

**KOBALT MUSIC GROUP LIMITED**

**Annual Report and Consolidated Financial  
Statements**

**For the year ended 30 June 2014**

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# **KOBALT MUSIC GROUP LIMITED**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

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# **KOBALT MUSIC GROUP LIMITED**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

### **OFFICERS AND PROFESSIONAL ADVISERS**

#### **DIRECTORS**

W B A Ahdritz  
T Bunting  
D Caro  
J P Fitzherbert-Brockholes  
J Ekelund  
A J Palm  
R Sanders  
J Tandberg  
R Thompson

#### **COMPANY SECRETARY**

J P Fitzherbert-Brockholes

#### **REGISTERED OFFICE**

4 Valentine Place  
London  
SE1 8QH

#### **BANKERS**

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

#### **AUDITOR**

Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London

# **KOBALT MUSIC GROUP LIMITED**

## **CHAIRMAN'S STATEMENT**

Kobalt's mission in helping content owners manage their rights continues. 2013/4 was another year that Kobalt delivered great results for all constituencies and its prospects have never looked better.

The core platform, which was originally built to managing publishing rights, continues to deliver; underlying growth was over 20% with the backlog growing substantially more. In recent years the platform has been expanded to enable new forms of rights to be monetised specifically, artist rights and neighbouring rights. Both saw rapid growth and achieved significant milestones in their development. We already are seeing significant contribution from these businesses despite their very recent establishment.

Kobalt is now uniquely positioned to drive a transformation in digital rights management solving the problem of a high volume, low transactional value, complex industry on a global scale.

As discussed last year, the Board has been particularly focused on ensuring that the company has all the resources it needs to achieve its potential in these exciting times of opportunity. In the last two years the group has taken in £25m of new equity and a further net investment of £25m has been agreed in December 2014. This has been supplemented with growth in the Kobalt royalty fund of over \$150M in the last 18 months. The Board believes the resources to be adequate in ensuring the potential of Kobalt can be realised.

We all look forward to the next stage of Kobalt's story.

**Tim Bunting**

**Chairman**

## CHIEF EXECUTIVE'S REPORT

Our vision of creating the content management platform for the digital industry is rapidly becoming a reality. In our opinion the music industry's pipes are broken when it comes to collecting, processing and making payments on digital uses back to rights holders. Kobalt's vision from day one has been that there needs to be a different structure and new technology to be able to run the new digital music industry. We are confident that we will prove this, through Kobalt delivering that new solution.

In reflecting on the past year, I am pleased to report we have managed to deliver on all our main targets that we set for the year 2013/14.

In publishing, we began to show how transformational our collection technology could be in the digital world. We demonstrated that it was possible to collect and distribute more money for streaming from Spotify than was earned from iTunes downloads in Europe. Streaming income reached 10 percent of total collected publishing income. Our press release announcing this had a significant global impact – it received over 100m viewing impressions worldwide and provided a totally new perspective to the discussion about streaming and how artists and songwriters get paid.

We had another great year in terms of signing new publishing clients and our client retention continued to stay at 98% which meant our underlying revenue growth continued to be strong. Amongst this year's highlights were huge hits for **Katy Perry** ("Dark Horse", and "Roar" co-written by Max Martin, Lukasz Gottwald and Henry Walter), for **John Newman** ("Love Me Again"), for **Taylor Swift** ("Shake It Off", co-written by Max Martin, and Johan Schuster), for **Magic!** ("Rude" co-written by Ben Spivak and Adam Messinger) and for **Ellie Goulding** ("Burn", co-written by Ryan Tedder, Noel Zancanella and Brent Kutzle). Artists like **The Lumineers** and **Macklemore and Ryan Lewis** continued to drive revenue with their global hit albums (which included the singles "Ho Hey", "Thrift Shop" and "Can't Hold Us"). Despite these great songs we lacked a handful of hits compared to earlier years, and hits are important in the music business. As a result we saw a reduction in income from the very largest songs which held down the publishing division's revenue growth, despite our revenue excluding hits continuing to grow at over 20% year on year. However I am pleased to report that the back end of 2014 saw a significant increase in hits for Kobalt publishing - we are now back with high market share in the US and UK reaching our highest ever market share in the US in 14Q3 with 17.57% share of hit airplay. We expect this to both drive new deals and have a positive revenue impact for 2014/15.

We have also continued to place many high value Synchs, including for example the use of **Alt-J's** "Fitzpleasure" in a Microsoft Windows Phone commercial, **LCD Soundsystem's** "Someone Great" in a Samsung Galaxy commercial and **Christina Aguilera's** "We Remain" (Co-written by Ryan Tedder and Brent Kutzle) being placed in a trailer for the Hunger Games film.

We continued our geographic expansion and opened a Latin America division with an office in Miami. We see opportunities both to manage our existing rights catalogue more effectively in South America but also to sign local rights for global collection. Spanish speaking rights have a big market in North America and Europe, which often suffer the same issues with respect to collection as Anglo-American rights due to the international coverage.

