

**Company Registration No. 04018752**

**KOBALT MUSIC GROUP LIMITED**

**Annual Report and Consolidated Financial Statements**

**For the year ended 30 June 2020**

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# **KOBALT MUSIC GROUP LIMITED**

## **ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020**

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# **KOBALT MUSIC GROUP LIMITED**

## **OFFICERS AND PROFESSIONAL ADVISERS**

### **DIRECTORS**

W Ahdritz  
T Bunting  
J Fitzherbert-Brockholes  
J Ekelund  
A Palm  
N Khemlani  
L Hubert  
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  
38<sup>th</sup> Floor  
Los Angeles  
California  
90067

### **AUDITOR**

Deloitte LLP  
Statutory Auditor  
Reading, RG1 3BD  
United Kingdom

## KOBALT MUSIC GROUP LIMITED

### CHAIRMAN'S STATEMENT

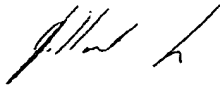
Twenty years ago, I founded Kobalt on three principles that were lacking in the music industry: technology, trust, and transparency - all three were needed to take the industry into the digital age with a new and fair start for all stakeholders.

To be truly successful, we had to be great educators to bring the industry out of the miseducation that was the normal narrative, especially for so many writers who were creating work we all love. To date, across my 1,800 flights and countless meetings with musicians, DSPs, societies, media, and students, I've always tried to educate with a simple idea that benefits fans, creators, and rights owners alike: transparency drives liquidity drives volume. And tech is not our enemy but rather the enabler that lets us achieve our goals.

Look at where we are today. Music has grown and the number of new artists who can make a living on their art without having to hold down another job has steadily increased, even in these times that are extra challenging due to the pandemic. Everyone is waking up to the idea that artists and songwriters need to be treated fairly. Music is boundless. And if you have a fair deal and a good partner, the power an artist or songwriter can have is unprecedented.

This past year has shown how important all of these principles are not only to Kobalt but also to the entire music industry. I am excited to see the growth for the industry in emerging markets, new live streaming offerings, podcasts and new segments like health & wellness are licensing music.

I'm proud of our leadership team as we continue to move forward with being the best partner in this exciting industry for artists, songwriters, publishers, and labels.



Willard Ahdriz  
Founder & Chairman  
Kobalt Music

# KOBALT MUSIC GROUP LIMITED

## CHIEF EXECUTIVE'S REPORT

In Kobalt's latest fiscal year ending 30 June 2020 (FY19/20), the company had another year of good growth with revenue up 13% to \$616M (\$703M gross collections) from \$543M (\$616M gross collections), all amid a global pandemic.

As we shared in March 2020, Kobalt is well suited to weather the pandemic and we still feel confident that our goal of EBITDA profitability will be achieved in the next fiscal year.

Beyond our financials, we've had much more to be proud of than our continued growth. As an agent of change in the publishing industry to help songwriters, our hard work and focus was recognized in the first half of 2020 by winning one of the industry's highest honors: ASCAP's Publisher of the Year. In addition, according to *Billboard's* Q2 2020 Publisher's Quarterly, Kobalt solidified its position as the #2 publisher in the United States.

These are both incredible achievements from our publishing team. Our recordings division, AWAL also celebrated key milestones helping artists top the charts, build fan bases and win coveted awards. Lauv remained the world's biggest independent artist, Little Simz won an Ivor Novello for Best album and Gerry Cinnamon had the #1 album in the UK.

### FY19/20 progress reporting

Many years of collective effort across our businesses supported our mission and helped us have another great year. Here are some more highlights:

- **Kobalt Music Publishing (Including Synch)** - Despite challenges due to COVID-19, Kobalt's publishing arm grew revenue by another 7.6% year on year ("YoY") to \$436M. Kobalt continued to dominate the US charts with co-writes on hits from Roddy Ricch (Rockstar, The Box), Billie Eilish (everything i wanted, Bad Guy), Megan Thee Stallion (Savage), The Weeknd (Blinding Lights), Doja Cat (Say So), Dua Lipa (Don't Start Now), Black Eyed Peas x Ozuna (Mamacita) and many more, capping off their fiscal year in the #2 position on *Billboard's* Publishers Quarterly with a 19.04% market share. This, combined with a stellar roster of clients that includes Andrew Watt, Finneas O'Connell (who won five grammy awards this year, including producer of the year), Abel Tesfaye, Roddy Ricch, Gunna, will.i.am and Max Martin, lead to Kobalt winning coveted ASCAP's Publisher of the Year award in June. In addition to success in the US, Kobalt continued to grow market share in the UK, Sweden, Australia and Latin America. In particular, Kobalt has solidified its positioning in the growing LATAM market with clients including Carlos Vives, Ozuna, Karol G, Natti Natasha, Prince Royce and many others. Kobalt's stellar fiscal year can be attributed to the hard work and diligence of the best creative, synch, operations, tech and, overall, global infrastructure in the music industry. Kobalt also continues to work closely with some of the biggest legacy artists in the world including Lionel Richie, Stevie Nicks, Lindsey Buckingham, Andrew Gold, John Denver and more, further proving Kobalt has become a destination for songwriters across genres and generations.
- **AWAL** - Our music recordings division, AWAL, had another record year, reaching revenue of over \$149M and growing another 34% from the previous year. Our strategy of redefining the structure of the recorded music business for the benefit of artists continues to build momentum in the market with great clients continuing to stay with and join AWAL. The paradigm shift AWAL is driving has helped hundreds of artists exceed \$100K in annual streaming revenue, with many earning in the millions - a significant milestone for any company in the music industry. The AWAL roster had significant accomplishments between Lauv maintaining his reign as the biggest independent artist in the world, Gerry Cinnamon debuting at #1 in the UK and Little Simz winning an Ivor Novello. Beyond these accomplishments, the AWAL roster has charted 15 records at US radio, 15 records on radio one in the UK (competitive with any major) and multiple gold and platinum awards in the past year. This overall story is all the more impressive since AWAL started with no catalogue when the business was restarted in 2018. The business has grown 3x in this short period of time. With a roster including Lauv, FINNEAS, girl in red, Little Simz, Kim Petras, Steve Lacy, Nick Cave & The Bad Seeds, Dayglow, Glassnote and many more, the AWAL roster represents some of the most exciting and rising talent in music.
- **Kobalt Neighbouring Rights (KNR)** - KNR had a great year in the past fiscal year. From a revenue standpoint, the business was up 22.6% from the previous year. While client retention rate remained high at 96%. The business also added key new signings of Lewis Capaldi, Tones And I, Bazzi, HRVY, Joel Corry, Mike Elizondo, Riton, Jubël, Wale, Bring Me The Horizon, Side One Dummy Records and 12Tone Records. KNR also expanded its collections around the world, adding Japan and South Korea to the

## KOBALT MUSIC GROUP LIMITED

### CHIEF EXECUTIVE'S REPORT

countries where KNR collects label income and Cyprus, India and New Zealand on the performer side. In 2019, KNR represented 46% of the 2019 European Top 20.

- Kobalt Capital Limited (KCL) - The two music royalty funds managed by KCL, owned by institutional and private investors and administered by Kobalt, continued to grow during the year generating solid returns on its catalogues and on new investments made. The two funds (the first crossing 9 years in operation and the second one its third year anniversary) have invested over \$1.4 billion in total.
- AMRA - The only global digital collection society, and a key part of Kobalt that ensures global writers and artists are paid accurately and fairly, grew overall revenue by 19% to \$78.3M. This growth is predominantly driven by market growth and growth in AMRA clients. AMRA's territorial scope, which is the broadest in the industry, also continues to generate revenue growth. AMRA's business model is built to meet the needs of the rapid growth of digital global music consumption and is once again positioned to set new standards for global digital collections among societies. AMRA's business model is also not affected by the pandemic the same way the rest of the industry, due to revenue being heavily skewed to digital collections. Today, AMRA's global roll-out has reached all corners of the world outside of the US and includes direct digital collections for China, Brazil, and Japan.



Laurent Hubert  
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, Atlanta, Sydney, Stockholm, Berlin, Hong Kong, Netherlands, Switzerland, Canada (branch), France (branch), and Luxembourg.

