Directors' Report and Accounts

Performing Right Society Limited

For the year ended 31 December 2013

Registered in England No. 134396

PRS for MUSIC

100 YEARS OF 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
W Booth
C Butler
E Cox
N Elderton
S Hornall
A King
R King
R Manners
J Minch
S Platz

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

Strategic report

The directors present their strategic report for the year ended 31 December 2013.

Principal activities and review of the business

The principal activity of the Company is the licensing of the performing rights vested in it by its members and affiliated societies and the collection and distribution of resulting royalties. The Company represents over 100,000 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 principal activity of the Company's subsidiary, PRS for Music Limted (PfM), previously the MCPS-PRS Alliance Limited, is to provide operational services to Mechanical-Copyright Protection Society Limited (MCPS) and Performing Right Society Limited (PRS). For the six months to 30 June 2013 the operating costs incurred by PfM were charged to MCPS and PRS in proportion to the work carried out on behalf of each customer, in accordance with the principles set out in the shareholders' agreement dated 30 September 1997 between MCPS and PRS, as subsequently amended.

On 17 April 2013 the Company and 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 of both societies. This agreement resulted in the Company buying the 50% share in PfM owned by MCPS on 1 July 2013 for £1. As a result of this, PfM became a wholly-owned subsidiary of the Company and, as a consequence, the Company has prepared consolidated financial statements for the first time this year. As a consequence, the 2013 financial statements represent the consolidated position, whereas the 2012 comparatives only represent the Company, unless otherwise stated.

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

	2013	*2012*	*Change*
	£m	*£m*	*%*
Profit before tax and exceptional items	467.1	420.0	+11.2
Donations	1.5	1.5	–
Net distributable income before exceptional items	465.6	418.5	+11.3
Licensing and administrative expenses	56.9	58.6	-2.9

The circumstances in which consolidated financial statements should be prepared and the way in which such financial statements should be prepared are set out in Financial Reporting Standard 2.

Neither the requirement to present consolidated financial statements nor the presentation of consolidated financial statements affects the legal relationships between PRS and the other companies included within the consolidation.

Strategic report (continued)

Principal activities and review of the business (continued)

One consequence of the requirement to prepare consolidated financial statements is the requirement to present a consolidated balance sheet. There is a net deficit on reserves amounting to £33.2m on the consolidated balance sheet and no equivalent deficit on the balance sheet of the Company. The net deficit on reserves, which is the consequence of liabilities exceeding assets on the consolidated balance sheet, does not mean that the liabilities of the Company itself exceed its assets. This deficit has arisen because the liabilities of PfM exceed the values attributed to the assets of PfM, principally because of the deficits on the two defined benefit pension schemes funded by PfM. PfM has agreed with the Board of trustees of the two schemes a deficit recovery plan that is intended to fully fund the schemes before the end of 2024.

Principal risks and uncertainties

The Audit Committee of PfM evaluates the risks and uncertainties that may affect the Group's performance. The Audit Committee met four times in 2013. The principal risks and uncertainties are detailed below.

Competitive risk

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

Financial instrument risks

The Group has in place a financial management framework which ensures that the Group 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 Group.

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.

Strategic report (continued)

Principal risks and uncertainties (continued)

Exposure to price, credit and liquidity risk

Price risk for the Group 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. Group 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 Group is actively in negotiations with subject to certain criteria. The Group's debtors are shown in note 11 to the financial statements.

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

By order of the Board

V Burnett
Secretary
9 April 2014

Registered No. 134396

Directors' report

The directors present their report and financial statements for the year ended 31 December 2013.

Results

The net distributable income for the year, after exceptional items, amounted to £442,365,000 (2012 – £404,233,000).

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 (appointed 13 June 2013)
A Bebawi (resigned 13 June 2013)
W Booth (appointed 13 June 2013)
C Butler
E Cox (appointed 13 June 2013)
J Dyball (resigned 30 June 2013)
N Elderton
S Hornall (appointed 10 July 2013)
A King
R King
P Long (resigned 13 June 2013)
R Manners (appointed 10 July 2013)
J Minch
S Platz
E Rich (resigned 30 June 2013)

Executive director

R Ashcroft

External directors

W Goldwag
E Morris

Pursuant to articles 57 and 62 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

M Nyman

Publishers

S Hornall
A King
R Manners

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 chairmen

Guy Fletcher continued in his position of Chairman throughout 2013 and was re-elected to serve a further three year term from 1 January 2014. Chris Butler was elected by the Board as deputy chairman (publisher) for a two-year term with effect from 1 January 2013. Simon Darlow held the position of deputy chairman (writer) throughout 2013 and was re-elected to serve a further two year term from 1 January 2014.

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.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The directors believe that the Group 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 PfM to PRS in 2013 by £2.2m (2012 – £4.6m). The agreement that gave rise to this adjustment came to an end at the end of June 2013. The last six months of this agreement caused the costs of the Company to be £3m higher than if the agreement was not in force.

In addition, as PfM is now a wholly owned subsidiary of the Company, the Group balance sheet includes the PfM defined benefit scheme deficit and reflects the impact of impairing the goodwill arising on the acquisition of PfM of £25.2m. As a result, the Group balance sheet has a net deficit of £33.2m at 31 December 2013.

The directors have also considered the status of joint ventures and associate undertakings ICE, CELAS and NMP.

ICE is fully supported by its shareholders owing to the nature of services it supplies, without which the shareholders would not be able to provide services to their members. Profit for the year to 31 December 2013 was £0.1m (2012 – £0.1m profit). ICE is forecasting to cover its costs in future years and repay its loans over 10 years.

CELAS is fully supported by its shareholders. Profit for the year to 31 December 2013 was €1.5m (2012 – €1.5m). There was a repayment of capital during the year of £0.5m. CELAS is also forecasting to make profits in future years.

NMP became operational in October 2012 and is fully supported by its shareholders. It recharges all of its costs to its shareholders.

Therefore after making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the accounts.

Corporate governance

The Company's Board of Directors is ultimately responsible for the governance of the Company. The Board of Directors delegates much of the business decision making to the PfM Board in accordance with agreed mandates. PfM is an operational services company which was jointly owned by PRS and MCPS until 30 June 2013 but is now a wholly owned subsidiary of PRS. Since 1 July 2013, PRS, through PfM, provides a range of services to MCPS including licensing and distribution administration, under the terms of a services agreement.

