

PRS for Music

2013 Review





We have more than **100** agreements with affiliated collecting societies in **150** countries

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Basis of preparation

The figures presented in this financial review are based on the audited financial statements of Performing Right Society Limited (PRS), Mechanical-Copyright Protection Society Limited (MCPS) and PRS for Music Limited (PfM); companies that together are referred to as *PRS for Music*.

This financial review has not been audited. Copies of the audited financial statements for PRS, MCPS, and PfM, prepared using UK generally accepted accounting practices, can be provided on request.

Foreword



I am pleased to report that in 2013 our income reached a record £665.7m, an increase of 3.7% on 2012 and our third consecutive year of growth.

International revenue was one of the key highlights of 2013. Thanks to global chart success, sell out tours and a high repertoire share on growing cable television networks, we broke through the £200m barrier for the first time, achieving income of £201.1m.

International royalties remain the single largest source of income we collect for our members.

Broadcast royalties again represented our second largest source of income, with an increase in revenue of 4.8% to £160.4m, driven by a mixture of growth in existing licences, new licensing agreements and key licence renewals.

Our online income grew by 18.3% in 2013 to £61.2m. This market is evolving rapidly as the transition from downloads to streaming gathers pace. In fact, 2013 saw a small decline in downloads for the first time, a trend that we expect to become more pronounced in the years to come. Although streaming is growing, subscription streaming services have not yet become mainstream and ad-supported services are yet to demonstrate significant revenue potential.

Of the total growth of 18.3%, two thirds was achieved through a combination of new mandates won and the extension of our multi-territorial licensing beyond Europe and while we shall continue to pursue these initiatives, we are concerned about the underlying rate of growth in the online market as a whole.

For this reason we are conducting a comprehensive review of our Online strategy, looking in particular at how to improve our licensing of user-generated content, apps and gaming.

As part of this strategy we are bringing to market a transformative new offering in collaboration with our partners in Germany and Sweden, GEMA and STIM respectively. This joint venture, which builds upon ICE, our existing copyright venture with STIM, will revolutionise the online market in Europe, ensuring we are the first port of call for digital music services and speeding up the flow of royalties back to our members.

We remain as focused as ever on delivering value to our members, who now number over 100,000. This requires modernisation and investment. Moving from our home of 60 years in Berners Street to King's Cross will deliver savings of around £1m per annum, while providing a much needed improvement in the working environment for our staff, both in Streatham, which is being extensively refurbished, and in the new building itself, No. 2 Pancras Square. As part of this project we have, in outsourcing our data centres, taken the first steps towards modernising our IT infrastructure, which will enable us to drive further productivity improvements while at the same time improving the service we provide to members.

A strong copyright framework is essential to ensure fair remuneration for the use our members' music both at home and abroad. Live debates on the future of copyright are underway in both Europe and the United States and *PRS for Music* is actively engaged in dialogue with policymakers to ensure that the role of copyright as the engine of the creative economy is well understood and that our industry receives the legislative support it needs to thrive.

This year's figures demonstrate that we are on the right course, while our plans for transformation will ensure that we can effectively serve our members now and into our next centenary.

Robert Ashcroft,
Chief Executive *PRS for Music*

About us

We are a society of more than 100,000 songwriters, composers and music publishers spanning every genre.

We understand that music is a vital cultural force and we exist to help our members, and those of overseas societies, earn from their craft.

We provide businesses and other organisations with access to the world's music, from the largest media corporation or retail chain to the most intimate live performance space.

Each year, we license more than 350,000 businesses, including 300 radio stations and 450 television channels.

136 billion uses of music tracked and processed in 2013

Through our business relationships, we champion the value of music and highlight its benefits in motivating staff and creating a welcoming environment for customers.

After deducting the costs of running our organisation, all the income we receive from licence fees and investments is distributed back to our members.

We strive to keep our operating costs as low as possible, while ensuring we invest in infrastructure that will deliver the very best returns to our members.

We promote and protect the value of copyright by working with the UK and EU governments to ensure that legislation is fair to creators and publishers.

We have over 100 agreements with affiliated collecting societies in 150 countries; our international collaborations help to ensure that the UK music industry retains its position as one of the three largest exporters of music around the globe.

We are also the largest funder of new music in the UK through our charity PRS for Music Foundation, and we donated £1.5m to the charity in 2013.

