Warner Music Group Corp.
Form 10-K
December 20, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

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)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark if the disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K.

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

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

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

There is no public market for the Registrant's common stock. As of December 20, 2018 the number of shares of the Registrant's common stock, par value $0.001 per share, outstanding was 1,052. 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. BUSINESS

FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K (this "Annual 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 (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements are based on current expectations, estimates, forecasts and projections about the industry in which we operate, management's beliefs and assumptions. Words such as "may," "will," "expect," "intend," "estimate," "anticipate," "be or "continue" or the negative thereof or variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions, which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. We disclaim any duty to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

Introduction

Warner Music Group Corp. (the "Company") was formed on November 21, 2003. We are 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 the 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 New York Stock Exchange (the "NYSE"). The Company continues to voluntarily file with the U.S. Securities and Exchange Commission (the "SEC") current and periodic reports that would be required to be filed with the SEC pursuant to Section 15(d) of the Exchange Act as provided for in certain covenants contained in the instruments covering its outstanding indebtedness. All of the Company's common stock is owned by affiliates of Access.

Our Company

We are one of the world's major music-based content companies. Our company is composed of two businesses: Recorded Music and Music Publishing. We believe we are the world's third-largest recorded music company and also the world's third-largest music publishing company. We are a global company, generating over half of our revenues in more than 50 countries outside of the United States. We generated revenues of $4.005 billion during the fiscal year ended September 30, 2018.

Our Recorded Music business produces revenue primarily through the marketing, sale and licensing of recorded music in various physical (such as CDs, Vinyl and DVDs) and digital (such as streaming and downloads) formats. We have one of the world's largest and most diverse recorded music catalogs. Our Recorded Music business also benefits from additional revenue streams associated with artists, including merchandising, fan clubs, sponsorships, concert promotions and artist management, among other areas. Some of these revenues streams are generated through rights we receive in our recording agreements. We often refer to these rights as "artist services and expanded-rights" and to the recording agreements which provide us with participations in such rights as "expanded-rights deals" or "360° deals." We have also made a number of recent acquisitions aimed at expanding our Recorded Music business, including

Sodatone, a premier artist and repertoire ("A&R") insight tool, UPROXX, one of the most influential media brands for youth culture; Spinnin' Records, one of the world's leading independent electronic music companies; Songkick, the live music and ticketing destination, and in October 2018 the acquisition of EMP Merchandising, one of Europe's leading specialty music and entertainment merchandise e-tailers. Prior to intersegment eliminations, our Recorded Music business generated revenues of $3.360 billion during the fiscal year ended September 30, 2018.

Our Music Publishing business owns and acquires rights to musical compositions, exploits and markets these compositions, and receives royalties or fees for their use. We publish music across a broad range of musical styles and hold rights in over one million copyrights from over 70,000 songwriters and composers. Prior to intersegment eliminations, our Music Publishing business generated revenues of $653 million during the fiscal year ended September 30, 2018.

We maintain an Internet site at www.wmg.com. Our website and the information posted on it or connected to it shall not be deemed to be incorporated by reference into this Annual Report.

Company History

Our history dates back to 1929, when Jack Warner, president of Warner Bros. Pictures, founded Music Publishers Holding Company ("MPHC") to acquire music copyrights as a means of providing inexpensive music for films. Encouraged by the success of MPHC, Warner Bros. extended its presence in the music industry with the founding of Warner Bros. Records in 1958 as a means of distributing movie soundtracks and further utilizing actors' contracts. For over 50 years, Warner Bros. Records has led the industry both creatively and financially with the discovery of many of the world's biggest recording artists. Warner Bros. Records acquired Frank Sinatra's Reprise Records in 1963. Our Atlantic Records label was launched in 1947 by Ahmet Ertegun and Herb Abramson as a small New York-based label focused on jazz and R&B and Elektra Records was founded in 1950 by Jac Holzman as a folk music label. Atlantic Records and Elektra Records were consolidated in 2004 to form the Atlantic Records Group. Since 1970, our international Recorded Music business has been responsible for the sale and marketing of our U.S. recording artists abroad as well as the discovery and development of international recording artists.

Chappell & Intersong Music Group, including Chappell & Co., a company whose history dates back to 1811, was acquired in 1987, expanding our Music Publishing business. We continue to diversify our presence through acquisitions and joint ventures with various labels, such as our acquisition of Ryko in 2006, our acquisition of a majority interest in Roadrunner Music Group B.V. ("Roadrunner") in 2007 (we also acquired the remaining interest in Roadrunner in 2010), the acquisition of Spinnin' in 2017, and the acquisition of music publishing catalogs and businesses, such as the Non-Stop Music production music catalog in 2007 and Southside Independent Music Publishing in 2011.

On July 20, 2011, we completed the Merger with an affiliate of Access pursuant to which Access became the beneficial owner of 100% of our equity and our controlling shareholder.

On July 1, 2013, we completed the acquisition (the "PLG Acquisition") of Parlophone Label Group ("PLG"). PLG included a broad range of some of the world's best-known recordings and classic and contemporary artists spanning a wide array of musical genres. PLG was comprised of the historic Parlophone label and Chrysalis and Ensign labels in the U.K., as well as EMI Classics and Virgin Classics, and EMI's recorded music operations in Belgium, Czech Republic, Denmark, France, Norway, Poland, Portugal, Slovakia, Spain and Sweden. PLG's artists included Air, Alain Souchon, Camille, Coldplay, Daft Punk, Danger Mouse, David Bowie, David Guetta, Deep Purple, Duran Duran, Eliza Doolittle, Gorillaz, Iron Maiden, Jean-Louis Aubert, Jethro Tull, Julien Clerc, Kylie Minogue, M. Pokora, Magic System, Pablo Alborán, Pink Floyd, Roxette, Tina Turner and Tinie Tempah, as well as many developing and up-and-coming artists. PLG's EMI Classics and Virgin Classics brand names were not included with the PLG Acquisition. WMG has rebranded these businesses, respectively, as Warner Classics and Erato.

Warner Music Group is today home to a collection of record labels, including Asylum, Atlantic, Big Beat, Canvasback, East West, Elektra, Erato, FFRR, Fueled by Ramen, Nonesuch, Parlophone, Reprise, Rhino, Roadrunner, Sire, Spinnin', Warner Bros., Warner Classics and Warner Music Nashville, as well as Warner/Chappell Music, one of the world's leading music publishers.

Our Business Strengths

We believe the following competitive strengths will enable us to grow our revenue and increase our margins and cash flow and to continue to generate recurring revenue through our diverse base of Recorded Music and Music Publishing assets:

Evergreen Catalog of Recorded Music and Music Publishing Content and Vibrant Roster of Recording Artists and Songwriters. We believe the depth and quality of our Recorded Music and Music Publishing catalogs stand out, with a collection of owned and controlled evergreen recordings and songs that generate steady cash flows. We believe these assets demonstrate our historical success in developing talent and will help to attract future talent in order to enable our continued success. We have been able to consistently attract, develop and retain successful recording artists and songwriters. Our talented A&R teams are focused on finding and nurturing future successful recording artists and songwriters, as evidenced by our roster of recording artists and songwriters and our recent successes in our Recorded Music and Music Publishing businesses. We believe our relative size, the strength and experience of our management team, our ability to respond to industry and consumer trends and challenges, our diverse array of genres, our large catalog of hit recordings and songs and our A&R skills will help us continue to generate steady cash flows.

Highly Diversified Revenue Base. Our revenue base is derived largely from recurring sources such as our Recorded Music and Music Publishing catalogs and new recordings and songs from our roster of recording artists and songwriters. In any given year, only a small percentage of our total revenue depends on recording artists and songwriters without an established track record and our revenue base does not depend on any single recording artist, songwriter, recording or song. We have built a large and diverse catalog of recordings and songs that covers a wide breadth of musical styles, including pop, rock, jazz, classical, country, R&B, hip-hop, rap, reggae, Latin, alternative, folk, blues, gospel and other Christian music. We are a significant player in each of our major geographic regions. Continuing to enter into additional expanded-rights deals and to build and acquire artist services capabilities will further diversify the revenue base of our Recorded Music business, and we continue to make selective investments in established and emerging markets.

Flexible Cost Structure with Low Capital Expenditure Requirements. We have a highly variable cost structure, with substantial discretionary spending and minimal capital requirements beyond improving our IT infrastructure. We have contractual flexibility with regard to the timing and amounts of advances paid to recording artists and songwriters as well as discretion regarding future investment in new recording artists and songwriters, which allows us to respond to changing industry conditions. Our significant discretion with regard to the timing and expenditure of variable costs provides us with considerable flexibility in managing our expenses. In addition, our capital expenditure maintenance requirements are predictable. In fiscal years 2017 and 2018 we incurred additional capital expenditures in connection with the consolidation of our West Coast operations, and the relocation of our United States shared services center to Nashville. We also continue to focus on cost control by seeking sensible opportunities to convert fixed costs to variable costs, to enhance our effectiveness, flexibility, structure and performance by reducing and realigning long-term costs and continuing to implement changes to better align our workforce with the changing nature of the music industry by continuing to shift resources from our physical sales channels to efforts focused on digital distribution and emerging technologies and other new revenue streams.

Continued Transition to Higher-Margin Digital Platforms. We derive revenue from different digital business models and products, including digital streaming of both audio and video content and digital downloads of single tracks and albums. We have established ourselves as a leader in the music industry’s transition to the digital era by expanding our distribution channels through strong partnerships and developing innovative products and services to further leverage our content and rights. For the fiscal year ended September 30, 2018, digital revenue represented approximately 56% of our total revenue versus 52% for the fiscal year ended September 30, 2017 and in fiscal years 2017 and 2018 digital streaming was our largest source of Recorded Music revenue. We have integrated the development of innovative digital products and strategies throughout our business and have established a culture of product innovation. Through our digital initiatives we have established strong relationships with our customers and have become a leader in the expanding worldwide digital music business. Due to the absence of certain costs associated with physical products, such as manufacturing, distribution, inventory and returns, we continue to experience higher margins on our digital product offerings than our physical product offerings.

Strong Management Team and Strategic Investor. Our management team has continued to successfully implement our business strategy, including delivering strong results in our digital business, delivering a steadily increasing flow of new music and continuing to diversify our revenue mix. At the same time, management has remained vigilant in managing costs and maintaining financial flexibility. During fiscal year 2013, our management team successfully completed the PLG Acquisition and related financing. During fiscal years 2012 to 2018, management completed several refinancings of our debt, lowering interest expenses and in October 2018 financed the acquisition of EMP Merchandising. In addition, since our acquisition by Access in July 2011, we have benefited from our partnership with Access, which has provided us with strategic direction and planning support to help us manage the ongoing transition in the music industry.

Our Strategy

We expect to increase revenues and cash flow through the following business strategies:

Attract, Develop and Retain Established and Emerging Recording Artists and Songwriters. A critical element of our strategy is to produce a steadily increasing flow of new music by finding, developing and retaining recording artists and songwriters who achieve long-term success. We expect to enhance the value of our assets by continuing to attract and develop new recording artists and songwriters with staying power and market potential. Our A&R teams seek to sign talented recording artists who will generate a meaningful level of revenues and increase the enduring value of our catalog on an ongoing basis. We also work to identify promising songwriters who write musical compositions that will augment the lasting value and stability of our music publishing catalog. We regularly evaluate our recording artist and songwriter rosters to ensure that we remain focused on developing the most promising and profitable talent and are committed to maintaining financial discipline in evaluating agreements with artists. We will also continue to evaluate opportunities to add to our catalog or acquire or make investments in companies engaged in businesses that are similar or complementary to ours on a selective basis.

Maximize the Value of Our Music Assets. Our relationships with recording artists and songwriters, along with our recorded music and music publishing catalogs are our most valuable assets. We intend to continue to exploit the value of these assets through a variety of distribution channels, formats and products to generate significant cash flow from our music-based content. We believe that the ability to monetize our music-based content will improve over time as we drive users and engagement across current and emerging distribution channels. We will seek to exploit the potential of previously under-monetized content in new channels, formats and product offerings. We will also continue to work with our partners to explore creative approaches and develop new deal structures and product offerings to take advantage of new distribution channels. We also intend to continue to expand our global footprint through strategic acquisitions, partnerships and organic growth in markets where we see opportunities to grow revenues, supplementing our global organization with local investment.

Capitalize on Digital Distribution and Emerging Technologies. We are embracing commercial innovation and believe the growth of digital formats will continue to produce new means for the distribution, exploitation and monetization of the assets of our Recorded Music and Music Publishing businesses. We believe that the continued development of legitimate online and mobile channels for the consumption of music-based content and increasing access to digital music services present significant promise and opportunity for the music industry. Legitimate digital music services offer ease of use, discovery, quality, portability and seamlessness relative to illegal alternatives. We intend to continue to extend our global reach by executing deals with new partners and developing optimal business models that will enable us to monetize our content across various platforms, services and devices. For the year ended September 30, 2018, our Recorded Music digital revenue significantly exceeded physical revenue. We also intend to continue to support and invest in emerging technologies, including artificial intelligence, artificial reality, virtual reality, high-resolution audio, mobile messaging, social and other technologies to continue to build new revenue streams and position us for long-term growth.

Focus on Continued Management of Our Cost Structure. We plan to continue to maintain a disciplined approach to cost management in our business and to pursue additional cost savings with a focus on aligning our cost structure with our strategy and optimizing the implementation of our strategy. As part of this focus, we will continue to monitor industry conditions to ensure that our business remains aligned with industry trends. We also plan to continue to aggressively shift resources from our physical sales channels to efforts focused on digital sales channels and other new revenue streams. As digital revenue makes up a greater portion of total revenue, we plan to manage our cost structure accordingly. In addition, we will continue to look for opportunities to convert fixed costs to variable costs through realigning or outsourcing certain functions or leveraging more effective IT systems where these initiatives provide additional cost savings. We are constantly monitoring our costs and seeking additional cost savings.

Contain Digital Piracy. Containing piracy continues to be a major focus of the music industry and we, along with the rest of the industry, continue to take multiple measures through the development of new business models, technological innovation, litigation, education and the promotion of legislation and voluntary agreements to combat piracy, including filing civil lawsuits, participating in education programs, lobbying for tougher anti-piracy legislation and other initiatives to preserve the value of music copyrights. We expect that the effectiveness of technological measures to deter piracy will continue to improve including the ability to automate large-scale takedowns of infringing links, the identification of major brands advertising on rogue sites, sending notices via ISPs to repeat infringers and website/domain blocking and takedowns of infringing mobile applications. We believe these actions and technologies, in addition to the expansive growth of legitimate online and mobile music offerings, will help to limit the revenue lost to digital piracy. Research conducted by AudienceNet, a recognized third-party market research firm, on behalf of the International Federation of the Phonographic Industry (“IFPI”), shows that the net incidence of music being consumed based on some form of copyright infringement across 18 key countries in 2018 reached 38%, with ‘streamripping’ being the dominant form. However, pirated content only accounted for 7% of total music listening time in a typical week, eclipsed by legitimate sources of music such as radio and licensed audio and video streaming services.

Recorded Music (84% of consolidated revenues, before intersegment eliminations, for each of the fiscal years ended September 30, 2018, 2017 and 2016)

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

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

Outside the United States, our Recorded Music activities are conducted in more than 50 countries through various subsidiaries, affiliates and non-affiliated licensees. Internationally, we engage in the same activities as in the United States: discovering and signing artists and distributing, marketing and selling their recorded music. In most cases, we also market and distribute the music of those artists for whom our domestic record labels have international rights. In certain smaller markets, we license the right to distribute our records to non-affiliated third-party record labels.

Our 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 an expanded universe of digital partners, including digital streaming services such as Amazon, Apple, Deezer, Napster, SoundCloud, Spotify, Tencent and YouTube, digital radio services such as iHeart Radio, Pandora and Sirius XM and digital download services such as Apple's iTunes and Google Play.

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

We have diversified our revenues beyond our traditional businesses by entering into expanded-rights deals with recording artists in order to partner with artists in other aspects of their careers. Under these agreements, we provide services to and participate in artists' activities outside the traditional recorded music business such as touring, merchandising and sponsorships. We have built and acquired 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.

A&R

We have a decades-long history of identifying and contracting with recording artists who become commercially successful. Our ability to select artists who are likely to be successful is a key element of our Recorded Music business strategy and spans all music genres and all major geographies and includes artists who achieve national, regional and international success. We believe that this success is directly attributable to our experienced global team of A&R executives, to the longstanding reputation and relationships that we have developed in the artistic community and to our effective management of this vital business function.

In the United States, our major record labels identify potentially successful recording artists, sign them to recording agreements, collaborate with them to develop recordings of their work and market and sell or license these finished recordings to legitimate digital channels and retail stores. Increasingly, we are also expanding our participation in image and brand rights associated with artists, including merchandising, sponsorships, touring and artist management. Our labels scout and sign talent across all major music genres, including pop, rock, jazz, classical, country, R&B, hip-hop, rap, reggae, Latin, alternative, folk, blues, gospel and other Christian music. Internationally, we market and sell U.S. and local repertoire through our network of affiliates and licensees in more than 50 countries. With a roster of local artists performing in various local languages throughout the world, we have an ongoing commitment to developing local talent aimed at achieving national, regional or international success.

Many of our recording artists continue to appeal to audiences long after we cease to release their new recordings. We have an efficient process for sustaining sales across our catalog releases. Relative to our new releases, we spend comparatively small amounts on marketing for our catalog.

We maximize the value of our catalog of recorded music through our Rhino business unit and through activities of each of our record labels. We use our catalog as a source of material for re-releases, compilations, box sets and special package releases, which provide consumers with incremental exposure to familiar songs and artists. Rhino also releases new soundtrack albums and new music from legacy artists; as well as exploiting the name and likeness of certain artist estates and brands.

Representative Worldwide Recorded Music Artists

A Boogie wit da Hoodie	Deftones	James Blunt	My Chemical Romance	Sigur Rós
A-ha	Jason Derulo	Katherine Jenkins	Nek	Simple Plan
Air	Disturbed	Jane's Addiction	New Order	Skillet
Alt-J	Donkeyboy	Jethro Tull	Nickelback	Skrillex
Andra Day	The Doors	Johnny Hallyday	Stevie Nicks	Slipknot
Jean-Louis Aubert	DRAM	Julien Clerc	Nico and Vinz	The Smiths
Avenged Sevenfold	Dream Theater	k.d. lang	Notorious B.I.G.	Spandau Ballet
Frankie Ballard	Duran Duran	Kehlani	Paolo Nutini	Regina Spektor
The Baseballs	Eagles	Kid Rock	Opeth	Staind
Jeff Beck	Brett Eldrege	Killswitch Engage	Pablo Alborán	Rod Stewart
Gary Clark Jr.	Eliza Doolittle	Kobukuro	Panic! At the Disco	The Streets
Biffy Clyro	Missy Elliott	Kodak Black	Pantera	Sturgill Simpson
Big Smo	The Enemy	Korn	Paramore	Alain Souchon
Billy Talent	Enya	Kraftwerk	Partynextdoor	Stone Sour
Birdy	Jimmy Fallon	Jana Kramer	Laura Pausini	Stone Temple Pilots
The Black Keys	Flaming Lips	Larry the Cable Guy	Pendulum	Superfly
Black Sabbath	Fleetwood Mac	Hugh Laurie	Christina Perri	Cole Swindell
Blur	Flo Rida	Led Zeppelin	Peter Fox	Mariya Takeuchi
Miguel Bosé	Aretha Franklin	Ligabue	Tom Petty	Tegan and Sara
Michelle Branch	Foreigner	Lil Pump	Pink Floyd	Tina Turner
Bruno Mars	fun.	Lil Uzi Vert	Plan B	Tinie Tempah
Michael Bublé	Galantis	Lily Allen	Portugal. The Man	Theory of a Deadman
Cardi B	Kevin Gates	Linkin Park	Primal Scream	Trans-Siberian Orchestra
The Cars	Genesis	Dua Lipa	Prince	Trey Songz
Tracy Chapman	Rhiannon Giddens	Lynyrd Skynyrd	Charlie Puth	Ty Dolla $ign
Ray Charles	Gloriana	M. Pokora	The Ramones	Jolin Tsai
Charlie XCX	Lukas Graham	Machine Head	Randy Travis	Twenty One Pilots
Cher	Gojira	Christophe Maé	Red Hot Chili Peppers	Twisted Sister
Chicago	Goo Goo Dolls	Magic System	Bebe Rexha	Uncle Kracker
Eric Clapton	Josh Groban	Maná	Damien Rice	Van Halen
Kelly Clarkson	Grateful Dead	Melanie Martinez	Kenny Rogers	Westernhagen
Coldplay	Green Day	Mastodon	Roxette	Whitesnake
Ornette Coleman	Gorillaz	matchbox twenty	Rudimental	Wilco
Phil Collins	Gucci Mane	MC Solaar	Rumer	Wiz Khalifa
John Coltrane	David Guetta	Bette Midler	Rush	The Wombats
Alice Cooper	Halestorm	Luis Miguel	Todd Rundgren	Yes
The Corrs	Hard-Fi	Mac Miller	Alejandro Sanz	YFN Lucci
Crosby, Stills & Nash	Emmylou Harris	Kylie Minogue	Seal	Neil Young
Daft Punk	Hunter Hayes	Janelle Monáe	Sean Paul	Young the Giant

Dan + Shay	The Head and the Heart	The Monkees	Seeed	Young Thug
Danger Mouse	Faith Hill	Ashley Monroe	Ed Sheeran	Youssou N'Dour
David Bowie	Nipsey Hussle	Jason Mraz	Blake Shelton	Zac Brown Band
Death Cab for Cutie	Iron Maiden	Muse	Shinedown	ZZ Top

Recording Artists' Contracts

Our artists' contracts define the commercial relationship between our recording artists and our record labels. We negotiate recording agreements with artists that define our rights to use the artists' copyrighted recordings. In accordance with the terms of the contract, the artists receive royalties based on sales and other forms of exploitation of the artists' recorded works. We customarily provide up-front payments to artists called advances, which are recoupable by us from future royalties otherwise payable to artists. We also typically pay costs associated with the recording and production of albums, which in certain countries are treated as advances recoupable by us from future royalties. Our typical contract for a new artist covers a sufficient number of master recordings to constitute a single initial album and provides us with a series of options to acquire subsequent albums from the artist. Royalty rates and advances are often increased for subsequent albums for which we have exercised our options. Many of our contracts contain a commitment from the record label to fund video production costs, at least a portion of which in certain countries is treated as advances recoupable by us from future royalties.

Our established artists' contracts generally provide for greater advances and higher royalty rates. Typically, established artists' contracts entitle us to fewer albums, and, of those, fewer are optional albums. In contrast to new artists' contracts, which typically give us ownership in the artist's work for the full term of copyright, some established artists' contracts provide us with an exclusive license for some fixed period of time. It is not unusual for us to renegotiate contract terms with a successful artist during the term of their existing agreement, sometimes in return for an increase in the number of albums that the artist is required to deliver.

While the duration of the contract may vary, our contracts typically grant us ownership for the duration of copyright. See "Intellectual Property-Copyrights." United States copyright law permits authors or their estates to terminate an assignment or license of copyright (for the United States only) after a set period of time in certain circumstances. See "Risk Factors—We face a potential loss of catalog to the extent that our recording artists have a right to recapture rights in their recordings under the U.S. Copyright Act."

We are also continuing to transition to other forms of business models with recording artists to adapt to changing industry conditions. Many of the recording agreements we currently enter into are expanded-rights deals, in which we share in the touring, merchandising, sponsorship/endorsement, fan club or other non-traditional music revenues associated with those artists.

Marketing and Promotion

Our approach to marketing and promoting our artists and their recordings is comprehensive. Our goal is to maximize the likelihood of success for new releases as well as to stimulate the success of catalog releases. We seek to increase the value of music, and help our artists connect with their fans.

The marketing and promotion of recorded music is carefully coordinated to create the greatest sales momentum, while maintaining financial discipline. We have significant experience in our marketing and promotion departments, which we believe allows us to achieve an optimal balance between our marketing expenditure and the eventual sales of our artists' recordings. We use a budget-based approach to plan marketing and promotions, and we monitor all expenditures related to each release to ensure compliance with the agreed-upon budget. These planning processes are regularly evaluated based on updated artist retail sales reports, streaming service playlists and radio airplay data, so that a promotion plan can be quickly adjusted if necessary.

Manufacturing, Packaging and Physical Distribution

Technicolor SA, a technology provider for the media and entertainment sectors, which acquired in 2015 the North American optical disc manufacturing and distribution assets from Cinram Group Inc., is currently our primary supplier of manufacturing, packaging and physical distribution services in the U.S. and Canada. We also have arrangements with other suppliers and distributors, in addition to Technicolor, as part of our manufacturing, packaging and physical distribution network throughout the rest of the world. We believe that the pricing terms of our manufacturing, packaging and physical distribution agreements reflect market rates.

Sales and Digital Distribution

We generate sales from the new releases of current artists and our catalog of recordings. In addition, we actively repackage music from our catalog to form new compilations. Our sales are generated in digital formats including streaming and downloads, CD format, as well as through historical formats, such as vinyl albums.

Most of our physical sales represent purchases by a wholesale or retail distributor. Our sale and return policies are in accordance with wholesale and retailer requirements, applicable laws and regulations, territory and customer-specific negotiations, and industry practice. We attempt to minimize the return of unsold product by working with retailers to manage inventory and SKU counts as well as monitoring shipments and sell-through data.

The digital sales channel has become an important sales channel within our business. We currently partner with a broad range of digital service providers, such as Amazon, Apple, Deezer, KKBox, Napster, Spotify, Telefonica, Tencent, YouTube and Google, and are actively seeking to develop and grow our digital business. Online sales also include sales of traditional physical formats through both the online distribution arms of traditional retailers such as fye.com and walmart.com and traditional online physical retailers such as amazon.com, bestbuy.com and barnesandnoble.com. In addition, digital service providers sell digital music on a per-album or per-track basis. Various mobile service providers also offer their subscribers the ability to stream or download music on mobile devices. In digital formats, per-unit costs related directly to physical products such as manufacturing, distribution, inventory and return costs do not apply. While there are some digital-specific variable costs and infrastructure investments needed to produce, market and sell digital products, it is reasonable to expect that we will generally derive a higher contribution margin from digital sales than physical sales. We sell our physical recorded music products through a variety of different retail and wholesale outlets including music specialty stores, general entertainment specialty stores, supermarkets, mass merchants and discounters, independent retailers and other traditional retailers. Although some of our retailers are specialized, many of our customers offer a substantial range of products other than music.

Our agreements with digital service providers generally last one to three years. We believe that the short-term nature of our agreements enables us to maintain the flexibility that we need given the continuing changes to digital business models.

We enter into agreements with these service providers to make our masters available for access in digital formats (e.g., streaming, and digital downloads). We then provide digital assets for our masters to these service providers in an accessible form. Our agreements with these service providers establish our fees for the distribution of our product, which vary based on the type of product being distributed. We typically receive accounting reports from these service providers on a monthly basis, detailing the distribution activity, with payments rendered on a monthly basis.

Our business has historically been seasonal. In the recorded music business, purchases have historically been heavily weighted towards the last three months of the calendar year. However, since the emergence of digital sales, we have noted our business is becoming less seasonal in nature and driven more by the timing of our releases. As digital revenue continues to increase as a percentage of our total revenue, this may continue to affect the overall seasonality of our business. However, seasonality with respect to the sale of music in new formats, such as digital, is still developing.

Music Publishing (16% of consolidated revenues, before intersegment eliminations, for each of the fiscal years ended September 30, 2018, 2017 and 2016)

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 pop hits, American standards, folk songs and motion picture and theatrical compositions. Assembled over decades, our award-winning catalog includes over 70,000 songwriters and composers and a diverse range of genres including pop, rock, jazz, classical, country, R&B, hip-hop, rap, reggae, Latin, folk, blues, symphonic, soul, Broadway, techno, alternative and gospel. Warner/Chappell also administers the music and soundtracks of several third-party television and film producers and studios. We have an extensive production music library collectively branded as Warner/Chappell Production Music.