As shown in the Group's income statement on page 19, the Group's sales have increased by 13.4% over the prior year to \$616.2m while gross profit has increased by 13.9%, \$9.8m in absolute terms. Total administrative expenses have increased by 16.5% to \$127.3m (2019: \$109.3m). The loss after tax has increased to \$73.3m against the previous year's loss of \$52.8m. 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:

	2020	2019	Movement	Movement
Revenue	\$616,175k	\$543,438k	\$72,737k	13.4%
Gross profit	\$80,187k	\$70,401k	\$9,786k	13.9%
Gross profit percentage	13.0%	13.0%	-	-
Contribution margin*	\$52,033k	\$46,523k	\$5,510k	11.8%
Net (liabilities)	\$(111,020)k	\$(41,902)k	\$(69,118)k	(165.0)%
Net current assets	\$6,613k	\$13,373k	\$(6,760)k	(50.5)%
Cash	\$151,447k	\$124,949k	\$26,498k	21.2%

*\*Contribution margin is equal to gross margin less ongoing service costs*

The Group also uses certain non-financial performance indicators including the number of employees. The increase in employee numbers during the year (from an average of 652 to 717) 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 ongoing demand for the music administered by the Group is variable 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:** Changes in the economic conditions of the markets in which Kobalt 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. Kobalt'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.

# KOBALT MUSIC GROUP LIMITED

## STRATEGIC REPORT

### PRINCIPAL RISKS AND UNCERTAINTIES (continued)

**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, has operations in several EU countries and recruits from across the EU for roles in the London office. 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, although these are not expected to be material. Management is reviewing the Group's activities with a view to mitigating any adverse consequences of Brexit.

**COVID-19:** The Group has continually monitored and updated for COVID-19 impact on the business which has predominantly impacted live performance income and synch income. Given the Group's significant revenues from digital income, which is largely unimpacted, COVID-19 is not expected to have a material impact on profitability.

**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 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. There is largely a natural hedging in place for the Group's core activities, however during the year the Group identified the GBP cost base of its UK operations to be posing a translation risk to consolidated reporting. In response to this, the Group entered into a programme of currency forward contracts.

#### *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.

### 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 consists of nine 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.



# KOBALT MUSIC GROUP LIMITED

## STRATEGIC REPORT

### SECTION 172 STATEMENT (continued)

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 Kobalt 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 Kobalt was founded, the vision has been to treat our clients fairly and with transparency always. These values reflect that ambition.

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, with a near-term goal to achieve positive EBITDA in FY21.

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:

- Relunched 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.

#### 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 GROUP LIMITED

## STRATEGIC REPORT

### SECTION 172 STATEMENT (continued)

Clients	<ul style="list-style-type: none"><li>• Kobalt's client teams lead the engagement with our clients.</li><li>• We continue to invest in our industry-leading platform to maximise value from their works</li><li>• Maintain board positions for a number of industry groups to further the industry.</li></ul>
Employees	<ul style="list-style-type: none"><li>• Kobalt's People &amp; Culture leads engagement with our employees through a variety of ways including surveys and meetings.</li><li>• Recent outcomes include the creation of our Diversity &amp; Inclusion Committee, career levelling and benchmarking.</li></ul>
Suppliers and other partners	<ul style="list-style-type: none"><li>• Kobalt has delegated supplier engagement to the employees responsible for the spend.</li><li>• Kobalt focuses on ensuring suppliers values are aligned with ours.</li></ul>
Community and environment	<ul style="list-style-type: none"><li>• Kobalt's Community and Green Teams lead engagement with the local communities in each of our various offices.</li><li>• Recent outcomes include introducing volunteer days and charitable donations (including payroll giving).</li></ul>

#### 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.

##### (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.

# KOBALT MUSIC GROUP LIMITED

## STRATEGIC REPORT

### SECTION 172 STATEMENT (continued)

#### 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

#### SUSTAINABILITY

The following disclosure is for the purposes of compliance with the Streamlined Energy and Carbon Reporting (SECR) regulations. The information presented meets the requirements for SECR and does not include data relating to additional, voluntary, reporting.

For the first SECR reporting period (2019-2020 financial year), Kobalt Music Group in the United Kingdom used a total of 259,179 kWh of energy, generating carbon emissions of 63.3 tCO<sub>2</sub>e.

The only emissions in the reporting period were due to electricity use in the sole UK premises occupied by Kobalt Music Group.

This disclosure includes data for all subsidiary companies in the UK over which Kobalt Music Group Ltd has financial control. These have not been broken out as all operations are co-located.

Reported electricity consumption is based on landlord's meter readings and covers electricity use that is under the direct operational control of Kobalt Music Group. Energy associated with heating and cooling of the office is under the control of the landlord and is not included in this disclosure.

The Group's UK carbon footprint is shown in the below table.

	Units	2019-20
<b>ENERGY INPUTS</b>		-
Total Purchased Electricity	kWh	259,179
Total Energy Use	kWh	<b>259,179</b>
<b>EMISSIONS</b>		-
Scope 2 – Purchased Electricity	kgCO <sub>2</sub> e	63,336
<b>Total Emissions</b>	<b>kgCO<sub>2</sub>e</b>	<b>63,336</b>
FTE		434
Intensity ratio: Emissions per employee	Kg CO <sub>2</sub> e / employee	146
Intensity ratio: Emissions per employee	T CO <sub>2</sub> e / employee	0.15

UK is 60% of the Group's employee population, the energy consumption is deemed to be reasonable equivalent and therefore an estimate of the total Group emissions is 105,560 kgCO<sub>2</sub>e.

Kobalt Music Group Ltd is a tenant within their premises and are therefore limited in their ability to undertake energy saving initiatives. No such measures were completed during 2019.

## **KOBALT MUSIC GROUP LIMITED**

### **STRATEGIC REPORT**

#### **EVENTS SINCE THE END OF THE FINANCIAL YEAR**

There were no material events since the end of the financial year.

#### **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. .

#### **RESEARCH AND DEVELOPMENT**

In the coming year the Group expects to further enhance and expand the scalability of 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:



T Sansone  
Company Secretary  
28 October 2020

# **KOBALT MUSIC GROUP LIMITED**

## **DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the year ended 30 June 2020.

### **DIRECTORS**

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

W Ahdritz  
T Bunting  
J Ekelund  
J Fitzherbert-Brockholes  
A Palm  
N Khemlani  
W Maris (resigned 11 November 2019)  
S Grover  
A Vukajlovic  
L Hubert (appointed 6 February 2020)

### **DIRECTORS' INDEMNITIES**

The Company has made qualifying third party indemnity provisions for the benefit of its directors of all subsidiaries 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 2019 - \$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. During the year the Group made a loss of \$73.3 million and at the balance sheet date had net liabilities of \$111.0 million and net current assets of \$6.6 million. The current and prior year losses are reflective of the strategic decision to invest in the future and in FY21 the Group is forecasting EBITDA profitability.

The Group's cash position remained strong, with cash of \$151.4 million held at the balance sheet date. This includes a term loan of \$185 million in place as at 30 June 2020 with a maturity of 2023.

The Group has continually monitored and updated for COVID-19 impact on the business which has predominantly impacted live performance income and synch income. Given the Group's significant revenues from digital income, which is largely unimpacted, COVID-19 is not expected to have a material impact on profitability. 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**

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 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;
- research and development activities; and
- existence of branches.

### **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 / she ought to have taken as a director to make himself / herself 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:



T Sansone

Company Secretary

28 October 2020

## **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 2020 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 and IFRSs as issued by the International Accounting Standards Board (IASB);
- 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;
- the notes to the consolidated statement of cash flows; and
- the related notes 1 to 40.

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](http://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.

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.

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

### **Matters on which we are required to report by exception**

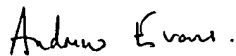
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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 October 2020

# KOBALT MUSIC GROUP LIMITED

## CONSOLIDATED INCOME STATEMENT For the year ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
Revenue	4	616,175	543,438
Cost of sales		(535,988)	(473,037)
<b>Gross profit</b>		<b>80,187</b>	<b>70,401</b>
Other operating income		3,629	4,939
Administrative expenses		(127,307)	(109,257)
Other operating expenses		(3,552)	(10,572)
Foreign exchange (loss) / gain		(6,004)	353
<b>Operating loss</b>	5	<b>(53,047)</b>	<b>(44,136)</b>
Investment income		3,076	2,339
Finance costs	7	(20,267)	(8,274)
<b>Loss before tax</b>		<b>(70,238)</b>	<b>(50,071)</b>
Tax	8	(3,080)	(2,757)
<b>Loss for the year from continuing operations</b>		<b>(73,318)</b>	<b>(52,828)</b>

All operations were continuing operations during the year.

