

**WARNER CHAPPELL MUSIC LIMITED  
(FORMERLY WARNER/CHAPPELL MUSIC  
LIMITED)**

**Report and Financial Statements**

**30 September 2018**



**WARNER CHAPPELL MUSIC LIMITED (FORMERLY WARNER/CHAPPELL MUSIC LIMITED)**

**Registered No. 488466**

**DIRECTORS**

M Lavin  
W McDowell  
R Booker  
J Platt (resigned 31 December 2018)  
J Smith  
M Smith  
K Alderton  
G Moot (appointed 2 April 2019)

**SECRETARY**

Olswang Cosec Limited

**AUDITORS**

KPMG LLP  
15 Canada Square  
London  
E14 5GL

**REGISTERED OFFICE**

Cannon Place  
78 Cannon Street  
London  
EC4N 6AF

## STRATEGIC REPORT

The directors present their strategic report for the year ended 30 September 2018.

### RESULTS AND DIVIDENDS

The profit for the year, after taxation is set out in the profit and loss account on page 8. The directors proposed and paid a dividend of £30,000,000 in the year ended 30 September 2018 (2017 - £nil).

### BUSINESS REVIEW

The company's principal activity is music publishing. The company's income is generated by the use of musical compositions in which the copyright is either owned or administered by the company. The result of the company for the year ended 30 September 2018 is set out in the Profit and Loss Account on page 8. The position of the company at 30 September 2018 is set out in the Balance Sheet on page 9. Both the result and the position of the company were in line with the expectations of the directors.

The key financial and other performance indicators during the year were as follows:

	2018 £'000	2017 £'000	Change %
Turnover	110,438	85,035	+30%
Operating profit	10,826	12,925	-16%
Profit before taxation	11,746	13,354	-12%
Fixed assets	25,752	25,887	-1%
Net current assets	2,982	23,247	-87%
Net assets	22,458	43,152	-48%

Turnover grew by 30% in the year to £110,437,613. This is primarily because during the year, due to information becoming more readily available from the company's various income providers, a more reliable accounting estimate was possible with regards to revenue recognition to more accurately reflect recognising copyright royalties in line with the point at which the relevant copyright is exploited. As a result current year revenue has been increased by £18,668,079 compared to the previous basis of estimate. This has also given rise to an increase of £15,001,882 in royalty expenses relating to the accrued income. Domestic income increased by £19,080,867, primarily driven by the change in accounting estimate coupled with an increase in digital income. Foreign income increased by £6,321,907, again driven by the change in accounting estimate.

Operating profit has decreased by 16% to £10,826,242. Though there was an increase in turnover, gross profit declined by 6% due to historic earnings relating to a digital deal being repatriated to European affiliates recognised in the year. Additionally, Administrative expenses increased by 13% due to a mixture of increases in compensations, legal and professional fees and general travel and entertainment costs.

Though the decline in operating profit was 16%, the decline in profit before taxation was 12% to £11,746,160. Net interest receivable for the period amounted to £856,630 whereas prior year it was £429,073. The interest is attributable to the Company's cash funding arrangement with the parent company.

The 87% decline in net current assets to £2,982,173 is due to the £30,000,000 dividend declared and paid during the year to the parent company offset by the profit for the year.

The net asset position of £22,457,795 represents a decrease against prior year of 48%, due to the aforementioned dividend and profit for the year.

Given the nature of its business, the company considers there to be no key performance indicators directly relating to environmental issues or employee matters, nor are there likely to be any future developments in this area for the foreseeable future.

STRATEGIC REPORT (continued)

**RISKS AND UNCERTAINTIES**

In general, the company is not subject to any specific risks and uncertainties other than those prevalent in the music publishing market in general. These include the continued threat of unlicensed music usage and the general decline of the physical market although new digital music platforms are now starting to deliver increased monetary benefits to music publishers which significantly offset the weakening traditional markets.

It is too early to assess whether the UK leaving the European Union ("Brexit") will have a material impact on the business. It seems unlikely, however, that British music will cease to be purchased, broadcast or performed in Europe, simply because of the Brexit decision.

As with any business, competitive risks also exist. Traditional competitors such as other major and independent publishers are now joined by new entrants and business models, particularly in the audio-visual sector.

In order to mitigate the effect of these items, the company is constantly reviewing its artists and repertoire (A&R) strategy as well as maximising new media opportunities.

