

Company Registration No. 00199120 (England and Wales)

Mechanical-Copyright Protection Society Limited

Annual Report and Financial Statements

For the Year Ended 31 December 2016

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Mechanical-Copyright Protection Society Limited

COMPANY INFORMATION

Directors

Writer

J Nott

Publishers

J Alway

S Platz

W Downs

N Elderton

M Lavin

J Minch

Executive Director

J Dyball

External Director

P Dolan

Officer

Chairman

C Butler

Secretary

S Burton

Company number

00199120

Registered office

2 Pancras Square

London

N1C 4AG

Independent auditors

PricewaterhouseCoopers LLP

1 Embankment Place

London

WC2N 6RH

MECHANICAL-COPYRIGHT PROTECTION SOCIETY LIMITED

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MECHANICAL-COPYRIGHT PROTECTION SOCIETY LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

The directors present the Strategic report and Financial Statements for the year ended 31 December 2016.

Review of the Business

Since 1 July 2013 Mechanical-Copyright Protection Society Limited ("the company") has operated under a contract known as the Alliance Stability Deal (the 'Deal') with Performing Right Society Limited ('PRS'), whereby PRS's subsidiary PRS for Music Limited ('PfM') provides substantially all of the company's operational services in return for a fixed fee. The Deal also required the company to adjust its payments for the support provided under the Alliance Stability Deed to the extent that it generates net profits after tax to fund the additional contribution. The adjustment to the Alliance Stability Deed was fully repaid in 2015 (2015 – £4,451,000) and so no further contribution was required in 2016. Further details are set out in note 4.

In April 2013 the company entered into a service level agreement (SLA) with PRS for the administration of the day to day operational services of the business. This SLA was for a period of 3 years and 6 months ending on 31 December 2016. An extension to 30 June 2017 was agreed in 2016. A request for proposal process has been undertaken by the company in 2016 with the aim of determining the most effective and cost efficient provision of operational services to MCPS for the next 3-5 years.

The company's key financial and other performance indicators during the year, excluding exceptional items, were as follows:

	2016	2015	Change
	£000	£000	£000
Profit before taxation	3,454	4	3,450
Net royalties distributed	150,216	140,090	10,126
Commission on distributions	16,608	18,096	(1,488)
Administrative expenses	14,882	19,593	(4,711)

The 2016 administrative expenses do not include a contribution to PRS under the Alliance Stability Deed, as it was fully repaid in 2015. Excluding the adjustment for the deed repayment in 2015, expenses have reduced by 1.7% in 2016 (2015: reduced by 5.2%).

Principal risks and uncertainties

The directors established an Audit and Risk Committee in 2014 and delegated to it responsibility for monitoring and management of risks. The Audit and Risk Committee met 3 times in 2016. The principal risks and uncertainties that the company is exposed to can be grouped into the following categories:

Market risks

The company's business is transforming from one that is dominated by physical product licensing to one in which this source of income makes a less significant financial contribution and in which online licensing and broadcast licensing are more economically significant. The directors consider that the company will be able to avoid incurring losses for the foreseeable future. However, the company is still exposed to risk if its financial forecasts prove to be inaccurate and the actual rate of decline in physical product sales is higher than forecast or the actual rate of growth in the broadcast and online licensing areas is lower than forecast.

MECHANICAL-COPYRIGHT PROTECTION SOCIETY LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

Principal risks and uncertainties (continued)

Market risks (continued)

Competitors successfully attracting members away from the company, and/or members deciding to partially or wholly withdraw their rights in order to enter into direct agreements with licensees, would also adversely affect levels of future income and the profitability of the company.

Legislative risks

The company is subject to the risk of copyright law changing in the future to the company's detriment. The company is not aware of any pending copyright legislation that would, if enacted, have an adverse impact on the company's business or prospects. However the company is aware of the Collective Rights Management Directive and the company has agreed a Memorandum of Understanding with the Intellectual Property Office to ensure it is applying the CRM Directive where practical.