## KOBALT MUSIC GROUP LIMITED

### CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME For the year ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
<b>Loss for the year</b>		<b>(73,318)</b>	<b>(52,828)</b>
<b>Other comprehensive income</b>			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	27	(1,428)	(3,948)
<b>Other comprehensive loss for the year, net of tax</b>		<b><u>(1,428)</u></b>	<b><u>(3,948)</u></b>
<b>Total comprehensive loss for the year, net of tax</b>		<b><u>(74,746)</u></b>	<b><u>(56,776)</u></b>

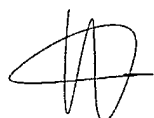
# KOBALT MUSIC GROUP LIMITED

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Note	2020 \$'000	2019 \$'000
<b>Non-current assets</b>			
Goodwill	10	13,769	13,883
Intangible assets	11	45,916	41,210
Property, plant and equipment	12	9,697	12,116
Right of use asset	13	29,782	-
Investments	15	9,289	7,649
Financial derivatives	24	1,849	-
Deferred tax assets	21	576	594
		<u>110,878</u>	<u>75,452</u>
<b>Current assets</b>			
Assets held for sale	16	1,757	2,483
Trade and other receivables	17	368,690	345,310
Cash and bank balances		151,447	124,949
		<u>521,894</u>	<u>472,742</u>
<b>Total assets</b>		<u>632,772</u>	<u>548,194</u>
<b>Current liabilities</b>			
Trade and other payables	18	(16,076)	(10,354)
Lease Liability	19	(3,752)	-
Accruals	18	(423,528)	(385,320)
Deferred revenue	18	(71,925)	(63,695)
		<u>(515,281)</u>	<u>(459,369)</u>
<b>Non-current liabilities</b>			
Deferred tax liability	21	(3,386)	(3,576)
Financial derivatives	24	(383)	-
Lease Liability	19	(32,837)	-
Borrowings	20	(191,906)	(127,151)
		<u>(228,512)</u>	<u>(130,727)</u>
<b>Net current assets</b>		<u>6,613</u>	<u>13,373</u>
<b>Net (liabilities)</b>		<u>(111,021)</u>	<u>(41,902)</u>
<b>Equity</b>			
Share capital	25	994	954
Share premium account	26	193,760	193,468
Retranslation reserves	27	(12,446)	(11,018)
Share option reserve		25,161	19,866
Retained earnings		(318,490)	(245,172)
<b>Total (deficit)</b>		<u>(111,021)</u>	<u>(41,902)</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 October 2020.



L Hubert

Director

# KOBALT MUSIC GROUP LIMITED

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020

	ISSUED SHARE CAPITAL	SHARE PREMIUM	SHARE OPTION RESERVE	RETAINED EARNINGS	RETRANS- LATION RESERVES	TOTAL EQUITY
Note	25	26			27	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>1 July 2018</b>	<b>953</b>	<b>193,154</b>	<b>14,514</b>	<b>(192,344)</b>	<b>(7,070)</b>	<b>9,207</b>
Loss for the period	-	-	-	(52,828)	-	(52,828)
Other comprehensive loss	-	-	-	-	(3,948)	(3,948)
<b>Total comprehensive loss</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(52,828)</b>	<b>(3,948)</b>	<b>(56,776)</b>
Issue of shares	1	314	-	-	-	315
Share-based payment transactions (note 9)	-	-	5,388	-	-	5,388
Foreign exchange differences	-	-	(36)	-	-	(36)
<b>Balance at 30 June 2019</b>	<b>954</b>	<b>193,468</b>	<b>19,866</b>	<b>(245,172)</b>	<b>(11,018)</b>	<b>(41,902)</b>
Loss for the period	-	-	-	(73,318)	-	(73,318)
Other comprehensive loss	-	-	-	-	(1,428)	(1,428)
<b>Total comprehensive loss</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(318,490)</b>	<b>(12,446)</b>	<b>(116,648)</b>
Issue of shares	40	292	-	-	-	332
Share-based payment transactions (note 9)	-	-	5,340	-	-	5,340
Foreign exchange differences	-	-	(45)	-	-	(45)
<b>30 June 2020</b>	<b>994</b>	<b>193,760</b>	<b>25,161</b>	<b>(318,490)</b>	<b>(12,446)</b>	<b>(111,021)</b>

# KOBALT MUSIC GROUP LIMITED

## CONSOLIDATED STATEMENT OF CASH FLOWS For the year ended 30 June 2020

		2020	2019
	Note	\$'000	\$'000
<b>Net cash from operating activities</b>		<b>3,399</b>	<b>(11,419)</b>
<b>Investing activities</b>			
Purchases of property, plant and equipment	12	(614)	(3,165)
Purchases of intangible assets	11	(12,792)	(9,745)
Collateral on forward contracts		(1,538)	-
Purchase of assets held for sale	16	(1,695)	(2,980)
Disposal of assets held for sale	16	2,421	497
Investments in third parties	15	(532)	10
Dividend received from investment	15	483	320
<b>Net cash used in investing activities</b>		<b>(14,267)</b>	<b>(15,063)</b>
<b>Financing activities</b>			
Proceeds on issue of shares		332	315
Loans drawn		60,000	125,000
Loans repaid		-	(10,000)
Loan interest repaid		(11,648)	-
Transaction costs related to loans and borrowings		(4,596)	(3,445)
Repayment of lease liabilities		(6,775)	-
<b>Net cash from financing activities</b>		<b>37,313</b>	<b>111,870</b>
<b>Net increase in cash and cash equivalents</b>		<b>26,445</b>	<b>85,388</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>124,949</b>	<b>41,536</b>
Effect of foreign exchange rate changes		53	(1,975)
<b>Cash and cash equivalents at end of year</b>		<b>151,447</b>	<b>124,949</b>

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS For the year ended 30 June 2020

		2020	2019
	Note	\$'000	\$'000
<b>Loss for the year</b>		<b>(73,318)</b>	<b>(52,828)</b>
Adjustments for:			
Finance costs	7	16,951	8,274
Interest on lease liability	7	3,316	-
Income tax expense	8	3,080	2,757
Depreciation of property, plant and equipment	12	2,858	2,742
Depreciation of right of use assets	13	4,669	-
Amortisation of intangible assets	11	7,420	5,845
Fair value gain in investment	15	(1,895)	(756)
Share-based payment expense	9	5,340	5,388
Deferred financing costs write off		4,130	-
<b>Operating cash flows before movements in working capital</b>		<b>(27,449)</b>	<b>(28,578)</b>
Increase in receivables	17	(23,380)	(75,616)
Increase in payables	18	57,611	96,523
Reversal of timing differences giving rise to a deferred tax liability		(154)	(154)
<b>Cash utilised from operations</b>		<b>6,628</b>	<b>(7,825)</b>
Income taxes paid	8	(3,080)	(2,757)
Interest paid	7	(149)	(837)
<b>Net cash from operating activities</b>		<b>3,399</b>	<b>(11,419)</b>



# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

### 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 2020 were authorised for issue in accordance with a resolution of the directors on 28 October 2020. 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 2020**

#### **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 2020

### 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**

The Group recognises revenue from the following major sources:

- Music-based royalties
- Asset Management fees received as the General Partner for Kobalt's Fund advisory business ("Kobalt Capital")

#### *Royalties:*

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 royalty revenue arrangements, with the exception of Neighbouring Rights.

Under IFRS 15, the Group recognise revenue for usage-based royalties at the later of:

- (a) when the usage occurs; and
- (b) the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied).

As a result, turnover represents 12 months' worth of royalties and 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.

#### *Asset Management fees*

As part of the Group's Asset Management business it receives management fees and performance fees on the assets it manages. These fees are accrued based on when they are earned.

#### *Other income*

Dividends are received from financial assets measured at fair value through profit or loss (FVPL). Dividends are recognised as investment revenues in profit or loss when the right to receive payment is established.