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Music Publishing Portfolio

Representative Songwriters

Rhett Akins	Ben Hayslip	Tim Nichols
Steve Aoki	Brett James	Nickelback
Beyoncé	Jay Z	Paramore
Belly	Juanes	Katy Perry
Brothers Osborne	Ian Kirkpatrick	Plain White T's
Brody Brown	Kool & the Gang	Cole Porter
James Brown	Kygo	The Ramones
Bruno Mars	Lady Antebellum	Pricilla Renea
Michael Bublé	Kendrick Lamar	Damien Rice
busbee	Led Zeppelin	Rihanna
Captain Cuts	Lil Wayne	Liz Rose
Harry Chapin	Little Big Town	Mort Shuman
Eric Clapton	Tove Lo	Stephen Sondheim
Dido	Madonna	Staind
Dream	Maná	Chris Stapleton
Dr. Dre	Curtis Mayfield	A Thousand Horses
fun.	Johnny Mercer	Justin Tranter
Nicole Galyon	George Michael	Twenty One Pilots
Kenneth Gamble and Leon Huff	Julia Michaels	Kurt Weill
George and Ira Gershwin	Lin-Manuel Miranda	Barry White
Brantley Gilbert	Nick Monson	John Williams
Lukas Graham	Van Morrison	Pharrell Williams
Green Day	Muse	Wiz Kalifa
Halestorm	Kacey Musgraves	Wolf Cousins
Jerome Harmon	Dave Mustaine	Rob Zombie

Representative Songs

1950s and Prior	1960s	1970s
As Time Goes By	Build Me Up Buttercup	A Horse With No Name
Dream A Little Dream Of Me	Everyday People	Ain't No Stopping Us Now
Frosty The Snowman	For What It's Worth	Cat's In The Cradle
Jingle Bell Rock	I Only Want To Be With You	Hot Stuff
Misty	Save The Last Dance For Me	Killing Me Softly
Night And Day	This Magic Moment	Layla
Summertime	Viva Las Vegas	Listen To The Music
That's All Right	Walk On By	Moondance
When I Fall In Love	When A Man Loves A Woman	Stairway To Heaven
Winter Wonderland	Whole Lotta Love	Star Wars Theme

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1980s	1990s	2000s	2010 and after
Celebration	Believe	American Idiot	7 Years
Danger Zone	Closing Time	Crazy	Another Day In The Sun
Endless Love	Creep	Crazy In Love	Drunk In Love
Eye Of The Tiger	End Of The Road	Gotta Be Somebody	Firework
Flashdance	Gonna Make You Sweat	Hey There Delilah	Glad You Came
Jump	Livin' La Vida Loca	Home	Just The Way You Are
Like A Prayer	Macarena	I Kissed A Girl	My Shot
Morning Train	MMMBop	Rockstar	Sorry
Slow Hand	Sunny Came Home	Umbrella	Uptown Funk
The Wind Beneath My Wings	This Kiss	White Flag	We Are Young

Music Publishing Royalties

Warner/Chappell, as a copyright owner and/or administrator of copyrighted musical compositions, is entitled to receive royalties for the exploitation of musical compositions. We continually add new musical compositions to our catalog, and seek to acquire rights in songs that will generate substantial revenue over the long term.

Music publishers generally receive royalties pursuant to public performance, digital, mechanical, synchronization, and other licenses. In the United States, music publishers collect and administer mechanical royalties, and statutory rates are established by the U.S. Copyright Act of 1976, as amended, for the royalty rates applicable to musical compositions for sales of recordings embodying those musical compositions. In the United States, public performance royalties are typically administered and collected by performing rights organizations and in most countries outside the United States, collection, administration and allocation of both mechanical and performance income are undertaken and regulated by governmental or quasi-governmental authorities. Throughout the world, each synchronization license is generally subject to negotiation with a prospective licensee and, by contract, music publishers pay a contractually required percentage of synchronization income to the songwriters or their heirs and to any co-publishers.

Warner/Chappell acquires copyrights or portions of copyrights and/or administration rights from songwriters or other third-party holders of rights in compositions. Typically, in either case, the grantor of rights retains a right to receive a percentage of revenues collected by Warner/Chappell. As an owner and/or administrator of compositions, we promote the use of those compositions by others. For example, we encourage recording artists to record and include our songs on their albums, offer opportunities to include our compositions in filmed entertainment, advertisements and digital media and advocate for the use of our compositions in live stage productions. Examples of music uses that generate publishing revenues include:

Performance: performance of the song to the general public

- Broadcast of music on television, radio and cable
- Live performance at a concert or other venue (e.g., arena concerts, nightclubs)
- Broadcast of music at sporting events, restaurants or bars
- Performance of music in staged theatrical productions

Digital: sale of recorded music in various digital formats and digital performance of songs to the general public

- Digital recordings such as streaming services and digital downloads

Mechanical: sale of recorded music in various physical formats

- Physical recordings such as CDs, vinyl and DVDs

Synchronization: use of the song in combination with visual images

- Films or television programs
- Television commercials
- Video games
- Merchandising, toys or novelty items

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Other:

- Licensing of copyrights for use in printed sheet music

Composers' and Lyricists' Contracts

Warner/Chappell derives its rights through contracts with composers and lyricists (songwriters) or their heirs, and with third-party music publishers. In some instances, those contracts grant either 100% or some lesser percentage of copyright ownership in musical compositions and/or administration rights. In other instances, those contracts only convey to Warner/Chappell rights to administer musical compositions for a period of time without conveying a copyright ownership interest. Our contracts grant us exclusive exploitation rights in the territories concerned excepting any pre-existing arrangements. Many of our contracts grant us rights on a worldwide basis. Warner/Chappell customarily possesses administration rights for every musical composition created by the writer or composer during the duration of the contract.

While the duration of the contract may vary, many of our contracts grant us ownership and/or administration rights for the duration of copyright. See "Intellectual Property-Copyrights." U.S. copyright law permits authors or their estates to terminate an assignment or license of copyright (for the U.S. only) after a set period of time. See "Risk Factors—We face a potential loss of catalog to the extent that our recording artists have a right to recapture rights in their recordings under the U.S. Copyright Act."

Competition

In both Recorded Music and Music Publishing we compete based on price (to retailers in recorded music and to various end users in music publishing), on marketing and promotion (including both how we allocate our marketing and promotion resources as well as how much we spend on a dollar basis) and on artist signings. We believe we currently compete favorably in these areas.

Our Recorded Music business is also dependent on technological development, including access to, selection and viability of new technologies, and is subject to potential pressure from competitors as a result of their technological developments. Due to online piracy, we have been forced to compete with illegal channels such as unauthorized, online, peer-to-peer filesharing and CD-R activity. See "Industry Overview—Recorded Music—Piracy." Additionally, we compete, to a lesser extent, for disposable consumer income with alternative forms of entertainment, content and leisure activities, such as cable and satellite television, motion pictures and video games in physical and digital formats.

The recorded music industry is highly competitive based on consumer preferences, and is rapidly changing. At its core, the recorded music business relies on the exploitation of artistic talent. As such, competitive strength is predicated upon the ability to continually develop and market new artists whose work gains commercial acceptance. According to Music and Copyright, in 2017, the three largest major record companies were Universal Music Group, Sony Music Entertainment and us, which collectively accounted for 68% of worldwide recorded music sales. There are many mid-sized and smaller players in the industry that accounted for the remaining 32%, including independent music companies. Universal Music Group was the market leader with a 30% worldwide market share in 2017 after absorbing the bulk of the recorded music assets of the former EMI in late 2012, followed by Sony Music Entertainment with a 22% share. We held a 16% share of worldwide recorded music sales globally in 2017.

The music publishing business is also highly competitive. The top three music publishers collectively accounted for 59% of the market. Based on Music & Copyright's most recent estimates published in May 2018, Sony/ATV was the market leader in music publishing in 2017 with a 27% share (reflecting its administration of the EMI music publishing assets). Universal Music Publishing was the second largest music publisher with a 20% share, followed by us at 12%.

There are many mid-sized and smaller players in the industry that account for the remaining 41%, including many individual songwriters who publish their own works.

Intellectual Property

Copyrights

Our business, like that of other companies involved in music publishing and recorded music, rests on our ability to maintain rights in musical works and recordings through copyright protection. In the U.S., copyright protection for works created as “works made for hire” (e.g., works of employees or certain specially commissioned works) on or after January 1, 1978 generally lasts for 95 years from first publication or 120 years from creation, whichever expires first. The period of copyright protection for works created on or after January 1, 1978 that are not “works made for hire” lasts for the life of the author plus 70 years. Works created and published or registered in the U.S. prior to January 1, 1978 generally enjoy a total copyright life of 95 years, subject to compliance with certain statutory provisions including notice and renewal. In the U.S., sound recordings created prior to February 15, 1972 are not subject to federal copyright protection but are protected by common law rights or state statutes, where applicable. The term of copyright in the European Union (“E.U.”) for musical compositions in all member states lasts for the life of the author plus 70 years.

In the E.U., the term of copyright for sound recordings lasts for 70 years from the date of release in respect of sound recordings that were still in copyright on November 1, 2013 and for 50 years from date of release in respect of sound recordings the copyright in which had expired by that date. The E.U. also recently harmonized the copyright term for joint musical works. In the case of a musical composition with words that is protected by copyright on or after November 1, 2013, E.U. member states are required to calculate the life of the author plus 70 years term from the date of death of the last surviving author of the lyrics and the composer of the musical composition, provided that both contributions were specifically created for the respective song.

We are largely dependent on legislation in each territory in which we operate to protect our rights against unauthorized reproduction, distribution, public performance or rental. In all territories where we operate, our products receive some degree of copyright protection, although the extent of effective protection varies widely. In a number of developing countries, the protection of copyright remains inadequate.

Technological changes have focused attention on the need for new legislation that will adequately protect the rights of producers. We actively lobby in favor of industry efforts to increase copyright protection and support the efforts of organizations such as the Recording Industry Association of America (“RIAA”), IFPI and the World Intellectual Property Organization.

Trademarks

We consider our trademarks to be valuable assets to our business. As such, we endeavor to register our major trademarks in every country where we believe the protection of these trademarks is important for our business. Our major trademarks include Asylum, Atlantic, Elektra, EMP, Parlophone, Reprise, Rhino, Sire, Spinnin’, Warner/Chappell and WEA. We also use certain trademarks pursuant to royalty-free license agreements. Of these, the duration of the license relating to the WARNER and WARNER MUSIC marks and “W” logo is perpetual. The duration of the license relating to the WARNER BROS. RECORDS mark and WB & Shield designs is fifteen years and three months from February 29, 2004. Each of the licenses may be terminated under certain limited circumstances, which may include material breaches of the agreement, certain events of insolvency, and certain change of control events if we were to become controlled by a major filmed entertainment company. We actively monitor and protect against activities that might infringe, dilute, or otherwise harm our trademarks.

Joint Ventures

We have entered into joint venture arrangements pursuant to which we or our various subsidiary companies manufacture, distribute and market (in most cases, domestically and internationally) recordings owned by the joint ventures. An example of this arrangement is Frank Sinatra Enterprises, a joint venture established to administer licenses for use of Frank Sinatra’s name and likeness and manage all aspects of his music, film and stage content.

Employees

As of September 30, 2018, we employed approximately 4,660 persons worldwide, including temporary and part-time employees. None of our employees in the U.S. are subject to a collective bargaining agreement, although certain employees in our non-domestic companies are covered by national labor agreements. We believe that our relationship with our employees is good.

INDUSTRY OVERVIEW

Recorded Music

Recorded music is one of the primary mediums of entertainment for consumers worldwide and in calendar year 2017, according to IFPI, generated $17.27 billion in trade value of sales. Over time, major recorded music companies have built significant recorded music catalogs, which are long-lived assets that are exploited year after year. The exploitation of catalog material is typically more profitable than that of new releases, given lower development costs and more limited marketing costs. Through the end of the third calendar quarter of 2018 (i.e., the week ending September 27, 2018), according to Nielsen's Music Connect system, 63% of all calendar year-to-date U.S. album unit sales, plus track-equivalent album sales and stream-equivalent on-demand album consumption, came from recordings more than 18 months old.

According to IFPI, the top five territories (the U.S., Japan, Germany, the U.K., and France) collectively accounted for 71% of the related sales in the recorded music market in calendar year 2017. The U.S., which is the most significant exporter of music, is also the largest territory for recorded music sales, constituting 34% of total calendar year 2017 recorded music sales on a trade value basis. The U.S. and Japan are largely local music markets, with 93% and 87% of their calendar year 2015 physical music sales consisting of domestic repertoire, respectively. In contrast, markets like the U.K. have higher percentages of international sales, with international repertoire in that territory constituting 42% of physical music sales.

There has been a major shift in distribution of recorded music from specialty shops towards mass-market and online outlets in recent years. Online sales of physical product as well as digital downloads have grown, and according to the market research firm NPD, record/entertainment/electronics stores' share of U.S. music sales totaled 18% in 2009. U.S. mass-market and other stores' share grew from 38% in calendar 1999 to 54% in calendar year 2004, and with the subsequent growth of sales via online channels, their share contracted to 28% in calendar year 2008. Mass-market retailers accounted for 15% of total industry unit sales calculated on a total album plus digital track equivalent (ten tracks per album) unit basis in the U.S. in calendar year 2017, according to SoundScan data. In addition, revenues resulting from music streaming services now represent the majority of the overall recorded music market in the U.S. Data published by the RIAA shows that when the streaming category was taken into account, it was responsible for 75% of total year-to-date estimated industry retail value through the first half of calendar year 2018. In terms of genre, R&B/hip-hop remained the most popular style of music in the U.S. overall, representing 31% of the music purchased and consumed on streaming services in the U.S. through the first half of calendar year 2018, as captured and calculated by Nielsen Entertainment, although genres such as rock, pop, and Latin music are also popular and outperform in specific formats.

According to RIAA, from calendar years 1990 to 1999, the U.S. recorded music industry grew at a compound annual growth rate of 7.6%. This growth, largely paralleled around the world, was driven by demand for music, the replacement of vinyl and cassettes with CDs, price increases and strong economic growth. The industry began experiencing negative growth rates in calendar year 1999, on a global basis, primarily driven by an increase in digital piracy. Other drivers of this decline were and are the overall recessionary economic environment, bankruptcies of record retailers and wholesalers, growing competition for consumer discretionary spending and retail shelf space and the maturation of the CD format, which slowed the historical growth pattern of recorded music sales. Since that time, annual dollar sales of physical music product in the U.S. are estimated to have declined at a compound annual growth rate of 12%, although there was a 2.5% year-over-year increase recorded in 2004. In calendar year 2017, the physical business experienced a 4% year-over-year decline on a value basis. However, U.S. performance figures for the market overall in calendar year 2017, as well as through the first half of calendar year 2018, reflected year-over-year increases in estimated retail revenues of 17% and 10%, respectively, suggesting that revenues from streaming services are offsetting declines in other formats. While the 8% year-over-year increase in global trade revenues reported by IFPI for calendar year 2017 also indicates that the climate may be improving, the experience varies by market, with some markets still being adversely impacted to varying degrees by differing penetration levels of piracy-enabling technologies, such as broadband access and CD-R technology, and economic conditions.

Notwithstanding these factors, we believe that music industry results could continue to improve based on the continued mobilization of the industry as a whole against piracy and the development and broad adoption of legitimate digital distribution channels.

Piracy

One of the industry's biggest challenges is combating piracy. Music piracy exists in two primary forms: digital (which includes illegal downloading, streaming piracy and CD-R piracy) and industrial:

- Digital piracy has grown dramatically, enabled by the increasing penetration of broadband Internet access and the ubiquity of powerful microprocessors, fast optical drives (particularly with writable media, such as CD-R) and large inexpensive disk storage in personal computers. The combination of these technologies has allowed consumers to easily, flawlessly and almost instantaneously make high-quality copies of music using a home computer by "ripping" or converting musical content from CDs into digital files, stored on local disks. These digital files can then be distributed for free over the Internet through anonymous peer-to-peer filesharing networks such as BitTorrent and Frostwire ("illegal downloading"). Alternatively, these files can be burned onto multiple CDs for physical distribution ("CD-R piracy"). IFPI identified nearly 20 million URLs hosting infringing content and actioned them for removal in 2016. In addition, IFPI states that 339 million requests were sent to Google requiring it to 'delist' infringing sites. These figures represent only a fraction of sites and activity surrounding infringement.

- Industrial piracy (also called counterfeiting or physical piracy) involves mass production of illegal CDs in factories. This form of piracy is largely concentrated in developing regions, and has existed for more than two decades. The sale of legitimate recorded music in these developing territories is limited by the dominance of pirated products, which are sold at substantially lower prices than legitimate products. Based upon most recent data available, the International Intellectual Property Alliance (IIPA) estimated that U.S. trade losses due to physical piracy of records and music in 39 key countries/territories around the world with copyright protection and/or enforcement deficiencies totaled $1.5 billion in 2009. At that time, the IIPA believed that piracy of records and music was most prevalent in territories such as Indonesia, China, the Philippines, Mexico, India and Argentina, where piracy levels were at 60% or above.

In 2003, the industry launched an intensive campaign to limit piracy that focused on four key initiatives:

- Technological: The technological measures against piracy are geared towards degrading the illegal filesharing process and tracking providers and consumers of pirated music. These measures include spoofing, watermarking, copy protection, the use of automated webcrawlers and access restrictions.
- Educational: Led by RIAA and IFPI, the industry launched an aggressive campaign of consumer education designed to spread awareness of the illegality of various forms of piracy through aggressive print and television advertisements. These efforts have yielded positive results in impacting consumer behaviors and attitudes with regard to filesharing of music. A survey conducted by MusicWatch, a market research firm, in December 2016 showed that roughly 1 in 5 U.S. Internet users aged 13 or older who stopped or decreased their usage of filesharing services for music in the year covered by the survey were motivated by concerns about being sued and/or the legality of such services, as well as moral implications. Research conducted by Ipsos across 13 countries, as cited in IFPI's Music Consumer Insight Report 2016, found that a majority (50%+) of respondents in various age groups from 13 – 64 years old agreed that "downloading/streaming music without permission is stealing."
- Legal: In conjunction with its educational efforts, the industry has taken aggressive legal action against commercial file-sharing sites, as well as cooperating with law-enforcement when criminal cases are appropriate. In April 2015, the industry reached a settlement agreement with Grooveshark that completely shut down its unauthorized streaming service. In September, the file-sharing sites Sharebeast and Albumjams.com, which were sources of a large number of pre-release leaks and millions of unpaid downloads, were shut down by the FBI. In addition, the industry has been successful in obtaining blocking orders in many countries, including the U.K., France, Italy, South Korea, Belgium, Spain and Portugal, that make it more difficult for end users to access infringing sites, such as BitTorrent sites. Finally, in both China and Russia, the courts have been more willing to issue rulings to combat unauthorized distribution. Such rulings allow for the potential growth of licensed services in these countries, which have been stymied by rampant content piracy.
- Development of online and mobile alternatives: We believe that the development and success of legitimate digital music channels will be an important driver of recorded music sales and monetization going forward, as they represent both revenue stream and a potential inhibitor of piracy. The music industry has been encouraged by the proliferation and success of legitimate digital music distribution options. We believe that these legitimate online distribution channels offer several advantages to illegal peer-to-peer networks, including greater ease of use, higher quality and more consistent music product, faster downloading and streaming, better search and discovery capabilities and seamless integration with portable digital music players. Legitimate online download stores and streaming music services began to be established in 2001 beginning with the launch of Rhapsody (currently known as Napster) in late 2001 and continuing through the launch of Apple's iTunes music store in April 2003. Since then, many others (both large and small) have launched download and ad-supported and subscription streaming music services, offering a variety of models, including per-track pricing, per-album pricing and monthly subscriptions. According to Pro-music, a coalition of trade organizations representing record companies, music publishers, artists and musicians, retailers, and others engaged in the music business, including IFPI, there are more than 400 legal digital music services providing alternatives to illegal filesharing in markets around the world, with major international services operating in a multitude of territories. Devices such as smartphones and tablets that are equipped with new capabilities are

increasingly offering consumers greater capability to acquire and consume full-track downloads and streaming audio and video through mobile platforms as well as online. These devices are further facilitating usage of legitimate options.

These efforts are incremental to the long-standing push by organizations such as RIAA and IFPI to curb industrial piracy around the world. In addition to these actions, the music industry is increasingly coordinating with other similarly impacted industries (such as software and filmed entertainment) to combat piracy.

We believe these actions have contained piracy levels in a number of markets. A survey conducted by MusicWatch covering activity in the second calendar quarter of 2017 showed that incidence of peer-to-peer (P2P) sharing of music among U.S. Internet users aged 13 or older rose slightly during the quarter but remained in single digit percentages. The survey also reflected that other types of unauthorized music sharing, such as the downloading of music via mobile apps, and the transfer of music files to/from hard drives and flash drives, were generally down or stable compared to earlier quarters.

Internationally, we believe governmental initiatives designed to protect intellectual property should also be helpful to the music industry and measures are being adopted in an increasing number of countries to achieve better ISP cooperation. Solutions to online piracy and making progress towards meaningful ISP cooperation against online piracy are also being adopted or pursued through government-sponsored negotiations of codes of practice or cross-industry agreements and remedies arising out of litigation, such as obtaining injunctions requiring ISPs to block access to infringing sites. We believe these actions, as well as other actions also currently being taken in many countries around the world, represent a positive trend internationally and a recognition by governments around the world that urgent action is required to reduce online piracy and in particular unlawful filesharing because of the harm caused to the creative industries. While these governmental actions have not come without some controversy, we continue to lobby for legislative change through music industry bodies and trade associations in jurisdictions where enforcement of copyright in the context of online piracy remains problematic due to existing local laws or prior court decisions.

Music Publishing

Background

Music publishing involves the acquisition of rights to, and licensing of, musical compositions (as opposed to recordings) from songwriters, composers or other rightsholders. Music publishing revenues are derived from five main royalty sources: Mechanical, Performance, Synchronization, Digital and Other.

In the U.S., mechanical royalties are collected by music publishers from recorded music companies or via The Harry Fox Agency, a non-exclusive licensing agent affiliated with SESAC, while outside the U.S., collection societies generally perform this function. Once mechanical royalties reach the publisher (either directly from record companies or from collection societies), percentages of those royalties are paid or credited to the writer or other rightsholder of the copyright in accordance with the underlying rights agreement. Mechanical royalties are paid at a penny rate of 9.1 cents per song per unit in the U.S. for physical formats (e.g., CDs and vinyl albums) and permanent digital downloads (recordings in excess of five minutes attract a higher rate). There are also rates set for interactive streaming and non-permanent downloads based on a formula that takes into account revenues paid by consumers or advertisers with certain minimum royalties that may apply depending on the type of service. “Controlled composition” provisions contained in some recording agreements may apply to the rates mentioned above pursuant to which artist/songwriters license their rights to their record companies for as little as 75% of the statutory rates. The current U.S. statutory mechanical rates will remain in effect through December 31, 2018. In most other territories, mechanical royalties are based on a percentage of wholesale prices for physical product and based on a percentage of consumer prices for digital products. In international markets, these rates are determined by multi-year collective bargaining agreements and rate tribunals.

Throughout the world, performance royalties are typically collected on behalf of publishers and songwriters by performance rights organizations and collection societies. Key performing rights organizations and collection societies include: The American Society of Composers, Authors and Publishers (ASCAP), SESAC and Broadcast Music, Inc. (BMI) in the U.S.; Mechanical-Copyright Protection Society and The Performing Right Society (“MCPS/PRS”) in the U.K.; The German Copyright Society in Germany (“GEMA”) and the Japanese Society for Rights of Authors, Composers and Publishers in Japan ("JASRAC"). The societies pay a percentage (which is set in each country) of the performance royalties to the copyright owner(s) or administrators (i.e., the publisher(s)), and a percentage directly to the songwriter(s), of the composition. Thus, the publisher generally retains the performance royalties it receives other than any amounts attributable to co-publishers.

The music publishing market has proven to be more resilient than the recorded music market in recent years as revenue streams other than mechanical royalties are largely unaffected by piracy, and are benefiting from additional sources of income from digital exploitation of music in streaming and downloads. The worldwide professional music publishing market was estimated to have generated $4.92 billion in revenues in calendar year 2017 according to figures published in May 2018 by Music & Copyright.

In addition, major publishers have the opportunity to generate significant value by the acquisition of other music publishers by extracting cost savings (as acquired libraries can be administered with little incremental cost) and by increasing revenues through more aggressive monetization efforts.

ITEM 1A. RISK FACTORS

In addition to the other information contained in this Annual Report, certain risk factors should be considered carefully in evaluating our business. The risks and uncertainties described below may not be the only ones facing us. Additional risks and uncertainties that we do not currently know about or that we currently believe are immaterial may also adversely impact our business operations. If any of the following risks actually occur, our business, financial condition or results of operations would likely suffer. This Annual Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results and the timing of events could differ materially from those projected in forward-looking statements due to a number of factors, including those set forth below and elsewhere in this Annual Report. See "Special Note Regarding Forward-Looking Statements" following this Item 1A. Risk Factors.

Risks Related to Our Business

We may be unable to compete successfully in the highly competitive markets in which we operate and we may suffer reduced profits as a result.

The industries in which we operate are highly competitive, have experienced ongoing consolidation among major music companies and are driven by consumer preferences that are rapidly changing. Additionally, they require substantial human and capital resources. We compete with other recorded music companies and music publishers to identify and sign new recording artists and songwriters who subsequently achieve long-term success and to renew agreements with established artists and songwriters. In addition, our competitors may from time to time increase the amounts they spend to discover, or to market and promote, recording artists and songwriters or reduce the prices of their products in an effort to expand market share. We may lose business if we are unable to sign successful recording artists or songwriters or to match the prices of the products offered by our competitors. Our Recorded Music business competes not only with other recorded music companies, but also with the recorded music efforts of live events companies and recording artists who may choose to distribute their own works and other companies that may choose to sign direct deals with artists or labels, such as Spotify. Our Music Publishing business competes not only with other music publishing companies, but also with songwriters who publish their own works and other service providers such as Kobalt Music. Our Recorded Music business is to a large extent dependent on technological developments, including access to and selection and viability of new technologies, and is subject to potential pressure from competitors as a result of their technological developments. For example, our Recorded Music business may be further adversely affected by technological developments that facilitate the piracy of music, such as Internet peer-to-peer filesharing and CD-R activity, by an inability to enforce our intellectual property rights in digital environments and by a failure to develop successful business models applicable to a digital environment. The Recorded Music business also faces competition from other forms of entertainment and leisure activities, such as cable and satellite television, motion pictures and videogames in physical and digital formats.

If the recorded music industry fails to grow or streaming revenue fails to grow at a sufficient rate to offset download and physical sales declines, our prospects and our results of operations may be adversely affected.

In the last several years, recorded music sales have been increasing following a long period of decline, while legal digital music has experienced rapid growth since 2003, and revenue growth from streaming has emerged. In fact, growth in digital sales offset declines in physical sales in 2015, 2016 and 2017 and continued to do so in 2018. Streaming revenue is important as it is offsetting declines in downloads and physical sales and represents a growing area of our Recorded Music business. According to IFPI, digital downloads accounted for 20% of global digital revenues in 2017. Streaming revenue, which includes revenue from ad-supported and subscription services, accounted for 71% of digital revenues in 2017, up 11 percentage points year-over-year. Although revenues from digital downloads fell by 21% in 2017, the decline was offset by an increase in streaming revenue, helping total digital revenues grow by 19%. Streaming models comprise a range of margins. For some streaming models, our margins are superior to those for downloads and for others, our margins are slightly less. We expect these trends to continue to impact our results for the foreseeable future. There can be no assurance that this growth pattern will persist or that digital revenue will grow at a rate sufficient to offset declines in physical sales. A declining recorded music industry is likely to lead to reduced levels of revenue and operating income generated by our Recorded Music business. Additionally, a declining recorded music industry is also likely to have a negative impact on our Music Publishing business, which generates a significant portion of its revenues from sales and other exploitation of recorded music.

There may be downward pressure on our pricing and our profit margins and reductions in shelf space.

There are a variety of factors that could cause us to reduce our prices and reduce our profit margins. They are, among others, price competition from the sale of motion pictures and videogames in physical and digital formats, the negotiating leverage of mass merchandisers, big-box retailers and distributors of digital music, the increased costs of doing business with mass merchandisers and big-box retailers as a result of complying with operating procedures that are unique to their needs and any changes in costs or profit margins associated with our digital business, including the impact of ad-supported music services, some of which may be able to avail themselves of “safe harbor” defenses against copyright infringement actions under copyright laws. Due to “safe harbor” defenses, revenue from ad-supported music services do not fully reflect increases in consumption. In addition, we are currently dependent on a small number of leading digital music services, which allows them to significantly influence the prices we can charge in connection with the distribution of digital music. Over the course of the last decade, U.S. mass-market and other stores' share of U.S. physical music sales has continued to grow. While we cannot predict how future competition will impact music retailers, as the music industry continues to transform it is possible that the share of music sales by a small number of leading mass-market retailers such as Walmart and Target, as well as online retailers and digital music services such as Amazon, Apple Music, Spotify and Tencent will continue to grow, which could further increase their negotiating leverage and put pressure on profit margins. Also, some large retailers may reduce or eliminate shelf space dedicated to music, which could negatively impact our revenues. See "—We are substantially dependent on a limited number of digital music services for the online sale or other exploitation of our music and they are able to significantly influence the pricing structure for online music stores and may not correctly calculate royalties under license agreements."

