Mechanical-Copyright Protection Society Limited

Report and Financial Statements

31 December 2012

Directors

Writers
M Leeson
S Levine
S Rodgers

Publishers
J Alway
M Anders
A Bebawi
C Butler
P Cornish (Chairman)
J Dyball
N Elderton
S Hornall
J Minch
B Newing
S Platz

Executive director
R Ashcroft

External director
P Dolan

Secretary
V Burnett

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

Registered Office
Copyright House
29-33 Berners Street
London W1T 3AB

Registered No. 199120

Directors' report

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

Results and dividends

The loss for the year after taxation and exceptional items amounted to £8,178,000 (2011 – loss of £2,512,000). The directors do not recommend a final dividend.

Principal activities and review of the business

The principal activity of the Company is the licensing, collection and distribution of royalties and licence fees from mechanical copyrights. There has been no change in the principal activity of the Company during the year.

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

	2012	*2011*	*Change*
	£000	*£000*	*%*
Loss on ordinary activities before tax and exceptional items	(514)	(2,512)	-79.5
Net royalties distributed	164,136	163,406	+0.4
Administrative expenses	16,558	20,796	-20.4

Administrative expenses recharged from the MCPS-PRS Alliance Limited ('the Alliance') have reduced by £4.6m as a result of the Performing Right Society Limited ('PRS') agreeing to change the established basis of sharing Alliance costs and to incur additional costs which would otherwise have been borne by the Company. This agreement terminates at the end of June 2013. Further details are set out in note 3.

Future developments

The directors are 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 and for members of PRS. During 2012 and 2013, the Directors were in discussions with the directors of PRS with a view to improving the future prospects of the Company. The result of these discussions was an agreement between the Company and PRS, discussed in more detail in the going concern section, which improves the future prospects of the Company.

Principal risks and uncertainties

The Audit Committee of the Alliance met four times in 2012 and amongst other things has the delegated responsibility for ensuring that the Company's risks are managed in a satisfactory manner. The principal risks and uncertainties that the Company is exposed to can be grouped into the following categories.

Directors' report (continued)

Principal risks and uncertainties (continued)

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 when the transition has taken place, the Company will be able to trade profitably, but, in the meantime, losses may be incurred. The Company's financial forecasts may prove to be inaccurate if the actual rate of decline in physical product sales is higher than forecast or if the actual rate of growth in the broadcast and online licensing areas is lower than forecast.

Competitors successfully attracting customers away from the Company and customers deciding 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 legislation that would, if enacted, have an adverse impact on the Company's business or prospects.

Liquidity and financial instrument risks

The nature of the Company's operating model is such that it holds surplus cash; at the end of 2012 the Company held cash of £29.2m (2011 – £28.7m). The Directors consider that expected cash balances are sufficient to fund the Company's 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 the price on which the absolute level of royalty is calculated, using the applicable royalty rate, reducing. 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 fact that, in the case of certain physical product license schemes, the Company has committed to a fixed commission rate means that the option of increasing commission rates to compensate for falling volumes is not available to the Company for the duration of the commitment. This commitment will end in December 2013.

Credit risk is the risk that a debtor will cause a financial loss for the other party by failing to discharge 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 8 to the accounts.

Directors' report (continued)

Going concern

The business of the Company is undergoing a transition. As sales of physical audio products, such as compact discs and DVDs diminish, the commission that the Company earns from licensing, on behalf of its customers, mechanical copyrights in such products has diminished and will continue to diminish. The Company has also experienced reductions in interest income since the adjustment in the financial markets took place in 2008 and market rates of interest reduced. 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 for some years to come. In 2012, as in recent previous years, the loss of income from physical product licensing has outweighed the gains from online and broadcast licensing and this has caused the Company to report losses. The Directors expect the Company's overall commission income to stabilise from 2015.

In 2012, 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 the Performing Right Society ('PRS') and of the MCPS-PRS Alliance Limited ('the Alliance'). One outcome of these discussions was the agreement in March 2012 to a temporary change to the basis on which costs of the Alliance are charged to PRS and MCPS ('the 2012 Agreement'). Whilst the effect of this agreement did not prevent the Company incurring losses in 2012, it did reduce the losses that would have been reported in the absence of the agreement by £4.6m. £3m of the loss reported by the Company in 2012 should not be viewed as indicative of underlying trading conditions on the grounds that it arose as a result of transactions that are exceptional in nature. This £3m comprises the write down of investment of £2.7m, the loan write off of £4.9m and the cost share saving of £4.6m.