Our Label Services division continued to grow significantly (45% increase on 2012/13) and we expect significant further growth this financial year. We have had strong success with releases like **Lenny Kravitz** "Strut" reaching No 2 positions in major markets like France and Germany. In total our new Label Services division released over 40 products giving a uniquely seamless and transparent global solution to our clients. However the market has been challenging with both CD and download sales falling over 20 percent in US for example. Furthermore competition has increased for signing mid-level established acts. We believe the market will be challenging for another couple of years until streaming revenue mitigates the fall of revenue from CDs and downloads. We believe our model of clients owning their own rights and receiving a highly transparent and empowering service will continue to win increased market share and provide the solution that artist need in this challenging environment.

Our Neighbouring Rights division has had a breakthrough year in 2013/14 with revenue growth of 182% over the previous year and significant new signings like **Calvin Harris**, **Sam Smith** and **Bruno Mars**. With a combination of unique expertise, Kobalt's reputation for transparent, ground breaking services and the division being able to start to demonstrate significant uplifts in collections we expect further rapid expansion and our outlook is very positive.

Our investment fund also had a strong year both in terms of making some great investments, delivering strong returns, and putting in place increased capital to take advantage of the wide range of opportunities we see in the market. The fund has now made investments totalling over USD80m and has capacity to make over USD200m of investments using the significant new equity raised in the year, as well the potential to draw on the scalable debt facility that we recently negotiated.

# **KOBALT MUSIC GROUP LIMITED**

## **CHIEF EXECUTIVE'S REPORT (continued)**

Across all divisions we have continued to develop our award winning portal which is a key differentiator with our clients. Just after the year end we released a new version of our portal, for the first time delivering a multi-rights perspective. It is now even easier to use and has deeper integration with digital music services, allowing our clients better understand and manage their global royalties.

We are very excited about the outlook for the year 2014/15 with an extended business plan supported by the new investment as reported in the Chairman's Statement. We see the structural transformation in the use of music in a digital world is now passed a tipping point and this change has created a whole new set of opportunities. Today a single song can have billions of transactions making management of music assets a very challenging task. We now have 260 people employed working to execute our vision of a global platform and managing rights in this very complex new world of digital music.

Lastly, I would like to thank once again all our employees for all the hard work they have put in this year and our shareholders for their continued support.

**Willard Ahdriz**

**Founder and Chief Executive**

# KOBALT MUSIC GROUP LIMITED

## STRATEGIC REPORT

### BUSINESS REVIEW AND PRINCIPAL ACTIVITY

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

As shown in the group's profit and loss account on page 11, the group's sales have increased by 11.3% over the prior year while gross margin has increased by 6.4 percentage points. Gross profit increased in absolute terms by £814k. Total administrative expenses have increased by 37.6 percentage points to £23.5m. The loss after tax has increased to £11.3m as opposed to the previous year's £4.9m. 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:

	2014	2013
Increase in turnover	11.3%	37.7%
Gross profit	£13,631k	£12,817k
Gross profit percentage	11.4%	11.9%
Operating loss	£9,830k	£4,231k
Net assets/(liabilities)	£1,832k	£(1,141k)
Net current liabilities	£(4,692k)	£(7,104k)
Cash	£12,008k	£14,489k

The group also uses certain non financial performance indicators, one of which is the number of employees. The increase in employee numbers during the year (from an average of 164 to 212) is the result of the group's rapid growth in activity.

The group's cash position remains healthy, and its net asset position has improved in the course of the year. The group is financed by working capital, loans and equity, with considerable headroom available from the group's loan facility should it be required.

### PRINCIPAL RISKS AND UNCERTAINTIES

The risks and uncertainties facing the group are detailed below.

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

The group seeks to mitigate this risk by seeking to make its roster 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. Furthermore, the group has additional finance available to enable it to provide the advances which larger prospective clients often require.

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

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

# KOBALT MUSIC GROUP LIMITED

## STRATEGIC REPORT (continued)

### PRINCIPAL RISKS AND UNCERTAINTIES (continued)

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

**Changing distribution:** The new channels for music distribution and licensing could significantly change the operational or 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.

### FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

#### *Currency risk*

The group's activities expose it to some risk of changes in foreign currency exchange rates. Other than in exceptional circumstances, the group does not feel it necessary to hedge against these exposures.

#### *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.

#### *Interest rate risk*

Kobalt is financed by short and medium term borrowing and is exposed to adverse movements in interest rates. The directors continually monitor this exposure and manage the risk as far as is possible.

### EVENTS SINCE THE END OF THE FINANCIAL YEAR

Since 30 June 2014, the group has issued a further 234,758 ordinary shares for consideration of £4.1m.

In December 2014 the company has agreed to issue a further 1,377,981 Series C Preferred Shares (a new class of shares) for a consideration of \$60m as well as to buy back existing shares with a total value of £15m.