On 23 June 2016 the UK electorate voted to leave the European Union. This decision commences a process that is likely to take a minimum of two years to complete, and during this time the UK remains a member of the European Union. There will be a resulting period of uncertainty for the UK economy with increased volatility expected in financial markets.

Liquidity and financial instrument risks

The nature of the company's operating model is such that it holds surplus cash; at the end of 2016 the company held cash and cash equivalents of £57,167,000 (2015 – £52,244,000). The company also had amounts receivable from PfM and PRS of £17,529,000 at 31 December 2016 (2015 - £21,462,000). The directors do not consider the amount receivable from PfM and PRS to be at risk. The directors consider that the liquid resources of the company are sufficient to fund the operations for the foreseeable future. The company does not have material financial instrument risk.

Exposure to price and credit risk

The company is exposed to various types of price risk. In the case of physical product licensing, market forces can result in reducing the unit price on which the absolute level of royalty is calculated. Such a reduction in the price of the physical product would in turn adversely affect the company's income through the concomitant effect on commission income.

The company is also exposed to pricing risk through the risk of licensing schemes being referred to the Copyright Tribunal.

The company is committed to operating under the terms of the Cannes IV agreement which places a cap on commission rates for certain physical product license schemes within the market and so restricts the company's option of increasing commission rates to compensate for falling volumes.

Credit risk is the risk that a debtor will cause a financial loss for the other party by failing to discharge a payment obligation. Company policies are aimed at minimising such losses, and require that deferred terms are only granted to customers who demonstrate an appropriate payment history and satisfy credit worthiness tests. Details of the company's debtors are shown in note 11 to the financial statements.

If the company appoints a new service provider to manage its day to day operations there is a risk that distributions may not be made in line with current established timetables.

On behalf of the board

.....
J Dyball
Director
24th March 2017

MECHANICAL-COPYRIGHT PROTECTION SOCIETY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

The directors present their Annual Report and the audited Financial Statements for the company for the year ended 31 December 2016.

Principal activities

The principal activity of the company continued to be that of the licensing of mechanical copyrights and the collection and distribution of associated royalties. There has been no change in the principal activity of the company during the year. The company is a wholly-owned subsidiary of the Music Publishers' Association Limited, a company limited by guarantee and incorporated in the UK, which prepares group financial statements.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Writer

J Nott

Publishers

J Alway
S Platz
W Downs
N Elderton
M Lavin
J Minch

Executive Director

J Dyball

External Director

P Dolan

In accordance with the company's articles of association, one third of the directors are required to retire by rotation and, being eligible, are entitled to offer themselves for re-election. The rotation of directors did not take place in 2016 due to the continuity require with the company undertaking a tender process for the provision of its operational services.

Chairman

Christopher Butler continued as the non-statutory chairman.

Results and dividends

The results for the year are set out on page 8.

No ordinary dividends were paid. The directors do not recommend payment of a final dividend (2015 - £nil).

Qualifying third party indemnity provisions

The company has granted an indemnity to its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

MECHANICAL-COPYRIGHT PROTECTION SOCIETY LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

Future developments

The directors are confident that the changing nature of the industry will create a stable future for the company. The directors are also aware that the markets in which the company operates, while giving rise to many challenges, are still a source of significant revenue for its customers.

Independent Auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution proposing that they be re-appointed will be put at a General Meeting.

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, Directors' report and Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102), and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure to auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditors are unaware. Additionally, each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Corporate governance

The company's board is responsible for the direction of the company. The Executive Director is responsible for monitoring the financial performance of the company and the satisfactory operation of the contract with PFM. Directors continue to direct policy on commercial matters through close involvement with PFM's committees which specialise in specific areas of commercial focus, such as Licensing and Distribution. The company's Board met 11 times during the year. The company's Audit and Risk Committee which has delegated responsibility for monitoring and managing risks met 3 times during the year.

