Directors' Report and Accounts

Performing Right Society Limited

For the year ended 31 December 2012

Registered in England No: 134396

PRS for MUSIC

Directors

Writers
B Blue
S Darlow
L de Paul
G Fletcher
N Graham
E Gregson
M Leeson
S Levine
M Murray
J Nott
M Nyman

Publishers
J Alway
A Bebawi
C Butler
J Dyball
N Elderton
A King
R King
P Long
J Minch
S Platz
E Rich

Executive director
R Ashcroft

External directors
W Goldwag
E Morris

Secretary
V Burnett

Auditors
Ernst & Young LLP
1 More London Place
London SE1 2AF

Registered Office
29-33 Berners Street
London W1T 3AB

Registered No. 134396

Directors' report

The directors present their report and financial statements for the year ended 31 December 2012.

Results

The net distributable income for the year, after exceptional items, amounted to £404,233,000 (2011 – £419,602,000).

Principal activities and review of the business

The principal activity of the society is the licensing of the performing rights vested in it by its members and affiliated societies and the collection and distribution of resulting royalties and fees. The Company represents 87,000 members collecting royalties from various sources, ranging from live performance, television broadcasts, music played in business locations and radio to streaming over the web.

The Company's key financial and other performance indicators during the year excluding the exceptional impairment of the carrying value of the Company's shares held in the MCPS-PRS Alliance Limited ('the Alliance') were as follows:

	2012	*2011*	*Change*
	£m	*£m*	*%*
Result before investment write down	420.0	421.1	-0.3
Donations	1.5	1.5	–
Net distributable income before investment write down	418.5	419.6	-0.3
Licensing and administrative expenses	58.6	55.6	+5.4

Prior to these accounts being approved but after the balance sheet date, the Company and Mechanical-Copyright Protection Society ('MCPS') signed an agreement ('the Alliance Stability Deal') designed to enable MCPS to return to profitability, and thereby create a stable long-term relationship between MCPS and PRS for the benefit of members and licensees of both societies. This agreement will result in the Company buying the 50% share in the Alliance owned by MCPS on 1 July 2013 for £1. Following an extended operational review during 2012, the directors have concluded that PRS's own investment in the Alliance should also be written down. An impairment charge of £14.3m has accordingly been recognised in these financial statements. In view of the exceptional nature of this charge the Company has taken the decision to release funds held in reserve to mitigate in part the impact of this on members.

Future developments

The directors are confident that the continued popularity of the repertoire of the Company's members and the changing nature of the industry will create a stable future for the Company. The Events since the balance sheet date section in the Directors' Report contains further information regarding the Alliance Stability Deal.

Principal risks and uncertainties

The Audit Committee of the Alliance evaluates the risks and uncertainties that could affect the Company's performance. The Audit Committee met four times in 2012. The principal risks and uncertainties are detailed below.

Directors' report (continued)

Principal risks and uncertainties (continued)

Competitive risk

Owing to the monopolistic nature of some of the Company's activities in the UK and of other societies in Europe there is a sustained focus on ensuring EC guidelines are met so as to avert any adverse rulings.

Changing working practices are currently opening up the market to more competition from societies abroad and the Company is at the forefront of these changes, and actively seeking strategic partnerships with societies in other countries.

Legislative risk

The monopolistic nature of some of the Company's activities leads it into a number of areas of risk concerned with the legislative process. The Company is also subject to copyright law changes and given the changing nature of the industry this could have a significant impact on the Company's revenue and operating procedures in the future.

Financial instrument risks

The Company has in place a financial management framework which ensures that the Company has sufficient financial resource to meet its objectives and to manage financial risk. Foreign exchange risk is minimised through the timely exchange of foreign currency receipts for sterling. Interest rate risk is managed by avoiding investing cash for periods of greater than 12 months.

Changing technology

With the increasing move towards digital usage of music, there is uncertainty over the future market for music and the implications on the costs of administering relevant licences. These changing technologies will offer new market opportunities in the future and active review of existing and potential new streams is therefore a key area of focus for the Company.

The Board and the Audit Committee are fully aware of the pressures and opportunities this changing market imposes on the future of the business and are acting accordingly to optimise beneficial effects where possible.

