

Music and Entertainment Rights Licensing Independent Network Limited (MERLIN)  
(UK establishment number BR022220)

Annual Transparency Report for the year to 31 December 2022

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# MERLIN

**ANNUAL TRANSPARENCY REPORT**  
**for the year to 31 December 2022**

**Music and Entertainment Rights Licensing Independent  
Network Limited**  
**("MERLIN")**

2nd Floor, Room #02C128

125 Kingsway

London WC2B 6NH

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**Annual Transparency Report for the year to 31 December 2022**

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**Merlin**

**2022 Transparency report**

This transparency report relates to MERLIN's financial year ended 31 December 2022 and has been published in accordance with Regulation 21 of the Collective Management of Copyright (EU Directive) Regulations 2016 (the "Regulations").

Gravita Audit II Limited have performed work in accordance with the International Standard on Related Services (ISRS) 4400 'Engagements to perform agreed upon procedures regarding financial information' and 'The Agreed Upon Procedures for the Audit of an Annual Transparency Report' as published by the Intellectual Property Office. Those procedures assist the directors of MERLIN (the "company") in fulfilling the obligation to report under section 21(2)(b) of the Regulations. Gravita Audit II Limited's private factual findings report is included as an appendix to this report.

This transparency report also includes certain financial information which is contained in MERLIN's separately published financial statements for the year ended 31 December 2022 and such information has therefore been subject to audit by Crowleys DFK, and their audit report is included with MERLIN's 31 December 2022 financial statements.

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➤ **Report of the activities for 2022**

The principal activity of MERLIN during the year to 31 December 2022 was licensing recorded music to digital music services and other digital platforms ("DSPs"). MERLIN obtains recorded music and related rights from independent record labels and distributors, who own and/or control such rights, and who choose to license rights to MERLIN for its licensing purposes and are known as Merlin Members ("Members").

MERLIN carries out its digital music licensing and copyright enforcement activities globally.

MERLIN did not undertake any other business unrelated to such activities.

2022 was another year of growth for MERLIN, with an increase in revenue and Member numbers as well as recruitment of new talent to its team.

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➤ **Digital Service Providers and Platforms**

In 2022, MERLIN had 47 active licensing agreements with DSPs including Apple Music, Deezer, Meta, Pandora, Snap, SoundCloud, Spotify, TikTok and YouTube, finishing the year with 42 active deals.

During the year, the company signed a number of new deals with DSPs, as well as renewing several existing deals.

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### **➤ MERLIN Members**

MERLIN continued to attract new Members in the year, and there were 34 new joiners from across the world.

MERLIN continued to provide payments to Members totalling £981,221,176 in the year.

### **➤ IT**

Investment in IT infrastructure continued, in particular to ensure timely processing of increasing volumes of reporting and that payments to Members are made in a timely and efficient manner.

### **➤ COVID-19**

In March 2020, the World Health Organization declared COVID-19 (Coronavirus) a global pandemic. The COVID-19 pandemic has caused global economic uncertainty and has adversely affected workforces, economies, and financial markets globally. Despite the continued challenges of the pandemic for the company and its Members during 2022, the company managed to stay ahead of its budget in terms of income and under budget in terms of overheads, and continues to look to the future with optimism.

Post-lockdown, the digital music market has not shown signs of reversing the gains made during 2020 and 2021, and MERLIN's membership continued to grow, with a net increase of 34 active members in 2022.

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### **➤ Legal and Governance structure of MERLIN**

MERLIN is a private company limited by shares, registered in The Republic of Ireland with company number 655936. MERLIN's business activities are operated from its offices in London. Its UK establishment number is BR022220.

The company is a wholly owned subsidiary of MERLIN Network (Global Independent Digital) Company Limited by Guarantee, a company registered in the Republic of Ireland with company number 655914 ("Merlin Network").

The statutory Directors of Merlin Network are advised by a non-executive advisory committee, which is elected on a bi-annual basis by MERLIN's Members. The advisory committee (known as the "Merlin Board") may in addition include up to six non-voting advisors appointed by MERLIN's executives. The Merlin Board has the right to nominate two of Merlin Networks' statutory Directors ("Designated Directors") and accordingly, the Merlin Board exercises a supervisory role via the Designated Directors. The role of the Merlin Board (which is not remunerated) is to represent the interest of Members reflecting protections contained in Merlin's Membership Agreement with its Members.

