Warner Music Group Corp.
Form 10-Q
May 06, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016

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	13-4271875
(State or other jurisdiction of incorporation or organization)	(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 x

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes x No ¨

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

There is no public market for the Registrant’s common stock. As of May 6, 2016 the number of shares of the Registrant’s common stock, par value $0.001 per share, outstanding was 1,055. 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.

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ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Warner Music Group Corp.

Consolidated Balance Sheets (Unaudited)

	March 31, 2016	September 30, 2015
	(in millions)	
Assets		
Current assets:		
Cash and equivalents	$316	$ 246
Accounts receivable, net of allowances of $54 million and $56 million	318	349
Inventories	41	42
Royalty advances expected to be recouped within one year	135	130
Prepaid and other current assets	64	60
Total current assets	874	827
Royalty advances expected to be recouped after one year	203	195
Property, plant and equipment, net	210	220
Goodwill	1,622	1,632
Intangible assets subject to amortization, net	2,348	2,514
Intangible assets not subject to amortization	118	119
Other assets	110	114
Total assets	$5,485	$ 5,621
Liabilities and Equity		
Current liabilities:		
Accounts payable	$176	$ 173
Accrued royalties	1,102	1,087
Accrued liabilities	249	296
Accrued interest	53	58
Deferred revenue	206	206
Current portion of long-term debt	13	13
Other current liabilities	22	24
Total current liabilities	1,821	1,857
Long-term debt	2,899	2,981
Deferred tax liabilities, net	292	302
Other noncurrent liabilities	239	242
Total liabilities	$5,251	$ 5,382
Equity:		
Common stock ($0.001 par value; 10,000 shares authorized; 1,055 shares issued and outstanding)	$—	$ —
Additional paid-in capital	1,128	1,128
Accumulated deficit	(702)	(740)
Accumulated other comprehensive loss, net	(205)	(167)
Total Warner Music Group Corp. equity	221	221
Noncontrolling interest	13	18

Total equity	234	239
Total liabilities and equity	$5,485	$ 5,621

See accompanying notes

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Warner Music Group Corp.

Consolidated Statements of Operations (Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2016	2015	2016	2015
	(in millions)		(in millions)	
Revenue	$745	$677	$1,594	$1,506
Costs and expenses:				
Cost of revenue	(374)	(318)	(823)	(763)
Selling, general and administrative expenses (a)	(256)	(252)	(532)	(548)
Amortization expense	(63)	(63)	(125)	(128)
Total costs and expenses	(693)	(633)	(1,480)	(1,439)
Operating income	52	44	114	67
Gain on sale of real estate	19	—	19	—
Interest expense, net	(43)	(45)	(88)	(91)
Other (expense) income	(1)	14	7	5
Income (loss) before income taxes	27	13	52	(19)
Income tax (expense) benefit	(15)	6	(12)	(3)
Net income (loss)	12	19	40	(22)
Less: Income attributable to noncontrolling interest	(1)	(1)	(2)	(2)
Net income (loss) attributable to Warner Music Group Corp.	$11	$18	$38	$(24)
(a) Includes depreciation expense of:	$(12)	$(14)	$(25)	$(28)

See accompanying notes

Warner Music Group Corp.

Consolidated Statements of Comprehensive (Loss) Income (Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2016	2015	2016	2015
	(in millions)		(in millions)	
Net income (loss)	$12	$19	$40	$(22)
Other comprehensive loss, net of tax:				
Foreign currency adjustment	(12)	(56)	(36)	(90)
Deferred losses on derivative financial instruments	(1)	—	(2)	—
Other comprehensive loss, net of tax	(13)	(56)	(38)	(90)
Total comprehensive (loss) income	(1)	(37)	2	(112)
Less: Income attributable to noncontrolling interest	(1)	(1)	(2)	(2)
Comprehensive (loss) income attributable to Warner Music Group Corp.	$(2)	$(38)	$—	$(114)

See accompanying notes

Warner Music Group Corp.

Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended March 31, 2016	Six Months Ended March 31, 2015
	(in millions)	
Cash flows from operating activities		
Net income (loss)	$40	$ (22)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	150	156
Unrealized (gains)/losses and remeasurement of foreign denominated loans	(2)	10
Deferred income taxes	(10)	(12)
Loss on extinguishment of debt	4	—
Loss on divestiture of business	3	—
Gain on sale of real estate	(19)	—
Non-cash interest expense	5	6
Non-cash share-based compensation expense	4	(1)
Changes in operating assets and liabilities:		
Accounts receivable	25	20
Inventories	(1)	(1)
Royalty advances	(21)	(33)
Accounts payable and accrued liabilities	(41)	(49)
Royalty payables	35	(11)
Accrued interest	(5)	(2)
Deferred revenue	2	79
Other balance sheet changes	3	2
Net cash provided by operating activities	172	142
Cash flows from investing activities		
Acquisition of music publishing rights, net	(12)	(9)
Capital expenditures	(23)	(39)
Investments and acquisitions of businesses, net	(8)	(11)
Divestiture of business, net of cash on hand	6	—
Proceeds from the sale of real estate	42	—
Net cash provided by (used in) investing activities	5	(59)
Cash flows from financing activities		
Proceeds from the Revolving Credit Facility	—	173
Repayment of the Revolving Credit Facility	—	(173)
Repayment of Acquisition Corp. Senior Term Loan Facility	(6)	(6)
Repayment of Holdings 13.75% Senior Notes	(50)	—
Call premiums paid on early redemption of debt	(3)	—
Repayment of Acquisition Corp. 6.75% Senior Notes	(24)	—
Distribution to noncontrolling interest holder	(3)	(2)
Repayment of capital lease obligations	(14)	(1)

Net cash used in financing activities	(100)	(9)
Effect of exchange rate changes on cash and equivalents	(7)	(13)
Net increase in cash and equivalents	70	61
Cash and equivalents at beginning of period	246	157
Cash and equivalents at end of period	$316	$ 218

See accompanying notes

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Warner Music Group Corp.

Consolidated Statements of Equity (Unaudited)

	Common Stock Shares	Value	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Warner Music Group Corp. Equity	Noncontrolling Interest	Total Equity
	(in millions, except share amounts)							
Balance at September 30, 2015	1,055	$ —	$ 1,128	$ (740)	$ (167)	$ 221	$ 18	$ 239
Net income	—	—	—	38	—	38	2	40
Other comprehensive loss, net of tax	—	—	—	—	(38)	(38)	—	(38)
Disposal of noncontrolling interest related to divestiture of business	—	—	—	—	—	—	(4)	(4)
Distribution to noncontrolling interest holders	—	—	—	—	—	—	(3)	(3)
Balance at March 31, 2016	1,055	$ —	$ 1,128	$ (702)	$ (205)	$ 221	$ 13	$ 234

See accompanying notes

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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 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") in accordance with certain covenants contained in the agreements governing its outstanding indebtedness.

Acquisition of Parlophone Label Group

On July 1, 2013, the Company completed its acquisition of Parlophone Label Group (the "PLG Acquisition").

The Company classifies its business interests into two fundamental operations: Recorded Music and Music Publishing. A brief description of these operations is presented below.

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 albums 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. The Company's Recorded Music operations also include Rhino, a division that specializes in marketing the Company's music catalog through compilations and reissuances 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, Eastwest, Elektra, Erato, FFRR, Fueled by Ramen, Nonesuch, Parlophone, Reprise, Roadrunner, Sire, 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 records 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.

In addition to the Company's Recorded Music products being sold in physical retail outlets, 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 online digital download services such as Apple's iTunes and Google Play, and are offered by digital streaming services such as Apple Music, Deezer, Rhapsody, Spotify and YouTube, including digital radio services such as iHeart Radio, Pandora and Sirius XM.

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 a record 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 online and mobile 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 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 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, the Company's Music Publishing business garners a share of the revenues generated from use of the composition.

The Company's Music Publishing operations include 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 65,000 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, gospel and other Christian music. Warner/Chappell also administers the music and soundtracks of several third-party television and film producers and studios, including Lucasfilm, Ltd., Hallmark Entertainment and Disney Music Publishing. 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 of 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, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ended September 30, 2016.

The consolidated balance sheet at September 30, 2015 has been derived from the audited consolidated financial statements at that date but does not include all of 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, 2015 (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, 2016 and March 31, 2015 relate to the periods ended March 25, 2016 and March 27, 2015, respectively. For convenience purposes, the Company continues to date its financial statements as of March 31. The fiscal year ended September 30, 2015 ended on September 25, 2015. For convenience purposes, the Company continues to date its balance sheet as of September 30.

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. If a reliable estimate of the annual effective tax rate cannot be made, which could be caused by the significant variability in rates when marginal earnings are expected for the year, a discrete tax rate is calculated for the period.

New Accounting Pronouncements

During the first quarter of fiscal 2016, the Company adopted ASU 2015-17, Balance Sheet Classification of Deferred Taxes (“ASU 2015-17”). ASU 2015-17 requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The Company has elected to adopt this standard retrospectively, and thus the reclassification of prior period balances has been made. The application of ASU 2015-17 to the Company’s September 30, 2015 Consolidated Balance Sheets resulted in a decrease to current deferred tax assets of $52 million, an increase to non-current deferred tax assets of $2 million, and a decrease to non-current deferred tax liabilities of $50 million.

In May 2014, the FASB issued guidance codified in ASC 606, Revenue Recognition – Revenue from Contracts with Customers (“ASC 606”), which replaces the guidance in former ASC 605, Revenue Recognition and ASC 928, 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. ASC 606 is effective for annual periods beginning after December 15, 2017, and interim periods within those years. Early application is not permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The update may be applied using one of two methods: retrospective application to each prior reporting period presented, or retrospective application with the cumulative effect of initially applying the update recognized at the date of initial application. The Company is currently evaluating the transition method that will be elected and the impact of the update on its financial statements and disclosures.

In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern (“ASU 2014-15”). This ASU will explicitly require management to assess an entity’s ability to continue as a going concern, and to provide related disclosure when substantial doubt exists. ASU 2014-15 will be effective in the first annual period ending after December 15, 2016, and interim periods thereafter. Earlier adoption is permitted.

The adoption of this standard is not expected to have a significant impact on the Company's financial statements, other than disclosure.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"). This ASU will require that debt issuance costs are presented as a direct deduction to the related debt in the liability section of the balance sheet, rather than presented as an asset. ASU 2015-03 will be effective for annual periods beginning after December 15, 2015, and interim periods within those years. Earlier adoption is permitted. The adoption of this standard is not expected to have a significant impact on the Company's financial statements, other than presentation.

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 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 price. ASU 2016-01 will be effective for annual periods beginning after December 15, 2017, and interim periods within those years. Earlier adoption is permitted. The adoption of this standard is not expected to have a significant impact on the Company's financial statements, other than disclosure.

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 after December 15, 2018, and interim periods within those years. Earlier adoption is permitted. The adoption of this standard is not expected to have a significant impact on the Company's financial statements, other than presentation.

In March 2016, the FASB issued ASU 2016-05, Derivatives and Hedging: Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships ("ASU 2016-05") and ASU 2016-06, Derivatives and Hedging: Contingent Put and Call Options in Debt Instruments ("ASU 2016-06"). ASU 2016-05 clarifies that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. ASU 2016-06 clarifies the steps required to determine bifurcation of an embedded derivative. ASU 2016- 05 and ASU 2016-06 are effective for annual periods after December 15, 2016, and interim periods within those years. Early adoption is permitted. The guidance may be adopted prospectively or by a modified retrospective approach. The Company is evaluating the impact of the future adoption of this standard on its financial statements and disclosures.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation ("ASU 2016-09"). This ASU provides amended guidance which simplifies the accounting for share-based payment transactions involving multiple aspects of the accounting for share-based transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for annual periods after December 15, 2016, and interim periods within those years. Early adoption is permitted. The Company is evaluating the impact of the future adoption of this standard on its financial statements and disclosures.

3. Comprehensive Loss

Comprehensive loss, which is reported in the accompanying consolidated statements of 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 loss primarily consist of foreign currency translation losses and minimum pension liabilities. The following summary sets forth the changes in the components of accumulated other comprehensive loss, net of related taxes:

	Foreign Currency Translation Loss	Minimum Pension Liability Adjustment	(Losses) On Derivative Financial Instruments	Accumulated Other Comprehensive Loss, net

	(in millions)			
Balance at September 30, 2015	$(157)	$ (10)	$ —	$ (167)
Other comprehensive loss (a)	(36)	—	(2)	(38)
Amounts reclassified from accumulated other comprehensive income	—	—	—	—
Balance at March 31, 2016	$(193)	$ (10)	$ (2)	$ (205)

(a) Foreign currency translation adjustments include intra-entity foreign currency transactions that are of a long-term investment nature of $63.9 million.

4. 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, 2015	$1,168	$ 464	$1,632
Acquisitions	—	—	—
Divestitures (a)	(7)	—	(7)
Other adjustments (b)	(3)	—	(3)
Balance at March 31, 2016	$1,158	$ 464	$1,622

(a) Divestiture of business during the six months ended March 31, 2016.
(b) Other adjustments during the six months ended March 31, 2016 represent foreign currency movements.

