

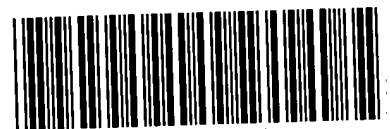
Company Registration No. 04018752

KOBALT MUSIC GROUP LIMITED

Annual Report and Consolidated Financial Statements

For the year ended 30 June 2018

THURSDAY



L826YPYW

28/03/2019

#56

LD7

COMPANIES HOUSE

KOBALT MUSIC GROUP LIMITED

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

CONTENTS	Page
Officers and professional advisers	3
Chief executive's report	4
Strategic report	6
Directors' report	9
Independent auditor's report	12
Consolidated income statement	15
Consolidated statement of other comprehensive income	16
Consolidated statement of financial position	17
Consolidated statement of changes in equity	18
Consolidated statement of cash flows	19
Notes to the consolidated statement of cash flows	20
Notes to the consolidated financial statements	21
Company balance sheet	56
Company statement of changes in equity	57
Notes to the company financial statements	58

KOBALT MUSIC GROUP LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

W B A Ahdritz
T Bunting
J P Fitzherbert-Brockholes
J Ekelund
A J Palm
R Thompson
N Khemlani
W Maris
S Grover
A Vukajlovic

COMPANY SECRETARY

T Sansone

REGISTERED OFFICE

The River Building
1 Cousin Lane
London, EC4R 3TE
England

BANKERS

The Royal Bank of Scotland plc
62-63 Threadneedle Street
London
EC2R 8LA

JP Morgan Chase Bank
National Association
2029 Century Park West
38th Floor
Los Angeles
California
90067

AUDITOR

Deloitte LLP
Statutory Auditor
Reading, RG1 3BD
United Kingdom

KOBALT MUSIC GROUP LIMITED

CHIEF EXECUTIVE'S REPORT

Kobalt's mission from day one has been to take the music industry into the digital age and to deliver transparency to rights owners and creators. We had a clear vision that only a new industry structure leveraging technology could deliver a scalable operation with great service to our clients.

Today, the music industry shows strong global growth driven by new streaming services that have been rolled out driven by paid streaming penetration of smartphones e.g. Goldman Sachs projected that the industry will grow to USD 44B by 2030 at an annual rate of 7.5 percent. Consumers streaming a hit song billions of times makes for complex global collections, and Kobalt's platform is designed precisely to handle this.

Our model for the music industry is now seen as the way new, big music transaction volumes should be run. We have built the most trusted brand in the industry with our transparency and execution since founding Kobalt in 2000. With the forecasted industry growth and our position, we are excited about the long-term opportunities the company has to continue to grow and execute on a mission that makes sure creators are at the center and fairly compensated.

I am pleased to announce that we had another high-growth year ended June 2018 with gross collections surging almost 30 percent to USD 494M (402M net revenue) from USD 387M (321M net revenue) and gross margin increasing 24 percent.

We continue to invest in building for the new music industry with resources, employees, and services across the globe. And we'll continue on this path as our approach has proven successful to shareholders and to creators.

I'm proud to say that the music business continues its transformation and Kobalt has emerged as a top global publisher - second in US airplay market share according to Billboard's latest publisher's quarterly. In a 100+ year old industry otherwise dominated by majors, this is a great achievement.

I attribute our success to two key focuses: 1) building trust with creators, their advisors, and the technology industry, and 2) building an unparalleled central global organisation supported by a technology platform to serve our clients and the industry.

Change needed in music recordings

Kobalt recognises the need for change in the recorded part of the business. Our recordings division continues to focus on growth, innovation, and rolling out new services. Having fundamentally changed the publishing, society, and neighbouring rights industries, we are now stepping up our service for artists and labels.

Artists are now looking for a partner to help them access their audiences more effectively using data and managing global releases through multiple channels, all while remaining independent and in control of their music. They don't want to be owned.

Today's major recording companies do not meet these needs. That's why we've invested in building our recordings company, AWAL. The music industry today is built to serve the 5,000 stars of the world. We're building AWAL to help support these stars and the tens of thousands of artists who can make a living with their music. Our mission is not to rest until we've removed all the complexities from the industry - displacing all pain points that exist for our creators today.

Progress report

I'm proud to share some of the milestones we achieved last year that support our mission, each of which represents the fruition of many years of collective effort.

- **Kobalt Music Publishing (Including Synch)** - Kobalt's publishing division enjoyed another year of solid progress, growing revenue over 20 percent YOY. Kobalt made strides in every repertoire area, from pop to urban to latin to country, culminating with an airplay market share of 19 percent for the second quarter of 2018 – the highest market share ever achieved since inception - placing Kobalt as the #2 player in the highly competitive US marketplace. Kobalt has also enjoyed higher market share in most territories such as the UK, Sweden, and Australia. A few highlights of this past year's signings include Enrique Iglesias, Childish Gambino, Ozuna, Marshmello, among others. This is a testament to the first class creative team we have assembled over the years, combined with one of the most effective synch teams in the business, and of course Kobalt's unparalleled global collection infrastructure. Kobalt has also consolidated its position in representing some of the most iconic legacy catalogs by signing Muddy Waters, George Thorogood, Rob Hatch, and extending the Lindsey Buckingham and Bob Marley agreements.

KOBALT MUSIC GROUP LIMITED

CHIEF EXECUTIVE'S REPORT

- **AWAL** - Our music recordings division, AWAL, continued its strong growth, rising over 50 percent. On the back of rebranding all of Kobalt's recording operations under the AWAL name earlier in 2018, the business continued its focus on identifying, developing, and breaking new artists through AWAL. This delivered continued significant results for Lauv, who has now reached 1.4B global streams, made top three at US radio, and had a global top 10 radio record. In addition to Lauv, AWAL continued to grow other key artist stories, including those of Rex Orange County (400M streams), Tom Misch (300M streams), R3HAB (500M streams), and Bruno Major (150M streams). Beyond the streaming stories, we also had four records enter the UK charts in the top 10. And lastly, AWAL continued to diversify its business by expanding into B2B with new label clients including 30th Century Records (Danger Mouse), Good Soldier Records, and LEX Records, among many others. Further to this, and just outside of our fiscal year, our 2018 momentum continued with a landmark strategic partnership with one of the most important and most successful independent labels in the world, Glassnote Records.
- **Kobalt Neighbouring Rights (KNR)** - In the past year, KNR continued its expansion and received income from new territories across the globe, among them, its first ever payments from South Africa. As a result, KNR saw 24 percent YOY growth in revenue. This growth has been driven by new signings and extended deals including those of Troye Sivan, Ed Sheeran, Elton John, Ann-Marie, Pitbull, Kygo, Big Sean, Charli XCX, Ariana Grande, and more.
- **Kobalt Capital Limited (KCL)** - The two music royalty funds managed by KCL, owned by institutional and private investors and administered by Kobalt, also had another great year. The funds delivered solid returns on historic acquisitions, advances, and new investments. The first fund (Fund I), launched in 2011, has closed and made investments totaling over USD 400M since inception. In November 2017, KCL's second fund (Fund II) was announced with the capacity to invest another USD 600M. As a result, we will be building to close over one billion dollars in music rights to be administered by Kobalt over the coming years.
- **AMRA** - The unique global digital collection society, and a key part of the Kobalt music stack that ensures global writers and artists are paid accurately and fairly, grew overall revenue by 30 percent, up from USD 34.6M in 2017 to USD 44.8M. This growth is predominantly driven by client growth and accelerated territorial scope, which is the broadest in the industry. In addition, new, more sophisticated matching algorithms also contributed to the growth, and these will continue to provide more value in the coming years. AMRA's growth and development continues to set new standards for global collections societies with 25 digital service provider agreements under license on a global scale since its launch less than four years ago. During 2018, AMRA entered into a new agreement with Facebook and YouTube (Red). AMRA's global roll-out has reached all corners of the world outside the US and includes direct digital collections for China, Brazil, and Japan. AMRA also expanded its operations by opening up a new office in Stockholm for the purpose of serving its Scandinavian and northern European clients, all with low fees and completely transparent reporting.

The credit for all of these milestones goes to many. Kobalt has over 600 employees across 18 countries who work collaboratively to achieve the best results and service for our clients, the 100,000+ creators who are our focus and drive every day.

I am proud of the Kobalt team across the globe that continues to operate at the highest level for our creators. We continue to create long-term value for all our stakeholders.

Willard Ahdriz

Founder and Chief Executive Officer

Kobalt Music

KOBALT MUSIC GROUP LIMITED

STRATEGIC REPORT

BUSINESS REVIEW AND PRINCIPAL ACTIVITY

The Group's principal activity is the provision of services to the owners and creators of music - there have not been any significant changes in the Group's principal activity in the year under review. The Group head office is in London, with other offices in New York, Los Angeles, Miami, Nashville, Sydney, Stockholm, Berlin, Hong Kong, Netherlands, Switzerland, and Luxembourg.

As shown in the Group's income statement on page 15, the Group's sales have increased by 25.3% over the prior year to \$402.1m while gross profit has increased by 23.6%, \$10.0m in absolute terms. Total administrative expenses have increased by 33.5% to \$85.9m. The loss after tax has increased to \$42.7m against the previous year's \$33.1m. The Group's on-going losses are the result of a conscious decision to prioritise growth through making strategic investments over short-term profitability; the results are in line with the Group's long-term forecasts.