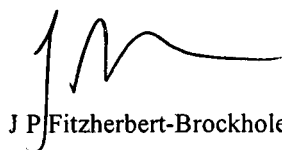
### FUTURE DEVELOPMENTS

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 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:



J P Fitzherbert-Brockholes, Company Secretary



# **KOBALT MUSIC GROUP LIMITED**

## **DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the year ended 30 June 2014.

### **DIRECTORS**

The directors who served throughout the year, unless otherwise stated, were as follows:

W B A Ahdritz  
T Bunting  
D Caro (Appointed 28/2/14)  
J Ekelund  
J P Fitzherbert-Brockholes  
A J Palm  
R Sanders  
J Tandberg  
T Teichman (Terminated 28/2/14)  
R Thompson

### **DIVIDENDS**

The directors do not recommend the payment of a dividend (30 June 2013 - £nil).

### **DIRECTORS' RESPONSIBILITIES STATEMENT**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 group and company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are 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

# KOBALT MUSIC GROUP LIMITED

## DIRECTORS' REPORT (continued)

### AUDITOR

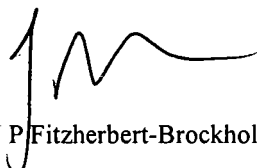
Each of the persons who is a director at the date of approval of this annual report confirms that:

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

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

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

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



J P Fitzherbert-Brockholes  
Company Secretary

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

We have audited the financial statements of Kobalt Music Group Limited for the year ended 30 June 2014 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement and the notes to the consolidated cash flow statement, the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

### **Respective responsibilities of directors and auditor**

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 30 June 2014 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion 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.

## **INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF KOBALT MUSIC GROUP LIMITED (continued)**

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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you 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.



**James Bates (Senior Statutory Auditor)**  
**For and on behalf of Deloitte LLP**  
Chartered Accountants and Statutory Auditor  
London, United Kingdom

13<sup>th</sup> January 2015

# KOBALT MUSIC GROUP LIMITED

## CONSOLIDATED PROFIT AND LOSS ACCOUNT For the year ended 30 June 2014

	Note	2014 £'000	2013 £'000
<b>TURNOVER</b>	2/3	119,145	107,044
Cost of sales		(105,514)	(94,227)
Gross profit		13,631	12,817
Administrative expenses		(23,461)	(17,048)
<b>OPERATING LOSS</b>	5	(9,830)	(4,231)
Interest receivable and similar income	6	15	25
Interest payable and similar charges	7	(319)	(347)
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(10,134)	(4,553)
Tax on loss on ordinary activities	8	(1,174)	(310)
<b>LOSS FOR THE FINANCIAL YEAR</b>	19	(11,308)	(4,863)

All activities derive from continuing operations.

There are no recognised gains and losses other than as shown above. Therefore no statement of total recognised gains and losses is presented.

# KOBALT MUSIC GROUP LIMITED

## CONSOLIDATED BALANCE SHEET As at 30 June 2014

	Note	2014 £'000	2013 £'000
<b>FIXED ASSETS</b>			
Intangible assets	11	1,001	1,159
Tangible assets	12	3,299	2,579
Investments	13	2,224	2,225
		<u>6,524</u>	<u>5,963</u>
<b>CURRENT ASSETS</b>			
Debtors	14	51,951	43,425
Cash at bank and in hand		12,008	14,489
		<u>63,959</u>	<u>57,914</u>
<b>CREDITORS: amounts falling due within one year</b>	15	<u>(68,651)</u>	<u>(65,018)</u>
<b>NET CURRENT LIABILITIES</b>		<u>(4,692)</u>	<u>(7,104)</u>
<b>NET ASSETS / (LIABILITIES)</b>		<u>1,832</u>	<u>(1,141)</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	18	369	332
Share premium account	19	36,218	23,854
Share option reserve	19	1,348	1,031
Other revaluation reserve	19	1,162	(401)
Profit and loss account	19	<u>(37,265)</u>	<u>(25,957)</u>
<b>SHAREHOLDERS' FUNDS/ (DEFICIT)</b>	19	<u>1,832</u>	<u>(1,141)</u>

The financial statements of Kobalt Music Group Limited, registered number 04018752, were approved by the Board of Directors and authorised for issue on 13 January 2015

Signed on behalf of the Board of Directors



J B Fitzherbert-Brockholes  
Director

# KOBALT MUSIC GROUP LIMITED

## COMPANY BALANCE SHEET

As at 30 June 2014

	Note	2014 £'000	2013 £'000
<b>FIXED ASSETS</b>			
Tangible assets	12	3,021	2,302
Investments	13	4,328	4,128
		<u>7,349</u>	<u>6,430</u>
<b>CURRENT ASSETS</b>			
Debtors	14	28,952	29,768
Cash at bank and in hand		2,488	309
		<u>31,440</u>	<u>30,077</u>
<b>CREDITORS: amounts falling due within one year</b>	15	(1,314)	(11,750)
<b>NET CURRENT ASSETS</b>		<u>30,126</u>	<u>18,327</u>
<b>NET ASSETS</b>		<u>37,475</u>	<u>24,757</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	18	369	332
Share premium account	19	36,218	23,854
Share option reserve	19	1,348	1,031
Profit and loss account	19	(460)	(460)
<b>SHAREHOLDERS' FUNDS</b>	19	<u>37,475</u>	<u>24,757</u>

