

Company Registration No. 04222590

KOBALT MUSIC SERVICES LIMITED

Annual Report and Financial Statements

For the year ended 30 June 2022



KOBALT MUSIC SERVICES LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30
JUNE 2022

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KOBALT MUSIC SERVICES LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
For year ended 30 June 2022

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

J Armay
C Drabble (appointed 30 November 2021)
P Thirlway (appointed 29 April 2022)

COMPANY SECRETARY

C Drabble

REGISTERED OFFICE

Wework
120 Moorgate
London
EC2M 6UR

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

KOBALT MUSIC SERVICES LIMITED

STRATEGIC REPORT

For the year ended 30 June 2022

The directors present their strategic report on the Company for the year ended 30 June 2022.

PRINCIPAL BUSINESS ACTIVITIES AND BUSINESS REVIEW

Kobalt Music Services Limited is a private company limited by shares, domiciled in England.

The principal activity of the Company in the year under review was that of music publishing.

There have not been any significant changes in the Company's principal activity in the year under review. The directors are not aware, at the date of this report, of any likely major changes in the Company's activities in the next year.

As shown in the Company's Income Statement on page 9, the Company's revenue has decreased by 9% over the prior year. The loss after tax is (£3,658k) compared to the previous year's profit of £13,242k.

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:

	2022	2021	Movement	Movement %
Revenue	£105,041k	£115,699k	(£10,658k)	(9.2%)
Gross profit	£14,893k	£15,560k	(£667k)	(4.3%)
Gross profit percentage	14.2%	13.4%	0.7%	
Operating Profit / (Loss)	(£4,162k)	£11,018k	(£15,180k)	(137.8%)
Net liabilities	(£18,565k)	(£14,908k)	(£3,434k)	(23.0%)
Cash	£1,052k	£130k	£922k	709.2%

The Company is financed by working capital, loans from the parent company and equity.

The Company does not have any employees in the current or prior year.

PRINCIPAL RISKS AND UNCERTAINTIES

As a result of the integrated nature of the group, the principal risks and uncertainties facing the Company are those which affect the group as a whole.

These risks and uncertainties are as detailed below.

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

The Company seeks to mitigate this risk by seeking to make its roster of music administered by the entity as wide-ranging as possible. This means that the Company'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 Company collects royalties worldwide minimises its exposure to specific territories.

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

In recent years the Company has increased its sales efforts, particularly in the USA which is the world's largest market. Furthermore the client continues to have the financial resources available to it from its ultimate parent entity, Kobalt Music Group Limited.

The Company 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 the Group.

Market environment: Changes in the economic conditions of the markets in which the Group operates could impact its business. The Group monitors the latest developments in the industry by means of research, review of trade publications, and membership of industry organisations and forums. The Group's state of the art royalty processing and analysis systems allow it to adapt more quickly to industry changes than more traditional publishers and record labels.

Changing distribution: The new channels for music distribution are continually changing the operational and financial dynamics of music publishing.

KOBALT MUSIC SERVICES LIMITED

STRATEGIC REPORT (continued)

For the year ended 30 June 2022

Again the Group'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: The Group relies on a number of important third party suppliers to operate successfully. Any failure in the provision of these services may adversely impact the Group's business.

In recent years the Group has sought to institute direct collection in as many territories as possible, thereby minimising its exposure to the failure of third parties. However, the nature of music publishing makes it impossible to avoid reliance on some third parties, especially royalty collection societies.

Climate change: We are committed to finding ways of reducing our environmental impact and endeavour to be a considerate member of our local, and wider, communities. As a business we actively engage a paperless environment using technology to support this initiative, but where this is not possible all our offices are equipped with recycling facilities to reduce our consumptive waste. As a global business, while travel is necessary, we aim to minimise our travel to only essential travel where possible.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company'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 Company's policies approved by the board of directors, which provide written principles on the use of financial derivatives to manage these risks. The Company does not use derivative financial instruments for speculative purposes.

Currency risk

The Company'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 necessary to hedge against these exposures as there is largely a natural hedge of currencies.

