

Phonographic Performance Limited (PPL)

2016 Transparency Report

This transparency report is published in respect of PPL's financial year ended 31 December 2016, in accordance with Regulation 21 of the Collective Management of Copyright (EU Directive) Regulations 2016 (the "Regulations").

This transparency report includes certain financial information which is also contained in PPL's separately-published financial statements for the year ended 2016. Such information has therefore been subject to audit by PricewaterhouseCoopers LLP, and their audit report to members is included with PPL's 2016 financial statements.

Activities during the year

The principal activity of PPL during 2016 was the collection and distribution of UK and international income for the broadcasting and public performance of sound recordings on behalf of its membership. PPL did not undertake any activities unrelated to collective rights management and in addition to the information set out below, further details of PPL's activities during 2016 can be found in PPL's 2016 Annual Review.

Financial Results

2016 saw a record performance for PPL with total collections for members passing £200 million for the first time. Total licence fee income was £212.1 million (2015: £197.0m) with net distributable revenue of £178.9 million (2015: £166.7m). Both UK and international revenue showed increases on the 2015 results, with international collections achieving a particularly notable 32% year-on-year increase. From a currency neutral perspective, international collections grew by 16%.

Distributions

PPL also succeeded in paying out more money, faster, to more members than ever before, as well as further developing the detailed statements provided in support of those payments. A noteworthy achievement was that over 83,000 performers received at least one payment from PPL in 2016 (2015: 65,000) together with over 9,500 recording rightsholders (2015: 6,500). The efficiency of distributions is illustrated by PPL paying out 94.6% of 2015 collections by 30 June 2016, the highest ever first time pay through rate.

Business Review

A significant development during 2016 was that strong progress was made towards the setting up of the joint venture in the area of public performance licensing between PPL and *PRS for Music* Limited (PRS). Regulatory clearance was received from the Competition and Markets Authority and the parties have announced that the location of the new joint venture premises will be Leicester. Significant investment continues to be made by the parties in setting up the joint venture and developing the licensing system that will be required to provide a simplified licensing experience.

PPL has also continued to invest in employee development, which has been recognised through winning Company of the Year, Small Medium Enterprise at the Employee Engagement Awards. Continued investment in people is coupled with a significant IT investment programme aimed at responding to the needs of PPL's members, a changing marketplace and targeting sustainable long term growth.

Information on refusal to grant a licence

Regulation 21(4)(c) requires the Annual Transparency Report to include information on any refusals to grant a licence in accordance with paragraph (5)(b)(ii) of Regulation 15. During 2016, PPL offered a licence to all applicants who requested a licence within PPL's mandated scope of activity and who provided the information necessary in order to calculate the fees due.

Legal and Governance structure of PPL

PPL is a private company limited by guarantee, registered in England and Wales with company number 288046.

PPL meets the definition of a collective management organisation (CMO) under the Regulations. Within the meaning of the Regulations, PPL has responsibilities under the Regulations to members (i.e. record companies and other owners/UK exclusive licensees of sound recording copyrights who meet the membership criteria under PPL's articles of association) and (b) right holders who are not members but who have a direct legal relationship with PPL by law or by way of assignment, licence or other contractual arrangement (i.e. performers).

PPL has a Board of Directors that oversees all aspects of the company's business, including its costs, revenues, licensing and operating policies. There are up to 17 directors on the PPL Board with representation from both major and independent record companies and the performer community (the latter being represented by six Performer Directors). The non-executive directors of the PPL Board also carry out the supervisory function required under Regulation 8. As explained further below, certain of the PPL Board's powers and responsibilities are delegated to board committees.

PPL meets the requirements under the Regulations regarding general assemblies. The PPL AGM is typically held in June each year, at which directors are elected and PPL's members vote on PPL matters including (as applicable) the general assembly matters designated in Regulation 8. PPL also holds an Annual Performer Meeting at which Performer Directors are elected.

