

WARNER CHAPPELL MUSIC LIMITED

Report and Financial Statements

30 September 2019



WARNER CHAPPELL MUSIC LIMITED

Registered No. 488466

DIRECTORS

M Lavin
W McDowell
R Booker (resigned 30 September 2019)
J Platt (resigned 31 December 2018)
J Smith
M Smith (resigned 13 March 2020)
K Alderton
G Moot (appointed 2 April 2019)

SECRETARY

Olswang Cossec Limited

AUDITORS

KPMG LLP
15 Canada Square
London
E14 5GL

REGISTERED OFFICE

Cannon Place
78 Cannon Street
London
EC4N 6AF

WARNER CHAPPELL MUSIC LIMITED

STRATEGIC REPORT

The directors present their strategic report for the year ended 30 September 2019.

RESULTS AND DIVIDENDS

The profit for the year, after taxation is set out in the profit and loss account on page 8. The directors did not propose or pay a dividend in the year ended 30 September 2019 (2018 - £30,000,000).

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 2019 is set out in the Profit and Loss Account on page 8. The position of the company at 30 September 2019 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:

	2019	2018	Change
	£'000	£'000	%
Turnover	94,059	110,438	-15%
Operating profit	9,509	10,826	-12%
Profit before taxation	9,734	11,746	-17%
Fixed assets	24,872	25,752	-3%
Net current assets	11,250	2,982	+277%
Net assets	29,538	22,458	+32%

Turnover decreased by 15% in the year to £94,058,816. This is primarily because during the prior 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, prior year revenue was subject to a one-off increase of £18,668,079 compared to the previous basis of estimate. Removing the effect of the prior year one-off, turnover has increased by 2% year over year on a like for like basis. This is primarily driven by a growth in digital streaming income, partially offset by a decline in mechanical income due to the continuing market decline in physical CD sales.

Operating profit has decreased by 12% to £9,508,507. The 15% reduction in turnover described above also resulted in a corresponding decrease in gross profit, but administrative expenses also decreased by 11%, largely due to favourable foreign exchange gains on cash pool loans with other group entities, which are denominated in US Dollars.

Though the decline in operating profit was 12%, the decline in profit before taxation was 17%. This is primarily due to the impairment of two investments in subsidiaries, The National Video Corporation Limited and Glissando Music Limited, totalling £1,156,776.

The 277% increase in net current assets to £11,250,316 is largely driven by the net income during the year, in comparison to the prior year when this was reduced by the £30,000,000 dividend declared and paid to the parent company. This is also the main driving force behind the 32% increase in net assets to £29,537,688.

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.

WARNER CHAPPELL MUSIC LIMITED

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.

On March 11, 2020, the COVID-19 outbreak was declared a global pandemic by the World Health Organization. Government-imposed mandates limiting public assembly and requiring that non-essential businesses close have adversely impacted the Company's operations, including live performance and synchronisation, for the twelve months ended 30 September 2020. It is unclear how long the government-imposed mandates and restrictions will last and to what extent the global pandemic will impact demand for the Company's music and related services, even after federal, state, local and foreign governmental restrictions are lifted over time.

The Company is not presently aware of any events or circumstances arising from the global pandemic that would require us to update any estimates, judgments or materially revise the carrying value of our assets or liabilities, or which impact the ability of the business to continue as a going concern. The Company estimates may change, however, as new events occur and additional information is obtained, and any such changes will be recognized in the financial statements. Actual results could differ from estimates, and any such differences may be material to our consolidated financial statements.

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.

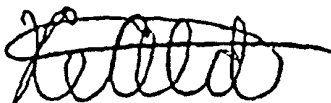
Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The company has implemented policies that require appropriate collectability checks on potential customers before sales are made.

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
26th June 2020

WARNER CHAPPELL MUSIC LIMITED

REPORT OF THE DIRECTORS

The directors present their report and financial statements for the year ended 30 September 2019.

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 2019 have been set out above. Further, the amounts due to creditors are stated under note 13 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 2019 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.