KEY FINANCIAL PERFORMANCE INDICATORS

The Board monitors the Company's performance in a number of ways including key performance indicators. The key financial performance indicators together with the information for the prior year are as follows:

	2018	2017	Movement	Movement
Revenue	\$402,139k	\$320,991k	\$81,148k	25.3%
Gross profit	\$52,507k	\$42,473k	\$10,034k	23.6%
Gross profit percentage	13.1%	13.2%	-	(0.1)%
Contribution margin	\$25,739k	\$19,055k	\$6,684k	35.1%
Net assets	\$9,207k	\$29,623k	\$(20,416)k	(68.9)%
Net current liabilities	\$59,353k	\$19,424k	\$39,929k	(206)%
Cash	\$41,536k	\$48,445k	\$(6,909)k	(14.3)%

The Group also uses certain non-financial performance indicators, one of which is the number of employees. The increase in employee numbers during the year (from an average of 376 to 515) is the result of the Group's rapid growth in activity and investment in the future as discussed in the Chief Executive's Report.

PRINCIPAL RISKS AND UNCERTAINTIES

The risks and uncertainties facing the Group are detailed below.

Revenue generation: The on-going demand for the music administered by the Group is unpredictable and as such the level at which this music will generate revenue for the Group in future periods is uncertain.

The Group seeks to mitigate this risk by aiming to make the roster of music administered by the Group as wide-ranging as possible. This means that the Group's revenue is not unduly affected by fluctuations in the popularity of certain genres of music, or of specific writers and artists. The fact that the Group collects royalties worldwide minimises its exposure to specific territories.

Client acquisition and retention: The decisions of potential clients to sign with Kobalt or of existing clients to remain with Kobalt are complex and involve the consideration of many factors. As such it is uncertain how many new clients the Group will sign and what proportion of existing clients will extend their agreements.

In recent years, the Group has increased its sales efforts, particularly in the US which is the world's largest market. The directors regularly review the Group's capital structure to enable it to provide the royalty advances which larger prospective clients often require.

The Group makes constant efforts to improve its service offering, particularly in the areas of transparency and technological innovation. This serves to help retain existing clients as well as encouraging new clients to join Kobalt.

Market environment: There are uncertain economic conditions at present and the record industry has experienced declining sales volumes. The extent and timing of any response by the record labels to this threat is uncertain. In addition, as the major music publishers are also record companies, it is not clear how they will respond to this and what competitive action they may take to defend their publishing interests.

KOBALT MUSIC GROUP LIMITED

STRATEGIC REPORT

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

The Group monitors the latest developments in the industry by means of research, review of trade publications, and membership of industry organisations and forums. Kobalt's state of the art royalty processing and analysis systems likely allow it to adapt more quickly to industry changes than more traditional publishers.

Changing distribution: The new channels for music distribution and licensing (e.g. streaming) are significantly changing the operational and financial dynamics of music publishing.

Again, Kobalt's technological expertise makes it well-placed to adapt to new distribution channels. The high level of automation in its royalty processing makes assimilating new sources of revenue and/or royalty information less time-consuming and costly.

Third party suppliers: Kobalt relies on a number of important third party suppliers to operate successfully. The nature of music publishing makes it impossible to avoid reliance on some third parties, especially royalty collection societies. Any failure in the provision of these services may adversely impact Kobalt's business.

Brexit: Kobalt collects royalties throughout the EU and also has operations in several EU countries. The future relationship between the UK and the EU is likely to have an impact on Kobalt although the exact nature of this relationship remains unclear. Management is reviewing the Group's activities with a view to mitigating any adverse consequences of Brexit.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to a number of financial risks including currency risk, credit risk and liquidity risk. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on the use of financial derivatives to manage these risks. The Group does not use derivative financial instruments for speculative purposes.

Currency risk

The Group's activities expose it to some risk of changes in foreign currency exchange rates. Other than in exceptional circumstances, the Group does not feel it is necessary to hedge against these exposures as there is largely a natural hedge of currencies.

Credit risk

Royalties due to Kobalt are often from large and established organisations and there is considered to be a low risk that these debts will not be recovered.

The Group is exposed to credit risk when it makes advances to clients. These advances are subject to detailed financial analysis and a full commercial assessment.

Liquidity risk

The Group regularly prepares and updates cash flow forecasts which monitor its financing requirements. The Group maintains a close relationship with its existing lenders whilst regularly assessing the possibility of obtaining finance from other sources.

EVENTS SINCE THE END OF THE FINANCIAL YEAR

On 26th November 2018 the Group replaced its \$50m revolving credit facility with a \$125m term loan.

FUTURE DEVELOPMENTS

The directors expect another year of strong growth across the Group. The directors are not aware, at the date of this report, of any likely major changes in the Group's principal activities in the next year.

KOBALT MUSIC GROUP LIMITED

STRATEGIC REPORT

RESEARCH AND DEVELOPMENT

In the coming year the Group expects to further enhance and expand its global licensing, collection and payment platform as well as its client portal, providing clients with unparalleled transparency.

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

A handwritten signature in black ink, appearing to read 'T Sansone'.

T Sansone

Company Secretary

28 January 2019

KOBALT MUSIC GROUP LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 June 2018.

DIRECTORS

The directors who served throughout the year and to the date of this report, were as follows:

W B A Ahdritz
T Bunting
D Caro (resigned 25 October 2018)
J Ekelund
J P Fitzherbert-Brockholes
A J Palm
J Tandberg (resigned 21 November 2018)
R Thompson
N Khemlani
W Maris
S Grover (appointed 25 October 2018)
A Vukajlovic (appointed 21 November 2018)

DIRECTORS' INDEMNITIES

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

DIVIDENDS

The directors do not recommend the payment of a dividend for the year (30 June 2017 - \$nil).

GOING CONCERN

The directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

Further details regarding the adoption of the going concern basis can be found in the Statement of accounting policies in the financial statements. For further information refer to note 2.

DIRECTORS' RESPONSIBILITIES STATEMENT

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the company for that period.

In preparing the parent company financial statements, the directors are required to:

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

KOBALT MUSIC GROUP LIMITED

DIRECTORS' REPORT

DIRECTORS' RESPONSIBILITIES STATEMENT (continued)

In preparing the group financial statements, International Accounting Standard 1 requires that directors:

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

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

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

STRATEGIC REPORT

As permitted under s414C(11) of the Companies Act, the company has chosen to present the following information within the strategic report:

- financial risk management policies;
- exposure to price risk, credit risk, liquidity risk and cash flow risk;
- important events since the end of the financial year;
- future developments; and
- research and development activities.

AUDITOR

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

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

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

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them as auditor will be proposed at the forthcoming Annual General Meeting.

DISABLED EMPLOYEES

The company gives full consideration to applications for employment from disabled persons where the candidates' particular aptitudes abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

Where existing employees become disabled, it is the Company's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

KOBALT MUSIC GROUP LIMITED

DIRECTORS' REPORT

EMPLOYEE INVOLVEMENT

The company operates a framework for employee information and consultation which complies with the requirements of the Information and Consultation of Employees Regulations 2005. During the year, the policy of providing employees with information, including information relating to the economic and financial factors affecting the performance of the company has been continued through company wide meetings and presentations. Regular meetings are held between local management and employees to allow the free flow of information and ideas.

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

A handwritten signature in black ink, appearing to read 'T Sansone'.

T Sansone

Company Secretary

28 January 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KOBALT MUSIC GROUP LIMITED

Report on the audit of the financial statement

Opinion

In our opinion:

- the financial statements of Kobalt Music Group Limited (the 'parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2018 and of the group's loss 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 parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of other comprehensive income;
- the consolidated statement of financial position and the parent company balance sheet;
- the consolidated and parent company statements of changes in equity;
- the consolidated statement of cash flows; and
- the related notes 1 to 35.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in 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 or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KOBALT MUSIC GROUP LIMITED

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KOBALT MUSIC GROUP LIMITED

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

Matters on which we are required to report by exception

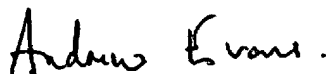
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

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



Andrew Evans FCA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Reading, United Kingdom

28 January 2019

KOBALT MUSIC GROUP LIMITED

CONSOLIDATED INCOME STATEMENT For the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
Revenue	4	402,139	320,991
Cost of sales		(349,632)	(278,518)
Gross profit		52,507	42,473
Other operating income		4,592	3,174
Administrative expenses		(85,931)	(64,386)
Other operating expenses		(8,638)	(4,550)
Foreign exchange loss		(3,919)	(1,039)
Operating loss	5	(41,389)	(24,328)
Investment revenues		2,211	1,543
Finance costs	7	(779)	(6,741)
Loss before tax		(39,957)	(29,526)
Tax	8	(2,739)	(3,608)
Loss for the year from continuing operations		(42,696)	(33,134)

All operations were continuing operations during the year.

KOBALT MUSIC GROUP LIMITED

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME For the year ended 30 June 2018

	2018 \$'000	2017 \$'000
Loss for the year	(42,696)	(33,134)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	3,712	(1,640)
Other comprehensive loss for the year, net of tax	<u>3,712</u>	<u>(1,640)</u>
Total comprehensive loss for the year, net of tax	<u>(38,984)</u>	<u>(34,774)</u>

KOBALT MUSIC GROUP LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION As at 30 June 2018

	Note	2018 \$'000	2017 \$'000
Non-current assets			
Goodwill	10	14,215	10,752
Intangible assets	11	38,439	32,648
Property, plant and equipment	12	11,632	3,237
Investments	14	7,493	5,601
Deferred tax assets	18	618	609
		<u>72,397</u>	<u>52,847</u>
Current assets			
Trade and other receivables	15	269,694	193,356
Cash and bank balances		41,536	48,445
		<u>311,230</u>	<u>241,801</u>
Total assets		<u>383,627</u>	<u>294,648</u>
Current liabilities			
Trade and other payables	16	(8,159)	(3,934)
Borrowings	17	(7,737)	-
Accruals	16	(282,210)	(214,996)
Deferred revenue	16	(72,477)	(42,295)
		<u>(370,583)</u>	<u>(261,225)</u>
Non-current liabilities			
Deferred tax liability	18	(3,837)	(3,800)
Net current liabilities		<u>(59,353)</u>	<u>(19,424)</u>
Net assets		<u>9,207</u>	<u>29,623</u>
Equity			
Share capital	21	953	925
Share premium account	22	193,154	179,161
Retranslation reserves	23	(7,070)	(10,782)
Share option reserve		14,514	9,595
Retained earnings		(192,344)	(149,276)
Total equity		<u>9,207</u>	<u>29,623</u>

The financial statements of Kobalt Music Group Limited, registered number 04018752, were approved by the Board of Directors and authorised for issue on 28 January 2019.



