
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2019

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 001-32502

Warner Music Group Corp.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

13-4271875
(I.R.S. Employer
Identification No.)

1633 Broadway
New York, NY 10019
(Address of principal executive offices)

(212) 275-2000
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes No

Securities registered pursuant to Section 12(b) of the Act:

Title of each class (a)	Trading Symbol(s)	Name of each exchange on which registered
None		
(a)	There is no public market for the Registrant's common stock. As of May 7, 2019, the number of shares of the Registrant's common stock, par value \$0.001 per share, outstanding was 1,060. All of the Registrant's common stock is owned by affiliates of Access Industries, Inc. The Registrant has filed all Exchange Act reports for the preceding 12 months.	

WARNER MUSIC GROUP CORP.

INDEX

	<u>Page Number</u>
Part I. Financial Information	
Item 1. Financial Statements (Unaudited)	4
Consolidated Balance Sheets as of March 31, 2019 and September 30, 2018	4
Consolidated Statements of Operations for the Three and Six Months Ended March 31, 2019 and March 31, 2018	5
Consolidated Statements of Comprehensive Income for the Three and Six Months Ended March 31, 2019 and March 31, 2018	6
Consolidated Statements of Cash Flows for the Six Months Ended March 31, 2019 and March 31, 2018	7
Consolidated Statements of (Deficit) Equity for the Three and Six Months Ended March 31, 2019 and March 31, 2018	8
Notes to Consolidated Interim Financial Statements	10
Supplementary Information—Consolidating Financial Statements	33
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	46
Item 3. Quantitative and Qualitative Disclosures About Market Risk	73
Item 4. Controls and Procedures	74
Part II. Other Information	
Item 1. Legal Proceedings	75
Item 1A. Risk Factors	76
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	76
Item 3. Defaults Upon Senior Securities	76
Item 4. Mine Safety Disclosures	76
Item 5. Other Information	76
Item 6. Exhibits	77
Signatures	78

ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Warner Music Group Corp.
Consolidated Balance Sheets (Unaudited)

	<u>March 31,</u> <u>2019</u>	<u>September 30,</u> <u>2018</u>
<u>(in millions)</u>		
Assets		
Current assets:		
Cash and equivalents	\$ 470	\$ 514
Accounts receivable, net of allowances of \$20 million and \$45 million	781	447
Inventories	65	42
Royalty advances expected to be recouped within one year	151	123
Prepaid and other current assets	57	50
Total current assets	1,524	1,176
Royalty advances expected to be recouped after one year	184	153
Property, plant and equipment, net	295	229
Goodwill	1,787	1,692
Intangible assets subject to amortization, net	1,802	1,851
Intangible assets not subject to amortization	153	154
Deferred tax assets, net	7	11
Other assets	150	78
Total assets	<u>\$ 5,902</u>	<u>\$ 5,344</u>
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$ 245	\$ 281
Accrued royalties	1,509	1,396
Accrued liabilities	409	423
Accrued interest	32	31
Deferred revenue	170	208
Other current liabilities	153	34
Total current liabilities	2,518	2,373
Long-term debt	2,990	2,819
Deferred tax liabilities, net	230	165
Other noncurrent liabilities	284	307
Total liabilities	<u>\$ 6,022</u>	<u>\$ 5,664</u>
Equity:		
Common stock (\$0.001 par value; 10,000 shares authorized; 1,060 and 1,052 shares issued and outstanding at March 31, 2019 and September 30, 2018, respectively)	\$ —	\$ —
Additional paid-in capital	1,128	1,128
Accumulated deficit	(1,043)	(1,272)
Accumulated other comprehensive loss, net	(225)	(190)
Total Warner Music Group Corp. deficit	(140)	(334)
Noncontrolling interest	20	14
Total equity	<u>(120)</u>	<u>(320)</u>
Total liabilities and equity	<u>\$ 5,902</u>	<u>\$ 5,344</u>

See accompanying notes

Warner Music Group Corp.
Consolidated Statements of Operations (Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
	(in millions)		(in millions)	
Revenue	\$ 1,090	\$ 963	\$ 2,293	\$ 2,008
Costs and expenses:				
Cost of revenue	(559)	(488)	(1,185)	(1,057)
Selling, general and administrative expenses (a)	(354)	(337)	(730)	(670)
Amortization expense	(55)	(55)	(109)	(108)
Total costs and expenses	(968)	(880)	(2,024)	(1,835)
Operating income	122	83	269	173
Loss on extinguishment of debt	—	(23)	(3)	(24)
Interest expense, net	(36)	(36)	(72)	(72)
Other income (expense), net	29	(6)	57	(2)
Income before income taxes	115	18	251	75
Income tax expense	(48)	(19)	(98)	(71)
Net income (loss)	67	(1)	153	4
Less: Income attributable to noncontrolling interest	—	(2)	—	(3)
Net income (loss) attributable to Warner Music Group Corp.	<u>\$ 67</u>	<u>\$ (3)</u>	<u>\$ 153</u>	<u>\$ 1</u>
(a) Includes depreciation expense of:	<u>\$ (14)</u>	<u>\$ (14)</u>	<u>\$ (28)</u>	<u>\$ (26)</u>

See accompanying notes

Warner Music Group Corp.
Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2019	2018	2019	2018
	(in millions)		(in millions)	
Net income (loss)	\$ 67	\$ (1)	\$ 153	\$ 4
Other comprehensive (loss) income, net of tax:				
Foreign currency adjustment	(10)	9	(26)	18
Deferred (loss) gain on derivative	(3)	1	(9)	2
Other comprehensive (loss) income, net of tax	(13)	10	(35)	20
Total comprehensive income	54	9	118	24
Less: Income attributable to noncontrolling interest	—	(2)	—	(3)
Comprehensive income attributable to Warner Music Group Corp.	<u>\$ 54</u>	<u>\$ 7</u>	<u>\$ 118</u>	<u>\$ 21</u>

See accompanying notes

Warner Music Group Corp.
Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended	
	March 31,	
	2019	2018
	(in millions)	
Cash flows from operating activities		
Net income	\$ 153	\$ 4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	137	134
Unrealized (gains) losses and remeasurement of foreign denominated loans	(24)	11
Deferred income taxes	27	38
Loss on extinguishment of debt	3	24
Net gain on divestitures and investments	(32)	(7)
Non-cash interest expense	3	3
Equity-based compensation expense	14	27
Changes in operating assets and liabilities:		
Accounts receivable	(90)	(15)
Inventories	13	1
Royalty advances	(61)	(12)
Accounts payable and accrued liabilities	(100)	(100)
Royalty payables	46	68
Accrued interest	1	(14)
Deferred revenue	(19)	(16)
Other balance sheet changes	28	(10)
Net cash provided by operating activities	<u>99</u>	<u>136</u>
Cash flows from investing activities		
Acquisition of music publishing rights, net	(16)	(5)
Capital expenditures	(59)	(29)
Investments and acquisitions of businesses, net of cash received	(218)	(6)
Proceeds from the sale of investments	—	12
Net cash used in investing activities	<u>(293)</u>	<u>(28)</u>
Cash flows from financing activities		
Proceeds from issuance of Acquisition Corp. 3.625% Senior Notes	287	—
Repayment of Acquisition Corp. 4.125% Senior Secured Notes	(40)	—
Repayment of Acquisition Corp. 4.875% Senior Secured Notes	(30)	—
Repayment of Acquisition Corp. 5.625% Senior Secured Notes	(27)	—
Proceeds from issuance of Acquisition Corp. 5.50% Senior Notes	—	325
Proceeds from supplement of Acquisition Corp. Senior Term Loan Facility	—	320
Repayment of and redemption deposit for Acquisition Corp. 6.75% Senior Notes	—	(635)
Call premiums paid and deposit on early redemption of debt	(2)	(23)
Deferred financing costs paid	(4)	(9)
Distribution to noncontrolling interest holder	(2)	(2)
Dividends paid	(31)	(125)
Net cash provided by (used in) financing activities	<u>151</u>	<u>(149)</u>
Effect of exchange rate changes on cash and equivalents	(1)	6
Net decrease in cash and equivalents	(44)	(35)
Cash and equivalents at beginning of period	514	647
Cash and equivalents at end of period	<u>\$ 470</u>	<u>\$ 612</u>

See accompanying notes

Warner Music Group Corp.
Consolidated Statements of (Deficit) Equity (Unaudited)

Six Months Ended March 31, 2019

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Warner Music Group Corp. Deficit	Noncontrolling Interest	Total Equity
	Shares	Value						
(in millions, except share amounts)								
Balance at September 30, 2018	1,052	\$ —	\$ 1,128	\$ (1,272)	\$ (190)	\$ (334)	\$ 14	\$ (320)
Cumulative effect of ASC 606 adoption	—	—	—	139	—	139	11	150
Net income	—	—	—	153	—	153	—	153
Other comprehensive loss, net of tax	—	—	—	—	(35)	(35)	—	(35)
Dividends	—	—	—	(63)	—	(63)	—	(63)
Distribution to noncontrolling interest holders	—	—	—	—	—	—	(2)	(2)
Other	8	—	—	—	—	—	(3)	(3)
Balance at March 31, 2019	1,060	\$ —	\$ 1,128	\$ (1,043)	\$ (225)	\$ (140)	\$ 20	\$ (120)

Three Months Ended March 31, 2019

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Warner Music Group Corp. Deficit	Noncontrolling Interest	Total Equity
	Shares	Value						
(in millions, except share amounts)								
Balance at December 31, 2018	1,060	\$ —	\$ 1,128	\$ (1,078)	\$ (212)	\$ (162)	\$ 23	\$ (139)
Net income	—	—	—	67	—	67	—	67
Other comprehensive loss, net of tax	—	—	—	—	(13)	(13)	—	(13)
Dividends	—	—	—	(32)	—	(32)	—	(32)
Distribution to noncontrolling interest holders	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	(3)	(3)
Balance at March 31, 2019	1,060	\$ —	\$ 1,128	\$ (1,043)	\$ (225)	\$ (140)	\$ 20	\$ (120)

Six Months Ended March 31, 2018

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Warner Music Group Corp. Equity	Noncontrolling Interest	Total Equity
	Shares	Value						
(in millions, except share amounts)								
Balance at September 30, 2017	1,055	\$ —	\$ 1,128	\$ (654)	\$ (181)	\$ 293	\$ 15	\$ 308
Net income	—	—	—	1	—	1	3	4
Other comprehensive income, net of tax	—	—	—	—	20	20	—	20
Dividends	—	—	—	(125)	—	(125)	—	(125)
Distribution to noncontrolling interest holders	—	—	—	—	—	—	(2)	(2)
Other	(3)	—	—	—	—	—	—	—
Balance at March 31, 2018	1,052	\$ —	\$ 1,128	\$ (778)	\$ (161)	\$ 189	\$ 16	\$ 205

Three Months Ended March 31, 2018

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Warner Music Group Corp. Equity	Noncontrolling Interest	Total Equity
	Shares	Value						
	(in millions, except share amounts)							
Balance at December 31, 2017	1,055	\$ —	\$ 1,128	\$ (650)	\$ (171)	\$ 307	\$ 14	\$ 321
Net (loss) income	—	—	—	(3)	—	(3)	2	(1)
Other comprehensive income, net of tax	—	—	—	—	10	10	—	10
Dividends	—	—	—	(125)	—	(125)	—	(125)
Distribution to noncontrolling interest holders	—	—	—	—	—	—	—	—
Other	(3)	—	—	—	—	—	—	—
Balance at March 31, 2018	1,052	\$ —	\$ 1,128	\$ (778)	\$ (161)	\$ 189	\$ 16	\$ 205

See accompanying notes

Warner Music Group Corp.
Notes to Consolidated Interim Financial Statements (Unaudited)

1. Description of Business

Warner Music Group Corp. (the “Company”) was formed on November 21, 2003. The Company is the direct parent of WMG Holdings Corp. (“Holdings”), which is the direct parent of WMG Acquisition Corp. (“Acquisition Corp.”). Acquisition Corp. is one of the world’s major music-based content companies.

Acquisition of Warner Music Group by Access Industries

Pursuant to an Agreement and Plan of Merger, dated as of May 6, 2011 (the “Merger Agreement”), by and among the Company, AI Entertainment Holdings LLC (formerly Airplanes Music LLC), a Delaware limited liability company (“Parent”) and an affiliate of Access Industries, Inc. (“Access”), and Airplanes Merger Sub, Inc., a Delaware corporation and a wholly owned subsidiary of Parent (“Merger Sub”), on July 20, 2011 (the “Merger Closing Date”), Merger Sub merged with and into the Company with the Company surviving as a wholly owned subsidiary of Parent (the “Merger”). In connection with the Merger, the Company delisted its common stock from the NYSE. The Company continues voluntarily to file with the SEC current and periodic reports that would be required to be filed with the SEC pursuant to Section 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) as provided for in certain covenants contained in the instruments covering its outstanding indebtedness.

Recorded Music Operations

The Company’s Recorded Music business primarily consists of the discovery and development of artists and the related marketing, distribution and licensing of recorded music produced by such artists. The Company plays an integral role in virtually all aspects of the recorded music value chain from discovering and developing talent to producing music and promoting artists and their products.

In the United States, Recorded Music operations are conducted principally through the Company’s major record labels— Warner Bros. Records and Atlantic Records. In October 2018, the Company launched Elektra Music Group in the United States as a standalone label group, which comprises the Elektra, Fueled by Ramen and Roadrunner labels. The Company’s Recorded Music operations also include Rhino, a division that specializes in marketing the Company’s music catalog through compilations and reissues of previously released music and video titles. The Company also conducts its Recorded Music operations through a collection of additional record labels, including Asylum, Big Beat, Canvasback, East West, Erato, FFRR, Nonesuch, Parlophone, Reprise, Sire, Spinnin’, Warner Classics and Warner Music Nashville.

Outside the United States, Recorded Music activities are conducted in more than 50 countries through various subsidiaries, affiliates and non-affiliated licensees. Internationally, the Company engages in the same activities as in the United States: discovering and signing artists and distributing, marketing and selling their recorded music. In most cases, the Company also markets and distributes the music of those artists for whom the Company’s domestic record labels have international rights. In certain smaller markets, the Company licenses the right to distribute the Company’s records to non-affiliated third-party record labels. The Company’s international artist services operations include a network of concert promoters through which it provides resources to coordinate tours for the Company’s artists and other artists as well as management companies that guide artists with respect to their careers.

The Company’s Recorded Music distribution operations include Warner-Elektra-Atlantic Corporation (“WEA Corp.”), which markets and sells music and video products to retailers and wholesale distributors; Alternative Distribution Alliance (“ADA”), which distributes the products of independent labels to retail and wholesale distributors; and various distribution centers and ventures operated internationally.

The Company’s Recorded Music products are sold in digital form to an expanded universe of digital partners, including digital streaming services such as Amazon, Apple Music, Deezer, Napster, Soundcloud, Spotify, Tencent and YouTube, digital radio services such as iHeart Radio, Pandora and Sirius XM and digital download services such as Apple’s iTunes and Google Play. In addition, Recorded Music products are sold in physical retail outlets and in physical form to online physical retailers such as Amazon.com and bestbuy.com

The Company has integrated the exploitation of digital content into all aspects of its business, including artist and repertoire (“A&R”), marketing, promotion and distribution. The Company’s business development executives work closely with A&R departments to ensure that while music is being produced, digital assets are also created with all distribution channels in mind, including streaming services, social networking sites, online portals and music-centered destinations. The Company also works side by side with its digital partners to test new concepts. The Company believes existing and new digital businesses will be a significant source of growth and will provide new opportunities to successfully monetize its assets and create new revenue streams. The proportion of digital revenues attributed to each distribution channel varies by region and proportions may change as the roll out of new technologies continues. As an owner of music content, the Company believes it is well positioned to take advantage of growth in digital distribution and emerging technologies to maximize the value of its assets.

The Company has diversified its revenues beyond its traditional businesses by entering into expanded-rights deals with recording artists in order to partner with artists in other aspects of their careers. Under these agreements, the Company provides services to and participates in artists’ activities outside the traditional recorded music business such as touring, merchandising and sponsorships. The Company has built artist services capabilities and platforms for exploiting this broader set of music-related rights and participating more widely in the monetization of the artist brands it helps create.

The Company believes that entering into expanded-rights deals and enhancing its artist services capabilities in areas such as concert promotion, merchandising and management have permitted it to diversify revenue streams and capitalize on other revenue opportunities. This provides for improved long-term relationships with artists and allows the Company to more effectively connect artists and fans.

Music Publishing Operations

While recorded music is focused on exploiting a recording of a composition, music publishing is an intellectual property business focused on the exploitation of the composition itself. In return for promoting, placing, marketing and administering the creative output of a songwriter, or engaging in those activities for other rightsholders, the Company’s Music Publishing business garners a share of the revenues generated from use of the composition.

The Company’s Music Publishing operations are conducted principally through Warner/Chappell, its global Music Publishing company, headquartered in Los Angeles with operations in over 50 countries through various subsidiaries, affiliates and non-affiliated licensees. The Company owns or controls rights to more than one million musical compositions, including numerous pop hits, American standards, folk songs and motion picture and theatrical compositions. Assembled over decades, its award-winning catalog includes over 70,000 songwriters and composers and a diverse range of genres including pop, rock, jazz, classical, country, R&B, hip-hop, rap, reggae, Latin, folk, blues, symphonic, soul, Broadway, techno, alternative and gospel. Warner/Chappell also administers the music and soundtracks of several third-party television and film producers and studios. The Company has an extensive production music library collectively branded as Warner/Chappell Production Music.

2. Summary of Significant Accounting Policies

Interim Financial Statements

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month period ended March 31, 2019 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2019.

The consolidated balance sheet at September 30, 2018 has been derived from the audited consolidated financial statements at that date but does not include all the information and notes required by U.S. GAAP for complete financial statements.

For further information, refer to the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2018 (File No. 001-32502).

Basis of Consolidation

The accompanying financial statements present the consolidated accounts of all entities in which the Company has a controlling voting interest and/or variable interest required to be consolidated in accordance with U.S. GAAP. All intercompany balances and transactions have been eliminated.

Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 810, *Consolidation* (“ASC 810”), requires the Company first evaluate its investments to determine if any investments qualify as a variable interest entity (“VIE”). A VIE is consolidated if the Company is deemed to be the primary beneficiary of the VIE, which is the party involved with the VIE that has both (i) the power to control the most significant activities of the VIE and (ii) either the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. If an entity is not deemed to be a VIE, the Company consolidates the entity if the Company has a controlling voting interest.

The Company maintains a 52-53 week fiscal year ending on the last Friday in each reporting period. As such, all references to March 31, 2019 and March 31, 2018 relate to the periods ended March 29, 2019 and March 30, 2018, respectively. For convenience purposes, the Company continues to date its financial statements as of March 31. The fiscal year ended September 30, 2018 ended on September 28, 2018.

The Company has performed a review of all subsequent events through the date the financial statements were issued and has determined that no additional disclosures are necessary.

Income Taxes

At the end of each interim period, the Company makes its best estimate of the effective tax rate expected to be applicable for the full fiscal year and uses that rate to provide for income taxes on a current year-to-date basis before discrete items.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). In accordance with ASC Topic 740, Income Taxes (“ASC 740”) the Company recorded the impacts in the period of enactment.

New Accounting Pronouncements

Adoption of New Revenue Recognition Standard

In May 2014, the FASB issued guidance codified in ASC 606, Revenue from Contracts with Customers (“ASC 606”), which replaces the guidance in former ASC 605, Revenue Recognition and ASC 928-605, Entertainment – Music. The amendment was the result of a joint effort by the FASB and the International Accounting Standards Board to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and international financial reporting standards (“IFRS”). The joint project clarifies the principles for recognizing revenue and develops a common revenue standard for U.S. GAAP and IFRS.

The Company adopted ASC 606 on October 1, 2018, using the modified retrospective method to all contracts not completed as of the date of adoption. The reported results as of and for the three and six-months ended March 31, 2019 reflect the application of the new standard, while the reported results for the three and six-month period ending March 31, 2018 have not been adjusted to reflect the new standard and were prepared under prior revenue recognition accounting guidance.

The adoption of ASC 606 resulted in a change in the timing of revenue recognition in the Company’s Music Publishing segment as well as international broadcast rights within Recorded Music. Under the new revenue recognition rules, revenue is recorded based on best estimates available in the period of sale or usage whereas revenue was previously recorded when cash was received for both the licensing of publishing rights and international Recorded Music broadcast fees. Additionally, for certain licenses where the consideration is fixed and the intellectual property being licensed is static, revenue is recognized at the point in time when control of the licensed content is transferred to the customer. As a result of adopting ASC 606, the Company recorded a decrease to the opening accumulated deficit of approximately \$139 million, net of tax, as of October 1, 2018. The Company also reclassified \$28 million from accounts receivable to other current liabilities related to estimated refund liabilities for our physical sales.

The following table provides the cumulative effect of the changes made to the opening balance sheet, as of October 1, 2018, from the adoption of ASC 606 and which primarily relates to the accrual of licensing revenue in the period of sale or usage.

	September 30, 2018	Impact of Adoption (in millions)	October 1, 2018
Assets			
Accounts receivable, net	\$ 447	\$ 257	\$ 704
Total current assets	1,176	257	1,433
Other assets	78	15	93
Total assets	<u>\$ 5,344</u>	<u>\$ 272</u>	<u>\$ 5,616</u>
Liabilities and Equity			
Accrued royalties	1,396	79	1,475
Accrued liabilities	423	(1)	422
Deferred revenue	208	(27)	181
Other current liabilities	34	33	67
Total current liabilities	2,373	84	2,457
Deferred tax liabilities, net	165	37	202
Other noncurrent liabilities	307	1	308
Total liabilities	<u>5,664</u>	<u>122</u>	<u>5,786</u>
Equity:			
Accumulated Deficit	(1,272)	139	(1,133)
Non-controlling interest	14	11	25
Total equity	<u>(320)</u>	<u>150</u>	<u>(170)</u>
Total liabilities and equity	<u>\$ 5,344</u>	<u>\$ 272</u>	<u>\$ 5,616</u>

The disclosure of the impact of adoption on the consolidated statement of operations for the three and six months ended March 31, 2019, the consolidated balance sheet as of March 31, 2019, and the consolidated statement of cash flows for the six months ended March 31, 2019 are as follows (in millions):

	Three Months Ended March 31, 2019			Six Months Ended March 31, 2019		
	As Reported	Balances without adoption of ASC 606	Effect of Change	As Reported	Balances without adoption of ASC 606	Effect of Change
	(in millions)			(in millions)		
Revenues	\$ 1,090	\$ 1,080	\$ 10	\$ 2,293	\$ 2,263	\$ 30
Cost and expenses:						
Cost of revenue	(559)	(545)	(14)	(1,185)	(1,169)	(16)
Operating income	122	126	(4)	269	255	14
Income before income taxes	115	119	(4)	251	237	14
Income tax expense	(48)	(50)	2	(98)	(92)	(6)
Net income	67	69	(2)	153	145	8
Less: Income attributable to noncontrolling interest	—	(1)	1	—	(1)	1
Net income attributable to Warner Music Group Corp.	<u>\$ 67</u>	<u>\$ 68</u>	<u>\$ (1)</u>	<u>\$ 153</u>	<u>\$ 144</u>	<u>\$ 9</u>

	March 31, 2019		
	As Reported	Balances without adoption of ASC 606	Effect of Change
	(in millions)		
Assets			
Accounts receivable, net	\$ 781	\$ 497	\$ 284
Total current assets	1,524	1,240	284
Other assets	150	135	15
Deferred tax assets, net	7	7	—
Total assets	<u>\$ 5,902</u>	<u>\$ 5,603</u>	<u>\$ 299</u>
Liabilities and Equity			
Accounts Payable	245	245	—
Accrued royalties	1,509	1,414	95
Accrued liabilities	409	410	(1)
Deferred revenue	170	198	(28)
Other current liabilities	153	123	30
Total current liabilities	2,518	2,422	96
Deferred tax liabilities, net	230	188	42
Other noncurrent liabilities	284	280	4
Total liabilities	<u>6,022</u>	<u>5,880</u>	<u>142</u>
Equity:			
Accumulated Deficit	(1,043)	(1,190)	147
Non-controlling interest	20	10	10
Total equity	(120)	(277)	157
Total liabilities and equity	<u>\$ 5,902</u>	<u>\$ 5,603</u>	<u>\$ 299</u>

	March 31, 2019		
	As Reported	Balances without adoption of ASC 606	Effect of Change
	(in millions)		
Cash flows from operating activities			
Net income	\$ 153	\$ 145	\$ 8
Deferred income taxes	27	22	5
Changes in operating assets and liabilities:			
Accounts receivable	(90)	(63)	(27)
Accounts payable and accrued liabilities	(100)	(103)	3
Royalty payables	46	30	16
Deferred revenues	(19)	(17)	(2)
Other balance sheet changes	28	31	(3)
Net cash provided by operating activities	99	99	—
Effect of exchange rate changes on cash and equivalents	(1)	(1)	—
Net decrease in cash and equivalents	(44)	(44)	—
Cash and equivalents at beginning of period	514	514	—
Cash and equivalents at end of period	<u>\$ 470</u>	<u>\$ 470</u>	<u>\$ —</u>

Recently Adopted Accounting Pronouncements

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"). This ASU will require that equity investments, except those investments under the equity method of accounting, are measured at fair value with changes in fair value recognized in net income. The Company may elect to measure equity investments that do not have a readily determinable fair value at cost minus impairment, if any, plus or minus changes resulting from observable prices. The Company adopted ASU 2016-01 on October 1, 2018 and has elected to use the measurement alternative to measure our equity investments without readily determinable fair values. This guidance was applied prospectively and did not have a significant impact on the Company's financial statements. For the six months ended March 31, 2019, there were no observable price change events that were completed related to our equity investments without readily determinable fair values.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments* ("ASU 2016-15"). This ASU provides specific guidance of how certain cash receipts and cash payments should be presented and classified in the statement of cash flows. ASU 2016-15 is effective for annual periods beginning after December 15, 2017, and interim periods within those years. The Company adopted ASU 2016-15 in the first quarter of fiscal 2019 and this adoption did not have a significant impact on the Company's financial statements.

