

Stichting International Publishers
Rights Organisation (IPRO)
Amsterdam

Annual report 2013

May 28, 2014



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Amsterdam

Contents

	Page
Report of the auditors	3
Annual report 2013	5
Introduction by the chairman	6
Report of the board	8
Composition of the IPRO Board of Directors	17
Financial statements	19
Balance sheet for the year ended 31 December 2013	20
Profit and loss account 2013	22
Cash flow statement 2013	23
Notes	24
Other information	34



Stichting International Publishers Rights Organisation (IPRO)
Amsterdam

Report of the auditors

Compilation report

To: the Board of Stichting International Publishers Rights Organisation (IPRO) Stichting International Publishers Rights Organisation (IPRO)

Introduction

In accordance with your instructions we have compiled the financial statements 2013 of Stichting International Publishers Rights Organisation (IPRO), Amsterdam, which comprise the balance sheet as at 2013, the profit and loss account for the year then ended, the cash flow statement and the notes.

Management's responsibility

The distinctive feature of a compilation engagement is that we compile financial information based on information provided by management of the entity. Management is responsible for the accuracy and completeness of the information provided and the financial statements based thereon.

Accountant's responsibility

Our responsibility as accountant is to perform our engagement in accordance with Dutch Law, including professional and ethical requirements issued by our professional institute. In accordance with the professional standard applicable to compilation engagements, our procedures were limited primarily to gathering, processing, classifying and summarizing financial information. Furthermore we have evaluated the appropriateness of the accounting policies which are used to compile the financial statements, based on the information provided by management. The nature of our procedures does not enable us to express any assurance on the true and fair view of the financial statements.

Confirmation

Based on the information provided to us, we have compiled the financial statements using the accounting policies as included in Part 9 of Book 2 of the Dutch Civil Code.

The Hague, May 28, 2014

Deloitte Accountants B.V.
Signed by

T.J. Stalvord

Stichting International Publishers Rights Organisation
(IPRO) Amsterdam



Annual report 2013

- Introduction by the chairman
- Report of the board
- Financial statements

Introduction by the chairman

It is my pleasure to present to you the International Publishers Rights Organisation (IPRO) Annual Report and Annual Accounts for 2013.

The year 2013 was important to IPRO for several reasons. In the area of reproduction rights management, we saw three important – and strongly inter-related – market trends gaining strength: the migration from print to digital, the switch to individual licensing instead of collective arrangements, and the tendency to replace statutory licensing with voluntary licensing.

As to usage of digital information, an in-depth market survey carried out in 2013 by IPRO in cooperation with our Dutch sister-organisation PRO, showed how quickly the migration from print to digital is taking place at institutions of higher education in the Netherlands. Currently, more than 75% of the courseware and readers used at Dutch universities is now provided to students in digital form. At vocational training school/applied university (HBO) level, this is slightly lower, but already over 66%. The survey also revealed that the share of non-Dutch material in digital courseware is significantly larger than it used to be in print material. For IPRO, this confirms the importance of international participation in reader programs.

For coursepacks, there is a growing trend for international publishers to include educational use in their direct licenses with universities and colleges. IPRO applauds this, since, in a digital age it is now far easier to manage and agree on how consumers of digital information may use and re-use the purchased information. It also facilitates the third trend mentioned earlier, from statutory licensing to voluntary licensing. Of course, IPRO believes that for the time being collective arrangements offer a high level of convenience for institutions of higher education, who are now certain that their use of material from a multitude of (inter-)national sources is appropriately covered with respect to copyright compensation.

Therefore, we are pleased that after more than three years of negotiation, Dutch publishers and international publishers were able to reach a new joint agreement with Dutch universities for another extension of the Reader Program for the Netherlands. The new arrangement will cover the years 2014-2016 and provides for lump sum copyright compensation by the universities for all short excerpts used in educational material. It is worth mentioning that IPRO, PRO and Dutch universities have agreed to jointly explore new solutions for the future that will make it even easier for educational institutions to provide courseware to their students while respecting the copyright of the relevant creators and publishers.

A further key event in 2013 was the Dutch government's extension of RRO supervision, which made IPRO subject to such supervision as of July last year. Meanwhile, IPRO met three times with the supervisor and received the official CMO Certificate (*CBO Keurmerk*) in December 2012, extended at the end of 2013 upon their annual audit. The requirements of the governmental supervisor are very similar to those of the Certification process. To the supervisor agency we have expressed our hopes that the role of the supervisor will be helpful in the current rights management landscape, especially in crafting a new licensing architecture that is adapted to the new trend of more voluntary licensing of digital material directly with users.

Last but not least, I am happy to note that IPRO had a solid and successful year in 2013. The Board of Directors is pleased to see that the operational direction we decided upon in 2012 is now having a sustainable impact. Against slightly reduced income levels, the organization has managed to increase the repartition amounts and reduce pending obligations to rightsholders, mostly by substantial cost reductions. During 2013, IPRO operational costs (excluding CEDAR costs) decreased by more than 20% compared to 2012. For more details, please refer to the full report by the Board of Directors following this introduction.

Geert Noorman, Chairman of IPRO



Report of the board

Introduction

The International Publishers Rights Organisation (IPRO) had a solid and successful financial year in 2013 during which payouts were further increased and IPRO's own operational costs further reduced. This showed a clear and sustainable impact of the operational direction the Board determined in 2012. The repartitions payouts under the Dutch Reader Program increased by 27%, and IPRO's own operational costs were brought down by more than 20%. Obligations to rightsholders were again reduced further and as a result, the balance sheet was again markedly lighter at the end of the year compared to the start of the year.