J P Fitzherbert-Brockholes
Director

KOBALT MUSIC GROUP LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2018

	ISSUED SHARE CAPITAL	SHARE PREMIUM	SHARE OPTION RESERVE	RETAINED EARNINGS	RETRANS- LATION RESERVES	TOTAL EQUITY
Note	21	22			23	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
1 July 2016	783	104,407	8,348	(105,993)	(9,142)	(1,597)
Loss for the period	-	-	-	(33,134)	-	(33,134)
Other comprehensive loss	-	-	-	-	(1,640)	(1,640)
Total comprehensive loss	-	-	-	(33,134)	(1,640)	(34,774)
Issue of shares	142	74,754	-	-	-	74,896
Share-based payment transactions (note 9)	-	-	1,380	-	-	1,380
Share options waived for consideration	-	-	(133)	-	-	(133)
Share repurchase from retained earnings	-	-	-	(10,149)	-	(10,149)
Balance at 30 June 2017	925	179,161	9,595	(149,276)	(10,782)	29,623
Loss for the period	-	-	-	(42,696)	-	(42,696)
Other comprehensive income	-	-	-	-	3,712	3,712
Total comprehensive loss	-	-	-	(42,696)	3,712	(38,984)
Issue of shares	28	13,993	-	-	-	14,021
Share-based payment transactions (note 9)	-	-	5,072	-	-	5,072
Share options waived for consideration	-	-	(153)	-	-	(153)
Share repurchase from retained earnings	-	-	-	(372)	-	(372)
30 June 2018	953	193,154	14,514	(192,344)	(7,070)	9,207

KOBALT MUSIC GROUP LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS For the year ended 30 June 2018

		2018	2017
	Note	\$'000	\$'000
Net cash from operating activities		(4,927)	(2,515)
Investing activities			
Purchases of property, plant and equipment	12	(11,226)	(1,945)
Purchases of intangible assets	11	(8,512)	(3,841)
Acquisition of subsidiary net of cash taken on		(2,418)	(24,859)
Investments in third parties	14	(2,160)	-
Dividend received from investment	14	305	-
Net cash used in investing activities		(24,011)	(30,645)
Financing activities			
Proceeds on issue of shares		14,021	74,896
Repurchase of own shares		(372)	(10,149)
Consideration paid for waiving of options		(153)	-
Net movement in bank loans drawn down / (repaid)		7,737	(17,550)
Net cash from financing activities		21,233	47,197
Net (decrease) / increase in cash and cash equivalents		(7,705)	14,037
Cash and cash equivalents at beginning of year		48,445	35,146
Effect of foreign exchange rate changes		796	(738)
Cash and cash equivalents at end of year		41,536	48,445

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS For the year ended 30 June 2018

		2018	2017
	Note	\$'000	\$'000
Loss for the year		(42,696)	(33,134)
Adjustments for:			
Finance costs	7	779	6,741
Income tax expense	8	2,739	3,608
Depreciation of property, plant and equipment	12	2,795	1,100
Amortisation of intangible assets	11	4,292	2,904
Impairment of goodwill	10	-	-
Fair value gain in investment		-	(1,435)
Share-based payment expense	9	5,072	1,380
Operating cash flows before movements in working capital		(27,019)	(18,836)
Increase in receivables	15	(75,038)	(59,624)
Increase in payables	16	100,484	89,355
Reversal of timing differences giving rise to a deferred tax liability		164	306
Cash (utilised from) / generated by operations		(1,409)	11,201
Income taxes paid	8	(2,739)	(6,974)
Interest paid	7	(779)	(6,741)
Net cash from operating activities		(4,927)	(2,515)

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS **For the year ended 30 June 2018**

1. CORPORATE INFORMATION

Kobalt Music Group Limited and its subsidiaries (collectively, the Group) is a company incorporated in the United Kingdom under the Companies Act. The Company is a private company limited by shares and is registered in England and Wales. The consolidated financial statements of the Group for the year ended 30 June 2018 were authorised for issue in accordance with a resolution of the directors on 28 January 2019. Kobalt Music Group Limited (the Company) is a limited company incorporated and domiciled in England. The registered office is located at 1 Cousin Lane, London, EC4R 3TE.

The Group is principally engaged in the provision of services to the owners and creators of music.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as value in use in IAS 36.

The consolidated financial statements are presented in US dollars and all values are rounded to the nearest thousand (\$000), except when otherwise indicated.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 30 June each year. Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable return from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 30 June 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary;
- derecognises the carrying amount of any non-controlling interest;
- derecognises the cumulative translation differences, recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss; and
- reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Summary of significant accounting policies

The following are the significant accounting policies applied by the Group in preparing its consolidated financial statements:

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at the acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are recognised in profit or loss as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. All contingent consideration (except that which is classified as equity) is measured at fair value with the changes in fair value in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS **For the year ended 30 June 2018**

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash generating unit retained.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all its revenue arrangements, with the exception of Neighbouring Rights.

Turnover represents 12 months' worth of royalties. Part of this will be represented by an accrual the company makes for approximately three months of royalty revenue, the receipt of which occurs in the first quarter post year end.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably).

Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Royalty advances

Advances in respect of royalties payable, which are non-refundable but recoupable, comprise advances to clients under contract. All royalty advances are included in other debtors. Specific provisions are made against these advances where the outstanding advance at the balance sheet date exceeds future expected royalty earnings.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 30 June 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences. The carry forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Property, plant and equipment

Property plant and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing parts of the property, plant and equipment, if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Fixtures and fittings	20% per annum
Office equipment	33% per annum
Computer equipment	33% per annum

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 30 June 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement and valuation processes

The investments outlined in note 14 of the Group's assets are measured at fair value for financial reporting purposes.

In estimating the fair value of an asset (or a liability), the Group uses market-observable data to the extent it is available.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any.

Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the statement of profit or loss when it is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

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

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS **For the year ended 30 June 2018**

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the asset or CGU's value in use, as the fair value less cost to sell is not reliably determinable. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The Group bases its impairment calculation on detailed budgets and forecasts which are prepared separately for each of the Group's CGU to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years.

Impairment losses of continuing operations are recognised in the statement of profit or loss in those expense categories consistent with the function of the impaired asset.

Leases

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

For arrangements entered into prior to 1 July 2015, the date of inception is deemed to be 1 July 2015 in accordance with IFRS 1 First-time Adoption of International Reporting Standards.

Share based payments

The Group has applied the requirements of IFRS 2 Share-based Payments. The Group has issued equity-settled share-based payments to certain employees and others providing similar services. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed immediately if there is no vesting period or on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions.

Fair value is measured by use of the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Pension costs

Kobalt Music Group Limited only operates a defined contribution stakeholder pension scheme. The contributions made by Kobalt are included in the Profit and Loss Account.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS **For the year ended 30 June 2018**

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in United States Dollars (USD), as the majority of the Group's income and expenses are in USD and all management and bank reporting is undertaken in USD.

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

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

The exchange difference arising on the retranslation of opening net assets is taken directly to reserves. All other translation differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings to the extent that they are used to finance or provide a hedge against Group equity investments in foreign currency enterprises, which are taken directly to reserves together with the exchange difference on the net investment in these enterprises. The Income Statement is translated at the average exchange rate for the financial year. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in reserves.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value.

Going concern

During the year the Group made a loss of \$42.7 million and at the balance sheet date had net assets of \$9.2 million and net current liabilities of \$59.3 million. The current and prior year losses are reflective of the strategic decision to invest in the future over short term profitability.

The Group's cash position remained strong, with cash of \$41.5 million held at the balance sheet date. In addition the Group had a loan facility of \$50 million in place as at 30 June 2018 with an expiry of 2022. After the year-end this \$50m loan facility was replaced with a \$125m term loan, providing a significant increase in available liquidity.

The directors acknowledge the Group is trading in an uncertain economic environment, although it is their belief that the Group is well positioned to meet its business objectives. The directors have prepared projected cash flow information for the period ending 30 June 2018 and beyond, and examined the results of sensitivity analysis on their forecasts to assess the effect on cash given certain downside scenarios. These projections anticipate that the Group will be able to operate from cash generated from trading, together with the bank facility in place.

Based on the above, the directors have concluded that the Group will continue in operational existence for the foreseeable future even if there were to be significant reductions in its planned revenues over this period. The directors therefore consider it appropriate to prepare the financial statements on the going concern basis.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 30 June 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards and interpretations not yet effective

At the date of authorisation of these financial statements, The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases had not yet been adopted by the EU:

Title	Subject	As issued by the IASB, mandatory for accounting periods starting on or after
IFRS 16	Leases	1 January 2019
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018

The directors consider the adoption of certain Standards listed above and have concluded that IFRS 9 and IFRS 15 should not have a material impact on the financial statements of the Group in future periods. IFRS 16 will have an impact on the recognition, measurement and disclosure of leasing arrangements. However, it is not practicable to provide a reasonable estimate of the effect of the adoption of this standard until a detailed review has been completed.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 30 June 2018

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In the application of the Group's accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Revenue recognition

In making its judgement, management considered the detailed criteria for the recognition of revenue from the provision of services set out in IAS 18, in particular, whether the Group can reliably measure the revenue due from its contractual counterparts. The directors are satisfied that the valuation method adopted in making this measurement of the revenue in the current year is appropriate.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period, that may 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:

Recoverability of internally-generated intangible asset

During the year, management reconsidered the recoverability of its internally-generated royalty system which is included in its balance sheet as an intangible asset at a value of \$9.2 million (2017: \$5.5 million).