On 17 April 2013, the Company signed an agreement ('the Alliance Stability Deal') to reconfigure its relationship with PRS. The Directors intend that this agreement will improve the Company's future prospects and return the Company to profit in 2014. Under the 2013 Agreement, the Company will sell its shares in the Alliance for £1 on 1 July 2013 and will enter into a contract with PRS for the provision of licensing services. This contract has an initial term of 3 years and 6 months with options to extend thereafter. The price payable by the Company for the services to be delivered by PRS will facilitate the return of the Company to profit and incentivises both parties to improve the profitability of the Company and its future prospects.

The 2013 Agreement has allowed the Directors to conclude that cash reserves, the Company's main source of liquidity are likely to prove adequate to fund the Company's activities until profitability returns. 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 setting out the Directors' assessment of the principal risks and uncertainties that the Company faces.

Directors' report (continued)

Events since the balance sheet date

In January 2013, PRS gave notice of its intention to terminate the 2012 Agreement referred to above to allow for the implementation of a longer term stability arrangement.

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 sale by MCPS of its 50% share of the MCPS-PRS Alliance to PRS on 1 July 2013 for the sum of £1. This means that from July 2013, the Alliance will become a wholly-owned subsidiary of PRS.

The Alliance will continue to provide services to MCPS, under a service level agreement contract between MCPS and PRS on a fixed cost basis.

Directors

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

Writers
M Leeson
S Levine
S Rodgers

Publishers
J Alway (from 1 January 2013)
M Anders
A Bebawi
C Butler
P Cornish (Chairman)
J Dyball
N Elderton
S Hornall
S Levin (until 31 December 2012)
J Minch
B Newing
G Orakwusi (until 31 December 2012)
S Platz

Executive director
R Ashcroft

External director
P Dolan

All directors appointed before 24 October 1989 are holders of a director's qualification share in the Company. Qualification shares do not entitle the holder to any beneficial interest in the Company.

In accordance with the Company's articles of association, one third of the directors retire by rotation and, being eligible, are entitled to offer themselves for re-election.

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.

Directors' report (continued)

Chairman and deputy chairman

Peter Cornish took office as Chairman on 4 July 2012. Nigel Elderton became Deputy Chairman on 4 July 2012.

Corporate governance

The Company's board is responsible for the direction of the Company. It appoints the Chairman, the Secretary and, together with the Board of PRS, it is responsible for the appointment of the Chief Executive Officer of the Alliance. It delegates certain powers to the Alliance, an operational company which is jointly owned by the Company and PRS. Through its overseeing and ongoing assessment of the effectiveness of the Alliance Board, the Company's Board monitors financial progress, company performance and strategic planning. Directors continue to direct policy on commercial matters through close involvement with the board's committees which specialise in specific areas of commercial focus, such as Licensing, Distribution, Membership and Copyright. The Company's Board met six times during the year.

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.

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 Mechanical-Copyright Protection Society Limited

We have audited the financial statements of Mechanical-Copyright Protection Society Limited for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Statement of Cash Flows and the related notes 1 to 18. 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 53, 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 loss 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 Mechanical-Copyright Protection 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 **Mechanical-Copyright Protection 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.

Profit and loss account

for the year ended 31 December 2012

	Notes	*2012* *£000*	*2011* *£000*
Net royalties distributed		164,136	163,406
Income			
Commission levied on distributions	2	15,061	16,623
Interest receivable on short-term deposits		701	781
Fees receivable		52	64
Minor sums		230	816
		16,044	18,284
Administrative expenses	3	(16,558)	(20,796)
Loss on ordinary activities before exceptional items		(514)	(2,512)
Exceptional item - write down of investment	3,7	(2,734)	–
Exceptional item - write off of loan	8	(4,930)	–
Loss on ordinary activities before tax		(8,178)	(2,512)
Tax on loss on ordinary activities	6	–	–
Loss for the financial year	12	(8,178)	(2,512)

All amounts relate to continuing activities.

Statement of total recognised gains and losses

for the year ended 31 December 2012

There are no recognised gains or losses other than the losses attributable to the shareholders of the Company of £8,178,000 in the year ended 31 December 2012 (2011 – loss of £2,512,000).

