Company number 00288046

PHONOGRAPHIC PERFORMANCE LIMITED

(A company limited by guarantee)

REPORT OF THE DIRECTORS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2012

The directors submit their report and the audited financial statements of Phonographic Performance Limited (PPL) to the Members for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The company's principal activity during the year was the collection and distribution of UK and international income for broadcasting and public performance of sound recordings on behalf of its Members and performer members.

The total amount available for distribution in the income, expenditure and distribution account is distributed to the company's Members and performer members, with the intention that there are no retained reserves at any particular balance sheet date.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

During the year the company increased its licence fee income in accordance with management objectives. It is expected that this trend will continue.

The key performance indicators (KPIs) used by PPL to measure annual performance are summarised below:-

	2012	**2011**
Public performance income	£64.8 m	£54.9 m
Broadcasting and online income	£69.4 m	£66.2 m
International income	£36.6 m	£32.4 m
Total Licence fee income	£170.8 m	£153.5 m
Net distributable revenue	£143.3 m	£127.6 m
Cost to income ratio (excluding pension scheme costs)	14.4%	14.9%

PPL considers its key performance indicators to be income growth, net distributable revenue growth and cost to income ratio. Total licence fee income for 2012 reached £170.8 million; a growth of £17.3 million (11%) on the prior year. Public performance income grew by £9.9 million (18%), broadcasting and online income grew by £3.2 million (5%) and international income increased by £4.2 million (13%). Total net distributable revenue in 2012 grew by £15.7m (12%) from 2011. The cost to income ratio was 14.4%, which is under the 15% threshold set by PPL's management.

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2012

BUSINESS ENVIRONMENT

In tough market conditions for PPL's Members the changes within the music business in recent times have been immense. Sales of physical music carriers continue to decline generally around the world though the 'use' of music continues to grow as media expands and public performance increases. PPL also faces the challenge of growing its income through increased volumes of licensees and through consultations on tariff rates in a tough economic environment in the UK.

STRATEGY

It is critical that the company plans carefully for the future. Continued development of systems will continue to meet the demands of increasing membership, evolving media, new tariffs and the developments that the company continues to make in overseas collection for Members and performer members. In addition to investment in systems, the company will continue to place increasing emphasis on staff and employee training. The company needs to maintain the high quality of service for Members and performer members against a backdrop of increasing media platforms and expanding numbers of territories.

PRINCIPAL RISKS AND UNCERTAINTIES

The directors and management of PPL are aware of their responsibility for managing risk and regularly evaluate the risks and uncertainties that could affect future performance.

The economy continues to play a part in the company's ability to collect licensing income and 2012 proved particularly difficult in some markets; such as the retail, pub and nightclub industries where business closures result in a potentially reduced market.

Liquidity risk is mitigated by actively managing cash generation and funding requirements. Distribution payments to Members are only made on licence fees collected.

PPL is exposed to foreign exchange risk in respect of the income collected from overseas societies. Receipts in foreign currencies are translated into GBP using spot-rates therefore exposure to foreign exchange risk is considered to be low.

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2012

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing 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 prepared 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 judgements and accounting 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;
- 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.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to auditors
In the case of each of the persons who are directors at the time when the report is approved, the following applies:

- so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

PHONOGRAPHIC PERFORMANCE LIMITED

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2012

Independent auditors
The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

CHARITABLE DONATIONS

The following charitable donations were made during the year ended 31 December 2012:

	2012	**2011**
Hospital Broadcasting Association	£31,500	£30,000
The Young Musicians Symphony Orchestra	£5,000	£5,000
Young Persons Concert Foundation	£11,000	£11,000

DIRECTORS

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

R Armstrong (appointed 20 November 2012)
D Carroll (resigned 20 November 2012)
A Clark
J Cross (appointed 10 July 2012)
R Evers (resigned 10 July 2012)
J French (resigned 28 February 2012)
M Kelly
B Lambert (appointed 24 April 2012)
P Leathem
D McGonigal (resigned 28 March 2012)
M Mills
J Mullan (appointed 28 February 2012)
F Nevrkla
G Newson
C Payne
J Radice
A Sear
Rt Hon. Lord Smith of Finsbury
M Smith
J Smith
P Stack

By order of the Board

D HARMSWORTH
SECRETARY
23 April 2013

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PHONOGRAPHIC PERFORMANCE LIMITED

We have audited the financial statements of Phonographic Performance Limited for the year ended 31 December 2012 which comprise the Income, Expenditure and Distribution account, the Statement of Total Recognised Gains and Losses, the Balance sheet, the Cash Flow Statement and the related notes. 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).