Members of the Board of Directors during 2016

Roger Armstrong
Roxanne de Bastion (appointed 24 November 2016)
Julian French
Nick Hartley
Crispin Hunt
Mark Kelly
Peter Leatham
Martin Mills
Gerald Newson (until 24 November 2016)
Christine Payne
James Radice
Adrian Sear
Rt Hon Lord Smith of Finsbury
John Smith
Michael Smith
Peter Stack
David Stopps (appointed 24 November 2016)
Horace Trubridge (appointed 1 January 2016)

Board Remuneration

The remuneration paid in 2016 to the two executive board directors who were employed and paid by PPL, and who constitute the persons who manage PPL's business within the meaning of Regulation 9, was as follows: the remuneration paid to the Chief Executive Officer amounted to £710,263 and remuneration paid to the Chairman amounted to £60,000. The Chief Executive Officer is accruing post-employment benefits under the defined benefit scheme and is also a member of the defined contribution scheme.

The remuneration paid in 2016 to PPL's non-executive board directors (who exercise the supervisory function under Regulation 8), by way of meeting attendance fees, amounted to £82,441.

Board Committees

The Performer Board is a specialist committee of the PPL Board with responsibility for overseeing the performer-related aspects of PPL's operations. It includes the performer directors from the PPL Board and two other PPL Board directors.

The PPL Board is also supported by four other committees, the members of which represent a cross-section of major record companies, independent record companies and performers. Three of the four committees also include PPL management representatives. Committee remits, and all committee members, are determined by the PPL Board. This ensures that the directors (who have fiduciary duties to PPL and its members as a whole) can exercise appropriate governance. The four committees are:

- The Finance Committee is primarily tasked with reviewing and setting PPL's revenue and costs budget each year, prior to ratification by the PPL Board.
- The Distribution Committee's primary function is to review and approve proposed distributions of revenue to PPL members (and the rules and processes underpinning them).
- The Audit Committee is a forum for PPL's auditors to talk directly to PPL's management and external stakeholders about their audit work with PPL.
- The Remuneration Committee's role is to review executive remuneration. This is the one committee which consists entirely of PPL Board directors.

Entities owned or controlled by PPL in whole or in part

PPL controls in part the following companies:

- National Discography Limited, a company registered in England and Wales with company registration number 03302947 (currently dormant).
- PPL PRS Limited, a company registered in England and Wales with company registration number 10376001 (incorporated in 2016).

Financial Information

The 2016 audited financial statements of PPL, comprising of the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and the Cash Flow Statement are shown on the following pages.

Statement of Comprehensive Income For the Year Ended 31 December 2016

	2016 £000
LICENCE FEE INCOME	212,114
Cost of collection and distribution	(31,302)
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NET INCOME BEFORE INTEREST AND TAXATION	180,812
Interest receivable	1,366
Interest payable	(713)
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NET INCOME BEFORE TAXATION	181,465
Taxation	-
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AMOUNT AVAILABLE FOR DISTRIBUTION	181,465
Anti-piracy/copyright protection	(2,547)
Amount to be distributed to members	(178,918)
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RETAINED RESERVES	-
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Other comprehensive (expense) / income:	
Actuarial gain/(loss) on pension scheme	(4,271)
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TOTAL COMPREHENSIVE (EXPENSE) / INCOME FOR THE YEAR	(4,271)
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Cost to income ratio (excluding pension scheme costs)	14.8%

The results above for the current year refer entirely to continuing operations.