In October 2016, the FASB issued ASU 2016-16, *Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory* ("ASU 2016-16"). This ASU requires the recognition of current and deferred income taxes for intra-entity asset transfers when the transaction occurs. ASU 2016-16 is effective for annual periods beginning after December 15, 2017, and interim periods within those years. The Company adopted ASU 2016-16 in the first quarter of fiscal 2019 and this adoption did not have a significant impact on the Company's financial statements.

In January of 2017, the FASB issued ASU 2017-01, *Business Combinations*, to clarify the definition of a business, which establishes a process to determine when an integrated set of assets and activities can be deemed a business combination. The Company adopted ASU 2017-01 in the first quarter of fiscal 2019 and this adoption did not have a significant impact on the Company's financial statements.

In February 2018, FASB issued ASU 2018-02, *Income Statement – Reporting Comprehensive Income* ("ASU 2018-02"). This ASU allows a reclassification from accumulated other comprehensive income to accumulated deficit for stranded tax effects resulting from the Tax Act. ASU 2018-02 is effective for all entities for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period. The Company adopted ASU 2018-02 in the first quarter of fiscal 2019 and this adoption did not have a significant impact on the Company's financial statements.

Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases* ("ASU 2016-02"). This ASU establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. ASU 2016-02 will be effective for annual periods beginning after December 15, 2018, and interim periods within those years. Earlier adoption is permitted. The Company is evaluating the impact of the adoption of this standard on its financial statements and disclosures.

In August 2017, the FASB issued ASU 2017-12, *Targeted Improvements to Accounting for Hedging Activities* ("ASU 2017-12"). This ASU improves certain aspects of the hedge accounting model including making more risk management strategies eligible for hedge accounting and simplifying the assessment of hedge effectiveness. ASU 2017-12 is effective for all annual periods beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted and requires a prospective adoption with a cumulative-effect adjustment to accumulated deficit as of the beginning of the fiscal year of adoption for existing hedging relationships. The Company is evaluating the impact of the adoption of this standard on its financial statements and disclosures.

3. Revenue Recognition

For our operating segments, Recorded Music and Music Publishing, the Company accounts for a contract when it has legally enforceable rights and obligations and collectability of consideration is probable. The Company identifies the performance obligations and determines the transaction price associated with the contract, which is then allocated to each performance obligation, using management's best estimate of standalone selling price for arrangements with multiple performance obligations. Revenue is recognized when, or as, control of the promised services or goods is transferred to our customers, and in an amount that reflects the consideration the Company is contractually due in exchange for those services or goods. An estimate of variable consideration is included in the transaction price if, in the Company's judgement, it is probable that a significant future reversal of cumulative revenue under the contract will not occur. Certain of our arrangements include licenses of intellectual property with consideration in the form of sales- and usage-based royalties. Royalty revenue is recognized when the subsequent sale or usage occurs using the best estimates available of the amounts that will be received by the Company.

Disaggregation of Revenue

Our revenue consists of the following categories, which aggregate into our segments - Recorded Music and Music Publishing.

	For the Three Months Ended		2019 vs. 2018	
	March 31,		\$ Change	% Change
	2019	2018		
Revenue by Type				
Digital	\$ 597	\$ 491	\$ 106	22%
Physical	130	147	(17)	-12%
Total Digital and Physical	727	638	89	14%
Artist services and expanded-rights	134	74	60	81%
Licensing	72	79	(7)	-9%
Total Recorded Music	933	791	142	18%
Performance	46	59	(13)	-22%
Digital	65	57	8	14%
Mechanical	13	20	(7)	-35%
Synchronization	31	35	(4)	-11%
Other	3	3	—	—%
Total Music Publishing	158	174	(16)	-9%
Intersegment eliminations	(1)	(2)	1	-50%
Total Revenue	\$ 1,090	\$ 963	\$ 127	13%
Revenue by Geographical Location				
U.S. Recorded Music	\$ 410	\$ 335	\$ 75	22%
U.S. Music Publishing	75	88	(13)	-15%
Total U.S.	485	423	62	15%
International Recorded Music	523	456	67	15%
International Music Publishing	83	86	(3)	-3%
Total International	606	542	64	12%
Intersegment eliminations	(1)	(2)	1	-50%
Total Revenue	\$ 1,090	\$ 963	\$ 127	13%

	For the Six Months Ended March 31,		2019 vs. 2018	
	2019	2018	\$ Change	% Change
Revenue by Type				
Digital	\$ 1,160	\$ 972	\$ 188	19%
Physical	361	370	(9)	-2%
Total Digital and Physical	1,521	1,342	179	13%
Artist services and expanded-rights	300	179	121	68%
Licensing	153	174	(21)	-12%
Total Recorded Music	1,974	1,695	279	17%
Performance	99	102	(3)	-3%
Digital	130	110	20	18%
Mechanical	28	38	(10)	-26%
Synchronization	60	62	(2)	-3%
Other	6	5	1	20%
Total Music Publishing	323	317	6	2%
Intersegment eliminations	(4)	(4)	—	—%
Total Revenue	\$ 2,293	\$ 2,008	\$ 285	14%
Revenue by Geographical Location				
U.S. Recorded Music	\$ 841	\$ 705	\$ 136	19%
U.S. Music Publishing	148	151	(3)	-2%
Total U.S.	989	856	133	16%
International Recorded Music	1,133	990	143	14%
International Music Publishing	175	166	9	5%
Total International	1,308	1,156	152	13%
Intersegment eliminations	(4)	(4)	—	—%
Total Revenue	\$ 2,293	\$ 2,008	\$ 285	14%

Recorded Music

Recorded Music mainly involves selling, marketing, distribution and licensing of recorded music produced by our artists. Recorded Music revenues are derived from four main sources, which include digital, physical, artist services and expanded rights and licensing.

Digital revenues are generated from the expanded universe of digital partners, including digital streaming services and digital download services. These licenses typically contain a single performance obligation, which is ongoing access to all intellectual property in an evolving content library, predicated on: (1) the business practice and contractual ability to remove specific content without a requirement to replace the content and without impact to minimum royalty guarantees and (2) the contracts not containing a specific listing of content subject to the license. Digital licensing contracts are generally long-term with consideration in the form of sales- and usage-based royalties that are typically received monthly. Certain contracts contain non-recoupable fixed fees or minimum guarantees, which are recoupable against royalties. Upon contract inception, the Company will assess whether a shortfall or breakage is expected (i.e., where the minimum guarantee will not be recouped through royalties) in order to determine timing of revenue recognition for the fixed fee or minimum guarantee.

For fixed fee and minimum guarantee contracts where breakage (i.e., where the minimum guarantee will not be recouped through royalties) is expected, the total transaction price (fixed fee or minimum guarantee) is recognized on a straight-line basis over the contractual term. The Company updates its assessment of the transaction price each reporting period to see if anticipated royalty earnings exceed the minimum guarantee. For contracts where breakage is not expected, royalties are recognized as revenue as sales or usage occurs based upon the licensee's usage reports and, when these reports are not available, historical data, industry information and other relevant trends.

Additionally, for certain licenses where the consideration is fixed and the intellectual property being licensed is static, revenue is recognized at the point in time when control of the licensed content is transferred to the customer.

Physical revenues are generated from the sale of physical products such as CDs, vinyl and DVDs. Revenues from the sale of physical Recorded Music products are recognized upon transfer of control to the customer, which typically occurs once the product has been shipped and the ability to direct use and obtain substantially all of the benefit from the asset have been transferred. In accordance with industry practice and as is customary in many territories, certain products, such as CDs and DVDs, are sold to customers with the right to return unsold items. Revenues from such sales are generally recognized upon shipment based on gross sales less a provision for future estimated returns.

Artist services and expanded-rights revenues are generated from artist services businesses and participations in expanded-rights associated with artists, including sponsorship, fan clubs, artist websites, merchandising, touring, concert promotion, ticketing, and artist and brand management. Artist services and expanded-rights contracts are generally short term. Revenue is recognized as or when services are provided (e.g., at time of an artist's event) assuming collectability is probable. In some cases, the Company is reliant on the artist to report revenue generating activities. For certain artist services and expanded-rights contracts, collectability is not considered probable until notification is received from the artist's management.

Licensing revenues represent royalties or fees for the right to use sound recordings in combination with visual images such as in films or television programs, television commercials and videogames. In certain territories, the Company may also receive royalties when sound recordings are performed publicly through broadcast of music on television, radio and cable, and in public spaces such as shops, workplaces, restaurants, bars and clubs. Licensing contracts are generally short term. For fixed fee contracts, revenue is recognized at the point in time when control of the licensed content is transferred to the customer. Royalty based contracts are recognized as the underlying sales or usage occurs.

Music Publishing

Music Publishing acts as a copyright owner and/or administrator of the musical compositions and generates revenues related to the exploitation of musical compositions (as opposed to recorded music). Music publishers generally receive royalties from to the use of the composition in public performances, digital and physical recordings and in combination with visual images. Music publishing revenues are derived from five main sources: mechanical, performance, synchronization, digital and other.

Performance revenues are received when the composition is performed publicly through broadcast of music on television, radio and cable, live performance at a concert or other venue (e.g., arena concerts and nightclubs), and performance of music in staged theatrical productions. Digital revenues are generated with respect to the compositions being embodied in recordings sold in digital streaming services, digital download services and digital performance. Mechanical revenues are generated with respect to the compositions embodied in recordings sold in any physical format or configuration such as CDs, vinyl and DVDs. Synchronization revenues represent the right to use the composition in combination with visual images such as in films or television programs, television commercials and videogames as well as from other uses such as in toys or novelty items and merchandise. Other revenues represent earnings for use in printed sheet music and other uses. Digital and synchronization revenue recognition is similar for both Recorded Music and Music Publishing, therefore refer to the discussion within Recorded Music.

Included in these revenue streams, excluding synchronization and other, are licenses with music societies (e.g., ASCAP, BMI, SESAC, GEMA), which are long term contracts containing a single performance obligation, which is ongoing access to all intellectual property in an evolving content library. The most common form of consideration for these contracts is sales and usage-based royalties. The music societies submit usage reports, typically with payment for royalties due, often on a quarterly or bi-annual reporting period, in arrears. Royalties are recognized as the sale or usage occurs based upon usage reports and, when these reports are not available, royalties are estimated based on historical data, such as recent royalties reported, Company specific information with respect to changes in repertoire, industry information and other relevant trends. Also included in these revenue streams are smaller, short term contracts for specified content, which generally involve a fixed fee. For fixed fee contracts, revenue is recognized at the point in time when control of the license is transferred to the customer.

The Company excludes from the measurement of transaction price all taxes assessed by governmental authorities that are both (i) imposed on and concurrent with a specific revenue-producing transaction and (ii) collected from customers.

Sales Returns and Uncollectible Accounts

In accordance with practice in the recorded music industry and as customary in many territories, certain physical revenue products (such as CDs and DVDs) are sold to customers with the right to return unsold items. Revenues from such sales are recognized when the products are shipped based on gross sales less a provision for future estimated returns.

In determining the estimate of physical product sales that will be returned, management analyzes vendor sales of product, historical return trends, current economic conditions, changes in customer demand and commercial acceptance of our products. Based on this information, management reserves a percentage of each dollar of physical product sales that provide the customer with the right of return, and records an asset for the value of the returned goods and liability for the amounts expected to be refunded.

Similarly, management evaluates accounts receivables to determine if they will ultimately be collected. In performing this evaluation, significant judgments and estimates are involved, including an analysis of specific risks on a customer-by-customer basis for larger accounts and customers and a receivables aging analysis that determines the percent that has historically been uncollected by aged category. The time between the Company issuance of an invoice and payment due date is not significant; customer payments that are not collected in advance of the transfer of promised services or goods are generally due no later than 30 days from invoice date. Based on this information, management provides a reserve for the estimated amounts believed to be uncollectible.

Based on management's analysis of sales returns, refund liabilities of \$29 million were established at March 31, 2019 and sales return reserves of \$28 million were established at September 30, 2018.

Based on management's analysis of uncollectible accounts, reserves of \$20 million and \$17 million were established at March 31, 2019 and September 30, 2018, respectively. The ratio of our receivable allowances to gross accounts receivables was 3% at March 31, 2019 and 3% at September 30, 2018.

Principal versus Agent Revenue Recognition

The Company reports revenue on a gross or net basis based on management's assessment of whether the Company acts as a principal or agent in the transaction. The determination of whether the Company acts as a principal or an agent in a transaction is based on an evaluation of whether the Company controls the good or service before transfer to the customer. When the Company concludes that it controls the good or service before transfer to the customer, the Company is considered a principal in the transaction and records revenue on a gross basis. When the Company concludes that it does not control the good or service before transfer to the customer but arranges for another entity to provide the good or service, the Company acts as an agent and records revenue on a net basis in the amount it earns for its agency service.

In the normal course of business, the Company acts as an intermediary with respect to certain payments received from third parties. For example, the Company distributes music content on behalf of third-party record labels. Based on the above guidance, the Company records the distribution of content on behalf of third-party record labels on a gross basis, subject to the terms of the contract, as the Company controls the content before transfer to the customer. Conversely, recorded music compilations distributed by other record companies where the Company has a right to participate in the profits are recorded on a net basis.

Deferred Revenue

Deferred revenue principally relates to fixed fees and minimum guarantees received in advance of the Company's performance or usage by the licensee. Reductions in deferred revenue are a result of the Company's performance under the contract or usage by the licensee.

Deferred revenue increased \$148 million during the six months ended March 31, 2019 related to cash received from our customers for fixed fees and minimum guarantees in advance of performance. Revenues of \$122 million were recognized during the six months ended March 31, 2019 related to the balance of deferred revenue at October 1, 2018. There were no other significant changes to deferred revenue during the reporting period.

Performance Obligations

The Company recognized revenue of \$18 million and \$35 million from performance obligations satisfied in previous periods for the three and six month periods ended March 31, 2019, respectively.

Wholly and partially unsatisfied performance obligations represent future revenues not yet recorded under long term intellectual property licensing contracts. Revenues expected to be recognized in the future related to performance obligations that are unsatisfied at March 31, 2019 are as follows (in millions):

	Rest of FY19	FY20	FY21	Thereafter	Total
	(in millions)				
Remaining performance obligations	\$ 96	\$ 128	\$ 91	\$ 6	\$ 321
Total	<u>\$ 96</u>	<u>\$ 128</u>	<u>\$ 91</u>	<u>\$ 6</u>	<u>\$ 321</u>

4. Acquisition of EMP

On October 10, 2018, Warner Music Group Germany Holding GmbH (“WMG Germany”), a limited liability company under the laws of Germany and an indirect subsidiary of Warner Music Group Corp., closed its previously announced acquisition (the “Acquisition”) of certain shares of E.M.P. Merchandising Handelsgesellschaft mbH, a limited liability company under the laws of Germany, all of the share capital of MIG Merchandising Investment GmbH, a limited liability company under the laws of Germany (“MIG”), certain shares of Large Popmerchandising BVBA, a limited liability company under the laws of Belgium (“Large”), and each of EMP Merchandising Handelsgesellschaft mbH and MIG’s direct and indirect subsidiaries (the “Subsidiaries” and, together with EMP Merchandising Handelsgesellschaft mbH, MIG and Large, “EMP”) from funds associated with Sycamore Partners, pursuant to the Sale and Purchase Agreement, dated as of September 11, 2018, by and between SP Merchandising Holding GmbH & Co. KG, a limited partnership under the laws of Germany, and WMG Germany (“Acquisition Agreement”). The cash consideration paid at closing of the Acquisition was approximately €166 million, which reflects an agreed enterprise value of EMP of approximately €155 million (equivalent to approximately \$180 million), as adjusted for, among other items, net debt and working capital of EMP.

The Acquisition was accounted for in accordance with ASC 805, using the acquisition method of accounting. The assets and liabilities of the Company, including identifiable intangible assets, have been measured at their fair value primarily using Level 3 inputs (see Note 13 for additional information on fair value inputs). Determining the fair value of the assets acquired and liabilities assumed requires judgment and involved the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, asset useful lives and market multiples, among other items. The use of different estimates and judgments could yield materially different results.

The excess of the purchase price, over the fair value of net assets acquired, including the amount assigned to identifiable intangible assets and deferred tax adjustments, has been recorded to goodwill. The resulting goodwill has been allocated to our Recorded Music reportable segment. The recognized goodwill will not be deductible for income tax purposes. Any impairment charges made in future periods associated with goodwill will not be tax deductible.

The table below presents (i) the preliminary estimate of the Acquisition consideration as it relates to the acquisition of EMP by WMG Germany and (ii) the preliminary allocation of the purchase price to the estimated fair values of the assets acquired and liabilities assumed on the closing date of October 10, 2018 (in millions):

Purchase Price	€	155
Preliminary Working Capital		11
Adjusted Preliminary Purchase Price	€	166
Foreign Currency Rate at October 10, 2018		1.15
Adjusted Preliminary Purchase Price in U.S. dollars	\$	190
Fair value of assets acquired and liabilities assumed		
Cash and equivalents	\$	7
Accounts receivable		3
Inventories		37
Other current assets		5
Property plant and equipment		28
Intangible assets		57
Accounts payable		(18)
Other current liabilities		(11)
Deferred revenue		(7)
Deferred tax liabilities		(18)
Other noncurrent liabilities		(2)
Fair value of assets acquired and liabilities assumed		81
Goodwill recorded		109
Total purchase price allocated	\$	190

The acquisition accounting is subject to revision based on final determinations of fair value and allocations of purchase price to the identifiable assets and liabilities acquired, in addition to the determination of the final consideration, including the determination of the final working capital adjustment pursuant to the mechanism set forth in the Acquisition Agreement.

Pro Forma Financial Information

The following unaudited pro forma information has been presented as if the Acquisition occurred on October 1, 2017. This information is based on historical results of operations, adjusted to give effect to pro forma events that are (i) directly attributable to the Acquisition; (ii) factually supportable; and (iii) expected to have a continuing impact on the Company's combined results. The pro forma information as presented below is for informational purposes only and is not indicative of the results of operations that would have been achieved if the Acquisition had taken place at the beginning of fiscal 2017.

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018	Six Months Ended March 31, 2019	Six Months Ended March 31, 2018
	(in millions)		(in millions)	
Revenue	\$ 1,090	\$ 1,015	\$ 2,298	\$ 2,142
Operating income	122	80	269	172
Net income (loss) attributable to Warner Music Group	\$ 67	\$ (6)	\$ 153	\$ (1)

Actual results related to EMP included in the Consolidated Statements of Operations for the three months ended March 31, 2019 consist of revenues of \$51 million and operating loss of \$2 million. Actual results related to EMP included in the Consolidated Statements of Operations for the six months ended March 31, 2019 relate to the transition period from October 10, 2018 to March 31, 2019 and consist of revenues of \$127 million and operating income of \$4 million.

5. Comprehensive Income (Loss)

Comprehensive income (loss), which is reported in the accompanying consolidated statements of (deficit) equity, consists of net income (loss) and other gains and losses affecting equity that, under U.S. GAAP, are excluded from net income (loss). For the Company, the components of other comprehensive income (loss) primarily consist of foreign currency translation gains and losses, minimum pension liabilities, and deferred gains and losses on financial instruments designated as hedges under ASC 815, which include foreign exchange contracts. The following summary sets forth the changes in the components of accumulated other comprehensive loss, net of related taxes of less than \$1 million:

	Foreign Currency Translation Loss (a)	Minimum Pension Liability Adjustment	Deferred Gains On Derivative Financial Instruments	Accumulated Other Comprehensive Loss, net
	(in millions)			
Balance at September 30, 2018	\$ (184)	\$ (9)	\$ 3	\$ (190)
Other comprehensive loss	(26)	—	(9)	(35)
Balance at March 31, 2019	\$ (210)	\$ (9)	\$ (6)	\$ (225)

(a) Includes historical foreign currency translation related to certain intra-entity transactions.

6. Goodwill and Intangible Assets

Goodwill

The following analysis details the changes in goodwill for each reportable segment:

	Recorded Music	Music Publishing	Total
	(in millions)		
Balance at September 30, 2018	\$ 1,228	\$ 464	\$ 1,692
Acquisitions (a)	109	—	109
Divestitures	(1)	—	(1)
Other adjustments (b)	(13)	—	(13)
Balance at March 31, 2019	\$ 1,323	\$ 464	\$ 1,787

(a) Relates to the acquisition of EMP during the six months ended March 31, 2019.

(b) Other adjustments during the six months ended March 31, 2019 represent foreign currency movements.

The Company performs its annual goodwill impairment test in accordance with ASC 350, *Intangibles—Goodwill and other* (“ASC 350”) during the fourth quarter of each fiscal year as of July 1. The Company may conduct an earlier review if events or circumstances occur that would suggest the carrying value of the Company’s goodwill may not be recoverable. No indicators of impairment were identified during the current period that required the Company to perform an interim assessment or recoverability test.

Intangible Assets

Intangible assets consist of the following:

	Weighted Average Useful Life	March 31, 2019	September 30, 2018
		(in millions)	
Intangible assets subject to amortization:			
Recorded music catalog	10 years	\$ 864	\$ 870
Music publishing copyrights	26 years	1,546	1,540
Artist and songwriter contracts	13 years	858	864
Trademarks	6 years	12	12
Other intangible assets	5 years	81	26
Total gross intangible asset subject to amortization		3,361	3,312
Accumulated amortization		(1,559)	(1,461)
Total net intangible assets subject to amortization		1,802	1,851
Intangible assets not subject to amortization:			
Trademarks and tradenames	Indefinite	153	154
Total net intangible assets		\$ 1,955	\$ 2,005

7. Debt

Debt Capitalization

Long-term debt, all of which was issued by Acquisition Corp., consists of the following:

	March 31, 2019	September 30, 2018
	(in millions)	
Revolving Credit Facility (a)	\$ —	\$ —
Senior Term Loan Facility due 2023 (b)	1,311	1,310
5.625% Senior Secured Notes due 2022 (c)	220	246
5.000% Senior Secured Notes due 2023 (d)	297	297
4.125% Senior Secured Notes due 2024 (e)	346	399
4.875% Senior Secured Notes due 2024 (f)	217	247
3.625% Senior Secured Notes due 2026 (g)	278	—
5.500% Senior Notes due 2026 (h)	321	320
Total debt (i)	<u>\$ 2,990</u>	<u>\$ 2,819</u>

- (a) Reflects \$180 million of commitments under the Revolving Credit Facility available at both March 31, 2019 and September 30, 2018, less letters of credit outstanding of approximately \$16 million at March 31, 2019 and \$8 million at September 30, 2018. There were no loans outstanding under the Revolving Credit Facility at March 31, 2019 or September 30, 2018.
- (b) Principal amount of \$1.326 billion less unamortized discount of \$4 million and unamortized deferred financing costs of \$11 million and \$12 million at March 31, 2019 and September 30, 2018, respectively.
- (c) Principal amount of \$221 million and \$248 million less unamortized deferred financing costs of \$1 million and \$2 million at March 31, 2019 and September 30, 2018 respectively.
- (d) Principal amount of \$300 million less unamortized deferred financing costs of \$3 million at both March 31, 2019 and September 30, 2018.
- (e) Face amount of €311 million and €345 million at March 31, 2019 and September 30, 2018 respectively. Above amounts represent the dollar equivalent of such note at March 31, 2019 and September 30, 2018. Principal amount of \$349 million and \$402 million at March 31, 2019 and September 30, 2018, respectively, less unamortized deferred financing costs of \$3 million and \$3 million at March 31, 2019 and September 30, 2018, respectively.
- (f) Principal amount of \$220 million and \$250 million less unamortized deferred financing costs of \$3 million and \$3 million at March 31, 2019 and September 30, 2018, respectively.
- (g) Face amount of €250 million at March 31, 2019. Above amounts represent the dollar equivalent of such note at March 31, 2019. Principal amount of \$281 million at March 31, 2019 less unamortized deferred financing costs of \$3 million at March 31, 2019.
- (h) Principal amount of \$325 million and \$325 million less unamortized deferred financing costs of \$4 million and \$5 million at March 31, 2019 and September 30, 2018, respectively.
- (i) Principal amount of debt of \$3.022 billion and \$2.851 billion less unamortized discount of \$4 million and \$4 million and unamortized deferred financing costs of \$28 million and \$28 million at March 31, 2019 and September 30, 2018, respectively.

December 2017 Senior Term Loan Credit Agreement Amendment

On December 6, 2017, Acquisition Corp. entered into an amendment (the “December 2017 Senior Term Loan Credit Agreement Amendment”) to the Senior Term Loan Credit Agreement, dated November 1, 2012, among Acquisition Corp., the guarantors party thereto, the lenders party thereto and Credit Suisse AG, as administrative agent, governing Acquisition Corp.’s senior secured term loan facility with Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto, to, among other things, reduce the pricing terms of its outstanding term loans, change certain incurrence thresholds governing the ability to incur debt and liens, change certain EBITDA add-backs and increase the thresholds above which the excess cash flow sweep is triggered. The Company recorded a loss on extinguishment of debt of approximately \$1 million, which represented the discount and unamortized deferred financing costs related to the prior tranche of debt of the lenders that was replaced.