MECHANICAL-COPYRIGHT PROTECTION SOCIETY LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

Going concern

The business of the company is undergoing a transition. As sales of physical products, such as compact discs and DVDs diminish, the commission that the company earns from licensing associated mechanical copyrights diminishes. The company's other sources of income - commission from licensing broadcasters' use of the mechanical right and commission from licensing the mechanical right for online uses - has increased and is expected to continue to increase. In 2016 royalties distributed have increased by over £10 million, or 7%, to £150 million. Excluding exceptional member reserve releases of £1.8m in 2015, relating to the recognition of historic commissions on advance payments for Online licensing and the recognition of unidentified Copyright Control greater than 6 years old from MCPS Ireland, commission has increased in line with revenue growth.

In 2016, the directors continued to focus closely on the company's prospects, sources of income and cost saving opportunities and were in close dialogue with the Boards of PRS and Pfm. On 17 April 2013, the company signed an agreement ('the Alliance Stability Deal') to reconfigure its relationship with PRS. Under the 2013 Agreement, the company sold its shares in Pfm for £1 on 1 July 2013 and entered into a contract with PRS for the provision of operational support services. This contract has an initial term of three years and six months which concluded on 31 December 2016. The company has extended the contract to 30 June 2017 to enable it to finish the new service level agreement appointment process, with the aim of determining the most effective and cost efficient provision of operational services. There has been an expression of interest to purchase the business and the company is exploring this option in conjunction with the service level appointment process.

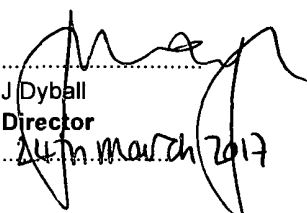
At 31 December 2016, the company has net liabilities of £8,793,000 (2015: £13,446,000). The directors have concluded that the working capital of the company and its cash reserves are likely to prove adequate to fund the company's activities for the foreseeable future. This conclusion is supported by the directors' assessment of market developments and financial forecasts. As a result the directors have also concluded that the company remains a going concern and will continue to monitor the company's profitability and prospects within its changing markets

In connection with the going concern assessment, attention is drawn to the section of this Annual Report setting out the directors' assessment of the principal risks and uncertainties that the company faces.

Code of Conduct

The company carries on its membership and domestic licensing activities in line with the PRS for Music Code of Conduct, published in 2012 to meet the requirements of the British Copyright Council's Principles of Good Practice for Collective Management Organisations, the principal voluntary framework for UK collecting society best practice. The company is committed to on-going internal review of its Code and operations to ensure that they continue not only to meet BCC standards but are materially aligned with the Government's current Minimum Standards for UK Collecting Societies and proposed statutory minimum criteria for licensing bodies.

On behalf of the board


J Dyball
Director
24th March 2017

MECHANICAL-COPYRIGHT PROTECTION SOCIETY LIMITED

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF MECHANICAL-COPYRIGHT PROTECTION SOCIETY LIMITED

Report on the financial statements

Our opinion

In our opinion, Mechanical-Copyright Protection Society Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Statement of financial position as at 31 December 2016;
- the Income statement for the year then ended;
- the Statement of cash flows for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic report and the Directors' report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 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; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

MECHANICAL-COPYRIGHT PROTECTION SOCIETY LIMITED

INDEPENDENT AUDITORS' REPORT (CONTINUED)

TO THE MEMBERS OF MECHANICAL-COPYRIGHT PROTECTION SOCIETY LIMITED

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic report and Directors' report, we consider whether those reports include the disclosures required by the applicable legal requirements.