Statement of Financial Position
As at 31 December 2016

	2016 £000
FIXED ASSETS	
Intangible assets	5,286
Tangible assets	1,107
Investments	50
	6,443
Interest payable	
Licence fees receivable	16,936
Other debtors	7,766
Prepayments and accrued income	9,205
Short term fixed deposits	87,500
Cash at bank and in hand	33,048
	154,455
CREDITORS: amounts falling due within one year	(163,548)
NET CURRENT LIABILITIES	(9,093)
TOTAL ASSETS LESS CURRENT LIABILITIES	(2,650)
PROVISIONS FOR LIABILITIES	(1,599)
NET LIABILITIES BEFORE PENSION LIABILITIES	(4,249)
NET PENSION LIABILITY	(4,271)
NET LIABILITIES	(8,520)
RESERVES	
Accumulated Losses	(8,520)

Statement of Changes in Equity
For the Year Ended 31 December 2016

	Retained Earnings £000
Balance as at 1 January 2015	(7,129)
Result for the financial year	-
Other comprehensive expense for the year	2,880
Total comprehensive expense for the year	<u>2,880</u>
Balance as at 31 December 2015	(4,249)
Result for the financial year	-
Other comprehensive income for the year	(4,271)
Total comprehensive income for the year	<u>(4,271)</u>
Balance as at 31 December 2016	<u><u>(8,520)</u></u>

**Cash Flow Statement
As at 31 December 2016**

	2016 £000
NET CASH FLOW FROM OPERATING ACTIVITIES	177,316
Taxation paid	-
	177,316
CASH FLOW FROM INVESTING ACTIVITIES	
Interest payable	(4,116)
Purchase of tangible fixed assets	(998)
Payment to acquire investments	(50)
Interest paid	(604)
Interest received	1,431
Cash inflow/(outflow) to increase investments	35,000
	30,663
CASH FLOW FROM FINANCING ACTIVITIES	
Anti-piracy/copyright protection contributions paid	(2,438)
Payments to members	(197,670)
	(200,108)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	7,871
Cash and cash equivalents at the beginning of the year	25,178
	33,049
Cash and cash equivalents at the end of the year	33,049
Cash and cash equivalents comprises of:	
Cash at bank and in hand	33,049
	33,049
Total cash and cash equivalents	33,049

Rights Revenue Collected and Associated Costs

The rights revenue collected during 2016 and the associated costs are shown below. All costs are funded from license fee income:

Category of Rights	Revenue Collected £000	Costs allocated £000	Cost allocation %
Public Performance	88,458	22,016	25%
Broadcast	73,604	8,257	11%
New Media	2,376	233	10%
Programme	1,522	146	10%
International	48,351	3,385	7%
Total	214,311	34,037	

- Public Performance revenue is generated by PPL's licensing of businesses from sectors across the UK to play recorded music in public.
- Broadcast revenue is generated from PPL's licensing of TV and radio broadcasters to include recorded music within their programming and the subsequent sale of programming after it has been broadcast on a UK channel.
- New Media revenue derives from licensing the inclusion of recorded music in certain types of webcast services and licensing broadcasters to make previously broadcast programming (containing recorded music) available on-demand - e.g. as listen-again or catch-up services.
- Programme revenue stems from licensing the supply of TV broadcast programmes and spoken-word radio programmes (containing recorded music) to the general public on DVD and/or CD.
- International revenue is collected on behalf of mandated members through PPL's network of agreements with Collective Management Organisations (CMOs) in other countries.

Total revenue collected as shown above differs from licence fee income reported in the Statement of Comprehensive Income due to a difference in the basis of revenue recognition. Licence fee income in the Statement of Comprehensive Income was recognised evenly over the period of the licence term whereas for distribution purposes, certain revenue was recognised on a cash received basis.

Direct costs of licensing activities were allocated directly to each category of rights. Indirect costs were pro-rated across each category of rights. The same methodology and cost rates were applied to allocations made to direct members and members of other collective management organisations. During the year £1.37 million in interest income was generated from the investment of rights revenue. Interest income was pro-rated across the categories of rights revenue and offset against the costs attributed to that revenue type for the year.

Non-Management Cost Deductions

2016 costs included non-management cost deductions for contributions made to anti-piracy/copyright protection and charitable organisations as listed below:

Non-management costs	2016 £000
Anti-piracy/copyright protection	
The British Phonographic Industry Limited	1,322
The International Federation of the Phonographic Industry	603
Impala	66
UK Music	556
Total anti-piracy/copyright protection	2,547
Charitable donations	
Hospital Broadcasting Association	33
The Young Musicians Symphony Orchestra	5
Young Persons Concert Foundation	11
English Schools Orchestra and Choir	2
Total Charitable Donations	51
Total non-management costs	2,598

Non-management costs were applied equally across all categories of rights.

