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This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No 596/2014 ("MAR").

03 July 2020

Hipgnosis Songs Fund Limited ("Hipgnosis" or the "Company")

Final Results

The Board of Hipgnosis Songs Fund Limited and its Investment Adviser, The Family (Music) Limited, are pleased to announce the Company's final results for the year ended 31 March 2020.

Highlights

Financial

- Total NAV Return of 17.7% since 31 March 2019, and 22.7% since IPO on 11 July 2018
- Operative NAV increased by 13.0% to 116.7p per Share since 31 March 2019, and by 14.3% since 10 January 2020.
- The Portfolio has been independently valued at £757m, a net increase of 11.4% since acquisition (8.6% on a constant currency basis)
- Catalogue revenue increased to £64.7m, ahead of strong management expectations, driven by streaming revenues
- EPS, excluding the amortisation of Catalogues under IFRS, of 10.7p

Operational

- £422.9m of new equity raised and fully deployed
- Yesterday announced a new issuance targeting a further £200m through the issue of new C Shares
- Inclusion in the FTSE 250 index
- Transfer from the Specialist Fund Segment to the Premium segment of the Main Market

Portfolio

- The Portfolio is built around proven hit songs, which produce predictable and reliable income that is uncorrelated to equity markets and global economic performance
- Total Portfolio of 54 catalogues (13,291 Songs)
- Portfolio acquired on a blended acquisition multiple of 13.9x historic annual income
- Co-own 5 of Billboard Magazine's "Top 10 Songs of the Decade" (including 4 of the Top 5) and 8 of Spotify's 30 most streamed songs of all time
- 1,810 Songs that have held Number 1 positions in global charts, 7,013 Songs that have held Top 10 positions in global charts and 49 Grammy award winning Songs

- Song highlights include Amy Winehouse - 'Back To Black', Eurythmics - 'Sweet Dreams (Are Made Of This)', Justin Timberlake - 'SexyBack', Journey -'Don't Stop Believin''; Cher - 'Believe', Al Green - 'Let's Stay Together', Adele - 'Set Fire To The Rain' and Bon Jovi - 'Livin' On A Prayer'.

Merck Mercuriadis, Founder of Hipgnosis Songs Fund Limited and its Investment Adviser The Family (Music) Limited, said:

"We have spent more than two years now demonstrating the incredible power of proven songs to the investment community and establishing them as an uncorrelated asset class that can be as important as gold. We have curated a very small and enviable catalogue of 13,000 songs with a very high ratio of extraordinary success within it. Included are many of the most famous songs of all time that we add real value to through our song management. These results have made us a FTSE 250 Company and are a testament to our thesis and the tremendous support we have received from our shareholders.

We are particularly grateful to the great songwriters who have entrusted us with their incomparable songs.

We are proud of everything we have achieved in the past year, including the expansion and diversification of our portfolio to include a further 42 Catalogues which include some of the most culturally important and commercially successful Songs of all time. The capital raise announced yesterday will provide us with further opportunities to continue the growth of our portfolio with songs of significant value. As a FTSE 250 company and one of its biggest yielders we are now seeing significant retail demand and it's exciting to have PrimaryBid highlight us on their platform.

As I've said before people are always listening to music. If you are experiencing your best life it's to a soundtrack of music, equally well if you are experiencing challenges you are escaping with music. This has never been more true than against the backdrop of the pandemic where we have seen people turn to the feelgood hits and much loved songs, such as those in our catalogue, proving the uncorrelated nature of songs as an asset class and giving them great comfort."

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NOTES TO EDITORS

About Hipgnosis Songs Fund Limited

(www.hipgnosissongs.com)

Hipgnosis, which was founded by Merck Mercuriadis, is a Guernsey registered investment company established to offer investors a pure-play exposure to songs and associated musical intellectual property rights. The Company has raised a total of over £625 million (gross equity capital) through its Initial Public Offering on 11 July 2018, and subsequent issues in April 2019, August 2019 and October 2019. In September 2019, Hipgnosis transferred its entire issued share capital to the Premium listing segment of the Official List of the FCA and to the London Stock Exchange's Premium segment of the Main Market.

About The Family (Music) Limited

The Company's Investment Adviser is The Family (Music) Limited, which was founded by Merck Mercuriadis, former manager of globally successful recording artists, such as Elton John, Guns N' Roses, Morrissey, Iron Maiden and Beyoncé, and hit songwriters such as Diane Warren, Justin Tranter and The-Dream, and former CEO of The Sanctuary Group plc. The Investment Adviser has assembled an Advisory Board of highly successful music industry experts which include award winning members of the artist, songwriter, publishing, legal, financial, recorded music and music management communities, all with in-depth knowledge of music publishing. Members of The Family (Music) Limited Advisory Board include Nile Rodgers, The-Dream, Giorgio Tuinfort, Starrah, Nick Jarjour, David Stewart, Bill Leibowitz, Ian Montone, and Jason Flom.

Financial and Operational Highlights

IFRS NAV £621,479,961 (31 March 2019: £198,558,826)

IFRS NAV per share 100.91p (31 March 2019: 98.21p)

Operative NAV £718,863,294 (31 March 2019: £208,794,543)

Operative NAV per share 116.73p per Share (31 March 2019: 103.27p)

Middle market share price 103.00p (31 March 2019: 107.50p)

(Discount)/Premium to Operative NAV (11.76%) (31 March 2019: 4.10%)

Ongoing charges figure (%) 1.52% (31 March 2019: 1.70%)

Total dividends declared in respect of the period 5.00p (31 March 2019: 2.25p)

1 The definitions of the Alternative Performance Measures are presented at the end of this announcement.

2 Catalogues of Songs are classified as intangible assets and measured at amortised cost or cost less any impairment in accordance with IFRS.

3 The Directors are of the opinion that an Operative NAV provides a meaningful alternative performance measure and the values of Catalogues of Songs are based on fair values produced by an Independent Valuer.

Chairman's Statement

This is the Company's first full 12 months' fiscal year report since its launch, covering the 12 months ended 31 March 2020. I am delighted to issue a report which summarises the significant continued progress that has been made in building a Portfolio of proven Songs which are generating strong investment returns, and in raising new equity capital to fund further investments with a view to delivering increased value for our shareholders.

During the period, the Company invested a further £560 million across 42 Catalogues utilising proceeds from the £141.5 million placing in April 2019, the £51.1 million placing in August 2019, £231 million C Share issue in October 2019 and subsequent conversion to Ordinary Shares in January 2020 and from the £60 million drawn down from the £100 million revolving credit facility (subsequently upsized post year-end). Total equity raised since IPO is now over £625 million.

The Portfolio has been independently valued at £757 million, representing a net increase of 11.4% on the aggregate purchase price of £679 million (of which approximately 89% has been acquired in USD), and an increase of 8.6% excluding the impact of foreign exchange gains and losses.

In September 2019, the Company moved the listing of its shares from the Specialist Fund Segment of the London Stock Exchange, to a Premium Listing on the Main Market. This move has benefitted the Company from wider research coverage and has also made its shares accessible to a wider range of shareholders, including retail investors. I am pleased to report that towards the end of March 2020 the Company became a constituent of the FTSE 250 Index.

Investments

During the period to 31 March 2020, the Company acquired 42 Catalogues comprising 10,180 Songs for a total consideration of £560 million. The acquisitions have significantly diversified the Portfolio which now includes Songs performed by hundreds of artists across multiple genres and vintages. All of the acquisitions were sourced by our Investment Adviser, The Family (Music) Limited, who together with its Advisory Board provide access to some of the most successful artists, songwriters and producers globally.

Performance

I am pleased to report an increase in revenue to £64.7 million for the period (financial period ended 31 March 2019: £7.2 million), which was ahead of management's expectations for the period by 2%. During the period adjusted Operating Costs[3] were £10.0 million. Accordingly, the Ongoing charges ratio decreased from 1.70% to 1.52%, reflecting the increased scale of the Company. The Board believes that the Ongoing charges ratio will continue to fall, particularly once the current level of Catalogue investment stabilises and the Company reaches steady state.

Profit before tax, excluding amortisation of Catalogues of Songs under IFRS, was £51.6 million. EPS, excluding the amortisation of Catalogues, was 10.7p, representing over 2x cover on the full year dividend target4 of 5p per Ordinary Share.

The Board considers that the most relevant NAV for Shareholders is the 'Operative NAV', which reflects the fair value of the Company's Portfolio as valued by an Independent Valuer.

As at 31 March 2020, the Operative NAV per Ordinary Share was 116.7p, reflecting an increase of 13.0% since 31 March 2019 and 14.3% since the last published Operative NAV per Ordinary Share of 102.2p as at 10 January 2020, which was the post C Share conversion NAV.

Including dividends paid, at 31 March 2020 Hipgnosis has produced a Total Operative NAV Return of 17.7% since 31 March 2019, and 22.7% in less than two years since the IPO on 11 July 2018.

As at 31 March 2020 the Ordinary Share price was 103p, a 0.8% premium to the then last published Operative NAV per Ordinary Share of 102.2p as at 10 January 2020. As at 30 June 2020 the Ordinary Share price had risen to 116p, a 0.6% discount to the latest published NAV per share of 116.7p.

Dividend
In the financial year the Company paid total dividends of 5p per Ordinary Share, paid in four quarterly instalments of 1.25p each at the end of May, August and November 2019 and February 2020.

As previously reported, the Company continues to target a total dividend of 5.0p[4] per Ordinary Share for the current financial year ending 31 March 2021 and has today declared its first interim dividend for the year ending 31 March 2021 of 1.25p per Ordinary Share.

Working Capital Facility
In its first Annual Report, the Company stated that the Directors considered it a priority that the Company's level of gearing should be established at appropriate levels with sufficient flexibility to enable the Board to adapt at short notice to take advantage of changing conditions in the market for purchasing Songs.

On 29 August 2019, the Company signed a Revolving Credit Facility (RCF) of £100 million with JPMorgan Chase Bank, the facility being available for 3 years.

As at 31 March 2020, net debt (Total amount drawn down less cash in bank) was £45.9 million, with facility headroom of £39.5 million. Post year end the Company entered into an agreement to increase its RCF to £150 million (and may request a further increase of £50 million subject to certain conditions). The term of the facility was also extended to 5 years.

In addition, on 29 May 2020, the Company announced that it was seeking shareholder support to increase the Company's current borrowing limit of 20% of its Operative NAV to a maximum of 30% of its Operative NAV, given that the Company's assets and their associated income streams are well suited to supporting leverage. This approval was given by shareholders at an Extraordinary General Meeting on 11 June 2020.

The Board

Preparations for the Company's migration to a Premium Listing on the Main Market of the London Stock Exchange resulted in planned changes to the Board and its Committees throughout the year ended 31 March 2020:

Mr Burger, an existing independent Non-Executive Director, was appointed as Senior Independent Director on 9 September 2019;

Ms Coleman was appointed as an independent Non-Executive Director with effect from 27 November 2019; and

On 9 September 2019, the Board established a Nomination committee and a Remuneration committee which will be responsible for appointment and remuneration of Directors:

– Nomination Committee
  Mr Burger has been appointed as the Chair of the Nomination Committee. As the Board is comprised wholly of independent Non-Executive Directors, all members of the Board are members of the Nomination Committee.

– Remuneration Committee
  Mr Holden has been appointed as the Chair of the Remuneration Committee. As the Board is comprised wholly of independent Non-Executive Directors, all members of the Board are members of the Remuneration Committee.

Annual General Meeting

Due to the ongoing situation surrounding COVID-19 and the restrictions on public meetings, it is intended that this year's Annual General Meeting ('AGM') will be held later in the year, probably in September or October. The Company will announce details of the AGM later in the summer and will send the Notice of AGM to Shareholders at that time.

It is hoped that Shareholders will be able to attend the AGM in person should they wish to do so, although this will be subject to Government restrictions and advice in force at the time. In any event, in these exceptional circumstances, even if restrictions on public meetings have been relaxed by the time of the AGM, Shareholders are strongly encouraged to consider whether it will be appropriate for them to attend the AGM.

In the event that the situation changes and the arrangements for the AGM have to be amended after the Notice of the AGM has been issued, the Company will update Shareholders through an announcement to the London Stock Exchange and on the Company's website.

Outlook

The first half of 2020 has seen enormous shocks to the global economy as a result of the COVID-19 pandemic. The pandemic will have significant effects on lives, livelihoods, and businesses, for some time to come.

The music industry is not immune to the impact of the pandemic, with performance and live entertainment in particular having been materially disrupted during the immediate period of lockdown. However, people listen to music in good times and bad and the streaming of music has increased noticeably during the lockdown period, demonstrating the resilience and longevity of quality music and Songs. The Company benefits from investing in an asset class which can thrive when other sectors and markets are suffering and I am confident that this can continue to be the case over the coming year.

On behalf of the Board I would like to express my thanks to all of our Shareholders for their continuing support. The Company has assembled a diversified Portfolio of proven Songs, across vintage and genres, sourced by our Investment Adviser. Our pipeline of Catalogues remains very strong with a potential total investment fair value in excess of £1 billion and it is the Board's view that the investment thesis remains as solid now as at the time of our IPO. Accordingly on 2 July 2020, the Company announced a placing and retail offer to raise a target of £200 million of new equity capital. I look forward to the next exciting 12 months of activity for Hipgnosis.

Andrew Sutch Chair
3 July 2020

Investment Adviser's Report

Introduction

I started Hipgnosis to give the investment community access to extraordinarily successful hit Songs by culturally important artists and to establish Songs as an uncorrelated asset class with attractive risk-adjusted returns. All of our Songs have a proven track record and we do not speculate on new Songs regardless of the past performance of the songwriter, producer or artist. These proven hit Songs produce reliable, predictable and uncorrelated cash flows which are highly investible. Furthermore, 15 years of technological disruption in the form of piracy has left these highly investible assets available at attractive prices at a time when the rapid adoption of paid music subscription services is growing industry revenues significantly. The convenience of streaming and the access afforded by it combined with a price point of £10/$10 per month has moved music from a luxury/discretionary purchase to very much an indispensable utility alongside the electricity and gas bill. It's the centerpoint of the technology that has penetrated everyone's life and the revenues/net asset value are being impacted positively as a result. This has been demonstrated more profoundly than ever during the course of the pandemic when the comfort and escape of music has played a critical role in seeing everyone through these challenging times.

We are very excited about these results and we are particularly proud that everything we have promised our investors over the last two years has either come to fruition or been exceeded. We have bought what we consider to be amongst the finest Songs of all time against a backdrop of dramatic streaming growth and we are adding significant value by actively managing these great Songs and bringing efficiencies to collection.

A core part of our thesis is that Song revenues are uncorrelated as whether in good times or when facing challenges, music is always being consumed. While we would not have wished for a pandemic to demonstrate this it has indeed done exactly that and that has been reflected in our strong performance.

We have become a FTSE 250 company in only 20 months and as of the date of this report we are now the 58th biggest yielder on the FTSE 250 meaning there are only 57 companies paying a higher dividend (relative to share price) and at a time when many have had to cancel their dividends altogether. The lockdown due to COVID-19 has had a devastating impact on the economy. Despite music being uncorrelated there are still certain income streams that have been impacted. Live events are not possible and it may be 2021 before mass gatherings are widely permitted. Revenue from licenses issued to shops, gyms, bars and restaurants that were temporarily closed will feel adverse effect despite most of them being annual licences paid in advance. TV/Radio advertising have also been affected as the advertising market has also been negatively impacted, but it has been temporary and it is expected this will be offset with increased programming for television and streaming services where our synchronisation activity remains strong. Netflix alone have 52 new shows in production as announced on 20 June. It is important in this context to highlight that the majority of our Songs have a proven track record of extraordinary success and we do not speculate on new Songs regardless of the success of the songwriter, producer or artist.

Music streaming remains buoyant with now more than 400 million subscribers globally and there have been extensive reports throughout the pandemic that subscriptions are up across the entertainment sector as people have consumed more music and entertainment whilst in isolation. This is explored in more detail within the current market conditions below and it is expected that this will outpace the decline in other revenues streams, and this is reflected in Goldman Sachs' COVID-19 report* which projects that song related revenues will grow by 3.5% overall in 2020.

Since 31 March 2019, we have acquired a further 42 Catalogues which contain some of what we believe to be the most culturally important and commercially successful Songs of all time including Eurythmics' 'Sweet Dreams (Are Made of This)', Journey's 'Don't Stop Believin', The Chainsmokers' 'Closer', Al Green's 'Let's Stay Together', Ed Sheeran's 'Shape of You' and 'Castle On The Hill', Mark Ronson's 'Uptown Funk', Amy Winehouse's 'Back To Black', Lady Gaga and Bradley Cooper's 'Shallow', Bon Jovi's 'Livin' on a Prayer', P!nk's 'What About Us', Justin Bieber's 'Love Yourself' and Shawn Mendes' 'Stitches'.

We are delighted that we co-own five of the "Top 10 Songs of the Decade" (including 4 of the Top 5) as announced last year by Billboard Magazine. We further cemented our interest in the Top 10 through our recent acquisition of Mark Ronson's Catalogue which includes the record-breaking Number 1 hit of the decade 'Uptown Funk'.

We are pleased to note that 'Shallow' by Lady Gaga and Bradley Cooper, co-written by Mark Ronson, was in the global top 10 digital singles of 2019. Furthermore, Taylor Swift's album 'Lover', of which we own copyright interest through our Jack Antonoff acquisition, was ranked second in the IFPI global top albums of 2019 and Camila Cabello's 'My Oh My' has just been #1 on radio in the US.

Significantly we also own 8 of the 25 most streamed Songs of all time on Spotify and our interest in that chart is likely to continue to grow as we acquire other classic Songs.

I would sincerely like to thank all of our investors for their belief in helping us to establish proven Songs as arguably the strongest of new asset classes, which is not only great news for all of us, but the wider community of songwriters, artists and producers as a whole.

Market Conditions

2020 has not been the year expected with the world feeling the devastating effects of COVID-19, not only on the global economy, but also with the tragic loss of lives.

At this difficult time, people have looked to music for a sense of positivity and comfort. This is being seen most evidently with streaming where there has been a surge in listening to vintage (10+ years) Songs.

Spotify's first quarter 2020 results showed a 5% quarterly increase in paid streaming subscribers, which was at the top end of their expectations set before the onset of COVID-19. In addition, Neilson's report, 'COVID-19: Tracking the Impact on the Entertainment Landscape – Release 3', highlighted that streaming subscriptions in the first two weeks of April were higher than the previous 8 weeks as consumers looked to stay entertained through lockdown. Importantly for Hipgnosis, consumers are re-discovering 'older hits' during this time with 62% listening to 'music they used to listen to but have not heard in a while'.