A major achievement in 2013 was the agreement reached with Dutch universities for lump-sum compensation of educational material in the form of short excerpts used in coursepacks, for both print and digital use. The new agreement covers 2014-2016 with ongoing annual lump sum payments agreed at similar levels on average as the advance payments received during the interim period (2011-2013) when the new agreement was negotiated.

Summary of key figures

The total of repartition payouts during 2013 amounted to 1,561 K EUR of which approximately 75% were paid out for the Reader Program and the other 25% for remaining payments under the Subito and similar settlements.

Payout under the Reader Program was 27% higher than in 2012, mostly due to reduced costs and a reduction of the reserves. In the first half of 2014 an additional repartition of 669 K EUR was made for Dutch reader monies, including a release of advance payments made by universities temporarily suspended until the negotiations with Dutch universities were concluded.

Following earlier reductions of reserves and obligations to rightsholders in 2012, this resulted in further reductions in 2013, from 3.2 million EUR at the start of the year to 2.1 million EUR after the additional reader money payout in the first half of 2014.

During 2013, income from Dutch reader monies remained more or less stable at a level of 1,365 K EUR as a result of the interim agreement for lump sum payments. There was some reduction due to less income from title-specific royalties and no income from policing activities.

IPRO continued to put significant effort into greater organisational and operational transparency throughout 2013. The multiparty agreement was implemented, as renewed in October 2012 with partner organisations in the Dutch Reader Program: the International Association of STM Publishers, CCC, CLA, CFC, and VG-Wort. The Dutch Certification Institute (Keurmerk Instituut) extended IPRO's official certificate as a Collective Management Organisation, which IPRO first received in December 2012 in the form of the official VOI©E Keurmerk.

Since 1995, the year of its official foundation, IPRO's mission has developed into new directions. The original goal was to represent international rightsholders in the collection of copyright fees from Dutch higher education institutions (universities and technical colleges) for the compilation of coursepacks. In the past decade, IPRO has also become an important intermediary in the repartition of compensation to international rightsholders for document delivery and interlibrary loan. Over the past five years, these activities have accounted for approximately 45% of the distributed amounts. Recently, IPRO began focusing on an intermediary role in the international licensing architecture in the area of voluntary digital licenses. The IPRO Chairman elaborates on this in the Introduction to this Board report. These strategic shifts are reflected by IPRO's expansion of activities outside the Netherlands, which enhances its remit as a truly international collective management organisation for copyright. The remainder of this report first covers activities in the Netherlands, and then international activities.

For a convenient overview of IPRO's finance developments, we include a summary table with the main ratios and indexes (2011 = 100):

INDEXES	2011	2012	2013
Invoiced turnover	100	109	102
Total repartitions	100	216	166
Operational costs	100	101	97
RATIOS			
Cost as % of invoiced ¹	32%	30%	31%
Cost as % of repartitions ¹	46%	22%	27%

As the table shows, invoiced turnover and costs were relatively stable and repartitions increased considerably.

The Netherlands

IPRO was established in the Netherlands as a foundation legally registered in Amsterdam. The actual collection and administration of Dutch Reader Program monies occurs in close collaboration with Stichting PRO-PRN, representing Dutch publishers, and is carried out by the Centrum Dienstverlening Aanverwante Rechten (CEDAR), an organisation specifically set up for such services to publishers' and rightsholders' organisations in the Netherlands. The funds collected by PRO/CEDAR for international publishers are transferred to the IPRO foundation, which distributes them internationally to the rightsholders and their representatives.

¹ Cost include costs in the whole chain from CEDAR, PRO and IPRO

In terms of the collection of copyright compensation in 2013, IPRO invoiced via CEDAR 1,365 K EUR in copyright fees on behalf of international publishers in the Netherlands. This is a slight reduction from the amount for 2012 and includes approximately 45% from lump sum payments by the Dutch universities united under the VSNU (Vereniging Samenwerkende Nederlandse Universiteiten).

During 2013, the VSNU lump sum received was still part of an advance payment, as agreed on during the negotiations for a new lump sum. This new agreement was reached by the end of 2013 and will cover the years 2014-2016. On average, the newly agreed lump sum continues the level of these advance payments during 2011-2013, but declines by 8% annually to reflect various factors, including an increase in open access content that is expected to be included in coursepacks. Publishers and universities in the Netherlands agreed to monitor usage developments closely in a new working group that is also tasked with the exploration of new solutions to arrange for proper compensation of copyrighted material in coursepacks.

During 2013, PRO and IPRO conducted a comprehensive market survey on actual use of copyright-protected excerpts in courses at Dutch universities and higher education institutions for which compensation is due. The survey was carried out by Veldkamp, an independent market research agency, and measured the extent of the use of copyright-protected material in the digital learning environment as well as in traditional print readers. The results showed that more than 75% of such material is currently distributed digitally at universities. At colleges and vocational training institutes, the level is approximately 66%. The share of non-Dutch material is higher in the digital environment than in print.

Analysis of the same survey also showed that a substantial part of the used material is covered under direct licenses by international publishers with the educational institutions. This is particularly the case for the repertoire of some larger international publishers, who are often also the main rightsholders served by IPRO. This share of material under direct licenses is now estimated at roughly 25-30 % and will be reflected in a reduction of repartition payments to these publishers.

