Mechanical-Copyright Protection Society Limited

Report and Financial Statements

31 December 2013

Directors

Writers
J Nott

Publishers
J Alway
P Cornish
W Downs
N Elderton
M Lavin
J Minch

Executive director
J Dyball

External director
P Dolan

Chairman (non-statutory)
C Butler

Secretary
S Osborn

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

Registered Office
6th Floor British Music House
26 Berners Street
London W1T 3LR

Registered No. 199120

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 mechanical copyrights and the collection and distribution of associated royalties. There has been no change in the principal activity of the Company during the year.

Prior to 1 July, PRS for Music Limited (‘PfM’, previously known as The MCPS-PRS Alliance Limited) recharged to the Company a share of its operating costs in return for services provided. The Company sold its 50% shareholding in PfM, to Performing Right Society Limited (‘PRS’) on 1 July 2013. The arrangement for sharing PfM costs that existed prior to 1 July 2013 was replaced on that day with a contract for services between the Company and PfM under which similar services are to be provided in return for a pre-agreed fee.

The costs of the Company are £3,000,000 (2012 – £4,564,000) lower than they would otherwise have been as a result of the PRS agreeing (under what became known as the Alliance Stability Deed), with effect from 1 January 2012, to change the established basis of sharing PfM costs and to incur additional costs which would otherwise have been borne by the Company. In April 2013 the Alliance Stability Deal (the ‘Deal’) terminated this agreement with effect from the end of June 2013 and replaced it with a contract under which PfM provides substantially all of the Company’s operational services in return for a fixed fee. The Deal also requires MCPS to reimburse the value of the support provided under the Alliance Stability Deed to the extent that there are profits to fund the reimbursement. £734,000 was repaid in 2013, therefore giving a breakeven result for the year. Further details are set out in note 3.

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

	2013	*2012*	*Change*
	£000	*£000*	*%*
Result/(loss) on ordinary activities before tax and exceptional items	–	(514)	n/a
Net royalties distributed	148,036	164,136	-9.8
Administrative expenses	16,460	16,558	-0.6

Principal risks and uncertainties

The Audit Committee of PfM met once in 2013 before the Company sold its shareholding in PfM on 1 July 2013. The Audit Committee of PfM had the delegated responsibility for ensuring that the Company’s risks were managed in a satisfactory manner. Following the sale of shares in PfM, the risk management activities previously carried out by the Audit Committee of PfM were assumed by the Board of the Company. The principal risks and uncertainties that the Company is exposed to can be grouped into the following categories.

Strategic report (continued)

Principal risks and uncertainties (continued)

Market risks

The Company's business is transforming from one that is dominated by physical product licensing to one in which this source of income makes a less significant financial contribution and in which online licensing and broadcast licensing are more economically significant. The Directors consider that the Company will be able to avoid incurring losses for the foreseeable future. The Company's financial forecasts may prove to be inaccurate if the actual rate of decline in physical product sales is higher than forecast or if the actual rate of growth in the broadcast and online licensing areas is lower than forecast.

Competitors successfully attracting members away from the Company and members deciding to enter into direct agreements with licensees would also adversely affect levels of future income and the profitability of the Company.

Legislative risks

The Company is subject to the risk of copyright law changing in the future to the Company's detriment. The Company is not aware of any pending legislation that would, if enacted, have an adverse impact on the Company's business or prospects.

Liquidity and financial instrument risks

The nature of the Company's operating model is such that it holds surplus cash; at the end of 2013 the Company held cash of £12.2m (2012 – £29.2m) and amounts receivable from PfM and MPA increased from £30.7m at the end of 2012 to £53.6m at 31 December 2013. The Directors do not consider the amount receivable from PfM to be at risk. The Directors consider that the liquid resources of the Company are sufficient to fund the operations for the foreseeable future. The Company does not have material financial instrument risk.

Exposure to price and credit risk

The Company is exposed to various types of price risk. In the case of physical product licensing, market forces can result in the unit price on which the absolute level of royalty is calculated, reducing. Such a reduction in the price of the physical product would in turn adversely affect the Company's income through the concomitant effect on commission income.