PRS for Music Foundation is the only charity dedicated to new music of all genres across the UK, and it supports a bewildering range of creative projects - from band showcases, UK tours, festivals and promoters to composer residencies, commissions and professional development.

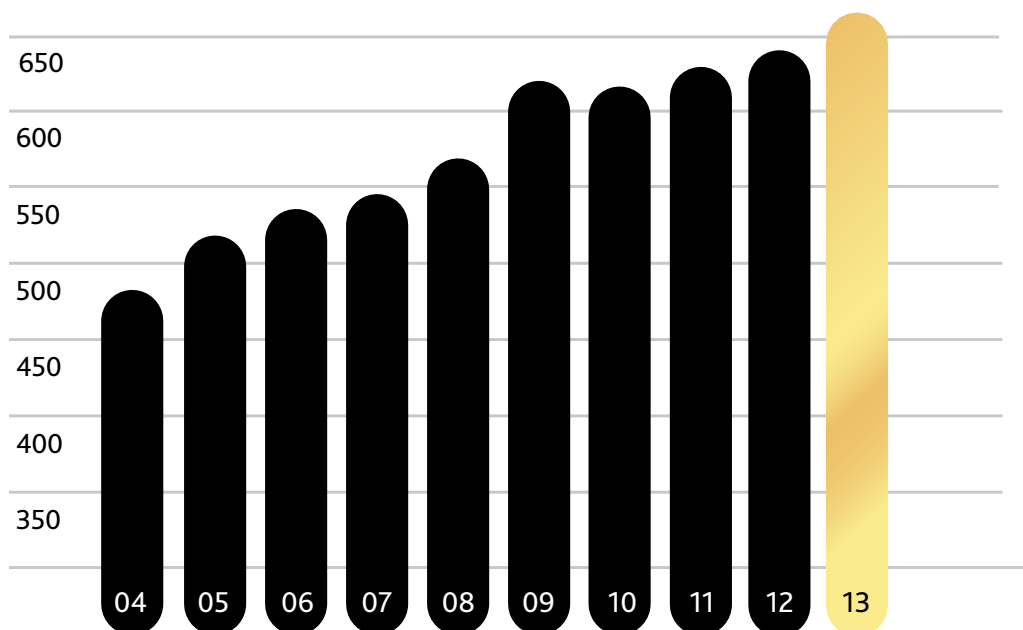
If you would like more information about *PRS for Music* and our members, please visit our website at prsformusic.com.



£665.7 million
revenue generated

About us

Revenue generated by *PRS for Music* (£ millions) 2004 -2013



104,000 members

We have achieved strong growth in the last ten years in a changing music market.

Headline results

In 2013, we achieved record revenue of £665.7m for our songwriter, composer and music publisher members. This represents a 3.7% increase on 2012 which, with revenue of £641.8m, was itself a record year.

A key highlight was that international revenue topped £200m for the first time, up 11.7% on 2012.

Online revenues also continued to grow, reaching £61.2m in 2013, an increase of 18.3%. After a dip in 2012, live music returned to growth in 2013, achieving income of £25.7m.

Royalty revenue, costs and net distributable revenue

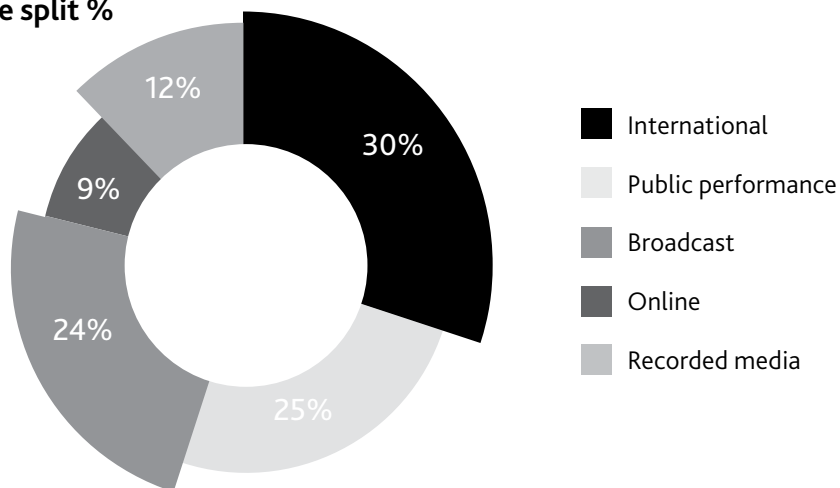
£ million

	2013	2012	
Revenue - royalties	665.7	641.8	3.7%
Interest and other income	5.0	4.6	7.8%
Costs	73.2	72.6	0.8%
<u>Charitable donations*</u>	1.5	1.5	-
Net distributable revenue	596.0	572.3	4.1%