Exposure to price, credit and liquidity risk

Price risk for the Company arises where new licence schemes are challenged. Credit risk is the risk that one party to a financial instrument will cause a financial loss for that other party by failing to discharge an obligation. Company policies are aimed at minimising such losses, as such there is a well established credit control process and a requirement that deferred terms are only granted to licensees who either demonstrate an appropriate payment history and satisfy credit checking procedures, or who the Company is actively in negotiations with subject to certain criteria. The Company's debtors are shown in note 8 to the financial statements.

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company aims to mitigate liquidity risk by managing cash generation. In addition, royalties are only distributed once collected and the Company holds substantial cash balances.

Directors’ report (continued)

Going concern

The directors have considered the impact of the exceptional charges, the release of funds held in reserves and their impact on the balance sheet as part of the going concern assessment. They have concluded that given the substantial cash reserves held and that the cash generating ability of the Company there are adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Events since the balance sheet date

In March 2012, the Company entered into an agreement with MCPS, the effect of which was to vary for a minimum term of 18 months from 1 January 2012, the basis on which the costs of the Alliance were to be shared between the two societies. The impact of this agreement on the 2012 financial statements is an increase in costs of £4.6m.

In January 2013 the Company gave notice to MCPS of its intention to terminate this agreement effective 1 July 2013.

On 17 April 2013 the boards of MCPS and PRS signed an agreement known as the Alliance Stability Deal which is designed to provide a robust plan to allow MCPS to return to profitability, and thereby create a stable long term relationship between MCPS and PRS for the benefit of members and licensees of both societies.

This agreement results in the Company buying the 50% share in the Alliance owned by MCPS on 1 July 2013 for £1 and therefore from this date the Alliance will become a wholly-owned subsidiary of the Company.

The Alliance will continue to provide services to MCPS, under a service level agreement between MCPS and PRS.

Directors' report (continued)

Directors

The directors who served the Company during the year and were appointed subsequently are as follows:

Writers
B Blue
S Darlow
L de Paul
G Fletcher
N Graham
E Gregson
M Leeson
S Levine
M Murray
J Nott
M Nyman

Publishers

J Alway (from 1 January 2013)
A Bebawi
C Butler
J Dyball
N Elderton
S Hornall (until 31 May 2012)
A King
R King
S Levin (until 1 January 2013)
P Long
J Minch (from 31 May 2012)
S Platz
E Rich

Executive director
R Ashcroft

External directors
W Goldwag
E Morris

Pursuant to article 57 of the articles of association, the following directors will retire this year and are eligible for nomination for re-appointment pursuant to article 59:

Writers
B Blue
N Graham
S Levine
M Murray
J Nott

Publishers
N Elderton
R King
P Long

Directors' report (continued)

Directors' qualifying third party indemnity provisions

The Company has granted an indemnity to one or more of 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.

Chairman and deputy chairmen

Guy Fletcher continued in his position of Chairman throughout 2012. Paulette Long was Deputy Chairman (Publisher) until the end of 2012. Chris Butler took the position from 1 January 2013.

Corporate governance

The Company's board of directors is ultimately responsible for the governance of the Company. In 2010 it agreed to delegate some of its decision-making powers to the Alliance, an operational company which is jointly owned by PRS and MCPS. The Alliance board monitors strategic planning, financial and non-financial performance for PRS and reports back to the PRS board on its activities at joint meetings held four times a year. The Alliance Board also carries out governance functions on behalf of the MCPS Board.

The board of the Company continues to direct policy through a number of standing committees including those which focus on commercial matters such as licensing, distribution and international activities. The extent of the powers delegated to the Alliance board, the standing committees and executive management is set out in the board approved mandated authorities.

Code of Conduct

In November 2012, the Company published a Code of Conduct covering all areas of the Company's membership and domestic licensing activities. The Code was adopted in order to comply with the British Copyright Council's Principles of Good Practice for Collective Management Organisations and with regard to the Government's Minimum Standards for UK Collecting Societies published in October 2012.

Transfer to reserves

No appropriations have been made from the income and expenditure account and transferred to distributable reserves.

Donations

Donations and other payments made pursuant to article 48(a) of the articles of association totalled £1.525 million (2011 – £1.525 million) of which £1.5 million (2011 – £1.5 million) was to The Performing Right Society Foundation ('the Foundation'). The principal activity of the Foundation is to provide funds, to support, to sustain and to further the creation and performance of new music in the UK and increase the public's appreciation of, and education in new music.