There will be reductions in Public Performance and Live Income as the lockdown impacts the leisure and live entertainment industry. Whilst it is too early to quantify this impact, the Company's Portfolio of vintage Catalogues have a relatively low weighting to these sectors with Live Income representing approximately 3% and Public Performance 12% of Catalogue revenues.

In addition, whilst advertising budgets were temporarily affected and film releases were being paused, the Company has not seen a decrease in the demand for Song placements and synchronisations and it is expected there will be significant uptake for Songs due to increased productions for TV, HBO, Netflix and Hulu.

Hipgnosis' investment strategy of building a Portfolio with a core of extraordinarily successful proven hit Songs, which have a high exposure to streaming and low exposure to live music, leaves it well positioned in the COVID-19 world. Overall, we expect that the income growth from streaming will exceed any lost earnings from Public Performance and Live Income.

Feelgood hits, such as 'Sweet Dreams (Are Made Of This)' and 'Livin' On A Prayer', have performed particularly strongly during the pandemic where consumers have sought comfort in these Songs. Some selected examples of this include:

- 'Don't Stop Believin'', by Journey, which entered the Top 200 most streamed weekly Songs on Spotify UK at the start of lockdown and has steadily risen since with 362k streams per week. On Apple Music the song is doing more than 2.7 million plays per week globally!

- 'Something Just Like This', by The Chainsmokers featuring Coldplay, which re-entered the Global Top 200 chart at the beginning of April

- 'Shallow', performed by Lady Gaga and co-written by Mark Ronson, which has consistently remained within Spotify's Top 100 most streamed weekly Songs throughout the pandemic

- 'Thinking of You', by Sister Sledge and co-written by Bernard Edwards, which has experienced over 500% growth in synchronisation income since the pandemic

Portfolio

To take advantage of the structural growth drivers outlined above we identify Catalogues of culturally important proven hit Songs which offer significant value opportunities both from market growth and active management.

In order to generate the most attractive return for Shareholders, the Portfolio is mostly comprised of seasoned, classic Songs (often referred to as 'evergreen'), which are Songs older than 3 years from release. These Songs, which as 'Catalogue' make up approximately 65% of consumption on streaming, have often been badly managed or neglected yet still produce highly reliable steady state income that will grow progressively with the continued adoption of streaming and the addition of being actively managed responsibly.

In addition, with streaming growth being the backbone of the Company's investment thesis, the Investment Adviser will also invest in some newer 'hits' of extraordinary success. These newer 'hits' are at the heart of highly concentrated streaming across only 400 or so Songs that make up 35% of total consumption.

Since inception, the Company has acquired 1,810 Songs that have held Number 1 positions in global charts, 7,013 Songs that have held Top 10 positions in global charts and 49 Grammy award winning Songs. This provides not only significant diversification with a multitude of highly predictable revenue streams, but also provides significant opportunities to extract value through our active management capabilities.

The entire Portfolio includes 8 of the 25 most streamed Songs of all time on Spotify and 4 out of the top 5 of Billboard's "Hot 100 Songs of 2010s" including the Number 1 song 'Uptown Funk'.

During the year, the Company has invested a further £560 million through the acquisition of 42 Catalogues taking the total Portfolio to 54 Catalogues comprising 13,291 Songs. The Portfolio has been independently valued at £757 million representing an increase of 11.4% on the aggregate purchase price of £679 million (of which approximately 89% has been acquired in USD). This value reflects a multiple of 15.0x historic annual earnings compared to the blended acquisition multiple of 13.9x. The increase in the acquisition multiple since 30 September 2019 reflects the acquisition of some of what we consider to be the finest vintage Catalogues of all time during the period including those of Journey, Richie Sambora (Bon Jovi), Timbaland, Brendan O'Brien, Tom DeLonge (Blink 182), Brian Higgins, 10cc, Fraser T Smith, Al Jackson Jr, and Mark Ronson.

In order to derive a fair value, the Independent Valuer, in line with market practice, values music publishing rights based on a Discounted Cash Flow (DCF) valuation. Discount rates have remained constant during the period at 9% with the like for like increase in the fair value of the Catalogue driven by:

- Royalty statements exceeded both management's and the valuer's expectations by 2% thereby increasing baseline revenues in valuation models; and

- Streaming growth rates increased in the Independent Valuer's assumptions

We believe that there continues to be significant valuation upside and hidden value in the Portfolio from:

- Paid streaming consumer numbers continuing to grow, particularly into markets where it has historically been difficult to monetise recorded music (for example in China and India)

- Adoption of new music consumption methods which are not currently included in the valuations (for example TikTok, Facebook video and Peloton)

- The Investment Adviser's active management which is increasing revenues from previously under-managed Songs

- Several music valuation experts have reduced their discount rates to reflect changing consumer behaviours towards streaming music, which is becoming a utility, rather than consumers making discretionary music purchases. As proven hit Songs produce long-term cash flows (typically around
100 years [5], any decrease in discount rates would have a significant impact on the Portfolio's valuation. For example a 100 basis point decrease in the discount rate would increase the valuation of the Portfolio by 18%; likewise, a 100 basis point increase in the discount rate would decrease the valuation of the Portfolio by 15%

- A "Portfolio Effect" that comes from having curated 54 Catalogues of this quality into 1 portfolio

Our proven hit Songs are highly diversified by vintage, genre and recording artist as set out below:

Selected Globally successful original recording artists:

Our Songs are represented by some of the most successful original recording artists of all time, a selection of which are:

Eurythmics, Al Green, Diana Ross, Cher, Beyoncé, Rihanna, Adele, Justin Timberlake, Madonna, Britney Spears, Jay Z, Bruno Mars, Journey, Chic, Sister Sledge, Booker T & The MG's, Rudimental, Jess Glynne, One Direction, Mick Jagger, Tom Petty & The Heartbreakers, 10cc, Little Mix, Justin Bieber, The Chainsmokers, Sugarhill Gang, Camila Cabello, Mariah Carey, Mary J. Blige, No Doubt, Gwen Stefani, Sia, David Guetta, Shawn Mendes, Maroon 5, Stormzy, John Newman, James Morrison, Jason Aldean, Ariana Grande, Ed Sheeran, Taylor Swift, Mark Ronson, Kanye West, Pearl Jam, Bruce Springsteen, Red Hot Chilli Peppers, Harry Styles, Rick Ross, Rage Against The Machine, Panic At The Disco, TLC, Michael Jackson, Robbie Williams, Amy Winehouse, Bon Jovi, Lana Del Rey, Miley Cyrus, Dua Lipa, Diplo, A$AP Rocky, Rod Stewart, Miguel, Paul McCartney, Fun, AC/DC, Kylie Minogue, Duran Duran, Santana, Celine Dion, Timbaland and Blink 182.

Breakdown of Portfolio by genre
(based on fair value)

Genre		31 March 2019	31 March 2020
1.	Christian	0%	2%
2.	Country	0%	2%
3.	Dance [6]	18%	6%
4.	Disco	7%	1%
5.	Hip-Hop	2%	4%
6.	Latin Rock	3%	1%
7.	Pop	50%	45%
8.	R&B	15%	10%
9.	Rock [7]	5%	28%

10.	Soul	0%	1%

Breakdown of Portfolio by age
(based on fair value)

Age		31 March 2019	31 March 2020
1.	0-3 years	14%	9%
2.	3-10 years	76%	59%
3.	10+ years	10%	32%

Recent Portfolio Highlights
In February 2020, 'Shallow' by Lady Gaga and Bradley Cooper re-entered the Top 40 on iTunes, after a cover of the song became a global internet sensation.

In April 2020, Camila Cabello's 'My Oh My' rose to No. 1 on Billboard's Pop Songs radio airplay chart. The song was co-written by Savan Kotecha and was part of the Catalogue when acquired by Hipgnosis. 'My Oh My' debuted on the Pop Songs chart in January and ascended to the summit in its 19th week.

We have 4 Songs in the new Will Farrell "Eurovision" movie which is the #1 movie in the US with a Top 10 soundtrack album.

The IFPI also recently issued a report stating that 'Shallow' by Lady Gaga and Bradley Cooper was in the global top 10 digital singles of 2019, whilst Taylor Swift's album 'Lover', featuring songs by Jack Antonoff, was ranked second in the IFIP global top albums of 2019.

Financial Review
As at 31 March 2020, the IFRS NAV per Ordinary Share was 100.91p reflecting an increase of 2.7% since 31 March 2019.

As the Board have noted, in order for Shareholders to fully understand the potential of the Company's Catalogues of Songs, the Operative NAV has been used as an alternative performance measure as this includes the fair value of the Company's Catalogues as valued by the Independent Valuer.

As at 31 March 2020, the Operative NAV per Ordinary Share was 116.7p reflecting an increase of 13.0% since 31 March 2019 and 14.3% since the last published Operative NAV per Ordinary Share of 102.2p as at 10 January 2020.

Including dividends paid, at 31 March 2020 Hipgnosis has produced a Total NAV Return of 17.7% since 31 March 2019, and 22.7% in less than two years since the IPO on 11 July 2018.

This growth in the Operative NAV is primarily a result of an 8.6% increase in the fair value of the Portfolio since acquisition, excluding the impact of foreign exchange gains and losses. Discount rates have remained constant during the period at 9% with the increase in value principally due to Catalogue streaming and performance revenues exceeding expectations, which has offset any negative impact from COVID-19. There has also been a reversal of the negative FX effect recognised in the post C Share conversion Operative NAV as at 10 January 2020 as GBP:USD exchange rates have fallen back to the levels experienced at the beginning of the financial year.

Operative NAV Bridge from 1 April 2019 to
31 March 2020:

Opening Operative NAV per Ordinary Share	**103.27p**
Increase in fair value of Catalogues [8]	9.50p
Net income	5.68p
Dividends paid	-2.96p
FX impact	3.07p
Share Issue Costs*	-1.83p
Closing Operative NAV per Ordinary Share	**116.73p**

*Share issue costs include the costs of the issue of C Shares on 22 October 2019, which were borne out of the gross proceeds of the issue.

The IFRS NAV as at April 2019 was 98.92p and as at March 2020 it was 100.91p per Ordinary Share. The bridge between the Operative NAV and the IFRS NAV is disclosed within the financial statements.

Operative NAV Bridge from 11 January 2020 to
31 March 2020:

Opening Operative NAV per Ordinary Share	**102.16p**
Increase in fair value of Catalogues [8]	8.16p
Net income	2.45p
Dividends paid	-0.79p
FX impact	4.75p
Closing Operative NAV per Ordinary Share	116.73p

Closing Operative NAV per Ordinary Share	**116.73p**

In the year to 31 March 2020, Catalogue revenue increased to £64.7 million with cash receipts from royalty statements on average 2% higher than expected at the time of Catalogue acquisitions, driven by streaming revenues.

The Portfolio has been built around Catalogues positioned to benefit most as recorded music and Song publishing revenues grow dramatically through the continual uptake of paid streaming. Music is fast becoming a utility rather than luxury purchase.

Accordingly, a significant proportion of royalty income is received from streaming. Streaming accounts for 87% of digital income and approximately 39% of total Catalogue revenue, as seen below in the breakdown of the sources of Catalogue revenue during the year:

Portfolio Income by Source

Income Source At 31 March 2020		£'000	%
1.	Mechanical	5,905	9%
2.	Performance [9]	22,804	35%
3.	Digital	28,824	45%
4.	Synchronization	5,925	9%
5.	Other	1,132	2%
	Total	**64,695**	

Analysing our Catalogues from publishing royalties,
on which the most granular data is available, streaming revenues grew across all vintages of Catalogues as shown below:

Age	Cal. 2019 YOY % growth
0-3 years	+75%
3-10 years	+11%
10+ years	+80%

Streaming grew particularly strongly in the Catalogues aged over 10 years. We have acquired vintage Songs that transcend generations of listeners and therefore have a high proportion of streaming income so as to benefit from the market growth in streaming. For example, 'Don't Stop Believin'' and 'Sweet Dreams Are Made Of This' are the UK's most streamed Songs from 1981 and 1983 respectively, whilst 'Livin' On A Prayer' is not only Bon Jovi's but also 1986's most streamed song. These Songs have benefited not only from strong organic growth in streaming but also from settlement payments from Peloton and Spotify for historical streams unpaid.

The newer, 0-3 year Catalogues have also seen strong growth in streaming income from the prior year. This is largely as 2019 income from these Catalogues is heavily weighted towards some of the biggest streaming Songs of 2019 as they produced peak earnings in the year. This includes Ariana Grande's album 'thank u, next', which included 4 Songs co-written by Savan Kotecha, and pushed her to be the third biggest streaming artist of 2019 and Lana Del Rey's multiple Grammy nominated 'Norman F*cking Rockwell' co-written and produced by Jack Antonoff.

Streaming growth in the 3 to 10 year vintage Catalogues grew less than the Portfolio average as some of these Catalogues include some newer Songs which are still in decay from peak earnings.

When acquiring Catalogues, the Company makes various assumptions about the future income they will generate. These assumptions include forecast market growth, enhancement of earnings from CRB Ruling as well as collection efficiencies and any 'decay' in earnings expected where Catalogues have not yet reached steady state income.

Typically, income from a Song is expected to 'decay' for 5 years following peak earnings. In total, revenues are assumed to decay by 50-70% of their peak earnings over that 5 year period.

In order to accurately forecast future earnings from
a Catalogue, a decay matrix is utilised to identify how revenues from newer Catalogues will perform over time. The level of decay applied on each Catalogue's revenues is dependent on:

i) how many annual periods have passed since the Catalogue's "peak"; and

ii) the composition of royalty streams within the Catalogue, with mechanical physical sales shown to decay more quickly and decline ad infinitum, whereas more modern royalty sources such as streaming experience less significant decay.

In 2019, the Catalogues where we expected decay in earnings at the time of acquisition exceeded management's expectations by 3%; this was driven by better than expected performance and streaming revenues.

Accruals and Receivables
There is an inherent time lag with royalties between the time a Song is performed and the revenue being received by the Copyright owner. The time lag can be as much as 24 months on international income.

A breakdown of the Revenue Accruals and Receivables, at 31 March 2020, is set out below:

A £12.4 million receivable relates to invoices raised for 2019 H2 earnings which were reported in royalty statements received prior to the financial year end. As at the time of writing, £10.3 million of these invoices have now been paid in full, with a further £1.0 million received as banked cheques which are waiting to clear and the remainder is expected to be received within the next 30 days.

A £29 million income accrual was recognised as at 31 March 2020. In calculating the accrual, latest forecast earnings are considered and adjusted for the latest trend of earnings reported. The accrued income comprises of:

- £7 million related to Q2 to Q4 2019 earnings for Catalogues acquired less than 6 months before the year end date, where royalty reporting is still in the process of being switched over to Hipgnosis. These accruals are based on royalty statements received with invoices due to be raised on completion of the Letter of Direction being concluded.

- £12.5 million for Q1 2020 earnings where, due to the time lag in royalty reporting, statements are not expected to be received until 30 September 2020.

- £5.4 million related to Q3 to Q4 2019 PRO earnings due to be reported in Q2 2020 and Q3 2020

- A further £4.1 million income accrual relating to time-lagged international reporting on PRO earnings. International PRO reporting has a significant time lag due to the additional collection time taken for PROs to collect and distribute income from International territories. The lag in collection is due to the nature of collecting and processing royalties locally then distributing them to the domestic PRO which will in turn process and distribute these royalties to Hipgnosis. The Company's policy is to accrue
for 6 months of international PRO earnings, although the lag can typically result in earnings for 12-24 months to be due.

As of 31 May 2020, the last full reported month prior to the publication of the annual accounts, £1.7 million of royalty statements have been received which are in line with the accruals.

Right To Income
As previously highlighted, on acquisition, the Company sometimes receives a right-to-income as part of the Catalogue acquisition, which is typically dependent on the timing of the negotiations. The right-to-income, which related to a period before
1 April 2019, was £13.3 million. Whilst these revenues will not recur next year, this is expected to be partly offset by Catalogues representing a fair value of £109 million which received less than 12 months income due to the timing of the acquisition.

The Company, through its Investment Adviser, continues to actively manage Songs to increase their revenue earning capability. During the period, over 1,000 synchronisation deals were issued with highlights including: Bernard Edwards' 'Good Times', 'Le Freak' and 'We Are Family'; Journey's 'Don't

Stop Believin'; Eurythmic's 'Sweet Dreams (Are Made of This)'; Al Jackson's 'Green Onions' and 'Let's Stay Together'; Richie Sambora's 'Wanted Dead Or Alive'; Brian Higgins' 'Believe'; Tom DeLonge's 'All The Little Things'; Jack Antonoff's 'We Are Young'; The-Dream's many Songs with Beyoncé; and Sam Hollander's 'High Hopes', which was arguably the most synced song of 2019. Following the placement of a Song it is typical to see an increase in consumption of that Song through all other channels. Due to the inherent time lag with the receipt of royalties, the revenue and valuation impact of these placements will continue to feed into next year's revenues and valuations as the full value of these deals comes through in the associated cash flows.

In addition, the Investment Adviser moved seven Catalogues to the Preferred Portfolio Administrator securing a higher income flow-through to the Company.

During the period, adjusted Operating Costs were £10 million. Accordingly the Ongoing Charges decreased as a percentage of the weighted average Operative NAV, from 1.7% to 1.52%, reflecting the increased scale of the Company. The Board believes that Operating Costs as a percentage of Operative NAV will continue to fall, in particular once costs related to acquisitions decrease when the Company reaches stabilisation/steady state.

The Operative NAV Profit before Tax excluding amortisation of Catalogues, was £51.6 million. EPS, excluding the amortisation of Catalogues, was 10.7p, representing over 2x cover on our full year dividend target of 5p per Ordinary Share.

As at 31 March 2020, net debt was £45.9 million, with £60 million drawdown and facility headroom of £39.5 million. Post year end the Company entered into an agreement to increase its RCF to £150 million (and may request a further increase of £50 million subject to certain conditions).

In addition, on 29 May 2020, the Company announced that it was seeking shareholder support to increase the Company's current borrowing limit of 20% of its Operative NAV to a maximum of 30% of its Operative NAV. This was subsequently approved by a majority of voting shareholders at an EGM on 11 June 2020.

Market Outlook

Our thesis when we listed 2 years ago was as follows:

1. We had access as a result of my track record managing artists.

2. Streaming was going to grow the revenue pie exponentially.

3. The Copyright Board would vote the songwriter a greater share of the income.

4. We would add value with significant active management.

5. We would add value by bringing efficiencies and savings to collection.

6. Our strategy of recognising the songwriter would make us the preferred buyer in the community.

I am delighted to say that every aspect of our thesis has come to fruition and in most cases been exceeded.

