

# **Video Performance Limited (VPL)**

## **2016 Transparency Report**

This transparency report is published in respect of VPL'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 VPL'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 VPL's 2016 financial statements.

### **Activities during the year**

The principal activity of VPL during 2016 was the collection and distribution of licence fees for the broadcasting and public performance of music videos on behalf of its membership. VPL did not undertake any activities unrelated to collective rights management.

### **Financial Results**

During the year VPL collected licence fee income of £8.8 million (2015: £9.4m) with net distributable revenue of £7.9 million (2015: £8.4m). This showed a decrease on the 2015 results and therefore it is important that the company plans carefully for the future against a background of ongoing decline in the use music videos in areas of traditional broadcasting and public performance. Sufficient cash reserves coupled with VPL's ability to generate cash provides adequate resources to continue in operational existence for the foreseeable future.

### **Distributions**

VPL although in a declining market has continued to pay an increasing number of right holders. Over 700 right holders received at least one payment from VPL in 2016 (2015: 650). The efficiency of distributions is illustrated by the 91.5% pay-through rate of 2015 collections by 30 June 2016 (98.2%, if a single multi-territory licence is excluded).

### **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 Phonographic Performance Limited (PPL) and PRS for Music Limited. VPL's public performance licensing is currently undertaken by PPL resource and will therefore fall within scope of the joint venture. 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.

As at the end of 2016, there is uncertainty in the geopolitical landscape that may bring tougher economic conditions for both VPL's licensees and members. For VPL, the economy continues to play a part in the company's ability to collect licensing income. VPL members have also been impacted by changes within the music business, particularly with increasing access to music videos via online services meaning their use in the broadcasting and public performance markets has been in decline.

### **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, VPL offered a licence to all applicants who requested a licence within VPL's mandated scope of activity and who provided the information necessary in order to calculate the fees due.

## **Legal and Governance structure of VPL**

VPL is a private company limited by guarantee, registered in England and Wales with company number 01818862.

VPL meets the definition of a collective management organisation (CMO) under the Regulations. Within the meaning of the Regulations, VPL has responsibilities under the Regulations to members (i.e. record companies and other owners exclusive licensees of UK music video copyrights who meet the membership criteria under VPL's articles of association).

VPL manages rights on behalf of non-member right holders, (and has responsibilities under the Regulations in respect of the non-member right holders) only in respect of one multi territorial deal for a single broadcaster.

VPL 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 7 directors on the VPL Board, the non-executive directors of the VPL Board also carry out the supervisory function required under Regulation 8. As explained further below, certain of the VPL Board's powers and responsibilities are delegated to board committees.

VPL meets the requirements under the Regulations regarding general assemblies. The VPL AGM is typically held in September each year, at which directors are elected and VPL's members vote on VPL matters including (as applicable) the general assembly matters designated in Regulation 8.

### **Members of the Board of Directors during 2016**

J French  
G Kempin  
P Leathem  
J Radice  
A Sear  
M Smith  
S Wheeler

### **Board Remuneration**

Video Performance Limited paid no directors' remuneration during 2016. However £28,410 was recharged to VPL by PPL, in respect of the employment of VPL's executive director.

### **Board Committees**

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

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

### **Entities owned or controlled by VPL in whole or in part**

VPL does not own or control any other entities.

## Financial Information

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

### STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	<b>2016</b> <b>£000</b>
<b>LICENCE FEE INCOME</b>	8,830
Cost of collection and distribution	(1,004)
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<b>NET INCOME BEFORE INTEREST AND TAXATION</b>	7,826
Interest receivable	43
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<b>NET INCOME BEFORE TAXATION</b>	7,869
Taxation	-
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<b>AMOUNT AVAILABLE FOR DISTRIBUTION</b>	7,869
Amount to be distributed to members	(7,869)
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<b>RETAINED RESERVES</b>	-
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<b>Cost to income ratio</b>	11.4%

**STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2016**

	<b>2016 £000</b>
<b>FIXED ASSETS</b>	
Intangible assets	-
<b>CURRENT ASSETS</b>	
Licence fees receivable	1,172
Other debtors	1
Prepayments and accrued income	556
Short term fixed deposits	3,000
Cash at bank and in hand	2,740
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	7,469
<b>CREDITORS: amounts falling due within one year</b>	<b>(7,415)</b>
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<b>NET CURRENT ASSETS</b>	<b>54</b>
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<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>54</b>
<b>PROVISIONS FOR LIABILITIES</b>	<b>(54)</b>
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<b>NET ASSETS</b>	<b>-</b>
	<hr/> <hr/>
<b>RESERVES</b>	
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Retained earnings	-
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**CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2016**