Balance sheet

at 31 December 2012

	Notes	2012 £000	2011 £000
Fixed assets			
Investments	7	558	3,292
Current assets			
Debtors: amounts falling due after one year	8	–	4,930
Debtors: amounts falling due within one year	8	34,329	27,975
		34,329	32,905
Investments – short-term deposits		28,000	19,000
Cash at bank and in hand		1,235	9,681
		63,564	61,586
Creditors: amounts falling due within one year	9	(1,247)	(1,048)
Royalties payable	10	(75,507)	(68,284)
		(76,754)	(69,332)
Net current liabilities		(13,190)	(7,746)
Total assets less current liabilities		(12,632)	(4,454)
Capital and reserves			
Called up share capital	11	19	19
Profit and loss account	12	(12,651)	(4,473)
Shareholders' deficit	12	(12,632)	(4,454)

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

P Cornish

Chairman

Statement of cash flows

for the year ended 31 December 2012

	Note	2012 £000	2011 £000
Cash (outflow)/inflow from operating activities	13(a)	(147)	4,257
Returns on investments and servicing of finance – net interest receivable		701	781
		554	5,038
Cash inflow from investing activities	13(b)	–	90
Management of liquid resources	13(c)	(9,000)	(4,000)
(Decrease)/increase in cash		(8,446)	1,128

Reconciliation of net cash flow to movement in net funds

	Notes	2012 £000	2011 £000
(Decrease)/increase in cash in the year		(8,446)	1,128
Cash outflow from movement in liquid resources		9,000	4,000
Movement in net funds in the year	13(d)	554	5,128
Net funds at 1 January		28,681	23,553
Net funds at 31 December	13(d)	29,235	28,681

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.

Companies Act 2006

The financial statements have been prepared in the format required by the Companies Act 2006, except that the directors have amended certain headings in the Profit and Loss account and the order in which items are included so as to better reflect the special circumstances of the Company as permitted under Schedule 1 of that Act.

Definitions

'MCPS' means Mechanical-Copyright Protection Society Limited.
'PRS' means Performing Right Society Limited.
'Alliance' means The MCPS-PRS Alliance Limited.
'ICE' means International Copyright Enterprise A.B.

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 acknowledge the continuing negative impact of a declining Audio Product Market and low interest rates, resulting in the current year loss and their effect on the viability of future profits. In 2012, as in recent previous years, the loss of income from physical product licensing has outweighed the gains from online and broadcast licensing and this has caused the Company to report losses. The directors expect the Company's overall commission income to stabilise from 2015.

In 2012, 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 of the Alliance. One outcome of these discussions was the agreement in March 2012 to a temporary change to the basis on which costs of the Alliance are charged to PRS and MCPS ('the 2012 Agreement'). Whilst the effect of this agreement did not prevent the Company incurring losses in 2012, it did reduce the losses that would have been reported in the absence of the agreement by £4.6m. £3m of the loss reported by the Company in 2012 should not be viewed as indicative of underlying trading conditions on the grounds that it arose as a result of transactions that are exceptional in nature. This £3m comprises the write down of investment of £2.7m, the loan write off of £4.9m and the cost share saving of £4.6m.

On 17 April 2013, the Company signed an agreement ('the 2013 Agreement') to reconfigure its relationship with PRS. The Directors intend that this agreement will improve the Company's future prospects and return the Company to profit in 2014. Under the 2013 Agreement, the Company sold its shares in the Alliance for £1 and will enter into a contract with PRS for the provision of licensing services. This contract has an initial term of 3 years and 6 months with options to extend thereafter. The price payable by the Company for the services to be delivered by PRS will facilitate the return of the Company to profit and incentivises both parties to improve the profitability of the Company and its future prospects.

The 2013 Agreement has allowed the Directors to conclude that cash reserves, the Company's main source of liquidity are likely to prove adequate to fund the Company's activities until profitability returns. 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.

Notes to the financial statements

at 31 December 2012

1. Accounting policies (continued)

Going concern (continued)

The directors continue to monitor the Company's profitability and prospects within its changing markets, and believe that given the resources mentioned above, the focus on reducing costs and in conjunction with the agreement, the going concern basis used in preparing the annual report and financial statements should continue to be used.