We have demonstrated our access to what we believe to be some of the finest songs of all time by having invested total capital raised to date in a portfolio that has a fair value of close to US$1 billion as at 31 March 2020.

Paid subscribers to streaming services have gone from just over 50 million paid subscribers globally at the date of our IPO to the current 400 million today with projections of 458 million by the end of the year and 2 billion by 2030. Very few of those new subscribers are factored into the revenue data on which we buy the Catalogues.

The Copyright Board passed into law last year a 44% increase to the songwriter incrementally by the end of 2022. We have seen the 1st increment increase already and are about to see the 2nd increment shortly.

Over 1,000 synchronisation licenses have been issued in respect of the Company's Songs this year, in movies, TV commercials, TV programmes, video games and musicals. We have also had artists record new covers and interpolations including John Legend's new album which includes an interpolation of 'Let's Stay Together' and is expected to be #1 in the US this week. In addition to this our team actively works to put our songs on the most important playlists for both old and new music. We are rapidly replacing traditional publishing with Song Management to the benefit of the songs, our songwriters and our shareholders.

We are moving Catalogues at the earliest opportunity to our Preferred Portfolio Administrator bringing cost savings and increased revenues which drop immediately to the bottom line.

Our strategy has perhaps been the biggest factor in our success. I have made my reputation and success with artists, songwriters and producers and that is a distinct contrast to other buyers in the marketplace. Our articulated vision of recognising the songwriter and pressing for reform on where the songwriter sits in the economic equation is not only in complete alignment with the best interests of our shareholders but has also unequivocally made us the preferred buyer for songwriters, artists and producers who care about their legacy.

All of the above has led to the Company's stellar NAV and financial performance for the year ended 31 March 2020.

When compared with the 3 major song companies we have achieved between 7% and 12.5% of their revenue on between 0.5% and 0.9% of their number of Songs. Our small Catalogue of 13,291 Songs, albeit with an extraordinarily high ratio of success within it, is earning £4,868 per song vs something less than £150 per song for our competitors.

With over £1 billion of acquisitions in the pipeline covering some of the most important Songs and artists of all time, much of it in exclusivity already, we have just launched a placing targeting £200 million to help capture this pipeline and deliver further returns for our shareholders. With all of this in mind we are very much looking forward to the year ahead where we will work extremely hard to offset any adverse effects of the COVID-19 pandemic and deliver added value to our shareholders.

It remains only for me to thank our incredible shareholders for their support and the Songwriter, Artist and Producer community for entrusting us with their incomparable work that is the energy that makes the world go around whether times are good or bad, happy or sad.

Thank you all for joining us in our mission: To champion the power of Songs and songwriters of the greatest cultural importance.

Merck Mercuriadis
Founder of Hipgnosis Songs Fund Limited and Founder/CEO
of The Family (Music) Limited (Investment Adviser to Hipgnosis Songs Fund Limited)

3 July 2020

Footnotes

1 A number of Alternative Performance Measures are used within the Annual Report and can be found on page 115 (the APM page)

2 Catalogues of Songs are classified as intangible assets and measured at amortised cost or cost less any impairment in accordance with IFRS.

3 The Directors are of the opinion that an Operative NAV provides a meaningful alternative performance measure and the values of Catalogues of Songs are based on fair values produced by an Independent Valuer.

4 This is a target only and there can be no assurance that the target can or will be met and should not be taken as an indication of the Company's expected or actual future results. Accordingly, potential investors should not place any reliance on this target in deciding whether or not to invest in the Company or assume that the company will make any distributions at all and should decide for themselves whether or not the target dividend yield is reasonable or achievable.

5 Assumption based on the income streams protection by copyright law. For example in the UK, copyright in written, dramatic and musical work endures for 70 years after the death of the last co-songwriter, and copyright in a sound and music recording endures for 70 years from first production.

6 Relatively high compared to other genres given it includes the Chainsmokers who are an electronic dance music act.

7 The increase from prior year is driven by investments in Journey, Richie Sambora and Brendan O'Brien.

8 Including any right to income on acquisition of Catalogues.

9 Includes royalties collected from Shops, Bars and Restaurants, TV and Radio Performance and Live Concerts.

Principal Risks and Uncertainties

1. Due Diligence risk

Probability: Medium; Impact High

Description

The due diligence process that the Investment Adviser undertakes in evaluating Catalogues for the Company may not reveal all facts that may be relevant in connection with such investment opportunities and any mismanagement, fraud or accounting irregularities on the part of any seller of Catalogues, or their advisers, may materially affect the integrity of the Investment Adviser's due diligence on investment opportunities

Mitigation

When conducting due diligence and making an assessment regarding an investment, the Investment Adviser and the Company's legal and financial advisers are required to rely on resources available to them, including internal sources of information as well as information provided by existing and potential sellers of Songs. The due diligence process may at times be required to rely on limited or incomplete information.

The Investment Adviser will select investment opportunities to be tabled to the Directors for their consideration in part on the basis of information and data relating to potential investments that has been made directly available to the Investment Adviser by the sellers. Although the Investment Adviser will verify and evaluate all such information and data, and seek independent corroboration when it considers it appropriate and reasonably available, the Investment Adviser may not be in a position to confirm the completeness and accuracy of such information and data. Further, investment analysis and decisions by the Investment Adviser may be undertaken on an expedited basis in order to make it possible for the Company to take advantage of short-lived investment opportunities. Where there is lack of time or information the Investment Adviser is dependent upon the integrity of the management of the sellers as regards such information and of such third parties.

The value of the investments made by the Company may be affected by adverse reputation accruing to performers of a song or Songs, fraud, misrepresentation or omission on the part of the sellers of the Songs, by parties related to the sellers or by other parties. Such fraud, misrepresentation or omission may increase the likelihood of an intellectual property rights dispute relating to such Songs or may adversely affect the valuation of the Songs in question or may adversely affect the Company's ability to enforce its contractual rights in relation to the investment.

The Company conducts a thorough review of all due diligence conducted on potential Catalogue purchases. However, due to a number of factors, the Company cannot guarantee that the due diligence investigation carried out by the Investment Adviser and the Company's legal and financial advisers with respect to any investment opportunity will reveal or highlight all relevant facts that may be necessary or helpful to the Directors in evaluating such investment opportunity, which may therefore lead the Directors to decide to acquire Songs which subsequently fail to perform in line with expectations and may have a material adverse effect on the Company's financial situation.

2. Key person risk
Probability: Low; Impact High

Description
The ability of the Company to achieve its investment objective depends on the services and reputation of the Investment Adviser and in particular on the experience of Merck Mercuriadis as the chief executive of the Investment Adviser. As a result, the success of the Company will depend largely upon the continuing availability of Merck Mercuriadis and the ability of the Investment Adviser's team to meet the strains of a rapidly growing portfolio of Catalogues. The death, incapacity or loss of service of Merck Mercuriadis at the Investment Adviser could have a material adverse impact on the business of the Company and the investments made.

Mitigation
The Company has an agreement with the Investment Adviser which sets out the basis on which the Investment Adviser provides services to us. In order to meet the continuing rapid growth of the portfolio of catalogues the Investment Adviser is continually growing its internal and external resource. The Investment Adviser is also supported by the Advisory Board members (named on pages 32 to 33 of this report), who bring their considerable industry experience to bear in support of the Company's investment objectives. Furthermore the third party Administrators to the Company's Catalogues (e.g. Kobalt), each have an important role to play in pursuing efficiencies in the collection of payments and active management of the Songs that the Company owns. The Investment Adviser's longstanding relationships with those third party Administrators bring with them further music management experience that adds support for Merck Mercuriadis and his team in the performance of their services to the Company.

3. Adverse change in distribution policies and royalty rates set by Performing Rights Organisations (PROs)
Probability: Low/Medium; Impact High

Description
PROs represent the rights and interests of publishers and songwriters. They collect royalties, create collection policies and set royalty rates for the use of music copyrights. There are over 120 PROs around the world and most of them have agreements and frameworks in place with each other. Should PROs alter the way that they collect royalties, or set lower royalty rates, the Company may

receive significantly reduced revenues compared to the level it had forecast at the time of acquiring the relevant Catalogues or Songs. The threat to revenue as a result of the COVID-19 pandemic is ongoing and the Company is particularly conscious of the pressures that may be brought to bear on the PROs to collect and account in a timely manner.

Mitigation
The Investment Adviser actively monitors the market and will provide the Company with any data or intelligence of which it becomes aware, including that relating to the COVID-19 pandemic. Updates to the financial model will be made to reflect any such regulatory or industry changes. In the current opinion of the Company any royalty payment delay resulting from the COVID-19 pandemic is likely to be temporary over one or two semi-annual accounting periods but it continues to assess the situation at every opportunity.

4 Risks associated with the lack of commercial success of individual Songs
Probability: Medium; Impact Medium

Description
The commercial success of a Song is dependent upon the public's response to it, which may not always be predictable, the existence and success of competing entertainment offerings and general economic circumstances. Consequently, a Song may not prove to be as popular, or as commercially successful, as had been forecast at the time of acquisition.

Mitigation
Whilst the Company intends primarily to acquire Catalogues containing evergreen Songs from established recording artists and will carry out substantial due diligence on each Catalogue (including on the historic revenues of each Song), there can be no guarantee that the historic performance of a Song will continue in the future.

5. Exchange rate risks
Probability: Medium; Impact High

Description
The Company has issued share capital denominated in Pounds Sterling and aims to pay regular dividends in that currency. However, much of the Group's revenue is received in other currencies, particularly US Dollars, and exchange rate fluctuations may significantly affect the NAV and the ability to pay the targeted dividends.

Mitigation
In order to mitigate this risk, the Company considers on a regular basis the benefits and cost of hedging this exposure. To date the Company has considered that currency risk hedging is not advisable, given the associated costs, investor sentiment and a potential distraction from the core focus of acquiring catalogues.

6. Risks associated with streaming
Probability: Medium; Impact High

Description
The Company is heavily reliant on streaming, or an equivalent technology which generates high volumes and rates of royalty revenues for songwriters, continuing to be popular with consumers. Historically the music industry has been shown to be especially innovative, with new technology causing changes in consumer demand and experience. Whilst it is possible that new technology may reduce non-synchronisation related royalty revenues, it is also possible that technological advances

would lead to a growth in royalties as consumers' access to music continues to improve. Furthermore, the streaming business model is yet to be proven in the long term and the streaming market is vulnerable to online domination by one DSP. Additionally, a limited number of online streaming and online music stores have achieved a large market share, giving them market power to alter the prices or selection of music offered to consumers and therefore the royalty revenue received by the Group. Any further market concentration could increase this risk.

Mitigation
The Company will be heavily reliant on the continuing presence and popularity of DSPs in order to maximise access to the consumer market. The Company is continuously reviewing this risk and most recently took note from the Goldman Sachs report (published 14 May 2020) that they have increased their global streaming subscriptions estimates by 6% to US$1.22 billion by 2030 on the back of faster-than-expected streaming adoption and a proliferation of new streaming services.

7. Operational reliance on service providers
Probability: Low; Impact Medium

Description
The Company does not have any employees of its own and relies on service providers for its routine operations. In particular, although the ultimate responsibility for the investment strategy lies with the Company, the Investment Adviser is responsible for sourcing potential opportunities and advising the Company on acquisitions, active management and disposals of Catalogues. The performance of the Group is dependent on the diligence, skill and judgment of the personnel of the Investment Adviser, and in particular on the key executive, Merck Mercuriadis.

The Company also depends heavily on the specialist administrative services of the Investment Adviser, the Preferred Portfolio Administrator and other collection agents. In the event that these service providers experience business disruption or cyber security breaches, the ability of the Group to collect revenues due may be limited.

Mitigation
The Company continually reviews the performance of its service providers and will raise any concerns regarding performance or efficiency should the need arise.

8. Cyber Risk
Probability: Low; Impact Medium

Description
The Company (as with all companies) continues to be exposed to external cyber-security threats which have the possible impact of sensitive information leakage and cyber fraud.

Mitigation
The Company recognises the increased incidence of cyber-security threats and has recently reviewed its policies, procedures and defences to mitigate associated risks, as well as those of the Investment Adviser, Administrator and key service providers; engaging market-leading specialists where appropriate.

9. Risks associated with withholding taxes
Probability: Low; Impact High

Description

Withholding tax is a complex issue that requires analysis of domestic legislation, double tax treaties and the submission of forms and documents to relevant payers and tax authorities.

Mitigation
Due to the inherent complexities there is a risk that not all withholding tax has been accounted correctly. The Company, therefore, continues to consult with tax specialists on a regular basis to consult and review its tax structuring arrangements.

Emerging Risks
Emerging risks are regularly considered to assess any potential impact on the Group and to determine whether any actions are required. Emerging risks include those related to regulatory/legislative change and macroeconomic and political change.

The threat to revenue as a result of the pandemic is ongoing and the Company is particularly conscious of the pressures that may be brought to bear on music publishers and PROs to collect and account in a timely manner. As time passes there is the additional danger that the worldwide rise in unemployment will result in a reduction of streaming subscriptions. As we emerge from the global pandemic the Investment Adviser will be closely monitoring the situation and will continue to meet with the Board regularly to assess these risks.

The risk surrounding Brexit, with the transition phase scheduled to end at the end of this year, remains a focus for the Company. Having considered the implications that could possibly arise, such as a restriction on the flow of royalties or the introduction of a withholding tax on royalties between the UK and the countries of the EU, and having taken advice on this matter, the Company presently believes that Brexit will have no material impact on the business.

Both the political risk surrounding the US Presidential election and extended COVID-19 issues could add additional volatility to the USD:GBP FX rate. With 89% of the portfolio fair value and 84% of revenues denominated in USD, an adverse movement of the exchange rate could have a serious effect on the Company's performance and the portfolio valuations.

In summary, the above risks are mitigated and managed by the Company through continual review, policy setting and updating of the Company's risk matrix at each quarterly meeting to ensure that procedures are in place with the intention of minimising the impact of the above-mentioned risks. The Company relies on periodic reports provided by the Investment Adviser and Administrator regarding risks that the Group faces. When required, experts including tax advisers and legal advisers will be employed to gather information and to provide advice.

Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual Report and Consolidated Financial Statements in accordance with applicable law and regulations.

The Companies Law requires the Directors to prepare the Annual Report and Consolidated Financial Statements for each financial year. Under the Companies Law, the Directors must not approve the Consolidated Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these Consolidated Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;

- make judgements and estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the Consolidated Financial Statements; and
- prepare the Consolidated Financial Statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the Annual Report and Consolidated Financial Statements. The Directors have considered the immediate and potential impacts of COVID-19 on the Company as reflected in the Viability Statement on page ● .

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Consolidated Financial Statements comply with the Companies Law. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud, error and non-compliance with law and regulations.

The Directors are responsible for ensuring that the Annual Report and Consolidated Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

The Directors are also responsible under the AIC Code to promote the success of the Group for the benefit of its members as a whole and in doing so have regard for the needs of wider society and other stakeholders.

As part of the preparation of the Annual Report and Consolidated Financial Statements the Directors have received reports and information from the Company's Administrator and Investment Adviser. The Directors have considered, reviewed and commented upon the Annual Report and Financial Statements throughout the drafting process in order to satisfy themselves in respect of the content.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the website (www.hipgnosissongs.com).

Legislation in Guernsey governing the preparation and dissemination of the Consolidated Financial Statements may differ from legislation in other jurisdictions.

Responsibility Statement of the Directors in Respect of the Annual Report under the Disclosure and Transparency Rules

Each of the Directors confirms to the best of their knowledge and belief that:

- the Consolidated Financial Statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Annual Report includes a fair review of the development and performance of the business and the position of the Company and its subsidiaries, together with a description of the principal risks and uncertainties faced; and
- the Annual Report and Consolidated Financial Statements include information required by the FCA and ensuring that the Company complies with the provisions of the Listing Rules, Disclosure Guidelines and Transparency Rules of the FCA. With regard to corporate governance, the Company is required to disclose how it has applied the principles and complied with the provisions of the Corporate Governance Code applicable to the Company with which it has voluntarily agreed to comply. In addition, there is no information that is required to be disclosed under Listing Rules 9.8.4.

Responsibility Statement of the Directors in Respect of the Annual Report under the AIC Code of Corporate Governance 2019

The Directors are responsible for preparing the Annual Report and Consolidated Financial Statements in accordance with applicable law and regulations. Having taken advice from the Audit and Risk Management Committee, the Directors consider the Annual Report and Consolidated Financial Statements, taken as a whole, are fair, balanced and understandable and that they provide the information necessary for Shareholders to assess the Group's performance, business model and strategy.

By order of the Board

Andrew Sutch
Chair
3 July 2020
Hipgnosis Songs Fund Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HIPGNOSIS SONGS FUND LIMITED

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Hipgnosis Songs Fund Limited (the "Company") and its subsidiaries (together "the Group") as at 31 March 2020, and of their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 March 2020;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements of the Group, as required by the Crown Dependencies' Audit Rules and Guidance. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

Materiality

- Overall Group materiality was £6.4 million which represents 1% of the Group's Adjusted Net Asset Value.
- The Group's Adjusted Net Asset Value is calculated as £641 million, being the Net Asset Value of the Group calculated in accordance with International Financial Reporting Standards, adjusted for by adding back the cumulative amortisation of intangible assets and deducting any cumulative impairment of intangible assets.

Audit scope

- The Company is incorporated in Guernsey and has underlying subsidiaries incorporated in the United Kingdom ("UK"). The consolidated financial statements are a consolidation of the Company and all of the underlying subsidiaries.
- We conducted our audit of the consolidated financial statements based on information provided by Estera International Fund Managers (Guernsey) Limited who on 6 April 2020 changed their name to Ocorian Administration (Guernsey) Limited (the 'Administrator') and The Family (Music) Limited (the 'Investment Adviser'), to whom the board of directors has delegated the provision of certain functions.
- We conducted our audit work in Guernsey and we tailored the scope of our audit taking into account the types of investments within the Group, the involvement of the third

parties referred to above, and the industry in which the Group operates.

- We performed an audit of the complete financial information of the Guernsey and UK components of the Group.
- The components of the Group where we performed full scope audit procedures accounted for 100% of the net assets and total comprehensive income.

Key audit matters

- Risk of fraud and error in revenue recognition
- Impairment and fair value disclosure of intangible assets
- Management's consideration of the impact of COVID-19

Audit scope

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Scoping was performed at the Group level, irrespective of whether the underlying transactions took place within the Company or within the subsidiaries. The Group audit was led, directed and controlled by PricewaterhouseCoopers CI LLP and all audit work for material items within the consolidated financial statements was performed in Guernsey by PricewaterhouseCoopers CI LLP.