Allocations and Payments of Rights Revenue

Total allocations and payments of rights revenue made during 2016 (primarily relating to revenue collected in 2015), including those made to direct members as well as members of other collective management organisations (CMOs), were as follows:

Allocations by Rights Category	2016 £000
Public Performance and Broadcast	138,994
New Media	3,207
Programme	538
International	44,148
Total	186,887

Payments	2016 £000
UK Revenue	143,187
International Revenue	50,875
Payment Adjustments*	19,439
Total	213,501

(*Payment adjustments are predominately made up of the net total of UK VAT, UK withholding taxes and interest.)

The main annual distribution of UK revenue was made in June 2016, while payments of International revenue and adjustments relating to previous distributions were made at intervals throughout the year as shown below.

Payment Date	Payment Type
29 January 2016	Distribution closure payment for 2008 undistributed revenue
31 March 2016	International revenue
30 June 2016	Main annual payment of UK revenue collected in 2015
30 June 2016	Adjustment of UK revenue collected during 2009-2014
30 June 2016	International revenue
30 September 2016	International revenue
19 December 2016	Adjustment of UK revenue collected during 2009-2015
19 December 2016	International revenue

Distributions made outside the Regulation 12(2) deadline

Regulation 12(2) specifies that distributions of a CMO's rights revenue should be made within 9 months from the end of the financial year in which the rights revenue was collected, unless prevented by objective reasons.

Of the net UK revenue collected in 2015, £2.4 million (2%) was first distributed to members in December 2016, three months outside the timescale set in Regulation 12(2).

PPL was prevented from distributing these monies within the given timeframe due to objective reasons that are acknowledged under the regulations, these include issues relating to reporting from the music users, the identification of the correct rightsholders and matching of information on recordings used with right holders. For the majority of these monies PPL does not receive any usage reporting and has to take the additional step of identifying the music used via audio recognition technology. For other parts of these monies, the nature of the use (digital non-linear audio streaming), means that the usage information received is much larger than for other uses and a longer time is needed to match the usage with right holders.

Held Revenue

Rights revenue that was unallocated to members as at 31 December 2016, broken down by rights category and year of collection, is shown below:

Category of Rights	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	Total £000
Public Performance and Broadcast	3,084	3,021	3,220	3,484	3,910	4,978	21,697
New Media	133	214	136	170	196	227	1,076
Programme	6	21	36	36	30	28	157
International Income	899	599	636	3,949	1,999	1,228	9,310
Total	4,122	3,855	4,029	7,638	6,135	6,461	32,240
<i>% of Net Distributable Revenue</i>	<i>3%</i>	<i>3%</i>	<i>3%</i>	<i>5%</i>	<i>4%</i>	<i>4%</i>	

PPL has continued to have a clear focus on reducing amounts collected but not yet allocated to rightsholders, with the result that only a very small percentage is unallocated. This has broadly been achieved via two main approaches. Firstly, investment in systems, processes and policies has enabled the first time pay-through rate to increase year on year. In 2016, in respect of 2015 collections, PPL paid through over 96%. . Secondly, PPL has focused on reducing unallocated amounts from older collection periods. This stream of work has focused on repertoire and member data quality work and developing distribution data policy. Where appropriate this has also included purchase of third party information to enable distribution.

There was also an additional £1.4 million in international income, collected between 2004 and 2009, that remained unallocated at year end.

Rights revenue that was allocated but unpaid at 31 December 2016, due to member accounts being on hold for such reasons as PPL was awaiting valid bank details, was £6.29 million.