The Company is also exposed to pricing risk through the risk of licensing schemes being referred to the Copyright Tribunal.

The fact that, in the case of certain physical product license schemes, the Company has committed to a fixed commission rate means that the option of increasing commission rates to compensate for falling volumes is not available to the Company for the duration of the commitment. This commitment has been extended to June 2014. As part of the agreement for this extension, the Company has been reclassified, allowing it to increase some of its commission rates from August 2014. Discussions are taking place on a new agreement, which the Company anticipates will allow it to increase some commission rates further.

Credit risk is the risk that a debtor will cause a financial loss for the other party by failing to discharge a payment obligation. Company policies are aimed at minimising such losses, and require that deferred terms are only granted to customers who demonstrate an appropriate payment history and satisfy credit worthiness tests. Details of the Company's debtors are shown in Note 8 to the accounts.

By order of the Board

J Dyball
Director
14 April 2014

Registered No. 199120

Directors' report

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

Results and dividends

The result for the year after taxation and exceptional items amounted to £nil (2012 – loss of £8,178,000). The directors do not recommend a final dividend.

Directors

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

Writers
M Leeson (resigned 30 June 2013)
S Levine (resigned 30 June 2013)
J Nott (appointed 1 July 2013)
S Rodgers (resigned 30 June 2013)

Publishers
J Alway
M Anders (resigned 30 June 2013)
A Bebawi (resigned 30 June 2013)
C Butler (resigned 30 June 2013)
P Cornish
W Downs (appointed 1 July 2013)
J Dyball (resigned 30 June 2013)
N Elderton
S Hornall (resigned 30 June 2013)
M Lavin (appointed 1 July 2013)
J Minch
B Newing (resigned 30 June 2013)
S Platz (resigned 30 June 2013)

Executive director
R Ashcroft (resigned 30 June 2013)
J Dyball (appointed 1 January 2014)

External director
P Dolan

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

Directors' qualifying third party indemnity provisions

The Company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

Chairman and deputy chairman

Peter Cornish and Nigel Elderton continued as chairman and deputy chairman respectively until 30 June 2013. Christopher Butler became the (non-statutory) chairman on 1 July 2013.

Directors' report (continued)

Corporate governance

The Company's board is responsible for the direction of the Company. This year has been a period of transition in terms of corporate governance. The Chief Executive Officer, who was appointed on 1 January 2014, is responsible for MCPS business and will create and implement strategy to best suit MCPS's specific market condition under the supervision of the Board. The CEO is responsible for monitoring the financial performance of the Company and the satisfactory operation of the contract with PfM. Directors continue to direct policy on commercial matters through close involvement with PfM's committees which specialise in specific areas of commercial focus, such as Licensing and Distribution. The Company's Board met eleven times during the year.

Future developments

The directors are aware that the markets in which the Company operates, while giving rise to many challenges, are still a source of significant revenue for both its customers and for members of PRS. During 2013 the Directors were in discussions with the directors of PRS with a view to improving the future prospects of the Company. The result of these discussions was an agreement between the Company and PRS, discussed in more detail in the going concern section, which improves the future prospects of the Company.

Going concern

The business of the Company is undergoing a major transition. As sales of physical products, such as compact discs and DVDs diminish, the commission that the Company earns from licensing associated mechanical copyrights diminishes. The Company's other sources of income - commission from licensing broadcasters' use of the mechanical right and commission from licensing the mechanical right for online uses - has increased and is expected to continue to increase. In 2013 royalties distributed have continued to decline, as the reduction of income from physical product licensing exceeds the increase from online and broadcast licensing. Commission income, however, has remained stable aided by additional licensing and an increase in certain commission rates.

