The Group's approach to particular risks or classes of risk may change over time as the Group grows and its market evolves.

The Group is run on a unitary, or single profit centre, basis. Many of the risks faced by the Group as a whole, MediaMonks and MightyHive are similar. The Group therefore seeks to adopt a consistent approach to such risks and to pool expertise in risk management, as appropriate. Nevertheless, the Board considers that it is also appropriate for risk registers to be maintained at the Group level and also at each of the Group's trading businesses. Senior management at MediaMonks and MightyHive are responsible for maintaining risk registers that record the risks that are specific to each business.

Your Company is a global one, well suited to the challenges of the international age and adaptable to political and cultural changes. Whilst it is headquartered in London, its business is multinational and Brexit in any form is not going to significantly impact our operations. Google's recent announcement that it will be blocking third-party cookies by 2022 presents both a significant opportunity and challenge to the Company, given that several of our programmatic activities are built on top of the third-party cookie. Nevertheless, rather than resisting changes we will adapt to them and seek to find opportunities within them to evolve and we will work closely with Google to find solutions. We have already seen a major increase in client interest in our data and analytics capabilities as a result.

Risk movement

The risks and uncertainties faced by the Group have evolved since the Company's reverse takeover of S^{4}Capital 2 Limited in September 2018, as the Company expands and establishes itself in new jurisdictions which present further challenges and risks. As a result, the Board continuously evaluates the movement in the risks outlined on the following pages.

Risks

The principal risks and uncertainties that the Board believes could have a significant adverse impact on the Group's business are set out on pages 22 to 26.

Principal risks and uncertainties continued

Risk	Description	Management actions
Economic environment		
Adverse developments in the global economy or the local economies in the territories where the Group has operations could impact the level of demand for the Group's services.	The global economy is likely to suffer slower growth than current levels, impacting consumer and business spending and investment, in light of a new strain of coronavirus, covid-19. The virus has quickly spread resulting in severe illness and, in many cases, death, and has prompted the World Health Organisation to declare a pandemic. This has resulted in the implementation by governments and businesses across the world of drastic measures to halt the spread of the virus and safeguard lives and health services. The Group's clients may be forced to respond to such circumstances by reducing their advertising and marketing budgets, thereby reducing the demand for the Group's services. Although governments across the world have implemented unprecedented and comprehensive measures in order to mitigate the adverse economic effects of covid-19, there is likely to be a significant amount of economic uncertainty and disruption to businesses and the wider economy in the short term.	The Group will continue to focus on delivering its services in a manner which is faster, better and more efficient that its competitors. This means that the Group may be able to retain and win new clients even in the context of these adverse economic developments. Digital advertising and marketing services continue to grow faster than traditional ones. With regard to covid-19, the Group is monitoring the impact on a daily basis. The Group was swift to enact cost controls and was quick to adjust existing revenue streams, develop new, relevant ones and we are matching forecast revenues with costs.
People and leadership		
The quality of the services provided by the Group's businesses are fundamentally derived from the quality of the Group's people. The Group's performance could therefore be adversely affected if it is not able to recruit, train and retain key talent in the Group's businesses and at the Group level.	A number of individuals are key to the management and performance of MediaMonks, MightyHive and the execution of the Group's overall strategy. The Directors believe that the loss of key people could significantly impede the Group's financial plans, product development, project completion, marketing and other plans.	Retention of key people is supported by the structure of the Group's incentive plans, which vest over time and are linked to performance. Further, members of key management hold significant equity interests in the Group that cannot be sold for a number of years. The Group's trading businesses leverage their industry reputation and networks to source high quality people and emphasise training and development in order to enhance talent internally. The Board, through the Nomination and Remuneration Committee, undertakes succession planning for key roles as appropriate and evaluates pay to ensure that the Group's remuneration policies and incentive plans deliver against the objective of attracting and retaining key talent. With regard to covid-19, the Group implemented Work From Home policies to protect our people and ensure continuity in service for our clients. We have regular communication and a focus on the health and wellbeing of our people.

Risk	Description	Management actions
Strategic		
The Group's future results of operation and financial performance are partly dependent on the successful implementation of the Group's strategy. **The Group's strategy is to build a purely digital multinational advertising and marketing services business, initially by business combinations.**	In the short and medium term, the success of the Group's strategy will therefore depend on the Group's ability to identify and merge with suitable targets. There is a risk that the Group will not be able to source or complete additional business combinations on commercially acceptable terms or at all. Material management time and Group resources may be allocated to evaluating potential target entities that are not ultimately merged with by the Group. Moreover, when the Group completes mergers, there is a risk that the acquired business may not perform in line with management expectations, or result in the Group's assumption of unforeseen liabilities. As the Group's strategy is to operate on a unitary basis, there is also a risk that the integration of any merged business does not proceed in accordance with management's expectations. The implementation of the Group's strategy is also likely to result in the allocation of Group resources and management time to winning business in new geographies. There is a risk that such new offices fail to perform in line with management expectations.	The Board, making appropriate use of expert advisers where necessary, conducts strategic planning, due diligence and integration planning to ensure that potential business combinations meet the financial and other criteria set by the Board. Management will seek to carry out organic expansion into new geographies in order to meet the needs of an existing client or clients, thereby reducing uncertainty in the start-up phase of any office. Moreover, the Group will seek to scale new sales offices in line with increasing client demand.
The Group is dependent on relationships with certain third parties with significant market positions, particularly Google Marketing Platform and the rest of the Google advertising ecosystem and an unnamed telecommunications company (subject to a NDA), but also Amazon and Facebook.	There is a risk to the Group's business if any or all of Google, the unnamed telecommunications company, Amazon and Facebook (i) cease to be a market leader in the online advertising industry; (ii) were subject to adverse publicity or action impeding its provision of advertising services and infrastructure; (iii) were to cease to regard the Group as a preferred partner; (iv) were to expand its operations such that it competed directly with the Group; or (v) otherwise ceased to be available as a technology provider to the Group.	Management invests a significant amount of time in building S⁴Capital relationships with all the major technology companies in the marketing sector. We have meaningful and growing client relationships with most of the platforms including Google, Facebook, Amazon, Adobe, Salesforce, Snap, Netflix, Spotify, ByteDance, Microsoft, IBM and others. We have also established strong partnerships with these organisations, providing services to our joint clients. For example, MightyHive has achieved top status as a Certified Sales Partner across the full Google Marketing Platform stack as well as Premier Google Cloud Partner status, while MightyHive was also recognised as 'Partner of the Year' in Asia Pacific for 2019. MediaMonks has significant Adobe capabilities globally and is a Platinum Partner for Adobe (the highest level); they were recently awarded 'Partner of the Year' for the entire Asia Pacific region for 2019.
As part of the Group's strategy, the Directors intend to identify suitable merger opportunities. The Group may not successfully identify and complete, or, if completed, integrate suitable merger opportunities in the future.	If the Group fails to complete a proposed merger it may be left with substantial unrecovered transaction costs, which could adversely affect subsequent attempts to acquire another target business. When a substantial business operation is acquired by the Group there is no certainty that the Group will be able to successfully implement change programmes within a reasonable timescale and cost, which may adversely impact the Group's business and prospects.	The Group has completed 11 transactions so far and the integrations to date have been smooth and successful. The S⁴Capital deal structure of acquiring 100% of the equity, avoiding earn-outs, paying management 50% in S⁴Capital stock and our commitment to a 'unitary structure' lends itself to integration. The entrepreneurs who have joined S⁴Capital have a cultural alignment and a shared ambition to disrupt the current advertising model. From a practical perspective management work with them on integration topics such as technology and operations, commercial (shared client opportunities), brand, financial reporting and property.

Principal risks and uncertainties continued

Risk	Description	Management actions
Strategic		
The Group conducts due diligence as it deems responsibly practicable and appropriate based on the facts and circumstances applicable to any merger under consideration. Material facts or circumstances may not be revealed in the due diligence process.	A due diligence investigation could fail to correctly identify material issues and liabilities in a target business, or an investigation could reveal a material risk that the Group considers to be commercially acceptable. Both scenarios could result in the Group subsequently incurring substantial losses.	The Group makes use of expert advisers to conduct due diligence. In addition, warranties and indemnifications are included in transaction documents and/or a W&I insurance is included. Finally, the Group integrates the newly-merged company into its standard monthly reporting cycle where (financial) risks, if any are identified.
Google, a key customer to us, recently announced that third-party cookies would be blocked in Chrome by 2022. As a result, in the next 24 months, third-party cookies will become effectively unusable for advertising measurement and many forms of third-party data already challenged by GDPR since May 2018, will cease to exist.	As with many businesses in the programmatic space, a number of MightyHive services are built to some extent on top of the third-party cookie, such as programmatic audience activation, dynamic creative, and advanced attribution. In their current state, these technologies will not work in two years' time. Unless we adapt to these changes, our business will be severely threatened.	We will look to move with the market, as opposed to push against it and seek short-term fixes. We will seek to innovate and adapt with these changes opening up new opportunities for more advanced and smarter marketers in a new cookie-less era. We have already started developing targeting and measurement approaches independent of cookie-based approaches for use on multiple bidding and measurement platforms. Further, as a leading Google partner, we will be collaborating closely with Google on its 'Privacy Sandbox' protocols and work hard to bring these solutions to our clients. We have invested heavily into data science, API and cloud-driven solutions to help marketers gradually increase the utility of their first-party data while simultaneously reducing reliance on third-party cookie pools. We have already seen a significant increase in client demand for our data and analytics services.
Competitive environment		
The digital media and communication services industry is highly competitive. The Group's revenues and/or margins could be reduced if clients are lost to competitors, competition erodes the Group's pricing power or the economic environment results in lower demand for advertising and marketing services of the type which the Group provides. **The advertising and marketing services industry is subject to significant and rapid change.**	The Group's competitors include large multinational advertising and marketing communication companies, regional and national marketing services companies and new market participants, such as consultancy businesses and technology companies. It is part of the Group's strategy to exploit the current disruption of the advertising and marketing services industry. Nevertheless, there is a risk that future trends in the advertising and marketing services industry will present challenges to the Group as an incumbent and corresponding opportunities to disruptive competitors.	The Group's strategy is to build a purely digital multinational advertising and marketing services business, initially by mergers. In order to differentiate itself from competitors, the Group is focused on purely digital, end-to-end marketing services. The Group has combined best-in-class businesses on a single profit-centre basis, promoting alignment, an integrated service offering and emphasising transparency to clients. As one of the first such businesses in the advertising and marketing sectors, the Group therefore seeks to capitalise on first-mover advantage and establish durable client relationships that will mitigate against competitive threats in the sector.
Any negative impact on the reputation of and value associated with any of the Group's trading names could have a material adverse effect on its business and results of operations.	The execution of the Group's strategy may fail to maintain the reputation of the Group's trading names. Adverse media comment or difficulty in the provision of the Group's services may damage its reputation.	The Group safeguards reputational risk in other risk disciplines. In addition, the Group works with a transparent and a transparent and stable business model with solid ratios.

Risk	Description	Management actions
IT and data security		
The Group is subject to a number of laws relating to privacy and data protection governing its ability to collect and use personal information. These data protection and privacy-related laws and regulations are becoming increasingly restrictive and complex and may result in greater regulatory oversight and increased levels of enforcement and sanctions. **The European Union's General Data Protection Regulation (GDPR) constitutes a major reform of the EU legal framework on the protection of personal data, and provides for fines of up to 4% of global turnover to be levied for breaches.**	The privacy laws to which the Group is subject could, in addition to increasing compliance costs, result in investigative or enforcement action against the Group, legal claims, damage to the Group's reputation and the loss of clients. To the extent that data protection regulation and legislation, in the EU or in any other territory, restricts or prevents the Group's clients from using underlying customer data to tailor and target marketing and advertisements, their digital marketing budget and/or expenditure on the Group's services could decrease. A failure of, or breach in, cybersecurity may cause the Group to lose proprietary information, suffer data corruption, or lose operational capacity.	The Group has developed guidelines for compliance with data privacy laws in the territories in which it operates and has structured its service offerings around a core of compliance with data protection and privacy laws. The Group ensures that its people are properly trained on the implications of applicable data privacy legislation. The Group has in place security measures in an effort to prevent malicious cyber attacks.
The Group may be vulnerable to hacking, identity theft and fraud.	Cyber incidents may cause disruption and impact business operations, potentially resulting in financial losses, impediments to trading, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, or additional compliance costs.	The Group has in place security measures and guidelines in an effort to prevent hacking, identity theft and fraud, including the loss of intellectual property.
The intellectual property rights of the Group are important to its business. There is risk that title to the relevant intellectual property rights has not been properly assigned to the Group. There is a risk that third-party distributors of intellectual property could allege that the Group has not complied with the conditions of a licence.	Employees, sub-contractors or licensors may take action to enforce intellectual property rights against the Group and/or its respective clients. Should such risks materialise the Group may be subject to litigation or incur reputational damage which could have a material adverse effect on the Group.	The Group has developed confidentiality and proprietary information agreements with our employees and partners.
Financial		
The Group has exposure to credit risk through the default of a client or other counterparty.	The Group's operating business are generally paid for their services in arrears. Accordingly, the Group is therefore exposed to the risk that a client or other counterparty is unable to pay all or any of an amount due to the Group. A relatively small number of clients make up a significant percentage of the Group's debtors. Failure by a client or other counterparty to pay the Group in accordance with agreed contractual terms may result in costs and expenses arising in connection with legal action to recover any such debts. If such debts are not paid in full and in a timely manner, the business, revenues, results of operations, financial condition and prospects of the Group could be adversely affected.	The Group makes credit checks and monitors its exposure to individual clients and negotiates payment terms in light of the credit worthiness of its counterparties. The Group is cash generative and the Board maintains focus on the Group's working capital needs.

Principal risks and uncertainties continued

Risk	Description	Management actions
Financial		
The Group does and expects to continue to generate a significant proportion of its revenue in US dollars and other currencies. There is a risk that any significant movement in foreign exchange rates between pounds sterling and other currencies in which revenue is generated could have an impact on the Group's results and financial position.	Changes in exchange rates between euros and other currencies could lead to significant changes in the Group's reported financial results. There is no assurance that arrangements made to manage this risk will be sufficient to reduce the material adverse effect foreign exchange fluctuations could have on the Group's business, financial condition, results of operations and prospects.	The operating cash flows provide a natural hedge since payouts to suppliers and employees are included in the same currency. Cash balances are monitored on a daily basis and any surplus is frequently converted into the currency needed. The Group holds 50% of the term loan in US dollars.
Regulatory, sanctions and taxation		
The Group is and will continue to be subject to strict anti-corruption, anti-bribery and anti-trust legislation and enforcement in the countries in which it operates.	The Group may operate in a number of markets where the corruption risk has been identified as high by organisations such as Transparency International. Failure to comply or to create a corporate environment opposed to corruption or failing to instil business practices that prevent corruption could expose the Group and senior officers to civil and criminal sanctions.	The Group has a strict anti-bribery and corruption policy on which it is training all of its people.
The Group may be subject to regulations restricting its activities or effecting changes in taxation.	Changes in local or international tax rules, for example prompted by the OECD's Base Erosion and Profit Shifting project (a global initiative to improve the fairness and integrity of tax systems), changes arising from the application of existing rules, or new challenges by tax or competition authorities, for example, the European Commission's State Aid investigation into the UK tax relating to overseas subsidiaries, may expose the Group to significant additional tax liabilities, which would affect the future tax charge.	The Group takes external professional advice on its group structuring, including in relation to its acquisitions and does not participate in overly-aggressive tax planning strategies.
The Group is and will continue to be subject to the laws of the UK, the US, the EU and other jurisdictions that impose sanctions and regulate the supply of services to certain countries.	Failure to comply with these laws could expose the Group to civil and criminal penalties including fines and the imposition of economic sanctions against the Group. This could cause reputational damage and withdrawal of banking facilities, which could materially impact the Group's financial position and prospects, as well as its ability to execute its strategy.	In addition to external professional advice, the Group has a transfer pricing policy in place for both practices.

Martin Sorrell

Sir Martin Sorrell
Executive Chairman

Peter Rademaker
Group Chief Financial Officer

Why clients need agility in today's 24/7 world

// How's it going? // I asked the CEO of a consumer goods company.

// Nothing that another 100 basis points of topline growth couldn't solve, // was his blunt response

Swallows and albatrosses

By Sir Martin Sorrell

First, an historical perspective...

Since the global financial crisis, fast-moving consumer goods companies have become accustomed to moving their goods a little slower; annual revenue growth targets have been revised down from 7% or so pre-crisis to just half that a decade later. Interest rates continue to bounce along the bottom, and there's no sign of runaway inflation making a comeback anytime soon. Which explains why, with little power to raise prices, the marketing departments of the biggest fmcg companies have spent much of the past decade focusing on cost.

Procurement has been enjoying a golden age, the pinnacle of which was the invention, or some say reinvention, of zero-based budgeting (ZBB) at 3G and Coty, for example. When it came to marketing spend, everything was on the table, at least until Unilever slapped down Kraft's takeover bid in 2017. Since then, ZBB has been increasingly challenged, and the old adage that you can't cut your way to growth has come back into favour.

The rise of digital advertising platforms, meanwhile, provided an unexpected setback for the CMO. Back in 2016, marketing was still hoping that going online would mean going over the heads of the retail leviathans and give access to a rich seam of consumer data. In the event, the walls of the walled gardens grew higher, and Google, Facebook and Amazon turned out to be the new Walmart, Carrefour and Tesco.

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// At S4Capital we recognised the value of first-party data from the outset; it's part of our Holy Trinity alongside digital content and programmatic media //

Taking back control

Little surprise then, that clients, taking a leaf out of the Brexit campaign, decided to Take Back Control. We've seen that with the move by consumer goods companies into Direct to Consumer (D2C), which started with Unilever's acquisition of Dollar Shave Club. Nestlé bought licensing rights to Starbucks because Amazon wouldn't give them access to their customer data. It's even happening in the automotive sector. At CES I saw a company called ZeroLight that's been working with automobile makers and Amazon Web Services to create an intelligent showcase whereby you can customise your car on your iPad – you can select the colour, the trim, order it, you can almost drive it. It could lead to the death of car dealerships. What D2C gives brands is the direct relationship with the consumer – and real customer data delivered 24/7, that can be used to drive content.

At S4Capital we recognised the value of first-party data from the outset; it's part of our Holy Trinity alongside digital content and programmatic media. For clients, taking back control also means doing business with their marketing partners in a different way. The old approach of outsourcing left their own resources denuded and too much in the hands of the agency. Now clients are experimenting with new models like in-housing and embedding. In Silicon Valley, our company Firewood has 75 people in Mountain View just across the freeway from Google. They can't be on the campus for security reasons, but they're at Google's beck and call.

It's a two-speed world

Marketing spend now has a fast lane and a slow lane. Digital is growing globally at 20% per annum. Traditional media is shrinking at 2-3%. That's why we are purely in digital marketing. The total pie is worth around $1.8 trillion, with $550-600 billion in media, about $500 billion in marketing services like PR, data, market research, and about $700 billion in trade budgets. We are focused on the first and second of those segments. Globally, around 50% is now digital so that leaves half still to go. At some point it will slow down and we will have to think about the challenges of becoming an analogue company too – there are some areas of media with a lot of potential, such as VR, AR, AI and even digital outdoor – but that won't be for some time. At the moment we are in the sweet spot, growing at 45% organically. Our challenge is supply not demand, whereas the legacy agencies are all in the polar opposite position – they have no problem with supply, but they don't have the demand. Clients can broadly be divided into the disruptors and the disrupted, and it's a very different conversation you have with each of them. ▶

Swallows and albatrosses continued

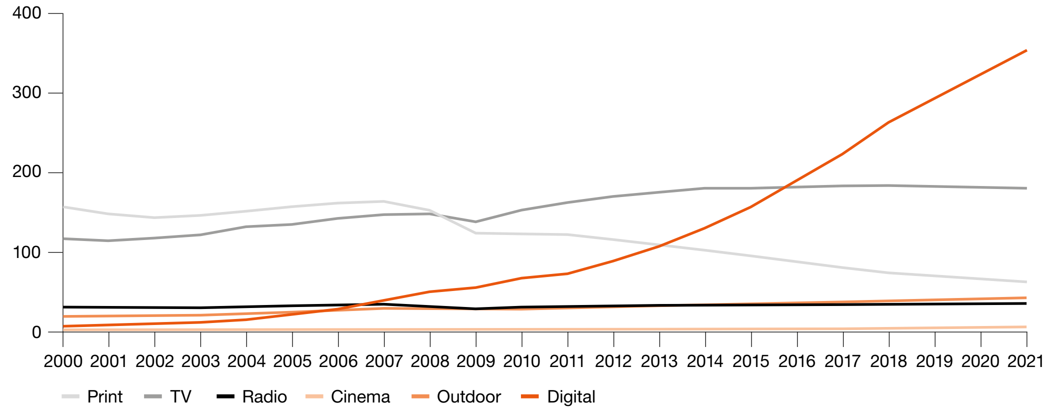
Media spend by category 2000-2021 $bn

Total media spend
$640bn[1]

Digital media spend
$293bn[1]

Total marketing spend
$1.9trn[2]

Trade marketing spend
$518bn[3]

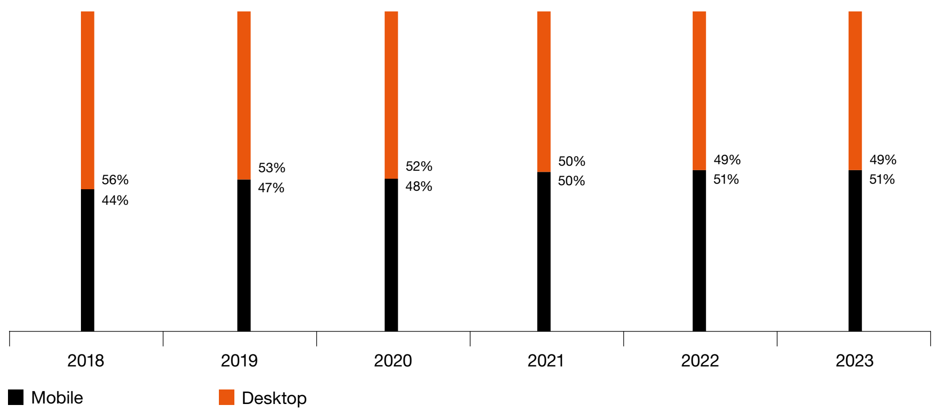


Source: Zenith Optimedia 2019

[1]Zenith Optimedia 2019, [2]GroupM TYNY 2019, [3]Alix Partners 2019

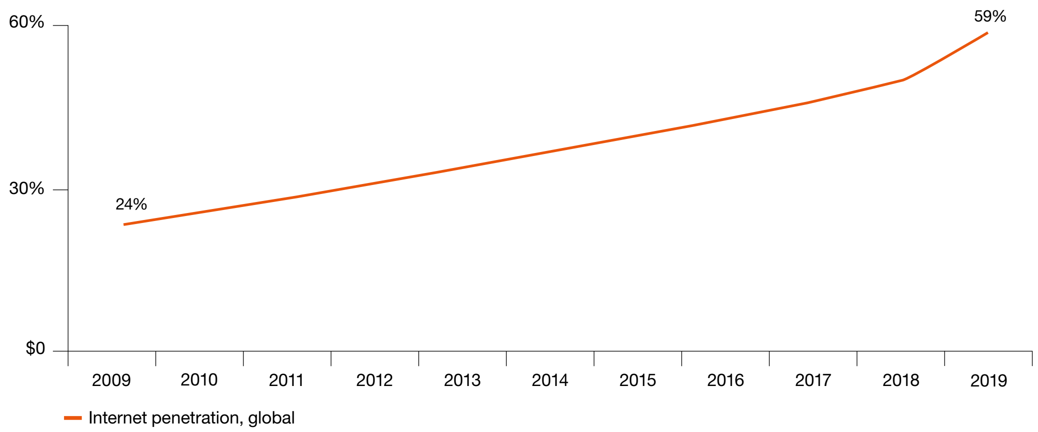
Mobile set to outpace desktop ad spending by 2022

Global desktop/mobile ad spending distribution forecast by platform



Source: Statista Digital Market Outlook

Internet penetration



Sources: Bond; Statista

2

Traditional is a zero sum game

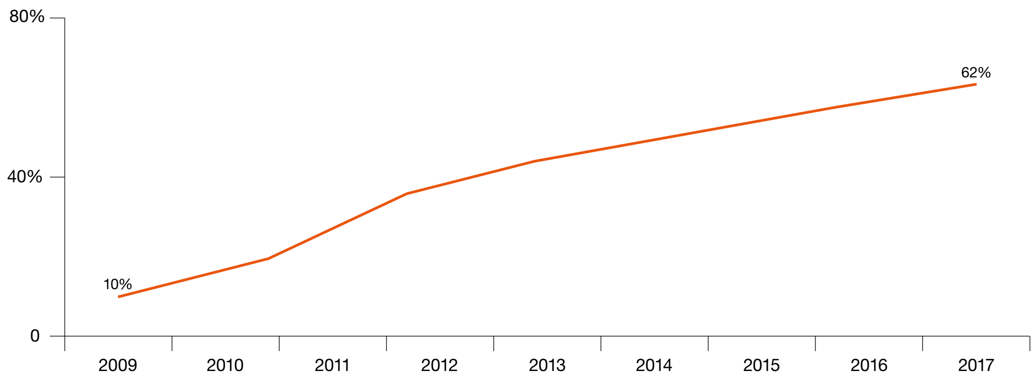
Traditional and digital advertising are living in different paradigms. In the former, you have those giant tentpole campaigns like the Super Bowl, the Oscars and the Olympics, and the client periodically holds a pitch in which everything is thrown up for grabs. It can take 10 months, and during that time, if you are the incumbent you have to defend and run a pitch team, while the attacker is only looking for incremental revenues, so they can afford to discount. That's why the holding companies that do best in the new business tables do worst at organic growth, and vice versa. The agency has become the meat in the sandwich between client and media; and pitches have become a feast for procurement in which the agency is forced to give price guarantees, inflation guarantees and offer zero cost options. In short, it's a zero sum game.

In our world of digital-only, it's a completely different scenario. Everything moves so quickly it's like being at the heart of a political election campaign. You're putting out messages, evaluating the response, then reforming it. Data informs the content, which informs the media buy. In the old days, the creatives had a gut feel, came up with an idea and then, like Don Draper, they went to the client to flog it. Today, we're working with the client in a continuous loop of personalisation at scale. And instead of big pitches, it's all about 'land and expand'. You get in on a project, you win more work on the strength of your performance. You co-locate, you embed.