Net distributable revenue increased by **4.1%** to **£596 million**

*Charitable donations include the PRS for Music Foundation and the *PRS for Music* Members Benevolent Fund

Revenue split %



Royalties by source

£ million

	2013	2012	
Broadcast	160.4	153.0	4.8%
Online	61.2	51.7	18.3%
International	201.1	180.1	11.7%
Public performance	162.3	154.7	4.9%
Recorded media	80.7	102.3	-21.1%
Total	665.7	641.8	3.7%

International is the biggest source of income

International

In 2013, we broke through the £200m barrier for the first time, achieving international revenue of £201.1m. This 11.7% growth comes on the back of a 4% decline in 2012. In 2013, exchange rates moved in our favour and we saw a reversal of the situation in 2012 when unfavourable exchange rates depressed the sterling value of our collections. On a constant currency basis – taking these fluctuations in exchange rates into account – growth in 2013 was 8.6%.

Sell-out tours, impressive chart positions and the prevalence of *PRS for Music* repertoire across high growth cable television networks ensured that international royalties remained our single largest source of income in 2013.

Across international markets, Europe, North America, Japan and Australia performed particularly well, due to a combination of factors including the growing cable TV market, internet streaming services and improved deals with local television.

Royalties from music usage overseas

£ million	2013	2012	
Europe	126.1	109.7	14.9%
North America	38.3	34.6	10.7%
Latin America and Caribbean	5.4	6.9	-21.7%
Asia-Pacific	22.1	20.3	8.9%
Africa/Middle East	2.6	2.2	18.2%
Other including Cruise Lines	6.6	6.5	1.5%
Total	201.1	180.1	11.7%

International royalty revenue **£201.1m**

Broadcast

Revenue from TV and radio reached £160.4m in 2013, an increase of 4.8%. Growth comes on the back of our strategic review of the broadcast sector which aimed to ensure that our licensing strategy is best placed to address the evolving TV market.

In 2013, we renewed licences with a number of key licensees, including BSkyB, and we struck new agreements with a number of new channels, including BT Sport.

Royalties from broadcast

£ million	2013	2012	
TV	113.0	106.0	6.6%
Radio	47.4	47.0	0.9%
Total	160.4	153.0	4.8%

Revenue increased by **4.8%**

Online

Online revenue reached £61.2m in 2013, an increase of 18.3%. This result comes on the back of 32% growth in 2012. Growth in 2013 was achieved through a combination of key licence renewals and new licensing agreements, including Deezer and YouTube, as well as some new mandates.

Against this backdrop, we're exploring options to achieve further revenue growth with new strategies to improve our licensing of user-generated content, apps and gaming.

The online market continues to evolve apace, with an accelerating transition from downloads to streaming. In fact, in 2013, we saw our first ever decline in downloads and this decline looks set to continue throughout 2014.

Royalties from online services

£ million	2013	2012	
Total online	61.2	51.7	18.3%

Online revenue
increased by **18.3%**

Public performance

Revenue from public performance increased by 4.9% in 2013 to £162.3m. In 2013, we began to implement a strategy which is designed to improve our business processes and boost our customer relationship management – and this new strategy is starting to produce results.

After a dip in 2012, live music returned to growth in 2013 with the return of Glastonbury and the full availability of certain venues which had previously been deployed as Olympic venues. This, and an increase in the number of live events in 2013, helped to achieve income of £25.7m.

Royalties from public performance

£ million	2013	2012	
Pubs and clubs	38.5	37.7	2.1%
Live	25.7	20.7	24.2%
Hotels and restaurants	20.6	19.8	4.0%
Shops	19.1	18.5	3.2%
Industrial premises	17.7	17.1	3.5%
Cinemas	8.2	7.5	9.3%
Other	32.5	33.4	-2.7%
Total	162.3	154.7	4.9%

Public Performance is the second largest source of income

Recorded media

Recorded media continued its expected decline in 2013 with revenue decreasing by 21.1% to £80.7m. The continued contraction of the music retail landscape, notably with the administration of HMV in 2013, contributed to further pressure on CD and DVD revenues.