Group financial statements

In accordance with section 400(1) of the Companies Act 2006, group financial statements have not been prepared as the Company is a wholly owned subsidiary of an EAA company, the Music Publishers' Association Ltd, which produces group financial statements that are publicly available. Consequently these financial statements present information about the Company as an individual undertaking and not about its group.

Entities, other than subsidiary undertakings, in which the Company has a participating interest and over whose operating and financial policies the Company exercises significant influence are treated as associates. Investments in joint ventures and associates are accounted for at the lower of cost and net realisable value.

Revenue recognition

Commission levied on distributions

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

Interest receivable on short term deposits

Revenue is recognised as interest accrues using the effective interest method.

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 of distribution.

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 ownership cannot be established commission is recognised at a rate of 100% once the monies have been held for more than six years.

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

All transactions during the year are translated at the rate ruling at the date of the transactions, other than those of the Irish branch, which have been translated at the average rate for the year for the profit and loss account and at the year end rate for the balance sheet.

Monetary assets and liabilities in foreign currencies have been retranslated into sterling at the middle market rate at the balance sheet date. All differences are taken to the profit and loss account.

Pensions

The Alliance makes pension contributions to one defined contribution pension scheme and two defined benefit pension schemes in accordance with the advice of actuaries and the rules of the schemes in respect of its employees and an appropriate proportion is recharged to MCPS. The costs are charged to the profit and loss account.

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, represents amounts invoiced to third parties and is attributable to commission levied on distributions.

An analysis of turnover by geographical market is given below:

	2012	*2011*
	£000	*£000*
United Kingdom	14,398	15,549
Ireland	304	315
Rest of the world	359	759
	15,061	16,623

During the year, the Company released monies held in suspense in accordance with the accounting policy on revenue recognition as set out in note 1. The table below shows the effect this had on reported turnover:

	2012	*2011*
	£000	*£000*
Turnover	12,143	12,927
Suspense account release	2,918	3,696
Total turnover	15,061	16,623

Notes to the financial statements

at 31 December 2012

3. Administrative expenses

This is stated after charging/(crediting):

	2012	*2011*
	£000	*£000*
Auditors' remuneration	10	8
Recharge from the Alliance:		
Staff costs	10,667	11,569
Office and accommodation costs	284	1,001
Information technology	1,462	1,588
Legal and professional costs	4,397	2,772
Other costs	1,399	1,216
Depreciation	2,913	2,650
Costs reduced by the Alliance Stability agreement	(4,564)	–
Total administrative expenses	16,558	20,796

Exceptional item – write down of investment

As a result of the analysis undertaken during 2012 that lead to the Alliance Stability agreement in April 2013, the value of the shares held in the Alliance was reviewed. The increasing pension deficit in the Alliance caused the directors to conclude that the value of shares held at the year-end was negligible. This resulted in an impairment charge of £2.7m (see note 7).

4. Directors' remuneration

The remuneration of the non-executive directors, excluding pension contributions, was £295,356 (2011 – £279,942). 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 PRS 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.

On 4 July 2012 Nigel Elderton resigned from his position as Chairman and was appointed Deputy Chairman. On the same date Peter Cornish resigned from his position as Deputy Chairman and was appointed Chairman. The remuneration of Peter Cornish, amounted to £31,012 (2011 – £28,222) and Nigel Elderton received £40,847 (2011 – £39,957).

Notes to the financial statements

at 31 December 2012

4. Directors' remuneration (continued)

During the year ended 31 December 2012, the Alliance had one executive director, Robert Ashcroft. The highest paid director in 2012 was Robert Ashcroft. His remuneration, excluding pension contributions, was £684,952 (2011 – £652,207), 25% of which was recharged to MCPS (2011 – 40%). Included in amounts paid within the year to the highest paid director is a deferred bonus of £159,649.

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

5. Staff costs

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

6. Tax

(a) Tax on loss on ordinary activities

The tax charge is made up as follows:

	2012	*2011*
	£000	*£000*
Tax on loss 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*
Loss on ordinary activities before tax	(8,178)	(2,512)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 24.5% (2011 – 26.5%)	(2,004)	(666)
Effects of:		
Adjustments for transfer pricing	(80)	(97)
Non-deductible write down of investment	670	–
Consortium relief surrendered for nil consideration	702	646
Losses arising in the year not relievable against current tax	712	117
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 £2,453,000 (2011 – £1,367,000) in respect of losses has not been recognised due to insufficient certainty of future trading profits.