CHARITABLE CONTRIBUTIONS

During the year a total of £Nil (2018 - £nil) was paid to charitable institutions.

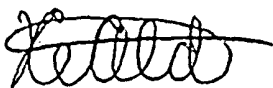
POLITICAL CONTRIBUTIONS

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
26th June 2020

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

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

Opinion

We have audited the financial statements of Warner Chappell Music Limited ("the company") for the year ended 30 September 2019 which comprise the Profit and loss account, Balance Sheet, 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 September 2019 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, 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 the strategic report and the directors' report 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 those reports have been prepared in accordance with the Companies Act 2006.

Independent Auditor's Report to the members of Warner Chappell Music Limited (continued)

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.

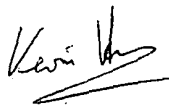
Auditor's responsibilities

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.

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 2020

WARNER CHAPPELL MUSIC LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 SEPTEMBER 2019

	Notes	2019 £	2018 £
TURNOVER	2	94,058,816	110,437,613
Cost of sales		(77,584,802)	(91,779,189)
Gross profit		16,474,014	18,658,424
Administrative expenses		(6,965,507)	(7,832,182)
OPERATING PROFIT	3	9,508,507	10,826,242
Investment income	6	-	63,288
Impairment of investment		(1,156,776)	-
Interest receivable	7	1,381,878	856,630
PROFIT BEFORE TAXATION		9,733,609	11,746,160
Tax on profit	8	(2,653,716)	(2,439,873)
PROFIT AFTER TAXATION		7,079,893	9,306,287

All activities are continuing.

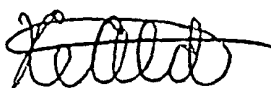
There is no other comprehensive income in the current and preceding financial years other than the retained profit shown above.

The notes on pages 11 to 23 form part of these financial statements

WARNER CHAPPELL MUSIC LIMITED
BALANCE SHEET AT 30 SEPTEMBER 2019

	Notes	2019 £	2018 £
FIXED ASSETS			
Intangible assets	9	1,467,279	1,504,042
Tangible assets	10	282,329	277,040
Investments	11	16,537,764	17,694,540
Recoverable amount from group undertaking	14	6,584,287	6,276,129
		<u>24,871,659</u>	<u>25,751,751</u>
CURRENT ASSETS			
Debtors	12	108,994,773	88,002,768
Cash		290,059	1,959,481
		<u>109,284,832</u>	<u>89,962,249</u>
CREDITORS: amounts falling due within one year	13	(98,034,516)	(86,980,076)
NET CURRENT ASSETS		<u>11,250,316</u>	<u>2,982,173</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>36,121,975</u>	<u>28,733,924</u>
PROVISIONS FOR LIABILITIES AND CHARGES	14	(6,584,287)	(6,276,129)
NET ASSETS		<u><u>29,537,688</u></u>	<u><u>22,457,795</u></u>
CAPITAL AND RESERVES			
Called up share capital	18	100	100
Profit and loss account		29,537,588	22,457,695
EQUITY SHAREHOLDERS' FUNDS		<u><u>29,537,688</u></u>	<u><u>22,457,795</u></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
26th June 2020

The notes on pages 11 to 23 form part of these financial statements

WARNER CHAPPELL MUSIC LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2019

	<i>Called up share capital £</i>	<i>Profit and loss account £</i>	<i>Total Equity £</i>
Balance at 1 October 2017	100	43,151,408	43,151,508
Profit for the financial year	-	9,306,287	9,306,287
Dividends	-	(30,000,000)	(30,000,000)
At 30 September 2018	<u>100</u>	<u>22,457,695</u>	<u>22,457,795</u>
Profit for the financial year	-	7,079,893	7,079,893
Dividends	-	-	-
At 30 September 2019	<u><u>100</u></u>	<u><u>29,537,588</u></u>	<u><u>29,537,688</u></u>

WARNER CHAPPELL MUSIC LIMITED

NOTES TO THE FINANCIAL STATEMENTS AT 30 SEPTEMBER 2019

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 twelve months following the signing of these accounts. 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.