Interest income on financial assets at amortised cost (2018 - amortised cost) calculated using the effective interest method is recognised in the statement of profit or loss as part of investment revenues as it is earned from financial assets that are held for cash management purposes.

#### **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. The IFRS 9 requirement to consider expected economic losses has been considered when concluding on the provisions applied in this reporting period.

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

### 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.

Withholding tax is a complex issue that requires analysis of domestic legislation, double tax treaties and the submission of forms and documents to relevant payers and tax authorities. Due to the inherent complexities there is a risk that not all withholding tax has been accounted correctly. The Company, therefore, continues to consult with tax specialists and experts on a regular basis to consult and review its tax structuring arrangements. Were any amounts to become due in respect to withholding tax the Company is entitled to claim these back under the customer agreement. The possibility of a material net outflow is considered remote.

##### 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, branches and 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, branches and 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 2020

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Fair value measurement and valuation processes**

The investments outlined in note 15 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.

#### **Non-current assets held for sale**

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

#### **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.

# **KOBALT MUSIC GROUP LIMITED**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** **For the year ended 30 June 2020**

### **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Research and development costs (continued)**

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.

#### **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**

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses generally on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as tablet and personal computers, small items of office furniture and telephones), the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'other expenses' in profit or loss.

#### **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 2020**

### **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.

#### **Derivative Financial Instruments**

During the year the Group has entered into foreign exchange forward contracts in order to manage its exposure to foreign exchange rate risk. See note disclosure 24. These are currently the only derivative financial instruments that the Group holds.

Derivatives are recognised initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately as the current set of derivatives do not meet the criteria to be designated for hedge accounting under IFRS 9.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the financial statements. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not due to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

#### **Going concern**

During the year the Group made a loss of \$73.3 million and at the balance sheet date had net liabilities of \$111.0 million and net current assets of \$6.6 million. The current and prior year losses are reflective of the strategic decision to invest in the future and in FY21 the Group is forecasting EBITDA profitability.

The Group's cash position remained strong, with cash of \$151.4 million held at the balance sheet date. This includes a term loan of \$185 million in place as at 30 June 2020 with a maturity of 2023.

The Group has continually monitored and updated for COVID-19 impact on the business which has predominantly impacted live performance income and synch income. Given the Group's significant revenues from digital income, which is largely unimpacted, COVID-19 is not expected to have a material impact on profitability.

## KOBALT MUSIC GROUP LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

#### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Going concern (continued)

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 2021 and beyond, including any COVID-19 impact on revenue, gross margin and costs, forecasting debt covenant compliance, 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 (including the fact that royalties are paid out after being received, providing a natural working capital hedge), together with the term loan in place. In addition to the above forecasts, as the majority of the Group's forecast advances are discretionary, if required the Group could reduce outbound advances to preserve cash and it is also confident it could raise additional debt or equity if required.

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 and can make use of additional mitigating steps as required. The directors therefore consider it appropriate to prepare the financial statements on the going concern basis.

##### Impact of initial application of IFRS 16 'Leases'

In the current year, the Group has applied IFRS 16 (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 July 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in note 3. The impact of the adoption of IFRS 16 on the Group's consolidated financial statements is described below.

The date of initial application of IFRS 16 for the Group is 1 July 2019.

The Group has applied IFRS 16 using the partial retrospective approach.

##### *Impact on lessee accounting*

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet. Applying IFRS 16, for all leases (except as noted below), the Group:

- (a) Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
- (b) Recognises depreciation of right-of-use assets and interest on lease liabilities in profit and loss;
- (c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cash flows.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as tablet and personal computers, small items of office furniture and telephones), the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'other expenses' in profit or loss.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses generally on a straight-line basis.



## KOBALT MUSIC GROUP LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

#### 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 – Conceptual Framework Amendment	Amendments to Conceptual Framework references	1 Jan 2020
IFRS 3 – Amendment	Definition of Business	1 Jan 2020
IAS 1, IAS 8 Amendment	Definition of Material	1 Jan 2020
IFRS 9, IAS 39, IFRS 7 Amendment	Interest Rate Benchmark Reform	1 Jan 2021
IFRS 17	Insurance Contracts	1 Jan 2021
IFRS 10, IAS 28 Amendment	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Postponed

#### 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 IFRS 15, 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 \$18.6 million (2019: \$14.2 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.

## **KOBALT MUSIC GROUP LIMITED**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended 30 June 2020**

#### **3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

##### ***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 \$13.8 million (2019: \$13.9 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 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 2020**

#### **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 (including Kobalt Capital) segment, which administers music publishing rights on behalf of clients and provides asset management services;
- the AWAL segment, which distributes and licenses music recordings;
- the Neighbouring Rights segment, which collects neighbouring rights income on behalf of clients; and
- the AMRA 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 2020

### 4. SEGMENT INFORMATION (continued)

Classes of business	Publishing (Incl. Kobalt Capital)	AWAL	Neighbouring rights	AMRA	Other/ corporate	Eliminations	Consolidated
	2020	2020	2020	2020	2020	2020	2020
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross collection / fees	445,572	149,463	84,489	78,294	-	(55,186)	702,632
<b>Revenue</b>							
External sales to third parties	387,517	142,769	7,495	78,294	-	100	616,175
Inter-segment sales	48,593	6,693	-	-	-	(55,286)	-
<b>Total revenue</b>	<b>436,110</b>	<b>149,462</b>	<b>7,495</b>	<b>78,294</b>	<b>-</b>	<b>(55,186)</b>	<b>616,175</b>
<b>Contribution margin*</b>	<b>35,015</b>	<b>9,355</b>	<b>5,785</b>	<b>2,442</b>	<b>(664)</b>	<b>100</b>	<b>52,033</b>
Sales / Marketing cost							(18,801)
Corporate activity cost							(46,327)
<b>Adjusted EBITDA</b>							<b>(13,095)</b>
Depreciation and amortisation							(14,948)
Provisions and write-offs							(5,915)
Exchange rate loss							(6,004)
Finance cost							(20,251)
Other expenses							(4,685)
Share based payments							(5,340)
<b>Loss before tax</b>							<b>(70,238)</b>
<b>Total assets</b>	<b>2,689,157</b>	<b>410,138</b>	<b>171,660</b>	<b>146,318</b>	<b>788,921</b>	<b>(3,573,422)</b>	<b>632,772</b>
<b>Total liabilities</b>	<b>(2,779,287)</b>	<b>(522,677)</b>	<b>(171,268)</b>	<b>(176,886)</b>	<b>(637,568)</b>	<b>3,543,893</b>	<b>(743,793)</b>

\*Contribution margin is equal to gross margin less ongoing service costs

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 30 June 2020

### 4. SEGMENT INFORMATION (continued)

Classes of business	Publishing (Incl. Kobalt Capital) 2019 \$'000	AWAL 2019 \$'000	Neighbouring rights 2019 \$'000	AMRA 2019 \$'000	Other/ corporate 2019 \$'000	Eliminations 2019 \$'000	Consolidated 2019 \$'000
Gross collection / fees	415,461	111,503	69,052	65,600	-	(45,172)	616,444
<b>Revenue</b>							
External sales to third parties	365,566	106,159	6,113	65,600	-	-	543,438
Inter-segment sales	39,724	5,344	104	-	-	(45,172)	-
<b>Total revenue</b>	<b>405,290</b>	<b>111,503</b>	<b>6,217</b>	<b>65,600</b>	<b>-</b>	<b>(45,172)</b>	<b>543,438</b>
 <b>Contribution margin*</b>	 32,464	 7,178	 4,517	 2,364	 -	 -	 46,523
Sales / Marketing cost							(21,329)
Corporate activity cost							(46,830)
<b>Adjusted EBITDA</b>							<b>(21,636)</b>
Depreciation and amortisation							(8,586)
Provisions and write-offs							(4,386)
Exchange rate loss							353
Finance cost							(8,274)
Other expenses							(2,154)
Share based payments							(5,388)
<b>Loss before tax</b>							<b>(50,071)</b>
 <b>Total assets</b>	 2,249,335	 297,607	 152,035	 100,757	 704,022	 (2,955,562)	 548,194
<b>Total liabilities</b>	<b>(2,329,041)</b>	<b>(393,512)</b>	<b>(155,577)</b>	<b>(125,959)</b>	<b>(512,317)</b>	<b>2,926,310</b>	<b>(590,096)</b>