The Company performs its annual goodwill impairment test in accordance with FASB ASC Topic 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, 2016	September 30, 2015
		(in millions)	
Intangible assets subject to amortization:			
Recorded music catalog	10 years	$967	$ 992
Music publishing copyrights	27 years	1,489	1,497
Artist and songwriter contracts	13 years	906	926
Trademarks	7 years	7	7
Total gross intangible asset subject to amortization		3,369	3,422
Accumulated amortization		(1,021)	(908)
Total net intangible assets subject to amortization		2,348	2,514
Intangible assets not subject to amortization:			
Trademarks and tradenames	Indefinite	118	119
Total net intangible assets		$2,466	$ 2,633

5. Debt

Debt Capitalization

Long-term debt, including the current portion, consists of the following:

	March 31, 2016	September 30, 2015
	(in millions)	
Revolving Credit Facility—Acquisition Corp. (a)	$—	$ —
Senior Term Loan Facility due 2020—Acquisition Corp. (b)	1,276	1,282
5.625% Senior Secured Notes due 2022—Acquisition Corp.	275	275
6.00% Senior Secured Notes due 2021—Acquisition Corp.	450	450
6.25% Senior Secured Notes due 2021—Acquisition Corp. (c)	176	177
6.75% Senior Notes due 2022—Acquisition Corp.	635	660
13.75% Senior Notes due 2019—Holdings	100	150
Total debt	2,912	2,994
Less: current portion	13	13
Total long-term debt	$2,899	$ 2,981

(a) Reflects $150 million of commitments under the Revolving Credit Facility, less letters of credit outstanding of approximately $5 million at both March 31, 2016 and September 30, 2015. There were no loans outstanding under the Revolving Credit Facility at March 31, 2016 or September 30, 2015.

(b) Principal amount of $1.280 billion and $1.287 billion less unamortized discount of $4 million and $5 million at March 31, 2016 and September 30, 2015, respectively. Of this amount, $13 million, representing the scheduled amortization of the Senior Term Loan Facility, was included in the current portion of long-term debt at March 31, 2016 and September 30, 2015.

(c) Face amount of €158 million. Above amounts represent the dollar equivalent of such notes at March 31, 2016 and September 30, 2015.

Debt Redemptions

On February 16, 2016, Holdings redeemed $50 million of its $150 million outstanding 13.75% Senior Notes due 2019. The Company recorded a loss on extinguishment of debt of approximately $5 million, which represents the premium paid on early redemption.

Open Market Purchases

On March 11, 2016, Acquisition Corp. purchased, in the open market, approximately $25 million of its $660 million outstanding 6.75% Senior Notes due 2022. The acquired notes were subsequently retired. Following retirement of the acquired notes, approximately $635 million of the 6.75% Senior Notes due 2022 remain outstanding.

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"), plus 2.00% 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, 1.00% 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"), plus 2.75% 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, 1.75% per annum. The loans under the Senior Term Loan Facility are subject to a Term Loan LIBOR "floor" of 1.00%. 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.

Amortization and Maturity of Senior Term Loan Facility

The loans under the Senior Term Loan Facility amortize in equal quarterly installments due December, March, June and September in aggregate annual amounts equal to 1.00% of the original principal amount of the amended Senior Term Loan Facility, or $13 million per year, with the balance payable on maturity date of the Term Loans. The loans outstanding under the Senior Term Loan Facility mature on July 1, 2020.

Maturity of Revolving Credit Facility

The maturity date of the Revolving Credit Facility is April 1, 2019.

Maturities of Senior Notes and Senior Secured Notes

As of March 31, 2016, there are no scheduled maturities of notes until 2019, when $100 million is scheduled to mature. Thereafter, $1.536 billion is scheduled to mature.

Interest Expense, net

Total interest expense, net, was $43 million and $45 million for the three months ended March 31, 2016 and March 31, 2015, respectively. Total interest expense, net, was $88 million and $91 million for the six months ended March 31, 2016 and March 31, 2015, respectively. The weighted-average interest rate of the Company's total debt was 5.4% at March 31, 2016 and 5.6% at September 30, 2015 and March 31, 2015.

6. Commitments and Contingencies

Pricing of Digital Music Downloads

On December 20, 2005 and February 3, 2006, the Attorney General of the State of New York served the Company with requests for information in connection with an industry-wide investigation as to the pricing of digital music downloads. On February 28, 2006, the Antitrust Division of the U.S. Department of Justice served us with a Civil Investigative Demand, also seeking information relating to the pricing of digitally downloaded music. Both investigations were ultimately closed, but subsequent to the announcements of the investigations, more than thirty putative class action lawsuits were filed concerning the pricing of digital music downloads. The lawsuits were consolidated in the Southern District of New York. The consolidated amended complaint, filed on April 13, 2007, alleges conspiracy among record companies to delay the release of their content for digital distribution, inflate their pricing of CDs and fix prices for digital downloads. The complaint seeks unspecified compensatory, statutory

and treble damages. On October 9, 2008, the District Court issued an order dismissing the case as to all defendants, including us. However, on January 12, 2010, the Second Circuit vacated the judgment of the District Court and remanded the case for further proceedings and on January 10, 2011, the U.S. Supreme Court denied the defendants' petition for Certiorari.

Upon remand to the District Court, all defendants, including the Company, filed a renewed motion to dismiss challenging, among other things, plaintiffs' state law claims and standing to bring certain claims. The renewed motion was based mainly on arguments made in defendants' original motion to dismiss, but not addressed by the District Court. On July 18, 2011, the District Court granted defendants' motion in part, and denied it in part. Notably, all claims on behalf of the CD-purchaser class were dismissed with prejudice. However, a wide variety of state and federal claims remain for the class of Internet download purchasers. Plaintiffs filed an operative consolidated amended complaint on August 31, 2011. The Company filed its answer to the fourth amended complaint on October 9, 2015. Plaintiffs filed an amended Class Certification brief on October 12, 2015. The Company filed amended answers to the fourth amended complaint on November 3, 2015. A mediation took place on February 22, 2016 but the parties were unable to reach a resolution. A new Class Certification briefing schedule is currently under discussion. The Company intends to defend against these lawsuits vigorously, but is unable to predict the outcome of these suits. Regardless of the merits of the claims, this and any related litigation could continue to be costly, and divert the time and resources of management. The potential outcomes of these claims that are reasonably possible cannot be determined at this time and an estimate of the reasonably possible loss or range of loss cannot presently be made.

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.

7. Derivative Financial Instruments

The Company uses derivative financial instruments, primarily foreign currency forward exchange contracts, for the purpose of managing foreign currency exchange risk by reducing the effects of fluctuations in foreign currency exchange 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 and Australian dollar. The foreign currency forward exchange contracts related to royalties are designated and qualify as cash flow hedges under the criteria prescribed in ASC 815. 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 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 10. 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 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, 2016, the Company had outstanding hedge contracts for the sale of $195 million and the purchase of $114 million of foreign currencies at fixed rates that will be settled by September 2016. As of March 31, 2016, the Company had $2 million of deferred losses in comprehensive loss related to foreign exchange hedging. As of September 30, 2015, the Company had no outstanding hedge contracts and no deferred gains or losses in comprehensive loss related to foreign exchange hedging.

The following is a summary of amounts recorded in the Consolidated Balance Sheet pertaining to the Company's use of foreign currency derivatives at March 31, 2016 and September 30, 2015:

	March 31, 2016 (a)	September 30, 2015 (b)
	(in millions)	
Other current assets	$ 1	$ —
Other current liabilities	(2)	—

(a) Includes $6 million and $7 million of foreign exchange derivative contracts in asset and liability positions, respectively.
(b) Includes no foreign exchange derivative contracts in asset and liability positions.

8. 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 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	Corporate expenses and

Three Months Ended	Music	Publishing	eliminations	Total
	(in millions)			
March 31, 2016				
Revenues	$621	$ 127	$ (3)	$745
OIBDA	93	54	(20)	127
Depreciation of property, plant and equipment	(8)	(1)	(3)	(12)
Amortization of intangible assets	(47)	(16)	—	(63)
Operating income (loss)	38	37	(23)	52
March 31, 2015				
Revenues	$564	$ 117	$ (4)	$677
OIBDA	91	51	(21)	121
Depreciation of property, plant and equipment	(9)	(2)	(3)	(14)
Amortization of intangible assets	(47)	(16)	—	(63)
Operating income (loss)	35	33	(24)	44

Six Months Ended	Recorded Music	Music Publishing	Corporate expenses and eliminations	Total
	(in millions)			
March 31, 2016				
Revenues	$1,358	$ 243	$ (7)	$1,594
OIBDA	245	59	(40)	264
Depreciation of property, plant and equipment	(16)	(3)	(6)	(25)
Amortization of intangible assets	(93)	(32)	—	(125)
Operating income (loss)	136	24	(46)	114
March 31, 2015				
Revenues	$1,278	$ 236	$ (8)	$1,506
OIBDA	202	68	(47)	223
Depreciation of property, plant and equipment	(19)	(3)	(6)	(28)
Amortization of intangible assets	(96)	(32)	—	(128)
Operating income (loss)	87	33	(53)	67

9. Additional Financial Information

Cash Interest and Taxes

The Company made interest payments of approximately $34 million and $31 million during the three months ended March 31, 2016 and March 31, 2015, respectively. The Company made interest payments of approximately $88 million and $87 million during the six months ended March 31, 2016 and March 31, 2015, respectively. The Company paid approximately $7 million of income and withholding taxes with no offsetting refunds during both the three months ended March 31, 2016 and March 31, 2015. The Company paid approximately $13 million of income and withholding taxes with no offsetting refunds during the six months ended March 31, 2016 and paid $15 million of income and withholding taxes offset by a refund of $9 million during the six months ended March 31, 2015.

10. Fair Value Measurements

ASC 820 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, 2016 and September 30, 2015.

	Fair Value Measurements as of March 31, 2016			
	(Level 1)	(Level 2)	(Level 3)	Total
	(in millions)			
Other Current Assets:				
Foreign Currency Forward Exchange Contracts (a)	$ —	$ 1	$ —	$ 1
Other Current Liabilities:				
Foreign Currency Forward Exchange Contracts (a)	—	(2)	—	(2)
Total	$ —	$ (1)	$ —	$ (1)

	Fair Value Measurements as of September 30, 2015			
	(Level 1)	(Level 2)	(Level 3)	Total
	(in millions)			
Other Current Liabilities:				
Contractual Obligations (b)	—	—	(1)	(1)
Other Non-Current Liabilities:				
Contractual Obligations (b)	—	—	—	—
Total	$ —	$ —	$ (1)	$ (1)

(a) The fair value of the 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 discounted cash flow 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.

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, 2015	$ (1)
Additions	—
Reductions	—
Payments	1
Balance at March 31, 2016	$ —

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.

Fair Value of Debt

Based on the level of interest rates prevailing at March 31, 2016, the fair value of the Company's debt was $2.913 billion. Based on the level of interest rates prevailing at September 30, 2015, the fair value of the Company's debt was $2.976 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.

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. Holdings has issued and outstanding the 13.75% Senior Notes due 2019 (the “Holdings Notes”). In addition, Acquisition Corp. has issued and outstanding the 5.625% Senior Secured Notes due 2022, the 6.00% Senior Secured Notes due 2021, the 6.25% Senior Secured Notes due 2021, and the 6.75% Senior Notes due 2022 (together, the “Acquisition Corp. Notes”).

The Holdings Notes are guaranteed by the Company. These guarantees are full, unconditional, joint and several. The following condensed consolidating financial statements are presented for the information of the holders of the Holdings Notes and present the results of operations, financial position and cash flows of (i) the Company, which is the guarantor of the Holdings Notes, (ii) Holdings, which is the issuer of the Holdings Notes, (iii) the subsidiaries of Holdings (Acquisition Corp. is the only direct subsidiary of Holdings) and (iv) the eliminations necessary to arrive at the information for the Company on a consolidated basis. Investments in consolidated or combined subsidiaries are presented under the equity method of accounting.

The Acquisition Corp. Notes are also 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 are full, unconditional, 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, and, with respect to the Company, the indenture for the Holdings Notes.