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

NOTES TO THE FINANCIAL STATEMENTS AT 30 SEPTEMBER 2019 (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 2019 (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 administrative expenses within 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 £20,706,504 (2018: £18,668,079) income accrual is however subject to a low degree of uncertainty as at the year-end due to most of the accruals being adjusted in accordance with subsequent cash received.

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

NOTES TO THE FINANCIAL STATEMENTS AT 30 SEPTEMBER 2019 (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:

	2019	2018
	£	£
United Kingdom	64,037,213	75,395,241
Rest of the world	30,021,603	35,042,372
	<u>94,058,816</u>	<u>110,437,613</u>

3. OPERATING PROFIT

	2019	2018
	£	£
This is stated after charging/(crediting):		
Auditor's remuneration	56,688	52,700
Depreciation	96,216	98,358
Amortisation of copyrights	536,763	475,513
Gain on foreign exchange	(1,235,340)	(208,270)
Severance	4,645	183,844
	<u>=====</u>	<u>=====</u>

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

Audit work	56,688	52,700
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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

	2019	2018
	£	£
Directors' remuneration	2,223,365	1,088,635
Contributions to defined contribution plans	23,240	23,868
	<u>2,246,605</u>	<u>1,112,503</u>

The remuneration of the highest paid director was £1,111,389 (2018: £591,292) and company pension contributions of £nil (2018: £10,000) were paid to a defined contribution scheme on his behalf.

Number of directors exercising share options during the year was nil (2018 – 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 2019 (continued)

5. STAFF COSTS

	2019	2018
	£	£
Wages and salaries	4,547,912	4,376,659
Severance	4,645	183,844
Social security costs	659,276	664,001
Contributions to defined contribution plans	190,814	160,117
	<u>5,402,647</u>	<u>5,384,621</u>

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

	2019	2018
Commercial and administrative	<u>65</u>	<u>61</u>

6. INVESTMENT INCOME

	2019	2018
	£	£
Dividends receivable from group undertakings	<u>-</u>	<u>63,288</u>

7. INTEREST RECEIVABLE

	2019	2018
	£	£
Bank and other interest	-	10,689
Interest receivable from group company	1,381,878	845,941
	<u>1,381,878</u>	<u>856,630</u>

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

NOTES TO THE FINANCIAL STATEMENTS AT 30 SEPTEMBER 2019 (continued)

8. TAXATION

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

	2019	2018
	£	£
<u>Current tax</u>		
UK corporation tax on income for the period	2,087,830	2,236,624
Adjustment in respect of prior periods	285,036	-
Overseas taxation suffered	478,882	428,741
Double taxation relief	(194,240)	(233,111)
Total Current Tax	2,657,508	2,432,254
<u>Deferred tax</u>		
Origination and reversal of timing differences	(3,978)	6,646
Impact of change in tax rate	1,656	384
Adjustment in respect of prior years	(1,470)	589
Total deferred tax	(3,792)	7,619
Total tax	2,653,716	2,439,873

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% (2018: 19%). The current tax charge for the year differs from the standard rate for the reasons in the reconciliation below:

	2019	2018
	£	£
Profit before tax for the year	9,733,609	11,746,160
Profit multiplied by standard rate of UK tax: 19% (2018: 19%)	1,849,386	2,231,770
Factors affecting charge:		
Expenses not deductible for tax purposes	234,839	24,497
Non-taxable income	-	(12,025)
Effect of tax rate change on deferred tax balances	1,656	-
Effect of tax rates in foreign jurisdictions	284,269	195,630
Adjustment to tax charge in respect of previous periods	283,566	-
Total tax expense included in profit and loss	2,653,716	2,439,872

c. Tax rate changes

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016, and the UK deferred tax asset as at 27 September 2019 has been calculated based on this rate. The March 2020 Budget announced that the rate of 19% would continue to apply with effect from 1 April 2020, and this was substantively enacted on 17 March 2020. This will increase the company's future current tax charge accordingly and increase the deferred tax asset by £7k.