Repartition payments to rightsholders

The surplus over 2013 that IPRO will add from the Dutch Reader Program to the obligations to rightsholders amounts to 976 K EUR, or 72% of the invoiced monies. Expenses as a percentage of reader income amounts to 31%, compared to 30% in 2012 and a budgeted level of 36% (this percentage excludes financial income and costs).

Most costs incurred by IPRO are for CEDAR (20% of reader income), while IPRO itself adds another 11% to these costs. CEDAR costs have relatively increased by 12%, mostly due to policing costs that could not be compensated with higher income, while IPRO's own costs reduced by more than 20%.

In line with its constant proactive stance on potential further cost reductions, the IPRO Board is pleased with the cost reductions achieved over the past few years. It has approved the 2013 outcome of 31% as an acceptable level, given the importance of international publishers remaining represented in compensation arrangements at national levels. At its meeting of June 2014, the Board reiterated its decision of previous years that a level of 50% of costs as a percentage of reader income would be regarded as acceptable under present circumstances. The fact that IPRO itself adds only 11% to costs is viewed very positively by the Board.

During 2013, IPRO made repartition payments from the Dutch Reader Program to rightsholders and their representative organisations totalling 1,184 K EUR. This is 27% more than the 2012 amount of 930 K EUR. These payments depleted any obligations stemming from before 2011, meaning that IPRO has no amounts due for payout to rightsholders older than 3 years. The table on page 29 shows this in more detail.

During the first half of 2014, IPRO made additional repartition payments for a total of 669 K EUR, this includes the amount of 450 K EUR from the Dutch Reader Program that was previously suspended while negotiations were ongoing.

As defined in the IPRO Repartition Rules and Regulations, repartition to rightsholders is based on market share data gathered through independent surveys. A survey concluded in 2010 resulted in a shift in shares between the main rightsholder representatives to whom IPRO distributes the collected copyright fees from Dutch coursepack compensations:

	Previous share	New share based on 2010 survey
STM	50.00%	43.24%
CCC	29.05%	31.16%
CLA	17.45%	18.71%
VG-Wort	2.70%	4.71%
CFC	0.80%	2.18%
TOTAL	100%	100%

At its October 2011 meeting, the IPRO Board decided to apply these new shares to the repartition of surplus amounts from 2011 onwards. Hence first introduced in our 2011 report, the annual accounts in this report continue to distinguish between the accumulation of obligations to rightsholders stemming from the years up to 2010 versus the years 2011 and onwards, to ensure that the new division of shares is handled correctly. A new division, adjusted to market shares found in the 2013 survey described above, will be introduced in 2014 and be applied to obligations to rightsholders stemming from 2014 and onwards.

IPRO publishes its Repartition Regulations on the IPRO-website ². These regulations include the requirements for indemnification declarations from rightsholders and their representatives as well as a complaints procedure. The IPRO procedure for complaints and appeal is also separately available on the IPRO-website ³.

As before, it is IPRO policy to disburse its surplus as soon as possible to rightsholders after receipt via CEDAR. As a result of the payments mentioned, and the payments done in the context of international settlements as explained below, liabilities to rightsholders on the balance sheet went down from 3.2 million EUR to 2.7 million EUR during 2013. By mid-2014 this amount was reduced by a further 0.6 million EUR to 2.1 million EUR as an effect of additional payouts to rightsholders.

In line with last year's practice, IPRO has no funds at its disposal that could benefit from intermediate or long-term investment strategies. However, it has made provisions in the event of an unexpected forced liquidation equal to all outstanding financial obligations under contract, amounting to 225 K EUR. In addition, an operational reserve is kept at the level of six months of operational costs; in 2013 this was budgeted at 225 K EUR. In the past, before a liquidation provision was established, this amount used to equal one full year of operational costs. In 2012 it was 450 K EUR. This reserve was halved in 2013 in view of the new liquidation provision. IPRO will also maintain a strategic reserve of 250 K EUR to cover for unforeseen claimants. By its very nature, such money must be available at very short notice and is therefore kept in cash.

During its meetings of October 2011 and 2012, and given the current uncertainties in financial markets, the IPRO Board re-endorsed its long-standing asset management policy to keep at least 50% of its liquid assets in cash and invest the remainder conservatively, with a preference for secure Euro bonds with a safe rating.

On 31 December 2012, IPRO kept 249 K EUR in bonds, which was 11% of its liquid assets at that time. All bonds were either sold or expired during 2013. At the end of 2013 no more investments were kept.

New initiatives

IPRO has engaged and intends to engage in several new initiatives, some of which started in 2013. As part of the new agreement with the Dutch Universities, IPRO will work closely with the universities for better insight in the actual use of courseware material and collaborate on future-proof solutions for the appropriate compensation of copyrighted material in Dutch coursepacks. As part of the agreement concluded with Dutch universities, a joint working group will be established to monitor and explore new opportunities for this.

² www.IPRO.nu

³ <http://www.ipro.nu/index.php?sa=22&si=323>

Upon invitation by the Dutch Stichting Reprorecht (responsible for collecting legal copying fees in the Netherlands), IPRO put considerable time and effort during 2013 into exploring a role in gathering and providing mandates for international copyrighted repertoire in a new, voluntary small business licensing scheme, to be launched in the Netherlands by Stichting Reprorecht in 2014. By the end of 2013, IPRO had collected a substantial number of direct licenses for this from international publishers and received positive reactions from several of its partner-RROs under the reader program to cover author representation and publishers' representation from the US and other countries. At the start of 2014, renewed internal discussions between author and publishers organisations on the design of the repartition scheme led to the postponement of the Reprorecht launch. At the time of publication of this report, the opportunity of a role for IPRO is not yet clear.