**Exposure to price and credit risk**

The Company is exposed to price risk in relation to the relationship with external bodies such as local third party collection societies. Mechanical and performance royalties are calculated using rates and distribution rules which have been set by the board of performing rights societies, which directly impact company revenue.

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The company has implemented policies that require appropriate collectability checks on potential customers before sales are made.

**Exposure to liquidity and cash flow risk**

The Company is part of the Warner Music Group cash pooling arrangement, through which its working capital requirements are adequately covered, therefore exposure to liquidity and cash flow risk is minimal.

All risks and uncertainties are regularly monitored by the company's board of directors.

On behalf of the board



Director  
K Alderton  
21<sup>st</sup> June 2018

**WARNER CHAPPELL MUSIC LIMITED (FORMERLY WARNER/CHAPPELL MUSIC LIMITED)**

**REPORT OF THE DIRECTORS**

The directors present their report and financial statements for the year ended 30 September 2017.

**GOING CONCERN**

In accordance with their responsibilities, the directors of the company have considered the appropriateness of the going concern basis, which has been used in the preparation of these financial statements. The company's business activities during the period ended 30 September 2018 have been set out above. Further, the amounts due to creditors are stated under note 14 of these financial statements. The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

**FUTURE DEVELOPMENTS**

No change in the company's operations is envisaged in the foreseeable future.

**DIRECTORS AND THEIR INTERESTS**

The directors during the year ended 30 September 2018 were as listed on page 1.

At no time during the year did any director have any interest in the shares or debentures of the company or any other group undertaking. The directors of the company have qualifying indemnities against losses or liabilities that are incurred.

**CHANGE OF COMPANY NAME**

On 16 May 2019 the company changed its name from Warner/Chappell Music Limited to Warner Chappell Music Limited.

**CHARITABLE CONTRIBUTIONS**

During the year a total of £Nil (2017 - £nil) was paid to charitable institutions.

**POLITICAL CONTRIBUTIONS**

The Company made no political donations nor incurred any political expenditure during the year.

**DISCLOSURE OF INFORMATION TO AUDITOR**

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

On behalf of the board

Director  
K Alderton  
21<sup>st</sup> June 2019



**Registered office:**  
Cannon Place  
78 Cannon Street  
London  
EC4N 6AF

**WARNER CHAPPELL MUSIC LIMITED (FORMERLY WARNER/CHAPPELL MUSIC LIMITED)**

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF [THE STRATEGIC REPORT  
THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS]**

The directors are responsible for preparing the Strategic Report the Directors' 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 they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF  
WARNER CHAPPELL MUSIC LIMITED (FORMERLY WARNER/CHAPPELL MUSIC LIMITED)**

**Opinion**

We have audited the financial statements of Warner/Chappell Music Limited ("the company") for the year ended 30<sup>th</sup> September 2018, which comprise the Profit and Loss Account, Balance Sheet, and Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30<sup>th</sup> September 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

**Going concern**

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

**Strategic report and directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read those reports and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion that those reports have been prepared in accordance with the Companies Act 2006.

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

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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 these respects.

### **Directors' responsibilities**

As explained more fully in their statement set out on page 5, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities**

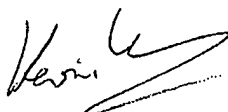
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### **The purpose of our audit work and to whom we owe our responsibilities**

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.

**Kevin Hall (Senior Statutory Auditor)**  
for and on behalf of KPMG LLP, Statutory Auditor  
*Chartered Accountants*  
15 Canada Square  
London  
E14 5GL



26 June 2019



**WARNER CHAPPELL MUSIC LIMITED (FORMERLY WARNER/CHAPPELL MUSIC LIMITED)**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 30 SEPTEMBER 2018**

	Notes	2018 £	2017 £
<b>TURNOVER</b>	2	110,437,613	85,034,840
Cost of sales		(91,779,189)	(65,193,153)
Gross profit		18,658,424	19,841,687
Administrative expenses		(7,832,182)	(6,917,081)
<b>OPERATING PROFIT</b>	3	10,826,242	12,924,606
Investment income	6	63,288	-
Interest receivable	7	856,630	844,043
Interest payable	8	-	(414,971)
<b>PROFIT BEFORE TAXATION</b>		11,746,160	13,353,678
Tax on profit	9	(2,439,873)	(2,668,949)
<b>PROFIT AFTER TAXATION</b>		9,306,287	10,684,729

All activities are continuing.