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

NOTES TO THE FINANCIAL STATEMENTS AT 30 SEPTEMBER 2019 (continued)

9. INTANGIBLE FIXED ASSETS

	Copyrights £
Cost:	
At 1 October 2018	8,667,141
Additions	500,000
At 30 September 2019	<u>9,167,141</u>
Amortisation:	
At 1 October 2018	7,163,099
Charged during the year	536,763
At 30 September 2019	<u>7,699,862</u>
Net book values:	
At 30 September 2019	<u><u>1,467,279</u></u>
At 1 October 2018	<u><u>1,504,042</u></u>

10. TANGIBLE FIXED ASSETS

	Furniture and equipment £
Cost:	
At 1 October 2018	571,930
Additions	101,505
Disposals	(13,958)
At 30 September 2019	<u>659,477</u>
Accumulated depreciation:	
At 1 October 2018	294,890
Charged during the year	96,216
Disposals	(13,958)
At 30 September 2019	<u>377,148</u>
Net book values:	
At 30 September 2019	<u><u>282,329</u></u>
At 1 October 2018	<u><u>277,040</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS AT 30 SEPTEMBER 2019 (continued)

11. INVESTMENTS

	<i>Investment in Subsidiary Undertakings</i>	<i>Investment in Joint Venture</i>	<i>Listed Investment</i>	<i>Total</i>
	£	£	£	£
Cost				
At 1 October 2018	17,694,490	50	-	17,694,540
Impairments	(1,156,776)	-	-	(1,156,776)
Carrying amount				
At 30 September 2019	16,537,714	50	-	16,537,764

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 2019 were as follows:

<i>Name of Company</i>	<i>Country of incorporation</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held directly and indirectly</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
Magnct 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 2019 (continued)

11. INVESTMENTS (continued)

<i>Name of Company</i>	<i>Country of incorporation</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held directly and indirectly</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

12. DEBTORS

	2019	2018
	£	£
Royalty advances	15,519,336	16,510,766
Trade debtors	15,228,070	8,731,765
Accrued income	20,706,504	18,668,079
Amounts owed by group undertakings	56,802,385	43,890,130
Prepayments	139,910	124,613
VAT	517,361	
Deferred tax (note 15)	81,207	77,415
	<u>108,994,773</u>	<u>88,002,768</u>

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

NOTES TO THE FINANCIAL STATEMENTS AT 30 SEPTEMBER 2019 (continued)

13. CREDITORS: amounts falling due within one year

	2019	2018
	£	£
Trade creditors	59,912,723	51,743,448
Royalty creditor on accrued income	16,467,157	15,001,882
Deferred income	1,715,623	1,485,464
VAT	-	565,220
Amounts due to subsidiary undertaking	25,400	25,400
Amounts due to group undertakings	10,029,404	10,048,200
Other creditors	674,108	1,076,169
Accruals	1,156,971	1,188,924
Group relief payable	5,985,595	5,700,559
Corporation tax payable	1,893,590	-
Other taxes and social security costs	173,945	144,809
	<u>98,034,516</u>	<u>86,980,076</u>

14. PROVISION FOR LIABILITIES AND CHARGES

	Dilapidation Provisions	Total Provisions
	£	£
At 30 September 2018	6,276,129	6,276,129
Provided during the year	308,158	308,158
At 30 September 2019	<u>6,584,287</u>	<u>6,584,287</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 £6,584,287 has also been recognised as a recoverable amount within fixed assets.

15. DEFERRED TAX ASSETS AND (LIABILITIES)

	£
At 1 st October 2018	77,415
(Charge)/credit to the profit and loss for the year	2,322
Adjustments in respect of prior years	1,470
At 30 th September 2019	<u>81,207</u>

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

	2019	2018
	£	£
Difference between accumulated depreciation and capital allowances	56,631	62,848
Other timing differences	24,576	14,567
	<u>81,207</u>	<u>77,415</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 2019 (continued)

16. CAPITAL COMMITMENTS

The company is contracted to pay advances to songwriters in the normal course of business. At 30 September 2019, there are future committed advances due of £3,895,110 (2018: £5,510,070). There are other future contractually committed advances, but 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.