Given the unique nature of this system it is not possible to value this asset based on the market price for identical or similar assets. However, since the directors consider Kobalt's royalty system to be a market-leading product they believe that its recoverable value significantly exceeds its value as recorded in the accounts.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit at a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was \$14.2 million (2017: \$10.8 million).

The goodwill arises from the acquisition of subsidiaries which were purchased in order to accelerate the Group's growth. The goodwill arising on these acquisitions has been attached to the cash generating unit which most closely corresponds to the acquired entity given the nature of its business. Approved forecasts for these cash generating units are then used to determine whether there is any impairment.

Recoverability of advances

In the course of its business the Group regularly makes advances to clients which are recoupable by means of future royalty receipts, but non-refundable.

The directors assess the recoverability of these advances by considering historic earning trends of the clients concerned and also with reference to expected future earnings. Where the discounted value of future earnings is less than the amount advanced a provision is booked against the advance.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

4. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable segments, as follows:

- the Publishing segment, which administers music publishing rights on behalf of clients;
- the Music Recordings segment, which distributes and licenses music recordings;
- the Neighbouring Rights segment, which collects neighbouring rights income on behalf of clients; and
- the Society segment, which is a music royalty collection society.

The Group's Chief Executive monitors the operating results of its business units separately for the purposes of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

4. SEGMENT INFORMATION (continued)

Classes of business	Publishing	Music recordings	Neighbouring rights	Society	Other/ corporate	Eliminations	Consolidated
	2018	2018	2018	2018	2018	2018	2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross Collection / Fees	325,719	59,914	91,252	44,829	-	(27,734)	493,980
Revenue							
External sales to third parties	291,690	57,289	8,331	44,829	-	-	402,139
Inter-segment sales	25,109	2,625	-	-	-	(27,734)	-
Total revenue	316,799	59,914	8,331	44,829	-	(27,734)	402,139
Contribution Margin	20,423	635	6,665	627	(2,611)	-	25,739
Onboarding Service Cost							(2,910)
Sales / Marketing Cost							(18,203)
Corporate Activity Cost							(19,965)
Adjusted EBITDA							(15,339)
Depreciation and amortisation							(7,086)
Provisions and write-offs							(473)
Exchange rate gain/(loss)							(3,919)
Finance cost							(914)
Other income/(expenses)							(7,154)
Share based payments							(5,072)
Loss before tax							(39,957)
Total assets	2,207,905	213,455	163,490	59,230	571,650	(2,832,103)	383,627
Total liabilities	(2,288,003)	(294,678)	(168,496)	(79,889)	(345,495)	2,802,141	(374,420)

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2018

4. SEGMENT INFORMATION (continued)

Classes of business	Publishing	Music recordings	Neighbouring rights	Society	Other/ corporate	Eliminations	Consolidated
	2017	2017	2017	2017	2017	2017	2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross Collection / Fees	263,812	39,640	69,356	34,590	-	(20,411)	386,987
Revenue							
External sales to third parties	241,306	38,424	6,671	34,590	-	-	320,991
Inter-segment sales	19,151	1,216	44	-	-	(20,411)	-
Total revenue	260,457	39,640	6,715	34,590	-	(20,411)	320,991
Contribution Margin	17,154	(946)	4,933	(45)	(1,762)	(278)	19,055
Onboarding Service Cost							(3,663)
Sales / Marketing Cost							(14,037)
Corporate Activity Cost							(15,503)
Adjusted EBITDA							(14,148)
Depreciation and amortisation							(2,912)
Provisions and write-offs							(1,250)
Exchange rate gain/(loss)							(996)
Finance cost							(6,741)
Other income/(expenses)							(2,098)
Share based payments							(1,381)
Loss before tax							(29,526)
Total assets	1,605,805	135,440	71,459	48,803	351,084	(1,917,943)	294,648
Total liabilities	(1,665,161)	(201,541)	(76,192)	(64,675)	(175,232)	1,917,776	(265,023)

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

4. SEGMENT INFORMATION (continued)

Geographic information

Revenues from external customers

Turnover, which is stated net of value added tax, represents amounts earned in respect of the Group's continuing activity as stated in the Directors' Report. An analysis of turnover by geographical market is given below:

	2018 \$'000	2017 \$'000
United Kingdom	52,587	45,894
Rest of Europe	138,924	101,626
North America	167,581	136,993
Rest of World	43,047	36,478
Total revenue	<u>402,139</u>	<u>320,991</u>

5. OPERATING LOSS

Has been arrived at after charging:

		2018 \$'000	2017 \$'000
Net foreign exchange losses	Note	3,919	1,039
Depreciation of property, plant and equipment	12	2,795	1,100
Amortisation of internally-generated intangible assets included in other operating expenses	11	2,362	1,270
Staff costs	6	55,836	39,658
Fees payable to the Company's auditor for the audit of the Group's annual financial statements		362	342
Other non-audit services:			
Taxation compliance services		161	364
Other taxation advisory services		906	219
Other assurance services		58	-
Corporate finance advisory services		568	286

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

6. STAFF COSTS

The average monthly number of employees (including executive directors) was:

	2018 Number	2017 Number
Management	19	18
Copyright administration	70	62
Other administration	247	173
Music recordings	56	43
Client services	23	17
Synchronisation and creative	100	63
	<u>515</u>	<u>376</u>

	2018 \$'000	2017 \$'000
Wages and salaries	45,821	34,753
Employer pension contributions	624	286
Social security contributions and similar taxes	4,319	3,239
Share-based payment charges	5,072	1,380
	<u>55,836</u>	<u>39,658</u>

7. FINANCE COSTS

	2018 \$'000	2017 \$'000
Interest expense on financial liabilities measured at amortised cost	779	341
Interest expense on convertible debt	-	6,400
	<u>779</u>	<u>6,741</u>

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

8. INCOME TAX

The major components of income tax expense for the years ended 30 June 2018 and 2017 are:

	2018 \$'000	2017 \$'000
Current income tax		
United Kingdom corporation tax based on the loss for the year at 19% (2017 : 19.75%)	-	(36)
Non-reclaimable withholding tax on royalty payments received	2,741	3,108
Tax paid in overseas jurisdictions	162	230
Total current tax	2,903	3,302
Deferred taxation		
Origination and reversal of timing differences	(164)	306
Tax on loss on ordinary activities at standard rate of 19% (2017: 19.75%)	2,739	3,608

The standard rate of tax for the year, based on the United Kingdom standard rate of corporation tax is 19% (2017 : 19.75%). The actual tax charge for the current year and the previous year differs from the standard tax rate for the reasons set out in the following reconciliation:

	2018 \$'000	2017 \$'000
Loss on ordinary activities before tax	(39,957)	(29,526)
Tax on loss on ordinary activities at standard rate	(7,592)	(5,832)
Factors affecting charge for the year:		
Expenses not deductible for tax purposes	1,147	254
Income not taxable for tax purposes	(404)	(63)
Depreciation in excess of capital allowances	735	267
Tax losses carried forward	7,550	9,486
Net non-reclaimable withholding tax on royalty payments received	2,741	3,108
Different tax rates used in overseas jurisdictions	(1,497)	(3,618)
Movement in short term timing differences	59	6
Total actual amount of current tax	2,739	3,608

Deferred taxation

Various Group companies have, subject to agreement by the tax authorities in the relevant jurisdictions, tax losses available for offset against future taxable profits arising from the same trades. These losses have an approximate value of \$30.7 million (2017 : \$28.8 million) of which \$618k (2017: \$609k) has been recognized as a deferred tax asset. The deferred tax asset has been recognized in entities which have tax losses carried forward and are expected to be fully recovered within the next two years. The change in recognized deferred tax asset in the year is due to exchange rate movements.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

9. SHARE-BASED PAYMENTS

Equity-settled share options

The Company provides incentives in the form of share options to many employees of the Group as well as a small number of key suppliers. Options are exercisable at a price equal to or greater than the latest issued or traded price of the Company's shares on the date of grant. The vesting period is up to four years. If the options remain unexercised after a period of between five and ten years from the date of grant the options expire. Some options are forfeited if the employee leaves the Group.

Details of the share options outstanding during the year are as follows:

	2018		2017	
	Number of share options	Weighted average exercise price (in £)	Number of share options	Weighted average exercise price (in £)
Outstanding at beginning of year	972,609	20.42	936,078	17.68
Granted during the year	895,731	38.00	107,500	23.00
Forfeited during the year	(9,403)	23.00	(17,952)	13.49
Exercised during the year	(1,395)	23.00	(53,017)	16.06
Expired during the year	(1,008)	10.00	-	-
Outstanding at the end of the year	<u>1,856,534</u>		<u>972,609</u>	
Exercisable at the end of the year	<u>1,039,265</u>		<u>875,377</u>	

The weighted average share price at exercise was £41.82 (2017: £21.93).

At 30 June 2018, outstanding options had an exercise price of £2.50 to £49.00 (2017 £2.50 to £23.00) and a weighted average remaining contractual life of 7.2 years (2017: 6.5 years).