Respective responsibilities of directors and auditors
As explained more fully in the Statement of Directors' Responsibilities set out on page 4 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.

This report, including the opinions, has been prepared for and only for the company's Members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 of the Directors to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the financial statements:

• give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its result and cash flows 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PHONOGRAPHIC PERFORMANCE LIMITED

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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.

BHenderson

Brian Henderson (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
23 April 2013

PHONOGRAPHIC PERFORMANCE LIMITED

INCOME, EXPENDITURE AND DISTRIBUTION ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 £000	2011 £000
LICENCE FEE INCOME	2	170,759	153,516
Cost of collection and distribution		(24,601)	(22,927)
Cost of servicing defined benefit pension scheme		(327)	(321)
Total cost of collection and distribution		(24,928)	(23,248)
NET INCOME BEFORE INTEREST AND TAXATION	3	145,831	130,268
Interest receivable		1,544	952
Interest payable	5	(724)	(452)
Other finance (expense)/income		(78)	61
NET INCOME BEFORE TAXATION		146,573	130,829
Taxation	8	-	-
AMOUNT AVAILABLE FOR DISTRIBUTION		146,573	130,829
Anti-piracy/copyright protection	4	(3,296)	(3,190)
Amount to be distributed to Members and performers		(143,277)	(127,639)
RETAINED RESERVES	14	Nil	Nil
Cost to income ratio (excluding pension scheme costs)		14.4%	14.9%

The results above refer entirely to continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 £000	2011 £000
Retained reserves		-	-
Actuarial gain on pension scheme	14	1,087	150
Movement in deferred tax on pension deficit	14	-	-
TOTAL RECOGNISED GAINS RELATING TO THE YEAR		1,087	150

PHONOGRAPHIC PERFORMANCE LIMITED

COMPANY NUMBER: 00288046

BALANCE SHEET
AS AT 31 DECEMBER 2012

	Note	2012 £000	2012 £000	2011 £000	2011 £000
FIXED ASSETS					
Tangible assets	9		6,257		7,550
CURRENT ASSETS					
Licence fees receivable		27,456		21,134	
Other debtors		1,345		463	
Prepayments and accrued income		9,282		7,382	
Short term fixed deposits		93,000		80,139	
Cash at bank and in hand		22,491		27,290	
		153,574		136,408	
CREDITORS: amounts falling due within one year	10	(161,068)		(145,732)	
NET CURRENT LIABILITIES			(7,494)		(9,324)
TOTAL ASSETS LESS CURRENT LIABILITIES			(1,237)		(1,774)
PROVISIONS FOR LIABILITIES	11		(1,547)		(1,254)
NET LIABILITIES BEFORE PENSION LIABILITIES			(2,784)		(3,028)
NET PENSION LIABILITY	13		(279)		(1,122)
NET LIABILITIES			(3,063)		(4,150)
RESERVES					
Income, expenditure and distribution account	14		(3,063)		(4,150)

The financial statements which comprise the income, expenditure and distribution account, the statement of total recognised gains and losses, the balance sheet, the cash flow statement and the related notes were approved by the Board of directors on 23 April 2013 and are signed on its behalf by:

Peter Leathem

P Leathem
Director

J Cross
Director

PHONOGRAPHIC PERFORMANCE LIMITED

CASH FLOW STATEMENT
AS AT 31 DECEMBER 2012

	Note	2012 £000	2011 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	15	140,436	130,441
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		644	957
Interest paid		(1,082)	(300)
CAPITAL EXPENDITURE			
Purchase of tangible fixed assets		(966)	(1,996)
TAXATION			
Corporation tax paid		-	-
DISTRIBUTIONS			
Payments to Members and performers		(127,998)	(91,292)
Anti-piracy/copyright protection contribution paid		(2,972)	(2,929)
NET CASH INFLOW BEFORE USE OF LIQUID RESOURCES		8,062	34,881
MANAGEMENT OF LIQUID RESOURCES			
Cash outflow to increase investment		(12,861)	(30,139)
(Decrease)/Increase in net cash	16	(4,799)	4,742

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom and the Companies Act 2006. A summary of the more important accounting policies, which have been applied consistently, is set out below.

a) Format of income, expenditure and distribution account and the balance sheet

The formats of the income, expenditure and distribution account and the balance sheet have been adapted from that prescribed by the Companies Act 2006 in order to better reflect the nature of the business.

b) Basis of accounting

The financial statements have been prepared on the going concern basis under the historical cost convention. Management considers the going concern basis to be appropriate despite the net liability and net current liability position, as the timing of current liabilities payable to Members is at the discretion of PPL.

c) Contributions to pensions

During the year the company operated a contributory defined benefit pension scheme covering its permanent employees and those of Video Performance Limited (VPL). FRS17 "Retirement Benefits" requires pension scheme assets to be recognised to the extent that they are considered recoverable, and liabilities should be recognised in full and presented on the face of the balance sheet net of the related deferred tax. Since Phonographic Performance Limited makes the majority of contributions to the pension scheme and is also making additional contributions in order to fund the deficit, then it is Phonographic Performance Limited who bears the risks and rewards of the deficit or surplus in the scheme. Accordingly the full net pension liability has been recorded in the balance sheet of Phonographic Performance Limited and no liability has been recorded in Video Performance Limited.

The regular service costs of providing pension benefits to employees during the year, together with the costs of any benefits relating to past service, are charged to costs of collection and distribution in the income, expenditure and distribution account in the year.

Interest on the pension scheme liabilities is charged to other finance costs in the income, expenditure and distribution account.

The expected return on the assets of the pension scheme during the year is based on the market value of the assets at the start of the financial year and is offset within other finance costs in the income, expenditure and distribution account. The difference between the actual and expected return on the assets of the scheme is shown in the statement of total recognised gains and losses for the year, along with any related movement in deferred tax. The difference between the market value of the assets and the present value of the scheme liabilities is shown net of deferred tax in the balance sheet.

The last full actuarial valuation was undertaken on the position as at 30 June 2009.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

1. ACCOUNTING POLICIES (continued)

c) Contributions to pensions (continued)

The company also operates a defined contribution scheme. The amount charged to the income, expenditure and distribution account represents the contributions payable to the schemes in respect of the accounting period.

d) Licence fee income

Licence fee income, which excludes value added tax, represents the invoiced value, and is recognised evenly over the period of the licence term.

In the absence of an invoice, broadcasting and online income is accrued based on the amount agreed in the contract.

In the event of over-payments, licence fee income is recognised if the payments could not be refunded, despite efforts to contact the relevant party over a reasonable period of time.

Licence fee income from overseas societies is recognised when an agreement is in place with the overseas society and on a cash received basis.

e) Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is provided at rates calculated to write off the cost of each asset over the expected useful life or predetermined replacement date:

Fixtures, fittings and office equipment	3 years on a straight line basis
Fixtures and fittings (refurbishment)	5 years on a straight line basis
Computer hardware and software	3 years on a straight line basis
Computer software (systems)	5 years on a straight line basis

f) Unclaimed Members’ and performers' distributions

Allocations to Members and performers remaining unclaimed for more than seven years are reallocated and redistributed in accordance with the distribution policy.

g) Interest payable to Members and performers

Interest is accrued on balances payable to Members and performers who do not receive advances at a rate based on the average deposit rate earned by the company for the relevant periods.