Beware of albatrosses

No one wants an albatross around their neck. If you remember, that's what happened to the Ancient Mariner when the wind stopped blowing and the ship came to a halt. Now all six holding companies have lost the wind from their sails. They're all moving towards the one firm model, at different speeds, but that means getting rid of the agency brands that they're famous for and it's not an easy thing to do. Their traditional advertising revenue is shrinking, and their digital revenue is growing, but they can't reflect that. If traditional media is going down by 2-3% and digital is going up by 20%, do you think the creative directors, account handlers or strategists on the traditional side are saying I'll cut my salary by 2-3% each year? Or on the digital side, they are being paid 20% more? This is exactly what happened with media. Creative was dominant, media was below the salt. Media started growing faster, but the rewards all went to the creative people, and in the end the media people left and started their own operations. The holding companies can't make the changes they need to make under the spotlight of being a public company, so they'll either have to go private or be broken up. ▶

Programmatic buying % of global digital display advertising



— Display advertising spend programmatic, global

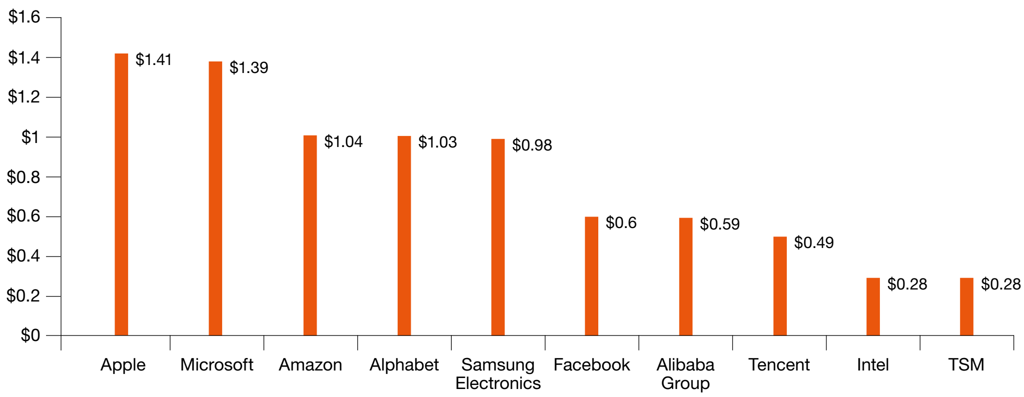
Source: Bond

Swallows and albatrosses continued

The platforms are getting stronger

Google has announced that it's going to stop collecting third-party cookie data, in response to GDPR and other privacy concerns. But if you thought that was going to check Google, think again; if anything, it's going to make them stronger. It's going to take a couple of years to happen, and nobody knows the exact implications. Probably a number of publishers will go to the wall, and probably Google will lose some revenues, but relatively it will be more powerful because the data pool has shrunk and so Google's proportion of it will have grown. The Seven Sisters – Amazon, Apple, Facebook, Google and Microsoft, as well as Alibaba and Tencent – show no sign of slowing down. ByteDance and its social media site TikTok threaten to break out from the following pack – perhaps it's time for the Eight Immortals? Will they all be allowed to keep growing or will pressure grow to break them up? Apple and Microsoft are each worth around $1.4 trillion. When Lloyd Blankfein at Goldman was asked who the first $2 trillion company would be, he's said to have remarked "there won't be one because no nation state would allow it." We'll see. In advertising terms, Google has about $160 billion of ad revenues. Facebook has about $65 billion, Amazon $15-20 billion and ByteDance has $20 billion of which TikTok is $7 billion – but that's come from nothing.

Top technology stocks by market cap February 2020 $trn



Source: INN

2

// For brands, Amazon is rapidly becoming a head-on competitor as well as a marketing partner //

Why the future's streaming

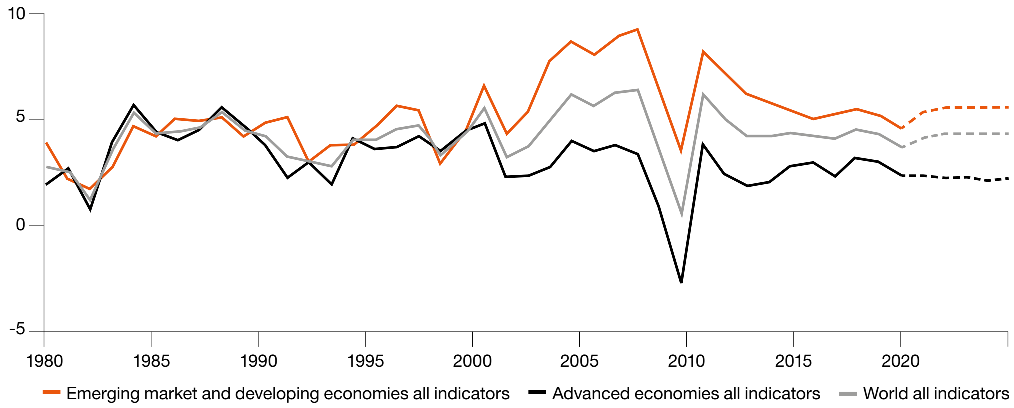
Linear TV viewing is inevitably in decline. I was on a panel at CES with Bill Koenigsberg of Horizon, and he predicted viewing in some day parts will fall by 40-45% over the next 24 months. I was staggered by that and I said are you sure, but he said yes. My own view is it won't be as precipitous as newspapers or magazines, but it is going to happen. Streaming is currently generating around $12 billion from subscriptions – led by Netflix – and around $3 billion from advertising through the likes of Hulu and Roku so there's a big opportunity for advertising, especially with new services like Apple TV and Disney Plus coming in at a lower price point. And you also have this new short-form film platform Quibi, which has people like Steven Spielberg on board and has raised over $1 billion and has first-season sponsorship of $150 million. My view is, Netflix will move to a bipolar model. You'll have one option where you get no advertising and pay more. Or a second option, where you take advertising and you pay less. To my mind that is where they should go. Radio and audio is also going to become a lot more important – not least because it can be used in cars, and it will become even more valuable in autonomous cars.

Look out or Amazon will eat your lunch

For brands, Amazon is rapidly becoming a head-on competitor as well as a marketing partner. We were pitching for some business at a major spirits company and when we were briefed on the Monday, they asked us "what's your view on Amazon?" We said you've got to watch out, they are going to be highly competitive. The next day, I went to Amazon to see Simon Morris, their global creative director. As I walked in, I looked at my phone and it said Amazon is going to launch its own premium gin. There have been plenty of other examples. They came up with a lookalike to the Allbirds shoe at half the price. And they took on all the cosmetics houses with the Lady Gaga makeup line, sold exclusively on Amazon. Are they a threat to brands? Jeff Bezos supposedly says: "Your margin, my opportunity." Or, as the ex-CMO of a major fmcg puts it: "If Amazon hasn't copied your business model it's because you don't have a good one." ▸

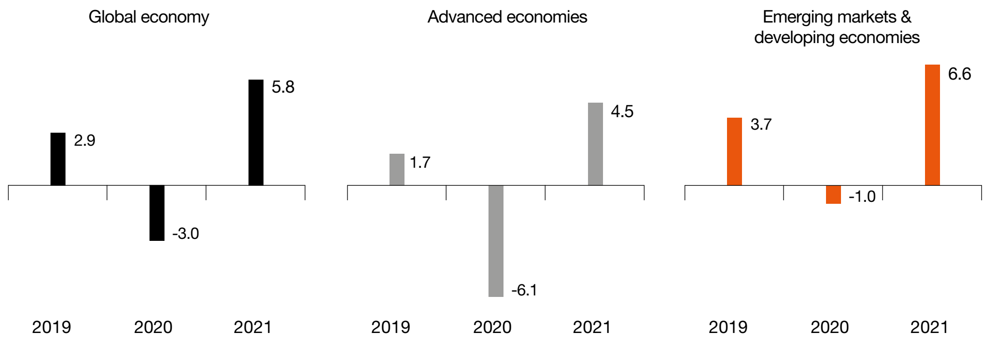
Swallows and albatrosses continued

Real GDP growth annual % change (before covid-19)



Source: Zenith Optimedia 2019

Real GDP growth annual % change Impact of covid-19 on economic activity



Source: IMF, World Economic Outlook, April 2020

America's on the rise

It's a decade since Goldman Sachs coined the BRICs to identify the most important emerging markets for economic growth, followed by the CIVETS, the Next 11 and other groupings. We don't talk about them as emerging markets anymore but they are still to varying degrees among the most powerful engines of growth in our industry. China has slowed down but it was, pre-covid-19, still growing at 5-6%, which is a lot better than 2-3% in the West. And it now has a $14 trillion economy, so 5-6% growth has a much greater impact than 10% growth in a much smaller economy. I was watching the hedge fund guru Ray Dalio on TV and he said we'd all love to grow at that rate. If there's one thing that's changed, it's that America has become more important again. Whatever you think about Trump, he's been good for business, and the influence of Silicon Valley also makes the US much more important. We also see a lot of potential in Latin America, where we've recently been joined by Circus. What I like about LatAm is two things: there's more inflation so clients have more wiggle room and more pricing power; and both the creative and tech talent are superb.

Feeling fit?

If you ask today's CMOs what keeps them awake at night, they'll tell you it's the lack of agility in their organisation, the inability to break out of those moribund processes of global account reviews, 10 month-long pitches and ponderous creative development. The smartest – often themselves the disruptors – have found another way that's quick, efficient and intelligent, while building for the long term – not the average five-year lifespan of the CEO. To do that, they need marketing partners who are on the same wavelength – quick, nimble, streamlined and seldom to be found at rest. Not so much the ungainly albatross, perhaps, as the sprightly swallow. ■

3

Life in the new marketing age

// Brands can't just live in a space where they're doing, say, four campaigns a year. They have to be always-on, communicating in a continuous loop; much more mindful of conversations and cultures //

Wesley ter Haar
Executive Director

The 4Cs in the S4C business

S4Capital's business model is shaped to meet the challenges of marketing's new era. S4Capital people explain why.

Clients

Watch Elizabeth Buchanan (left), S4Capital Non-Executive Director, and fellow panellists
www.s4capital.com/annualreport19/clients

In an always-on environment, brands need to participate in billions of touch points and conversations that have relevance to individual consumers.

Who's doing this well? Which sectors lag behind? How can S4Capital help today's CMOs in their new roles as digitally-literate explorers and change makers?

Watch Sasha Schmitz (below), EMEA MD at MightyHive, and fellow panellists
www.s4capital.com/annualreport19/consumers

Consumers

Digital. Mindful. Savvy.
Idealistic. Lonely.
Seeking relevance.
Looking for joy.

With high expectations and personal passions.

How should brands connect?
Our panel has some answers.

3

It's a whole new world out there, so we're bringing different talents to the table to provide the best creative engine for global and local marketeers.

Get our POV on creative challenges, plus cross pollination, spooky robots, being smarter about smartphones, and why CMOs love the LatAm vibe.

Watch Bruno Lambertini (right), Founder and CEO of Circus, and fellow panellists
www.s4capital.com/annualreport19/creativity

Creativity

Culture

Watch Kamron Hack (left), Director of People and Culture at Firewood, and fellow panellists
www.s4capital.com/annualreport19/culture

A common thread of mutual respect and curiosity runs through all our companies and practices, with opportunities to grow through all the phases of an amazing career in one place.

We're also leading the industry in terms of diversity and gender balance.

It's all good, but there's much more to do. And what does //a unitary structure// even mean? Discuss.

Leadership: Board of Directors

Executive Chairman

1. Sir Martin Sorrell

Executive Directors

2. Wesley ter Haar
3. Victor Knaap
4. Pete Kim
5. Christopher S. Martin
6. Peter Rademaker
7. Scott Spirit

Non-Executive Directors

8. Rupert Faure Walker
   Senior Independent Director
   Chairman of the Audit and Risk Committee
   Member of the Nomination and Remuneration Committee
9. Daniel Pinto
10. Sue Prevezer QC
    Member of the Audit and Risk Committee
    Member of the Nomination and Remuneration Committee
11. Paul Roy
    Chairman of the Nomination and Remuneration Committee
    Member of the Audit and Risk Committee
12. Elizabeth Buchanan
13. Naoko Okumoto
14. Margaret Ma Connolly

Company Secretary

15. Theresa Dadun

Board member biographies appear on the following pages ▸

Sir Martin Sorrell

Executive Chairman

Age:
75

Date of appointment to the Board:
28 September 2018

Nationality:
British

Sir Martin was CEO of WPP for 33 years, building it from a £1 million 'shell' company in 1985 into the world's largest advertising and marketing services company, with a market capitalisation of over £16 billion when he left. Prior to that, he was Group Financial Director of Saatchi & Saatchi Company plc for nine years, and worked for James Gulliver, Mark McCormack and Glendinning Associates before that. Sir Martin supports a number of leading business schools and universities, including his alma maters, Harvard Business School and Cambridge University, and a number of charities, including his family foundation.

Wesley ter Haar

Executive Director

Age:
41

Date of appointment to the Board:
4 December 2018

Nationality:
Dutch

Wesley is Chief Operations Officer and Co-Founder of MediaMonks since 2001. Under his leadership the company has grown into a global platform. He is European Chair and a member of SoDa's Board of Directors – the international organisation for the Digital Society – and has spoken at and judged for various industry events including Cannes Lions Festival of Creativity and the Webbys, the leading international award honouring excellence on the internet.

Leadership continued

Victor Knaap

Executive Director

Age:
42

Date of appointment to the Board:
4 December 2018

Nationality:
Dutch

Victor is Chief Executive Officer and Partner of MediaMonks. Since joining in 2003, his role in leading MediaMonks' intercontinental expansion has seen the company's workforce grow to over 2,000 people worldwide. As well as his international business success, his experience makes him a sought-after speaker and opinion leader for the digital industry.

Other current appointments:

/ Board member of Dutch charity GET IT DONE

/ Advisory Board member of IAB NL

Pete Kim

Executive Director

Age:
46

Date of appointment to the Board:
24 December 2018

Nationality:
American

Pete is an experienced advertising technology executive with over a decade of industry leadership experience and has served as CEO of MightyHive since its founding in 2012.

Pete was formerly Head of Business Development for Google's Media Platforms, and Director of Product Management at Yahoo!, where he helped pioneer the use of dynamic creative in marketing.

Christopher S. Martin

Executive Director

Age:
41

Date of appointment to the Board:
24 December 2018

Nationality:
American

Christopher S. Martin, COO of MightyHive since its founding in 2012, has a 14-year track record of building and leading successful operations and client services organisations.

Prior to co-founding MightyHive, Christopher held multiple leadership positions at Yahoo!, including Chief of Staff to the Controllership and Director of Targeting Operations for Dynamic Creative and Audience Targeting Ad Products, where he was responsible for multi-billion-dollar P&Ls. While at Yahoo!, Christopher spearheaded the acquisition integrations of Dappy, 5to1 and Interclick.

Peter Rademaker

Executive Director and Group Chief Financial Officer

Age:
56

Date of appointment to the Board:
4 December 2018

Nationality:
Dutch

Peter joined MediaMonks as CFO in September 2015 with over 20 years' experience as a financial officer in the media and entertainment industry. Before joining MediaMonks, he was CFO, and later CEO, at CMI Holding BV. Prior to this, he held various CFO positions at prominent Dutch media companies including Eyeworks and Talpa.

Leadership continued

Scott Spirit

Executive Director and Chief Growth Officer

Age:
42

Date of appointment to the Board:
18 July 2019

Nationality:
British

Scott joined the Company as a Director and Chief Growth Officer on 18 July 2019. He is focused on clients, mergers and acquisitions and investor relations, and is based out of the Group's newly opened Singapore office. Scott joined from Artificial Intelligence company, Eureka AI, where he continues to act as a board member and adviser. Previously he worked at WPP plc for 15 years, latterly as Chief Strategy and Digital Officer. Scott was also a director of Nairobi-listed WPP-Scangroup PLC. Prior to his time at WPP he worked at Deloitte and Associated Newspapers.

Elizabeth Buchanan

Non-Executive Director

Age:
45

Date of appointment to the Board:
12 July 2019

Nationality:
Australian

Elizabeth has 25 years' experience in technology, marketing and advertising including founding her own full-service digital ad agency, The White Agency, and holding senior roles at WPP, OMD Worldwide and most recently mar-tech innovator Rokt. She has previously sat on the boards of Because Brand Experience and The Luke Batty Foundation in Australia and is currently a Non-Executive Director at Vital Voices Global Partnership.

Rupert Faure Walker

Non-Executive Director
Senior Independent Director
Chairman of the Audit and Risk Committee
Member of the Nomination and Remuneration Committee

Age:
72

Date of appointment to the Board:
28 September 2018

Nationality:
British

Rupert qualified as a Chartered Accountant with Peat Marwick Mitchell in 1972. He joined Samuel Montagu in 1977 to pursue a career in corporate finance. Over a period of 34 years Rupert advised major corporate clients on mergers, acquisitions, IPOs and capital raisings, including advising WPP on its acquisitions of JWT, Ogilvy & Mather and Cordiant, together with related funding. He was appointed a director of Samuel Montagu in 1982 and was Head of Corporate Finance between 1993 and 1998. He was a Managing Director of HSBC Investment Banking until his retirement in 2011.

Margaret Ma Connolly

Non-Executive Director

Age:
48

Date of appointment to the Board:
10 December 2019

Nationality:
American and Chinese

Margaret is CEO of Asia, Informa Markets, overseeing its businesses in mainland China, Japan, India, Korea and Hong Kong. Margaret joined UBM in 2008, before its combination with Informa in 2018, and has spent the last 10 years spearheading its development in key market sectors and growing the business in China through organic development and partnerships. Prior to this, she held senior positions at TNT and Global Sources, and is the co-founder of the leading online expat community ShanghaiExpat.com. Margaret is a member of Common Purpose Dao Xiang advisory board and received an MBA degree from Oxford Brookes Business School.

Leadership continued

Naoko Okumoto

Non-Executive Director

Age:
53

Date of appointment to the Board:
10 December 2019

Nationality:
Japanese

Naoko is a senior-level investment and business development executive with a proven track record in building new business portfolios within Silicon Valley and APAC. She is the CEO and Managing Partner of Amber Bridge Partners, a strategic investment and consulting firm specialising in cross-border business development/investment/operations between the US and Asia Pacific and Japan. She is also a Partner and Executive Advisor at Z Corporation, a technology fund and the Managing Director at Mistletoe USA. Prior to establishing her own firm, Naoko was a founding partner at World Innovation Lab, a global VC firm which raised $360 million for its first fund. Naoko was previously the Vice President of International Products and Business Management at Yahoo. Prior to this, she held senior management positions at TIBCO Software and Microsoft.

Daniel Pinto

Non-Executive Director

Age:
53

Date of appointment to the Board:
24 December 2018

Nationality:
French and British

Daniel Pinto is Chief Executive and Founding Partner of Stanhope Capital, the global investment management and advisory group overseeing $11 billion of client assets. He has considerable experience in asset management and merchant banking having advised prominent families, entrepreneurs, corporations and governments for over 25 years. Formerly Senior Banker at UBS Warburg in London and Paris concentrating on mergers and acquisitions, he was a member of the firm's Executive Committee in France. He was also Chief Executive of a private equity fund backed by CVC Capital Partners. Daniel founded the New City Initiative, a think tank comprised of the leading independent UK and European investment management firms. He is the author of *Capital Wars* (Bloomsbury 2014), a book which won the prestigious Prix Turgot (Prix du Jury) and the HEC/Manpower Foundation prize.

Other current appointments:
- Director of Soparexo (Holding of Chateau Margaux)
- Director of the New City Initiative

Sue Prevezer QC

Non-Executive Director
Member of the Audit and Risk Committee
Member of the Nomination and Remuneration Committee

Age:
60

Date of appointment to the Board:
14 November 2018

Nationality:
British

Sue is a qualified solicitor and barrister at Brick Court Chambers, where she practices as an arbitrator and mediator. She has over 25 years of experience of arguing and managing large complex commercial cases at every level of the UK judicial system and in arbitration. From 2008-2020, Sue was Co-Managing Partner of law firm Quinn Emanuel Urquhart & Sullivan (UK) LLP where her clients included major corporates, funds, investors, trustees, office holders and high net worth individuals, for whom she managed complex, high value, domestic and international litigation. Sue has particular expertise in company, insolvency related, securitisation and restructuring litigation.

Paul Roy

Non-Executive Director
Chairman of the Nomination and Remuneration Committee
Member of the Audit and Risk Committee

Age:
72

Date of appointment to the Board:
28 September 2018

Nationality:
British

Paul has over 40 years' experience in the banking, brokerage and asset management industries. In 2003, he co-founded NewSmith Capital Partners LLP, an independent investment management company which was acquired by Man Group in 2015. Prior to founding NewSmith, he was Co-President of the Global Markets and Investment Banking division at Merrill Lynch & Co and had responsibility for worldwide Investment Banking, Debt and Equity Markets.

Paul joined Merrill Lynch in 1995 when it acquired Smith New Court Plc, a leading market making and brokerage firm on the London Stock Exchange where he was CEO. Between 2007 and 2013, Paul served as Chairman of the British Horseracing Authority, responsible for governance and regulation of the sport.

Other current appointments:

- Chairman of Retraining of Racehorses

Executive Chairman's governance statement

On behalf of the Board, I am pleased to present the Group's governance statement for the year ended 31 December 2019.

By Sir Martin Sorrell

As the Company has a Standard Listing, it is not formally required to comply or explain non-compliance with the UK Corporate Governance Code (July 2018) issued by the Financial Reporting Council ('the Code'). But we believe that governance, especially in relation to environmental and social issues, is critical to good long-term business and we are committed to upholding the ethical standards to which our people and our clients aspire. As such, we will strive to comply with the Code, so far as is practicable.

2019 was another transformational year for your Company, with further business mergers and combinations taking place across over 10 different jurisdictions. We have established new, and continue to seek to improve existing, corporate governance structures which we consider are appropriate for a company of our size and ambition and commensurate with the growth we are experiencing. As the Company continues to expand into new jurisdictions and welcomes new people and clients, we will strive to ensure that our governance structures remain appropriate and effective so as to keep pace with such changes.

Our commitment to high standards of governance informs the composition of the Board as well as the way it operates. I have held the role of Executive Chairman of the Company since 28 September 2018 and there are now seven other executives on the Board, following the appointment in July 2019 of Scott Spirit, ensuring that there is a substantial and robust challenge to my single voice. There are seven independent Non-Executive Directors, following three new appointments which took place in 2019, who together bring vast and differing experiences of the corporate world, know-how and reputations as sage advisers.

Our Board, which is designed to and willing to challenge me, will help ensure that, even though S4Capital is my creation, it will continue to be crafted for the benefit of all stakeholders. The Board has discussed the scope of my role and remains satisfied that it is appropriate for me to continue to act in a combined capacity as the Executive Chairman.

2019 saw the first review of the effectiveness of the Board and that of its committees, as part of our efforts to support independent governance and strengthen diversity both at Board level and within the S^4 Group as a whole.

This review was a key driver in the appointments of three new Non-Executive Directors in the year. Elizabeth Buchanan was appointed in June 2019, bringing 25 years' experience in technology, marketing and advertising and rare global experience at the forefront of innovation in the industry, making her an outstanding addition to the Board of a disruptive, purely digital business like S^{4}Capital. We were also delighted to welcome Naoko Okumato, the CEO and managing partner of strategic investment and consulting firm Amber Bridge Partners, and Margaret Ma Connolly, CEO Asia at Informa Markets, to the Board in December 2019. The appointments of Naoko and Margaret bring Silicon Valley, Japanese and Chinese know-how and wisdom – two critically important areas of expertise for S^{4}Capital's future – to the Board and enhance good governance and diversity.

We also welcomed Scott Spirit to the Board as an Executive Director and Chief Growth Officer in July 2019. Based out of the newly-opened Singapore office, he focuses on clients, mergers and acquisitions and investor relations. We will continue to review the effectiveness of the Board and that of its committees on an annual basis to ensure that it continues to have the appropriate level of global experience and diversity.

The Board recognises the importance of having Non-Executive Directors determined to be independent in character and judgment and free from relationships which may affect, or could appear to affect the Directors' judgment and has made significant progress in increasing the Non-Executive presence on the Board in 2019. The Board considers Elizabeth Buchanan, Margaret Ma Connolly, Naoko Okumoto, Rupert Faure Walker, Sue Prevezer and Paul Roy to be independent for these purposes.

We are grateful, once again, for the support we have received from shareowners during 2019. Your support, including by participating in our equity fundraising in October 2019, helped to finance a number of mergers and continues to be reflected in our share price. Unlike many smaller listed companies who issue their shares only to institutional shareowners in share placings, we take the time and additional expense to allow all our shareowners to participate in our equity fundraisings. We believe this is an important part of being a company run for the interests of all shareowners, not a few.

We will continue, if we choose to raise further equity finance in the future, to seek to allow existing shareowners to participate where possible. A key part of the Board's commitment to high standards of governance is active dialogue with shareowners. We will be holding our second AGM on 8 June 2020 online, from London. We continue to welcome dialogue and engagement with shareowners outside of our general meetings but look forward to 'seeing' many of you again in June. ■

Martin Sorrell

Sir Martin Sorrell
Executive Chairman

7 May 2020

The role of the Board

The strategy of the Group is set and the management of the Company is controlled by an experienced and effective Board. While the management teams of the Group's operating businesses have an important role in running the Group's day-to-day activities, a number of matters are formally reserved for the determination of the Board. These include setting strategy, evaluating corporate actions, incurring further debt and approving budgets and financial statements. Each of the Group's operating businesses is represented by multiple executives at the Board level, contributing to the Group's strategy of operating on a unitary basis.

There were four scheduled quarterly meetings of the Board in the year to 31 December 2019 and a number of ad hoc meetings called to approve mergers we have undertaken. Attendance at these meetings is summarised on page 50. Our scheduled Board meetings consider business and financial performance, updates on key initiatives, strategy, reports from committees of the Board and shareowner communications and feedback.

The Board also receives regular updates on the performance of the Group's businesses, operational matters and legal updates from the Executive Chairman and the Executive Directors. All Board members have full access to the Group's advisers for seeking professional advice at the Group's expense. The Group's wider organisational structure has clear lines of responsibility. Operating and financial responsibility for all subsidiary companies rests with the Board.

Board composition

As at the date of this report, the Board comprises seven Executive Directors and seven Non-Executive Directors. Biographical details of each of the Directors, their dates of appointment and committee memberships are set out on pages 39 to 45.

As referred to in the Executive Chairman's governance statement, the roles of Chairman and Chief Executive of the Company are carried out on a combined basis by Sir Martin Sorrell. The Board has considered Sir Martin's role as Executive Chairman in the context of the Board's commitment to achieving high standards of corporate governance.

Sir Martin has been a leading figure in the communication services industry for over 40 years and the Board continues to be of the view that his expertise, knowledge and global network of relationships are an unparalleled advantage to the Group, the formulation and execution of its strategy and its day-to-day operations. In light of this, the Board believes that combining the roles of Chairman and Chief Executive is in the best interests of your Company, shareowners and other stakeholders.