The financial statements of Kobalt Music Group Limited, registered number 04018752, were approved by the Board of Directors and authorised for issue on 13 January 2015

Signed on behalf of the Board of Directors



J P Fitzherbert-Brockholes  
Director

# KOBALT MUSIC GROUP LIMITED

## CONSOLIDATED CASH FLOW STATEMENT For the year ended 30 June 2014

	Note	2014 £'000	2013 £'000
<b>Net cash outflow from operating activities</b>	1	(7,590)	(1,694)
<b>Returns on investments and servicing of finance</b>			
Interest received		15	25
Interest paid		(319)	(347)
<b>Net cash outflow from returns on investments and servicing of finance</b>		(304)	(322)
<b>Taxation</b>		(1,361)	(1,027)
<b>Capital expenditure and financial investment</b>			
Payments to acquire tangible fixed assets		(663)	(468)
Payments to acquire intangible fixed assets		-	(79)
<b>Net cash outflow from capital expenditure and financial investment</b>		(663)	(547)
<b>Acquisitions</b>			
Payment to acquire subsidiary undertaking		-	-
Cash acquired with subsidiary undertaking		-	-
Payments to acquire other investment holdings		-	(1,279)
<b>Net cash outflow from acquisitions</b>		-	(1,279)
<b>Net cash outflow before financing</b>		(9,918)	(4,869)
<b>Financing</b>			
Bank loans (repaid) received		(4,964)	4,964
Share capital issued		12,401	8,696
<b>Net cash inflow from financing</b>		7,437	13,660
<b>(Decrease) Increase in cash</b>	2/3	(2,481)	8,791



# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT For the year ended 30 June 2014

### 1. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2014 £'000	2013 £'000
Operating loss	(9,830)	(4,231)
Depreciation of tangible assets	1,000	752
Amortisation of intangible assets	152	160
Capitalised labour and other development costs	(1,082)	(862)
Increase in debtors	(8,526)	(16,686)
Increase in creditors	8,783	19,366
Share option payment charge	330	156
Lapsed options	(13)	(118)
Movements due to foreign exchange differences	1,596	(231)
<b>Net cash outflow from operating activities</b>	<b>(7,590)</b>	<b>(1,694)</b>

### 2. ANALYSIS OF NET FUNDS

	At 1 July 2013 £'000	Cash flow £'000	At 30 June 2014 £'000
Cash at bank and in hand	14,489	(2,481)	12,008
Bank loan	(4,964)	4,964	-
<b>Net funds</b>	<b>9,525</b>	<b>2,483</b>	<b>12,008</b>

### 3. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2014 £'000	2013 £'000
(Decrease)/increase in cash in the year	(2,481)	8,791
Cash outflow/(inflow) from change in debt and lease financing	4,964	(4,964)
<b>Movement in net funds in the year</b>	<b>2,483</b>	<b>3,827</b>
Opening net funds	9,525	5,698
<b>Closing net funds</b>	<b>12,008</b>	<b>9,525</b>

# **KOBALT MUSIC GROUP LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 30 June 2014**

### **1. ACCOUNTING POLICIES**

#### **Prior year adjustment and reclassification**

The principal accounting policies of the group are set out below and are unchanged from the prior year, except in relation to the following:

As outlined in the Foreign Currencies accounting policy below, the group now consolidates the Profit and Loss Account of subsidiaries at the average rate exchange rates rather than at the Balance Sheet rate. This policy has been changed as the average rate better reflects the results throughout the year. The prior year has not been restated at an average rate as the difference was not material.

In the segmental analysis (Note 3), the foreign exchange gain / loss is now within common costs. This is because the foreign exchange mainly relates to intercompany balances and is not reflective of Business Unit performance. As such, the 2013 foreign exchange gain of £376k has been restated from publishing direct costs to within common costs. This has no effect on profit or net assets as previously reported.

#### **Basis of accounting**

The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic and directors' report on pages 5 to 8.

#### **Going concern**

As at 30 June 2014 the group held substantial cash reserves of £12m and this position was further strengthened post year end with the issue of £4.1m of new equity and an agreed further net investment of £25m, as disclosed in note 20.

Should it be required, the group still has in place an £8m bank borrowing facility. The group has received a renewal offer for this facility which would see the facility in place until January 2016. The directors are not aware of any reason why this facility would not be renewed when it expires.

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 2015 and beyond, and examined the results of sensitivity analyses 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 the recent investment, together with the bank facility in place. Subsequent to the recent investment as disclosed in note 20, no further capital injections to the group are considered necessary.