The sale of EMI Records saw a reduction in revenues generated from our EMI European Central Licensing Agreement.

Royalties from recorded media

£ million	2013	2012	
Audio products (CDs)	60.8	80.0	-24.0%
General entertainment/DVDs	8.5	10.9	-22.0%
Covermounts	1.0	0.9	11.1%
Other	10.4	10.5	-1.0%
Total	80.7	102.3	-21.1%

Recorded media still accounts for **£80.7 million** of revenue

Costs

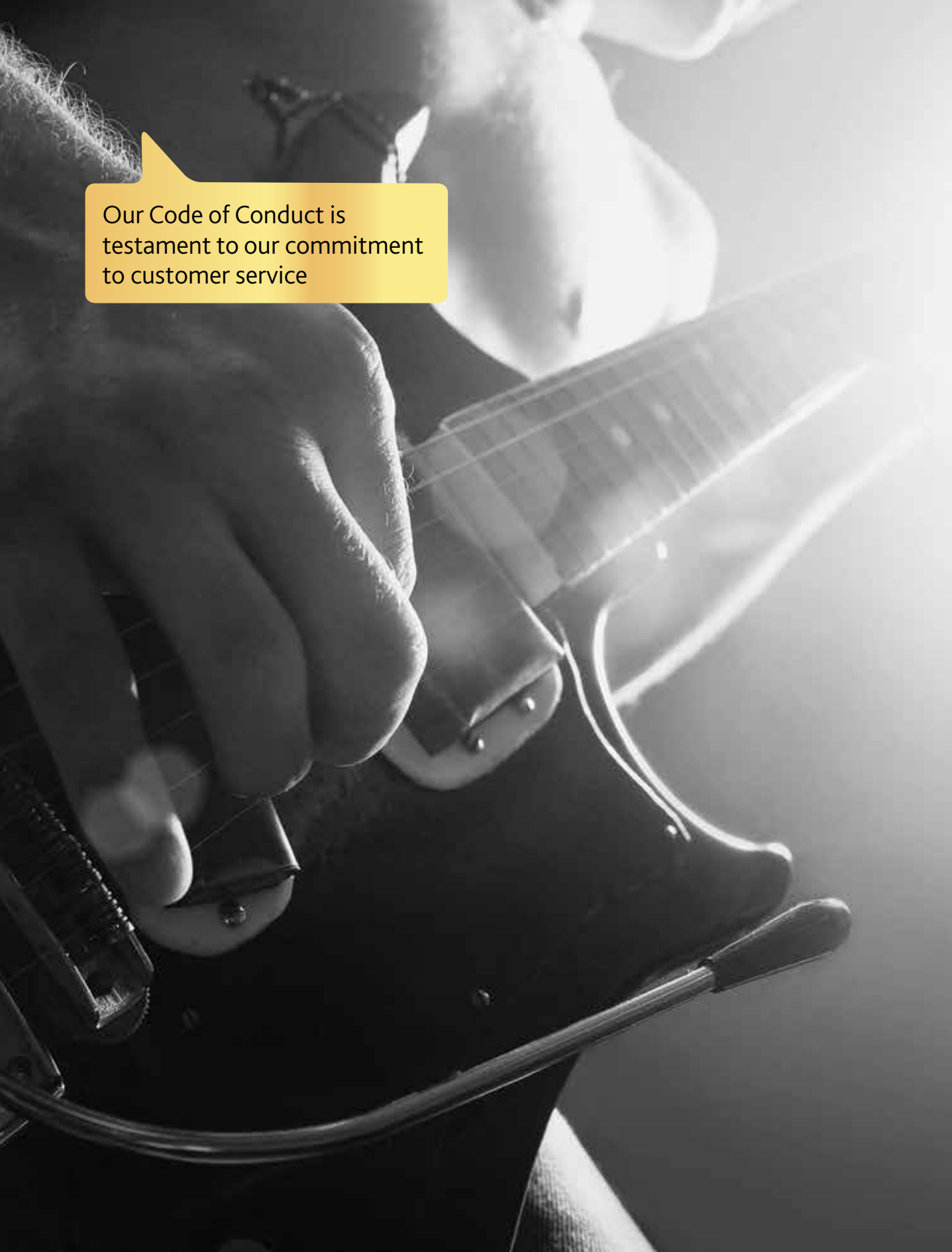
We're committed to managing our members' money effectively and serving them efficiently.