The Board believes that it can only continue to be effective with robust challenge and thoughtful advice being provided both at formal Board meetings and through informal interactions between Directors. Given the vast and differing experience and expertise of the Directors, the Board remains of the view that the combination of the roles of Chairman and Chief Executive has not affected the promotion of a culture of openness and debate and constructive relations between and among the Executive and Non-Executive members of the Board.

In the last annual report of the Company we reported that the Nomination and Remuneration Committee were of the view that the Board could be further strengthened by the addition of two female directors, one from the US West Coast and one from China. In light of this, we appointed three new, female Non-Executive Directors during the period under review: Elizabeth Buchanan, Margaret Ma Connolly and Naoko Okumoto, who bring a wealth of expertise and experience from the US West Coast, Australia, Japan and China.

Committees of the Board

The Board has two committees: an Audit and Risk Committee and a Nomination and Remuneration Committee. If the need should arise, the Board may set up additional committees as appropriate.

Audit and Risk Committee

The Audit and Risk Committee's role is to assist the Board of the Company with the discharge of its responsibilities in relation to internal and external audits and controls, including reviewing the Group's annual financial statements, considering the scope of the annual audit and the extent of the non-audit work undertaken by external auditors, advising on the appointment of external auditors and reviewing the effectiveness of the internal control systems in place within the Group.

The Audit and Risk Committee seeks to meet not fewer than three times a year. The Audit and Risk Committee is chaired by Rupert Faure Walker and its other members are Sue Prevezer and Paul Roy. Sir Martin Sorrell may be invited to attend meetings of the Audit and Risk Committee, but is not entitled to count in the quorum of such meetings or vote on business.

The report of the Audit and Risk Committee is set out on pages 52 to 53.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee assists the Board of the Company in determining the composition and make-up of the Board of the Company and recommends what policy the Company should adopt on executive remuneration, determines the levels of remuneration for each of the Executive Directors of the Company and recommends and monitors the remuneration of members of senior management. It is also responsible for periodically reviewing the structure of the Company's Board and identifying potential candidates to be appointed as Directors, as the need may arise and for producing an annual Remuneration Report to be approved by the members of the Company at the Annual General Meeting.

The Nomination and Remuneration Committee also determines succession plans for the Executive Chairman. The Nomination and Remuneration Committee will meet when appropriate and not fewer than twice a year. The Nomination and Remuneration Committee is chaired by Paul Roy and its other members are Rupert Faure Walker and Sue Prevezer. Sir Martin Sorrell has observer rights and may be invited to attend meetings of the Nomination and Remuneration Committee, but is not entitled to count in the quorum of such meetings or vote on business.

The report of the Nomination and Remuneration Committee is set out on pages 54 to 57.

The role of the Board continued

Scheduled Board and committee membership and attendance in the year to 31 December 2019

	Full Board	Audit and Risk Committee	Nomination and Remuneration Committee
Total number of scheduled meetings			
Sir Martin Sorrell	4	5[1]	4[1]
Rupert Faure Walker	4	5	4
Sue Prevezer	4	5	4
Victor Knaap	4	–	–
Wesley ter Haar	4	–	–
Peter Rademaker	4	5[1]	–
Pete Kim	4	–	–
Christopher S. Martin	4	–	–
Daniel Pinto	4	–	–
Paul Roy	4	5	4
Scott Spirit[2]	2	–	–
Elizabeth Buchanan[2]	2	–	–
Naoko Okumoto[3]	–	–	–
Margaret Ma Connolly[3]	–	–	–

Notes:

1. Sir Martin Sorrell and Peter Rademaker attend the Audit and Risk Committee as invitees and not as a member of the Audit and Risk Committee.
2. Elizabeth Buchanan was appointed to the Board on 12 July 2019. Scott Spirit was appointed to the Board on 18 July 2019.
3. Naoko Okumoto and Margaret Ma Connolly were appointed as Directors of the Company on 10 December 2019.

Controlling shareowner

As the founder of the Group, Sir Martin Sorrell has been issued with a B Share which provides him with enhanced control rights. As the owner of the B Share, Sir Martin has the right to:

- appoint one Director of the Company from time to time and remove or replace such Director from time to time;
- ensure no executives within the Group are appointed or removed without his consent;
- ensure no shareowner resolutions are proposed (save as required by law) or passed without his consent; and
- save as required by law, ensure no acquisition or disposal by the Company or any of its subsidiaries of an asset with a market or book value in excess of £100,000 (or such higher amount as Sir Martin may agree) may occur without his consent.

The B Share will lose the B Share Rights if it is transferred by Sir Martin and also:

(i) in any event after 14 years from 28 September 2018 (being the date on which the B Share was issued), or, if earlier, the date on which Sir Martin retires or dies; or

(ii) if Sir Martin sells any of the Ordinary Shares that he acquired on 28 September 2018 (other than in order to pay tax arising in connection with his holding of such shares).

In order to ensure that Sir Martin's exercise of the rights attaching to the B Shares do not prejudice the Company's ability to comply with the Listing Rules, Sir Martin and the Company have entered into a relationship agreement. Pursuant to this relationship agreement, Sir Martin has undertaken to ensure that:

- transactions and arrangements with Sir Martin (and/or any of his associates) will be conducted at arm's length and on normal commercial terms;
- neither Sir Martin nor any of his associates will take any action that would have the effect of preventing the Company from complying with its obligations under the Listing Rules; and
- neither Sir Martin nor any of his associates will propose or procure the proposal of a shareowner resolution, which is intended or appears to be intended to circumvent the proper application of the Listing Rules.

The Group has policies in place to ensure that the rights attaching to the B Share are not infringed. ■

Report of the Audit and Risk Committee

The Audit and Risk Committee has an important role in ensuring the integrity of the Group's financial report, monitoring the adequacy of the Group's risk management and internal controls and overseeing the performance of the external auditors.

By Rupert Faure Walker

I have been the Chairman of the Audit and Risk Committee since re-admission of the Company to the official list upon the reverse takeover of the S^{4}Capital Group. The other members of the Committee are Sue Prevezer and Paul Roy. To promote interaction and information flow between the Audit and Risk Committee and the Board, Sir Martin Sorrell may be invited to attend meetings of the Committee as an observer but is not entitled to count in the quorum of such meetings or vote on business.

The UK Corporate Governance Code recommends that an audit committee should consist of at least two independent non-executive directors who are independent in character and judgment and free from any relationship or circumstance which may, could or would be likely to, or appear to, affect their judgment. The Board considers all members of the Committee to be independent for these purposes.

As reported in last year's annual report, we appointed PricewaterhouseCoopers LLP (PwC) as our auditors as we felt it was more appropriate for a company with our size and ambition to have auditors with a truly global reach.

Internal control and risk management

We continue to monitor and assess the effectiveness of the Board's systems and controls to ensure that we have robust procedures in place. In 2019, the Company merged with a number of businesses and our assessment has been revised to take account of these. Our assessment takes into account the following key areas:

- the overall reporting environment, including Board composition, the Committee's constitution and the Group's finance function;
- the preparation and assessment of budgets and the management reporting framework of the Group;
- significant transaction complexity, potential financial exposures and risks;

- the evaluation of strategic projects and initiatives, including new business streams and business combinations;
- the Group's financial accounting and reporting procedures, and audit arrangements; and
- information systems.

Work continues on the integration of the Group's operating businesses. Further integration remains a key strategic goal and our people are incentivised to achieve it. The Board, senior management and this Committee continue to focus on improving and harmonising the Group's risk identification processes, financial reporting timetables and processes and compliance.

The Board is ultimately responsible for establishing and maintaining the Group's internal controls. The Audit and Risk Committee's role is to review this system and its effectiveness through reports received from management and the external auditor.

Risks are reviewed formally semi-annually at the level of the operating businesses and the Company and presented to the Board and the Committee as appropriate. To the extent that significant new risks arise, or existing risks require new mitigation strategies or procedures, these are raised and discussed at Board meetings.

Consolidated management accounts are prepared monthly and presented at Board meetings, providing relevant, reliable and current information to management. Annual plans and forecasts are used to monitor the development of the Group's businesses and to measure progress towards objectives. Budget approval is a matter reserved to the Board.

The Group has a formal whistleblowing procedure in place. Whistleblowers can report in confidence to the Chair of the Audit and Risk Committee, who has responsibility for investigating any concerns. The Board and the Committee are made aware of any concerns at Board or Committee meetings as appropriate and informed as to the resolution or other status of complaints.

Internal audit

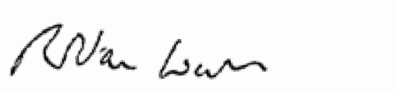
The Group does not have a separate internal audit function, and the Board continues to be of the view that the complexity or size of the Group's business does not warrants this. The Committee will regularly review the need for an internal audit function as the Group grows and develops.

External audit

The Audit and Risk Committee has responsibility for monitoring the performance, objectivity and independence of the Group's auditor, PwC. The Committee has assessed the effectiveness of PwC as external auditor in the forthcoming year against the following criteria:

- the external audit plan, including the key audit risk areas, materiality and significant judgment areas;
- the terms of the audit engagement letter and the associated level of audit fees; and
- the independence of the external auditors in the context of the non-audit services provided.

Taking into account the above factors, the Committee has concluded that the appointment of PwC as auditors for the forthcoming year continues to be in the best interests of the Company and its shareowners. The resolution to appoint PwC will propose that it holds office until the conclusion of the next Annual General Meeting at which accounts are laid before the Company, at a level of remuneration to be determined by the Audit and Risk Committee. ■



Rupert Faure Walker
Chair, Audit and Risk Committee

7 May 2020

Report of the Nomination and Remuneration Committee

On behalf of the Board, I am pleased to present the Nomination and Remuneration Committee's report for the year ended 31 December 2019.

By Paul Roy

In carrying out its nomination function, the Committee assists the Board in determining the composition and makeup of the Board, having regard to the skills, knowledge and experience required and also to the benefits of all forms of diversity.

It periodically reviews the structure of the Board and identifies potential candidates to be appointed as Directors, as the need may arise, having regard to the Board's policy on diversity and inclusion and the gender balance of those in senior management. It is also responsible for determining future successions plans for the Executive Chairman. During 2019, the Committee assisted the Board in the appointment of one new Executive Director and three new Non-Executive Directors. The Committee was of the view that the Board would be strengthened by the inclusion of candidates whose background and experience would bring more global experience and diversity to its decision making.

Pursuant to its remuneration function, the Committee recommends to the Board what policy the Company should adopt on executive remuneration and determines the level of remuneration for each of the Executive Directors and members of senior management.

I have chaired the Committee since it was established in 2018. The other members of the Committee are Rupert Faure Walker and Sue Prevezer. All three of us are considered by the Board to be independent Non-Executive Directors.

Directors' Remuneration Policy

The Committee was pleased to receive overwhelming shareowner support for the Directors' Remuneration Policy at the AGM held in May 2019. This demonstrated a very strong level of backing for our overall approach, which is based on offering lower-than-market-rate base salary combined with a higher-than-market-rate long-term incentive opportunity as a reward for outstanding performance. Equity ownership is also central to our approach, with the Committee strongly of the belief that Executive Directors should hold a significant number of shares, to ensure full alignment with the interests of shareowners.

During 2019 I had a number of interactions with major shareowners to discuss remuneration issues. The Committee will keep under review the feedback received as the Company continues to develop and our policies and practices evolve. Shareowners were particularly interested in discussing the structure of the S4 Limited Incentive Share scheme. This scheme, adopted at the time S4 Limited was formed, is different to a conventional long-term incentive plan, but is designed to directly align rewards to management with the creation of value for and delivery of returns to shareowners. It is a simple long-term arrangement which ensures that participants are focused on growing the value of the business over the five years immediately following the formation of the Group, and has been instrumental in value creation to date. The terms of the scheme are set out in full later in this report.

Operation of the Remuneration Policy in 2019

As discussed elsewhere in the Annual Report, 2019 was a very successful year for S4Capital.

The Committee reflected on this performance when considering annual bonus outcomes for the year, taking into account the targets set earlier in the year. The bonus scheme was based on performance metrics linked to overall Group performance indicators and an assessment of the integration of the various companies within the S4Capital Group. Overall, the Committee judged performance to have been excellent, with the main financial targets exceeded and integration proceeding well, and awarded bonuses at a level of 85% of the maximum to the Executive Directors. The Committee believes that this outcome was consistent with the overall performance of the Company during the year. Subsequent to the year end, two of the Executive Directors, Pete Kim and Christopher S. Martin, voluntarily decided to waive their bonus entitlement for 2019. The Committee also considered the bonus outcomes in the context of the impact of covid-19, the extent of which began to become apparent in early 2020. The Committee agreed with management that the full amount of the 2019 bonus, which would normally have been paid in cash, would instead be paid in shares with a two-year lock-up period. Full details of the 2019 bonus targets and the resulting bonus payments are set out on page 64.

The Committee approved an award of Incentive Share options to Scott Spirit following his appointment to the Board. These options have similar terms as the A2 shares held by Sir Martin Sorrell. No other long-term incentive awards were granted to any other Executive Director during 2019.

The Committee is of the view that the Remuneration Policy operated as intended during 2019. The Committee did not exercise formal discretion in respect of any executive remuneration outcome for the year, other than in respect of the delivery of the bonus in shares, as explained above.

Plans for 2020

While we intend to operate the Remuneration Policy in 2020 in broadly the same manner as in 2019, a number of changes have been agreed in response to the unprecedented set of circumstances presented by the covid-19 outbreak. Sir Martin Sorrell has proposed – and the Committee has agreed – that his basic salary will reduce to a level no higher than £70,000 for the 2020 financial year. The basic salaries of the other Executive Directors will reduce by 50% with effect from 1 April 2020. The Committee will review this again in Q3 2020 and will determine whether or not these reductions should continue to apply, taking into account all relevant circumstances at the time.

The annual bonus scheme for 2020 will utilise similar performance metrics as in 2019, with payments dependent on financial performance and goals linked to business integration. The specific targets will be disclosed in next year's Remuneration Report.

At the present time, we have no plans to grant new long-term incentive awards to Executive Directors in 2020, but the Committee will keep this under review.

Report of the Nomination and Remuneration Committee continued

The Board (excluding the Non-Executive Directors) is responsible for determining Non-Executive Director fees and agreed an increase to the fees with effect from 1 January 2020. This followed a review of fee levels at companies of a similar size and took into account the increasing levels of time commitment required from the Non-Executive Directors as the Company grows. The fee levels were reviewed again in early 2020 in light of covid-19 and, mirroring the approach taken for the Executive Directors, it was agreed that the fees would be reduced by 50% with effect from 1 April 2020. This will be reviewed again in Q3 2020.

2018 UK Corporate Governance Code

S4Capital has a Standard Listing and as such is not formally required to comply with the 2018 UK Corporate Governance Code or explain its reasons for non-compliance. However, the Committee believes that the approach taken to executive remuneration is consistent with the Code principles, in that remuneration supports the strategic goals of the business and promotes long-term sustainable success. This is particularly relevant in the case of the Incentive Share scheme, which has five-year vesting periods and where the ultimate rewards will reflect the success of S4Capital's strategy over the long term.

The Remuneration Policy and its implementation are consistent with the factors set out in Provision 40 of the Code:

- **Clarity:** Remuneration arrangements for the Executive Directors are set out transparently in this report, allowing shareowners to understand the nature of the specific incentive schemes and payments under those schemes.
- **Simplicity:** The structure of the Remuneration Policy for the Executive Directors is simple and straightforward. At present, the only incentive scheme in which most Executive Directors participate is the annual bonus scheme, with their significant shareholdings providing for alignment with the interests of shareowners. The Incentive Share scheme – which applies to two Directors only (including the Executive Chairman) – has a very simple structure.
- **Risk:** The Committee is aware that the Incentive Share scheme may result in the issue of shares to participants of a significant value. However, such awards will be consistent with the creation of shareowner value since the foundation of S4Capital and therefore very clearly tied to the performance of the business. Any reputational risk triggered by a perception of excessive rewards which are divorced from the underlying performance of the business is therefore limited.
- **Predictability:** Rewards available to Executive Directors under their fixed remuneration arrangements and the annual bonus scheme are limited in scope and reasonably predictable in value (subject to the satisfaction of bonus performance conditions). The ultimate value of rewards under the Incentive Share scheme is less easy to predict at this stage.
- **Proportionality:** Both the annual bonus scheme and the Incentive Share scheme tie individual reward closely to the performance of the business. The targets for the bonus scheme are linked to core Group financial priorities and the crucial task of integrating the various companies within the S4Capital Group. The Incentive Share scheme rewards the generation of value for shareowners. As such, payouts under these schemes will be reflective of the success or otherwise of the strategic direction which has been set for the Group.
- **Alignment to culture:** S4Capital is rapidly building a new era, new media solution through a number of strategic business combinations which are being closely integrated into one Group. Our incentive schemes for Directors and for employees across the Group more widely are designed to ensure rewards for performance which supports the overall business goals and is consistent with the purpose and culture of the Group.

There are a small number of areas where our approach differs from that set out in the Code:

- The Committee has not developed a formal policy for post-employment shareholding requirements for the Executive Directors. The Committee believes that the current levels of shareholding by all Executive Directors ensure that their interests are very closely aligned with shareowners. Equity consideration issued to Directors has been subject to a two-year restriction on sale or transfer and at the current time the Committee does not believe it is necessary to go further than this and apply a formal post-employment holding requirement. However, we recognise the importance of this matter to some shareowners and will keep this under review.
- The Incentive Share scheme does not include malus or clawback provisions, and nor does the Committee have the ability to override the formulaic outcome of the scheme. This is due to the long-term nature of the plan and the fact that participants in the scheme can only receive benefits once shareowners have experienced significant growth in the value of their investment. In line with the Code, malus and clawback provisions have been introduced to the annual bonus scheme, and as a fully discretionary scheme the Committee has the ability to apply an override to the formulaic outcome if deemed appropriate. In addition, were other forms of long-term incentive offered to the Executive Directors, the Committee envisages that malus and clawback provisions, and a discretionary override, would apply.
- The maximum pension contribution rate for the Executive Directors is higher than the rate available to the wider workforce. The Executive Chairman, for example, receives a pension at a rate of 30% of his basic salary. The Committee believes that this needs to be viewed in the context of his normal basic salary rate of £100,000, which is well below the market rate for a CEO of a company of comparable size to S^{4}Capital. As noted above, the Executive Chairman has agreed to reduce his salary to no more than £70,000 for the 2020 financial year. His pension contribution will remain at 30% of salary. Even taking this contribution rate into account, total fixed remuneration for the Executive Chairman is very low. As such, we do not propose to change this arrangement at the current time but will keep this matter under review.

In addition to reporting against the Code, the Committee has also decided to publish the ratio of the Executive Chairman's pay to that of the UK workforce, although this is not a legal requirement for S^{4}Capital at this time as the Company does not have more than 250 UK employees. The ratio is disclosed on page 70 and is considered relatively low when compared to the ratios disclosed at other companies of a similar size. This illustrates the low level of remuneration taken by the Executive Chairman at this stage of S^{4}Capital's development.

Concluding remarks

I hope that you find this report useful as a guide to the work of the Committee during 2019 and to understand our intended plans for 2020. At the AGM to be held on 8 June 2020, shareowners will be asked to approve the Directors' Remuneration Report by way of an advisory resolution. We hope to receive your continued support for our approach at the meeting. ■

Paul Roy
Chair, Nomination and Remuneration Committee

7 May 2020

Remuneration Report

Directors' Remuneration Policy

The Directors' Remuneration Policy was approved by shareowners at the AGM held on 29 May 2019 and will continue to apply until no later than 29 May 2022, being three years from its date of approval. The Policy was set out in full in the 2018 Annual Report and Accounts, which is available on the Company's website. A summary of the key elements of the Policy is included below.

Much of the Remuneration Policy (in particular with regard to the Incentive Share scheme, which is currently the only long-term incentive scheme in which Executive Directors participate) had already been established as part of the formation of the S4Capital Group and its re-admission to the Official List on 28 September 2018. The formalisation of the Remuneration Policy was undertaken with the goal of establishing a holistic and balanced package to ensure that the remuneration packages offered, and the terms of the contracts of service are competitive and will attract, retain and motivate Executive Directors of the highest quality whilst seeking alignment between all of the Group's people and its shareowners.

In order to achieve this, the Company's policy is to offer a lower-than-market-rate base salary, combined with a higher-than-market-rate long-term incentive opportunity as a reward for outstanding performance. Reward for long-term performance is currently delivered through the Incentive Shares and the significant share ownership of the Executive Directors and senior management.

Remuneration packages for Executive Directors

The table on pages 59 and 60 summarises the core components of the remuneration package for Executive Directors and explains the purpose of each element and how it furthers the strategy of the Group. The table also summarises the operation of each element and its performance conditions where relevant, the opportunity for remuneration and the relevant performance metrics.

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance assessment
Base salary	A fixed element of the Executive Directors' remuneration, intended to provide a base level of income.	Salary is reviewed annually and otherwise by exception. Takes into account the role performed by the individual and information on the rates of pay for similar jobs in companies of comparable size and complexity. Salary is typically below market rates.	Annual increases will ordinarily be in line with awards to other people within the Group. Consistent with other roles within the Group, other specific adjustments may be made to take account of any changes to individual circumstances, such as an increase in scope and responsibility, an individual's development and performance in the role and any realignment following changes in market levels.	An individual's performance is one of the considerations in determining the level of annual increase in salary.
Benefits	A fixed element of the Executive Directors' remuneration, intended to attract, retain and motivate them, whilst remaining competitive.	Benefits such as insurance, fully-expensed transportation, private medical insurance and life assurance may be paid to the Executive Directors in line with market practice.	Benefits are set at a level which the Nomination and Remuneration Committee considers to be commensurate with the role and comparable with those provided in companies of a similar size and complexity.	n/a
Pension	A fixed element of the Executive Directors' remuneration, intended to attract, retain and motivate them, whilst remaining competitive.	Takes into account the role performed by the individual and information on the rates of pay and pension contributions for similar jobs in companies of comparable size and complexity. Payment may be made into private pension plans or paid cash in lieu.	Maximum 30% of base salary. Contributions for individual Executive Directors are set at a level which the Nomination and Remuneration Committee considers to be commensurate with the role and comparable with those provided in companies of a similar size and complexity.	n/a

Remuneration Report continued

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance assessment
Annual incentive scheme[1]	The annual incentive scheme is intended to reward Executive Directors for their achievements and the performance of the Group in the financial year and may be set at above market rates to compensate for lower-than-market-base salaries and highly incentivise performance.	Following the end of each financial period, the Nomination and Remuneration Committee reviews actual performance against the objectives set under the scheme and determines awards accordingly. Awards are normally paid in cash but the Nomination and Remuneration Committee has discretion to determine a proportion of the bonus should be invested in shares.	Maximum of 100% of salary.	The targets against which annual performance is judged are determined annually by the Nomination and Remuneration Committee. From and including 2019, annual performance will be assessed against a combination of financial, operational strategic and personal goals. Malus and clawback provisions apply to payments under the annual incentive scheme.
Long-term incentive scheme[1]	The Incentive Share options are intended to motivate the Executive Directors who are invited to subscribe for them to contribute towards the long-term development of the Group. As set out below, Executive Directors may become eligible to participate in other long-term incentive arrangements.	The Nomination and Remuneration Committee reviews the development of the Group against the terms of the scheme.	In aggregate, for all holders of Incentive Shares, 15% of the growth in value of S4 Limited, as described on page 67.	A compound annual growth rate of 6% since the foundational investment into S4 Limited, as described on page 67.
Equity ownership	While there is no mandatory minimum level of share ownership level required of Executive Directors, the shares in the Company held by the Executive Directors are intended to incentivise the Executive Directors over the longer term and to promote the development of the Group on a unitary basis.	n/a	As shareowners, the Executive Directors will participate in any increase in the Company's share price and any dividends or other distributions paid by the Company from time to time.	The shares held by the Executive Directors are not subject to any performance conditions but are subject to sale and transfer restrictions for a two-year period from issue.

Note:

1. The performance measures chosen for the annual incentive scheme and the growth condition applying to the Incentive Shares have been chosen to align with the key strategic priorities of the Company and its long-term growth aspirations.

Due to the long-term nature of the rewards offered by the Incentive Share scheme, which only allows the owners of the Incentive Shares to receive benefits under that scheme once shareowners have experienced significant growth in the value of their investment, there are no clawback arrangements in respect of awards. Awards are, however, subject to leaver provisions intended to motivate holders to remain with the Group over the long term (up to 14 years).

Share ownership guidelines

In the context of the significant share ownership of the Executive Directors there is no formal minimum shareholding requirement. Nevertheless, should an Executive Director be appointed who does not have a material holding of the Company's shares, the Committee would expect such Director to acquire shares having a value equal to two times base salary as soon as reasonably practicable following appointment.

Payment on loss of office

The service agreements for the Executive Directors allow for lawful termination of employment by making a payment in lieu of notice, by making phased payments over any remaining unexpired period of notice, or, in relation to contracts governed by Californian law, by paying 12 months' base salary. There is no automatic or contractual right to annual incentive payments. At the discretion of the Committee, for certain leavers, a pro rata annual incentive may become payable at the normal payment date for the period of employment and based on full year performance. Should the Committee decide to make a payment in such circumstances, the rationale would be fully disclosed in the annual Remuneration Report.

The Committee reserves the right to make additional liquidated damages payments outside the terms of the Directors' service contracts where such payments are made in good faith in order to discharge an existing legal obligation, or by way of damages for breach of such an obligation, or by way of settlement or compromise of any claim arising in connection with the termination of a Director's office or employment.

Share option schemes and long-term incentive arrangements

Share option schemes were established in connection with the MediaMonks merger and the MightyHive merger. The purpose of these plans is to incentivise and support the retention of the Group's people more broadly at the level of the operating businesses over the longer term. While no Directors have been granted any awards under these schemes to date (except for the A1 share options), awards have been granted to senior management and may in future be used to provide an additional long-term incentive to Executive Directors. If this flexibility were to be used, options will be granted over shares worth no more than 400% of base salary each year and will vest over a period of up to four years with exercise subject to the satisfaction of performance conditions set by the Nomination and Remuneration Committee.

Other long-term incentive schemes may be introduced for the Executive Directors in the future. Any scheme would be aligned to the Company's medium and long-term strategy and the metrics would be based on a mix of relative total shareholder return (compared against a basket of marketing services companies) and financial metrics, such as return on equity and earnings per share (unless the Committee determines that other targets are appropriate).

If any new long-term incentive plan is established, awards would be made over shares worth up to 200% of base salary each year if granted as performance shares (with awards of no more than a similar equivalent fair value possible if made as other types of award). Such awards would vest over a period of up to four years, subject to the satisfaction of performance targets set by the Nomination and Remuneration Committee.

Remuneration Report continued

Recruitment

When hiring a new Executive Director, the Committee will use the Remuneration Policy to determine the Executive Director's remuneration package as the initial basis for formulating the package. To facilitate the hiring of candidates of the appropriate calibre to implement the Group's strategy, the Committee may include any other remuneration component or award not explicitly referred to in this Remuneration Policy (or a higher award opportunity than that set out in the Remuneration Policy table) sufficient to attract the right candidate.