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

#### **Turnover**

Turnover represents 12 months' worth of royalties. Part of this will be represented by an accrual the company makes for approximately 3 months of royalty revenue, the receipt of which occurs in the first quarter post year end.

#### **Basis of consolidation**

The group financial statements consolidate the financial statements of Kobalt Music Group Limited and its subsidiary undertakings (as listed in note 13). All entities have an accounting year end of 30 June.

#### **Intangible assets - goodwill**

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is ten years. Provision is made for any impairment.

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2014

### 1. ACCOUNTING POLICIES (continued)

#### Intangible assets - publishing asset

The publishing asset relates to payments made to acquire the right to collect royalties on future compositions by a certain client. The carrying value of the publishing asset is reviewed for impairment and adjusted, if appropriate, if events or changes in circumstances indicate the carrying value may not be recoverable. The asset will amortise with the collection of royalties on future compositions.

#### Fixed asset investments

Fixed asset investments are stated at cost. The carrying values of investments are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

#### Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Fixtures and fittings	20% per annum
Office equipment	33% per annum
Computer equipment	33% per annum
Purchased software	20% to 33% per annum
Proprietary software	20% per annum

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

#### Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences, which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

#### Pension costs

Kobalt Music Group Limited operates a defined contribution stakeholder pension scheme. The group did not make any contributions to this scheme.

#### Foreign currencies

The Balance Sheet of overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date. 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 Profit and Loss Account 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.

#### Leasing and hire purchase agreements

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives.

The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2014

### 1. ACCOUNTING POLICIES (continued)

#### Royalty advances

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

#### Share-based payments

The group has applied the requirements of FRS 20 Share-based Payments. The group has issued equity-settled share-based payments to certain employees and suppliers. 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.

### 2. TURNOVER

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:

	2014 £'000	2013 £'000
United Kingdom	20,195	13,932
Rest of Europe	34,769	29,991
North America	50,786	51,319
Rest of World	13,395	11,802
	<u>119,145</u>	<u>107,044</u>

### 3. SEGMENT INFORMATION

Classes of business:

	Publishing		Label Services		Neighbouring Rights		Grand total	
	2014 £'000	2013 Restated £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 Restated £'000
Turnover (all sales to third parties)	<u>101,839</u>	<u>96,964</u>	<u>11,699</u>	<u>8,092</u>	<u>5,607</u>	<u>1,988</u>	<u>119,145</u>	<u>107,044</u>
Segmental Profit/(loss)	<u>2,370</u>	<u>2,129</u>	<u>(4,403)</u>	<u>(1,981)</u>	<u>(214)</u>	<u>(374)</u>	<u>(2,247)</u>	<u>(226)</u>
Common costs							<u>(7,583)</u>	<u>(4,005)</u>
Operating loss							<u>(9,830)</u>	<u>(4,231)</u>
Finance charges							<u>(304)</u>	<u>(322)</u>
Loss on ordinary activities before tax							<u>(10,134)</u>	<u>(4,553)</u>

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2014

### 4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2014 £'000	2013 £'000
Directors' remuneration		
Directors' emoluments	2,165	2,172
<b>Emoluments of highest paid director</b>	<b>1,007</b>	<b>857</b>
	No	No
<b>Average number of persons employed (including directors) by the group during the year was:</b>		
Management	16	13
Copyright administration	38	33
Other administration	72	50
Label Services	30	23
Client services	10	10
Synchronisation and creative	46	35
	212	164
	£'000	£'000
<b>Staff costs during the year (including directors)</b>		
Wages and salaries	12,583	8,933
Social security costs	1,270	892
Share-based payment charges	330	156
	14,183	9,981

### 5. OPERATING LOSS

	2014 £'000	2013 £'000
<b>Operating loss is after charging (crediting):</b>		
Depreciation of fixed assets		
Owned assets	1,000	752
Amortisation of intangible assets	152	160
Operating lease rentals		
Land and buildings	650	600
Plant and machinery	1	7
Foreign exchange losses/(gains)	1,120	(464)
The analysis of auditor's remuneration is as follows:		
Fees payable to the company's auditor for the audit of the group's annual financial statements	101	90
Other services	185	126

### 6. INTEREST RECEIVABLE AND SIMILAR INCOME

	2014 £'000	2013 £'000
Bank interest receivable	15	25

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2014

### 7. INTEREST PAYABLE AND SIMILAR CHARGES

	2014 £'000	2013 £'000
Bank loans and overdraft	319	347

### 8. TAX ON LOSS ON ORDINARY ACTIVITIES

	2014 £'000	2013 £'000
<b>Current tax</b>		
United Kingdom corporation tax based on the loss for the year at 22.5% (2013 - 23.75%)	-	-
Non-reclaimable withholding tax on royalty payments received	939	969
Tax paid in overseas jurisdictions	235	58
<b>Total current tax</b>	<b>1,174</b>	<b>1,027</b>
<b>Deferred taxation</b>		
Origination and reversal of timing differences	-	(717)
<b>Tax on profit on ordinary activities</b>	<b>1,174</b>	<b>310</b>