Directors' report (continued)

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 ongoing 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.

Donations

Donations and other payments made pursuant to article 48(a) of the articles of association totalled £1.535 million (2012 – £1.525 million) of which £1.5 million (2012 – £1.5 million) was to The PRS for Music 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.

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
9 April 2014

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, the Directors' 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 adequate 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 auditor's 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 2013 which comprise the Group Income and Expenditure Account, the Group Statement of Total Recognised Gains and Losses, the Group and Parent Company Balance Sheets, the Group Statement of Cash Flows and the related notes 1 to 22. 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 group's and the parent 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 Report and financial statements 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.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and parent company's affairs as at 31 December 2013 and of its net distributable income 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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's 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

9 April 2014

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.

Group income and expenditure account

for the year ended 31 December 2013

	Notes	2013 £000	2012 £000
Turnover	2	510,782	474,992
Other income – operating fees	3	8,850	–
Interest receivable and similar income		3,241	3,633
Total income for the year		522,873	478,625
Licensing and administration expenses	3	(56,924)	(58,592)
Group operating profit	3	465,949	420,033
Share of operating profit in joint venture	9(a)	177	–
Total operating profit: group and share of joint venture and associates		466,126	420,033
Other finance income	19	981	–
Exceptional item – gain on sale of property	3	2,095	–
Exceptional item – impairment of goodwill arising on acquisition of PfM	3	(25,197)	–
Exceptional item – investment write down	3	–	(14,275)
Profit on ordinary activities before tax		444,005	405,758
Tax on profit on ordinary activities	6	(105)	–
Profit before appropriations		443,900	405,758
Amounts appropriated - donations		(1,535)	(1,525)
Net distributable income	15	442,365	404,233

All amounts relate to continuing activities.

Group Statement of total recognised gains and losses

for the year ended 31 December 2013

	Notes	2013 £000	2012 £000
Net distributable income		442,365	404,233
Distributions allocable to members and affiliated societies		(467,350)	(408,012)
Foreign exchange losses on joint venture investments	15	(575)	–
Actuarial losses on defined benefit pension plans	19	(7,666)	–
Total recognised gains and losses relating to the year		(33,226)	(3,779)

Group balance sheet

at 31 December 2013

	Notes	2013 £000	2012 £000
Fixed assets			
Tangible assets	8	24,561	–
Investments	9	308	558
Investments in joint ventures:			
Share of gross assets	9	11,731	–
Share of gross liabilities	9	(4,510)	–
		32,090	558
Current assets			
Debtors: amounts falling due after more than one year	11	2,794	15,817
Debtors: amounts falling due within one year	11	75,337	57,420
		78,131	73,237
Investments – short-term deposits	16(f)	160,000	107,000
Cash at bank and in hand		43,658	40,874
		281,789	221,111
Creditors: amounts falling due within one year	12	(332,967)	(221,669)
Net current liabilities		(51,178)	(558)
Total assets less current liabilities		(19,088)	–
Provision for liabilities and charges	14	(2,161)	–
Net liabilities excluding pension liability		(21,249)	–
Defined benefit pension liability	19	(11,977)	–
Net deficit		(33,226)	–
Net deficit on reserves	15	(33,226)	–

The accounts were approved by the Board on 9 April 2014 and were signed on its behalf by:

Guy Fletcher

Chairman

Parent company balance sheet

at 31 December 2013

	Notes	*2013* *£000*	*2012* *£000*
Fixed assets			
Investments	9(b)	46	558
Current assets			
Debtors: amounts falling due after more than one year	11	14,558	15,817
Debtors: amounts falling due within one year	11	65,699	57,420
		80,257	73,237
Investments – short-term deposits	16(f)	160,000	107,000
Cash at bank and in hand		19,160	40,874
		259,417	221,111
Creditors: amounts falling due within one year	12	(259,463)	(221,669)
Net current liabilities		(46)	(558)
Total assets less current liabilities		–	–
Distributable reserves	15	–	–

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The accounts were approved by the Board on 9 April 2014 and were signed on its behalf by:

Guy Fletcher

Chairman

Group statement of cash flows

for the year ended 31 December 2013

	Notes	2013 £000	2012 £000
Cash inflow from operating activities	16(a)	483,497	415,384
Amounts paid to members and affiliated societies		(434,225)	(400,162)
Net cash inflow from operating activities		49,272	15,222
Net cash from investing activities	16(b)	507	–
Returns on investments and servicing of finance – net interest received		3,749	3,462
Management of liquid resources	16(c)	(53,000)	–
Capital expenditure and receipts	16(d)	(2,053)	–
Acquisitions and disposals	16(e)	4,309	–
Increase in cash		2,784	18,684

Reconciliation of net cash flow to movement in net funds

	Note	2013 £000	2012 £000
Increase in cash		2,784	18,684
Cash increase from movement in liquid resources		53,000	–
Movement in net funds in the year		55,784	18,684
Net funds at 1 January		147,874	129,190
Net funds at 31 December	16(f)	203,658	147,874

Notes to the financial statements

at 31 December 2013

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable UK accounting standards. Comparatives in 2012 for the consolidated financial statements present information for the Company only, as the Company did not have any subsidiaries during 2012.

Basis of consolidation

The group financial statements consolidate the financial statements of Performing Right Society Limited and all its subsidiary undertakings drawn up to 31 December each year. No profit and loss account is presented for the Company as permitted by section 408 of the Companies Act 2006.

PfM has been included in the group financial statements using the acquisition method of accounting. Accordingly, the group profit and loss account and statement of cash flows include the results and cash flows of PfM for the six month period from its acquisition on 1 July 2013. The purchase consideration has been allocated to the assets and liabilities on the basis of fair value at the date of acquisition.

Entities in which the group holds an interest on a long-term basis and are jointly controlled by the group and one or more other venturers under a contractual arrangement are treated as joint ventures. In the group financial statements, joint ventures are accounted for using the gross equity method.

Entities, other than subsidiary undertakings or joint ventures, in which the group has a participating interest and over whose operating and financial policies the group exercises a significant influence are treated as associates. In the group financial statements associates, which have been assessed as being immaterial to the Group, are accounted for at cost.

In the parent company financial statements investments in subsidiaries, joint ventures and associates are accounted for at the lower of cost and net realisable value.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The directors believe that the Group 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 PfM to PRS in 2013 by £2.2m (2012 – £4.6m). The agreement that gave rise to this adjustment came to an end at the end of June 2013. The last six months of this agreement caused the costs of the Company to be £3m higher than if the agreement was not in force.