Credit risk

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

Liquidity risk

The Company regularly prepares and updates cash flow forecasts which monitor its financing requirements. The ultimate parent company, Kobalt Music Group Limited, maintains a close relationship with its existing lenders whilst regularly assessing the possibility of obtaining finance from other sources, which has financial implication to Kobalt Music Services Limited.

SECTION 172 STATEMENT

The Directors are responsible for acting, in good faith, to promote the success of the company for the benefit of its shareholders as a whole whilst having regard to the matters set out in s.172(1)(a)-(f) Companies Act 2006.

Board of Directors

At the date of this report, the Board of the Group consists of four Directors.

The duties fulfilled by the Directors are, in part, set out in the Company's Articles of Association as well as company law. The Board promotes appropriate and effective controls and a culture of transparency within the Group. Where appropriate, the Directors discharge certain day-to-day responsibilities to the management team and other senior employees, to deliver the strategy and manage risk.

In addition to corporate governance, the Board is responsible for setting the culture and strategic direction of the Group and engaging with each of its key stakeholders to ensure the long-term success of the business. The Board meets regularly to review these matters, as well as the Group's policies and procedures. Further information on this can be found in the sections below.

Culture and values

Our values at the Group are the foundation of who we are and what we do. They drive the way we work with our clients, how we make decisions and the way we treat each other. Since the Group was founded, the vision has been to treat our clients fairly and with transparency always. These values reflect that ambition.

KOBALT MUSIC SERVICES LIMITED

STRATEGIC REPORT (continued)

For the year ended 30 June 2022

SECTION 172 STATEMENT (continued)

The Board is responsible for establishing and embedding a culture that aligns to this vision. The key values that underpin our culture are:

- Put Creators First
- Be transparent
- Move fast & keep it simple
- Respect diversity and opinions
- Stay humble
- Promote growth and development
- Operate with an entrepreneurial mindset

The Directors recognise the importance of articulating the company's culture to all employees. Our performance management and rewards are aligned to the Company's values and thus influence our ways of working.

Culture remains on the Board's agenda as a subject of continuous review. Through the results of the employee engagement survey, employee retention metrics and customer feedback, the management team evaluates the extent to which the culture is emulated by employees and makes recommendations to the Board as relevant.

Strategy

To achieve its vision, the Group has set out a strategy focused on the following:

- Build strong brand with Creators - Build a brand that is the most trusted in the industry through providing transparency and aligned incentives.
- Build a scalable platform enabled with leading technology - Invest in creating a scalable platform that can handle the exponential data growth driven by the shift of music consumption to streaming.
- Building long-term, sustainable profitability.
- Developing AMRA as the leading global digital licensing society.

Over the last three years, the Directors have focused on delivering this strategy and executed several key initiatives, a selection of which are listed below:

- Sold our recordings and neighbouring rights businesses in 2021 after successfully relaunching our recordings brand AWAL in 2018 to be a full-service label services offering, providing suite of services from self-service distribution platform through to global releases.
- Invested over \$20 million in continuing to develop our industry-leading technology platform supporting greater efficiency and client service.
- Achieved positive EBITDA in FY21 and furthered our commitment to increasing profitability through investing on balance sheet in further advances and acquisitions of IP.

Stakeholder engagement

Engaging with our stakeholders helps us to identify and deliver the objectives that matter most to them. The objectives of our stakeholders are embedded in the Group's culture, values and strategy as described above. Additionally, the Board considers more specific needs and objectives of the key stakeholders during the regular board meetings. The Board delegates follow-up actions to achieve such objectives as appropriate.

KOBALT MUSIC SERVICES LIMITED

STRATEGIC REPORT (continued)

For the year ended 30 June 2022

SECTION 172 STATEMENT (continued)

Clients	<ul style="list-style-type: none">• Kobalt's client teams lead the engagement with our clients.• We continue to invest in our industry-leading platform to maximise value from their works• Maintain board positions for a number of industry groups to further the industry.
Employees	<ul style="list-style-type: none">• Kobalt's People & Culture leads engagement with our employees through a variety of ways including surveys and meetings.• Kobalt has enhanced its inclusive culture through rolling out unconscious bias training and building initiatives from results of a Diversity, Equity & Inclusion survey.• We have been supporting our employees through the challenges of COVID-19 by providing mental health support and rollout of a flexible working policy.
Suppliers and other partners	<ul style="list-style-type: none">• Kobalt has delegated supplier engagement to the employees responsible for the spend.• Kobalt focuses on ensuring suppliers values are aligned with ours.
Community and environment	<ul style="list-style-type: none">• Kobalt's Community and Green Teams lead engagement with the local communities in each of our various offices.• Kobalt recently established a Diversity, Equity & Inclusion focused community group, looking at outreach initiatives and providing an annual donation to both global and local charities.