Consolidating Balance Sheet (Unaudited)

March 31, 2016

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Assets:									
Current assets:									
Cash and equivalents	$—	$ 83	$ 217	$ —	$ 300	$ 16	$ —	$ —	$ 316
Accounts receivable, net	—	152	166	—	318	—	—	—	318
Inventories	—	14	27	—	41	—	—	—	41
Royalty advances expected to be recouped within one year	—	87	48	—	135	—	—	—	135
Prepaid and other current assets	6	5	53	—	64	—	—	—	64
Total current assets	6	341	511	—	858	16	—	—	874
Due (to) from parent companies	806	(316)	(490)	—	—	—	—	—	—
Investments in and advances to (from) consolidated subsidiaries	2,323	1,338	—	(3,661)	—	308	221	(529)	—
Royalty advances expected to be recouped after one year	—	131	72	—	203	—	—	—	203
Property, plant and equipment, net	—	143	67	—	210	—	—	—	210
Goodwill	—	1,372	250	—	1,622	—	—	—	1,622
Intangible assets subject to amortization, net	—	1,213	1,135	—	2,348	—	—	—	2,348
Intangible assets not subject to amortization	—	71	47	—	118	—	—	—	118
Other assets	35	51	21	—	107	3	—	—	110
Total assets	$3,170	$ 4,344	$ 1,613	$ (3,661)	$ 5,466	$ 327	$ 221	$ (529)	$ 5,485
Liabilities and Deficit:									
Current liabilities:									
Accounts payable	$—	$ 82	$ 94	$ —	$ 176	$ —	$ —	$ —	$ 176
Accrued royalties	—	548	554	—	1,102	—	—	—	1,102
Accrued liabilities	—	94	155	—	249	—	—	—	249
Accrued interest	47	—	—	—	47	6	—	—	53
Deferred revenue	—	144	62	—	206	—	—	—	206
Current portion of long-term debt	13	—	—	—	13	—	—	—	13
Other current liabilities	—	2	20	—	22	—	—	—	22
Total current liabilities	60	870	885	—	1,815	6	—	—	1,821

Long-term debt	2,799	—	—	—	2,799	100	—	—	2,899
Deferred tax liabilities, net	—	113	179	—	292	—	—	—	292
Other noncurrent liabilities	3	125	111	—	239	—	—	—	239
Total liabilities	2,862	1,108	1,175	—	5,145	106	—	—	5,251
Total Warner Music Group Corp. equity (deficit)	308	3,235	426	(3,661)	308	221	221	(529)	221
Noncontrolling interest	—	1	12	—	13	—	—	—	13
Total equity (deficit)	308	3,236	438	(3,661)	321	221	221	(529)	234
Total liabilities and equity (deficit)	$3,170	$ 4,344	$ 1,613	$ (3,661)	$ 5,466	$ 327	$ 221	$ (529)	$ 5,485

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Consolidating Balance Sheet

September 30, 2015

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Assets:									
Current assets:									
Cash and equivalents	$—	$ 73	$ 173	$ —	$ 246	$ —	$ —	$ —	$ 246
Accounts receivable, net	—	170	179	—	349	—	—	—	349
Inventories	—	15	27	—	42	—	—	—	42
Royalty advances expected to be recouped within one year	—	80	50	—	130	—	—	—	130
Prepaid and other current assets	5	9	46	—	60	—	—	—	60
Total current assets	5	347	475	—	827	—	—	—	827
Due (to) from parent companies	863	(174)	(689)	—	—	—	—	—	—
Investments in and advances to (from) consolidated subsidiaries	2,365	1,187	—	(3,552)	—	376	221	(597)	—
Royalty advances expected to be recouped after one year	—	120	75	—	195	—	—	—	195
Property, plant and equipment, net	—	145	75	—	220	—	—	—	220
Goodwill	—	1,379	253	—	1,632	—	—	—	1,632
Intangible assets subject to amortization, net	—	1,271	1,243	—	2,514	—	—	—	2,514
Intangible assets not subject to amortization	—	71	48	—	119	—	—	—	119
Other assets	39	53	17	—	109	5	—	—	114
Total assets	$3,272	$ 4,399	$ 1,497	$ (3,552)	$ 5,616	$ 381	$ 221	$ (597)	$ 5,621
Liabilities and Deficit:									
Current liabilities:									
Accounts payable	$—	$ 79	$ 94	$ —	$ 173	$ —	$ —	$ —	$ 173
Accrued royalties	—	513	574	—	1,087	—	—	—	1,087
Accrued liabilities	1	269	26	—	296	—	—	—	296
Accrued interest	48	—	—	—	48	10	—	—	58
Deferred revenue	—	140	66	—	206	—	—	—	206
Current portion of long-term debt	13	—	—	—	13	—	—	—	13
Other current liabilities	—	7	18	(1)	24	—	—	—	24
Total current liabilities	62	1,008	778	(1)	1,847	10	—	—	1,857

Long-term debt	2,831	—	—	—	2,831	150	—	—	2,981
Deferred tax liabilities, net	—	110	192	—	302	—	—	—	302
Other noncurrent liabilities	3	131	105	3	242	—	—	—	242
Total liabilities	2,896	1,249	1,075	2	5,222	160	—	—	5,382
Total Warner Music Group Corp. equity (deficit)	376	3,149	405	(3,554)	376	221	221	(597)	221
Noncontrolling interest	—	1	17	—	18	—	—	—	18
Total equity (deficit)	376	3,150	422	(3,554)	394	221	221	(597)	239
Total liabilities and equity (deficit)	$3,272	$ 4,399	$ 1,497	$ (3,552)	$ 5,616	$ 381	$ 221	$ (597)	$ 5,621

Consolidating Statement of Operations (Unaudited)

For The Three Months Ended March 31, 2016

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Revenues	$—	$ 452	$ 382	$ (89)	$ 745	$ —	$ —	$ —	$ 745
Costs and expenses:									
Cost of revenue	—	(221)	(196)	43	(374)	—	—	—	(374)
Selling, general and administrative expenses	—	(202)	(101)	47	(256)	—	—	—	(256)
Amortization of intangible assets	—	(30)	(33)	—	(63)	—	—	—	(63)
Total costs and expenses	—	(453)	(330)	90	(693)	—	—	—	(693)
Operating income (loss)	—	(1)	52	1	52	—	—	—	52
Gain on sale of real estate	—	—	19	—	19	—	—	—	19
Interest income (expense), net	(21)	1	(18)	—	(38)	(5)	—	—	(43)
Equity gains (losses) from equity method investments	58	41	—	(99)	—	21	11	(32)	—
Other income (expense), net	(1)	(19)	24	—	4	(5)	—	—	(1)
Income (loss) before income taxes	36	22	77	(98)	37	11	11	(32)	27
Income tax benefit (expense)	(15)	(7)	(12)	19	(15)	—	—	—	(15)
Net income (loss)	21	15	65	(79)	22	11	11	(32)	12
Less: income attributable to noncontrolling interest	—	—	(1)	—	(1)	—	—	—	(1)
Net income (loss) attributable to Warner Music Group Corp.	$21	$ 15	$ 64	$ (79)	$ 21	$ 11	$ 11	$ (32)	$ 11

Consolidating Statement of Operations (Unaudited)

For The Three Months Ended March 31, 2015

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Revenues	$—	$ 415	$ 297	$ (35)	$ 677	$ —	$ —	$ —	$ 677
Costs and expenses:									
Cost of revenue	—	(203)	(145)	30	(318)	—	—	—	(318)
Selling, general and administrative expenses	—	(129)	(128)	5	(252)	—	—	—	(252)
Amortization of intangible assets	—	(30)	(33)	—	(63)	—	—	—	(63)
Total costs and expenses	—	(362)	(306)	35	(633)	—	—	—	(633)
Operating income (loss)	—	53	(9)	—	44	—	—	—	44
Interest income (expense), net	(19)	2	(22)	—	(39)	(6)	—	—	(45)
Equity gains (losses) from equity method investments	41	(9)	—	(31)	1	24	18	(42)	1
Other income (expense), net	(4)	—	17	—	13	—	—	—	13
Income (loss) before income taxes	18	46	(14)	(31)	19	18	18	(42)	13
Income tax benefit (expense)	6	3	—	(3)	6	—	—	—	6
Net income (loss)	24	49	(14)	(34)	25	18	18	(42)	19
Less: income attributable to noncontrolling interest	—	—	(1)	—	(1)	—	—	—	(1)
Net income (loss) attributable to Warner Music Group Corp.	$24	$ 49	$ (15)	$ (34)	$ 24	$ 18	$ 18	$ (42)	$ 18

Consolidating Statement of Operations (Unaudited)

For The Six Months Ended March 31, 2016

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Revenues	$—	$ 900	$ 821	$ (127)	$ 1,594	$ —	$ —	$ —	$ 1,594
Costs and expenses:									
Cost of revenue	—	(442)	(456)	75	(823)	—	—	—	(823)
Selling, general and administrative expenses	—	(339)	(245)	52	(532)	—	—	—	(532)
Amortization of intangible assets	—	(61)	(64)	—	(125)	—	—	—	(125)
Total costs and expenses	—	(842)	(765)	127	(1,480)	—	—	—	(1,480)
Operating (loss) income	—	58	56	—	114	—	—	—	114
Gain on sale of real estate	—	—	19	—	19	—	—	—	19
Interest income (expense), net	(41)	2	(39)	—	(78)	(10)	—	—	(88)
Equity gains (losses) from equity method investments	105	60	—	(165)	—	53	38	(91)	—
Other income (expense), net	1	(20)	31	—	12	(5)	—	—	7
Income (loss) before income taxes	65	100	67	(165)	67	38	38	(91)	52
Income tax benefit (expense)	(12)	(12)	(8)	20	(12)	—	—	—	(12)
Net income (loss)	53	88	59	(145)	55	38	38	(91)	40
Less: income attributable to noncontrolling interest	—	—	(2)	—	(2)	—	—	—	(2)
Net income (loss) attributable to Warner Music Group Corp.	$53	$ 88	$ 57	$ (145)	$ 53	$ 38	$ 38	$ (91)	$ 38

Consolidating Statement of Operations (Unaudited)

For The Six Months Ended March 31, 2015

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Revenues	$—	$ 776	$ 810	$ (80)	$ 1,506	$ —	$ —	$ —	$ 1,506
Costs and expenses:									
Cost of revenue	—	(370)	(463)	70	(763)	—	—	—	(763)
Selling, general and administrative expenses	1	(262)	(297)	10	(548)	—	—	—	(548)
Amortization of intangible assets	—	(60)	(68)	—	(128)	—	—	—	(128)
Total costs and expenses	1	(692)	(828)	80	(1,439)	—	—	—	(1,439)
Operating income (loss)	1	84	(18)	—	67	—	—	—	67
Interest income (expense), net	(40)	4	(44)	—	(80)	(11)	—	—	(91)
Equity gains (losses) from equity method investments	35	(11)	—	(23)	1	(13)	(24)	37	1
Other income (expense), net	(6)	—	10	—	4	—	—	—	4
Income (loss) before income taxes	(10)	77	(52)	(23)	(8)	(24)	(24)	37	(19)
Income tax benefit (expense)	(3)	(5)	(1)	6	(3)	—	—	—	(3)
Net income (loss)	(13)	72	(53)	(17)	(11)	(24)	(24)	37	(22)
Less: income attributable to noncontrolling interest	—	—	(2)	—	(2)	—	—	—	(2)
Net income (loss) attributable to Warner Music Group Corp.	$(13)	$ 72	$ (55)	$ (17)	$ (13)	$ (24)	$ (24)	$ 37	$ (24)

Consolidating Statement of Comprehensive Income (Unaudited)

For The Three Months Ended March 31, 2016

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Net income (loss)	$21	$ 15	$ 65	$ (79)	$ 22	$ 11	$ 11	$ (32)	$ 12
Other comprehensive income (loss), net of tax:									
Foreign currency adjustment	(12)	—	(12)	12	(12)	(12)	(12)	24	(12)
Deferred losses on derivative financial instruments	(1)	(1)	—	1	(1)	(1)	(1)	2	(1)
Other comprehensive income (loss), net of tax:	(13)	(1)	(12)	13	(13)	(13)	(13)	26	(13)
Total comprehensive (loss) income	8	14	53	(66)	9	(2)	(2)	(6)	(1)
Less: income attributable to noncontrolling interest	—	—	(1)	—	(1)	—	—	—	(1)
Comprehensive (loss) income attributable to Warner Music Group Corp.	$8	$ 14	$ 52	$ (66)	$ 8	$ (2)	$ (2)	$ (6)	$ (2)

Consolidating Statement of Comprehensive Income (Unaudited)

For The Three Months Ended March 31, 2015

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Net (loss) income	$24	$ 49	$ (14)	$ (34)	$ 25	$ 18	$ 18	$ (42)	$ 19
Other comprehensive income (loss), net of tax:									
Foreign currency adjustment	(56)	—	(56)	56	(56)	(56)	(56)	112	(56)
Other comprehensive income (loss), net of tax:	(56)	—	(56)	56	(56)	(56)	(56)	112	(56)
Total comprehensive (loss) income	(32)	49	(70)	22	(31)	(38)	(38)	70	(37)
Less: income attributable to noncontrolling interest	—	—	(1)	—	(1)	—	—	—	(1)
Comprehensive (loss) income attributable to Warner Music Group Corp.	$(32)	$ 49	$ (71)	$ 22	$ (32)	$ (38)	$ (38)	$ 70	$ (38)

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Consolidating Statement of Comprehensive Income (Unaudited)

For The Six Months Ended March 31, 2016

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Net income (loss)	$53	$ 88	$ 59	$ (145)	$ 55	$ 38	$ 38	$ (91)	$ 40
Other comprehensive income (loss), net of tax:									
Foreign currency adjustment	(36)	—	(36)	36	(36)	(36)	(36)	72	(36)
Deferred losses on derivative financial instruments	(2)	(2)	—	2	(2)	(2)	(2)	4	(2)
Other comprehensive income (loss), net of tax:	(38)	(2)	(36)	38	(38)	(38)	(38)	76	(38)
Total comprehensive (loss) income	15	86	23	(107)	17	—	—	(15)	2
Less: income attributable to noncontrolling interest	—	—	(2)	—	(2)	—	—	—	(2)
Comprehensive (loss) income attributable to Warner Music Group Corp.	$15	$ 86	$ 21	$ (107)	$ 15	$ —	$ —	$ (15)	$ —

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Consolidating Statement of Comprehensive Income (Unaudited)

For The Six Months Ended March 31, 2015

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Net (loss) income	$(13)	$ 72	$ (53)	$ (17)	$ (11)	$ (24)	$ (24)	$ 37	$ (22)
Other comprehensive income (loss), net of tax:									
Foreign currency adjustment	(90)	—	(90)	90	(90)	(90)	(90)	180	(90)
Other comprehensive income (loss), net of tax:	(90)	—	(90)	90	(90)	(90)	(90)	180	(90)
Total comprehensive (loss) income	(103)	72	(143)	73	(101)	(114)	(114)	217	(112)
Less: income attributable to noncontrolling interest	—	—	(2)	—	(2)	—	—	—	(2)
Comprehensive (loss) income attributable to Warner Music Group Corp.	$(103)	$ 72	$ (145)	$ 73	$ (103)	$ (114)	$ (114)	$ 217	$ (114)