In addition, as PfM is now a wholly owned subsidiary of the Company, the Group balance sheet includes the PfM defined benefit scheme deficit and reflects the impact of impairing the goodwill arising on the acquisition of PfM of £25.2m. As a result, the Group balance sheet has a net deficit of £33.2m at 31 December 2013.

The directors have also considered the status of ICE, CELAS and NMP.

ICE is fully supported by its shareholders owing to the nature of services it supplies, without which the shareholders would not be able to provide services to their members. Profit for the year to 31 December 2013 was £0.1m (2012 – £0.1m profit). ICE is forecasting to cover its costs in future years and repay its loans over 10 years.

CELAS is fully supported by its shareholders. Profit for the year to 31 December 2013 was €1.5m (2012 – €1.5m profit). There was a repayment of capital during the year of £0.5m. CELAS is also forecasting to make profits in future years.

Notes to the financial statements

at 31 December 2013

1. Accounting policies (continued)

Going concern (continued)

NMP became operational in October 2012 and is fully supported by its shareholders. It recharges all of its costs to its shareholders.

Therefore after making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the accounts.

Definitions

‘PRS’ means Performing Right Society Limited.
‘MCPS’ means Mechanical-Copyright Protection Society Limited.
‘PfM’ means PRS for Music Limited, formerly The MCPS-PRS Alliance Limited (‘the ‘Alliance’).
‘ICE’ means International Copyright Enterprise A.B.
‘NMP’ means Network of Music Partners A/S.
‘PEL’ means Pan European Licensing.
‘CELAS’ means CELAS GmbH

Revenue recognition

Operating fees receivable

Revenue is accounted for on an accruals basis so that income is recognised in the period to which it relates.

Interest receivable on short term deposits

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

Licence revenue

Broadcasting, Public Performance revenue and PEL revenue is accounted for on an accruals basis so 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 or it becomes virtually certain of being received.

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

Tangible fixed assets

Fixed assets are initially recorded at cost.

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided on all fixed assets acquired at a cost of more than £1,000, other than freehold land, at rates calculated to write off the cost or valuation, less estimated residual value based on prices prevailing at the date of acquisition or revaluation, of each asset evenly over its expected useful life, as follows:

Freehold land and buildings	–	2% per annum
Leasehold buildings	–	length of lease – min 1% per annum
Property improvements	–	5% per annum
Computer systems and equipment	–	14-50% per annum
Motor vehicles	–	length of lease

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Notes to the financial statements

at 31 December 2013

1. Accounting policies (continued)

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 exceptions:

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, or gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.
- 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.

Foreign currencies

Company

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.

Group

The accounts are translated at the rate of exchange ruling at the balance sheet date. The exchange differences arising on the retranslation of opening net assets are taken directly to reserves. All other differences are taken to the profit and loss account.

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Company are capitalised in the balance sheet and are depreciated over their useful lives.

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Notes to the financial statements

at 31 December 2013

1. Accounting policies (continued)

Pensions

The Group participates in two multi-employer defined benefit pension schemes and one multi-employer defined contribution pension scheme, operated by its subsidiary PfM. Appropriate proportions of pension costs are recharged to PRS and these costs are charged to the profit and loss account.

The defined benefit schemes require contributions to be made to separately administered funds. The MCPS-PRS Alliance Pension Scheme (MCPS) (formerly the MCPS scheme) was closed to new entrants from 1 January 1999 and The MCPS-PRS Alliance Pension Scheme (formerly the PRS scheme) was closed to new entrants from 1 January 2003. The schemes closed to future accrual on 31 December 2010 with all remaining active members at that point becoming deferred members and losing the link to final salary.

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligations) and is based on actuarial advice. Past service costs are recognised in the profit or loss account on a straight-line basis over the vesting period or immediately if the benefits have vested. When a settlement or a curtailment occurs the charge in the present value of the scheme liabilities and the fair value of the plan assets reflects the gain or loss which is recognised in the profit and loss account. Losses are measured at the date that the employer becomes demonstrably committed to the transaction and gains when all parties whose consent is required are irrevocably committed to the transaction.

The interest element of the defined benefit cost represents the change in present value of scheme obligations relating from the passage of time, and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year. The expected return on plan assets is based on an assessment made at the beginning of the year of long-term market returns on scheme assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year. The difference between the expected return on plan assets and the interest costs is recognised in the income statement as other finance income or expense.

Actuarial gains and losses are recognised in full in the statement of recognised gains and losses in the period in which they occur.

The defined benefit pension asset or liability in the balance sheet comprises the total for each plan of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds that have been rated at AA or equivalent status), less any past service cost not yet recognised and less the fair-value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price. The value of a net pension benefit asset is limited to the amount that may be recovered either through reduced contributions or agreed refunds from the scheme.

Additional disclosures are included in note 19 to these accounts in relation to the deficits in the schemes.

Contributions to defined contribution schemes are recognised in the income statement in the period in which they become payable.

Notes to the financial statements

at 31 December 2013

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:

	2013	*2012*
	£000	*£000*
Licensing turnover		
United Kingdom, Channel Islands and Isle of Man:		
Public performance	162,258	154,654
Broadcasting	114,820	110,799
Online	23,682	16,615
	300,760	282,068
PEL International	9,038	12,852
Overseas:		
Europe	128,122	101,624
North America	38,857	35,498
Asia	11,487	18,472
Central and South America	9,787	13,552
Australasia	10,088	8,579
Africa and Middle East	2,643	2,347
	200,984	180,072
Total licensing turnover	510,782	474,992

Notes to the financial statements

at 31 December 2013

3. Group operating profit

This is stated after charging/(crediting):

	2013	*2012*
	£000	*£000*
Depreciation of owned fixed assets	2,435	–
Depreciation of assets held under finance leases and hire purchase contracts	51	–
Loss on disposal of fixed assets	29	–
Operating lease rentals - property	704	–
Operating lease rentals - computer and office machinery	11	–
Auditor's remuneration – audit services relating to the company	10	10
– taxation compliance services relating to the company	3	–
– audit services relating to subsidiaries	178	–
– taxation compliance services relating to subsidiaries	9	–
– non-audit services relating to subsidiaries	21	–
Operating fees receivable from MCPS	(8,850)	–

Amounts recharged from PfM. This represents amounts recharged for the full year:

	2013	*2012*
	£000	*£000*
Staff costs	24,047	29,782
Office and accommodation costs	4,672	3,006
Information technology costs	3,899	2,897
Legal and professional costs	13,181	7,898
Other costs	4,549	4,439
Depreciation	4,310	5,306
Pension costs – equalisation	–	700
Costs increased by Alliance Stability Deal	2,266	4,564
Licensing and administration expenses	56,924	58,592

Amounts recharged above include other staff related costs, including training, staff restaurant and recruitment costs and hence do not reconcile directly to the amounts disclosed in note 5.

