

PRS for Music

2012 Review



PRS
*for*MUSIC



We have **90** 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 the MCPS-PRS Alliance Limited (the Alliance); 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 the Alliance, prepared using UK generally accepted accounting practices, can be provided on request.

Foreword



I am pleased to report that in 2012 we collected a record £641.8m, an increase of 1.7 percent on 2011. Significantly, we achieved this growth while reducing our costs by 5.0 percent, which meant our cost/income ratio fell to 10.8 percent.

2012 was a year when UK songwriters continued to dominate internationally and members' music accompanied television and film content worldwide.

The online market is expanding and netted a record £51.7m in music royalties, an increase of 32.2 percent on the previous year. Over the last five years, average annual growth in online has been 27 percent. Throughout, we have worked in partnership with digital music service providers to ensure that new services coming to market have swift access to licences and that our repertoire is made available on at least a European basis if not more. New licensing deals concluded in the last six months include Google Play, Vevo and Microsoft Xbox.

UK creators and publishers now receive eight percent of their total royalty income from online music services. This does not yet compensate for a declining physical market, but in 2012 total revenues recognised from both the sale of recorded media and online services amounted to £136.4m compared with £139.1m in 1999 - which was the peak of the global recorded music market.

International revenues suffered a decline of 4.0 percent due in part to deteriorating exchange rates. This was coupled with a challenging economic climate in many countries. Despite this, international royalty revenue remains the single largest source of income we collect for UK

music creators at £180.1m. This revenue source is followed by broadcast royalties which now stand at £153m – a rise of 3.1 percent on 2011.

We endeavour to remain one of the most efficient collecting societies in the world and are investing in the future to ensure that members receive the best returns from their works, both now and in the long term. We are developing the technological infrastructure required to open members' repertoire to the widest possible audience and simplify the licensing process. Our investment will increase over the next few years as we develop a shared back office with other societies to enable the large scale processing of transactional licensing and contribute to the cost of creating of a Global Repertoire Database; both projects are crucial if we are to represent our members' interests in the most efficient way possible in a market that is both challenging and undergoing rapid change.

Copyright protection remains fundamental to the continued success of our members both at home and abroad. Good licensing is vital if the value of copyright works is to be protected. We also recognise that we are ideally placed to provide evidence on the potential impact to the whole industry of copyright changes. In 2012 we saw the Intellectual Property Office's consultation on Copyright Exceptions, Richard Hooper's Copyright Works Report and the commencement of the Collective Rights Management Directive's legislative journey. We consulted with UK government and the European Commission on each.

The continuing challenge before us is to develop further the legal licensed music market and bring our members' repertoire to ever expanding international audiences. This year's figures demonstrate that we are on the right course and are building strong foundations for the future.

Robert Ashcroft,
Chief Executive PRS for Music

About us

We are a society of songwriters, composers and music publishers. We license organisations to play, perform or make available copyright music on behalf of our members and those of overseas societies, distributing the royalties to them fairly and efficiently.

We promote and protect the value of copyright, with good licensing models that enable businesses to access repertoires with speed and efficiency, and by working with UK and EU government to ensure that legislation is fair to creators and publishers.

We are owned and governed by our songwriter, composer and publisher members. Our board of directors is elected from and by the members they represent. We have in excess of 97,000 members, including rock and pop writers, classical composers, TV and film score composers, library music creators and music publishers.

We license in excess of 350,000 UK businesses - including 300 radio stations and 450 television channels - to use our members' music. We have over 90 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 net exporters of music around the globe.

After deducting the costs of running our organisation and charitable donations, all the income we receive from licence fees is distributed back to our members. We endeavour to make sure that our costs are as lean as possible, while ensuring that adequate investment is made in the infrastructure that will deliver the very best returns to our members long into the future.

We are the largest funder of new music in the UK through our charity PRS for Music Foundation. We donated £1.5m to the charity in 2012. PRS for Music Foundation is the only independent funder dedicated to new music of all genres across the UK and it supports an exceptional range of new music activity from band showcases, UK tours, festivals and promoters to composer residencies, commissions and professional development.