Policies and procedures

The Directors have put in place policies and procedures to support the Group's operating strategy in light of their Section 172 duties. These include:

(i) Delegation of Authority

The Board oversees a delegated authority whereby certain matters can be dealt with by the CEO, CFO, management team or other employees. The management team is reasonable for maintaining signing authorities. The Board maintains a close working relationship with the management team and has oversight of day-to-day business and strategic matters of the Group.

(ii) Anti-bribery and Corruption

The Board is committed to the prevention, deterrence and detection of bribery and corruption, instigating a clear policy of non-tolerance of all forms of bribery and corruption within our business. The Board oversees its responsibilities through the management team and training has been provided to all staff.

(iii) Whistleblowing

The Board is committed to conducting all business in an honest and ethical manner. Kobalt's employee handbooks include a whistleblowing policy to encourage the timely reporting of suspected wrongdoing.

(iv) Anti-Slavery

The Board has a clear stance of zero-tolerance of all forms of slavery, human trafficking and other exploitation in any part of the Group's business or in its supply chain. Kobalt's website includes further information on the Modern Slavery Act.

KOBALT MUSIC SERVICES LIMITED

STRATEGIC REPORT (continued)

For the year ended 30 June 2022

SECTION 172 STATEMENT (continued)

(v) Advice available to the Board

The Board has access to the services of outside counsel and may take independent professional advice where it judges it necessary to do so in order to discharge their responsibilities as Directors.

Information

The Directors arrange to receive and consider information required to carry out their duties and:

- Receive regular business updates and financial performance reviews against budget;
- Discuss and approve the annual budget;
- Consider and debate strategic business decisions, which impact the long-term direction of the Group

EVENTS SINCE THE END OF THE FINANCIAL YEAR

On 1 September 2022 the Company reached an agreement with Francisco Partners Management, L.P. for an entity controlled by Francisco Partners VI, L.P. and its affiliated funds to acquire all the shares in the issued share capital of the Company. The agreement closed on 20 October 2022.

FUTURE DEVELOPMENTS

The directors expect another year of strong growth for the Company. 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.

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



C Drabble

Director

Date: 28 March 2023

KOBALT MUSIC SERVICES LIMITED

DIRECTORS' REPORT

For the year ended 30 June 2022

The directors present their annual report and the audited financial statements for the year ended 30 June 2022.

DIRECTORS

J Arnay
T Sansone (resigned 29 April 2022)
L Hubert (resigned 30 November 2021)
C Drabble (appointed 30 November 2021)
P Thirlway (appointed 29 April 2022)

DIRECTOR 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 (2021: £nil).

GOING CONCERN

The Company has financial support from its ultimate parent, Kobalt Music Group Limited.

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. During the year the Group made a profit of \$65.6 million from continuing operations and at the balance sheet date had net assets of \$32.6 million and net current liabilities of \$168.9 million. The current year profits are reflective of the strategic decision to invest in the future.

The Group's cash position remained strong, with cash of \$60.8 million held at the balance sheet date. The Company's borrowings of \$255.5 million at the balance sheet date was used to acquire \$212 million in Publishing IP catalogue assets to further enhance our future profitability. In October 2022, Francisco Partners became the Company's major shareholder, investing in our vision and growth.

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.

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 currency risk, credit risk and liquidity risk;
- section 172 statement;
- important events since the end of the financial year; and
- future developments;

KOBALT MUSIC SERVICES LIMITED

DIRECTORS' REPORT (continued)

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the 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 these 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; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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.