Notes to the financial statements

at 31 December 2013

3. Group operating profit (continued)

Recognised below operating profit:

	2013	*2012*
	£000	*£000*
Exceptional items		
Gain on sale of property (note 8)	2,095	–
Impairment of goodwill arising on acquisition of PfM (note 7)	(25,197)	–
Impairment of investment in PfM	–	(14,275)

4. Directors' remuneration

	2013	*2012*
	£000	*£000*
Directors' remuneration	1,024	945
Company contributions to defined contribution pension schemes	19	19
	No.	*No.*
Members of defined contribution pension schemes	1	1

The amounts in respect of the highest paid director are as follows:

	2013	*2012*
	£000	*£000*
Director's remuneration	750	685
Company contributions to defined contribution pension schemes	19	19

Included in the amounts paid within the year to the highest paid director is a deferred bonus charge of £184,714. The aggregate amount now deferred for future payment is £470,588.

Remuneration includes fees paid in respect of qualifying services for directors who are also non-executive directors of PfM.

The remuneration of non-executive directors, excluding pension contributions, was £449,094 (2012 – £401,060). 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 2013 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 2013. The cost of directors who were also directors of MCPS was shared equally by MCPS and PRS. Non-executive directors of PfM received, in addition, £6,778 per annum, which from 1 April 2013 increased to £6,934 per annum. This cost was shared equally by MCPS and PRS until 30 June 2013, thereafter the cost was borne exclusively by the Company.

Notes to the financial statements

at 31 December 2013

4. Directors' remuneration (continued)

The position of Chairman was unchanged during the year. The remuneration of the Chairman, Guy Fletcher, amounted to £58,251 (2012 – £57,068). Chris Butler took over the position of Deputy Chairman (Publisher) on 1 January 2013 and his remuneration for the year was £16,367. Simon Darlow continued as Deputy Chairman (Writer) throughout 2013 and his remuneration for the year was £31,774 (2012 – £31,028).

During the year ended 31 December 2013, the Company had one executive director, Robert Ashcroft, who was employed and paid by PfM. The highest paid director in 2013 was Robert Ashcroft. His remuneration, excluding pension contributions, was £750,134 (2012 – £684,952), 75% of which was paid for by the Company (2012 – 75%) until 30 June 2013, thereafter, all of these costs were borne by the Company.

The pension contributions in respect of Robert Ashcroft were £19,064 (2012 – £18,677) to a defined contribution scheme. 75% of which was paid for by the Company (2012 – 75%) until 30 June 2013, thereafter, all of this cost was borne by the Company.

5. Staff costs

The Company had no employees during this year or last year, other than its directors. Staff who work on the Company's business are employed by PfM, with costs recharged to PRS.

Costs are as follows:

	2013	*2012*
	£000	*£000*
Wages and salaries	25,861	21,545
Social security costs	2,651	2,105
Defined contribution pension schemes	930	826
Defined benefit pension schemes	13	394
Costs of similar benefits	275	252
	29,730	25,122

The average monthly number of employees of PfM during the year was made up as follows:

	No.	*No.*
Licensing	161	249
Distribution and membership	207	222
Support services	232	229
	600	700

Notes to the financial statements

at 31 December 2013

6. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2013	*2012*
	£000	*£000*
Current tax:		
UK corporation tax on the profit for the year	(351)	–
Total current tax (note 6(b))	(351)	–
Deferred tax:		
Movement relating to pensions	105	–
Deferred tax on pension spreading	351	–
Total deferred tax (note 6(c))	456	–
Tax on profit on ordinary activities	105	–

(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 23.25% (2012 – 24.5%). The differences are explained below:

	2013	*2012*
	£000	*£000*
Profit on ordinary activities before tax	444,005	405,758
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 23.25% (2012 – 24.5%)	103,231	99,411
Effects of:		
Adjustment for transfer pricing	–	(570)
Higher taxes on overseas joint venture earnings	5	–
Pension contributions	(1,957)	–
Expenses not deductible for tax purposes (including goodwill write-down)	5,981	–
Non-deductible write down of investment	–	3,497
Capital allowances for year in arrears of depreciation	279	–
Depreciation of capitalised revenue expenditure	(486)	–
Current year loss not utilised	1,745	–
Carry forward/(utilisation) of tax losses	107	(2,001)
Profit on disposal of assets not allowable for tax purposes	(240)	–
Deduction for allocable distributions	(109,016)	(100,337)
Current tax for the year (note 6(a))	(351)	–

Notes to the financial statements

at 31 December 2013

6. Tax (continued)

(c) Deferred tax

	2013	*2012*
	£000	*£000*
Arising on pension deficit	2,456	–

Movement on deferred tax asset:

	£000
At 1 January 2013	–
Acquisition of subsidiary (note 10)	2,912
Debited to the profit and loss account	(456)
At 31 December 2013	2,456

	2013	*2012*
	£000	*£000*
Pension liability (note 19)	2,456	–

The corporation tax rate applicable to the Company reduced from 24% to 23% from 1 April 2013. A deferred tax asset of £119,012 (2012 – £1,546,119) has not been recognised in respect of losses, due to the non profit making nature of the Society.

(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.

PfM has an unrecognised deferred tax asset of £8,598,000 (2012 – £7,953,000) made up of non-trading losses of £399,000 (2012 – £851,000), trading losses of £2,760,000 (2012 – £nil) capital losses of £nil (2012 – £27,000), decelerated capital allowances of £1,804,000 (2012 – £1,974,000), pension contributions spreading of £3,206,000 (2012 – £3,294,000) and arising on pension deficit of £429,000 (2012 – £1,807,000). The deferred tax asset has not been recognised due to insufficient certainty of future trading profits.