If you would like more information about the respective rights, duties and obligations of *PRS for Music* and our members, please visit our website to read the Society's Memorandum and Articles of Association and our Rules and Regulations.

prsformusic.com

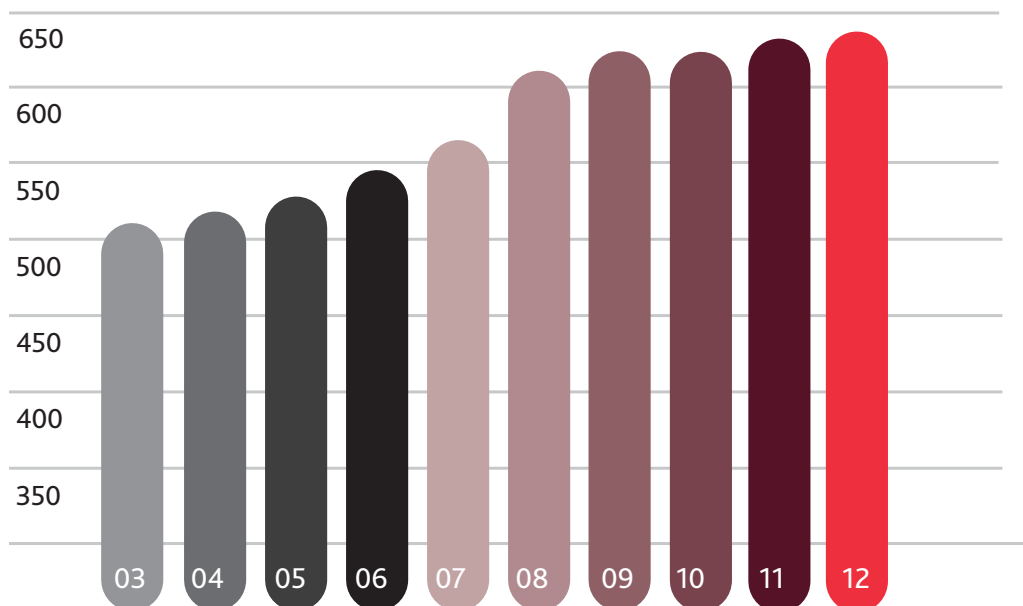
124 billion uses of music
tracked and processed in 2012



£642 million
revenue generated

About us

Money collected by PRS for Music (£ millions)



97,000 members

We have achieved strong royalty growth in the last ten years for our membership in a changing music market.

Headline results

In 2012 we collected a record £641.8m in revenue for our songwriter, composer and music publisher members. This equates to a 1.7 percent increase on 2011, when we collected £630.8m.

During 2012, our focus on efficiency delivered a £3.9m reduction in costs, equivalent to 5.1 percent. Combined, the increase in monies collected and the reduction in our costs allows us to pay out £572.3m in royalties to members - up 2.7 percent on 2011.

Royalties from online and digital services topped £50m for the first time, up 32 percent on 2011. Online royalties now provide a larger income stream for music creators than radio, live or the pub sector. However, royalties collected from live music fell by 14.2 percent to £19.3m as fewer large-scale live events took place in 2012.

Royalty revenue collected, costs and net distributable revenue

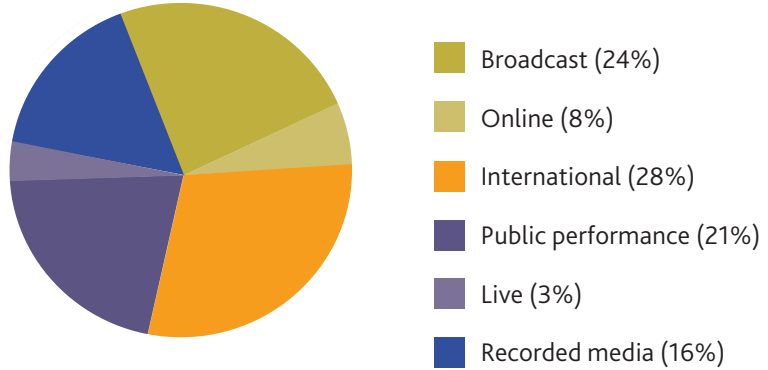
£ million

	2012	2011	
Revenue - royalties	641.8	630.8	1.7%
Interest and other income	4.6	4.5	2.2%
Total revenue	646.4	635.3	1.7%
Costs	-72.6	-76.5	-5.1%
Charitable donations*	-1.5	-1.5	-
Net distributable revenue	572.3	557.3	2.7%