Our prospects and financial results may be adversely affected if we fail to identify, sign and retain artists and songwriters and by the existence or absence of superstar releases and by local economic conditions in the countries in which we operate.

We are dependent on identifying, signing and retaining recording artists with long-term potential, whose debut albums are well received on release, whose subsequent albums are anticipated by consumers and whose music will continue to generate sales as part of our catalog for years to come. The competition among record companies for such talent is intense. Competition among record companies to sell and otherwise exploit records is also intense. We are also dependent on signing and retaining songwriters who will write the hit songs of today and the classics of tomorrow. Our competitive position is dependent on our continuing ability to attract and develop artists and songwriters whose work can achieve a high degree of public acceptance. Our financial results may be adversely affected if we are unable to identify, sign and retain such artists and songwriters under terms that are economically attractive to us. Our financial results may also be affected by the existence or absence of superstar artist releases during a particular period. Some music industry observers believe that the number of superstar acts with long-term appeal, both in terms of catalog sales and future releases, has declined in recent years. Additionally, our financial results are generally affected by the worldwide economic and retail environment, as well as the appeal of our Recorded Music catalog and our Music Publishing library to consumers.

We may have difficulty addressing the threats to our business associated with digital piracy.

The combined effect of the decreasing cost of electronic and computer equipment and related technology such as the conversion of music into digital formats have made it easier for consumers to obtain and create unauthorized copies of our recordings in the form of, for example, MP3 files. For example, about 95% of the music downloaded in 2008, or more than 40 billion files, were illegal and not paid for, according to IFPI's 2009 Digital Music Report. More recently, research conducted by Ipsos, a recognized third-party market research firm, in conjunction with IFPI, reflects that 26% of consumers across 13 key territories used file-sharing /P2P networks and digital locker sites to acquire music in 2017. In addition, while growth of music-enabled mobile consumers offers distinct opportunities for music companies such as ours, it also opens the market up to risks from behaviors such as "sideloading" and mobile app-based downloading of unauthorized content. As the business shifts to streaming music or access models, piracy in these models is increasing. For example, the practice of "stream-ripping," where websites or software programs enable end-users to obtain an unauthorized copy of the audio file associated with a music video, is a growing practice among young people and in parts of the world with high mobile data costs. The research conducted by Ipsos in conjunction with IFPI cited above also reflects that 35% of consumers across the 13 key countries engaged in stream-ripping activity in 2017, with incidence rising to 53% among 16 – 24 year olds. A substantial portion of our revenue comes from the sale of audio products and streaming services that are potentially subject to unauthorized consumer copying and widespread digital dissemination without an economic return to us. The impact of digital piracy on legitimate music sales and subscriptions is hard to quantify but we believe that illegal filesharing and other forms of unauthorized activity have a substantial negative impact on music sales. We are working to control this problem in a variety of ways including by litigation, by lobbying governments for new, stronger copyright protection laws and more stringent enforcement of current laws, through graduated response programs achieved through cooperation with ISPs and legislation being advanced or considered in many countries, through technological measures and by enabling legitimate new media business models. We cannot give any assurances that such measures will be effective. If we fail to obtain appropriate relief through the judicial process or the complete enforcement of judicial decisions issued in our favor (or if judicial decisions are not in our favor), if we are unsuccessful in our efforts to lobby governments to enact and enforce stronger legal penalties for copyright infringement or if we fail to develop effective means of protecting our intellectual property (whether copyrights or other rights such as patents, trademarks and trade secrets) or our entertainment-related products or services, our results of operations, financial position and prospects may suffer.

Organized industrial piracy may lead to decreased sales.

The global organized commercial pirate trade is a significant threat to content industries, including the music sector. IFPI's 2015 Digital Music Report cited research conducted by MediaLink on behalf of the Digital Citizens Alliance that placed advertising revenues generated by 596 piracy sites at $227 million. Unauthorized copies and piracy have contributed to the decrease in the volume of legitimate sales. They have had, and may continue to have, an adverse effect on our business.

Legitimate channels for digital distribution of our creative content are a fairly recent development, and their impact on our business is unclear and may be adverse.

We have positioned ourselves to take advantage of digital technology as a sales distribution channel and believe that the continued development of legitimate channels for digital music distribution holds promise for us. Digital revenue streams of all kinds are important to offset continued declining revenue from physical CD sales. However, legitimate channels for digital distribution have existed for less than 20 years and we cannot predict their long-term impact on our business. In digital formats, certain costs associated with physical products such as manufacturing, distribution, inventory and return costs do not apply. Partially eroding that benefit are increases in mechanical copyright royalties payable to music publishers that only apply in the digital space. While there are some digital-specific variable costs and infrastructure investments necessary to produce and sell music in digital formats, we believe it is reasonable to expect that we will generally derive a higher contribution margin from digital sales than physical sales. However, we cannot be sure that we will generally continue to achieve higher margins from digital sales especially as an ever greater percentage of our digital revenue comes from sources other than downloads. Any legitimate digital distribution channel that does develop may result in lower or less profitable sales for us than comparable physical sales. In addition, the mix of digital services is changing and not all services will be equally remunerative. Ad-supported music services, some of which may be able to avail themselves of "safe harbor" defenses against copyright infringement actions under copyright laws, may be substitutional for more remunerative paid services. Furthermore, as new distribution channels continue to develop, we may have to implement systems to process royalties on new revenue streams for potential future distribution channels that are not currently known. These new distribution channels could also result in increases in the number of transactions that we need to process. If we are not able to successfully expand our processing capability or introduce technology to allow us to determine and pay royalty amounts due on these new types of transactions in a timely manner, we may experience processing delays or reduced accuracy as we increase the volume of our digital sales, which could have a negative effect on our relationships with artists and brand identity.

We are substantially dependent on a limited number of digital music services for the online sale or other exploitation of our music and they are able to significantly influence the pricing structure for online music stores and may not correctly calculate royalties under license agreements.

We derive an increasing portion of our revenues from sales of music through digital distribution channels. We are currently dependent on a small number of leading digital music services that sell consumers digital music. We have limited ability to increase our wholesale prices to digital service providers as a small number of digital service providers control much of the legitimate digital music business. If these providers were to adopt a lower pricing model or if there were structural changes to other pricing models, we may receive substantially less for our music, which could cause a material reduction in our revenues, unless it is offset by a corresponding increase in the number of transactions. We currently enter into short-term contracts with some digital music providers or provide our content on an at will basis to others. There can be no assurance that we will be able to renew or enter into new contracts with any digital music provider. Additionally, digital music services at present accept and make available for sale or other exploitation all the recordings that we and other distributors deliver to them. However, if digital music services in the future decide to limit the types or amount of music they will accept from music-based content owners like us, our revenues could be significantly reduced.

Under our license agreements and relevant statutes, we receive royalties from digital music services in order to stream or otherwise offer our content. The determination of the amount and timing of such payments is complex and subject to a number of variables, including the revenue generated, the type of content offered and the country in which it is sold, identification of the appropriate license holder, and the service tier on which content is sold, among other variables. As a result, we may not be paid appropriately for the license of our content. Failure to be accurately paid our royalties may adversely affect our business, operating results, and financial condition.

Our involvement in intellectual property litigation could adversely affect our business.

Our business is highly dependent upon intellectual property, an area that has encountered increased litigation in recent years. If we are alleged to infringe the intellectual property rights of a third-party, any litigation to defend the claim could be costly and would divert the time and resources of management, regardless of the merits of the claim. There can be no assurance that we would prevail in any such litigation. If we were to lose a litigation relating to intellectual property, we could be forced to pay monetary damages and to cease the sale of certain products or the use of certain technology. Any of the foregoing may adversely affect our business.

Due to the nature of our business, our results of operations, cash flows, and valuation of our common stock may fluctuate significantly from period to period.

Our net sales, operating income and profitability, like those of other companies in the music business, are largely affected by the number and quality of albums that we release or that include musical compositions published by us, timing of release schedules and, more importantly, the consumer demand for these releases. We also make advance payments to recording artists and songwriters, which impact our operating cash flows. The timing of album releases and advance payments is largely based on business and other considerations and is made without regard to the impact of the timing of the release on our financial results. In addition, certain of our license agreements with digital music services contain minimum guarantees and/or require that we are paid minimum guarantee payments. We report results of operations quarterly and our results of operations and cash flows in any reporting period may be materially affected by the timing of releases and advance payments and minimum guarantees, which may result in significant fluctuations from period to period. In addition, in 2013, we adopted a senior executive incentive compensation program that pays annual bonuses to certain executives based on our free cash flow and offers participants the opportunity to share in appreciation of our common stock. As the valuation of our common stock fluctuates, this may also result in fluctuations in our operating results from period to period and, as payments related to the equity portion of the program are made beginning in calendar 2018, cash flows.

Our business operations in some foreign countries subject us to trends, developments or other events which may affect us adversely.

We are a global company with strong local presences, which have become increasingly important as the popularity of music originating from a country's own language and culture has increased in recent years. Our mix of national and international recording artists and songwriters provides a significant degree of diversification for our music portfolio. However, our creative content does not necessarily enjoy universal appeal. As a result, our results can be affected not only by general industry trends, but also by trends, developments or other events in individual countries, including:

- limited legal protection and enforcement of intellectual property rights;
- restrictions on the repatriation of capital;
- fluctuations in interest and foreign exchange rates;
- differences and unexpected changes in regulatory environment, including environmental, health and safety, local planning, zoning and labor laws, rules and regulations;
- varying tax regimes which could adversely affect our results of operations or cash flows, including regulations relating to transfer pricing and withholding taxes on remittances and other payments by subsidiaries and joint ventures;
- exposure to different legal standards and enforcement mechanisms and the associated cost of compliance;
- difficulties in attracting and retaining qualified management and employees or rationalizing our workforce;
- tariffs, duties, export controls and other trade barriers;
- longer accounts receivable settlement cycles and difficulties in collecting accounts receivable;
- recessionary trends, inflation and instability of the financial markets;
- higher interest rates; and
- political instability.

We may not be able to insure or hedge against these risks, and we may not be able to ensure compliance with all of the applicable regulations without incurring additional costs. For example, our results of operations could be impacted by fluctuations of the U.S. dollar against most currencies. See "—Unfavorable currency exchange rate fluctuations could adversely affect our results of operations." Furthermore, financing may not be available in countries with less than investment-grade sovereign credit ratings. As a result, it may be difficult to create or maintain profit-making operations in developing countries.

In addition, our results can be affected by trends, developments and other events in individual countries. There can be no assurance that in the future other country-specific trends, developments or other events will not have such a significant adverse effect on our business, results of operations or financial condition. Unfavorable conditions can depress sales in any given market and prompt promotional or other actions that affect our margins.

Our business may be adversely affected by competitive market conditions and we may not be able to execute our business strategy.

We expect to increase revenues and cash flow through a business strategy which requires us, among other things, to continue to maximize the value of our music assets, to significantly reduce costs to maximize flexibility and adjust to new realities of the market, to continue to act to contain digital piracy and to diversify our revenue streams into growing segments of the music business by capitalizing on digital distribution and emerging technologies, entering into expanded-rights deals with recording artists and by operating our artist services businesses.

Each of these initiatives requires sustained management focus, organization and coordination over significant periods of time. Each of these initiatives also requires success in building relationships with third parties and in anticipating and keeping up with technological developments and consumer preferences and may involve the implementation of new business models or distribution platforms. The results of our strategy and the success of our implementation of this strategy will not be known for some time in the future. If we are unable to implement our strategy successfully or properly react to changes in market conditions, our financial condition, results of operations and cash flows could be adversely affected.

Our ability to operate effectively could be impaired if we fail to attract and retain our executive officers.

Our success depends, in part, upon the continuing contributions of our executive officers, however, there is no guarantee that they will not leave. Some of our executive officers have employment arrangements. In fiscal year 2018, we did not have a direct employment arrangement with our CEO and certain of our other executive officers have at-will employment letters. Our CEO and each of our executive officers who have at-will employment letters have elected to participate in our Senior Management Free Cash Flow Plan, and the at-will employment letters were a condition to their participation in the plan. The loss of the services of any of our executive officers or the failure to attract other executive officers could have a material adverse effect on our business or our business prospects.

A significant portion of our revenues are subject to rate regulation either by government entities or by local third-party collection societies throughout the world and rates on other income streams may be set by governmental proceedings, which may limit our profitability.

Mechanical royalties and performance royalties are two of the main sources of income to our Music Publishing business and mechanical royalties are a significant expense to our Recorded Music business. In the United States, mechanical royalty rates are set every five years pursuant to an administrative process under the U.S. Copyright Act, unless rates are determined through industry negotiations, and performance royalty rates are determined by negotiations with performing rights societies, the largest of which, ASCAP and BMI, are subject to a consent decree rate-setting process if negotiations are unsuccessful. Outside the United States, mechanical and performance royalty rates are typically negotiated on an industry-wide basis. In most territories outside the United States, mechanical royalties are based on a percentage of wholesale prices for physical product and based on a percentage of consumer prices for digital products. The mechanical and performance royalty rates set pursuant to such processes may adversely affect us by limiting our ability to increase the profitability of our Music Publishing business. If the mechanical and performance royalty rates are set too high it may also adversely affect us by limiting our ability to increase the profitability of our Recorded Music business. In addition, rates our Recorded Music business receives in the United States for webcasting and satellite radio are set every five years by an administrative process under the U.S. Copyright Act unless rates are determined through industry negotiations. It is important as sales continue to shift from physical to diversified distribution channels that we receive fair value for all of the uses of our intellectual property as our business model now depends upon multiple revenue streams from multiple sources. The rates set for Recorded Music and Music Publishing income sources through collecting societies or legally prescribed rate-setting processes could have a material adverse impact on our business prospects.

An impairment in the carrying value of goodwill or other intangible and long-lived assets could negatively affect our operating results and equity.

As of September 30, 2018, we had $1.692 billion of goodwill and $154 million of indefinite-lived intangible assets. Financial Accounting Standards Codification (“ASC”) Topic 350, Intangibles—Goodwill and other (“ASC 350”) requires that we test these assets for impairment annually (or more frequently should indications of impairment arise) by first assessing qualitative factors and then by quantitatively estimating the fair value of each of our reporting units (calculated using a discounted cash flow method) and comparing that value to the reporting units’ carrying value, if necessary. If the carrying value exceeds the fair value, there is a potential impairment and additional testing must be performed. In performing our annual tests and determining whether indications of impairment exist, we consider numerous factors including actual and projected operating results of each reporting unit, external market factors such as market prices for similar assets and trends in the music industry. We performed an annual assessment, at July 1, 2018, of the recoverability of our goodwill and indefinite-lived intangibles as of September 30, 2018, noting no instances of impairment. However, future events may occur that could adversely affect the estimated fair value of our reporting units. Such events may include, but are not limited to, strategic decisions made in response to changes in economic and competitive conditions and the impact of the economic environment on our operating results. Failure to achieve sufficient levels of cash flow at our reporting units could also result in impairment charges on goodwill and indefinite-lived intangible assets. If the value of the acquired goodwill or acquired indefinite-lived intangible assets is impaired, our operating results and shareholders' equity could be adversely affected.

We also had $1.851 billion of definite-lived intangible assets as of September 30, 2018. Financial Accounting Standard Board ("FASB") ASC Topic 360-10-35, ("ASC 360-10-35") requires companies to review these assets for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. No such events or circumstances were identified during the year ended September 30, 2018. If similar events occur as enumerated above such that we believe indicators of impairment are present, we would test for recoverability by comparing the carrying value of the asset to the net undiscounted cash flows expected to be generated from the asset. If those net undiscounted cash flows do not exceed the carrying amount, we would perform the next step, which is to determine the fair value of the asset, which could result in an impairment charge. Any impairment charge recorded could negatively affect our operating results and shareholders' equity.

Unfavorable currency exchange rate fluctuations could adversely affect our results of operations.

The reporting currency for our financial statements is the U.S. dollar. We have substantial assets, liabilities, revenues and costs denominated in currencies other than U.S. dollars. To prepare our consolidated financial statements, we must translate those assets, liabilities, revenues and expenses into U.S. dollars at then-applicable exchange rates. Consequently, increases and decreases in the value of the U.S. dollar versus other currencies will affect the amount of these items in our consolidated financial statements, even if their value has not changed in their original currency. These translations could result in significant changes to our results of operations from period to period. Prior to intersegment eliminations, 56% of our revenues related to operations in foreign territories for the fiscal year ended September 30, 2018. From time to time, we enter into foreign exchange contracts to hedge the risk of unfavorable foreign currency exchange rate movements. During the current fiscal year, we have hedged a portion of our material foreign currency exposures related to royalty payments remitted between our foreign affiliates and our U.S. affiliates.

We may not have full control and ability to direct the operations we conduct through joint ventures.

We currently have interests in a number of joint ventures and may in the future enter into further joint ventures as a means of conducting our business. In addition, we structure certain of our relationships with recording artists and songwriters as joint ventures. We may not be able to fully control the operations and the assets of our joint ventures, and we may not be able to make major decisions or may not be able to take timely actions with respect to our joint ventures unless our joint venture partners agree.

The enactment of legislation limiting the terms by which an individual can be bound under a "personal services" contract could impair our ability to retain the services of key artists.

California Labor Code Section 2855 ("Section 2855") limits the duration of time any individual can be bound under a contract for "personal services" to a maximum of seven years. In 1987, Subsection (b) was added, which provides a limited exception to Section 2855 for recording contracts, creating a damages remedy for record companies. Legislation was introduced in New York in 2009 to create a statute similar to Section 2855 to limit contracts between artists and record companies to a term of seven years which could be reduced to three years if the artist was not represented in the negotiation and execution of such contracts by qualified counsel experienced with entertainment industry law and practices. Such legislation could result in certain of our existing contracts with artists being declared unenforceable, or may restrict the terms under which we enter into contracts with artists in the future, either of which could adversely affect our results of operations. There is no assurance that California will not introduce legislation in the future seeking to repeal Subsection (b). The repeal of Subsection (b) and/or the passage of legislation similar to Section 2855 by other states could materially adversely affect our results of operations and financial position.

We face a potential loss of catalog to the extent that our recording artists have a right to recapture rights in their recordings under the U.S. Copyright Act.

The U.S. Copyright Act provides authors (or their heirs) a right to terminate U.S. licenses or assignments of rights in their copyrighted works in certain circumstances. This right does not apply to works that are “works made for hire.” Since the effective date of U.S. federal copyright protection for sound recordings (February 15, 1972), virtually all of our agreements with recording artists provide that such recording artists render services under a work-made-for-hire relationship. A termination right exists under the U.S. Copyright Act for U.S. rights in musical compositions that are not “works made for hire.” If any of our commercially available sound recordings were determined not to be “works made for hire,” then the recording artists (or their heirs) could have the right to terminate the U.S. federal copyright rights they granted to us, generally during a five-year period starting at the end of 35 years from the date of release of a recording under a post-1977 license or assignment (or, in the case of a pre-1978 grant in a pre-1978 recording, generally during a five-year period starting at the end of 56 years from the date of copyright). A termination of U.S. federal copyright rights could have an adverse effect on our Recorded Music business. From time to time, authors (or their heirs) have the opportunity to terminate our U.S. rights in musical compositions. However, we believe the effect of any potential termination is already reflected in the financial results of our Music Publishing business.

If we acquire, combine with or invest in other businesses, we will face certain risks inherent in such transactions.

We have in the past considered and will continue, from time to time, to consider, opportunistic strategic transactions, which could involve acquisitions, combinations or dispositions of businesses or assets, or strategic alliances or joint ventures with companies engaged in businesses that are similar or complementary to ours. Any such strategic combination could be material, be difficult to implement, disrupt our business or change our business profile significantly.

Any future strategic transaction could involve numerous risks, including:

- potential disruption of our ongoing business and distraction of management;
- potential loss of recording artists or songwriters from our rosters;
- difficulty integrating the acquired businesses or segregating assets to be disposed of;
- exposure to unknown and/or contingent or other liabilities, including litigation arising in connection with the acquisition, disposition and/or against any businesses we may acquire;
- reputational or other damages to our business as a result of a failure to consummate such a transaction for, among other reasons, failure to gain anti-trust approval; and
- changing our business profile in ways that could have unintended consequences.

If we enter into significant strategic transactions in the future, related accounting charges may affect our financial condition and results of operations, particularly in the case of any acquisitions. In addition, the financing of any significant acquisition may result in changes in our capital structure, including the incurrence of additional indebtedness. Conversely, any material disposition could reduce our indebtedness or require the amendment or refinancing of our outstanding indebtedness or a portion thereof. We may not be successful in addressing these risks or any other problems encountered in connection with any strategic transactions. We cannot assure you that if we make any future acquisitions, investments, strategic alliances or joint ventures or enter into any business combination that they will be completed in a timely manner, or at all, that they will be structured or financed in a way that will enhance our creditworthiness or that they will meet our strategic objectives or otherwise be successful. We also may not be successful in implementing appropriate operational, financial and management systems and controls to achieve the benefits expected to result from these transactions. Failure to effectively manage any of these transactions could result in material increases in costs or reductions in expected revenues, or both. In addition, if any new business in which we invest or which we attempt to develop does not progress as planned, we may not recover the funds and resources we have expended and this could have a negative impact on our businesses or our company as a whole.

We have outsourced our information technology infrastructure and certain finance and accounting functions and may outsource other back-office functions, which will make us more dependent upon third parties.

In an effort to make our information technology, or IT, more efficient and increase our IT capabilities and reduce potential disruptions, as well as generate cost savings, we outsource a significant portion of our IT infrastructure functions to third-parties. This outsourcing initiative is a component of our ongoing strategy to monitor our costs and to seek additional cost savings. As a result, we rely on third parties to ensure that our IT needs are sufficiently met. This reliance subjects us to risks arising from the loss of control over IT processes, changes in pricing that may affect our operating results, and potentially, termination of provisions of these services by our supplier. In addition, in an effort to make our finance and accounting functions more efficient, as well as generate cost savings, we outsource certain finance and accounting functions. A failure of our service providers to perform services in a satisfactory manner may have a significant adverse effect on our business. We may outsource other back-office functions in the future, which would increase our reliance on third parties.

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 recorded music industry continues to undergo substantial change. These changes continue to have a substantial impact on our business. Following the 2004 acquisition of substantially all of the interests of the recorded music and music publishing business of Time Warner, we implemented a broad restructuring plan in order to adapt our cost structure to the changing economics of the music industry. Since then, we have continued to shift resources from our physical sales channels to efforts focused on digital sales channels, emerging technologies and other new revenue streams. In addition, in order to help mitigate the effects of the recorded music transition, we continue our efforts to reduce overhead and manage our variable and fixed-cost structure to minimize any impact. In addition, as PLG had meaningful operational overlap with our existing business we implemented a restructuring and integration plan and achieved cost savings in conjunction with the PLG Acquisition. In fiscal year 2018, we completed the creation of our new center of excellence for U.S. financial shared services in Nashville, Tennessee, which combined our U.S. transactional financial functions in one location. To establish the new center, we moved some of our U.S. departments to Nashville.

We cannot be certain that we will not be required to implement further restructuring activities, make additions or other changes to our management or workforce based on other cost reduction measures or changes in the markets and industry in which we compete. Our inability to structure our operations based on evolving market conditions could impact our business. Restructuring activities can create unanticipated consequences and negative impacts on the business, and we cannot be sure that any ongoing or future restructuring efforts will be successful or generate expected cost savings.

Access, which indirectly owns all of our outstanding capital stock, 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.

As a result of the Merger, affiliates of Access indirectly own all of our common stock, and the actions that Access undertakes as our sole ultimate shareholder may differ from or adversely affect the interests of debt holders. Because Access ultimately controls our voting shares and those of all of our subsidiaries, it has the power, among other things, to affect our legal and capital structure and our day-to-day operations, as well as to elect our directors and those of our subsidiaries, to change our management and to approve any other changes to our operations. In addition, Access previously set the compensation for Stephen Cooper, our CEO, pursuant to an arrangement between Mr. Cooper and Access, and we reimbursed Access for any compensation paid to Mr. Cooper pursuant to the Management Agreement (as defined later in this Annual Report). As of October 1, 2016, Mr. Cooper became an employee of ours paid directly by the Company. Access also provides us with financial, investment banking, management, advisory and other services pursuant to the Management Agreement, for which we pay Access a specified annual fee, plus expenses, and a specified transaction fee for certain types of transactions completed by Holdings or one or more of its subsidiaries, plus expenses. Access also has the power to direct us to engage in strategic transactions, with or involving other companies in our industry, including acquisitions, combinations or dispositions, and the acquisition of certain assets that may become available for purchase, and any such transaction could be material. Any such transaction would carry the risks set forth above under "—If we acquire, combine with or invest in other businesses, we will face certain risks inherent in such transactions."

Additionally, Access is in the business of making investments in companies and is actively seeking to acquire interests in businesses that operate in our industry and may compete, directly or indirectly, with us. Access may also pursue acquisition opportunities that may be complementary to our business, which could have the effect of making such acquisition opportunities unavailable to us. Access could elect to cause us to enter into business combinations or other transactions with any business or businesses in our industry that Access may acquire or control, or we could become part of a group of companies organized under the ultimate common control of Access that may be operated in a manner different from the manner in which we have historically operated. Any such business combination transaction could require that we or such group of companies incur additional indebtedness, and could also require us or any acquired business to make divestitures of assets necessary or desirable to obtain regulatory approval for such transaction. The amounts of such additional indebtedness, and the size of any such divestitures, could be material. Access may also from time to time purchase outstanding debt securities that we issued, and could also subsequently sell any such debt securities. Any such purchase or sale may affect the value of, trading price or liquidity of our debt securities. We may also, from time to time, pay dividends to our stockholders within the requirements of our debt agreements and applicable law. If we were to pay dividends, the funds used to make such dividend payments would not be available to service our indebtedness.

Finally, because neither we nor our parent company have any securities listed on a securities exchange, we are not subject to certain of the corporate governance requirements of any securities exchange, including any requirement to have any independent directors.

Evolving regulations concerning data privacy may result in increased regulation and different industry standards, which could increase the costs of operations or limit our activities.

We engage in a wide array of online activities and are thus subject to a broad range of related laws and regulations including, for example, those relating to privacy, consumer protection, data retention and data protection, online behavioral advertising, geo-location tracking, text messaging, e-mail advertising, mobile advertising, content regulation, defamation, age verification, the protection of children online, social media and other Internet, mobile and online-related prohibitions and restrictions. The regulatory framework for privacy and data security issues worldwide has become increasingly burdensome and complex, and is likely to continue to be so for the foreseeable future. Practices regarding the collection, use, storage, transmission, security and disclosure of personal information by companies operating over the Internet and mobile platforms are receiving ever-increasing public scrutiny. The U.S. government, including Congress, the Federal Trade Commission and the Department of Commerce, has announced that it is reviewing the need for even greater regulation for the collection of information concerning consumer behavior on the Internet and mobile platforms, including regulation aimed at restricting certain targeted advertising practices, the use of location data and disclosures of privacy practices in the online and mobile environments, including with respect to online and mobile applications. State governments are engaged in similar legislative and regulatory activities. In addition, privacy and data security laws and regulations around the world are being implemented rapidly and evolving. These new and evolving laws (including the European Union General Data Protection Regulation effective on May 25, 2018) are likely to result in greater compliance burdens for companies with global operations. Globally, many government and consumer agencies have also called for new regulation and changes in industry practices with respect to information collected from consumers, electronic marketing and the use of third-party cookies, web beacons, and similar technology for online behavioral advertising.

In October 2012, one of our subsidiaries entered into a consent agreement to settle certain Federal Trade Commission charges that it violated the Children’s Online Privacy Protection Act (“COPPA”) by improperly collecting personal information from children under 13 without their parents’ verifiable consent. While our subsidiary neither admitted nor denied the agency’s allegations, the settlement imposed a $1 million civil penalty, barred future violations of COPPA, and required that our subsidiary delete information allegedly collected in violation of COPPA, among other requirements.

The Federal Trade Commission adopted certain revisions to its rule promulgated pursuant to COPPA, effective as of July 1, 2013, that may impose greater compliance burdens on us. COPPA imposes a number of obligations, such as obtaining verifiable parental permission on operators of websites, apps and other online services to the extent they collect certain information from children who are under 13 years of age. The changes broaden the applicability of COPPA, including by expanding the definition of “personal information” subject to the rule’s parental consent and other obligations.