The corporation tax rate reduced by 2% from 23% to 21% on 1 April 2014 and by a further 1% from 1 April 2015 from 21% to 20%. These changes have been substantively enacted and are the effect of them is reflected in these financial statements.

Notes to the financial statements

at 31 December 2013

7. Intangible assets

	Goodwill
	£000
Cost:	
Acquisition of subsidiary undertaking – PfM (note 10)	25,197
At 31 December 2013	25,197
Amortisation:	
Impairment during the year (note 3)	25,197
At 31 December 2013	25,197
Net book value at 31 December 2013	–

8. Tangible fixed assets

Group

	Freehold land and buildings	*Leasehold land and building improve-ments*	*Systems and equipment*	*Motor vehicles*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*
Cost:					
Additions	–	–	7,058	–	7,058
On acquisition of subsidiary undertaking	441	1,593	17,863	121	20,018
Disposals	–	–	(221)	(29)	(250)
At 31 December 2013	441	1,593	24,700	92	26,826
Depreciation:					
Charge for the year	8	18	2,409	51	2,486
Disposals	–	–	(221)	–	(221)
At 31 December 2013	8	18	2,188	51	2,265
Net book value:					
At 31 December 2013	433	1,575	22,512	41	24,561

The net book value of leasehold land and buildings and improvements at 31 December 2013 includes £0.6m (2012 – £0.7m) on long leases and £nil (2012 – £nil) on short leases. The net book value of motor vehicles held under finance lease agreements is £41,000 (2012 – £0.1m), with all lease obligations paid in advance.

Notes to the financial statements

at 31 December 2013

8. Tangible fixed assets (continued)

Group (continued)

During 2012, the Group reviewed the property it had at its disposal and its property requirements. The review confirmed that the Group had more space available to it than it required at that time and for the foreseeable future. The review also concluded that the configuration of the offices in Berners Street was not conducive to effective team-working and were costly to maintain.

The Board of Directors decided as a consequence to investigate opportunities for relocating from Berners Street to lower cost and more efficiently configured offices. As a result, on 21 December 2012 the Group completed a sale and leaseback transaction of the leasehold interests in 25-27 Berners Street and 29-33 Berners Street, London W1. The leaseback arrangement is for a period of up to three years. The consideration for this transaction was £35m before costs, £5m of which was held in escrow to cover contingent future costs including the costs of obtaining planning consent. In September 2013, following the granting of planning consent, the £5m held in escrow less costs was released to the Company, resulting in a net gain of £2.1m. The costs included the 10% entitlement to the purchaser of the leases.

9. Investments

Group

	2013	*2012*
	£000	*£000*
Investments:		
Associate (b)	76	558
Other fixed asset investments (c)	232	–
	308	558
Joint ventures (a)	7,221	–
	7,529	558

Notes to the financial statements

at 31 December 2013

9. Investments (continued)

Group (continued)

(a) Joint Ventures

	£000
At 1 January 2013	–
Acquired with subsidiary undertaking	7,619
Share of profit retained by Joint ventures	177
Foreign exchange loss	(575)
At 31 December 2013	7,221

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

	ICE	*NMP*	*2013 Total*
	£000	*£000*	*£000*
As at 31 December:			
Intangible assets	5,341	2,982	8,323
Tangible fixed assets	226	467	693
Current assets	2,332	383	2,715
Share of gross assets	7,899	3,832	11,731
Creditors: amounts falling due within one year	(1,074)	(290)	(1,364)
Creditors: amounts falling due after more than one year	(3,146)	–	(3,146)
Share of gross liabilities	(4,220)	(290)	(4,510)
Share of net assets	3,679	3,542	7,221
For the six months ended 31 December:			
Turnover	2,954	1,238	4,192
Profit before tax	177	–	177
Tax on profit on ordinary activities	–	–	–
Profit after tax	177	–	177

Creditors falling due after more than one year in ICE represents a loan from PfM, which is repayable in 28 quarterly instalments until 2020.

Notes to the financial statements

at 31 December 2013

9. Investments (continued)

Group (continued)

(b) Associate

	£000
Cost:	
At 1 January 2013	770
On acquisition of PfM (note 10)	30
Return of capital	(512)
At 31 December 2013	288
Impairment:	
At 1 January 2013 and 31 December 2013	212
Net book value:	
At 31 December 2013	76
At 1 January 2013	588

(c) Other investments

	£000
On acquisition of PfM	232
At 31 December 2013	232

The Group’s associates are immaterial to the Group’s consolidated financial statements and hence have been accounted for as investments rather than being equity accounted.

Notes to the financial statements

at 31 December 2013

9. Investments (continued)

Group (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:			
PRS for Music Limited	Ordinary £1 shares	100%	Service company
Joint Ventures:			
International Copyright Enterprise Services AB (ICE)	Ordinary shares	50%	Service centre
Network of Music Partners A/S (NMP)	Ordinary shares	50%	Service centre
Associates:			
CELAS GmbH	Ordinary €1 shares	25%	Pan-European licensing
ISAN UK Ltd	Ordinary £1 shares	25%	Identification of audiovisual works

PfM became a wholly-owned subsidiary of the Company on 1 July 2013 when the Company paid £1 for the 50% share in PfM owned by MCPS. The principal activity of PfM is to provide operational services to PRS and MCPS.

ICE is a joint venture between PfM and the Swedish collection society, STIM, to provide a joint service centre for operational services. The group has a 50% interest in ICE, which has been included in these accounts under the equity method of accounting.

Notes to the financial statements

at 31 December 2013

9. Investments (continued)

Group (continued)

During 2012 the Group invested £3.5m in 50% of the share capital of Network of Music Partners A/S, a company registered in Denmark and jointly owned by Nordisk Copyright Bureau, ('NCB'). NMP is a joint venture with NCB to provide back-office services to the music copyright administration industry. The company became operational in October 2012, and produced its first accounts for the period ending 31 December 2013.

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 2013 CELAS generated a net proft of €1.5 million (2012 – net profit of €1.4 million). The company had net assets of €1.2m (2012 – €2.1m) at the year end.

The Group also owns 25% of ISAN, a company set up to standardise audiovisual content identifiers.