The transactions relating to the Company and the subsidiaries are maintained by the Administrator and therefore we were not required to engage with component auditors from another PwC global network firm operating under our instruction. Our testing was therefore performed on a consolidated basis using thresholds which are determined with reference to the overall Group materiality and the risks of material misstatement identified.

As noted in the Audit scope section above, the components of the Group for which we performed full scope audit procedures accounted for 100% of the net assets and total comprehensive income.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Group materiality	£6.4 million (period ended 31 March 2019: £2 million)
How we determined it	1% of Adjusted Net Asset Value
Rationale for the materiality benchmark	We believe that the Adjusted Net Asset Value represents the most appropriate materiality benchmark given the nature and activities of the Group, and that this is a key consideration for investors when assessing the financial performance. The Group's Adjusted Net Asset Value is calculated as £641 million (period ended 31 March 2019: £200 million), being the Net Asset Value of the Group calculated in accordance with International Financial Reporting Standards, adjusted for by adding back the cumulative amortisation of intangible assets and deducting any cumulative impairment of intangible assets.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £320,000, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	***How our audit addressed the Key audit matter***
Risk of fraud and error in revenue recognition Please refer to Notes 3 and 12 to the consolidated financial statements. The Group earns revenue from the catalogues of songs in which it owns interests. Such revenue takes the form of royalties, licence fees and/or other payments including mechanical royalties, performance royalties, and synchronisation fees. Revenue is collected by the portfolio administrators/ royalty collection agents, reported on a quarterly or semi-annual basis and paid based on predetermined revenue payment dates thereafter. These contractual revenue arrangements entered into by the Group with the portfolio administrators/royalty collection agents may be complex in nature and there is therefore a risk of error, in that revenue may be incorrectly recognised in the accounting records of the Group, or subject to manipulation. In addition, because of the contractual reporting and revenue payment dates with the various portfolio administrators/royalty collection agents, the directors make an estimate of the revenue accrued to the Group at the period end, but for which revenue reports from the portfolio administrators/royalty collection agents may be unavailable at the time of reporting. The directors seek the input of the Investment Adviser in making these estimates and accrual, which involves significant judgement (see Note 3). The period end accrual is based on the catalogues of	We met with the directors and Investment Adviser and understood and evaluated the Group's processes, internal controls and revenue recognition policies as a result of the various music royalty, licence fee and other payments earned from the catalogues of songs owned by the Group. We also assessed the Group's revenue recognition accounting policies for compliance with International Financial Reporting Standards, and in particular IFRS 15 – Revenue from Contracts with Customers. We performed the following procedures: • We reviewed the contractual basis for recognising revenue from each catalogue of songs by reading and understanding each catalogue agreement and the contracts in place with each portfolio administrator/royalty collection agent; • We selected a sample of portfolio administrator/ royalty collection agent statements, which we obtained through download from the respective portfolio administrator/royalty collection agent websites, and reconciled these to the revenue recognised by the Group for each of these respective catalogues of songs. In addition, we traced these amounts to the subsequent cash receipts (where applicable);

songs' historic performance for previous periods, adjusted for the Investment Adviser's and directors' assessment of the expected performance of the various catalogues of songs, based on the latest available music consumption information.

Revenue is also one of the key performance indicators for the Group and changes to the contractual arrangements with the portfolio administrators/royalty collection agents, which may report on a basis that is not coterminous with the period end, and the associated accrual determined by the directors, can have a significant impact on the recognition of revenue by the Group. As a result, there is a heightened risk of material misstatement and hence this is considered a significant risk for audit purposes.

- We identified, evaluated and verified journal entries that impacted revenue; and
- In line with International Standards on Auditing, we incorporated an element of unpredictability in our testing approach which involved independently observing the download of a sample of royalty statements from the relevant online portals for each portfolio administrator, and obtaining direct confirmations from the portfolio administrators of a sample of royalty statements to confirm their authenticity.

We also performed the following procedures in assessing the period end revenue accrual determined by the directors with the input of the Investment Adviser:

- We evaluated the methodology applied by the Investment Adviser in developing the period end revenue accrual recommended to the directors;
- We evaluated the underlying information used by the Investment Adviser in the revenue accrual model by comparing this to the revenue information already audited (as discussed above);
- We evaluated the reasonableness of the revenue accrual assumptions made by the directors and Investment Adviser against supporting information, such as the fair value models provided by the Independent Valuer; and
- We reconciled the details of a sample of the royalty statements previously received by the Group to the amounts included as a basis for the revenue accrual model and checked the arithmetic accuracy of the revenue accrual calculation.

We did not identify any material issues from our procedures.

Impairment and fair value disclosure of intangible assets

Please refer to Notes 3 and 5 to the consolidated financial statements.

The primary activity of the Group is to acquire and hold catalogues of songs and earn the music royalty, licence fees and other revenue associated with its ownership.

The Group's portfolio of songs are classified as intangible assets under IAS 38. The various catalogues of songs are held at cost and amortised over their useful life (which is determined at acquisition of each of the catalogue of songs) less impairment. The catalogues of songs are subject to an impairment assessment at the earlier of the end of each accounting period and when an indicator of impairment is identified. The determination of the useful life of each catalogue requires the application of significant judgement by the directors (see Note 3).

The directors have chosen to voluntarily disclose the fair value of the catalogues of songs (see Note 5). The directors also present an 'Operative Net Asset Value', which takes into account the catalogue of songs at this fair value rather than at the IFRS amortised cost value, as included in the

With regard to the catalogues of songs recognised as intangible assets and carried at amortised cost, we evaluated management's processes and assumptions used to initially recognise and measure the catalogues of songs at amortised cost and used to assess the need for impairment (if any) of the respective catalogues of songs. We performed the following procedures:

- We obtained and read the purchase agreements for each catalogue of songs held by the Group to ensure they have been accounted for correctly, and agreed to the cash payments made;
- We also discussed with management any deferred compensation terms within the purchase contracts and assessed whether these have been appropriately recognised and/or disclosed within the consolidated financial statements;
- We discussed the useful life of each catalogue with the Investment Adviser and considered these in light of industry benchmarks;
- We recalculated the carrying value in accordance with the useful life determined by the directors and

consolidated financial statements and reflected in the IFRS Net Asset Value.

The directors have, in consultation with the Investment Adviser, engaged the Independent Valuer to assess the fair value of each catalogue. In general, the fair value of each catalogue is determined using a discounted cash flow model and incorporates assumptions that are subject to significant judgement by the Independent Valuer, Investment Adviser and directors. These estimates and assumptions include future catalogue revenue and cash flow projections; aggregate catalogue maturity; music industry growth rates by revenue type (e.g. physical sales, downloads, streaming etc.); and the determination of an appropriate discount rate. The fair value of the catalogues of songs as disclosed in Note 5 reflects the fair value as calculated by the Independent Valuer, recommended by the Investment Adviser and adopted by the board of directors.

The directors have also used the fair value determined by the Independent Valuer as an initial point of consideration in their impairment assessment of the catalogues of songs held at amortised cost, based on a comparison of the fair value of each catalogue to the carrying value calculated under International Financial Reporting Standards.

As the catalogues of songs are significant to the Net Asset Value of the Group and because of the level of judgement applied in determining the useful life, the need for impairment and in determining the fair value of each catalogue, there is a heightened risk of misstatement. As a result, both the carrying value at which the catalogues of songs are measured in the consolidated financial statements and the fair value as disclosed in the notes to the consolidated financial statements (and used in determining the Operative Net Asset Value by the directors) are considered significant risks from an audit perspective.

the purchase agreements for each catalogue of songs; and

- We obtained, discussed and challenged the directors and Investment Adviser on their impairment assessment undertaken with respect to each catalogue of songs (which included the assessment of the fair value of the catalogues of songs discussed below).

Based on our work performed, we did not identify any material differences.

With regard to the fair value of the catalogues of songs disclosed in Note 5 to the consolidated financial statements, and used in determining the Operative Net Asset Value of the Group by the directors and as an initial basis of the impairment review undertaken by the directors, we performed the following procedures:

- We discussed with the directors and Investment Adviser the process of appointment of the Independent Valuer;
- We contacted the Independent Valuer directly and obtained their valuation model for each catalogue of songs;
- We held discussions with the Independent Valuer, confirmed their independence and evaluated their experience and objectivity;
- We gained an understanding of the assumptions the Independent Valuer adopted to determine the projected growth rates for each revenue stream and catalogue, and in determining the discount rate applied to the projected revenue/cash flow streams;
- We challenged the Independent Valuer on the impact of COVID-19 on the valuations of the catalogues of songs, and in particular considered the appropriateness of the assumptions made by the Independent Valuer on future cash flows by revenue type for each catalogue;
- We agreed the forecasted revenue assumptions used by the Independent Valuer in their model to the revenue recognised by the Group with respect to each catalogue and the latest revenue reports from the portfolio administrators/royalty collection agents. We assessed the rationale for any adjustments made thereto against supportable data;
- We compared the discount rate used to available independent industry benchmarks;
- We recalculated the arithmetic accuracy of the valuation for each catalogue of songs; and
- We performed a benchmark analysis of the valuation by obtaining independent music industry market growth data by revenue stream, applying this to the baseline revenue/cash flow projections, discounting at the assessed discount rate and comparing

this to the Independent Valuer's determination of fair value.

Based on our work performed, we did not identify any material differences.

Management's consideration of the impact of COVID-19 Management and the directors have considered the impact of the events that have been caused by the pandemic, COVID-19, on the current and future operations of the Group (Note 21). In doing so, management have made estimates and judgements that are critical to the outcomes of these considerations with particular focus on the Group's ability to continue as a going concern for a period of at least 12 months from the date of the consolidated financial statements. As a result of the impact of COVID-19 on the wider financial markets we have determined management's consideration of the impact of COVID-19 (including their associated estimates and judgements) to be a key audit matter.	In assessing management's consideration of the impact of COVID-19, we have undertaken the following audit procedures: • We obtained management's most recent financial results forecasts and liquidity analysis underlying their going concern assessment and verified the integrity of the forecasts; • We inspected management's most recent forecasts and assessed the underlying calculations and assumed duration of the disruption having considered information from recent industry sources; • We challenged management on the key assumptions included in the scenarios and we subjected management's most recent forecasts to additional stress testing to confirm that both management and the directors have considered a balanced range of outcomes in their assessment of the impact of COVID-19 on the Group; • We also considered the likelihood and effect of potential mitigating actions available to management which had not been reflected in their assessment; • We discussed the most recent forecasts with the Investment Adviser to understand management's and the directors' views on going concern and the impact of COVID-19 on the Group; and • We considered the appropriateness of the disclosures made by management and the directors in respect to the impact of COVID-19 on the current and future operations of the Group, which include the operational resilience of the Group's major service providers. Based on our procedures and the information available at the time of the directors' approval of the consolidated financial statements we have not identified any matters to report with respect to both management and the directors' consideration of the impact of COVID-19 on the current and future operations of the Group, albeit acknowledging that the situation continues to evolve.

Other information

The directors are responsible for the other information. The other information comprises all the information included in the Annual Report 2020 (the "Annual Report") but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards, the requirements of Guernsey law and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern over a period of at least twelve months from the date of approval of the consolidated financial statements. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Use of this report

This independent auditor's report, including the opinions, has been prepared for and only for the members as a body in accordance with Section 262 of The Companies (Guernsey) Law, 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Report on other legal and regulatory requirements

Company Law exception reporting

Under The Companies (Guernsey) Law, 2008 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit;
- proper accounting records have not been kept; or
- the consolidated financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Listing Rules of the Financial Conduct Authority (FCA)

The Company has reported compliance against the 2019 AIC Code of Corporate Governance (the "Code") which has been endorsed by the UK Financial Reporting Council as being consistent with the UK Corporate Governance Code for the purposes of meeting the Company's obligations, as an investment company, under the Listing Rules of the FCA.

We have nothing material to add or draw attention to in respect of the following matters which we have reviewed based on the requirements of the Listing Rules of the FCA:

- The directors' confirmation that they have carried out a robust assessment of the principal and emerging risks facing the Group, including a description of the principal risks, what procedures are in place to identify emerging risks, and an explanation of how those risks are being managed or mitigated.
- The directors' explanation as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal and emerging risks facing the Group and the directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge and understanding of the Group and its environment obtained in the course of the audit.

Additionally, we have nothing to report in respect of our responsibility to report when:

- The directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.
- The statement given by the directors that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group obtained in the course of performing our audit.
- The section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

- The directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Roland Mills

For and on behalf of PricewaterhouseCoopers CI LLP

Chartered Accountants and Recognised Auditor

Guernsey, Channel Islands

3 July 2020

Hipgnosis Songs Fund Limited
Consolidated Statement of Comprehensive Income
For the year ended 31 March 2020

	Notes	**1 April 2019 to 31 March 2020 £**	8 June 2018 to 31 March 2019 £
Income			
Total revenue	12	64,694,500	7,218,852
Interest income		986,807	682,491
Total income		65,681,307	7,901,343
Expenses			
Advisory fees	18	(4,597,567)	(1,579,190)
Performance fee	18	-	(429,054)
Amortisation of Catalogues of Songs	5	(18,463,798)	(1,491,922)
Amortisation of capitalised borrowing costs	9	(463,490)	-
Administration fees	18	(816,997)	(155,954)
Directors' remuneration	17	(260,420)	(121,936)
Broker fees		(103,739)	(44,550)
Royalty costs		(103,856)	-
Audit fees	20	(287,265)	(110,000)
Legal and professional fees		(1,960,582)	(813,714)
Loan Interest	9	(374,675)	-
Other operating expenses	13	(1,526,610)	(267,821)
Foreign exchange (losses)/gains	14	(4,053,809)	104,773
Total expenses		(33,012,808)	(4,909,368)
Operating profit for the year/period before taxation		**32,668,499**	2,991,975
Taxation	4	(7,474,588)	(632,521)
Profit for the year/period after tax		**25,193,911**	2,359,454
Total comprehensive income for the year/period		**25,193,911**	2,359,454
Basic Earnings per Share (pence)	19	6.14	1.17
Diluted Earnings per Share (pence)	19	6.14	1.17

All activities derive from continuing operations.

The accompanying notes form an integral part of these Consolidated Financial Statements.

Hipgnosis Songs Fund Limited
Consolidated Statement of Financial Position
As at 31 March 2020

	Notes	31 March 2020 £	31 March 2019 £
Assets			
Catalogues of Songs	5	659,435,205	118,458,818
Trade and other receivables	7	42,440,593	10,808,398
Cash and cash equivalents	6	14,098,374	108,483,752
Total assets		715,974,172	237,750,968
Liabilities			
Bank loan	9	56,082,763	-
Other payables and accrued expenses	8	38,411,448	39,192,142
Total liabilities		94,494,211	39,192,142
Net assets		621,479,961	198,558,826
Equity			
Share capital	10	614,208,042	198,221,140
Retained earnings		7,271,919	337,686
Total equity attributable to the owners of the Company		621,479,961	198,558,826
Number of Ordinary Shares in issue at year/period end		615,851,887	202,176,800
IFRS Net Asset Value per ordinary share (pence)	11	100.91	98.21
Operative Net Asset Value per ordinary share (pence)	11	116.73	103.27

Approved and authorised for issue by the Board of Directors on 3 July 2020 and signed on their behalf by:

Andrew Sutch
Chair

Andrew Wilkinson
Director

The accompanying notes form an integral part of these Consolidated Financial Statements.

Hipgnosis Songs Fund Limited
Consolidated Statement of Changes in Equity
For the year ended 31 March 2020

	Note	Number of Ordinary Shares	Share capital £	Retained earnings £	Total equity £
As at 1 April 2019		**202,176,800**	**198,221,140**	**337,686**	**198,558,826**
Shares issued	10	187,387,487	192,844,052	-	192,844,052
C Share Conversion		226,287,600	231,000,000		231,000,000
Share issue costs	10	-	(7,857,150)	-	(7,857,150)
Dividends paid	15	-	-	(18,259,678)	(18,259,678)
Profit for the year		-	-	25,193,911	25,193,911
As at 31 March 2020		**615,851,887**	**614,208,042**	**7,271,919**	**621,479,961**

For the period from incorporation on 8 June 2018 to 31 March 2019

	Note	Number of shares	Share capital £	Retained earnings £	Total equity £
As at 8 June 2018		**-**	**-**	**-**	**-**
Shares issued	10	202,176,800	202,176,800	-	202,176,800
Share issue costs	10	-	(3,955,660)	-	(3,955,660)
Dividends paid	15	-	-	(2,021,768)	(2,021,768)
Profit for the period		-	-	2,359,454	2,359,454
As at 31 March 2019		**202,176,800**	**198,221,140**	**337,686**	**198,558,826**

The accompanying notes form an integral part of these Consolidated Financial Statements.

Hipgnosis Songs Fund Limited
Consolidated Statement of Cash Flows
For the year ended 31 March 2020

	Notes	**1 April 2019 to 31 March 2020**	8 June 2018 to 31 March 2019
		£	£
Cash flows used in operating activities			
Operating profit for the year/period before taxation		32,668,499	2,991,975
Adjustments for non-cash items:			
Movement in trade and other receivables	7	(31,793,657)	(10,808,398)
Movement in other payables and accrued expenses	8	(1,381,185)	39,192,142
Movement in equity for share based payments		225,884	-
Amortisation of Catalogues of Songs and borrowing costs		18,927,288	1,491,922
Foreign exchange (gains)/losses	14	4,053,809	(104,773)
		22,700,638	32,762,868
Taxation		(7,474,588)	(632,521)
Purchase of Catalogue of Songs	5	(559,440,185)	(119,950,740)
Net cash used in operating activities		**(544,214,135)**	(87,820,393)
Cash flows generated from financing activities			
Proceeds from issue of shares	10	423,618,166	202,176,800
Issue costs paid	10	(7,857,150)	(3,955,660)
Dividends paid	15	(18,259,678)	(2,021,768)
Interest paid		(374,675)	-
Borrowing costs		(4,380,727)	-
Bank loan	9	60,000,000	-
Net cash generated from financing activities		**452,745,936**	196,199,372
Net movement in cash and cash equivalents		**(91,468,199)**	108,378,979

Cash and cash equivalents at the start of the year/period		108,483,752	-
Effect of foreign exchange rate changes on cash and cash equivalents	14	(2,917,179)	104,773
Cash and cash equivalents at the end of the year/period	6	**14,098,374**	108,483,752

The accompanying notes form an integral part of these Consolidated Financial Statements.