Brian Henderson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

24 MARCH 2017

MECHANICAL-COPYRIGHT PROTECTION SOCIETY LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 £000	2015 £000
Royalties payable	15	150,216	140,090
Revenue			
Commission levied on distributions	3	16,608	18,096
Fees receivable		60	68
Minor sums		994	839
Total Revenue		17,662	19,003
Administrative expenses	4	(14,882)	(19,593)
Operating profit/(loss)	5	2,780	(590)
Investment income	8	674	594
Profit before taxation		3,454	4
Taxation	9	1,199	-
Profit for the financial year		4,653	4
Total comprehensive income for the year		4,653	4

The income statement has been prepared on the basis that all operations are continuing operations.

The notes on pages 12 to 23 form an integral part of these financial statements.

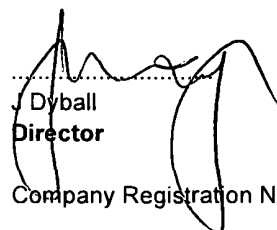
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STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	Note	2016 £000	2015 £000
Fixed assets			
Investments	10	1	1
Current assets			
Trade and other receivables falling due after one year	11	5,789	5,372
Trade and other receivables falling due within one year	11	19,800	22,459
Short term deposits	12	47,000	40,000
Cash at bank and in hand	13	10,167	12,244
		<u>82,756</u>	<u>80,075</u>
Current liabilities - amounts falling due within one year			
Trade and other payables	14	(10,346)	(7,118)
Royalties payable	15	(81,204)	(86,404)
		<u>(91,550)</u>	<u>(93,522)</u>
Net current liabilities		(8,794)	(13,447)
Total assets less current liabilities		<u>(8,793)</u>	<u>(13,446)</u>
Equity			
Called up share capital	18	19	19
Accumulated losses		(8,812)	(13,465)
Total equity		<u>(8,793)</u>	<u>(13,446)</u>

The financial statements on pages 8 to 23 were approved by the board of directors and authorised for issue on 24th March 2017 and are signed on its behalf by:


J. Dyball
Director

Company Registration No. 00199120

The notes on pages 12 to 23 form an integral part of these financial statements.

MECHANICAL-COPYRIGHT PROTECTION SOCIETY LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	Called up Share capital £000	Accumulated losses £000	Total Equity £000
Balance at 1 January 2015	19	(13,469)	(13,450)
	<hr/>	<hr/>	<hr/>
Year ended 31 December 2015:			
Total comprehensive income for the year	-	4	4
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2015	19	(13,465)	(13,446)
	<hr/>	<hr/>	<hr/>
Year ended 31 December 2016:			
Total comprehensive income for the year	-	4,653	4,653
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2016	19	(8,812)	(8,793)
	<hr/>	<hr/>	<hr/>

The notes on pages 12 to 23 form an integral part of these financial statements.

MECHANICAL-COPYRIGHT PROTECTION SOCIETY LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 £000	2015 £000
Cash flows from operating activities			
Cash generated from operations	21	4,200	6,739
Investing activities			
Interest received		674	594
Net cash generated from investing activities		674	594
Net cash used in financing activities		-	-
Net increase in cash and cash equivalents		4,874	7,333
Cash and cash equivalents at beginning of year		52,244	44,911
Effect of foreign exchange rates		49	-
Cash and cash equivalents at end of year		<u>57,167</u>	<u>52,244</u>
Represented by:			
Investments - short-term deposits		47,000	40,000
Cash at bank and in hand		10,167	12,244
		<u>57,167</u>	<u>52,244</u>

The notes on pages 12 to 23 form an integral part of these financial statements.

MECHANICAL-COPYRIGHT PROTECTION SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1 Accounting policies

Company information

Mechanical-Copyright Protection Society Limited (the "company") is a company limited by shares, domiciled and incorporated in England and Wales. The registered office is 2 Pancras Square, London, N1C 4AG. The company is a wholly-owned subsidiary of the Music Publishers' Association Limited, which prepares group financial statements. Consequently, the company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

Definitions

'MCPS' means Mechanical-Copyright Protection Society Limited

'PRS' means Performing Right Society Limited

'PfM' means PRS for Music Limited

Statement of compliance

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

Basis of preparation

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £000.