The memorandum and articles of association do not authorise the making of political donations or contributions of any kind and none were made.

Directors' report (continued)

Disclosure of information to the 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, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the Board

V Burnett
Secretary

17 April 2013

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards 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.

Independent auditors' report

to the members of Performing Right Society Limited

We have audited the financial statements of Performing Right Society Limited for the year ended 31 December 2012 which comprise the Income and Expenditure Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Statement of Cash Flows and the related notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 8, 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). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its result 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report (continued)

to the members of Performing Right Society Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Andy Glover (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London

18 April 2013

Notes:

1. The maintenance and integrity of the **Performing Right Society Limited** web site (www.prsformusic.com) is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Income and expenditure account

for the year ended 31 December 2012

	Notes	*2012* *£000*	*2011* *£000*
Turnover	2	474,992	473,840
Interest receivable and similar income		3,633	2,915
Total income for the year		478,625	476,755
Licensing and administration expenses	3	(58,592)	(55,628)
		420,033	421,127
Exceptional item - investment write down	3,7	(14,275)	–
Profit on ordinary activities before tax		405,758	421,127
Tax on profit on ordinary activities	6	–	–
Profit before appropriations		405,758	421,127
Amounts appropriated - donations and awards		(1,525)	(1,525)
Net distributable income		404,233	419,602

All amounts relate to continuing activities.

Statement of total recognised gains and losses

for the year ended 31 December 2012

	2012 *£000*	*2011* *£000*
Net distributable income	404,233	419,602
Distributions allocable to members and affiliated societies	(408,012)	(419,602)
Total recognised gains and losses relating to the year	(3,779)	–

Balance sheet

at 31 December 2012

	Notes	2012 £000	2011 £000
Fixed assets			
Investments	7	558	14,833
Current assets			
Debtors: amounts falling due after more than one year	8	15,817	17,076
Debtors: amounts falling due within one year	8	57,420	53,450
		73,237	70,526
Investments – short-term deposits		107,000	107,000
Cash at bank and in hand		40,874	22,190
		221,111	199,716
Creditors: amounts falling due within one year	9	(221,669)	(210,770)
Net current liabilities		(558)	(11,054)
Total assets less current liabilities		–	3,779
Distributable reserves at 31 December	10	–	3,779

Distributable reserves represent the amount provided for under article 48(b) of the articles of association of the Society which enables the Board to retain such funds as it may consider necessary.

The accounts were approved by the Board on 17 April 2013 and were signed on its behalf by:

G Fletcher

Chairman

Statement of cash flows

for the year ended 31 December 2012

	Notes	2012 £000	2011 £000
Cash inflow from operating activities	11(a)	415,384	421,845
Amounts paid to members and affiliated societies		(400,162)	(421,817)
Net cash inflow from operating activities		15,222	28
Net cash from investing activities	11(b)	–	90
Returns on investments and servicing of finance – net interest received		3,462	2,900
Management of liquid resources	11(c)	–	(9,000)
Increase/(decrease) in cash		18,684	(5,982)

Reconciliation of net cash flow to movement in net funds

	Note	2012 £000	2011 £000
Increase/(decrease) in cash		18,684	(5,982)
Cash outflow from movement in liquid resources		–	9,000
Movement in net funds in the year		18,684	3,018
Net funds at 1 January		129,190	126,172
Net funds at 31 December	11(d)	147,874	129,190

Notes to the financial statements

at 31 December 2012

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the directors' report. The directors believe that the Company is well placed to manage its business risks and has considerable financial resources including cash balances. In 2012, PRS agreed to adjust the cost-sharing mechanism set out in the shareholders agreement between the Company and MCPS. The effect of this adjustment is to increase the costs recharged by the Alliance to PRS in 2012 by £4.6m (2011 – £nil). The agreement that gave rise to this adjustment will come to an end at the end of June 2013. It is currently expected that the last six months of this agreement will cause the costs of the Company to be £3m higher than if the agreement was not in force.

The 2013 Alliance Stability Deal referred to in the Directors' Report will also cause PRS costs to be higher than they would have been had the original terms of the shareholders agreement between MCPS and PRS been in force without adjustment. It is estimated that the effect on costs for a full year would be £2.2m.