Hipgnosis Songs Fund Limited
Notes to the Consolidated Financial Statements
For the year ended 31 March 2020

1. General information

Hipgnosis Songs Fund Limited was incorporated and registered in Guernsey on 8 June 2018 with registered number 65158 and is governed in accordance with the provisions of the Companies Law. The registered office address is Floor 2, Trafalgar Court, Les Banques, St Peter Port, Guernsey, GY1 4LY.

The Company's Ordinary Shares were admitted to trading on the Specialist Fund Segment of the London Stock Exchange on 11 July 2018, and migrated to a Premium Listing on the Main Market of the London Stock Exchange on 25 September 2019. The Company was added as a constituent of the FTSE 250 Index effective from after the market close on 20 March 2020.

The Company makes its investments through its subsidiaries, which are registered in the UK as limited companies, in which the Company is the sole shareholder. The principal place of business of the subsidiaries is the UK.

The Consolidated Financial Statements present the results of the Group for the year to 31 March 2020, rounded to the nearest pound Sterling, compared to the results for the Group as at 31 March 2019. Please note that the reporting periods are not entirely comparable as the results at 31 March 2019 were reported for a shorter period, from incorporation on 8 June 2018. The Group is principally engaged in investing in and managing music copyrights and associated musical intellectual property.

2. Accounting policies

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. These policies have been consistently applied, unless otherwise stated.

New and amended standards and interpretations applied

On incorporation, the Company adopted all of the IFRS standards and interpretations that were in effect at that date and are applicable to the Group. No new standards during the year ended 31 March 2020 had a material impact on the Consolidated Financial Statements.

Amended standards and interpretations not applied

The following are amended standards and interpretations in issue effective from years beginning on or after 1 January 2020:

Amended standards and interpretations		Effective date
IFRS 7	Financial Instruments Disclosures (Amendments regarding pre-replacement issues in the context of the IBOR reform)	1 January 2020
IFRS 9	Financial Instruments (Amendments regarding pre-replacement issues in the context of the LIBOR reform)	1 January 2020
IFRS 17	Insurance Contracts	1 January 2023
IAS 1	Presentation of Financial Statements (Amendments regarding the definition of material)	1 January 2020
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors (Amendments regarding the definition of material)	1 January 2020

The Company has considered the IFRS standards and interpretations that have been issued but are not yet effective. None of these standards or interpretations are likely to have a material effect on the Company, as it is the belief of the Board that the activities of the Company are unlikely to be affected by the changes to these standards, although any disclosures recommended by these standards, where applicable, will be provided as required.

a) Group information

As at 31 March 2020, the details of the Company's subsidiaries are as follows:

Name of the subsidiary	Place of incorporation and operation	% of voting rights	% Interest	Consolidation method
Hipgnosis Holdings UK Limited	UK	100	100	Full
Hipgnosis SFH I Limited	UK	100	100	Full
Hipgnosis SFH II Limited *	UK	100	100	Full
Hipgnosis SFH III Limited*	UK	100	100	Full
Hipgnosis SFH IV Limited *	UK	100	100	Full
Hipgnosis SFH V Limited *	UK	100	100	Full
Hipgnosis SFH VI Limited *	UK	100	100	Full
Hipgnosis SFH VII Limited *	UK	100	100	Full
Hipgnosis SFH VIII Limited *	UK	100	100	Full
Hipgnosis SFH IX Limited *	UK	100	100	Full
Hipgnosis SFH X Limited *	UK	100	100	Full
Hipgnosis SFH XI Limited*	UK	100	100	Full
Hipgnosis SFH XII Limited *	UK	100	100	Full
Hipgnosis SFH XIII Limited *	UK	100	100	Full
Hipgnosis SFH XIV Limited*	UK	100	100	Full
Hipgnosis SFH XV Limited *	UK	100	100	Full

Hipgnosis SFH XVI Limited *	UK	100	100	Full
Hipgnosis SFH XVII Limited*	UK	100	100	Full
Hipgnosis SFH XVIII Limited*	UK	100	100	Full
Hipgnosis SFH XIX Limited	UK	100	100	Full
Hipgnosis SFH XX Limited	UK	100	100	Full
RubyRuby(London)Limited†	UK	100	100	Full

*During the year a restructuring took place and the subsidiaries as highlighted above transferred their catalogues and all other assets and liabilities to Hipgnosis SFH 1 Limited. After a three-month period of dormancy, on 1 April 2020 an application was made to Companies House to strike off these subsidiaries.

†This is a subsidiary of Hipgnosis SFH XX Limited and therefore an indirect subsidiary of Hipgnosis Songs Fund Limited.

The subsidiaries of the Company are considered tax resident in the UK and are subject to UK corporation tax.

b) Going concern

The Directors monitor the capital and liquidity requirements of the Company on a regular basis. They have also reviewed cash flow forecasts prepared by the Investment Adviser which are based in part on assumptions about the future purchase and returns from existing Catalogues of Songs and the annual operating cost.

Based on these sources of information and their own judgement, the Directors believe it is appropriate to prepare the Consolidated Financial Statements of the Group on a going concern basis.

c) Basis of preparation

Basis of Accounting

The Consolidated Financial Statements have been prepared in accordance with IFRS and applicable company law. The Consolidated Financial Statements have been prepared on a historical cost basis as amended from time to time by the fair valuing of certain financial assets and liabilities where applicable.

Consolidation

In accordance with section 244 of the Companies Law, the Directors have elected to prepare consolidated accounts for the financial period for the Group. Therefore, there is no requirement to present individual accounts for the Company within the Consolidated Financial Statements.

The Company is not considered to be an Investment Entity, as defined in IFRS 10. The Company, in addition to evaluating the Portfolio on a fair value basis as demonstrated by the Operating NAV provided as an alternate performance measure, also manages the acquisitions and revenue of those Songs.

All companies in which the Company has a controlling interest, namely those in which it has the power to govern financial and operational policies in order to obtain benefits from their operations, are fully consolidated. The Control defined by IFRS 10 is based on the following three criteria to be fulfilled simultaneously to conclude that the parent company exercises control:

- a parent company has power over a subsidiary when the parent company has existing rights that give it the current ability to direct the relevant activities of the subsidiary, i.e., the activities that significantly affect the subsidiary's returns. Power may arise from existing or potential voting rights, or contractual arrangements. Voting rights must be substantial, i.e., they shall be exercisable at any time without limitation, particularly during decision making related to significant activities. The assessment of the exercise of power depends on the nature of the subsidiary's relevant activities, the internal decision-making process, and the allocation of rights among the subsidiary's other shareowners;

- the parent company is exposed, or has rights, to variable returns from its involvement with the subsidiary which may vary as a result of the subsidiary's performance. The concept of returns is broadly defined and includes, among other things, dividends and other economic benefit distributions, changes in the value of the investment in the subsidiary, economies of scale, and business synergies; and
- the parent company has the ability to use its power to affect the returns. Exercising power without having any impact on returns does not qualify as control.

Consolidated financial statements of a group are presented as if the Group were a single economic entity. The Group does not include any non-controlling interest.

Segmental reporting

The chief operating decision maker is the Board of Directors. The Directors are of the opinion that the Group is engaged in a single segment of business, being the investment of the Group's capital in the Portfolio, with an attractive and growing level of income, together with the potential for capital growth.

All of the Company's income is global but received from sources in US, Europe, UK and Guernsey.
All of the Company's non-current assets are located in UK and Guernsey.

d) Revenue Recognition

Bank Interest Income

Interest income from cash deposits is recognised as it accrues by reference to the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash flows through the expected life of the financial asset to the asset's carrying value or principal amount, and is accounted for on an accruals basis.

Revenue from operations and associated costs

Revenues from operations are recorded when it is probable that future economic benefits will be obtained by the Group and when they can be reliably measured. The revenue earned by the Group is recognised in accordance with IFRS 15 and solely consists of royalty income, which is divided into three main revenue categories:

i) Mechanical royalties – these are collected by performance rights organisations ("PROs") worldwide which represent songwriters and other copyright owners. Mechanical royalties are also collected by royalty collection agents or the portfolio administrators with whom the Group contracts;

ii) Performance royalties – these are collected by various performance rights organisations ("PROs") worldwide which represent songwriters and other copyright owners; and

iii) Synchronisation fees – these are typically paid directly to the owner of the relevant copyright or its publisher, on the terms and in the amounts agreed with the relevant film or television production company, advertising agency or end customer.

These revenue categories are further disaggregated into individual revenue streams which are disclosed in detail in Note 12. The Group follows the same accounting policies in respect of all revenue streams, unless otherwise disclosed.

As royalty income is typically reported by the royalty collection agents/performance rights organisations on an arrears basis via statement (3-6 months for mechanical royalties and 6-12 months for performance royalties) and where statements have not been received at the year end, the Group accrues for those reporting delays by assessing historic and forecasted earnings over the equivalent reporting period based on evidenced historic revenue reporting, seasonality and industry consumption and growth rates since the last statement date.

Licence arrangements-for all income types which include publishing income (mechanical, performance, downloads, streaming, synchronisation and writer share income), income derived from master recordings and producer royalties

The Company enters into licence arrangements in respect of Catalogues of Songs with third party collection agents. Licences granted to collection agents are deemed to constitute usage based, right of use licences as per IFRS 15. Revenue arising from licences entered into with collection agents is therefore recognised in the period. Payment is made upon reporting of those usages within royalty statements delivered typically 3-6 months after usage (see above). The significant payment terms are 60-90 days. This revenue is disaggregated to be reviewed by song usage period, source of income, work title, reporting period and royalty deductions (i.e. administration fee retained by the collection agent). The contractual basis of the licence arrangements are such that the agents are deemed as 'principals' for tax purposes, therefore the Company recognises its revenue net of administration fees.

Where available at the end of each month or earlier interval to which the revenue relates, revenue is recorded on the basis of royalty statements received from collection agents.

Where notification has not yet been received from collection agents, an estimate is made of the revenue due to the Company at the end of the month to which the usage of the music copyright relates. Estimates are made on the basis of the historical track record of music catalogues, ad hoc data provided by collection agents, industry forecasts and expected seasonal variations.

Non-recourse fixed fee arrangements are recognised at the point at which control of the licence passes to the collection agents. Variable consideration is recognised in the period when the usage of the Catalogues of Songs occurs.

e) Expenses

Expenses are accounted for on an accruals basis. Expenses are charged through the Statement of Comprehensive Income.

f) Dividends to Shareholders

Dividends are accounted for in the period in which they are declared and approved by the Board of Directors.

g) Assets

Catalogues of Songs

Catalogues of Songs include music catalogues, artists' contracts and music publishing rights and are recognised as intangible assets measured initially at the fair value of the consideration paid. Catalogues of Songs are subsequently amortised in expenses over the useful life of the asset and shown net of any impairment considered. This amortisation is shown in the Statement of Comprehensive Income as 'amortisation of catalogues of songs'. Useful life is separately considered for each Catalogue and is reviewed at the end of each reporting period.

Asset impairment

Each time events or changes in the respective Catalogues of Songs or economic environment indicate a risk of impairment of intangible assets, the Group re-examines the value of these assets for indicators of impairment. When there are indicators of impairment, the impairment test is performed to compare the recoverable amount to the carrying value of the asset. The recoverable amount is determined as the higher of: (i) the value in use; or (ii) the fair value (less costs to sell) as described hereafter, for each individual asset.

The value in use of each asset is determined by the Board and Investment Adviser with the support of independent third parties commissioned to appraise the catalogue value at time of acquisition, which is the discounted value of future cash flows by using cash flow projections consistent with the expected portfolio cash flows and the most recent forecasts as at that time. Applied discount rates are determined by reference to an appropriate benchmark as determined by the Board and reflect the current assessment by the Group of the time value of money and risks specific to each asset. Growth rates used for the evaluation of individual assets are based on industry growth rates sourced from independent market reports and other third-party sources. This value in use methodology applies to all except very small acquisitions that don't warrant the independent valuation, given the related expense. In these instances, the value in use is established from the Investment Adviser's internal discounted cash flow method.

The fair value (less costs to sell) is considered to be equal to the fair value determined by the portfolio Independent Valuer, which is also the discounted value of future cash flows by using cash flow projections consistent with the expected Portfolio cash flows and the most recent forecasts as at that time cross referenced, where appropriate, against market multiples for recent transactions for similar assets. The Portfolio Independent Valuer use their own propriety analysis to project out income streams, which is based on independent market reports and third-party sources. The discount rate used by the portfolio Independent is 9.0%.

Whilst the Board and Investment Adviser regularly assess other indicators of impairment (such as a songwriter's or key performance artist's reputation etc.), the Board and Investment Adviser typically use the fair value of the assets, being the Catalogues of Songs, as an initial indicator of impairment. For assets that are currently valued below their fair value, the Board and Investment Adviser will consider the qualitative and quantitative aspects of the respective asset in determining its value in use to determine if the indicator of impairment holds true.

If the recoverable amount is still lower than the carrying value of an asset or group of assets and the qualitative and quantitative aspects do not support a recoverable amount higher than the carrying amount, an impairment loss equal to the difference is recognised in profit and loss. The impairment losses recognised in respect of intangible assets may be reversed in a later period if the recoverable amount becomes greater than the carrying value, within the limit of impairment losses previously recognised.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market initially measured at fair value plus transaction costs directly attributable to the acquisition, and subsequently measured at amortised cost using the effective interest method, less allowance for Expected Credit Loss (Note 3). Interest income is recognised by applying the effective interest rate, except for short term receivables when the recognition of interest would be immaterial.

Derecognition of assets

The Group derecognises an asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the asset and substantially all the risks and rewards of ownership of the asset to another entity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

On derecognition of an asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received is recognised in profit or loss.

h) Contingent consideration

Under the terms of the acquisition agreements for Catalogues, contingent consideration may be payable dependent on future independent valuations of the Catalogues or revenue received within a specific time frame of acquiring the Catalogues that reach agreed upon revenue targets. At 31 March 2020 the likelihood of the aforementioned performance condition to be met was deemed remote and hence the possibility of economic outflows remote, and therefore no contingent consideration was disclosed.

i) Deferred consideration

In such cases where payment is deferred under the terms of the acquisition agreements for Catalogues, a liability will be recognised at net present value with any associated finance charge to be accrued over the respective deferral period.

j) Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the value of proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

During the year 231,000,000 C Shares were issued on 22 October 2019 and converted on 10 February 2020 to 226,287,600 Ordinary Shares at a conversion rate of 0.9796 Ordinary Shares for each C Share held.

Financial liabilities

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

k) Share based payments

Investment Adviser's Performance fee

The Group recognises the variable fee for the services received in a share-based payment transaction as the Group becomes liable to the variable fee on an accruals basis.

The fair value of the performance fee, as defined in the Investment Advisory Agreement, which is payable to the Investment Adviser in Shares is recognised as an expense when the fees are earned with a corresponding increase in equity.

l) Cash and Cash Equivalents

Cash at bank and short term deposits which are held to maturity are carried at cost. Cash and cash equivalents are defined as call deposits, short term deposits with a term of no more than three months from the start of the deposit and highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Cash and cash equivalents consist of cash in hand and short-term deposits in banks with an original maturity of three months or less.

m) Functional and Foreign currency

Items included in the Consolidated Financial Statements of each of the Group's entities are measured using the currency of the primary economic environment in which each entity operates ('the functional currency'). The Consolidated Financial Statements are presented in Sterling, which is the Group's functional and presentation currency of the Company and each of its subsidiaries.

At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised in profit or loss in the period in which they arise. Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction.

3. Significant accounting judgements, estimates and assumptions

The preparation of the Group's Consolidated Financial Statements requires the application of estimates and assumptions which may affect the results reported in the financial statements. Uncertainty about these estimates and assumptions could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below. The Group based its assumptions and made estimates based on the information available when the Consolidated Financial Statements were prepared. However these assumptions and estimates may change based on market changes or circumstances beyond the control of the Group.

Critical estimates in applying the Group's accounting policies – revenue recognition:

In calculating accruals, we make judgments around seasonality, over or under performance, and commercial factors based on historical performance, our knowledge of each catalogue and our regular correspondence with the various administrators, record labels and international societies.

Estimated royalty revenue receivable is accrued for on the basis of historical earnings for each catalogue, which incorporates an element of uncertainty. The estimated revenue accrual may not therefore directly equal the actual cash received in respect of each accounting period and adjustments may therefore be required throughout the financial period when the actual revenue received is known, and these adjustments may be material.

Net revenues also include an accrual for performance income, to account for the writer's share of performance royalties which are subject to a significant time lag in reporting in the industry, but which the Company is entitled to receive in due course. In recommending the estimate of this accrual to the Board of Directors and the auditors, the Investment Adviser used its analysis of each Catalogue's revenue history as well its knowledge of the respective Catalogue performance trends to recommend the estimated accruals. The PRO income accrual is based on analysis of each Catalogue's revenue history as well as knowledge of the respective Catalogue's performance trends.

Expected Credit Loss (ECL) in relation to revenue receivables

Royalty earnings for accruals and receivables recognised in the period ending 31 March 2020 are distributed by Performance Rights Organisations (PROs), Publishers and Record Labels who collect royalties at the source of usage and distribute those earnings both directly to Hipgnosis.

The Company's current risk assessment includes analysis of the exposure to commercial risk by PROs Publishers and Record Labels, and the likely impact of their credit risk on Hipgnosis' revenue streams.

Findings from management's sensitivity analysis demonstrates revenue by source from the following types of organisations:

- 40% US PROs
- 8% European PROs
- 29% Major publishers (US & UK)
- 14% Independent publishers
- 9% Record labels

The probability of future default has been deemed close to nil, due to the long-standing history of PROs, Publishers and Record Labels within the music industry and the existing framework of cash collection amongst the Company's stakeholders. Whilst there are smaller/newer organisations that have relatively unproven credit resilience these account for a small minority of our receivables. In addition, as demonstrated in the following breakdown of revenue accruals and receivables, 83% of the £12.4m royalty statement debtors balance has been received at the time of writing, with the remainder expected within 30 days. To date, there has been no default of debt for royalty payments by PROs, Publishers or Record Labels.

Additional credit risk with regards to accruals is taken into consideration at the point of calculating each accrual. On calculation, latest forecast earnings are considered and adjusted down for the latest trend of cash receipted earnings if there is any suggestion of a downwards performance indicator. In some cases, a trim (of varying size depending on the source) is applied to ensure a prudent accrual against future royalty reporting. As of 31 May 2020, £1.7 million of royalty statements have been received which are in line with the accruals for those statements made at 31 March 2020**.**

A breakdown of the Revenue Accruals and Receivables, at 31 March 2020, is set out below:

- A £12.4 million receivable relates to invoices raised for calendar second half 2019 earnings which were reported in royalty statements received prior to the financial year end. £10.3 million of these invoices have now been paid in full, with a further £1.0 million received as banked cheques which are waiting to clear. Of that £2.1 million debtor, the remaining receivable of £1.0 million is expected to be received within the next 30 days.