Our business, including our ability to operate and expand internationally, could be adversely affected if laws or regulations are adopted, interpreted, or implemented in a manner that is inconsistent with our current business practices and that require changes to these practices. Therefore, our business could be harmed by any significant change to applicable laws, regulations or industry practices regarding the collection, use or disclosure of customer data, or regarding the manner in which the express or implied consent of consumers for such collection, use and disclosure is obtained. Such changes may require us to modify our operations, possibly in a material manner, and may limit our ability to develop new products, services, mechanisms, platforms and features that make use of data regarding our customers and potential customers.

If we or our service providers do not maintain the security of information relating to our customers, employees and vendors and our music-based content, security information breaches through cyber security attacks or otherwise could damage our reputation with customers, employees, vendors and artists, and we could incur substantial additional costs, become subject to litigation and our results of operations and financial condition could be adversely affected. Moreover, even if we or our service providers maintain such security, such breaches remain a possibility due to the fact that no data security system is immune from attacks or other incidents.

We receive certain personal information about our customers and potential customers, and we also receive personal information concerning our employees, artists and vendors. In addition, our online operations depend upon the secure transmission of confidential information over public networks. We maintain security measures with respect to such information, but despite these measures, we may be vulnerable to security breaches by computer hackers and others that attempt to penetrate the security measures that we have in place. A compromise of our security systems (through cyber-attacks or otherwise which are rapidly evolving and sophisticated) that results in personal information being obtained by unauthorized persons could adversely affect our reputation with our customers, potential customers, employees, artists and vendors, as well as our operations, results of operations, financial condition and liquidity, and could result in litigation against us or the imposition of governmental penalties. We may also be subject to cyber-attacks that target our music-based content, including not-yet-released songs or albums. The theft and premature release of this music-based content may adversely affect our reputation with current and potential artists and adversely impact our results of operations and financial condition. In addition, a security breach could require that we expend significant additional resources related to our information security systems and could result in a disruption of our operations.

We increasingly rely on third-party data storage providers, including cloud storage solution providers, resulting in less direct control over our data. Such third parties may also be vulnerable to security breaches and compromised security systems, which could adversely affect our reputation.

Risks Related to our Leverage

Our substantial leverage on a consolidated basis could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry and prevent us from meeting our obligations under our indebtedness.

We are highly leveraged. As of September 30, 2018, our total consolidated indebtedness, net of deferred financing costs, was $2.819 billion. In addition, we would have been able to borrow up to $172 million under our Revolving Credit Facility (as defined later in this Annual Report) as of September 30, 2018 (after giving effect to approximately $8 million of letters of credit outstanding under our Revolving Credit Facility as of September 30, 2018).

Our high degree of leverage could have important consequences for our investors. For example, it may:

- make it more difficult for us to make payments on our indebtedness;
- increase our vulnerability to general economic and industry conditions, including recessions and periods of significant inflation and financial market volatility;
- expose us to the risk of increased interest rates because any borrowings we make under the revolving portion of our Senior Credit Facilities will bear interest at variable rates;
- require us to use a substantial portion of our cash flow from operations to service our indebtedness, thereby reducing our ability to fund working capital, capital expenditures and other expenses;
- limit our ability to refinance existing indebtedness on favorable terms or at all or borrow additional funds in the future for, among other things, working capital, acquisitions or debt service requirements;
- limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;
- place us at a competitive disadvantage compared to competitors that have less indebtedness; and
- limit our ability to borrow additional funds that may be needed to operate and expand our business.

We and our subsidiaries may be able to incur substantial additional indebtedness in the future, subject to the restrictions contained in the indentures governing our outstanding notes as well as under the Senior Credit Facilities (as defined later in this Annual Report). If new indebtedness is added to our current debt levels, the related risks that we and our subsidiaries now face could intensify.

The indentures that govern our outstanding notes and the Senior Credit Facilities contain restrictive covenants that limit our ability to engage in activities that may be in our long-term best interests. Those covenants include restrictions on our ability to, among other things, incur more indebtedness, pay dividends, redeem stock or make other distributions, make investments, create liens, transfer or sell assets, merge or consolidate and enter into certain transactions with our affiliates. Our failure to comply with those covenants could result in an event of default, which, if not cured or waived, could result in the acceleration of all of our indebtedness. See also "—Our debt agreements contain restrictions that limit our flexibility in operating our business."

Acquisition Corp. may not be able to generate sufficient cash to service all of its indebtedness, and may be forced to take other actions to satisfy its obligations under its indebtedness, which may not be successful.

Acquisition Corp.'s ability to make scheduled payments on or to refinance its debt obligations depends on its financial condition and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. Acquisition Corp. may not maintain a level of cash flow from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness.

Acquisition Corp. will rely on its subsidiaries to make payments on its borrowings. If these subsidiaries do not dividend funds to Acquisition Corp. in an amount sufficient to make such payments, if necessary in the future, Acquisition Corp. may default under the indentures or credit facilities governing its borrowings, which would result in all such borrowings becoming due and payable.

Our debt agreements contain restrictions that limit our flexibility in operating our business.

The indentures governing our outstanding notes contain various covenants that limit our ability to engage in specified types of transactions. These covenants limit our ability and the ability of our restricted subsidiaries to, among other things:

- incur additional debt or issue certain preferred shares;
- create liens on certain debt;
- pay dividends on or make distributions in respect of our capital stock or make investments or other restricted payments;
- sell certain assets;
- pay dividends to us (in the case of our restricted subsidiaries) or make certain other intercompany transfers;
- enter into certain transactions with our affiliates; and
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets.

In addition, the credit agreements governing the Senior Credit Facilities contain a number of covenants that limit our ability and the ability of our restricted subsidiaries to:

- pay dividends on, and redeem and purchase, equity interests;
- make other restricted payments;
- make prepayments on, redeem or repurchase certain debt;
- incur certain liens;
- make certain loans and investments;
- incur certain additional debt;
- enter into guarantees and hedging arrangements;
- enter into mergers, acquisitions and asset sales;
- enter into transactions with affiliates;
- change the business we and our subsidiaries conduct;
- pay dividends or make distributions;
- amend the terms of subordinated debt and unsecured bonds; and
- make certain capital expenditures.

Our ability to borrow additional amounts under the revolving portion of the Senior Credit Facilities depends upon satisfaction of these covenants. Events beyond our control can affect our ability to meet these covenants. In addition, under the credit agreement governing the revolving portion of our Senior Credit Facilities, a financial maintenance covenant is applicable if at the end of a quarter the outstanding amount of loans and letters of credit is in excess of $54 million.

Our failure to comply with obligations under the instruments governing our indebtedness may result in an event of default under such instruments. We cannot be certain that we will have funds available to remedy these defaults. A default, if not cured or waived, may permit acceleration of our indebtedness. If our indebtedness is accelerated, we cannot be certain that we will have sufficient funds available to pay the accelerated indebtedness or will have the ability to refinance the accelerated indebtedness on terms favorable to us or at all.

All of these restrictions could affect our ability to operate our business or may limit our ability to take advantage of potential business opportunities as they arise.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments in recording artists and songwriters, capital expenditures or dividends, or to sell assets, seek additional capital or restructure or refinance our indebtedness. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. The indentures governing our outstanding notes restrict our ability to dispose of assets and use the proceeds from dispositions. We may not be able to consummate those dispositions or to obtain the proceeds which we could realize from them and these proceeds may not be adequate to meet any debt service obligations then due. While subject to certain restrictions in our debt agreements, if we were to pay dividends to our shareholders, the funds used to make such dividend payments would not be available to service our indebtedness.

Despite our indebtedness levels, we may be able to incur substantially more indebtedness, which may increase the risks created by our substantial indebtedness.

We may be able to incur substantial additional indebtedness, including additional secured indebtedness, in the future. The indentures governing our outstanding notes and the credit agreements governing the Senior Credit Facilities will not fully prohibit us, Holdings or our subsidiaries from incurring additional indebtedness under certain circumstances. If we, Holdings or our subsidiaries are in compliance with certain incurrence ratios set forth in such indentures, we, Holdings or our subsidiaries may be able to incur substantial additional indebtedness, which may increase the risks created by our current substantial indebtedness.

Our ability to incur secured indebtedness is subject to compliance with certain secured leverage ratios that are calculated as of the date of incurrence. The amount of secured indebtedness that we are able to incur and the timing of any such incurrence under these ratios vary from time to time and are a function of several variables, including our outstanding indebtedness and our results of operations calculated as of specified dates or for certain periods.

A downgrade, suspension or withdrawal of the rating assigned by a rating agency to us could cause the liquidity or market value of our indebtedness to decline and our cost of capital to increase.

Any future lowering of our ratings may make it more difficult or more expensive for us to obtain additional debt financing. Therefore, although reductions in our debt ratings may not have an immediate impact on the cost of debt or our liquidity, they may impact the cost of debt and liquidity over the medium term and future access at a reasonable rate to the debt markets may be adversely impacted.

Special Note Regarding Forward-Looking Statements

We have made various statements in this Annual Report that may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may also be made in our other reports filed with or furnished to the SEC, in our press releases and in other documents. In addition, from time to time, we, through our management, may make oral forward-looking statements. Forward-looking statements are subject to risks and uncertainties, including those identified above, which could cause actual results to differ materially from such statements. The words “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimated “believe,” “intend,” “plan,” “may,” “should,” “could,” “would,” “likely,” “projection,” “outlook” and similar expressions are i identify forward-looking statements. We caution you that the risk factors described above are not exclusive. There may also be other risks that we are unable to predict at this time that may cause actual results to differ materially from those in forward looking statements. New factors emerge from time to time, and it is not possible for us to predict which will arise or to assess with any precision the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. We undertake no obligation to update publicly or revise any forward-looking statements, except as required by law.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We own studio and office facilities and also lease certain facilities in the ordinary course of business. Our worldwide headquarters are currently located at 1633 Broadway, New York, New York 10019, under a long-term lease ending July 31, 2029. The lease also includes a single option for us to extend the term for either five years or ten years. In addition, under certain conditions, we have the ability to lease additional space in the building and have a right of first refusal with regard to certain additional space. We also have a long-term lease ending on December 31, 2019, for office space in a building located at 3400 West Olive Avenue, Burbank, California 91505, used primarily by our Recorded Music business. We also have a lease ending on February 28, 2019 for office space at 10585 Santa Monica Boulevard, Los Angeles, California 90025, used primarily by our Music Publishing business. On October 7, 2016, we entered into a lease agreement for new office space located in the Ford Factory Building at 777 S. Santa Fe Avenue, Los Angeles, California, 90021, to be used as our new Los Angeles, California headquarters, beginning on August 1, 2017 for an initial term of 12 years and 9 months with a single option to extend the term of the lease for 10 years. We also own other property and lease facilities elsewhere throughout the world as necessary to operate our businesses. We consider our properties adequate for our current needs.

ITEM 3. 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 13, 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. On March 19, 2014, plaintiffs filed a motion for class certification. Plaintiffs filed an operative consolidated amended complaint on September 25, 2015. The Company filed its answer to the fourth amended complaint on October 9, 2015, and filed an amended answer on November 3, 2015. A mediation took place on February 22, 2016, but the parties were unable to reach a resolution. On July 18, 2017, the District Court denied plaintiffs' motion for class certification. On August 1, 2017, plaintiffs filed a petition with the Second Circuit seeking permission to appeal the district court's order denying class certification. On August 11, 2017, defendants filed their opposition to plaintiffs' petition. On December 8, 2017, the Second Circuit denied plaintiffs' request for leave to appeal the District Court's order denying their motion for class certification. On May 8, 2018, the parties filed a joint stipulation to voluntarily dismiss the case with prejudice, and on May 15, 2018, the District Court dismissed the case.

Sirius XM

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

As part of the settlement, plaintiffs agreed to negotiate in good faith to grant Sirius XM a license to publicly perform the plaintiffs' pre-1972 sound recordings for the five-year period running from January 1, 2018 to December 31, 2022. Pursuant to the settlement, if the parties are unable to reach an agreement on license terms, the royalty rate for each license will be determined by binding arbitration on a willing buyer/willing seller standard. On December 21, 2017, Sirius XM commenced a single arbitration against all of the plaintiffs in California through JAMS to determine the rate for the five-year period. On May 1, 2018, the Company filed a lawsuit against Sirius XM in New York state court to stay the California arbitration and to compel a separate arbitration in New York solely between Sirius XM and the Company. On August 23, 2018, the Company filed a stipulation of discontinuance without prejudice as to the state court action after Sirius XM agreed to participate in a separate arbitration with the Company in New York which has not yet been scheduled.

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 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

There is no established public trading market for any class of our common equity. As of December 20, 2018, there were 1,052 shares of our common stock outstanding. Affiliates of Access currently own 100% of our common stock.

Dividend Policy

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

The Company intends to institute a regular quarterly dividend whereby we would intend to pay modest regular quarterly dividends in each fiscal quarter and a variable dividend for the fourth fiscal quarter in an amount commensurate with cash expected to be generated from operations in such fiscal year, in each case, after taking into account other potential uses for cash, including acquisitions, investment in our business and repayment of indebtedness. We expect to pay the first dividend under this policy in the second quarter of fiscal 2019. The declaration of each dividend will continue to be at the discretion of the Board.

ITEM 6. SELECTED FINANCIAL DATA

Our summary balance sheet data as of September 30, 2018 and September 30, 2017, and the statement of operations and other data for the fiscal years ended September 30, 2018, September 30, 2017 and September 30, 2016 have been derived from our audited financial statements included in this Annual Report and should be read in conjunction with the audited financial statements and other financial information presented elsewhere herein. The selected financial information set forth below for all other periods has been derived from our audited financial statements that are not included in this Annual Report.

The following table sets forth our selected historical financial and other data as of the dates and for the periods ended:

	Fiscal Year Ended September 30, 2018	Fiscal Year Ended September 30, 2017	Fiscal Year Ended September 30, 2016	Fiscal Year Ended September 30, 2015	Fiscal Year Ended September 30, 2014
	(in millions)				
Statement of Operations Data:					
Revenues	$4,005	$ 3,576	$ 3,246	$ 2,966	$ 3,027
Net income (loss) attributable to Warner Music Group Corp. (1)	307	143	25	(91)	(308)
Balance Sheet Data (at period end):					
Cash and equivalents	$514	$ 647	$ 359	$ 246	$ 157
Total assets	5,344	5,718	5,335	5,574	5,852
Total debt (including current portion of long-term debt)	2,819	2,811	2,778	2,947	2,973
Warner Music Group Corp. (deficit) equity	(334)	293	195	221	371
Cash Flow Data:					
Cash flows provided by (used in):					
Operating activities	$425	$ 535	$ 342	$ 222	$ 130
Investing activities	405	(126)	(8)	(95)	(155)
Financing activities	(955)	(128)	(216)	(19)	37
Capital expenditures	(74)	(44)	(42)	(63)	(76)

(1) Net income attributable to Warner Music Group Corp. for the fiscal year ended September 30, 2018 includes a net loss on extinguishment of debt of $31 million, variable compensation costs associated with our Senior Management Free Cash Flow Plan of $108 million, net gain on Spotify sale of $317 million after taxes, and restructuring charges of $44 million. Net income attributable to Warner Music Group Corp. for the fiscal year ended September 30, 2017 includes a benefit due to the reversal of the U.S. valuation allowance of $125 million, net loss on extinguishment of debt of $35 million, variable compensation costs associated with our Senior Management Free Cash Flow Plan of $102 million and net gain on divestitures primarily related to PLG of $6 million. Net income attributable to Warner Music Group Corp. for the fiscal year ended September 30, 2016 includes net loss on extinguishment of debt of $18 million, gain on sale of real estate of $24 million and net gain on divestitures primarily related to PLG of $9 million. Net loss attributable to Warner Music Group Corp. for the

fiscal year ended September 30, 2015 includes $2 million of PLG restructuring charges and $5 million of PLG-related professional fees and integration costs. Net loss attributable to Warner Music Group Corp. for the fiscal year ended September 30, 2014 includes $50 million of PLG restructuring charges, $59 million of PLG-related professional fees and integration costs and loss on extinguishment of debt of $141 million.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Annual Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results and the timing of events could differ materially from those projected in forward-looking statements due to a number of factors, including those described under “Item 1A - Risk Factors” and elsewhere in this Annual Report. See “Special Note Regarding Forward-Looking Statements.”

You should read the following discussion of our results of operations and financial condition with the audited financial statements included elsewhere in this Annual Report for the fiscal year ended September 30, 2018.

INTRODUCTION

The Company was formed on November 21, 2003. The Company is the direct parent of Holdings, which is the direct parent of 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 audited 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 comparability and in anticipating future trends.
- Results of operations. This section provides an analysis of our results of operations for the fiscal years ended September 30, 2018, September 30, 2017 and September 30, 2016. 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 fiscal years ended September 30, 2018, September 30, 2017 and September 30, 2016, as well as a discussion of our financial condition and liquidity as of September 30, 2018. The discussion of our financial condition and liquidity includes recent debt financings and a summary of the key debt covenant compliance measures under our debt agreements.
- Critical Accounting Policies. This section identifies those accounting policies that are considered important to the Company’s results of operations and financial condition, require significant judgment and involve significant management estimates. The Company’s significant accounting policies, including those considered to be critical accounting policies, are summarized in Note 2 to the accompanying Consolidated Financial Statements.

Use of OIBDA

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

Group Corp. is provided in our “Results of Operations.”

Use of Constant Currency

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

OVERVIEW

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

Recorded Music Operations

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

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

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

Our Recorded Music distribution operations include WEA Corp., which markets and sells music and video products to retailers and wholesale distributors; 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 an expanded universe of digital partners, including digital streaming services such as Amazon, Apple, Deezer, Napster, SoundCloud, Spotify, Tencent and YouTube, digital radio services such as iHeart Radio, Pandora and Sirius XM and digital download services such as Apple's iTunes and Google Play.

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

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

Recorded Music revenues are derived from four main sources:

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

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

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

Music Publishing Operations

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

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

Music Publishing revenues are derived from five main sources:

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

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

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

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

Factors Affecting Results of Operations and Comparability

Acquisition of Spinnin' Records

On September 7, 2017, we acquired Spinnin' Records, one of the world's most successful and important dance and electronic music companies. Based in the Netherlands, over the past two decades the label has signed and nurtured a fantastic roster of pioneering recording artists, as well as building prominent music publishing and artist management arms.

Sale of Non-Core Assets

During the fiscal year ended September 30, 2017, we divested certain assets related to the PLG Acquisition. The cash received for these sales was $73 million. The net gain recognized for these sales was $6 million. During the fiscal year ended September 30, 2016, we sold several non-core assets including real estate and divestitures related to the PLG Acquisition. The cash received for these sales was $42 million and $45 million, respectively. The net gain recognized for each of these sales was $24 million and $9 million, respectively. The divestitures related to the PLG Acquisition were completed in the fiscal year ended September 30, 2017.

Management Agreement

Upon completion of the Merger, the Company and Holdings entered into a management agreement with Access, dated as of the Merger Closing Date (the "Management Agreement"), pursuant to which Access will provide the Company and its subsidiaries with financial, investment banking, management, advisory and other services. Pursuant to the Management Agreement, the Company, or one or more of its subsidiaries, will pay Access a specified annual base fee equal to approximately $9 million based on a formula contained in the agreement and reimburse Access for certain expenses incurred performing services under the agreement. The annual fee is payable quarterly. The Company and Holdings agreed to indemnify Access and certain of its affiliates against all liabilities arising out of performance of the Management Agreement.

Such costs incurred by the Company were approximately $16 million, $9 million, and $9 million for the fiscal years ended September 30, 2018, September 30, 2017 and September 30, 2016, respectively. The fiscal year ended September 30, 2018 includes the annual base fee of $9 million and an increase of $7 million calculated pursuant to the Management Agreement. The fiscal year ended September 30, 2016 excludes $2 million of expenses reimbursed related to certain consultants with full time roles at the Company.

RESULTS OF OPERATIONS

Fiscal Year Ended September 30, 2018 Compared with Fiscal Year Ended September 30, 2017 and Fiscal Year Ended September 30, 2016

Consolidated Results

Revenues

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

	For the Fiscal Year Ended September 30,			2018 vs. 2017		2017 vs. 2016	
	2018	2017	2016	$ Change	% Change	$ Change	% Change
Revenue by Type							
Digital	$2,019	$1,692	$1,364	$327	19 %	$328	24 %
Physical	630	667	726	(37)	-6 %	(59)	-8 %
Total Physical and Digital	2,649	2,359	2,090	290	12 %	269	13 %
Artist services and expanded-rights	389	385	368	4	1 %	17	5 %
Licensing	322	276	278	46	17 %	(2)	-1 %
Total Recorded Music	3,360	3,020	2,736	340	11 %	284	10 %
Performance	212	197	193	15	8 %	4	2 %
Digital	237	187	141	50	27 %	46	33 %
Mechanical	72	65	70	7	11 %	(5)	-7 %
Synchronization	119	112	110	7	6 %	2	2 %
Other	13	11	10	2	18 %	1	10 %
Total Music Publishing	653	572	524	81	14 %	48	9 %
Intersegment eliminations	(8)	(16)	(14)	8	-50 %	(2)	14 %
Total Revenue	$4,005	$3,576	$3,246	$429	12 %	$330	10 %
Revenue by Geographical Location							
U.S. Recorded Music	$1,460	$1,329	$1,129	$131	10 %	$200	18 %
U.S. Music Publishing	294	258	231	36	14 %	27	12 %
Total U.S.	1,754	1,587	1,360	167	11 %	227	17 %
International Recorded Music	1,900	1,691	1,607	209	12 %	84	5 %
International Music Publishing	359	314	293	45	14 %	21	7 %
Total International	2,259	2,005	1,900	254	13 %	105	6 %
Intersegment eliminations	(8)	(16)	(14)	8	-50 %	(2)	14 %
Total Revenue	$4,005	$3,576	$3,246	$429	12 %	$330	10 %

Total Revenue

2018 vs. 2017

Total revenue increased by $429 million, or 12%, to $4.005 billion for the fiscal year ended September 30, 2018 from $3.576 billion for the fiscal year ended September 30, 2017. Prior to intersegment eliminations, Recorded Music and Music Publishing revenues represented 84% and 16% of revenues for both the fiscal year ended September 30, 2018 and the fiscal year ended September 30, 2017. Prior to intersegment eliminations, U.S. and international revenues represented 44% and 56% of total revenues for both the fiscal year ended September 30, 2018 and the fiscal year ended September 30, 2017.

Total digital revenues after intersegment eliminations increased by $382 million, or 20%, to $2.252 billion for the fiscal year ended September 30, 2018 from $1.870 billion for the fiscal year ended September 30, 2017. Total digital revenues represented 56% and 52% of consolidated revenues for the fiscal year ended September 30, 2018 and September 30, 2017, respectively. Prior to intersegment eliminations, total digital revenues for the fiscal year ended September 30, 2018 were comprised of U.S. revenues of $1.169 billion and international revenues of $1.087 billion, or 52% and 48% of total digital revenues, respectively. Prior to intersegment eliminations, total digital revenues for the fiscal year ended September 30, 2017 were comprised of U.S. revenues of $1.005 billion and international revenues of $874 million, or 53% and 47% of total digital revenues, respectively.

Recorded Music revenues increased by $340 million, or 11%, to $3.360 billion for the fiscal year ended September 30, 2018 from $3.020 billion for the fiscal year ended September 30, 2017. U.S. Recorded Music revenues were $1,460 million and $1,329 million, or 43% and 44% of consolidated Recorded Music revenues for the fiscal year ended September 30, 2018 and September 30, 2017, respectively. International Recorded Music revenues were $1.900 billion and $1.691 billion, or 57% and 56% of consolidated Recorded Music revenues for the fiscal year ended September 30, 2018 and September 30, 2017, respectively.

The overall increase in Recorded Music revenue was driven by increases in digital revenue, licensing revenue and artist services and expanded-rights revenue, partially offset by a decrease in physical revenue. Digital revenue increased by $327 million as a result of the continued growth in streaming services, and a strong release schedule. Revenue from streaming services grew by $391 million to $1.733 billion for the fiscal year ended September 30, 2018 from $1.342 billion for the fiscal year ended September 30, 2017. Digital revenue growth was partially offset by digital download and other digital declines of $64 million to $286 million for the fiscal year ended September 30, 2018 from $350 million for the fiscal year ended September 30, 2017. Licensing revenue increased by $46 million primarily due to higher broadcast fee income, revenue from recent acquisitions, and increased synchronization activity. Artist services and expanded-rights revenue increased by $4 million primarily due to the favorable impact of foreign currency exchange rates of $13 million and higher merchandise revenue, partially offset by certain concert promotion business divestitures and the timing of tours. Physical revenue decreased by $37 million primarily due to underlying market decline as consumption shifts from physical to digital products.

Music Publishing revenues increased by $81 million, or 14%, to $653 million for the fiscal year ended September 30, 2018 from $572 million for the fiscal year ended September 30, 2017. U.S. Music Publishing revenues were $294 million and $258 million, or 45% of consolidated Music Publishing revenues for both the fiscal years ended September 30, 2018 and September 30, 2017. International Music Publishing revenues were $359 million and $314 million, or 55% of consolidated Music Publishing revenues for both the fiscal years ended September 30, 2018 and September 30, 2017.

The overall increase in Music Publishing revenue was mainly driven by increases in digital revenue of $50 million, performance revenue of $15 million, synchronization revenue of $7 million and mechanical revenue of $7 million. The increase in digital revenue was due to an increase in streaming of $60 million, partially offset by digital download and other digital declines of $10 million. Performance revenue increased due to higher distributions. Synchronization revenue increased due to increased television and commercial income. The increase in mechanical revenue was attributable to the timing of distributions.

2017 vs. 2016

Total revenue increased by $330 million, or 10%, to $3.576 billion for the fiscal year ended September 30, 2017 from $3.246 billion for the fiscal year ended September 30, 2016. Excluding the unfavorable impact of foreign currency exchange rates, total revenue increased by $369 million, or 12%. Prior to intersegment eliminations, Recorded Music and Music Publishing revenues represented 84% and 16% of revenues for both the fiscal year ended September 30, 2017 and the fiscal year ended September 30, 2016. Prior to intersegment eliminations, U.S. and international revenues represented 44% and 56% of total revenues for the fiscal year ended September 30, 2017 and 42% and 58% of total revenues for the fiscal year ended September 30, 2016.

Total digital revenues after intersegment eliminations increased by $371 million, or 25%, to $1.870 billion for the fiscal year ended September 30, 2017 from $1.499 billion for the fiscal year ended September 30, 2016. Excluding the unfavorable impact of foreign currency exchange rates, total digital revenue after intersegment eliminations increased by $386 million, or 26%. Total digital revenues represented 52% and 46% of consolidated revenues for the fiscal year ended September 30, 2017 and September 30, 2016, respectively. Prior to intersegment eliminations, total digital revenues for the fiscal year ended September 30, 2017 were comprised of U.S. revenues of $1.005 billion and international revenues of $874 million, or 53% and 47% of total digital revenues, respectively. Prior to intersegment eliminations, total digital revenues for the fiscal year ended September 30, 2016 were comprised of U.S. revenues of $802 million and international revenues of $703 million, or 53% and 47% of total digital revenues, respectively.

Recorded Music revenues increased by $284 million, or 10%, to $3.020 billion for the fiscal year ended September 30, 2017 from $2.736 billion for the fiscal year ended September 30, 2016. Excluding the unfavorable impact of foreign currency exchange rates, Recorded Music revenue increased by $316 million, or 12%. U.S. Recorded Music revenues were $1,329 million and $1,129 million, or 44% and 41% of consolidated Recorded Music revenues for the fiscal year ended September 30, 2017 and September 30, 2016, respectively. International Recorded Music revenues were $1.691 billion and $1.607 billion, or 56% and 59% of consolidated Recorded Music revenues for the fiscal year ended September 30, 2017 and September 30, 2016, respectively.

The overall increase in Recorded Music revenue was driven by increases in digital revenue and artist services and expanded-rights revenue, partially offset by a decrease in physical revenue. Digital revenue increased by $328 million as a result of strong new releases from Ed Sheeran and Bruno Mars, the continued successes from Twenty One Pilots, the Hamilton soundtrack and the Ed Sheeran catalog and the continued growth in streaming services. Revenue from streaming services grew by $434 million to $1.342 billion for the fiscal year ended September 30, 2017 from $908 million for the fiscal year ended September 30, 2016 and was partially offset by digital download declines of $106 million to $328 million for the fiscal year ended September 30, 2017 from $434 million for the fiscal year ended September 30, 2016. Artist services and expanded-rights revenue increased by $17 million primarily due to merchandise revenue and ticket sales generated from successful U.S. artists, partially offset by a decline internationally due to strong concert promotion revenue in prior year. Physical revenue decreased by $59 million primarily due to the shift from physical revenue to digital revenue and strong catalog sales in the prior year period. Licensing revenue decreased by $2 million due to the unfavorable impact of foreign currency exchange rates of $7 million, partially offset by increased synchronization activity in the U.S.