These events do not change the Directors' view that the Company remains a going concern and it is the basis on which the annual report and financial statements have been prepared.

Definitions

'PRS' means Performing Right Society Limited.
'MCPS' means Mechanical-Copyright Protection Society Limited.
'MCPS-PRS Alliance' means The MCPS-PRS Alliance Limited.
'ICE' means International Copyright Enterprise A.B.
'PEL' means Pan European Licensing.
'CELAS' means CELAS GmbH

Licence revenue

Broadcasting, Public Performance revenue and PEL revenue is accounted for on an accruals basis ensuring that income is recognised in the period to which it relates.

Income from overseas collecting societies is recognised in the period in which it is received.

Where income is received as a result of audit activities it is recognised net of associated costs.

Deferred taxation

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 following exception:

- 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.

Notes to the financial statements

at 31 December 2012

1. Accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the income and expenditure account.

Pensions

The Alliance makes deficit funding contributions to two closed defined benefit schemes and ongoing contributions to a defined contribution scheme, in accordance with the advice of actuaries and the rules of the schemes in respect of its employees. An appropriate proportion is recharged to PRS. Pension costs are charged to the income and expenditure account as they are invoiced by the Alliance.

Both of the defined benefit schemes were closed to future accrual as at 31 December 2010.

2. Turnover

Turnover, which is stated net of value added tax, is made up as follows:

An analysis of turnover by geographical market is given below:

	2012	*2011*
	£000	*£000*
United Kingdom, Channel Islands and Isle of Man:		
Public performance	154,654	153,930
Broadcasting	110,799	109,643
Online	16,615	14,800
	282,068	278,373
PEL International	12,852	7,726
Overseas:		
Europe	101,624	119,295
North America	35,498	38,975
Asia	18,472	12,263
Central and South America	13,552	7,204
Australasia	8,579	7,680
Africa and Middle East	2,347	2,324
	180,072	187,741
Total turnover	474,992	473,840

Notes to the financial statements

at 31 December 2012

3. Operating Result

This is stated after charging/ (crediting):

	2012	*2011*
	£000	*£000*
Auditors' remuneration – audit services	10	8
Recharge from the Alliance:		
Staff costs	29,782	26,928
Office and accommodation costs	3,006	4,607
Information technology costs	2,897	2,584
Legal and professional costs	7,898	8,342
Other costs	4,439	4,724
Depreciation	5,306	4,543
Pension costs – equalisation	700	3,900
Costs increased by Alliance Stability Deal	4,564	-
Total administrative expenses	58,592	55,628

Exceptional item – investment write down

As a result of the analysis undertaken during 2012 that led to the Alliance Stability deal being approved in April 2013, the value of the shares held in the Alliance was reviewed. The directors concluded that the level of the pension deficit indicated that the valuation of the shares in the Alliance was impaired and therefore have written down the value of shares to a value of £1. This resulted in an impairment charge of £14.3m (see note 7).

4. Directors' remuneration

The remuneration of non-executive directors, excluding pension contributions, was £401,060 (2011 – £412,510). No pensions or other benefits are paid to any director other than the executive director Robert Ashcroft.

Non-executive directors received £13,061 per annum for their services, which on 1 April 2012 increased to £13,362 per annum. Directors who are also directors of MCPS were paid £16,121 per annum, which increased to £16,492 on 1 April 2012. This amount was charged equally between MCPS and PRS. Non-executive directors of the MCPS-PRS Alliance received in addition £6,778 per annum, which from 1 April 2012 increased to £6,934 per annum. This amount charged is equally between MCPS and PRS.

The positions of Chairman and Deputy Chairman were unchanged during the year. The remuneration of the Chairman, Guy Fletcher, amounted to £57,068 (2011 – £55,825). As Deputy Chairman, Paulette Long received £31,128 (2011 – £30,450). Chris Butler took over the position of Deputy Chairman on 1 January 2013.

During the year ended 31 December 2012, the Company had one executive director, Robert Ashcroft, who was employed and paid by the Alliance. The highest paid director in 2012 was Robert Ashcroft. His remuneration, excluding pension contributions, was £684,952 (2011 – £652,207), 75% of which was recharged to PRS (2011 – 60%). Included in amounts paid within the year to the highest paid director is a contribution to a deferred bonus of £159,649.