The standard rate of tax for the year, based on the United Kingdom standard rate of corporation tax is 22.5% (2013 - 23.75%). The actual tax charge for the current year and the previous year differs from the standard tax rate for the reasons set out in the following reconciliation:

	2014 £'000	2013 £'000
Loss on ordinary activities before tax	(10,134)	(4,553)
Tax on loss on ordinary activities at standard rate	(2,280)	(1,082)
Factors affecting charge for the year:		
Expenses not deductible for tax purposes	520	180
Income not taxable for tax purposes	(112)	(231)
Depreciation in (deficit)/excess of capital allowances	197	(29)
Tax losses carried forward	1,815	1,186
Net non-reclaimable withholding tax on royalty payments received	939	969
Movement in short term timing differences	71	-
Losses utilised	24	34
<b>Total actual amount of current tax</b>	<b>1,174</b>	<b>1,027</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 £6.0 million (2013 - £4.7 million) of which £717k (2013 - £717k) has been recognised as a deferred tax asset.

The Finance Act 2013, which provides for reductions in the main rate of corporation tax from 23% to 21% effective from 1 April 2014 and to 20% effective from 1 April 2015, was substantively enacted on 2 July 2013. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date.

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2014

### 9. SHARE BASED PAYMENTS

#### Equity-settled share options

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

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

	2014		2013	
	Number of share options	Weighted average exercise price (in £)	Number of share options	Weighted average exercise price (in £)
Outstanding at beginning of year	798,111	11.42	976,209	7.31
Granted during the year	100,000	19.73	244,828	10.64
Forfeited during the year	-	n/a	-	n/a
Exercised during the year	(8,040)	6.00	(250,533)	2.84
Expired during the year	(95,378)	5.82	(172,393)	2.29
Outstanding at the end of the year	794,693		798,111	
Exercisable at the end of the year	699,404		550,597	

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

Year ended 30 June	2014	2013
Weighted average share price	£16.46	£6.62
Weighted average exercise price	£16.41	£10.64
Expected volatility	25%	25%
Weighted average expected life	10 years	9.9 years
Weighted average risk-free rate	2.73%	1.76%
Expected dividend yield	-	-

#### Other equity-settled share-based payments

The company provides incentives in the form of BA, BB, BC, BD and BG Ordinary shares sold to senior employees of the group. In the year ended 30 June 2014, 112,000 BD and 12,750 BG shares were issued (2013 - nil). The fair value of these share transactions were assessed as if they were share options by using the Black-Scholes pricing model.

The inputs into the Black-Scholes pricing model for shares sold within the relevant year are as follows:

Year ended 30 June	2014	2013
Weighted average share price	£17.18	n/a
Weighted average exercise price	£17.50	n/a
Expected volatility	25%	n/a
Weighted average expected life	4 years	n/a
Weighted average risk-free rate	1.3%	n/a
Expected dividend yield	-	n/a
Weighted average fair value	£3.63	n/a

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2014

### 9. SHARE BASED PAYMENTS (continued)

Expected volatility was estimated by considering comparable companies and historical volatility of the group's share price over the previous 5 years.

The group recognised total expenses of £330k related to equity-settled share-based payment transactions in the year ended 30 June 2014 (2013 - £156k).

### 10. PROFIT ATTRIBUTABLE TO THE COMPANY

The result for the financial year dealt with in the financial statements of the parent company was £nil (2013 – profit of £503k). As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account is presented in respect of the parent company.

### 11. INTANGIBLE FIXED ASSETS

GROUP	Goodwill on consolidation £'000	Publishing assets £'000	Total £'000
<b>Cost</b>			
At 1 July 2013	1,315	92	1,407
Additions	-	-	-
Exchange Variances	-	(10)	(10)
At 30 June 2014	1,315	82	1,397
<b>Amortisation</b>			
At 1 July 2013	208	40	248
Provided during the year	131	21	152
Exchange Variances	-	(4)	(4)
At 30 June 2014	339	57	396
<b>Net book value</b>			
At 30 June 2014	976	25	1,001
At 30 June 2013	1,107	52	1,159



# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2014

### 12. TANGIBLE FIXED ASSETS

#### GROUP

	Office equipment and fixtures £'000	Software £'000	Computer equipment £'000	Total £'000
<b>Cost</b>				
At 1 July 2013	1,134	3,867	1,007	6,008
Additions	326	1,082	337	1,745
Transfer between categories	(87)	-	87	-
Exchange Variances	(45)	(7)	(28)	(80)
At 30 June 2014	1,328	4,942	1,403	7,673
<b>Depreciation</b>				
At 1 July 2013	517	2,195	717	3,429
Provided during the year	225	615	160	1,000
Transfer between categories	(80)	-	80	-
Exchange Variances	(32)	-	(23)	(55)
At 30 June 2014	630	2,810	934	4,374
<b>Net book value</b>				
At 30 June 2014	698	2,132	469	3,299
At 30 June 2013	617	1,672	290	2,579