In 2013, the Directors continued to focus closely on the Company's prospects, sources of income and cost saving opportunities and were in close dialogue with the Boards of PRS and PfM. In March 2012 PRS and the Company agreed a temporary change to the basis on which costs of PfM were charged to PRS and MCPS ('the Alliance Stability Deed'). In 2013 the effect of this agreement, which applied until 30 June 2013, was to reduce the losses that would have been reported in the absence of the agreement by £3m (2012 – £4.6m).

On 17 April 2013, the Company signed an agreement ('the Alliance Stability Deal') to reconfigure its relationship with PRS. Under the 2013 Agreement, the Company sold its shares in PfM for £1 on 1 July 2013 and entered into a contract with PRS for the provision of licensing services. This contract has an initial term of three years and six months. The Company is able, under certain circumstances, to extend the contract thereafter. The price payable by the Company for the services to be delivered by PRS accelerates the return of the Company to profit and incentivises both parties to improve the profitability of the Company and its future prospects. The Alliance Stability Deal also requires MCPS to reimburse the value of the support provided under the Alliance Stability Deed to the extent that there are profits to fund the reimbursement. £0.7m was repaid in 2013, therefore giving a breakeven result for the year.

Directors' report (continued)

Going concern (continued)

The Directors have concluded that the working capital of the Company and its cash reserves are likely to prove adequate to fund the Company's activities for the foreseeable future. This conclusion is supported by the Directors' assessment of market developments, the Alliance Stability Deal, and financial forecasts. As a result the Directors have also concluded that the Company remains a going concern and will continue to monitor the Company's profitability and prospects within its changing markets.

In connection with the going concern assessment, attention is drawn to the section of this Annual Report setting out the Directors' assessment of the principal risks and uncertainties that the Company faces.

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.

Disclosure of information to the auditor

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.

Auditor

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

By order of the Board

J Dyball
Director
14 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 sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report

to the members of Mechanical-Copyright Protection Society Limited

We have audited the financial statements of Mechanical-Copyright Protection Society Limited for the year ended 31 December 2013 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Statement of Cash Flows and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 44, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the 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 Company's affairs as at 31 December 2013 and of its result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the 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 Mechanical-Copyright Protection Society Limited

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Andy Glover (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
16 April 2014

Notes:

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

Profit and loss account

for the year ended 31 December 2013

	Notes	*2013* *£000*	*2012* *£000*
Royalties distributed	11	148,036	164,136
Income			
Commission levied on distributions	2	14,659	15,061
Interest receivable on short-term deposits		821	701
Fees receivable		54	52
Minor sums	11	926	230
		16,460	16,044
Administrative expenses	3	(16,460)	(16,558)
Result/(loss) on ordinary activities before exceptional items		–	(514)
Exceptional item - write down of investment	7	–	(2,734)
Exceptional item - write off of loan		–	(4,930)
Result/(loss) on ordinary activities before tax		–	(8,178)
Tax on result/(loss) on ordinary activities	6	–	–
Result/(loss) for the financial year	13	–	(8,178)

All amounts relate to continuing activities.

Statement of total recognised gains and losses

for the year ended 31 December 2013

There are no recognised gains or losses other than the result attributable to the shareholders of the Company of £nil in the year ended 31 December 2013 (2012 – loss of £8,178,000).

Balance sheet

at 31 December 2013

	Notes	2013 £000	2012 £000
Fixed assets			
Investments	7	45	558
Current assets			
Debtors	8	58,201	34,329
Investments – short-term deposits		–	28,000
Cash at bank and in hand	9	12,201	1,235
		70,402	63,564
Creditors: amounts falling due within one year	10	(3,622)	(1,247)
Royalties payable	11	(79,457)	(75,507)
		(83,079)	(76,754)
Net current liabilities		(12,677)	(13,190)
Total assets less current liabilities		(12,632)	(12,632)
Capital and reserves			
Called up share capital	12	19	19
Profit and loss account	13	(12,651)	(12,651)
Shareholders' deficit	13	(12,632)	(12,632)

The accounts were approved by the Board on 14 April 2014 and were signed on its behalf by:

P Dolan

Director

Statement of cash flows

for the year ended 31 December 2013

	Notes	*2013 £000*	*2012 £000*
Cash outflow from operating activities	14(a)	(18,368)	(147)
Returns on investments and servicing of finance – net interest receivable		821	701
Cash inflow from investing activities	14(b)	513	–
		(17,034)	554
Management of liquid resources	14(c)	28,000	(9,000)
Increase/(decrease) in cash		10,966	(8,446)

Reconciliation of net cash flow to movement in net funds

	Notes	*2013 £000*	*2012 £000*
Increase/(decrease) in cash in the year		10,966	(8,446)
Cash (inflow)/outflow from movement in liquid resources		(28,000)	9,000
Movement in net funds in the year	14(d)	(17,034)	554
Net funds at 1 January		29,235	28,681
Net funds at 31 December	14(d)	12,201	29,235

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 accounting standards.

Companies Act 2006

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

Definitions

'MCPS' means Mechanical-Copyright Protection Society Limited.
'PRS' means Performing Right Society Limited.
'PfM' means PRS for Music Limited, formerly The MCPS-PRS Alliance Limited ('the Alliance').
'ICE' means International Copyright Enterprise A.B.

Going concern

The business of the Company is undergoing a major transition. As sales of physical products, such as compact discs and DVDs diminish, the commission that the Company earns from licensing associated mechanical copyrights diminishes. The Company's other sources of income - commission from licensing broadcasters' use of the mechanical right and commission from licensing the mechanical right for online uses - has increased and is expected to continue to increase. In 2013 royalties distributed have continued to decline, as the reduction of income from physical product licensing exceeds the increase from online and broadcast licensing. Commission income, however, has remained stable aided by additional licensing and an increase in certain commission rates.

In 2013, the Directors continued to focus closely on the Company's prospects, sources of income and cost saving opportunities and were in close dialogue with the Boards of PRS and PfM. In March 2012 PRS and the Company agreed a temporary change to the basis on which costs of PfM were charged to PRS and MCPS ('the Alliance Stability Deed'). In 2013 the effect of this agreement, which applied until 30 June 2013, was to reduce the losses that would have been reported in the absence of the agreement by £3,000,000 (2012 – £4,564,000).

On 17 April 2013, the Company signed an agreement ('the Alliance Stability Deal') to reconfigure its relationship with PRS. Under the 2013 Agreement, the Company sold its shares in PfM for £1 on 1 July 2013 and entered into a contract with PRS for the provision of licensing services. This contract has an initial term of three years and six months. The Company is able, under certain circumstances, to extend the contract thereafter. The price payable by the Company for the services to be delivered by PRS accelerates the return of the Company to profit and incentivises both parties to improve the profitability of the Company and its future prospects. The Alliance Stability Deal also requires MCPS to reimburse the value of the support provided under the Alliance Stability Deed to the extent that there are profits to fund the reimbursement. £734,000 was repaid in 2013, therefore giving a breakeven result for the year.

The Directors have concluded that the working capital of the Company and its cash reserves are likely to prove adequate to fund the Company's activities for the foreseeable future. This conclusion is supported by the Directors' assessment of market developments, the Alliance Stability Deal, and financial forecasts. As a result the Directors have also concluded that the Company remains a going concern and will continue to monitor the Company's profitability and prospects within its changing markets.

In connection with the going concern assessment, attention is drawn to the section of this Annual Report setting out the Directors' assessment of the principal risks and uncertainties that the Company faces.

Notes to the financial statements

at 31 December 2013

1. Accounting policies (continued)

Group financial statements

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

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

Revenue recognition

Commission levied on distributions

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

Interest receivable on short term deposits

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

Fees receivable

Fees receivable relate to one off membership and licensing fees and are recognised on receipt, which is when the Company earns the right to consideration.

Minor sums

Minor sums relate to micro payments received that are too small to distribute to individual members, and hence are accounted for at the time of distribution.

Suspense balances

Suspense balances occur when royalties have been received and their ownership cannot be identified or where it is not possible to distribute the royalties for other reasons. Whilst the Company makes every effort to distribute these monies, if not in dispute, or where ownership cannot be established, commission is recognised at a rate of 100% once the monies have been held for more than six years.