The inputs into the Black-Scholes option pricing model for options granted within the relevant year are as follows:

Year ended 30 June	2018	2017
Weighted average share price at grant	£41.82	£21.93
Weighted average exercise price	£37.64	£23.00
Expected volatility	25%	25%
Weighted average expected life	10.00	10.00
Weighted average risk-free rate	1.44%	1.55%
Expected dividend yield	-	-

Expected volatility was estimated by considering comparable companies and historical volatility of the Group's share price over the previous five years.

The Group recognised total expenses of \$5.1 million related to equity-settled share-based payment transactions in the year ended 30 June 2018 (2017 : \$1.4m).

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

10. GOODWILL AND IMPAIRMENT

GROUP

	Goodwill \$'000
Cost	
At 30 June 2017	11,633
Additions in year	2,989
Foreign exchange rate movements	474
At 30 June 2018	15,096
Accumulated impairment losses	
At 30 June 2017	881
Impairment in year	-
Foreign exchange rate movements	-
At 30 June 2018	881
Net book value	
At 30 June 2017	10,752
At 30 June 2018	14,215

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment. 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 suitable discount rate in order to calculate the present value of the cash flows.

The carrying amount of goodwill is allocated to the CGUs as follows at 30 June 2018, before impairment consideration:

	2018 \$'000	2017 \$'000	2016 \$'000
Kobalt Music Netherlands	1,365	1,371	1,401
Music Recordings	4,271	1,267	1,306
Society	699	699	699
Neighbouring Rights	8,761	8,296	-
	15,096	11,633	3,406

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

10. GOODWILL AND IMPAIRMENT (continued)

The recoverable amounts of all the above CGUs have been determined from value in use calculations based on cash flow projections from formally approved budgets covering a five-year period to 30 June 2020. Other major assumptions are as follows:

	Kobalt Music Netherlands	Music Recordings	Society	Neighbouring Rights
2018:				
Discount rate	5.5%	5.5%	5.5%	5.5%
EBITDA margin	6%	5%	5%	9%
Average annual growth rate	-9%	78%	84%	19%
2017:				
Discount rate	5.5%	5.5%	5.5%	5.5%
EBITDA margin	6%	5%	5%	9%
Average annual growth rate	-9%	78%	84%	19%

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

11. OTHER INTANGIBLE ASSETS

GROUP	Client contracts \$'000	Software licences \$'000	Development costs \$'000	Publishing assets \$'000	Total assets \$'000
Cost					
At 1 July 2016	-	826	10,870	119	11,815
Additions – internally generated	-	-	2,578	-	2,578
Additions – external third party	26,538	1,263	-	-	27,801
Foreign exchange rate movements	-	190	(429)	20	(219)
At 30 June 2017	26,538	2,279	13,019	139	41,975
Additions – internally generated	-	-	5,937	369	6,306
Additions – external third party	-	2,204	-	-	2,204
Additions – acquisition subsidiaries	-	-	-	3	3
Foreign exchange rate movements	1,401	32	189	-	1,622
At 30 June 2018	27,939	4,515	19,145	511	52,110
Amortisation					
At 1 July 2016	-	149	6,247	119	6,515
Amortisation charge	796	838	1,270	-	2,904
Foreign exchange rate movements	-	(133)	21	20	(92)
At 30 June 2017	796	854	7,538	139	9,327
Amortisation charge	1,062	868	2,362	-	4,292
Foreign exchange rate movements	-	-	52	-	52
At 30 June 2018	1,858	1,722	9,952	139	13,671
Net book value					
At 1 July 2016	-	677	4,623	-	5,300
At 30 June 2017	25,742	1,425	5,481	-	32,648
At 30 June 2018	26,081	2,793	9,193	372	38,439

All amortisation of intangible assets is recorded as a cost within operating expenses on the income statement.

Client contracts consist of administration agreements acquired on acquisition, these are amortised over 25 years.

Development costs consists entirely of the Group's internally developed royalty system. Different components of the system have different remaining amortisation periods, ranging up to five years.

Publishing assets relates to payments made to acquire the right to collect royalties on future compositions by a certain client. Publishing assets are amortised with the collection of royalties on the future compositions.

Software licences include licences with a perpetual life purchased from external third parties and applications internally created. Software licences are amortised over three years.

Total development costs of \$9,193k are held by Ktech Ltd.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

12. PROPERTY, PLANT AND EQUIPMENT

GROUP

	Office equipment and fixtures \$'000	Computer equipment \$'000	Total \$'000
Cost			
At 1 July 2016	2,949	3,420	6,369
Additions	379	1,566	1,945
Foreign exchange movements	(101)	10	(91)
At 30 June 2017	3,227	4,996	8,223
Additions	10,032	1,194	11,226
Disposals	(1,258)	(721)	(1,979)
Foreign exchange movements	10	58	68
At 30 June 2018	12,011	5,527	17,538
Accumulated depreciation			
At 1 July 2016	1,665	2,279	3,944
Depreciation	349	751	1,100
Foreign exchange movements	30	(88)	(58)
At 30 June 2017	2,044	2,942	4,986
Depreciation	1,639	1,156	2,795
Depreciation on disposals	(1,185)	(717)	(1,902)
Foreign exchange movements	(90)	117	27
At 30 June 2018	2,408	3,498	5,906
Net book value			
At 1 July 2016	1,284	1,141	2,425
At 30 June 2017	1,183	2,054	3,237
At 30 June 2018	9,603	2,029	11,632

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

13. SUBSIDIARIES

The Group consists of a parent company, Kobalt Music Group Ltd, incorporated in the UK and a number of subsidiaries indirectly, which operate and are incorporated around the world. All subsidiaries are 100% owned by the Group with 100% of voting share. See below for details:

Name	Address	Place of incorporation and operation	Principal activity
AWAL Digital Limited	(a)	UK	Distribution and licencing of digital music content
KMG Germany GmbH	(b)	Germany	Music publishing
Kobalt America Holdings, Inc	(c)	USA	Holding company
Kobalt Capital America, Inc	(c)	USA	Provision of investment advice
Kobalt Capital Limited	(a)	UK	Provision of investment advice
Kobalt Capital Suisse Sarl	(d)	Switzerland	Provision of investment advice
Kobalt Music Recordings Licensing Limited (formerly Kobalt Digital Licensing Limited)	(a)	UK	Distribution and licensing of music recordings
Kobalt Music Recordings America Inc (formerly Kobalt Label Services America, Inc)	(c)	USA	Distribution and licensing of music recordings
Kobalt Music Recordings Limited (formerly Kobalt Label Services Limited)	(a)	UK	Distribution and licensing of music recordings
Kobalt Music Recordings Licensing America, Inc. (formerly Kobalt Masters Licensing America Inc)	(c)	USA	Distribution and licensing of music recordings
Kobalt Music Administration Limited	(a)	UK	Music publishing
Kobalt Music Publishing (Italia) Limited	(a)	UK	Music publishing
Kobalt Music Publishing America Inc	(c)	USA	Music publishing
Kobalt Music Publishing Australia Pty Limited	(e)	Australia	Music publishing
Kobalt Music Publishing Limited	(a)	UK	Music publishing
Kobalt Music Royalties Sarl	(f)	Luxembourg	Music publishing
Kobalt Music Royalties II Sarl	(f)	Luxembourg	Music publishing
Kobalt Music Scandinavia AB	(g)	Sweden	Music publishing
Kobalt Music Services America Inc	(c)	USA	Music publishing
Kobalt Music Services America II Inc	(c)	USA	Music publishing
Kobalt Music Services Australia Pty Limited	(e)	Australia	Music publishing
Kobalt Music Services Limited	(a)	UK	Music publishing
Kobalt Music Services II Limited	(a)	UK	Music publishing
Kobalt Music Rights Agency Limited (formerly Rights Agency Limited)	(a)	UK	Collection of neighbouring rights
Kobalt Neighbouring Rights Limited	(a)	UK	Collection of neighbouring rights
Kojam Music Limited	(a)	UK	Music publishing
Kobalt Music Publishing Malaysia Limited (formerly Kollektor Limited)	(a)	UK	Music Publishing
Kobalt Music Publishing Worldwide Limited (formerly Kobalt STIM Aggregated Rights Limited)	(a)	UK	Music publishing
Kobalt 2015 Limited	(a)	UK	Music publishing
Kobalt Music Netherlands BV	(h)	Netherlands	Music publishing
Kobalt Music Netherlands Publishing B.V., (Formerly Fintage Publishing B.V)	(h)	Netherlands	Music publishing

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

13. SUBSIDIARIES (continued)

Name	Address	Place of incorporation and operation	Principal activity
Kobalt Music Netherlands International B.V., (Formerly Fintage Music International B.V.)	(h)	Netherlands	Music publishing
Kobalt Music Netherlands Publishing Australia B.V., (Formerly Fintage Publishing Australia B.V.)	(h)	Netherlands	Music publishing
Kobalt Music Netherlands Publishing Italiana B.V., (Formerly Fintage Publishing Italiana B.V.)	(h)	Netherlands	Music publishing
Kobalt Music Netherlands Direct B.V., (Formerly Fintage Direct B.V.)	(h)	Netherlands	Music publishing
Kobalt Music Netherlands Artists B.V., (Formerly Fintage Artists B.V.)	(h)	Netherlands	Collection of neighbouring rights
Kobalt Music Netherlands OH Records B.V., (Formerly Onehill Records B.V.)	(h)	Netherlands	Collection of neighbouring rights
Ktech Services Limited	(a)	UK	Group service provision
American Music Rights Association Inc.	(i)	USA	Collection society
AMRA London Limited	(j)	UK	Society service provision
Kobalt London Limited*	(a)	UK	Group service provision
Kobalt Music Publishing Asia Limited	(k)	Hong Kong	Music publishing
Kobalt Music Services Asia Limited	(k)	Hong Kong	Music publishing
American Music Rights Association AMRA Aktiebolag	(g)	Sweden	Society service provision
In2une, Inc.	(c)	USA	Recordings service provision