Dutch regulation

As reported before, new regulation has come into force in The Netherlands pertaining to Collective Management Organisations (CMOs) for copyright collection. In advance of this, IPRO was awarded the Certificate for Collective Management Organisations (CMOs) by VOI©E, upon the official audit carried out by the Dutch Certification Institute (Keurmerk Instituut) at the end of 2012. A new assessment was undertaken by the Institute at the end of 2013 where upon the certificate was extended for another three years. As part of the process, financial data and (preliminary) annual accounts are reported regularly throughout the reporting year to the Dutch Agency for Supervision of Copyright collections.

By mid-2013, as a result of new regulation for the supervision of collective copyright management in the Netherlands, IPRO became officially subject to supervision by the Dutch government through this governmental agency, the College van Toezicht Auteursrechten (CvTA).

In the same context of new regulation in the Netherlands, IPRO complies with the guidelines set for the integrity of governance. As part of this, in 2012 each member of the IPRO Board signed the Integrity Guidelines for this purpose. In its meeting of October 2013, the Board re-evaluated both its governance structure and the repartition rules. The Integrity Guidelines are part of the IPRO By-laws for the Board and Secretariat. The remuneration of the Managing Director is compliant with the Dutch rules in this area (wet Normering Topinkomens).

IPRO continuously puts significant effort into greater organisational and operational transparency. Upon its renewal by the end of 2012, the Board implemented the multiparty agreement with partner organisations in the Dutch Reader Program: the International Association of STM Publishers, CCC, CLA, CFC, and VG-Wort. The IPRO website (www.IPRO.nu) contains a wide set of reports and documents to keep stakeholders informed. Part of the increased transparency and the new regulation is the required change in the financial reporting structure; this annual report now follows the rules and guidelines of the so-called Dutch Civil Code, Book 2, title 9 (BW 2 titel 9).

International

Besides its original mission in the Netherlands, IPRO also has an international remit and works on the world stage. In recent years IPRO has stepped up its level of activities outside the Netherlands and represented international publishers in collective copyright compensation arrangements.

As a result, 47% of money paid out in repartitions by IPRO came from international or non-Dutch sources, while the remaining 53% came from Dutch reader monies during the past 5 years. IPRO is active in the following countries:

France: IPRO maintains an alliance with CFC (Centre Français d'Exploitation du Droit de Copie) and represents non-French publishers for scanned materials used in French coursepacks. As noted in previous reports, the share of compensation for non-French rightsholders is expected to be significantly smaller than in the corresponding case in the Netherlands. Towards the end of 2013, an agreement was reached with the French IPRO partner, CFC, on the percentage of the international share for 2009-2012. For later years, the share will be based on better domestic surveys to determine what the level of compensation for international publishers represented by IPRO would be, especially for digital materials. In the meantime, the French government has introduced a new law for copyright compensation for digital use of coursepacks.

At the end of 2011, IPRO entered into a second agreement with CFC for a bridging licence to cover compensation to international publishers from document delivery by INIST Diffusion SA in 2012 and 2013. This French institute for scientific information was merged into CNRS, a central French research institute. Individual publishers lacked the opportunity to replace their document delivery arrangements with the new mother organisation before the merger took place. With mandates from STM, CCC and CLA, IPRO stepped in to represent the international publishers. This bridging licence between IPRO and CFC was and will be replaced by individual publisher's licences in the course of 2013 and 2014 and will eventually become redundant as this happens. During 2012 and 2013, IPRO received initial compensation from INIST/CNRS via CFC to the amount of 256 K EUR, but is awaiting the more detailed calculations necessary to start payouts.

Germany: IPRO engaged in the payout distribution of the Subito settlement, an arrangement for document delivery compensation as reported in previous annual reports. This case between the International Association of STM Publishers and the Subito document delivery service resulted in a settlement with substantial amounts of compensation to the plaintiffs, for which STM commissioned IPRO to handle the distribution. During 2013, further progress was made in the following rounds of pay-out of the damage settlements to the plaintiffs involved and another 360 K EUR was transferred to rightsholders and their representatives. By 31 December 2013, a total of 4.7 million EUR had been made available via payouts from IPRO. IPRO expects to be able to conclude the Subito settlement repartitions in 2016 or 2017.

Other Countries: IPRO has distributed comparable settlement payments for incidental document delivery services in other countries in a similar manner. During 2013 these payouts were smaller than in previous years, with a total of 17 K EUR.

Organisation

During 2013, IPRO held two Board meetings of which the annual meeting in Frankfurt was held in person. A sub-committee comprising the Executive Board and Finance Committee, holds quarterly conference calls, mostly on finance updates, repartition status and finance reports. During the year, the Chairman of the Board and the Managing Director have regular meetings with the accountants of Deloitte.

The IPRO Board has established a risk register which is now a fixed agenda item at all Board meetings. Developments in Open Access are among the main drivers that may impact IPRO considerably in the next few years, meaning that compensation for re-use may drop commensurably as the share of open access material rises. Other impactful developments include the pressure of legal changes on copyright in general around the world.

The IPRO Board regards the increased supervision and tightening of government rules regarding CMOs as a positive opportunity. For IPRO, transparency and a service attitude towards rightsholders have always been core values and the Board believes that the playing field will improve if national organisations also become more accountable in this regard.