New Revolving Credit Agreement

On January 31, 2018, the Company entered into a new revolving credit agreement (the “Revolving Credit Agreement”) for its Revolving Credit Facility, and terminated its existing revolving credit agreement (the “Old Revolving Credit Agreement”). The Revolving Credit Agreement differs from the Old Revolving Credit Agreement in that it, among other things, reduces the interest rate margin applicable to the loans, extends the maturity date thereunder, provides for the option to increase the commitments under the Company’s then existing revolving credit agreement, provides for greater flexibility to amend and extend the Company’s then existing revolving credit agreement and create additional tranches thereunder, provides for greater flexibility over future amendments, increases the springing financial maintenance covenant to 4.75:1.00 and provides that the covenant shall not be tested unless at the end of a fiscal quarter the outstanding amount of loans and drawings under letters of credit which have not been reimbursed exceeds \$54 million and aligns the other negative covenants with those of the Senior Term Loan Credit Agreement. References to “Revolving Credit Facility” below in this Note 7 are to our new revolving credit facility.

March 2018 Senior Term Loan Credit Agreement Amendment

On March 14, 2018, Acquisition Corp. incurred \$320 million of supplemental term loans (the “Supplemental Term Loans”) pursuant to an increase supplement (the “March 2018 Senior Term Loan Credit Agreement Supplement”) to the Senior Term Loan Credit Agreement, dated November 1, 2012, among Acquisition Corp., the guarantors party thereto, the lenders party thereto and Credit Suisse AG, as administrative agent, governing Acquisition Corp.’s senior secured term loan facility with Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto (as amended, the “Senior Term Loan Credit Agreement”). The principal amount outstanding under the Senior Term Loan Credit Agreement including the Supplemental Term Loans is \$1.326 billion.

Notes Offering

On March 14, 2018, Acquisition Corp. issued \$325 million in aggregate principal amount of its 5.500% Senior Notes due 2026. Acquisition Corp. used the net proceeds to pay the consideration in the tender offer for its 6.750% Senior Notes due 2022 (the “6.750% Senior Notes”) and to redeem the remaining 6.750% Senior Notes as described below.

Tender Offer and Notes Redemption

On March 14, 2018, Acquisition Corp. accepted for purchase in connection with the tender offer for the 6.750% Senior Notes that had been validly tendered and not validly withdrawn at or prior to 5:00 p.m., New York City time on March 13, 2018 (the “Expiration Time”) thereby reducing the aggregate principal amount of the 6.750% Senior Notes by \$523 million. Acquisition Corp. then issued a notice of redemption on March 14, 2018 with respect to the remaining \$112 million of 6.750% Senior Notes outstanding that were not accepted for payment pursuant to the tender offer. Following payment of the 6.750% Senior Notes tendered at or prior to the Expiration Time, Acquisition Corp. deposited with the Trustee funds of \$119 million to satisfy all obligations under the applicable indenture governing the 6.750% Senior Notes, including call premiums and interest through the date of redemption on April 15, 2018, for the remaining 6.750% Senior Notes not accepted for purchase in the tender offer. On April 15, 2018, Acquisition Corp. redeemed the remaining outstanding 6.750% Senior Notes. The Company recorded a loss on extinguishment of debt in connection with the tender offer of approximately \$23 million as a result of the partial debt redemption, which represents the premium paid on early redemption and unamortized deferred financing costs in March 2018. The Company incurred an additional loss on extinguishment of approximately \$5 million in April 2018 related to the redemption on the remaining 6.750% Senior Notes, which represents the premium paid on early redemption and unamortized deferred financing costs.

June 2018 Senior Term Loan Credit Agreement Amendment

On June 7, 2018, Acquisition Corp. entered into an amendment (the “June 2018 Senior Term Loan Credit Agreement Amendment”) to the Senior Term Loan Credit Agreement, dated November 1, 2012, among Acquisition Corp., the guarantors party thereto, the lenders party thereto and Credit Suisse AG, as administrative agent, governing Acquisition Corp.’s senior secured term loan facility with Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto, to, among other things, reduce the pricing terms of its outstanding term loans, change certain incurrence thresholds governing the ability to incur debt and liens and exclude from the definition of “Senior Secured Indebtedness” certain liens that have junior lien priority on the collateral in relation to the outstanding term loans and the relevant guarantees, as applicable. The Company recorded a loss on extinguishment of debt of approximately \$2 million, which represented the discount and unamortized deferred financing costs related to the prior tranche of debt of the lenders that was replaced.

3.625% Senior Secured Notes Offering

On October 9, 2018, Acquisition Corp. issued and sold €250 million in aggregate principal amount of 3.625% Senior Secured Notes due 2026 (the “3.625% Secured Notes”). Net proceeds of the offering were used to pay the purchase price of the acquisition of EMP, to redeem €34.5 million of the 4.125% Secured Notes (as described below), purchase \$30 million of the Company’s 4.875% Senior Secured Notes (as described below) on the open market, and to redeem \$26.55 million of the 5.625% Senior Secured Notes (as described below).

Partial Redemption of 4.125% Senior Secured Notes

On October 12, 2018, Acquisition Corp. redeemed €34.5 million aggregate principal amount of its 4.125% Senior Secured Notes due 2024 (the “4.125% Secured Notes”) using a portion of the proceeds from the offering of the 3.625% Secured Notes described above. The redemption price for the 4.125% Secured Notes was approximately €36.17 million, equivalent to 103% of the principal amount of the 4.125% Secured Notes, plus accrued but unpaid interest thereon to, but excluding, the redemption date, which was October 12, 2018. Following the partial redemption of the 4.125% Secured Notes, €310.5 million of the 4.125% Secured Notes remain outstanding. The Company recorded a loss on extinguishment of debt of approximately \$2 million, which represents the premium paid on early redemption and unamortized deferred financing costs related to the partial redemption of this note.

Open Market Purchase

On October 9, 2018, Acquisition Corp. purchased, in the open market, \$30 million aggregate principal amount of its outstanding 4.875% Senior Secured Notes due 2024 (the “4.875% Secured Notes”). The acquired notes were subsequently retired. Following retirement of the acquired notes, \$220 million of the 4.875% Secured Notes remain outstanding. The Company recorded a loss on extinguishment of debt of less than \$1 million, which represents the unamortized deferred financing costs related to the open market purchase.

Partial Redemption of 5.625% Senior Secured Notes

On November 5, 2018, Acquisition Corp. redeemed \$26.55 million aggregate principal amount of its 5.625% Senior Secured Notes due 2022 (the “5.625% Secured Notes”). The redemption price for the 5.625% Secured Notes was approximately \$27.38 million, equivalent to 102.813% of the principal amount of the 5.625% Secured Notes, plus accrued but unpaid interest thereon to, but excluding, the redemption date, which was November 5, 2018. Following the partial redemption of the 5.625% Secured Notes, \$220.95 million of the 5.625% Secured Notes remain outstanding. The Company recorded a loss on extinguishment of debt of approximately \$1 million, which represents the premium paid on early redemption and unamortized deferred financing costs related to the partial redemption of this note.

Interest Rates

The loans under the Revolving Credit Facility bear interest at Acquisition Corp.’s election at a rate equal to (i) the rate for deposits in the borrowing currency in the London interbank market (adjusted for maximum reserves) for the applicable interest period (“Revolving LIBOR”) subject to a zero floor, plus 1.75% per annum, or (ii) the base rate, which is the highest of (x) the corporate base rate established by the administrative agent from time to time, (y) 0.50% in excess of the overnight federal funds rate and (z) the one-month Revolving LIBOR plus 1.0% per annum, plus, in each case, 0.75% per annum. If there is a payment default at any time, then the interest rate applicable to overdue principal will be the rate otherwise applicable to such loan plus 2.0% per annum. Default interest will also be payable on other overdue amounts at a rate of 2.0% per annum above the amount that would apply to an alternative base rate loan.

The loans under the Senior Term Loan Facility bear interest at Acquisition Corp.’s election at a rate equal to (i) the rate for deposits in U.S. dollars in the London interbank market (adjusted for maximum reserves) for the applicable interest period (“Term Loan LIBOR”) subject to a zero floor, plus 2.125% per annum, or (ii) the base rate, which is the highest of (x) the corporate base rate established by the administrative agent as its prime rate in effect at its principal office in New York City from time to time, (y) 0.50% in excess of the overnight federal funds rate and (z) one-month Term Loan LIBOR, plus 1.00% per annum, plus, in each case, 1.125% per annum. If there is a payment default at any time, then the interest rate applicable to overdue principal and interest will be the rate otherwise applicable to such loan plus 2.0% per annum. Default interest will also be payable on other overdue amounts at a rate of 2.0% per annum above the amount that would apply to an alternative base rate loan.

The Company has entered into, and in the future may enter into, interest rate swaps to manage interest rate risk.

Maturity of Senior Term Loan Facility

The loans outstanding under the Senior Term Loan Facility mature on November 1, 2023.

Maturity of Revolving Credit Facility

The maturity date of the Revolving Credit Facility is January 31, 2023.

Maturities of Senior Notes and Senior Secured Notes

As of March 31, 2019, there are no scheduled maturities of notes until 2022, when \$221 million is scheduled to mature. Thereafter, \$1.5 billion is scheduled to mature. Refer to Note 15, “Subsequent Events”, as the \$221 million scheduled to mature in 2022 will be redeemed in May 2019.

Interest Expense, net

Total interest expense, net, was \$36 million for both the three months ended March 31, 2019 and March 31, 2018. Total interest expense, net, was \$72 million for both the six months ended March 31, 2019 and March 31, 2018. The weighted-average interest rate of the Company’s total debt was 4.7% at March 31, 2019, September 30, 2018 and March 31, 2018.

8. Commitments and Contingencies

Sirius XM

On September 11, 2013, the Company joined with Capitol Records, LLC, Sony Music Entertainment, UMG Recordings, Inc. and ABKCO Music & Records, Inc. in a lawsuit brought in California Superior Court against Sirius XM Radio Inc., alleging copyright infringement for Sirius XM's use of pre-1972 sound recordings under California law. A nation-wide settlement was reached on June 17, 2015 pursuant to which Sirius XM paid the plaintiffs, in the aggregate, \$210 million on July 29, 2015 and the plaintiffs dismissed their lawsuit with prejudice. The settlement resolves all past claims as to Sirius XM's use of pre-1972 recordings owned or controlled by the plaintiffs and enables Sirius XM, without any additional payment, to reproduce, perform and broadcast such recordings in the United States through December 31, 2017. The allocation of the settlement proceeds among the plaintiffs was determined and the settlement proceeds were distributed accordingly. This resulted in a cash distribution to the Company of \$33 million of which \$28 million was recognized in revenue during the 2016 fiscal year and \$4 million was recognized in revenue during the 2017 fiscal year. The balance of \$1 million was recognized in the first quarter of the 2018 fiscal year. The Company is sharing its allocation of the settlement proceeds with its artists on the same basis as statutory revenue from Sirius XM is shared, i.e., the artist share of our allocation will be paid to artists by SoundExchange.

As part of the settlement, plaintiffs agreed to negotiate in good faith to grant Sirius XM a license to publicly perform the plaintiffs' pre-1972 sound recordings for the five-year period running from January 1, 2018 to December 31, 2022. Pursuant to the settlement, if the parties are unable to reach an agreement on license terms, the royalty rate for each license will be determined by binding arbitration on a willing buyer/willing seller standard. On December 21, 2017, Sirius XM commenced a single arbitration against all of the plaintiffs in California through JAMS to determine the rate for the five-year period. On May 1, 2018, the Company filed a lawsuit against Sirius XM in New York state court to stay the California arbitration and to compel a separate arbitration in New York solely between Sirius XM and the Company. On August 23, 2018, the Company filed a Stipulation of Discontinuance without Prejudice as to the New York state court action after Sirius XM agreed to participate in a separate arbitration with the Company in New York if the parties were unable to reach an agreement on pre-1972 license terms. On March 28, 2019, the Company and Sirius XM entered into an agreement granting Sirius XM a license to publicly perform the Company's pre-1972 sound recordings for the five-year period running from January 1, 2018 to December 31, 2022.

Other Matters

In addition to the matters discussed above, the Company is involved in various litigation and regulatory proceedings arising in the normal course of business. Where it is determined, in consultation with counsel based on litigation and settlement risks, that a loss is probable and estimable in a given matter, the Company establishes an accrual. In the currently pending proceedings, the amount of accrual is not material. An estimate of the reasonably possible loss or range of loss in excess of the amounts already accrued cannot be made at this time due to various factors typical in contested proceedings, including (1) the results of ongoing discovery; (2) uncertain damage theories and demands; (3) a less than complete factual record; (4) uncertainty concerning legal theories and their resolution by courts or regulators; and (5) the unpredictable nature of the opposing party and its demands. However, the Company cannot predict with certainty the outcome of any litigation or the potential for future litigation. As such, the Company continuously monitors these proceedings as they develop and adjusts any accrual or disclosure as needed. Regardless of the outcome, litigation could have an adverse impact on the Company, including the Company's brand value, because of defense costs, diversion of management resources and other factors and it could have a material effect on the Company's results of operations for a given reporting period.

9. Income Taxes

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act ("Tax Act"). The Tax Act contains significant revisions to U.S. federal corporate income tax provisions, including, but not limited to, a reduction of the U.S. federal corporate statutory tax rate from 35% to 21%, a one-time transition tax on accumulated foreign earnings, an income inclusion of global intangible low-taxed income ("GILTI"), a deduction against foreign-derived intangible income ("FDII") and a new minimum tax, the base erosion anti-abuse tax ("BEAT"). In accordance with ASC 740, the Company recorded the effects of the Tax Act during the three months ended December 31, 2017.

The reduction in U.S. federal corporate statutory tax rate from 35% to 21% was effective January 1, 2018. The Tax Act requires companies with a fiscal year that begins before and ends after the effective date of the rate change to calculate a blended tax rate based on the pro rata number of days in the fiscal year before and after the effective date. As a result, for the fiscal year ending September 30, 2018, the Company's U.S. federal statutory income tax rate was 24.5%. For the fiscal year ending September 30, 2019, the Company will be subject to the U.S. federal corporate statutory tax rate of 21%.

The reduction in the U.S. federal corporate statutory tax rate required the Company to adjust its U.S. deferred tax assets and liabilities using the newly enacted tax rate of 21%. As a result, the Company recorded a U.S. income tax expense of \$23 million for the reduction of its net U.S. deferred tax assets for the year ended September 30, 2018.

The Company has not recorded any income tax liability related to the one-time transition tax on accumulated foreign earnings (“Transition Tax”) due to an overall deficit in accumulated foreign earnings. GILTI, FDII and BEAT are effective for the Company’s fiscal year ending September 30, 2019. The Company expects that the impact of GILTI offset by FDII will increase its U.S. federal tax in fiscal 2019 due primarily to the negative impact of U.S. net operating loss carryforward utilization on the allowable GILTI and FDII deductions. The Company has elected to recognize the GILTI impact in the specific period in which it occurs.

For the three and six months ended March 31, 2019, the Company recorded an income tax expense of \$48 million and \$98 million, respectively. The income tax expense for the three and six months ended March 31, 2019 is higher than the expected tax at the statutory tax rate of 21% primarily due to GILTI, non-deductible long term incentive plan, U.S. state and local taxes, foreign income taxed at rates higher than the U.S. statutory tax rate, income withholding taxes, foreign losses with no tax benefit offset by the tax benefit of a reduction in foreign income tax rates.

For the three and six months ended March 31, 2018, the Company recorded an income tax expense of \$19 million and \$71 million, respectively. The income tax expense for the three months ended March 31, 2018 is higher than the expected tax at the blended statutory tax rate of 24.5% primarily due to foreign income taxed at rates higher than the U.S. statutory tax rate, income withholding taxes, foreign losses with no tax benefit and an increase in uncertain tax positions. The income tax expense for the six months ended March 31, 2018 is greater than the expected income tax expense at the blended statutory tax rate of 24.5% primarily due to a U.S. income tax expense of \$26 million arising from a reduction in net U.S. deferred tax assets due to the change in the U.S. statutory tax rate, foreign income taxed at rates higher than the U.S. statutory tax rate, income withholding taxes, foreign losses with no tax benefit and an increase in uncertain tax positions.

The Company has determined that it is reasonably possible that the gross unrecognized tax benefits as of March 31, 2019 could decrease by up to approximately \$2 million related to various ongoing audits and settlement discussions in various foreign jurisdictions during the next twelve months.

10. Derivative Financial Instruments

The Company uses derivative financial instruments, primarily foreign currency forward exchange contracts and interest rate swaps, for the purposes of managing foreign currency exchange rate risk and interest rate risk on expected future cash flows. However, the Company may choose not to hedge certain exposures for a variety of reasons including, but not limited to, accounting considerations and the prohibitive economic cost of hedging particular exposures. There can be no assurance the hedges will offset more than a portion of the financial impact resulting from movements in foreign currency exchange or interest rates.

The Company enters into foreign currency forward exchange contracts primarily to hedge the risk that unremitted or future royalties and license fees owed to its domestic companies for the sale, or anticipated sale, of U.S.-copyrighted products abroad may be adversely affected by changes in foreign currency exchange rates. The Company focuses on managing the level of exposure to the risk of foreign currency exchange rate fluctuations on its major currencies, which include the Euro, British pound sterling, Japanese yen, Canadian dollar, Swedish krona, Australian dollar, Brazilian real, Korean won and Norwegian krone. The foreign currency forward exchange contracts related to royalties are designated and qualify as cash flow hedges under the criteria prescribed in ASC 815, *Derivatives and Hedging*. The Company records these contracts at fair value on its balance sheet and gains or losses on these contracts are deferred in equity (as a component of comprehensive loss). These deferred gains and losses are recognized in income in the period in which the related royalties and license fees being hedged are received and recognized in income. However, to the extent that any of these contracts are not considered to be perfectly effective in offsetting the change in the value of the royalties and license fees being hedged, any changes in fair value relating to the ineffective portion of these contracts are immediately recognized in the statement of operations.

The Company may at times choose to hedge foreign currency risk associated with financing transactions such as third-party debt and other balance sheet items. The foreign currency forward exchange contracts related to balance sheet items denominated in foreign currency are reviewed on a contract-by-contract basis and are designated accordingly. If these foreign currency forward exchange contracts do not qualify for hedge accounting, then the Company records these contracts at fair value on its balance sheet and the related gains and losses are immediately recognized in the statement of operations where there is an equal and offsetting entry related to the underlying exposure.

The Company has entered into, and in the future may enter into, interest rate swaps to manage interest rate risk. These instruments may offset a portion of changes in income or expense, or changes in fair value of the Company’s long-term debt. The interest rate swap instruments are designated and qualify as cash flow hedges under the criteria prescribed in ASC 815, *Derivatives and Hedging*. The Company records these contracts at fair value on its balance sheet and gains or losses on these contracts are deferred in equity (as a component of comprehensive loss).

The fair value of foreign currency forward exchange contracts is determined by using observable market transactions of spot and forward rates (i.e., Level 2 inputs) which is discussed further in Note 13. Additionally, netting provisions are provided for in existing International Swap and Derivative Association Inc. agreements in situations where the Company executes multiple contracts with the same counterparty. As a result, net assets or liabilities resulting from foreign exchange derivatives subject to these netting agreements are classified within other current assets or other current liabilities in the Company's consolidated balance sheets.

The Company's hedged interest rate transactions as of March 31, 2019 are expected to be recognized within 4 years. The fair value of interest rate swaps is based on dealer quotes of market rates (i.e., Level 2 inputs) which is discussed further in Note 13. Interest income or expense related to interest rate swaps is recognized in interest income, net in the same period as the related expense is recognized. The ineffective portions of interest rate swaps are recognized in other income/(expense), net in the period measured.

The Company monitors its positions with, and the credit quality of, the financial institutions that are party to any of its financial transactions.

As of March 31, 2019, the Company had outstanding hedge contracts for the sale of \$272 million and the purchase of \$164 million of foreign currencies at fixed rates that will be settled by September 2019. As of March 31, 2019, the Company had \$2 million of unrealized deferred losses in comprehensive income related to foreign exchange hedging. As of September 30, 2018, the Company had no outstanding hedge contracts and no deferred gains or losses in comprehensive loss related to foreign exchange hedging.

As of March 31, 2019 and September 30, 2018, the Company had outstanding \$320 million in pay-fixed receive-variable interest rate swaps with unrealized deferred losses in comprehensive income related to the interest rate swap of \$4 million and unrealized deferred gains in comprehensive income related to the interest rate swap of \$3 million, respectively.

The unrealized pre-tax losses of the Company's foreign exchange forward exchange contracts designated as cash flow hedges recorded in other comprehensive income during the six months ended March 31, 2019 was \$2 million. The unrealized pre-tax gain of the Company's foreign exchange forward contracts designated as cash flow hedges recorded in other comprehensive income during the six months ended March 31, 2018 was \$2 million.

The unrealized pre-tax losses of the Company's derivative interest rate swaps designated as cash flow hedges recorded in other comprehensive income during the six months ended March 31, 2019 was \$9 million. The pre-tax losses of the Company's derivative interest rate swaps designated as cash flow hedges recorded in other comprehensive income and the Consolidated Statement of Comprehensive Income during the six months ended March 31, 2018 was \$1 million.

The following is a summary of amounts recorded in the Consolidated Balance Sheets pertaining to the Company's designated cash flows hedges at March 31, 2019 and September 30, 2018:

	March 31, 2019 (a)	September 30, 2018 (b)
	(in millions)	
Other current assets	\$ 2	\$ —
Other current liabilities	—	—
Other noncurrent assets	—	4
Other noncurrent liabilities	5	—

(a) \$6 million and \$4 million of foreign exchange derivative contracts in asset and liability positions, respectively, and \$5 million of interest rate swap in a liability position including non-designated cash flow hedges.

(b) \$4 million of interest rate swap in an asset position.

11. Segment Information

As discussed more fully in Note 1, based on the nature of its products and services, the Company classifies its business interests into two fundamental operations: Recorded Music and Music Publishing, which also represent the reportable segments of the Company. Information as to each of these operations is set forth below. The Company evaluates performance based on several factors, of which the primary financial measure is operating income (loss) before non-cash depreciation of tangible assets and non-cash amortization of intangible assets ("OIBDA"). The Company has supplemented its analysis of OIBDA results by segment with an analysis of operating income (loss) by segment.

The accounting policies of the Company's business segments are the same as those described in the summary of significant accounting policies included elsewhere herein. The Company accounts for intersegment sales at fair value as if the sales were to third parties. While intercompany transactions are treated like third-party transactions to determine segment performance, the revenues (and corresponding expenses recognized by the segment that is counterparty to the transaction) are eliminated in consolidation, and therefore, do not themselves impact consolidated results.

	Recorded Music	Music Publishing	Corporate expenses and eliminations	Total
Three Months Ended				
March 31, 2019				
(in millions)				
Revenues	\$ 933	\$ 158	\$ (1)	\$ 1,090
Operating income (loss)	134	27	(39)	122
Amortization of intangible assets	37	18	—	55
Depreciation of property, plant and equipment	9	2	3	14
OIBDA	180	47	(36)	191
March 31, 2018				
Revenues	\$ 791	\$ 174	\$ (2)	\$ 963
Operating income (loss)	80	41	(38)	83
Amortization of intangible assets	38	17	—	55
Depreciation of property, plant and equipment	9	2	3	14
OIBDA	127	60	(35)	152
Six Months Ended				
March 31, 2019				
(in millions)				
Revenues	\$ 1,974	\$ 323	\$ (4)	\$ 2,293
Operating income (loss)	297	49	(77)	269
Amortization of intangible assets	75	34	—	109
Depreciation of property, plant and equipment	19	3	6	28
OIBDA	391	86	(71)	406
March 31, 2018				
Revenues	\$ 1,695	\$ 317	\$ (4)	\$ 2,008
Operating income (loss)	209	40	(76)	173
Amortization of intangible assets	74	34	—	108
Depreciation of property, plant and equipment	17	3	6	26
OIBDA	300	77	(70)	307

12. Additional Financial Information

Cash Interest and Taxes

The Company made interest payments of approximately \$28 million and \$34 million during the three months ended March 31, 2019 and March 31, 2018, respectively. The Company made interest payments of approximately \$70 million and \$86 million during the six months ended March 31, 2019 and March 31, 2018, respectively. The Company paid approximately \$11 million of income and withholding taxes during the three months ended March 31, 2019 and paid approximately \$9 million of income and withholding taxes during the three months ended March 31, 2018. The Company paid approximately \$18 million of income and withholding taxes during the six months ended March 31, 2019 and paid approximately \$17 million of income and withholding taxes during the six months ended March 31, 2018.

Special Cash Dividends

On January 8, 2018, the Company's Board of Directors approved a special cash dividend of \$125 million, which was paid on January 12, 2018 to stockholders of record as of January 11, 2018.

On May 7, 2018, the Company's Board of Directors approved a special cash dividend of \$300 million, which was paid on May 11, 2018 to stockholders of record as of May 7, 2018.

On August 7, 2018, the Company's Board of Directors approved a special cash dividend of \$500 million, which was paid on August 10, 2018 to stockholders of record as of August 7, 2018.

Dividend Policy

The Company's ability to pay dividends is restricted by covenants in the indentures governing our notes and in the credit agreements for our Senior Term Loan Facility and the Revolving Credit Facility.

In the first quarter of 2019, the Company instituted a regular quarterly dividend policy whereby it intends to pay a modest regular quarterly dividend in each fiscal quarter and a variable dividend for the fourth fiscal quarter in an amount commensurate with cash expected to be generated from operations in such fiscal year, in each case, after taking into account other potential uses for cash, including acquisitions, investment in our business and repayment of indebtedness. On December 20, 2018 the Company's Board of Directors approved the first dividend of \$31.25 million which was paid on January 4, 2019. On March 26, 2019, the Company's Board of Directors approved a dividend of \$31.25 million paid on April 5, 2019 and recorded as an accrual on March 31, 2019. The declaration of each dividend will continue to be at the discretion of the Company's Board of Directors.

13. Fair Value Measurements

ASC 820, *Fair Value Measurement*, defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity.

In addition to defining fair value, ASC 820 expands the disclosure requirements around fair value and establishes a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

- Level 1—inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.
- Level 2—inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3—inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models and similar techniques.