Net distributable revenue increased by **2.7%** to **£572** million

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

Revenue split %



Royalties collected by source

£ million

	2012	2011	
International	180.1	187.7	-4.0%
Broadcast	153.0	148.4	3.1%
Online	51.7	39.1	32.2%
Public performance	135.4	131.4	3.0%
Live	19.3	22.5	-14.2%
Recorded media	102.3	101.7	0.6%
Total	641.8	630.8	1.7%

International royalty revenue

£180 million

International

International royalties remain the single largest source of income that we collect for UK music creators, despite a decline of 4 percent in 2012 to £180.1m. Deteriorating exchange rates, particularly with the Euro, coupled with a difficult economic climate in many markets, contributed to this decline.

However, we are pleased to report that 2012 was still a very strong year for British music creators abroad, with a record number of our writer members reaching impressive chart positions in Europe, Australia and the US. We also found that the overseas live and cable and satellite sectors continue to provide growing sources of revenue for UK music creators.

Royalties from music usage overseas

£ million	2012	2011	
Europe	109.7	117.7	-6.8%
The Americas	41.7	42.0	-0.7%
Asia/Australasia	20.3	19.9	2.0%
Africa/Middle East	2.2	2.3	-4.3%
<i>PRS for Music</i> agencies	6.2	5.8	6.9%
Total	180.1	187.7	-4.0%

International revenue provide members with their single largest source of income

Broadcast

Revenue from television and radio reached £153m in 2012, an increase of 3.1 percent on 2011.

The television market alone rose by 4.3 percent to £106m, remaining resilient to difficult market conditions and providing a strong platform for UK songwriters.

During 2012 we renewed licences with Channel 4, MTV and BBC Worldwide and struck new deals with KidsCo, Loaded TV and the Chinese Channel.

Royalties from broadcast

£ million	2012	2011	
TV	106.0	101.6	4.3%
Radio	47.0	46.8	0.4%
Total	153.0	148.4	3.1%

Broadcast revenue is the second largest source of income

Online

Royalties from online services broke the £50m mark in 2012. Growth was driven by emerging digital music services including streaming, subscription and cloud-based platforms, in addition to the established download providers.

Online revenue now accounts for more than eight percent of total royalty collections.

During 2012 we negotiated new licensing agreements with Google Play, Microsoft Xbox, Rhapsody and Vevo among others.

Our online licences include:

- Online Music Licence (OML)
- Limited Online Music Licence (LOML)
- General Entertainment Online Licence (GEOL)
- Joint Podcasting Licence
- Joint Ringtones and Joint Ringbacks Licence

We now look forward to future revenue opportunities from general entertainment platforms and new services such as Netflix and LoveFilm.

Royalties from online services

£ million	2012	2011	
Online	51.7	39.1	32.2%
Total	51.7	39.1	32.2%

Songwriter online royalties increased by 32.2% to top £50m for the first time

Public performance

Revenues from live music and public performance increased by 0.5 percent to £154.7m in 2012. During the year, there was a marked reduction in large-scale live music events and Glastonbury Festival was absent, contributing to a 14.2 percent reduction in income from the live sector.

The pub and club sector continued to face challenging times as the volume of licensed pubs fell by three percent. As a result, revenue from this sector declined 2.2 percent to £35.5m despite some growth from corporate pub companies and nightclub chains.

Royalties collected from music use in cinemas grew by 7.1 percent due to a strong film release schedule and increased attendances. Meanwhile, revenues categorised as 'other', including licensing the Olympic Games and associated events, education, transport, health and beauty and holiday centres increased by 11.4 percent to £37m.

Overall, the live music sector remains solid and is predicted to return to growth in 2013.