Music Publishing revenues increased by $48 million, or 9%, to $572 million for the fiscal year ended September 30, 2017 from $524 million for the fiscal year ended September 30, 2016. Excluding the unfavorable impact of foreign currency exchange rates, Music Publishing revenue increased by $55 million, or 11%. U.S. Music Publishing revenues were $258 million and $231 million, or 45% and 44%, of consolidated Music Publishing revenues for the fiscal year ended September 30, 2017 and September 30, 2016, respectively. International Music Publishing revenues were $314 million and $293 million, or 55% and 56%, of consolidated Music Publishing revenues for the fiscal year ended September 30, 2017 and September 30, 2016, respectively.

The overall increase in Music Publishing revenue was mainly driven by increases in digital revenue of $46 million, performance revenue of $4 million and synchronization revenue of $2 million, partially offset by a decrease in mechanical revenue of $5 million. The increase in digital revenue was due to an increase in streaming of $58 million, partially offset by digital download and other digital declines of $12 million. Performance revenue increased due to increased market share and distributions. Synchronization revenue increased due to increased film and commercial income in the U.S. The decrease in mechanical revenue was attributable to an ongoing industry shift towards digital product.

Revenue by Geographical Location

2018 vs. 2017

U.S. revenue increased by $167 million, or 11%, to $1.754 billion for the fiscal year ended September 30, 2018 from $1.587 billion for the fiscal year ended September 30, 2017. U.S. Recorded Music revenue increased by $131 million or 10%. The primary driver was the increase in U.S. Recorded Music digital revenue, which increased by $144 million due to the continued growth in streaming services and strong release performance. U.S. licensing revenue increased by $9 million due to higher broadcast fee income and increased synchronization activity. These increases were partially offset by a decline in U.S. physical revenue of $16 million due to the shift from physical revenue to digital revenue, and a decline in artist services and expanded-rights revenue of $6 million. U.S. Music Publishing revenues increased by $36 million or 14%. This was primarily driven by the increase in U.S. Music Publishing digital revenue of $20 million due to an increase in streaming revenue of $32 million from the continued growth in streaming services, partially offset by declines in digital download and other digital revenue of $12 million. U.S. mechanical revenue and U.S. performance revenue increased by $8 million and $3 million, respectively, due to higher distributions. U.S synchronization revenue increased by $4 million due to increased film and commercial income.

International revenue increased by $254 million, or 13%, to $2.259 billion for the fiscal year ended September 30, 2018 from $2.005 billion for the fiscal year ended September 30, 2017. Excluding the favorable impact of foreign currency exchange rates, International revenue increased by $163 million or 8%. International Recorded Music revenue increased $209 million primarily due to increases in digital revenue of $183 million, licensing revenue of $37 million, and artist services and expanded-rights revenue of $10 million, partially offset by a decrease in physical revenue of $21 million. International Recorded Music digital revenue increased due to a $211 million increase in streaming services revenue, partially offset by a $28 million decline in digital download and other digital revenue. The increase in International Recorded Music streaming revenue was due to the continued growth in streaming services internationally and strong release performance from WANIMA in Japan. International Recorded Music licensing revenue increased due to revenue from recent acquisitions, higher broadcast fee income, and the favorable impact of foreign currency exchange rates of $10 million. International Recorded Music artist services and expanded-rights revenue increased due to the favorable impact of foreign currency exchange rates of $13 million, partially offset by successful tours in France in the prior year quarter with no comparable tours in the current year and divestment of certain touring businesses in the prior year. International Recorded Music physical revenue decreased due to the continued shift from physical to digital revenue, partially offset by the favorable impact of foreign currency exchange rates of $27 million. International Music Publishing revenue increased $45 million primarily due to increases in digital revenue of $30 million, in performance revenue of $12 million and in synchronization revenue of $3 million.

2017 vs. 2016

U.S. revenue increased by $227 million, or 17%, to $1.587 billion for the fiscal year ended September 30, 2017 from $1.360 billion for the fiscal year ended September 30, 2016. U.S. Recorded Music revenue increased by $200 million or 18%. The primary driver was the increase in U.S. Recorded Music digital revenue, which increased by $179 million due to strong new releases from Ed Sheeran and Bruno Mars, the continued successes of the Hamilton soundtrack and Twenty One Pilots and the continued growth in streaming services. U.S. artist services and expanded-rights revenue increased by $42 million primarily due to merchandise revenue generated from successful U.S. artists. U.S. licensing revenue increased by $7 million due to increased synchronization activity and higher broadcast fee income. These increases were partially offset by a decline in U.S. physical revenue of $28 million due to the shift from physical revenue to digital revenue and strong physically-centric releases and catalog sales in the prior year. U.S. Music Publishing revenues increased by $27 million or 12%. This was primarily driven by the increase in U.S. Music Publishing digital revenue of $24 million due an increase in streaming revenue of $35 million due to the continued growth in streaming services, partially offset by declines in digital download and other digital revenue of $11 million. U.S performance revenue increased by $2 million due to an increase in market share and U.S. synchronization revenue increased by $2 million due to increased film and commercial income. U.S. mechanical revenue declined $1 million due to the ongoing shift towards digital products in the industry.

International revenue increased by $105 million, or 6%, to $2.005 billion for the fiscal year ended September 30, 2017 from $1.900 billion for the fiscal year ended September 30, 2016. Excluding the unfavorable impact of foreign currency exchange rates, International revenue increased by $145 million or 8%. International Recorded Music revenue increased $84 million primarily due to increases in digital revenue of $149 million, partially offset by decreases in physical revenue of $31 million, artist services and expanded-rights revenue of $25 million and licensing revenue of $9 million. International Recorded Music digital revenue increased due to a $171 million increase in streaming services revenue and a $1 million increase in other digital revenue, partially offset by a $23 million decline in digital download revenue. The increase in streaming revenue was due to new releases from Ed Sheeran, Bruno Mars and Clean Bandit and the continued success from the Ed Sheeran catalog and the continued growth of streaming services internationally. International Recorded Music physical revenue decreased due to the unfavorable impact of foreign currency exchange rates of $11 million, the continued shift from physical to digital revenue and fewer domestic releases in certain territories. International Recorded Music artist services and expanded-rights revenue decreased due to the timing of concert promotion activity, specifically strong prior year concert promotion revenue in Japan and France, and the divestment of a touring business in the current year. International Recorded Music licensing revenue decreased due to the unfavorable impact of foreign currency exchange rates of $8 million. International Music Publishing revenue increased $21 million primarily due to an increase in digital revenue of $22 million, increase in performance revenue of $2 million and an increase in other revenue of $1 million, partially offset by a decrease in mechanical revenue of $4 million due to the shift towards digital products in the industry.

Cost of revenues

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

	For the Fiscal Year Ended September 30,			2018 vs. 2017		2017 vs. 2016	
	2018	2017	2016	$ Change	% Change	$ Change	% Change
Artist and repertoire costs	$1,471	$1,303	$1,113	$168	13 %	$190	17 %

Product costs	700	628	594	72	12	%	34	6	%
Total cost of revenues	$2,171	$1,931	$1,707	$240	12	%	$224	13	%

2018 vs. 2017

Our cost of revenues increased by $240 million, or 12%, to $2.171 billion for the fiscal year ended September 30, 2018 from $1.931 billion for the fiscal year ended September 30, 2017. Expressed as a percentage of revenues, cost of revenues remained flat at 54% for both the fiscal year ended September 30, 2018 and the fiscal year ended September 30, 2017.

Artist and repertoire costs increased by $168 million, or 13%, to $1.471 billion for the fiscal year ended September 30, 2018 from $1.303 billion for the fiscal year ended September 30, 2017. Artist and repertoire costs as a percentage of revenues increased to 37% for the fiscal year ended September 30, 2018 from 36% for the fiscal year ended September 30, 2017. The increase was primarily driven by the mix of revenue and increased investment in artists and songwriters.

Product costs increased by $72 million, or 12%, to $700 million for the fiscal year ended September 30, 2018 from $628 million for the fiscal year ended September 30, 2017. Product costs as a percentage of revenues remained flat at 18% for both the fiscal year ended September 30, 2018 and the fiscal year ended September 30, 2017.

2017 vs. 2016

Our cost of revenues increased by $224 million, or 13%, to $1.931 billion for the fiscal year ended September 30, 2017 from $1.707 billion for the fiscal year ended September 30, 2016. Expressed as a percentage of revenues, cost of revenues increased to 54% for the fiscal year ended September 30, 2017 from 53% for the fiscal year ended September 30, 2016.

Artist and repertoire costs increased by $190 million, or 17%, to $1,303 million for the fiscal year ended September 30, 2017 from $1,113 million for the fiscal year ended September 30, 2016. Artist and repertoire costs as a percentage of revenues increased to 36% for the fiscal year ended September 30, 2017 from 34% for the fiscal year ended September 30, 2016. The increase was primarily driven by the mix of revenue, specifically strong performance from lower margin repertoire, and higher artist related costs and investment.

Product costs increased by $34 million, or 6%, to $628 million for the fiscal year ended September 30, 2017 from $594 million for the fiscal year ended September 30, 2016. Product costs as a percentage of revenues remained flat at 18% for both the fiscal year ended September 30, 2017 and the fiscal year ended September 30, 2016.

Selling, general and administrative expenses

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

	For the Fiscal Year Ended						
	September 30,			2018 vs. 2017		2017 vs. 2016	
	2018	2017	2016	$ Change	% Change	$ Change	% Change
General and administrative expense (1)	$814	$684	$584	$130	19 %	$100	17 %
Selling and marketing expense	530	472	437	58	12 %	35	8 %
Distribution expense	67	66	61	1	2 %	5	8 %
Total selling, general and administrative expense	$1,411	$1,222	$1,082	$189	16 %	$140	13 %

(1) Includes depreciation expense of $55 million, $50 million and $50 million for the fiscal years ended September 30, 2018, 2017 and 2016, respectively.

2018 vs. 2017

Total selling, general and administrative expense increased by $189 million, or 16%, to $1.411 billion for the fiscal year ended September 30, 2018 from $1.222 billion for the fiscal year ended September 30, 2017. Expressed as a percentage of revenues, selling, general and administrative expenses increased to 35% for the fiscal year ended September 30, 2018 from 34% for the fiscal year ended September 30, 2017.

General and administrative expenses increased by $130 million, or 19%, to $814 million for the fiscal year ended September 30, 2018 from $684 million for the fiscal year ended September 30, 2017. The increase in general and administrative expense was primarily due to increases in other employee related compensation expense, including severance and restructuring costs, of $78 million, and an increase in facilities cost due to an overlap in terms on the lease of our new Los Angeles office with our existing office leases of $16 million. The increase was also due to an increase in expense associated with our Senior Management Free Cash Flow Plan of $6 million, which is primarily related to compensation costs associated with higher dividend payments in the current year. Expressed as a percentage of revenue, general and administrative expense increased to 20% for the fiscal year ended September 30, 2018 from 19% for the fiscal year ended September 30, 2017.

Selling and marketing expense increased by $58 million, or 12%, to $530 million for the fiscal year ended September 30, 2018 from $472 million for the fiscal year ended September 30, 2017. Expressed as a percentage of revenues, selling and marketing expense remained flat at 13% for both the fiscal year ended September 30, 2018 and September 30, 2017.

Distribution expense increased by $1 million, or 2%, to $67 million for the fiscal year ended September 30, 2018 from $66 million for the fiscal year ended September 30, 2017. Expressed as a percentage of revenues, distribution expense remained flat at 2% for both the fiscal year ended September 30, 2018 and September 30, 2017.

2017 vs. 2016

Total selling, general and administrative expense increased by $140 million, or 13%, to $1.222 billion for the fiscal year ended September 30, 2017 from $1.082 billion for the fiscal year ended September 30, 2016. Expressed as a percentage of revenues, selling, general and administrative expenses increased to 34% for the fiscal year ended September 30, 2017 from 33% for the fiscal year ended September 30, 2016.

General and administrative expenses increased by $100 million, or 17%, to $684 million for the fiscal year ended September 30, 2017 from $584 million for the fiscal year ended September 30, 2016. The increase in general and administrative expense was primarily due to increases in expenses associated with our Senior Management Free Cash Flow Plan (the “Plan”) including $47 million of non-cash share-based compensation expense and $29 million of free cash flow compensation expense. The increase in the Plan’s expenses are directly associated with our improved operating performance and associated fair value of equity. Additionally, increases in other employee related variable compensation and severance costs of $11 million, a one-time, non-recurring net gain on contract termination of $6 million in the prior year, and a net gain on divestitures in the current year of $6 million compared to a net gain on divestitures of $9 million in the prior year. Expressed as a percentage of revenue, general and administrative expense increased to 19% for the fiscal year ended September 30, 2017 from 18% for the fiscal year ended September 30, 2016.

Selling and marketing expense increased by $35 million, or 8%, to $472 million for the fiscal year ended September 30, 2017 from $437 million for the fiscal year ended September 30, 2016. Expressed as a percentage of revenues, selling and marketing expense decreased to 13% for the fiscal year ended September 30, 2017 from 14% for the fiscal year ended September 30, 2016.

Distribution expense increased by $5 million, or 8%, to $66 million for the fiscal year ended September 30, 2017 from $61 million for the fiscal year ended September 30, 2016. Expressed as a percentage of revenues, distribution expense remained flat at 2% for both the fiscal year ended September 30, 2017 and September 30, 2016.

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

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

	For the Fiscal Year Ended						
	September 30,			2018 vs. 2017		2017 vs. 2016	
	2018	2017	2016	$ Change	% Change	$ Change	% Change
Net income attributable to Warner Music Group Corp.	$307	$143	$25	$164	115 %	$118	—%
Income attributable to noncontrolling interest	5	6	5	(1)	-17 %	1	20 %
Net income	312	149	30	163	109 %	119	—%
Income tax expense (benefit)	130	(151)	11	281	—%	(162)	—%
Income (loss) before income taxes	442	(2)	41	444	—%	(43)	-105 %
Other (income) expense, net	(394)	40	(18)	(434)	—%	58	—%

Interest expense, net	138	149	173	(11	)	-7	%	(24	)	-14	%
Loss on extinguishment of debt	31	35	18	(4	)	-11	%	17		94	%
Operating income	217	222	214	(5	)	-2	%	8		4	%
Amortization expense	206	201	243	5		3	%	(42	)	-17	%
Depreciation expense	55	50	50	5		10	%	—		—	%
OIBDA	$478	$473	$507	$5		1	%	$(34	)	-7	%

OIBDA

2018 vs. 2017

Our OIBDA increased by $5 million, or 1%, to $478 million for the fiscal year ended September 30, 2018 as compared to $473 million for the fiscal year ended September 30, 2017 primarily as a result of higher revenue, partially offset by higher general and administrative expenses. Expressed as a percentage of total revenue, OIBDA decreased to 12% for the fiscal year ended September 30, 2018 from 13% for the fiscal year ended September 30, 2017.

2017 vs. 2016

Our OIBDA decreased by $34 million, or 7%, to $473 million for the fiscal year ended September 30, 2017 as compared to $507 million for the fiscal year ended September 30, 2016 primarily as a result of higher artist and repertoire costs and higher general and administrative expenses, as noted above. Expressed as a percentage of total revenue, OIBDA decreased to 13% for the fiscal year ended September 30, 2017 from 16% for the fiscal year ended September 30, 2016.

Depreciation expense

2018 vs. 2017

Our depreciation expense increased by $5 million, or 10%, to $55 million for the fiscal year ended September 30, 2018 from $50 million for the fiscal year ended September 30, 2017, primarily due to an increase in technology and facilities capital spending.

2017 vs. 2016

Our depreciation expense remained consistent at $50 million for both the fiscal year ended September 30, 2017 and the fiscal year ended September 30, 2016.

Amortization expense

2018 vs. 2017

Amortization expense increased by $5 million, or 3%, to $206 million for the fiscal year ended September 30, 2018 from $201 million for the fiscal year ended September 30, 2017, primarily due to an increase in amortizable intangible assets and the impact of foreign currency exchange rates.

2017 vs. 2016

Amortization expense decreased by $42 million, or 17%, to $201 million for the fiscal year ended September 30, 2017 from $243 million for the fiscal year ended September 30, 2016, primarily due to intangible assets becoming fully amortized and the impact of foreign currency exchange rates.

Operating income

2018 vs. 2017

Our operating income decreased by $5 million to $217 million for the fiscal year ended September 30, 2018 from $222 million for the fiscal year ended September 30, 2017. The decrease in operating income was primarily due to higher general and administrative expenses as noted above, partially offset by higher revenue.

2017 vs. 2016

Our operating income increased by $8 million to $222 million for the fiscal year ended September 30, 2017 from $214 million for the fiscal year ended September 30, 2016. The increase in operating income was due to the increase in revenue and lower amortization expense, partially offset by the higher artist and repertoire costs and higher general and administrative expenses as noted above.

Loss on extinguishment of debt

2018 vs. 2017

We recorded a loss on extinguishment of debt in the amount of $31 million for the fiscal year ended September 30, 2018, which represents the premium paid on early redemption and unamortized deferred financing costs related to the June 2018 Senior Term Loan Credit Agreement Amendment (as defined later in this Annual Report), the redemption of the 6.75% Senior Notes (as defined later in this Annual Report) and the December 2017 Senior Term Loan Credit Agreement Amendment (as defined later in this Annual Report). We recorded a loss on extinguishment of debt in the amount of $35 million for the fiscal year ended September 30, 2017, which represents the premium paid on early redemption and unamortized deferred financing costs related to the refinancing transactions that occurred during fiscal 2017. Please refer to Note 6 of our Consolidated Financial Statements for further discussion.

2017 vs. 2016

We recorded a loss on extinguishment of debt in the amount of $35 million for the fiscal year ended September 30, 2017, which represents the premium paid on early redemption and unamortized deferred financing costs related to the various refinancing transactions we undertook in October 2016, the 5.625% Secured Notes redemption and the amendment to the Senior Term Loan Credit Agreement entered into in May 2017. We recorded a loss on extinguishment of debt in the amount of $18 million for the fiscal year ended September 30, 2016, which related to the refinancing transactions that occurred in fiscal 2016. Please refer to Note 6 of our Consolidated Financial Statements for further discussion.

Interest expense, net

2018 vs. 2017

Our interest expense, net, decreased by $11 million, or 7% to $138 million for the fiscal year ended September 30, 2018 from $149 million for the fiscal year ended September 30, 2017. This was primarily due to lower interest rates as a result of refinancing transactions and interest income on higher cash balances during the year.

2017 vs. 2016

Our interest expense, net, decreased by $24 million, or 14% to $149 million for the fiscal year ended September 30, 2017 from $173 million for the fiscal year ended September 30, 2016. This was due to lower interest rates as a result of the various refinancing transactions we undertook in October 2016 and refinancing transactions that occurred in the fiscal year ended September 30, 2016.

Other (income) expense, net

2018 vs. 2017

Other (income) expense, net, increased by $434 million to other (income) of $394 million for the fiscal year ended September 30, 2018 from other expense of $40 million for the fiscal year ended September 30, 2017. Other (income) expense, net for the fiscal year ended September 30, 2018, includes the gain on the Spotify share sale, net of estimated artist share and other related costs, of $382 million, gain on investments of $7 million, and foreign currency gains on our Euro denominated debt of $4 million.

Other expense (income), net for the fiscal year ended September 30, 2017, includes currency exchange loss on our Euro denominated debt of $27 million, loss on investments of $21 million, partially offset by foreign currency exchange gains on intercompany loans and derivative liabilities of $5 million.

2017 vs. 2016

Other expense (income), net, increased by $58 million to other expense of $40 million for the fiscal year ended September 30, 2017 from other income of $18 million for the fiscal year ended September 30, 2016. Other expense (income), net for the fiscal year ended September 30, 2017, includes the items listed above.

Other expense (income), net for the fiscal year ended September 30, 2016, includes a non-recurring gain on a sale of real estate of $24 million, partially offset by losses on our intercompany loans of $7 million for the fiscal year ended September 30, 2016.

Income tax expense (benefit)

2018 vs. 2017

Our income tax expense increased by $281 million to $130 million for the fiscal year ended September 30, 2018 compared to an income tax benefit of $151 million for the fiscal year ended September 30, 2017. The net increase of $281 million in income tax expense primarily relates to higher pre-tax income as a result of the gain on the Spotify shares sale of $77 million and U.S. tax expense of $23 million for the reduction of our net U.S. deferred tax assets as a result of the change in the U.S. corporate statutory tax rate, as compared to a U.S. tax benefit of $125 million related to the reversal of a significant portion of our U.S. deferred tax valuation allowance and a $59 million benefit related to foreign currency losses on intra-entity loans.

2017 vs. 2016

Our income tax expense decreased by $162 million to a benefit of $151 million for the fiscal year ended September 30, 2017 compared to income tax expense of $11 million for the fiscal year ended September 30, 2016. The net decrease of $162 million primarily relates to a U.S. tax benefit of $125 million related to the reversal of a significant portion of our U.S. deferred tax valuation allowance and a $59 million benefit related to foreign currency losses on intra-entity loans.

Net income

2018 vs. 2017

Our net income increased by $163 million, to $312 million for the fiscal year ended September 30, 2018 from $119 million for the fiscal year ended September 30, 2017 as a result of the factors described above. The increase in income was primarily driven by the factors listed above.

2017 vs. 2016

Our net income increased by $119 million, to $149 million for the fiscal year ended September 30, 2017 from $30 million for the fiscal year ended September 30, 2016 as a result of the factors described above. The increase in income was primarily driven by the increase in income tax benefit as described above.

Noncontrolling interest

2018 vs. 2017

Net income attributable to noncontrolling interests was $5 million for the fiscal year ended September 30, 2018 and $6 million for the fiscal year ended September 30, 2017.

2017 vs. 2016

Net income attributable to noncontrolling interests was $6 million for the fiscal year ended September 30, 2017 and $5 million for the fiscal year ended September 30, 2016.

Business Segment Results

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

	For the Fiscal Year Ended September 30,			2018 vs. 2017		2017 vs. 2016	
	2018	2017	2016	$ Change	% Change	$ Change	% Change
Recorded Music							
Revenue	$3,360	$3,020	$2,736	$340	11 %	$284	10 %
Operating income	307	283	247	24	9 %	36	15 %
OIBDA	480	451	459	29	6 %	$(8)	-2 %

Music Publishing										
Revenue	653	572	524	81	14	%	$48		9	%
Operating income	84	81	68	3	4	%	13		19	%
OIBDA	159	152	138	7	5	%	$14		10	%
Corporate expenses and eliminations										
Revenue elimination	(8)	(16)	(14)	8	-50	%	$(2	)	14	%
Operating loss	(174)	(142)	(101)	(32)	23	%	(41	)	41	%
OIBDA	(161)	(130)	(90)	(31)	24	%	$(40	)	44	%
Total										
Revenue	4,005	3,576	3,246	429	12	%	$330		10	%
Operating income	217	222	214	(5)	-2	%	8		4	%
OIBDA	478	473	507	5	1	%	$(34	)	-7	%

Recorded Music

Revenues

2018 vs. 2017

Recorded Music revenues increased by $340 million, or 11%, to $3.360 billion for the fiscal year ended September 30, 2018 from $3.020 billion for the fiscal year ended September 30, 2017. U.S. Recorded Music revenues were $1.460 billion and $1.329 billion, or 43% and 44% of consolidated Recorded Music revenues for the fiscal year ended September 30, 2018 and September 30, 2017, respectively. International Recorded Music revenues were $1.900 billion and $1.691 billion, or 57% and 56% of consolidated Recorded Music revenues for the fiscal year ended September 30, 2018 and September 30, 2017, respectively.

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

2017 vs. 2016

Recorded Music revenues increased by $284 million, or 10%, to $3.020 billion for the fiscal year ended September 30, 2017 from $2.736 billion for the fiscal year ended September 30, 2016. U.S. Recorded Music revenues were $1,329 million and $1,129 million, or 44% and 41% of consolidated Recorded Music revenues for the fiscal year ended September 30, 2017 and September 30, 2016, respectively. International Recorded Music revenues were $1.691 billion and $1.607 billion, or 56% and 59% of consolidated Recorded Music revenues for the fiscal year ended September 30, 2017 and September 30, 2016, 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 Fiscal Year Ended September 30,			2018 vs. 2017		2017 vs. 2016	
	2018	2017	2016	$ Change	% Change	$ Change	% Change
Artist and repertoire costs	$1,054	$964	$810	$90	9 %	$154	19 %
Product costs	700	628	594	72	12 %	34	6 %
Total cost of revenues	$1,754	$1,592	$1,404	$162	10 %	$188	13 %

2018 vs. 2017

Recorded Music cost of revenues increased by $162 million, or 10%, to $1.754 billion for the fiscal year ended September 30, 2018 from $1.592 billion for the fiscal year ended September 30, 2017. Artist and repertoire costs as a percentage of revenue decreased to 31% for the fiscal year ended September 30, 2018 from 32% for the fiscal year ended September 30, 2017 primarily due to a shift in revenue mix toward higher margin digital revenues from lower margin physical revenues internationally and a benefit for advance recoveries of $10 million. Product costs as a percentage of revenue remained flat at 21% for both the fiscal year ended September 30, 2018 and the fiscal year ended September 30, 2017. Expressed as a percentage of Recorded Music revenues, cost of revenues decreased to 52% for the fiscal year ended September 30, 2018 from 53% for the fiscal year ended September 30, 2017.

2017 vs. 2016

Recorded Music cost of revenues increased by $188 million, or 13%, to $1.592 billion for the fiscal year ended September 30, 2017 from $1.404 billion for the fiscal year ended September 30, 2016. Artist and repertoire costs as a percentage of revenue increased to 32% for the fiscal year ended September 30, 2017 from 30% for the fiscal year ended September 30, 2016 due to a change in the revenue mix. Specifically, the increase was driven by strong performance from lower margin repertoire and higher artist related costs and investment. Product costs as a percentage of revenue decreased to 21% for the fiscal year ended September 30, 2017 from 22% for the fiscal year ended September 30, 2016 due to the decline in international concert promotion revenue, which tends to have higher costs and yield lower margins. Expressed as a percentage of Recorded Music revenues, cost of revenues increased to 53% for the fiscal year ended September 30, 2017 from 51% for the fiscal year ended September 30, 2016.

Selling, general and administrative expense

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

	For the Fiscal Year Ended September 30,			2018 vs. 2017		2017 vs. 2016	
	2018	2017	2016	$ Change	% Change	$ Change	% Change
General and administrative expense (1)	$573	$478	$412	$95	20 %	$66	16 %
Selling and marketing expense	521	465	432	56	12 %	33	8 %
Distribution expense	67	66	61	1	2 %	5	8 %
Total selling, general and administrative expense	$1,161	$1,009	$905	$152	15 %	$104	12 %

(1) Includes depreciation expense of $35 million, $32 million, and $32 million for the fiscal year ended September 30, 2018, 2017 and 2016, respectively.

2018 vs. 2017

Recorded Music selling, general and administrative expense increased by $152 million, or 15%, to $1.161 billion for the fiscal year ended September 30, 2018 from $1.009 billion for the fiscal year ended September 30, 2017. The increase in Recorded Music general and administrative expense was primarily due to increases in other employee related compensation including severance and restructuring costs of $63 million and an increase in facilities cost due to an overlap in terms on the lease of our new Los Angeles office with our existing office leases of $15 million. The increase was also due to an increase in expense of $1 million associated with our Senior Management Free Cash Flow Plan, which is primarily related to compensation costs associated with higher dividend payments in the current year. Selling and marketing expense increased in line with the increase in revenue. Expressed as a percentage of Recorded Music revenue, Recorded Music selling, general and administrative expense increased to 35% for the fiscal year ended September 30, 2018 from 33% for the fiscal year ended September 30, 2017.

2017 vs. 2016

Recorded Music selling, general and administrative expense increased by $104 million, or 12%, to $1.009 billion for the fiscal year ended September 30, 2017 from $905 million for the fiscal year ended September 30, 2016. The increase in Recorded Music general and administrative expense was primarily due to increases in expenses associated with our Senior Management Free Cash Flow Plan including $32 million of non-cash share-based compensation expense and $16 million of free cash flow compensation expense. The increase in the Plan's expenses are directly associated with our improved operating performance and associated increase in the fair value of equity. Additionally, increases in other employee related variable compensation, severance and restructuring costs and a net gain on contract termination of $6 million in the prior year. Selling and marketing expense increased in line with the increase in revenue. Expressed as a percentage of Recorded Music revenue, Recorded Music selling, general and administrative expense remained flat at 33% for both the fiscal year ended September 30, 2017 and September 30, 2016.