- A £29 million income accrual was recognised as at 31 March 2020. In calculating the accrual, latest forecast earnings are considered and adjusted for the latest trend of earnings reported. The accrued income comprises of:
    - £7 million related to calendar second quarter through to fourth quarter 2019 earnings for catalogues acquired less than 6 months before the year end date, where royalty reporting is still in the process of being switched over to Hipgnosis. These accruals are based on royalty statements received with invoices due to be raised on completion of the letter of direction being concluded.
    - £12.5 million for calendar first quarter 2020 earnings where, due to the time lag in royalty reporting, statements are not expected to be received until 30 September 2020.
    - £5.4 million related to calendar third quarter to fourth quarter 2019 PRO earnings due to be reported in calendar second quarter and third quarter 2020.

- A further £4.1million income accrual relating to time-lagged international reporting on PRO earnings. International PRO reporting has a significant time lag due to the additional collection time taken for PROs to collect and distribute income from International territories. The lag in collection is due to the nature of collecting and processing royalties locally then distributing them to the domestic PRO which will in turn process and distribute these royalties to Hipgnosis. For prudence, 6 months of international PRO earnings are accrued, although the lag can typically result in earnings for 12-24 months to be due.

Management have also assessed potential increased credit risk, due to COVID-19.

The £12.4 million royalty statement debtor relates to periods up to September 2019 and therefore has no exposure to any commercial risks related to COVID-19.

The £29 million earnings accrual relates to the period up to 31 March 2020, which was before the lockdown impact of COVID-19 therefore the impact by 31 March is expected to be immaterial.

The major PROs have released statements since the financial year end date attesting to their ability to meet their obligations, in both the short and mid-term, despite the impact of COVID-19. The Investment continues to evaluate credit risk during COVID-19 and has not become aware of any issues with cash collections or changes in the existing royalty collection arrangements.

Assessment of useful life of intangible assets

In order to calculate the amortised cost of the intangible assets it is necessary to assess the useful economic life of the copyright interests in Songs. This requires forecasts of the expected future revenue from the copyright interests, which contains significant uncertainties as the ongoing popularity of a Song can fluctuate unexpectedly.

Assessment of impairment and the Calculation of Operative NAV

As disclosed in Note 2(g) above, intangible assets are subject to annual impairment review which relies on assumptions made by the Board. Assumptions are updated annually, specifically those relating to future cash flows and discount rates.

The fair value estimates that are prepared in order to calculate the Operative NAV and Operative NAV per Share are also used to assess whether there is evidence that the intangible assets may be impaired.

Valuations of music publishing rights typically adopt the DCF valuation approach which measures the present value of anticipated future revenues from acquiring the Catalogues, which are discounted at a 'market cost of capital', 9.0% and a terminal value in 10 years. This method is accepted as an objective way of measuring future benefits; taking into account income projections from various music industry sources across various revenue flows whilst also factoring in the associated cost of capital.

It is the intention of the Board that Catalogues of Songs will be valued on an ongoing basis using a consistent DCF valuation methodology, and that this be used as an initial indicator of impairment for each Catalogue of Songs.

4. Taxes

The major components of income tax expense for the year ended 31 March 2020 and period ended 31 March 2019 are:

Current Income tax

	1 April 2019 to	8 June 2018 to

	31 March 2020	31 March 2019
	£	£
United Kingdom corporation tax based on the profit for the year at 19% (2019: 19%)	**7,400,000**	632,521
Non-reclaimable withholding tax on royalty payments received	**74,588**	=
Total current tax	**7,474,588**	632,521
Deferred taxation		
Origination and reversal of timings differences	-	-
Total tax	**7,474,588**	632,521

The Company is exempt from taxation in Guernsey under the provisions of the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 2008 and is charged an annual fee of £1,200.

Whilst the Company is incorporated in Guernsey, all of the Company's subsidiaries are incorporated and tax resident in the UK and the majority of the Group's income and expenditure is incurred in these entities. Therefore, it is considered most appropriate to prepare the tax reconciliation below at the standard UK tax rate for the year of 19% (2019: 19%).

The actual tax charge for the current year and the previous period differs from the standard rate for the reasons set out in the following reconciliation:

	1 April 2019 to 31 March 2020	8 June 2018 to 31 March 2019
	£	£
Profit on the Group's ordinary activities before tax	32,688,499	2,991,975
Tax on the profit on the Group's ordinary activity at the standard UK rate	6,207,015	568,475
Factors affecting charge for the year:		
Expenses incurred by the Company in the period on which no tax credit is recorded	1,192,985	64,046
Net non-reclaimable withholding tax on royalty payments received	74,588	-
Total actual amount of current tax	**7,474,588**	632,521

5. Catalogues of Songs

Cost	**£**
At 1 April 2019	119,950,740
Additions	559,440,185
At 31 March 2020	**679,390,925**
Amortisation and impairment	
At 1 April 2019	1,491,922
Amortisation	18,463,798
Impairment	-
At 31 March 2020	**19,955,720**
Net book value	
At 1 April 2019	118,458,818
At 31 March 2020	659,435,205
Fair value as at 31 March 2020	**756,818,538**
Cost	
At 8 June 2018	-
Additions	119,950,740
At 31 March 2019	**119,950,740**
Amortisation and impairment	
At 8 June 2018	-
Amortisation	1,491,922
Impairment	-
At 31 March 2019	**1,491,922**
Net book value	
At 8 June 2018	-
At 31 March 2019	118,458,818
Fair value as at 31 March 2019	**128,694,535**

The Group amortises Catalogues of Songs with a limited useful life using the straight-line method of 20 years (other than in exceptional circumstances for specific Catalogues of Songs). At 31 March 2020 the Portfolio consisted of Catalogues of Songs held for no longer than 2 years. Useful life is separately considered for each Catalogue of Songs and is reviewed at the end of each reporting period. At 31 March 2020 accumulated amortisation for Catalogue of Songs is £19,955,720 and the accumulated impairment to date is £nil.

The Board engaged portfolio Independent Valuer, Massarsky Consulting, Inc., to value the Catalogues as at 31 March 2020. Each income type from each Catalogue was analysed and forecasted to derive the fair value of the Catalogues by adopting a DCF valuation methodology using a discount rate of 9.0%. Income was analysed and forecast at the level of each individual Catalogue and by income type. Future revenues were also estimated, often at the level of individual Songs, and incorporated into their valuation. Massarsky Consulting has also taken into consideration macro factors including the growth of streaming revenue, the global growth of the recorded music industry and the short and medium term impact of COVID-19 in their analysis. The Board has approved and adopted the valuations prepared by the portfolio Independent Valuer.

The sensitivity to the discount rate used in the Operative NAV is as follows:

-1% discount rate will grow the FV of the Portfolio by 18%, increasing the Operative NAV by £133.1 million which represents an increase of +21.6p Operative NAV per share.

+1% discount rate will reduce the FV of the Portfolio by 15%, reducing the Operative NAV by £98.7 million which represents a decrease of -16p Operative NAV per share.

6. Cash and cash equivalents

Cash and cash equivalents comprise cash held by the Group available on demand, cash held in deposits and cash in a money market fund. Cash and cash equivalents were as follows:

	31 March 2020	31 March 2019
	£	£
Cash available on demand	5,642,057	3,720,550
Cash held in deposits	3,138	37,064,106
Money market fund	8,453,179	67,699,096
Cash and cash equivalents	**14,098,374**	**108,483,752**

7. Trade and other receivables

	31 March 2020	31 March 2019
	£	£
Loan receivable	-	3,957,500
Income receivable	12,392,520	2,040,135
Accrued income	28,954,040	3,847,679
VAT recoverable	-	852,201
Prepayments	1,094,033	110,883
Trade and other receivables	**42,440,593**	**10,808,398**

8. Other payables and accrued expenses

	31 March 2020	31 March 2019
	£	£
Investment acquisition payable	31,081,376	37,711,582
Performance fee	-	429,054
Accrued borrowing costs	2,867,849	-
Loan interest payable	233,537	-
Amounts owed to songwriters	103,888	97,352

Administration fees	169,412	101,528
Legal and professional fees	392,722	110,533
Advisory fees	547,475	-
VAT payable	11,773	-
Audit fees	241,765	100,000
Corporation tax	2,627,197	632,521
Other expenses	134,454	9,572
Other payables and accrued expenses	**38,411,448**	**39,192,142**

As at 31 March 2020 an amount of £31,081,376 relating to the acquisition prices for five catalogues remained outstanding (31 March 2019: £37,711,582, relating to the acquisition prices for three catalogues). Since 31 March 2020 the Investment acquisitions payable has reduced, following subsequent payments, to £9,570,857 at 31 May 2020 (17 May 2019: £nil).

9. Revolving credit facility

On 2 September 2019 it was announced the Company had entered into a Revolving Credit Facility, (RCF), with JP Morgan Chase Bank (JPM) as Lead Arranger of £100 million which was uplifted post year end to £150 million. As detailed in Note 21, this is capped at £150 million though calculated as 20% of most recent music catalogue valuation and 20% of acquisitions since most recent valuation valued at purchase price, capped at £20m. The loan bears interest at 3.75%. The Revolving Credit Facility, which had an original maturity date of 29 August 2022 and has been extended for a further three years to 2 April 2025 on 15 April 2020, provides the Company with greater flexibility to fund investments and provide additional working capital. The RCF's key covenant imposes a loan to value test and a liquidity test reviewed quarterly and is secured by, inter alia, a charge over the shares in all the subsidiaries of the Company and over all of their assets including all Catalogues of Songs of the Company held through these subsidiaries, a charge over the bank accounts of the Company and a floating charge over all its assets the fair value of which deemed by JPM. The Company has also provided a parent company guarantee. In accordance with the Investment Policy, any borrowings by the Company will not exceed 30 percent of the value of the net assets of the Company.

During the year £4,380,727 of costs relating to the set-up of the Revolving Credit Facility were capitalised, to be amortised over the 5 year length of the agreement, with £3,917,237 remaining on the Statement of Financial Position at the year end.

At the year end £60,000,000 remained drawn down with £374,675 paid in interest. This figure is drawn in Sterling as both Hipgnosis Holdings UK Limited and Hipgnosis Songs Fund Limited, which are the principal Group companies party to the RCF, are English and Guernsey companies respectively.

10. Share capital and capital management

The share capital of the Company may consist of an unlimited number of: (i) Ordinary Shares of no par value which upon issue the Directors may classify as Ordinary Shares; and (ii) C Shares denominated in such currencies as the Directors may determine.

Ordinary Shares of no par value

	No.
Issued and fully paid:	

Shares as at 1 April 2019	202,176,800
Shares issued on 17 April 2019	138,750,000
Shares issued on 29 August 2019	48,429,541
Shares issued on 30 December 2019[1]	207,946
Shares issued on 10 February 2020[2]	226,287,600
Shares as at 31 March 2020	**615,851,887**

	£
Issued and fully paid:	
Share capital at 1 April 2019	198,221,140
Shares issued on 17 April 2019	141,525,000
Share issue costs	(2,853,852)
Shares issued on 29 August 2019	51,093,166
Share issue costs	(981,727)
Shares issued on 30 December 2019[1]	225,884
Share issue costs	-
Shares issued on 10 February 2020[2]	231,000,000
Share issue costs	(4,021,571)
Shares as at 31 March 2020	**614,208,042**

	No.
Issued and fully paid:	
Shares issued on 11 July 2018	202,176,800
Shares as at 31 March 2019	**202,176,800**

	£
Issued and fully paid:	
Shares issued on 11 July 2018	202,176,800
Share issue costs	(3,955,660)
Shares as at 31 March 2019	**198,221,140**

1.) Shares issued as performance fee in respect of year ended 31 March 2019

2.) 231,000,000 C Shares converted to 226,287,600 Ordinary Shares

During the year 231,000,000 C Shares were issued on 22 October 2019 and converted on 10 February 2020 to 226,287,600 Ordinary Shares at a conversion rate of 0.9796 Ordinary Shares for each C Share held.

Under the Company's Articles of Incorporation, each Shareholder present in person or by proxy has the right to one vote at general meetings. On a poll, each Shareholder is entitled to one vote for every Ordinary Share held.

Shareholders are entitled to all dividends paid by the Company and, on a winding up, provided the Company has satisfied all of its liabilities, the Shareholders are entitled to all of the residual assets of the Company.

11. Net Asset Value per Share and Operative Net Asset Value per Share

	31 March 2020	31 March 2019
Number of Ordinary Shares in issue	615,851,887	202,176,800
IFRS NAV per share (pence)	**100.91**	98.21
Operative NAV per share (pence)	**116.73**	103.27

The IFRS NAV per share and the Operative NAV per share are arrived at by dividing the IFRS Net Assets and Operative Net Assets (respectively) by the number of Ordinary Shares in issue.

Catalogues of Songs are classified as intangible assets and measured at amortised cost or cost less impairment in accordance with IFRS.

The Directors are of the opinion that an Operative NAV provides a meaningful alternative performance measure and the values of Catalogues of Songs are based on fair values produced by the portfolio Independent Valuer.

Reconciliation of IFRS NAV to Operative NAV

	31 March 2020	31 March 2019
	£	£
IFRS NAV	**621,479,961**	198,558,826
Adjustments for revaluation of Catalogues of Songs to fair value	76,964,123	8,743,795
Reversal of amortisation	20,419,210	1,491,922
Operative NAV	**718,863,294**	208,794,543

12. Revenue

	31 March 2020	31 March 2019
	£	£
Mechanical income	3,455,973	417,487
Performance income	10,074,708	1,104,493
Digital downloads income	2,290,250	232,741
Streaming income	11,985,267	1,285,485
Synchronisation income	6,038,054	1,212,161
Producer royalties	3,933,048	-
Masters Income	4,275,739	-
Writer's share income	21,494,155	2,914,228
Other income*	1,147,306	52,257
Total revenue	**64,694,500**	7,218,852

*Other Income refers to any income not covered by the other income types, for example sheet income and lyric exploitation

There is an inherent time lag with royalties between the time a Song is performed, and the revenue being received by the Copyright owner. The time lag ranges from 3-6 months on domestic income and 12-18 months on international income. The revenue accruals booked in the period are disclosed in detail within the Accruals and Receivables.

All revenue streams disclosed in this note are in scope of IFRS 15.

13. Other operating expenses

	1 April 2019 to 31 March 2020 £	8 June 2018 to 31 March 2019 £
Regulatory fees	33,958	8,605
Listing fees	385,562	17,667
Directors and officers Insurance	20,601	14,104
Directors expenses	2,238	1,329
Registrar fees	36,329	6,306
Postage, stationery and printing	16,790	12,777
Public relation fees	275,133	48,371
Travel and accommodation fees	339,853	88,438
Bank charges	19,297	4,469
Credit facility bank charges	19,000	-
Aborted Deal Expenses	237,152	-
Disbursements and sundry	140,697	65,755
Total other operating expenses	**1,526,610**	**267,821**

14. FX Gains and losses in Profit or Loss

	31 March 2020 £	31 March 2019 £
FX Gain/(loss) creditors/debtors	(1,136,630)	796
FX Gain/(loss) cash and cash equivalents	(2,917,179)	103,977
Total FX Gain/(loss)	**4,053,809**	**104,773**

Currency risk is discussed further in note 16.

15. Dividends

A summary of the dividends is set out below:

1 April 2019 to 31 March 2020	**Dividend per share Pence**	**Total dividend £**
Interim dividend in respect of quarter ended 30 March 2019	1.25	4,261,585
Interim dividend in respect of quarter ended 30 June 2019	1.25	4,261,585
Interim dividend in respect of quarter ended 30 September 2019	1.25	4,866,954
Interim dividend in respect of quarter ended 31 December 2019	1.25	4,869,554
	5.00	**18,259,678**

8 June 2018 to 31 March 2019	**Dividend per share** Pence	**Total dividend** £
Interim dividend in respect of period ended 30 September 2018	0.50	1,010,884
Interim dividend in respect of period ended 31 December 2018	0.50	1,010,884
	1.00	2,021,768

Subsequent to the year end, the Company announced an interim dividend for the first quarter of the new financial year from 1 April to 30 June 2020 of 1.25 pence per Ordinary Share.

16. Financial Risk Management

Financial Risk Management Objectives
The Company's activities expose it to various types of financial risk, principally market risk, credit risk, and liquidity risk. The Board has overall responsibility for the Company's risk management and sets policies to manage those risks at an acceptable level.

Fair values
Management assessed that the fair values of cash and cash equivalents, trade and other receivables, trade and other payables and royalty advances approximate their carrying amount largely due to the short-term maturities and high credit quality of these instruments.

Capital Risk Management
The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximising the capital return to Shareholders. The capital structure of the Company consists of issued share capital and retained earnings, as stated in the Statement of Financial Position.

In order to maintain or adjust the capital structure, the Company may buy back shares or issue new shares. There are no external capital requirements imposed on the Company.

During the year ended 31 March 2020, the Company drew down £60,000,000 from the RCF which remained drawn down as at 31 March 2020 (31 March 2019: nil).

The Company's investment policy is set out in the Investment Objective and Policy section of the Annual Report

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices. The Company is exposed to currency risk and interest rate risk.

a) *Currency risk*

Currency risk is the risk that the fair values of future cashflows will fluctuate because of changes in foreign exchange rates. The revenue earned from the Catalogue of Songs may be subject to foreign currency fluctuations. Royalties are earned globally and paid in a number of currencies, therefore the Company may be impacted by adverse currency movements. The Company will convert the majority of overseas currency receipts into Sterling by agreeing to currency exchange arrangements with collection agents, or otherwise itself undertaking foreign exchange conversions. The Company may engage in full or partial foreign currency hedging and interest rate hedging. The Company will not enter into such arrangements for investment purposes.

The currencies in which financial assets and liabilities are denominated are shown below:

As at 31 March 2020	**GBP**	**USD Converted to**	**EUR Converted to**	**Total**
	£	**£**	**£**	**£**
Trade and other receivables	6,540,128	35,124,967	775,498	42,440,593
Cash and cash equivalents	8,830,608	5,031,014	236,752	14,098,374
Total financial assets	**15,370,736**	**40,155,981**	**1,012,250**	**56,538,967**
Revolving Credit Facility	60,000,000	-	-	60,000,000
Trade and other payables	7,161,908	31,172,786	76,754	38,411,448
Total financial liabilities	**67,161,908**	**31,172,786**	**76,76,754**	**98,411,448**
Net asset position	**(51,791,172)**	**8,983,195***	**935,496****	**(41,872,481)**

*At the reporting date 31 March 2020, if the USD had strengthened/weakened by 10% against GBP with all other variables held constant, the net assets and movement in profit and loss would have been £898,320 higher/lower.