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All ownership interests in Merlin Network are held by the individual members of the Merlin Board on behalf of and for the sole benefit of the Merlin Members.

MERLIN has a Board of statutory Directors that manages the operation of all aspects of the company's business, including its costs, revenues, licensing, and operating policies.

➤ **Members of the statutory Board of Directors during the year to 31 December 2022**

The Board of MERLIN during the year consisted of the following directors:

- Helen Alexander – (resigned 31 August 2022)
- Charlie Lexton
- Jeremy Sirota
- Ryan McWhinnie – (appointed 31 August 2022)
- Adam Wright – (appointed 8 November 2022)

➤ **Members of the Merlin Board during the year to 31 December 2022**

The Merlin Board is an advisory committee to the statutory directors of Merlin's holding company, Merlin Network (Global Independent Digital) Company Limited by Guarantee:

- Darius Van Arman (Chairperson)
- Pascal Bittard
- Marie Clausen
- Tom Deakin
- Michel Lambot
- Chris Maund
- Carlos Mills
- Martin Mills
- Sandra Ortega
- Louis Posen
- Jason Taylor
- Michael Ugwu
- Horst Weidenmuller
- Pieter van Rijn
- Justin West
- Yushi Yamashita
- Jennifer Newman Sharpe – Advisor (resigned February 2022)
- Katie Alberts – Advisor
- Glen Barros – Advisor
- Rachel Buswell – Advisor
- Megan Jasper – Advisor (appointed June 2022)

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➤ **Designated Directors**

The following individuals are the Designated Directors referred to above (i.e. directors of Merlin Network):

- Martin Charles Mills
- Horst Weidenmuller

➤ **Board remuneration**

The remuneration paid in the year to 31 December 2022 to the directors, who were employed and paid by MERLIN (or entities owned or controlled by MERLIN), and who constitute the persons who manage MERLIN's business within the meaning of Regulation 9 (being Helen Alexander, Adam Wright, Charlie Lexton, Jeremy Sirota, and Ryan McWhinnie), is outlined below.

MERLIN and the other group companies operated three payrolls in the year (one in MERLIN). The directors who managed the business were remunerated from two of those group companies, one of which being MERLIN. The remuneration paid to such persons by MERLIN and other group companies collectively totalled £1,328,669 (inclusive of pension contributions, fees and other benefits) in the above year.

The Merlin Board (including the Designated Directors referred to above), which exercises the supervisory function within the meaning of the Regulation, received no remuneration for services to MERLIN or any group company during the year.

The directors do not consider any other employees as holding any other key management or supervisory function within the group.

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➤ **Entities owned or controlled by MERLIN in whole or in part**

MERLIN wholly owns and controls the following entities:

- MERLIN (UK Services) Limited, a company registered in England and Wales,
  - Music and Entertainment Rights Licensing Independent Network Inc, a company registered in the United States,
  - MERLIN Japan KK, a company registered in Japan.
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➤ **Special Report on the use of amounts withheld for the purpose of social, cultural and educational services**

During the year, MERLIN made grant payments totalling £233,333 to promote the establishment of trade associations in the global independent music sector. MERLIN incurred costs of £10,500 in connection with the management of these payments.

There were no other amounts paid, withheld or deducted for social, cultural and educational services during the financial year to 31 December 2022.

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➤ **Cashflow statement**

A statement of cash flows is included within the annual accounts.

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➤ **Information on refusal to grant a licence**

Regulation 21(4)(c) requires the Annual Transparency Report to include information on any refusals to grant a licence in accordance with paragraph (5)(b)(ii) of Regulation 15.

In the year under review, any decision not to proceed with a licensing agreement requested in MERLIN's area of activity was given with a reasoned statement explaining the decision. There are a variety of reasons for not proceeding and each one is bespoke in its nature. The Board has a record of the number of licences rejected in a year but this is commercially sensitive, and therefore the information is not provided in the public domain.