The financial statements have been prepared on the historical cost convention, modified to include certain financial instruments at fair value. The principal accounting policies adopted, which have been consistently applied to all years presented, are set out below.

Format of Income statement and Statement of financial position

The formats of the Income statement and Statement of financial position have been adapted from that prescribed by the Companies Act 2006 in order to better reflect the nature of the business.

Going concern

The business of the company is undergoing a transition. As sales of physical products, such as compact discs and DVDs diminish, the commission that the company earns from licensing associated mechanical copyrights diminishes. The company's other sources of income - commission from licensing broadcasters' use of the mechanical right and commission from licensing the mechanical right for online uses - has increased and is expected to continue to increase. In 2016 royalties distributed have increased by over £10 million, or 7%, to £150 million. Excluding exceptional member reserve releases of £1.8m in 2015, relating to the recognition of historic commissions on advance payments for Online licensing and the recognition of unidentified Copyright Control greater than 6 years old from MCPS Ireland, commission has increased in line with revenue growth.

In 2016, the directors continued to focus closely on the company's prospects, sources of income and cost saving opportunities and were in close dialogue with the Boards of PRS and PfM. On 17 April 2013, the company signed an agreement ('the Alliance Stability Deal') to reconfigure its relationship with PRS. Under the 2013 Agreement, the company sold its shares in PfM for £1 on 1 July 2013 and entered into a contract with PRS for the provision of operational support services. This contract has an initial term of three years and six months which concluded on 31 December 2016. The company has extended the contract to 30 June 2017 to enable it to finish the new service level agreement appointment process, with the aim of determining the most effective and cost efficient provision of operational services. There has been an expression of interest to purchase the business and the company is exploring this option in conjunction with the service level appointment process.

MECHANICAL-COPYRIGHT PROTECTION SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

1 Accounting policies

(Continued)

Going concern (continued)

At 31 December 2016, the company has net liabilities of £8,793,000 (2015: £13,446,000). The directors have concluded that the working capital of the company and its cash reserves are likely to prove adequate to fund the company's activities for the foreseeable future. This conclusion is supported by the directors' assessment of market developments and financial forecasts. As a result the directors have also concluded that the company remains a going concern and will continue to monitor the company's profitability and prospects within its changing markets.

In connection with the going concern assessment, attention is drawn to the section of this Annual Report setting out the directors' assessment of the principal risks and uncertainties that the company faces.

Revenue

Revenue, which is stated net of value added tax, represents commission earned on royalties received from licensees and subsequently distributed to rights-holders, fees receivable, minor sums and suspense balances.

Commission levied on distributions

Commission on royalties is based on distributions made within the financial year and is stated net of value added tax.

Fees receivable

Fees receivable relate to one off membership and licensing fees and are recognised on receipt, which is when the company earns the right to consideration.

Minor sums

Minor sums relate to micro payments received that are too small to distribute to individual members, and hence are accounted for at the time the distribution would have taken place.

Suspense balances

Suspense balances occur when royalties have been received and their ownership cannot be identified or where it is not possible to distribute the royalties for other reasons. Whilst the company makes every effort to distribute these monies, if not in dispute, or where ownership cannot be established, commission may be recognised at a rate of 100% once the monies have been held for more than six years.

Non-current investments

Investments are valued at cost less provisions where, in the opinion of the directors, there has been impairment in value. The carrying values of investments are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

A subsidiary is an entity controlled by the company. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

An associate is an entity, being neither a subsidiary nor a joint venture, in which the company holds a long-term interest and where the company has significant influence. The company considers that it has significant influence where it has the power to participate in the financial and operating decisions of the associate.

Entities in which the company has a long term interest and shares control under a contractual arrangement are classified as jointly controlled entities.

MECHANICAL-COPYRIGHT PROTECTION SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

1 Accounting policies

(Continued)

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax, with the exception that deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as non-current assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

Retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. The company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the plan are held separately from the company in independently administered funds.