Operating income and OIBDA

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

	For the Fiscal Year Ended September 30,			2018 vs. 2017		2017 vs. 2016	
	2018	2017	2016	$ Change	% Change	$ Change	% Change
Operating income	$307	$283	$247	$24	9%	$36	15%
Depreciation and amortization	173	168	212	5	3%	(44)	-21%
OIBDA	$480	$451	$459	$29	6%	$(8)	-2%

2018 vs. 2017

Recorded Music OIBDA increased by $29 million, or 6%, to $480 million for the fiscal year ended September 30, 2018 from $451 million for the fiscal year ended September 30, 2017 primarily as a result of higher Recorded Music revenues, partially offset by higher general and administrative expenses. Expressed as a percentage of Recorded Music revenues, Recorded Music OIBDA decreased to 14% for the fiscal year ended September 30, 2018 from 15% for the fiscal year ended September 30, 2017.

Recorded Music operating income increased by $24 million to $307 million for the fiscal year ended September 30, 2018 from $283 million for the fiscal year ended September 30, 2017 due to the increase in revenue, partially offset by higher general and administrative expenses as noted above.

2017 vs. 2016

Recorded Music OIBDA decreased by $8 million, or 2%, to $451 million for the fiscal year ended September 30, 2017 from $459 million for the fiscal year ended September 30, 2016 primarily as a result of higher artist and repertoire costs and general and administrative expenses, partially offset by higher Recorded Music revenues. Expressed as a percentage of Recorded Music revenues, Recorded Music OIBDA decreased to 15% for the fiscal year ended September 30, 2017 from 17% for the fiscal year ended September 30, 2016.

Recorded Music operating income increased by $36 million to $283 million for the fiscal year ended September 30, 2017 from $247 million for the fiscal year ended September 30, 2016 due to the increase in revenue and lower amortization expense, partially offset by the higher artist and repertoire costs and higher general and administrative expenses as noted above.

Music Publishing

Revenues

2018 vs. 2017

Music Publishing revenues increased by $81 million, or 14%, to $653 million for the fiscal year ended September 30, 2018 from $572 million for the fiscal year ended September 30, 2017. U.S. Music Publishing revenues were $294 million and $258 million, or 45% of Music Publishing revenues for both the fiscal years ended September 30, 2018 and September 30, 2017. International Music Publishing revenues were $359 million and $314 million, or 55% of Music Publishing revenues for both the fiscal years ended September 30, 2018 and September 30, 2017.

The overall increase in Music Publishing revenue was mainly driven by the increase in digital revenue as described in the “Total Revenues” and “Revenue by Geographical Location” sections above.

2017 vs. 2016

Music Publishing revenues increased by $48 million, or 9%, to $572 million for the fiscal year ended September 30, 2017 from $524 million for the fiscal year ended September 30, 2016. U.S. Music Publishing revenues were $258 million and $231 million, or 45% and 44%, of Music Publishing revenues for the fiscal year ended September 30, 2017 and September 30, 2016, respectively. International Music Publishing revenues were $314 million and $293 million, or 55% and 56%, of Music Publishing revenues for the fiscal year ended September 30, 2017 and September 30, 2016, respectively.

The overall increase in Music Publishing revenue was mainly driven by the increase in digital revenue as described in the “Total Revenues” and “Revenue by Geographical Location” sections above.

Cost of revenues

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

	For the Fiscal Year Ended						
	September 30,			2018 vs. 2017		2017 vs. 2016	
	2018	2017	2016	$ Change	% Change	$ Change	% Change
Artist and repertoire costs	$425	$355	$317	$70	20 %	$38	12 %
Total cost of revenues	$425	$355	$317	$70	20 %	$38	12 %

2018 vs. 2017

Music Publishing cost of revenues increased by $70 million, or 20%, to $425 million for the fiscal year ended September 30, 2018 from $355 million for the fiscal year ended September 30, 2017 due to revenue mix and increased A&R investment costs. Expressed as a percentage of Music Publishing revenue, Music Publishing cost of revenues increased to 65% for the fiscal year ended September 30, 2018 from 62% for the fiscal year ended September 30, 2017.

2017 vs. 2016

Music Publishing cost of revenues increased by $38 million, or 12%, to $355 million for the fiscal year ended September 30, 2017 from $317 million for the fiscal year ended September 30, 2016 due to revenue mix. Expressed as a percentage of Music Publishing revenue, Music Publishing cost of revenues increased to 62% for the fiscal year ended September 30, 2017 from 61% for the fiscal year ended September 30, 2016.

Selling, general and administrative expense

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

	For the Fiscal Year Ended September 30,			2018 vs. 2017		2017 vs. 2016	
	2018	2017	2016	$ Change	% Change	$ Change	% Change
General and administrative expense (1)	$74	$ 69	$ 75	$ 5	7 %	$(6)	-8 %
Selling and marketing expense	2	2	1	—	— %	1	100 %
Total selling, general and administrative expense	$76	$ 71	$ 76	$ 5	7 %	$(5)	-7 %

(1) Includes depreciation expense of $7 million, $6 million, and $7 million for the fiscal year ended September 30, 2018, 2017 and 2016, respectively.

2018 vs. 2017

Music Publishing selling, general and administrative expense increased by $5 million, or 7%, to $76 million for the fiscal year ended September 30, 2018 as compared to $71 million for the fiscal year ended September 30, 2017. The increase in general and administrative expense was due to an increase in compensation expense of $3 million and facilities costs of $2 million. Expressed as a percentage of Music Publishing revenues, Music Publishing selling, general and administrative expense remained flat at 12% for both the fiscal year ended September 30, 2018 and the fiscal year ended September 30, 2017.

2017 vs. 2016

Music Publishing selling, general and administrative expense decreased by $5 million, or 7%, to $71 million for the fiscal year ended September 30, 2017 as compared to $76 million for the fiscal year ended September 30, 2016. The decrease in general and administrative expense was due to costs related to the Happy Birthday settlement and severance charges taken in the prior year, partially offset by a one-time settlement in the current year of $4 million and one-time gain on asset sale in the prior year of $2 million. Expressed as a percentage of Music Publishing revenues, Music Publishing selling, general and administrative revenues decreased to 12% for the fiscal year ended September 30, 2017 from 15% for the fiscal year ended September 30, 2016.

Operating income and OIBDA

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

	For the Fiscal Year Ended September 30,			2018 vs. 2017		2017 vs. 2016	
	2018	2017	2016	$ Change	% Change	$ Change	% Change
Operating income	$84	$81	$68	$ 3	4 %	$13	19 %
Depreciation and amortization	75	71	70	4	6 %	1	1 %
OIBDA	$159	$152	$138	$ 7	5 %	$14	10 %

2018 vs. 2017

Music Publishing OIBDA increased by $7 million, or 5%, to $159 million for the fiscal year ended September 30, 2018 from $152 million for the fiscal year ended September 30, 2017 as a result of higher Music Publishing revenue, partially offset by higher artist and repertoire costs and higher general and administrative costs, as noted above. Expressed as a percentage of Music Publishing revenues, Music Publishing OIBDA margin decreased to 24% for the fiscal year ended September 30, 2018 from 27% for the fiscal year ended September 30, 2017.

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Music Publishing operating income increased by $3 million to $84 million for the fiscal year ended September 30, 2018 from $81 million for the fiscal year ended September 30, 2017 due to the factors that led to the increase in Music Publishing OIBDA noted above.

2017 vs. 2016

Music Publishing OIBDA increased by $14 million, or 10%, to $152 million for the fiscal year ended September 30, 2017 from $138 million for the fiscal year ended September 30, 2016 as a result of higher Music Publishing revenue and lower general and administrative expenses, partially offset by higher artist and repertoire costs, as noted above. Expressed as a percentage of Music Publishing revenues, Music Publishing OIBDA margin increased to 27% for the fiscal year ended September 30, 2017 from 26% for the fiscal year ended September 30, 2016.

Music Publishing operating income increased by $13 million to $81 million for the fiscal year ended September 30, 2017 from $68 million for the fiscal year ended September 30, 2016 due to the factors that led to the decrease in Music Publishing OIBDA noted above.

Corporate Expenses and Eliminations

2018 vs. 2017

Our OIBDA loss from corporate expenses and eliminations increased by $31 million to $161 million for the fiscal year ended September 30, 2018 from $130 million for the fiscal year ended September 30, 2017 due to costs associated with United States shared services and other transformation initiatives of $16 million, an increase in our annual Access management fee of $7 million, an increase in variable compensation expense of $5 million associated with our Senior Management Free Cash Flow Plan, which is associated with higher compensation costs on dividend payments in the current year.

Our operating loss from corporate expenses and eliminations increased by $32 million to $174 million for the fiscal year ended September 30, 2018 from $142 million for the fiscal year ended September 30, 2017 due to the factors that led to the increase in operating loss noted above.

2017 vs. 2016

Our OIBDA loss from corporate expenses and eliminations increased by $40 million to $130 million for the fiscal year ended September 30, 2017 from $90 million for the fiscal year ended September 30, 2016 due to increases in expenses associated with our Senior Management Free Cash Flow Plan including $14 million of non-cash share-based compensation expense and $12 million of free cash flow compensation expense. The increase in the Plan’s expenses are directly associated with our improved operating performance and the associated increase in fair value of equity. The additional increase is primarily due to costs associated with our U.S. shared services relocation and other transformation initiatives of $8 million.

Our operating loss from corporate expenses and eliminations increased by $41 million to $142 million for the fiscal year ended September 30, 2017 from $101 million for the fiscal year ended September 30, 2016 due to the factors that led to the increase in OIBDA loss noted above.

FINANCIAL CONDITION AND LIQUIDITY

Financial Condition at September 30, 2018

At September 30, 2018, we had $2.819 billion of debt (which is net of $28 million of deferred financing costs), $514 million of cash and equivalents (net debt of $2.305 billion, defined as total debt less cash and equivalents and deferred financing costs) and $334 million of Warner Music Group Corp. deficit. This compares to $2.811 billion of debt (which is net of $29 million of deferred financing costs), $647 million of cash and equivalents (net debt of $2.164 billion) and $293 million of Warner Music Group Corp. equity at September 30, 2017.

Cash Flows

The following table summarizes our historical cash flows. The financial data for fiscal years ended September 30, 2018, September 30, 2017 and September 30, 2016 have been derived from our audited financial statements included elsewhere herein.

	For the Fiscal Year Ended September 30,		
	2018	2017	2016
Cash provided by (used in):			
Operating Activities	$425	$535	$342
Investing Activities	405	(126)	(8)
Financing Activities	(955)	(128)	(216)

Operating Activities

Cash provided by operating activities was $425 million for the fiscal year ended September 30, 2018 compared to $535 million for the fiscal year ended September 30, 2017 and $342 million for the fiscal year ended September 30, 2016. The primary driver of the $110 million decrease in cash provided by operating activities during the current year was the timing of royalty payments, partially offset by improved operating performance.

The increase in results from operating activities for the fiscal year ended September 30, 2017 compared to the fiscal year ended September 30, 2016 reflected the benefit of changes in working capital from operations, including the timing of royalty advances, royalty payables, accounts payable and accrued liabilities, and increased non-cash share-based compensation expense resulting from strong operating performance, partially offset by the timing of collections.

Investing Activities

Cash provided by investing activities was $405 million for the fiscal year ended September 30, 2018, compared to cash used in investing activities of $126 million for the fiscal year ended September 30, 2017 and cash used in investing activities of $8 million for the fiscal year ended September 30, 2016.

Cash provided by investing activities of $405 million for the fiscal year ended September 30, 2018 consisted of $516 million of proceeds from sale of investments which includes the Spotify share sale of $504 million, partially offset by $74 million of capital expenditures, which has increased due to costs incurred related to the build-out of our Los Angeles office of $28 million, $23 million of investments and acquisitions and $14 million to acquire music publishing rights.

Cash used in investing activities of $126 million for the fiscal year ended September 30, 2017 consisted of $139 million of business investments and acquisitions, including the Spinnin' Records acquisition in September 2017, $16 million to acquire music publishing rights and $44 million of capital expenditures, partially offset by $73 million of proceeds from divestitures.

Cash used in investing activities of $8 million for the fiscal year ended September 30, 2016 consisted of $42 million of capital expenditures mainly related to IT, $28 million of business investments and acquisitions and $25 million to acquire music publishing rights, partially offset by $42 million of proceeds from the sale of real estate and $45 million of proceeds from divestitures.

Financing Activities

Cash used in financing activities was $955 million for the fiscal year ended September 30, 2018 compared to $128 million for the fiscal year ended September 30, 2017 and $216 million for the fiscal year ended September 30, 2016.

The $955 million of cash used in financing activities for the fiscal year ended September 30, 2018 consisted of the repayment of and deposit for Acquisition Corp.'s 6.750% Senior Notes (as defined below) of $635 million, special cash dividends paid of $925 million, call premiums paid on and redemption deposit for early redemption of $23 million, deferred financing costs paid of $12 million, and a distribution to our non-controlling interest holders of $5 million, partially offset by proceeds from issuance of Acquisition Corp.'s Senior Notes (as defined below) of $325 million, and proceeds from the issuance of Acquisition Corp.'s Senior Term Loan Facility of $320 million.

The $128 million of cash used in financing activities for the fiscal year ended September 30, 2017 consisted of the repayment of Acquisition Corp.'s 6.000% Senior Secured Notes due 2021 of $450 million, repayment of Acquisition Corp.'s 6.250% Senior Secured Notes due 2021 of $173 million, repayment of Acquisition Corp.'s 5.625% Secured Notes (as defined below) of $28 million, call premiums paid on early redemption of $27 million, deferred financing costs paid of $13 million, special cash dividends paid of $84 million, and a distribution to our non-controlling interest holders of $5 million, partially offset by proceeds from issuance of Acquisition Corp.'s 4.125% Secured Notes (as defined below) of €345 million, proceeds from issuance of Acquisition Corp.'s 4.875% Senior Secured Notes (as defined below) of $250 million and proceeds from the amendment of Acquisition Corp.'s Senior Term Loan Facility of $22 million.

The $216 million of cash used in financing activities for the fiscal year ended September 30, 2016 represented the repayment of $150 million of Holdings 13.75% Senior Notes due 2019, $10 million of financing costs paid, open market repurchase of approximately $25 million of Acquisition Corp. 6.750% Senior Notes, repayment of Acquisition Corp. Senior Term Loan Facility of $296 million, $13 million in amortization payments on Acquisition Corp.'s Senior Term Loan Facility, $4 million of deferred financing costs paid, $14 million of repayments on our capital lease obligation and $5 million of distributions to our non-controlling interest holders, partially offset by $300 million of proceeds from the issuance of Acquisition Corp.'s 5.000% Secured Notes.

There were no drawdowns on the Revolving Credit Facility during the fiscal years ended September 30, 2018, September 30, 2017 and September 30, 2016.

Liquidity

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

Recent Debt Financings, Redemptions and Amendments

June 2018 Senior Term Loan Credit Agreement Amendment

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

5.500% Senior Notes Offering, Tender Offer and 6.750% Senior Notes Redemption

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

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

March 2018 Senior Term Loan Credit Agreement Amendment

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

New Revolving Credit Agreement

On January 31, 2018, Acquisition Corp. entered into a new revolving credit agreement (the "Revolving Credit Agreement") for a senior secured revolving credit facility with Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto, and terminated its then-existing revolving credit agreement (the "Old Revolving Credit Agreement"). The Revolving Credit Agreement differs from the Old Revolving Credit Agreement in that it, among other things, reduces the interest rate margin applicable to the loans, extends the maturity date thereunder, provides for the option to increase the commitments under Acquisition Corp.'s then existing revolving credit agreement, provides for greater flexibility to amend and extend Acquisition Corp.'s then existing revolving credit agreement and create additional tranches thereunder, provides for greater flexibility over future amendments, increases the springing financial maintenance covenant to 4.75:1.00 and provides that the covenant shall not be tested unless at the end of a fiscal quarter the outstanding amount of loans and drawings under letters of credit which have not been reimbursed exceeds $54 million and aligns the other negative covenants with those of the Senior Term Loan Credit Agreement. See "Revolving Credit Facility" below for additional information.

December 2017 Senior Term Loan Credit Agreement Amendment

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

Debt Financing and Redemption Subsequent Events

Partial Redemption of 5.625% Secured Notes

On November 5, 2018, Acquisition Corp. redeemed $26.55 million aggregate principal amount of its 5.625% Senior Secured Notes due 2022 (the "5.625% Secured Notes"). The redemption price for the 5.625% Secured Notes was approximately $27.38 million, equivalent to 102.813% of the principal amount of the 5.625% Secured Notes, plus accrued but unpaid interest thereon to, but excluding, the redemption date, which was November 5, 2018. Following the partial redemption of the 5.625% Secured Notes, $220.95 million of the 5.625% Secured Notes remain outstanding.

Partial Redemption of 4.125% Secured Notes

On October 12, 2018, Acquisition Corp. redeemed €34.5 million aggregate principal amount of its 4.125% Senior Secured Notes due 2024 (the "4.125% Secured Notes") using a portion of the proceeds from the offering of 3.625% Secured Notes described below. The redemption price for the 4.125% Secured Notes was approximately €36.17 million, equivalent to 103% of the principal amount of the 4.125% Secured Notes, plus accrued but unpaid interest thereon to, but excluding, the redemption date, which was October 12, 2018. Following the partial redemption of the 4.125% Secured Notes, €310.5 million of the 4.125% Secured Notes remain outstanding.

Open Market Purchase

On October 9, 2018, Acquisition Corp. purchased, in the open market, $30 million aggregate principal amount of its outstanding 4.875% Senior Secured Notes due 2024 (the "4.875% Secured Notes"). The acquired notes were subsequently retired. Following retirement of the acquired notes, $220 million of the 4.875% Secured Notes remain outstanding.

3.625% Secured Notes Offering

On October 9, 2018, Acquisition Corp. issued and sold €250 million in aggregate principal amount of 3.625% Senior Secured Notes due 2026 (the "3.625% Secured Notes"). Net proceeds of the offering were used to pay the purchase price of the previously announced acquisition of EMP Merchandising and to redeem €34.5 million of the 4.125% Secured Notes (as described above), and the remaining proceeds will be used for general corporate purposes, including open market purchases of a portion of our outstanding debt.

Revolving Credit Facility

On January 31, 2018, Acquisition Corp. entered into the Revolving Credit Agreement for a senior secured revolving credit facility with Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto (the "Revolving Credit Facility"). The final maturity of the Revolving Credit Facility is January 31, 2023.

Acquisition Corp. is the borrower (the "Revolving Borrower") under the Revolving Credit Agreement which provides for a revolving credit facility in the amount of up to $180 million (the "Commitments") and includes a $50 million letter of credit sub-facility. Amounts are available under the Revolving Credit Facility in U.S. dollars, euros or pounds Sterling. The Revolving Credit Agreement permits loans for general corporate purposes and may also be utilized to issue letters of credit. Borrowings under the Revolving Credit Agreement bear interest at the Revolving Borrower'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 1.75% per annum, or (ii) the base rate, which is the highest of (x) the corporate base rate established by the administrative agent from time to time, (y) the overnight federal funds rate plus 0.5% and (z) the one-month Revolving LIBOR plus 1.00% per annum, plus, in each case, 0.75% per annum.

Prepayments

If, at any time, the aggregate amount of outstanding loans (including letters of credit outstanding thereunder) exceeds the commitments under the Revolving Credit Facility, prepayments of the loans (and after giving effect to such prepayment the cash collateralization of letters of credit) will be required in an amount equal to such excess. The application of proceeds from mandatory prepayments shall not reduce the aggregate amount of then effective commitments under the Revolving Credit Facility and amounts prepaid may be reborrowed, subject to then effective commitments under the Revolving Credit Facility.

Voluntary reductions of the unutilized portion of the Commitments under the Revolving Credit Facility are permitted at any time in certain minimum principal amounts, without premium or penalty. Voluntary prepayments of borrowings under the Revolving Credit Facility are permitted at any time in certain minimum principal amounts, subject to reimbursement of the lenders' redeployment costs actually incurred in the case of a prepayment of LIBOR-based borrowings other than on the last day of the relevant interest period.

Ranking

The indebtedness incurred under the Revolving Credit Facility constitutes senior secured obligations of the Revolving Borrower, which are secured on an equal and ratable basis with all existing and future indebtedness secured with the same security arrangements as the Revolving Credit Facility, including the Senior Term Loan Facility and the Secured Notes. Indebtedness incurred under the Revolving Credit Facility ranks senior in right of payment to the Revolving Borrower's subordinated indebtedness; ranks equally in right of payment with all of the Revolving Borrower's existing and future senior indebtedness, including indebtedness under the Senior Term Loan Credit Agreement, the Secured Notes, and any future senior secured credit facility; is effectively senior to the Revolving Borrower's existing and future unsecured senior indebtedness, including the Senior Notes, to the extent of the value of the collateral securing the Revolving Credit Facility; and is structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of any of the Revolving Borrower's non-guarantor subsidiaries (other than indebtedness and liabilities owed to the Revolving Borrower or one of its Subsidiary Guarantors (as defined below)).

Guarantees

All obligations under the Revolving Credit Facility are guaranteed by the Revolving Borrower's existing subsidiaries that guarantee the Secured Notes and each other direct and indirect wholly owned U.S. subsidiary of the Revolving Borrower, other than certain excluded subsidiaries and are secured by substantially all assets of the Revolving Borrower and each subsidiary guarantor to the extent required under the security agreement securing the Secured Notes including a perfected pledge of all the equity interests of the Revolving Borrower and of any subsidiary guarantor, mortgages on certain real property and certain intellectual property.

Covenants, Representations and Warranties

The Revolving Credit Facility contains customary representations and warranties and customary affirmative and negative covenants. The negative covenants are incurrence-based high yield covenants and limit the ability of the Revolving Borrower and its restricted subsidiaries to:

- incur additional indebtedness or issue certain preferred shares;
- pay dividends, redeem stock or make other distributions;
- repurchase, prepay or redeem subordinated indebtedness;
- make investments;
- pay dividends (in the case of the restricted subsidiaries) to the Revolving Borrower or make other intercompany transfers;
- create liens;
- transfer or sell assets;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets;
- enter into certain transactions with affiliates; and
- designate subsidiaries as unrestricted subsidiaries.

The negative covenants are subject to customary and other specified exceptions. There are no financial covenants included in the Revolving Credit Agreement, other than a springing leverage ratio of 4.75:1.00 (with no step-down), which shall not be tested unless at the end of a fiscal quarter the outstanding amount of loans and drawings under letters of credit which have not been reimbursed exceeds $54,000,000.

Events of Default

Events of default under the Revolving Credit Agreement are limited to nonpayment of principal, interest or other amounts, violation of covenants, incorrectness of representations and warranties in any material respect, cross default and cross acceleration of certain material debt, bankruptcy, material judgments, ERISA events, actual or asserted invalidities of the Revolving Credit Agreement, guarantees or security documents and a change of control, in each case subject to customary notice and grace period provisions.

Senior Term Loan Facility

On November 1, 2012, Acquisition Corp. entered into a $600 million senior secured term loan credit facility, dated November 1, 2012, pursuant to a credit agreement, as amended or supplemented by the amendments and/or supplements dated May 9, 2013, July 13, 2016, November 21, 2016, May 22, 2017, December 6, 2017, March 14, 2018 and June 7, 2018 (the “Senior Term Loan Credit Agreement”) with Credit Suisse AG, as administrative agent and collateral agent, and the other financial institutions and lenders from time to time party thereto (as described below, the “Senior Term Loan Facility” and, together with the Revolving Credit Facility, the “Senior Credit Facilities”). On June 7, 2018, Acquisition Corp. entered into an amendment to the Senior Term Loan Credit Agreement, which, among other things, reduced the pricing terms of its outstanding term loans, changed certain incurrence thresholds governing the ability to incur debt and liens and excluded from the definition of “Senior Secured Indebtedness” certain liens that have junior lien priority on the collateral in relation to the outstanding term loans and the relevant guarantees, as applicable.

General

Acquisition Corp. is the borrower under the Senior Term Loan Facility (the “Term Loan Borrower”). On May 9, 2013, the Term Loan Borrower entered into an amendment to the Senior Term Loan Facility among the Term Loan Borrower, Holdings, the subsidiaries of the Term Loan Borrower party thereto, Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto, providing for the refinancing of the then outstanding term loan and for a $820 million senior secured incremental term loan facility, which was drawn on July 1, 2013. On July 15, 2016, the Term Loan Borrower entered into an amendment to the Senior Term Loan Credit Agreement with Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto, providing for (among other changes) conforming certain baskets governing the ability to incur debt and liens to the equivalent provisions applicable to the 5.000% Notes. The effectiveness of such changes to the baskets was subject to certain conditions, which were satisfied by the completed issuance and sale of the 5.000% Notes and the prepayment, pursuant to the prepayment notice dated July 22, 2016, of $295.5 million of the Tranche B Term Loans (as defined in the Senior Term Loan Credit Agreement) with the net proceeds from the sale of the 5.000% Notes. On November 21, 2016, the Term Loan Borrower entered into an amendment to the Senior Term Loan Credit Agreement, which extended the maturity date to November 1, 2023, subject, in certain circumstances to a springing maturity inside the maturity date of certain of the Term Loan Borrower’s other outstanding indebtedness (which springing maturity no longer applies to the outstanding term loans) and increased the principal amount outstanding by $27.5 million to $1,006 million. On May 22, 2017, the Term Loan Borrower entered into an amendment to the Senior Term Loan Credit Agreement, which, among other things, reduced the pricing terms of its outstanding term loans. On December 6, 2017, the Term Loan Borrower entered into an amendment to the Senior Term Loan Credit Agreement, which, among other things, reduced the pricing terms of its outstanding term loans and changed certain baskets governing the ability to incur debt and liens. On March 14, 2018, Acquisition Corp. incurred supplemental term loans pursuant to which the principal amount outstanding under the Senior Term Loan Credit Agreement was increased by $320 million to $1,326 million.

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

In addition, the Senior Term Loan Credit Agreement provides the right for individual lenders to extend the maturity date of their loans upon the request of the Term Loan Borrower and without the consent of any other lender.

Subject to certain conditions, without the consent of the then existing lenders (but subject to the receipt of commitments), the Senior Term Loan Facility may be expanded (or a new term loan facility entered into) by up to the greater of (i) $300 million and (ii) such additional amount as would not cause the net senior secured leverage ratio, after giving effect to the incurrence of such additional amount and any use of proceeds thereof, to exceed 4.50:1.00.

Interest Rates and Fees

Prior to the June 7, 2018 amendment to the Senior Term Loan Credit Agreement, term loan borrowings under the Senior Term Loan Credit Agreement bore interest at a floating rate measured by reference to, at Acquisition Corp.'s option, either (i) an adjusted London inter-bank offered rate, or "LIBOR," not less than 0.00% per annum plus a borrowing margin of 2.25% per annum or (ii) an alternate base rate plus a borrowing margin of 1.25% per annum. On and after the June 7, 2018 amendment to the Senior Term Loan Credit Agreement, term loan borrowings under the Senior Term Loan Credit Agreement bear interest at a floating rate measured by reference to, at Acquisition Corp.'s option, either (i) an adjusted LIBOR not less than 0.00% per annum plus a borrowing margin of 2.125% per annum or (ii) an alternative base rate plus a borrowing margin of 1.125% per annum.

Prepayments

The Senior Term Loan Facility is subject to mandatory prepayment and reduction in an amount equal to (a) 50% of excess cash flow (as defined in the Senior Term Loan Credit Agreement), with reductions to 25% and zero based upon achievement of a net senior secured leverage ratio of less than or equal to 4.50:1.00 or 4.00:1.00, respectively, (b) 100% of the net cash proceeds received from the incurrence of indebtedness by the Term Loan Borrower or any of its restricted subsidiaries (other than indebtedness permitted under the Senior Term Loan Facility), and (c) 100% of the net cash proceeds of all non-ordinary course asset sales or other dispositions of property by the Term Loan Borrower and its restricted subsidiaries (including certain insurance and condemnation proceeds) in excess of $75 million and subject to the right of the Term Loan Borrower and its restricted subsidiaries to reinvest such proceeds within a specified period of time, and other exceptions. Voluntary prepayments of borrowings under the Senior Term Loan Facility are permitted at any time, in minimum principal amounts of $1 million or a whole multiple of $500,000 in excess thereof, subject to reimbursement of the lenders' redeployment costs actually incurred in the case of a prepayment of adjusted LIBOR borrowings other than on the last day of the relevant interest period.

Guarantee; Security

All obligations under the Senior Term Loan Facility are guaranteed by each direct and indirect U.S. restricted subsidiary of the Term Loan Borrower, other than certain excluded subsidiaries.