In accordance with the fair value hierarchy, described above, the following table shows the fair value of the Company's financial instruments that are required to be measured at fair value as of March 31, 2019 and September 30, 2018.

	Fair Value Measurements as of March 31, 2019			Total
	(Level 1)	(Level 2)	(Level 3)	
	(in millions)			
<i>Other Current Assets:</i>				
Foreign Currency Forward Exchange Contracts (a)	\$ —	\$ 2	\$ —	\$ 2
<i>Other Current Liabilities:</i>				
Contractual Obligations (b)	—	—	(3)	(3)
<i>Other Non-Current Assets:</i>				
Equity Method Investment (d)	—	50	—	50
<i>Other Non-Current Liabilities:</i>				
Contractual Obligations (b)	—	—	(6)	(6)
Interest Rate Swap (c)	—	(5)	—	(5)
Total	\$ —	\$ 47	\$ (9)	\$ 38

	Fair Value Measurements as of September 30, 2018			
	(Level 1)	(Level 2)	(Level 3)	Total
	(in millions)			
<i>Other Current Liabilities:</i>				
Contractual Obligations (b)	\$ —	\$ —	\$ (2)	\$ (2)
<i>Other Non-Current Assets:</i>				
Interest Rate Swap (c)	—	4	—	4
<i>Other Non-Current Liabilities:</i>				
Contractual Obligations (b)	—	—	(6)	(6)
Interest Rate Swap (c)	—	—	—	—
Total	\$ —	\$ 4	\$ (8)	\$ (4)

- (a) The fair value of foreign currency forward exchange contracts is based on dealer quotes of market forward rates and reflects the amount that the Company would receive or pay at their maturity dates for contracts involving the same currencies and maturity dates.
- (b) This represents purchase obligations and contingent consideration related to the Company's various acquisitions. This is based on a probability weighted performance approach and it is adjusted to fair value on a recurring basis and any adjustments are included as a component of operating income in the statement of operations. These amounts were mainly calculated using unobservable inputs such as future earnings performance of the Company's various acquisitions and the expected timing of the payment.
- (c) The fair value of the interest rate swap is based on dealer quotes of market forward rates and reflects the amount that the Company would receive or pay as of March 31, 2019 for contracts involving the same attributes and maturity dates.
- (d) The fair value of equity method investment represents an equity method investment acquired during the six months March 31, 2019 whereby the Company has elected the fair value option under ASC 825 – *Financial Instruments*. The valuation is based upon quoted prices in active markets and model-based valuation techniques to determine fair value.

The following table reconciles the beginning and ending balances of net assets and liabilities classified as Level 3:

	Total (in millions)
Balance at September 30, 2018	\$ (8)
Additions	(2)
Reductions	—
Payments	1
Balance at March 31, 2019	\$ (9)

The majority of the Company's non-financial instruments, which include goodwill, intangible assets, inventories, and property, plant, and equipment, are not required to be re-measured to fair value on a recurring basis. These assets are evaluated for impairment if certain triggering events occur. If such evaluation indicates that impairment exists, the asset is written down to its fair value. In addition, an impairment analysis is performed at least annually for goodwill and indefinite-lived intangible assets.

Equity Investments Without Readily Determinable Fair Value

The Company evaluates its equity investments without readily determinable fair values for impairment if factors indicate that a significant decrease in value has occurred. Beginning in October 2018, the Company prospectively adopted a new accounting standard on the accounting for equity investments that do not have readily determinable fair values. Refer to Note 2, "Summary of Significant Accounting Policies", for further details. Under the new standard, the Company has elected to use the measurement alternative to fair value that will allow these investments to be recorded at cost, less impairment, and adjusted for subsequent observable price changes. The Company did not record any impairment charges on these investments during the six months ended March 31, 2019. In addition, there were no observable price changes events that were completed during the six months ended March 31, 2019.

Fair Value of Debt

Based on the level of interest rates prevailing at March 31, 2019, the fair value of the Company's debt was \$3.043 billion. Based on the level of interest rates prevailing at September 30, 2018, the fair value of the Company's debt was \$2.862 billion. The fair value of the Company's debt instruments are determined using quoted market prices from less active markets or by using quoted market prices for instruments with identical terms and maturities; both approaches are considered a Level 2 measurement.

14. Related Party

On March 29, 2019, an affiliate of Access acquired the Ford Factory Building from an unaffiliated third party, located on 777 S. Santa Fe Avenue in Los Angeles, California. The Ford Factory is the Company's Los Angeles, California headquarters and as such, the Company is the sole tenant of the building acquired by Access. The existing lease agreement was assumed by Access upon purchase of the building and was not modified as a result of the purchase. Rental payments by the Company under the existing lease total approximately \$10.0 million per year, subject to annual fixed increases. The remaining lease term is 11 years, after which the Company may exercise a single option to extend the term of the lease for 10 years thereafter.

15. Subsequent Events

On April 16, 2019, the Company issued a conditional notice of redemption for all of its 5.625% Secured Notes due 2022 currently outstanding. Settlement of the called 5.625% Secured Notes will occur on May 16, 2019.

On April 30, 2019, Acquisition Corp. issued and sold €195 million in aggregate principal amount of additional 3.625% Senior Secured Notes due 2026 (the "Additional Notes"). The Additional Notes and the 3.625% Secured Notes will be treated as the same series for all purposes under the indenture that governs the 3.625% Secured Notes and the Additional Notes. The Company intends to use the net proceeds of the offering of the Additional Notes to repurchase, redeem or discharge any and all of the 5.625% Secured Notes due 2022 currently outstanding and for general corporate purposes.

WARNER MUSIC GROUP CORP.

**Supplementary Information
Consolidating Financial Statements**

The Company is the direct parent of Holdings, which is the direct parent of Acquisition Corp. As of March 31, 2019, Acquisition Corp. had issued and outstanding the 5.625% Senior Secured Notes due 2022, the 5.00% Senior Secured Notes due 2023, the 4.125% Senior Secured Notes due 2024, the 4.875% Senior Secured Notes due 2024, the 3.625% Senior Secured Notes due 2026 and the 5.50% Senior Notes due 2026 (together, the “Acquisition Corp. Notes”).

The Acquisition Corp. Notes are guaranteed by the Company and, in addition, are guaranteed by all of Acquisition Corp.’s domestic wholly-owned subsidiaries. The secured notes are guaranteed on a senior secured basis and the unsecured notes are guaranteed on an unsecured senior basis. The Company’s guarantee of the Acquisition Corp. Notes is full and unconditional. The guarantee of the Acquisition Corp. Notes by Acquisition Corp.’s domestic, wholly-owned subsidiaries is full, unconditional and joint and several. The following condensed consolidating financial statements are also presented for the information of the holders of the Acquisition Corp. Notes and present the results of operations, financial position and cash flows of (i) Acquisition Corp., which is the issuer of the Acquisition Corp. Notes, (ii) the guarantor subsidiaries of Acquisition Corp., (iii) the non-guarantor subsidiaries of Acquisition Corp. and (iv) the eliminations necessary to arrive at the information for Acquisition Corp. on a consolidated basis. Investments in consolidated subsidiaries are presented under the equity method of accounting. There are no restrictions on Acquisition Corp.’s ability to obtain funds from any of its wholly-owned subsidiaries through dividends, loans or advances.

The Company and Holdings are holding companies that conduct substantially all of their business operations through Acquisition Corp. Accordingly, the ability of the Company and Holdings to obtain funds from their subsidiaries is restricted by the indentures for the Acquisition Corp. Notes and the credit agreements for the Acquisition Corp. Senior Credit Facilities, including the Revolving Credit Facility and Senior Term Loan Facility.

Consolidating Balance Sheet (Unaudited)
March 31, 2019

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
(in millions)									
Assets:									
Current assets:									
Cash and equivalents	\$ 8	\$ 252	\$ 210	\$ —	\$ 470	\$ —	\$ —	\$ —	\$ 470
Accounts receivable, net	—	358	423	—	781	—	—	—	781
Inventories	—	13	52	—	65	—	—	—	65
Royalty advances expected to be recouped within one year	—	95	56	—	151	—	—	—	151
Prepaid and other current assets	—	14	43	—	57	—	—	—	57
Total current assets	8	732	784	—	1,524	—	—	—	1,524
Due from (to) parent companies	480	(385)	(95)	—	—	—	—	—	—
Investments in and advances to consolidated subsidiaries	2,401	2,283	—	(4,684)	—	790	790	(1,580)	—
Royalty advances expected to be recouped after one year	—	115	69	—	184	—	—	—	184
Property, plant and equipment, net	—	197	98	—	295	—	—	—	295
Goodwill	—	1,370	417	—	1,787	—	—	—	1,787
Intangible assets subject to amortization, net	—	918	884	—	1,802	—	—	—	1,802
Intangible assets not subject to amortization	—	71	82	—	153	—	—	—	153
Deferred tax assets, net	—	—	7	—	7	—	—	—	7
Other assets	6	115	29	—	150	—	—	—	150
Total assets	<u>\$ 2,895</u>	<u>\$ 5,416</u>	<u>\$ 2,275</u>	<u>\$ (4,684)</u>	<u>\$ 5,902</u>	<u>\$ 790</u>	<u>\$ 790</u>	<u>\$ (1,580)</u>	<u>\$ 5,902</u>
Liabilities and Deficit:									
Current liabilities:									
Accounts payable	\$ —	\$ 168	\$ 77	\$ —	\$ 245	\$ —	\$ —	\$ —	\$ 245
Accrued royalties	6	792	711	—	1,509	—	—	—	1,509
Accrued liabilities	—	218	191	—	409	—	—	—	409
Accrued interest	32	—	—	—	32	—	—	—	32
Deferred revenue	—	54	116	—	170	—	—	—	170
Other current liabilities	—	44	109	—	153	—	—	—	153
Total current liabilities	38	1,276	1,204	—	2,518	—	—	—	2,518
Long-term debt	2,990	—	—	—	2,990	—	—	—	2,990
Deferred tax liabilities, net	—	49	181	—	230	—	—	—	230
Other noncurrent liabilities	7	169	108	—	284	—	—	—	284
Total liabilities	<u>3,035</u>	<u>1,494</u>	<u>1,493</u>	<u>—</u>	<u>6,022</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,022</u>
Total Warner Music Group Corp. (deficit) equity	(140)	3,918	766	(4,684)	(140)	790	790	(1,580)	(140)
Noncontrolling interest	—	4	16	—	20	—	—	—	20
Total equity	(140)	3,922	782	(4,684)	(120)	790	790	(1,580)	(120)
Total liabilities and equity	<u>\$ 2,895</u>	<u>\$ 5,416</u>	<u>\$ 2,275</u>	<u>\$ (4,684)</u>	<u>\$ 5,902</u>	<u>\$ 790</u>	<u>\$ 790</u>	<u>\$ (1,580)</u>	<u>\$ 5,902</u>

Consolidating Balance Sheet
September 30, 2018

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
(in millions)									
Assets:									
Current assets:									
Cash and equivalents	\$ —	\$ 169	\$ 345	\$ —	\$ 514	\$ —	\$ —	\$ —	\$ 514
Accounts receivable, net	—	262	185	—	447	—	—	—	447
Inventories	—	18	24	—	42	—	—	—	42
Royalty advances expected to be recouped within one year	—	79	44	—	123	—	—	—	123
Prepaid and other current assets	—	15	35	—	50	—	—	—	50
Total current assets	—	543	633	—	1,176	—	—	—	1,176
Due from (to) parent companies	488	(214)	(274)	—	—	—	—	—	—
Investments in and advances to consolidated subsidiaries	2,018	2,192	—	(4,210)	—	675	675	(1,350)	—
Royalty advances expected to be recouped after one year	—	93	60	—	153	—	—	—	153
Property, plant and equipment, net	—	155	74	—	229	—	—	—	229
Goodwill	—	1,370	322	—	1,692	—	—	—	1,692
Intangible assets subject to amortization, net	—	956	895	—	1,851	—	—	—	1,851
Intangible assets not subject to amortization	—	71	83	—	154	—	—	—	154
Deferred tax assets, net	—	—	11	—	11	—	—	—	11
Other assets	12	55	11	—	78	—	—	—	78
Total assets	<u>\$ 2,518</u>	<u>\$ 5,221</u>	<u>\$ 1,815</u>	<u>\$ (4,210)</u>	<u>\$ 5,344</u>	<u>\$ 675</u>	<u>\$ 675</u>	<u>\$ (1,350)</u>	<u>\$ 5,344</u>
Liabilities and Deficit:									
Current liabilities:									
Accounts payable	\$ —	\$ 200	\$ 81	\$ —	\$ 281	\$ —	\$ —	\$ —	\$ 281
Accrued royalties	—	869	527	—	1,396	—	—	—	1,396
Accrued liabilities	—	195	228	—	423	—	—	—	423
Accrued interest	31	—	—	—	31	—	—	—	31
Deferred revenue	—	94	114	—	208	—	—	—	208
Other current liabilities	—	2	32	—	34	—	—	—	34
Total current liabilities	31	1,360	982	—	2,373	—	—	—	2,373
Long-term debt	2,819	—	—	—	2,819	—	—	—	2,819
Deferred tax liabilities, net	—	3	162	—	165	—	—	—	165
Other noncurrent liabilities	2	197	108	—	307	—	—	—	307
Total liabilities	<u>2,852</u>	<u>1,560</u>	<u>1,252</u>	<u>—</u>	<u>5,664</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,664</u>
Total Warner Music Group Corp. (deficit) equity	(334)	3,656	554	(4,210)	(334)	675	675	(1,350)	(334)
Noncontrolling interest	—	5	9	—	14	—	—	—	14
Total equity	(334)	3,661	563	(4,210)	(320)	675	675	(1,350)	(320)
Total liabilities and equity	<u>\$ 2,518</u>	<u>\$ 5,221</u>	<u>\$ 1,815</u>	<u>\$ (4,210)</u>	<u>\$ 5,344</u>	<u>\$ 675</u>	<u>\$ 675</u>	<u>\$ (1,350)</u>	<u>\$ 5,344</u>

Consolidating Statement of Operations (Unaudited)
For The Three Months Ended March 31, 2019

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Revenues	\$ —	\$ 461	\$ 672	\$ (43)	\$ 1,090	\$ —	\$ —	\$ —	\$ 1,090
Costs and expenses:									
Cost of revenue	—	(214)	(391)	46	(559)	—	—	—	(559)
Selling, general and administrative expenses	—	(186)	(166)	(2)	(354)	—	—	—	(354)
Amortization of intangible assets	—	(25)	(30)	—	(55)	—	—	—	(55)
Total costs and expenses	—	(425)	(587)	44	(968)	—	—	—	(968)
Operating income	—	36	85	1	122	—	—	—	122
Loss on extinguishment of debt	—	—	—	—	—	—	—	—	—
Interest (expense) income, net	(31)	1	(6)	—	(36)	—	—	—	(36)
Equity gains from equity method investments	130	34	—	(164)	—	67	67	(134)	—
Other income (expense), net	16	51	(38)	—	29	—	—	—	29
Income before income taxes	115	122	41	(163)	115	67	67	(134)	115
Income tax expense	(48)	(49)	(26)	75	(48)	—	—	—	(48)
Net income	67	73	15	(88)	67	67	67	(134)	67
Less: income attributable to noncontrolling interest	—	—	—	—	—	—	—	—	—
Net income attributable to Warner Music Group Corp.	<u>\$ 67</u>	<u>\$ 73</u>	<u>\$ 15</u>	<u>\$ (88)</u>	<u>\$ 67</u>	<u>\$ 67</u>	<u>\$ 67</u>	<u>\$ (134)</u>	<u>\$ 67</u>

Consolidating Statement of Operations (Unaudited)
For The Three Months Ended March 31, 2018

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Revenues	\$ —	\$ 535	\$ 549	\$ (121)	\$ 963	\$ —	\$ —	\$ —	\$ 963
Costs and expenses:									
Cost of revenue	—	(242)	(327)	81	(488)	—	—	—	(488)
Selling, general and administrative expenses	—	(244)	(135)	42	(337)	—	—	—	(337)
Amortization of intangible assets	—	(23)	(32)	—	(55)	—	—	—	(55)
Total costs and expenses	—	(509)	(494)	123	(880)	—	—	—	(880)
Operating income	—	26	55	2	83	—	—	—	83
Loss on extinguishment of debt	(23)	—	—	—	(23)	—	—	—	(23)
Interest expense, net	(31)	—	(5)	—	(36)	—	—	—	(36)
Equity gains (losses) from equity method investments	66	33	—	(99)	—	(3)	(3)	6	—
Other expense, net	4	(1)	(9)	—	(6)	—	—	—	(6)
Income (loss) before income taxes	16	58	41	(97)	18	(3)	(3)	6	18
Income tax expense	(19)	(18)	(18)	36	(19)	—	—	—	(19)
Net (loss) income	(3)	40	23	(61)	(1)	(3)	(3)	6	(1)
Less: income attributable to noncontrolling interest	—	(1)	(1)	—	(2)	—	—	—	(2)
Net (loss) income attributable to Warner Music Group Corp.	<u>\$ (3)</u>	<u>\$ 39</u>	<u>\$ 22</u>	<u>\$ (61)</u>	<u>\$ (3)</u>	<u>\$ (3)</u>	<u>\$ (3)</u>	<u>\$ 6</u>	<u>\$ (3)</u>

Consolidating Statement of Operations (Unaudited)
For The Six Months Ended March 31, 2019

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated (in millions)	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
Revenues	\$ —	\$ 942	\$ 1,526	\$ (175)	\$ 2,293	\$ —	\$ —	\$ —	\$ 2,293
Costs and expenses:									
Cost of revenue	—	(437)	(896)	148	(1,185)	—	—	—	(1,185)
Selling, general and administrative expenses	—	(375)	(383)	28	(730)	—	—	—	(730)
Amortization of intangible assets	—	(50)	(59)	—	(109)	—	—	—	(109)
Total costs and expenses	—	(862)	(1,338)	176	(2,024)	—	—	—	(2,024)
Operating income	—	80	188	1	269	—	—	—	269
Loss on extinguishment of debt	(3)	—	—	—	(3)	—	—	—	(3)
Interest (expense) income, net	(62)	2	(12)	—	(72)	—	—	—	(72)
Equity gains from equity method investments	302	143	—	(445)	—	153	153	(306)	—
Other income (expense), net	14	70	(27)	—	57	—	—	—	57
Income before income taxes	251	295	149	(444)	251	153	153	(306)	251
Income tax expense	(98)	(94)	(50)	144	(98)	—	—	—	(98)
Net income	153	201	99	(300)	153	153	153	(306)	153
Less: income attributable to noncontrolling interest	—	—	—	—	—	—	—	—	—
Net income attributable to Warner Music Group Corp.	<u>\$ 153</u>	<u>\$ 201</u>	<u>\$ 99</u>	<u>\$ (300)</u>	<u>\$ 153</u>	<u>\$ 153</u>	<u>\$ 153</u>	<u>\$ (306)</u>	<u>\$ 153</u>

Consolidating Statement of Operations (Unaudited)
For The Six Months Ended March 31, 2018

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated (in millions)	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
Revenues	\$ —	\$ 1,082	\$ 1,170	\$ (244)	\$ 2,008	\$ —	\$ —	\$ —	\$ 2,008
Costs and expenses:									
Cost of revenue	—	(499)	(720)	162	(1,057)	—	—	—	(1,057)
Selling, general and administrative expenses	—	(479)	(273)	82	(670)	—	—	—	(670)
Amortization of intangible assets	—	(47)	(61)	—	(108)	—	—	—	(108)
Total costs and expenses	—	(1,025)	(1,054)	244	(1,835)	—	—	—	(1,835)
Operating income	—	57	116	—	173	—	—	—	173
Loss on extinguishment of debt	(24)	—	—	—	(24)	—	—	—	(24)
Interest (expense) income, net	(60)	1	(13)	—	(72)	—	—	—	(72)
Equity gains from equity method investments	156	76	—	(232)	—	1	1	(2)	—
Other income (expense), net	—	9	(11)	—	(2)	—	—	—	(2)
Income before income taxes	72	143	92	(232)	75	1	1	(2)	75
Income tax expense	(71)	(69)	(28)	97	(71)	—	—	—	(71)
Net income	1	74	64	(135)	4	1	1	(2)	4
Less: income attributable to noncontrolling interest	—	(1)	(2)	—	(3)	—	—	—	(3)
Net income attributable to Warner Music Group Corp.	<u>\$ 1</u>	<u>\$ 73</u>	<u>\$ 62</u>	<u>\$ (135)</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ (2)</u>	<u>\$ 1</u>

Consolidating Statement of Comprehensive Income (Unaudited)
For The Three Months Ended March 31, 2019

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Net income	\$ 67	\$ 73	\$ 15	\$ (88)	\$ 67	\$ 67	\$ 67	\$ (134)	\$ 67
Other comprehensive (loss) income, net of tax:									
Foreign currency adjustment	(10)	—	10	(10)	(10)	(13)	(13)	26	(10)
Deferred loss on derivatives	(3)	—	—	—	(3)	(3)	(3)	6	(3)
Other comprehensive (loss) income, net of tax:	(13)	—	10	(10)	(13)	(16)	(16)	32	(13)
Total comprehensive income	54	73	25	(98)	54	51	51	(102)	54
Less: income attributable to noncontrolling interest	—	—	—	—	—	—	—	—	—
Comprehensive income attributable to Warner Music Group Corp.	<u>\$ 54</u>	<u>\$ 73</u>	<u>\$ 25</u>	<u>\$ (98)</u>	<u>\$ 54</u>	<u>\$ 51</u>	<u>\$ 51</u>	<u>\$ (102)</u>	<u>\$ 54</u>

Consolidating Statement of Comprehensive Income (Unaudited)
For The Three Months Ended March 31, 2018

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Net (loss) income	\$ (3)	\$ 40	\$ 23	\$ (61)	\$ (1)	\$ (3)	\$ (3)	\$ 6	\$ (1)
Other comprehensive income (loss), net of tax:									
Foreign currency adjustment	9	—	(9)	9	9	9	9	(18)	9
Deferred gains on derivative financial instruments	1	—	1	(1)	1	1	1	(2)	1
Other comprehensive income (loss), net of tax:	10	—	(8)	8	10	10	10	(20)	10
Total comprehensive income	7	40	15	(53)	9	7	7	(14)	9
Less: income attributable to noncontrolling interest	—	(1)	(1)	—	(2)	—	—	—	(2)
Comprehensive income attributable to Warner Music Group Corp.	<u>\$ 7</u>	<u>\$ 39</u>	<u>\$ 14</u>	<u>\$ (53)</u>	<u>\$ 7</u>	<u>\$ 7</u>	<u>\$ 7</u>	<u>\$ (14)</u>	<u>\$ 7</u>

Consolidating Statement of Comprehensive Income (Unaudited)
For The Six Months Ended March 31, 2019

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated (in millions)	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
Net income	\$ 153	\$ 201	\$ 99	\$ (300)	\$ 153	\$ 153	\$ 153	\$ (306)	\$ 153
Other comprehensive (loss) income, net of tax:									
Foreign currency adjustment	(26)	—	26	(26)	(26)	(29)	(29)	58	(26)
Deferred losses on derivative financial instruments	(9)	—	(2)	2	(9)	(9)	(9)	18	(9)
Other comprehensive (loss) income, net of tax:	(35)	—	24	(24)	(35)	(38)	(38)	76	(35)
Total comprehensive income	118	201	123	(324)	118	115	115	(230)	118
Less: income attributable to noncontrolling interest	—	—	—	—	—	—	—	—	—
Comprehensive income attributable to Warner Music Group Corp.	<u>\$ 118</u>	<u>\$ 201</u>	<u>\$ 123</u>	<u>\$ (324)</u>	<u>\$ 118</u>	<u>\$ 115</u>	<u>\$ 115</u>	<u>\$ (230)</u>	<u>\$ 118</u>

Consolidating Statement of Comprehensive Income (Unaudited)
For The Six Months Ended March 31, 2018

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated (in millions)	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
Net income	\$ 1	\$ 74	\$ 64	\$ (135)	\$ 4	\$ 1	\$ 1	\$ (2)	\$ 4
Other comprehensive income (loss), net of tax:									
Foreign currency adjustment	18	—	(18)	18	18	18	18	(36)	18
Deferred gain on derivative financial instruments	2	—	—	—	2	2	2	(4)	2
Other comprehensive income (loss), net of tax:	20	—	(18)	18	20	20	20	(40)	20
Total comprehensive income	21	74	46	(117)	24	21	21	(42)	24
Less: income attributable to noncontrolling interest	—	(1)	(2)	—	(3)	—	—	—	(3)
Comprehensive income attributable to Warner Music Group Corp.	<u>\$ 21</u>	<u>\$ 73</u>	<u>\$ 44</u>	<u>\$ (117)</u>	<u>\$ 21</u>	<u>\$ 21</u>	<u>\$ 21</u>	<u>\$ (42)</u>	<u>\$ 21</u>

Consolidating Statement of Cash Flows (Unaudited)
For The Six Months Ended March 31, 2019