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➤ **Financial Information**

The 31 December 2022 audited financial statements of MERLIN, (comprising of the Profit and Loss Account, Statement of Financial Position, Statement of Changes in Equity and the Cash Flow Statement) are attached to the report and can be found on the company's website.

Regulations 21 (4)(i)(ii) specify that a CMO should include 'operating and financial costs...including management fees deducted from or offset against rights revenue...'. In MERLIN's activities, there is only one stream of revenue which is royalty income from music rights (including payments by way of the settlement of copyright breaches). Any costs, whether operating and financial, are 100% allocated against this one revenue income stream. There have been no management fees payable in the year.

Based on the Merlin Membership Agreement, MERLIN normally budgets on the basis of achieving a gross margin of 1.5% to 3% of the funds it receives from DSPs subject to the impact of "Additional Royalties" (as explained below). This is expected to cover MERLIN's operating costs.

Any excess of margin over operating costs (less an amount (net of corporation tax at the applicable rate at the time) by way of reserve for supporting future activities and for unknown contingencies) is paid to Members as "Additional Royalties".

The future activities of the company are detailed in business plans approved by the Merlin Board details of which are commercially sensitive and therefore not disclosed in the public domain.

In 2022, MERLIN's profit before tax was £2,280,471. The margin MERLIN achieved in the year to 31 December 2022 (subsequent to an Additional Royalty payment to Members and tax payable in respect of this financial year) was 0.15%, being the profit after tax as a proportion of the gross royalties for the year.

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➤ **Rights Revenue Collected**

Royalty income for the year (including payments by way of the settlement of copyright breaches) totalled £998,408,521.

Royalty income (including payments by way of the settlement of copyright breaches) derives from licensing recorded music to DSPs and where applicable enforcing rights in such content.

All costs incurred by MERLIN are attributable and allocated against such income.

MERLIN is entirely self-funded and does not use any external funding to cover costs. However, MERLIN has loans outstanding at the year end, which relates to amounts provided by Members to facilitate MERLIN's purchase of listed investments.

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➤ **Payments of Rights Revenue**

Royalty payments to the Members are made monthly.

The total payments made in the year totalled £981,221,176. The total amount payable to Members was £987,253,514.

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➤ **Distributions made outside the Regulation 12 (2) deadline**

Regulations 12 (2) specifies that distributions of a CMO's rights revenue should be made within 9 months from the end of the financial period in which the rights revenue was collected, unless prevented by objective reasons.

Amounts payable to Members in relation to periods prior to 1 January 2022 but unpaid at that date totalled £6,553,789.

In respect of such amount, payments totalling £6,522,460 were made to the Members during the year to 31 December 2022. £6,256,782 remained unpaid at the year end, with the entire balance paid to Members in August 2023.

The Board's policy is to ensure the contractual amounts due to Members are paid as quickly as reasonably practicable in line with the Merlin Membership Agreement, and in any event in accordance with the Regulations (i.e. within 9 months of the end of the financial period). However, depending on the performance of MERLIN in the year, there might be instances where Additional Royalties (as described above) may be paid to Members after 9 months of the year end. This is because the applicable amounts are unknown until the audit of the financial statements for the relevant year has been completed. This usually occurs around August/September following the financial year end. Therefore, any amount payable pursuant to a decision to pay Additional Royalties is deemed to be payable within 9 months of such decision.

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➤ **Income arising from investment of rights revenue**

There was no income arising from investment of rights revenue during the financial year.



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➤ **Held revenue**

Rights revenue unallocated to Members as at 31 December 2022 totalled £245,659,803. This is made up of:

<b>Current liabilities</b>	<b>2022</b>
	<b>£</b>
Royalties Payable	195,447,706
Settlement fees	839,650
Additional Royalties	6,256,782
DSP advances	6,246,361
Doubtful Royalties Payable Provision	(1,976,044)
Other accruals and WHT	1,987,991
Deferred income	36,857,357
Minimum guarantee	-
<b>Total</b>	<b>245,659,803</b>

Royalties payable represent amounts payable to, but not yet due and not allocated to Members.