Awards outside the normal policy would only be made (i) if they are considered a necessary part of an acquisition which involves a new director joining the Board and/or (ii) to buy out awards being foregone by the incoming Executive Director, with the value of these buyout awards reflecting the value of the awards foregone. Where the recruitment requires the individual to relocate, appropriate relocation costs may be offered.

In determining the appropriate remuneration, the Committee will take into consideration all relevant factors, including the quantum and nature of the remuneration, to ensure the arrangements are in the best interests of the Company and its shareowners.

Contracts of service

The Company's policy is to offer contracts of employment that attract, motivate and retain skilled people who are incentivised to deliver the Company's strategy.

The Executive Directors have service agreements with the Company, but are remunerated pursuant to agreements concluded with other entities in the Group. A summary of the agreements pursuant to which the Executive Directors are remunerated is set out below. With the exception of the initial three-year terms set out in the agreements for Sir Martin Sorrell, Pete Kim and Christopher S. Martin (see below), none of the contracts include a fixed term.

Director	Date of appointment	Date of contract	Notice period (months)
Sir Martin Sorrell	28 September 2018[1]	24 June 2018	12[2]
Victor Knaap	4 December 2018	9 July 2018	6
Wesley ter Haar	4 December 2018	9 July 2018	6
Peter Rademaker	4 December 2018	9 July 2018	6
Pete Kim	24 December 2018	24 December 2018	At will[2]
Christopher S. Martin	24 December 2018	24 December 2018	At will[2]
Scott Spirit	18 July 2019	2 July 2019	12

Notes:

1. Sir Martin has acted as a Director of S[4] Limited since its foundation on 23 May 2018, which is the effective date of the start of his employment pursuant to his service agreement.
2. After a three-year initial term.

Remuneration of the Non-Executive Directors

Element	Purpose and link to strategy	Operation	Maximum opportunity
Fees	To attract and retain Non-Executive Directors with adequate experience and knowledge.	The fees of the Non-Executive Directors are determined by the Board based upon comparable market levels and time commitment. The Non-Executive Directors do not participate in any performance-related incentive arrangements, nor do they have any entitlement to benefits or pension contributions. Directors may be paid additional amounts for service as a committee chair.	n/a

Letters of appointment

The terms of appointment of the Non-Executive Directors are set out in their respective letters of appointment. Appointment as a Non-Executive Director is subject to a three-month notice period. Notice periods do not apply and the Group has no obligation to make termination payments if a Non-Executive Director is not re-elected as a Director at an AGM.

The appointments of Rupert Faure Walker and Paul Roy are governed by their appointment letters with S^4 Limited, which remained in place following the completion of the Company's acquisition of S^4 Limited on 28 September 2018.

Director	Date of appointment	Date of letter of appointment	Notice period (months)
Rupert Faure Walker	28 September 2018	24 June 2018	3
Paul Roy	28 September 2018	24 June 2018	3
Sue Prevezer	14 November 2018	9 July 2018	3
Daniel Pinto	24 December 2018	9 July 2018	3
Elizabeth Buchanan	12 July 2019	11 June 2019	3
Naoko Okumoto	10 December 2019	9 December 2019	3
Margaret Ma Connolly	10 December 2019	6 December 2019	3

Statement of consideration of employment conditions elsewhere in the Group

The Group applies the same key principles to setting remuneration for its people as those applied to the Directors' remuneration. In setting salaries and benefits each business considers the need to retain and incentivise key people to ensure the continued success of the Group. The Group's people were not consulted in setting the Remuneration Policy.

Consideration of shareowner views

The Committee considers it extremely important to maintain open and transparent communication with the Company's shareowners. The views of shareowners received through various avenues, such as at the AGM, during meetings with investors and through other contact during the year, are considered by the Committee and will help to inform the development of the overall Remuneration Policy.

Discretion

The Nomination and Remuneration Committee will operate the annual incentive scheme and the long-term incentive scheme according to their rules. Consistent with standard market practice, the Committee has certain discretion regarding the operation and administration of these schemes, including as to:

- participants;
- timing of grants or awards;
- size of awards;
- determination of how far performance metrics have been met;
- treatment of leavers or arrangements on a change of control; and
- adjustments of targets and/or measures if required following a specific event (eg material acquisition or disposal).

Any use of these discretions would be explained in the annual report on remuneration for the relevant year.

Remuneration Report continued

Annual Remuneration Report

The information provided in this Annual Remuneration Report is subject to audit except where indicated otherwise. Details of the Directors' interests in the share capital of the Company are set out on page 73.

The remuneration of the Executive Directors for the year to 31 December 2019 is presented below with a comparison for the year to 31 December 2018.

Executive Directors' remuneration as a single figure (Audited)

£000	Salary		All taxable benefits		Annual bonus		Incentive shares		Pension		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Sir Martin Sorrell[1]	100	61	57	–	85	61	–	–	30	18	272	140
Victor Knaap[2,4]	179	14	–	–	83	–	–	–	–	–	262	14
Wesley ter Haar[2,4]	179	14	–	–	83	–	–	–	–	–	262	14
Peter Rademaker[2]	251	19	–	–	160	–	–	–	–	–	411	19
Pete Kim[3]	158	3	3	–	–	–	–	–	5	–	166	3
Christopher S. Martin[3]	158	3	27	–	–	–	–	–	5	–	190	3
Scott Spirit[5]	162	–	8	–	130	–	–	–	15	–	315	–

Notes:

1. Sir Martin Sorrell was appointed to the Board on 28 September 2018 but was a Director of S^4 Limited from 23 May 2018. His remuneration for 2018 is reported pro rata for the period from 23 May 2018 to 31 December 2018.
2. Victor Knaap, Wesley ter Haar and Peter Rademaker were appointed to the Board on 4 December 2018. Their remuneration for 2018 is reported pro rata from that date to 31 December 2018. Their remuneration is converted into sterling from euros using the average exchange rate for the year, (except when calculating the annual bonuses where the relevant spot rate was used) consistent with the basis of the presentation of financial performance in the financial statements.
3. Pete Kim and Christopher S. Martin were appointed to the Board on 24 December 2018. Their remuneration for 2018 is reported pro rata from that date to 31 December 2018. Their remuneration is converted into sterling from US dollars using the average exchange rate for the year, (except when calculating the annual bonuses where the relevant spot rate was used) consistent with the basis of the presentation of financial performance in the financial statements.
4. As disclosed in the Company's prospectus dated 11 September 2018 and in last year's Directors' Remuneration Report, Victor Knaap and Wesley ter Haar were each paid a €3 million bonus in connection with the merger with MediaMonks in both 2018 and 2019.
5. Scott Spirit was appointed to the Board on 18 July 2019. His remuneration for 2019 is reported pro rata from that date to 31 December 2019. His salary is converted into sterling from Singaporean dollars using the average exchange rate for the year, (except when calculating the annual bonuses where the relevant spot rate was used) consistent with the basis of the presentation of financial performance in the financial statements.

Salary (Audited)

The annual salaries for the Executive Directors for 2019 were as follows:

Sir Martin Sorrell	£100,000
Victor Knaap	€210,000
Wesley ter Haar	€210,000
Peter Rademaker	€294,000
Pete Kim	$207,230
Christopher S. Martin	$207,230
Scott Spirit	SGD 270,000

Annual bonus scheme (Audited)

The 2019 bonus scheme was based on the achievement of performance targets linked to the Group's strategic priorities. 70% of the bonus was payable by reference to performance against Group financial metrics, and the remaining 30% was payable by reference to the qualitative goal of integrating the Group's businesses.

The specific financial metrics are set out in the table below. The targets were designed to be in line with the Company's stated objective of doubling net revenue within three years.

	Targets	Achievement
EBITDA	30% growth on like-for-like basis vs FY18	+51%
EBITDA before central costs	20% as percentage of gross profit	22.9%

Note:

Pete Kim and Christopher S. Martin's bonus was primarily based on the performance of MightyHive. As noted above and below, both voluntarily decided to waive their bonus entitlement for 2019.

As a result of the excellent level of financial performance, the Committee determined that the financial targets had been met in full and awarded a maximum bonus for this element of the bonus scheme.

The 30% of the bonus scheme subject to an assessment of integration was considered in detail by the Committee. The Committee was informed by the Board's overall view of management's success during 2019 in integrating the various businesses acquired by the Company, as well as the Executive Chairman's view of the contribution of individual Directors to the integration process. The Committee noted the success of various initiatives during the year, including the development of an integrated strategy and data and analytics, along with the integration of the Group's offer and offices.

The Committee decided that although some good progress had been made in integrating the various businesses during the year, not all initiatives had been achieved in full. As a result, the Committee agreed that for this element of the bonus scheme a payout at 50% of the maximum was appropriate. In total, taking into account the Committee's assessment of performance against both the financial and the integration measures, the overall level of bonus achievement was 85% of the maximum available. Bonuses were consequently payable to the Executive Directors as set out below.

	Maximum bonus entitlement (% of salary)	Maximum bonus payable 000	Bonus paid (actual amount) 000
Sir Martin Sorrell	100%	£100	£85
Victor Knaap	50%	€105	€89
Wesley ter Haar	50%	€105	€89
Peter Rademaker	75%	€221	€187
Pete Kim*	100%	$207	–
Christopher S. Martin*	100%	$207	–
Scott Spirit	100%	SGD 270	SGD 229

* Voluntarily waived their bonus entitlement for 2019.

As noted in the statement from the Chairman of the Nomination and Remuneration Committee on page 55, in light of the covid-19 outbreak the Committee agreed with management that the full amount of any bonus paid, which would normally have been paid in cash, would instead be paid in shares. These shares are subject to a two-year lock-up period.

Pension (Audited)

Sir Martin Sorrell is provided with a lump sum pension contribution equivalent to 30% of his annual base salary which is paid as a cash amount in lieu of pension. Scott Spirit receives a pension contribution at a rate of 10% of his annual base salary which is paid into the Company's pension scheme.

Non-Executive Directors' remuneration as a single figure (Audited)

£000	Year to 31 December 2019	Year to 31 December 2018
Rupert Faure Walker	25	6
Paul Roy	25	6
Sue Prevezer	25	3
Daniel Pinto	25	0.5
Elizabeth Buchanan	14	–
Naoko Okumoto	2	–
Margaret Ma Connolly	2	–

Notes:

1. The annual fee payable to the Non-Executive Directors for 2019 was £25,000.
2. Rupert Faure Walker and Paul Roy were appointed to the Board on 28 September 2018, Sue Prevezer was appointed to the Board on 14 November 2018 and Daniel Pinto was appointed to the Board on 24 December 2018. Their fees for the year to 31 December 2018 are shown pro rata for the length of their respective service in the year.
3. Elizabeth Buchanan was appointed to the Board on 12 July 2019. Naoko Okumoto and Margaret Ma Connolly were appointed to the Board on 10 December 2019. Their fees for the year to 31 December 2019 are shown pro rata for the length of their respective service in the year.

Remuneration Report continued

Directors' interests in shares and share options (Audited)

The consideration payable by the Group in respect of business combinations has included a substantial proportion of equity in the Company. Equity consideration has, to date, been issued subject to a two-year restriction on sale or transfer. It is the intention of the Board to continue to structure transactions in this fashion in order both to incentivise senior management (and the Group's people more broadly) in the long term and to support the Company's strategy of operating the Group on a unitary basis.

As a consequence, the Executive Directors who previously held equity in MediaMonks or MightyHive now hold a substantial number of the Company's shares. Further, Sir Martin Sorrell is a substantial shareowner in the Company as a consequence of his foundational investment into S^4 Limited.

In the context of the significant share ownership of the Executive Directors, there is no formal minimum shareholding requirement. However, the Committee expects new Directors who do not have a material holding of the Company's shares to acquire shares equivalent in value to two times basic salary as soon as reasonably practicable following appointment. Scott Spirit, who joined the Board during 2019, has already started to build a significant holding in S^{4}Capital shares.

Details of Directors' interests in Ordinary Shares and Incentive Shares are set out in the table below.

	Interest in Ordinary Shares	Interest in Incentive Instruments	
	At 31 December 2019	**At 31 December 2019**	At 31 December 2018
Sir Martin Sorrell[1]	**55,355,077**	**4,000**	4,000
Victor Knaap[2]	**21,240,614**	**–**	–
Wesley ter Haar[2]	**21,240,614**	**–**	–
Peter Rademaker	**844,732**	**–**	–
Pete Kim[2]	**9,718,863**	**–**	–
Christopher S. Martin[2]	**8,532,760**	**–**	–
Scott Spirit[3]	**161,389**	**2,000**	–
Rupert Faure Walker	**1,559,783**	**–**	–
Paul Roy	**1,900,129**	**–**	–
Sue Prevezer	**261,766**	**–**	–
Daniel Pinto[4]	**41,212,366**	**–**	–
Elizabeth Buchanan	**None**	**–**	–
Naoko Okumoto	**None**	**–**	–
Margaret Ma Connolly	**None**	**–**	–

Notes:

1. Sir Martin Sorrell holds 4,000 vested A2 Incentive Shares and also holds the B share.
2. Victor Knaap and Wesley ter Haar hold their interests in Ordinary Shares through (i) Oro en Fools B.V., their joint personal holding vehicle which is owned (indirectly) 50% by Victor Knaap and 50% by Wesley ter Haar; and (ii) Zen 2 B.V. the Ordinary Share capital of which is owned 51% by Oro en Fools B.V. and 49% by funds managed by Bencis Capital Partners B.V. The interests in Ordinary Shares of Victor and Wesley noted above are the aggregate totals of the Ordinary Shares held by these entities. Certain of the interests of Christopher S. Martin and Pete Kim are held by them through certain family trust arrangements.
3. Scott Spirit has options to subscribe for a total of 2,666 A1 Incentive Shares (this includes the 2,000 Incentive Shares disclosed in the table above), as explained on the following page. These awards were approved by the Nomination and Remuneration Committee in December 2019 and formally granted in January 2020. In accordance with IFRS 2, the Group recognised share-based payment charges from the date of granting the option plans until the moment of vesting of the option plans conform to the Monte Carlo simulation. During 2019 a total charge of £3.6 million (2018 nil) is recognised in relation to the A1 Incentive Share options. The terms of these awards are explained further below.
4. Shares acquired by Stanhope Entrepreneur Fund, a growth capital fund managed by Stanhope Capital, of which Daniel Pinto is Chief Executive.

Subsequent to the end of the financial year, Sir Martin Sorrell made a charitable donation to his family foundation of 3,500,000 Ordinary Shares, but maintains his family interest of 55,355,077 Ordinary Shares. He has also bought an additional 9,784 shares since 31 December 2019. As at the date of this report, there have been no other changes to the holdings as set out in the table above.

The S^4 Limited Scheme/Scheme interests awarded during the financial year (Audited)

Arrangements were put in place shortly after the formation of S^4Capital 2 Limited (formerly S^4Capital Limited) (S^4 Limited) to create incentives for certain executives who are expected to make key contributions to the success of the Group. The Group's success depends upon the sourcing of attractive investment opportunities and the improvement of the performance of any businesses that are acquired. Accordingly, an incentive scheme (the S^4 Limited Scheme, or the Incentive Share scheme) was created to reward key contributors for the creation of value through the use of Incentive Shares.

Sir Martin Sorrell subscribed for A2 Incentive Shares in May 2018. Following approval by the Nomination and Remuneration Committee in December 2019, Scott Spirit was granted an option to subscribe for A1 Incentive Shares in January 2020. The terms of these awards are set out in the table below.

	Number of Incentive Instruments	Date of Issue
Sir Martin Sorrell	4,000 A2 Shares	29 May 2018
Scott Spirit[1]	2,000 A1 options	Option issued 27 January 2020 following Nomination and Remuneration Committee approval December 2019

Note:

1. Scott Spirit also has an option to subscribe for up to an additional 666 A1 Incentive Shares in the event of the issue of any further Incentive Shares by the Directors. The purpose of this additional award is to ensure that his interest in the Incentive Shares is maintained at the same level (5%) in the event of the issue of further Incentive Shares.

The Directors of S^4 Limited have the authority to issue a further 2,000 A1 Incentive Shares. The issue of further Incentive Shares will not increase the aggregate entitlement of the holders of Incentive Shares above 15% of the growth in value of S^4 Limited.

The Incentive Shares are subject to a number of conditions, as set out more fully below.

Terms of the S^4 Limited Scheme

The Incentive Shares entitle the holders, subject to certain vesting criteria and leaver provisions, to up to 15% of the growth in value of S^4 Limited from the plan's inception provided that the growth condition (as described below) has been met.

Provided that the growth condition has been satisfied, the Incentive Shares entitle the holders to their return upon a sale or merger of S^4 Limited, its liquidation, the takeover or merger of the Company or, if none of those events has occurred prior to 9 July 2023 (being the fifth anniversary of the merger with MediaMonks by S^4 Limited), if Sir Martin Sorrell serves notice on the Company requiring it to acquire all of the Incentive Shares eligible for sale on or before 9 July 2025 (being the seventh anniversary of the merger with MediaMonks). If Sir Martin serves such a notice, the growth in value of S^4 Limited is measured against the market capitalisation of the Company based on an average of the mid-market closing price of the Ordinary Shares over the preceding 30 trading days, plus any dividends or distributions over time. Once triggered, all of the Incentive Shares eligible for sale receive value at the same time on a pro rata basis and then automatically reset such that they may receive the same return over a second period of up to seven years.

The consideration payable if the Incentive Shares are triggered, save on a takeover, liquidation or merger of S^4 Limited, will be satisfied by the issue of Ordinary Shares at the average of the mid-market closing price of the Ordinary Shares over the 30 trading days preceding the triggering of the Incentive Shares.

Further details are included in Note 22 on pages 116 to 117.

Growth condition

The growth condition is the compound annual growth rate of the invested capital in S^4 Limited being equal to or greater than 6% per annum since the foundational investment into S^4 Limited on 29 May 2018. The growth condition takes into account the date and price at which shares in S^4 Limited have been issued, the date and price of any subsequent share issues and the date and amount of any dividends paid or capital returned by S^4 Limited to the Company. Any cash raised by the Company from time to time has been and will continue to be invested in S^4 Limited so that the growth condition will apply to that capital also.

Remuneration Report continued

Vesting conditions

The Incentive Instruments are subject to certain vesting conditions, at least one of which must be (and continue to be) satisfied in order for Sir Martin Sorrell (as the holder of the majority of the A2 Incentive Shares) to elect for the A1 and A2 Incentive Shares to be sold to the Company. The A1 and A2 Incentive Shares will vest in the following circumstances:

/ a sale of all or a material part of the business of S4 Limited;

/ a winding up of S4 Limited occurring;

/ a sale or change of control of S4 Limited or the Company; or

/ if later, on 9 July 2023 (being the fifth anniversary of the MediaMonks merger).

Compulsory redemption

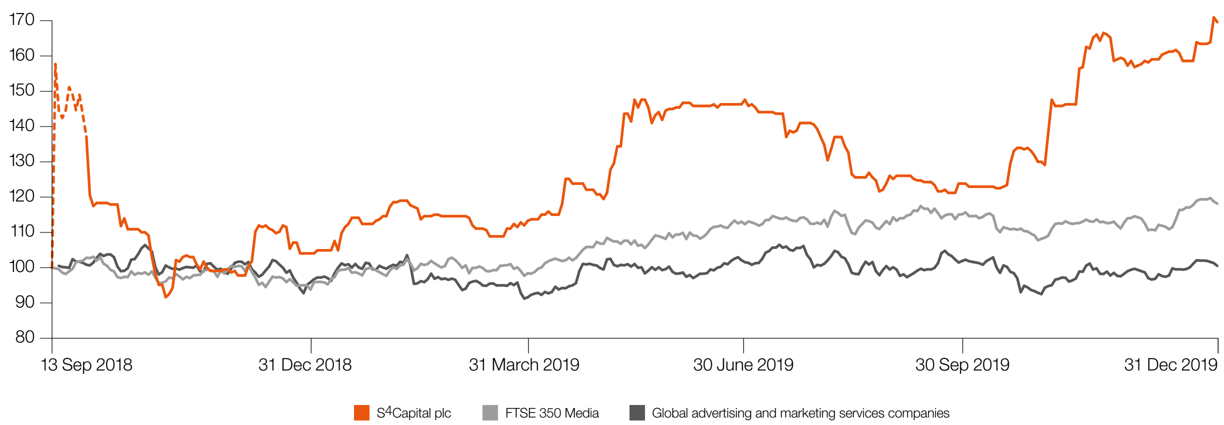
If the growth condition is not satisfied on or before 9 July 2025 (being the seventh anniversary of the merger with MediaMonks), or such later date as the Company and each of the Incentive Share classes agree, the Incentive Shares must be sold to the Company at a price per Incentive Share equal to the subscription price of £25.00 per Incentive Share.

Leaver provisions

The Incentive Shares are subject to leaver provisions. If a holder of Incentive Shares ceases to be employed by or hold office with the Group, that holder will become a 'Leaver' and, depending on the circumstances of his or her departure, certain of his or her Incentive Shares may be subject to forfeiture.

Share price

The chart below illustrates the performance over the period of an investment of £100 in the Company's shares made on 13 September 2018, shortly before the Company acquired the S4Capital Group and was re-admitted to trading on the Official List, to 31 December 2019. This has been compared to the performance of the same investment on the same date in both (i) the FTSE 350 Media Sector, and (ii) a market capitalisation-weighted basket of five other global advertising and marketing services companies. The Board believes that these are the most appropriate broad comparators for the Company's performance for the purpose of the reporting regulations. The dashed section of the line below represents the period before the Company was named S4Capital.



The table below sets out the performance of an investment of £100 made in the Group on 29 May 2018, which was the date of the foundational investment into S4 Limited, through the dates of the Group's placings and business combinations and up to the end of the year to 31 December 2018. This has been compared against the performance of an equivalent investment made on 29 May 2018 in the same comparators used in the chart above.

	29 May 2018	09 July 2018	24 December 2018	31 December 2018	25 October 2019	**31 December 2019**
S4Capital plc	100	116	128	138	165	**224**
FTSE 350 Media	100	105	96	97	114	**120**
Global advertising and marketing services companies	100	104	91	94	94	**98**

The table below sets out the Executive Chairman's total remuneration as a single figure, together with the percentage of maximum annual incentive awarded over the same period as the chart above in respect of the Company's share price.

	Year to 31 December 2018	**Year to 31 December 2019**
Executive Chairman single figure of remuneration (£000)	140	**272**
Annual bonus payout (% of maximum)	100%	**85%**
Share award vesting (% of maximum)	n/a	**n/a**

Percentage change in remuneration of Director undertaking the role of Chief Executive

The table below shows the percentage change in salary, benefits and bonus from 2018 to 2019 for the Executive Chairman. The Company acquired the S4Capital Group on 28 September 2018 and prior year comparisons for the Group's people are not considered meaningful.

	Salary	Benefits	Bonus
Executive Chairman	48%	21%	31%

Remuneration Report continued

Pay ratio

Although S4Capital did not have more than 250 UK employees during 2019, and is thus not formally required to publish the ratio of the Executive Chairman's pay to the wider UK employee base, the Committee has decided to do so as a matter of good practice.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2019[1]	Option A	5.4	4.6	3.2
Total pay and benefits £000		£40	£47	£67
Salary £000		£40	£47	£65

Note:

1. The calculations of the pay for the employees at the different levels have been calculated as at 31 December 2019.

We have chosen Option A to ensure that the most accurate information is used for the purposes of calculating the pay ratio. A full-time equivalent calculation has been applied to the pay of part-time employees and those leaving or joining during 2019 to ensure an appropriate annualised comparison with the pay of the Executive Chairman.

The Committee believes that the median pay ratio for 2019, as disclosed in the table above, is reflective of the current pay policies across the Group as a whole at this stage. Employee pay packages are designed to be competitive and to ensure that performance as a whole is rewarded through appropriate incentive schemes. The ratios at all three levels also reflect the fact that the pay for the Executive Chairman is relatively low when compared with the pay for leaders of companies of a similar size to S4Capital. To date, the Committee has not directly engaged with the workforce to explain how executive remuneration aligns with wider Company pay policy.

Relative importance of spend on pay

The table below shows the relative importance of spend on pay for all of the Group's people in comparison to distributions to shareowners. Total pay includes wages and salaries, pension costs, social security and share-based payments. The Company did not make any distributions to shareowners in respect of the financial period.

	Year to 31 December 2018	**Year to 31 December 2019**	% change
Average number of employees	736	**1,831**	148%
Total personnel costs (£000)	25,153	**111,572**	343%
Total distributions to shareowners (£000)	–	**–**	–

Statement of voting on remuneration

The table below provides details of the voting results on the remuneration resolutions presented for shareowner approval at the AGM held on 29 May 2019.

	Votes for	Votes against	Total votes cast	Votes withheld
Approve the Directors' Remuneration Report	244,715,363	60,300	244,775,663	10,980,095
	99.98%	0.02%		
Approve the Directors' Remuneration Policy	224,366,978	60,300	224,427,278	31,328,479
	99.97%	0.03%		

Nomination and Remuneration Committee membership and meetings

The Committee comprises three independent Non-Executive Directors. There were three meetings of the Committee held during the year. The following table sets out details of attendance at Committee meetings.

	Committee member since	**Attendance at meetings during 2019**
Paul Roy (Chair)	28 September 2018	**3**
Rupert Faure Walker	28 September 2018	**3**
Sue Prevezer	14 November 2018	**3**

Sir Martin Sorrell may attend meetings as an observer by invitation. No Director participates in decisions regarding his or her own remuneration.

During 2019, the Committee received external advice from Korn Ferry, for which it received fees of £6,000. Korn Ferry was appointed by the Committee and the Committee is satisfied that the advice it receives is objective and independent. Korn Ferry is a member of the Remuneration Consultants Group and operates under its code of conduct. No other services were provided by Korn Ferry to the Company during 2019.

Implementation of Remuneration Policy for 2020

The Remuneration Policy approved at the AGM in May 2019 will continue to apply for the year ending 31 December 2020.

Basic salary

As noted on page 55, a number of changes to basic salary levels have been agreed in response to the covid-19 outbreak. Sir Martin Sorrell has proposed – and the Committee has agreed – that his basic salary will reduce to a level no higher than £70,000 for the 2020 financial year. The basic salaries of the other Executive Directors will reduce by 50% with effect from 1 April 2020. The Committee will review this again in Q3 2020 and will determine whether or not these reductions should continue to apply, taking into account all relevant circumstances at the time.

Pension

Sir Martin Sorrell will continue to receive pension contributions at a rate equivalent to 30% of basic salary. Scott Spirit will continue to receive pension contributions of 10% of basic salary.

Annual bonus

The Committee has decided that the annual bonus scheme for 2020 will operate in a similar manner to that in place for 2019. 70% of the bonus scheme will again be payable by reference to performance measured against Group financial and operational metrics. The remaining 30% will be payable by reference to goals linked to the integration of businesses within S^{4}Capital. Full details of the metrics and targets will be disclosed in next year's Remuneration Report.