Reappointed in 2013 in his position of Chairman, Geert Noorman successfully reinvigorated the Executive Committee with Jan Bijdeweg, Secretary, and Eric Merkel-Sobotta, representing the Finance Committee. Noorman is acting Chairman and Treasurer for the interim, until new candidates step up for either position. At his request, the Executive Committee has agreed to supervise IPRO finance matters on a regular quarterly basis to avoid a concentration of responsibilities and to ensure a balanced supervision of financial matters.

No rotations took place in the Board during 2013 and no re-appointments were in order. Board members and the IPRO Managing Director list their jobs and side functions on the website and in this annual report. During the annual face-to-face meeting in Frankfurt, the Board carried out a self-evaluation. At the May 2013 meeting, the IPRO Board requested Geert Noorman to appoint Eefke Smit as Managing Director. She had been Acting Managing Director since April 2012. Since her introduction to IPRO, she has introduced measures for further streamlining of the IPRO organisation, including more checks and balances in finance matters and a reduction of overall cost levels. Part of this is a reassessment of IPRO's tax position by Deloitte.

Budget 2014

For the Budget 2014, the IPRO Board expects very similar income levels compared to 2013 due to the renewed lump sum agreement with the Dutch universities. See in the table here below the budget summary for 2014, with slightly higher costs than 2013 mostly caused by extra costs related to efforts for the new Dutch small business license (see under New Initiatives). For the remainder, the budget 2014 reflects very much the actual situation of 2013 with a similar surplus.

Included here below is a budget for 2014 that was adjusted for the detailed market information as it came available from the new reader agreement in The Netherlands. Further analysis of the outcomes of the market survey of 2013 showed that the digital share in educational use at universities had grown significantly (to 75% of all use) and, important for IPRO, that the international repertoire in digital use represents around 70% compared to around 30% in paper use. The effect of this is that the IPRO share in the University lump sums will be markedly larger than assumed when the first budget was drafted. This is now corrected in this adjusted budget which is more precise than the rather cautious budget earlier approved by the Board in their Frankfurt meeting in October.

	Budget 2013	Actuals 2013	Adjusted Budget 2014
	K EUR	K EUR	K EUR
Reader Income	1,312	1,365	1,423
Cedar Costs	-258	-275	-258
Net Reader Income	1,054	1,090	1,165
IPRO-Costs	-216	-175	-223
Other expenses and income	34	61	19
Surplus	872	976	961

Approval of Annual Accounts

These Annual Accounts of the International Publishers Rights Organisation were scheduled to be officially approved by the IPRO Board on June 20, 2014 by the undersigned:

Geert Noorman
Chairman of the Board and Treasurer

Eefke Smit
Managing Director

Jan Bijdeweg
Secretary/Legal Counsel

Eric Merkel-Sobotta
Finance Committee

Ian Bannerman, member

Jean-Frank Cavanagh, member

Jayne Marks, member

Sue Joshua, member

Composition of the IPRO Board of Directors

The IPRO Board of Directors represents the international publishers' community. Members come from or have a background at publishing houses operating internationally for many years in the area of academic and professional publishing. At the same time, Board members act independently and take their decisions without the prevalence of any partial interest. The composition of the Board as a whole reflects a broad representation of the international publishing industry in the different geographical regions prominent in IPRO's objectives and activities covered.

The current IPRO Board members have the following additional jobs and functions (any functions for which remuneration is received are indicated as such):

Geert Noorman, Chair/ Treasurer, IPRO

Official Title: Director, NUV, Amsterdam (remunerated)

Additional functions:

- Member of the Board of Federatie Auteursrechtbelangen
- Chairman PCMI (platform for creative media industry in NL)
- Member of the Board, Stichting Brein
- Member of the Board, Museum Oud Amelisweerd/Armando Museum
- Member of the Board, Lucas-Ooms Fonds (Treasurer)

Jan Bijdeweg, Secretary/ Legal Counsel, IPRO

Official Title: General Counsel EMEA, APAC, LA, Elsevier (remunerated)

Additional functions:

- Member Copyright Committee, NUV, Amsterdam
- Member of the Supervisory Board Aureus SA (until 31-12-2013)

Eric Merkel-Sobotta, Board Member, IPRO, Finance Committee

Official title: Executive Vice President Corporate Communications, Springer Science+Business Media (remunerated)

Additional functions:

- Chairman International Association of STM publishers (ended October 2013)

Ian Bannerman, Board Member, IPRO

Official Title: Managing Director, Journals, Taylor & Francis Group (remunerated)

Additional functions:

- Chair and Board member Crossref
- Member Industry Advisory Board of the Oxford International Center for Publishing Studies (Oxford Brookes University)
- Member of the Serials Publisher Executive Publishers Association

Stichting International Publishers Rights Organisation
(IPRO) Amsterdam



Jean-Frank Cavanagh, Board Member, IPRO

Official Title: Directeur des relations extérieures/Government affairs counsel, Reed Elsevier (remunerated)

Additional functions:

- Deputy Chairman of the Groupement Francais de l' Industrie de l' Information (GFII)
- Member of the board of the Association Francaise pour la Protection Internationale du Droit d'Auteur (AFPIDA)
- Deputy Chairman of the Syndicat de la Presse Culturelle et Scientifique (SPCS)
- Member of the board of the Fédération Nationale de la Presse Spécialisée (FNPS, since 2013)
- Member of the Conseil Supérieur de la Propriété Littéraire et Artistique (CSPLA)

Sue Joshua, Board member IPRO

Official title: Legal Director Global Research, John Wiley & Sons (remunerated)