#### COMPANY

	Office equipment and fixtures £'000	Software £'000	Computer equipment £'000	Total £'000
<b>Cost</b>				
At 1 July 2013	618	3,859	708	5,185
Additions	292	1,082	234	1,608
At 30 June 2014	910	4,941	942	6,793
<b>Depreciation</b>				
At 1 July 2013	231	2,195	457	2,883
Provided during the year	100	615	174	889
At 30 June 2014	331	2,810	631	3,772
<b>Net book value</b>				
At 30 June 2014	579	2,131	311	3,021
At 30 June 2013	387	1,664	251	2,302

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2014

### 13. INVESTMENTS

<b>GROUP</b>	<b>Group investments £'000</b>
<b>Cost</b>	
At 1 July 2013	2,225
Exchange Variances	(1)
	<hr/>
At 30 June 2014	2,224
	<hr/>

<b>COMPANY</b>	<b>Investment in subsidiary undertakings £'000</b>	<b>Investments in non-group companies £'000</b>	<b>Total £'000</b>
<b>Cost</b>			
At 1 July 2013	1,903	2,225	4,128
Additions	204	-	204
Transferred to group companies	-	(4)	(4)
	<hr/>	<hr/>	<hr/>
At 30 June 2014	2,107	2,221	4,328
	<hr/>	<hr/>	<hr/>

During the year the company made a further £204,000 investment in Kobalt Capital Limited to support its development.

The company's wholly owned subsidiaries are as listed on the following page, with principal activities as noted below:

The principal activity of Kobalt America Holdings, Inc is that of a holding company for the US subsidiaries.

The principal activity of Kobalt Digital Licensing Limited, Kobalt Label Services Limited, Kobalt Masters Licensing America, Inc and Kobalt Label Services America, Inc is the distribution and licensing of music recordings.

The principal activity of Kobalt Neighbouring Rights Limited is the collection of neighbouring rights income on behalf of clients.

The principal activity of Kobalt Capital Limited, Kobalt Capital (Suisse) Sarl and Kobalt Capital America, Inc is the provision of investment advice.

The principal activity of all other group entities is music publishing, except for Kollektor Limited which is dormant.

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2014

### 13. INVESTMENTS (continued)

Company	Class of shares	Proportion of voting rights and shares held	Country of registration or incorporation (if not England and Wales)
<i>Subsidiary undertakings</i>			
AWAL Digital Limited (formerly AWAL (UK) Limited)	Ordinary	100%	
KMG Germany GmbH	Ordinary	100%	Germany
Kobalt America Holdings, Inc	Ordinary	100%	USA
Kobalt Capital America, Inc	Ordinary	100%	USA
Kobalt Capital Limited	Ordinary	100%	
Kobalt Capital Suisse Sarl	Ordinary	100%	Switzerland
Kobalt Digital Licensing Limited	Ordinary	100%	
Kobalt Label Services America, Inc (formerly Kobalt Digital Services America Inc)	Ordinary	100%	USA
Kobalt Label Services Limited (formerly Kobalt Digital Services Limited)	Ordinary	100%	
Kobalt Masters Licensing America Inc (formerly Kobalt Digital Licensing America, Inc)	Ordinary	100%	USA
Kobalt Music Administration Limited	Ordinary	100%	
Kobalt Music Publishing (Italia) Limited	Ordinary	100%	
Kobalt Music Publishing America Inc	Ordinary	100%	USA
Kobalt Music Publishing Australia Pty Limited	Ordinary	100%	Australia
Kobalt Music Publishing Limited	Ordinary	100%	
Kobalt Music Royalties Sarl	Ordinary	100%	Luxembourg
Kobalt Music Scandinavia AB	Ordinary	100%	Sweden
Kobalt Music Services America Inc	Ordinary	100%	USA
Kobalt Music Services Australia Pty Limited	Ordinary	100%	Australia
Kobalt Music Services Limited	Ordinary	100%	
Kobalt Neighbouring Rights Limited	Ordinary	100%	
Kojam Music Limited	Ordinary	100%	
Kollector Limited	Ordinary	100%	
Kobalt STIM Aggregated Rights Limited	Ordinary	100%	

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2014

### 14. DEBTORS

	GROUP		COMPANY	
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Amounts owed by group undertakings	-	-	26,897	29,098
Other debtors	12,605	16,819	1,587	304
Prepayments	1,260	1,200	468	366
Deferred taxation (note 16)	717	717	-	-
Accrued income	37,369	24,689	-	-
	<u>51,951</u>	<u>43,425</u>	<u>28,952</u>	<u>29,768</u>

Other debtors includes £466k (2013 - £369k) relating to rent deposits on leases that are due to expire after more than one year from the balance sheet date.

An element of the other debtors balance relates to royalty advances made to artists. The company expects a proportion of this debt to be recovered after more than one year from the balance sheet date. However it is not practical for the company to accurately calculate or estimate this balance and for this reason the amount has not been separately identified.