The maximum bonus opportunity for 2020 will be 100% of basic salary for Sir Martin Sorrell, Pete Kim, Christopher S. Martin and Scott Spirit, and 50% of basic salary for Victor Knaap and Wesley ter Haar.

The bonus scheme includes recovery and withholding provisions. These apply for a period of three years following payment and are applicable in the following circumstances: misstatement of accounts, misconduct, error in calculating variable pay, serious reputational damage or corporate failure.

Share incentives

At the time of writing, the Committee does not have any specific plans to grant new share incentive awards to any Executive Director during 2020. However, the Committee will keep this matter under review during the year and may take a different approach if deemed appropriate. Any awards will be consistent with the terms of the Directors' Remuneration Policy.

Non-Executive Directors

Following a review of fee levels at companies of a similar size during 2019, and taking into account the increasing levels of time commitment required from Non-Executive Directors as the Company grows, the Board agreed to increase the base NED fee to £37,500 with effect from 1 January 2020. In addition, reflecting common practice and recognising the additional responsibilities involved, an extra £7,500 is payable to each of the Senior Independent Director, Chair of the Audit and Risk Committee and Chair of the Nomination and Remuneration Committee.

In response to the covid-19 outbreak, and mirroring the approach taken for the Executive Directors (see above), it was subsequently agreed that fees payable to the Non-Executive Directors would be reduced by 50% with effect from 1 April 2020. This will be reviewed in Q3 2020. ■

Directors' report

S4Capital plc is incorporated and domiciled in the UK and is registered in England with the registered number 10476913. The correspondence address and registered office of the Company is 12 St James's Place, London SW1A 1NX.

The Company changed its name from Derriston Capital plc on 28 September 2018.

This report has been drawn up and presented in accordance with, and in reliance upon, applicable English law and the liabilities of the Directors in preparing this report shall be subject to the limitations and restrictions provided by such law. The Directors' report is designed to inform shareowners and help them assess how the Directors have performed their duty to promote the success of the Company.

Strategic Report and corporate governance

The Strategic Report can be found on pages 2 to 26 and is included by reference into this Director's report. The Strategic Report sets out the development and performance of the Group's business during the financial period, the position of the Company at the end of the period, a description of the principal risks and uncertainties facing the Company, indications of future developments in the business, reporting of greenhouse gas emissions and the Group's Governance Report. The Strategic Report also sets out a summary of how the Directors have engaged with our people as well as how the directors have had regard to the need to foster the Company's business relationships with suppliers, customers and others.

Dividend

No dividend was declared or paid in respect of the year to 31 December 2019 and the Directors are not recommending that any dividend be paid. The Directors intend to commence the payment of dividends when it becomes commercially prudent to do so. The payment of dividends will be subject to maintaining an appropriate level of dividend cover and the need to retain sufficient funds for reinvestment in the business, to finance any merger opportunities, capital expenditure and for other working capital purposes.

Share capital

The shares in issue at the year end comprised 469,227,259 Ordinary Shares of £0.25 each (2018 363,396,923 Ordinary Shares of £0.25 each) and one B Share of £1.00 (2018 one), giving a total nominal value of £117,306,816 million (2018 £90.8 million). Movements in the Company's share capital in the year are shown in the consolidated statement of changes in equity.

The holders of Ordinary Shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at general meetings of the Company. The holder of the B Share has no right to receive dividends and is entitled to one vote at general meetings of the Company when voting in favour of resolutions, and such number of votes as may be required to defeat the relevant resolution when voting against.

The Ordinary Shares have a standard listing on the London Stock Exchange.

Restrictions on transfer of securities

The Ordinary Shares are freely transferable and there are no restrictions on transfer. Except for Sir Martin Sorrell, who holds the B Share, as a result of which he exercises a significant degree of control over the Company (as more fully described in the Governance Report on page 51) no other person holds securities in the Company carrying special rights with regard to control of the Company. The Company is not aware of any agreements between holders of securities that may result on restrictions on the transfer of securities or voting right.

Powers of the Company Directors

The AGM in 2019 authorised the Directors to allot shares up to a maximum nominal amount of £30,283,649.50 (ie one-third of the Company's then-issued and outstanding share capital). Subsequently, at a meeting of the shareowners of the Company, the Directors were authorised to allot shares up to a maximum nominal amount of £39,743,303.50. At the 2020 AGM, shareowners will be asked to renew the Directors' authority to allot new securities. Details are contained in the Notice of Annual General Meeting.

Substantial shareholdings

As at 1 May 2020, the Directors had been advised of the following interests representing 3% or more of the Company's issued and outstanding Ordinary Shares.

Substantial shareowners of 3% or more, as at 1 May 2020	Number of shares	% shareholding
Sir Martin Sorrell	51,864,861	10.76%
Merian Global Investors	41,456,634	8.8%
Stanhope	41,212,366	8.55%
Oro en Fools B.V.	33,670,378	6.98%
Canaccord Genuity Wealth Management	26,122,581	5.41%
Rathbones	22,588,214	4.68%
EBT (Diagonal Nominees Limited)	15,833,693	3.28%

It should be noted that these holdings may have changed since being notified to the Company. However, notification of any change is not required until the next applicable threshold is crossed. As at the date of this report, no further changes had been notified to the Company pursuant to Rule 5.1 of the Disclosure and Transparency Rules.

Directors

The Directors of the Company up to the date of this report are named on pages 38 to 45 together with their profiles. Scott Spirit and Elizabeth Buchanan were appointed to the Board on 18 July 2019 and 12 July 2019 respectively and Margaret Ma Connolly and Naoko Okumoto were both appointed to the Board on 10 December 2019.

All Directors who have served during the year and who remain a Director as at 31 December 2019 will retire and offer themselves for election at the forthcoming AGM. The interests of the Directors in the share capital of the Company at 31 December 2019, the Directors' total remuneration for the year and details of their service contracts and Letters of Appointment are set out in the Directors' Remuneration Report on pages 63 and 64.

Other than the Incentive Shares held by Sir Martin Sorrell and the options over Incentives Shares held by Scott Spirit as disclosed on page 67, no Directors have beneficial interests in the shares of any subsidiary company. The interests of the Directors in the share capital of the Company have not changed between 31 December 2019 and 7 May 2020 except as noted on page 66.

Directors' indemnities

The Company maintains Directors' and officers' liability insurance, which gives appropriate cover for legal actions which might be brought against its Directors and officers. The Directors also have the benefit of an indemnity from the Company, the terms of which are in accordance with the Companies Act.

Directors' conflict of interest

The Group has procedures in place for managing conflicts of interest. Should a Director become aware that he or she, or his or her connected parties, have an interest in an existing or proposed transaction with the Group, he or she should notify the Board in writing or at the next Board meeting. Internal controls are in place to ensure that any related party transactions involving Directors, or their connected parties, are conducted on an arm's length basis. Directors have a continuing duty to update any changes to these conflicts.

Significant agreements – change of control

The Group's term loan and revolving facility contain customary prepayment, cancellation and default provisions including, if required by a lender, mandatory prepayment of all utilisations provided by that lender upon the sale of all or substantially all of the business and assets of the Group or a change of control. The Company does not have agreements with any Director that would provide compensation for loss of office or employment resulting from a takeover except for provisions which may cause awards granted under such arrangements to vest on a takeover.

Directors' report continued

Corporate responsibility

The Board considers that issues of corporate responsibility are important. The Board's report, including the Group's policies on employee involvement and disability, and a statement on greenhouse gas emissions for the Group, is set out on pages 14 and 15.

Employees

The Group is committed to equal opportunities and non-discrimination in all aspects of employment, regardless of age, beliefs, physical challenges, ethnic origin, gender, marital status, race, religion or sexual orientation. The Group also complies with all applicable national and international human and labour rights within the locations in which it operates. Robust communications channels ensure that our people are kept informed of the Group's activities, performance and future plans.

Political donations

During the year the Group did not make any donations to any political party or other political organisation and did not incur any political expenditure within the meanings of Sections 362 to 379 of the Companies Act 2006.

Events after the balance sheet date

Events after the balance sheet date are disclosed in Note 27 to the financial statements.

Annual General Meeting

The 'hybrid' AGM of the Company will be held at 1.00 p.m BST on 8 June 2020. For participation details, please refer to the Notice of AGM.

The resolutions being proposed at the 2020 AGM are general in nature and include the receipt of this Annual Report and Accounts including the Directors' Remuneration Report and Remuneration Policy, the election or re-election of all the members of the Board, the reappointment of the auditors, the renewal for a further year of the limited authority of the Directors to allot the unissued share capital of the Company and the disapplication of pre-emption rights, the renewal of the authority to make off-market purchases and the request for shareowner approval to reduce the notice period for calling general meetings (other than the AGM) to 14 clear days.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out on pages 2 to 37. The financial position of the Group, its billings, gross profit and profitability are described on pages 2 to 11. In addition, Note 5 to the Group financial statements include the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk. Having considered the Group's cash flows, liquidity position and borrowing facilities, the Board has a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future and have therefore continued to adopt the going concern basis in preparing these financial statements. A summary of the Group's operational response in relation to covid-19 is presented on pages 4 to 6.

Independent auditor

PricewaterhouseCoopers LLP has confirmed its willingness to continue as auditors of the Group.

In accordance with Section 489 of the Companies Act 2006, separate resolutions for the appointment of PricewaterhouseCoopers LLP as auditors of the Group and for the Directors to determine its remuneration will be proposed at the forthcoming AGM of the Company.

Statement as to disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and Accounts 2019 in accordance with applicable law and regulation.

Company law requires the Directors to prepare annual financial statements. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and parent company financial statements in accordance with the UK generally accepted accounting practice (UK accounting standards comprising FRS101 'reduced disclosure framework', and applicable laws). Under company law the Directors must not approve the Group financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and UK accounting standards, comprising FRS 101, have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgments and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

Directors' confirmations

The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareowners to assess the Group and Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Governance Report, confirm that to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties it faces.

In the case of each Director in office at the date the Directors' Report was approved:

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

Martin Sorrell

Sir Martin Sorrell
Executive Chairman

7 May 2020

Peter Rademaker
Group Chief Financial Officer

Independent auditors' report to the members of S4Capital plc

Report on the audit of the financial statements

Opinion

In our opinion:

- S4Capital plc's Group financial statements and Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2019 and of the Group's loss and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts 2019 (the 'Annual Report'), which comprise: the Consolidated and Company balance sheets as at 31 December 2019; the Consolidated statement of profit or loss and the Consolidated statement of comprehensive income, the Consolidated statement of cash flows, and the Consolidated and Company statements of changes in equity for the year then ended; and the Notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit and Risk Committee.

Basis for opinion

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

Independence

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

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

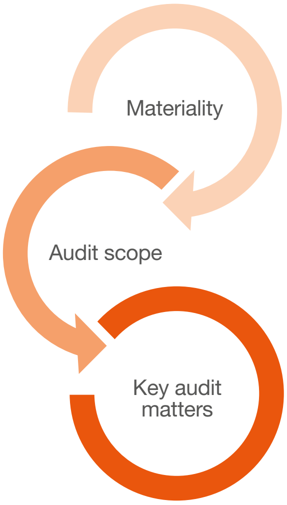
We have provided no non-audit services to the Group or the Company in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Context

This is the Group's first full year of existence. It was created in July 2018 as a result of the purchase by S4Capital Acquisitions 3 B.V of MediaMonks Multimedia Holding B.V and its subsidiaries ('MediaMonks'). MightyHive Inc. and its subsidiaries ('MightyHive') were acquired on 24 December 2018. The disclosed comparative figures therefore do not present a true comparison of the Group's activities in the prior year.

In the current year, the Group has continued on a strategy of rapid growth through acquisition as further described within Note 4 of the financial statements. Further details regarding our audit procedures over the significant acquisitions in the year have been detailed within our Key Audit Matter.



Overview

- Overall Group materiality: £2.1 million (2018: £5.0 million), based on approximately 1% of total revenues (2018: based on approximately 1% of total assets).
- Overall Company materiality: £4.9 million (2018: £3.5 million), based on 1% of total assets.

- We identified three components, namely Content, Programmatic and Holding Companies (including S4Capital plc) and all three components were scoped in for full scope audits.

- Purchase price allocation and acquisition accounting for MightyHive, IMAgency and Firewood – Group
- Accounting for and disclosure of A1 shares – Group
- Fraud in revenue recognition – Group
- Impact of covid-19 – Company and Group

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and industry, we considered the principal risks of non-compliance with laws and regulations. The Group does not operate in a regulated industry and therefore there are no specific additional laws and regulations. We considered the extent to which non-compliance with laws and regulations might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to manipulation of significant estimates including acquisition adjustments, material allocations of value between amortising intangibles and goodwill, and share based payments.

The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- Discussions with management, the Audit and Risk Committee and the Group's legal advisors, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Evaluation of management's controls designed to prevent and detect irregularities;
- Challenging assumptions and judgments made by management in their significant accounting estimates, in particular in relation to purchase price allocation (see related key audit matter below); and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations and period end journals.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgment, were of most significance in the 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) identified by the auditors, 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, and any comments we make on the results of our procedures thereon, 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. This is not a complete list of all risks identified by our audit.

Independent auditors' report to the members of S4Capital plc continued

Key audit matter	How our audit addressed the key audit matter
Purchase price allocation and acquisition accounting for MightyHive, IMAgency and Firewood – Group The Group acquired seven entities during the year and completed the purchase price allocation of MightyHive. Due to the timing of the MightyHive acquisition in 2018, limited procedures were performed during the 2018 audit. We considered the IMAgency and Firewood Marketing Group acquisitions to be significant in addition to the finalisation of the MightyHive acquisition accounting. IFRS 3 requires an allocation of the excess of the purchase price over the net assets and liabilities acquired between goodwill and other intangible assets. This allocation is a judgment and has a material effect on the amortisation recognised in future periods as well as the goodwill balance recognised and tested in future for impairment.	We read the sale and purchase agreements and obtained management's assessments of the purchase price allocation. We reviewed the purchase price allocation documents provided by management's experts and considered the valuer's ability to prepare an analysis to reasonably estimate the value of the acquired intangible assets. We assessed the completeness of the intangible assets recognised by management and the valuation methodologies used, to consider if these were the correct methods of valuation for these types of assets. We recalculated the amounts included within the financial statements. We agreed the underlying projections to management's cash flow models signed off by the Board to ensure both consistency and actual cash flows being in line with those predicted. We challenged the assumptions used including growth rates and margins applied, capital expenditure and working capital assumptions, tax rate applied, discount rates and the terminal growth rate. We also tested the consideration back to bank statements and share registers and tested the fair value of the assets and liabilities acquired.
Accounting for and disclosure of A1 shares – Group The A1 and A2 incentive shares were created at set up of S4Capital 2 Limited in May 2018. Sir Martin Sorrell purchased the A2 shares in May 2018 and the option to purchase the A1 shares was granted to the Chief Growth Officer during 2019. The accounting for these types of plans can be judgmental and involve a significant degree of estimation with respect to a plan's fair value.	We read the Memorandum and Articles for S4Capital 2 Limited and the legal documentation pertaining to the timing and issuance of the shares, which is the entity which issued these options to purchase the A1 shares. We held discussions with management, the Company's legal counsel, and management's experts with respect to the substance of these options. We then considered whether the A1 plan should be accounted for under IFRS 2 Share Based Payments or IAS 32 Financial Instruments: Presentation. We concluded that the substance of the transaction and legal form was such that there was an implied service condition on the Chief Growth Officer, which means he was awarded these options as an employee. The scheme is also open only to other employees. As a result we concluded management had correctly accounted for the scheme under IFRS 2 Share Based Payments. We obtained the fair value calculation prepared by management's experts and audited the key assumptions and recalculated the value of the share based payment charge for 2019.
Fraud in revenue recognition – Group As the Group has entered into its first full year of trading, and has ambitious growth plans, we considered there to be an incentive for management to perpetrate fraud by removing revenue which related to the 2019 financial period and instead recognising it incorrectly during the 2020 financial year in order to increase future revenues.	The component auditors were specifically instructed to consider the cut-off of revenue for MediaMonks and MightyHive components. They specifically tested whether revenue posted during period 1 of financial year 2020 and revenue reversed in period 12 of the current period existed. We reviewed the working papers of the component auditors, attended calls and discussions to ensure the correct approach was adopted and no issues were noted.

Key audit matter	How our audit addressed the key audit matter
Impact of covid-19 – Company and Group On 11 March 2020 the coronavirus (covid-19) outbreak was declared a global pandemic by the World Health Organisation. As a result, the Board of Directors and management invested a significant amount of time to fully consider the impact on Group's people, clients and the financial position. Management considered implications for the Group's going concern assessment by preparing a base case cash flow forecast based on the best estimate of the impact on the different segments of the Group and considering the cost control measures that can be implemented if needed. Management has drawn down on the loan facility described in Note 18 in March 2020.	We reviewed management's base case and confirmed that the starting point (before covid-19 impact) is consistent with our understanding from performing our audit procedures. We reviewed and challenged the assumptions included in the base case to model the covid-19 impact and confirmed the cost measures applied are within management's control. We further obtained an understanding of other measures available to the Group to mitigate against the impact of covid-19. We read management's presentation to the Board of Directors and reviewed the minutes of the related discussion. We audited the draw down on the loan facility and confirmed that the additional cash is in the bank account. We performed a stress test on the model prepared by management to understand how sensitive the cash position and covenant headroom is to changes in assumptions included by management given the impact of covid-19 on future projects and cash flow is currently difficult to quantify. We concluded management's base case and assumptions are reasonable. We reviewed management's disclosures in relation to the potential impact of covid-19 and found them to be consistent with the base case prepared by management. Our reporting on going concern is set out below.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group consists of a very small head office in the UK and two main operational centres in Hilversum, the Netherlands and San Francisco, USA with some much smaller satellite offices across Europe and South America. The Company accounting function is located at the Hilversum centre. We conducted Group audit work in the Netherlands, as well as auditing the trading businesses in the Netherlands and the USA. These trading businesses were audited by component auditors.

The Group engagement team visited both the Netherlands and the USA. We attended calls with local management as well as the component auditors, we reviewed the component auditors' significant working papers and also conducted our own specific procedures at these sites.

Our audit scope addressed 100% of Group revenues and 100% of Group losses.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgment, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£2.1 million (2018 £5.0 million)	£4.9 million (2018 £3.5 million)
How we determined it	Approximately 1% of total revenues (2018 1% of total assets)	Approximately 1% of total assets

Independent auditors' report to the members of S4Capital plc continued

Rationale for benchmark applied	As the Group has entered into its first full year of trading and given the particular emphasis on revenue growth, we considered total revenues to be the primary measure of the performance of the Group for the 2019 financial period as opposed to total assets in the previous financial period.	As the Company is a holding company which manages investments and therefore an asset-based measure is considered most appropriate.

For each component in the scope of our Group audit, we allocated a materiality that was less than our overall Group materiality. The range of materiality allocated across components was £1.4 million and £1.9 million.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £100,000 (Group audit) (2018 £225,000) and £245,000 (Company audit) (2018 £90,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you 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's and Company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

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

Reporting on other information

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

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 and ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities set out on pages 74 and 75, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the 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 Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit and Risk Committee, we were appointed by the Directors on 28 January 2019 to audit the financial statements for the year ended 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement is two years, covering the years ended 31 December 2018 to 31 December 2019.

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

7 May 2020

Consolidated statement of profit or loss

	Notes	2019 £000	May to December 2018 £000
Revenue	6	215,132	54,845
Cost of sales		43,814	17,681
Gross profit		171,318	37,164
Personnel costs	7	111,572	25,153
Other operating expenses	7	25,803	7,304
Acquisition and set-up related expenses	7	12,806	5,005
Depreciation and amortisation	7	24,972	8,172
Total operating expenses		175,153	45,634
Operating loss		(3,835)	(8,470)
Adjusted operating profit		31,148	4,042
Adjusting items	25	(34,983)	(12,512)
Operating loss		(3,835)	(8,470)
Finance income	8	20	324
Finance expenses	8	(5,380)	(975)
Net finance expenses		(5,360)	(651)
Loss before income tax		(9,195)	(9,121)
Income tax (expense)/credit	9	(845)	1,011
Loss for the period		(10,040)	(8,110)
Attributable to owners of the Company		(10,040)	(8,110)
Attributable to non-controlling interests		–	–
		(10,040)	(8,110)
Loss per share is attributable to the ordinary equity holders of the Company			
Basic loss per share (pence)	10	(2.7)	(3.3)
Diluted loss per share (pence)	10	(2.7)	(3.3)

Consolidated statement of comprehensive income

	2019 £000	May to December 2018 £000
Loss for the period	(10,040)	(8,110)
Other comprehensive income		
Items that may be reclassified to profit or loss		
Foreign operations – foreign currency translation differences	(20,620)	1,870
	(20,620)	1,870
Total comprehensive loss for the period	(30,660)	(6,240)
Attributable to owners of the Company	(30,660)	(6,240)
Attributable to non-controlling interests	–	–
	(30,660)	(6,240)

Consolidated balance sheet

	Notes	31 December 2019 £000	31 December 2018[1] £000
Assets			
Non-current assets			
Intangible assets[1]	11	540,129	402,301
Right-of-use assets	19	25,779	–
Property, plant and equipment	12	9,730	4,007
Deferred tax assets	13	1,086	188
Other receivables	15	2,731	1,438
		579,455	407,934
Current assets			
Trade and other receivables	16	126,353	81,121
Cash and cash equivalents	17	66,106	25,005
		192,459	106,126
Total assets		771,914	514,060
Liabilities			
Non-current liabilities			
Deferred tax liabilities[1]	13	54,834	41,956
Loans and borrowings	18	42,374	45,638
Lease liabilities	19	18,787	–
Contingent considerations		3,669	–
Other payables	20	2,007	2,286
		121,671	89,880
Current liabilities			
Trade and other payables	20	118,014	73,143
Contingent considerations and holdbacks		51,202	4,636
Lease liabilities	19	7,975	–
Tax liabilities	20	6,751	4,107
		183,942	81,886
Total liabilities		305,613	171,766
Net assets		466,301	342,294
Equity			
Attributable to owners of the Company			
Share capital	21	117,307	90,849
Reserves	21	348,894	251,345
		466,201	342,194
Non-controlling interests	21	100	100
Total equity		466,301	342,294

Note:

1. Restated, see Note 11, restatement of the initial accounting for the business combination of MightyHive Inc.

The financial statements were authorised for issue by the Board of Directors on 7 May 2020 and were signed by:

Martin Sorrell

Sir Martin Sorrell
Executive Chairman

Peter Rademaker
Group Chief Financial Officer

Consolidated statement of cash flows

	Notes	31 December 2019 £000	31 December 2018 £000
Cash flows from operating activities			
Loss before income tax		(9,195)	(9,121)
Financial income and expenses	8	5,360	651
Depreciation and amortisation	7	24,972	8,172
Share-based compensation	7	7,177	–
Acquisition and set-up related expenses	7	12,806	5,013
Increase in trade and other receivables		(31,288)	(2,208)
Increase in trade and other payables		22,310	1,235
Cash flows from operations		32,142	3,742
Income taxes paid		(7,571)	(581)
Net cash flows from operating activities		24,571	3,161
Cash flows from investing activities			
Cash brought forward from Derriston Capital Plc		–	2,172
Investments in intangible assets	11	(1,578)	–
Investments in property, plant and equipment	12	(7,865)	(1,476)
Acquisition of subsidiaries, net of cash acquired		(56,954)	(264,186)
Financial fixed assets		(779)	5
Cash flows from investing activities		(67,176)	(263,485)
Cash flows from financing activities			
Proceeds from issuance of shares		97,451	246,500
Amount drawn down during the year	18	22,418	45,618
Payment of lease liabilities and interest	19	(6,687)	–
Repayments of loans and borrowings	18	(24,119)	(6,138)
Interest paid		(4,744)	(651)
Cash flows from financing activities		84,319	285,329
Net movement in cash and cash equivalents		41,714	25,005
Cash and cash equivalents beginning of the period		25,005	–
Exchange gain/(loss) on cash and cash equivalents		(613)	–
Cash and cash equivalents at 31 December		66,106	25,005

Consolidated statement of changes in equity

Equity	Number of shares	Share capital £000	Share premium £000	Merger reserves £000	Other reserves £000	Foreign exchange reserves £000	Retained losses £000	Total £000	Non-controlling interests £000	Total equity £000
Balance at 22 May 2018	–	–	–	–	–	–	–	–	–	–
Derriston Capital plc	2,500,000	625	1,689	–	–	–	(156)	2,158	–	2,158
Comprehensive loss for the period										
Loss for the period	–	–	–	–	–	–	(8,110)	(8,110)	–	(8,110)
Foreign currency translation differences	–	–	–	–	–	1,870	–	1,870	–	1,870
Transactions with owners of the Company										
Issue of Ordinary Shares	345,625,891	90,224	51,182	205,717	–	–	–	347,123	–	347,123
Non-controlling interests	–	–	–	–	–	–	–	–	100	100
Employee share schemes	15,271,032	–	–	–	(847)	–	–	(847)	–	(847)
Balance at 31 December 2018	363,396,923	90,849	52,871	205,717	(847)	1,870	(8,266)	342,194	100	342,294
Comprehensive loss for the period										
Loss for the period	–	–	–	–	–	–	(10,040)	(10,040)	–	(10,040)
Foreign currency translation differences	–	–	–	–	–	(20,620)	–	(20,620)	–	(20,620)
Transactions with owners of the Company										
Issue of Ordinary Shares	105,324,634	26,331	121,182	–	–	–	–	147,513	–	147,513
Employee share schemes	505,702	127	249	–	(313)	–	7,091	7,154	–	7,154
Balance as at 31 December 2019	**469,227,259**	**117,307**	**174,302**	**205,717**	**(1,160)**	**(18,750)**	**(11,215)**	**466,201**	**100**	**466,301**

Notes to the consolidated financial statements

1. General information

S4Capital plc ('S4Capital' or 'Company'), formerly Derriston Capital plc, is a public limited company incorporated on 14 November 2016 in the United Kingdom. The Company has its registered office at 12 St James's Place, London, SW1A 1NX, United Kingdom.

The consolidated financial statements represent the results of the Company and its subsidiaries (together referred to as 'S4Capital Group' or the 'Group'). An overview of the subsidiaries is included in Note 14.

S4Capital Group is a new age/new era digital advertising and marketing services company.

2. Basis of preparation

A. Statement of compliance

The financial statements have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority. They have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs), with IFRS Interpretations Committee (IFRS IC) interpretations and in accordance with the Companies Act 2006.

The consolidated financial statements were authorised for issue by the Board of Directors on 7 May 2020.

B. Functional and presentation currency

The consolidated financial statements are presented in pounds sterling (£), the Company's functional currency. All financial information in pounds sterling has been rounded to the nearest thousand unless otherwise indicated.