Additional functions:

- Member of the STM Copyright and Licensing Committee
- Member of the PA Lawyer's Group
- Governor, Bishop Luffa School, Chichester

Jayne Marks, Board member IPRO

Official title: Vice President, Publishing, Wolters Kluwer Health, Medical Research (remunerated)

Additional functions:

- Board Member International Association of STM Publishers (elected October 2012), Chair since October 2013
- Member Public Affairs and Library Relations Committee, International Association of STM Publishers

Eefke Smit

Official Title: Managing Director IPRO (remunerated)

Additional functions:

- Director of Standards and Technology, International Association of STM Publishers (remunerated)
- Director and Board member of the Alliance of Permanent Access APA
- Director and Board member of Dryad-US (elected June 2012)
- Director and Board member of PRO (since December 2011)
- Board member of Lucas-Ooms Fonds (Secretary)
- Board member of THIM (Theater in Muziek, Treasurer)
- Director/owner of BV In den Gulden Fonteyn

Financial statements

- Balance sheet
- Statement of income and expenditure
- Cash flow statement
- Notes

Balance sheet for the year ended 31 December 2013

(after appropriation of result)	Notes	31.12.2013	31.12.2012
		€	€
Assets			
Fixed assets			
Tangible fixed assets	1]	4,518	7,157
Current assets			
Receivables			
Stichting Publicatie- en Reproductie rechten Organisatie (PRO)	2]	1,211,091	1,850,212
Receivable from STM		40,000	50,000
Accrued interest bonds		-	4,704
Other receivables and prepaid expenses		36,339	15,770
		1,287,430	1,920,686
Securities			
Bonds	3]	-	249,205
Cash			
Banks		2,122,895	1,950,728
Total		3,414,843	4,127,776

	Notes	31.12.2013	31.12.2012
		€	€
Capital and liabilities			
Reserve funds			
	4]		
Strategic reserve		250,000	250,000
Earmarked reserves		<u>450,000</u>	<u>450,000</u>
		700,000	700,000
Short-term liabilities			
Creditors		9,743	13,905
Repartition creditors		239,549	-
Taxes and social securities		4,672	2,840
Liability STM		-	171
Other liabilities and accrued expenses	5]	15,815	231,241
Incidental settlements	6]	248,335	113,285
Subito	7]	300,332	722,688
Obligations to rightsholders up to 2010	8]	-	366,388
Obligations to rightsholders as of 2011	8]	<u>1,896,397</u>	<u>1,977,258</u>
		2,714,843	3,427,776
Total		<u><u>3,414,843</u></u>	<u><u>4,127,776</u></u>

Profit and loss account 2013

	Notes	2013	2012
		€	€
Income			
Readers income	9]	<u>1,365,000</u>	<u>1,458,796</u>
Expenses			
Salaries and social security charges	10]	103,236	159,906
Depreciation of tangible fixed assets	11]	2,639	2,186
Other operating expenses	12]	<u>314,634</u>	<u>276,247</u>
Total expenses		<u>420,509</u>	<u>438,339</u>
<i>Expenses as a percentage of reader income</i>		<u>30.8</u>	<u>30.0</u>
Operating result		944,491	1,020,457
Financial income and expenses	13]	<u>31,608</u>	<u>25,861</u>
Surplus over the year		976,099	1,046,318
Charged to obligations to rightsholders	8]	<u>(976,099)</u>	<u>(1,046,318)</u>
Net result		<u><u>-</u></u>	<u><u>-</u></u>

Cash flow statement 2013

	2013	2012
	€	€
Net result for the year	-	-
Adjustments for:		
Depreciation of tangible fixed assets	2,639	2,186
Changes in receivable PRO	639,121	(715,512)
Change in other receivables	(5,865)	59,540
Change in obligation to rightsholders	(447,245)	266,661
Change in earmarked reserves	-	(150,000)
Change in liability Incidental settlements	135,050	(514,731)
Change in other short term liabilities	21,618	(80,887)
Change in liability Subito	(422,356)	(567,509)
Cash flow from operating activities	(77,038)	(1,700,252)
Investments in tangible fixed assets	-	(5,084)
Disposals	-	6,000
Sale of bonds	254,080	425,000
Change in bonds	(4,875)	10,039
Cash flow from investment activities	249,205	435,955
Net cash flow	172,167	(1,264,297)
Cash as at 1 January	1,950,728	3,215,025
Cash as at 31 December	2,122,895	1,950,728
	172,167	(1,264,297)

Positive effects in the cash flow were amongst others an effect of:

- Net proceeds from the sale of bonds.
- Receipt in 2013 from PRO for the Dutch reader programme related to prior and current year.

Negative effects on cash flow were amongst others an effect of:

- Pay-outs to rightsholders and other creditors for the Subito settlement.
- Pay-outs to the rightsholders.

Notes

General

The ‘Stichting International Publishers Rights Organisation (IPRO)’, having its legal seat at Amsterdam, having its office at Prins Willem-Alexanderhof 5 in The Hague, collects and repartitions, on behalf of international publishers, the fees for the reproduction of coursepack materials for educational purposes (readers) in the Netherlands and other European countries. In addition, IPRO also redistributes to international publishers’ copyright compensations received for document delivery. The funds collected by the foundation are distributed to these rightsholders and their representative organizations and the foundation acts as a so-called Collective Management Organisation on behalf of these rightsholders.