The pension contributions in respect of Robert Ashcroft were £18,677 (2011 – £18,270) paid to a defined contribution scheme. This was recharged to PRS on the same basis as the remuneration above.

Notes to the financial statements

at 31 December 2012

5. Staff costs

There were no employees during this year or last year other than the directors.

6. Tax

(a) Tax on result on ordinary activities

The tax charge is made up as follows:

	2012	*2011*
	£000	*£000*
Tax on result on ordinary activities	–	–

(b) Factors affecting tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 24.5% (2011 – 26.5%). The differences are explained below:

	2012	*2011*
	£000	*£000*
Result on ordinary activities before tax	(3,779)	–
Result on ordinary activities multiplied by standard rate of corporation tax in the UK of 24.5% (2011 – 26.5%)	(926)	–
Effects of:		
Adjustment for transfer pricing	(570)	(484)
Non-deductible write down of investment	3,497	–
Consortium relief surrendered for nil consideration	–	483
Losses brought forward used against current year losses	(1,791)	–
Losses expected to be carried back	(210)	–
Losses arising in the year not relievable against current tax	–	1
Current tax for the year (note 6(a))	–	–

(c) Deferred tax

The corporation tax rate applicable to the Company reduced from 26% to 24% from 1 April 2012 and to 23% from 1 April 2013. A deferred tax asset of £nil (2011 – £1,407,627) has not been recognised in respect of losses, due to the non profit making nature of the Society.

Notes to the financial statements

at 31 December 2012

6. Tax (continued)

(d) Factors which may affect future tax charges

The society is subject to United Kingdom corporation tax. However, for this purpose, amounts due to members and affiliated societies are treated as a deductible expense.

Due to legislative changes, the corporation tax rate reduced by 1% from 1 April 2012 from 26% to 24%, and by a further 1% to 23% on 1 April 2013. The corporation tax rate is to reduce by 2% from 1 April 2014 from 23% to 21%, and by a further 1% to 20% by 1 April 2015 but these changes have not yet been substantively enacted and are not therefore included in the figures within these financial statements.

With effect from July 2013 the Alliance will become a wholly-owned subsidiary of the Company.

7. Investments

Joint ventures and associates

The investment in CELAS remains at historic cost, less impairment provision, in line with previous years.

	Joint ventures and associates
	£000
Cost:	
At 1 January 2012 and 31 December 2012	15,045
Impairment:	
At 1 January 2012	212
Impairment charge	14,275
At 31 December 2012	14,487
Net book value:	
At 31 December 2012	558
At 1 January 2012	14,833

As a result of the analysis undertaken during 2012 that lead to the Alliance Stability deal being agreed in April 2013, the value of the shares held in the Alliance was reviewed. The directors concluded that the level of the pension deficit indicated that the valuation of the shares in the Alliance was impaired and therefore have written down the value of shares to a value of £1. This resulted in an impairment charge of £14.3m.

Notes to the financial statements

at 31 December 2012

7. Investments (continued)

Joint ventures and associates (continued)

Details of the investments in which the Company holds 20% or more of the nominal value of any class of share capital are as follows:

Name of company	*Holding*	*Proportion of voting rights held*	*Nature of business*
Joint venture:			
The MCPS-PRS Alliance Limited	Ordinary £1 shares	50%	Service company
Associates:			
CELAS GmbH	Ordinary €1 shares	25%	Pan-European licensing

CELAS GmbH ('CELAS') is a joint venture formed between PRS, MCPS and GEMA, the German society for musical performing and mechanical reproduction rights. CELAS was established to license certain members' online rights on a Pan-European basis and is incorporated in Germany. PRS and MCPS each own 25% of the shares and GEMA owns 50%. In addition to share capital, PRS, MCPS and GEMA have each issued loans to CELAS in order to meet the initial capital requirements of the company.

For the year ended 31 December 2012 CELAS showed a net profit of €1.4 million (2011 – net profit of €0.4 million). The company had a positive equity figure of €2.1m (2011 – €0.8m) at the year end.