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.

7. Investments

	Subsidiary undertaking	*Joint ventures and associates*	*Total*
	£000	*£000*	*£000*
Cost:			
At 1 January and 31 December 2012	1	3,503	3,504
Provision for impairment:			
At 1 January 2012	–	212	212
Impairment charge	–	2,734	2,734
At 31 December 2012	–	2,946	2,946
Net book amount:			
At 31 December 2012	1	557	558
At 1 January 2012	1	3,291	3,292

As a result of the analysis undertaken during 2012 that lead to the Alliance Stability agreement being made in April 2013, the value of the shares held in the Alliance was reviewed. The increasing pension deficit within the Alliance caused the directors to conclude that the shares in the Alliance had no material realisable value. As a result, the carrying value has been reduced resulting in an impairment charge of £2.7m.

Notes to the financial statements

at 31 December 2012

7. Investments (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*
Subsidiary undertaking:			
Ampleform Limited	Ordinary £1 shares	99%	Non-trading
Joint ventures:			
The MCPS-PRS Alliance Limited	Ordinary £1 shares	50%	Service company
National Discography Limited	Ordinary £1 shares	50%	Non-trading
Associates:			
CELAS GmbH	Ordinary €1 shares	25%	Pan-European licensing
British Music Rights Limited	Limited by guarantee	25%	Dormant

CELAS GmbH ('CELAS') is a joint venture formed between MCPS, PRS and GEMA, the German society for musical performing and mechanical reproduction rights. It was established to license certain members' online rights on a Pan-European basis. It is incorporated in Germany. MCPS and PRS own 25% each of the shares and GEMA owns 50%. In addition to share capital, MCPS, PRS and GEMA have each advanced 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 €1.4m (2011 – profit of €0.4m).

The company had a positive equity figure of €2.1m (2011 – €0.8m) at the year-end.

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)

The Alliance is equally owned by the Company and PRS at the balance sheet date and its principal activity is to provide operational services to the two societies. The costs incurred by the Company are recharged to each society according to the services provided. The Company's financial statements do not include any share of the Alliance's profit or loss because of the nature of the services and relationship between PRS and the Alliance.

During the year, the Company wrote off the value of its investment in the Alliance as a result of the increased pension deficit.

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

	2012	*2011*
	£000	*£000*
As at 31 December:		
Tangible fixed assets	9,224	24,038
Investments	4,109	2,349
Current assets	21,962	15,423
Share of gross assets	35,295	41,810
Creditors: amounts falling due within one year	(32,326)	(26,924)
Creditors: amounts falling due after more than one year	(7,908)	(11,003)
Share of gross liabilities	(40,234)	(37,927)
Share of net (liabilities)/assets before pension scheme liabilities	(4,939)	3,883
Share of pension scheme liabilities	(8,821)	(31,828)
Share of net liabilities after pension scheme liabilities	(13,760)	(27,945)
For the year ended 31 December:		
Turnover	39,783	38,368
Profit before tax	6,570	2,179
Tax on profit on ordinary activities	(428)	(237)
Profit after tax	6,142	1,942

Notes to the financial statements

at 31 December 2012

8. Debtors

	2012	*2011*
	£000	*£000*
Amounts falling due within one year:		
Trade debtors	1,331	866
Due from the Alliance	30,695	24,625
Prepayments and accrued income	239	171
Other taxes	2,064	2,313
	34,329	27,975

	2012	*2011*
	£000	*£000*
Amounts falling due after more than one year:		
Due from the Alliance	–	4,930

During 2012, £21.0m (2011 – £20.8m) of administrative expenses were recharged by the Alliance comprising £16.1m of administrative costs and the loan write off of £4.9m. MCPS's total administrative expenses for the year are £16.6m, which include a direct cost to MCPS of £0.5m that was not recharged by the Alliance. The Company funds an appropriate proportion of the Alliance's costs and, at 31 December 2012, had loan balances receivable from the Alliance of £30.7m (2011 – £29.6m). In 2012 the Company impaired the carrying value of the long-term pension loan balances in anticipation of the loans being waived as a condition of the Alliance Stability deal signed in April 2013.