**At the reporting date 31 March 2020, if the EUR had strengthened/weakened by 10% against GBP with all other variables held constant, the net assets and movement in in profit and loss would have been £93,550 higher/lower.

As at 31 March 2019	**GBP**	**USD Converted to**	**EUR Converted to**	**Total**
	£	**£**	**£**	**£**
Trade and other receivables	1,185,147	9,623,168	83	10,808,398

Cash and cash equivalents	27,217,708	81,266,044	-	108,483,752
Total financial assets	**28,402,855**	**90,889,212**	**83**	**119,292,150**
Trade and other payables	39,154,329	37,813	-	39,192,142
Total financial liabilities	**39,154,329**	**37,813**	**-**	**39,192,142**
Net asset position	**(10,751,474)**	**90,851,399***	**83****	**80,100,008**

*At the reporting date 31 March 2019, if the USD had strengthened/weakened by 10% against GBP with all other variables held constant, the net assets and movement in in profit and loss would have been £10,094,600 higher / £8,259,218 lower.

**At the reporting date 31 March 2019, if the EUR had strengthened/weakened by 10% against GBP with all other variables held constant, the net assets and movement in in profit and loss would have been £9 higher/£8 lower.

b) *Cash flow and fair value interest rate risk*

The Company is exposed to cash flow interest rate risk on cash and cash equivalents and also on the interest bearing RCF. The RCF bears interest at 3.75% which when annualised for the £60 million drawn down at the year end would have been covered 6.2 times by the closing cash balance at 31 March 2020. This interest rate is the London Interbank Offered Rate (LIBOR) rolling over at 7 Nov 2020, the Company is able to elect 1, 3 or 6 month rollovers.

Credit Risk

Credit risk is the risk of loss due to failure of a counterparty to fulfil its contractual obligations. The Group is exposed to credit risk in respect of its contracts with PROs. This exposure is minimised by dealing with reputable PROs whose credit risk is deemed to be low given their respective position in the industry.

As reported in Note 3, there is no impairment of the receivables balance, credit risk of third parties has been taken into account when calculating accruals, and expected credit loss has been deemed nil, or close to nil.

The Group is exposed to credit risk through its balances with banks and its indirect holdings of money market instruments through those money market funds which are classified as cash equivalents for the purposes of these Consolidated Financial Statements.

The table below shows the Group's material cash balances and the short-term issuer credit rating or money-market fund credit rating as at the year end date:

	Location	Rating	31 March 2020 £	31 March 2019 £
Barclays Bank plc	Guernsey	A-1*	5,642,057	3,720,550
Investec Bank plc	UK	P-1**	3,138	37,064,106
Blackrock Institutional Sterling Liquidity Fund	UK	AAAm*	8,453,179	67,699,096

*Rated by Standard & Poor's
** Rated by Moody's

Liquidity Risk
Liquidity risk is the risk that the Company will encounter in realising assets or otherwise raising funds to meet financial commitments. The Company's liquidity risk is managed by the Investment Adviser and Directors on a monthly basis.

Liquidity risk is the risk that the Company may not be able to meet their financial obligations as they fall due. The Company maintains a prudent approach to liquidity management by maintaining sufficient cash reserves to meet foreseeable working capital requirements. In order to mitigate liquidity risk, the Group aims to have sufficient cash balances to meet its obligations for a period of at least twelve months.

The Company prepares a 12 month rolling cash forecast, which is reviewed by the Board on a monthly basis. The cash flow forecast includes a sensitivity analysis with downside scenarios on income streams impacted specifically relating to COVID-19. Cash is delivered with royalty statements, and the majority are delivered quarterly or semi-annually. A small number of collections are delivered monthly. Cash is collected and processed throughout calendar quarters or half years by the administrators and paid out on either 60/90 day accounting.

During the year ended 31 March 2020, the Group had no financial liabilities other than the RCF and trade and other payables.

At the reporting date, the Company's financial assets and financial liabilities are:

Trade and other receivables	Carrying amount assets	Less than 1 month	1 - 3 months	3 - 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows
	£’000	**£’000**	**£’000**	**£’000**	**£’000**	**£’000**	**£’000**	**£’000**
Income receivable	12,393	9,677	2,716	-	-	-	-	12,393
Accrued income	28,954	10,004	5,699	13,251	-	-	-	28,954
Prepayments	1,094	1,094	-	-	-	-	-	1,094
Total	**42,441**	**20,775**	**8,415**	**13,251**	**-**	**-**	**-**	**42,441**

Other payables and accrued expenses	Carrying amount assets	Less than 1 month	1 - 3 months	3 - 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Bank loan	60,000	-	-	-	-	60,000	-	60,000
Investment acquisition payable	31,081	20,312	1,277	5,588	921	2,984	-	31,081
RCF costs accrued	2,868	2,868	-	-	-	-	-	2,868
Loan interest payable	234	-	234	-	-	-	-	234
Amounts owed to songwriter	104	-	-	104	-	-	-	104
Administration fees	169	169	-	-	-	-	-	169
Legal & professional fees	386	386	-	-	-	-	-	386
Advisory fees	547	547	-	-	-	-	-	547
Audit fees	242	123	-	119	-	-	-	242
VAT	11		11					11
Corporation tax	2,627	-	-	2,627	-	-	-	2,627
Other expenses	141	141	--	-	-	-	-	141
Total	**98,410**	**24,546**	**1,522**	**8,438**	**921**	**62,984**	**-**	**98,410**
Net receivable / (payable)	**(55,969)**	**(3,772)**	**6,893**	**4,813**	**(921)**	**(62,984)**	**-**	**(55,969)**

17. Related Party Transactions and Directors' remuneration

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the party in making financial or operational decisions.

The Company Directors' fees for the year amounted to £260,420 with outstanding fees of £nil due to at year end (31 March 2019: 121,936 with outstanding fees of £nil due at 31 March 2019). Further detail on the additional payments made to the Directors is disclosed in the Remuneration Committee

Merck Mercuriadis is the founder and owner of the Investment Adviser. Merck was a Director of Jonny Coffer Limited and RubyRuby London (Limited) as at 31 March 2020 and stepped down from his duties on the 13 May 2020.

18. Material Agreements

Investment Adviser

The Company has entered into an Investment Advisory Agreement with the Investment Adviser pursuant to which the Investment Adviser will source Songs and provide recommendations to the Board on acquisition and disposal strategies, manage and monitor royalty and/or fee income due to the Company from its copyrights and collection agents, and develop strategies to maximise the earning potential of the Songs in the portfolio through improved placement and coverage of Songs.

The Investment Adviser is entitled to receive an advisory fee (payable in cash) and a performance fee (usually payable predominantly in Shares subject to an 18 month lock up arrangement). The full terms and conditions of the calculation of the advisory and performance fees are disclosed in the Company's prospectus, which is available on the Company's website (www.hipgnosissongs.com). However in summary:

Advisory Fee

The advisory fee is calculated at the rate of:

(i) 1 percent per annum of the Average Market Capitalisation up to, and including, £250 million;
(ii) 0.90 percent per annum of the Average Market Capitalisation in excess of £250 million and up to and including £500 million; and
(iii) 0.80 percent per annum of the Average Market Capitalisation in excess of £500 million.

Advisory fees for the year were £4,597,567 (31 March 2019: £1,579,190) with £nil outstanding at the reporting date (31 March 2019: nil).

Performance fee

In respect of each accounting period, the Investment Adviser (or, where the Investment Adviser so directs, any member of the Investment Adviser's team) is entitled to receive a performance fee (the ''Performance Fee'') equal to 10 percent of the Excess Total Return relating to that accounting period provided that the Performance Fee shall be capped such that the sum of the advisory fee (payable in respect of the Average Market Capitalisation of Ordinary Shares only) and the Performance Fee paid in respect of that accounting period is no more than 5 percent of the lower of: (i) Net Asset Value; or (ii) Closing Market Capitalisation at the end of that accounting period.

The Excess Total Return for an accounting period is calculated by reference to: (i) the difference between the Performance Share Price at the end of that Accounting Period and the higher of: (a) the Performance Hurdle (being issue price compounded by 10 percent per annum from initial Admission subject to appropriate adjustments in certain situations); and (b) high watermark (being the Performance Share Price at the end of the last Accounting Period where a Performance Fee was payable); multiplied by (ii) the weighted average of the number of Ordinary Shares in issue (excluding any shares held in treasury) at the end of each day during that accounting period.

For the purposes of calculating the Performance Fee:

‘’Performance Share Price’’ means, in relation to each accounting period, the average of the middle market quotations of the Ordinary Shares for the one month period ending on the last business day of that accounting period (which shall be adjusted as appropriate: (i) to include any dividend declared but not paid where the Ordinary Shares are quoted ex such dividend at any time during that month; (ii) to exclude any dividend paid in respect of the shares during that month; and (iii) for the PSP Adjustments). During the period, the average of the middle market quotations was 108.27 pence; and

‘’PSP Adjustments’’ means adjustments to the Performance Share Price to (i) include the gross amount of any dividends and/or distributions paid in respect of an Ordinary Share since initial Admission; and (ii) make such adjustments to take account of C Shares as were agreed between the Company and the Investment Adviser, acting reasonably and in good faith, at the time of issuance of such C Shares.

The amount of Performance Fee payable to the Investment Adviser shall be paid in the form of a combination of: (a) cash equal to all taxes or charges payable with respect to the Performance Fee by the Investment Adviser or member(s) of the Investment Adviser’s Team; and (b) Ordinary Shares (‘’Performance Shares’’) which are either issued by the Company where the Ordinary Shares are on average trading at par or at a premium to the last reported Operative NAV per Ordinary Share at the relevant time or purchased from the secondary market where the Ordinary Shares are on average trading at a discount to the last reported Operative NAV per Ordinary Share at the relevant time and transferred to, the Investment Adviser or member(s) of the Investment Adviser’s Team.

The Performance Shares is subject to 18 month lock-up arrangements.

There was no performance fee for the year with no amount accrued at the reporting date (31 March 2019: £429,054 had been accrued with the whole amount outstanding as at the reporting date).

Administration Agreement

Pursuant to the Administration Agreements: (i) Ocorian Administration (Guernsey) Limited has been appointed as Administrator of the Company; and (ii) Ocorian Administration (UK) Limited has been appointed as administrator to the subsidiaries. The Administrator or Ocorian Administration (UK) Limited (as applicable) are responsible for the day to day administration of the Company and the subsidiaries which accedes to the relevant Administration Agreement (including but not limited to the calculation and publication of the semi-annual NAV, the IFRS NAV and Operative NAV) and general secretarial functions required by the Companies Law (including but not limited to maintenance of the Company’s accounting and statutory records). For the purposes of the RCIS Rules, the Administrator is the designated manager of the Company.

Investors should note that it is not possible for the Administrator or Ocorian Administration (UK) Limited to provide any investment advice to investors.

Under the terms of the Administration Agreement between the Administrator and the Company, with effect from 1 October 2019 the Administrator is entitled to a fixed fee of £172,500 (2019: £139,000) per annum for services such as administration, accounting, corporate secretarial, corporate governance, regulatory compliance and stock exchange continuing obligations. Additional ad hoc fees are payable in respect of certain additional services. Administration fees for the year amounted to

£418,660 (31 March 2019: £104,470) of which £28,891 (31 March 2019: £50,045) was outstanding at the year end.

Under the terms of the Administration Agreement between Ocorian Administration (UK) Limited and the subsidiaries, with effect from 1 October 2019 the administrator is entitled to a fixed fee of £15,000 per annum (£14,000 per annum effective from 1 January 2019) per subsidiary and £6,500 per annum per additional catalogue held by a subsidiary for services such as administration, corporate secretarial and accounting. Administration fees for the subsidiaries for the year amounted to £398,337 (31 March 2019: £51,484) of which £140,521 (31 March 2019: nil) was outstanding at the year end.

Registrar Agreement

Computershare Investor Services (Guernsey) Limited (a company incorporated in Guernsey on 3 September 2009 with registered number 50855) has been appointed as registrar to the Company pursuant to the Registrar Agreement. In such capacity, the Registrar will be responsible for the transfer and settlement of Shares held in certificated and uncertificated form. The Registrar is also entitled to reimbursement of all out of pocket costs, expenses and charges properly incurred on behalf of the Company.

Under the terms of the Registrar Agreement, the Registrar is entitled to a fixed fee of £7,500 per annum in respect of the Ordinary Shares and £5,500 per annum in respect of the C Shares (if applicable), together with additional ad hoc fees in respect of additional out of scope services provided by the Registrar. Registrar fees for the year were £6,306 with £1,440 outstanding at the reporting date.

19. Earnings per share

	31 March 2020	
	Basic	Diluted
Profit for the year (£)	25,193,911	25,193,911
Weighted average number of Ordinary Shares in issue	410,527,510	410,527,510
Earnings per share (pence)	6.14	6.14

	31 March 2019	
	Basic	Diluted
Profit for the period (£)	2,359,454	2,359,454
Weighted average number of Ordinary Shares in issue	202,176,800	202,176,800
Earnings per share (pence)	1.17	1.17

The earnings per share is based on the profit or loss of the Group for the year and on the weighted average number of Ordinary Shares for the year ended 31 March 2020.

There are no dilutive shares at 31 March 2020.

20. Auditor’s Remuneration

Audit and non-audit fees payable to the auditors can be analysed as follows:

	31 March 2020 £	31 March 2019 £
PricewaterhouseCoopers Cl LLP FY 2020 audit fees*	287,265	110,000
PricewaterhouseCoopers Cl LLP audit fees	**287,265**	**110,000**
PricewaterhouseCoopers Cl LLP project accounting fees relating to the migration to premium segment	147,500	-
PricewaterhouseCoopers Cl LLP C Share conversion fees	10,000	-
PricewaterhouseCoopers Cl LLP professional fees in relation to the IPO in their role as reporting accountants	-	80,000
PricewaterhouseCoopers Cl LLP non audit fees	**157,500**	**80,000**

*This includes £26,000 relating to under accrued amount in year ending 31 March 2019

21. Subsequent events

On 15 April 2020 the Company increased its Revolving Credit Facility from £100 million to £150 million. In addition to the increase of the commitment of the Revolving Credit Facility, the maturity date has been extended from 29 August 2020 to 2 April 2025.

On 29 April 2020 the Company declared a dividend of 1.25 pence per ordinary share in respect of the quarter ended 31 March 2020 payable on 27 May 2020.

The lockdown due to COVID-19 has had a devastating impact on the economy. Despite music being uncorrelated there are still certain income streams that have been impacted. Live events are not possible, and it may be 2021 before mass gatherings are widely permitted. Revenue from licenses issued to shops, gyms, bars and restaurants that are temporarily closed will feel adverse effect despite most of them being annual licences paid in advance. Given the inherent time-lag in the collection and accounting of the royalty statements The Company is currently unable to quantify the impact of COVID-19 on revenue as the majority of these statements are to expected until September 2020. The Company however continues to monitor the development and impact of COVID-19 and is mitigating any potential shortfall in revenues through the active management of synchronisation deals where possible.

Music streaming however remains buoyant it is expected that this will outpace the decline in other revenues streams, and this is reflected in Goldman Sachs’ post COVID-19 report which projects that song related revenues, across music publishing, will grow by 3.5% overall in 2020.

On 3 July 2020 the Company declared a dividend of 1.25 pence per ordinary share in respect of the quarter ended 30 June 2020 payable on 31 July 2020.