Non-Distributable Revenue

PPL operates a distribution closure process (in accordance with its general policy on non-distributable amounts, as adopted by PPL's AGM) whereby any undistributed revenue after a period of 6 years from the point of first distribution is re-allocated to members. This measure is in line with the applicable 6 year statutory limitation period and means that PPL no longer accepts claims from members in relation to music which was used in a year once it is closed. As at 31 December 2016, there was £1.6 million of rights revenue collected in 2009 that remained undistributed. The 2009 year was closed in accordance with the distribution closure process and these funds were paid to members in January 2017, with £200,000 donated under a partnership with the PRS for Music Foundation as funding for new music and talent development.

Collective Management Organisations (CMOs)

As at 31 December 2016, PPL had 81 international representation agreements with other CMOs, including a new agreement signed with Credidam (Romanian performer CMO) and ASSIMI (Brazilian performer CMO). In 2016, first time payments were received under agreements from MAHASZ (Hungarian record company CMO) and from RPM (Malaysian performer CMO).

International revenue received from other CMOs and paid to PPL members, as well as revenue collected by PPL and passed onto CMOs for their members during 2016 is split by CMO and territory below. In relation to the table below:

- “CMO revenue received” figures are shown net of any costs deducted by other CMOs before the funds were passed onto PPL.
- “CMO revenue paid to members” includes revenue received in 2016 and previous years from other CMOs that was paid to PPL’s direct members in 2016. It is shown net of costs deducted by PPL (details of which are provided above).
- “PPL revenue paid to CMOs” includes all PPL revenue that was paid to members of other CMOs and is shown net of costs deducted by PPL (details provided above).

Collective Management Organisation (CMO)	Territory	Member Type	CMO Revenue Received	CMO Revenue Paid to Members	PPL Revenue Paid to CMOs
			2016 £000	2016 £000	2016 £000
CAPIF	Argentina	Recording Rightsholder	-	-	3
PPCA	Australia	Recording Rightsholder	329	209	15
LSG	Austria	Recording Rightsholder	117	82	3
LSG	Austria	Performer	523	647	87
PLAYRIGHT	Belgium	Performer	3,934	3,416	123
SIMIM	Belgium	Recording Rightsholder	200	458	11
ABRAMUS	Brazil	Recording Rightsholder	46	20	1
ABRAMUS	Brazil	Performer	565	598	11
SOCINPRO	Brazil	Performer	-	-	1
UBC	Brazil	Performer	-	-	11
PROPHON	Bulgaria	Recording Rightsholder	8	1	2
PROPHON	Bulgaria	Performer	41	244	-
ACTRA	Canada	Performer	653	769	185
ARTISTI	Canada	Performer	-	-	48
Connect Music Licensing	Canada	Recording Rightsholder	143	128	85
MROC	Canada	Performer	-	-	112
FONOTICA	Costa Rica	Recording Rightsholder	-	-	2
HUZIP	Croatia	Performer	49	46	2
ZAPRAF	Croatia	Recording Rightsholder	4	-	2
INTERGRAM	Czech Republic	Recording Rightsholder	36	33	5
INTERGRAM	Czech Republic	Performer	453	414	55
GRAMEX	Denmark	Recording Rightsholder	149	97	34
GRAMEX	Denmark	Performer	1,506	1,184	144
SODINPRO	Dominican Republic	Recording Rightsholder	-	-	1
SOPROFON	Ecuador	Recording Rightsholder	-	-	0
EEL	Estonia	Performer	28	57	2
EFU	Estonia	Recording Rightsholder	48	44	1
GRAMEX	Finland	Recording Rightsholder	154	162	5
GRAMEX	Finland	Performer	651	518	35
ADAMI	France	Performer	1,495	1,129	206
SCPP	France	Recording Rightsholder	209	119	79
SPEDIDAM	France	Performer	6,131	1,672	30
SPPF	France	Recording Rightsholder	46	43	131
GVL	Germany	Recording Rightsholder	862	373	60
GVL	Germany	Performer	4,140	7,163	452
APOLLON	Greece	Performer	10	9	0
ERATO	Greece	Performer	30	27	2
GRAMMO	Greece	Recording Rightsholder	7	3	4
EJI	Hungary	Performer	396	277	1

