

Company number 288046

PHONOGRAPHIC PERFORMANCE LIMITED

(A company limited by guarantee)

**REPORT OF THE DIRECTORS AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

PHONOGRAPHIC PERFORMANCE LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2011

The directors submit the report and audited financial statements of Phonographic Performance Limited (PPL) to the members for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The company's principal activity is 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 from all sources 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:

	2011	2010
Public performance and dubbing income	£54.9 m	£50.1 m
Broadcasting and online income	£66.2 m	£61.7 m
International income	£32.4 m	£31.7 m
Licence fee income	£153.5 m	£143.5 m
Distributable revenue	£127.6 m	£121.1 m
Cost to income ratio (excluding pension scheme costs)	14.9%	13.6%

PPL considers its key performance indicators to be income, income growth, net distributable revenue and cost to income ratio. Total licence fee income for 2011 reached £153.5 million; a growth of £10 million (7%) on the prior year. Public Performance and Dubbing income grew by £4.8 million (10%), Broadcasting income grew by £4.5 million (7%) and International income increased by £0.7 million (2%). Total net distributable revenue in 2011 grew by £6.5m (5%) from 2010. The cost to revenue ratio was 14.9%, which is close to the 15% threshold set by PPL's management.

PPL achieved these results together with significant ongoing systems development and implementation. In June 2011 a new distribution system was delivered to the business in the final stage of a complete overhaul of PPL's 'Money-Out' systems. This was delivered to both plan and budget.

PHONOGRAPHIC PERFORMANCE LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2011

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 or 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 our ability to collect licencing income and 2011 proved particularly difficult in some markets; such as the pub and nightclub industries where business closures resulted in fewer venues playing music. We would hope to see collection rates and income increase in 2012 as PPL continues to increase resources and improve systems in areas that relate to income collection.

Liquidity risk is mitigated by actively managing cash generation and funding requirements. Distribution payments 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 since exposure to foreign exchange risk is considered to be low.

PHONOGRAPHIC PERFORMANCE LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2011

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 2011

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 2011:

	2011	2010
Hospital Broadcasting Association	£30,000	£30,000
The Young Musicians Symphony Orchestra	£5,000	£5,000
Crisis UK	£3,000	£9,500
Young Persons Concert Foundation	£11,000	£11,000
The Brit School	£10,000	£10,000

DIRECTORS

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

G Barnham (resigned 1 January 2011)
D Carroll
A Clark
J Cross* (resigned 8 June 2011)
R Evers
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 (appointed 1 January 2011)
J Radice
A Sear
Rt Hon. Lord Smith of Finsbury
M Smith
J Smith
P Stack

(*as alternate for R Evers)

By order of the Board



D HARMSWORTH
SECRETARY
24 April 2012

PHONOGRAPHIC PERFORMANCE LIMITED

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 2011 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 Directors' Responsibilities Statement 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 2011 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.

PHONOGRAPHIC PERFORMANCE LIMITED

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.



Brian Henderson (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
24 April 2012

PHONOGRAPHIC PERFORMANCE LIMITED

INCOME, EXPENDITURE AND DISTRIBUTION ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 £000	2010 £000
LICENCE FEE INCOME	2	153,516	143,494
Cost of collection and distribution		(22,927)	(19,582)
Cost of servicing defined benefit pension scheme		(321)	(383)
		(23,248)	(19,965)
NET INCOME BEFORE INTEREST AND TAXATION	3	130,268	123,529
Interest receivable		952	990
Interest payable	5	(452)	(464)
Other finance income		61	27
		130,829	124,082
NET INCOME BEFORE TAXATION		130,829	124,082
Taxation	8	-	-
		130,829	124,082
AMOUNT AVAILABLE FOR DISTRIBUTION		130,829	124,082
Anti-piracy/copyright protection	4	(3,190)	(3,005)
Amount to be distributed to members and performers		(127,639)	(121,077)
		Nil	Nil
RETAINED RESERVES	15	Nil	Nil
		Nil	Nil
Cost to income ratio (excluding pension scheme costs)		14.9%	13.6%

The results above refer entirely to continuing operations.