*Directly held by Kobalt Music Group Limited

- (a) 1 Cousin Lane, London EC4R 3TE, United Kingdom
- (b) Oberwallstrasse 1, 10117, Berlin, Germany
- (c) 2 Gansevoort St., 6th Floor, New York, NY 10014
- (d) c/o Fidulem S.A., Av. Mon-Repos 24, Case postale 625, 1001 Lausanne, Switzerland
- (e) Suite 203, 24-30 Springfield Avenue, Potts Point, Sydney, Australia
- (f) 5 Allee Scheffler, L-2520 Luxembourg
- (g) Fleminggatan 61NB PL2, 112 32 Stockholm, Sweden
- (h) Bergweidedijk 38 7418AA Deventer, The Netherlands
- (i) 2100 Ponce de Leon, Suite 1230, Coral Gables, Florida 33134, United States
- (j) 21-27 Lambs Conduit Street, London, WC1N 3GS, United Kingdom
- (k) Unit 1502, 15th Floor, Austin Tower, 22-26 Austin Avenue, Tsim Sha Tsui, Hong Kong

During the year a restructure of the Group entities took place where the Investment in subsidiaries were transferred from Kobalt Music Group to Kobalt London Limited (an existing subsidiary of Kobalt Music Group).

The transfer took place at cost with Kobalt Music Group receiving shares in Kobalt London Limited via a share for share exchange as consideration. Group reconstruction relief has been applied as is allowed within s611 of the Companies Act 2006.

As part of the restructure, Kobalt Music Group also transferred its investments in Kobalt Music Royalties SCA SICAV-SIF and KMR Music Royalties II SCSp to Kobalt London Limited, and the intangible SAX and Apps assets to KTech Services Limited. These transfers were for cash consideration at Net Book Value.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

14. INVESTMENTS

	Group investments \$'000
Cost	
At 1 July 2016	4,275
Fair value adjustment	1,435
Foreign exchange movements	(109)
At 30 June 2017	<u>5,601</u>
Investment in third parties	2,160
Fair value reduction from dividend received	(305)
Foreign exchange movements	37
Fair value adjustment	-
	<u>7,493</u>
At 30 June 2018	

The Group holds a strategic, non-controlling interest of 2.73% in Kobalt Music Royalties SCA SICAV-SIF and 0.87% in KMR Music Royalties II SCSp.

15. TRADE AND OTHER RECEIVABLES

	2018 \$'000	2017 \$'000
Other receivables	140,871	109,258
Less: provision for impairment of advances	(7,684)	(7,152)
Other receivables net	<u>133,187</u>	<u>102,106</u>
Prepayments	2,093	3,162
Accrued income	<u>134,414</u>	<u>88,088</u>
Total trade and other receivables	<u>269,694</u>	<u>193,356</u>

Trade and other receivables are measured at unamortised amount receivable.

The directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

	Provision \$'000
Movement in allowance for doubtful debts:	
At 1 July 2016	(5,546)
Charged to consolidated statement of comprehensive income during the period	<u>(1,606)</u>
At 30 June 2017	(7,152)
Charged to consolidated statement of comprehensive income during the period	<u>(532)</u>
At 30 June 2018	<u>(7,684)</u>

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

16. TRADE AND OTHER PAYABLES

As at 30 June 2018 the Group has contractual obligations to make future advances which are either of an unconditional nature (with a known timing and amount) or conditional on a future event. Unconditional obligations are all due by 31 December 2018 and for a total of \$1.5 million and have not been recognised.

The directors consider that the carrying amount of trade and other payables is approximately equal to their fair value.

	2018 \$'000	2017 \$'000
Trade creditors	1,427	572
Social security and other taxes	2,246	1,214
Accruals	282,210	214,996
Deferred revenue	72,477	42,295
Other creditors	4,486	2,148
Total trade and other payables	362,846	261,225

17. LOANS AND BORROWING

The book value and fair value of loans and borrowings are as follows:

	2018 \$'000	2017 \$'000
Secured borrowing at amortised cost		
Bank loans	10,000	-
Capitalised debt costs	(2,263)	-
Total borrowings	7,737	-
 Amount due for settlement within 12 months	 10,000	 -

All borrowings are in US dollars.

The other principal features of the Group's borrowings are as follows:

The Group has a debt facility for \$50 million. The loan is secured by a charge over certain Group assets. As at year end the Group the value outstanding was \$10m.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

18. DEFERRED TAX

	\$'000
Deferred Tax Asset	
At 30 June 2016	945
Exchange rate movements	(30)
Brought forward losses utilised in year	<u>(306)</u>
At 30 June 2017	609
Exchange rate movements	9
Brought forward losses utilised in year	<u>-</u>
At 30 June 2018	<u>618</u>

The amount of deferred tax asset provided in the financial statements is as follows:

	GROUP	
	2018 \$'000	2017 \$'000
Trading losses	<u>618</u>	<u>609</u>

Deferred Tax Liability	\$'000
At 30 June 2016	-
Liability arising in year due to Fintage acquisition	<u>(3,800)</u>
At 30 June 2017	(3,800)
Exchange rate movements	(201)
Reversal of timing differences	<u>164</u>
At 30 June 2018	<u>(3,837)</u>

19. OPERATING LEASE ARRANGEMENTS

The Company as Lessee

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2018 \$'000	2017 \$'000
Lease payments under operating leases recognised as an expense in the year	5,794	3,363
	<u>5,794</u>	<u>3,363</u>
	2018 \$'000	2017 \$'000
Not later than one year	6,700	4,480
Later than one year and not later than five years	21,599	14,858
Later than five years	<u>24,613</u>	<u>11,749</u>
	<u>52,912</u>	<u>31,087</u>

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

19. OPERATING LEASE COMMITMENTS (continued)

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of six years and rentals are fixed for an average of four years with an option to extend for a further one year at the then prevailing market rate.

The Company as a Lessor

At the balance sheet date, the Company had contracted with tenants for the following future minimum lease payments:

	2018 \$'000	2017 \$'000
Not later than one year	442	-
Later than one year but not later than five years	557	-
Later than five years	-	-
	<u>999</u>	<u>-</u>

20. FINANCIAL INSTRUMENTS

The Group's financial instruments comprise of cash and cash equivalents, trade receivables and trade payables which arise directly from its operations. The main purpose of these financial instruments is to provide finance for the Group's operations.

The Group's activities expose it to a variety of financial risks including liquidity risk, and foreign currency exchange rate risk. It is the objective of the Group to minimise these risks where possible by maintaining and operating a robust control environment. Given the size of the Group, the directors have not delegated the responsibility of monitoring financial risk management to a separate sub-committee of the Board.

The Group currently does not use derivative financial instruments to manage its exposure to these risks.

All trade payables are due to be paid within twelve months of the Balance Sheet date. See note 16 for further details.

Liquidity risk

As regards liquidity, the Group's policy throughout the period has been to ensure the continuity of funding. The Group manages liquidity risk by maintaining adequate reserves and continuously monitoring forecast and actual cash flows.

Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. The Group's policy is to conduct the majority of its sales in the local currency of each entity. Within each statutory entity, there is an amount of trading with overseas customers which are settled in foreign currencies. The Group monitors its exposure to currency by regularly reviewing its cash balances and matching these with future known and forecasted requirements.

The Group's policy is to align cash holdings and future expenses of its major currencies in order to provide some protection against adverse movements in foreign exchange rates. At year end the Group held cash as follows:

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

20. FINANCIAL INSTRUMENTS (continued)

Currency	30 June 2018	30 June 2017
	\$'000	\$'000
United States Dollar	21,018	20,226
Great British Pound	8,531	9,310
Euro	8,518	13,072
Swedish Krona	1,883	1,505
Swiss Franc	330	1,957
Canadian Dollar	106	649
Australian Dollar	755	1,548
Hong Kong Dollar	141	178
Chinese Yuan	151	-
Japanese Yen	6	-

Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders. In order to maintain or adjust the capital structure, the Group may adjust the amounts of dividends paid to shareholders, return capital to shareholders, issue new shares or negotiate debt facilities.

The capital structure of the Group consists of equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings. An FCA regulated subsidiary of the Group, KCL, is subject to externally imposed capital requirements. The required amount is £42k (\$56k) as of 30 June 2018 which is immaterial to the Group.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

21. SHARE CAPITAL

Issued and fully paid:

	2018	2017
	\$'000	\$'000
6,387,416 (2017 - 6,389,148) ordinary shares of £0.05 each	541	540
931,102 (2017 - 931,102) BA ordinary shares of £0.005 each	6	6
315,341 (2017 - 315,341) BC ordinary shares of £0.005 each	2	2
112,000 (2017 - 112,000) BD ordinary shares of £0.005 each	1	1
77,750 (2017 - 77,750) BG ordinary shares of £0.005 each	1	1
530,684 (2017 - 530,684) A preference shares of £0.05 each	38	38
62,500 (2017 - 62,500) B preference shares of £0.05 each	4	4
1,377,981 (2017 - 1,377,981) C preference shares of £0.10 each	185	185
1,354,984 (2017 - 1,140,686) D preference shares of £0.10 each	175	148
	<u>953</u>	<u>925</u>

During the year, share capital was increased by £21k (\$27k) by the issue of 21,430 D preference shares.