17. OPERATING LEASE COMMITMENTS

At 30 September 2019 the company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings	
	2019	2018
	£	£
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	19,738,768	20,409,500
over five years	9,250,940	13,697,458
	=====	=====

During the year £695,575 (2018: £685,572) was directly recognised as an expense in the profit and loss account in respect of operating leases for properties occupied and used by the Company. The remaining leases are contracts entered into on behalf of a variety of group operations in respect of buildings occupied by their operations. The remainder of the operating lease costs are recorded by another group entity and recharged accordingly.

18. SHARE CAPITAL

	Allotted, called up and fully paid	
	2019	2018
	£	£
100 ordinary shares of £1 each	100	100
	=====	=====

19. 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 2019 was £190,814 (2018: £95,767).

20. RELATED PARTY TRANSACTIONS

Kirshner-Warner Bros Music Limited

During the period, the company did not receive a dividend (2018: £40,141) from its 50% owned joint venture, Kirshner-Warner Bros Music Limited. At 30 September 2019, the company owed Kirshner-Warner Bros Music Limited £143,685 (2018: £118,395).

During the year, the company also received income of £2,500 (2018: £2,500) for royalty administration and other accounting functions performed, and income of £1,000 (2018: £1,000) as a contribution to auditors' fees

Diplomat Music Limited

At 30 September 2019, the company owed Diplomat Music Limited £21,225 (2018: £22,065).

During the year, the company received income of £720 (2018: £720) as a contribution to auditors fees.

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

NOTES TO THE FINANCIAL STATEMENTS AT 30 SEPTEMBER 2019 (continued)

20. RELATED PARTY TRANSACTIONS (continued)

Jewel Music Publishing Company Limited

During the period, the company received a dividend of £48,750 (2018: £53,000) 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 2019, the company had no outstanding balance with (2018: £nil) Jewel Music Publishing Company Limited.

Patricia Music Limited

At 30 September 2019, the company owed Patricia Music Limited £17,620 (2018: £15,412).

During the year, the company received income of £885 (2018: £885) for royalty administration and other accounting functions performed, and income of £750 (2018: £750) as a contribution to auditors fees.

AI Wrights Holdings Limited

The Company leases a property from AI Wrights Holdings Limited which is an affiliate of the ultimate parent. This property is one of those recharged through another group entity (see note 17). The commitments under this lease included in note 17 are:

	2019 £	2018 £
Leases in the name of the company		
Operating leases payable within:		
the following year	3,494,250	3,494,250
second to fifth years inclusive	13,883,500	13,917,500
over five years	4,294,502	7,754,752
	<u> </u>	<u> </u>

License Agreements

The Company has a license with an entity which is an affiliate of the ultimate parent, for the use of repertoire throughout Europe. For the year ended 30 September 2019, revenue generated by this license was £838,005 (2018: £1,165,358).

Wholly Owned Group Undertakings

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 2019, 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.

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

NOTES TO THE FINANCIAL STATEMENTS AT 30 SEPTEMBER 2019 (continued)

22. SUBSEQUENT EVENTS

On March 11, 2020, the COVID-19 outbreak was declared a global pandemic by the World Health Organization. Government-imposed mandates limiting public assembly and requiring that non-essential businesses close have adversely impacted the Company's operations, including live performance and synchronisation, for the twelve months ended 30 September 2020. It is unclear how long the government-imposed mandates and restrictions will last and to what extent the global pandemic will impact demand for the Company's music and related services, even after federal, state, local and foreign governmental restrictions are lifted over time.

The Company is not presently aware of any events or circumstances arising from the global pandemic that would require us to update any estimates, judgments or materially revise the carrying value of our assets or liabilities, or which impact the ability of the business to continue as a going concern. The Company estimates may change, however, as new events occur and additional information is obtained, and any such changes will be recognized in the financial statements. Actual results could differ from estimates, and any such differences may be material to our consolidated financial statements.