PHONOGRAPHIC PERFORMANCE LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 £000	2010 £000
Retained reserves		-	-
Actuarial gain on pension scheme	15	150	424
Movement in deferred tax on pension deficit	15	-	(263)
TOTAL RECOGNISED GAINS RELATING TO THE YEAR		150	161

PHONOGRAPHIC PERFORMANCE LIMITED

COMPANY NUMBER: 288046

BALANCE SHEET AS AT 31 DECEMBER 2011

	Note	2011 £000	2010 £000	2010 £000
FIXED ASSETS				
Tangible assets	10		7,550	8,009
CURRENT ASSETS				
Licence fees receivable	9	21,134		14,135
Other debtors		463		500
Prepayments and accrued income		7,382		8,401
Short term fixed deposits		80,139		50,000
Cash at bank and in hand		27,290		22,548
		<hr/>	<hr/>	
		136,408		95,583
CREDITORS: amounts falling due within one year	11	(145,732)		(105,895)
		<hr/>	<hr/>	
NET CURRENT LIABILITIES			(9,324)	(10,312)
TOTAL ASSETS LESS CURRENT LIABILITIES			(1,774)	(2,303)
PROVISIONS FOR LIABILITIES	12		(1,254)	(790)
NET LIABILITIES BEFORE PENSION LIABILITIES			(3,028)	(3,093)
			<hr/>	<hr/>
NET PENSION LIABILITY	14		(1,122)	(1,207)
			<hr/>	<hr/>
NET LIABILITIES			(4,150)	(4,300)
			<hr/>	<hr/>
RESERVES				
Income, expenditure and distribution account	15		(4,150)	(4,300)
			<hr/>	<hr/>

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 24 April 2012 and are signed on its behalf by:



F Nevrkla
Director



J Smith
Director

PHONOGRAPHIC PERFORMANCE LIMITED

CASH FLOW STATEMENT AS AT 31 DECEMBER 2011

	Note	2011 £000	2010 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	16	130,441	109,430
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		957	573
Interest paid		(300)	(464)
CAPITAL EXPENDITURE			
Purchase of tangible fixed assets		(1,996)	(3,322)
TAXATION			
Corporation tax paid		-	-
DISTRIBUTIONS			
Payments to members and performers		(91,292)	(117,320)
Anti-piracy/copyright protection contribution paid		(2,929)	(3,005)
NET CASH INFLOW/ (OUTFLOW) BEFORE USE OF LIQUID RESOURCES		34,881	(14,108)
MANAGEMENT OF LIQUID RESOURCES			
(Increase)/decrease in cash invested		(30,139)	12,000
Increase/(decrease) in net cash	17	4,742	(2,108)

PHONOGRAPHIC PERFORMANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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.

PHONOGRAPHIC PERFORMANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

1. ACCOUNTING POLICIES (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 income is accrued based on the amount agreed in the contract.

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.

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.

PHONOGRAPHIC PERFORMANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

1. ACCOUNTING POLICIES (continued)

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.

PHONOGRAPHIC PERFORMANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

2. LICENCE FEE INCOME

	2011 £000	2010 £000
Analysis of turnover by licence type:		
Public performance and dubbing income	54,977	50,098
Broadcasting income	66,177	61,720
International income	32,362	31,676
	<hr/>	<hr/>
	153,516	143,494
	<hr/> <hr/>	<hr/> <hr/>
Analysis of turnover by territory of origin:		
United Kingdom	121,154	111,818
Rest of Europe	25,111	24,568
Rest of World	7,251	7,108
	<hr/>	<hr/>
	153,516	143,494
	<hr/> <hr/>	<hr/> <hr/>

3. NET INCOME BEFORE INTEREST AND TAXATION

	2011 £000	2010 £000
Net income before taxation is stated after charging:		
Services provided by the company's auditor:		
Fees payable for one audit	60	58
Fees payable for other services:		
Tax compliance	-	4
Other	12	20
Depreciation of tangible fixed assets	2,455	1,521
Operating lease rentals:		
Land and buildings	630	795
Motor vehicles	14	26

Net income includes a recharge of £1,279,576 (2010: £1,219,615) of operating expenses to VPL. PPL's debtors include a balance of £124,515 (2010: £159,920) owed by VPL.