Given the strength of our revenue growth in 2013, the cost to income ratio came down from 10.8% in 2012 to 10.5% in 2013.

Cost summary

£ million	2013	2012
People	32.2	34.7
Legal and professional	5.1	4.0
Technology	4.3	4.4
Property	5.6	4.5
Depreciation	5.1	7.6
Other	13.6	11.7
Operating costs	65.8	66.9
Defined benefit pension	3.9	3.1
Charitable donations	1.5	1.5
Other non-operating costs	3.4	2.6
Non-operating costs	8.9	7.2
Total	74.7	74.1

Cost to income ratio went down in 2013



Our Code of Conduct is
testament to our commitment
to customer service

How we operate

We take our role and responsibility to members very seriously. It is our ambition to set best practice in collecting society management. We work hard to ensure that royalties flow back to creators and publishers as swiftly as possible and we work hard to negotiate fair rates for the use of the musical works in our peerless repertoire. We open our members' repertoire to many new audiences by working with international partners and we collaborate with the wider industry to simplify and speed up the licensing process to ensure musical works realise maximum royalties. We also strive to operate as efficiently and transparently as possible.

Serving our members well is the guiding principle of everything we do. To that end, we consulted our members, customers, trade associations and other interested parties before developing a revised Code of Conduct that encompasses the whole of our business, launching it at the end of 2012. It covers all aspects of *PRS for Music* membership and areas we license from shops to new online streaming services. It complies with British Copyright Council's Principles of Good Practice for Collection Management Organisations Policy Framework and outlines the roles and responsibilities of *PRS for Music*, sets best practice and determines the standards that govern how the society operates. Importantly, it explains how we can help each other and what to do if things go wrong. Please visit our website to read the Code of Conduct.

prsformusic.com/codeofconduct

We have completed a full year under the code. These are our figures 2013:

Licensing

1,447,883 contacts made
82 complaints recorded and none were referred to the Ombudsman
1 case remained open at the end of 2013

Membership

45,507 service requests handled by the member services team
10 complaints recorded of which three were referred to the Ombudsman
1 case remained open at the end of 2013

The future

PRS for Music has worked to serve its members well for the last hundred years. Our determination to continue to do so is stronger than ever, guided by a passionate commitment to UK music and driven by the challenges presented by the changing market place.

We will continue our strategy of modernising and investing in our members' future. Our move to King's Cross and the decision to fully utilise our Streatham offices will help us to modernise our working practices and save on costs. Retaining a presence in central London, albeit a smaller one, will allow us to continue to send the message that music is a crucial economic asset. We will be making sure that this is received and understood by both industry and policymakers throughout the coming year and beyond.

Our fight to ensure a strong copyright framework continues apace. We maintain our dialogue and stream of evidence to policymakers at home and in the European Union so that they understand the impact of potential changes to copyright law. We have created events and opportunities for our members to meet with policymakers as part of our new Creator Voice programme, so that they can bring their direct experiences and evidence to the table.

Our strategy to protect public performance revenue, and strengthen our relationship with licensees, continues with a series of initiatives to improve the simplicity of our licensing products and our levels of transparency. Customers will be able to see that we are easy to do business with and that we operate with absolute integrity. This in turn will enable us to obtain fair value for the use of members' repertoires and ensure that more royalties flow back to them.

In addition to seeking to launch our online hub with the Swedish and German collecting societies, STIM and GEMA, early in 2015, *PRS* remains fully committed to the development of a Global Repertoire Database. We have been heavily involved in its development right from inception and we have been one its principal drivers because we believe that the creation of an authoritative database of musical works is a vital tool for our whole community, ensuring smoother administration of licensing, accurate payments to rights holders and avoiding undue duplication of costs. While we are disappointed that the project is unable to proceed in the form initially proposed, we and our current ICE partners are continuing to explore with all interested parties alternative ways of achieving that goal using ICE technology.

We look to the future with confidence, commitment and a strong sense of what is needed in order to serve our members in the century ahead. *PRS for Music* has made immense progress over the last four years, and this work forms strong foundations for the future. We look forward to achieving a sustainable future for our members.



Our property changes will save
around **£1m per year**

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