C. Basis of measurement

The consolidated financial statements are prepared on a going concern basis. The consolidated financial statements are prepared on the historical cost basis, unless otherwise indicated.

D. Critical accounting estimates and judgment

In preparing these consolidated financial statements, S4Capital Group makes certain estimates and judgments. Estimates and judgments are continually evaluated based on historical experience and other factors, including the expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The judgments and estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Goodwill and other intangible assets acquired in a business combination

As set in the accounting policies, goodwill and other intangible assets acquired in a business combination are capitalised. In financial year 2019, the following business were acquired:

- Firewood;
- other Content Practice (IMAgency, assets from Caramel Pictures and assets from BizTech Australia and Canada); and
- Programmatic Practice (ProgMedia, Conversion Works, MightyHive Korea).

The Group exercises judgment in identifying the acquired intangibles on business combinations. Such assets include brands, customer relationships, domains and capitalised development expenditure. The judgments made are based on recognised valuation techniques such as the 'excess earnings method' for customer relationships, 'relief from royalty' method for brands, recognised industry comparative data and the Group's industry experience and specialist knowledge. A detailed description of these acquisitions is included in Note 4.

Uncertain tax positions

The Group is subject to tax in a number of jurisdictions. Judgment is required in determining the provision for sales and income taxes due to uncertainty of the amount of tax that may be payable, and in respect of determining the level of the future taxable profits of the Group that support the recognition and recoverability of deferred tax assets. Provisions in relation to uncertain tax positions are established on an individual rather than portfolio basis, considering whether, in each circumstance, the Group considers it more likely than not that the uncertainty will crystallise. Further details are included in Note 13.

Notes to the consolidated financial statements continued

E. Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Further information about the assumptions made in measuring fair values is included in the applicable Notes.

F. New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for the annual reporting period commencing 1 January 2019:

- IFRS 16 Leases
- Annual improvements to IFRS standards 2015–2017 cycle
- IFRIC 23 Uncertainty over income tax treatments

The Group had to change its accounting policies as a result of adopting IFRS 16. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019 as disclosed below. The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

IFRS 16 Leases

On 1 January 2019, the Group adopted IFRS 16 Leases. The standard requires recognition of right-of-use assets and lease liabilities, representing the obligation to make lease payments for almost all lease contracts. Depreciation of the right-of-use assets and recognition of interest on the lease liabilities replaced amounts recognised as rent expense under IAS 17 in the consolidated income statement.

The Group adopted IFRS 16 on a modified retrospective basis. Accordingly, prior year financial information has not been restated and will continue to be reported under IAS 17 Leases. The lease liability has initially been measured at present value of the remaining lease payments, and the right-of-use asset has been set equal to the lease liability adjusted for prepayments and accruals.

The implementation of IFRS 16 resulted in:

- recognition of right-of-use assets and lease liabilities in relation to property leases and other leases recognised in the consolidated balance sheet as of 1 January 2019 of £14.0 million and £13.8 million, respectively;
- a reduction in trade and other receivables (prepayments) of £0.2 million, which is now recognised in the right-of-use assets and lease liabilities; and
- a decrease of net result for the 2019 reporting period of £0.4 million, consisting of a decrease of lease expenses recognised under operating expenses of £8.1 million, an increase of depreciation recognised under net operating expenses of £7.7 million and an increase in interest expenses recognised under finance expenses of £0.8 million.

When applying IFRS 16, the Group has applied the following practical expedients, on transition date:

- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the use of hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease;
- reliance on the previous identification of a lease (as provided by IAS 17) for all contracts that existed on the date of initial application; and
- exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application.

Further details are included in Note 19.

Annual improvements to IFRS Standards 2015-2017 cycle

The Group has applied the new standard and concluded it had no impact material on the Group's numbers.

IFRIC 23 Uncertainty over income tax treatments

The Group has applied the new standard and concluded it had no material impact on the Group's numbers.

G. New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

H. Prior period statements – Acquisition fair values

During the prior financial year, the Group acquired 100% of MightyHive Inc. The fair values of acquired net assets disclosed in the Group Annual Report and Accounts 2018 have been finalised during the period and the consolidated balance sheet as at 31 December 2018 have been restated accordingly, as required by IFRS 3. Refer to Note 11 Intangible assets for further details.

3. Significant accounting policies

A. Basis of consolidation

Business combinations

The Company accounts for business combinations using the acquisition method when control is transferred to the S4Capital Group. The consideration transferred in the acquisition is 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 the 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, to the extent that they exceed the settlement amounts, are generally recognised in the profit or loss.

Any deferred 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 Company. The Company 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.

The Company recognises non-controlling interests in an acquired entity at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. Non-controlling interests within equity and within profit for the period are presented separately.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Notes to the consolidated financial statements continued

B. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Board of Directors and executive management. There are three segments during the reporting period: First-Party Data (no activities during the reporting period), Content and Programmatic. More detailed information is included in Note 6.

C. Revenue recognition

S4Capital Group produces digital campaigns, films, creative content, platforms and ecommerce for home-grown and international brands and provides programmatic solutions for future thinking marketers and agencies. S4Capital Group has three principal operating segments which are First-Party Data (no activities during the reporting period), Content and Programmatic.

- The Content Practice consists of short-term, one to six month, projects with fixed pricing and projects with longer lasting characteristics with prices that are mostly based on actual time spent.
- The Programmatic Practice consists of full-service campaign management analytics, creative production and ad serving, platform and systems integration and transition and training and education. Revenue from this segment is generated primarily from marketing platform services, various consulting arrangements and pass-through media. For contracts from customers where the Company is acting as an agent, pass-through expenses are deducted from revenue and cost of sales.

Revenue is recognised when a performance obligation is satisfied in accordance with the terms of the contractual agreement. Typically, performance obligations are satisfied over time as services are rendered. Revenue recognised over time is based on the proportion of level of service performed.

S4Capital Group determines all the separate performance obligations within the customer's contract at contract inception. In general, S4Capital Group satisfies a performance obligation and recognises revenue over time, as the asset has no alternative use to the Group and the Group is entitled to payment for performance-to-date. The asset for each project is produced to a customer's specification and the asset can only be used by the customer.

For each performance obligation that is satisfied over time, revenue is recognised by measuring progress towards completion of that performance obligation. Revenue recognised over time is based on the proportion of the level of services performed. For most contracts, costs incurred are used as an objective input measure of performance. The primary input of substantially all work performed under these contracts is labour.

If profit on the project can be determined reliably, revenue is recognised in proportion to the services provided at reporting date. Otherwise, revenue is recognised based on the cost incurred.

Where the total project costs exceed the project revenue, the loss is recognised in cost of sales in the statement of profit or loss. A provision is recognised for such loss.

For projects which are sold on a time and material basis and meet the criteria of recognising revenue over time, the revenue is recognised as the service is performed at the rate contracted on a time and material basis.

Accrued income and deferred income arising on contracts is included in trade and other receivables as accrued income (contract assets) and in trade and other payables as deferred income (contract liabilities), as appropriate. No element of financing is deemed present as the sales are made with a general credit term of 30 days; some large multinational customers have a credit term of 45 days to 120 days.

Revenue is recognised when the revenue recognition criteria as disclosed above for each contract have been met.

Practical exemptions

S4Capital Group has applied the practical exemptions in IFRS 15:

- not to account for significant financing components where the time difference between receiving consideration and transferring control of goods (or services) to its customer is one year or less; and
- expense the incremental costs of obtaining a contract when the amortisation period of the asset otherwise recognised would have been one year or less.

Cost of sales

Cost of sales represents the direct and indirect expenses that are attributable to the services or product sold.

D. Foreign currency

The main currencies for S^{4}Capital Group are the US dollar (USD), euro (EUR) and pounds sterling (£).

Foreign currency transactions and balances

- Foreign currency transactions are translated into the functional currency using the average exchange rates in the month. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the reporting period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss.
- Share capital, share premium and brought forward earnings are translated using the exchange rates prevailing at the dates of the transactions.

Consolidation of foreign entities

On consolidation, results of the foreign entities are translated from the local currency to pounds sterling, the presentation currency of the S^{4}Capital Group, using average exchange rates during the period. All assets and liabilities are translated from the local functional currency to pounds sterling using the reporting period end exchange rates. The exchange differences arising from the translation of the net investment in foreign entities are recognised in other comprehensive income and accumulated in a separate component of equity. Exchange differences are recycled to profit or loss as a reclassification adjustment upon disposal of the foreign operation.

E. Employee benefits

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if S^{4}Capital Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based payment transactions

Share-based compensation expense for all share-based payment awards granted is based on estimated grant-date fair value. S^{4}Capital Group recognises these compensation costs, net of actual forfeitures, and recognises the compensation costs for only those shares expected to vest on a straight-line basis over the requisite service period of the award. The calculated fair value of option grants is estimated using the appropriate option pricing model. A detailed description of the share plans is included in Note 21.

Defined contribution plans

S^{4}Capital Group accounts for retirement benefit costs in accordance with IAS 19 Employee Benefits. For defined contribution plans, contributions are charged to the statement of profit or loss as payable in respect of the accounting period.

F. Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax

Current tax comprises of the expected tax payable or receivable on the taxable income or loss for the financial year and any adjustment to tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for temporary differences arising on:

- the initial recognition of goodwill;
- the initial recognition of assets or liabilities in a transaction which is not a business combination and that affects neither accounting nor taxable profit or loss; and
- investments in subsidiaries where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Notes to the consolidated financial statements continued

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves. Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

G. Intangible assets

Recognition and measurement

Goodwill

S4Capital Group uses the acquisition method of accounting for the acquisition of subsidiaries. The consideration transferred is measured at the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange. Costs directly attributable to the acquisition are expensed in the period. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Goodwill represents the excess of the cost of the acquisition over the Group's interest in the fair value of net identifiable assets and liabilities acquired. Goodwill is measured at cost less accumulated impairment losses. Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the profit or loss on the acquisition date.

Where an acquisition is made close to the year end, the standards permit provisional amounts to be used and subsequently remeasured up to 12 months from acquisition, as such goodwill is considered provisional.

Other intangible assets – arising on the acquisition of business combinations

Brands, customer relationships and order backlog arising on the acquisition of business combinations, are measured at cost less accumulated amortisation and accumulated impairment losses. The acquired brands are well-known brands which are registered, have a good track record and have finite useful lives. Customer relationships are measured at the time of the business combination and have finite useful lives. Order backlog has finite useful lives and represents the contracted but not yet fulfilled revenues at the time of the business combination.

Other intangible assets – development expenditure and purchased software

Expenditure on research activities is recognised in profit or loss as incurred. Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

Purchased software has finite useful lives and is measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Amortisation

Amortisation is charged to profit or loss to allocate the cost of intangible assets over their estimated useful economic lives, using the straight-line method. Goodwill is not amortised.

The estimated useful economic lives of intangible assets for current and comparative periods are as follows:

/ Brands	3 – 20 years
/ Customer relationships	10 – 16.5 years
/ Order backlog	3 – 6 months
/ Others	3 – 5 years

Amortisation methods and useful lives are reviewed at each reporting date and adjusted if appropriate.

H. Leases

From 1 January 2019, each lease is recognised as a right-of-use asset with a corresponding liability at the date at which the lease asset is available for use by the Group. Interest expense is charged to the profit or loss over the lease period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Depreciation is recognised in operating expenses costs and interest expense is recognised under finance expenses in the profit or loss.

Assets and liabilities arising from a lease are initially measured on a present value basis. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. The weighted average incremental borrowing rate used was 3.7%.

Right-of-use assets are measured at cost compromising the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs, and restoration costs. The lease term includes periods covered by an option to extend if the Group is reasonably certain to exercise that option. Right-of-use assets are reviewed for indicators of impairment.

The Group has elected to use the exemption not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low value assets. The payments associated with these leases are recognised as operating expenses over the lease term.

Before 1 January 2019 the rentals paid where charged to the profit or loss on a straight-line basis over the period of the lease under the operating expenses.

I. Property, plant and equipment

Recognition and measurement

Property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

Depreciation

Depreciation is charged to profit or loss to allocate the cost of items of property, plant and equipment less their estimated residual values over their estimated useful lives, using the straight-line method. The estimated useful lives for current and comparative periods range as follows:

/ Right-of-use assets	See H. Leases
/ Leasehold improvements	5 years
/ Furnitures and fixtures	5 years
/ Hard- and software	3 – 5 years
/ Other assets	3 – 5 years

Depreciation method, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

J. Impairment of non-financial assets

Impairment of goodwill

Goodwill is allocated to the appropriate cash generating units (CGUs). Goodwill is not amortised but is tested annually for impairment or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is determined based on value-in-use calculations. The use of this method requires the estimation of future cash flows and the determination of a discount rate in order to calculate the present value of the cash flows.

Any impairment in carrying value is being charged to the consolidated statement of profit or loss. An impairment loss recognised for goodwill cannot be reversed.

Impairment of other non-financial assets

Other non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Any impairment in carrying value is being charged to the consolidated statement of profit or loss. Other non-financial assets that have been impaired are reviewed for possible reversal of the impairment loss at the end of each reporting period.

Notes to the consolidated financial statements continued

K. Financial instruments

Financial instruments include non-current other receivables, trade and other receivables, cash and cash equivalents, loans and borrowings, other non-current liabilities, trade payables and other payables.

Financial assets and financial liabilities – recognition and derecognition

S4Capital Group initially recognises financial assets and financial liabilities issued on the date when they are originated.

S4Capital Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by S4Capital Group is recognised as a separate asset or liability.

S4Capital Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and financial liabilities are offset, and the net amount presented in the statement of financial position if, and only if, S4Capital Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Financial assets – measurement

Financial assets at amortised cost

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, less loss allowances.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less loss allowance. See Notes 5 and 16 for further information about the Group's accounting for trade receivables and for a description of the Group's impairment policies.

Financial liabilities – measurement

Financial liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

Trade payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 to 120 days of recognition. Trade payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

L. Impairment of financial assets

Loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period. Financial assets are measured through a loss allowance at an amount equal to:

- the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date); or
- full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument).

A loss allowance for full lifetime expected credit losses is used for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition, as well as to trade receivables.

For all other financial instruments, expected credit losses are measured at an amount equal to the 12-month expected credit losses.

The loss allowance for financial instruments is measured at an amount equal to lifetime expected losses if the credit risk of a financial instrument has increased significantly since initial recognition, unless the credit risk of the financial instrument is low at the reporting date in which case it can be assumed that credit risk on the financial instrument has not increased significantly since initial recognition. The credit risk is considered low if there is a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. It is presumed the credit risk has increased significantly when contractual payments are more than 30 days past due. If a significant increase in credit risk that had taken place since initial recognition and has reversed by a subsequent reporting period (cumulatively credit risk is not significantly higher than at initial recognition) then the expected credit losses on the financial instrument revert to being measured based on an amount equal to the 12-month expected credit losses.

The Group applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

M. Equity

Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Group's Ordinary Share capital is classified as equity instruments. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

N. Cash flow statement

The cash flow statement is composed using the indirect method. The cash and cash equivalents in the cash flow statement comprise cash and cash equivalents except for deposits with a maturity of longer than three months and minus current bank loans drawn under overdraft facilities. Cash flows denominated in foreign currencies are converted based on average exchange rates. Exchange rate differences affecting cash items are shown separately in the cash flow statement.

Income taxes paid and received are included in cash flows from operating activities. Dividends received are included in cash flows from investing activities and interest paid and dividends paid are included in cash flows from financing activities. Purchase consideration paid for acquired subsidiaries are included in cash flows from investing activities, insofar as the acquisition is settled in cash. Principal elements of lease payments are included in cash flows from financing activities. Cash and cash equivalents of the acquired subsidiaries is deducted from the purchase consideration. Transactions not resulting in inflow or outflow of cash are not included in the cash flow statement.

Notes to the consolidated financial statements continued

4. Acquisitions

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and provisional goodwill of the subsidiaries acquired in financial year 2019 are as follows:

	Firewood £000	Other Content Practice £000	Programmatic Practice £000	**Total Fair value £000**
Intangible assets – Customer relationships	56,136	4,966	5,129	**66,231**
Intangible assets – Brand names	1,695	387	–	**2,082**
Intangible assets – Order backlog	901	197	–	**1,098**
Intangible assets – Software	–	2,590	–	**2,590**
Property, plant and equipment	5,722	475	297	**6,494**
Financial fixed assets	426	49	73	**548**
Cash and cash equivalents	817	627	3,489	**4,933**
Trade and other receivables	8,878	777	1,238	**10,893**
Trade and other payables	(3,362)	(1,150)	(1,998)	**(6,510)**
Current taxation	17	(282)	(662)	**(927)**
Lease liabilities	(5,533)	–	(179)	**(5,712)**
Other non-current liabilities	(2,065)	(46)	–	**(2,111)**
Deferred taxation	(15,857)	(1,743)	(1,282)	**(18,882)**
Net assets	47,775	6,847	6,105	**60,727**
Goodwill	72,764	22,654	11,193	**106,610**
Total purchase consideration	120,539	29,501	17,297	**167,337**
Payment in kind (common stock)	43,551	3,092	3,470	**50,113**
Cash	42,690	12,898	5,115	**60,703**
Contingent consideration	30,429	13,394	8,580	**52,403**
Holdback obligations	3,870	117	132	**4,118**
Total purchase consideration	120,540	29,501	17,297	**167,337**
Purchase consideration – cash	42,690	12,898	5,115	**60,703**
Cash and cash equivalents	817	627	3,489	**4,933**
Cash outflow on acquisition (net of cash acquired)	41,873	12,271	1,626	**55,770**

In 2019, S4Capital Group combined with the following businesses:

Firewood

The Group acquired 100% of the shares of Firewood Marketing Inc (including subsidiaries) as of 25 October 2019. Firewood is a Silicon Valley-based independent digital agency and is included in the Group's Content Practice. The purchase consideration of the Firewood represents 72% of the total purchase consideration in financial year 2019. The initial valuation of the Firewood acquisition of allocating between goodwill and other intangibles requires judgment for the identification and classification of intangible assets. The identified intangible assets, customer relationships, brands and order backlog were valued based on the relief from royalty method (brands) and the multi-period excess earnings method (customer relationships and order backlog). The cash flows used in the purchase price allocation (PPA) contain estimates, amongst other annual growth rate in revenue in the range of 26% to 29% for the CGU and a projected gradually rising EBITDA margin (reflecting a longer term target EBITDA margin) in the explicit forecast term (financial year 2019 through financial year 2020). Beyond the explicit two year forecast period, a three year transition period bridging the revenue growth to the assessed long term growth rate has been used. The long term growth rate used is 2.0% per year. The discount rates used (WACC) vary from 13.6% to 14.6%. The identified intangible assets constitute approximately 49% of the total purchase consideration, which is considered reasonable given the nature of the business.

An increase (decrease) in financial year 2019 in the PPA valuations of the identified intangible assets of 10% would lead to an increase (decrease) of intangible assets of £7.2 million and a corresponding decrease (increase) of goodwill.

Other Content Practice

Other combinations in 2019 of the Group's Content Practice are:

- assets from Caramel Pictures, as of 25 April 2019. Caramel Pictures is an Amsterdam-based robotic food and drink studio;
- 100% of the shares of IMAgency Holding BV (including subsidiaries), as of 9 August 2019. IMA is an Amsterdam and New York-based influencer marketing agency; and
- assets from BizTech Australia and 100% of the shares in Biztech Enterprise Solutions Canada Ltd, as of 20 December 2019. BizTech is an Adobe and digital transformation specialist. The initial accounting for this business combination is incomplete by the end of the reporting period (see Note 11 Intangibles).

Programmatic Practice

Combinations in 2019 of the Group's Programmatic Practice are:

- 100% of the shares of ProgMedia Consultoria Ltda and Progmedia Argentina SAS, as of 19 April 2019. ProgMedia is a South America-based data and programmatic consultancy;
- 100% of the shares in Conversion Works Ltd, as of 22 October 2019. Conversion Works is a UK-based data and analytics consultancy; and
- 100% of the shares in MightyHive Korea Co., Ltd (previously KR Co., Ltd), as of 25 October 2019. The company is a South Korea-based data and analytics consultancy.

The goodwill represents the potential growth opportunities and synergy effects from the acquisition. The goodwill is not deductible for tax purposes. Trade receivables net of expected credit losses acquired are considered to be fair value and are expected to be collectable in full.

The contingent considerations are contingent on the acquired companies achieving their 2019 results and, in some cases their 2020 results, as determined upon acquiring the subsidiary. The contingent considerations are included for the amount of the payment expected.

Acquisition costs of £1.8 million arose as a result of the Firewood transaction, £1.6 million arose as a result of the other Content Practice transactions and £1.3 million arose as a result of the Programmatic Practice transactions. The total acquisition costs of £4.7 million have been recognised under acquisition and set-up related expenses in the statement of profit or loss.

Since the acquisition date, the acquired companies contributed £17.8 million (Firewood £10.9 million, other Content Practice £4.7 million and Programmatic Practice £2.2 million) to the Group's revenue and £2.7 million (Firewood £1.6 million, other Content Practice £0.5 million and Programmatic Practice £0.6 million) into the Group's profit for the period ended 31 December 2019.

If the acquisitions had occurred on 1 January 2019, the Group's revenue would have been £271.0 million and the Group's loss for the period would have been £5.7 million.

5. Financial instruments – fair values and risk assessment

The Board of Directors of S^{4}Capital plc has overall responsibility for the determination of the Group's risk management objectives and policies. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. S^{4}Capital Group reports in pounds sterling. All funding requirements and financial risks are managed based on policies and procedures adopted by the Board. S^{4}Capital Group does not issue or use financial instruments of a speculative nature.

S^{4}Capital Group is exposed to the following financial risks:

- Market risk
- Credit risk
- Liquidity risk

Notes to the consolidated financial statements continued

In common with all other businesses, S4Capital Group is exposed to risks that arise from its use of financial instruments. The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- Trade and other receivables
- Cash and cash equivalents and restricted cash
- Trade and other payables
- Bank loans

To the extent financial instruments are not carried at fair value in the consolidated balance sheet, the carrying amount approximates to fair value as of the financial year end due to the short-term nature.

Financial instruments by category

Financial assets	31 Dec 2019 £000	31 Dec 2018 £000
Cash and cash equivalents	66,106	25,005
Trade receivables	119,632	75,884
Accrued income	3,790	95
Other receivables	3,589	6,062
Total	193,117	107,046

Financial liabilities	31 Dec 2019 £000	31 Dec 2018 £000
Trade payables	88,986	60,704
Contingent considerations and holdbacks	54,871	4,852
Loans and borrowings	42,374	45,638
Accruals	14,447	11,631
Lease liabilities	26,762	–
Total	227,440	122,825

The management of risk is a fundamental concern of S4Capital Group's management. This note summarises the key risks to the Group and the policies and procedures put in place by management to manage them.

A. Market risk

Market risk arises from S4Capital Group's use of interest bearing and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk) or foreign exchange rates (currency risk).

Interest rate risk

S4Capital Group is exposed to cash flow interest rate risk from bank borrowings at variable rates. S4Capital Group's bank loans and other borrowings are disclosed in Note 18. S4Capital Group manages the interest rate risk centrally.

The following table demonstrates the sensitivity to a 1% change (lower/higher) to the interest rates of the loans and borrowings as of period end to the loss before tax (increase/decrease) and net assets (increase/decrease) for the period:

	2019 £000	2018 £000
Bank loans	42,374	45,638
+/- 1% impact	423	266

The contractual repricing or maturity dates, whichever dates are earlier, and effective interest rates of borrowings are disclosed in Note 18. Loans and borrowings.

Foreign exchange risk

Foreign exchange risk is the risk that movements in exchange rates affect the profitability of the business. S4Capital Group manages this risk through natural hedging. The effect of fluctuations in exchange rates on the USD, EUR and other currencies denominated trade receivables and payables is partially offset.

The S4Capital Group's gross exposure to foreign exchange risk is as follows:

At 31 December 2019	GBP £000	USD £000	EUR £000	Other currencies £000	Total £000
Trade and other receivables	8,545	84,784	12,590	23,165	129,084
Cash and cash equivalents	24,401	28,008	4,590	9,107	66,106
Trade and other payables	(9,842)	(65,197)	(15,054)	(29,968)	(120,061)
Loans and borrowings	–	(21,944)	(20,430)	–	(42,374)
Financial assets/(liabilities)	23,104	25,651	(18,304)	2,304	32,755
+/- 10% impact	–	2,565	(1,830)	230	965

At 31 December 2018	USD £000	EUR £000	Other currencies £000	Total £000
Trade and other receivables	61,847	7,218	9,201	78,266
Cash and cash equivalents	13,473	1,823	2,315	17,611
Trade and other payables	(57,619)	(8,186)	(9,069)	(74,874)
Loans and borrowings	(22,363)	(23,275)	–	(45,638)
Financial assets/(liabilities)	(4,662)	(22,420)	2,447	(24,635)
+/- 10% impact	(466)	(2,242)	245	(2,463)

The impact of 10% movement in the foreign exchange rates will result in an increase/decrease of loss before tax and financial assets/(liabilities) by £0.9 million at 31 December 2019 (31 December 2018 £2.4 million).

B. Credit risk

Credit risk is the risk of financial loss to S4Capital Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. S4Capital Group is mainly exposed to credit risk from credit sales. The Group's net trade receivables for the reported periods are disclosed in the financial assets table above. S4Capital Group attempts to mitigate credit risk by assessing the credit rating of new customers prior to entering into contracts and by entering contracts with customers with agreed credit terms. In order to minimise this credit risk, S4Capital Group endeavours only to deal with companies which are demonstrably creditworthy and this, together with the aggregate financial exposure, is continuously monitored. The maximum exposure to credit risk is the value of the outstanding amount. S4Capital Group evaluates the collectability of its accounts receivable and provides an allowance for expected credit losses based upon the ageing of receivables as shown in Note 16. Trade and other receivables.

Other receivables are considered to be low risk. The management do not consider that there is any concentration of risk within other receivables. The non-current other receivables consist mainly of non-current rent deposits. The loss allowance for other receivables is based on the three-stage expected credit loss model. No other receivables have had material impairment.

Notes to the consolidated financial statements continued

Credit risk on cash and cash equivalents is considered to be small as the counterparties are all substantial banks with high credit ratings. As per the end of the reporting period, credit ratings are summarised in the table below:

	31 Dec 2019 £000	31 Dec 2018 £000
Aa 1	6,921	10,044
Aa 2	15,580	5,480
Aa 3	29,775	8,381
A 1	5,801	54
A 2	1,617	–
A 3	5,187	455
Ba 1	–	108
Ba 2	180	–
No credit rating	1,045	483
Total cash and cash equivalents	**66,106**	25,005

The maximum exposure is the amount of the deposit. To date, S4Capital Group has not experienced any losses on its cash and cash equivalent deposits.