1. ACCOUNTING POLICIES (continued)

h) Foreign currencies

Monetary assets and liabilities are translated into sterling at the rates of exchange ruling at the balance sheet date. Foreign currency transactions during the year are translated into sterling at the rate ruling on the date of the transaction. All foreign exchange differences are taken to the income, expenditure and distribution account in the year in which they arise.

i) Operating leases

Costs in respect of operating leases are charged to the income, expenditure and distribution account on a straight line basis over the lease term.

j) Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

k) Provisions for liabilities

Dilapidations
Provision is made for dilapidations where the lease requires the reinstatement of the premises to its original state. The level of provision is based upon a damages report and is reviewed annually.

Legal costs
Provision is made for the estimated legal costs where litigation is pending and an obligating event has occurred prior to the balance sheet date.

Refunds
Provision is made for all significant refunds made in the post balance sheet period which relate to licence fees received in the year.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

2. LICENCE FEE INCOME

	2012 £000	2011 £000
Analysis of turnover by licence type:		
Public performance income	64,792	54,977
Broadcasting and online income	69,405	66,177
International income	36,562	32,362
	170,759	153,516
Analysis of turnover by territory of origin:		
United Kingdom	133,899	121,154
Rest of Europe	27,813	25,111
Rest of World	9,047	7,251
	170,759	153,516

3. NET INCOME BEFORE INTEREST AND TAXATION

	2012 £000	2011 £000
Net income before taxation is stated after charging:		
Services provided by the company's auditor:		
Fees payable for the audit	63	60
Fees payable for other services:		
Other non audit services	14	12
Depreciation of tangible fixed assets	2,259	2,455
Operating lease rentals:		
Land and buildings	629	630
Motor vehicles	30	14

Net income includes a recharge of £1,036,552 (2011: £1,279,576) of operating expenses to VPL. PPL's debtors include a balance of £111,257 (2011: £124,515) owed by VPL.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

4. ANTI-PIRACY / COPYRIGHT PROTECTION

Amounts contributed to:

	2012 £000	2011 £000
The British Phonographic Industry Limited:		
Contributions	2,316	2,242
Legal anti-piracy recoveries	(200)	(319)
	2,116	1,923
The International Federation of the Phonographic Industry	683	728
Impala	65	65
UK Music	432	474
	3,296	3,190

5. INTEREST PAYABLE

	2012 £000	2011 £000
Interest payable on Member and performer balances	724	452

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

6. STAFF COSTS

	2012 £000	2011 £000
Gross staff costs:		
Wages and salaries	11,651	11,112
Social security costs	1,119	1,066
Other pension costs	692	617
	13,462	12,795

Other pension costs represents contributions payable and other associated costs in respect of the defined contribution scheme.

	Number	Number
Average number of employees:		
Office and management	264	264

	£000	£000
Directors' emoluments:		
Aggregate emoluments	1,568	1,666
Compensation received by a former director for loss of office	82	-
Emoluments in respect of the highest paid director amounted to:		
Aggregate emoluments	477	745
Defined benefit pension scheme - accrued pension at end of year	8	10
	Number	Number
Number of directors who are accruing benefits with the defined benefit pension scheme	5	4

7. TRANSACTIONS WITH DIRECTORS

There were no other transactions with directors during the year (2011: £nil).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

8. TAXATION

The charge for taxation for the year is calculated on disallowable items after the deduction of capital allowances.

	2012 £000	2011 £000
Current tax:		
UK corporation tax	-	-
Total current tax	-	-
Factors affecting tax charge for the year		
Net income before taxation	146,573	130,829
Net income at the UK tax rate 20% (2011 - 20%)	29,315	26,166
Effects of:		
Permanent difference	(29,291)	(26,143)
Accelerated capital allowances and other timing differences	(24)	(23)
Total current tax charge	-	-

The company has an unrecognised deferred tax asset as follows:

	2012 £000	2011 £000
Capital allowances less than deprecation	442	386
Other timing differences	188	140
Deferred tax on pension scheme	56	224
Net deferred tax asset - unrecognised	686	750