The Alliance will become a wholly-owned subsidiary of the Company on 1 July 2013 when the Company will pay £1 for the 50% share in the Alliance owned by MCPS. The principal activity of the Alliance is to provide operational services to PRS and MCPS. The costs incurred by the Alliance are recharged to each society according to the services provided. The financial statements of PRS do not include any share of the profit or loss of the Alliance.

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 2012 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.

Notes to the financial statements

at 31 December 2012

7. Investments (continued)

Joint ventures and associates (continued)

Summary profit and loss account and balance sheet information for the Alliance in respect of the Company's 50% share thereof, is set out in the tables below:

	2012	*2011*
	£000	*£000*
At 31 December:		
Tangible fixed assets	9,224	24,038
Investments	4,108	2,349
Current assets	21,962	15,423
Share of gross assets	35,294	41,810
Creditors: falling due within one year	(32,325)	(26, 923)
Creditors: falling due after more than one year	(7,909)	(11,003)
Share of gross liabilities	(40,234)	(37,926)
Share of net (liabilities)/assets before pension scheme liabilities	(4,940)	3,884
Share of pension scheme liabilities	(8,820)	(31,828)
Share of net liabilities after pension scheme liabilities	(13,760)	(27,944)
For the year ended 31 December:		
Turnover	39,783	38,368
Profit before tax	6,571	2,180
Tax on profit on ordinary activities	(428)	(238)
Profit after tax	6,143	1,942

8. Debtors

	2012	*2011*
	£000	*£000*
Amounts falling due within one year:		
Licence income receivable:		
Public performance	24,867	25,621
Broadcasting and Online	1,866	2,920
International	385	542
CELAS	3,211	1,355
	30,329	30,438
Amounts due from the Alliance	12,650	7,215
VAT recoverable	11,495	12,318
Sundry debtors	1,979	2,683
Investment income receivable	967	796
	57,420	53,450

Notes to the financial statements

at 31 December 2012

8. Debtors (continued)

	2012	*2011*
	£000	*£000*
Amounts falling due after more than one year:		
Due from the Alliance	15,817	17,076

The balance of £15.8m comprises £12.7m of funding provided to the Alliance for an exceptional contribution to the defined benefit pension schemes in 2005, which is being amortised over twenty years from 1 January 2006 and an additional amount payable also by the Alliance as a consequence of closing the Alliance pension schemes to future accrual in 2010. This additional amount is being amortised over 15 years.

9. Creditors: amounts falling due within one year

	2012	*2011*
	£000	*£000*
Amounts due to members and affiliated societies	154,217	146,366
Deferred revenue	50,017	49,028
Other creditors	15,305	13,397
Accruals	1,249	1,009
Taxation and social security	881	970
	221,669	210,770

10. Reconciliation of movements in members funds

	Income and expenditure account	*Total members' funds*
	£000	*£000*
At 31 December 2011	3,779	3,779
Release of reserves	(3,779)	(3,779)
At 31 December 2012	–	–

In view of the exceptional nature of the costs recognised within the 2012 financial statements in relation to the write down of the investment in the Alliance, the Company has taken the decision to release funds held in reserve to mitigate in part the impact of this on members.

Notes to the financial statements

at 31 December 2012

11. Notes to the statement of cash flows

(a) Reconciliation of operating result to net cash inflow from operating activities

	2012	*2011*
	£000	*£000*
Result on ordinary activities before tax	405,758	421,127
Donations and awards	(1,525)	(1,525)
Interest receivable	(3,633)	(2,915)
(Increase)/decrease in amounts due from associated undertakings	(4,176)	7,723
Decrease/(increase) in debtors	1,636	(4,649)
Increase in creditors	3,049	2,084
Investment write down	14,275	–
Net cash inflow from operating activities	415,384	421,845

(b) Cash flows from investing activities

	2012	*2011*
	£000	*£000*
Repayment of capital investment	–	90

(c) Management of liquid resources

	2012	*2011*
	£000	*£000*
Short-term deposits made	(290,000)	(86,000)
Short-term deposits repaid	290,000	77,000
Movement in deposits	–	(9,000)

(d) Analysis of net funds

	At 1 January 2012	*Cash flow*	*At 31 December 2012*
	£000	*£000*	*£000*
Cash at bank and in hand	22,190	18,684	40,874
Liquid resources – short-term deposits	107,000	–	107,000
Total cash	129,190	18,684	147,874

Notes to the financial statements

at 31 December 2012

12. Amounts allocated to members and affiliated societies

	2012	*2011*
	£000	*£000*
Allocated to members	318,243	333,676
Allocated to affiliated societies	78,991	84,224
	397,234	417,900

13. Capital commitments

Capital expenditure authorised and contracted for at 31 December 2012 was £nil (2011 – £nil). However, the Company is required to fund a percentage of the capital expenditure commitments of the Alliance dependent on the Company's use thereof, which at 31 December 2012 amounted to £nil (2011 – £0.1 million).