All obligations of the Term Loan Borrower and each guarantor are secured on an equal basis with the Secured Notes by a perfected security interest in the capital stock of the Term Loan Borrower and substantially all tangible and intangible assets of the Term Loan Borrower and each guarantor, including the capital stock of each direct material U.S. subsidiary of the Term Loan Borrower and each guarantor, and 65% of each series of capital stock of any non-U.S. subsidiary held directly by the Term Loan Borrower or any guarantor, subject to exceptions for fee owned real property with a value of less than $5 million, leasehold interests including requirements to deliver landlord lien waivers, estoppels and collateral access waivers, assets specifically requiring perfection through control agreements and other customary exceptions.

Covenants, Representations and Warranties

The Senior Term Loan Facility contains customary representations and warranties and customary affirmative and negative covenants. The negative covenants are incurrence-based high yield covenants and limit the ability of the Term Loan Borrower and its restricted subsidiaries to:

- incur additional indebtedness or issue certain preferred shares;
- pay dividends, redeem stock or make other distributions;
- repurchase, prepay or redeem subordinated indebtedness;
- make investments;
- create restrictions on the ability of our restricted subsidiaries to pay dividends to us or make other intercompany transfers;
- create liens;
- transfer or sell assets;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets;
- enter into certain transactions with affiliates; and
- designate subsidiaries as unrestricted subsidiaries.

The negative covenants are subject to customary exceptions. There are no financial covenants included in the Senior Term Loan Credit Agreement.

Events of Default

Events of default under the Senior Term Loan Credit Agreement are limited to nonpayment of principal when due, nonpayment of interest or other amounts, inaccuracy of representations or warranties in any material respect, violation of covenants, cross default and cross acceleration to other material debt, certain bankruptcy or insolvency events, certain ERISA events, certain material judgments, actual or asserted invalidity of security interests in excess of $50 million, and upon a change of control, in each case subject to customary thresholds, notice and grace period provisions.

Secured Notes

General

On April 9, 2014, Acquisition Corp. issued $275 million in aggregate principal amount of its 5.625% Secured Notes under the Indenture, dated as of November 1, 2012 (the "Senior Secured Base Indenture"), among Acquisition Corp., the guarantors party thereto, Credit Suisse AG, as Notes Authorized Agent and Collateral Agent and Wells Fargo Bank, National Association, as Trustee (the "Trustee"), as supplemented by the Fourth Supplemental Indenture, dated as of April 9, 2014, among Acquisition Corp., the guarantors party thereto and the Trustee (the "5.625% Supplemental Indenture"). On July 27, 2016, Acquisition Corp. issued $300 million in aggregate principal amount of its 5.000% Secured Notes under the Senior Secured Base Indenture, as supplemented by the Fifth Supplemental Indenture, dated as of July 27, 2016, among Acquisition Corp., the guarantors party thereto, Credit Suisse AG, as Notes Authorized Agent and Collateral Agent, and the Trustee (the "5.000% Supplemental Indenture"). On October 18, 2016, Acquisition Corp. issued $250 million in aggregate principal amount of its 4.875% Secured Notes and €345 million in aggregate principal amount of its 4.125% Secured Notes under the Senior Secured Base Indenture, as supplemented by (i) in the case of the 4.875% Secured Notes, the Sixth Supplemental Indenture, dated as of October 18, 2016 (the "4.875% Supplemental Indenture") and (ii) in the case of the 4.125% Notes, the Seventh Supplemental Indenture, dated as of October 18, 2016, in each case among Acquisition Corp., the guarantors party thereto and the Trustee (the "4.125% Supplemental Indenture"). On October 9, 2018, Acquisition Corp. issued €250 million in aggregate principal amount of its 3.625% Secured Notes under the Senior Secured Base Indenture, as supplemented by the Eighth Supplemental Indenture, dated as of October 9, 2018, among Acquisition Corp., the guarantors party thereto and the Trustee (the "3.625% Supplemental Indenture" and, the Senior Secured Base Indenture, collectively with the 5.625% Supplemental Indenture, the 5.000% Supplemental Indenture, the 4.875% Supplemental Indenture, the 4.125% Supplemental Indenture or the 3.625% Supplemental Indenture, as applicable, the "Secured Notes Indenture").

Interest on the 5.625% Secured Notes accrues at the rate of 5.625% per annum and is payable semi-annually in arrears on April 15 and October 15, commencing on October 15, 2014. Interest on the 5.000% Secured Notes accrues at a rate of 5.000% per annum and is payable semi-monthly in arrears on February 1 and August 1, commencing on February 1, 2017. Interest on the 4.875% Secured Notes accrues at the rate of 4.875% per annum and is payable semi-annually in arrears on May 1 and November 1, commencing on May 1, 2017. Interest on the 4.125% Secured Notes accrues at the rate of 4.125% per annum and is payable semi-annually in arrears on May 1 and November 1, commencing on May 1, 2017. Interest on the 3.625% Secured Notes accrues at the rate of 3.625% per annum and is payable semi-annually in arrears on April 15 and October 15, commencing on April 15, 2019.

Ranking

The Secured Notes are Acquisition Corp.'s senior secured obligations and are secured on an equal and ratable basis with all existing and future indebtedness secured with the same security arrangements as the Secured Notes, including the Senior Credit Facilities. The Secured Notes rank senior in right of payment to Acquisition Corp.'s subordinated indebtedness; rank equally in right of payment with all of Acquisition Corp.'s existing and future senior indebtedness, including the Senior Notes and indebtedness under Acquisition Corp.'s Senior Credit Facilities and any future senior secured credit facility; are effectively senior to Acquisition Corp.'s unsecured senior indebtedness, including the Senior Notes, to the extent of the value of the collateral securing the Secured Notes; and are structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of any of Acquisition Corp.'s non-guarantor subsidiaries (other than indebtedness and liabilities owed to Acquisition Corp. or one of its subsidiary guarantors (as such term is defined below)).

Guarantees; Security

The Secured Notes are fully and unconditionally guaranteed on a senior secured basis by each of Acquisition Corp.'s existing direct or indirect wholly-owned domestic restricted subsidiaries and by any such subsidiaries that guarantee obligations of Acquisition Corp. under the Senior Credit Facilities, subject to customary exceptions. Such subsidiary guarantors are collectively referred to herein as the "subsidiary guarantors," and such subsidiary guarantees are collectively referred to herein as the "subsidiary guarantees." Each subsidiary guarantee is a senior secured obligation of such subsidiary guarantor and is secured on an equal and ratable basis with all existing and future obligations of such subsidiary guarantor that are secured with the same security arrangements as the guarantee of the Secured Notes (including the subsidiary guarantor's guarantee of obligations under the Senior Credit Facilities). Each subsidiary guarantee ranks senior in right of payment to all subordinated obligations of the subsidiary guarantor; is effectively senior to the subsidiary guarantor's existing unsecured obligations, including the subsidiary guarantor's guarantee of the Senior Notes, to the extent of the collateral securing such guarantee; ranks equally in right of payment with all of the subsidiary guarantor's existing and future senior obligations, including the subsidiary guarantor's guarantee of the Senior Credit Facilities and any future senior secured credit facility, and the Senior Notes; and is structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of any non-guarantor subsidiary of the subsidiary guarantor (other than indebtedness and liabilities owed to Acquisition Corp. or one of its subsidiary guarantors). Any subsidiary guarantee of the Secured Notes may be released in certain circumstances.

On May 7, 2014, the Company issued a guarantee whereby it fully and unconditionally guaranteed on a senior secured basis, the payments of Acquisition Corp. on the 5.625% Secured Notes. On July 27, 2016, the Company issued a guarantee whereby it fully and unconditionally guaranteed on a senior secured basis, the payments of Acquisition Corp. on the 5.000% Secured Notes. On October 18, 2016, the Company issued a guarantee whereby it fully and unconditionally guaranteed on a senior secured basis, the payments of Acquisition Corp. on the 4.125% Secured Notes and the 4.875% Secured Notes. On October 9, 2018, the Company issued a guarantee whereby it fully and unconditionally guaranteed on a senior secured basis, the payments of Acquisition Corp. on the 3.625% Secured Notes.

Optional Redemption

5.625% Secured Notes

At any time prior to April 15, 2017, Acquisition Corp. may on any one or more occasions redeem up to 40% of the aggregate principal amount of 5.625% Secured Notes (including the aggregate principal amount of any additional notes of the same series) issued under the Secured Notes Indenture, at its option, at a redemption price equal to 105.625% of the principal amount of the 5.625% Secured Notes redeemed, plus accrued and unpaid interest thereon, if any, to the date of redemption (subject to the rights of holders of 5.625% Secured Notes on the relevant record date to receive interest on the relevant interest payment date), with funds in an aggregate amount not exceeding the net cash proceeds of one or more equity offerings by Acquisition Corp. or any contribution to Acquisition Corp.'s common equity capital made with the net cash proceeds of one or more equity offerings by Acquisition Corp.'s direct or indirect parent; provided that:

(1) at least 50% of the aggregate principal amount of 5.625% Secured Notes originally issued under the Secured Notes Indenture (including the aggregate principal amount of any additional notes of the same series) remains outstanding immediately after the occurrence of such redemption; and

(2) the redemption occurs within 90 days of the date of, and may be conditioned upon, the closing of such equity offering.

The 5.625% Secured Notes may be redeemed, in whole or in part, at any time prior to April 15, 2017, at the option of Acquisition Corp., at a redemption price equal to 100% of the principal amount of the 5.625% Secured Notes redeemed plus the applicable make-whole premium as of, and accrued and unpaid interest thereon, if any, to, the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

On or after April 15, 2017, Acquisition Corp. may redeem all or a portion of the 5.625% Secured Notes, at its option, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest thereon, if any, on the 5.625% Secured Notes to be redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on April 15 of the years indicated below:

Year	Percentage
2017	104.219 %
2018	102.813 %
2019	101.406 %
2020 and thereafter	100.000 %

In addition, during any 12-month period prior to April 15, 2017, Acquisition Corp. will be entitled to redeem up to 10% of the original aggregate principal amount of the 5.625% Secured Notes (including the principal amount of any additional notes of the same series) at a redemption price equal to 103.000% of the aggregate principal amount thereof, plus accrued and unpaid interest thereon, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

5.000% Secured Notes

At any time prior to August 1, 2019, Acquisition Corp. may on any one or more occasions redeem up to 40% of the aggregate principal amount of the 5.000% Secured Notes (including the aggregate principal amount of any additional notes constituting 5.000% Secured Notes) issued under the Secured Notes Indenture, at its option, at a redemption price equal to 105% of the principal amount of the 5.000% Secured Notes redeemed, plus accrued and unpaid interest thereon, if any, to the date of redemption (subject to the rights of holders of 5.000% Secured Notes on the relevant record date to receive interest on the relevant interest payment date), with funds in an aggregate amount not exceeding the net cash proceeds of one or more equity offerings by Acquisition Corp. or any contribution to Acquisition Corp.'s common equity capital made with the net cash proceeds of one or more equity offerings by Acquisition Corp.'s direct or indirect parent; provided that:

(1) at least 50% of the aggregate principal amount of the 5.000% Secured Notes originally issued under the Secured Notes Indenture (including the aggregate principal amount of any additional securities constituting 5.000% Secured Notes issued under the Secured Notes Indenture) remains outstanding immediately after the occurrence of such redemption; and

(2) the redemption occurs within 180 days of the date of, and may be conditioned upon, the closing of such equity offering.

The 5.000% Secured Notes may be redeemed, in whole or in part, at any time prior to August 1, 2019, at the option of Acquisition Corp., at a redemption price equal to 100% of the principal amount of the 5.000% Secured Notes redeemed plus the applicable make-whole premium as of, and accrued and unpaid interest thereon, if any, to, the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

On or after August 1, 2019, Acquisition Corp. may redeem all or a portion of the 5.000% Secured Notes, at its option, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest thereon, if any, on the 5.000% Secured Notes to be redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on August 1 of the years indicated below:

Year	Percentage	
2019	102.500	%
2020	101.250	%
2021 and thereafter	100.000	%

In addition, during any 12-month period prior to August 1, 2019, Acquisition Corp. will be entitled to redeem up to 10% of the original aggregate principal amount of the 5.000% Secured Notes (including the principal amount of any additional notes of the same series) at a redemption price equal to 103.000% of the aggregate principal amount thereof, plus accrued and unpaid interest thereon, if any, to the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date).

4.875% Secured Notes

At any time prior to November 1, 2019, Acquisition Corp. may on any one or more occasions redeem up to 40% of the aggregate principal amount of the 4.875% Secured Notes (including the aggregate principal amount of any additional securities constituting 4.875% Secured Notes issued under the Secured Notes Indenture), at its option, at a redemption price equal to 104.875% of the principal amount of the 4.875% Secured Notes redeemed, plus accrued and unpaid interest thereon, if any, to the date of redemption (subject to the rights of holders of 4.875% Secured Notes on the relevant record date to receive interest on the relevant interest payment date), with funds in an aggregate amount not exceeding the net cash proceeds of one or more equity offerings by Acquisition Corp. or any contribution to Acquisition Corp.'s common equity capital made with the net cash proceeds of one or more equity offerings by Acquisition Corp.'s direct or indirect parent; provided that:

(1) at least 50% of the aggregate principal amount of the 4.875% Secured Notes originally issued under the Secured Notes Indenture (including the aggregate principal amount of any additional securities constituting 4.875% Secured Notes issued under the Secured Notes Indenture) remains outstanding immediately after the occurrence of such redemption; and

(2) the redemption occurs within 180 days of the date of, and may be conditioned upon, the closing of such equity offering.

The 4.875% Secured Notes may be redeemed, in whole or in part, at any time prior to November 1, 2019, at the option of Acquisition Corp, at a redemption price equal to 100% of the principal amount of the 4.875% Secured Notes redeemed plus the applicable make-whole premium as of, and accrued and unpaid interest thereon, if any, to, the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

On or after November 1, 2019, Acquisition Corp. may redeem all or a portion of the 4.875% Secured Notes, at its option, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest thereon, if any, on the 4.875% Secured Notes to be redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on November 1 of the years indicated below:

Year	Percentage	
2019	103.656	%
2020	102.438	%
2021	101.219	%
2022 and thereafter	100.000	%

In addition, during any 12-month period prior to November 1, 2019, Acquisition Corp. will be entitled to redeem up to 10% of the original aggregate principal amount of the 4.875% Secured Notes (including the principal amount of any additional securities of the same series) at a redemption price equal to 103.000% of the aggregate principal amount thereof, plus accrued and unpaid interest thereon, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

4.125% Secured Notes

At any time prior to November 1, 2019, Acquisition Corp. may on any one or more occasions redeem up to 40% of the aggregate principal amount of the 4.125% Secured Notes (including the aggregate principal amount of any additional securities constituting 4.125% Secured Notes) issued under the Secured Notes Indenture, at its option, at a redemption price equal to 104.125% of the principal amount of the 4.125% Secured Notes redeemed, plus accrued and unpaid interest thereon, if any, to the date of redemption (subject to the rights of holders of 4.125% Secured Notes on the relevant record date to receive interest on the relevant interest payment date), with funds in an aggregate amount not exceeding the net cash proceeds of one or more equity offerings by Acquisition Corp. or any contribution to Acquisition Corp.'s common equity capital made with the net cash proceeds of one or more equity offerings by Acquisition Corp.'s direct or indirect parent; provided that:

(1) at least 50% of the aggregate principal amount of the 4.125% Secured Notes originally issued under the Secured Notes Indenture (including the aggregate principal amount of any additional securities constituting 4.125% Secured Notes issued under the Secured Notes Indenture) remains outstanding immediately after the occurrence of such redemption; and

(2) the redemption occurs within 180 days of the date of, and may be conditioned upon, the closing of such equity offering.

The 4.125% Secured Notes may be redeemed, in whole or in part, at any time prior to November 1, 2019, at the option of Acquisition Corp., at a redemption price equal to 100% of the principal amount of the 4.125% Secured Notes redeemed plus the applicable make-whole premium as of, and accrued and unpaid interest thereon, if any, to, the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

On or after November 1, 2019, Acquisition Corp. may redeem all or a portion of the 4.125% Secured Notes, at its option, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest thereon, if any, on the 4.125% Secured Notes to be redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on November 1 of the years indicated below:

Year	Percentage
2019	103.094 %
2020	102.063 %
2021	101.031 %
2022 and thereafter	100.000 %

In addition, during any 12-month period prior to November 1, 2019, Acquisition Corp. will be entitled to redeem up to 10% of the original aggregate principal amount of the 4.125% Secured Notes (including the principal amount of any additional securities of the same series) at a redemption price equal to 103.000% of the aggregate principal amount thereof, plus accrued and unpaid interest thereon, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

3.625% Secured Notes

At any time prior to October 15, 2021, Acquisition Corp. may on any one or more occasions redeem up to 40% of the aggregate principal amount of the 3.625% Secured Notes (including the aggregate principal amount of any additional securities constituting 3.625% Secured Notes) issued under the Secured Notes Indenture, at its option, at a redemption price equal to 103.625% of the principal amount of the 3.625% Secured Notes redeemed, plus accrued and unpaid interest thereon, if any, to the date of redemption (subject to the rights of holders of Notes on the relevant record date to receive interest on the relevant interest payment date), with funds in an aggregate amount not exceeding the net cash proceeds of one or more equity offerings by Acquisition Corp. or any contribution to Acquisition Corp.'s common equity capital made with the net cash proceeds of one or more equity offerings by Acquisition Corp.'s direct or indirect parent; provided that:

(1) at least 50% of the aggregate principal amount of the 3.625% Secured Notes originally issued under the Secured Notes Indenture (including the aggregate principal amount of any additional securities constituting 3.625% Secured Notes issued under the Secured Notes Indenture) remains outstanding immediately after the occurrence of such redemption; and

(2) the redemption occurs within 180 days of the date of, and may be conditioned upon, the closing of such equity offering.

The 3.625% Secured Notes may be redeemed, in whole or in part, at any time prior to October 15, 2021, at the option of Acquisition Corp., at a redemption price equal to 100% of the principal amount of the 3.625% Secured Notes redeemed plus the applicable make-whole premium as of, and accrued and unpaid interest thereon, if any, to, the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

On or after October 15, 2021, Acquisition Corp. may redeem all or a portion of the 3.625% Secured Notes, at its option, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest thereon, if any, on the 3.625% Secured Notes to be redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on October 15 of the years indicated below:

Year	Percentage	
2021	101.813	%
2022	100.906	%
2023 and thereafter	100.000	%

In addition, during any 12-month period prior to October 15, 2021, Acquisition Corp. will be entitled to redeem up to 10% of the original aggregate principal amount of the 3.625% Secured Notes (including the principal amount of any additional securities of the same series) at a redemption price equal to 103.000% of the aggregate principal amount thereof, plus accrued and unpaid interest thereon, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

Change of Control

Upon the occurrence of a change of control, which is defined in the Secured Notes Base Indenture, each holder of the Secured Notes has the right to require Acquisition Corp. to repurchase some or all of such holder's Secured Notes at a purchase price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the repurchase date.

Covenants

The Secured Notes Indenture contains covenants limiting, among other things, Acquisition Corp.'s ability and the ability of most of its subsidiaries to: incur additional indebtedness or issue certain preferred shares; pay dividends on or make distributions in respect of its capital stock or make investments or other restricted payments; create restrictions on the ability of its restricted subsidiaries to pay dividends to it or make certain other intercompany transfers; sell certain assets; create liens; consolidate, merge, sell or otherwise dispose of all or substantially all of its assets; and enter into certain transactions with its affiliates.

Events of Default

Events of default under the Secured Notes Indenture are limited to: the nonpayment of principal or interest when due, violation of covenants and other agreements contained in the Secured Notes Indenture, cross payment default after final maturity and cross acceleration of certain material debt; certain bankruptcy and insolvency events, material judgment defaults, actual or asserted invalidity of a guarantee of a significant subsidiary, or of security interests in excess of $50 million, subject to customary notice and grace period provisions. The occurrence of an event of default would permit or require the principal of and accrued interest on the Secured Notes to become or to be declared due and payable.

Senior Notes

General

On March 14, 2018, Acquisition Corp. issued $325 million in aggregate principal amount of Senior Notes under the Indenture, dated as of April 9, 2014 (the "Senior Notes Base Indenture"), among Acquisition Corp., the guarantors party thereto and the Trustee, as supplemented by the fifth supplemental indenture thereto, dated as of March 14, 2018 (the "Senior Notes Supplemental Indenture" and, together with the Senior Notes Base Indenture, the "Senior Notes Indenture"), among Acquisition Corp., the guarantors party thereto and the Trustee.

Interest on the Senior Notes accrues at a rate of 5.500% per annum and is payable semi-annually in arrears on April 15 and October 15, commencing on October 15, 2018.

Ranking

The Senior Notes are Acquisition Corp.'s senior unsecured obligations. The Senior Notes rank senior in right of payment to Acquisition Corp.'s subordinated indebtedness; rank equally in right of payment with all of Acquisition Corp.'s existing and future senior indebtedness, including indebtedness outstanding under the Senior Credit Facilities and any future senior secured credit facility; are effectively subordinated to Acquisition Corp.'s secured senior indebtedness, including the Secured Notes and indebtedness under the Senior Credit Facilities and any future senior secured credit facility, to the extent of the value of the collateral securing such indebtedness; and are structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of any of Acquisition Corp.'s non-guarantor subsidiaries (other than indebtedness and liabilities owed to Acquisition Corp. or one of its subsidiary guarantors).

Guarantees

The Senior Notes are fully and unconditionally guaranteed on a senior unsecured basis by the subsidiary guarantors. Each subsidiary guarantee is a senior unsecured obligation of such subsidiary guarantor. Each subsidiary guarantee ranks senior in right of payment to all subordinated obligations of the subsidiary guarantor; is effectively subordinated to the subsidiary guarantor's existing secured obligations, including the subsidiary guarantor's guarantee of the Secured Notes, obligations under the Senior Credit Facilities and any future senior secured credit facility, to the extent of the collateral securing such guarantee; ranks equally in right of payment with all of the subsidiary guarantor's existing and future senior obligations, including the subsidiary guarantor's guarantee of the Secured Notes, the Senior Credit Facilities and any future senior secured credit facility; and is structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of any non-guarantor subsidiary of the subsidiary guarantor (other than indebtedness and liabilities owed to Acquisition Corp. or one of its subsidiary guarantors). Any subsidiary guarantee of the Senior Notes may be released in certain circumstances. On March 14, 2018, the Company issued a guarantee whereby it fully and unconditionally guaranteed the payments of Acquisition Corp. on the Senior Notes.

Optional Redemption

At any time prior to April 15, 2021, Acquisition Corp. may on any one or more occasions redeem up to 40% of the aggregate principal amount of Senior Notes (including the aggregate principal amount of any additional securities constituting the same series) issued under the Senior Notes Indenture, at its option, at a redemption price equal to 105.500% of the principal amount of the Senior Notes redeemed, plus accrued and unpaid interest thereon, if any, to the date of redemption (subject to the rights of holders of Senior Notes on the relevant record date to receive interest on the relevant interest payment date), with funds in an aggregate amount not exceeding the net cash proceeds of one or more equity offerings by Acquisition Corp. or any contribution to Acquisition Corp.'s common equity capital made with the net cash proceeds of one or more equity offerings by Acquisition Corp.'s direct or indirect parent; provided that: (1) at least 50% of the aggregate principal amount of Senior Notes originally issued under the Senior Notes Indenture (including the aggregate principal amount of any additional securities constituting Senior Notes issued under the Senior Notes Indenture) remains outstanding immediately after the occurrence of such redemption; and (2) the redemption occurs within 180 days of the date of, and may be conditioned upon, the closing of such equity offering.

The Senior Notes may be redeemed, in whole or in part, at any time prior to April 15, 2021, at the option of Acquisition Corp., at a redemption price equal to 100% of the principal amount of the Senior Notes redeemed plus the applicable make-whole premium as of, and accrued and unpaid interest thereon, if any, to, the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

On or after April 15, 2021, Acquisition Corp. may redeem all or a portion of the Senior Notes, at its option, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest thereon, if any, on the Senior Notes to be redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on April 15 of the years indicated below:

Year	Percentage	
2021	102.750	%
2022	101.375	%
2023 and thereafter	100.000	%

Change of Control

Upon the occurrence of a change of control, which is defined in the Senior Notes Base Indenture, each holder of the Senior Notes has the right to require Acquisition Corp. to repurchase some or all of such holder's Senior Notes at a purchase price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the repurchase date.

Covenants

The Senior Notes Indenture contains covenants limiting, among other things, Acquisition Corp.'s ability and the ability of most of its subsidiaries to: incur additional indebtedness or issue certain preferred shares; pay dividends on or make distributions in respect of its capital stock or make investments or other restricted payments; create restrictions on the ability of its restricted subsidiaries to pay dividends to it or make certain other intercompany transfers; sell certain assets; create liens; consolidate, merge, sell or otherwise dispose of all or substantially all of its assets; and enter into certain transactions with its affiliates.

Events of Default

The Senior Notes Indenture also provides for events of default which, if any of them occurs, would permit or require the principal of and accrued interest on Senior Notes to become or to be declared due and payable.

Existing Debt as of September 30, 2018

As of September 30, 2018, our long-term debt was as follows (in millions):

Revolving Credit Facility—Acquisition Corp. (a)	$—
Senior Term Loan Facility due 2023—Acquisition Corp. (b)	1,310
5.625% Senior Secured Notes due 2022—Acquisition Corp. (c)	246

5.00% Senior Secured Notes due 2023—Acquisition Corp. (d)	297
4.125% Senior Secured Notes due 2024—Acquisition Corp. (e)	399
4.875% Senior Secured Notes due 2024—Acquisition Corp. (f)	247
5.50% Senior Notes due 2026—Acquisition Corp. (g)	320
Total debt (h)	$2,819

(a) Reflects $180 million of commitments under the Revolving Credit Facility, less letters of credit outstanding of approximately $8 million at September 30, 2018. There were no loans outstanding under the Revolving Credit Facility at September 30, 2018.
(b) Principal amount of $1.326 billion less unamortized discount of $4 million and unamortized deferred financing costs of $12 million at September 30, 2018.
(c) Principal amount of $248 million less unamortized deferred financing costs of $2 million at September 30, 2018.
(d) Principal amount of $300 million less unamortized deferred financing costs of $3 million at September 30, 2018.
(e) Face amount of €345 million. Above amounts represent the dollar equivalent of such notes at September 30, 2018. Principal amount of $402 million less unamortized deferred financing costs of $3 million at September 30, 2018.
(f) Principal amount of $250 million less unamortized deferred financing costs of $3 million at September 30, 2018.
(g) Principal amount of $325 million less unamortized deferred financing costs of $5 million at September 30, 2018.
(h) Principal amount of debt of $2.851 billion less unamortized discount of $4 million and unamortized deferred financing costs of $28 million at September 30, 2018.

Dividends

On December 2, 2016, the Company’s Board of Directors approved a special cash dividend of $54 million which was paid on January 3, 2017 to stockholders of record as of December 30, 2016.

On June 5, 2017, the Company’s Board of Directors approved a special cash dividend of $30 million which was paid on July 31, 2017 to stockholders of record as of June 30, 2017.

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

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

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

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

The Company intends to institute a regular quarterly dividend whereby we would intend to pay modest regular quarterly dividends in each fiscal quarter and a variable dividend for the fourth fiscal quarter in an amount commensurate with cash expected to be generated from operations in such fiscal year, in each case, after taking into account other potential uses for cash, including acquisitions, investment in our business and repayment of indebtedness. We expect to pay the first dividend under this policy in the second quarter of fiscal 2019. The declaration of each dividend will continue to be at the discretion of the Board.

Covenant Compliance

The Company was in compliance with its covenants under its outstanding notes, Revolving Credit Facility and Senior Term Loan Facility as of September 30, 2018.

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

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

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

The following is a reconciliation of net income, which is a U.S. GAAP measure of our operating results, to Consolidated EBITDA as defined, and the calculation of the Senior Secured 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 September 30, 2018. The terms and related calculations are defined in the Revolving Credit Agreement. All amounts in the reconciliation below reflect Acquisition Corp. (in millions, except ratios):

	Twelve Months Ended September 30, 2018
Net Income	$ 312
Income tax expense	130
Interest expense, net	138
Depreciation and amortization	261
Loss on extinguishment of debt (a)	31
Net gain on divestitures and sale of securities (b)	(6)
Restructuring costs (c)	66
Net hedging and foreign exchange gains (d)	(7)
Management fees (e)	16
Business optimization expenses (f)	21
Equity based compensation expense (g)	62
Pro forma impact of cost saving initiatives (h)	9
Pro Forma Consolidated EBITDA (i)	$ 1,033
Senior Secured Indebtedness (j)	$ 2,326
Leverage Ratio (k)	2.25x

(a) Reflects net loss incurred on the early extinguishment of our debt incurred as part of the December 2017 and June 2018 Senior Term Loan Credit Agreement Amendments and the redemption of the 6.75% Senior Notes.
(b) Reflects net gain on divestitures and sale of securities.
(c) Reflects severance costs and other restructuring related expenses.
(d) Reflects net gains from hedging activities and unrealized net gains due to foreign exchange on our Euro denominated debt and intercompany transactions.
(e) Reflects Access management fees, including an annual fee and related expenses. Pursuant to the Company's and Holdings' management agreement with Access, the base amount of the annual fee is approximately $9 million, subject to certain potential upward adjustments, in addition to a $7 million increase in fiscal 2018.