9. Creditors: amounts falling due within one year

	2012	*2011*
	£000	*£000*
Other creditors, accruals and deferred income	257	412
Other taxes and social security costs	990	636
	1,247	1,048

Notes to the financial statements

at 31 December 2012

10. Royalties payable

	2012	*2011*
	£000	*£000*
At 1 January	68,284	58,571
Add: royalties received	162,890	162,420
	231,174	220,991
Less: taken to profit as minor sums	(230)	(816)
	230,944	220,175
Distributed during year:		
Sourced within UK and Ireland	(144,362)	(153,907)
Sourced elsewhere	(19,774)	(9,499)
	(164,136)	(163,406)
	66,808	56,769
Movement in returned royalties, deposits, etc	8,699	11,515
At 31 December	75,507	68,284

The Company's liability to account for royalties payable accrues when amounts due from the corresponding users of the copyright works are received. As at 31 December 2012, potential amounts both receivable and payable of £11.6m (2011 – £10.8m), in respect of transactions where amounts due from users had not been received, were recorded within royalties payable.

11. Issued share capital

		2012		*2011*
Allotted, called up and fully paid	*No.*	*£000*	*No.*	*£000*
Ordinary shares of £1 each	19,200	19	19,200	19

12. Reconciliation of shareholders' funds and movements on reserves

	Share capital	*Profit and loss account*	*Total share-holders' deficit*
	£000	*£000*	*£000*
At 1 January 2011	19	(1,961)	(1,942)
Loss for the year	–	(2,512)	(2,512)
At 1 January 2012	19	(4,473)	(4,454)
Loss for the year	–	(8,178)	(8,178)
At 31 December 2012	19	(12,651)	(12,632)

Notes to the financial statements

at 31 December 2012

13. Notes to the statement of cash flows

(a) Reconciliation of operating loss to net cash (outflow)/inflow from operating activities

	2012	*2011*
	£000	*£000*
Loss on ordinary activities before taxation	(8,178)	(2,512)
Interest receivable	(701)	(781)
Decrease in debtors – amounts falling due after one year	4,930	366
Increase in debtors – amounts falling due within one year	(6,354)	(1,032)
Increase in creditors – royalties payable	7,223	9,713
Increase/(decrease) in creditors	199	(1,497)
Investment write-down	2,734	–
Net cash (outflow)/inflow from operating activities	(147)	4,257

(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	(28,000)	(17,000)
Short-term deposits repaid	19,000	13,000
Movement in deposits	(9,000)	(4,000)

(d) Analysis of net funds

	At 1 January 2012	*Cash flow*	*At 31 December 2012*
	£000	*£000*	*£000*
Cash at bank and in hand	9,681	(8,446)	1,235
Liquid resources – short term deposits	19,000	9,000	28,000
Total cash	28,681	554	29,235

14. Capital commitments

Capital expenditure authorised and contracted by the Company 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. The capital expenditure commitment of the Alliance at 31 December 2012 was £nil (2011 – £0.1m).

Notes to the financial statements

at 31 December 2012

15. Contingent liability

At 31 December 2012, the Company has a contingent liability of £4.6m potentially due to PRS as a result of the cost sharing amendments made during the year, which reduced MCPS'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. As disclosed in the directors' report and note 1, there is uncertainty as to when this will be because of the continuing decline in the audio market. At present, whilst fully acknowledging the liability, the directors have concluded that the degree of uncertainty is such as to preclude recognition of it in the Company's 2012 financial statements.

16. 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 2012, total royalties paid by the Company to the directors and to parties related to the directors amounted to £78.1m (2011 – £89.4m). 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 2012, MCPS paid a management fee of £0.2m (2011 – £0.2m) to the Music Publishers Association Ltd, its parent undertaking.

17. Ultimate parent undertaking and controlling party

The Company is a wholly-owned subsidiary of the Music Publishers' Association Ltd, a company limited by guarantee and incorporated in the UK, which prepares group financial statements. This 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 MPA Ltd, 6th Floor, British Music House, 26 Berners Street, London W1T 3LR UK.

18. Events since the balance sheet date

In March 2012 the Company entered into an agreement with the PRS, 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 companies.

The impact of this agreement on the Company's 2012 financial statements is a decrease in costs of £4.6m.

In January 2013, PRS gave notice of its intention to terminate this agreement to allow for the implementation of a longer term stability arrangement.

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 sale by MCPS of its 50% share of the Alliance to PRS on 1 July 2013 for the sum of £1. This means that the Alliance will become a wholly-owned subsidiary of PRS on that date.

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