There is no other comprehensive income in the current and preceding financial years other than the retained profit shown above.

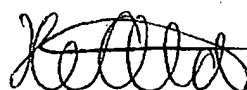
The notes on pages 11 to 22 form part of these financial statements

**WARNER CHAPPELL MUSIC LIMITED (FORMERLY WARNER/CHAPPELL MUSIC LIMITED).**

**BALANCE SHEET AT 30 SEPTEMBER 2018**

	Notes	2018 £	2017 £
<b>FIXED ASSETS</b>			
Intangible assets	10	1,504,042	1,854,555
Tangible assets	11	277,040	255,079
Investments	12	17,694,540	17,794,540
Recoverable amount from group undertaking	15	6,276,129	5,982,393
		<hr/> 25,751,751	<hr/> 25,886,567
<b>CURRENT ASSETS</b>			
Debtors	13	88,002,768	79,674,930
Cash		1,959,480	413,148
		<hr/> 89,962,248	<hr/> 80,088,078
<b>CREDITORS: amounts falling due within one year</b>	14	(86,980,076)	(56,840,744)
		<hr/>	<hr/>
<b>NET CURRENT ASSETS / (LIABILITIES)</b>		2,982,173	23,247,334
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		28,733,924	49,133,901
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	15	(6,276,129)	(5,982,393)
		<hr/>	<hr/>
<b>NET ASSETS</b>		<u>22,457,795</u>	<u>43,151,508</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	19	100	100
Profit and loss account		22,457,695	43,151,408
		<hr/>	<hr/>
<b>EQUITY SHAREHOLDERS' FUNDS</b>		<u>22,457,795</u>	<u>43,151,508</u>

The financial statements of Warner Chappell Music Limited (registered company number 488466) were approved and authorised for issue by the board and were signed on its behalf by:



K ALDERTON  
Director  
21<sup>st</sup> June 2019

The notes on pages 10 to 21 form part of these financial statements

**WARNER CHAPPELL MUSIC LIMITED (FORMERLY WARNER/CHAPPELL MUSIC LIMITED)**

**STATEMENT OF CHANGES IN EQUITY**

	<i>Called up share capital £</i>	<i>Profit and loss account £</i>	<i>Total Equity £</i>
Balance at 1 October 2016	100	32,466,679	32,466,779
Profit for the financial year	-	10,684,729	10,684,729
Dividends	-	-	-
At 30 September 2017	<u>100</u>	<u>43,151,408</u>	<u>43,151,508</u>
Profit for the financial year	-	9,306,287	9,306,287
Dividends	-	(30,000,000)	(30,000,000)
At 30 September 2018	<u><u>100</u></u>	<u><u>22,457,695</u></u>	<u><u>22,457,795</u></u>

**WARNER CHAPPELL MUSIC LIMITED (FORMERLY WARNER/CHAPPELL MUSIC LIMITED)**

**NOTES TO THE FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018**

**1. ACCOUNTING POLICIES**

A summary of the principal accounting policies, all of which have been applied consistently throughout the year, is set out below:

***Basis of Preparation***

The financial statements are prepared on the historical cost basis. They were prepared in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"). The presentation currency of these financial statements is sterling.

The previous carrying amount of the Company's cost of investment in subsidiaries was used as their deemed cost at 1 October 2015.

The Company is exempt from the requirement to prepare consolidated financial statements under section 401 of the Companies Act 2006 because the Company's parent undertaking, Warner Music Group Corp., a company incorporated in the USA, includes the Company in its consolidated financial statements. The consolidated financial statements of Warner Music Group Corp. are available to the public and may be obtained from 1209 Orange Street, Wilmington, DE 19801, USA.

In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation

As the consolidated financial statements of Warner Music Group Corp. include the disclosures equivalent to those required by FRS 102, the Company has also taken the exemptions available in respect of the following disclosure:

- Certain disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1

The Company proposes to continue to adopt the reduced disclosure framework of FRS 102 in its next financial statements.

***Going concern***

The company is profitable and had net current assets at the year end and have prepared forecasts that suggest that they will continue to meet their liabilities as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

***Royalty advances***

Advances in respect of royalties payable, which are non-returnable, comprise advances to songwriters under contract. Specific provisions are made against these advances where the balance outstanding exceeds anticipated future royalty earnings.