Consolidating Statement of Cash Flows (Unaudited)

For The Six Months Ended March 31, 2016

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Cash flows from operating activities									
Net income (loss)	$53	$ 88	$ 59	$ (145)	$ 55	$ 38	$ 38	$ (91)	$ 40
Adjustments to reconcile net income (loss) to net cash provided by operating activities:									
Depreciation and amortization	—	80	70	—	150	—	—	—	150
Unrealized (gains)/losses and remeasurement of foreign denominated loans	(1)	(1)	—	—	(2)	—	—	—	(2)
Deferred income taxes	—	—	(10)	—	(10)	—	—	—	(10)
Gain on sale of real estate	—	—	(19)	—	(19)	—	—	—	(19)
(Gain)/Loss on extinguishment of debt	(1)	—	—	—	(1)	5		—	4
Loss on divestiture of business	—	—	3	—	3	—		—	3
Non-cash interest expense	5	—	—	—	5	—	—	—	5
Non-cash share-based compensation expense	—	4	—	—	4	—	—	—	4
Equity losses (gains), including distributions	(105)	(60)	—	165	—	(53)	(38)	91	—
Changes in operating assets and liabilities:			—	—		—		—	
Accounts receivable	—	18	7	—	25	—	—	—	25
Inventories	—	—	(1)	—	(1)	—	—	—	(1)
Royalty advances	—	(18)	(3)	—	(21)	—	—	—	(21)
Accounts payable and accrued liabilities	—	52	(73)	(20)	(41)	—	—	—	(41)
Royalty payables	—	36	(1)	—	35	—	—	—	35
Accrued interest	(1)	—	—	—	(1)	(4)	—	—	(5)
Deferred revenue	—	3	(1)	—	2	—	—	—	2
Other balance sheet changes	—	—	3	—	3	—	—	—	3
Net cash provided by (used in) operating activities	(50)	202	34	—	186	(14)	—	—	172
						—		—	

Cash flows from investing activities									
Acquisition of music publishing rights, net	—	(9)	(3)	—	(12)	—	—	—	(12)
Capital expenditures	—	(15)	(8)	—	(23)	—	—	—	(23)
Investments and acquisitions of businesses, net	—	(5)	(3)	—	(8)	—	—	—	(8)
Divestiture of business, net of cash on hand	—	—	6	—	6	—		—	6
Proceeds from the sale of real estate	—	—	42	—	42	—			42
Advances to issuer	163	—	—	(163)	—	—	—	—	—
Net cash provided by (used in) investing activities	163	(29)	34	(163)	5	—	—	—	5
Cash flows from financing activities									
Dividend by Acquisition Corp. to Holdings Corp.	(83)	—	—	—	(83)	83	—	—	—
Repayment of Acquisition Corp. Senior Term Loan Facility	(6)	—	—	—	(6)	—	—	—	(6)
Repayment of Holdings 13.75% Senior Notes	—	—	—	—	—	(50)	—	—	(50)
Call premiums paid on early redemption of debt	—	—	—	—	—	(3)	—	—	(3)
Repayment of Acquisition Corp. 6.75% Senior Notes	(24)	—	—	—	(24)	—	—	—	(24)
Distribution to noncontrolling interest holder	—	—	(3)	—	(3)	—	—	—	(3)
Repayment of capital lease obligations	—	—	(14)	—	(14)	—	—	—	(14)
Change in due to (from) issuer	—	(163)	—	163	—	—	—	—	—
Net cash provided by (used in) financing activities	(113)	(163)	(17)	163	(130)	30	—	—	(100)
Effect of exchange rate changes on cash and equivalents	—	—	(7)	—	(7)	—	—	—	(7)
Net increase (decrease) in cash and equivalents	—	10	44	—	54	16	—	—	70
Cash and equivalents at beginning of period	—	73	173	—	246	—	—	—	246
Cash and equivalents at end of period	$—	$ 83	$ 217	$ —	$ 300	$ 16	$ —	$ —	$ 316

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Consolidating Statement of Cash Flows (Unaudited)

For The Six Months Ended March 31, 2015

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Cash flows from operating activities									
Net (loss) income	$(13)	$ 72	$ (53)	$ (17)	$ (11)	$ (24)	$ (24)	$ 37	$ (22)
Adjustments to reconcile net (loss) income to net cashprovided by operating activities:									
Depreciation and amortization	—	80	76	—	156	—	—	—	156
Unrealized (gains)/losses and remeasurement of foreign denominated loans	(29)	—	39	—	10	—	—	—	10
Deferred income taxes	—	—	(12)	—	(12)	—	—	—	(12)
Non-cash interest expense	5	—	—	—	5	1	—	—	6
Non-cash share-based compensation expense	—	(1)	—	—	(1)	—	—	—	(1)
Equity losses (gains), including distributions	(35)	11	—	23	(1)	13	24	(37)	(1)
Changes in operating assets and liabilities:									
Accounts receivable	—	20	—	—	20	—	—	—	20
Inventories	—	1	(2)	—	(1)	—	—	—	(1)
Royalty advances	—	(17)	(16)	—	(33)	—	—	—	(33)
Accounts payable and accrued liabilities	—	4	(47)	(6)	(49)	—	—	—	(49)
Royalty payables	—	(54)	43	—	(11)	—	—	—	(11)
Accrued interest	(2)	—	—	—	(2)	—	—	—	(2)
Deferred revenue	—	66	13	—	79	—	—	—	79
Other balance sheet changes	—	(3)	6	—	3	—	—	—	3
Net cash provided by (used in) operating activities	(74)	179	47	—	152	(10)	—	—	142
Cash flows from investing activities									
Acquisition of music publishing rights, net	—	(7)	(2)	—	(9)	—	—	—	(9)
Capital expenditures	—	(29)	(10)	—	(39)	—	—	—	(39)
	—	(7)	(4)	—	(11)	—	—	—	(11)

Investments and acquisitions of businesses, net									
Advances to issuer	90	—	—	(90)	—	—	—	—	—
Net cash provided by (used in) investing activities	90	(43)	(16)	(90)	(59)	—	—	—	(59)
Cash flows from financing activities									
Dividend by Acquisition Corp. to Holdings Corp.	(10)	—	—	—	(10)	10	—	—	—
Proceeds from the Revolving Credit Facility	173	—	—	—	173	—	—	—	173
Repayment of the Revolving Credit Facility	(173)	—	—	—	(173)	—	—	—	(173)
Repayment of Acquisition Corp. Senior Term Loan Facility	(6)	—	—	—	(6)	—	—	—	(6)
Distribution to noncontrolling interest holder	—	—	(2)	—	(2)	—	—	—	(2)
Repayment of capital lease obligations	—	—	(1)	—	(1)	—	—	—	(1)
Change in due to (from) issuer	—	(90)	—	90	—	—	—	—	—
Net cash provided by (used in) financing activities	(16)	(90)	(3)	90	(19)	10	—	—	(9)
Effect of exchange rate changes on cash and equivalents	—	—	(13)	—	(13)	—	—	—	(13)
Net increase (decrease) in cash and equivalents	—	46	15	—	61	—	—	—	61
Cash and equivalents at beginning of period	—	26	131	—	157	—	—	—	157
Cash and equivalents at end of period	$—	$ 72	$ 146	$ —	$ 218	$ —	$ —	$ —	$ 218

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, 2016 (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. 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 variations thereon or similar terminology. Such statements include, among others, 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 (including the acquisition of Parlophone Label Group) 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, including expected cost savings and other synergies and benefits from our acquisition of Parlophone Label Group, our success in limiting piracy, our ability to compete in the highly competitive markets in which we operate, 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 decline in the global recorded music industry and the rate of overall decline in the 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 and cash flows 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;

the impact of rate regulations on our Recorded Music and Music Publishing businesses;

the impact of rates on other income streams that may be set by arbitration proceedings on our business;

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 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, which 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; 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, 2015.

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. an 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, 2016 and March 31, 2015. 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, 2016 and March 31, 2015 as well as a discussion of our financial condition and liquidity as of March 31, 2016. 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. 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 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 results 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 results between periods as if exchange rates had remained constant period over period. We use results on a constant-currency basis as one measure to evaluate our performance. We calculate constant currency by calculating prior-year results 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.” These results should be considered in addition to, not as a substitute for, results reported in accordance with U.S. GAAP. Results 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 albums 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. Our Recorded Music operations also include Rhino, a division that specializes in marketing our music catalog through compilations and reissuances of previously released music and video titles. We also conduct our Recorded Music operations through a collection of additional record labels, including, Asylum, Big Beat, Canvasback, Eastwest, Elektra, Erato, FFRR, Fueled by Ramen, Nonesuch, Parlophone, Reprise, Roadrunner, Sire, 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 records 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; and 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 digital download services such as Apple's iTunes and Google Play, and are offered by digital streaming services such as Apple Music, Deezer, Rhapsody, Spotify and YouTube, including 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 a record 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 download and digital streaming 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:

- Artist and repertoire 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 65,000 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, gospel and other Christian music. Warner/Chappell also administers the music and soundtracks of several third-party television and film producers and studios, including Lucasfilm, Ltd., Hallmark Entertainment and Disney Music Publishing. 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 download services, digital streaming 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.

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

- Artist and repertoire 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
- General and administrative expenses—the costs associated with general overhead and other administrative expenses.

Recent Developments

Pandora

On April 17, 2014, we joined with UMG Recordings, Inc., Sony Music Entertainment, Capitol Records, LLC and ABKCO Music & Records, Inc. in a lawsuit brought against Pandora Media Inc. in the Supreme Court of the State of New York, alleging copyright infringement for Pandora's use of pre-1972 sound recordings. A settlement was reached on October 23, 2015 pursuant to which Pandora will pay the plaintiffs a total of $90 million and the plaintiffs dismissed their lawsuit with prejudice. Of the total $90 million, $60 million was paid upon settlement and the remaining amount will be paid in four equal installments of $7.5 million from January 1, 2016 through October 1, 2016. The settlement resolves all past claims as to Pandora's use of pre-1972 recordings owned or controlled by the plaintiffs and enables Pandora, without any additional payment, to reproduce, perform and broadcast such recordings in the United States through December 31, 2016. The allocation of the settlement proceeds among the plaintiffs has not yet been determined. We intend to share our allocation of the settlement proceeds with our artists on the same basis as statutory revenue from Pandora is shared, i.e., the artist share of our allocation will be paid to artists by SoundExchange. We will record the settlement in our financial statements once it is realized, which is expected to be at the time the allocation to the Company can be reasonably determined.

Sirius XM

On September 11, 2013, we 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. As part of the settlement, Sirius XM has the right, to be exercised before December 31, 2017, to enter into a license with each plaintiff to reproduce, perform and broadcast its pre-1972 recordings from January 1, 2018 through December 31, 2022. The royalty rate for each such license will be determined by negotiation or, if the parties are unable to agree, binding arbitration on a willing buyer/willing seller standard. 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 $25 million was recognized in revenue during the 2016 fiscal year. The balance will be recognized in revenue ratably over the next seven quarters. We intend to share our allocation of the settlement proceeds with our 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.

Debt Redemption

On February 16, 2016, Holdings redeemed $50 million of its $150 million outstanding 13.75% Senior Notes due 2019 (the "Holdings Notes"). The redemption price for the Holdings Notes was equal to 106.88% of the principal amount of the Holdings Notes, plus accrued and unpaid interest to, but not including, the redemption date. Following the partial redemption by Holdings of the Holdings Notes, $100 million of the Holdings Notes remain outstanding.

Open Market Purchases

On March 11, 2016, Acquisition Corp purchased, in the open market, approximately $25 million of its $660 million outstanding 6.75% Senior Notes due 2022. The acquired notes were subsequently retired. Following retirement of the acquired notes, approximately $635 million of the 6.75% Senior Notes due 2022 notes remain outstanding.

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 11% of our total revenue during the six months ended March 31, 2016. 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, 2016 Compared with Three Months Ended March 31, 2015

Consolidated Results

Revenues

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

	For the Three Months Ended			
	March 31,		2016 vs. 2015	
	2016	2015	$ Change	% Change
Revenue by Type				
Digital	$ 328	$ 274	$54	20 %
Physical	151	157	(6)	-4 %
Total Digital and Physical	479	431	48	11 %
Artist services and expanded-rights	79	55	24	44 %
Licensing	63	78	(15)	-19 %
Total Recorded Music	621	564	57	10 %
Performance	44	44	—	— %
Digital	33	24	9	38 %
Mechanical	17	20	(3)	-15 %
Synchronization	30	27	3	11 %
Other	3	2	1	50 %
Total Music Publishing	127	117	10	9 %
Intersegment eliminations	(3)	(4)	1	-25 %
Total Revenue	$ 745	$ 677	$68	10 %
Revenue by Geographical Location				
U.S. Recorded Music	$ 258	$ 236	$22	9 %
U.S. Music Publishing	64	52	12	23 %
Total U.S.	322	288	34	12 %
International Recorded Music	363	328	35	11 %
International Music Publishing	63	65	(2)	-3 %
Total International	426	393	33	8 %
Intersegment eliminations	(3)	(4)	1	-25 %
Total Revenue	$ 745	$ 677	$68	10 %

Total Revenue

Total revenue increased by $68 million, or 10%, to $745 million for the three months ended March 31, 2016 from $677 million for the three months ended March 31, 2015. Excluding the unfavorable impact of foreign currency exchange rates, total revenue increased by $88 million, or 13%. Prior to intersegment eliminations, Recorded Music and Music Publishing revenues represented 83% and 17% of total revenue for both the three months ended March 31, 2016 and March 31, 2015. Prior to intersegment eliminations, U.S. and international revenues represented 43% and

57% of total revenue for the three months ended March 31, 2016 and 42% and 58% of total revenue for the three months ended March 31, 2015, respectively.