All other debtors are due within one year.

### 15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	GROUP		COMPANY	
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Bank loan	-	4,964	-	4,964
Amounts owed to group undertakings	-	-	-	5,516
Trade creditors	803	1,224	249	207
Accruals and deferred income	65,947	57,738	837	741
Other taxes and social security costs	376	562	182	216
Other creditors	1,525	530	46	106
	<u>68,651</u>	<u>65,018</u>	<u>1,314</u>	<u>11,750</u>

The bank loan was repaid in full on 3 July 2013. The loan bore an annual interest rate of 5% over LIBOR. The loan was secured by a debenture granted by Kobalt Music Group Limited and by a charge over the group's assets

### 16. DEFERRED TAX ASSET

	£'000
At 30 June 2014	<u>717</u>

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

	GROUP	
	2014	2013
	£'000	£'000
Trading losses	<u>717</u>	<u>717</u>

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2014

### 17. OPERATING LEASE COMMITMENTS

The group has annual commitments under non-cancellable operating leases are as follows:

	Plant and machinery		Land and building	
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Operating leases which expire:				
Within one year	-	1	67	55
Between one and five years	-	-	702	605

### 18. CALLED UP SHARE CAPITAL

	2014	2013
	£'000	£'000
<b>Called up, allotted and fully paid</b>		
6,595,734 (2013 - 5,881,010) ordinary shares of £0.05 each	330	294
1,030,274 (2013 - 1,030,274) BA ordinary shares of £0.005 each	5	5
52,080 (2013 - 52,080) BB ordinary shares of £0.005 each	-	-
350,341 (2013 - 350,341) BC ordinary shares of £0.005 each	2	2
112,000 (2013 - nil) BD ordinary shares of £0.005 each	1	-
12,750 (2013 - nil) BG ordinary shares of £0.005 each	-	-
561,143 (2013 - 561,143) A preference shares of £0.05 each	28	28
62,500 (2013 - 62,500) B preference shares of £0.05 each	3	3
	<u>369</u>	<u>332</u>

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

Date	Type of share	No. of shares
13 February 2014	Ordinary shares of £0.05 each	1,008
25 February 2014	Ordinary shares of £0.05 each	76
19 March 2014	Ordinary shares of £0.05 each	4,008
29 May 2014	Ordinary shares of £0.05 each	92

In the year, the following shares were issued for cash:

Date	Type of share	No. of shares	Share price
August 2013 – May 2014	Ordinary shares of £0.05 each	709,540	£17.50
28 –29 May 2014	BD ordinary shares of £0.005 each	112,000	£0.005
28 –29 May 2014	BG ordinary shares of £0.005 each	12,750	£0.005

# KOBALT MUSIC GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2014

### 19. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS/(DEFICIT) AND STATEMENT OF MOVEMENT ON RESERVES

#### GROUP

	Called up share capital £'000	Share premium account £'000	Share option reserve £'000	Other revaluation reserve £'000	Profit and loss account £'000	Sharehol- ders' funds (deficit) 2014 Total £'000	Sharehol- ders' funds (deficit) 2013 Total £'000
At 1 July	332	23,854	1,031	(401)	(25,957)	(1,141)	(4,781)
Loss for the financial year	-	-	-	-	(11,308)	(11,308)	(4,863)
New equity share capital subscribed	37	12,364	-	-	-	12,401	8,696
Equity settled share based payment charge	-	-	330	-	-	330	156
Consideration for lapse of shares	-	-	(13)	-	-	(13)	(118)
Currency translation differences	-	-	-	1,563	-	1,563	(231)
At 30 June	369	36,218	1,348	1,162	(37,265)	1,832	(1,141)

#### COMPANY

	Called up share capital £'000	Share premium account £'000	Share option reserve £'000	Profit and loss account £'000	Sharehol- ders' funds 2014 Total £'000	Sharehol- ders' funds 2013 Total £'000
At 1 July	332	23,854	1,031	(460)	24,757	15,520
Profit for the financial year	-	-	-	-	-	503
New equity share capital subscribed	37	12,364	-	-	12,401	8,696
Equity settled share based payment charge	-	-	330	-	330	156
Consideration for lapse of shares	-	-	(13)	-	(13)	(118)
At 30 June	369	36,218	1,348	(460)	37,475	24,757

#### Share option reserve

The group has issued equity-settled share-based payments to certain employees and suppliers. 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 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. A corresponding entry is recognised in the share option reserve.

# **KOBALT MUSIC GROUP LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

**For the year ended 30 June 2014**

### **20. POST BALANCE SHEET EVENTS**

After the 30 June 2014, the group has issued a further 234,758 ordinary shares for consideration of £4.1m.

In December 2014 the company has agreed to issue a further 1,377,981 Series C Preferred Shares (a new class of shares) for a consideration of \$60m as well as to buy back existing shares with a total value of £15m.