* Source: Goldman Sachs (Equity Research), 'Music in the Air, The show must go on'

ALTERNATIVE PERFORMANCE MEASURES

Performance Measure	Definition	Reason for Use
Annualised ongoing charges	Adjusted Operating Costs (£10,032,000) less Non Recurring administrative expenses (£1,369,957) over a twelve month period	Ongoing charges are a good indicator of expenses likely to recur in the foreseeable future
Adjusted Operating Costs	Operational expenses (£33,012,808) excluding the cost of amortisation of investments (£18,927,288) and foreign exchange gains/losses arising on investments (£4,053,809)	Ongoing charges are a good indicator of expenses likely to recur in the foreseeable future
EPS excluding total Amortisation	Profit after Tax excluding total amortisation (£44,121,199) divided by Weighted average number of Ordinary Shares in issue (410,527,510)	The Operating profit adjusted for Amortisation aligns with the Operative NAV which reflects that the values of Catalogues of Songs are based on fair values produced by an Independent Valuer
NAV Return	Latest published Operative NAV per share (116.7p as at 31 March 2020) increase as a percentage of the last published Operative NAV per share 103.27p as at 31 March 2019 equals 13%	To show how the assets have performed over time to shareholders
Net Debt	Loan facility amount (£60,000,000 utilised less cash held in bank (£14,098,000)	Liquidity metric used to determine how well a company can pay all of its debts if they were due immediately
Non Recurring administrative expenses	Exceptional Costs included within legal and professional fees (£758,130) plus Aborted deal expenses (£237,152) plus Interest Costs (£374,675)	Good indicator of expenses not likely to recur in the foreseeable future
Ongoing charges %	Annualised ongoing charges (£8,662,043) divided by weighted average Operative NAV (£570,576,564)	To monitor the likely to recur expenses relative to the fund size over time
The Operative NAV Profit before Tax	Operating profit for the year/period before taxation (£32,668,499) plus total amortisation (£18,927,288)	The Operating profit adjusted for Amortisation aligns with the Operative NAV which reflects that the values of Catalogues of Songs are based

		on fair values produced by an Independent Valuer
Total NAV Return	Nav Return (13%) plus dividend yield (4.7%, based on average share price of 105p)	To show how the assets have performed over time to shareholders
Weighted Average Operative NAV	Average of the Operative NAV as at 30 September 2019 (£422,289,834) and the Operative NAV as at 31 March 2020 (£718,863,294).	The average was taken given the share issuance has grown rapidly over the year

Hipgnosis Songs Fund Limited
Glossary of Capitalised Defined Terms

"**Administrator**" means Ocorian Administration (Guernsey) Limited;

"**Admission**" means admission, on 11 July 2018, to trading on the SFS of the London Stock Exchange, of the Ordinary Shares becoming effective in accordance with the Listing Rules and/or the LSE Admission Standards and on 25 September 2019 to a Premium Listing on the Main Market ;

"**AEOI**" means Automatic Exchange of Information;

"**AIC**" means the Association of Investment Companies;

"**AIC Code**" means the AIC Code of Corporate Governance;

"**Annual General Meeting**" or "**AGM**" means the annual general meeting of the Company;

"**Annual Report**" **or** "**Annual Report and Consolidated Financial Statements**" means the annual publication of the Company provided to the Shareholders to describe their operations and financial conditions, together with their Consolidated Financial Statements;

"**Apple Music**" means the music and video streaming service developed by Apple Inc.;

"**Articles of Incorporation**" or "**Articles**" means the articles of incorporation of the Company;

"**ASCAP**" means the American Society of Composers, Authors and Publishers;

"**Asset Management Committee**" means a committee which considers the ongoing management and revenue maximisation of the Catalogues of Songs;

"**Audit Committee**" or "**Audit and Risk Management Committee**" means a formal committee of the Board with defined terms of reference;

"**Average Market Capitalisation**'' means, in relation to each month where the advisory fee is payable, (''A'' multiplied by ''B'') plus (''C'' multiplied by ''D''), where:
''A'' is the average of the middle market quotations of the Ordinary Shares for the five day period ending on the last business day of that month (adjusted as appropriate to exclude any dividend where the Ordinary Shares are quoted ex such dividend at any time during that five day period); ''B'' is weighted average of the number of Ordinary Shares in issue (excluding any Shares held in treasury) at the end of each day during that month; ''C'' is the average of the middle market quotations of a class of C Shares in issue for the five day period ending on the last business day of that month (adjusted as appropriate to exclude any dividend where the C Shares of that class are quoted ex such dividend at any time during that five day period); and ''D'' is weighted average of the number of that class of C Shares in issue (excluding any Shares held in treasury) at the end of each day during that month;

"**Board**" or "**Directors**" means the Directors of the Company;

"**BMI**" means Broadcast Music, Inc;

"**BPI**" means the British Phonographic Institute;

"**Brexit**" means the departure of the UK from the EU;

"**C Shares**" means a temporary and separate class of shares which are issued at a fixed price determined by the Company;

"**Catalogue**" means one or more Songs acquired from a single songwriter or artist;

"**CBS**" means a US commercial broadcast television and radio network;

"**CD**" means compact disc;

“**CEO**” means chief executive officer;

“**CISAC**” means the International Confederation of Societies of Authors and Composers;

‘‘**Closing Market Capitalisation**’’ means, in relation to each Accounting Period, ‘‘E’’ multiplied by ‘‘F’’, where: ‘‘E’’ is the Performance Share Price; and ‘‘F’’ is the weighted average of the number of Ordinary Shares in issue (excluding any Shares held in treasury) at the end of each day during the Accounting Period;

“**Companies Law**” means the Companies (Guernsey) Law, 2008, (as amended);

“**Company**” means Hipgnosis Songs Fund Limited. References to the Company are also considered to be references to the Group, where applicable;

“**Company Secretary**” means Ocorian Administration (Guernsey) Limited;

“**Consolidated Financial Statements**” means the audited financial statements of the Company, including the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity and associated notes;

“**Conversion**” means the conversion of C Shares to Ordinary Shares;

“**Copyright Royalty Board**” means the US Copyright Royalty Board;

“**Corporate Broker**” means Nplus1 Singer Advisory LLP (N+1 Singer) and J P Morgan Securities plc;

“**Corporate Governance Code**” means The UK Corporate Governance Code 2019 as published by the Financial Reporting Council;

“COVID-19” means the global coronavirus pandemic;

“**DCF**” means discounted cash flow;

“**Disclosure Guidance and Transparency Rules**” or “**DTRs**” mean the disclosure guidance published by the FCA and the transparency rules made by the FCA under section 73A of FSMA;

“**Downloads**” means royalties for the permanent digital mechanical transfer of music;

“**DSP**” means digital service providers;

“**Earnings per Share**” or “**EPS**” means the Earnings per Ordinary Share and is expressed in pounds Sterling;

“**ECL**” means expected credit losses;

“**Excess Total Return**” means for an accounting period, it is calculated by reference to: (i) the difference between the Performance Share Price at the end of that accounting period and the higher of: (a) the Performance Hurdle (being issue price compounded by 10% per annum from initial Admission subject to appropriate adjustments in certain situations); and (b) high watermark (being the Performance Share Price at the end of the last accounting period where a performance fee was payable); multiplied by (ii) the weighted average of the number of Ordinary Shares in issue (excluding any shares held in treasury) at the end of each day during that accounting period;

“**EU**” means European Union;

“**FCA**” means the UK Financial Conduct Authority (or its successor bodies);

“**FRC**” means Financial Reporting Council;

“**FSMA**” means the UK Financial Services and Markets Act 2000;

“**GFSC**” or “**Commission**” means the Guernsey Financial Services Commission;

“**GFSC Code**” means the GFSC Finance Sector Code of Corporate Governance;

“**GMR**” means Global Music Rights;

“**Grammy**” means an award presented by the Recording Academy to recognise achievements in the music industry;

“**Group**” means Hipgnosis Songs Fund Limited and its subsidiaries;

“**IAS**” means international accounting standards as issued by the Board of the International Accounting Standards Committee;

“**IFPI**” means International Federation of the Phonographic Industry;

“**IFRIC**” means International Financial Reporting Interpretations Committee;

“**IFRS**” means the International Financial Reporting Standards, being the principles-based accounting standards, interpretations and the framework by that name issued by the International Accounting Standards Board;

“**IFRS NAV**” means the value of the Gross Assets of the Company less its liabilities (including accrued but unpaid fees) in accordance with the accounting policies adopted by the Directors;

“**Independent Valuer**” means Massarsky Consulting, Inc., appointed by the Board to independently value the Company’s Catalogues within the Portfolio;

“**Interim Report**” means the Company’s half yearly report and unaudited condensed consolidated financial statements for the period ended 30 September;

“**Investment Adviser**” means The Family (Music) Limited;

“**Investment Advisory Agreement**” means the investment advisory agreement dated 27 June 2018 between The Family (Music) Limited, the Company and Hipgnosis SFH I Limited;

“**Investment Entity**” means an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both;

“**IPO**” means the initial public offering of shares by a private company to the public;

“**ISAE 3402**” means International Standard on Assurance Engagements 3402, “Assurance Reports on Controls at a Service Organisation;

“**ISIN**” means an International Securities Identification Number;

“LGBTQQIAAP” means the abbreviation of ‘lesbian, gay, bisexual, transgender, transsexual, queer, questioning, intersex, asexual, allies, and pansexual.’

“LIBOR” means the London Interbank Offered Rate the basic rate of interest used in lending between banks on the London interbank market and also used as a reference for setting the interest rate on other loans.

“Listing Rules” means the listing rules made by the UK Listing Authority under section 73A FSMA;

“Live” means publishing revenue derived from the live performance of music copyrights at concerts;

“**London Stock Exchange**” or “**LSE**” means London Stock Exchange Plc;

“**MAR**” means EU regulation 596/2014 on market abuse;

“**MAU**” means monthly active users;

“**Mechanical**” means royalties for reproducing music, for example CD, vinyl, etc. (excluding mechanical downloads and mechanical streaming);

“**NAV per Share**” means the Net Asset Value attributable to the Ordinary Shares in issue divided by the number of Ordinary Shares in issue (excluding any Shares held in treasury) at the relevant time and expressed in Sterling;

“**Net Asset Value**” or “**NAV**” means the value of the assets of the Company less its liabilities as calculated in accordance with the Company’s valuation policy and expressed in pounds Sterling;

“**Nomination Committee**” means a formal committee of the Board with defined terms of reference;

“**Operative NAV**” means NAV as adjusted for the fair value of Catalogues of Songs;

“**Ordinary Shares”** means redeemable Ordinary Shares of no par value in the capital of the Company issued and designated as “Ordinary Shares” and having the rights, restrictions and entitlements set out in the Articles;

“**Other income**” means any income not covered by the other income types, for example sheet income and lyric exploitation;

“**Performance**” means royalties for playing music in public, for example TV/radio broadcasts, live performance, etc. and paid through to the publisher;

“**Performance Right Organisations**” or “**PROs**” means a performing rights organisation, such as PRS or BMI, which represents and collects performance royalties for and on behalf of each of its members;

“**Performance Share Price**” means in relation to each accounting period, the average of the middle market quotations of the Ordinary Shares for the one month period ending on the last business day of that accounting period;

“**Portfolio”** means the portfolio of Songs (whether organised into Catalogues or otherwise) held by the Company directly or indirectly from time to time;

“**Portfolio Committee**” means a committee which approves all purchases of Catalogues of Songs;

“**Preferred Portfolio Administrator**” means the portfolio administrators appointed by the Company in order to assist with the administration of the Portfolio including Kobalt Music Services Limited, the Company’s preferred portfolio administrator;

“**Premium Listing**” means the a Premium Listing on the Main Market of the London Stock Exchange;

“**Premium to Operative NAV**” means the situation where the Ordinary Shares of the Company are trading at a price higher than the Company’s Operative NAV;

“**Prospectus**” means the prospectus issued by the Company on 27 June 2018 and further prospectus published on 27 September 2019;

“**PSP Adjustment**” means adjustments to the Performance Share Price to (i) include the gross amount of any dividends and/or distributions paid in respect of an Ordinary Share since initial Admission; and (ii) make such adjustments to take account of C Shares as were agreed between the Company and the Investment Adviser, acting reasonably and in good faith, at the time of issuance of such C Shares;

“Public Performance” means revenue generated from licenses for the right to play music publicly in a commercial environment e.g. shops, bars, restaurants and shopping malls;

“**QR**” means quick response;

“**RCIS Rules**” means the Registered Collective Investment Scheme Rules 2015;

“Record Labels” means a company that owns, distributes and promotes musical recordings;

“**Recording Academy**” means a US academy of musicians, producers, recording engineers and other musical professionals;

“**Registrar**” means Computershare Investor Services (Guernsey) Limited;

“**Remuneration Committee**” means a formal committee of the Board with defined terms of reference;

“**RIAA**” means Recording Industry Association of America;

“**SFS**” means London Stock Exchange’s specialist fund segment of the main market for listed securities;

“**Shareholder**” means the holder of one or more Ordinary Shares;

“**Song**” means a songwriter’s and/or publisher's share of copyright interest in a song, being a musical composition of words and/or music and the songwriter's proportion of the publishing rights of a single musical track, and when construction permits, the collection of words and/or music as purchased by consumers;

"**Streaming**" means performance and mechanical royalties for digitally playing music in real-time, for example through Spotify;

"**Synchronisation**" means royalties for playing music in connection with visual media (for example film, TV, advertisements);

"**The-Dream**" means the Catalogue purchased from Terius Nash, better known by his stage name 'The-Dream';

"**TMS**" means the Catalogue purchased from an English songwriting and music production team comprised of Thomas 'Froe' Barnes, Benjamin Kohn and Peter 'Merf' Keller;

"**TV**" means television;

"**UK**" or "**United Kingdom**" means the United Kingdom of Great Britain and Northern Ireland;

"**UKLA**" means UK Listing Authority;

"**US**" or "**United States**" means the United States of America, its territories and possessions, any state of the United States and the District of Columbia;

"**Writer's Share**" means performance royalties collected by a Performance Rights Organisation and paid through directly to the songwriter as opposed to the publisher share of performance;

"**YouTube**" means the US video-sharing website;

"**£**" or "**Pounds Sterling**" or "**Sterling**" means British pound sterling and "**pence**" means British pence;

"**$**" or "**USD**" means United States dollars and "**cents**" means United States cents; and

"€" or "**EUR**" means the official currency of the majority of member states of the EU.

Hipgnosis Songs Fund Limited
Directors and General Information

Company Registration Number: 65158

Board of Directors
Andrew Sutch, Chair
Paul Burger, Senior Independent Director
Simon Holden
Andrew Wilkinson
Sylvia Coleman

Founder
Merck Mercuriadis

Advisory Board
Nile Rodgers
The-Dream
Giorgio Tuinfort
Starrah
Nick Jarjour
David Stewart
Bill Leibowitz
Ian Montone
Jason Flom
Poo Bear

Investment Adviser
The Family (Music) Limited
Merck Mercuriadis, CEO
Bjorn Lindvall , COO
Chris Helm, CFO

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Administrator and Company Secretary
Estera International Fund Managers (Guernsey) Limited
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Les Banques
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Guernsey
GY1 4LY

Effective from 6 April 2020
Ocorian Administration (Guernsey) Limited
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St Peter Port
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Corporate Brokers
N+1 Singer Advisory LLP
1 Bartholomew Lane
London
EC2N 2AX

J P Morgan Securities plc (Appointed 10 September 2019)
25 Bank Street, Canary Wharf
London
E14 5JP

Independent Auditor
PricewaterhouseCoopers CI LLP
Royal Bank Place
1 Glategny Esplanade
St Peter Port
Guernsey
GY1 2HJ

Music Specialist Legal Counsel
Bill Leibowitz
271 Madison Avenue

20th Floor
New York
New York 10016

Legal Advisers to the Company
Herbert Smith Freehills LLP
Exchange House
Primrose Street
London
EC2A 2EG

Legal Advisers to the Company as to Guernsey Law
Ogier (Guernsey) LLP
Redwood House
St Julian's Avenue
St Peter Port
Guernsey
GY1 1WA

Principal Banker
Barclays Bank PLC
PO Box 41
Le Marchant House
St Peter Port
Guernsey
GY1 3BE

Registrar
Computershare Investor Services (Guernsey) Limited
1st Floor
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Identifiers
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Ticker: SONG
SEDOL: BFYT9H7
Website: www.hipgnosissongs.com
LEI: 213800XJIPNDVKXMOC11
GIIN: 5XGPC8.99999.SL.831

Managing your account online

The Company's registrar, Computershare Investor Services (Guernsey) Limited, allows you to manage your shareholding online. If you are a direct investor you can view your shareholding, change the way the registrar communicates with you and buy and sell shares. If you haven't used this service before, all you need to do is enter the name of the Company and register your account at https://www-uk.computershare.com/investor. You'll need your Investor code (IVC) printed on your share certificate in order to register.

Corporate Summary

Structure
The Company is an investment company limited by shares, registered and incorporated in Guernsey under the Companies Law on 8 June 2018. The Company is registered with the Guernsey Financial Services Commission under the Registered Collective Investment Scheme Rules 2015, and the Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended. The Company is not authorised or regulated by the Financial Conduct Authority.

The Company makes and manages its investments directly or indirectly through a number of wholly owned subsidiary companies incorporated in England & Wales, together referred to as the Group.

Investment Process
The Company's Investment Adviser, The Family (Music) Limited, was founded by Merck Mercuriadis. Merck is the manager and/or former manager of globally successful recording artists such as Elton John, Guns N' Roses, Morrissey, Iron Maiden, Nile Rodgers and Beyoncé, and hit songwriters such as Diane Warren, Justin Tranter and The-Dream. Merck is the former CEO of The Sanctuary Group plc.

The Family (Music) Limited has been appointed by the Board to source Songs and provide recommendations to the Board on acquisition and disposal strategies. The Investment Adviser is also responsible for managing and monitoring royalty and/or fee income due to the Company from its copyrights and collection agents, and developing strategies to maximise the earnings potential of the Songs in the portfolio through improved placement and coverage of Songs.

The Investment Adviser continues to assemble an Advisory Board of highly successful music industry experts which include award winning members of the artist, songwriter, publishing, legal, financial, recorded music and music management communities, all with in-depth knowledge of music publishing and access to a significant network of relationships in the music industry.

The Board has formed a Portfolio Committee which considers the recommendations of the Investment Adviser before granting its approval to purchase the Catalogues of Songs, as well as an Asset Management Committee which considers the ongoing management and revenue maximisation of the Catalogues of Songs. These committees are chaired by Mr Burger and Mr Sutch, respectively.

AIC

The Company is a member of the Association of Investment Companies, complies with the AIC Code and is the sole constituent of the AIC's "Royalties" Specialist Investment Trusts sector classification. The Company's page on the AIC's website is at https://www.theaic.co.uk/companydata/0P0001BL9D

Website

The Company's website, which can be found at www.hipgnosissongs.com, includes information on the Company, such as its launch prospectus, past reports and accounts, policies, media coverage and regulatory news announcements.

ADVICE TO SHAREHOLDERS

In recent years investment related scams have become increasingly sophisticated and difficult to spot. We are therefore warning all our Shareholders to be cautious so that they can protect themselves and spot the warning signs.

Fraudsters will often:

- contact you out of the blue
- apply pressure to invest quickly
- downplay the risks to your money
- promise tempting returns that sound too good to be true
- say that they are only making the offer available to you
- ask you to not tell anyone else about it

You can avoid investment scams by:

- **Rejecting unexpected offers** – Scammers usually cold call but contact can also come by email, post, word of mouth or at a seminar. If you have been offered an investment out of the blue, chances are it's a high risk investment or a scam.
- **Checking the FCA Warning List** – Use the FCA Warning List to check the risks of a potential investment. You can also search to see if the firm is known to be operating without proper FCA authorisation.
- **Getting impartial advice** – Before investing get impartial advice and don't use an adviser from the firm that contacted you. If you are suspicious, report it
    - You can report the firm or scam to the FCA by contacting their Consumer Helpline on **0800 111 6768** or using their online reporting form.
    - If you have lost money in a scam, contact **Action Fraud** on 0300 123 2040 or www.actionfraud.police.uk.
      For further helpful information about investment scams and how to avoid them please visit www.fca.org.uk/scamsmart.

CAUTIONARY STATEMENT

The Chair's Statement, the Investment Adviser's Report and the Report of the Directors have been prepared solely to provide additional information for shareholders to assess the Company's strategies and the potential for those strategies to succeed. These should not be relied on by any other party or for any other purpose.

The Chair's Statement, Investment Adviser's Report and the Report of the Directors may include statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "expects", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology.

These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and include statements regarding the intentions, beliefs or current expectations of the Directors and the Investment Adviser, concerning, amongst other things, the investment objectives and investment policy, financing strategies, investment performance, results of operations, financial condition, liquidity, prospects, and distribution policy of the Company and the markets in which it invests.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance.

The Company's actual investment performance, results of operations, financial condition, liquidity, distribution policy and the development of its financing strategies may differ materially from the impression created by the forward-looking statements contained in this document.

Subject to their legal and regulatory obligations, the Directors and the Investment Adviser expressly disclaim any obligations to update or revise any forward-looking statement contained herein to reflect any change in expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based.

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Further information available online:
www.hipgnosissongs.com