\*Contribution margin is equal to gross margin less ongoing service costs

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 30 June 2020

### 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:

	2020 \$'000	2019 \$'000
United Kingdom	75,247	65,437
Rest of Europe	200,710	187,782
North America	273,068	235,251
Rest of World	67,150	54,968
Total revenue	<u>616,175</u>	<u>543,438</u>

### 5. OPERATING LOSS

Has been arrived at after (crediting) / charging:

		2020 \$'000	2019 \$'000
Net foreign exchange loss / (gain)		(6,004)	(353)
Depreciation of property, plant and equipment	12	2,858	2,742
Depreciation of right-of-use assets	13	4,669	-
Amortisation of internally-generated intangible assets included in other operating expenses	11	7,420	5,845
Staff costs	6	88,452	75,580
R&D expenses not capitalised		7,129	4,047
Fees payable to the Company's auditor for the audit of the Group's annual financial statements:		409	336
Subsidiaries' annual financial statements		71	69
Other non-audit services:			
Taxation compliance services		251	211
Other taxation advisory services		707	435
Corporate finance advisory services		-	438

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 30 June 2020

### 6. STAFF COSTS

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

	2020 Number	2019 Number
Publishing client services and administration	146	109
Synchronisation and creative	96	82
AWAL	144	107
Neighbouring Rights	37	34
AMRA	27	20
Tech and Product	122	139
Corporate and Other	145	161
	<u>717</u>	<u>652</u>

	2020 \$'000	2019 \$'000
<i>Post-capitalisation staff costs:</i>		
Wages and salaries	62,104	54,346
Employer pension contributions	2,865	2,452
Social security contributions and similar taxes	6,044	5,101
Share-based payment charges	5,340	5,388
	<u>76,353</u>	<u>67,287</u>

Capitalisation amounts can be found within note 11.

Directors remuneration amounts can be found within note 28.

### 7. FINANCE COSTS

	2020 \$'000	2019 \$'000
Interest expense on financial liabilities measured at amortised cost	16,951	8,274
Interest on lease liabilities	3,316	-
	<u>20,267</u>	<u>8,274</u>

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

### 8. INCOME TAX

The major components of income tax expense for the years ended 30 June 2020 and 2019 are:

	2020 \$'000	2019 \$'000
<b>Current income tax</b>		
United Kingdom corporation tax based on the loss for the year at 19% (2019 : 19%)	-	-
Non-reclaimable withholding tax on royalty payments received	3,216	2,477
Net refund of s455 UK corporation tax for earlier years	(34)	-
Tax paid in overseas jurisdictions	52	434
<b>Total current tax</b>	<b>3,234</b>	<b>2,911</b>
<b>Deferred taxation</b>		
Origination and reversal of timing differences	(154)	(154)
Tax on loss on ordinary activities	<b>3,080</b>	<b>2,757</b>

The standard rate of tax for the year, based on the United Kingdom standard rate of corporation tax is 19% (2019: 19%). 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:

	2020 \$'000	2019 \$'000
Loss on ordinary activities before tax	(70,238)	(50,071)
Tax on loss on ordinary activities at standard rate	(13,330)	(9,513)
Factors affecting charge for the year:		
Expenses not deductible for tax purposes	6,716	2,709
Income not taxable for tax purposes	(837)	(293)
Depreciation in excess of capital allowances	330	(401)
Tax losses carried forward	9,561	7,377
Net non-reclaimable withholding tax on royalty payments received	3,216	2,477
Different tax rates used in overseas jurisdictions	(459)	(790)
Movement in short term timing differences	(1,917)	1,366
Losses utilised	(200)	(175)
<b>Total actual amount of current tax</b>	<b>3,080</b>	<b>2,757</b>

### 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 \$48.7 million (2019: \$39.0 million) of which \$576k (2019: \$594k) 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 2020

### 9. SHARE-BASED PAYMENTS

#### Equity-settled share options

The Company provides incentives in the form of share options and restricted stock units 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 and restricted stock units outstanding during the year are as follows:

	2020		2019	
	Number of share options	Weighted average exercise price (in £)	Number of share options	Weighted average exercise price (in £)
Outstanding at beginning of year	1,889,380	29.01	1,856,534	29.31
Granted during the year	169,250	45.62	47,750	46.46
Forfeited during the year	(33,037)	39.90	(13,307)	25.18
Exercised during the year	(10,100)	23.00	(22,076)	11.35
Expired during the year	(8,165)	24.18	(21,881)	29.01
Other movements during the year	(473)	-	42,360	23.00
Outstanding at the end of the year	<u>2,006,856</u>		<u>1,889,380</u>	
Exercisable at the end of the year	<u>1,558,653</u>		<u>1,325,334</u>	

The weighted average share price at exercise was £41.32 (2019: £38.81).

At 30 June 2020, outstanding options had an exercise price of £10.00 to £51.38 (2019: £10.00 to £49.00) and a weighted average remaining contractual life of 5.83 years (2019: 6.2 years).

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

Year ended 30 June	2020	2019
Weighted average share price at grant (based on FTSE All Share movement)	£40.00	£38.81
Weighted average exercise price	£45.66	£45.32
Expected volatility	25%	25%
Weighted average expected life	10.00	10.00
Weighted average risk-free rate	0.63%	1.39%
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 \$5.3 million related to equity-settled share-based payment transactions in the year ended 30 June 2020 (2019: \$5.4m).

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 30 June 2020

### 10. GOODWILL AND IMPAIRMENT

GROUP	Goodwill \$'000
<b>Cost</b>	
At 1 July 2019	14,743
Foreign exchange rate movements	(141)
<b>At 30 June 2020</b>	<b>14,602</b>
<b>Accumulated impairment losses</b>	
At 1 July 2019	860
Foreign exchange rate movements	(27)
<b>At 30 June 2020</b>	<b>833</b>
<b>Net book value</b>	
At 30 June 2019	13,883
At 30 June 2020	13,769

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 2020, before impairment consideration:

	2020 \$'000	2019 \$'000	2018 \$'000
Publishing	1,287	1,349	1,365
AWAL	4,189	4,227	4,271
AMRA	699	699	699
Neighbouring Rights	8,427	8,468	8,761
	<u>14,602</u>	<u>14,743</u>	<u>15,096</u>

The recoverable amount of each segment as a cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on financial forecasts approved by the directors covering a five-year period, and a pre-tax discount rate of 15% per annum. For the purposes of impairment testing, cash flows beyond that five-year period have been extrapolated without assuming further growth.

For the Publishing, AWAL and AMRA cash-generating unit, the directors estimate that a decrease from the historical three-year average growth rates of ~20%, ~55% and ~30% respectively to nil would still result in significant headroom from an impairment charge. Management are forecasting growth above this.

For the Neighbouring Rights cash-generating unit, the directors estimate that a decrease from the historic three year average growth rate of ~7% to around 4% would reduce the headroom in the cash-generating unit to nil but would not result in an impairment charge. Management are forecasting growth above this.

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 30 June 2020

### 11. OTHER INTANGIBLE ASSETS

GROUP	Client contracts \$'000	Software licences \$'000	Development costs \$'000	Publishing assets \$'000	Total assets \$'000
<b>Cost</b>					
At 1 July 2018	27,939	4,515	19,145	511	52,110
Additions – internally generated	-	-	7,339	772	8,111
Additions – external third party	-	379	1,255	-	1,634
Transfer within categories	-	(1,338)	1,338	-	-
Foreign exchange rate movements	(753)	(120)	(800)	(15)	(1,688)
<b>At 30 June 2019</b>	<b>27,186</b>	<b>3,436</b>	<b>28,277</b>	<b>1,268</b>	<b>60,167</b>
Additions – internally generated	-	-	10,071	1,936	12,007
Additions – external third party	-	543	242	-	785
Foreign exchange rate movements	(313)	(99)	(871)	(37)	(1,320)
<b>At 30 June 2020</b>	<b>26,873</b>	<b>3,880</b>	<b>37,719</b>	<b>3,167</b>	<b>71,639</b>
<b>Amortisation</b>					
At 1 July 2018	1,858	1,722	9,952	139	13,671
Amortisation charge	1,061	621	4,118	45	5,845
Transfer within categories	-	(475)	475	-	-
Foreign exchange rate movements	-	(94)	(464)	(1)	(559)
<b>At 30 June 2019</b>	<b>2,919</b>	<b>1,774</b>	<b>14,081</b>	<b>183</b>	<b>18,957</b>
Amortisation charge	1,064	650	5,568	138	7,420
Foreign exchange rate movements	(3)	(69)	(578)	(4)	(654)
<b>At 30 June 2020</b>	<b>3,980</b>	<b>2,355</b>	<b>19,071</b>	<b>317</b>	<b>25,723</b>
<b>Net book value</b>					
At 1 July 2018	26,081	2,793	9,193	372	38,439
At 30 June 2019	24,267	1,662	14,196	1,085	41,210
At 30 June 2020	22,893	1,525	18,648	2,850	45,916

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

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 and certain additional onboarding costs. 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 net development costs of \$18,648k are held by KTech Services Ltd.