C Drabble
Director

Date: 28 March 2023

KOBALT MUSIC SERVICES LIMITED

INCOME STATEMENT

For the year ended 30 June 2022

	Note	2022 £'000	2021 £'000
REVENUE		105,041	115,699
Cost of sales		<u>(90,149)</u>	<u>(100,139)</u>
GROSS PROFIT		14,892	15,560
Administrative expenses	3	(6,171)	(8,522)
Foreign exchange profit / (losses)		<u>(12,883)</u>	<u>3,980</u>
OPERATING PROFIT / (LOSS)	4	(4,162)	11,018
Net Interest receivable	5	<u>655</u>	<u>2,439</u>
PROFIT / (LOSS) BEFORE TAXATION		(3,506)	13,457
Tax on profit / (loss) for the financial year	6	<u>(151)</u>	<u>(215)</u>
PROFIT / (LOSS) FOR THE FINANCIAL YEAR		<u><u>(3,658)</u></u>	<u><u>13,242</u></u>

All activities derive from continuing operations.

KOBALT MUSIC SERVICES LIMITED

STATEMENT OF COMPREHENSIVE INCOME For the year ended 30 June 2022

	2022 £'000	2021 £'000
PROFIT / (LOSS) FOR THE FINANCIAL YEAR	(3,658)	13,242
Other comprehensive income for the year	-	-
TOTAL COMPREHENSIVE PROFIT / (LOSS) FOR THE FINANCIAL YEAR	<u>(3,658)</u>	<u>13,242</u>

KOBALT MUSIC SERVICES LIMITED

STATEMENT OF CHANGES IN EQUITY For the year ended 30 June 2022

	Share Premium account £'000	Accumulate d Losses £'000	Merger Reserves £'000	Total £'000
Restated Balance at 30 June 2020	-	(27,417)	(733)	(28,150)
Total comprehensive profit for the year	-	13,242	-	13,242
Balance at 30 June 2021	-	(14,175)	(733)	(14,908)
Total comprehensive profit for the year	-	(3,658)	-	(3,658)
Balance at 30 June 2022	-	(17,832)	(733)	(18,565)

KOBALT MUSIC SERVICES LIMITED

STATEMENT OF FINANCIAL POSITION

As At 30 June 2022

	Note	2022 £'000	2021 £'000
Non-current assets			
Intangible assets		22,234	-
Current assets			
Trade and other receivables	7	44,934	74,232
Cash and bank balances		1,052	130
Total assets		<u>68,221</u>	<u>74,362</u>
Current liabilities			
Trade and other payables	8	(86,787)	(89,270)
Net current liabilities		<u>(40,800)</u>	<u>(14,908)</u>
Net Liabilities		<u>(18,565)</u>	<u>(14,908)</u>
Equity			
Share capital	9	-	-
Accumulated losses	10	(17,832)	(14,175)
Merger Reserves		(733)	(733)
Deficit attributable to owners of the Company		<u>(18,565)</u>	<u>(14,908)</u>

Parental Guarantee

For the year ended 30 June 2022 the company was entitled to exemption under section 479a of the Companies Act 2006.

No members have required the company to obtain an audit of its accounts for the year in question in accordance with section 476 of the Companies Act 2006.

The directors acknowledge their responsibility for complying with the requirements of the Act with respect to accounting records and for the preparation of accounts.

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 28 March 2023.

Signed on behalf of the Board of Directors:



C Drabble

Director

28 March 2023

KOBALT MUSIC SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2022

1. ACCOUNTING POLICIES

The principal accounting policies are summarised below.

Basis of accounting

Kobalt Music Services Limited (the 'Company') is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the Company's registered office is shown on page 1.

These financial statements are presented in pounds sterling, which is also the functional currency because that is the currency of the primary economic environment in which the Company operates.

The financial statements have been prepared in accordance with FRS 101 'Reduced Disclosure Framework' as issued by the FRC.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to certain disclosures regarding the Company's presentation of comparative information in respect of certain assets, presentation of a cash flow statement, certain related party transactions and financial instruments. Where relevant, equivalent disclosures have been given in the group accounts of Kobalt Music Group Limited.

Going concern

The Company has financial support from its ultimate parent, Kobalt Music Group Limited.