PHONOGRAPHIC PERFORMANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

4. ANTI-PIRACY / COPYRIGHT PROTECTION

Amounts contributed to:

	2011	2010
	£000	£000
The British Phonographic Industry Limited:		
Contributions	2,242	2,022
Legal anti-piracy recoveries	(319)	(262)
	<hr/> 1,923	<hr/> 1,760
The International Federation of the Phonographic Industry	728	773
Impala	65	65
UK Music	474	407
	<hr/> 3,190	<hr/> 3,005
	<hr/> <hr/>	<hr/> <hr/>

5. INTEREST PAYABLE

	2011	2010
	£000	£000
Interest payable on member and performer balances	452	464
	<hr/> <hr/>	<hr/> <hr/>

PHONOGRAPHIC PERFORMANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

6. STAFF COSTS

	2011 £000	2010 £000
Gross staff costs:		
Wages and salaries	11,112	10,174
Social security costs	1,066	952
Other pension costs	617	578
	12,795	11,704
	12,795	11,704

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	250
	264	250
	264	250

	£000	£000
Directors' emoluments:		
Aggregate emoluments	1,666	1,546
	1,666	1,546
	1,666	1,546

Emoluments in respect of the highest paid director amounted to:

Aggregate emoluments	745	719
	745	719
	745	719
Defined benefit pension scheme - accrued pension at end of year	10	10
	10	10
	10	10
	Number	Number
Number of directors who are accruing benefits with the defined benefit pension scheme	4	4
	4	4
	4	4

7. TRANSACTIONS WITH DIRECTORS

There were no other transactions with directors during the year (2010: £nil).

PHONOGRAPHIC PERFORMANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

8. TAXATION

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

	2011 £000	2010 £000
Current tax:		
UK corporation tax	-	-
Total current tax	-	-

Factors affecting tax charge for the year

Net income before taxation	130,829	124,082
Net income at the UK tax rate 20% (2010 - 21%)	26,166	26,057
Effects of:		
Permanent difference	(26,143)	(26,036)
Accelerated capital allowances and other timing differences	(23)	(21)
Total current tax charge	-	-

The company has an unrecognised deferred tax asset as follows:

Capital allowances less than depreciation	386	86
Other timing differences	140	302
Deferred tax on pension scheme	224	253
Net deferred tax asset - unrecognised	750	641

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.

9. PREPAYMENTS AND ACCRUED INCOME

Prepayments and accrued income includes £6.7m (2010: £7.5m) of broadcasting and public performance accrued license fees which were included in License fees receivable in the prior year.

PHONOGRAPHIC PERFORMANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

10. TANGIBLE FIXED ASSETS

	Fixtures, fittings and office equipment £000	Computer equipment and software developments £000	Total £000
Cost			
At 1 January 2011	729	17,388	18,117
Additions	402	1,594	1,996
Disposals	(20)	(496)	(516)
At 31 December 2011	1,111	18,486	19,597
Accumulated depreciation			
At 1 January 2011	488	9,620	10,108
Charge for the year	191	2,264	2,455
Disposals	(20)	(496)	(516)
At 31 December 2011	659	11,388	12,047
Net book value			
At 31 December 2011	452	7,098	7,550
At 31 December 2010	241	7,768	8,009

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2011 £000	2010 £000
Trade creditors	125	298
Other taxation and social security	3,895	1,137
Other creditors and accruals	15,203	17,178
Deferred income	30,977	28,098
Amounts owed to members and performers	95,532	59,184
	145,732	105,895

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.

PHONOGRAPHIC PERFORMANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

12. PROVISION FOR LIABILITIES

	2011 £000	2010 £000
Provision for dilapidations		
At beginning of the year	490	715
Released in the year	-	(225)
At the end of the year	<u>490</u>	<u>490</u>
Provision for legal costs		
At beginning of the year	300	475
Utilised in the year	(300)	(475)
Charge for the year	100	300
At the end of the year	<u>100</u>	<u>300</u>
Provision for refunds		
At beginning of the year	-	30
Utilised in the year	-	(30)
Charge for the year	664	-
At the end of the year	<u>664</u>	<u>-</u>
Total provision	<u>1,254</u>	<u>790</u>

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 2012.

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.

PHONOGRAPHIC PERFORMANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

13. OPERATING LEASE COMMITMENTS

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

	2011	2010
	£000	£000
Land and buildings:		
Leases which expire after 5 years	640	643
	<u>640</u>	<u>643</u>
Motor vehicles		
Leases which expire within 1 year	1	-
Leases which expire within 2-5 years	22	27
	<u>23</u>	<u>27</u>

14. 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 2011 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):

	2011	2010
Rate of increase in salaries	4.30%	4.95%
Rate of increase of pensions in payment	2.80%	3.45%
Rate of increase of pensions in deferment	2.00%	3.45%
Discount rate	4.80%	5.45%
Inflation assumption (RPI)	2.80%	3.45%
Inflation assumption (CPI)	2.00%	-
Expected return on plan assets	6.40%	6.30%

The expected return on scheme assets is based on the asset allocation and on market expectations at the beginning of the financial period 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.