Settlement fees represent balances of royalties (relating to settlement income), which are payable, but not yet allocated to, Members. Until allocated to Members, MERLIN does not recognise its margin on the amount.

Additional Royalties (sometimes referred to as "rebate") represent an additional royalty payment due to Members (as described above).

DSP advances are advance payments of royalties to MERLIN from DSPs on account of future sales. These amounts fund MERLIN's royalty payments to Members when royalty reporting to MERLIN is provided by the applicable DSPs.

Other accruals and WHT include amounts withheld pending recovery of taxation charges withheld.

Deferred income represents amounts received from DSPs on which royalties are payable by MERLIN to Members over the period of the relevant agreement.

Minimum guarantees represent balances of royalties which are payable, but not yet allocated to Members. These balances will be allocated when sufficient royalty reporting is received from applicable DSPs to enable MERLIN to calculate royalties due from MERLIN to Members. Until allocated to Members, MERLIN does not recognise its margin on minimum guarantees. As at 31 December 2022, MERLIN had no minimum guarantees outstanding.

There are no operating costs for services other than related to rights management. There are no costs for social, cultural or educational services other than the grant payments referred to above which were made to promote the establishment of trade associations in the global independent music sector.

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➤ **Information on the cost of rights management and other services provided**

MERLIN has only one rights category, therefore, the costs, as disclosed in the Profit and Loss account give a total account of the costs incurred by the company.

In the year to 31 December 2022, MERLIN's operating costs amounted to £8,954,629. Other financial and operating income amounted to £80,093 and corporate taxation charges totalled £773,402.

In 2022, the costs of MERLIN (costs of rights management and other services — excluding finance and corporate taxation charges) amounted to 0.90% of reported sales.

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➤ **Information on relationships with other Collective Management Organisations**

There was no financial relationship with other Collective Management Organisations during the financial year to 31 December 2022.

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➤ **Approval**

The directors acknowledge their responsibilities in ensuring that the company's Annual Transparency Report complies with Regulation 21 of the Collective Management of Copyright (EU Directive) Regulations 2016 and is in accordance with the underlying financial and on-financial information used to prepare it.



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Charles Lexton  
For and on behalf of MERLIN

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➤ **Independent Auditors Report to the Directors of Music and Entertainment Rights  
Licensing Independent Network Limited**

We have performed the procedures agreed with you and listed below on the 2022 Transparency Report. Our work was performed in accordance with the International Standard on Related Services (ISRS) 4400 'Engagements to perform agreed-upon procedures regarding financial information.' The procedures were performed solely to assist the company's directors in fulfilling their reporting obligations under Regulation 21 of the Collective Management of Copyright (EU Directive) Regulations 2016 (the "Regulations") and are summarised in Annex C of Agreed Upon Procedures for the audit of an Annual Transparency Report as issued by the Intellectual Property Office.

We have nothing to report with respect to the findings from the procedures undertaken.

Although the above procedures are of an audit nature, they do not constitute a **full** scope audit or review engagement performed in accordance with International Standards on Auditing (UK) or the International Standard for Review Engagements (UK and Ireland). Accordingly, we do not express any assurance on the annual transparency report for the year ended 31 December 2022.

Had we performed additional procedures, or had we performed an audit or review of the 2022 Transparency Report in accordance with generally accepted auditing standards, other matters might have come to our attention that we would have reported to you. This report relates only to the 2022 Transparency Report and does not extend to any financial statements of the company taken as a whole.

➤ **Use and purpose of our report**

Our report is prepared solely for the use of MERLIN and solely for the purpose of its compliance with Regulation 21(2)(b) of the Collective Management of Copyright (EU Directive) Regulations 2016. It may not be relied upon by MERLIN for any other purpose whatsoever. Our report was not prepared for the benefit of any party other than MERLIN. Gravita Audit II Limited neither owes nor accepts any duty to any other party (including any copyright owner, heirs to copyright owners, agents or licensees) and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by their reliance on our report.



**Daniel Rose (Senior Statutory Auditor)**  
**For and on behalf of Gravita Audit II Limited**  
**Chartered Accountants**  
**Statutory Auditor**

Date 02/11/2023

66 Prescott Street

London

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