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated (in millions)	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
Cash flows from operating activities									
Net income	\$ 153	\$ 201	\$ 99	\$ (300)	\$ 153	\$ 153	\$ 153	\$ (306)	\$ 153
Adjustments to reconcile net income to net cash provided by operating activities:									
Depreciation and amortization	—	68	69	—	137	—	—	—	137
Unrealized gains and remeasurement of foreign denominated loans	(20)	(5)	—	1	(24)	—	—	—	(24)
Deferred income taxes	—	—	27	—	27	—	—	—	27
Loss on extinguishment of debt	3	—	—	—	3	—	—	—	3
Net gain on investments	—	(30)	(2)	—	(32)	—	—	—	(32)
Non-cash interest expense	3	—	—	—	3	—	—	—	3
Equity-based compensation expense	—	14	—	—	14	—	—	—	14
Equity gains, including distributions	(302)	(143)	—	445	—	(153)	(153)	306	—
Changes in operating assets and liabilities:									
Accounts receivable	—	(16)	(74)	—	(90)	—	—	—	(90)
Inventories	—	4	9	—	13	—	—	—	13
Royalty advances	—	(37)	(24)	—	(61)	—	—	—	(61)
Accounts payable and accrued liabilities	—	218	(172)	(146)	(100)	—	—	—	(100)
Royalty payables	6	(93)	133	—	46	—	—	—	46
Accrued interest	1	—	—	—	1	—	—	—	1
Deferred revenue	—	(44)	25	—	(19)	—	—	—	(19)
Other balance sheet changes	4	41	(17)	—	28	—	—	—	28
Net cash (used in) provided by operating activities	(152)	178	73	—	99	—	—	—	99
Cash flows from investing activities									
Acquisition of music publishing rights, net	—	(11)	(5)	—	(16)	—	—	—	(16)
Capital expenditures	—	(50)	(9)	—	(59)	—	—	—	(59)
Investments and acquisitions of businesses, net	—	(26)	(192)	—	(218)	—	—	—	(218)
Proceeds from the sale of investments	—	—	—	—	—	—	—	—	—
Advances from issuer	(24)	—	—	24	—	—	—	—	—
Net cash used in investing activities	(24)	(87)	(206)	24	(293)	—	—	—	(293)
Cash flows from financing activities									
Proceeds from issuance of Acquisition Corp. 3.625% Senior Notes due 2026	287	—	—	—	287	—	—	—	287
Repayment of Acquisition Corp. 4.125% Senior Secured Notes	(40)	—	—	—	(40)	—	—	—	(40)
Repayment of Acquisition Corp. 4.875% Senior Secured Notes	(30)	—	—	—	(30)	—	—	—	(30)
Repayment of Acquisition Corp. 5.625% Senior Secured Notes	(27)	—	—	—	(27)	—	—	—	(27)
Call premiums paid on and redemption deposit for early redemption of debt	(2)	—	—	—	(2)	—	—	—	(2)
Deferred financing costs paid	(4)	—	—	—	(4)	—	—	—	(4)
Distribution to noncontrolling interest holder	—	(1)	(1)	—	(2)	—	—	—	(2)
Dividends paid	—	(31)	—	—	(31)	—	—	—	(31)
Change in due to (from) issuer	—	24	—	(24)	—	—	—	—	—
Net cash provided by (used in) financing activities	184	(8)	(1)	(24)	151	—	—	—	151
Effect of exchange rate changes on cash and equivalents	—	—	(1)	—	(1)	—	—	—	(1)
Net increase (decrease) in cash and equivalents	8	83	(135)	—	(44)	—	—	—	(44)
Cash and equivalents at beginning of period	—	169	345	—	514	—	—	—	514
Cash and equivalents at end of period	\$ 8	\$ 252	\$ 210	\$ —	\$ 470	\$ —	\$ —	\$ —	\$ 470

Consolidating Statement of Cash Flows (Unaudited)
For The Six Months Ended March 31, 2018

	WMG Acquisition Corp. (issuer)		Guarantor Subsidiaries		Non- Guarantor Subsidiaries		Eliminations		WMG Acquisition Corp. Consolidated		WMG Holdings Corp.		Warner Music Group Corp.		Eliminations		Warner Music Group Corp. Consolidated	
	(in millions)																	
Cash flows from operating activities																		
Net income	\$	1	\$	74	\$	64	\$	(135)	\$	4	\$	1	\$	1	\$	(2)	\$	4
Adjustments to reconcile net income to net cash provided by operating activities:																		
Depreciation and amortization		—		67		67		—		134		—		—		—		134
Unrealized losses (gains) and remeasurement of foreign denominated loans		17		3		(9)		—		11		—		—		—		11
Deferred income taxes		—		—		38		—		38		—		—		—		38
Loss on extinguishment of debt		24		—		—		—		24		—		—		—		24
Net gain on divestitures and investments		—		(7)		—		—		(7)		—		—		—		(7)
Non-cash interest expense		3		—		—		—		3		—		—		—		3
Equity-based compensation expense		—		27		—		—		27		—		—		—		27
Equity gains, including distributions		(156)		(76)		—		232		—		(1)		(1)		2		—
Changes in operating assets and liabilities:																		
Accounts receivable		—		(16)		1		—		(15)		—		—		—		(15)
Inventories		—		(1)		2		—		1		—		—		—		1
Royalty advances		—		(20)		8		—		(12)		—		—		—		(12)
Accounts payable and accrued liabilities		—		101		(104)		(97)		(100)		—		—		—		(100)
Royalty payables		—		48		20		—		68		—		—		—		68
Accrued interest		(14)		—		—		—		(14)		—		—		—		(14)
Deferred revenue		—		9		(25)		—		(16)		—		—		—		(16)
Other balance sheet changes		(4)		43		(49)		—		(10)		—		—		—		(10)
Net cash (used in) provided by operating activities		(129)		252		13		—		136		—		—		—		136
Cash flows from investing activities																		
Acquisition of music publishing rights, net		—		(4)		(1)		—		(5)		—		—		—		(5)
Capital expenditures		—		(23)		(6)		—		(29)		—		—		—		(29)
Investments and acquisitions of businesses, net		—		(6)		—		—		(6)		—		—		—		(6)
Proceeds from the sale of investments		—		12		—		—		12		—		—		—		12
Advances from issuer		151		—		—		(151)		—		—		—		—		—
Net cash provided by (used in) investing activities		151		(21)		(7)		(151)		(28)		—		—		—		(28)
Cash flows from financing activities																		
Proceeds from issuance of Acquisition Corp. 5.50% Senior Notes		325		—		—		—		325		—		—		—		325
Proceeds from supplement of Acquisition Corp. Senior Term Loan Facility		320		—		—		—		320		—		—		—		320
Repayment of redemption deposit for Acquisition Corp. 6.75% Senior Notes		(635)		—		—		—		(635)		—		—		—		(635)
Call premiums paid on and redemption deposit for early redemption of debt		(23)		—		—		—		(23)		—		—		—		(23)
Deferred financing costs paid		(9)		—		—		—		(9)		—		—		—		(9)
Distribution to noncontrolling interest holder		—		—		(2)		—		(2)		—		—		—		(2)
Dividends paid		—		(98)		(27)		—		(125)		—		—		—		(125)
Change in due to (from) issuer		—		(151)		—		151		—		—		—		—		—
Net cash (used in) provided by financing activities		(22)		(249)		(29)		151		(149)		—		—		—		(149)
Effect of exchange rate changes on cash and equivalents		—		—		6		—		6		—		—		—		6
Net decrease in cash and equivalents		—		(18)		(17)		—		(35)		—		—		—		(35)
Cash and equivalents at beginning of period		—		347		300		—		647		—		—		—		647
Cash and equivalents at end of period	\$	—	\$	329	\$	283	\$	—	\$	612	\$	—	\$	—	\$	—	\$	612

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our results of operations and financial condition with the unaudited interim financial statements included elsewhere in this Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2019 (the "Quarterly Report").

"SAFE HARBOR" STATEMENT UNDER PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Quarterly Report includes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical facts included in this Quarterly Report, including, without limitation, statements regarding our future financial position, business strategy, cost savings, industry trends and plans and objectives of management for future operations, are forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "estimate," "anticipate," "believe" or "continue" or the negative thereof or variations thereon or similar terminology. Such statements include, among others, our ability to compete in the highly competitive markets in which we operate, statements regarding our ability to develop talent and attract future talent, our ability to reduce future capital expenditures, our ability to monetize our music-based content, including through new distribution channels and formats to capitalize on the growth areas of the music industry, our ability to effectively deploy our capital, the development of digital music and the effect of digital distribution channels on our business, including whether we will be able to achieve higher margins from digital sales, the success of strategic actions we are taking to accelerate our transformation as we redefine our role in the music industry, the effectiveness of our ongoing efforts to reduce overhead expenditures and manage our variable and fixed cost structure and our ability to generate expected cost savings from such efforts, our success in limiting piracy, the growth of the music industry and the effect of our and the music industry's efforts to combat piracy on the industry, our intention to pay dividends or repurchase or retire our outstanding debt or notes in open market purchases, privately or otherwise, the impact on us of potential strategic transactions, our ability to fund our future capital needs and the effect of litigation on us. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to have been correct.

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in this Quarterly Report. Additionally, important factors could cause our actual results to differ materially from the forward-looking statements we make in this Quarterly Report. As stated elsewhere in this Quarterly Report, such risks, uncertainties and other important factors include, among others:

- the failure of the digital portion of the global recorded music industry to grow or grow at a significant rate to offset declines in the physical portion of the global recorded music industry;
- downward pressure on our pricing and our profit margins and reductions in shelf space;
- our ability to identify, sign and retain artists and songwriters and the existence or absence of superstar releases;
- threats to our business associated with digital piracy;
- the significant threat posed to our business and the music industry by organized industrial piracy;
- the popular demand for particular recording artists and/or songwriters and albums and the timely completion of albums by major recording artists and/or songwriters;
- the diversity and quality of our portfolio of songwriters;
- the diversity and quality of our album releases;
- the impact of legitimate channels for digital distribution of our creative content;
- our dependence on a limited number of digital music services for the online sale of our music recordings and their ability to significantly influence the pricing structure for online music stores;
- our involvement in intellectual property litigation;
- our ability to continue to enforce our intellectual property rights in digital environments;
- the ability to develop a successful business model applicable to a digital environment and to enter into artist services and expanded-rights deals with recording artists in order to broaden our revenue streams in growing segments of the music business;

- the impact of heightened and intensive competition in the recorded music and music publishing businesses and our inability to execute our business strategy;
- risks associated with our non-U.S. operations, including limited legal protections of our intellectual property rights and restrictions on the repatriation of capital;
- significant fluctuations in our operations, cash flows and valuation of our common stock from period to period;
- our inability to compete successfully in the highly competitive markets in which we operate;
- trends, developments or other events in some foreign countries in which we operate;
- local economic conditions in the countries in which we operate;
- our failure to attract and retain our executive officers and other key personnel;
- a significant portion of our revenues are subject to rate regulation either by government entities or by local third-party collection societies throughout the world and rates on other income streams may be set by governmental proceedings, which may limit our profitability;
- an impairment in the carrying value of goodwill or other intangible and long-lived assets;
- unfavorable currency exchange rate fluctuations;
- our failure to have full control and ability to direct the operations we conduct through joint ventures;
- legislation limiting the terms by which an individual can be bound under a “personal services” contract;
- a potential loss of catalog if it is determined that recording artists have a right to recapture rights in their recordings under the U.S. Copyright Act;
- trends that affect the end uses of our musical compositions (which include uses in broadcast radio and television, film and advertising businesses);
- the growth of other products that compete for the disposable income of consumers;
- the impact of, and risks inherent in, acquisitions or business combinations;
- risks inherent to our outsourcing of information technology (“IT”) infrastructure and certain finance and accounting functions;
- our ability to maintain the security of information relating to our customers, employees and vendors and our music-based content;
- the fact that we have engaged in substantial restructuring activities in the past, and may need to implement further restructurings in the future and our restructuring efforts may not be successful or generate expected cost-savings;
- the impact of our substantial leverage on our ability to raise additional capital to fund our operations, on our ability to react to changes in the economy or our industry and on our ability to meet our obligations under our indebtedness;
- the ability to generate sufficient cash to service all of our indebtedness, and the risk that we may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful;
- the fact that our debt agreements contain restrictions that limit our flexibility in operating our business;
- our indebtedness levels, and the fact that we may be able to incur substantially more indebtedness, which may increase the risks created by our substantial indebtedness;
- the significant amount of cash required to service our indebtedness and the ability to generate cash or refinance indebtedness as it becomes due depends on many factors, some of which are beyond our control;
- risks of downgrade, suspension or withdrawal of the rating assigned by a rating agency to us could impact our cost of capital;
- risks relating to Access Industries, Inc. (“Access”), which, together with its affiliates, indirectly owns all of our outstanding capital stock, and controls our company and may have conflicts of interest with the holders of our debt or us in the future. Access may also enter into, or cause us to enter into, strategic transactions that could change the nature or structure of our business, capital structure or credit profile;

- risks related to evolving regulations concerning data privacy which might result in increased regulation and different industry standards;
- changes in law and government regulations, including as a result of the Tax Cuts and Jobs Act; and
- risks related to other factors discussed under “Risk Factors” of this Quarterly Report and in our Annual Report on Form 10-K for the fiscal year ended September 30, 2018.

There may be other factors not presently known to us or which we currently consider to be immaterial that could cause our actual results to differ materially from those projected in any forward-looking statements we make. You should read carefully the “Risk Factors” section of this Quarterly Report to better understand the risks and uncertainties inherent in our business and underlying any forward-looking statements.

All forward-looking statements attributable to us or persons acting on our behalf apply only as of the date of this Quarterly Report and are expressly qualified in their entirety by the cautionary statements included in this Quarterly Report. We disclaim any duty to update or revise forward-looking statements to reflect events or circumstances after the date made or to reflect the occurrence of unanticipated events.

INTRODUCTION

Warner Music Group Corp. (the “Company”) was formed on November 21, 2003. The Company is the direct parent of WMG Holdings Corp. (“Holdings”), which is the direct parent of WMG Acquisition Corp. (“Acquisition Corp.”). Acquisition Corp. is one of the world’s major music-based content companies.

The Company and Holdings are holding companies that conduct substantially all of their business operations through their subsidiaries. The terms “we,” “us,” “our,” “ours,” and the “Company” refer collectively to Warner Music Group Corp. and its consolidated subsidiaries, except where otherwise indicated.

Management’s discussion and analysis of results of operations and financial condition (“MD&A”) is provided as a supplement to the unaudited financial statements and footnotes included elsewhere herein to help provide an understanding of our financial condition, changes in financial condition and results of our operations. MD&A is organized as follows:

- *Overview.* This section provides a general description of our business, as well as a discussion of factors that we believe are important in understanding our results of operations and financial condition and in anticipating future trends.
- *Results of operations.* This section provides an analysis of our results of operations for the three and six months ended March 31, 2019 and March 31, 2018. This analysis is presented on both a consolidated and segment basis.
- *Financial condition and liquidity.* This section provides an analysis of our cash flows for the six months ended March 31, 2019 and March 31, 2018 as well as a discussion of our financial condition and liquidity as of March 31, 2019. The discussion of our financial condition and liquidity includes a summary of the key debt covenant compliance measures under our debt agreements.

Use of OIBDA

We evaluate our operating performance based on several factors, including our primary financial measure of operating income (loss) before non-cash depreciation of tangible assets and non-cash amortization of intangible assets (“OIBDA”). We consider OIBDA to be an important indicator of the operational strengths and performance of our businesses. However, a limitation of the use of OIBDA as a performance measure is that it does not reflect the periodic costs of certain capitalized tangible and intangible assets used in generating revenues in our businesses and other non-operating income (loss). Accordingly, OIBDA should be considered in addition to, not as a substitute for, operating income (loss), net income (loss) attributable to Warner Music Group Corp. and other measures of financial performance reported in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”). In addition, our definition of OIBDA may differ from similarly titled measures used by other companies. A reconciliation of consolidated OIBDA to operating income (loss) and net income (loss) attributable to Warner Music Group Corp. is provided in our “Results of Operations.”

Use of Constant Currency

As exchange rates are an important factor in understanding period to period comparisons, we believe the presentation of revenue on a constant-currency basis in addition to reported results helps improve the ability to understand our operating results and evaluate our performance in comparison to prior periods. Constant-currency information compares revenue between periods as if exchange rates had remained constant period over period. We use revenue on a constant-currency basis as one measure to evaluate our performance. We calculate constant currency by calculating prior-year revenue using current-year foreign currency exchange rates. We generally refer to such amounts calculated on a constant-currency basis as “excluding the impact of foreign currency exchange rates.” This revenue should be considered in addition to, not as a substitute for, revenue reported in accordance with U.S. GAAP. Revenue on a constant-currency basis, as we present them, may not be comparable to similarly titled measures used by other companies and are not a measure of performance presented in accordance with U.S. GAAP.

OVERVIEW

We are one of the world’s major music-based content companies. We classify our business interests into two fundamental operations: Recorded Music and Music Publishing. A brief description of each of those operations is presented below.

Recorded Music Operations

Our Recorded Music business primarily consists of the discovery and development of artists and the related marketing, distribution and licensing of recorded music produced by such artists. We play an integral role in virtually all aspects of the recorded music value chain from discovering and developing talent to producing music and marketing and promoting artists and their products.

In the United States, our Recorded Music operations are conducted principally through our major record labels—Warner Bros. Records and Atlantic Records. In October 2018, we launched Elektra Music Group in the United States as a standalone label group, which comprises the Elektra, Fueled by Ramen and Roadrunner labels. Our Recorded Music operations also include Rhino, a division that specializes in marketing our music catalog through compilations, reissues of previously released music and video titles and releasing previously unreleased material from our vault. We also conduct our Recorded Music operations through a collection of additional record labels including Asylum, Big Beat, Canvasback, East West, Erato, FFRR, Nonesuch, Parlophone, Reprise, Sire, Spinnin’, Warner Classics and Warner Music Nashville.

Outside the United States, our Recorded Music activities are conducted in more than 50 countries through various subsidiaries, affiliates and non-affiliated licensees. Internationally, we engage in the same activities as in the United States: discovering and signing artists and distributing, marketing and selling their recorded music. In most cases, we also market and distribute the music of those artists for whom our domestic record labels have international rights. In certain smaller markets, we license the right to distribute our records to non-affiliated third-party record labels. Our international artist services operations include a network of concert promoters through which we provide resources to coordinate tours for our artists and other artists as well as management companies that guide artists with respect to their careers.

Our Recorded Music distribution operations include Warner-Elektra-Atlantic Corporation (“WEA Corp.”), which markets and sells music and video products to retailers and wholesale distributors; Alternative Distribution Alliance (“ADA”), which distributes the products of independent labels to retail and wholesale distributors; various distribution centers and ventures operated internationally.

In addition to our Recorded Music products being sold in physical retail outlets, our Recorded Music products are also sold in physical form to online physical retailers such as Amazon.com, barnesandnoble.com and bestbuy.com and in digital form to an expanded universe of digital partners, including digital download services such as Apple’s iTunes and Google Play, digital streaming services such as Amazon, Apple, Deezer, Napster, Soundcloud, Spotify, Tencent and YouTube, and digital radio services such as iHeart Radio, Pandora and Sirius XM.

We have integrated the exploitation of digital content into all aspects of our business, including artist and repertoire (“A&R”), marketing, promotion and distribution. Our business development executives work closely with A&R departments to ensure that while music is being produced, digital assets are also created with all distribution channels in mind, including streaming services, social networking sites, online portals and music-centered destinations. We also work side-by-side with our online and mobile partners to test new concepts. We believe existing and new digital businesses will be a significant source of growth and will provide new opportunities to successfully monetize our assets and create new revenue streams. The proportion of digital revenues attributed to each distribution channel varies by region and proportions may change as the roll out of new technologies continues. As an owner of music content, we believe we are well positioned to take advantage of growth in digital distribution and emerging technologies to maximize the value of our assets.

We have diversified our revenues beyond our traditional businesses by entering into expanded-rights deals with recording artists in order to partner with artists in other aspects of their careers. Under these agreements, we provide services to and participate in artists' activities outside the traditional recorded music business such as touring, merchandising and sponsorships. We have built artist services capabilities and platforms for exploiting this broader set of music-related rights and participating more widely in the monetization of the artist brands we help create. We believe that entering into expanded-rights deals and enhancing our artist services capabilities in areas such as concert promotion and management has permitted us to diversify revenue streams and capitalize on other revenue opportunities. This provides for improved long-term relationships with artists and allows us to more effectively connect artists and fans.

Recorded Music revenues are derived from four main sources:

- *Digital*: the rightsholder receives revenues with respect to digital streaming and digital download services;
- *Physical*: the rightsholder receives revenues with respect to sales of physical products such as CDs, vinyl and DVDs;
- *Artist services and expanded-rights*: the rightsholder receives revenues with respect to artist services businesses and our participation in expanded-rights associated with our artists, including sponsorship, fan clubs, artist websites, merchandising, touring, concert promotion, ticketing and artist and brand management; and
- *Licensing*: the rightsholder receives royalties or fees for the right to use sound recordings in combination with visual images such as in films or television programs, television commercials and videogames; the rightsholder also receives royalties if sound recordings are performed publicly through broadcast of music on television, radio and cable, and in public spaces such as shops, workplaces, restaurants, bars and clubs.

The principal costs associated with our Recorded Music operations are as follows:

- *A&R costs*—the costs associated with (i) paying royalties to artists, producers, songwriters, other copyright holders and trade unions; (ii) signing and developing artists; and (iii) creating master recordings in the studio;
- *Product costs*—the costs to manufacture, package and distribute products to wholesale and retail distribution outlets, the royalty costs associated with distributing products of independent labels to wholesale and retail distribution outlets, as well as the costs related to our artist services business;
- *Selling and marketing expenses*—the costs associated with the promotion and marketing of artists and recorded music products, including costs to produce music videos for promotional purposes and artist tour support; and
- *General and administrative expenses*—the costs associated with general overhead and other administrative expenses.

Music Publishing Operations

While recorded music is focused on exploiting a particular recording of a composition, music publishing is an intellectual property business focused on the exploitation of the composition itself. In return for promoting, placing, marketing and administering the creative output of a songwriter, or engaging in those activities for other rightsholders, our Music Publishing business garners a share of the revenues generated from use of the composition.

Our Music Publishing operations are conducted principally through Warner/Chappell, our global music publishing company headquartered in Los Angeles with operations in over 50 countries through various subsidiaries, affiliates and non-affiliated licensees. We own or control rights to more than one million musical compositions, including numerous pop hits, American standards, folk songs and motion picture and theatrical compositions. Assembled over decades, our award-winning catalog includes over 70,000 songwriters and composers and a diverse range of genres including pop, rock, jazz, classical, country, R&B, hip-hop, rap, reggae, Latin, folk, blues, symphonic, soul, Broadway, techno, alternative and gospel. Warner/Chappell also administers the music and soundtracks of several third-party television and film producers and studios. We have an extensive production music library collectively branded as Warner/Chappell Production Music.

Music Publishing revenues are derived from five main sources:

- *Performance*: the rightsholder receives revenues if the composition is performed publicly through broadcast of music on television, radio and cable, live performance at a concert or other venue (e.g., arena concerts and nightclubs), and performance of music in staged theatrical productions;
- *Digital*: the rightsholder receives revenues with respect to compositions embodied in recordings sold in digital streaming services, digital download services and digital performance;
- *Mechanical*: the rightsholder receives revenues with respect to compositions embodied in recordings sold in any physical format or configuration such as CDs, vinyl and DVDs;

- *Synchronization*: the rightsholder receives revenues for the right to use the composition in combination with visual images such as in films or television programs, television commercials and videogames as well as from other uses such as in toys or novelty items and merchandise; and
- *Other*: the rightsholder receives revenues for use in printed sheet music and other uses.

The principal costs associated with our Music Publishing operations are as follows:

- *A&R costs*—the costs associated with (i) paying royalties to songwriters, co-publishers and other copyright holders in connection with income generated from the exploitation of their copyrighted works and (ii) signing and developing songwriters; and
- *Selling and marketing, general overhead and other administrative expenses*—the costs associated with selling and marketing, general overhead and other administrative expenses.

Factors Affecting Results of Operations and Comparability

Acquisition of EMP

On October 10, 2018, we acquired E.M.P. Merchandising Handelsgesellschaft mbH, a limited liability company under the laws of Germany, and its subsidiaries, all of the share capital of MIG Merchandising Investment GmbH, a limited liability company under the laws of Germany, and its subsidiaries, and certain shares of Large Popmerchandising BVBA, a limited liability company under the laws of Belgium (together, “EMP”). EMP is a retailer of merchandise for many popular artists along with other forms of entertainment such as movies and TV.

Adoption of New Revenue Recognition Standard

In May 2014, the FASB issued guidance codified in ASC 606, Revenue from Contracts with Customers (“ASC 606”), which replaces the guidance in former ASC 605, Revenue Recognition and ASC 928-605, Entertainment – Music. The adoption of ASC 606 resulted in a change in the timing of revenue recognition in the Company’s Music Publishing segment as well as international broadcast rights within Recorded Music. Under the new revenue recognition rules, revenue is recorded based on best estimates available in the period of sale or usage whereas revenue was previously recorded when cash was received for both the licensing of publishing rights and international Recorded Music broadcast fees. Additionally, for certain licenses where the consideration is fixed and the intellectual property being licensed is static, revenue is recognized at the point in time when control of the licensed content is transferred to the customer.