***Royalty income and expense***

Credit is taken for royalty income that has been earned from users prior to the year end. Royalty expense is accrued based on the expected royalties payable on income earned.

NOTES TO THE FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018 (continued)

1. ACCOUNTING POLICIES (continued)

*Basic financial instruments*

*Trade and other debtors / creditors*

Trade and other debtors are recognised initially at cost. They are assessed for any impairment on an annual basis. Trade and other creditors are recognised at cost.

*Investments in subsidiaries, jointly controlled entities and associates*

Investments in subsidiaries, jointly controlled entities and associates are carried at cost less impairment. Income from subsidiaries, joint ventures and associates is recognised in the company's profit and loss account on the basis of dividends received and receivable.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits. The Company is part of the Warner Music Group cash pooling arrangement and therefore the majority of account balances are swept to zero overnight, with a corresponding intercompany loan balance recorded with another Warner Music Group entity.

*Tangible fixed assets*

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

The company provides depreciation at rates which are calculated to write off the cost of the tangible fixed assets by equal annual instalments over their estimated useful lives as follows:

Furniture and equipment      - various rates between 10% and 33%

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

*Intangible fixed assets: music copyrights*

Purchased music copyrights are capitalised and amortised by equal annual instalments over the period that is expected to recover the initial cost based on projected average annual income, but not exceeding 20 years. The annual charge for amortisation of intangibles is included within administrative expenses in the Profit and Loss Account.

The carrying values of intangible fixed assets are reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

*Impairment excluding deferred tax assets*

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. An impairment loss is reversed if and only if the reasons for the impairment have ceased to apply.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

*Provisions*

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

# WARNER CHAPPELL MUSIC LIMITED (FORMERLY WARNER/CHAPPELL MUSIC LIMITED)

## NOTES TO THE FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018 (continued)

### 1. ACCOUNTING POLICIES (continued)

#### *Taxation*

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

#### *Foreign currencies*

Transactions in foreign currencies are reported at the approximate rates of exchange ruling at the date on which they took place. Assets and liabilities in foreign currencies are translated at the year-end exchange rate. All differences are taken to the profit and loss account.

#### *Leasing commitments*

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

#### *Employee benefits*

##### *Defined contribution plans and other long term employee benefits*

The company is a member of the Warner Music Retirement Saver Group Personal Pension Plan, which is a defined contribution plan. A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

##### *Termination benefits*

Termination benefits are recognised as an expense when the company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

#### *Turnover recognition*

Turnover represents copyright royalties receivable and music publishing administration fees excluding value added tax. Copyright royalties are recognised at the point at which the relevant copyright is exploited. Advances in respect of future revenues are treated as deferred revenue and recognised as revenue when earned.

#### *Critical accounting judgements and estimation uncertainty*

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. This is particularly true of the change in accounting estimate regarding revenue recognition where estimates of when revenue is earned and amounts are accrued. The £18,668,079 income accrual is however subject to a low degree of uncertainty as at the yearend due to most of the accruals being replaced with subsequent cash received.

**WARNER CHAPPELL MUSIC LIMITED (FORMERLY WARNER/CHAPPELL MUSIC LIMITED)**

**NOTES TO THE FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018 (continued)**

**2. TURNOVER**

Turnover represents royalties received and is attributable to one continuing activity - music publishing. The geographical areas to which turnover relates are as follows:

	2018	2017
	£	£
United Kingdom	75,395,241	56,314,374
Rest of world	35,042,372	28,720,466
	<u>110,437,613</u>	<u>85,034,840</u>

**3. OPERATING PROFIT**

	2018	2017
	£	£
This is stated after charging/(crediting):		
Auditor's remuneration	52,700	34,700
Depreciation	98,358	87,960
Amortisation of copyrights	475,513	482,238
(Gain)/Loss on foreign exchange	(208,270)	(143,669)
Severance	183,844	40,089
	<u>591,292</u>	<u>527,484</u>

The remuneration of the auditor may be further analysed as follows:

Audit work	52,700	34,700
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Amounts receivable by the Company's auditor and its associates in respect of services to the Company and its associates, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed in the financial statements of the Company's immediate parent undertaking, WMG Acquisition (UK) Limited.