(f) Reflects primarily costs associated with IT systems updates and U.S. shared services relocation and other transformation initiatives.

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

(h) Reflects expected savings resulting from our specified cost saving initiatives.

(i) The Pro Forma Consolidated EBITDA as of the twelve months ended September 30, 2018 includes a net gain of $389 million, pre-tax, related to the sale of the Spotify shares acquired in the ordinary course of business.

(j) Reflects the principal balance of senior secured debt at Acquisition Corp. of approximately $2.526 billion, less cash of $200 million.

(k) Reflects the ratio of Senior Secured Indebtedness, including Revolving Credit Agreement Indebtedness, to Pro Forma Consolidated EBITDA as of the twelve months ended September 30, 2018. This is calculated net of cash and equivalents of the Company as of September 30, 2018 not exceeding $200 million. If the outstanding aggregate principal amount of borrowings and drawings under letters of credit which have not been reimbursed under our Revolving Credit Facility is greater than $54 million at the end of a fiscal quarter, the maximum leverage ratio permitted under our Revolving Credit Facility is 4.75:1.00. The Company's Revolving Credit Facility does not impose any "leverage ratio" restrictions on the Company when the aggregate principal amount of borrowings and drawings under letters of credit, which have not been reimbursed under the Revolving Credit Facility, is less than or equal to $54 million at the end of a fiscal quarter.

Summary

Management believes that funds generated from our operations and borrowings under our Revolving Credit Facility 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 and music publishing businesses. We and our affiliates continue to evaluate opportunities to, from time to time depending on market conditions and prices, contractual restrictions, our financial liquidity and other factors, seek to pay dividends or prepay outstanding debt or repurchase or retire Acquisition Corp.'s outstanding debt or debt securities in open market purchases, privately negotiated purchases or otherwise. The amounts involved in any such transactions, individually or in the aggregate, may be material and may be funded from available cash or from additional borrowings. In addition, we may from time to time, depending on market conditions and prices, contractual restrictions, our financial liquidity and other factors, seek to refinance our Senior Credit Facilities or our outstanding debt or debt securities with existing cash and/or with funds provided from additional borrowings.

Contractual and Other Obligations

Firm Commitments

The following table summarizes the Company's aggregate contractual obligations at September 30, 2018, and the estimated timing and effect that such obligations are expected to have on the Company's liquidity and cash flow in future periods.

Firm Commitments and Outstanding Debt	Less than 1 year	1-3 years	4-5 years	After 5 years	Total
	(in millions)				
Senior Secured Notes (1)	$—	$—	$548	$652	$1,200
Interest on Senior Secured Notes (1)	58	115	101	43	317
Senior Notes (1)	—	—	—	325	325
Interest on Senior Notes (1)	20	36	36	54	146
Senior Term Loan Facility (1)	—	—	—	1,326	1,326
Interest on Senior Term Loan Facility (1)	64	137	137	6	344
Operating leases (2)	56	97	91	245	489
Artist, songwriter and co-publisher commitments (3)	340	*	*	*	340
Management Fees (4)	9	18	18	**	45
Minimum funding commitments to investees and other obligations (5)	2	2	—	—	4
Total firm commitments and outstanding debt	$549	$405	$931	$2,651	$4,536

The following is a description of our firmly committed contractual obligations at September 30, 2018:

(1) Outstanding debt obligations consist of the Senior Term Loan Facility, Senior Secured Notes and Senior Notes. These obligations have been presented based on the principal amounts due, current and long term as of September 30, 2018. Amounts do not include any fair value adjustments, bond premiums, discounts or unamortized deferred financing costs.

(2) Operating lease obligations primarily relate to the minimum lease rental obligations for our real estate and operating equipment in various locations around the world. These obligations have been presented without the benefit of $3 million of total sublease income expected to be received under non-cancelable agreements.

(3) The Company routinely enters into long-term commitments with artists, songwriters and publishers for the future delivery of music product. Such commitments generally become due only upon delivery and Company acceptance of albums from the artists or future musical compositions by songwriters and publishers. Additionally, such commitments are typically cancelable at the Company's discretion, generally without penalty. Based on contractual obligations, aggregate firm commitments to such talent approximate $340 million at September 30, 2018. The aggregate firm commitments expected for the next 12 month period based on contractual obligations and the Company's expected release schedule approximates $186 million at September 30, 2018.

(4) Pursuant to the Management Agreement, the Company, or one or more of its subsidiaries, will pay Access an annual fee initially equal to the greater of (i) the sum of (x) a base amount of approximately $9 million and (y) 1.5% of the aggregate amount of Acquired EBITDA (as defined in the Management Agreement) as at such time and (ii) 1.5% of the EBITDA (as defined in the indenture governing the redeemed WMG Holdings Corp. 13.75% Senior Notes due 2019 as required by the Management Agreement) of the Company for the applicable fiscal year,

plus expenses. The Company or one or more of its subsidiaries will also pay Access a specified transaction fee for certain types of transactions completed by Holdings or one or more of its subsidiaries, plus expenses. The future balances disclosed are representative of the base amount of the annual fee only.

(5) We have minimum funding commitments and other related obligations to support the operations of various investments, which are reflected in the table above. Other long-term liabilities include $15 million and $15 million of liabilities for uncertain tax positions as of September 30, 2018 and September 30, 2017, respectively. We are unable to accurately predict when these amounts will be realized or released.

* Because the timing of payment, and even whether payment occurs, is dependent upon the timing of delivery of albums and musical compositions, the timing and amount of payment of these commitments as presented in the above summary can vary significantly.

** Per the above explanation, the minimum annual fee will be approximately $9 million per year. This amount may vary based on the terms described above; and will continue as long as the Management Agreement remains unmodified and effective.

CRITICAL ACCOUNTING POLICIES

The SEC's Financial Reporting Release No. 60, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies" ("FRR 60"), suggests companies provide additional disclosure and commentary on those accounting policies considered most critical. FRR 60 considers an accounting policy to be critical if it is important to our financial condition and results, and requires significant judgment and estimates on the part of management in our application. We believe the following list represents critical accounting policies as contemplated by FRR 60. For a summary of all of our significant accounting policies, see Note 2 to our audited Consolidated Financial Statements included elsewhere herein.

Business Combinations

We account for our business acquisitions under the FASB ASC Topic 805, Business Combinations ("ASC 805") guidance for business combinations. The total cost of acquisitions is allocated to the underlying identifiable net assets based on their respective estimated fair values. The excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Determining the fair value of assets acquired and liabilities assumed requires management's judgment and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, asset lives and market multiples, among other items. If our assumptions or estimates in the fair value calculation change, the fair value of our acquired intangible assets could change; this would also change the value of our goodwill.

Accounting for Goodwill and Other Intangible Assets

We account for our goodwill and other indefinite-lived intangible assets as required by FASB ASC Topic 350, Intangibles—Goodwill and Other ("ASC 350"). Under ASC 350, we do not amortize goodwill, including the goodwill included in the carrying value of investments accounted for using the equity method of accounting, and certain other intangible assets deemed to have an indefinite useful life. ASC 350 requires that goodwill and certain intangible assets be assessed for impairment using fair value measurement techniques on an annual basis and when events occur that may suggest that the fair value of such assets cannot support the carrying value. ASC 350 gives an entity the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the step one of the two-step process. The first step of the goodwill impairment test is used to identify potential impairment by comparing the fair value of a reporting unit with its net book value (or carrying amount), including goodwill.

In performing the first step, management determines the fair value of its reporting units using a discounted cash flow ("DCF") analysis. Determining fair value requires significant judgment concerning the assumptions used in the valuation model, including discount rates, the amount and timing of expected future cash flows and, growth rates. The cash flows employed in the DCF analysis are based on management's most recent budgets and business plans and when applicable, various growth rates have been assumed for years beyond the current business plan periods. Any forecast contains a degree of uncertainty and modifications to these cash flows could significantly increase or decrease the fair value of a reporting unit. For example, if revenue from sales of physical products continues to decline and the revenue from sales of digital products does not continue to grow as expected and we are unable to adjust costs accordingly, it could have a negative impact on future impairment tests.

If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired and the second step of the impairment test is unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. That is, the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit.

As of September 30, 2018, we had recorded goodwill in the amount of $1.692 billion, including $1.228 billion and $464 million for Recorded Music and Music Publishing, respectively, primarily related to the Merger and PLG Acquisition. We test our goodwill and other indefinite-lived intangible assets for impairment on an annual basis in the fourth quarter of each fiscal year as of July 1. The performance of our fiscal 2018 impairment analysis did not result in an impairment of the Company's goodwill and other indefinite-lived intangible assets.

The impairment test for other intangible assets not subject to amortization involves a comparison of the estimated fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. The estimates of fair value of intangible assets not subject to amortization are determined using a DCF analysis. Common among such approaches is the “relief from royalty” methodology, which is used in estimating the fair value of the Company’s trademarks. Discount rate assumptions are based on an assessment of the risk inherent in the projected future cash flows generated by the respective intangible assets. Also subject to judgment are assumptions about royalty rates, which are based on the estimated rates at which similar trademarks are being licensed in the marketplace.

See Note 5 to the Consolidated Financial Statements for a further discussion of our goodwill and intangible assets.

Revenue and Cost Recognition

Sales Returns and Uncollectible Accounts

In accordance with practice in the recorded music industry and as customary in many territories, certain physical products (such as CDs and DVDs) are sold to customers with the right to return unsold items. Under FASB ASC Topic 605, Revenue Recognition, revenues from such sales are recognized when the products are shipped based on gross sales less a provision for future estimated returns.

In determining the estimate of physical product sales that will be returned, management analyzes vendor sales of product historical returns trend, current economic conditions, changes in customer demand and commercial acceptance of our products. Based on this information, management reserves a percentage of each dollar of physical product sales that provide the customer with the right of return.

Similarly, management evaluates accounts receivables to determine if they will ultimately be collected. In performing this evaluation, significant judgments and estimates are involved, including an analysis of specific risks on a customer-by-customer basis for larger accounts and customers, and a receivables aging analysis that determines the percent that has historically been uncollected by aged category. Based on this information, management provides a reserve for the estimated amounts believed to be uncollectible.

Based on management’s analysis of sales returns and uncollectible accounts, reserves totaling $45 million and $50 million were established at September 30, 2018 and September 30, 2017, respectively. The ratio of our receivable allowances to gross accounts receivables was 9% at September 30, 2018 and 11% at September 30, 2017.

Gross Versus Net Revenue Classification

In the normal course of business, we act as an intermediary or agent with respect to certain payments received from third parties. For example, we distribute music product on behalf of third-party record labels.

The accounting issue encountered in these arrangements is whether we should report revenue based on the “gross” amount billed to the customer or on the “net” amount received from the customer after participation and other royalties paid to third parties. To the extent revenues are recorded gross (in the full amount billed), any participations and royalties paid to third parties are recorded as expenses so that the net amount (gross revenues, less expenses) flows through operating income. Accordingly, the impact on operating income is the same, whether we record the revenue on a gross basis or net basis (less related participations and royalties).

Determining whether revenue should be reported gross or net is based on an assessment of whether we are acting as the “principal” in a transaction or acting as an “agent” in the transaction. To the extent we are acting as a principal in a transaction, we report as revenue the payments received on a gross basis. To the extent we are acting as an agent in a transaction, we report as revenue the payments received less participations and royalties paid to third parties, i.e., on a net basis. The determination of whether we are serving as principal or agent in a transaction is judgmental in nature and based on an evaluation of the terms of an arrangement.

In determining whether we serve as principal or agent in these arrangements, we follow the guidance in FASB ASC Subtopic 605-45, Principal Agent Considerations ("ASC 605-45"). Pursuant to such guidance, we serve as the principal in transactions where we have the substantial risks and rewards of ownership. The indicators that we have substantial risks and rewards of ownership are as follows:

- we are the supplier of the products or services to the customer;
- we have latitude in establishing prices;
- we have the contractual relationship with the ultimate customer;
- we modify and service the product purchased to meet the ultimate customer specifications;

- we have discretion in supplier selection; and
- we have credit risk.

Conversely, pursuant to ASC 605-45, we serve as agent in arrangements where we do not have substantial risks and rewards of ownership. The indicators that we do not have substantial risks and rewards of ownership are as follows:

- the supplier (not the Company) is responsible for providing the product or service to the customer;
- the supplier (not the Company) has latitude in establishing prices;
- the amount we earn is fixed;
- the supplier (not the Company) has credit risk; and
- the supplier (not the Company) has general inventory risk for a product before it is sold.

Based on the above criteria and for the more significant transactions that we have evaluated, we record the distribution of product on behalf of third-party record labels on a gross basis, subject to the terms of the contract. Recorded music compilations distributed by other record companies where we have a right to participate in the profits are recorded on a net basis.

Accounting for Royalty Advances

We regularly commit to and pay royalty advances to our recording artists and songwriters in respect of future sales. We account for these advances under the related guidance in FASB ASC Topic 928, Entertainment—Music (“ASC 928”). Under ASC 928, we capitalize as assets certain advances that we believe are recoverable from future royalties to be earned by the recording artist or songwriter. Advances vary in both amount and expected life based on the underlying recording artist or songwriter. Advances to recording artists or songwriters with a history of successful commercial acceptability will typically be larger than advances to a newer or unproven recording artist or songwriter. In addition, in most cases these advances represent a multi-album release or multi-song obligation and the number of albums releases and songs will vary by recording artist or songwriter.

Management’s decision to capitalize an advance to a recording artist or songwriter as an asset requires significant judgment as to the recoverability of the advance. The recoverability is assessed upon initial commitment of the advance based upon management’s forecast of anticipated revenue from the sale of future and existing albums or songs. In determining whether the advance is recoverable, management evaluates the current and past popularity of the recording artist or songwriter, the sales history of the recording artist or songwriter, the initial or expected commercial acceptability of the product, the current and past popularity of the genre of music that the product is designed to appeal to, and other relevant factors. Based upon this information, management expenses the portion of any advance that it believes is not recoverable. In most cases, advances to recording artists or songwriters without a history of success and evidence of current or past popularity will be expensed immediately. Advances are individually assessed for recoverability continuously and at minimum on a quarterly basis. As part of the ongoing assessment of recoverability, we monitor the projection of future sales based on the current environment, the recording artist’s or songwriter’s ability to meet their contractual obligations as well as our intent to support future album releases or songs from the recording artist or songwriter. To the extent that a portion of an outstanding advance is no longer deemed recoverable, that amount will be expensed in the period the determination is made.

We had $276 million and $313 million of advances in our balance sheet at September 30, 2018 and September 30, 2017, respectively. We believe such advances are recoverable through future royalties to be earned by the applicable recording artists and songwriters.

Accounting for Income Taxes

As part of the process of preparing the Consolidated Financial Statements, we are required to estimate income taxes payable in each of the jurisdictions in which we operate. This process involves estimating the actual current tax expense together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheets. FASB ASC Topic 740, Income Taxes ("ASC 740"), requires a valuation allowance be established when it is more likely than not that all or a portion of deferred tax assets will not be realized. In circumstances where there is sufficient negative evidence, establishment of a valuation allowance must be considered. We believe that cumulative losses in the most recent three-year period generally represent sufficient negative evidence to consider a valuation allowance under the provisions of ASC 740. As a result, we determined that certain of our deferred tax assets required the establishment of a valuation allowance.

The realization of the remaining deferred tax assets is primarily dependent on forecasted future taxable income. Any reduction in estimated forecasted future taxable income may require that we record additional valuation allowances against our deferred tax assets on which a valuation allowance has not previously been established. The valuation allowance that has been established will be maintained until there is sufficient positive evidence to conclude that it is more likely than not that such assets will be realized. An ongoing pattern of profitability will generally be considered as sufficient positive evidence. Our income tax expense recorded in the future may be reduced to the extent of offsetting decreases in our valuation allowance. The establishment and reversal of valuation allowances could have a significant negative or positive impact on our future earnings.

From time to time, the Company engages in transactions in which the tax consequences may be subject to uncertainty. Significant judgment is required in assessing and estimating the tax consequences of these transactions. The Company prepares and files tax returns based on its interpretation of tax laws and regulations. In the normal course of business, the Company’s tax returns are subject to examination by various taxing authorities. Such examinations may result in future tax and interest assessments by these taxing authorities. In determining the Company’s tax provision for financial reporting purposes, the Company establishes a reserve for uncertain tax positions unless such positions are determined to be more likely than not of being sustained upon examination based on their technical merits. There is considerable judgment involved in determining whether positions taken on the Company’s tax returns are more likely than not of being sustained.

Accounting for Share-based Compensation

Share-based compensation represents compensation payment for which the amounts are based on the fair market value of the Company’s common stock. The Company’s Senior Management Free Cash Flow Plan is classified as a liability rather than equity under ASC 718. Liability classified share-based compensation costs are measured at fair value each reporting date until settlement. Because it is not practical for the Company to estimate the volatility of its share price needed to use the fair value approach since our stock is not currently publically traded, the Company has made a policy election that whenever share-based payment awards are required to be measured as a liability, the Company will use the intrinsic value method to measure the costs. Under the intrinsic value method, the Company obtains a valuation of our presumed stock price quarterly and re-measures the related awards using this new price, recognizing compensation costs for the difference between the existing price and new price.

Determining fair value requires significant judgment concerning the assumptions used in the valuation model, including discount rates, the amount and timing of expected future cash flows and growth rates. The cash flows employed in the discounted cash flows analysis are based on management’s most recent budget and business plans and when applicable, various growth rates have been assumed for years beyond the current business plan periods. Any forecast contains a degree of uncertainty and modifications to these cash flows could significantly increase or decrease the fair value of the presumed share price. For example, if revenue from sales of physical products continues to decline and the revenue from sales of digital products does not continue to grow as expected and we are unable to adjust costs accordingly, it could have a negative impact on future pricing. In determining which discount rate to utilize, management determines the appropriate weighted average cost of capital (“WACC”) for the Company. Management considers many factors in selecting a WACC, including the market view of risk, the appropriate capital structure and the appropriate borrowing rates for the Company. The selection of a WACC is subjective and modification to this rate could significantly increase or decrease the fair value of our presumed stock price.

New Accounting Principles

In addition to the critical accounting policies discussed above, we adopted several new accounting policies during the past three years. None of these new accounting principles had a material effect on our audited financial statements. We will adopt ASC 606, Revenue from Contracts with Customers, on October 1, 2018 which will have a material transition adjustment to accumulated deficit upon adoption. See Note 2 to our audited Consolidated Financial Statements included elsewhere herein for a complete summary of all our significant accounting policies.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As discussed in Note 12 to our audited Consolidated Financial Statements included herein, 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 September 30, 2018, other than as described below, there have been no material changes to the Company’s exposure to market risk since September 30, 2017.

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 in the local currency that offset the revenue in local currency and our Euro-denominated debt, which can offset declines in the Euro. As of September 30, 2018, the Company had no outstanding hedge contracts.

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 fiscal year end, we typically perform a sensitivity analysis assuming a hypothetical 10% depreciation of the U.S. dollar against foreign currencies from prevailing foreign currency exchange rates and assuming no change in interest rates. As we have no hedge contracts outstanding as of September 30, 2018, the fair value of the foreign exchange forward contracts would have no impact. Hypothetically, even if there was a decrease in the fair value of the forward contracts, because our foreign exchange contracts are entered into for hedging purposes, these losses would be largely offset by gains on the underlying transactions.

Interest Rate Risk

We had $2.851 billion of principal debt outstanding at September 30, 2018, of which $1.326 billion was variable-rate debt and $1.525 billion was fixed-rate debt. As such, we are exposed to changes in interest rates. At September 30, 2018, 53% of the Company’s debt was at a fixed-rate. In addition, at September 30, 2018, we have the option under all of our floating rate debt under our Senior Term Loan Facility to select a one, two, three or six month LIBOR rate. To manage interest rate risk on $320 million of U.S. dollar denominated variable-rate debt, the Company entered into interest rate swaps to effectively convert the floating interest rates to a fixed interest rate on a portion of its variable-rate debt.

Based on the level of interest rates prevailing at September 30, 2018, the fair value of the fixed-rate and variable-rate debt was approximately $2.862 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 $12 million or increase the fair value of the fixed-rate debt by approximately $15 million. This potential increase or decrease is based on the simplified assumption that the level of fixed-rate debt remains constant with an immediate across the board increase or decrease in the level of interest rates with no subsequent changes in rates for the remainder of the period.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
WARNER MUSIC GROUP CORP.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Contents

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER

FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Management designed our internal control systems in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. Our internal control over financial reporting includes 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 our assets; (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 are being made only in accordance with authorizations of management and directors 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 internal control systems include the controls themselves, monitoring and internal auditing practices and actions taken to correct deficiencies as identified and are augmented by written policies, an organizational structure providing for division of responsibilities, careful selection and training of qualified financial personnel and a program of internal audits.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework). Based on its evaluation, our management concluded that our internal control over financial reporting was effective as of September 30, 2018.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of Warner Music Group Corp.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Warner Music Group Corp. and subsidiaries (the Company) as of September 30, 2018 and 2017, the related consolidated statements of operations, comprehensive income (loss), cash flows, and (deficit) equity, for each of the years in the three year period ended September 30, 2018, and the related notes, and the related supplementary information, and financial statement schedule II as listed in the accompanying index to Item 8 (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three year period ended September 30, 2018, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2015.

New York, New York
December 20, 2018

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Warner Music Group Corp.

Consolidated Balance Sheets

	September 30, 2018	September 30, 2017
	(in millions)	
Assets		
Current assets:		
Cash and equivalents	$514	$ 647
Accounts receivable, net of allowances of $45 million and $50 million	447	404
Inventories	42	39
Royalty advances expected to be recouped within one year	123	141
Prepaid and other current assets	50	44
Total current assets	1,176	1,275
Royalty advances expected to be recouped after one year	153	172
Property, plant and equipment, net	229	213
Goodwill	1,692	1,685
Intangible assets subject to amortization, net	1,851	2,090
Intangible assets not subject to amortization	154	117
Deferred tax assets, net	11	97
Other assets	78	69
Total assets	$5,344	$ 5,718
Liabilities and Equity		
Current liabilities:		
Accounts payable	$281	$ 208
Accrued royalties	1,396	1,263
Accrued liabilities	423	365
Accrued interest	31	41
Deferred revenue	208	197
Other current liabilities	34	26
Total current liabilities	2,373	2,100
Long-term debt	2,819	2,811
Deferred tax liabilities, net	165	190
Other noncurrent liabilities	307	309
Total liabilities	$5,664	$ 5,410
Equity:		
Common stock ($0.001 par value; 10,000 shares authorized; 1,052 shares issued and outstanding)	$—	$ —
Additional paid-in capital	1,128	1,128
Accumulated deficit	(1,272)	(654)
Accumulated other comprehensive loss, net	(190)	(181)
Total Warner Music Group Corp. (deficit) equity	(334)	293
Noncontrolling interest	14	15
Total equity	(320)	308

Total liabilities and equity	$5,344	$ 5,718

See accompanying notes

Warner Music Group Corp.

Consolidated Statements of Operations

	Fiscal Year Ended September 30, 2018	Fiscal Year Ended September 30, 2017	Fiscal Year Ended September 30, 2016
	(in millions)		
Revenues	$4,005	$ 3,576	$ 3,246
Costs and expenses:			
Cost of revenue	(2,171)	(1,931)	(1,707)
Selling, general and administrative expenses (a)	(1,411)	(1,222)	(1,082)
Amortization expense	(206)	(201)	(243)
Total costs and expenses	(3,788)	(3,354)	(3,032)
Operating income	217	222	214
Loss on extinguishment of debt	(31)	(35)	(18)
Interest expense, net	(138)	(149)	(173)
Other income (expense)	394	(40)	18
Income (loss) before income taxes	442	(2)	41
Income tax (expense) benefit	(130)	151	(11)
Net income	312	149	30
Less: Income attributable to noncontrolling interest	(5)	(6)	(5)
Net income attributable to Warner Music Group Corp.	$307	$ 143	$ 25
(a) Includes depreciation expense of:	$(55)	$ (50)	$ (50)

See accompanying notes

Warner Music Group Corp.

Consolidated Statements of Comprehensive Income (Loss)

	Fiscal Year Ended September 30, 2018	Fiscal Year Ended September 30, 2017	Fiscal Year Ended September 30, 2016
	(in millions)		
Net income	$312	$ 149	$ 30
Other comprehensive (loss) income, net of tax			
Foreign currency adjustment	(13)	30	(44)
Deferred gains on derivative financial instruments	3	—	—
Minimum pension liability	1	7	(7)
Other comprehensive (loss) income, net of tax	(9)	37	(51)
Total comprehensive income (loss)	303	186	(21)
Less: Income attributable to noncontrolling interest	(5)	(6)	(5)
Comprehensive income (loss) attributable to Warner Music Group Corp.	$298	$ 180	$ (26)

See accompanying notes

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Warner Music Group Corp.

Consolidated Statements of Cash Flows

	Fiscal Year Ended September 30, 2018 (in millions)	Fiscal Year Ended September 30, 2017	Fiscal Year Ended September 30, 2016
Cash flows from operating activities			
Net income	$ 312	$ 149	$ 30
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	261	251	293
Unrealized losses and remeasurement of foreign denominated loans	(3)	24	—
Deferred income taxes	66	(192)	(26)
Loss on extinguishment of debt	31	35	18
Net (gain) loss on investments	(389)	17	(9)
Gain on sale of real estate	—	—	(24)
Non-cash interest expense	6	8	11
Equity-based compensation expense	62	70	23
Changes in operating assets and liabilities:			
Accounts receivable	(43)	(60)	17
Inventories	(3)	1	—

Royalty advances	31	17	(13)
Accounts payable and accrued liabilities	82	48	23
Royalty payables	22	136	49
Accrued interest	(10)	3	(20)
Deferred revenue	(4)	22	(35)
Other balance sheet changes	4	6	5
Net cash provided by operating activities	425	535	342
Cash flows from investing activities			
Acquisition of music publishing rights, net	(14)	(16)	(25)
Capital expenditures	(74)	(44)	(42)
Investments and acquisitions of businesses, net	(23)	(139)	(28)
Proceeds from the sale of investments	516	73	45
Proceeds from the sale of real estate	—	—	42
Net cash provided by (used in) investing activities	405	(126)	(8)
Cash flows from financing activities			
Proceeds from issuance of Acquisition Corp. 4.125% Senior Secured Notes	—	380	—
Proceeds from issuance of Acquisition Corp. 4.875% Senior Secured Notes	—	250	—
Proceeds from issuance of Acquisition Corp. 5.50% Senior Notes	325	—	—
Proceeds from issuance of Acquisition Corp.	320	22	—

Senior Term Loan Facility			
Proceeds from issuance of Acquisition Corp. 5.00% Senior Secured Notes	—	—	300
Repayment of Acquisition Corp. Senior Term Loan Facility	—	—	(309)
Repayment of Acquisition Corp. 6.00% Senior Secured Notes	—	(450)	—
Repayment of Acquisition Corp. 6.25% Senior Secured Notes	—	(173)	—
Repayment of Acquisition Corp. 5.625% Senior Secured Notes	—	(28)	—
Repayment of Holdings 13.75% Senior Notes	—	—	(150)
Repayment of Acquisition Corp. 6.75% Senior Notes	(635)	—	(24)
Call premiums paid on early redemption of debt	(23)	(27)	(10)
Deferred financing costs paid	(12)	(13)	(4)
Distribution to noncontrolling interest holder	(5)	(5)	(5)
Dividends paid	(925)	(84)	—
Repayment of capital lease obligations	—	—	(14)
Net cash used in financing activities	(955)	(128)	(216)
Effect of exchange rate changes on cash and equivalents	(8)	7	(5)
Net increase in cash and	(133)	288	113

equivalents						
Cash and equivalents at beginning of period		647		359		246
Cash and equivalents at end of period	$	514	$	647	$	359

See accompanying notes

Warner Music Group Corp.

Consolidated Statements of (Deficit) Equity

Common Stock		Additional Paid-in Capital	Accumulated	Accumulated Other Comprehensive	Total Warner Music Group Corp.	Noncontrolling	Total (Deficit)
Shares	Value						