Other Business Models to Drive Incremental Revenue

Artist Services and Expanded-Rights Deals

As another means to offset declines in physical revenues and download revenues in Recorded Music, for many years we have signed recording artists to expanded-rights deals. Under our expanded-rights deals, we participate in the recording artist’s revenue streams, other than from recorded music sales, such as touring, merchandising and sponsorships. Artist services and expanded-rights Recorded Music revenue, which includes revenue from expanded-rights deals as well as revenue from our artist services business, represented approximately 12% of our total revenue during the six months ended March 31, 2019. Artist services and expanded-rights revenue will fluctuate from period to period depending upon touring schedules, among other things. Margins for the various artist services and expanded-rights revenue streams can vary significantly. The overall impact on margins will, therefore, depend on the composition of the various revenue streams in any particular period. For instance, participation in revenue from touring under our expanded-rights deals typically flows straight through to operating income with little associated cost. Revenue from some of our artist services businesses such as our management business and revenue from participation in touring and sponsorships under our expanded-rights deals are all high margin, while merchandising revenue under our expanded-rights deals and revenue from some of our artist services businesses such as our concert promotion businesses tend to be lower margin than our traditional revenue streams in Recorded Music.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2019 Compared with Three Months Ended March 31, 2018

Consolidated Results

Revenues

Our revenues were composed of the following amounts (in millions):

	For the Three Months Ended March 31,		2019 vs. 2018	
	2019	2018	\$ Change	% Change
Revenue by Type				
Digital	\$ 597	\$ 491	\$ 106	22%
Physical	130	147	(17)	-12%
Total Digital and Physical	727	638	89	14%
Artist services and expanded-rights	134	74	60	81%
Licensing	72	79	(7)	-9%
Total Recorded Music	933	791	142	18%
Performance	46	59	(13)	-22%
Digital	65	57	8	14%
Mechanical	13	20	(7)	-35%
Synchronization	31	35	(4)	-11%
Other	3	3	—	—%
Total Music Publishing	158	174	(16)	-9%
Intersegment eliminations	(1)	(2)	1	-50%
Total Revenue	\$ 1,090	\$ 963	\$ 127	13%
Revenue by Geographical Location				
U.S. Recorded Music	\$ 410	\$ 335	\$ 75	22%
U.S. Music Publishing	75	88	(13)	-15%
Total U.S.	485	423	62	15%
International Recorded Music	523	456	67	15%
International Music Publishing	83	86	(3)	-3%
Total International	606	542	64	12%
Intersegment eliminations	(1)	(2)	1	-50%
Total Revenue	\$ 1,090	\$ 963	\$ 127	13%

Total Revenue

Total revenue increased by \$127 million, or 13%, to \$1,090 million for the three months ended March 31, 2019 from \$963 million for the three months ended March 31, 2018, which includes an increase of \$51 million, or 5%, due to the acquisition of EMP and \$10 million, or 1%, due to the adoption of the new revenue recognition standard ASC 606, Revenue from Contracts with Customers (“ASC 606”) in October 2018. Prior to intersegment eliminations, Recorded Music and Music Publishing revenues represented 86% and 14% of total revenue for the three months ended March 31, 2019, respectively, and 82% and 18% of total revenue for the three months ended March 31, 2018, respectively. Prior to intersegment eliminations, U.S. and international revenues represented 44% and 56% of total revenue for the three months ended March 31, 2019 and March 31, 2018.

Total digital revenue after intersegment eliminations increased by \$114 million, or 21%, to \$661 million for the three months ended March 31, 2019 from \$547 million for the three months ended March 31, 2018. Total digital revenue represented 61% and 57% of consolidated revenue for the three months ended March 31, 2019 and March 31, 2018, respectively. Prior to intersegment eliminations, total digital revenue for the three months ended March 31, 2019 was comprised of U.S. revenue of \$355 million and international revenue of \$307 million, or 54% and 46% of total digital revenue, respectively. Prior to intersegment eliminations, total digital revenue for the three months ended March 31, 2018 was comprised of U.S. revenue of \$278 million and international revenue of \$270 million, or 51% and 49% of total digital revenue, respectively.

Recorded Music revenue increased by \$142 million, or 18%, to \$933 million for the three months ended March 31, 2019 from \$791 million for the three months ended March 31, 2018, which includes an increase of \$51 million, or 6%, due to the acquisition of EMP and an increase of \$8 million due to the adoption of ASC 606. U.S. Recorded Music revenues were \$410 million and \$335 million, or 44% and 42%, of consolidated Recorded Music revenues for the three months ended March 31, 2019 and March 31, 2018, respectively. International Recorded Music revenues were \$523 million and \$456 million, or 56% and 58%, of consolidated Recorded Music revenues for the three months ended March 31, 2019 and March 31, 2018, respectively.

The overall increase in Recorded Music revenue was driven by increases in digital revenue and artist services and expanded-rights revenue, partially offset by decreases in physical revenue and licensing revenue. Revenue was also driven by top sellers including TWICE, Meek Mill, and *The Greatest Showman* soundtrack. Digital revenue increased by \$106 million as a result of the continued growth in streaming services and the adoption of ASC 606. Revenue from streaming services grew by \$122 million to \$537 million for the three months ended March 31, 2019 from \$415 million for the three months ended March 31, 2018. Digital revenue growth was partially offset by a decrease in digital downloads of \$17 million to \$54 million for the three months ended March 31, 2019 from \$71 million for the three months ended March 31, 2018 due to the continued shift to streaming services. Artist services and expanded-rights revenue increased by \$60 million primarily due to a \$51 million increase related to the acquisition of EMP and higher merchandising revenues in the U.K., timing of larger tours in France in the current period, partially offset by a touring business divestment in Italy of \$24 million and the unfavorable impact of foreign currency exchange rates of \$3 million. Physical revenue decreased by \$17 million primarily due to the continued shift from physical revenue to digital revenue. Licensing revenue decreased by \$7 million primarily due to the unfavorable impact of foreign currency exchange rates of \$4 million and higher broadcast fees in the prior year, partially offset by a \$7 million impact from the adoption of ASC 606.

Music Publishing revenues decreased by \$16 million, or 9%, to \$158 million for the three months ended March 31, 2019 from \$174 million for the three months ended March 31, 2018. U.S. Music Publishing revenues were \$75 million and \$88 million, or 47% and 51%, of Music Publishing revenues for the three months ended March 31, 2019 and March 31, 2018, respectively. International Music Publishing revenues were \$83 million and \$86 million, or 53% and 49%, of Music Publishing revenues for the three months ended March 31, 2019 and March 31, 2018, respectively.

The overall decrease in Music Publishing revenue was mainly driven by decreases in performance revenue of \$13 million, mechanical revenue of \$7 million, synchronization revenue of \$4 million, partially offset by increases in digital revenue of \$8 million. The decreases in performance and mechanical revenues is related to decreases in revenues associated with lost administrative rights and lower market share. The decrease in synchronization revenue is due to lower activity during the quarter and impact of ASC 606. The increase in digital revenue includes a \$2 million increase resulting from the adoption of ASC 606 and increases in streaming revenue of \$11 million driven by the continued growth in streaming services, partially offset by unfavorable impact of foreign currency exchange rates of \$2 million and decreases in digital download and mobile revenues.

Revenue by Geographical Location

U.S. revenue increased by \$62 million, or 15%, to \$485 million for the three months ended March 31, 2019 from \$423 million for the three months ended March 31, 2018. U.S. Recorded Music revenue increased by \$75 million, or 22%. The primary driver was the increase in U.S. Recorded Music digital revenue, which increased by \$76 million driven by the continued growth in streaming services. Streaming revenue increased by \$84 million, partially offset by a \$9 million decline in digital download revenue. U.S. Recorded Music artist services and expanded-rights revenue also increased by \$9 million, or 39%, driven by higher advertising and merchandising revenues. U.S. Music Publishing revenue decreased by \$13 million, or 15%, to \$75 million for the three months ended March 31, 2019 from \$88 million for the three months ended March 31, 2018. This was primarily driven by the decreases in U.S. Music Publishing performance revenue of \$7 million and mechanical revenue of \$5 million primarily related to decreases in revenues associated with lost administrative rights and lower market share.

International revenue increased by \$64 million, or 12%, to \$606 million for the three months ended March 31, 2019 from \$542 million for the three months ended March 31, 2018, which includes \$51 million related to the acquisition of EMP. Excluding the unfavorable impact of foreign currency exchange rates, International revenue increased by \$99 million or 20%. International Recorded Music revenue increased \$67 million primarily due to increases in digital revenue of \$30 million and artist services and expanded-rights revenue of \$51 million, partially offset by decreases in physical revenue of \$15 million. International Recorded Music digital revenue increased due to a \$38 million increase in streaming revenue, partially offset by a \$8 million decline in digital downloads. The increase in International Recorded Music streaming revenue was due to continued growth in streaming services internationally and decline in digital downloads is due to the continued shift to streaming services. International Recorded Music artist services and expanded-rights revenue increased \$51 million due to the acquisition of EMP, higher merchandising revenues in the U.K., timing of larger tours in France, partially offset by the impact of a touring business divestment in Italy of \$24 million. International Recorded Music physical revenue decreased due to the continued shift from physical revenue to digital revenue. International Music Publishing revenue decreased by \$3 million, or 4%, to \$83 million for the three months ended March 31, 2019 from \$86 million for the three months ended March 31, 2018. This was primarily driven by the increase in International Music Publishing digital revenue of \$7 million offset by decreases in performance revenue of \$6 million primarily due to a decrease in revenues associated with lost administrative rights and lower market share, mechanical revenue of \$2 million, synchronization revenue of \$1 million, and other revenue of \$1 million.

Our cost of revenues was composed of the following amounts (in millions):

	For the Three Months Ended March 31,		2019 vs. 2018	
	2019	2018	\$ Change	% Change
Artist and repertoire costs	\$ 373	\$ 335	\$ 38	11%
Product costs	186	153	33	22%
Total cost of revenues	\$ 559	\$ 488	\$ 71	15%

Artist and repertoire costs increased by \$38 million, to \$373 million for the three months ended March 31, 2019 from \$335 million for the three months ended March 31, 2018. Artist and repertoire costs as a percentage of revenue decreased to 34% for the three months ended March 31, 2019 from 35% for the three months ended March 31, 2018 due to the acquisition of EMP, which has no artist and repertoire costs and therefore reduced our total artist and repertoire costs as a percent of revenue. Excluding EMP, artist and repertoire costs as a percentage of revenue increased to 36% due to higher costs associated with revenue mix and the adoption of ASC 606, which resulted in a shift in the timing of recognition of revenues and certain related costs from cash to an accrual basis in our Music Publishing segment. The increase of \$38 million also relates to the on-going investments in our artists and songwriters.

Product costs increased by \$33 million, to \$186 million for the three months ended March 31, 2019 from \$153 million for the three months ended March 31, 2018. Product costs as a percentage of revenue were 17% for the three months ended March 31, 2019 and 16% for the three months ended March 31, 2018. Increases in product costs relate to the acquisition of EMP of \$25 million and higher revenues, which were partially offset by the impact of a touring business divestment in Italy of \$22 million.

Selling, general and administrative expenses

Our selling, general and administrative expenses were composed of the following amounts (in millions):

	For the Three Months Ended March 31,		2019 vs. 2018	
	2019	2018	\$ Change	% Change
General and administrative expense (1)	\$ 171	\$ 197	\$ (26)	-13%
Selling and marketing expense	157	124	33	27%
Distribution expense	26	16	10	63%
Total selling, general and administrative expense	\$ 354	\$ 337	\$ 17	5%

(1) Includes depreciation expense of \$14 million for the three months ended March 31, 2019 and March 31, 2018.

Total selling, general and administrative expense increased by \$17 million, or 5%, to \$354 million for the three months ended March 31, 2019 from \$337 million for the three months ended March 31, 2018. Expressed as a percentage of revenue, selling, general and administrative expense decreased to 33% for the three months ended March 31, 2019 from 35% for the three months ended March 31, 2018.

General and administrative expense decreased by \$26 million, or 13%, to \$171 million for the three months ended March 31, 2019 from \$197 million for the three months ended March 31, 2018. The decrease in general and administrative expense was mainly due to lower expense associated with our Senior Management Free Cash Flow Plan of \$10 million and decreases in severance and restructuring costs of \$18 million, partially offset by costs at EMP. Expressed as a percentage of revenue, general and administrative expense decreased to 16% for the three months ended March 31, 2019 from 21% for the three months ended March 31, 2018.

Selling and marketing expense increased by \$33 million, or 27%, to \$157 million for the three months ended March 31, 2019 from \$124 million for the three months ended March 31, 2018. The increase in selling and marketing expense was primarily due to an increase of \$17 million related to the acquisition of EMP and increased variable marketing expense on higher revenue in the quarter. Expressed as a percentage of revenue, selling and marketing expense increased to 14% for the three months ended March 31, 2019 from 13% for the three months ended March 31, 2018 mainly due to the acquisition of EMP.

Distribution expense was \$26 million for the three months ended March 31, 2019 and \$16 million for the three months ended March 31, 2018. Expressed as a percentage of revenue, distribution expense remained constant at 2% for the three months ended March 31, 2019 and the three months ended March 31, 2018.

Reconciliation of Net Income Attributable to Warner Music Group Corp. and Operating Income to Consolidated OIBDA

As previously described, we use OIBDA as our primary measure of financial performance. The following table reconciles operating income to OIBDA, and further provides the components from net income attributable to Warner Music Group Corp. to operating income for purposes of the discussion that follows (in millions):

	For the Three Months Ended		2019 vs. 2018	
	March 31,		\$ Change	% Change
	2019	2018		
Net income (loss) attributable to Warner Music Group Corp.	\$ 67	\$ (3)	\$ 70	—%
Income attributable to noncontrolling interest	—	2	(2)	-100%
Net income (loss)	67	(1)	68	—%
Income tax expense	48	19	29	—%
Income before income taxes	115	18	97	—%
Other income, net	(29)	6	(35)	—%
Interest expense, net	36	36	—	—%
Loss on extinguishment of debt	—	23	(23)	-100%
Operating income	122	83	39	47%
Amortization expense	55	55	—	—%
Depreciation expense	14	14	—	—%
OIBDA	\$ 191	\$ 152	\$ 39	26%

OIBDA

OIBDA increased by \$39 million, or 26%, to \$191 million for the three months ended March 31, 2019 as compared to \$152 million for the three months ended March 31, 2018 as a result of higher revenues and lower general and administrative expenses, partially offset by a \$4 million decrease due to the adoption of ASC 606. Expressed as a percentage of total revenue, OIBDA increased to 18% for the three months ended March 31, 2019 from 16% for the three months ended March 31, 2018 largely due to lower general and administrative expenses in the quarter.

Amortization expense

Our amortization expense remained flat at \$55 million for the three months ended March 31, 2019 and March 31, 2018.

Operating income

Our operating income increased by \$39 million to \$122 million for the three months ended March 31, 2019 from \$83 million for the three months ended March 31, 2018. The increase in operating income was due to the factors that led to the increase in OIBDA.

Loss on extinguishment of debt

There was no loss on extinguishment of debt for the three months ended March 31, 2019. We recorded a loss on extinguishment of debt in the amount of \$23 million for the three months ended March 31, 2018 related to the partial redemption of the 6.75% Senior Notes.

Interest expense, net

Our interest expense, net, remained flat at \$36 million for the three months ended March 31, 2019 and March 31, 2018.

Other income, net

Other income, net, for the three months ended March 31, 2019 primarily includes the unrealized gain of \$15 million on the mark-to-market of an equity method investment, foreign currency gains on our Euro denominated debt of \$10 million, and currency exchange gains on our intercompany loans of \$5 million. This compares to foreign currency losses on our Euro denominated debt and derivative liabilities of \$13 million, partially offset by foreign currency gains on our intercompany loans of \$7 million for the three months ended March 31, 2018.

Income tax expense

Our income tax expense increased by \$29 million to \$48 million for the three months ended March 31, 2019 from \$19 million of tax expense for the three months ended March 31, 2018. The change of \$29 million in income tax expense primarily relates to higher pre-tax income in the three months ended March 31, 2019.

Net Income (Loss)

Net income increased by \$68 million to \$67 million for the three months ended March 31, 2019 from a net loss of \$1 million for the three months ended March 31, 2018 as a result of the factors described above.

Noncontrolling interest

There was no income attributable to noncontrolling interest for the three months ended March 31, 2019 primarily due to the adoption of ASC 606. There was \$2 million of income attributable to noncontrolling interest for the three months ended March 31, 2018.

Business Segment Results

Revenue, operating income (loss) and OIBDA by business segment were as follows (in millions):

	For the Three Months Ended March 31,		2019 vs. 2018	
	2019	2018	\$ Change	% Change
Recorded Music				
Revenue	\$ 933	\$ 791	\$ 142	18%
Operating income	134	80	54	68%
OIBDA	180	127	53	42%
Music Publishing				
Revenue	158	174	(16)	-9%
Operating income (loss)	27	41	(14)	-34%
OIBDA	47	60	(13)	-22%
Corporate expenses and eliminations				
Revenue elimination	(1)	(2)	1	-50%
Operating loss	(39)	(38)	(1)	3%
OIBDA loss	(36)	(35)	(1)	3%
Total				
Revenue	1,090	963	127	13%
Operating income	122	83	39	47%
OIBDA	191	152	39	26%

Recorded Music

Revenues

Recorded Music revenue increased by \$142 million, or 18%, to \$933 million for the three months ended March 31, 2019 from \$791 million for the three months ended March 31, 2018. U.S. Recorded Music revenues were \$410 million and \$335 million, or 44% and 42%, of consolidated Recorded Music revenues for both the three months ended March 31, 2019 and March 31, 2018, respectively. International Recorded Music revenues were \$523 million and \$456 million, or 56% and 58%, of consolidated Recorded Music revenues for both the three months ended March 31, 2019 and March 31, 2018, respectively.

The overall increase in Recorded Music revenue was mainly driven by streaming revenue growth and the EMP acquisition as described in the "Total Revenues" and "Revenue by Geographical Location" sections above.

Cost of revenues

Recorded Music cost of revenues was composed of the following amounts (in millions):

	For the Three Months Ended March 31,		2019 vs. 2018	
	2019	2018	\$ Change	% Change
Artist and repertoire costs	\$ 280	\$ 242	\$ 38	16%
Product costs	186	153	33	22%
Total cost of revenues	\$ 466	\$ 395	\$ 71	18%

Recorded Music cost of revenues increased by \$71 million, or 18%, to \$466 million for the three months ended March 31, 2019 from \$395 million for the three months ended March 31, 2018. Expressed as a percentage of Recorded Music revenue, Recorded Music artist and repertoire costs decreased to 30% for the three months ended March 31, 2019 from 31% for the three months ended March 31, 2018. The decrease in artist and repertoire costs as a percentage of revenue was primarily due to the acquisition of EMP, which has no artist and repertoire costs and therefore reduced our total artist and repertoire costs as a percentage of revenue. Excluding EMP, artist and repertoire costs as a percentage of revenue increased to 32% due to higher costs associated with revenue mix. Expressed as a percentage of Recorded Music revenue, Recorded Music product costs increased to 20% for the three months ended March 31, 2019 from 19% for the three months ended March 31, 2018. The increase in product costs relate to the acquisition of EMP of \$25 million and higher revenues, which were partially offset by the impact of a touring business divestment in Italy of \$22 million.

Selling, general and administrative expense

Recorded Music selling, general and administrative expenses were composed of the following amounts (in millions):

	For the Three Months Ended March 31,		2019 vs. 2018	
	2019	2018	\$ Change	% Change
General and administrative expense (1)	\$ 117	\$ 141	\$ (24)	-17%
Selling and marketing expense	153	121	32	26%
Distribution expense	26	16	10	63%
Total selling, general and administrative expense	\$ 296	\$ 278	\$ 18	6%

(1) Includes depreciation expense of \$9 million for the three months ended March 31, 2019 and March 31, 2018.

Recorded Music selling, general and administrative expense increased by \$18 million, or 6%, to \$296 million for the three months ended March 31, 2019 from \$278 million for the three months ended March 31, 2018. The decrease in general and administrative expense was primarily due to lower expense associated with our Senior Management Free Cash Flow Plan of \$6 million and decreases in severance and restructuring costs of \$18 million, partially offset by costs at EMP. The increase in selling and marketing expense was primarily due to \$17 million resulting from the acquisition of EMP and increased variable marketing expense on higher revenue in the quarter. The increase in distribution expense was primarily due to \$7 million in costs resulting from the acquisition of EMP in the quarter. Expressed as a percentage of Recorded Music revenue, Recorded Music selling, general and administrative expense decreased to 32% for the three months ended March 31, 2019 from 35% for the three months ended March 31, 2018.

Operating income and OIBDA

Recorded Music OIBDA included the following amounts (in millions):

	For the Three Months Ended March 31,		2019 vs. 2018	
	2019	2018	\$ Change	% Change
Operating Income	\$ 134	\$ 80	\$ 54	68%
Depreciation and amortization	46	47	(1)	-2%
OIBDA	\$ 180	\$ 127	\$ 53	42%

Recorded Music OIBDA increased by \$53 million, or 42%, to \$180 million for the three months ended March 31, 2019 from \$127 million for the three months ended March 31, 2018 as a result of higher revenues and lower general and administrative expenses. Expressed as a percentage of Recorded Music revenue, Recorded Music OIBDA increased to 19% for the three months ended March 31, 2019 from 16% for the three months ended March 31, 2018. Recorded Music OIBDA included an \$8 million increase due to the adoption of ASC 606.

Recorded Music operating income increased by \$54 million to \$134 million for the three months ended March 31, 2019 from \$80 million for the three months ended March 31, 2018 due to the factors that led to the increase in Recorded Music OIBDA noted above.

Music Publishing

Revenues

Music Publishing revenues decreased by \$16 million, or 9%, to \$158 million for the three months ended March 31, 2019 from \$174 million for the three months ended March 31, 2018. U.S. Music Publishing revenues were \$75 million and \$88 million, or 47% and 51%, of Music Publishing revenues for the three months ended March 31, 2019 and March 31, 2018, respectively. International Music Publishing revenues were \$83 million and \$86 million, or 53% and 49%, of Music Publishing revenues for the three months ended March 31, 2019 and March 31, 2018, respectively.

The overall decrease in Music Publishing revenue was mainly driven by the decrease in revenues associated with lost administrative rights and lower market share as described in the “Total Revenues” and “Revenue by Geographical Location” sections above.

Cost of revenues

Music Publishing cost of revenues were composed of the following amounts (in millions):

	For the Three Months Ended March 31,		2019 vs. 2018	
	2019	2018	\$ Change	% Change
Artist and repertoire costs	\$ 94	\$ 95	\$ (1)	-1%
Total cost of revenues	\$ 94	\$ 95	\$ (1)	-1%

Music Publishing cost of revenues decreased by \$1 million, or 1%, to \$94 million for the three months ended March 31, 2019 from \$95 million for the three months ended March 31, 2018. Expressed as a percentage of Music Publishing revenue, Music Publishing cost of revenues increased to 60% for the three months ended March 31, 2019 from 55% for the three months ended March 31, 2018, primarily due to the adoption of ASC 606, which resulted in a shift in the timing of recognition of revenues and certain related costs from a cash to an accrual basis.

Selling, general and administrative expense

Music Publishing selling, general and administrative expenses were comprised of the following amounts (in millions):

	For the Three Months Ended March 31,		2019 vs. 2018	
	2019	2018	\$ Change	% Change
General and administrative expense (1)	\$ 19	\$ 20	\$ (1)	-5%
Selling and marketing expense	—	1	(1)	-100%
Total selling, general and administrative expense	\$ 19	\$ 21	\$ (2)	-10%

(1) Includes depreciation expense of \$2 million for the three months ended March 31, 2019 and March 31, 2018.

Music Publishing selling, general and administrative expense decreased by \$2 million, or 10%, to \$19 million for the three months ended March 31, 2019 from \$21 million for the three months ended March 31, 2018. Expressed as a percentage of Music Publishing revenue, Music Publishing selling, general and administrative expense remained flat at 12% for the three months ended March 31, 2019 and for the three months ended March 31, 2018.

Operating income and OIBDA

Music Publishing OIBDA included the following amounts (in millions):

	For the Three Months Ended March 31,		2019 vs. 2018	
	2019	2018	\$ Change	% Change
Operating income (loss)	\$ 27	\$ 41	\$ (14)	34%
Depreciation and amortization	20	19	1	5%
OIBDA	\$ 47	\$ 60	\$ (13)	-22%

Music Publishing OIBDA decreased by \$13 million, or 22%, to \$47 million for the three months ended March 31, 2019 from \$60 million for the three months ended March 31, 2018. Expressed as a percentage of Music Publishing revenue, Music Publishing OIBDA decreased to 30% for the three months ended March 31, 2019 from 35% for the three months ended March 31, 2018. The decrease was primarily due to \$12 million from the adoption of ASC 606, which resulted in a shift in the timing of recognition of revenues and certain related costs from a cash to an accrual basis.

Music Publishing operating income decreased by \$14 million to \$27 million for the three months ended March 31, 2019 from \$41 million operating income for the three months ended March 31, 2018 largely due to a transition in timing of revenues and related costs resulting from the adoption of ASC 606.

Corporate Expenses and Eliminations

Our operating loss from corporate expenses and eliminations increased by \$1 million for the three months ended March 31, 2019 to \$39 million from \$38 million for the three months ended March 31, 2018.

Our OIBDA loss from corporate expenses and eliminations increased by \$1 million for the three months ended March 31, 2019 to \$36 million from \$35 million for the three months ended March 31, 2018.

RESULTS OF OPERATIONS

Six Months Ended March 31, 2019 Compared with Six Months Ended March 31, 2018

Consolidated Results

Revenues

Our revenues were composed of the following amounts (in millions):

	For the Six Months Ended March 31,		2019 vs. 2018	
	2019	2018	\$ Change	% Change
Revenue by Type				
Digital	\$ 1,160	\$ 972	\$ 188	19%
Physical	361	370	(9)	-2%
Total Digital and Physical	1,521	1,342	179	13%
Artist services and expanded-rights	300	179	121	68%
Licensing	153	174	(21)	-12%
Total Recorded Music	1,974	1,695	279	17%
Performance	99	102	(3)	-3%
Digital	130	110	20	18%
Mechanical	28	38	(10)	-26%
Synchronization	60	62	(2)	-3%
Other	6	5	1	20%
Total Music Publishing	323	317	6	2%
Intersegment eliminations	(4)	(4)	—	—%
Total Revenue	\$ 2,293	\$ 2,008	\$ 285	14%
Revenue by Geographical Location				
U.S. Recorded Music	\$ 841	\$ 705	\$ 136	19%
U.S. Music Publishing	148	151	(3)	-2%
Total U.S.	989	856	133	16%
International Recorded Music	1,133	990	143	14%
International Music Publishing	175	166	9	5%
Total International	1,308	1,156	152	13%
Intersegment eliminations	(4)	(4)	—	—%
Total Revenue	\$ 2,293	\$ 2,008	\$ 285	14%

Total Revenue

Total revenue increased by \$285 million, or 14%, to \$2,293 million for the six months ended March 31, 2019 from \$2,008 million for the six months ended March 31, 2018, which includes an increase of \$127 million, or 6%, due to the acquisition of EMP and \$30 million, or 1%, due to the adoption of the new revenue recognition standard ASC 606, Revenue from Contracts with Customers (“ASC 606”) in October 2018. Prior to intersegment eliminations, Recorded Music and Music Publishing revenues represented 86% and 14% of total revenue for the six months ended March 31, 2019, respectively, and 84% and 16% of total revenue for the six months ended March 31, 2018, respectively. Prior to intersegment eliminations, U.S. and international revenues represented 43% and 57% of total revenue for the six months ended March 31, 2019 and March 31, 2018.