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. During the year the Group made a profit of \$65.6 million from continuing operations and at the balance sheet date had net assets of \$32.6 million and net current liabilities of \$168.9 million. The current year profits are reflective of the strategic decision to invest in the future.

The Group's cash position remained strong, with cash of \$60.8 million held at the balance sheet date. The Company's borrowings of \$255.5 million at the balance sheet date was used to acquire \$212 million in Publishing IP catalogue assets to further enhance our future profitability. In October 2022, Francisco Partners became the Company's major shareholder, investing in our vision and growth.

Further details regarding the adoption of the going concern basis can be found in the Statement of accounting policies in the financial statements.

Measurement basis

The financial statements have been prepared on a historical cost basis.

Revenue

Music royalties revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement (provided that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably). All revenue for the year relates to music royalties and derives from one revenue stream which cannot be segregated by geographical location.

Foreign currency translation

Assets and liabilities in foreign currencies are translated into sterling (GBP) at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies, other than purchases of sterling, are translated into sterling at average monthly rates. Purchases of sterling are translated at the rate ruling on the date of the transaction. Exchange differences (including closing balances) are taken into account in arriving at the operating result. Exchange differences on opening net assets are taken directly to reserves.

KOBALT MUSIC SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2022

1. ACCOUNTING POLICIES (continued)

Management charges

Intercompany management charges are costs incurred for services performed by other Group entities on behalf of the Company. Expenses are recharged at cost plus a mark-up.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current tax and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Financial instruments

Financial assets and liabilities, such as cash, trade receivables and trade payables, arise directly from the Company's operating activities. Trade receivables are short-term and recognised at the undiscounted amount owed to the Company. Trade payables are short-term and recognised at the undiscounted amount due from the Company. Any intercompany balances will be recognised at amortised cost.

KOBALT MUSIC SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2022

1. ACCOUNTING POLICIES (continued)

Royalty advances

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

New standards and interpretations issued

At the date of authorisation of these financial statements, the Company has not applied the following new and revised IFRSs that have been issued and effective during the year:

Title	Subject	As issued by the IASB, mandatory for accounting periods starting on or after
IFRS 16 – Amendments	Covid-19-Related Rent Concessions beyond 30 June 2021	April 2021
IFRS 17	Insurance Contracts	1 Jan 2023
IFRS 17 - Amendments	IFRS 17	1 Jan 2023

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future years

Hybrid accounting

For the year ended 30 June 2020, Kobalt Music Administration Limited, Kobalt 2015 Limited, Kojam Music Limited and Kobalt Music Services II Limited were hived-up into Kobalt Music Service Limited. The Company has applied hybrid accounting, FRS 102.19.27 to account for the merger of the assets and liabilities. As per the hybrid accounting method, the Company has transferred assets and liabilities at nominal value as at 30 June 2020, resulting in a merger reserve.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in note 1, 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 Company's accounting policies

The following are the critical judgements, that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

KOBALT MUSIC SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2022

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Revenue recognition

In making its judgement, management considered the detailed criteria for the recognition of revenue from the provision of services set out in IFRS 15, in particular, whether the Company 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 advances

In the course of its business the Company 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.

3. ADMINISTRATIVE EXPENSES

	2022 £'000	2021 £'000
Management charges	3,313	7,199
Bank charges	20	12
Provisions and write-offs	932	1,311
Other costs	1,907	-
	<u>6,172</u>	<u>8,522</u>

4. OPERATING PROFIT / (LOSS)

The auditor's remuneration for the audit of the financial statements for the period was nil (2021: £14k) for the audit and nil (2021: £4k) for tax services. All costs were borne by the ultimate parent company.

The Company did not pay any directors' remuneration. In the current and prior year, the directors of this Company were remunerated by the ultimate parent company. The total amounts paid by the parent for directors' remuneration for the year ended 30 June 2022 were £40.7m (2021: £8.9m), restated to include the full directors remuneration. The Company had no employees for the year ended 30 June 2022 (2021: nil).