Royalties from public performance and live

£ million	2012	2011	
Pubs and clubs	35.5	36.3	-2.2%
Live	19.3	22.5	-14.2%
Hotels and restaurants	19.8	19.3	2.6%
Shops	18.5	18.8	-1.6%
Industrial premises	17.1	16.8	1.8%
Cinemas	7.5	7.0	7.1%
Other	37.0	33.2	11.4%
Total	154.7	153.9	0.5%

Live revenue fell by
14.2%

Recorded media

There was a 0.6 percent increase in royalty revenue from the recorded media sector in 2012, from £101.7m in 2011 to £102.3m. The underlying decline in this market area was masked by our acquisition of new royalty processing work in the form of the EMI European CD sales contract.

However, the sector continues to contract with UK-only CD sales, DVDs, covermounts and other physical formats all showing steady decline.

Any impact from the reduction in CD sales due to the closure of some HMV branches will be reflected in our 2013 figures.

Royalties from recorded media

£ million	2012	2011	
Audio products (CDs)	80.0	76.0	5.3%
General entertainment/DVDs	10.9	13.4	-18.7%
Covermounts	0.9	1.4	-35.7%
Other	10.5	10.9	-3.7%
Total	102.3	101.7	0.6%

CD revenue still accounts for
12.5% of our revenue

Costs

We are continuing to look for ways of delivering services to our members more efficiently. One of the ways of doing so, is by spending less on property.

Last year, we took the first step towards doing so by selling the leases to our Berners Street offices, realising a profit of £6m. This one-off profit is not included within the costs or revenues included within this Financial Review.

Cost summary

£ million	2012	2011
People	34.7	37.1
Legal and professional	4.0	4.7
Technology	4.4	4.2
Property	4.5	3.6
Depreciation	7.6	7.2
Other	11.7	6.7
Operating costs	66.9	63.5
Defined benefit pension	3.1	10.0
Charitable donations	1.5	1.5
Other non-operating costs	2.6	3.0
Non-operating costs	7.2	14.5
Total	74.1	78.0

Costs down **5.0%**
on last year



2012 saw the launch of
our revised Code of Conduct

How we operate

We take our role and responsibilities to members very seriously. It is our ambition to set best practice in collecting society management across all levels. 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 their musical works. We strive to operate as efficiently and transparently as possible.

Serving our members well is the guiding principle of everything we do. In 2012 we developed a revised Code of Conduct that encompassed the whole of the business. We consulted with members, customers, trade associations and other interested parties between September and October to gain feedback first.

The resulting Code of Conduct 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.

prsformusic.com/codeofconduct

We have yet to complete a full year under the new code. These are our figures so far:

Public Performance Sales Jan- Dec 2012

615,784 contacts made

95 complaints recorded, of which 2 were referred to the Ombudsman (neither requiring further remedy or reward to the complainant)

95 complaints resolved

Membership Jan-Dec 2012

49,144 service requests handled by the member services team

4 service requests unresolved and referred as cases to the Ombudsman

2 cases remain open

Recorded Media and Broadcast & Online

These came under the remit of our revised code in November 2012. To date, no complaints have been recorded and therefore no cases have been referred to the Ombudsman.

The future

2014 marks the centenary of our society and we see exciting times ahead for our members. Copyright is entering a dynamic new chapter, enhanced by a well functioning licensing system and growing digital and international markets. *PRS for Music* has transitioned from a domestic society to a truly multi-territory organisation and we will cement that position further over the next few years with the launch of the Global Repertoire Database and a back-office and front-office processing collaboration which we are establishing with international partners.

The Global Repertoire Database – the project that will catalogue the world’s music – has recently announced that it will set up its global headquarters in London and will base its operations centre in Berlin. *PRS for Music* is a key stakeholder in the initiative. When completed, the main benefits of the Global Repertoire Database will be to create a new and more effective global infrastructure for music rights management, leading to an improved path to music licensing for digital and other music services, and to efficiency benefits for the whole music ecosystem.

All of *PRS for Music* operations will leave the Berners Street buildings in 2014 to move to new premises. The timing of the buildings sale has enabled us to realise maximum value from these assets to invest in our members’ future.

We have published our Code of Conduct and the next phase in the process is to appoint an independent Code Reviewer.

Our organisation has made good progress over the last three years. We will continue building on these strong foundations, investing where necessary, so that our members have a sustainable future and to serve them well into the next century of *PRS for Music*.



Our cost/income ratio is

10.8%

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