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 30 June 2020

### 12. PROPERTY, PLANT AND EQUIPMENT

<b>GROUP</b>	<b>Office equipment and fixtures \$'000</b>	<b>Computer equipment \$'000</b>	<b>Total \$'000</b>
<b>Cost</b>			
At 1 July 2018	12,011	5,527	17,538
Additions	2,493	672	3,165
Foreign exchange movements	(327)	(161)	(488)
<b>At 30 June 2019</b>	<b>14,177</b>	<b>6,038</b>	<b>20,215</b>
Additions	438	176	614
Disposals	-	(592)	(592)
Foreign exchange movements	(269)	(134)	(403)
<b>At 30 June 2020</b>	<b>14,346</b>	<b>5,488</b>	<b>19,834</b>
<b>Accumulated depreciation</b>			
At 1 July 2018	2,408	3,498	5,906
Depreciation	1,475	1,267	2,742
Foreign exchange movements	(428)	(121)	(549)
<b>At 30 June 2019</b>	<b>3,455</b>	<b>4,644</b>	<b>8,099</b>
Depreciation	1,841	1,017	2,858
Depreciation on disposals	-	(590)	(590)
Foreign exchange movements	(112)	(118)	(230)
<b>At 30 June 2020</b>	<b>5,184</b>	<b>4,953</b>	<b>10,137</b>
<b>Net book value</b>			
At 1 July 2018	9,603	2,029	11,632
At 30 June 2019	10,722	1,394	12,116
At 30 June 2020	9,162	535	9,697

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 30 June 2020

### 13. RIGHT OF USE ASSETS

#### GROUP

	<b>Lease \$'000</b>
<b>Cost</b>	
At 30 June 2019	-
Additions	35,210
Disposals	-
Foreign exchange movements	(829)
At 30 June 2020	<b>34,381</b>
<b>Accumulated depreciation</b>	
At 30 June 2019	-
Depreciation	4,669
Depreciation on disposals	-
Foreign exchange movements	(70)
At 30 June 2020	<b>4,599</b>
<b>Net book value</b>	
At 30 June 2019	-
At 30 June 2020	<b>29,782</b>

The maturity analysis of lease liabilities is presented in note 19.

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

### 14. 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
AWAL Recordings Licensing Ltd (formerly Kobalt Music Recordings Licensing Limited)	(a)	UK	Distribution and licensing of music recordings
AWAL Recordings America Inc (formerly Kobalt Music Recordings America Inc)	(c)	USA	Distribution and licensing of music recordings
AWAL Recordings Limited (formerly Kobalt Music Recordings Limited)	(a)	UK	Distribution and licensing of music recordings
AWAL Recordings Licensing America, Inc. (formerly Kobalt Music Recordings 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/Canada	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 Neighbouring Rights Limited (formerly Kobalt Music Rights Agency Limited)	(a)	UK	Collection of neighbouring rights
Kobalt Neighbouring Rights II Limited (formerly 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 2020

### 14. 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/France	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
Kobalt Capital Luxembourg Sarl	(f)	Luxembourg	Provision of investment advice

\*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) 35, rue Glesener, L-1630 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, 15<sup>th</sup> Floor, Austin Tower, 22-26 Austin Avenue, Tsim Sha Tsui, Hong Kong

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

### 15. INVESTMENTS

	Group investments \$'000
<b>Fair value</b>	
At 1 July 2018	7,493
Investment in third parties	660
Repayment of investment	(670)
Fair value adjustment	436
Foreign exchange movements	(270)
<b>At 30 June 2019</b>	<b>7,649</b>
Investment in third parties	532
Fair value adjustment	1,412
Foreign exchange movements	(304)
<b>At 30 June 2020</b>	<b>9,289</b>

The Group holds a strategic, non-controlling interest of less than 3% in Kobalt Music Royalties SCA SICAV-SIF ("Fund I") and less than 1% in KMR Music Royalties II SCSp ("Fund II").

### 16. ASSETS HELD FOR SALE

	\$'000
Purchases during year of assets held for sale	2,980
Less: assets sold during year	(497)
<b>At 30 June 2019</b>	<b>2,483</b>
Purchases during year of assets held for sale	1,695
Less: assets sold during year	(2,421)
<b>At 30 June 2020</b>	<b>1,757</b>

### 17. TRADE AND OTHER RECEIVABLES

Trade and other receivables are measured at unamortised amount receivable.

Under IFRS 9, the directors consider the carrying amount of trade and other receivables at the transaction price as it is assumed they do not contain a significant financing component

	2020 \$'000	2019 \$'000
Other receivables	196,429	181,319
Less: Loss allowance	(11,154)	(11,175)
Other receivables net	185,275	170,144
Prepayments	3,454	3,641
Accrued income	179,961	171,525
<b>Total trade and other receivables</b>	<b>368,690</b>	<b>345,310</b>



# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 30 June 2020

### 17. TRADE AND OTHER RECEIVABLES (continued)

	Provision \$'000
<b>Movement in loss allowance:</b>	
At 1 July 2018	(7,684)
Charged to consolidated statement of comprehensive income during the period	(3,491)
<b>At 30 June 2019</b>	<b>(11,175)</b>
Charged to consolidated statement of comprehensive income during the period	21
<b>At 30 June 2020</b>	<b>(11,154)</b>

### 18. TRADE AND OTHER PAYABLES

As at 30 June 2020 the Group has contractual obligations to make future advances which are unconditional in nature (with a known timing and amount). Unconditional obligations are all due by 31 December 2022 and for a total of \$9.9 million and have not been recognised (2019 - \$12.2 million all due by 31 December 2020).

As at 30 June 2020 the Group has contractual obligations to make future performance related compensation payments which are conditioned on a future event. The Company has determined the probability of the future event occurring is remote therefore has not recognised the liability. These conditional obligations are all due by 31 December 2022 and for a total of \$2.5 million (2019 – nil)

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

	2020 \$'000	2019 \$'000
Trade creditors	2,833	2,506
Social security and other taxes	7,287	4,304
Accruals	423,528	385,320
Deferred revenue	71,925	63,695
Other creditors	5,956	3,544
<b>Total trade and other payables</b>	<b>511,529</b>	<b>459,369</b>

### 19. LEASE LIABILITIES

The amounts due as of the balance sheet date of leases classified as capital leases per IFRS 16:

	2020 \$'000	2019 \$'000
Not later than one year	3,752	-
Later than one year and not later than five years	15,234	-
Later than five years	17,603	-
	<b>36,589</b>	<b>-</b>

Analysed as:

Current	3,752	-
Non-current	32,837	-
	<b>36,589</b>	<b>-</b>

The Group does not face a significant liquidity risk regarding its lease liabilities. Lease liabilities are monitored within the Group's treasury function.

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 30 June 2020

### 20. LOANS AND BORROWING

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

	2020 \$'000	2019 \$'000
<b>Secured borrowing at amortised cost</b>		
Term loan	185,000	125,000
Accrued loan interest	10,829	6,611
Capitalised debt costs	(3,923)	(4,460)
<b>Total borrowings</b>	<u>191,906</u>	<u>127,151</u>
Amount due for settlement within 12 months	<u>-</u>	<u>-</u>

All borrowings are in US dollars.