**4. DIRECTORS' REMUNERATION**

	2018	2017
	£	£
Directors' remuneration	1,088,635	1,023,512
Contributions to defined contribution plans	23,868	22,173
	<u>1,112,503</u>	<u>1,045,685</u>

The remuneration of the highest paid director was £591,292 (2017: £527,484) and company pension contributions of £10,000 (2017: £12,500) were paid to a defined contribution scheme on his behalf.

Number of directors exercising share options during the year was nil (2017 – nil).

The directors of the company are also directors of a number of subsidiaries of the ultimate parent undertaking. The cost is recognised in the accounts of Warner Chappell Music Limited which make the remuneration payments. However, the directors believe that it is possible to apportion the remuneration between their remuneration as directors of the company and their remuneration as directors of the fellow subsidiary companies. The relevant portion of the directors' remuneration is therefore disclosed in the notes to the financial statements of the subsidiaries based on qualifying services provided to each subsidiary.

**WARNER CHAPPELL MUSIC LIMITED (FORMERLY WARNER/CHAPPELL MUSIC LIMITED)**

**NOTES TO THE FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018 (continued)**

**5. STAFF COSTS**

	<b>2018</b>	<b>2017</b>
	<b>£</b>	<b>£</b>
Wages and salaries	4,376,659	3,788,812
Severance	183,844	40,089
Social security costs	664,001	492,277
Contributions to defined contribution plans	160,117	133,684
	<u>5,384,621</u>	<u>4,454,862</u>

The average number of employees employed by the Company (including directors) during the year, analysed by category, was made up as follows:

	<b>2018</b>	<b>2017</b>
Commercial and administrative	<u>61</u>	<u>61</u>

**6. INVESTMENT INCOME**

	<b>2018</b>	<b>2017</b>
	<b>£</b>	<b>£</b>
Dividends receivable from group undertakings	<u>63,288</u>	<u>-</u>

**7. INTEREST RECEIVABLE**

	<b>2018</b>	<b>2017</b>
	<b>£</b>	<b>£</b>
Bank and other interest	10,689	1
Interest receivable from group company	845,941	844,042
	<u>856,630</u>	<u>844,043</u>

**8. INTEREST PAYABLE**

	<b>2018</b>	<b>2017</b>
	<b>£</b>	<b>£</b>
Interest payable to group undertaking	<u>-</u>	<u>(414,971)</u>



**WARNER CHAPPELL MUSIC LIMITED (FORMERLY WARNER/CHAPPELL MUSIC LIMITED)**

**NOTES TO THE FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018 (continued)**

**9. TAXATION**

**a. Total tax expense recognised in the profit and loss account**

	2018 £	2017 £
<u>Current tax</u>		
UK corporation tax on income for the period	2,236,624	2,599,576
Adjustment in respect of prior periods	-	-
Overseas taxation suffered	428,741	443,759
Double taxation relief	(233,111)	(383,241)
Total Current Tax	<u>2,432,254</u>	<u>2,660,094</u>
<u>Deferred tax</u>		
Origination and reversal of timing differences	6,646	8,855
Impact of change in tax rate	384	-
Adjustment in respect of prior years	589	-
Total deferred tax	<u>7,619</u>	<u>8,855</u>
Total tax	<u>2,439,873</u>	<u>2,668,949</u>

The full tax charge for the year is recognised in the Profit and Loss account.

**b. Reconciliation of tax charge**

The standard rate of current tax for the year based on the UK standard rate of corporation tax is 19% (2017: 19.5%). The current tax charge for the year differs from the standard rate for the reasons in the reconciliation below:

	2018 £	2017 £
Profit before tax for the year	<u>11,746,160</u>	<u>13,353,678</u>
Profit multiplied by standard rate of UK tax: 19% (2017: 19.5%)	2,231,770	2,604,516
Factors affecting charge:		
Expenses not deductible for tax purposes	24,497	16,019
Non-taxable income	(12,025)	-
Effect of tax rate change on deferred tax balances	-	-
Effect of tax rates in foreign jurisdictions	195,630	48,414
Total tax expense included in profit and loss	<u>2,439,873</u>	<u>2,668,949</u>

**c. Tax rate changes**

The reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. A further reduction from 18% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