Total digital revenue after intersegment eliminations increased by $63 million, or 21%, to $360 million for the three months ended March 31, 2016 from $297 million for the three months ended March 31, 2015. Excluding the unfavorable impact of foreign currency exchange rates, total digital revenue after intersegment eliminations increased by $72 million, or 25%. Total digital revenue represented 48% and 44% of consolidated revenue for the three months ended March 31, 2016 and March 31, 2015, respectively. Prior to intersegment eliminations, total digital revenue for the three months ended March 31, 2016 was comprised of U.S. revenue of $194 million and international revenue of $167 million, or 54% and 46% of total digital revenue, respectively. Prior to intersegment eliminations, total digital revenue for the three months ended March 31, 2015 was comprised of U.S. revenue of $157 million and international revenue of $141 million, or 53% and 47% of total digital revenue, respectively.

Recorded Music revenue increased by $57 million, or 10%, to $621 million for the three months ended March 31, 2016 from $564 million for the three months ended March 31, 2015. Excluding the unfavorable impact of foreign currency exchange rates, Recorded Music revenue increased by $72 million, or 13%. U.S. Recorded Music revenues were $258 million and $236 million, or 42%, of consolidated Recorded Music revenues for the three months ended March 31, 2016 and March 31, 2015, respectively. International Recorded Music revenues were $363 million and $328 million, or 58%, of consolidated Recorded Music revenues for the three months ended March 31, 2016 and March 31, 2015, respectively.

The overall increase in Recorded Music revenue was mainly driven by increases in digital revenue and artist services and expanded-rights revenue, partially offset by decreases in physical revenue and licensing revenue. Digital revenue increased by $54 million as a result of a strong release from Charlie Puth and carryover success from Coldplay, Ed Sheeran, Twenty One Pilots, and Fetty Wap and the continued growth in streaming services. Revenue from streaming services grew by $72 million and was partially offset by digital download declines of $17 million. Artist services and expanded-rights revenue increased by $24 million primarily due to strong concert promotion revenue in Europe. Physical revenue decreased by $6 million due to the unfavorable impact of foreign currency exchange rates. Licensing revenue decreased by $15 million primarily due to the one-time impact of the distribution of PLG related neighboring rights income received in the three months ended March 31, 2015 in certain territories and decreased synchronization activity.

Music Publishing revenues increased by $10 million, or 9%, to $127 million for the three months ended March 31, 2016 from $117 million for the three months ended March 31, 2015. Excluding the unfavorable impact of foreign currency exchange rates, Music Publishing revenue increased by $15 million, or 13%. U.S. Music Publishing revenues were $64 million and $52 million, or 50% and 44% of Music Publishing revenues for the three months ended March 31, 2016 and March 31, 2015, respectively. International Music Publishing revenues were $63 million and $65 million, or 50% and 56%, of Music Publishing revenues for the three months ended March 31, 2016 and March 31, 2015, respectively.

The overall increase in Music Publishing revenue was mainly driven by increases in digital revenue of $9 million and synchronization revenue of $3 million, partially offset by a decrease in mechanical revenue of $3 million. The increase in digital revenue was due to increases in streaming revenue of $11 million offset by decreases in download and other digital revenue of $2 million. Synchronization revenue increased due to increased activity and new deals. Performance revenue remained flat quarter over quarter. The decrease in mechanical revenue was attributable to an ongoing industry shift towards digital.

Revenue by Geographical Location

U.S. revenue increased by $34 million, or 12%, to $322 million for the three months ended March 31, 2016 from $288 million for the three months ended March 31, 2015. U.S. Recorded Music revenue increased by $22 million, or 9%. The primary factor was the increase in U.S. Recorded Music digital revenue, which increased by $28 million due to a strong release from Charlie Puth, the continued success of Twenty One Pilots, Fetty Wap, and Coldplay and the continued growth in streaming services. U.S. licensing revenue decreased by $6 million due to a decrease in synchronization activity. U.S. Music Publishing revenue increased by $12 million, or 23%, to $64 million for the three months ended March 31, 2016 from $52 million for the three months ended March 31, 2015 primarily due to increases in digital revenue, performance revenue and synchronization revenue, offset by a slight decrease in mechanical revenue.

International revenue increased by $33 million, or 8%, to $426 million for the three months ended March 31, 2016 from $393 million for the three months ended March 31, 2015. Excluding the unfavorable impact of foreign currency exchange rates, International revenue increased by $53 million or 14%. International Recorded Music revenue

increased $35 million primarily due to increases in digital revenue of $26 million and artist services and expanded-rights revenue of $23 million, partially offset by decreases in licensing revenue of $9 million and physical revenue of $5 million. International Recorded Music digital revenue increased due to a $37 million increase in streaming revenue partially offset by an $11 million decline in digital download revenue. The increase in streaming revenue was due to the continued adoption of streaming models internationally and continued success from Ed Sheeran and David Guetta. The main driver of the increase in International Recorded Music artist services and expanded-rights revenue was strong concert promotion revenue in France as a result of the Johnny Hallyday tour. International Recorded Music physical revenue decreased due to the unfavorable impact of foreign currency exchange rates of $6 million. The main driver of the decrease in International Recorded Music licensing revenue was the one-time impact of the distribution of PLG related neighboring rights income in certain territories in the prior year quarter. The decrease in International Music Publishing revenue of $2 million was due to the unfavorable impact of foreign currency exchange rates. Excluding the unfavorable impact of foreign currency exchange rates, International Music Publishing revenue increased by $3 million, or 5%.

Cost of revenues

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

	For the Three Months Ended			
	March 31,		2016 vs. 2015	
	2016	2015	$ Change	% Change
Artist and repertoire costs	$ 245	$ 203	$ 42	21 %
Product costs	129	115	14	12 %
Total cost of revenues	$ 374	$ 318	$ 56	18 %

Total cost of revenues increased by $56 million to $374 million for the three months ended March 31, 2016 from $318 million for the three months ended March 31, 2015. Expressed as a percentage of revenues, cost of revenues increased to 50% for the three months ended March 31, 2016 from 47% for the three months ended March 31, 2015.

Artist and repertoire costs increased by $42 million, to $245 million for the three months ended March 31, 2016 from $203 million for the three months ended March 31, 2015. Artist and repertoire costs as a percentage of revenue increased to 33% for the three months ended March 31, 2016 from 30% for the three months ended March 31, 2015 due to the mix of revenue. The prior quarter included the impact of one-time PLG neighboring rights revenue, which carries a lower proportionate royalty expense. The current quarter had royalty expense on higher concert promotion revenue and strong performance from lower margin repertoire.

Product costs increased by $14 million, to $129 million for the three months ended March 31, 2016 from $115 million for the three months ended March 31, 2015. Product costs as a percentage of revenue remained flat at 17% for the three months ended March 31, 2016 and the three months ended March 31, 2015.

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,		2016 vs. 2015	
	2016	2015	$ Change	% Change
General and administrative expense (1)	$ 144	$ 143	$ 1	1 %
Selling and marketing expense	100	97	3	3 %
Distribution expense	12	12	—	— %
Total selling, general and administrative expense	$ 256	$ 252	$ 4	2 %

(1) Includes depreciation expense of $12 million and $14 million for the three months ended March 31, 2016 and March 31, 2015, respectively.

Total selling, general and administrative expense increased by $4 million, or 2%, to $256 million for the three months ended March 31, 2016 from $252 million for the three months ended March 31, 2015. Expressed as a percentage of revenues, selling, general and administrative expense decreased to 34% for the three months ended March 31, 2016 from 37% for the three months ended March 31, 2015.

General and administrative expense increased by $1 million, or 1%, to $144 million for the three months ended March 31, 2016 from $143 million for the three months ended March 31, 2015. The increase in general and administrative expense was due to an increase in PLG Acquisition related costs of $1 million and loss on divestiture of a business of $3 million. This was partially offset by ongoing savings from cost management efforts. General and administrative expense decreased to 19% of revenue for the three months ended March 31, 2016 from 21% of revenue for the three months ended March 31, 2015.

Selling and marketing expense increased by $3 million, or 3%, to $100 million for the three months ended March 31, 2016 from $97 million for the three months ended March 31, 2015. The increase in selling and marketing expense was primarily due to higher variable marketing expense on higher revenue in the quarter. Expressed as a percentage of revenue, selling and marketing expense decreased to 13% for the three months ended March 31, 2016 from 14% for the three months ended March 31, 2015.

Distribution expense remained flat at $12 million for the three months ended March 31, 2016 and the three months ended March 31, 2015. Expressed as a percentage of revenue, distribution expense remained flat at 2% for the three months ended March 31, 2016 and March 31, 2015.

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

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

	For the Three Months Ended			
	March 31,		2016 vs. 2015	
	2016	2015	$ Change	% Change
OIBDA	$ 127	$ 121	$ 6	5 %
Depreciation expense	(12)	(14)	2	-14 %
Amortization expense	(63)	(63)	—	— %
Operating income	52	44	8	18 %
Gain on sale of real estate	19	—	19	100 %
Interest expense, net	(43)	(45)	2	-4 %
Other (expense) income, net	(1)	14	(15)	-107 %
Income before income taxes	27	13	14	108 %
Income tax (expense) benefit	(15)	6	(21)	— %
Net income	12	19	(7)	-37 %
Less: Income attributable to noncontrolling interest	(1)	(1)	—	— %
Net income attributable to Warner Music Group Corp.	$ 11	$ 18	$ (7)	-39 %

OIBDA

OIBDA increased by $6 million, or 5%, to $127 million for the three months ended March 31, 2016 as compared to $121 million for the three months ended March 31, 2015 as a result of higher recorded music and music publishing revenues. Expressed as a percentage of total revenue, OIBDA decreased slightly to 17% for the three months ended March 31, 2016 from 18% for the three months ended March 31, 2015 due to increased artist and repertoire costs for the period.

Depreciation expense

Our depreciation expense decreased by $2 million or 14%, to $12 million for the three months ended March 31, 2016 from $14 million for the three months ended March 31, 2015, a portion of which is due to the sale of real estate.

Amortization expense

Our amortization expense remained flat at $63 million for the three months ended March 31, 2016 and the three months ended March 31, 2015.

Operating income

Our operating income increased by $8 million to $52 million for the three months ended March 31, 2016 from $44 million for the three months ended March 31, 2015. The increase in operating income was due to the factors that led to

the increase in OIBDA and lower depreciation expense, as noted above.

Gain on sale of real estate

In the three months ended March 31, 2016, we sold real estate resulting in a gain of $19 million.

Interest expense, net

Our interest expense, net, decreased by $2 million, or 4%, to $43 million for the three months ended March 31, 2016 from $45 million for the three months ended March 31, 2015 due to the reduction in our debt and lower aggregate borrowings under the revolver.

Other (expense) income

Our other (expense) income, net primarily consists of currency exchange movements associated with our Euro denominated debt, gains and losses on our derivative assets and liabilities, and intercompany receivables and payables that are short term in nature. The current quarter expense is primarily due to loss on extinguishment of debt of $4 million and loss on derivatives of $2 million offset by net currency exchange gains on our Euro denominated debt and intercompany loans of $5 million.

Income tax benefit (expense)

Our income tax expense increased $21 million to $15 million for the three months ended March 31, 2016 compared to $6 million of income tax benefit for the three months ended March 31, 2015. As a reliable estimate of the annual effective tax rate could not be made, our income tax expense for the three months ended March 31, 2016 is calculated based on a discrete tax rate. The change of $21 million in the income tax expense primarily relates to the use of a discrete tax rate method to calculate the income tax expense for the three months ended March 31, 2016 as compared to the use of an annual effective tax rate method for the three months ended March 31, 2015, an increase to pretax income and the impact of the losses in certain jurisdictions for which no tax benefit could be recorded.

Net Income

Net income decreased by $7 million to $12 million for the three months ended March 31, 2016 from $19 million for the three months ended March 31, 2015 as a result of the factors described above.

Noncontrolling interest

Net income attributable to noncontrolling interest was $1 million for the three months ended March 31, 2016 and March 31, 2015.

Business Segment Results

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

	For the Three Months Ended			
	March 31,		2016 vs. 2015	
	2016	2015	$ Change	% Change
Recorded Music				
Revenue	$ 621	$ 564	$57	10 %
OIBDA	93	91	2	2 %
Operating income	38	35	3	9 %
Music Publishing				
Revenue	127	117	10	9 %
OIBDA	54	51	3	6 %
Operating income	37	33	4	12 %
Corporate expenses and eliminations				
Revenue elimination	(3)	(4)	1	-25 %
OIBDA	(20)	(21)	1	-5 %

Operating loss	(23	)	(24	)	1	-4	%
Total							
Revenue	745		677		68	10	%
OIBDA	127		121		6	5	%
Operating income	52		44		8	18	%

Recorded Music

Revenues

Recorded Music revenue increased by $57 million, or 10%, to $621 million for the three months ended March 31, 2016 from $564 million for the three months ended March 31, 2015. U.S. Recorded Music revenues were $258 million and $236 million, or 42% of consolidated Recorded Music revenues for the three months ended March 31, 2016 and March 31, 2015, respectively. International Recorded Music revenues were $363 million and $328 million, or 58% of consolidated Recorded Music revenues for the three months ended March 31, 2016 and March 31, 2015, respectively.