C. Liquidity risk

Liquidity risk arises from the Group's management of working capital. It is the risk that S4Capital Group will encounter difficulty in meeting its financial obligations as they fall due. The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. The table below analyses the Group's financial liabilities by contractual maturities and all amounts disclosed in the table are the undiscounted contractual cash flows:

At 31 December 2019	Within 1 year £000	1-2 years £000	2-5 years £000	More than 5 years £000
Trade and other payables and accruals	103,433	2,007	–	–
Lease liabilities	7,975	5,171	7,374	6,242
Contingent considerations	51,202	3,669	–	–
Loans and borrowings	–	–	43,215	–
Total	**162,610**	**10,847**	**50,589**	**6.242**

At 31 December 2018	Within 1 year £000	1-2 years £000	2-5 years £000	More than 5 years £000
Trade and other payables and accruals	72,337	2,007	–	–
Loans and borrowings	–	–	45,638	–
Total	72,337	2,007	45,638	–

D. Capital management

As per the end of the reporting period, the Group's net cash position (previous year net debt) is made up as follows:

	31 Dec 2019 £000	31 Dec 2018 £000
Loans and borrowings	(42,374)	(45,638)
Cash and cash equivalents	66,106	25,005
Total	**23,732**	(20,633)

Changes in loans and borrowings, during the reporting period, arose due to the drawdowns and repayments of the rolling credit facility (RCF). See Note 18. Loans and borrowings for more details.

The Group's capital as at the end of the reporting period is disclosed on page 86.

The Group's objectives when maintaining capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareowners and benefits for other stakeholders; and
- to provide an adequate return to shareowners by pricing products and services commensurately with the level of risk.

The capital structure of S4Capital Group consists of shareowners' equity as set out in the consolidated statement of changes in equity. All working capital requirements are financed from existing cash resources and borrowings.

6. Segment information

A. Revenue from operations

	2019 £000	2018 £000
Services	215,132	54,845
Total	**215,132**	54,845

All revenue is recognised over time.

B. Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker has been identified as the Directors and executive management of S4Capital Group.

In the first half of 2019, S4Capital decided to change the composition of its reportable segments into First-Party Data, Content and Programmatic. The segment disclosure which was included in the Annual Report and Accounts 2018 was mainly based on the MediaMonks Group reportable segment structure. During 2019 the MediaMonks Group has started to change its internal structure, switching to a more client centric approach where the pillar structure was more a production centric approach.

During the period, S4Capital Group has been active in two segments.

- Content: creative content, campaigns and assets at a global scale for paid, social and earned media – from digital platforms and apps to brand activations that aim to convert consumers at every possible touch point.
- Programmatic: this technology and services practice encompasses full-service campaign management analytics, creative production and ad serving, platform and systems integration and transition and training and education.

The customers are primarily businesses across various industries.

The Directors and executive management monitor the results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment prior to charges for tax, depreciation and amortisation.

During the period, S4Capital Group has not been active in the First-Party Data Practice. Operating segment information under the primary reporting format is disclosed below:

Operating segment information under the primary reporting format is disclosed below:

2019	First-Party Data £000	Content £000	Programmatic £000	Total £000
Gross profit	–	113,365	57,953	171,318
Segment profit	–	25,570	13,654	39,224
Overhead cost				(5,817)
Adjusted non-recurring and acquisition related expenses				(19,983)
Depreciation[1] and amortisation				(17,259)
Finance expenses				(5,360)
Loss before income tax				(9,195)

Note:

1. Excluding £7.7 million depreciation on right-of-use assets.

Notes to the consolidated financial statements continued

May to December 2018	First-Party Data £000	Content £000	Programmatic £000	Total £000
Gross profit	–	36,248	916	37,164
Segment profit	–	5,890	172	6,062
Overhead cost				(1,355)
Adjusted non-recurring and acquisition related expenses				(5,005)
Depreciation and amortisation				(8,172)
Finance expenses				(651)
Loss before income tax				(9,121)

Key management of S4Capital Group uses gross profit rather than revenue to steer the Company due to the fluctuating amounts of third-party costs and/or pass-through expenses, which form part of revenue. The net revenue amounted to £215.1 million: 0% from First-Party Data, 73% from Content and 27% from Programmatic. In 2018 the revenue amounted to £54.8 million: 0% from First-Party Data, 99% from Content and 1% from Programmatic.

Assets and liabilities are not disclosed by segment, as it is not practical to provide this information.

C. Geographic segment – secondary basis

An analysis of external revenue by geographical market is given below:

	2019 £000	2018 £000
The Americas	138,022	30,294
Europe & Middle East	59,530	20,818
Asia Pacific	17,580	3,733
Total	215,132	54,845

7. Operating expenses

Personnel expenses	2019 £000	2018 £000
Wages and salaries	78,649	20,132
Social security costs	12,566	2,965
Defined contribution pension costs	2,297	424
Share-based compensation	7,177	–
Other personnel costs	10,883	1,632
Total	111,572	25,153

The key management personnel comprise the Directors of the Group. Details of compensation for key management personnel are disclosed on pages 64 to 66.

Average number of employees	2019	2018
The Americas	951	211
Europe & Middle East	737	506
Asia Pacific	143	19
Total	1,831	736

Other operating expenses	2019 £000	2018 £000
Operating lease costs	2,858	2,193
Sales and marketing costs	3,281	688
Travel and accommodation costs	6,540	1,088
General and administrative costs	13,124	3,335
Total	**25,803**	7,304

Impairment losses on trade receivables during the reporting period, amounting to £0.6 million (2018 £0.1 million) are included in general and administrative costs. Subsequent recoveries of amounts previously written off are credited against the same line item. Operating lease costs mainly relate to short-term lease costs for land and buildings subject to practical expedients under IFRS 16.

Audit fees included in general and administrative costs are as follows:

Audit fees	2019 £000	2018 £000
Group audit fees PricewaterhouseCoopers	444	220
Subsidiaries audit fees PricewaterhouseCoopers	550	223
Subsidiaries audit fees Moss Adams	–	50
Total	**994**	493

PricewaterhouseCoopers has not provided any non-audit related services to the Group during the year.

Acquisition and set-up related expenses	2019 £000	2018 £000
Advisory, legal, due diligence and related costs	5,653	5,005
Acquisition-related bonuses	7,153	–
Total	**12,806**	5,005

Depreciation and amortisation	2019 £000	2018 £000
Depreciation of property, plant and equipment and right-of-use assets	9,972	648
Amortisation of intangible assets	15,000	7,524
Total	**24,972**	8,172

8. Finance income and expenses

Finance income	2019 £000	2018 £000
Interest income	20	324
Total	**20**	324

Finance expenses	2019 £000	2018 £000
Interest on lease liabilities	(763)	–
Interest on bank loans and overdrafts	(2,199)	(773)
Other financial income and expenses	(2,418)	(202)
Total	**(5,380)**	(975)

Notes to the consolidated financial statements continued

9. Income tax

The corporate income tax charge comprises the following:

	2019 £000	2018 £000
Current tax for the year	(4,022)	(568)
Adjustments for current tax of prior years	(36)	(63)
Total current tax	(4,058)	(631)
Decrease in deferred tax liabilities	3,213	1,642
Income tax (expense)/credit in profit or loss	(845)	1,011

	2019 £000	2018 £000
Loss before income taxes	(9,195)	(9,121)
Tax credit at the UK rate of 19%	1,747	1,733
Tax effect of amounts which are non-deductible (taxable)	(2,074)	(959)
Differences in overseas tax rates	(554)	174
Adjustment for current taxes of prior years	36	63
Income tax (expense)/credit in profit or loss	(845)	1,011

The applicable tax rate is based on the proportion of the contribution to the result by the Group entities and the tax rate applicable in the respective countries. The applicable tax rate in the respective countries ranges from 17% to 35%. The effective tax rate used to calculate the actual tax charge for the period deviates from the applicable tax rate mainly because of non-deductible tax amortisation, accelerated capital allowances over depreciations on plant, property and equipment and differences in overseas tax rates.

10. Earnings per share

	2019	2018
Loss attributable to shareowners of the Company (£000)	(10,040)	(8,110)
Weighted average number of Ordinary Shares	368,067,622	247,776,256
Basic loss per share	(2.7)	(3.3)
Diluted loss per share	(2.7)	(3.3)

Earnings per share is calculated by dividing the net result attributable to the shareowners of the S^4Capital Group by the weighted average number of Ordinary Shares in issue during the period.

11. Intangible assets

	Goodwill £000	Customer relationships £000	Brands £000	Order backlog £000	Other £000	Total £000
Cost	–	–	–	–	–	–
Accumulated amortisation	–	–	–	–	–	–
Net book value at 22 May 2018	–	–	–	–	–	–
Acquired through business combinations	279,882	100,665	8,493	4,360	51	393,451
Amortisation charge for the year	–	(3,123)	(212)	(4,179)	(10)	(7,524)
Foreign exchange differences	807	457	84	(1)	1	1,348
Total transactions during the year	**280,689**	**97,999**	**8,365**	**180**	**42**	**387,275**
Cost	280,689	101,138	8,578	4,381	51	394,837
Accumulated amortisation	–	(3,139)	(213)	(4,201)	(9)	(7,562)
Net book value as previously reported	**280,689**	**97,999**	**8,365**	**180**	**42**	**387,275**
Restatement	(42,452)	50,086	5,332	–	1,895	14,861
Net book value at 31 December 2018	**238,237**	**148,085**	**13,697**	**180**	**1,937**	**402,136**
Acquired through business combinations	106,610	66,231	2,082	1,098	2,590	178,611
Additions	–	–	–	–	1,578	1,578
Amortisation charge for the year	–	(12,017)	(1,117)	(1,212)	(654)	(15,000)
Foreign exchange differences	(16,011)	(10,191)	(681)	(66)	(247)	(27,196)
Total transactions during the year	**90,599**	**44,023**	**284**	**(180)**	**3,267**	**137,993**
Cost	328,836	206,706	15,276	5,464	6,364	562,646
Accumulated amortisation	–	(14,598)	(1,295)	(5,464)	(1,160)	(22,517)
Net book value at 31 December 2019	**328,836**	**192,108**	**13,981**	**–**	**5,204**	**540,129**

Restatement - MightyHive Inc.

As stated on page 88 of the Group's Annual Report and Accounts 2018, the initial accounting for the business combination of MightyHive Inc, acquired as of 24 December 2018, was incomplete by the end of the reporting period ending 31 December 2018. At the end of the reporting period, the identifiable intangibles acquired were not identified, were consequently not measured and were therefore not deducted from goodwill as per 31 December 2018.

Notes to the consolidated financial statements continued

In 2019, S4Capital Group has obtained the information necessary to identify and measure the identifiable intangible assets for the business combination of MightyHive Inc. and has adjusted its intangible assets as of 31 December 2018, as required by IFRS 3, as follows:

	31 Dec 2018 £000	Adjustment £000	31 Dec 2018 restated £000
Goodwill	111,644	(42,452)	69,192
Intangible assets – Customer relationships	–	50,086	50,086
Intangible assets – Brand name	–	5,332	5,332
Intangible assets – Software	–	1,895	1,895
Deferred tax liabilities	–	(14,860)	(14,860)
Total	**111,644**	**–**	**111,644**

Goodwill

Goodwill represents the excess of consideration over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

Goodwill – initial accounting

The initial accounting for the business combination of Biztech Group is incomplete by the end of the reporting period. As of 31 December 2019, the identifiable intangibles acquired are not yet identified and consequently not yet measured and are therefore not deducted from goodwill. During the measurement period in 2020, S4Capital Group shall obtain the information necessary to identify and measure the identifiable intangible assets and retrospectively adjust the provisional amounts recognised at the acquisition date (see Note 4. Acquisitions).

Goodwill – impairment testing

Goodwill acquired through business combinations is allocated to CGUs for impairment testing. The goodwill balance is allocated to the following CGUs:

	31 Dec 2019 £000	31 Dec 2018 restated £000
First-Party Data	–	–
MediaMonks	160,487	169,045
Firewood	67,914	–
Other	22,060	–
Content	250,461	169,045
MightyHive	67,271	69,192
Other	11,104	–
Programmatic	78,375	69,192
Total	328,836	238,237

The recoverable amount for each CGU is determined using a value-in-use calculation. This calculation uses forecasted operating profit adjusted for non-cash transactions to generate cash flow projections. The forecasts are prepared by management based on business plans for each CGU which reflect expectations, cash performance and historic trends.

An underlying revenue growth rate of 28% to 35% per annum in years one to three has accordingly been used for those years. Beyond the explicit three-year forecast period, a two-year transition period, bridging the revenue growth to the assessed long term growth rate has been used. After year five a long-term growth rate has been applied in perpetuity. A terminal value has been applied using an underlying long term growth rate of 2.0%. The cash flows are discounted to present value using the Group's post-tax weighted average cost of capital ('WACC'), which was 8.7% to 8.8% for 2019. The discounting rates applied corresponds with a pre-tax WACC of 10.9% to 11.0%. The value-in-use exceeds the carrying amount of the CGUs by two to three times.

Sensitivity analysis have been carried out by adjusting the WACC and adjusting the long term growth rate. Based on the Group's impairment review, no indication of impairment has been identified. In carrying out its assessment of the goodwill, management believes there are no CGUs where reasonably possible changes to the underlying assumptions exist that would give rise to impairment.

During the year an amount of £106.6 million has been added to Goodwill for newly acquired businesses, refer to Note 4. Acquisitions for further details. No events or changes in circumstances indicate that the carrying amount of the acquisitions in 2019 may not be recoverable.

12. Property, plant and equipment

	Leasehold improvements £000	Furniture and fixtures £000	Hard-and software £000	Other assets £000	Total £000
Cost	–	–	–	–	–
Accumulated depreciation	–	–	–	–	–
Net book value at 22 May 2018	**–**	**–**	**–**	**–**	**–**
Acquired through business combinations	1,172	484	1,461	64	3,181
Additions	554	217	663	26	1,460
Depreciation	(163)	(89)	(362)	(34)	(648)
Foreign exchange differences	5	3	7	(1)	14
Total transactions during the year	**1,568**	**615**	**1,769**	**55**	**4,007**
Cost	1,732	704	2,133	90	4,659
Accumulated depreciation	(164)	(89)	(364)	(35)	(652)
Net book value at 31 December 2018	**1,568**	**615**	**1,769**	**55**	**4,007**
Acquired through business combinations	118	221	132	43	514
Additions	4,982	641	2,204	38	7,865
Depreciations	(815)	(245)	(1,186)	(14)	(2,260)
Disposals	(55)	(48)	(34)	(2)	(140)
Foreign exchange differences depreciation	(100)	(38)	(113)	(6)	(256)
Total transactions during the year	**4,130**	**531**	**1,003**	**59**	**5,723**
Cost	8,786	1,918	6,654	311	17,669
Accumulated depreciation	(3,088)	(772)	(3,882)	(197)	(7,939)
Net book value at 31 December 2019	**5,698**	**1,146**	**2,772**	**114**	**9,730**

S4Capital Group has pledged the assets of its material companies as security for a facility agreement. See Note 18. Loans and borrowings for further information.

13. Deferred tax assets and liabilities

Deferred tax assets	Property, plant and equipment £000	Carry forward losses £000	Total £000
At 22 May 2018	–	–	–
Acquired through business combinations	175	13	188
At 31 December 2018	175	13	188
Charge for the year	151	796	947
Foreign exchange differences	(6)	(43)	(49)
At 31 December 2019	**320**	**766**	**1,086**

Notes to the consolidated financial statements continued

Deferred tax liabilities	Intangible assets £000	Loans and borrowings £000	Property, plant and equipment £000	Total £000
At 22 May 2018	–	–	–	–
Acquired through business combinations	28,158	219	66	28,443
(Credited)/charged to profit or loss	(1,642)	–	–	(1,642)
Foreign exchange differences	129	–	–	129
As previously reported	**26,645**	**219**	**66**	**26,930**
Restatement	14,860	–	–	14,860
At 31 December 2018	**41,505**	**219**	**66**	**41,790**
Acquired through business combinations	18,882	–	–	18,882
(Credited)/charged to profit or loss	(4,108)	(52)	–	(4,160)
Foreign exchange differences	(1,678)	–	–	(1,678)
At 31 December 2019	**54,601**	**167**	**66**	**54,834**

14. Interest in other entities

Subsidiaries

The Group's subsidiaries at the end of the reporting period are set out below. Unless otherwise stated, they have share capital consisting solely of Ordinary Shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group.

Name of entity	Address of the registered office	Place of business/ Country of incorporation	Ownership interest	Principal activity
S4Capital 2 Ltd	3rd Floor, 44 Esplanade St Helier, Jersey	Jersey	100	Holding company
S4Capital Acquisitions 1 Ltd	3rd Floor, 44 Esplanade St Helier, Jersey	Jersey	100	Financing company
S4Capital Acquisitions 2 Ltd	3rd Floor, 44 Esplanade St Helier, Jersey	Jersey	100	Holding company
S4Capital Acquisitions 3 BV	Schapenkamp 2,1211 PA Hilversum	The Netherlands	100	Holding company
S4Capital Holdings Ltd	3rd Floor, 44 Esplanade St Helier, Jersey	Jersey	100	Holding company
S4Capital AUD Finance Ltd	3rd Floor, 44 Esplanade St Helier, Jersey	Jersey	100	Holding company
S4Capital INR Finance Ltd	3rd Floor, 44 Esplanade St Helier, Jersey	Jersey	100	Holding company
S4Capital US Holdings LLC	850 New Burton Road Dover Delaware 19904	United States of America	100	Holding company
MediaMonks Multimedia Holding BV	Schapenkamp 2, 1211 PA Hilversum	The Netherlands	100	Holding company
MediaMonks BV	Schapenkamp 2 ,1211 PA Hilversum	The Netherlands	100	Content Practice
MediaMonks Inc.	1220 N. Market Street, Suite 850 Wilmington, Country of New Castle, Delaware 19801	United States of America	100	Content Practice

Name of entity	Address of the registered office	Place of business/ Country of incorporation	Ownership interest	Principal activity
MediaMonks Film LLC	1220 N. Market Street, Suite 850 Wilmington, Country of New Castle, Delaware 19801	United States of America	100	Content Practice
MediaMonks London Ltd	42 St John St, London	United Kingdom	100	Content Practice
MediaMonks Singapore Pte Ltd	60 Paya Lebar Road #08-43 Paya Lebar Square, Singapore 409051	Singapore	100	Content Practice
Made.for.Digital Pte Ltd	198A Telok Qyer Street, Singapore 068637	Singapore	100	Content Practice
Made.for.Digital Inc.	874 Walker Road, Suite C, Dover, County of Kent, DE 19904	United States of America	100	Content Practice
MediaMonks Mexico City S. de R.L. de C.V.	Amsterdam 271 Int 203, Colonia Hipodromo, Delegación Cuauhtemoc, CP 06100 CDMX	Mexico	100	Content Practice
MediaMonks FZ-LLC	Dubai Media City Building 5, Office 205 PO Box No. 502921 Dubai, U.A.E.	United Arabic Emirates	100	Content Practice
MediaMonks Hong Kong Ltd	Unit 3203-4, No. 69 Jervois Street, Sheung Wan, Hong Kong	Hong Kong	100	Holding company
MediaMonks Information Technology (Shanghai) Co. Ltd.	9 Donghu Road, 18th floor, Xuhui District, 200031, Shanghai	P.R. China	100	Content Practice
MediaMonks Stockholm AB	Norrlandsgatan 18, 11143 Stockholm	Sweden	100	Content Practice
MediaMonks Buenos Aires SRL	Tucumán 1, 4th Floor, Buenos Aires	Argentina	100	Content Practice
MediaMonks Sao Paolo Serv. De Internet para Publicidade Ltda.	Rua Fidalga 162, Vila Madalena 05432-000, Sao Paulo	Brazil	100	Content Practice
MediaMonks Cape Town Pty Ltd	Wanderers Office Park, 52 Corlett Drive, Illovo Johannesburg	South Africa	100	Content Practice
M-Monks Digital Media Pte Ltd	Flat No. 402, Paras Pearl, No. 161, Greenglen Layout, Sarjapur Outer Ring Rd, Bellandur, Bangalore 0 560037, Karnataka	India	100	Content Practice
MediaMonks Seoul Yuhan Chaekim Hoesa	7021 Register 03, 7F, Tower 1, Gran Seoul, 33 Jong0ro, Jongnogu Seoul, Zip 03159	South Korea	100	Content Practice

Notes to the consolidated financial statements continued

Name of entity	Address of the registered office	Place of business/ Country of incorporation	Ownership interest	Principal activity
MediaMonks Tokyo GK	1-6-5 Jinnan, Shibuya Ku, Tokyo 150-0041	Japan	100	Content Practice
Superhero Cheesecake BV	Oostelijke Handelskade 637, 1019 BW Amsterdam	The Netherlands	100	Content Practice
Superhero Cheesecake Inc.	874 Walker Road, Suite C, Dover, County of Kent, DE 19904	United States of America	100	Content Practice
IMAgency Holding BV	Prinsengracht 581, 1016 HT, Amsterdam	The Netherlands	100	Holding company
IMAgency BV	Prinsengracht 581, 1016 HT, Amsterdam	The Netherlands	100	Content Practice
IMAgency International Holding BV	Prinsengracht 581, 1016 HT, Amsterdam	The Netherlands	100	Holding company
IMAgency USA Inc	874, Walker Road, Suite C, Dover County of Kent, DE 19904	United States of America	100	Content Practice
MightyHive Inc	850 New Burton Road, Suite 201, Dover, Delaware 19904	United States of America	100	Programmatic Practice
MightyHIve SG Ptd Ltd	71 Robinson Road, Level 14 #14-01, Singapore, 068895	Singapore	100	Programmatic Practice
MightyHive Ltd	The Pinacle, 160 Midsummer Boulevard, Milton Keynes MK9 1FF	United Kingdom	100	Programmatic Practice
MightyHive AU Pty Ltd	383 George Street, Level 2, Sydney, NSW 2000	Australia	100	Programmatic Practice
MightyHive Holdings ULC	394 Pacific Avenue, Floor 5, San Francisco, CA 94111	Canada	100	Programmatic Practice
MightyHive KK	1 Chome 11–1, Nishiikebukuro, Toshima-ku, Tokyo, 171–0021	Japan	100	Programmatic Practice
MightyHive Hong Kong Ltd	47/F Central Plaza, 18 Harbour Road Wanchhai Hong Kong	Hong Kong	100	Programmatic Practice
PT Mighty Hive Indonesia	Level 23 Revenue Tower, SCBD, Jl. Jendrai Sudirman No. 52–53, Jakarta 12190	Indonesia	100	Programmatic Practice
MightyHive India Pvt Ltd	Shop No.2, Ram Niwas CHS Ltd., Ranchod Das Road, Dahisar West, Mumbai 400068, Maharashtra	India	100	Programmatic Practice
MightyHive NZ Ltd	William Buck (NZ) Ltd, Level 4 Zurich House, 21 Queen Street, Auckland, 1010, NZ	New Zealand	100	Programmatic Practice

Name of entity	Address of the registered office	Place of business/ Country of incorporation	Ownership interest	Principal activity
MightyHive SRL	Milano (MI) Via Marco Polo 11 CAP 20124	Italy	100	Programmatic Practice
Progmedia Consultoria Ltda	Rua Gomes de Carvalho, nº 1.356, set 76C, Vila Olímpia, CEP 04547-005, São Paulo/SP	Brazil	100	Programmatic Practice
Progmedia Argentina SAS	Ortiz de Ocampo 3302 Building 1, 1st floorOffice No. '7', City of Buenos Aires	Argentina	100	Programmatic Practice
Conversion Works Ltd.	Unit 6 Windsor Business Centre, Vansittart Estate, Windsor, Berkshire, SL4 1SP	United Kingdom	100	Programmatic Practice
MediaMonks US Holdco Inc.	850 New Burton Road, Suite 201, City of Dover, Country of Kent, Delaware 19904	United States of America	100	Holding company
Firewood Marketing Inc.	850 New Burton Road Suite 201, City of Dover, Country of Kent, Delaware 19904	United States of America	100	Content Practice
Firewood Marketing Mexico S. de R.L. de C.V.	Via Gustavo Baz No. 2160, Edificio 3, 1er. Piso Conjunto Corporativo Tlalnepantla	Mexico	100	Content Practice
Firewood Marketing Ireland Ltd.	3rd Floor Ulysses House, Foley Street, Dublin 1	Ireland	100	Content Practice
MediaMonks Australia Holding Pty Ltd	c/- MinterEllison, Level 3, 25 National Circuit Forrest ACT 2603	Australia	100	Holding company
MediaMonks Australia Pty Ltd	209 Cecil St South Melbourne VIC 3205, Australia	Australia	100	Content Practice
MediaMonks Toronto Ltd.	Suite 1800 - 510 West Georgia Street Vancouver BC V6B 0M3	Canada	100	Content Practice
MightyHive AB	Norrlandgatan 18, 11143, Stockholm	Sweden	100	Programmatic Practice
MightyHive Korea Co., Ltd	2F, 166, Toegye-ro, Jung-gu, Seoul	Republic of Korea	100	Programmatic Practice
MightyHive Information Technology (Shanghai) Co., Limited	9 Donghu Road, 18th floor, Xuhui District, 200031, Shanghai P.R.	China	100	Programmatic Practice

S4Capital plc directly holds 100% ownership in S4Capital 2 Ltd.

S4Capital plc indirectly holds 100% ownership in the other entities.

15. Other receivables

The other receivables consist mainly of non-current rent deposits.

Notes to the consolidated financial statements continued

16. Trade and other receivables

	31 Dec 2019 £000	31 Dec 2018 £000
Trade receivables	119,632	75,884
Prepayments	2,073	518
Accrued income[1]	3,790	95
Other receivables	858	4,624
Total	126,353	81,121

Note:

1. The accrued income as at 31 December 2018 has been fully recognised in the results of 2019.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 36 months before the end of the period and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current- and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. On that basis, the loss allowance for trade receivables is determined as follows:

Trade receivables		Gross trade receivables £000	Impairment provision £000	Net trade receivables £000
Not passed due	0.20-0.25%	75,783	152	75,632
Past due 1 day to 30 days	0.40-0.50%	25,139	101	25,038
Past due 31 days to 60 days	0.60-1.00%	11,659	70	11,589
Past due 61 days to 90 days	0.80-2.00%	3,968	32	3,936
Past due more than 90 days	1.00-7.50%	3,481	44	3,437
Individual debtors in default	up to 100%	1,046	1,046	–
Balance as at the end of the period		121,077	1,445	119,632

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with S4Capital Group. The changes in the loss allowance for trade receivables is as follows:

	2019 £000	2018 £000
Balance as at the beginning of the period	1,234	–
Acquired through business combinations	125	1,031
Utilised during the period	(562)	–
Charge for the year	648	203
Balance as at the end of the period	1,445	1,234

Due to the short-term nature of the trade and other receivables, their carrying amount is considered to be the same as their fair value.

Information about the Group's exposure to credit risk, foreign currency risk and interest rate risk can be found in Note 5.