General accounting principles for the preparation of the financial statements

The financial statements have been prepared in accordance with Title 9, Book 2 of the Netherlands Civil Code. Valuation of assets and liabilities and determination of the result takes place under the historical cost convention, unless presented otherwise. Income and expenses are accounted for on accrual basis. Profit is only included when realized on balance sheet date. Liabilities and any losses originating before the end of the financial year are taken into account if they have become known before preparation of the financial statements.

Change in accounting policies

As of financial year 2013 the financial statements are prepared in accordance with Title 9, Book 2 of the Netherlands Civil Code. Until 2012 the financial statements were prepared in accordance with Guideline for annual reporting C1 “Small Not-for-profit organisations” of the Dutch Accounting Standards Board. This change in accounting policies is the consequence of increased supervision by the College van Toezicht Auteursrechten (CvTA), a governmental agency. This agency requested the financial statements to be prepared in accordance with Title 9, Book 2 of the Netherlands Civil Code.

The change in accounting policies has no impact on result or the reserve funds. Presentation of the financial statements 2013 however did change compared to 2012. The most important change is the presentation of the profit and loss account, which has been revised to the compulsory model.

Financial instruments

Financial instruments include both primary financial instruments, such as receivables and liabilities, and financial derivatives. Reference is made to the recognition per balance sheet item for the principles of primary financial instruments.

Principles of valuation of assets and liabilities

Tangible fixed assets

Tangible fixed assets are presented at cost less accumulated depreciation and, if applicable, less impairments in value. Depreciation is based on the estimated useful life and calculated as a fixed percentage of cost, taking into account any residual value. Depreciation is provided from the date an asset comes into use.

Receivables

Upon initial recognition the receivables are included at fair value and then valued at amortised cost. The fair value and amortized cost equal the face value. Any provision for doubtful accounts deemed necessary is deducted. These provisions are determined by individual assessment of the receivables.

Securities

Bonds are stated at historical costs or at lower market value. The Board of IPRO has established for the management of its assets the following principles as a general policy:

- At least 50% of liquid assets on the balance sheet shall be kept in cash;
- Never more than 50% of liquid assets on the balance sheet may be invested in bonds, provided that they are of a reasonably reliable nature and with a preference for EURO bonds of countries holding an AAA-status.

Short-term liabilities

Upon initial recognition, loans and liabilities recorded are stated at fair value and then valued at amortized cost.

Principles for the determination of the result

Revenues from services are recognized in proportion to the services rendered.

Principles for preparation of the consolidated cash flow statement

The cash flow statement is prepared according to the indirect method.

The funds in the cash flow statement consist of cash and cash equivalents. Cash equivalents can be considered as highly liquid investments.

Interest received and paid is presented under the cash flow from operating activities.

Notes to specific items of the balance sheet

1) Tangible fixed assets

The movements in the tangible fixed assets are as follows:

	<u>Other tangible fixed assets</u>
	€
Book value as at 1 January 2013	7,157
Depreciation 2013	<u>(2,639)</u>
Book value as at 31 December 2013	<u>4,518</u>
Depreciation rate	<u>20%</u>
Accumulated depreciation as at 31 December 2012	<u>9,669</u>
Accumulated depreciation as at 31 December 2013	<u>12,308</u>

Receivables

2) Stichting Publicatie- en Reproductierechten Organisatie (PRO)

This is the amount invoiced by PRO, but not yet received by IPRO. The receivable can be specified as follows:

	<u>€</u>
Receivable at 1 January 2013	1,850,212
Invoiced during the year	1,365,000
Payments received from PRO	(1,973,121)
Policing costs (share of IPRO)	<u>(31,000)</u>
Receivable at 31 December 2013	<u>1,211,091</u>

3) Securities

The amount can be specified as follows:

	<u>2013</u>
	€
Balance sheet at 1 January	249,205
Repayment of bonds	<u>(249,205)</u>
Balance sheet at 31 December	<u>-</u>

4) Reserve funds

Strategic reserve

This strategic reserve is considered to be a reserve for unforeseen indemnity expenses. At the Executive Board Meeting held on 6 October 2004 in Frankfurt, the Board decided that this strategic reserve should amount to € 250,000.

The strategic reserve has not been changed during the year, but has been subject to the annual review by the IPRO Board during its annual Frankfurt meeting in 2013.

Earmarked reserves

At the Executive Board Meeting held at October 12, 2011 it was decided that an amount sufficient to cover one year of operational expenses would be earmarked as a liquidation reserve. In 2012 the budgeted operational expenses for 2013 amounted to € 450,000. In 2013 it was decided that the earmarked reserve should be split-up in a liquidation reserve of € 225,000 - this amount is equal to all outstanding financial obligations under contract, in the event of an unexpected forced liquidation – and an operational reserve, which is kept at the level of six months of operational costs; in 2013 this was budgeted at € 225,000.

As per December 31, 2013 the earmarked reserves can be specified as follows:

	€
Liquidation reserve	225,000
Operational reserve	225,000
	<u>450,000</u>

Short-term liabilities

5) Other liabilities and accrued expenses

This amount can be specified as follows:

	<u>31.12.2013</u>	<u>31.12.2012</u>
	€	€
Administration fee CEDAR	-	216,388
Auditors' and administration fee	8,599	9,000
Other liabilities	7,216	5,853
	<u>15,815</u>	<u>231,241</u>

6) Incidental settlements

The receipts from incidental settlements concerns compensation amounts for occasional document delivery and relate to settlements and agreements reached between a third party and STM on behalf of its members as international rightsholders. In these cases, STM has mandated IPRO to carry out the distribution of its share of the received sum to the international publishers concerned under supervision by the STM Settlements Oversight Committee (SSOC).