Foreign exchange

Transactions in currencies other than pound sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation are included in the income statement for the period.

MECHANICAL-COPYRIGHT PROTECTION SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

2 Judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

Impairment of debtors

The company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the current credit rating of the debtor, the ageing profile of debtors and historical experience. See note 11 for the net of the carrying amount of the debtors and associated impairment provision.

3 Revenue

An analysis of the company's revenue is as follows:

	2016 £000	2015 £000
Revenue		
Commission income	16,273	17,074
Suspense account releases	335	1,022
	<u>16,608</u>	<u>18,096</u>

Revenue analysed by geographical market

	2016 £000	2015 £000
United Kingdom	15,771	16,824
Republic of Ireland	272	641
Rest of the World	565	631
	<u>16,608</u>	<u>18,096</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

4 Administrative expenses	2016 £000	2015 £000
Expenses for the year are stated after charging:		
PRs service charge	13,900	14,200
MPA service charge	125	100
Other administrative expenses	906	842
Foreign exchange gains	(49)	-
	<u>14,882</u>	<u>15,142</u>
Net contribution under the Alliance Stability Agreement	-	4,451
	<u>14,882</u>	<u>19,593</u>

5 Auditors remuneration

The fees payable to the company's auditors for the audit of the company's financial statement for the year ended 31 December 2016 are £45,000 and are included in the PRS service charge (2015: £45,000). There are no non-audit services provided by the auditor with fees borne by MCPS.

6 Employees

The average monthly number of persons (including directors who are also employees) employed by the company during the year was:

	2016 Number	2015 Number
Administration	<u>5</u>	<u>5</u>

Their net remuneration (excluding benefits) comprised:

	2016 £000	2015 £000
Wages and salaries	390	354
Social security costs	47	40
Other pension costs	5	18
	<u>442</u>	<u>412</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

7 Directors' remuneration

	2016 £000	2015 £000
Remuneration for qualifying services	566	534
Company pension contributions to defined contribution schemes	5	18

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 1 (2015 - 1).

Remuneration disclosed above include the following amounts paid to the highest paid director:

	2016 £000	2015 £000
Remuneration for qualifying services	389	380
Company pension contributions to defined contribution schemes	5	18

The directors are the key management personnel of the company.

8 Investment income

	2016 £000	2015 £000
Interest income		
Interest on bank deposits	576	498
Unwinding of discount (note 11)	98	96
Total income	674	594

9 Taxation

	2016 £000	2015 £000
Current tax		
UK corporation tax on profits for the current period	120	-
Deferred tax		
Origination and reversal of timing differences	(1,466)	-
Changes in tax rates	147	-
Total deferred tax	(1,319)	-
Total tax income	(1,199)	-

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

9 Taxation

(Continued)

The charge for the year can be reconciled to the profit per the income statement as follows:

	2016 £000	2015 £000
Profit before taxation	3,454	4
Expected tax charge based on a corporation tax rate of 20.00% (2015 - 20.25%)	691	1
Unutilised tax losses carried forward	-	17
Effect of change in tax rate	147	-
Loan relationships	(15)	(18)
Origination and reversal of timing differences	(1,466)	-
Utilisation of trading losses brought forward	(556)	-
Tax income for the year	(1,199)	-

Deferred tax assets of £1,319,000 have been recognised in respect of losses c/f due to future taxable profits being anticipated. The total amount of unrecognised deferred tax asset is £nil (2015 - £1,858,000).

Future changes to the UK corporation tax rates were announced in the Chancellor's Budget on 8 July 2015. These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and 18% from 1 April 2020. As the changes had been substantively enacted at the balance sheet date the deferred tax asset has been calculated using a rate of 18%.