**WARNER CHAPPELL MUSIC LIMITED (FORMERLY WARNER/CHAPPELL MUSIC LIMITED)**

**NOTES TO THE FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018 (continued)**

**10. INTANGIBLE FIXED ASSETS**

	<b>Copyrights £</b>
Cost:	
At 1 October 2017	8,542,141
Additions	125,000
At 30 September 2018	<u>8,667,141</u>
Amortisation:	
At 1 October 2017	6,687,586
Additions	-
Charged during the period	475,513
At 30 September 2018	<u>7,163,099</u>
Net book values:	
At 30 September 2018	<u><u>1,504,042</u></u>
At 1 October 2017	<u><u>1,854,555</u></u>

**11. TANGIBLE FIXED ASSETS**

	<b>Furniture and equipment £</b>
Cost:	
At 1 October 2017	478,494
Additions	119,923
Disposals	(26,487)
At 30 September 2018	<u>571,930</u>
Accumulated depreciation:	
At 1 October 2017	223,415
Charged during the period	97,962
Disposals	(26,487)
At 30 September 2018	<u>294,890</u>
Net book values:	
At 30 September 2018	<u><u>277,040</u></u>
At 1 October 2017	<u><u>255,079</u></u>

WARNER CHAPPELL MUSIC LIMITED (FORMERLY WARNER/CHAPPELL MUSIC LIMITED)

NOTES TO THE FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018 (continued)

12. INVESTMENTS

	<i>Investment in Subsidiary Undertakings £</i>	<i>Investment in Joint Venture £</i>	<i>Listed Investment £</i>	<i>Total £</i>
Cost				
At 1 October 2017	17,794,490	50	-	17,794,540
Reduction from return of investment of Warner Music UK Property Limited	(£100,000)	-	-	(£100,000)
Net book value				
At 30 September 2018	17,694,490	50	-	17,694,540

Warner Music UK Property Limited was dissolved on 13 November 2018. As such a dividend of £123,147 was declared and settled in the period with £100,000 reducing the value of the investment held by the Company and the remaining £23,147 recognised as investment income in the profit and loss account.

Details of the investments in which the group and the company held more than 20% of any class of share capital as at 30 September 2018 were as follows:

<i>Name of Company</i>	<i>Country of incorporation</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Nature of business</i>
Bubbles Music Limited	England and Wales	Ordinary shares	100%	Music Publishing
Dizzy Heights Music Publishing Limited	England and Wales	Ordinary shares	100%	Music Publishing
FFRR Music Limited	England and Wales	Ordinary shares	100%	Music Publishing
Glissando Music Limited	England and Wales	Ordinary shares	100%	Music Publishing
Kirshner Warner Bros. Music Limited	England and Wales	Ordinary shares	50%	Music Publishing
Magnet Music Limited	England and Wales	Ordinary shares	100%	Music Publishing
The National Video Corporation Limited	England and Wales	Ordinary shares	100%	Record company
Warner Music UK Property Limited	England and Wales	Ordinary shares	100%	Non-trading company
Warner/Chappell MLM Limited	England and Wales	Ordinary shares	100%	Music Publishing
Warner/Chappell Music International Limited	England and Wales	Ordinary shares	100%	Music Publishing
Warner/Chappell TM Limited	England and Wales	Ordinary shares	100%	Music Publishing
Warner/Chappell UK Limited	England and Wales	Ordinary shares	100%	Music Publishing
Asherberg Hopwood & Crew Limited*	England and Wales	Ordinary shares	100%	Music Publishing
Burlington Music Company Limited*	England and Wales	Ordinary shares	100%	Music Publishing
Chappell Music Limited*	England and Wales	Ordinary shares	100%	Music Publishing
Diplomat Music Limited*	England and Wales	Ordinary shares	50%	Music Publishing