Company

	Subsidiary undertakings	*Joint ventures and associates*	*Total*
	£000	*£000*	*£000*
Cost:			
At 1 January 2013	–	15,045	15,045
Additions	14,275	(14,275)	–
Return of capital	–	(512)	(512)
At 31 December 2013	14,275	258	14,533
Impairment:			
At 1 January 2013	–	14,487	14,487
Transfer	14,275	(14,275)	–
At 31 December 2013	14,275	212	14,487
Net book value:			
At 31 December 2013	–	46	46
At 1 January 2013	–	558	558

PfM became a wholly owned subsidiary on 1 July 2013. The Company's investment in PfM was fully impaired in 2012. PRS paid £1 for the remaining 50% share, as detailed in note 10.

Notes to the financial statements

at 31 December 2013

10. Acquisition

On 1 July 2013 PRS acquired PfM for a consideration of £1. The investment in PfM has been included in the Company's balance sheet at its fair value at the date of acquisition.

Net assets at date of acquisition:

	Book value	*Revaluation adjustments*	*Fair value to group*
	£000	*£000*	*£000*
Tangible fixed assets	20,018	–	20,018
Investments			
ICE	4,436	(396)	4,040
NMP	3,526	53	3,579
Other investments	262	–	262
Debtors (including deferred taxation of £351,000)	22,114	–	22,114
Cash	4,308	–	4,308
Creditors due within one year	(53,401)	–	(53,401)
Creditors due after more than one year	(15,188)	–	(15,188)
Pension deficit	(13,490)	–	(13,490)
Deferred tax asset on pension deficit	2,561	–	2,561
Net deficit	(24,854)	(343)	(25,197)
Goodwill arising on acquisition (note 7)			25,197
Consideration paid			–

PfM recorded a loss after tax of £67,000 in the year ended 31 December 2013 (2012 – profit of £12,285,000), of which a loss of £162,000 arose in the period from 1 January 2013 to 30 June 2013. The summarised profit and loss account for the period from 1 January 2013 to the effective date of acquisition is as follows:

	£000
Turnover	34,181
Operating profit	156
Bank interest receivable	78
Other finance costs	(231)
Profit before tax	3
Taxation	(105)
Loss for the six months ended 30 June 2013	(102)

The statement of total recognised gains and losses for the period from 1 January 2013 to the effective date of acquisition is as follows:

	£000
Loss for the six months ended 30 June 2013	(102)
Actuarial gains on defined benefit pension plans	3,022
Deferred taxation on defined benefit pension plans	(254)
Loss for the six months ended 30 June 2013	2,666

Notes to the financial statements

at 31 December 2013

11. Debtors

	Group		Company	
	2013	2012	2013	2012
	£000	£000	£000	£000
Amounts falling due within one year:				
Licence income receivable	37,466	30,329	37,466	30,329
Amounts due from PfM	–	12,650	12,950	12,650
VAT recoverable	12,391	11,495	9,940	11,495
Short term loan receivable – ICE	466	–	–	–
Trade debtors	15,967	–	–	–
Sundry debtors	5,272	1,979	4,323	1,979
Prepayments and accrued income	2,614	–	–	–
Corporation tax	702	–	561	–
Investment income receivable	459	967	459	967
	75,337	57,420	65,699	57,420

	Group		Company	
	2013	2012	2013	2012
	£000	£000	£000	£000
Amounts falling due after more than one year:				
Loan to ICE	2,794	–	–	–
Loan to PfM	–	15,817	14,558	15,817
	2,794	15,817	14,558	15,817

The balance of £14.6m due from PfM comprises £11.7m of funding provided to PfM for a contribution to defined benefit pension schemes in 2005, which is being amortised over twenty years from 1 January 2006 and an additional amount payable also by PfM as a consequence of closing the PfM pension schemes to future accrual in 2010. This additional amount is being amortised over 15 years. The balances are not interest bearing.

The loan to ICE is a non-subordinated element of the ICE investment. The loan was revalued at 31 December 2013 and due to foreign exchange movements decreased by £51,000.

A new credit facility was agreed with ICE on 28 January 2014, under which the loan will be repaid in twenty eight equal quarterly instalments until the end of 2020. The interest rate is set per annum and is equal to the six month Stockholm Interbank offered rate, referred to as STIBOR 6M.

Notes to the financial statements

at 31 December 2013

12. Creditors: amounts falling due within one year

	Group		*Company*	
	2013	*2012*	*2013*	*2012*
	£000	*£000*	*£000*	*£000*
Amounts due to members and affiliated societies	187,343	154,217	187,343	154,217
Deferred revenue	50,612	50,017	50,612	50,017
Trade creditors	2,849	–	–	–
Other creditors	20,055	15,305	20,055	15,305
Due to MCPS	53,412	–	–	–
Accruals	17,323	1,249	904	1,249
Other taxes and social security	1,373	881	549	881
	332,967	221,669	259,463	221,669

13. Obligations under lease and hire purchase contracts

Annual commitments under non-cancellable operating leases are as follows:

	Land and buildings	
	2013	*2012*
	£000	*£000*
Operating leases which expire:		
Within one year	700	–
In over five years	2,555	–
	3,255	–

14. Provisions for liabilities and charges

	Relocation costs
	£000
At 1 January 2013	–
Arising during the year	2,161
At 31 December 2013	2,161

The Group has recognised a provision for the estimated cost of the consequences of relocating offices. The costs represent contractual or similar past obligations at the balance sheet date. It is expected that most of these costs will have been incurred within two years of the balance sheet date.

Notes to the financial statements

at 31 December 2013

15. Reconciliation of movements in members funds

Group

	Distributable reserves
	£000
At 31 December 2012	–
Net distributable income	442,365
Distributions allocable to members and affiliated societies	(467,350)
Foreign exchange losses in investments	(575)
Actuarial losses on defined benefit plans	(7,666)
At 31 December 2013	(33,226)

Company

	Distributable reserves
	£000
At 1 January and 31 December 2013	–

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.