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax, with the following exception:

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currencies

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

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

Notes to the financial statements

at 31 December 2013

2. Commission Income

Income, which is stated net of value added tax, represents commission earned on royalties received from licensees and subsequently distributed to rightsholders.

An analysis of income by geographical market is given below:

	2013	*2012*
	£000	*£000*
United Kingdom	13,370	14,398
Ireland	208	304
Rest of the world	1,081	359
	14,659	15,061

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

	2013	*2012*
	£000	*£000*
Commission Income	12,759	12,143
Suspense account release	1,900	2,918
Total income	14,659	15,061

Notes to the financial statements

at 31 December 2013

3. Administrative expenses

This is stated after charging/(crediting):

	2013	*2012*
	£000	*£000*
Auditor's remuneration – audit services	10	10
Recharge from PfM (from 1 January 2012 to 30 June 2013):		
Staff costs	3,841	10,667
Office and accommodation costs	894	284
Information technology	408	1,462
Legal and professional costs	3,044	4,397
Other costs	702	1,399
Depreciation	815	2,913
Costs covered by Alliance Stability Agreement	(2,266)	(4,564)
	7,438	16,558
PRS service charge (from 1 July 2013)	8,850	–
MPA service charge	75	–
Direct costs paid by MPA	97	–
Total Administrative expenses	16,460	16,558

Auditor's remuneration is part of amounts recharged from PfM.

4. Directors' remuneration

	2013	*2012*
	£000	*£000*
Non-executive directors' remuneration	191	295

The Company was recharged for 25% of the salary of the executive director, Robert Ashcroft, for the first six months of the year. This equates to £93,500 (2012 – £171,250) plus £2,000 (2012 – £5,000) in respect of pension contributions.

Notes to the financial statements

at 31 December 2013

4. Directors' remuneration (continued)

The remuneration of the non-executive directors, excluding pension contributions, was £191,840 (2012 – £295,356). No pensions or other benefits are paid to any director other than Robert Ashcroft, who was executive director to 30 June 2013.

Until 30 June 2013, non-executive directors received £13,362 per annum for their services, which on 1 April 2013 increased to £13,629 per annum. Directors who are also directors of PRS were paid £16,492 per annum, which increased to £16,822 on 1 April 2013. During the first half of the year, this amount was charged equally between MCPS and PRS. Non-executive directors of the MCPS-PRS Alliance received in addition £6,934 per annum, which from 1 April 2013 increased to £7,073 per annum. This amount was charged equally between MCPS and PRS from 1 January 2013 to 30 June 2013.

During the first half of the year, the remuneration of the Chairman, Peter Cornish, amounted to £20,745 (2012 – £31,012) and the Deputy Chairman, Nigel Elderton, received £16,835 (2012 – £40,847).

5. Staff costs

There were no employees during this year or last year other than the directors listed in the Directors' report.

6. Tax

(a) Tax on result/(loss) on ordinary activities

The tax charge is made up as follows:

	2013	*2012*
	£000	*£000*
Tax on result/(loss) on ordinary activities	–	–

(b) Factors affecting tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 23.25% (2012 – 24.5%). The differences are explained below:

	2013	*2012*
	£000	*£000*
Result/(loss) on ordinary activities before tax	–	(8,178)
Result/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 23.25% (2012 – 24.5%)	–	(2,004)
Effects of:		
Adjustments for transfer pricing	(35)	(80)
Non-deductible write down of investment	–	670
Consortium relief surrendered for nil consideration	–	702
Losses arising in the year not relievable against current tax	35	712
Current tax for the year (note 6(a))	–	–

Notes to the financial statements

at 31 December 2013

6. Tax (continued)

(c) Deferred tax

The corporation tax rate applicable to the Company reduced from 24% to 23% from 1 April 2013. A deferred tax asset of £1,880,000 (2012 – £2,453,000) in respect of losses has not been recognised due to insufficient certainty of future trading profits.