10 Investments

	2016 £000	2015 £000
Investments in subsidiaries	1	1

Movements in investments

	Investments in subsidiaries £000
Cost or valuation	
At 1 January 2016 and 31 December 2016	1
Carrying amount	
At 1 January 2016 and 31 December 2016	1

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

10 Investments

(Continued)

Subsidiaries

Details of the company's subsidiaries at 31 December 2016 are as follows:

Name of undertaking and country of incorporation or residency	Nature of business	Class of shareholding	% Held Direct
Ampleform Limited United Kingdom	Non-trading	Ordinary £1 shares	99.00

The registered office address of Ampleform Limited is 2 Pancras Square, London, N1C 4AG.

Associates

Details of the company's associates at 31 December 2016 are as follows:

Name of undertaking and country of incorporation or residency	Nature of business	Class of shareholding	% Held Direct
British Music Rights Limited United Kingdom	Dormant	Limited by guarantee	25.00

The registered office address of British Music Rights Limited is British Music House, 26 Berners Street, London, W1T 3LR.

Joint ventures

Details of the company's joint ventures at 31 December 2016 are as follows:

Name of undertaking and country of incorporation or residency	Nature of business	Class of shareholding	% Held Direct
National Discography Limited United Kingdom	Non-trading	Ordinary £1 shares	50.00

The registered office address of National Discography Limited is 1 Upper James Street, London, W1F 9DE.

The Company has assessed its investments in joint ventures and associates and has concluded that it did not exercise control over them at 31 December 2016 or during the year then ended; hence they are accounted for as investments in accordance with the accounting policy set out in note 1 rather than being equity accounted.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

11 Trade and other receivables

	2016 £000	2015 £000
Amounts falling due within one year:		
Trade receivables	1,491	1,966
Amounts due from PFM	12,059	15,090
Amounts due from PRS	1,000	1,000
Other receivables	5,250	4,403
	<u>19,800</u>	<u>22,459</u>
Amounts falling due after one year:		
Amounts due from PRS	4,470	5,372
Deferred tax asset (note 16)	1,319	-
	<u>5,789</u>	<u>5,372</u>

The loan to PRS is repayable in instalments over the period 1 January 2015 to 1 January 2021 and is free from interest. In acceptance with FRS 102, a zero rate loan is measured at the present value of the future payments discounted at a market rate of interest for similar financial instruments. Over the period of the loan, interest payable will be calculated and added to the loan using the effective interest method. The loan was discounted at 2.5% (Bank of England rate at the inception date, 2013, plus 2%) and effect of discounting will unwind over the period of the loan as interest charged to the profit and loss account. In 2016, the value of the discount was £98,000 (2015 - £96,000).

The amount of £12,059,000 (2015 - £15,090,000) due from PFM bears no obligation to pay interest now or in the future and has no repayment obligation.

12 Short term deposits

These are short term bank deposits consisting of £12,000,000 (2015 - £20,000,000) held in an overnight deposit account, £5,000,000 (2015 - £5,000,000) held in a 6 month notice account, £10,000,000 (2015 - £10,000,000) held on a fixed deposit which matured 17 February 2017, £10,000,000 (2015 - £nil) held on a fixed deposit maturing 23 November 2017, £5,000,000 (2015 - £5,000,000) in a 12 month notice account and £5,000,000 (2015 - £nil) held with Federated Money Market investors with a T+1 Redemption value date.

13 Cash in bank and in hand

	2016 £000	2015 £000
Cash in bank and in hand	5,062	7,160
Cash held in escrow	5,105	5,084
	<u>10,167</u>	<u>12,244</u>

£5,105,000 (2015 - £5,084,000) cash is held in escrow under the 2013 Alliance Stability Deal and is payable to PRS in the event of the company becoming liable under a breach or the result of an early termination of the Services Agreement.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

14 Trade and other payables

	2016 £000	2015 £000
Payable to PRS under the Alliance Stability Agreement	-	4,545
Other payables	10,226	2,573
Corporation tax payable	120	-
	<u>10,346</u>	<u>7,118</u>