S4Capital Group has pledged the assets of its material companies as security for a facility agreement. See Note 18. Loans and borrowings for further information.

17. Cash and cash equivalents

The cash and cash equivalents at 31 December 2019 included escrow accounts of £5.0 million. Furthermore, it included restricted cash of £0.7 million which is a guarantee for rent obligations.

18. Loans and borrowings

	Bank loans £000	Transaction costs £000	Total £000
Balance as at 22 May 2018	–	–	–
Additions	45,999	(964)	45,035
Charged to profit-or-loss	–	97	97
Exchange rate differences	(483)	(11)	(494)
Total transactions during the year	**46,516**	**(878)**	**45,638**
Principal amount	46,516	(975)	45,541
Accumulated repayments	–	–	–
Accumulated charges to profit or loss	–	97	97
Balance as at 31 December 2018	**46,516**	**(878)**	**45,638**
Additions	22,418	(205)	22,213
Repayments	(24,119)	–	(24,119)
Charged to profit-or-loss	–	208	208
Exchange rate differences	(1,600)	34	(1,566)
Total transactions during the year	**(3,301)**	**37**	**(3,264)**
Principal amount	67,334	(1,134)	66,201
Accumulated repayments	(24,119)	–	(24,119)
Accumulated charges to profit-or-loss	–	293	293
Balance as at the end of the period	**43,215**	**(841)**	**42,374**

As of 6 July 2018, S4Capital Group signed a facility agreement, consisting of:

- a EUR 25.0 million term loan facilities;
- a USD 28.9 million term loan facility; and
- a multicurrency Revolving Credit Facility (RCF) of EUR 35 million, of which at the end of the reporting period nil (2018 EUR 2) million is drawn.

The carried interest of the facilities is the aggregate of the variable interest rate (LIBOR or, in relation to any loan in euro, EURIBOR) and a margin based on leverage (between 1.25% and 3.00%). During the reporting period, the average carried interest rate of the outstanding loans amounts to 2.92% (previous year 3.43%). The average effective interest rate for the outstanding loans is 2.84% (previous year 3.86%) and during the period interest expense of £2.0 million (previous year £0.7 million) was recognised.

The duration of the facility agreement is five years; therefore, the termination date of the facility agreement is 6 July 2023. S4Capital Group shall repay each of the loans in full on the termination date.

The bank loans impose certain covenants on the Group. The loan agreement states that (subject to certain exceptions) S4Capital Group will not provide any other security over its assets and receivables and will ensure that the following financial ratios, measured at the end of any relevant period of 12 months ending each semi-annual date in a financial year commencing on 30 June 2019, are met:

- net debt will not exceed 300% of the earnings before interest, tax, depreciation and amortisation; and
- net finance charges will not exceed 300% of the earnings before interest, tax, depreciation and amortisation.

During this period S4Capital Group complied with the covenants set out in the loan agreement.

Notes to the consolidated financial statements continued

19. Leases

Right-of-use assets	Total £000
At 1 January 2019	**14,042**
Acquired through business combinations	6,013
Additions	14,366
Disposals	(86)
Depreciation of right-of-use assets	(7,713)
Exchange rate differences	(843)
At 31 December 2019	**25,779**

Lease liabilities	Total £000
At 1 January 2019	**13,847**
Acquired through business combinations	6,257
Additions	13,911
Disposals	(83)
Payment of lease liabilities and interest	(6,687)
Exchange rate differences	(483)
At 31 December 2019	**26,762**
Non-current lease liabilities	18,787
Current lease liabilities	7,975
At 31 December 2019	**26,762**

Adjustments recognised on adoption of IFRS 16 lease liabilities	Total £000
Operating lease commitments disclosed as at 31 December 2018	**8,270**
Adjustments relating to different treatment of extensions and termination options	7,533
Discount effect using the lessee's incremental borrowing rate	(1,654)
Short-term leases recognised on a straight-line basis as expense	(302)
Lease liabilities recognised as at 1 January 2019	**13,847**

20. Trade and other payables

Non-current	31 Dec 2019 £000	31 Dec 2018 £000
Earn-out	–	216
Other accruals	2,007	2,070
Total	**2,007**	**2,286**

Current	31 Dec 2019 £000	31 Dec 2018 £000
Trade payables	88,986	60,704
Accruals	14,447	11,633
Deferred income[1]	14,581	806
Total	**118,014**	**73,143**

Note:

1. The deferred income as at 31 December 2018 has been fully recognised in the results of 2019.

Current tax liabilities	31 Dec 2019 £000	31 Dec 2018 £000
Income taxes	2,724	2,359
Sales taxes	1,056	439
Wage taxes and social security contributions	2,971	1,309
Total	6,751	4,107

21. Equity

A. Share capital

The authorised share capital of S4Capital plc contain an unlimited number of Ordinary Shares having a nominal value of £0.25 per Ordinary Share. At the end of the reporting period, the issued and paid up share capital of S4Capital plc consisted of 469,227,259 (2018 363,396,923) Ordinary Shares having a nominal value of £0.25 per Ordinary Share.

The changes in issued share capital, share premium, merger reserves and treasury shares of S4Capital plc (formerly Derriston Capital plc) is summarised in the consolidated statement of changes in equity on page 86.

22 May 2018 // Derriston Capital plc equity relates to the incorporation of Derriston Capital plc into the Company. The Ordinary Shares had a nominal value of 2.5p as per 31 December 2017 and have been consolidated in 2018 on a 10-for-one basis into the Ordinary Shares having a nominal value of £0.25 per Ordinary Share.

29 May 2018 // S4Capital Group raised funds through the issuance of 59,196,700 new Ordinary Shares at a price of 85p per share.

9 July 2018 // S4Capital Group raised funds through the issuance of 126 million shares at a price of 101p per share for the acquisition of the entire issued share capital of MediaMonks Multimedia Holding B.V. The consideration for MediaMonks was satisfied by cash payment of £205.4 million together with an issuance of 55.8 million shares in the Company at a price of 101p per share. In addition, the Company issued 11.7 million shares at nominal value of 25p per share to an employee benefit trust, which will be used, at management's discretion, to be issued to MediaMonks employees in future years.

24 December 2018 // S4Capital Group raised funds through the issuance of 67.2 million shares at a price of 110p per share for the acquisition of the entire issued share capital of MightyHive, Inc. The consideration for MightyHive was satisfied by a cash payment of £67.4 million together with an issuance of 37.1 million shares in the Company at a price of 110p per share. In addition, the Company issued 3.6 million shares at a nominal value of 25p per share to an employee benefit trust, which will be used, at management's discretion, to be issued to MightyHive employees in future years.

19 April 2019 // S4Capital issued 0.6 million shares at a price of 141p per share in relation of the acquisition of Progmedia.

9 August 2019 // S4Capital issued 0.8 million shares at a price of 153p per share in relation of the acquisition of IMAgency.

22 October 2019 // S4Capital issued 1.0 million shares at a price of 147p per share in relation of the acquisition of Conversion Works.

25 October 2019 // S4Capital issued 0.8 million shares at a price of 142p per share in relation of the acquisition of MightyHive Korea.

25 October 2019 // S4Capital Group raised funds through the issuance of 70.4 million shares at a price of 142p per share for the acquisition of the entire issued share capital of Firewood Marketing Inc. The consideration for Firewood was satisfied by a cash payment of £42.7 million together with an issuance of 30.7 million shares in the Company at a price of 142p per share.

20 December 2019 // S4Capital issued 0.8 million shares at a price of 185p per share in relation of the acquisition of BizTech.

Employee stock options // During 2019 S4Capital issued issued 0.5 million shares regarding employee stock option plans.

The share premium is net of costs directly relating to the issuance of shares. In accordance with Section 612 of the Companies Act 2006, merger relief has been applied on share for share exchanges. During the reporting period, an amount of £2.6 (previous year £5.5) million of transaction costs have been accounted for as a deduction from equity.

Notes to the consolidated financial statements continued

B. Reserves

The following describes the nature and purpose of each reserve within equity:

Share premium	Amount subscribed for share capital in excess of nominal value less transaction costs (cash).
Merger reserves by merger relief	Amount subscribed for share capital in excess of nominal value less transaction costs as required by merger relief (shares).
Other reserves	Includes treasury shares issued in the name of S4Capital Group to an employee benefit trust to the amount of GBP 3.8 million and shares to be issued to employees as part of an acquisition to the amount of GBP 2.6 million.
Foreign exchange reserves	Legal reserve for foreign exchange translation gains and losses on the translation of the financial statements of a subsidiary from the functional to the presentation currency.
Retained losses	Retained losses represents the net losses for the period and all other net gains and losses and transactions with shareowners (example dividends) not recognised elsewhere.

C. Non-controlling interest

On 24 May 2018, non-controlling interests arose as a result of the issuance of 4,000 A2 Incentive Shares by S4Capital 2 Ltd subscribed at fair value for £0.1 million. In 2018, the A2 incentive shares were paid in full.

On 2 December 2019 the Board of S4Capital approved the issuance of 2,000 options over A1 Incentive Shares by S4Capital 2 Ltd at a exercise price of £50,000.

The Incentive Shares provide a financial reward to executives of S4Capital Group for delivering shareowner value, conditional on achieving a preferred rate of return. The Incentive Shares entitle the holders, subject to certain vesting criteria and leaver provisions, up to 15% of the growth in value of S4Capital 2 Ltd provided that certain performance conditions have been met.

22. Share-based compensation

As per 31 December 2019, a total number of 14,981,383 (31 December 2018 15,271,032) shares are held by the Equity Benefit Trust (EBT), being:

- 11,709,601 shares related to the acquisition of the MediaMonks Group (EBT Pool A); and
- 3,271,782 (31 December 2018 3,561,431) related to the acquisition of the MightyHive Group (EBT Pool B).

The EBT will be used for future option schemes and bonus shares for employees.

The average share price for S4Capital Plc during the year was 150.7 pence.

Awards movement during the reporting period	Discretionary incentive plan £000	Restricted stock units £000	All-employee incentive plan £000	A1 Incentive Share options £000	Total £000
Outstanding as at beginning of the period	–	8,952	–	–	8,952
Granted	6,790	3,404	874	2	11,070
Vested	–	(795)	–	–	(795)
Lapsed	(220)	(562)	–	–	(782)
Outstanding as at end of the period	6,570	10,999	874	2	18,445

Discretionary incentive plans

In 2019, the S4Capital Group Board approved employee option schemes for key employees of 6,790,180 options over S4Capital Ordinary Shares with an average exercise price of nil pence and a maximum term of six years (average term of six years). In accordance with IFRS 2, the Group recognises share-based payment charges from the date of granting the option plans until the vesting of the option plans conform to the direct method. Vesting of the options are subject to S4Capital Group achieving year-on-year business performance targets and options holders achieving personnel performance targets with continued employment. During 2019 no options vested.

During 2019 a total charge of £0.5 million (2018 nil) is recognised in relation to the Discretionary incentive plan.

Restricted Stock Units (RSUs)

In December 2018, the S[4]Capital Group Board approved an employee option scheme of 8,952,610 RSUs over S[4]Capital Ordinary Shares. During 2019 another 3,404,458 RSUs were approved with an average exercise price of nil pence and a maximum term of four years (average term of four years). In accordance with IFRS 2, the Group recognises a share-based payment charge from grant date until vesting date in relation to this option plan conform to the direct method. Vesting of the RSUs is subject to continued employment. During the reporting period a total of 795,351 shares were distributed to employees with an average exercise price of nil pence, 505,702 from newly issued Ordinary Shares and 289,649 from EBT Pool B.

During 2019 a total charge of £2.7 million (2018 nil) is recognised in relation to the RSU plan.

All-employee incentive plan

In 2019, the S[4]Capital Group Board approved an employee option scheme of 873,500 options, with an average exercise price of nil pence, over S[4]Capital Ordinary Shares for all employees employed by the S[4]Capital Group at 30 November 2018. Based on the number of years of service at MediaMonks Group, all employees received a set amount of options over S[4]Capital Ordinary Shares. In accordance with IFRS 2, the Group recognises a share-based payment charge from January 2019 until vesting date in relation to this option plan conform to the direct method. Vesting of the options are subject to continued employment. The options will vest on 30 November 2020 and will be settled from EBT pool A.

During 2019 a total charge of £0.4 million (2018 nil) is recognised in relation to the all-employee incentive plan.

A1 Incentive Share options

In 2019, the S[4]Capital Group Board approved 2,000 options over A1 Incentive Shares in S[4]Capital 2 Ltd to senior management. In accordance with IFRS 2, the Group recognises share-based payment charges from the date of granting the option plans till the moment of vesting of the option plans conform to the Monte Carlo simulation. During 2019 a total charge of £3.6 million (2018 nil) is recognised in relation to the A1 Incentive Share options out of a total fair value of £38.0 million. Full disclosure of these options is contained within the Remuneration Report on page 67.

A2 Incentive Shares

As of 2018 4,000 A2 Incentive Shares in S[4]Capital 2 Ltd are held by senior management. Full disclosure of these shares is contained within the Remuneration Report on page 67.

23. Dividends

In 2019 and in 2018, no dividends were paid by S[4]Capital plc (formerly Derriston Capital plc) to its shareowners.

24. Related party transactions

Details of compensation for key management personnel are disclosed on pages 64 to 66. S[4]Capital Group did not have any other related party transactions during the financial year.

25. Reconciliation to non-GAAP measures of performance

Management includes non-GAAP measures as they consider these measures to be both useful and necessary. They are used by management for internal performance analyses; the presentation of these measures facilitates comparability with other companies, although management's measures may not be calculated in the same way as similarly titled measures reported by other companies; and these measures are useful in connection with discussions with the investment community.

January to December 2019	Reported £000	Amortisation[1] £000	Acquisition and set-up related expenses[2] £000	Share-based compensation £000	Adjusted £000
Operating profit/(loss)	(3,835)	15,000	12,806	7,177	31,148
Net finance expenses	(5,360)	–	–	–	(5,360)
Profit/(loss) before income tax	(9,195)	15,000	12,806	7,177	25,788
Income tax credit/(expense)	(845)	(3,893)	(2,064)	–	(6,802)
Profit/(loss) for the period	(10,040)	11,107	10,742	7,177	18,986

Notes:

1. Amortisation relates to the amortisation of certain intangible assets recognised as a result of the acquisitions.

Notes to the consolidated financial statements continued

2. Acquisition and set-up related expenses relate to acquisition related bonuses of £7.2 million and transaction related advisory fees of £5.6 million.

May to December 2018	Reported £000	Amortisation[1] £000	Acquisition and set-up related expenses[2] £000	Adjusted £000
Operating profit/(loss)	(8,470)	7,507	5,005	4,042
Net finance expenses	(651)	–	–	(651)
Profit/(loss) before income tax	(9,121)	7,507	5,005	3,391
Income tax credit/(expense)	1,011	(1,877)	–	(866)
Profit/(loss) for the period	(8,110)	5,630	5,005	2,525

Note:

1. Amortisation relates to the amortisation of certain intangible assets recognised as a result of the acquisitions.
2. These costs relate to the acquisition of the MediaMonks Group and MightyHive Group.

Reconciliation to adjusted operational EBITDA	2019 £000	2018 £000
Operating loss	(3,835)	(8,470)
Amortisation of intangible assets	15,000	7,507
Acquisition and set-up related expenses	12,806	5,005
Share-based compensation	7,177	–
Depreciation property, plant and equipment[1]	2,260	648
Adjusted operating EBITDA	33,408	4,690

Note:

1. Depreciations property, plant and equipment is exclusive of depreciation on right-of-use assets.

Billings	2019 £000	2018 £000
Revenue	215,132	54,845
Pass-through expenses	240,648	4,273
Billings[1]	455,780	59,118

Note:

1. Billings is gross billings to clients including pass-through expenses.

Adjusted Basic net result per share	2019	2018
Weighted average number of shares in issue	368,067,622	247,776,256
Adjusted net result attributable to equity of owners of the company (£1,000)	18,986	2,525
Adjusted basic net result per share (pence)	(5.2)	(1.0)
Adjusted operating EBITDA	33,408	4,690

26. Unrecognised items

A. Capital commitments

Capital commitments represents capital expenditure contracted for at the end of the reporting period but not yet incurred at the period end. At 31 December 2019 S^{4}Capital Group has a capital commitment of £1.6 million.

27. Events occurring after the reporting period

A. Mergers and acquisitions

In November 2019, MediaMonks announced the combination with WhiteBalance, Indian-based digital creative and production agency. This transaction is expected to be closed in the second quarter of 2020.

Post year end, in January 2020, MediaMonks announced the combination with Latin America-based digital agency, Circus Marketing. This transaction is closed in the first quarter of 2020.

The transaction with BizTech Kazakhstan and BizTech Russia is expected to close in the second quarter of 2020.

B. Covid-19

A summary of the Group's operational response in relation to covid-19 is presented on pages 4 to 6. The Government interventions in response to the covid-19 pandemic became apparent after the balance sheet date and represents a non-adjusting post balance sheet event to the Group.

Whilst the full financial impact of the crisis for 2020/21 is impossible to predict, the Group has carried out a sensitivity analyses on its forecasted cash-flows for 2020/21 gaming substantial falls in revenue, with cost corrections, compared to budget, which indicate viability and the Group will comply with the covenants set out in the loan agreement. The Group also assessed the impact of the scenarios on the key assumptions of the impairment testing on intangible assets, as set out in Note 11, and believes there is enough head-room.

In advance of the announced mergers, the Group utilised its full revolving credit facility of EUR 35 million in March 2020. The Directors' cash bonuses for 2019 have been converted to a share bonus instead.

Company balance sheet

	Notes	31 December 2019 £000	31 December[1] 2018 £000
Assets			
Non-current assets			
Investments in subsidiaries	1	503,236	350,455
		503,236	350,455
Current assets			
Trade and other receivables	2	1,247	1,297
Cash and cash equivalents	3	1,919	–
		3,166	1,297
Total assets		506,402	351,752
Liabilities			
Current liabilities			
Trade and other payables	4	2,963	1,058
		2,963	1,058
Total liabilities		2,963	1,058
Net assets		503,439	350,694
Equity			
Attributable to owners of the Company			
Share capital		117,307	90,849
Reserves		383,133	259,845
Total equity		503,440	350,694

Note:

1. Restated for the initial accounting for the business combination of MightyHive Inc.

The Company reported a net loss for the financial year ended 31 December 2019 of £1.9 million (2018 £2.3 million profit).

The financial statements were authorised for issue by the Board of Directors on 7 May 2020 and were signed by:

Martin Sorrell

Sir Martin Sorrell
Executive Chairman

Peter Rademaker
Group Chief Financial Officer

Company statement of changes in equity

Equity	Number of shares	Share capital £000	Share premium £000	Merger reserves £000	Other reserves £000	Retained earnings £000	Total £000
Balance at 31 December 2017	**2,500,000**	**625**	**1,689**	**–**	**–**	**(156)**	**2,158**
Profit for the period	–	–	–	–	–	2,260	2,260
Transactions with owners of the Company							
Issue of Ordinary Shares	345,625,891	90,224	51,182	205,717	–	–	347,123
Employee share schemes	15,271,032	–	–	–	(847)	–	(847)
Balance at 31 December 2018	**363,396,923**	**90,849**	**52,871**	**205,717**	**(847)**	**2,104**	**350,694**
Loss for the period	–	–	–	–	–	(1,920)	(1,920)
Transactions with owners of the Company							
Issue of Ordinary Shares	105,324,634	26,331	121,182	–	–	–	147,513
Employee share schemes	505,702	126	249	–	(313)	7,090	7,152
Balance at 31 December 2019	**469,227,259**	**117,307**	**174,302**	**205,717**	**(1,160)**	**7,274**	**503,440**

Notes to the Company financial statements

A. General

The Company financial statements are part of the 2019 financial statements of S4Capital plc. S4Capital plc, formerly Derriston Capital plc, is a listed company on the London Stock Exchange and has its registered office at 12 St James's Place, London, SW1A 1NX, United Kingdom. S4Capital plc (the 'Company') is a holding company for investments active in the digital advertising and marketing services space.

B. Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. The Company has elected to take the exemption under Section 408 of the Companies Act 2006 from presenting the parent company profit and loss account. As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of a profit or loss statement and cash flow statement and certain related party transactions.

The financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006. Except as noted below, the Company's accounting policies are consistent with those described in the consolidated financial statements. Where required, equivalent disclosures are given in the consolidated financial statements.

1. Investments in subsidiaries

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

	31 Dec 2019 £000	31 Dec 2018 £000
Balance as at the beginning of the year	**350,455**	–
Acquisition of subsidiaries at cost	–	350,455
Capital contributions	145,657	–
Share-based compensation	7,124	–
Balance as at the end of the period	**503,236**	350,455

The Company directly holds 100% ownership in S4Capital 2 Ltd. The Company indirectly holds 100% ownership in the entities as disclosed in Note 14 Subsidiaries of the consolidated financial statements. The investments in subsidiaries are assessed annually to determine if there is any indication that any of the investments might be impaired. At the end of the reporting period, there was no indication of impairment.

2. Trade and other receivables

	31 Dec 2019 £000	31 Dec 2018 £000
Value added tax	718	269
Corporate tax	316	–
Receivables from subsidiaries	–	1,026
Other receivables and prepayments	213	2
Total	**1,247**	1,297

The loss allowance for receivables from subsidiaries is based on the three-stage impairment expected credit loss model. No material impairment arose.

3. Cash and cash equivalents

	31 Dec 2019 £000	31 Dec 2018 £000
HSBC Bank	1,919	–
Total	**1,919**	–

4. Trade and other payables

	31 Dec 2019 £000	31 Dec 2018 £000
Trade payables	2,675	669
Other payables and accruals	288	389
Total	2,963	1,058

5. Equity

A. Share capital

The authorised share capital of S4Capital plc contain an unlimited number of Ordinary Shares having a nominal value of £0.25 per Ordinary Share. At the end of the reporting period, the issued and paid up share capital of the Company consisted of 469,227,259 Ordinary Shares having a nominal value of £0.25 per Ordinary Share.

B. Reserves

The following describes the nature and purpose of each reserve within equity:

- **Share premium** — Amount subscribed for share capital in excess of nominal value (cash). The share premium is net of costs directly relating to the issuance of shares.
- **Merger reserves** — Amount subscribed for share capital in excess of nominal value as required by merger relief.
- **Other reserves** — Includes treasury shares issued in the name of S4Capital Group to an employee benefit trust to the amount of GBP 3.8 million and shares to be issued to employees as part of an acquisition to the amount of GBP 2.6 million.
- **Retained earnings** — Retained earnings represents the net profit for the period and all other net gains and losses and transactions with shareowners (example dividends) not recognised elsewhere.

6. Related party transactions

Details of compensation for key management personnel are disclosed on pages 64 to 66. The Company did not have any other related party transactions during the financial year.

Shareowner information

Advisers and registrars

Principal bankers and joint brokers	HSBC Bank plc
Joint brokers	Dowgate Capital Limited
Auditor	PricewaterhouseCoopers LLP
Solicitor	Travers Smith LLP
PR adviser	Powerscourt Limited
Registrars	Share Registrars Limited The Courtyard 17 West Street Farnham Surrey GU9 7DR 01252 821390 enquiries@shareregistrars.uk.com
Group Company Secretary	Theresa Dadun

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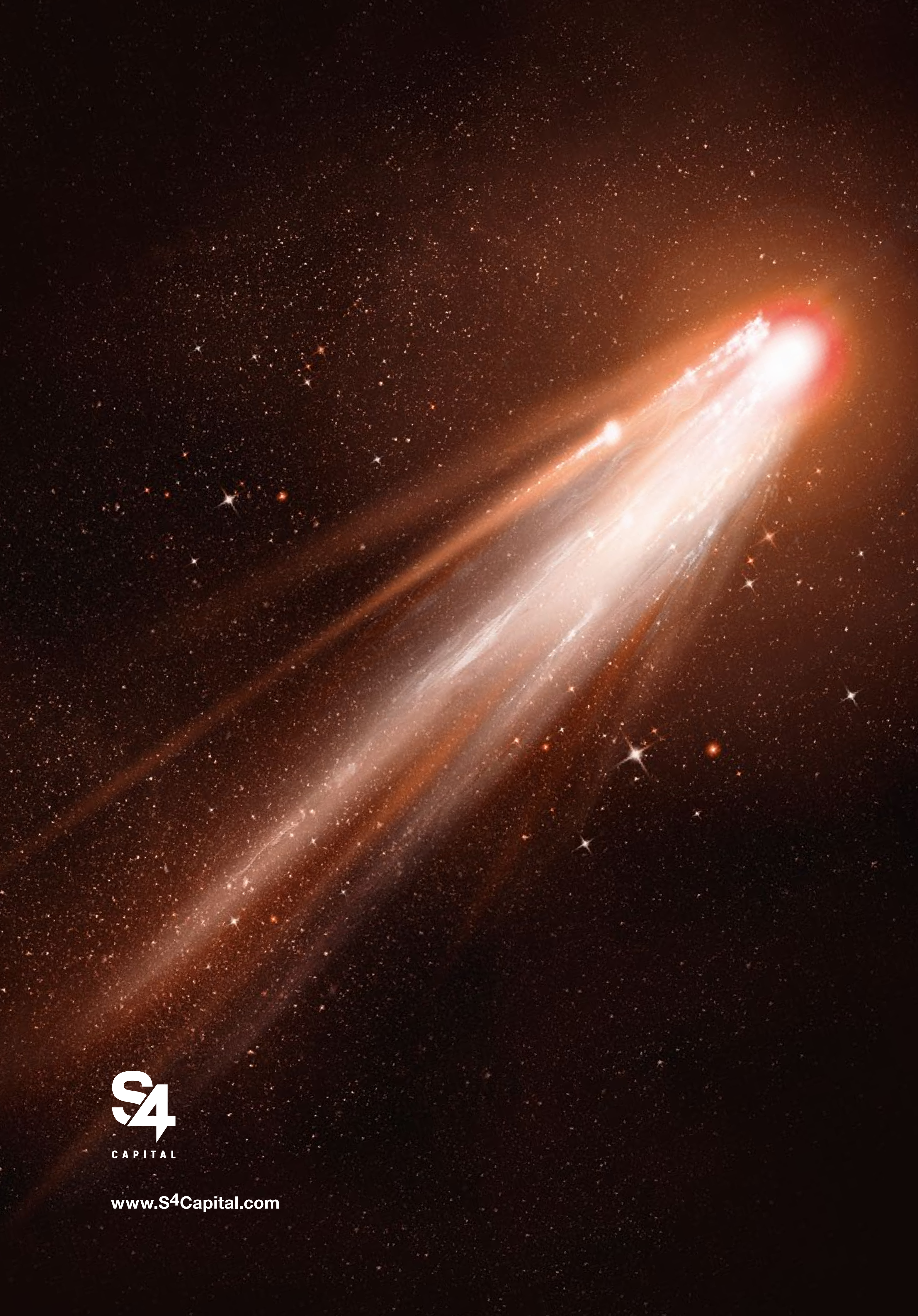
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