PHONOGRAPHIC PERFORMANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

14. PENSION COSTS (continued)

The mortality assumptions used for the 30 June 2009 funding 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)

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

	2011			2010		
	EROA	Amount		EROA	Amount	
	£000	(%)	(%)	£'000	(%)	(%)
UK equities	2,695	6.00%	17%	11,413	7.00%	78%
Global equities	3,558	6.25%	23%	-		0%
Diversified growth assets	1,543	6.00%	10%	-		0%
Gilts	5,319	2.50%	34%	575	4.00%	4%
Corporate bonds	2,614	4.60%	17%	-		0%
Other (cash)	47	3.50%	0%	2,553	3.95%	18%
	<hr/>			<hr/>		
Total market value of assets	15,776			14,541		
Actuarial value of liability	(16,898)			(15,748)		
	<hr/>			<hr/>		
Deficit in the scheme	(1,122)			(1,207)		
Related unrecognised deferred tax asset	-			-		
	<hr/>			<hr/>		
Net pension liability	(1,122)			(1,207)		
	<hr/> <hr/>			<hr/> <hr/>		

PHONOGRAPHIC PERFORMANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

14. PENSION COSTS (continued)

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

	2011	2010
	£000	£000
Current service cost	(321)	(383)
Interest costs	(866)	(820)
Expected return on pension scheme assets	927	847
	(260)	(356)
	(260)	(356)
Actual return on assets	1,084	1,635

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

	2011	2010
	£000	£000
Opening defined benefit obligation	15,748	14,208
Current service costs	321	383
Employee contributions	63	72
Interest costs	866	820
Actuarial gain	7	364
Benefits paid	(107)	(99)
	16,898	15,748
	16,898	15,748

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

	2011	2010
	£000	£000
Opening fair value of scheme assets	14,541	10,373
Expected return on assets	927	847
Actuarial loss	157	788
Employer contributions	195	2,560
Employee contributions	63	72
Benefits paid	(107)	(99)
	15,776	14,541
	15,776	14,541

PHONOGRAPHIC PERFORMANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

14. PENSION COSTS (continued)

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

	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
Defined benefit obligation	(16,898)	(15,748)	(14,208)	(9,264)	(12,380)
Scheme assets	15,776	14,541	10,373	8,016	10,236
Deficit	(1,122)	(1,207)	(3,835)	(1,248)	(2,144)
History of experience gains and losses:					
Adjustment due to change in assumptions	(7)	(364)	(4,217)	4,205	(95)
Experience adjustments on scheme assets	157	788	1,487	(3,425)	(266)
Total amount recognised in statement of total recognised gains and losses	150	424	(2,730)	780	(361)

15. RETAINED RESERVES - INCOME, EXPENDITURE AND DISTRIBUTION ACCOUNT

	2011 £000	2010 £000
At start of the year	(4,300)	(4,461)
Actuarial gain on the pension scheme	150	424
Movement in deferred tax on the pension scheme	-	(263)
At end of the year	(4,150)	(4,300)

16. NET CASH FLOW FROM OPERATING ACTIVITIES

	2011 £000	2010 £000
Net income before interest and taxation	130,268	123,529
Depreciation of tangible fixed assets	2,455	1,521
Difference between pension charge and cash contribution	126	(2,177)
(Increase)/decrease in debtors	(5,948)	4,064
Increase/(decrease) in creditors	3,076	(17,077)
Increase/(decrease) in provisions	464	(430)
Net cash inflow from operating activities	130,441	109,430

PHONOGRAPHIC PERFORMANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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

	2011 £000	2010 £000
Increase/(decrease) in cash in the year	4,742	(2,108)
Increase/(decrease) in cash placed on fixed term deposits	30,139	(12,000)
	<hr/>	<hr/>
Changes in net funds resulting from cash flows	34,881	(14,108)
Net funds at 1 January	72,548	86,656
	<hr/>	<hr/>
Net funds at 31 December	<u>107,429</u>	<u>72,548</u>

18. ANALYSIS OF CHANGES IN NET FUNDS

	2010 £000	Cash flow £000	2011 £000
Cash at bank and in hand	22,548	4,742	27,290
Short term cash invested	50,000	30,139	80,139
	<hr/>	<hr/>	<hr/>
Net funds	<u>72,548</u>	<u>34,881</u>	<u>107,429</u>