The overall increase in Recorded Music revenue was mainly driven by strong releases 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,		2016 vs. 2015	
	2016	2015	$ Change	% Change
Artist and repertoire costs	$ 193	$ 158	$ 35	22 %
Product costs	129	115	14	12 %
Total cost of revenues	$ 322	$ 273	$ 49	18 %

Recorded Music cost of revenues increased by $49 million to $322 million for the three months ended March 31, 2016 from $273 million for the three months ended March 31, 2015. The increase in artist and repertoire costs was primarily due to the mix of revenue in the current quarter compared to prior year quarter. The prior year quarter included the impact of one-time PLG neighboring rights revenue, which carries a lower proportionate royalty expense. The current quarter had royalty expense on higher concert promotion revenue and strong performance from lower margin repertoire. The increase in product costs was driven by an increase in concert promotion revenue, which yielded lower margins. Expressed as a percentage of Recorded Music revenue, Recorded Music cost of revenues increased to 52% for the three months ended March 31, 2016 from 48% for the three months ended March 31, 2015.

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,		2016 vs. 2015	
	2016	2015	$ Change	% Change
General and administrative expense (1)	$ 104	$ 102	$ 2	2 %

Selling and marketing expense		98		95	3	3	%
Distribution expense		12		12	—	—	%
Total selling, general and administrative expense	$	214	$	209	$ 5	2	%

(1) Includes depreciation expense of $8 million and $9 million for the three months ended March 31, 2016 and March 31, 2015, respectively.

Recorded Music selling, general and administrative expense increased by $5 million, or 2%, to $214 million for the three months ended March 31, 2016 from $209 million for the three months ended March 31, 2015. The increase in Recorded Music selling, general and administrative expense was primarily due to an increase in PLG Acquisition related costs of $1 million and loss on divestiture of business of $3 million. This was partially offset by ongoing savings from cost management efforts. Expressed as a percentage of Recorded Music revenue, Recorded Music selling, general and administrative expense decreased to 35% for the three months ended March 31, 2016 from 37% for the three months ended March 31, 2015.

OIBDA and Operating income

Recorded Music operating income included the following amounts (in millions):

	For the Three Months Ended			
	March 31,		2016 vs. 2015	
	2016	2015	$ Change	% Change
OIBDA	$ 93	$ 91	$ 2	2 %
Depreciation and amortization	(55)	(56)	1	-2 %
Operating income	$ 38	$ 35	$ 3	9 %

Recorded Music OIBDA increased by $2 million, or 2%, to $93 million for the three months ended March 31, 2016 from $91 million for the three months ended March 31, 2015 as a result of higher recorded music revenues. Expressed as a percentage of Recorded Music revenue, Recorded Music OIBDA decreased to 15% for the three months ended March 31, 2016 from 16% for the three months ended March 31, 2015 due to the increased cost of revenues.

Recorded Music operating income increased by $3 million to $38 million for the three months ended March 31, 2016 from $35 million for the three months ended March 31, 2015 due to the factors that led to the increase in Recorded Music OIBDA noted above and decreased depreciation and amortization expense.

Music Publishing

Revenues

Music Publishing revenues increased by $10 million, or 9%, to $127 million for the three months ended March 31, 2016 from $117 million for the three months ended March 31, 2015. U.S. Music Publishing revenues were $64 million and $52 million, or 50% and 44%, of Music Publishing revenues for the three months ended March 31, 2016 and March 31, 2015, respectively. International Music Publishing revenues were $63 million and $65 million, or 50% and 56%, of Music Publishing revenues for the three months ended March 31, 2016 and March 31, 2015, respectively.

The overall increase in Music Publishing revenue was mainly driven by the strong increases in digital and synchronization revenue 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,		2016 vs. 2015	
	2016	2015	$ Change	% Change
Artist and repertoire costs	$ 55	$ 49	$ 6	12 %
Total cost of revenues	$ 55	$ 49	$ 6	12 %

Music Publishing cost of revenues increased by $6 million, or 12%, to $55 million for the three months ended March 31, 2016 from $49 million for the three months ended March 31, 2015 primarily due to the increase in revenue. Expressed as a percentage of Music Publishing revenue, Music Publishing cost of revenues increased slightly to 43% for the three months ended March 31, 2016 from 42% for the three months ended March 31, 2015 due to changes in revenue mix.

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,		2016 vs. 2015	
	2016	2015	$ Change	% Change
General and administrative expense (1)	$ 18	$ 18	$ —	—%
Selling and marketing expense	1	1	—	—%
Total selling, general and administrative expense	$ 19	$ 19	$ —	—%

(1) Includes depreciation expense of $1 million and $2 million for the three months ended March 31, 2016 and 2015, respectively.

Music Publishing selling, general and administrative expense remained flat at $19 million for the three months ended March 31, 2016 and the three months ended March 31, 2015. Expressed as a percentage of Music Publishing revenue, Music Publishing selling, general and administrative expense decreased to 15% for the three months ended March 31, 2016 from 16% for the three months ended March 31, 2015.

OIBDA and Operating income

Music Publishing operating income included the following amounts (in millions):

	For the Three Months Ended			
	March 31,		2016 vs. 2015	
	2016	2015	$ Change	% Change
OIBDA	$ 54	$ 51	$ 3	6 %
Depreciation and amortization	(17)	(18)	1	-6 %
Operating income (loss)	$ 37	$ 33	$ 4	12 %

Music Publishing OIBDA increased by $3 million, or 6%, to $54 million for the three months ended March 31, 2016 from $51 million for the three months ended March 31, 2015 as a result of higher Music Publishing revenue. Expressed as a percentage of Music Publishing revenue, Music Publishing OIBDA decreased to 43% for the three months ended March 31, 2016 from 44% for the three months ended March 31, 2015.

Music Publishing operating income increased by $4 million to $37 million for the three months ended March 31, 2016 from $33 million for the three months ended March 31, 2015 due to the factors that led to the increase in Music Publishing OIBDA noted above and a decrease in depreciation and amortization expense.

Corporate Expenses and Eliminations

Our OIBDA loss from corporate expenses and eliminations decreased by $1 million to $20 million for the three months ended March 31, 2016 from $21 million for the three months ended March 31, 2015.

Our operating loss from corporate expenses and eliminations decreased by $1 million to $23 million for the three months ended March 31, 2016 from $24 million for the three months ended March 31, 2015.

Six Months Ended March 31, 2016 Compared with Six Months Ended March 31, 2015

Consolidated Results

Revenues

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

	For the Six Months Ended March 31,		2016 vs. 2015	
	2016	2015	$ Change	% Change
Revenue by Type				
Digital	$650	$546	$104	19 %
Physical	399	450	(51)	-11 %
Total Digital and Physical	1,049	996	53	5 %
Artist services and expanded-rights	162	131	31	24 %
Licensing	147	151	(4)	-3 %
Total Recorded Music	1,358	1,278	80	6 %
Performance	87	89	(2)	-2 %
Digital	60	48	12	25 %
Mechanical	37	43	(6)	-14 %
Synchronization	55	52	3	6 %
Other	4	4	—	— %
Total Music Publishing	243	236	7	3 %
Intersegment eliminations	(7)	(8)	1	-13 %
Total Revenue	$1,594	$1,506	$88	6 %
Revenue by Geographical Location				
U.S. Recorded Music	$551	$477	$74	16 %
U.S. Music Publishing	107	93	14	15 %
Total U.S.	658	570	88	15 %
International Recorded Music	807	801	6	1 %
International Music Publishing	136	143	(7)	-5 %
Total International	943	944	(1)	-0 %
Intersegment eliminations	(7)	(8)	1	-13 %
Total Revenue	$1,594	$1,506	$88	6 %

Total Revenue

Total revenue increased by $88 million, or 6%, to $1,594 million for the six months ended March 31, 2016 from $1,506 million for the six months ended March 31, 2015. Excluding the unfavorable impact of foreign currency exchange rates, total revenue increased by $173 million, or 12%. Prior to intersegment eliminations, Recorded Music and Music Publishing revenues represented 85% and 15% of total revenue for the six months ended March 31, 2016 and 84% and 16% of total revenue for the six months ended March 31, 2015, respectively. Prior to intersegment eliminations, U.S. and international revenues represented 41% and 59% of total revenue for the six months ended

March 31, 2016 and 38% and 62% of total revenue for the six months ended March 31, 2015, respectively.

Total digital revenue after intersegment eliminations increased by $116 million, or 20%, to $708 million for the six months ended March 31, 2016 from $592 million for the six months ended March 31, 2015. Excluding the unfavorable impact of foreign currency exchange rates, total digital revenue after intersegment eliminations increased by $142 million, or 25%. Total digital revenue represented 44% and 39% of consolidated revenue for the six months ended March 31, 2016 and March 31, 2015, respectively. Prior to intersegment eliminations, total digital revenue for the six months ended March 31, 2016 was comprised of U.S. revenue of $376 million and international revenue of $334 million, or 53% and 47% of total digital revenue, respectively. Prior to intersegment eliminations, total digital revenue for the six months ended March 31, 2015 was comprised of U.S. revenue of $301 million and international revenue of $293 million, or 51% and 49% of total digital revenue, respectively.

Recorded Music revenue increased by $80 million, or 6%, to $1,358 million for the six months ended March 31, 2016 from $1,278 million for the six months ended March 31, 2015. Excluding the unfavorable impact of foreign currency exchange rates, Recorded Music revenue increased by $150 million, or 12%. U.S. Recorded Music revenues were $551 million and $477 million, or 41% and 37% of consolidated Recorded Music revenues for the six months ended March 31, 2016 and March 31, 2015, respectively. International Recorded Music revenues were $807 million and $801 million, or 59% and 63%, of consolidated Recorded Music revenues for the six months ended March 31, 2016 and March 31, 2015, respectively.

The overall increase in Recorded Music revenue was mainly driven by increases in digital revenue and artist services and expanded-rights revenue, partially offset by decreases in physical revenue and licensing revenue. Digital revenue increased by $104 million as a result of strong success from Coldplay, Fetty Wap, Twenty One Pilots and Ed Sheeran and the continued growth in streaming services. The increase in digital revenue was also attributable to the impact of the legal settlement with Sirius XM of $25 million. Revenue from streaming services grew by $152 million and was partially offset by digital download declines of $50 million. Artist services and expanded-rights revenue increased by $31 million primarily due to the success of the Johnny Hallyday tour in France. Licensing revenue decreased $4 million primarily due to the one-time impact of the distribution of PLG related neighboring rights income received in the prior year in certain territories offset by strong synchronization revenue. Physical revenue decreased by $51 million primarily due to the shift from physical revenue to digital revenue, a physically-centric release from Pink Floyd and re-releases from Led Zeppelin in the six months ended March 31, 2015.

Music Publishing revenues increased by $7 million, or 3%, to $243 million for the six months ended March 31, 2016 from $236 million for the six months ended March 31, 2015. Excluding the unfavorable impact of foreign currency exchange rates, Music Publishing revenue increased by $22 million, or 10%. U.S. Music Publishing revenues were $107 million and $93 million, or 44% and 39% of Music Publishing revenues for the six months ended March 31, 2016 and March 31, 2015, respectively. International Music Publishing revenues were $136 million and $143 million, or 56% and 61%, of Music Publishing revenues for the six months ended March 31, 2016 and March 31, 2015, respectively.

The overall increase in Music Publishing revenue was mainly driven by increases in digital revenue of $12 million and synchronization revenue of $3 million, partially offset by decreases in performance revenue of $2 million and mechanical revenue of $6 million. The increase in digital revenue was due to an increase in streaming revenue of $13 million. Synchronization revenue increased due to increased activity and deals. Performance revenue decreased due to the unfavorable impact of foreign currency exchange rates. The decrease in mechanical revenue was attributable to an ongoing shift towards digital product in the industry.

Revenue by Geographical Location

U.S. revenue increased by $88 million, or 15%, to $658 million for the six months ended March 31, 2016 from $570 million for the six months ended March 31, 2015. U.S. Recorded Music revenue increased by $74 million, or 16%. The primary factor was the increase in U.S. Recorded Music digital revenue, which increased by $65 million due to strong releases, the continued growth in streaming services and the impact of the Sirius XM legal settlement. U.S. artist services and expanded-rights revenue increased by $6 million due to successful U.S. artist tours. U.S. Recorded Music physical revenue increased by $4 million primarily due to strong releases from Coldplay and The Grateful Dead. U.S. Music Publishing revenue increased by $14 million, or 15%, to $107 million for the six months ended March 31, 2016 from $93 million for the six months ended March 31, 2015 due to an increase in digital revenue, performance revenue, and synchronization revenue, offset by a decrease in mechanical revenue.

International revenue decreased by $1 million to $943 million for the six months ended March 31, 2016 from $944 million for the six months ended March 31, 2015. Excluding the unfavorable impact of foreign currency exchange

rates, International revenue increased by $84 million or 10%. International Recorded Music revenue increased by $6 million primarily due to increases in artist services and expanded-rights revenue of $25 million and digital revenue of $39 million, partially offset by decreases in physical revenue of $55 million and decreases in licensing revenue of $3 million. International Recorded Music digital revenue increased due to a $64 million increase in streaming services revenue, partially offset by a $28 million decline in digital download revenue. The increase in streaming revenue was due to the continued adoption of streaming models internationally and continued success from Ed Sheeran and David Guetta. The main driver of the increase in International Recorded Music artist services and expanded-rights revenue was strong concert promotion revenue in France as a result of the Johnny Hallyday tour. International Recorded Music physical revenue decreased due to the unfavorable impact of foreign currency exchange rates of $31 million, strong physically-centric releases in the six months ended March 31, 2015 from Pink Floyd and Led Zeppelin and the continued shift from physical revenue to digital revenue. The decrease in International Recorded Music licensing revenue was due to the unfavorable impact of foreign currency exchange movements and the impact of one-time PLG neighboring rights income in certain territories. The decrease in International Music Publishing revenue of $7 million was due to the unfavorable impact of foreign currency exchange rates. Excluding the unfavorable impact of foreign currency exchange rates, International Music Publishing revenue increased by $8 million, or 6%.