In the year, the following shares were issued as a result of the exercise of options:

Date	Type of share	No. of shares
27 July 2017	Ordinary shares of £0.05	2,500
27 July 2017	Ordinary shares of £0.05	1,500
16 May 2018	Ordinary shares of £0.05	800
13 March 2018	Ordinary shares of £0.05	540
13 March 2018	Ordinary shares of £0.05	55

There were 5,633 shares repurchased for cash during the year, total par value of these shares was £281.65.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

21. SHARE CAPITAL (continued)

The rights, preferences and restrictions attaching to each class of share are as follows:

Share class	Voting rights	Dividends rights	Capital distribution rights	Other
Ordinary	Full	Subject to the preferred dividend rights attaching to the Series D preferred shares and the series C preferred shares, full rights to participate in distribution of dividends	Subject to the rights of the Series A preferred shares, Series B preferred shares, Series C preferred shares and Series D preferred shares, full rights to participate in capital distributions; (d) the shares are not to be redeemed nor are they liable to be redeemed at the option of the company or the shareholder	
Ordinary - BA	20 Ordinary BA shares have the same voting rights as 1 Ordinary share	Subject to the preferred dividend rights attaching to the Series D preferred shares and the Series C preferred shares, Ordinary BA shareholders have the right to participate in distribution of dividends payable to that share class	Subject to the rights of the Series A preferred shares, Series B preferred shares, Series C preferred shares and Series D preferred shares, Ordinary BA shareholders have the right to participate in capital distributions, such distributions to be reduced by the threshold value of £6.00 per Ordinary BA share; (d) the shares are not to be redeemed nor are they liable to be redeemed at the option of the company or the shareholder	
Ordinary - BB	20 Ordinary BB shares have the same voting rights as 1 Ordinary share	Subject to the preferred dividend rights attaching to the Series D preferred shares and the Series C preferred shares, Ordinary BB shareholders have the right to participate in distribution of dividends payable to that share class	Subject to the rights of the Series A preferred shares, Series B preferred shares, Series C preferred shares and Series D preferred shares, Ordinary BB shareholders have the right to participate in capital distributions, such distributions to be reduced by the threshold value of £7.50 per Ordinary BB share; (d) the shares are not to be redeemed nor are they liable to be redeemed at the option of the company or the shareholder	

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

21. SHARE CAPITAL (continued)

Ordinary – BC	20 Ordinary BC shares have the same voting rights as 1 Ordinary share	Subject to the preferred dividend rights attaching to the Series D preferred shares and the Series C preferred shares, Ordinary BC shareholders have the right to participate in distribution of dividends payable to that share class	Subject to the rights of the Series A preferred shares, Series B preferred shares, Series C preferred shares and Series D preferred shares, Ordinary BC shareholders have the right to participate in capital distributions, such distributions to be reduced by the threshold value of £10.00 per Ordinary BC share; (d) the shares are not to be redeemed nor are they liable to be redeemed at the option of the company or the shareholder	
Ordinary - BD	20 ordinary BD shares have the same voting rights as 1 Ordinary share	Subject to the preferred dividend rights attaching to the Series D preferred shares and the Series C preferred shares, Ordinary BD shareholders have the right to participate in distribution of dividends payable to that share class	Subject to the rights of the Series A preferred shares, Series B preferred shares, Series C preferred shares and Series D preferred shares, Ordinary BD shareholders have the right to participate in capital distributions, such distributions to be reduced by the threshold value of £20.00 per Ordinary BD share; (d) the shares are not to be redeemed nor are they liable to be redeemed at the option of the company or the shareholder	
Ordinary - BG	20 ordinary BG shares have the same voting rights as 1 Ordinary share	Subject to the preferred dividend rights attaching to the Series D preferred shares and the Series C preferred shares, Ordinary BG shareholders have the right to participate in distribution of dividends payable to that share class	Subject to the rights of the Series A preferred shares, Series B preferred shares, Series C preferred shares and Series D preferred shares, Ordinary BG shareholders have the right to participate in capital distributions, such distributions to be reduced by the threshold value of £17.50 per Ordinary BG share	The shares are not to be redeemed nor are they liable to be redeemed at the option of the company or the shareholder

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

21. SHARE CAPITAL (continued)

Series A Preferred	Full voting rights on an as converted basis into Ordinary shares	Subject to the preferred dividend rights attaching to the Series D preferred shares and the Series C preferred shares, full rights to participate in distribution of dividends	Subject to the rights of the Series D preferred shares and the Series C preferred shares, prior right to participate up to £12.00 per Series A preferred share in capital distributions, pari passu with right of Series B preferred shares to participate up to £20.00 per Series B preferred share, where the amount receivable per ordinary share, series a preferred share and Series B preferred share would otherwise be less than £20.00 per share	Convertible into Ordinary shares at any time and automatically on a listing; The shares are not to be redeemed nor are they liable to be redeemed at the option of the company or the shareholder
Series B Preferred	Full voting rights on an as converted basis into Ordinary shares	Subject to the preferred dividend rights attaching to the Series D preferred shares and the Series C preferred shares, full rights to participate in distribution of dividends	Subject to the rights of the Series D preferred shares and the Series C preferred shares, prior right to participate up to £20.00 per Series B preferred share in capital distributions, pari passu with right of Series A preferred shares to participate up to £12.00 per Series A preferred Share, where the amount receivable per ordinary share, Series A preferred share and Series B preferred share would otherwise be less than £20.00 per share	Convertible into Ordinary shares at any time and automatically on a listing; The shares are not to be redeemed nor are they liable to be redeemed at the option of the company or the shareholder
Series C Preferred	Full voting rights on an as converted basis into Ordinary shares	Subject to the preferred dividend rights attaching to the Series D preferred shares, prior right to receive dividend equal to the greater of 8% of the applicable Series C lp amount and the ordinary share dividend the holders would receive on an as converted basis	Subject to the prior rights of the Series D preferred shares, prior right (prior to the holders of Series A preferred shares, Series B preferred shares, Ordinary shares and B shares) to receive up to the Series C lp amount per Series C preferred share held on a capital distribution, otherwise right to receive same amount per share as holders of ordinary shares	Convertible into Ordinary shares at any time and automatically on a listing; The shares are not to be redeemed nor are they liable to be redeemed at the option of the company or the shareholder

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

21. SHARE CAPITAL (continued)

Series D Preferred	Full voting rights on an as converted basis into Ordinary shares	Prior right to receive dividend equal to the greater of 8% of the applicable Series D lp amount and the ordinary share dividend the holders would receive on an as converted basis	Prior right (prior to the holders of Series A preferred shares, Series B preferred shares, Series C preferred shares, Ordinary shares and B shares) to receive up to 1.25 times the Series D lp amount per Series D preferred share held on a capital distribution, otherwise right to receive same amount per share as holders of Ordinary shares	Convertible into Ordinary shares at any time and automatically on a listing; The shares are not to be redeemed nor are they liable to be redeemed at the option of the company or the shareholder
--------------------	--	--	--	--

22. SHARE PREMIUM

	\$'000
Balance at 1 July 2016	104,407
Premium arising on issue of equity share	74,754
Balance at 30 June 2017	179,161
Premium arising on issue of equity shares	13,993
Balance at 30 June 2018	193,154

23. RESERVES

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

- share capital: nominal value of share capital issued;
- share premium: Amount subscribed for share capital in excess of nominal value;
- share option reserve: the cost to the Group of share options, less any consideration paid for the lapse of options;
- retained earnings: the company's results to date. The company has paid no dividends to date; and
- retranslation reserve: Exchange differences relating to the translation of the net assets of the Group's foreign operations, which relate to subsidiaries only, from their functional currency into the parent's presentational currency, being USD, are recognised directly in the translation reserve.

No gains or losses were transferred from translation reserves into profit or loss during the period.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

24. ACQUISITION OF SUBSIDIARY

On 1 June 2018 the Group acquired 100% of the share capital of In2une, Inc. for total consideration of \$3.3m. The net assets on acquisition were \$0.3m, resulting in goodwill of \$3.0m. In2une contributed \$0.1m revenue, and \$0.1m profit post acquisition.

Prior Year (2016/17) Fintage Acquisition

On 22 September 2016, the Group acquired 100 per cent of the issued share capital of the following companies: Fintage Artists B.V., Fintage Direct B.V., Fintage Music International B.V., Fintage Publishing B.V., Fintage Publishing Australia B.V., Fintage Publishing Italiana B.V., Onehill Records B.V. and Rights Agency Limited

The companies are engaged in the business of administering music publishing, neighbouring rights and performance rights in master recordings on behalf of individual and corporate clients. At the time of acquisition, Fintage was the largest Neighbouring Rights agent business in the world (having acquired Rights Agency in 2011) as well as a small publishing administration business.

The Fintage entities were acquired as part of the strategic plan to expand the reach of the Kobalt neighbouring rights and publishing businesses.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are below:

	\$'000
Trade and other receivables	5
Advances	2,831
Net intercompany balance	(63)
Prepayments and accrued income	459
Taxes and social security receivable	132
Cash and cash equivalents	6,041
Total assets	9,405
Royalties payable	(3,133)
Unprocessed royalties	(4,973)
General suspense	(1,574)
Taxes and social security	(125)
Accruals	(640)
Other payables	(91)
Total liabilities	(10,536)
Net liabilities acquired	(1,131)
Identifiable intangible assets	26,538
Goodwill	8,321
Deferred tax liability arising on acquisition	(3,800)
Foreign exchange difference on translation	973
Total consideration	30,901
Satisfied by:	
Cash	30,900
Total consideration transferred	30,900
Net cash outflow arising on acquisition:	
Cash consideration	(30,900)
Less: cash and cash equivalent balances acquired	6,041
	(24,860)

The goodwill of \$8,321,277 arising on acquisition consists of the synergies expected to be achieved by integrating these entities into the existing Kobalt neighbouring rights and publishing businesses.

