

DEROGATION LETTER
IN RESPECT OF INITIAL ENFORCEMENT ORDERS ISSUED
PURSUANT TO SECTION 72(2) ENTERPRISE ACT 2002

Consent under section 72(3C) of the Enterprise Act 2002 to certain actions for the purposes of the Initial Enforcement Order made by the Competition and Markets Authority ('CMA') on 17 May 2021

Completed acquisition by Sony Music Entertainment of all of the issued shares of the entities comprising the AWAL and the Kobalt Neighbouring Rights businesses from Kobalt Music Group Limited ('the Transaction')

We refer to your email and accompanying note of 14 May 2021 requesting that the CMA consents to derogations to the Initial Enforcement Order of 17 May 2021 (the '**Initial Order**'). The terms defined in the Initial Order have the same meaning in this letter.

Under the Initial Order, save for written consent by the CMA, Sony Group Corporation ('**Sony**'), Sony Music Entertainment ('**Sony Delaware**'), The Orchard, EU Limited ('**Sony Orchard**') and AWAL Digital Limited, AWAL Recordings Licensing Ltd, AWAL Recordings Ltd, Kobalt Neighbouring Rights Limited, Kobalt Neighbouring Rights II Limited, Kobalt Music Netherlands Artists B.V, Kobalt Music Netherlands OH Records B.V., AWAL Recordings America, Inc., AWAL Recordings Licensing America, Inc. and In2une Inc. (together the '**Target Entities**') are required to hold the Sony business and the Target business separate from one another and refrain from taking any action which might prejudice a reference under section 22 of the Act or impede the taking of any remedial action following such a reference. After due consideration of your request for derogations from the Initial Order, based on the information received from you and in the particular circumstances of this case, Sony, Sony Delaware, Sony Orchard and the Target Entities may carry out the following actions, in respect of the specific paragraphs:

Paragraphs 6(a), 6(c), 6(i) and 6(k) of the Initial Order

Sony submits that the Share Sale and Purchase Agreement between Sony Delaware and Kobalt obliges Kobalt to procure the resignation of certain directors of the Target Entities at completion, as detailed in Annex 1. Sony has submitted that it will procure the appointment of those individuals listed in Annex 2 as a replacement to these directors. As these Annexes show, Sony proposes:

- to appoint the Chief Executive Officer of the entities comprising AWAL and/or the Chief Executive Officer of the Kobalt Neighbouring Rights businesses (Mr Lonny Olinick and Ms Ann Tausis, respectively) to each of the Target Entities (or retain them as directors of the Target Entities for which they already act as directors). Mr Olinick and Ms Tausis are the current CEOs for AWAL and the Kobalt Neighbouring Rights businesses respectively, and Sony submits that they will be employees of the Target Entities rather than employees of the Sony business post-completion. Sony submits that this will ensure that the boards' functions are discharged by personnel who will remain part of the AWAL or Kobalt Neighbouring Rights businesses and have an ongoing interest in their success; and
- that all other current directors (excepting Mr Bert Hazelaar) will resign from the board of the Target Entities (as listed in Annex 1). Mr Hazelaar (an employee of the Kobalt Group) will remain in post as a director of Kobalt Music Netherlands Artists B.V. and Kobalt Music Netherlands OH Records B.V. due to the time and steps required to replace and appoint new directors of Dutch companies, and the fact that Dutch corporate law requires 50% of the boards of directors of Dutch companies to be Dutch resident.

Sony submits that the current boards of directors of the Target Entities are not involved in the day-to-day operation of the businesses, and hence their roles can readily be replaced without affecting the continuing viability of the business.

The CMA consents to a derogation from paragraphs 6(a), 6(c), 6(i) and 6(k) of the Initial Order permitting the contemplated operation, strictly on the basis that such actions:

- a) will not affect the ongoing operation of the Target business and will preserve its viability and ability to compete independently, by ensuring the Target Entities' boards comprise their continuing business leaders who have a strong, direct interest in their success;
- b) do not lead to integration of the Target business and the Sony business; and
- c) do not impede the taking of any appropriate remedial action.

Yours sincerely,

Cristina Caballero

Assistant Director, Mergers

18 May 2021

Annex 1 – Target Entity Director Resignations

Target Entity	Director Resignations
AWAL Digital Ltd	James Arnay Laurent Hubert Thomas Sansone
AWAL Recordings Licensing Ltd	James Arnay Laurent Hubert Thomas Sansone
AWAL Recordings Ltd	James Arnay Laurent Hubert Thomas Sansone Willard Ahdritz
AWAL Recordings Licensing America, Inc.	James Arnay Thomas Sansone
AWAL Recordings America, Inc.	James Arnay Thomas Sansone Willard Ahdritz
In2une, Inc.	James Arnay Thomas Sansone Dale Connone
Kobalt Neighbouring Rights Ltd	James Arnay Laurent Hubert Thomas Sansone
Kobalt Neighbouring Rights II Ltd	James Arnay Laurent Hubert Thomas Sansone
Kobalt Music Netherlands Artists B.V.	Thomas Sansone
Kobalt Music Netherlands OH Records B.V.	Thomas Sansone

Annex 2 – Target Entity Appointed / Retained Directors

Target Entity	Appointed / Retained Directors
AWAL Digital Ltd	Lonny Olinick Ann Tausis
AWAL Recordings Licensing Ltd	Lonny Olinick Ann Tausis
AWAL Recordings Ltd	Lonny Olinick Ann Tausis
AWAL Recordings Licensing America, Inc.	Lonny Olinick Ann Tausis
AWAL Recordings America, Inc.	Lonny Olinick Ann Tausis
In2une, Inc.	Lonny Olinick Ann Tausis
Kobalt Neighbouring Rights Ltd	Lonny Olinick Ann Tausis
Kobalt Neighbouring Rights II Ltd	Lonny Olinick Ann Tausis
Kobalt Music Netherlands Artists B.V.	Ann Tausis Bert Hazelaar (existing Dutch resident director) ¹
Kobalt Music Netherlands OH Records B.V.	Ann Tausis Bert Hazelaar (existing Dutch resident director)

¹ Dutch corporate law requires 50% of the boards of directors of Dutch companies to be Dutch resident. Mr. Hazelaar, an employee of the Kobalt Group, will remain a director post-completion.