15 Royalties payable

	2016 £000	2015 £000
At 1 January	86,404	80,795
Add: royalties collected	151,863	156,173
	<u>238,267</u>	<u>236,968</u>
Less: taken to profit as minor sums	(994)	(839)
	<u>237,273</u>	<u>236,129</u>
Distributed during the year in respect of:		
Royalty exploitation in UK and Ireland	(146,508)	(135,973)
Royalty exploitation outside UK and Ireland	<u>(3,708)</u>	<u>(4,117)</u>
	<u>(150,216)</u>	<u>(140,090)</u>
	87,057	96,039
Movement in returned royalties, deposits, advances received, etc.	<u>(5,853)</u>	<u>(9,635)</u>
At 31 December	<u>81,204</u>	<u>86,404</u>

There has been a reclassification of certain royalty lines within the comparative figures, following an improvement in 2016 in the way specific usage data was reviewed and allocated.

The company's liability to account for royalties payable accrues when amounts due from the corresponding users of the copyright works are received. Amounts from users that have not been received are recorded within royalties payable both as an amount receivable and an equivalent amount payable. As at 31 December 2016 these amounted to £4,998,000 (2015 – £5,374,000).

MECHANICAL-COPYRIGHT PROTECTION SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

16 Deferred taxation

Deferred tax assets and liabilities are offset where the company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	Assets 2016 £000	Assets 2015 £000
Balances:		
Tax losses	1,319	-
	<u> </u>	<u> </u>
Movements in the year:		2016 £000
Asset at 1 January 2016		-
Credit to profit and loss		(1,319)
Asset at 31 December 2016		<u>(1,319)</u>

The deferred tax asset set out above is expected to reverse in more than 12 months and relates to the utilisation of tax losses against future expected profits of the same period.

17 Retirement benefit schemes

Defined contribution schemes

The company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

The charge to profit and loss in respect of defined contribution schemes was £4,500 (2015 - £18,000).

18 Called up share capital

	2016 £000	2015 £000
Ordinary share capital		
Issued and fully paid		
19,200 Ordinary shares of £1 each (2015 - 19,200)	19	19
	<u> </u>	<u> </u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

19 Related party transactions

Certain directors and parties related to directors are entitled to royalties collected by the company. Parties related to directors include family members and companies controlled by these directors including, where appropriate, publishing companies and their subsidiaries. During 2016, total royalties paid by the company to the directors and to parties related to the directors amounted to £70,107,000 (2015 – £64,689,000). These royalties were calculated on the same basis as royalties paid to all members and are paid in accordance with the company's normal procedures.

Due to the highly integrated nature of the industry, directors may also be related to customers of the company, either through the provision of music-related services to them or as employees of the same group of companies. All transactions with any such related customers are carried out on a normal arm's length commercial basis. During 2016, MCPS paid a management fee of £125,000 (2015 – £100,000) to the Music Publishers' Association Limited, its parent undertaking. At 31 December 2016 there were no amounts outstanding with the Music Publishers' Association Limited (2015 - £nil).

20 Controlling party

The company is a wholly-owned subsidiary of the Music Publishers' Association Limited, a company limited by guarantee and incorporated in the UK, which prepares group financial statements. This company is considered to be the ultimate controlling party and is both the smallest and largest group of which the company is a member. Group financial statements can be obtained by request in writing to Music Publishers' Association Limited, 2 Pancras Square, London, N1C 4AG.

21 Cash generated from operations

	2016 £000	2015 £000
Profit for the financial year	4,653	4
Adjustments for:		
Tax	(1,199)	-
Investment income	(674)	(594)
Foreign exchange gains on cash equivalents	(49)	-
Movements in working capital:		
Decrease/(increase) in trade and other receivables	3,561	(1,796)
(Decrease)/increase in trade and other payables	(2,092)	9,125
Cash generated from operations	4,200	6,739