Notes to the financial statements

at 31 December 2013

16. Notes to the statement of cash flows

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

	2013	*2012*
	£000	*£000*
Group operating profit	465,949	405,758
Donations	(1,535)	(1,525)
Interest received	(3,241)	(3,633)
Depreciation	2,486	–
Profit on sale of fixed assets	(2,881)	–
Increase in amounts due from associated undertakings	–	(4,176)
(Increase)/decrease in debtors	(10,636)	1,636
Increase in creditors	36,935	3,049
Increase in provisions	2,161	–
Difference between pension contributions paid and charged	(5,741)	–
Investment write down	–	14,275
Net cash increase from operating activities	483,497	415,384

(b) Cash flows from investing activities

	2013	*2012*
	£000	*£000*
Repayment of capital investment	507	–

(c) Management of liquid resources

	2013	*2012*
	£000	*£000*
Short-term deposits made	(290,000)	(290,000)
Short-term deposits repaid	237,000	290,000
Movement in deposits	(53,000)	–

Notes to the financial statements

at 31 December 2013

16. Notes to the statement of cash flows (continued)

(d) Capital expenditure and receipts

	2013	*2012*
	£000	*£000*
Payments to acquire tangible fixed assets	(7,058)	–
Receipts from sale of tangible fixed assets	5,005	–
	(2,053)	–

(e) Acquisitions

	2013	*2012*
	£000	*£000*
Net cash acquired with subsidiary undertaking	4,309	–

(f) Analysis of net funds

	At 1 January 2013	*Cash flow*	*At 31 December 2013*
	£000	*£000*	*£000*
Cash at bank and in hand	40,874	2,784	43,658
Liquid resources – short-term deposits	107,000	53,000	160,000
Total cash	147,874	55,784	203,658

Notes to the financial statements

at 31 December 2013

17. Amounts allocated to members and affiliated societies

	2013	*2012*
	£000	*£000*
Allocated to members	349,362	318,243
Allocated to affiliated societies	79,628	78,991
	428,990	397,234

18. Capital commitments

Capital expenditure authorised and contracted for at 31 December 2013 was £nil (2012 – £nil).

In July 2012 the Board of Directors 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.

19. Pensions

The group participates in two defined benefit pension schemes, operated by PfM, both of which require contributions to be made to separately administered funds. The MCPS-PRS Alliance Pension Scheme (MCPS) was closed to new entrants from 1 January 1999 and The MCPS-PRS Alliance Pension Scheme was closed to new entrants from 1 January 2003. On 31 December 2010 the schemes were closed to future accrual with active members losing the link to final salary.

In March 2013 the triennial valuation of the pension schemes was completed. The deficit funding plan was reconfirmed between PfM and the trustees of the schemes, with funding remaining at the same level as in prior years. This plan involves PfM making annual payments into the schemes in order to address the deficit by 2024.

On 21 December 2012 PfM completed a sale and leaseback transaction of the leasehold interests in 25-27 Berners Street and 29-33 Berners Street. The consideration for this transaction was £35m before costs, £5m of which was held in escrow to cover contingent future costs including the costs of obtaining planning consent. In September 2013, following the granting of planning consent, the £5m held in escrow less costs was released. The costs included the 10% entitlement of the purchaser of the leases.

In 2010, the leasehold interests in 25-27 Berners Street and 29-33 Berners Street were made contingent assets of The MCPS-PRS Alliance Pension Scheme. The terms of this security interest required the Company to obtain the consent of the pension scheme trustees to any sale of the leases. The trustees of the scheme agreed the sale of the leases on the condition that the net consideration was contributed to the scheme. As a consequence, £29.5m was paid into the scheme in 2012 and a further £4.0m paid in 2013.

Notes to the financial statements

at 31 December 2013

19. Pensions (continued)

The assets and liabilities in the schemes at 31 December 2013 are:

	MCPS-PRS Alliance Pension Scheme	*MCPS-PRS Alliance Pension Scheme (MCPS)*	*Total*
	£000	*£000*	*£000*
Scheme assets at fair value:			
Equities	80,552	15,385	95,937
Corporate bonds	22,461	3,962	26,423
Gilts	2,222	125	2,347
Property	16,737	3,216	19,953
Cash	47,160	5,248	52,408
Hedge funds	893	172	1,065
Other (GTAA)	6,070	1,083	7,153
Fair value of scheme assets	176,095	29,191	205,286
Present value of scheme liabilities	(188,078)	(31,641)	(219,719)
FRS 17 deficit	(11,983)	(2,450)	(14,433)
Related deferred tax asset	2,040	416	2,456
Net deficit	(9,943)	(2,034)	(11,977)

Notes to the financial statements

at 31 December 2013

19. Pensions (continued)

The pension plans have not invested in any of the group's own properties or other assets used by the group.

The amounts recognised in the profit and loss account and the statement of total recognised gains and losses for the year are analysed as follows:

	MCPS-PRS Alliance Pension Scheme	*MCPS-PRS Alliance Pension Scheme (MCPS)*	*Total*
	£000	*£000*	*£000*
Recognised in the profit and loss account:			
Expected return on pension scheme assets	4,920	808	5,728
Interest on pension liabilities	(4,053)	(694)	(4,747)
Net return	867	114	981

	MCPS-PRS Alliance Pension Scheme	*MCPS-PRS Alliance Pension Scheme (MCPS)*	*Total*
	£000	*£000*	*£000*
Taken to the statement of total recognised gains and losses:			
Actual return on scheme assets	10,585	2,103	12,688
Less: expected return on scheme assets	(4,920)	(808)	(5,728)
	5,665	1,295	6,960
Other actuarial gains and losses	(12,784)	(1,842)	(14,626)
Actuarial gains and losses recognised in the statement of total recognised gains and losses	(7,119)	(547)	(7,666)

Notes to the financial statements

at 31 December 2013

19. Pensions (continued)

	2013
	%
Main assumptions:	
Rate of salary increase	n/a
Rate of increase in pensions in payment (LPI)	3.3
Rate of revaluation of deferred pensions	2.5
Rate of increase of pensions in payment (LPI min 3)	n/a
Discount rate	4.4
Inflation assumption	3.5

	2013
	Years
Post-retirement mortality:	
Current pensioners at 65 – male	22.1
Current pensioners at 65 – female	24.6
Future pensioners at 65 – male	23.4
Future pensioners at 65 – female	26.1

The post-retirement mortality assumptions allow for expected decrease in longevity. The “current” disclosures above relate to assumptions based on longevity (in years) following retirement at the balance sheet date, with “future” being that relating to an employee retiring in 2030.

There were no continuing contributions to MCPS-PRS Alliance Pension Scheme for ongoing future accrual due to the scheme’s closure in 2010. Fixed annual contributions of £3.1m have been made to reduce the deficit in the scheme as agreed during the 2013 triennial valuation.

There were no continuing contributions to MCPS-PRS Alliance Pension Scheme (MCPS) for ongoing future accrual due to the scheme’s closure in 2010. Fixed annual contributions of £0.4m have been made to reduce the deficit in the scheme as agreed during the 2013 triennial valuation.