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

The Group has a \$185 million term loan repayable in 2023. The loan is secured against materially all of the Group assets, including pledging the equity of all entities with the exception of Kobalt Music Group Limited and Kobalt Music Royalties II Sarl. As at year end the value outstanding was \$195.8 million.

### 21. DEFERRED TAX

	\$'000
<b>Deferred tax asset</b>	
At 30 June 2018	618
Exchange rate movements	(24)
<b>At 30 June 2019</b>	<u>594</u>
Exchange rate movements	(18)
<b>At 30 June 2020</b>	<u>576</u>

The amount of deferred tax asset relates to historic tax losses and is provided in the financial statements as follows:

	GROUP	
	2020 \$'000	2019 \$'000
Trading losses	<u>576</u>	<u>594</u>
<b>Deferred tax liability</b>		
At 30 June 2018		(3,837)
Exchange rate movements		107
Reversal of timing difference		154
<b>At 30 June 2019</b>		<u>(3,576)</u>
Exchange rate movements		36
Reversal of timing differences		154
<b>At 30 June 2020</b>		<u>(3,386)</u>

The deferred tax liability relates to the client contracts in note 11.

## KOBALT MUSIC GROUP LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 30 June 2020

#### 22. 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 for those leases that did not meet the criteria under IFRS 16 to be capitalised, which fall due as follows:

	2020 \$'000	2019 \$'000
Lease payments under operating leases recognised as an expense in the year	843	7,295
	<u>843</u>	<u>7,295</u>

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.

	2020 \$'000	2019 \$'000
Not later than one year	376	6,933
Later than one year and not later than five years	188	21,470
Later than five years	-	23,242
	<u>564</u>	<u>51,645</u>

##### The Company as a lessor

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

	2020 \$'000	2019 \$'000
Not later than one year	103	454
Later than one year but not later than five years	-	103
	<u>103</u>	<u>557</u>

#### 23. 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 uses 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 18 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 presentational currency is USD and operates in the United Kingdom and internationally resulting in the Group being exposed to foreign exchange risk arising from various currency exposures.

## KOBALT MUSIC GROUP LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

#### 23. FINANCIAL INSTRUMENTS (continued)

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

Currency	30 June 2020	30 June 2019
	\$'000	\$'000
United States Dollar	115,558	78,493
Great British Pound	17,283	18,277
Euro	7,309	13,790
Swedish Krona	4,241	6,716
Swiss Franc	837	1,765
Canadian Dollar	3,086	2,590
Australian Dollar	2,652	2,902
Hong Kong Dollar	465	279
Chinese Yuan	5	5
Japanese Yen	11	132

#### 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 (\$52k) as of 30 June 2020 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 2020

### 24. DERIVATIVE FINANCIAL INSTRUMENTS

The derivative asset and liability with Natwest Markets Plc do not meet the offsetting criteria in IAS 32. Consequently, the gross amount of the derivative asset and the gross amount of the derivative liability presented separately in the Group's statement of financial position.

Cash collateral has also been paid to the counterparty. The cash collateral does not meet the offsetting criteria in IAS 32, but it can be set off against the net amount of the derivative asset and derivative liability in the case of default and insolvency or bankruptcy, in accordance with the associated collateral arrangements.

Foreign exchange forward contracts	2020 \$'000	2019 \$'000
FX forward contracts	311	-
Cash collateral	1,538	-
<b>Derivative Asset</b>	<b>1,849</b>	<b>-</b>
FX forward contracts	383	-
<b>Derivative Liability</b>	<b>383</b>	<b>-</b>

The following table details the Group's liquidity analysis for its foreign exchange forward contracts based on contractual maturities. The table has been drawn up based on the undiscounted gross inflows and outflows on those derivatives. Assumes all contracts will be gross settled.

When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

Foreign exchange forward contracts	2020 \$'000	2019 \$'000
Not later than one month	3,062	-
Later than one month and not later than three months	9,185	-
Later than three months and not later than twelve months	24,721	-
One to two years	15,771	-
	<b>52,739</b>	<b>-</b>

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 30 June 2020

### 25. SHARE CAPITAL

#### Issued and fully paid:

	2020	2019
	\$'000	\$'000
6,969,592 (2019 - 6,409,492) ordinary shares of £0.05 each	582	542
931,102 (2019 - 931,102) BA ordinary shares of £0.005 each	6	6
52,080 (2019 - 52,080) BB ordinary shares of £0.005 each	0	0
315,341 (2019 - 315,341) BC ordinary shares of £0.005 each	2	2
112,000 (2019 - 112,000) BD ordinary shares of £0.005 each	1	1
77,750 (2019 - 77,750) BG ordinary shares of £0.005 each	1	1
530,684 (2019 - 530,684) A preference shares of £0.05 each	38	38
62,500 (2019 - 62,500) B preference shares of £0.05 each	4	4
1,377,981 (2019 - 1,377,981) C preference shares of £0.10 each	185	185
1,354,984 (2019 - 1,354,984) D preference shares of £0.10 each	175	175
	<u>994</u>	<u>954</u>

During the year, share capital was increased by £28k (\$40k) by the issue of 560,100 ordinary shares.

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

Date	Type of share	No. of shares
July 2019	Ordinary shares of £0.05	10,100

In the year, the following shares were issued as a result of stock grants:

Date	Type of share	Type of share
January 2020 to June 2020	Ordinary shares of £0.05	550,000

There were no shares repurchased for cash during the year.

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended 30 June 2020

### 25. 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 one 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 one 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 2020

### 25. SHARE CAPITAL (continued)

Share class	Voting rights	Dividends rights	Capital distribution rights	Other
Ordinary – BC	20 Ordinary BC shares have the same voting rights as one 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 one 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 one 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 2020

### 25. SHARE CAPITAL (continued)

Share class	Voting rights	Dividends rights	Capital distribution rights	Other
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 2020

### 25. SHARE CAPITAL (continued)

Share class	Voting rights	Dividends rights	Capital distribution rights	Other
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

### 26. SHARE PREMIUM

	<b>\$'000</b>
Balance at 1 July 2018	<b>193,154</b>
Premium arising on issue of equity share	314
<b>Balance at 30 June 2019</b>	<b>193,468</b>
Premium arising on issue of equity shares	292
<b>Balance at 30 June 2020</b>	<b>193,760</b>

### 27. 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 2020

### 28. 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.

In relation to Fund I and Fund II, net amounts owed as at year end are \$6.8m (2019: \$26.1m).

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

	2020 \$'000	2019 \$'000
<b>Key management personnel compensation</b>		
Wages and salaries	15,975	10,897
Employer pension contributions	92	128
Share-based payment charges	3,769	4,532
	<u>19,836</u>	<u>15,557</u>

	2020 \$'000	2019 \$'000
<b>Directors' remuneration</b>		
Directors' emoluments	6,497	4,272
Shared-based payment charges	2,038	2,052
Company contributions to money purchase pension schemes	24	21
	<u>8,559</u>	<u>6,345</u>

#### The number of directors who:

	Number	Number
Are members of money purchase pension schemes	2	2
Exercised options over shares in the Company	-	-

Emoluments of the highest paid director are as follows:

	2020 \$'000	2019 \$'000
Director's emoluments	4,135	2,889
Employer pension contributions	-	-
Share-based payment charges	1,969	2,021
	<u>6,104</u>	<u>4,910</u>

The highest paid director did not exercise options during the year (2019 – none).

Included in Directors' emoluments is nil for loss of office (2019 – \$0.3m).

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

### 29. POST BALANCE SHEET EVENTS

There were no material post balance sheet events.