(d) Factors which may affect future tax charges

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

Due to legislative changes, the corporation tax rate reduced by 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 therefore included in the figures within these financial statements.

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7. Investments

	Subsidiary undertaking	*Joint ventures and associates*	*Total*
	£000	*£000*	*£000*
Cost:			
At 1 January 2013	1	16,019	16,020
Disposal	–	(15,250)	(15,250)
Repayment of capital	–	(513)	(513)
At 31 December 2013	1	256	257
Amounts provided:			
At 1 January 2013	–	15,462	15,462
Disposal	–	(15,250)	(15,250)
At 31 December 2013	–	212	212
Net book amount:			
At 31 December 2013	1	44	45
At 1 January 2013	1	557	558

As a result of the analysis undertaken during 2012 that lead to the Alliance Stability agreement being made in April 2013, the value of the shares held in PfM was reviewed at the end of 2012. The increasing pension deficit within PfM caused the directors to conclude that the shares in PfM had no material realisable value. As a result, the carrying value was reduced in the prior year resulting in an impairment charge of £2.7m. The Company sold its 50% shareholding in PfM on 1 July 2013 for £1.

During 2013, CELAS, an associate of the Company, repaid £0.5m of capital.

Notes to the financial statements

at 31 December 2013

7. Investments (continued)

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

Name of company	*Holding*	*Proportion of voting rights held*	*Nature of business*
Subsidiary undertaking:			
Ampleform Limited	Ordinary £1 shares	99%	Non-trading
Joint venture:			
National Discography Limited	Ordinary £1 shares	50%	Non-trading
Associates:			
CELAS GmbH	Ordinary €1 shares	25%	Pan-European licensing
British Music Rights Limited	Limited by guarantee	25%	Dormant

CELAS GmbH (‘CELAS’) is a joint venture formed between MCPS, PRS and GEMA, the German society for musical performing and mechanical reproduction rights. It was established to license certain members’ online rights on a Pan-European basis. It is incorporated in Germany. MCPS and PRS own 25% each of the shares and GEMA owns 50%. In addition to share capital, MCPS, PRS and GEMA each advanced loans to CELAS in order to meet the initial capital requirements of the company. CELAS fully repaid the loan to MCPS on 1 October 2013.

For the year ended 31 December 2013 CELAS showed a net profit of €1.5m (2012 – profit of €1.4m). This profit is not recognised in the profit and loss account of the Company. The company had net assets of €1.2m (2012 – €2.1m) at the year-end.

The Company has assessed its investments in joint ventures and associates and has concluded that it did not exercise control over them at 31 December 2013 or during the year then ended; hence they are accounted for as investments in accordance with the accounting policy set out in note 1 rather than being equity accounted.

Notes to the financial statements

at 31 December 2013

8. Debtors

	2013	*2012*
	£000	*£000*
Trade debtors	1,097	1,331
Due from PfM	53,412	30,695
Due from MPA	178	–
Prepayments and accrued income	385	239
Other taxes	3,129	2,064
	58,201	34,329

9. Cash in bank

	2013	*2012*
	£000	*£000*
Cash in bank and in hand	7,201	1,235
Cash held in escrow	5,000	–
	12,201	1,235

£5m cash is held in escrow under the 2013 Alliance Stability Deal and is payable in the event of the Company becoming liable to PRS due to a breach or termination of the Services Agreement.

10. Creditors: amounts falling due within one year

	2013	*2012*
	£000	*£000*
Other creditors, accruals and deferred income	2,129	257
Other taxes and social security costs	1,493	990
	3,622	1,247

Notes to the financial statements

at 31 December 2013

11. Royalties payable

	2013	*2012*
	£000	*£000*
At 1 January	75,507	68,284
Add: royalties received	142,334	162,890
	217,841	231,174
Less: taken to profit as minor sums	(926)	(230)
	216,915	230,944
Distributed during year in respect of:		
Royalty exploitation in UK and Ireland	(128,546)	(144,362)
Royalty exploitation outside UK and Ireland	(19,490)	(19,774)
	(148,036)	(164,136)
	68,879	66,808
Movement in returned royalties, deposits, etc	10,578	8,699
At 31 December	79,457	75,507

The Company's liability to account for royalties payable accrues when amounts due from the corresponding users of the copyright works are received. Amounts from users that have not been received are recorded within royalties payable both as an amount receivable and an equivalent amount payable. As at 31 December 2013 these amounted to £8.9m (2012 – £11.6m).