Total digital revenue after intersegment eliminations increased by \$208 million, or 19%, to \$1,288 million for the six months ended March 31, 2019 from \$1,080 million for the six months ended March 31, 2018. Total digital revenue represented 56% and 54% of consolidated revenue for the six months ended March 31, 2019 and March 31, 2018, respectively. Prior to intersegment eliminations, total digital revenue for the six months ended March 31, 2019 was comprised of U.S. revenue of \$685 million and international revenue of \$605 million, or 53% and 47% of total digital revenue, respectively. Prior to intersegment eliminations, total digital revenue for the six months ended March 31, 2018 was comprised of U.S. revenue of \$557 million and international revenue of \$525 million, or 51% and 49% of total digital revenue, respectively.

Recorded Music revenue increased by \$279 million, or 17%, to \$1,974 million for the six months ended March 31, 2019 from \$1,695 million for the six months ended March 31, 2018, which includes an increase of \$127 million, or 6%, due to the acquisition of EMP, partially offset by the impact of a touring business divestment in Italy of \$42 million. U.S. Recorded Music revenues were \$841 million and \$705 million, or 43% and 42%, of consolidated Recorded Music revenues for the six months ended March 31, 2019 and March 31, 2018, respectively. International Recorded Music revenues were \$1,133 million and \$990 million, or 57% and 58%, of consolidated Recorded Music revenues for the six months ended March 31, 2019 and March 31, 2018, respectively.

The overall increase in Recorded Music revenue was driven by increases in digital revenue and artist services and expanded-rights revenue, partially offset by decreases in licensing revenue and physical revenue. Digital revenue increased by \$188 million as a result of the continued growth in streaming services, a strong release schedule including top sellers Johnny Hallyday, Ed Sheeran, and *The Greatest Showman* soundtrack, and the adoption of ASC 606. Revenue from streaming services grew by \$220 million to \$1,039 million for the six months ended March 31, 2019 from \$819 million for the six months ended March 31, 2018. Digital revenue growth was partially offset by a digital download decrease of \$33 million to \$110 million for the six months ended March 31, 2019 from \$143 million for the six months ended March 31, 2018 due to the continued shift to streaming services. Artist services and expanded-rights revenue increased by \$121 million primarily due to a \$127 million increase related to the acquisition of EMP and higher merchandising revenues in the U.S. and the U.K., partially offset by timing of larger tours in France in the prior year compared to the current period, touring business divestment in Italy of \$42 million and the unfavorable impact of foreign currency exchange rates of \$6 million. Licensing revenue decreased by \$21 million primarily due to a \$3 million impact from the adoption of ASC 606, the unfavorable impact of foreign currency exchange rates of \$7 million, and higher broadcast fees in the prior year. Physical revenue decreased by \$9 million primarily due to the unfavorable impact of foreign currency exchange rates of \$11 million, continued shift from physical revenue to digital revenue, partially offset by success of new releases.

Music Publishing revenues increased by \$6 million, or 2%, to \$323 million for the six months ended March 31, 2019 from \$317 million for the six months ended March 31, 2018, which includes an increase of \$28 million, or 9%, due to the adoption of ASC 606. U.S. Music Publishing revenues were \$148 million and \$151 million, or 46% and 48%, of Music Publishing revenues for the six months ended March 31, 2019 and March 31, 2018, respectively. International Music Publishing revenues were \$175 million and \$166 million, or 54% and 52%, of Music Publishing revenues for the six months ended March 31, 2019 and March 31, 2018, respectively.

The overall increase in Music Publishing revenue was mainly driven by increases in digital revenue of \$20 million and other revenue of \$1 million, partially offset by decreases in mechanical revenue of \$10 million, performance revenue of \$3 million, and synchronization revenue of \$2 million. The increase in overall Music Publishing revenue is due to the adoption of ASC 606 related to the transition from cash to accrual basis of \$28 million. The increase in digital revenue includes a \$9 million increase resulting from the adoption of ASC 606 and increases in streaming revenue of \$21 million driven by the continued growth in streaming services, partially offset by a decrease in digital download revenue of \$6 million. The decreases in mechanical revenue and performance revenue include a \$17 million increase resulting from the impact of adoption of ASC 606, partially offset by a decrease related to revenues associated with lost administrative rights and lower market share.

Revenue by Geographical Location

U.S. revenue increased by \$133 million, or 16%, to \$989 million for the six months ended March 31, 2019 from \$856 million for the six months ended March 31, 2018. U.S. Recorded Music revenue increased by \$136 million, or 19%. The primary driver was the increase in U.S. Recorded Music digital revenue, which increased by \$119 million driven by the continued growth in streaming services. Streaming revenue increased by \$137 million, partially offset by a \$19 million decline in digital download revenue. U.S. Recorded Music artist services and expanded-rights revenue also increased by \$24 million, or 43%, driven by higher advertising and merchandising revenues. U.S. Music Publishing revenue decreased by \$3 million, or 2%, to \$148 million for the six months ended March 31, 2019 from \$151 million for the six months ended March 31, 2018. This was primarily driven by the increases in U.S. Music Publishing digital revenue of \$9 million offset by decreases in mechanical revenue of \$7 million, performance revenue of \$3 million, and synchronization revenue of \$3 million.

International revenue increased by \$152 million, or 13%, to \$1,308 million for the six months ended March 31, 2019 from \$1,156 million for the six months ended March 31, 2018, which includes \$127 million related to the acquisition of EMP. Excluding the unfavorable impact of foreign currency exchange rates, International revenue increased by \$211 million or 19%. International Recorded Music revenue increased \$143 million primarily due to increases in artist services and expanded-rights revenue of \$97 million and digital revenue of \$69 million, partially offset by decreases in licensing revenue of \$15 million and physical revenue of \$8 million. International Recorded Music digital revenue increased due to a \$83 million increase in streaming revenue, partially offset by a \$14 million decline in digital downloads. The increase in International Recorded Music streaming revenue was due to continued growth in streaming services internationally and strong release performance. Decline in digital downloads is due to the continued shift to streaming services. International Recorded Music artist services and expanded-rights revenue increased due to \$127 million related to the acquisition of EMP

and higher merchandising revenues in the U.S. and U.K., partially offset by timing of larger tours in France in the prior year compared to the current period, the impact of a touring business divestment in Italy of \$42 million and the unfavorable impact of foreign currency exchange rates of \$6 million. International Recorded Music licensing revenue decreased due to the unfavorable impact of foreign currency exchange rates of \$7 million. International Recorded Music physical revenue decreased due to the continued shift from physical revenue to digital revenue and the unfavorable impact of foreign currency exchange rates of \$11 million, partially offset by the success of new releases, including Johnny Hallyday. International Music Publishing revenue increased by \$9 million, or 5%, to \$175 million for the six months ended March 31, 2019 from \$166 million for the six months ended March 31, 2018. This was primarily driven by the increase in International Music Publishing digital revenue of \$11 million primarily due to the adoption of ASC 606 and growth in streaming offset by a decrease in mechanical revenue of \$3 million.

Our cost of revenues was composed of the following amounts (in millions):

	For the Six Months Ended March 31,		2019 vs. 2018	
	2019	2018	\$ Change	% Change
Artist and repertoire costs	\$ 773	\$ 709	\$ 64	9%
Product costs	412	348	64	18%
Total cost of revenues	\$ 1,185	\$ 1,057	\$ 128	12%

Artist and repertoire costs increased by \$64 million, to \$773 million for the six months ended March 31, 2019 from \$709 million for the six months ended March 31, 2018. Artist and repertoire costs as a percentage of revenue decreased to 34% for the six months ended March 31, 2019 from 35% for the six months ended March 31, 2018 due to the acquisition of EMP, which has no artist and repertoire costs and therefore reduced our total artist and repertoire costs as a percent of revenue. Excluding EMP, artist and repertoire costs as a percentage of revenue increased to 36% due to higher costs associated with revenue mix and the adoption of ASC 606, which resulted in a shift in the timing of recognition of revenues and certain related costs from cash to an accrual basis in our Music Publishing segment. The increase of \$64 million also relates to the on-going investments in our artists and songwriters.

Product costs increased by \$64 million, to \$412 million for the six months ended March 31, 2019 from \$348 million for the six months ended March 31, 2018. Product costs as a percentage of revenue were 18% for the six months ended March 31, 2019 and 17% for the six months ended March 31, 2018. Increases in product costs relate to the acquisition of EMP of \$62 million and higher revenues, which were partially offset by the impact of a touring business divestment in Italy of \$37 million.

Selling, general and administrative expenses

Our selling, general and administrative expenses were composed of the following amounts (in millions):

	For the Six Months Ended March 31,		2019 vs. 2018	
	2019	2018	\$ Change	% Change
General and administrative expense (1)	\$ 351	\$ 382	\$ (31)	-8%
Selling and marketing expense	317	252	65	26%
Distribution expense	62	36	26	72%
Total selling, general and administrative expense	\$ 730	\$ 670	\$ 60	9%

(1) Includes depreciation expense of \$28 million and \$26 million for the six months ended March 31, 2019 and March 31, 2018, respectively.

Total selling, general and administrative expense increased by \$60 million, or 9%, to \$730 million for the six months ended March 31, 2019 from \$670 million for the six months ended March 31, 2018. Expressed as a percentage of revenue, selling, general and administrative expense decreased to 32% for the six months ended March 31, 2019 from 33% for the six months ended March 31, 2018.

General and administrative expense decreased by \$31 million, or 8%, to \$351 million for the six months ended March 31, 2019 from \$382 million for the six months ended March 31, 2018. The decrease in general and administrative expense was mainly due to lower expense associated with our Senior Management Free Cash Flow Plan of \$16 million and decreases in severance and restructuring costs of \$19 million, partially offset by costs at EMP. Expressed as a percentage of revenue, general and administrative expense decreased to 15% for the six months ended March 31, 2019 from 19% for the six months ended March 31, 2018.

Selling and marketing expense increased by \$65 million, or 26%, to \$317 million for the six months ended March 31, 2019 from \$252 million for the six months ended March 31, 2018. The increase in selling and marketing expense was primarily due to an increase of \$37 million related to the acquisition of EMP and increased variable marketing expense on higher revenue in the quarter. Expressed as a percentage of revenue, selling and marketing expense increased to 14% for the six months ended March 31, 2019 from 13% for the six months ended March 31, 2018 mainly due to the acquisition of EMP.

Distribution expense was \$62 million for the six months ended March 31, 2019 and \$36 million for the six months ended March 31, 2018. Expressed as a percentage of revenue, distribution expense increased to 3% for the six months ended March 31, 2019 from 2% for the six months ended March 31, 2018 mainly due to \$18 million in costs resulting from the acquisition of EMP.

Reconciliation of Net Income Attributable to Warner Music Group Corp. and Operating Income to Consolidated OIBDA

As previously described, we use OIBDA as our primary measure of financial performance. The following table reconciles operating income to OIBDA, and further provides the components from net income attributable to Warner Music Group Corp. to operating income for purposes of the discussion that follows (in millions):

	For the Six Months Ended March 31,		2019 vs. 2018	
	2019	2018	\$ Change	% Change
Net income attributable to Warner Music Group Corp.	\$ 153	\$ 1	\$ 152	—%
Income attributable to noncontrolling interest	—	3	(3)	-100%
Net income	153	4	149	—%
Income tax expense (benefit)	98	71	27	38%
Income before income taxes	251	75	176	—%
Other (income) expense, net	(57)	2	(59)	—%
Interest expense, net	72	72	—	—%
Loss on extinguishment of debt	3	24	(21)	-88%
Operating income	269	173	96	55%
Amortization expense	109	108	1	1%
Depreciation expense	28	26	2	8%
OIBDA	\$ 406	\$ 307	\$ 99	32%

OIBDA

OIBDA increased by \$99 million, or 32%, to \$406 million for the six months ended March 31, 2019 as compared to \$307 million for the six months ended March 31, 2018 as a result of higher revenues and lower general and administrative expenses. Expressed as a percentage of total revenue, OIBDA increased to 18% for the six months ended March 31, 2019 from 15% for the six months ended March 31, 2018 largely due to \$14 million related to the transition in timing of revenues and related costs resulting from the adoption of ASC 606, \$10 million related to the acquisition of EMP, and lower general and administrative expenses.

Amortization expense

Our amortization expense increased by \$1 million, or 1%, to \$109 million for the six months ended March 31, 2019 from \$108 million for the six months ended March 31, 2018, primarily due to an increase in amortizable intangible assets and the impact of foreign currency exchange rates.

Operating income

Our operating income increased by \$96 million to \$269 million for the six months ended March 31, 2019 from \$173 million for the six months ended March 31, 2018. The increase in operating income was due to the factors that led to the increase in OIBDA.

Loss on extinguishment of debt

We recorded a loss on extinguishment of debt in the amount of \$3 million for the six months ended March 31, 2019, which represents the unamortized deferred financing costs related to the partial redemption of the 4.125% Secured Notes and 5.625% Secured Notes, and the open market purchases of the 4.875% Secured Notes. We recorded a loss on extinguishment of debt in the amount of \$24 million for the six months ended March 31, 2018 related to the partial redemption of the 6.75% Senior Notes and the December 2017 Senior Term Loan Credit Agreement Amendment.

Interest expense, net

Our interest expense, net, remained flat at \$72 million for the six months ended March 31, 2019 and March 31, 2018.

Other income, net

Other income, net, for the six months ended March 31, 2019 primarily includes the unrealized gain of \$30 million on the mark-to-market of an equity method investment and \$6 million unrealized gains on hedging activity and foreign currency gains on our Euro denominated debt of \$20 million. This compares to other expense, net for the six months ended March 31, 2018 which includes a loss on our Euro denominated debt and derivative liabilities of \$19 million, partially offset by currency exchange gains on our intercompany loans of \$9 million and an \$8 million gain on the sale of investments.

Income tax expense

Our income tax expense increased by \$27 million to \$98 million for the six months ended March 31, 2019 from \$71 million of tax expense for the six months ended March 31, 2018. The change of \$27 million in income tax expense primarily relates to higher pre-tax income and the tax impact of the GILTI for the six months ended March 31, 2019 as compared to the \$26 million impact of the U.S. tax reform in the six months ended March 31, 2018.

In connection with the proposed regulations issued by the Internal Revenue Service in November 2018, the Company is evaluating the impact of these proposed regulations to its valuation allowance for foreign tax credits of approximately \$133 million as of September 30, 2018. Subject to the regulations being enacted as proposed, the regulations may result in a change to the amount of foreign tax credits that is more likely than not to be realized and thus result in a reduction to the valuation allowance.

Net Income

Net income increased by \$149 million to \$153 million for the six months ended March 31, 2019 from net income of \$4 million for the six months ended March 31, 2018 as a result of the factors described above.

Noncontrolling interest

There was no income attributable to noncontrolling interest for the six months ended March 31, 2019 primarily due to the adoption of ASC 606. There was \$3 million of income attributable to noncontrolling interest for the three months ended March 31, 2018.

Business Segment Results

Revenue, operating income (loss) and OIBDA by business segment were as follows (in millions):

	For the Six Months Ended March 31,		2019 vs. 2018	
	2019	2018	\$ Change	% Change
Recorded Music				
Revenue	\$ 1,974	\$ 1,695	\$ 279	16%
Operating income	297	209	88	42%
OIBDA	391	300	91	30%
Music Publishing				
Revenue	323	317	6	2%
Operating income	49	40	9	23%
OIBDA	86	77	9	12%
Corporate expenses and eliminations				
Revenue elimination	(4)	(4)	—	—%
Operating loss	(77)	(76)	(1)	1%
OIBDA loss	(71)	(70)	(1)	1%
Total				
Revenue	2,293	2,008	285	14%
Operating income	269	173	96	55%
OIBDA	406	307	99	32%

Recorded Music

Revenues

Recorded Music revenue increased by \$279 million, or 16%, to \$1,974 million for the six months ended March 31, 2019 from \$1,695 million for the six months ended March 31, 2018. U.S. Recorded Music revenues were \$841 million and \$705 million, or 43% and 42%, of consolidated Recorded Music revenues for both the six months ended March 31, 2019 and March 31, 2018, respectively. International Recorded Music revenues were \$1,133 million and \$990 million, or 57% and 58%, of consolidated Recorded Music revenues for both the six months ended March 31, 2019 and March 31, 2018, respectively.

The overall increase in Recorded Music revenue was mainly driven by streaming revenue growth, strong releases, and the EMP acquisition as described in the “Total Revenues” and “Revenue by Geographical Location” sections above.

Cost of revenues

Recorded Music cost of revenues was composed of the following amounts (in millions):

	For the Six Months Ended March 31,		2019 vs. 2018	
	2019	2018	\$ Change	% Change
Artist and repertoire costs	\$ 575	\$ 509	\$ 66	13%
Product costs	412	348	64	18%
Total cost of revenues	\$ 987	\$ 857	\$ 130	15%

Recorded Music cost of revenues increased by \$130 million, or 15%, to \$987 million for the six months ended March 31, 2019 from \$857 million for the six months ended March 31, 2018. Expressed as a percentage of Recorded Music revenue, Recorded Music artist and repertoire costs decreased to 29% for the six months ended March 31, 2019 from 30% for the six months ended March 31, 2018. The decrease in artist and repertoire costs as a percentage of revenue was primarily due to the acquisition of EMP, which has no artist and repertoire costs and therefore reduced our total artist and repertoire costs as a percentage of revenue. Excluding EMP, artist and repertoire costs as a percentage of revenue increased to 31% due to higher costs associated with revenue mix. Expressed as a percentage of Recorded Music revenue, Recorded Music product costs remained flat at 21% for the six months ended March 31, 2019 and March 31, 2018.

Selling, general and administrative expense

Recorded Music selling, general and administrative expenses were composed of the following amounts (in millions):

	For the Six Months Ended March 31,		2019 vs. 2018	
	2019	2018	\$ Change	% Change
General and administrative expense (1)	\$ 243	\$ 272	\$ (29)	-11%
Selling and marketing expense	310	247	63	26%
Distribution expense	62	36	26	72%
Total selling, general and administrative expense	\$ 615	\$ 555	\$ 60	11%

(1) Includes depreciation expense of \$19 million and \$17 million for the six months ended March 31, 2019 and March 31, 2018, respectively.

Recorded Music selling, general and administrative expense increased by \$60 million, or 11%, to \$615 million for the six months ended March 31, 2019 from \$555 million for the six months ended March 31, 2018. The decrease in general and administrative expense was primarily due to lower expense associated with our Senior Management Free Cash Flow Plan of \$10 million and decreases in severance and restructuring costs of \$19 million, partially offset by costs at EMP. The increase in selling and marketing expense was primarily due to \$37 million resulting from the acquisition of EMP and increased variable marketing expense on higher revenue in the quarter. The increase in distribution expense was primarily due to \$18 million in costs resulting from the acquisition of EMP in the quarter. Expressed as a percentage of Recorded Music revenue, Recorded Music selling, general and administrative expense decreased to 31% for the six months ended March 31, 2019 from 33% for the six months ended March 31, 2018 mainly due to the acquisition of EMP.

Operating income and OIBDA

Recorded Music OIBDA included the following amounts (in millions):

	For the Six Months Ended March 31,		2019 vs. 2018	
	2019	2018	\$ Change	% Change
Operating Income	\$ 297	\$ 209	\$ 88	42%
Depreciation and amortization	94	91	3	3%
OIBDA	\$ 391	\$ 300	\$ 91	30%

Recorded Music OIBDA increased by \$91 million, or 30%, to \$391 million for the six months ended March 31, 2019 from \$300 million for the six months ended March 31, 2018 as a result of higher revenues and lower general and administrative expenses. Expressed as a percentage of Recorded Music revenue, Recorded Music OIBDA increased to 20% for the six months ended March 31, 2019 from 18% for the six months ended March 31, 2018. Recorded Music OIBDA included increases of \$10 million from the acquisition of EMP and \$2 million due to the adoption of ASC 606.

Recorded Music operating income increased by \$88 million to \$297 million for the six months ended March 31, 2019 from \$209 million for the six months ended March 31, 2018 due to the factors that led to the increase in Recorded Music OIBDA noted above.

Music Publishing

Revenues

Music Publishing revenues increased by \$6 million, or 2%, to \$323 million for the six months ended March 31, 2019 from \$317 million for the six months ended March 31, 2018. U.S. Music Publishing revenues were \$148 million and \$151 million, or 46% and 48%, of Music Publishing revenues for the six months ended March 31, 2019 and March 31, 2018, respectively. International Music Publishing revenues were \$175 million and \$166 million, or 54% and 52%, of Music Publishing revenues for the six months ended March 31, 2019 and March 31, 2018, respectively.

The overall increase in Music Publishing revenue was mainly driven by the increase in digital revenue resulting from the adoption of ASC 606, partially offset by a decrease in revenues associated with lost administrative rights and lower market share as described in the "Total Revenues" and "Revenue by Geographical Location" sections above.

Cost of revenues

Music Publishing cost of revenues were composed of the following amounts (in millions):

	For the Six Months Ended March 31,		2019 vs. 2018	
	2019	2018	\$ Change	% Change
Artist and repertoire costs	\$ 202	\$ 204	\$ (2)	-1%
Total cost of revenues	\$ 202	\$ 204	\$ (2)	-1%

Music Publishing cost of revenues decreased by \$2 million, or 1%, to \$202 million for the six months ended March 31, 2019 from \$204 million for the six months ended March 31, 2018. Expressed as a percentage of Music Publishing revenue, Music Publishing cost of revenues decreased to 63% for the six months ended March 31, 2019 from 64% for the six months ended March 31, 2018, primarily due to the adoption of ASC 606, which resulted in a shift in the timing of recognition of revenues and certain related costs from a cash to an accrual basis.

Selling, general and administrative expense

Music Publishing selling, general and administrative expenses were comprised of the following amounts (in millions):

	For the Six Months Ended March 31,		2019 vs. 2018	
	2019	2018	\$ Change	% Change
General and administrative expense (1)	\$ 37	\$ 38	\$ (1)	-3%
Selling and marketing expense	1	1	—	—%
Total selling, general and administrative expense	\$ 38	\$ 39	\$ (1)	-3%

(1) Includes depreciation expense of \$3 million for the six months ended March 31, 2019 and March 31, 2018.

Music Publishing selling, general and administrative expense decreased by \$1 million, or 3%, to \$38 million for the six months ended March 31, 2019 from \$39 million for the six months ended March 31, 2018. Expressed as a percentage of Music Publishing revenue, Music Publishing selling, general and administrative expense remained flat at 12% for the six months ended March 31, 2019 and for the six months ended March 31, 2018.

Operating income and OIBDA

Music Publishing OIBDA included the following amounts (in millions):

	For the Six Months Ended March 31,		2019 vs. 2018	
	2019	2018	\$ Change	% Change
Operating income	\$ 49	\$ 40	\$ 9	23%
Depreciation and amortization	37	37	—	—%
OIBDA	\$ 86	\$ 77	\$ 9	12%

Music Publishing OIBDA increased by \$9 million, or 12%, to \$86 million for the six months ended March 31, 2019 from \$77 million for the six months ended March 31, 2018. Expressed as a percentage of Music Publishing revenue, Music Publishing OIBDA increased to 27% for the six months ended March 31, 2019 from 24% for the six months ended March 31, 2018. The increase was primarily due to \$12 million from the adoption of ASC 606, which resulted in a shift in the timing of recognition of revenues and certain related costs from a cash to an accrual basis.

Music Publishing operating income increased by \$9 million to \$49 million for the six months ended March 31, 2019 from \$40 million operating income for the six months ended March 31, 2018 largely due to a transition in timing of revenues and related costs resulting from the adoption of ASC 606.

Corporate Expenses and Eliminations

Our operating loss from corporate expenses and eliminations increased by \$1 million to \$77 million for the six months ended March 31, 2019 from \$76 million for the six months ended March 31, 2018.

Our OIBDA loss from corporate expenses and eliminations increased by \$1 million to \$71 million for the six months ended March 31, 2019 from \$70 million for the six months ended March 31, 2018.

FINANCIAL CONDITION AND LIQUIDITY

Financial Condition at March 31, 2019

At March 31, 2019, we had \$2.990 billion of debt (which is net of \$28 million of deferred financing costs), \$470 million of cash and equivalents (net debt of \$2.520 billion, defined as total long-term debt, less cash and equivalents and deferred financing costs) and \$140 million of Warner Music Group Corp. deficit. This compares to \$2.819 billion of debt (which is net of \$28 million of deferred financing costs), \$514 million of cash and equivalents (net debt of \$2.305 billion) and \$334 million of Warner Music Group Corp. deficit at September 30, 2018.