# KOBALT MUSIC GROUP LIMITED

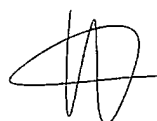
## COMPANY BALANCE SHEET

As at 30 June 2020

	Notes	2020 \$'000	2019 \$'000
<b>Non-current assets</b>			
Property, plant and equipment	33	6,587	8,247
Right of use asset	35	14,742	
Other Intangible assets	34	1,433	1,424
Financial instruments		1,849	-
Investments	31	26,588	27,433
		<u>51,199</u>	<u>37,104</u>
<b>Current assets</b>			
Trade and other receivables	32	507,115	487,843
Cash and bank balances		591	556
<b>Total assets</b>		<u>558,905</u>	<u>525,503</u>
<b>Non-current liabilities</b>			
Lease liability	36	(16,928)	-
Financial instruments		(383)	-
		<u>(17,311)</u>	<u>-</u>
<b>Current liabilities</b>			
Trade and other payables	37	(357,092)	(330,764)
Lease liability		(1,958)	-
Accruals		(1,142)	(4,167)
		<u>(360,192)</u>	<u>(334,931)</u>
<b>Net current assets</b>		<u>147,514</u>	<u>153,468</u>
<b>Net assets</b>		<u>181,402</u>	<u>190,572</u>
<b>Equity</b>			
Share capital	38	994	954
Share premium account	38	193,760	193,468
Share option reserve	39	25,161	19,866
Retranslation reserves		(30,282)	(24,663)
Retained earnings		(8,231)	947
<b>Total equity</b>		<u>181,402</u>	<u>190,572</u>

The company reported a loss for the financial year ended 30 June 2020 of (\$9.2m) (2019: \$5.9m loss).

The financial statements of Kobalt Music Group Limited, registered number 04018752, were approved by the Board of Directors and authorised for issue on 28 October 2020.



L. Hubert  
Director

# KOBALT MUSIC GROUP LIMITED

## COMPANY STATEMENT OF CHANGES IN EQUITY

As at 30 June 2020

### Equity attributable to equity holders of the Company

	Share capital	Share premium account	Share option reserve	Retransla- tion reserve	Retained earnings	Total equity
Note	38	38				
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance at 1 July 2018</b>	<b>953</b>	<b>193,154</b>	<b>14,514</b>	<b>(17,259)</b>	<b>6,846</b>	<b>198,208</b>
Loss for the year	-	-	-	-	(5,899)	(5,899)
Other comprehensive loss for the year	-	-	-	(7,404)	-	(7,404)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(7,404)</b>	<b>(5,899)</b>	<b>(13,303)</b>
Issue of share capital	1	314	-	-	-	315
Share-based payment transactions (note 9)	-	-	5,388	-	-	5,388
Foreign exchange differences	-	-	(36)	-	-	(36)
<b>Balance at 30 June 2019</b>	<b>954</b>	<b>193,468</b>	<b>19,866</b>	<b>(24,663)</b>	<b>947</b>	<b>190,572</b>
Loss for the year	-	-	-	-	(9,178)	(9,178)
Other comprehensive loss for the year	-	-	-	(5,619)	-	(5,619)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(5,619)</b>	<b>(9,178)</b>	<b>(14,797)</b>
Issue of share capital	40	292	-	-	-	332
Share-based payment transactions (note 9)	-	-	5,340	-	-	5,340
Foreign exchange differences	-	-	(45)	-	-	(45)
<b>Balance at 30 June 2020</b>	<b>994</b>	<b>193,760</b>	<b>25,161</b>	<b>(30,282)</b>	<b>(8,231)</b>	<b>181,402</b>

## KOBALT MUSIC GROUP LIMITED

### NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 30 June 2020

#### 30. 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, 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.

As permitted by s408 Companies Act 2006, no profit and loss account is presented in respect of the parent Company.

##### Investment in subsidiaries

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

#### 31. INVESTMENTS

COMPANY	Investment in subsidiary undertakings \$'000
Cost	
At 1 July 2019	26,588
Foreign exchange	-
Transfers to Group Entity	-
At 30 June 2020	<u>26,588</u>

For details on investment in subsidiaries, refer to note 15 to the consolidated financial statements.

#### 32. TRADE AND OTHER RECEIVABLES

	2020 \$'000	2019 \$'000
Amounts falling due within one year:		
Amounts owed by Group undertakings	499,715	477,433
Other debtors	5,206	8,442
Prepayments	2,194	1,968
	<u>507,115</u>	<u>487,843</u>

Amounts repayable from subsidiaries are repayable on demand, unsecured, and carry interest of 5 per cent (2019: 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 2020

### 33. PROPERTY PLANT AND EQUIPMENT

	Office equipment and fixtures \$'000	Computer equipment \$'000	Total \$'000
<b>Cost</b>			
At 1 July 2018	8,124	4,062	12,186
Additions	879	434	1,313
Foreign exchange movements	(318)	(162)	(480)
<b>At 30 June 2019</b>	<b>8,685</b>	<b>4,334</b>	<b>13,019</b>
Additions	186	119	305
Disposals	-	(592)	(592)
Foreign exchange movements	(267)	(130)	(397)
<b>At 30 June 2020</b>	<b>8,604</b>	<b>3,731</b>	<b>12,335</b>
<b>Accumulated depreciation and Impairment</b>			
At 1 July 2018	968	2,402	3,370
Depreciation	952	998	1,950
Foreign exchange movements	(426)	(122)	(548)
<b>At 30 June 2019</b>	<b>1,494</b>	<b>3,278</b>	<b>4,772</b>
Depreciation	1,216	551	1,767
Depreciation on disposals	-	(592)	(592)
Foreign exchange movements	(283)	84	(199)
<b>At 30 June 2020</b>	<b>2,427</b>	<b>3,321</b>	<b>5,748</b>
<b>Net book value</b>			
At 1 July 2018	7,156	1,660	8,816
At 30 June 2019	7,191	1,056	8,247
At 30 June 2020	6,177	410	6,587

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE COMPANY FINANCIAL STATEMENTS For the year ended 30 June 2020

### 34. INTANGIBLE ASSETS

	<b>Software licences \$'000</b>
<b>Cost</b>	
At 1 July 2018	3,087
Additions – external third party	171
Foreign exchange rate movements	(121)
<b>At 30 June 2019</b>	<b>3,137</b>
Additions – external third party	602
Foreign exchange rate movements	(96)
<b>At 30 June 2020</b>	<b>3,643</b>
<b>Amortisation</b>	
At 1 July 2018	1,169
Amortisation charge	603
Foreign exchange rate movements	(59)
<b>At 30 June 2019</b>	<b>1,713</b>
Amortisation charge	564
Foreign exchange rate movements	(67)
<b>At 30 June 2020</b>	<b>2,210</b>
<b>Net book value</b>	
At 1 July 2018	1,918
At 30 June 2019	1,424
At 30 June 2020	1,433

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

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



# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE COMPANY FINANCIAL STATEMENTS For the year ended 30 June 2020

### 35. RIGHT OF USE ASSETS

#### GROUP

	<b>Lease \$'000</b>
<b>Cost</b>	
At 30 June 2019	-
Additions	17,209
Disposals	-
Foreign exchange movements	(829)
At 30 June 2020	<b>16,380</b>
<b>Accumulated depreciation</b>	
At 30 June 2019	-
Depreciation	1,708
Depreciation on disposals	-
Foreign exchange movements	(70)
At 30 June 2020	<b>1,638</b>
<b>Net book value</b>	
At 30 June 2019	-
At 30 June 2020	<b>14,742</b>

### 36. LEASE LIABILITIES

The amounts due as of the balance sheet date of leases classified as capital leases per IFRS 16:

	<b>2020 \$'000</b>	<b>2019 \$'000</b>
Not later than one year	1,958	-
Later than one year and not later than five years	7,309	-
Later than five years	9,619	-
	<b>18,886</b>	<b>-</b>
<b>Analysed as:</b>		
Current	1,958	-
Non-current	16,928	-
	<b>18,886</b>	<b>-</b>

## **KOBALT MUSIC GROUP LIMITED**

### **NOTES TO THE COMPANY FINANCIAL STATEMENTS**

**For the year ended 30 June 2020**

#### **37. TRADE AND OTHER PAYABLES**

	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Amounts falling due within one year:</b>		
Amounts owed to Group undertakings	356,602	330,275
Trade creditors	490	489
	<u>357,092</u>	<u>330,764</u>

Amounts repayable to subsidiaries are repayable on demand, unsecured, and carry interest of 5 per cent (2019: 5 per cent) per annum charged on the outstanding loan balances.

#### **38. SHARE CAPITAL AND SHARE PREMIUM ACCOUNT**

The movements on these items are disclosed in notes 25 and 26 to the consolidated financial statements.

#### **39. SHARE OPTION RESERVE**

The movements in the reserve are disclosed in the company statement of changes in equity on page 61.

#### **40. POST BALANCE SHEET EVENTS**

Post balance sheet events are detailed in note 29 to the consolidated financial statements.