No provision has been made for this deferred tax asset on the basis that the majority of the company's net income is not taxable and therefore the availability of suitable future taxable profits against which it can be realised is not certain.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

9. TANGIBLE FIXED ASSETS

	Fixtures, fittings and office equipment	Computer equipment and software developments	Total
	£000	£000	£000
Cost			
At 1 January 2012	1,111	18,486	19,597
Additions	465	501	966
Disposals	(8)	(2,087)	(2,095)
At 31 December 2012	1,568	16,900	18,468
Accumulated depreciation			
At 1 January 2012	659	11,388	12,047
Charge for the year	228	2,031	2,259
Disposals	(8)	(2,087)	(2,095)
At 31 December 2012	879	11,332	12,211
Net book value			
At 31 December 2012	689	5,568	6,257
At 31 December 2011	452	7,098	7,550

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2012	2011
	£000	£000
Trade creditors	79	125
Other taxation and social security	3,786	3,895
Other creditors and accruals	13,492	15,203
Deferred income	32,899	30,977
Amounts owed to Members and performers	110,812	95,532
	161,068	145,732

The distributions to Members and performers cannot be separately identified until the usage returns in respect of that period have been received and matched against the repertoire database. This reflects the Distribution rules driven by the Council Directive No 92/100/EEC of 19 November 1992 ("The Rental Directive") introduced in the UK with effect from 1 December 1996.

11. PROVISION FOR LIABILITIES

	2012 £000	2011 £000
Provision for dilapidations		
At beginning of the year	490	490
Released in the year	-	-
At the end of the year	490	490
Provision for legal costs		
At beginning of the year	100	300
Utilised in the year	(100)	(300)
Charge for the year	300	100
At the end of the year	300	100
Provision for refunds		
At beginning of the year	664	-
Utilised in the year	-	-
Charge for the year	93	664
At the end of the year	757	664
Total provision	1,547	1,254

Dilapidations

The dilapidations provision represents the amount required to reinstate the premises to a state as required under the lease, which expires in 2020. The provision is expected to be fully utilised in 2020.

Legal costs

Legal costs are provided as required for cases where litigation is pending. This provision is expected to be utilised in 2013.

Refunds

Provision is made for all significant refunds made or expected to be made in the post balance sheet period which relate to licence fees received in the year.

12. OPERATING LEASE COMMITMENTS

The company was committed to making the following payments during the next year in respect of operating leases:

	2012 £000	2011 £000
Land and buildings:		
Leases which expire after 5 years	725	640
Motor vehicles		
Leases which expire within 1 year	8	1
Leases which expire within 2-5 years	-	22

13. PENSION COSTS

The company operates a defined benefit scheme in the UK with assets held in a separately administered fund. The basis on which the net pension liability is recognised in the financial statements is set out in note 1. The scheme was closed to new entrants from 1 July 2003.

A full actuarial valuation using the projected unit method was carried out at 30 June 2009 and updated to 31 December 2012 by a qualified independent actuary.

The company is currently contributing to the scheme at a rate of 15.4% of pensionable salaries.

The major assumptions used by the actuary were (in nominal terms):

	2012	2011
Rate of increase in salaries	4.50%	4.30%
Rate of increase of pensions in payment	3.00%	2.80%
Rate of increase of pensions in deferment	2.20%	2.00%
Discount rate	4.50%	4.80%
Inflation assumption (RPI)	3.00%	2.80%
Inflation assumption (CPI)	2.20%	2.00%
Expected return on plan assets	4.70%	6.40%

The expected return on scheme assets is based on the asset allocation and on market expectations at the beginning of the financial year for returns over the life of the related obligation. The expected return on equities has been determined by including a premium over fixed interest securities to reflect the out performance of equities relative to fixed interest securities.

13. PENSION COSTS (continued)

The mortality assumptions used for the 31 December 2012 actuarial valuation were as follows:

Pre retirement mortality (non pensioners):	PCA00 YOB medium cohort (1% floor)
Post retirement mortality (non pensioners):	PCA00 YOB medium cohort (1% floor)
Pre retirement mortality (pensioners):	PCA00 YOB medium cohort (1% floor)

These remain consistent with the 31 December 2011 actuarial FRS17 valuation.