	<b>2016 £000</b>
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	7,054
Taxation paid	-
	7,054
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	
Interest received	58
Cash inflow for investment	3,500
	3,558
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	
Payments to members	(8,448)
	(8,448)
<b>NET INCREASE IN CASH AT BANK AND IN HAND</b>	
	2,164
Cash and cash equivalents at the beginning of the year	576
	2,740
<b>Cash and cash equivalents at the end of the year</b>	2,740
<b>Cash and cash equivalents comprises of:</b>	
Cash at bank and in hand	2,740
	2,740
<b>Total cash and cash equivalents</b>	2,740

## 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	831	180	22%
Dubbing	680	97	14%
Broadcast	7,311	701	10%
New Media	111	10	9%
<b>Total</b>	<b>8,933</b>	<b>988</b>	

- Public Performance revenue is generated by VPL's licensing of businesses from sectors across the UK to play music videos in public.
- Dubbing revenue is derived from VPL's licensing of videos to be copied and stored on a licensee's central database and any subsequent copying of that video to any playout systems.
- Broadcast revenue is generated from VPL's licensing of TV to include music videos within their programming.
- New Media revenue derives from licensing the inclusion of music videos in broadcasters' audio visual on demand services.

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. During the year £0.4 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

There were no non-management cost deductions during 2016.

### Allocations and Payments of Rights Revenue

Total allocations and payments of rights revenue made during 2016 (primarily relating to revenue collected in 2015) were as follows:

Allocations by Rights Category	2016 £000
Public Performance and Broadcast	8,167
New Media	98
<b>Total</b>	<b>8,265</b>

Payments	2016 £000
UK Revenue	8,434
Payment Adjustments*	974
<b>Total</b>	<b>9,408</b>

(\*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 adjustments relating to previous distributions were made at intervals throughout the year as shown below.

<b>Payment Date</b>	<b>Payment Type</b>
30 June 2016	Main annual payment of UK revenue collected in 2015
30 September 2016	Main annual payment of Multi territory broadcast revenue 2015 and adjustment of previous years.
19 December 2016	Adjustment of UK and Multi territory broadcast revenue

### **Distributions made outside the Regulation 12(2) deadline**

In line 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, £115,920 (1% of the 2015 Net Distributable Revenue) was first distributed to right holders in December 2016, three months outside the timescale set in Regulation 12(2).

VPL was prevented from distributing these monies within the given timeframe due to objective reasons that are acknowledged under the regulations, including the identification of the correct right holders and matching of information on videos used with right holders. In respect of all monies first distributed in December 2016, the nature of the use (digital non-linear video 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 right holders as at 31 December 2016, broken down by rights category and year of collection, is shown below:

<b>Category of Rights</b>	<b>2010 £000</b>	<b>2011 £000</b>	<b>2012 £000</b>	<b>2013 £000</b>	<b>2014 £000</b>	<b>2015 £000</b>	<b>Total £000</b>
Public Performance and Broadcast	109	95	109	470	490	606	1879
New Media	0	0	30	21	39	27	117
<b>Total</b>	<b>109</b>	<b>95</b>	<b>139</b>	<b>491</b>	<b>529</b>	<b>633</b>	<b>1996</b>
<i>% of Net Distributable Revenue</i>	<i>1%</i>	<i>1%</i>	<i>2%</i>	<i>6%</i>	<i>6%</i>	<i>8%</i>	

VPL has continued to have a clear focus on reducing amounts collected but not yet allocated to right holders, with the result that, excluding a single multi-territory licence (in respect of which specific factors apply), only a very small percentage is unallocated. Of the £2.0 million held monies as at 31 December 2016, £1.5 million is related to said multi-territory licence, where management of rights in multiple non-UK territories necessitates a claims process of longer duration.

VPL's success in paying out monies has broadly been achieved via two main approaches. Firstly, investment in systems, processes and policies has enabled the pay-through rate to remain consistently high year on year in respect of collections from the previous year (93.2% in respect of 2015 monies paid out in 2016, which rises to 98.5% if excluding the single multi-territory licence referred to above). Secondly, VPL 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.

There was also an additional £236,166 collected prior to 2010 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 VPL was awaiting valid bank details, was £245,462.

### **Non-Distributable Revenue**

VPL operates a general policy on non-distributable amounts, as adopted by VPL's AGM. As a result of historically low amounts of non-distributable revenue VPL has not historically operated a distribution closure process and VPL instead continues to seek to distribute these revenues to the relevant right holders. The one current exception is that a subset of the broadcasting revenue relating to a single multi-territory licence is subject to a distribution closure process whereby any undistributed revenue after a period of 3 years from the point of first distribution is re-allocated to right holders who previously

received allocations in respect of that distribution year. The 2012 year was closed in accordance with this distribution closure process and these funds were paid to right holders in December 2016.