5. NET INTEREST RECEIVABLE / (PAYABLE)

	2022 £'000	2021 £'000
Amounts receivable from parent (note 12)	655	2,439
Other interest payable	-	-
	<u>-</u>	<u>-</u>

KOBALT MUSIC SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2022

655	2,439
<u>655</u>	<u>2,439</u>

6. TAX ON LOSS FOR THE YEAR

The major components of income tax expense for the years ended 30 June 2022 and 2021 are:

	2022 £'000	2021 £'000
Current income tax		
Non-reclaimable withholding tax on royalty payments received	(151)	(215)
Total current tax	<u>(151)</u>	<u>(215)</u>

The standard rate of tax for the year, based on the United Kingdom standard rate of corporation tax is 19% (2021: 19%). The actual tax charge for the current year differs from the standard tax rate for the reasons set out in the following reconciliation:

Profit / (Loss) before tax	(3,506)	13,457
Tax on profit / (loss) at standard rate at 19% (2021: 19%)	(666)	2,557

Factors affecting charge for the year:

Group relief surrendered	695	-
Income not taxable for tax purposes	(29)	-
Net non-reclaimable withholding tax on royalty payments received	151	215
Withholding tax treated as a tax deductible expense	-	(41)
Tax losses utilised	-	(2,515)
Total tax expense for the year	<u>151</u>	<u>215</u>

The value of current year tax losses not recognised is £Nil (2021: £Nil). The value of tax losses not recognised is £3,803k (2021: £1,853k) and no deferred tax asset has been recognised. No deferred tax asset has been recognised given the uncertainty around the Company's ability to fully recover the amount over the coming two years.

On 10 June 2021 the UK government enacted to increase the UK corporation tax rate to 25% with effect from 1 April 2023. This will impact the value of the tax charged on UK profits generated in 2023 and subsequently. Deferred tax assets and liabilities have been measured at 25% to the extent that they will be reversed after 1 April 2023.

7. TRADE AND OTHER RECEIVABLES

	2022 £'000	2021 £'000
Trade receivables	-	-
Amounts owed from parent	8,115	48,268
Current tax asset	-	55
Royalty advances	35,473	24,994

KOBALT MUSIC SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2022

Other receivables	1,346	915
	<u>44,934</u>	<u>74,232</u>

Interest on amount owed from Kobalt London Limited undertakings is calculated at 3% per annum over the average of the net opening and net closing balance. Amounts owed to parent are repayable on demand.

On 30 June 2020, the Company entered into a loan agreement with Kobalt London Limited whereby all receivables and liabilities owed to or from another subsidiary would ultimately be held with Kobalt London limited.

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

8. TRADE AND OTHER PAYABLES

	2022 £'000	2021 £'000
Trade payables	1,237	750
Accruals	61,041	63,638
Deferred income	23,421	24,880
Other payables	1,088	2
	<u>86,787</u>	<u>89,270</u>

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

9. SHARE CAPITAL

	2022 £	2021 £
Called up, allotted and fully paid		
1 ordinary share of £1	<u>1</u>	<u>1</u>

In both years, the number of fully authorised shares was one. The Company has one class of ordinary shares which carry no right to fixed income.

10. RESERVES

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

- Accumulated losses - the Company's results to date. The Company has paid no dividends to date.
- Merger reserves – amount transferred in merger

KOBALT MUSIC SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2022

11. RELATED PARTY TRANSACTIONS

Under the exemptions of FRS 101, related party disclosures are not required for transactions with other group companies by virtue of Kobalt Music Services Limited being a 100% subsidiary of Kobalt Music Group Limited, for which group financial statements are prepared.

12. ULTIMATE CONTROLLING PARTY

The immediate parent of the Company is Kobalt London Limited and the ultimate controlling party of the Company is Kobalt Music Group Limited, a company registered in the United Kingdom.

The Company's results are included in the consolidated financial statements of Kobalt Music Group Limited, which is the largest and smallest group into which the results are consolidated, and is the largest and smallest undertaking for which group financial statements are prepared and can be obtained from the registered address Wework, 120 Moorgate, London EC2M 6UR

13. EVENTS AFTER THE BALANCE SHEET DATE

On 1 September 2022 the Company reached an agreement with Francisco Partners Management, L.P. for an entity controlled by Francisco Partners VI, L.P. and its affiliated funds to acquire all the shares in the issued share capital of the Company. The agreement closed on 20 October 2022.