Collective Management Organisation (CMO)	Territory	Member Type	CMO Revenue Received	CMO Revenue Paid to Members	PPL Revenue Paid to CMOs
			2016 £000	2016 £000	2016 £000
MAHASZ	Hungary	Recording Rightsholder	10	7	2
PPI	Ireland	Recording Rightsholder	147	153	45
RAAP	Ireland	Performer	330	317	557
IFPI	Israel	Recording Rightsholder	-	-	2
IMAIE	Italy	Performer	2,109	1,818	-
ITSRIGHT	Italy	Recording Rightsholder	-	-	0
ITSRIGHT	Italy	Performer	-	-	61
Nuovo IMAIE	Italy	Performer	1,134	210	41
SCF	Italy	Recording Rightsholder	81	53	34
JAMMS	Jamaica	Recording Rightsholder	2	1	7
CPRA	Japan	Performer	1,507	1,209	63
RIAJ	Japan	Recording Rightsholder	121	122	10
FKMP	Korea	Performer	-	-	0
LAIPA	Latvia	Recording Rightsholder	32	44	0
LAIPA	Latvia	Performer	64	117	0
AGATA	Lithuania	Performer	88	81	1
PPM	Malaysia	Recording Rightsholder	140	33	2
RPM	Malaysia	Performer	8	-	-
SOMEXFON	Mexico	Recording Rightsholder	-	-	6
Norma	Netherlands	Performer	381	281	-
SENA	Netherlands	Recording Rightsholder	186	184	220
SENA	Netherlands	Performer	3,361	3,533	647
Recorded Music NZ	New Zealand	Recording Rightsholder	117	129	6
GRAMO	Norway	Performer	698	776	71
GRAMO	Norway	Recording Rightsholder	14	40	-
NORWACO	Norway	Performer	223	191	-
PRODUCE	Panama	Recording Rightsholder	-	-	0
SGP	Paraguay	Recording Rightsholder	-	-	0
UNIMPRO	Peru	Recording Rightsholder	-	-	1
SAWP	Poland	Performer	58	166	0
STOART	Poland	Performer	876	570	10
ZPAV	Poland	Recording Rightsholder	81	35	10
AUDIOGEST	Portugal	Recording Rightsholder	14	-	4
GDA	Portugal	Performer	39	37	7
CREDIDAM	Romania	Performer	-	-	14
VOIS	Russia	Performer	32	5	-
VOIS	Russia	Recording Rightsholder	5	4	-
PI	Serbia	Performer	-	46	1
OFPS	Serbia	Recording Rightsholder	-	0	-
RIPS	Singapore	Recording Rightsholder	-	-	2
SLOVGRAM	Slovakia	Performer	29	20	2
Zavod IPF	Slovenia	Recording Rightsholder	-	-	1
AGEDI	Spain	Recording Rightsholder	52	43	39
AIE	Spain	Performer	1,491	1,467	162
IFPI	Sweden	Recording Rightsholder	177	-	-
IFPI	Sweden	Recording Rightsholder	-	164	16
SAMI	Sweden	Performer	963	1,445	794
IFPI	Switzerland	Recording Rightsholder	-	-	5
SWISSPERFORM	Switzerland	Performer	942	705	17
ARCO	Taiwan	Recording Rightsholder	-	-	3
MPC Music Company Limited	Thailand	Recording Rightsholder	-	-	5
UMA	Ukraine	Performer	-	0	1
AARC	United States	Performer	20	63	-
AARC	United States	Recording Rightsholder	5	11	-
AFM-AFTRA	United States	Performer	2,112	1,848	221
SOUNDEXCHANGE	United States	Recording Rightsholder	2,582	6,402	38
SOUNDEXCHANGE	United States	Performer	5,148	8,587	707
Camara Uruguay del Disco	Uruguay	Recording Rightsholder	-	-	-
Total			48,342	50,858	5,787