**WARNER CHAPPELL MUSIC LIMITED (FORMERLY WARNER/CHAPPELL MUSIC LIMITED)**

**NOTES TO THE FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018 (continued)**

**12. INVESTMENTS (continued)**

<i>Name of Company</i>	<i>Country of incorporation</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Nature of business</i>
Intersong Music Limited*	England and Wales	Ordinary shares	100%	Music Publishing
Jewel Music Publishing Company Limited*	England and Wales	Ordinary shares	50%	Music Publishing
Throat Music Limited*	England and Wales	Ordinary shares	100%	Music Publishing
Warner/Chappell Artemis Music Limited*	England and Wales	Ordinary shares	100%	Music Publishing
Warner/Chappell Limited*	England and Wales	Ordinary shares	100%	Music Publishing
Warner/Chappell North America Limited*	England and Wales	Ordinary shares	100%	Music Publishing
Warner/Chappell Overseas Holdings Limited*	England and Wales	Ordinary shares	100%	Music Publishing
Patricia Music Limited*	England and Wales	Ordinary shares	50%	Music Publishing
CRML Limited**	England and Wales	Ordinary shares	100%	Music Publishing
Destiny Music Limited**	England and Wales	Ordinary shares	100%	Music Publishing
CPM Music Limited*	England and Wales	Ordinary shares	100%	Music Publishing
Palace Music Co Limited*	England and Wales	Ordinary shares	100%	Music publishing
Warner Chappell Production Music Limited	England and Wales	Ordinary shares	100%	Music publishing
Warner Chappell Music Publishing Limited	England and Wales	Ordinary shares	100%	Music publishing

\* Held by a subsidiary undertaking

\*\* 1% held by this entity, remainder held by a subsidiary undertaking

*Registered office for all entities with the exception of Jewel Music Publishing Company Ltd: Cannon Place, 78 Cannon Street, London, EC4N 6AF*

*Registered office for Jewel Music Publishing Company Ltd: Dodd Harris Suite C, Kiln House 15-17 High Street, Elstree, Hertfordshire, WD6 3BY*

**13. DEBTORS**

	<b>2018</b>	<b>2017</b>
	<b>£</b>	<b>£</b>
Royalty advances	16,510,766	18,344,332
Trade debtors	8,731,765	7,460,841
Accrued income	18,668,079	-
Amounts owed by group undertakings	43,890,130	53,635,921
Prepayments	124,613	148,802
Deferred tax (note 16)	77,415	85,034
	<u>88,002,768</u>	<u>79,674,930</u>

**WARNER CHAPPELL MUSIC LIMITED (FORMERLY WARNER/CHAPPELL MUSIC LIMITED)**

**NOTES TO THE FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018 (continued)**

**14. CREDITORS: amounts falling due within one year**

	2018	2017
	£	£
Trade creditors	51,743,448	40,309,551
Royalty creditor on accrued income	15,001,882	-
Deferred income	1,485,464	220,239
VAT	565,220	17,900
Amounts due to subsidiary undertaking	25,400	25,400
Amounts due to group undertakings	10,048,200	9,936,001
Other creditors	1,076,169	1,459,406
Accruals	1,188,924	1,053,677
Group relief payable	5,700,559	3,696,403
Other taxes and social security costs	144,809	122,167
	<u>86,980,076</u>	<u>56,840,744</u>

**15. PROVISION FOR LIABILITIES AND CHARGES**

	Dilapidation Provisions	Total Provisions
	£	£
At 30 September 2017	5,982,393	-
Provided during the year	293,736	5,982,393
Utilised in the year	-	-
At 30 September 2018	<u>6,276,129</u>	<u>5,982,393</u>

The dilapidation provisions are based on an independent surveyor estimate in 2015 of the potential dilapidation expense on termination of the property lease of properties held under lease by this company but occupied by other group companies. These provisions are expected to be utilised within 10 years.

**Recoverable amount**

Since the occupying group company will refund the costs of such dilapidation as it needs to be paid, as they also bear the ongoing costs of the relevant properties, an equal amount of £6,276,129 has also been recognised as Recoverable amount within assets

**16. DEFERRED TAX ASSETS AND (LIABILITIES)**

	£
At 1 <sup>st</sup> October 2017	85,034
Charge/credit to the profit and loss for the year	(7,619)
At 30 <sup>th</sup> September 2018	<u>77,415</u>

Deferred tax assets/(liabilities) are attributable to the following:

	2018	2017
	£	£
Difference between accumulated depreciation and capital allowances	62,848	71,453
Other timing differences	14,567	13,581
	<u>77,415</u>	<u>85,034</u>

There are no unused tax losses or unused tax credits.

# WARNER CHAPPELL MUSIC LIMITED (FORMERLY WARNER/CHAPPELL MUSIC LIMITED)

## NOTES TO THE FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018 (continued)

### 17. CAPITAL COMMITMENTS

The company is contracted to pay advances to songwriters in the normal course of business. The payment of these advances is dependent upon the fulfilment of certain contract requirements. Accordingly, it is not practicable to quantify the future commitments that may crystallise. Apart from advances, there are no other capital commitments.