Total contributions to the defined benefit plans in the next year are expected to be £3.5m.

Notes to the financial statements

at 31 December 2013

19. Pensions (continued)

Changes in the present value of the defined benefit obligations are analysed as follows:

	MCPS-PRS Alliance Pension Scheme	*MCPS-PRS Alliance Pension Scheme (MCPS)*	*Total*
	£000	*£000*	*£000*
At 1 July 2013	(173,767)	(29,924)	(203,691)
Benefits paid	2,526	819	3,345
Interest cost	(4,053)	(694)	(4,747)
Actuarial losses	(12,784)	(1,842)	(14,626)
At 31 December 2013	(188,078)	(31,641)	(219,719)

The defined benefit obligation of £219.7m (2012 – £201.6m) represents plans that are wholly or partly funded.

Changes in the fair value of plan assets are analysed as follows:

	MCPS-PRS Alliance Pension Scheme	*MCPS-PRS Alliance Pension Scheme (MCPS)*	*Total*
	£000	*£000*	*£000*
At 1 July 2013	162,494	27,707	190,201
Expected return on scheme assets	4,920	808	5,728
Employer contributions	5,542	200	5,742
Benefits paid	(2,526)	(819)	(3,345)
Actuarial gains	5,665	1,295	6,960
At 31 December 2013	176,095	29,191	205,286

In summary, the movement of the net deficit of the two schemes from the date of acquisition of PfM, 1 July 2013, is as follows:

	£000
FRS17 deficit at 1 July 2013, excluding deferred tax asset	(13,490)
Interest cost	(4,747)
Actuarial losses on scheme liabilities	(14,626)
Actuarial gains on scheme assets	6,960
Expected return on scheme assets	5,728
Employer contributions	5,742
FRS17 deficit at 31 December 2013, excluding deferred tax asset	(14,433)

Notes to the financial statements

at 31 December 2013

19. Pensions (continued)

	MCPS-PRS Alliance Pension Scheme 2013 £000	*MCPS-PRS Alliance Pension Scheme (MCPS) 2013 £000*	*Total 2013 £000*
Fair value of scheme assets	176,095	29,191	205,286
Present value of defined obligation	(188,078)	(31,641)	(219,719)
Deficit in the scheme	(11,983)	(2,450)	(14,433)
Experience adjustments arising on plan liabilities	(50)	–	(50)
Experience adjustments arising on plan assets	5,665	1,295	6,960

From January 2003, a new defined contribution pension scheme called The Alliance Defined Contribution Pension Scheme was open to all employees not in an existing scheme. Contributions to this scheme for the year ended 31 December 2013 were £1.1m (2012 – £1.2m).

20. Contingent asset

At 31 December 2013, the Group had a contingent asset of £6.8m (2012 – £4.6m) potentially due from MCPS as a result of the agreed amendments to tbe basis of sharing costs of PfM in 2012 and 2013, which increased PRS's share of the administrative costs recharged from PfM by £6.8m. MCPS is required to pay to the Company this amount once MCPS returns to profitability. The amount is net of £0.8m repaid in 2013. 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 audio market. At present, whilst fully acknowledging the asset, the directors have concluded that the degree of uncertainty is such as to preclude recognition of it in the Group's 2013 financial statements.

Notes to the financial statements

at 31 December 2013

21. Related party transactions

Group

All members of the group, the directors and parties related to them are entitled to royalties from the group in respect of the performance of any copyright works owned by them. Parties related to directors include family members and companies controlled by these directors including, where appropriate, publishing companies and their subsidiaries.

During 2013, total royalties paid by PRS to the directors and to parties related to the directors amounted to £84.8 million (2012 – £64.5 million). £84.3 million (2012 – £64.2 million) of this was paid to publisher directors and parties related to the publisher directors, and £0.5 million (2012 – £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.

PfM received services from ICE to the value of £5.7million (2012 – £5.9 million). The company also charged ICE an amount of £0.1 million (2012 – £0.6 million) for services provided and was owed a balance of £26,236 (2012 – £nil) at the year end.

A loan balance of £3.3m payable by ICE was outstanding at the end of 2013 (2012 – £3.3m). A new credit facility was agreed with ICE on 28 January 2014, under which the loan will be repaid in twenty eight equal quarterly instalments until the end of 2020. The interest rate is set annually to the six month Stockholm Interbank offered rate, referred to as STIBOR 6M.

PfM received services from NMP to the value of £3.1 million (2012 – £0.2 million). The company also charged NMP an amount of £0.7 million (2012 – £0.2 million) for services provided and was owed a balance of £1,350 (2012 – £0.2 million) at the year end.

PfM also co-funds the activities of UK Music 2009 Ltd, a company whose members include PRS and the Music Publishers Association (MPA) and in 2013 this funding amounted to £0.4 million (2012: £0.4 million). During the year, PfM provided subsidised services including accommodation to UK Music 2009 Limited. The value of the subsidy for 2013 has been estimated as £114,000 (2012 – £114,000).

During the year, PfM provided subsidised services including accommodation to The British Academy of Songwriters, Composers and Authors (BASCA), an organisation whose Board is chaired by Simon Darlow, a Director of PRS for Music Limited and PRS Limited. The value of the subsidy for 2013 has been estimated as £72,000 (2012 – £72,000).

During the year, PfM provided subsidised services including accommodation to MPA. MPA is chaired by Chris Butler, a director of PRS and of PfM. The value of the subsidy for 2013 has been estimated as £100,000 (2012 – £100,000).

Notes to the financial statements

at 31 December 2013

21. Related party transactions (continued)

Group (continued)

During the year, PfM provided subsidised services including accommodation to The PRS Members' Benevolent Fund. The value of the subsidy for 2013 has been estimated as £32,000 (2012 – £32,000).

During the year, PfM provided subsidised services including accommodation to The PRS for Music Foundation. The value of the subsidy for 2013 has been estimated as £51,000 (2012 – £56,000).

Due to the highly integrated nature of the industry, many directors will also be related to customers of the group, 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 an arm's length basis.

Parent company

Throughout both financial years PRS, the parent company, was under the control of the PRS board. The PRS 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.

During 2013, CELAS paid royalties to PRS of £3.1 million (2012 – £3.8 million). The loan balance owed by CELAS to PRS at the end of 2013 was £nil (2012 – £2.9million).

22. 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.

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