In July 2012 the PRS Board agreed to a commitment of an annual donation to the Foundation of £1.5 million as a rolling 3 year agreement, to be reviewed each July, with an 18 months' notice period.

14. Contingent asset

At 31 December 2012, the Company has a contingent asset of £4.6m potentially due from MCPS as a result of the cost sharing amendments made during the year, which increased PRS's share of the administrative costs recharged from the Alliance by £4.6m. The Alliance Stability Deed requires repayment of this amount once MCPS returns to profitability. There are plans in place to improve MCPS's future prospects and to return MCPS to profitability, however, there is uncertainty as to when this will be because of the continuing decline in the audio market. At present, the directors have concluded that the degree of uncertainty is such as to preclude recognition of an asset in the Company's 2012 financial statements.

15. Related party transactions

The board comprises both executive and non-executive directors. In addition to the two external non-executive directors, there exist two groups of non-executive directors, Publisher directors and Writer directors.

Like all members of the society, these directors or parties related to them are entitled to royalties from the Society in respect of the performance of any copyright works owned by them. Parties related to Publisher and Writer directors include family members and companies controlled by these directors. Parties related to publisher directors also include the publishing companies who nominate those publisher directors to the board and their subsidiaries.

During 2012, total royalties paid by the Company to the directors and to parties related to the directors amounted to £64.5 million (2011 – £68.9 million). £64.2 million (2011 – £68.6 million) of this was paid to publisher directors and parties related to the publisher directors, and £0.3 million (2011 – £0.3 million) was paid to the writer directors and parties related to the writer directors. These royalties were calculated on the same basis as royalties paid to all members and are paid in accordance with the society's normal procedures.

Due to the highly integrated nature of the industry, many directors will 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.

Notes to the financial statements

at 31 December 2012

15. Related party transactions (continued)

During 2012, £58.6 million (2011 – £55.6 million) of the Company's licensing and administrative expenses were recharged by the Alliance. PRS funds an appropriate proportion of the Alliance's costs and at 31 December 2012 had a balance due from the Alliance of £28.5 million (2011 – £24.4 million), this included a long-term loan of £15.8 million to fund the society's share of an exceptional contribution to the defined benefit pension schemes and a one off curtailment gain realised in 2010 on the closure of the schemes to future accrual (2011 - £17.1 million).

During 2012, CELAS made distributions to PRS of £3.8 million (2011 – £4.5 million). The balance owed by CELAS to PRS at the end of 2012 was £2.9 million (2011 – £1.4 million) and is included in CELAS licence income receivable in note 8.

16. Limitation of liabilities

PRS was founded in 1914 as a company limited by guarantee; it has no share capital and is non-profit making. The liability of each member is limited to £1.

17. Events since the balance sheet date

In March 2012, the Company entered into an agreement with MCPS, the effect of which was to vary for a minimum term of 18 months from 1 January 2012, the basis on which the costs of the Alliance are shared between the two societies.

The impact of this agreement on the 2012 financial statements is an increase in costs of £4.6m.

In January 2013 the Company gave six months notice to MCPS of its intention to terminate this agreement.

On 17 April 2013, the boards of MCPS and PRS signed an agreement known as the Alliance Stability Deal which was designed to provide a robust plan which sees MCPS return to profitability, and thereby create a stable long term relationship between MCPS and PRS for the benefit of members and licensees of both societies.

This agreement results in the sale by MCPS of its shares in the Alliance to PRS for £1 on 1 July 2013. This means that with effect from July 2013 the Alliance will become a wholly-owned subsidiary of PRS.

The Alliance will continue to provide services to PRS and to MCPS under a service level agreement between MCPS and PRS.

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