The assets in the scheme, the expected rates of return on assets ('EROA') and the amounts recognised in the balance sheets are as follows:

		2012			2011	
	£000	EROA (%)	Amount (%)	£'000	EROA (%)	Amount (%)
UK equities	3,197	5.80%	19%	2,695	6.00%	17%
Global equities	3,738	6.05%	22%	3,558	6.25%	23%
Diversified growth assets	1,687	5.80%	10%	1,543	6.00%	10%
Gilts	5,102	2.30%	30%	5,319	2.50%	34%
Corporate bonds	3,436	4.50%	20%	2,614	4.60%	17%
Other (cash)	25	3.50%	0%	47	3.50%	0%
Total market value of assets	17,185			15,776		
Actuarial value of liability	(17,464)			(16,898)		
Deficit in the scheme	(279)			(1,122)		
Related unrecognised deferred tax asset	-			-		
Net pension liability	(279)			(1,122)		

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

13. PENSION COSTS (continued)

The amount recognised in the income, expenditure and distribution account:

	2012 £000	2011 £000
Current service cost	(327)	(321)
Interest costs	(816)	(866)
Expected return on pension scheme assets	738	927
Total	(405)	(260)
Actual return on assets	1,365	1,084

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

	2012 £000	2011 £000
Opening defined benefit obligation	16,898	15,748
Current service costs	327	321
Employee contributions	52	63
Interest costs	816	866
Actuarial (loss)/gain	(460)	7
Benefits paid	(169)	(107)
Closing defined benefit obligation	17,464	16,898

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

	2012 £000	2011 £000
Opening fair value of scheme assets	15,776	14,541
Expected return on assets	738	927
Actuarial gain	627	157
Employer contributions	161	195
Employee contributions	52	63
Benefits paid	(169)	(107)
Closing fair value of scheme assets	17,185	15,776

13. PENSION COSTS (continued)

Other amounts for the current year (and preceding 4 years) are as follows:

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Defined benefit obligation	(17,464)	(16,898)	(15,748)	(14,208)	(9,264)
Scheme assets	17,185	15,776	14,541	10,373	8,016
Deficit	(279)	(1,122)	(1,207)	(3,835)	(1,248)
History of experience gains and losses:					
Adjustment due to change in assumptions	460	(7)	(364)	(4,217)	4,205
Experience adjustments on scheme assets	627	157	788	1,487	(3,425)
Total amount recognised in statement of total recognised gains and losses	1,087	150	424	(2,730)	780

14. RETAINED RESERVES - INCOME, EXPENDITURE AND DISTRIBUTION ACCOUNT

	2012 £000	2011 £000
At start of the year	(4,150)	(4,300)
Actuarial gain on the pension scheme	1,087	150
Movement in deferred tax on the pension scheme	-	-
At end of the year	(3,063)	(4,150)

15. NET CASH FLOW FROM OPERATING ACTIVITIES

	2012 £000	2011 £000
Net income before interest and taxation	145,831	130,268
Depreciation of tangible fixed assets	2,259	2,455
Difference between pension charge and cash contribution	166	126
Increase in debtors	(8,203)	(5,948)
Increase in creditors	90	3,076
Increase in provisions	293	464
Net cash inflow from operating activities	140,436	130,441

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16. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2012 £000	2011 £000
(Decrease)/increase in cash in the year	(4,799)	4,742
Increase in cash placed on fixed term deposits	12,861	30,139
Changes in net funds resulting from cash flows	8,062	34,881
Net funds at 1 January	107,429	72,548
Net funds at 31 December	115,491	107,429

17. ANALYSIS OF CHANGES IN NET FUNDS

	2011 £000	Cash flow £000	2012 £000
Cash at bank and in hand	27,290	(4,799)	22,491
Short term cash invested	80,139	12,861	93,000
Net funds	107,429	8,062	115,491