Cost of revenues

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

	For the Six Months Ended March 31,		2016 vs. 2015	
	2016	2015	$ Change	% Change
Artist and repertoire costs	$545	$495	$50	10 %
Product costs	278	268	10	4 %
Total cost of revenues	$823	$763	$60	8 %

Total cost of revenues increased by $60 million to $823 million for the six months ended March 31, 2016 from $763 million for the six months ended March 31, 2015. Expressed as a percentage of revenues, cost of revenues increased to 52% for the six months ended March 31, 2016 from 51% for the six months ended March 31, 2015.

Artist and repertoire costs increased by $50 million, to $545 million for the six months ended March 31, 2016 from $495 million for the six months ended March 31, 2015 due to the mix of revenue. The prior year included the impact of one-time PLG neighboring rights revenue, which carries a lower proportionate royalty expense. The current year had royalty expense on higher concert promotion revenue. Artist and repertoire costs as a percentage of revenue increased to 34% for the six months ended March 31, 2016 from 33% for the six months ended March 31, 2015.

Product costs increased by $10 million, to $278 million for the six months ended March 31, 2016 from $268 million for the six months ended March 31, 2015. Product costs as a percentage of revenue decreased to 17% for the six months ended March 31, 2016 from 18% for the six months ended March 31, 2015, primarily due to the shift of revenue from physical to digital, which carries a lower product cost when compared to physical offset by higher product costs on increased concert promotion revenue.

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,		2016 vs. 2015	
	2016	2015	$ Change	% Change
General and administrative expense (1)	$289	$295	$(6)	-2 %
Selling and marketing expense	213	223	(10)	-5 %
Distribution expense	30	30	—	— %
Total selling, general and administrative expense	$532	$548	$(16)	-3 %

(1) Includes depreciation expense of $25 million and $28 million for the six months ended March 31, 2016 and March 31, 2015, respectively.

Total selling, general and administrative expense decreased by $16 million, or 3%, to $532 million for the six months ended March 31, 2016 from $548 million for the six months ended March 31, 2015. Expressed as a percentage of revenues, selling, general and administrative expense decreased to 33% for the six months ended March 31, 2016 from 36% for the six months ended March 31, 2015.

General and administrative expense declined by $6 million, or 2%, to $289 million for the six months ended March 31, 2016 from $295 million for the six months ended March 31, 2015. The decline in general and administrative expense was primarily due to a decline in PLG Acquisition related costs of $3 million, a decline in facilities cost of $6 million associated with our corporate headquarters consolidation and ongoing savings from cost management efforts. These decreases were partially offset by costs related to the Happy Birthday settlement, an increase in variable compensation expense of $7 million associated with improved operating performance, and loss on divestiture of business of $3 million. General and administrative expense decreased to 18% of revenue for the six months ended March 31, 2016 from 20% of revenue for the six months ended March 31, 2015.

Selling and marketing expense decreased by $10 million, or 5%, to $213 million for the six months ended March 31, 2016 from $223 million for the six months ended March 31, 2015. The decrease in selling and marketing expense was primarily due to local and international releases with higher proportionate marketing spend in the prior period. Expressed as a percentage of revenue, selling and marketing expense decreased to 13% for the six months ended March 31, 2016 from 15% for the six months ended March 31, 2015.

Distribution expense remained flat at $30 million for the six months ended March 31, 2016 and the six months ended March 31, 2015. Expressed as a percentage of revenue, distribution expense remained flat at 2% for the six months ended March 31, 2016 and March 31, 2015.

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

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

	For the Six Months Ended March 31,		2016 vs. 2015	
	2016	2015	$ Change	% Change
OIBDA	$264	$223	$41	18 %
Depreciation expense	(25)	(28)	3	-11 %
Amortization expense	(125)	(128)	3	-2 %
Operating income	114	67	47	70 %
Gain on sale of real estate	19	—	19	100 %
Interest expense, net	(88)	(91)	3	-3 %
Other income, net	7	5	2	40 %
Income (loss) before income taxes	52	(19)	71	— %
Income tax expense	(12)	(3)	(9)	— %
Net income (loss)	40	(22)	62	— %
Less: Income attributable to noncontrolling interest	(2)	(2)	—	— %
Net income (loss) attributable to Warner Music Group Corp.	$38	$(24)	$62	— %

OIBDA

OIBDA increased by $41 million, or 18%, to $264 million for the six months ended March 31, 2016 as compared to $223 million for the six months ended March 31, 2015 as a result of higher recorded music revenues, including the impact of the Sirius XM settlement and a decrease in variable marketing and general and administrative costs. Expressed as a percentage of total revenue, OIBDA increased to 17% for the six months ended March 31, 2016 from 15% for the six months ended March 31, 2015.

Depreciation expense

Our depreciation expense decreased by $3 million or 11%, to $25 million for the six months ended March 31, 2016 from $28 million for the six months ended March 31, 2015, a portion of which is due to the sale of real estate.

Amortization expense

Our amortization expense decreased by $3 million, or 2%, to $125 million for the six months ended March 31, 2016 from $128 million for the six months ended March 31, 2015 primarily due to the impact of foreign currency exchange rates.

Operating income

Our operating income increased by $47 million to $114 million for the six months ended March 31, 2016 from $67 million for the six months ended March 31, 2015. The increase in operating income was due to the factors that led to the increase in OIBDA and lower depreciation and amortization expense as noted above.

Gain on sale of real estate

In the six months ended March 31, 2016, we sold real estate resulting in a gain of $19 million.

Interest expense, net

Our interest expense, net, decreased by $3 million, or 3%, to $88 million for the six months ended March 31, 2016 from $91 million for the six months ended March 31, 2015 due to the reduction in our debt and lower aggregate borrowings under the revolver.

Other income, net

Our other income, net primarily consists of currency exchange movements associated with our Euro denominated debt, gains and losses on our derivative assets and liabilities, and intercompany receivables and payables that are short term in nature. The current quarter income is primarily due to net currency exchange gains on our Euro denominated debt and intercompany loans of $10 million and gains on our derivative assets of $1 million offset by loss on extinguishment of debt of $4 million.

Income tax expense

Our income tax expense increased $9 million to $12 million for the six months ended March 31, 2016 compared to $3 million of income tax expense for the six months ended March 31, 2015. As a reliable estimate of the annual effective tax rate could not be made, our income tax expense for the six months ended March 31, 2016 is calculated based on a discrete tax rate. The change of $9 million in the income tax expense primarily relates to an increase to pretax income and the impact of the losses in certain jurisdictions for which no tax benefit could be recorded offset by a deferred tax benefit of $10 million related to statutory rate changes in the U.K. and Italy for the six months ended March 31, 2016.

Net Income (loss)

Net income increased by $62 million to $40 million for the six months ended March 31, 2016 from a net loss of $22 million for the six months ended March 31, 2015 as a result of the factors described above.

Noncontrolling interest

Net income attributable to noncontrolling interest was $2 million for the six months ended March 31, 2016 and March 31, 2015.

Business Segment Results

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

	For the Six Months Ended March 31,		2016 vs. 2015	
	2016	2015	$ Change	% Change
Recorded Music				
Revenue	$1,358	$1,278	$80	6 %
OIBDA	245	202	43	21 %
Operating income	136	87	49	56 %
Music Publishing				

Revenue	243	236	7	3	%
OIBDA	59	68	(9)	-13	%
Operating income	24	33	(9)	-27	%
Corporate expenses and eliminations					
Revenue elimination	(7)	(8)	1	-13	%
OIBDA	(40)	(47)	7	-15	%
Operating loss	(46)	(53)	7	-13	%
Total					
Revenue	1,594	1,506	88	6	%
OIBDA	264	223	41	18	%
Operating income	114	67	47	70	%

Recorded Music

Revenues

Recorded Music revenue increased by $80 million, or 6%, to $1,358 million for the six months ended March 31, 2016 from $1,278 million for the six months ended March 31, 2015. U.S. Recorded Music revenues were $551 million and $477 million, or 41% and 37% of consolidated Recorded Music revenues for the six months ended March 31, 2016 and March 31, 2015, respectively. International Recorded Music revenues were $807 million and $801 million, or 60% and 63% of consolidated Recorded Music revenues for the six months ended March 31, 2016 and March 31, 2015, respectively.

The overall increase in Recorded Music revenue was mainly driven by strong releases and streaming revenue growth 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,		2016 vs. 2015	
	2016	2015	$ Change	% Change
Artist and repertoire costs	$408	$368	$40	11 %
Product costs	278	268	10	4 %
Total cost of revenues	$686	$636	$50	8 %

Recorded Music cost of revenues increased by $50 million to $686 million for the six months ended March 31, 2016 from $636 million for the six months ended March 31, 2015. Artist and repertoire costs as a percentage of revenue increased to 30% for the six months ended March 31, 2016 from 29% for the six months ended March 31, 2015 due to the mix of revenue. The prior year included the impact of one-time PLG neighboring rights revenue, which carries a lower proportionate royalty expense. The current year had royalty expense on higher concert promotion revenue and strong performance from lower margin repertoire. Product costs as a percentage of revenue remained consistent at 21% for the six months ended March 31, 2016 and the six months ended March 31, 2015. Expressed as a percentage of Recorded Music revenue, Recorded Music cost of revenues increased to 51% for the six months ended March 31, 2016 from 50% for the six months ended March 31, 2015.

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,		2016 vs. 2015	
	2016	2015	$ Change	% Change
General and administrative expense (1)	$203	$209	$(6)	-3 %
Selling and marketing expense	210	220	(10)	-5 %
Distribution expense	30	30	—	— %
Total selling, general and administrative expense	$443	$459	$(16)	-4 %

(1) Includes depreciation expense of $16 million and $19 million for the six months ended March 31, 2016 and March 31, 2015, respectively.

Recorded Music selling, general and administrative expense decreased by $16 million, or 4%, to $443 million for the six months ended March 31, 2016 from $459 million for the six months ended March 31, 2015. The decrease in Recorded Music selling, general and administrative expense was primarily due to a decline in PLG Acquisition related costs of $3 million, $2 million decline in IT-related costs and ongoing savings from cost management efforts. These decreases were partially offset by a loss on divestiture of business of $3 million and increased variable compensation expense of $3 million associated with improved operating performance. Expressed as a percentage of Recorded Music revenue, Recorded Music selling, general and administrative expense decreased to 33% for the six months ended March 31, 2016 from 36% for the six months ended March 31, 2015.

OIBDA and Operating income

Recorded Music operating income included the following amounts (in millions):

	For the Six Months Ended March 31,		2016 vs. 2015	
	2016	2015	$ Change	% Change
OIBDA	$245	$202	$43	21 %
Depreciation and amortization	(109)	(115)	6	-5 %
Operating income	$136	$87	$49	56 %

Recorded Music OIBDA increased by $43 million, or 21%, to $245 million for the six months ended March 31, 2016 from $202 million for the six months ended March 31, 2015 as a result of higher recorded music revenues and a decrease in variable marketing and general and administrative expenses. Expressed as a percentage of Recorded Music revenue, Recorded Music OIBDA increased to 18% for the six months ended March 31, 2016 from 16% for the six months ended March 31, 2015 due to higher artist and repertoire costs.

Recorded Music operating income increased by $49 million to $136 million for the six months ended March 31, 2016 from $87 million for the six months ended March 31, 2015 due to the factors that led to the increase in Recorded Music OIBDA noted above and a decrease in depreciation and amortization expense.

Music Publishing

Revenues

Music Publishing revenues increased by $7 million, or 3%, to $243 million for the six months ended March 31, 2016 from $236 million for the six months ended March 31, 2015. U.S. Music Publishing revenues were $107 million and $93 million, or 44% and 39%, of Music Publishing revenues for the six months ended March 31, 2016 and March 31, 2015, respectively. International Music Publishing revenues were $136 million and $143 million, or 56% and 61%, of Music Publishing revenues for the six months ended March 31, 2016 and March 31, 2015, respectively.

The overall increase in Music Publishing revenue was mainly driven by the increase in digital revenues 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	2016 vs. 2015

	March 31,			
	2016	2015	$ Change	% Change
Artist and repertoire costs	$144	$135	$ 9	7 %
Total cost of revenues	$144	$135	$ 9	7 %

Music Publishing cost of revenues increased by $9 million, or 7%, to $144 million for the six months ended March 31, 2016 from $135 million for the six months ended March 31, 2015 due to revenue mix. Expressed as a percentage of Music Publishing revenue, Music Publishing cost of revenues increased to 59% for the six months ended March 31, 2016 from 57% for the six months ended March 31, 2015.

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,		2016 vs. 2015		
	2016	2015	$ Change	% Change	
General and administrative expense (1)	$42	$ 35	$ 7	20	%
Selling and marketing expense	1	1	—	—	%
Total selling, general and administrative expense	$43	$ 36	$ 7	19	%

(1) Includes depreciation expense of $3 million and $3 million for the six months ended March 31, 2016 and 2015, respectively.