Acquisition related costs (included in administration expenses) amounted to \$1.3m.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

25. RELATED PARTY DISCLOSURES

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

The remuneration of key management personnel, including directors and senior executives is as follows:

	2018 \$'000	2017 \$'000
Key management personnel compensation		
Wages and salaries	8,229	7,763
Employer pension contributions	11	5
Share-based payment charges	3,685	680
	<u>11,925</u>	<u>8,448</u>
Directors' remuneration	2018 \$'000	2017 \$'000
Directors' emoluments	3,708	4,527
Share-based payment charges	2,189	126
Company contributions to money purchase pension schemes	3	2
	<u>5,900</u>	<u>4,655</u>
The number of directors who:		
Are members of money purchase pension schemes	-	-
Exercised options over shares in the Company	-	-

KOBALT MUSIC GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

25. RELATED PARTY DISCLOSURES (continued)

Emoluments of the highest paid director are as follows:

	2018 \$'000	2017 \$'000
Director's emoluments	2,507	2,320
Employer pension contributions	-	-
Share-based payment charges	<u>2,062</u>	<u>-</u>
	<u>4,569</u>	<u>2,320</u>

The highest paid director did not exercise options during the year (2017 – none).

Kobalt Music Group Limited is the ultimate controlling party of the Group. No single individual or entity controls Kobalt Music Group Limited.

26. POST BALANCE SHEET EVENTS

On 26th November 2018 the Group replaced its \$50m revolving credit facility with a \$125m term loan.

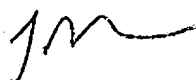
KOBALT MUSIC GROUP LIMITED

COMPANY BALANCE SHEET

As at 30 June 2018

	Notes	2018 \$'000	2017 \$'000
Non-current assets			
Property, plant and equipment	31	8,816	2,264
Other Intangible Assets	32	1,918	6,893
Investments	29	28,507	33,709
		<u>39,241</u>	<u>42,866</u>
Current assets			
Trade and other receivables	30	499,337	304,974
Cash and bank balances		-	3,244
Total assets		<u>538,578</u>	<u>351,084</u>
Current liabilities			
Trade and other payables	33	(330,605)	(172,600)
Borrowings		(7,737)	-
Accruals		(2,028)	(2,632)
		<u>(340,370)</u>	<u>(175,232)</u>
Net current assets		<u>158,967</u>	<u>132,986</u>
Net assets		<u>198,208</u>	<u>175,852</u>
Equity			
Share capital	34	953	925
Share premium account		193,154	179,161
Share option reserve	35	14,514	9,595
Retranslation reserves		(17,259)	(20,767)
Retained earnings		6,846	6,938
Total equity		<u>198,208</u>	<u>175,852</u>

The financial statements of Kobalt Music Group Limited, registered number 04018752, were approved by the Board of Directors and authorised for issue on 28 January 2019.



J P Fitzherbert-Brockholes
Director

KOBALT MUSIC GROUP LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY

As at 30 June 2018

Equity attributable to equity holders of the Company

	Share capital	Share premium account	Share option reserve	Retransla- tion reserve	Retained earnings	Total equity
Note	34	34				
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2016	783	104,407	8,348	(18,110)	13,320	108,748
Profit for the year	-	-	-	-	3,767	3,767
Other comprehensive loss for the year	-	-	-	(2,657)	-	(2,657)
Total comprehensive income for the year	-	-	-	(2,657)	3,767	1,110
Issue of share capital	142	74,754	-	-	-	74,896
Share-based payment transactions (note 9)	-	-	1,380	-	-	1,380
Share options waived for consideration	-	-	(133)	-	-	(133)
Share repurchase from retained earnings	-	-	-	-	(10,149)	(10,149)
Balance at 30 June 2017	925	179,161	9,595	(20,767)	6,938	175,852
Profit / (loss) for the year	-	-	-	-	280	280
Other comprehensive income for the year	-	-	-	3,508	-	3,508
Total comprehensive income for the year	-	-	-	3,508	280	3,788
Issue of share capital	28	13,993	-	-	-	14,021
Share-based payment transactions (note 9)	-	-	5,072	-	-	5,072
Share options waived for consideration	-	-	(153)	-	-	(153)
Share repurchase from retained earnings	-	-	-	-	(372)	(372)
Balance at 30 June 2018	953	193,154	14,514	(17,259)	6,846	198,208

KOBALT MUSIC GROUP LIMITED

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 30 June 2018

27. SIGNIFICANT ACCOUNTING POLICIES

The separate financial statements of the company are presented as required by the Companies Act 2006. The company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, in the year ended 30 June 2016 the company decided to adopt FRS 101 early and has undergone transition from reporting under UK GAAP to FRS 101 as issued by the Financial Reporting Council. Accordingly, the financial statements have therefore been prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council. This transition is not considered to have had a material effect on the financial statements.

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payment, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement and certain related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in note 2 and note 3 to the consolidated financial statements except as noted below.

Investment in subsidiaries

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

28. PROFIT FOR THE YEAR

As permitted by section 408 of the Companies Act 2006 the company has elected not to present its own profit and loss account for the year. The company reported a profit for the financial year ended 30 June 2018 of \$0.3m (2017: \$3.8m). The auditor's remuneration for audit and other services is disclosed in note 5 to the consolidated financial statements.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 30 June 2018

29. INVESTMENTS

COMPANY	Investment in subsidiary undertakings \$'000	Investments in non-Group companies \$'000	Total \$'000
Cost			
At 1 July 2017	28,112	5,597	33,709
Foreign exchange	395	-	395
Transfers to Group Entity	(28,548)	(6,912)	(35,460)
Additions	28,548	1,620	30,168
Dividend Received	-	(305)	(305)
Fair value gain	-	-	-
At 30 June 2018	<u>28,507</u>	<u>-</u>	<u>28,507</u>

For details on investment in subsidiaries, refer to note 13 to the consolidated financial statements.

30. TRADE AND OTHER RECEIVABLES

	2018 \$'000	2017 \$'000
Amounts falling due within one year:		
Amounts owed by Group undertakings	489,778	297,669
Other debtors	8,468	6,026
Prepayments	<u>1,091</u>	<u>1,279</u>
	<u>499,337</u>	<u>304,974</u>

Amounts repayable from subsidiaries are short term, unsecured, and carry interest of 5 per cent (2017: 5 per cent) per annum charged on the outstanding loan balances.

KOBALT MUSIC GROUP LIMITED

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 30 June 2018

31. PROPERTY PLANT AND EQUIPMENT

	Office equipment and fixtures \$'000	Computer equipment \$'000	Total \$'000
Cost			
At 1 July 2016	1,419	2,651	4,070
Additions	67	1,363	1,430
Foreign exchange movements	(10)	(83)	(93)
At 30 June 2017	1,476	3,931	5,407
Additions	7,710	795	8,505
Disposals	(1,083)	(721)	(1,804)
Foreign exchange movements	21	57	78
At 30 June 2018	8,124	4,062	12,186
Accumulated depreciation and impairment			
At 1 July 2016	803	1,635	2,438
Depreciation	168	595	763
Foreign exchange movements	8	(66)	(58)
At 30 June 2017	979	2,164	3,143
Depreciation	1,084	959	2,043
Depreciation on disposals	(1,083)	(717)	(1,800)
Foreign exchange movements	(12)	(4)	(16)
At 30 June 2018	968	2,402	3,370
Net book value			
At 1 July 2016	616	1,016	1,632
At 30 June 2017	497	1,767	2,264
At 30 June 2018	7,156	1,660	8,816

KOBALT MUSIC GROUP LIMITED

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 30 June 2018

32. INTANGIBLE ASSETS

	Software licences \$'000	Development costs \$'000	Total assets \$'000
Cost			
At 1 July 2016	802	10,870	11,672
Additions – internally generated	-	2,578	2,578
Additions – external third party	1,250	-	1,250
Foreign exchange rate movements	214	(429)	(215)
At 30 June 2017	2,266	13,019	15,285
Additions – internally generated	-	2,406	2,406
Additions – external third party	1,869	-	1,869
Disposals to other Group entities	(1,038)	(15,615)	(16,653)
Foreign exchange rate movements	(10)	190	180
At 30 June 2018	3,087	-	3,087
Amortisation			
At 1 July 2016	149	6,247	6,396
Amortisation charge	838	1,270	2,108
Foreign exchange rate movements	(133)	21	(112)
At 30 June 2017	854	7,538	8,392
Amortisation charge	675	987	1,662
Disposals to other Group entities	(394)	(8,649)	(9,043)
Foreign exchange rate movements	34	124	158
At 30 June 2018	1,169	-	1,169
Net book value			
At 1 July 2016	653	4,623	5,276
At 30 June 2017	1,412	5,481	6,893
At 30 June 2018	1,918	-	1,918

KOBALT MUSIC GROUP LIMITED

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 30 June 2018

33. TRADE AND OTHER PAYABLES

	2018 \$'000	2017 \$'000
Amounts falling due within one year:		
Amounts owed to Group undertakings	326,936	171,874
Trade creditors	380	717
Other creditors	3,289	9
	<u>330,605</u>	<u>172,600</u>

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 45 days.

Amounts repayable to subsidiaries are short term, unsecured, and carry interest of 5 per cent (2017: 5 per cent) per annum charged on the outstanding loan balances.

34. SHARE CAPITAL AND SHARE PREMIUM ACCOUNT

The movements on these items are disclosed in notes 21 and 22 to the consolidated financial statements.

35. SHARE OPTION RESERVE

The movements in the reserve are disclosed in note 23 to the consolidated financial statements.