Cash Flows

The following table summarizes our historical cash flows. The financial data for the six months ended March 31, 2019 and March 31, 2018 are unaudited and are derived from our interim financial statements included elsewhere herein. The cash flow is composed of the following (in millions):

	For the Six Months Ended	
	March 31,	
	2019	2018
Cash provided by (used in):		
Operating Activities	\$ 99	\$ 136
Investing Activities	(293)	(28)
Financing Activities	151	(149)

Operating Activities

Cash provided by operating activities was \$99 million for the six months ended March 31, 2019 as compared with cash provided by operating activities of \$136 million for the six months ended March 31, 2018. The \$37 million decrease in cash provided by operating activities was due to higher royalty payables, increased royalty advance investments and timing of accounts receivables, which includes the adoption of ASC 606 in October, partially offset by an OIBDA increase of \$99 million.

Investing Activities

Cash used in investing activities was \$293 million for the six months ended March 31, 2019 as compared with cash used in investing activities of \$28 million for the six months ended March 31, 2018. The \$293 million of cash used in investing activities in the six months ended March 31, 2019 consisted of the \$183 million relating to the acquisition of EMP, net of cash and equivalents acquired, \$35 million relating to the acquisition of equity investments, \$59 million relating to capital expenditures and \$16 million to acquire music publishing rights. The \$28 million of cash used in investing activities in the six months ended March 31, 2018 consisted of \$29 million of capital expenditures, which had increased due to costs incurred related to the build-out of our Los Angeles office, \$6 million of investments and acquisitions and \$5 million to acquire music publishing rights, partially offset by \$12 million of proceeds from sale of investments.

Financing Activities

Cash provided by financing activities was \$151 million for the six months ended March 31, 2019 compared to \$149 million used in financing activities for the six months ended March 31, 2018. The \$151 million of cash provided by financing activities for the six months ended March 31, 2019 consisted of proceeds of \$287 million from the issuance of Acquisition Corp.'s 3.625% Secured Notes due 2026 partially offset by deferred financing costs paid of \$4 million, the partial repayment of Acquisition Corp.'s 4.125% Secured Notes due 2024 of \$40 million, 4.875% Secured Notes due 2024 of \$30 million and 5.625% Secured Notes due 2022 of \$27 million, including call premiums paid of \$2 million, for an aggregate \$99 million, dividends paid of \$31 million and distributions to noncontrolling interest holders of \$2 million. The \$149 million of cash used in financing activities for the six months ended March 31, 2018 consisted of the repayment of and deposit for Acquisition Corp.'s 6.75% Senior Notes of \$635 million, special cash dividends paid of \$125 million, call premiums paid on and redemption deposit for early redemption of \$23 million, deferred financing costs paid of \$9 million, and a distribution to our non-controlling interest holders of \$2 million, partially offset by proceeds from issuance of Acquisition Corp.'s 5.50% Senior Notes of \$325 million, and proceeds from the issuance of Acquisition Corp.'s Senior Term Loan Facility of \$320 million.

Liquidity

Our primary sources of liquidity are the cash flows generated from our subsidiaries' operations, available cash and equivalents and funds available for drawing under our Revolving Credit Facility. These sources of liquidity are needed to fund our debt service requirements, working capital requirements, capital expenditure requirements, strategic acquisitions and investments, and any dividends, prepayments of debt or repurchases or retirement of our outstanding debt or notes in open market purchases, privately negotiated purchases or otherwise, we may elect to pay or make in the future. We believe that our existing sources of cash will be sufficient to support our existing operations over the next twelve months.

Existing Debt as of March 31, 2019

As of March 31, 2019, our long-term debt, all of which was issued by Acquisition Corp., was as follows (in millions):

Revolving Credit Facility (a)	\$	—
Senior Term Loan Facility due 2023 (b)		1,311
5.625% Senior Secured Notes due 2022 (c)		220
5.000% Senior Secured Notes due 2023 (d)		297
4.125% Senior Secured Notes due 2024 (e)		346
4.875% Senior Secured Notes due 2024 (f)		217
3.625% Senior Secured Notes due 2026 (g)		278
5.500% Senior Notes due 2026 (h)		321
Total long-term debt, including the current portion (i)	\$	<u>2,990</u>

- (a) Reflects \$180 million of commitments under the Revolving Credit Facility available at March 31, 2019 less letters of credit outstanding of approximately \$16 million at March 31, 2019. There were no loans outstanding under the Revolving Credit Facility at March 31, 2019.
- (b) Principal amount of \$1.326 billion less unamortized discount of \$4 million and unamortized deferred financing costs of \$11 million at March 31, 2019.
- (c) Principal amount of \$221 million less unamortized deferred financing costs of \$1 million at March 31, 2019.
- (d) Principal amount of \$300 million less unamortized deferred financing costs of \$3 million at both March 31, 2019.
- (e) Face amount of €311 million at March 31, 2019. Above amounts represent the dollar equivalent of such note at March 31, 2019. Principal amount of \$349 million at March 31, 2019, less unamortized deferred financing costs of \$3 million at March 31, 2019.
- (f) Principal amount of \$220 million less unamortized deferred financing costs of \$3 million at March 31, 2019.
- (g) Face amount of €250 million at March 31, 2019. Above amounts represent the dollar equivalent of such note at March 31, 2019. Principal amount of \$281 million at March 31, 2019 less unamortized deferred financing costs of \$3 million at March 31, 2019.
- (h) Principal amount of \$325 million less unamortized deferred financing costs of \$4 million at March 31, 2019.
- (i) Principal amount of debt of \$3.022 billion less unamortized discount of \$4 million and unamortized deferred financing costs of \$28 million at March 31, 2019.

For further discussion of our debt agreements, see “Liquidity” in the “Financial Condition and Liquidity” section of our Annual Report on Form 10-K for the fiscal year ended September 30, 2018.

Dividend Policy

The Company’s ability to pay dividends is restricted by covenants in the indentures governing our notes and in the credit agreements for our Senior Term Loan Facility and the Revolving Credit Facility.

In the first quarter of 2019, the Company instituted a regular quarterly dividend policy whereby it intends to pay a modest regular quarterly dividend in each fiscal quarter and a variable dividend for the fourth fiscal quarter in an amount commensurate with cash expected to be generated from operations in such fiscal year, in each case, after taking into account other potential uses for cash, including acquisitions, investment in our business and repayment of indebtedness. On December 20, 2018 the Company’s Board of Directors approved the first dividend of \$31.25 million which was paid on January 4, 2019. On March 26, 2019, the Company’s Board of Directors approved a dividend of \$31.25 million paid on April 5, 2019 and recorded as an accrual on March 31, 2019. The declaration of each dividend will continue to be at the discretion of the Company’s Board of Directors.

Covenant Compliance

The Company was in compliance with its covenants under its outstanding notes, Revolving Credit Facility and Senior Term Loan Facility as of March 31, 2019.

On January 18, 2019, we delivered a notice to the administrative agent under each of our Revolving Credit Facility and Senior Term Loan Facility and the trustee under the indentures governing each of the Acquisition Corp. Notes changing the Fixed GAAP Date under each such facility and the indentures to October 1, 2018.

Our Revolving Credit Facility contains a springing leverage ratio that is tied to a ratio based on Consolidated EBITDA, which is defined under the Credit Agreement governing the Revolving Credit Facility. Our ability to borrow funds under our Revolving Credit Facility may depend upon our ability to meet the leverage ratio test at the end of a fiscal quarter to the extent we have drawn a certain amount of revolving loans. Consolidated EBITDA differs from the term “EBITDA” as it is commonly used. For example, the definition of Consolidated EBITDA, in addition to adjusting net income to exclude interest expense, income taxes, and depreciation and amortization, also adjusts net income by excluding items or expenses not typically excluded in the calculation of “EBITDA” such as, among other items, (1) the amount of any restructuring charges or reserves; (2) any non-cash charges (including any impairment charges); (3) any net loss resulting from hedging currency exchange risks; (4) the amount of management, monitoring, consulting and advisory fees paid to Access under the Management Agreement (as defined in the Credit Agreement); (5) business optimization expenses (including consolidation initiatives, severance costs and other costs relating to initiatives aimed at profitability improvement); (6) transaction expenses and (7) equity-based compensation expense. It also includes an adjustment for the pro forma impact of certain projected cost-savings and synergies. The indentures governing our notes and our Senior Term Loan Facility use financial measures called “Consolidated EBITDA” or “EBITDA” that have the same definition as Consolidated EBITDA as defined under the Credit Agreement governing the Revolving Credit Facility.

Consolidated EBITDA is presented herein because it is a material component of the leverage ratio contained in our Revolving Credit Agreement. Non-compliance with the leverage ratio could result in the inability to use our Revolving Credit Facility, which could have a material adverse effect on our results of operations, financial position and cash flow. Consolidated EBITDA does not represent net income or cash from operating activities as those terms are defined by U.S. GAAP and does not necessarily indicate whether cash flows will be sufficient to fund cash needs. While Consolidated EBITDA and similar measures are frequently used as measures of operations and the ability to meet debt service requirements, these terms are not necessarily comparable to other similarly titled captions of other companies due to the potential inconsistencies in the method of calculation. Consolidated EBITDA does not reflect the impact of earnings or charges resulting from matters that we may consider not to be indicative of our ongoing operations. In particular, the definition of Consolidated EBITDA in the Revolving Credit Agreement allows us to add back certain non-cash, extraordinary, unusual or non-recurring charges that are deducted in calculating net income. However, these are expenses that may recur, vary greatly and are difficult to predict.

Consolidated EBITDA as presented below is not a measure of the performance of our business and should not be used by investors as an indicator of performance for any future period. Further, our debt instruments require that it be calculated for the most recent four fiscal quarters. As a result, the measure can be disproportionately affected by a particularly strong or weak quarter. Further, it may not be comparable to the measure for any subsequent four quarter period or any complete fiscal year. In addition, our debt instruments require that the leverage ratio be calculated on a pro forma basis for certain transactions including acquisitions as if such transactions had occurred on the first date of the measurement period and may include expected cost savings and synergies resulting from or related to any such transaction. There can be no assurances that any such cost savings or synergies will be achieved in full.

The following is a reconciliation of net income, which is a U.S. GAAP measure of our operating results, to pro-forma Consolidated EBITDA as defined, and the calculation of the Senior Secured Indebtedness to pro-forma Consolidated EBITDA ratio, which we refer to as the Leverage Ratio, under our Revolving Credit Agreement for the most recently ended four fiscal quarters, or twelve months ended March 31, 2019. The terms and related calculations are defined in the Revolving Credit Agreement. All amounts in the reconciliation below reflect Acquisition Corp. (in millions, except ratio):

	Twelve Months Ended March 31, 2019
Net Income	\$ 462
Income tax expense	158
Interest expense, net	138
Depreciation and amortization	264
Loss on extinguishment of debt (a)	9
Net gain on divestitures and sale of securities (b)	(8)
Restructuring costs (c)	45
Net hedging gains and foreign exchange losses (d)	(44)
Management fees (e)	17
Transaction costs (f)	3
Business optimization expenses (g)	18
Equity based compensation expense (h)	50
Other non-cash activity (i)	(30)
Pro forma impact of transformation initiatives and specified transactions (j)	15
Pro Forma Consolidated EBITDA (k)	\$ 1,097
Senior Secured Indebtedness (l)	\$ 2,497
Leverage Ratio (m)	2.28x

- (a) Reflects net loss incurred on the early extinguishment of our debt incurred as part of the June 2018 Senior Term Loan Credit Agreement Amendments, the October 2018 Partial Redemption of 4.125% Secured Notes, the October 2018 open market purchase of our 4.875% Senior Secured Notes, and the November 2018 Partial Redemption of 5.625% Secured Notes.
- (b) Reflects net gain on divestitures and sale of securities.
- (c) Reflects severance costs and other restructuring related expenses.
- (d) Reflects net losses from hedging activities and unrealized losses due to foreign exchange on our Euro denominated debt and intercompany transactions.
- (e) Reflects management fees paid to Access, including an annual fee and related expenses. Pursuant to the Company's and Holdings' management agreement with Access, the base amount of the annual fee is approximately \$9 million, subject to certain potential upward adjustments, in addition to a \$7 million increase in fiscal 2018.
- (f) Reflects expenses related to transaction and other related costs.
- (g) Reflects primarily costs associated with IT systems updates and U.S. shared services relocation and other transformation initiatives.
- (h) Reflects equity-based compensation expense related to the Warner Music Group Corp. Senior Management Free Cash Flow Plan.
- (i) Reflects non-cash activity, including the unrealized gain on the mark-to-market of an equity method investment.
- (j) Reflects expected savings resulting from transformation initiatives and proforma impact of specified transactions, including proforma adjustments related to the acquisition of EMP.
- (k) The Pro Forma Consolidated EBITDA as of the twelve months ended March 31, 2019 includes a net gain of \$389 million, pre-tax, related to the sale of the Spotify shares acquired in the ordinary course of business.
- (l) Reflects the principal balance of senior secured debt at Acquisition Corp. of approximately \$2.697 billion less cash of \$200 million.
- (m) Reflects the ratio of Senior Secured Indebtedness, including Revolving Credit Agreement Indebtedness, to Pro Forma Consolidated EBITDA as of the twelve months ended March 31, 2019. This is calculated net of cash and equivalents of the Company as of March 31, 2019 not exceeding \$200 million. If the outstanding aggregate principal amount of borrowings and drawings under letters of credit which have not been reimbursed under our Revolving Credit Facility is greater than \$54 million at the end of a fiscal quarter, the maximum leverage ratio permitted under our Revolving Credit Facility is 4.75:1.00. The Company's Revolving Credit Facility does not impose any "leverage ratio" restrictions on the Company when the aggregate principal amount of borrowings and drawings under letters of credit, which have not been reimbursed under the Revolving Credit Facility, is less than or equal to \$54 million at the end of a fiscal quarter.

Summary

Management believes that funds generated from our operations and borrowings under our Revolving Credit Facility and available cash and equivalents will be sufficient to fund our debt service requirements, working capital requirements and capital expenditure requirements for the foreseeable future. We also have additional borrowing capacity under our indentures and Senior Term Loan Facility. However, our ability to continue to fund these items and to reduce debt may be affected by general economic, financial, competitive, legislative and regulatory factors, as well as other industry-specific factors such as the ability to control music piracy, the continued transition from physical to digital sales in the recorded music and music publishing businesses. We and our affiliates continue to evaluate opportunities to, from time to time depending on market conditions and prices, contractual restrictions, our financial liquidity and other factors, seek to pay dividends or prepay outstanding debt or repurchase or retire Acquisition Corp.'s outstanding debt or debt securities in open market purchases, privately negotiated purchases or otherwise. The amounts involved in any such transactions, individually or in the aggregate, may be material and may be funded from available cash or from additional borrowings. In addition, we may from time to time, depending on market conditions and prices, contractual restrictions, our financial liquidity and other factors, seek to refinance our Senior Credit Facilities or our outstanding debt or debt securities with existing cash and/or with funds provided from additional borrowings.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As discussed in Note 13 to our audited Consolidated Financial Statements for the fiscal year ended September 30, 2018, the Company is exposed to market risk arising from changes in market rates and prices, including movements in foreign currency exchange rates and interest rates. As of March 31, 2019, other than as described below, there have been no material changes to the Company's exposure to market risk since September 30, 2018.

Foreign Currency Risk

Within our global business operations, we have transactional exposures that may be adversely affected by changes in foreign currency exchange rates relative to the U.S. dollar. We may at times choose to use foreign exchange currency derivatives, primarily forward contracts, to manage the risk associated with the volatility of future cash flows denominated in foreign currencies, such as unremitted or future royalties and license fees owed to our U.S. domestic companies for the sale, merchandising, or anticipated sale, of U.S.-copyrighted products sold abroad that may be adversely affected by changes in foreign currency exchange rates. We focus on managing the level of exposure to the risk of foreign currency exchange rate fluctuations on major currencies, which can include the British Pound, Euro, Japanese Yen, Canadian Dollar, Swedish Krona, Australian Dollar, Brazilian real, Korean won and Norwegian krone, and in many cases we have natural hedges where we have expenses associated with local operations that offset the revenue in local currency and our Euro-denominated debt, which can offset declines in the Euro. As of March 31, 2019, the Company had outstanding hedge contracts for the sale of \$272 million and the purchase of \$164 million of foreign currencies at fixed rates. Subsequent to March 31, 2019, certain of our foreign exchange contracts expired.

The fair value of foreign exchange contracts is subject to changes in foreign currency exchange rates. For the purpose of assessing the specific risks, we use a sensitivity analysis to determine the effects that market risk exposures may have on the fair value of our financial instruments. For foreign exchange forward contracts outstanding at March 31, 2019, we typically perform a sensitivity analysis assuming a hypothetical 10% depreciation of the U.S. dollar against foreign currencies from prevailing foreign currency exchange rates and assuming no change in interest rates. The fair value of the foreign exchange forward contracts would have decreased by \$9 million based on this analysis. Hypothetically, even if there was a decrease in the fair value of the forward contracts, because our foreign exchange contracts are entered into for hedging purposes, these losses would be largely offset by gains on the underlying transactions.

Interest Rate Risk

We had \$3.022 billion of principal debt outstanding at March 31, 2019, of which \$1.326 billion was variable rate debt and \$1.696 billion was fixed rate debt. As such, we are exposed to changes in interest rates. At March 31, 2019, 56% of the Company's debt was at a fixed rate. In addition, as of March 31, 2019, we have the option under all of our floating rate debt under our Senior Term Loan Facility to select a one, two, three or six-month LIBOR rate. To manage interest rate risk on \$320 million of U.S. dollar denominated variable rate debt, the Company has entered into interest rate swaps to effectively convert the floating interest rates to a fixed interest rate on a portion of its variable-rate debt.

Based on the level of interest rates prevailing at March 31, 2019, the fair value of the fixed rate and variable rate debt was approximately \$3.043 billion. Further, based on the amount of its fixed rate debt, a 25 basis point increase or decrease in the level of interest rates would decrease the fair value of the fixed rate debt by approximately \$6 million or increase the fair value of the fixed rate debt by approximately \$14 million. This potential increase or decrease is based on the simplified assumption that the level of fixed-rate debt remains constant with an immediate across the board increase or decrease in the level of interest rates with no subsequent changes in rates for the remainder of the period.

ITEM 4. CONTROLS AND PROCEDURES

Certification

The certifications of the principal executive officer and the principal financial officer (or persons performing similar functions) required by Rules 13a-14(a) and 15d-14(a) of the Exchange Act (the “Certifications”) are filed as exhibits to this report. This section of the report contains the information concerning the evaluation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) (“Disclosure Controls”) and changes to internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) (“Internal Controls”) referred to in the Certifications and this information should be read in conjunction with the Certifications for a more complete understanding of the topics presented.

Introduction

The Securities and Exchange Commission’s (“SEC”) rules define “disclosure controls and procedures” as controls and procedures that are designed to ensure that information required to be disclosed by public companies in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by public companies in the reports that they file or submit under the Exchange Act is accumulated and communicated to a company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

The SEC’s rules define “internal control over financial reporting” as a process designed by, or under the supervision of, a public company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the Company’s Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, or U.S. GAAP, including those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Our management, including the principal executive officer and principal financial officer, does not expect that our Disclosure Controls or Internal Controls will prevent or detect all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the limitations in any and all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. Further, the design of any control system is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of these inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected even when effective Disclosure Controls and Internal Controls are in place.

Evaluation of Disclosure Controls and Procedures

Based on our management’s evaluation (with the participation of our principal executive officer and principal financial officer), as of the end of the period covered by this report, our principal executive officer and principal financial officer have concluded that our Disclosure Controls are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act will be recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, including that such information is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

Beginning October 1, 2018, we implemented the new revenue standard pursuant to Financial Accounting Standards Board, Accounting Standards Codification Topic 606, Revenue from Contracts with Customers. As a result of this adoption, we recorded a material decrease to opening accumulated deficit as of October 1, primarily due to the transition from a cash basis to accrual basis accounting. As such, we implemented changes to our processes related to revenue recognition and the control activities within them. These included the development of new policies based on the five-step model provided in the new revenue standard, training, contract review requirements, and gathering of information provided for the disclosures required in our SEC interim and annual filings. There were no other changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2019, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Sirius XM

On September 11, 2013, the Company joined with Capitol Records, LLC, Sony Music Entertainment, UMG Recordings, Inc. and ABKCO Music & Records, Inc. in a lawsuit brought in California Superior Court against Sirius XM Radio Inc., alleging copyright infringement for Sirius XM's use of pre-1972 sound recordings under California law. A nation-wide settlement was reached on June 17, 2015 pursuant to which Sirius XM paid the plaintiffs, in the aggregate, \$210 million on July 29, 2015 and the plaintiffs dismissed their lawsuit with prejudice. The settlement resolves all past claims as to Sirius XM's use of pre-1972 recordings owned or controlled by the plaintiffs and enables Sirius XM, without any additional payment, to reproduce, perform and broadcast such recordings in the United States through December 31, 2017. The allocation of the settlement proceeds among the plaintiffs was determined and the settlement proceeds were distributed accordingly. This resulted in a cash distribution to the Company of \$33 million of which \$28 million was recognized in revenue during the 2016 fiscal year and \$4 million was recognized in revenue during the 2017 fiscal year. The balance of \$1 million was recognized in the first quarter of the 2018 fiscal year. The Company is sharing its allocation of the settlement proceeds with its artists on the same basis as statutory revenue from Sirius XM is shared, i.e., the artist share of our allocation will be paid to artists by SoundExchange.

As part of the settlement, plaintiffs agreed to negotiate in good faith to grant Sirius XM a license to publicly perform the plaintiffs' pre-1972 sound recordings for the five-year period running from January 1, 2018 to December 31, 2022. Pursuant to the settlement, if the parties are unable to reach an agreement on license terms, the royalty rate for each license will be determined by binding arbitration on a willing buyer/willing seller standard. On December 21, 2017, Sirius XM commenced a single arbitration against all of the plaintiffs in California through JAMS to determine the rate for the five-year period. On May 1, 2018, the Company filed a lawsuit against Sirius XM in New York state court to stay the California arbitration and to compel a separate arbitration in New York solely between Sirius XM and the Company. On August 23, 2018, the Company filed a Stipulation of Discontinuance without Prejudice as to the New York state court action after Sirius XM agreed to participate in a separate arbitration with the Company in New York if the parties were unable to reach an agreement on pre-1972 license terms. On March 28, 2019, the Company and Sirius XM entered into an agreement granting Sirius XM a license to publicly perform the Company's pre-1972 sound recordings for the five-year period running from January 1, 2018 to December 31, 2022.

Other Matters

In addition to the matter discussed above, the Company is involved in various litigation and regulatory proceedings arising in the normal course of business. Where it is determined, in consultation with counsel based on litigation and settlement risks, that a loss is probable and estimable in a given matter, the Company establishes an accrual. In the currently pending proceedings, the amount of accrual is not material. An estimate of the reasonably possible loss or range of loss in excess of the amounts already accrued cannot be made at this time due to various factors typical in contested proceedings, including (1) the results of ongoing discovery; (2) uncertain damage theories and demands; (3) a less than complete factual record; (4) uncertainty concerning legal theories and their resolution by courts or regulators; and (5) the unpredictable nature of the opposing party and its demands. However, the Company cannot predict with certainty the outcome of any litigation or the potential for future litigation. As such, the Company continuously monitors these proceedings as they develop and adjusts any accrual or disclosure as needed. Regardless of the outcome, litigation could have an adverse impact on the Company, including the Company's brand value, because of defense costs, diversion of management resources and other factors and it could have a material effect on the Company's results of operations for a given reporting period.

ITEM 1A. RISK FACTORS

In addition to the other information contained in this Quarterly Report on Form 10-Q, certain risk factors should be considered carefully in evaluating our business. A wide range of risks may affect our business and financial results, now and in the future. We consider the risks described in [Part I, Item 1A “Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended September 30, 2018](#), to be the most significant. There may be other currently unknown or unpredictable economic, business, competitive, regulatory or other factors that could have material adverse effects on our future results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

Exhibit Number	Description
31.1*	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
31.2*	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
32.1**	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.1*	Financial statements from the Quarterly Report on Form 10-Q of Warner Music Group Corp. for the quarter ended March 31, 2019, filed on May 7, 2019, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statement of Comprehensive Loss, (iv) Consolidated Statements of Cash Flows, (v) Consolidated Statements of Equity and (vi) Notes to Consolidated Interim Financial Statements

* Filed herewith

** Pursuant to SEC Release No. 33-8212, this certification will be treated as “accompanying” this Quarterly Report on Form 10-Q and not “filed” as part of such report for purposes of Section 18 of the Securities Exchange Act, as amended, or otherwise subject to the liability of Section 18 of the Securities Exchange Act, as amended, and this certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, except to the extent that the registrant specifically incorporates it by reference

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

May 7, 2019

WARNER MUSIC GROUP CORP.

By: _____ /s/ STEPHEN COOPER
Name: **Stephen Cooper**
Title: **Chief Executive Officer
(Principal Executive Officer)**

By: _____ /s/ ERIC LEVIN
Name: **Eric Levin**
Title: **Chief Financial Officer (Principal Financial
Officer and Principal Accounting Officer)**

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Stephen Cooper, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended March 31, 2019 of Warner Music Group Corp. (the “Registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s Board of Directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Dated: May 7, 2019

/s/ STEPHEN COOPER
Chief Executive Officer
(Principal Executive Officer)

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Eric Levin, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended March 31, 2019 of Warner Music Group Corp. (the “Registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s Board of Directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Dated: May 7, 2019

/s/ ERIC LEVIN
Chief Financial Officer
(Principal Financial and Accounting Officer)

**Certification of the Chief Executive Officer
Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Warner Music Group Corp. (the "Company") on Form 10-Q for the period ended March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen Cooper, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 7, 2019

/s/ STEPHEN COOPER
Stephen Cooper
Chief Executive Officer

**Certification of the Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Warner Music Group Corp. (the "Company") on Form 10-Q for the period ended March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Eric Levin, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 7, 2019

/s/ ERIC LEVIN
Eric Levin
Chief Financial Officer