Music Publishing selling, general and administrative expense increased by $7 million, or 20%, to $43 million for the six months ended March 31, 2016 from $36 million for the six months ended March 31, 2015 mainly due to costs related to the Happy Birthday settlement and restructuring charges taken in the current year. Excluding the impact of these non-recurring items, Music Publishing selling, general and administrative expense remained relatively flat for the three months ended March 31, 2016 and March 31, 2015. Expressed as a percentage of Music Publishing revenue, Music Publishing selling, general and administrative expense increased to 18% for the six months ended March 31, 2016 from 15% for the six months ended March 31, 2015.

OIBDA and Operating income

Music Publishing operating income included the following amounts (in millions):

	For the Six Months Ended March 31,		2016 vs. 2015		
	2016	2015	$ Change	% Change	
OIBDA	$59	$68	$(9)	-13	%
Depreciation and amortization	(35)	(35)	—	—	%
Operating income	$24	$33	$(9)	-27	%

Music Publishing OIBDA decreased by $9 million, or 13%, to $59 million for the six months ended March 31, 2016 from $68 million for the six months ended March 31, 2015 as a result of higher proportionate artist and repertoire costs and costs related to the Happy Birthday settlement and restructuring charges, as noted above. Expressed as a percentage of Music Publishing revenue, Music Publishing OIBDA decreased to 24% for the six months ended March

31, 2016 from 29% for the six months ended March 31, 2015.

Music Publishing operating income decreased by $9 million to $24 million for the six months ended March 31, 2016 from $33 million for the six months ended March 31, 2015 due to the factors that led to the decrease in Music Publishing OIBDA noted above.

Corporate Expenses and Eliminations

Our OIBDA loss from corporate expenses and eliminations decreased by $7 million to $40 million for the six months ended March 31, 2016 from $47 million for the six months ended March 31, 2015 due to a decline in facilities costs related to our corporate headquarters consolidation.

Our operating loss from corporate expenses and eliminations decreased by $7 million to $46 million for the six months ended March 31, 2016 from $53 million for the six months ended March 31, 2015 due to the factors that led to the decrease in OIBDA loss noted above.

FINANCIAL CONDITION AND LIQUIDITY

Financial Condition at March 31, 2016

At March 31, 2016, we had $2.912 billion of debt, $316 million of cash and equivalents (net debt of $2.596 billion, defined as total long-term debt, including the current portion, less cash and equivalents) and $221 million of Warner Music Group Corp. equity. This compares to $2.994 billion of debt, $246 million of cash and equivalents (net debt of $2.748 billion) and $221 million of Warner Music Group Corp. equity at September 30, 2015.

Cash Flows

The following table summarizes our historical cash flows. The financial data for the three months ended March 31, 2016 and March 31, 2015 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,	
	2016	2015
Cash provided by (used in):		
Operating Activities	$172	$142
Investing Activities	5	(59)
Financing Activities	(100)	(9)

Operating Activities

Cash provided by operating activities was $172 million for the six months ended March 31, 2016 as compared with cash provided by operating activities of $142 million for the six months ended March 31, 2015. The primary driver of the $30 million increase in cash provided by operating activities was an increase in comparative OIBDA of $41 million partially offset by changes in working capital from operations including the timing of variable compensation. Prior year cash from operations included the $36 million final PLG Acquisition cash payment offset by higher cash inflows from digital advance payments.

Investing Activities

Cash provided by investing activities was $5 million for the six months ended March 31, 2016 as compared with cash used in investing activities of $59 million for the six months ended March 31, 2015. The $5 million of cash provided by investing activities in the six months ended March 31, 2016 consisted of $42 million of proceeds from the sale of real estate and $6 million proceeds from divestiture of business, partially offset by $8 million of business investments and acquisitions, $12 million to acquire music publishing rights and $23 million of capital expenditures. The $59 million of cash used in investing activities for the six months ended March 31, 2015 consisted of $11 million of business investments and acquisitions, $9 million to acquire music publishing rights and $39 million of capital expenditures, which included $10 million related to our corporate headquarters consolidation.

Financing Activities

Cash used in financing activities was $100 million for the six months ended March 31, 2016 compared to $9 million for the six months ended March 31, 2015. The $100 million of cash used in financing activities for the six months ended March 31, 2016 consisted of the repayment of $50 million of Holdings 13.75% Senior Notes, $3 million of call premiums on early redemption of debt, open market repurchase of $24 million of Acquisition Corp. 6.75% Senior Notes, $6 million in amortization payments on the Senior Term Loan Facility, $14 million repayment of capital lease obligations and a $3 million distribution to our non-controlling interest holders. The $9 million of cash used in financing activities for the six months ended March 31, 2015 included $6 million in amortization payments on the

Senior Term Loan Facility, $1 million repayment on our capital lease obligation and a $2 million distribution to our non-controlling interest holders.

There were no drawdowns on the Revolving Credit Facility during the current period.

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 fiscal year.

Existing Debt as of March 31, 2016

As of March 31, 2016, our long-term debt, including the current portion, was as follows (in millions):

Revolving Credit Facility—Acquisition Corp. (a)	$—
Senior Term Loan Facility due 2020—Acquisition Corp. (b)	1,276
5.625% Senior Secured Notes due 2022—Acquisition Corp.	275
6.00% Senior Secured Notes due 2021—Acquisition Corp.	450
6.25% Senior Secured Notes due 2021—Acquisition Corp. (c)	176
6.75% Senior Notes due 2022—Acquisition Corp.	635
13.75% Senior Notes due 2019—Holdings	100
Total long-term debt, including the current portion	$2,912

(a) Reflects $150 million of commitments under the Revolving Credit Facility, less letters of credit outstanding of approximately $5 million at March 31, 2016. There were no loans outstanding under the Revolving Credit Facility at March 31, 2016.

(b) Principal amount of $1.280 billion less unamortized discount of $4 million at March 31, 2016. Of this amount, $13 million, representing the scheduled amortization of the Term Loan, was included in the current portion of long-term debt at March 31, 2016.

(c) Face amount of €158 million. Above amount represents the dollar equivalent of such notes at March 31, 2016.

For further discussion of our debt agreements, please see "Liquidity" in the "Financial Condition and Liquidity" section of our Annual Report on Form 10-K for the fiscal year ended September 30, 2015.

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, 2016.

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) share-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 loss, which is a U.S. GAAP measure of our operating results, to Consolidated EBITDA as defined, and the calculation of the Consolidated Funded Indebtedness to 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 December 31, 2015. The terms and related calculations are defined in the Revolving Credit Agreement. All amounts in the reconciliation below reflect WMG Acquisition Corp. (in millions, except ratio):

	Twelve Months Ended March 31, 2016		
Net Loss	$	(1	)
Income tax expense		22	
Interest expense, net		158	
Depreciation and amortization		303	
Loss on extinguishment of debt (a)		4	
Gain on asset dispositions (b)		(20	)
Loss on divestiture of business (c)		3	
Restructuring costs (d)		15	
Net hedging and foreign exchange losses (e)		18	
Management fees (f)		9	
Transaction costs (g)		4	
Business optimization expenses (h)		6	
Share based compensation expense (i)		8	
Other non-cash charges (j)		(5	)
Pro forma impact of cost containment initiatives (k)		15	
Pro Forma Consolidated EBITDA	$	539	
Consolidated Funded Indebtedness (l)	$	2,676	
Leverage Ratio (m)		4.96	

(a) Reflects net loss incurred on the early extinguishment of our debt incurred as part of the February 2016 debt redemption and March 2016 open market purchases.
(b) Reflects gain on asset dispositions, mainly the sale of real estate.
(c) Reflects loss on divestiture of business.
(d) Reflects severance costs and other restructuring related expenses.

(e) Reflects net losses from hedging activities and unrealized losses due to foreign exchange.

(f) Reflects management fees paid to Access, including an annual fee and related expenses (excludes expenses reimbursed related to certain consultants with full-time roles at the Company). 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.

(g) Reflects integration and other nonrecurring costs related to the PLG Acquisition.

(h) Reflects primarily costs associated with IT systems updates.

(i) Reflects compensation expense related to the Warner Music Group Corp. Senior Management Free Cash Flow Plan.

(j) Reflects cash payments related to previous non-cash charges, including but not limited to loss on lease terminations related to our corporate headquarters consolidation.

(k) Reflects expected savings resulting from our cost containment initiatives.

(l) Reflects the principal balance of external debt at Acquisition Corp. of approximately $2.817 billion, plus the annualized daily Revolving Credit Facility borrowings of $7 million, plus contractual obligations of deferred purchase price of $2 million, less cash of $150 million.

(m) Reflects the ratio of Consolidated Funded Indebtedness to Pro Forma Consolidated EBITDA as of the twelve months ended March 31, 2016. This is calculated net of cash and equivalents of the Company as of March 31, 2016 not exceeding $150 million. If the outstanding aggregate principal amount of borrowings under our Revolving Credit Facility is greater than $30 million at the end of a fiscal quarter, the maximum leverage ratio permitted under our Revolving Credit Facility would have been 5.50x as of the quarter ending March 31, 2016. The maximum leverage ratio permitted will be 5.50x as of the end of each fiscal quarter of fiscal 2016, decreasing to 5.25x as of the end of the second quarter of fiscal 2017. The Company’s Revolving Credit Facility does not impose any “leverage ratio” restrictions on the Company when the aggregate principal amount of borrowings under the Revolving Credit Facility is less than $30 million at the end of a fiscal quarter.

Summary

Management believes that funds generated from our operations and borrowings under our Revolving Credit Facility 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 and the continued transition from physical to digital sales in the recorded music business. We or any of 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 prepay outstanding debt or repurchase or retire Holdings’ or 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, or Holdings’, 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 14 to our audited Consolidated Financial Statements for the fiscal year ended September 30, 2015, 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, 2016, other than as described below, there have been no material changes to the Company’s exposure to market risk since September 30, 2015.

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, 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 and Australian Dollar, 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, 2016, the Company had outstanding hedge contracts for the sale of $195 million and the purchase of $114 million of foreign currencies at fixed rates. Subsequent to March 31, 2016, certain of our foreign exchange contracts expired and were renewed with new foreign exchange contracts with similar features.

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, 2016, 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 $8 million. 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 $2.916 billion of principal debt outstanding at March 31, 2016, of which $1.280 billion was variable rate debt and $1.636 billion was fixed rate debt. As such, we are exposed to changes in interest rates. At March 31, 2016, 56% of the Company’s debt was at a fixed rate. In addition, at March 31, 2016, all of our floating rate debt under our Senior Term Loan Facility was subject to a LIBOR floor of 1.0%, which is in excess of the current LIBOR rate. The LIBOR floor has effectively turned these LIBOR loans into fixed rate debt until such time as the LIBOR rate moves higher than the floor.

Based on the level of interest rates prevailing at March 31, 2016, the fair value of the fixed rate and variable rate debt was approximately $2.913 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 $15 million or increase the fair value of the fixed rate debt by approximately $14 million. Due to the LIBOR floor of 1.0%, a 25 basis point increase or decrease in the level of interest rates would have no impact on the fair value of the Company’s variable rate debt. 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.

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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 Securities Exchange Act of 1934, as amended (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 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 Securities and Exchange Commission'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 our 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

There have been no changes in our Internal Controls over financial reporting or other factors during the quarter ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, our Internal Controls.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS
Pricing of Digital Music Downloads

On December 20, 2005 and February 3, 2006, the Attorney General of the State of New York served the Company with requests for information in connection with an industry-wide investigation as to the pricing of digital music downloads. On February 28, 2006, the Antitrust Division of the U.S. Department of Justice served us with a Civil Investigative Demand, also seeking information relating to the pricing of digitally downloaded music. Both investigations were ultimately closed, but subsequent to the announcements of the investigations, more than thirty putative class action lawsuits were filed concerning the pricing of digital music downloads. The lawsuits were consolidated in the Southern District of New York. The consolidated amended complaint, filed on April 13, 2007, alleges conspiracy among record companies to delay the release of their content for digital distribution, inflate their pricing of CDs and fix prices for digital downloads. The complaint seeks unspecified compensatory, statutory and treble damages. On October 9, 2008, the District Court issued an order dismissing the case as to all defendants, including us. However, on January 12, 2010, the Second Circuit vacated the judgment of the District Court and remanded the case for further proceedings and on January 10, 2011, the U.S. Supreme Court denied the defendants' petition for Certiorari.

Upon remand to the District Court, all defendants, including the Company, filed a renewed motion to dismiss challenging, among other things, plaintiffs' state law claims and standing to bring certain claims. The renewed motion was based mainly on arguments made in defendants' original motion to dismiss, but not addressed by the District Court. On July 18, 2011, the District Court granted defendants' motion in part, and denied it in part. Notably, all claims on behalf of the CD-purchaser class were dismissed with prejudice. However, a wide variety of state and federal claims remain for the class of Internet download purchasers. Plaintiffs filed an operative consolidated amended complaint on August 31, 2011. The Company filed its answer to the fourth amended complaint on October 9, 2015. Plaintiffs filed an amended Class Certification brief on October 12, 2015. The Company filed amended answers to the fourth amended complaint on November 3, 2015. A mediation took place on February 22, 2016 but the parties were unable to reach a resolution. A new Class Certification briefing schedule is currently under discussion. The Company intends to defend against these lawsuits vigorously, but is unable to predict the outcome of these suits. Regardless of the merits of the claims, this and any related litigation could continue to be costly, and divert the time and resources of management. The potential outcomes of these claims that are reasonably possible cannot be determined at this time and an estimate of the reasonably possible loss or range of loss cannot presently be made.

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, 2015, 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, 2016, filed on May 6, 2016, 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 6, 2016

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)

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