### 18. OPERATING LEASE COMMITMENTS

At 30 September 2018 the company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings	
	2018	2017
	£	£
Leases in the name of the company		
Operating leases payable within:		
the following year	5,117,250	5,117,250
second to fifth years inclusive	20,409,500	20,409,500
over five years	13,697,458	18,780,708
	<u>          </u>	<u>          </u>

During the year, £685,572 (2017: £666,596) was directly recognised as an expense in the profit and loss account in respect of operating leases, as these leases are contracts entered into on behalf of a variety of group operations in respect of buildings occupied by their operations. Related costs are recorded by another group entity and recharged accordingly.

### 19. SHARE CAPITAL

	Allotted, called up and fully paid	
	2018	2017
	£	£
100 ordinary shares of £1 each	100	100
	<u>          </u>	<u>          </u>

### 20. PENSIONS

The Warner Music Retirement Saver Group Personal Pension Plan is a defined contribution plan.

The total pensions cost to the company for the year ended 30 September 2018 was £95,767 (2017: £133,684).

### 21. RELATED PARTY TRANSACTIONS

#### Kirshner-Warner Bros Music Limited

During the period, the company received a dividend of £40,141 (2017: £nil) from its 50% owned joint venture, Kirshner-Warner Bros Music Limited. At 30 September 2018, the company owed Kirshner-Warner Bros Music Limited £118,395 (2017: £22,134).

During the year, the company also received income of £2,500 (2017: £2,500) for royalty administration and other accounting functions performed, and income of £1,000 (2017: £1,000) as a contribution to auditors' fees

#### Diplomat Music Limited

At 30 September 2018, the company owed Diplomat Music Limited £22,065 (2017: £27,158).

During the year, the company received income of £720 (2017: £720) as a contribution to auditors fees.

**WARNER CHAPPELL MUSIC LIMITED (FORMERLY WARNER/CHAPPELL MUSIC LIMITED)**

**NOTES TO THE FINANCIAL STATEMENTS AT 30 SEPTEMBER 2018 (continued)**

**21. RELATED PARTY TRANSACTIONS (continued)**

**Jewel Music Publishing Company Limited**

During the period, the company received a dividend of £53,000 (2017: £39,500) from its 50% owned joint venture, Jewel Music Publishing Company Limited. This is received on behalf of its fellow group company, Warner/Chappell Music International Limited. The company has no entitlement to recognise the dividend in their financial statements; instead it is recognised in the financial statements of Warner/Chappell Music International Limited. At 30 September 2018, the company had no outstanding balance with (2017: £nil) Jewel Music Publishing Company Limited.

**Patricia Music Limited**

At 30 September 2018, the company owed Patricia Music Limited £15,412 (2017: £8,844).

During the year, the company received income of £885 (2017: £885) for royalty administration and other accounting functions performed, and income of £750 (2017: £750) as a contribution to auditors fees.

The company has taken advantage of the exemption in FRS 102 not to disclose details of transactions between wholly-owned group undertakings.

**21. PARENT UNDERTAKING AND CONTROLLING PARTY**

WMG Acquisition (UK) Ltd, Cannon Place, 78 Cannon Street, London, England, EC4N 6AF, is the company's immediate parent undertaking.

At 30 September 2018, Ai Entertainment Holdings LLC, 2711 Centerville Road, Suite 400, Wilmington, DE 19808, was the ultimate parent undertaking. Warner Music Group Corp., an entity incorporated in the USA, was the parent undertaking of the smallest group of undertakings of which the company was a member and for which group financial statements are drawn up. Copies of Warner Music Group Corp.'s financial statements can be obtained from 1209 Orange Street, Wilmington, DE 19801, USA.

**22. CHANGE IN ACCOUNTING ESTIMATE**

During the year, due to information becoming more readily available from the company's various income providers, a more reliable accounting estimate was possible with regards to revenue recognition to more accurately reflect recognising copyright royalties in line with the point at which the relevant copyright is exploited. As a result current year revenue has been increased by £18,668,079 compared to the previous basis of estimate. This has also given rise to an increase of £15,001,882 in royalty expenses relating to the accrued income.