12. Issued share capital

		2013		*2012*
Allotted, called up and fully paid	*No.*	*£000*	*No.*	*£000*
Ordinary shares of £1 each	19,200	19	19,200	19

13. Reconciliation of shareholders' funds and movements on reserves

	Share capital	*Profit and loss account*	*Total share-holders' deficit*
	£000	*£000*	*£000*
At 1 January 2012	19	(4,473)	(4,454)
Loss for the year	–	(8,178)	(8,178)
At 1 January 2013	19	(12,651)	(12,632)
Result for the year	–	–	–
At 31 December 2013	19	(12,651)	(12,632)

Notes to the financial statements

at 31 December 2013

14. Notes to the statement of cash flows

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

	2013	*2012*
	£000	*£000*
Result/(loss) on ordinary activities before taxation	–	(8,178)
Interest receivable	(821)	(701)
Decrease in debtors – amounts falling due after one year	–	4,930
Increase in debtors – amounts falling due within one year	(23,872)	(6,354)
Increase in creditors – royalties payable	3,950	7,223
Increase in creditors	2,375	199
Decrease in investments	–	2,734
Net cash outflow from operating activities	(18,368)	(147)

(b) Investing activities

	2013	*2012*
	£000	*£000*
Repayment of capital in associate	513	–

(c) Management of liquid resources

	2013	*2012*
	£000	*£000*
Short-term deposits made	(38,002)	(28,000)
Short-term deposits repaid	66,002	19,000
Movement in deposits	28,000	(9,000)

(d) Analysis of net funds

	At 1 January 2013	*Cash flow*	*At 31 December 2013*
	£000	*£000*	*£000*
Cash at bank and in hand	1,235	10,966	12,201
Liquid resources – short term deposits	28,000	(28,000)	–
Total cash	29,235	(17,034)	12,201

Notes to the financial statements

at 31 December 2013

15. Capital commitments

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

16. Contingent liability

At 31 December 2013, the Company has a contingent liability of £6,830,000 (2012 – £4,564,000) potentially due to PRS as a result of the cost sharing amendments made during 2012 and 2013, which reduced the Company's share of the administrative costs of PfM by £6,830,000 after repayment of £734,000 referred to below. The Alliance Stability Deal 2013 requires repayment of this amount once MCPS returns to profitability. The amount is net of £734,000 repaid in 2013. As disclosed in the directors' report and note 1, there is uncertainty as to when the remaining balance will be settled because of the continuing decline in the audio market. At present, whilst fully acknowledging the liability, the directors have concluded that the degree of uncertainty is such as to preclude recognition of it in the Company's 2013 financial statements.

17. Related party transactions

Certain directors and parties related to directors are entitled to royalties collected by the Company. Parties related to directors include family members and companies controlled by these directors including, where appropriate, publishing companies and their subsidiaries. During 2013, total royalties paid by the Company to the directors and to parties related to the directors amounted to £50.1m (2012 – £78.1m). These royalties were calculated on the same basis as royalties paid to all members and are paid in accordance with the Company's normal procedures.

Due to the highly integrated nature of the industry, directors may also be related to customers of the Company, either through the provision of music-related services to them or as employees of the same group of companies. All transactions with any such related customers are carried out on a normal arm's length commercial basis.

During 2013, MCPS paid a management fee of £0.1m (2012 – £0.2m) and direct costs of £0.1m (2012 - £nil) to the Music Publishers Association Ltd, its parent undertaking.

18. Ultimate parent undertaking and controlling party

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