The movements can be specified as follows:

	<u>2013</u>	<u>2012</u>
	€	€
Liability at 1 January	113,285	628,016
Financial compensation received	161,307	97,786
Payments to rightsholders	(17,470)	(605,673)
Costs charged to the incidental settlement	(7,500)	(13,101)
Other movements and currency results	(1,288)	6,257
Liability at 31 December	<u>248,335</u>	<u>113,285</u>

7) Subito

The Subito project relates to a settlement reached between STM and the German Publisher Association, on the one hand, and Subito, a document delivery service of a large German library consortium. The settlement includes an arrangement regarding Subito's behavior regarding document delivery and Subito's payment of a substantial amount of financial compensation to rightsholders. STM has mandated IPRO to carry out the distribution of its share of the received sum to the non-German publishers concerned under supervision by the STM Settlements Oversight Committee (SSOC).

The movements can be specified as follows:

	<u>2013</u>	<u>2012</u>
	€	€
Liability at 1 January	722,688	1,290,197
Payments to rightsholders	(360,332)	(498,279)
Interest deposit Subito	7,976	15,420
Costs charged to Subito settlement	(70,000)	(84,650)
Liability at 31 December	<u>300,332</u>	<u>722,688</u>

8) Obligations to rightsholders

The following 3 tables show the aging of IPRO's obligations to rightsholders reflecting the monies awaiting payment to the beneficiary rightsholders. As can be seen in the first table, IPRO had at 31 December 2013 no liabilities left to its beneficiaries that are older than 3 years. During 2013 any and all of the remaining amounts stemming from before 2011 were paid out, as is shown in the second table. The third table provides an overview of the mutations that took place in the obligations stemming from 2011 and later. These repartition payments followed the scheme as explained in the Board report for monies from before and from starting 2011 and onwards.

	STM	CCC	CFC	CLA	VG-Wort	Others	Total
	€	€	€	€	€	€	€
<u>Ageing of liability</u>							
Originating from 2010	-	-	-	-	-	-	-
Originating from 2011	75,264	55,050	8,707	56,334	16,628	-	211,983
Originating from 2012	366,567	271,717	22,641	169,907	46,802	-	877,634
Originating from 2013	345,966	249,903	21,013	166,970	43,811	(20,883)	806,780
	<u>787,797</u>	<u>576,670</u>	<u>52,361</u>	<u>393,211</u>	<u>107,241</u>	<u>(20,883)</u>	<u>1,896,397</u>

Obligation to rightholders up to 2010:

The movements on the obligation per rightsholder up to 2010 during the year can be specified as follows:

	STM	CCC	CFC	CLA	VG-Wort	Total
	€	€	€	€	€	€
Obligation at 1 January 2013	163,113	117,595	2,152	72,158	11,370	366,388
Repartitions	(388,113)	(248,320)	(5,752)	(150,683)	(23,520)	(816,388)
Release reserves	225,000	130,725	3,600	78,525	12,150	450,000
Obligation at 31 December 2013	-	-	-	-	-	-

Obligation to rightholders as of 2011:

The movements on the obligation per rightholder as of 2011 during the year 2013 can be specified as follows:

	STM	CCC	CFC	CLA	VG-Wort	Others	Total
	€	€	€	€	€	€	€
Obligation at 1 January	854,966	616,114	43,104	369,945	93,129	-	1,977,258
Addition to reserves	(194,580)	(140,220)	(9,810)	(84,195)	(21,195)	-	(450,000)
Repartitions	(294,655)	(203,376)	(2,212)	(75,167)	(10,667)	(20,883)	(606,960)
Surplus 2013	422,066	304,152	21,279	182,628	45,974	-	976,099
Obligation at 31 December	<u>787,797</u>	<u>576,670</u>	<u>52,361</u>	<u>393,211</u>	<u>107,241</u>	<u>(20,883)</u>	<u>1,896,397</u>

Notes to specific items of statement of income and expenditure

9) Readers income

Income can be specified as follows:

	2013	2012
	€	€
Polytechnics	215,000	288,315
Universities	616,000	509,268
Longer parts	534,000	661,213
	<u>1,365,000</u>	<u>1,458,796</u>

10) Salaries and social security charges

This amount can be specified as follows:

	2013	2012
	€	€
Salaries	65,250	46,524
Social security costs	7,949	7,182
Pension costs	-	5,462
Temporary employee	19,275	-
(Interim) consultancy costs	74,495	167,489
General costs	534	-
Allocation of staff costs to projects	(64,267)	(66,751)
	<u>103,236</u>	<u>159,906</u>

During the first half of 2013 Stichting International Publishers Rights Organisation (IPRO) had no employees, after 1 June one person (0.5 fte) was employed. On an annual basis the average number of employees amounted to 0.25 fte compared to 2012: 0.9 fte.

Pension costs

As at year-end 2013 (and 2012) no pension receivables and no obligations exist in addition to the payment of the annual contribution due to the pension provider. At year-end, no more pension obligations exist.

11) Depreciation of tangible fixed assets

This amount can be specified as follows:

	2013	2012
	€	€
Car	-	1,500
Other tangible fixed assets	2,639	2,248
Gain on disposal of assets	-	(1,562)
	<u>2,639</u>	<u>2,186</u>

12) Other operating expenses

This amount can be specified as follows:

		2013	2012
		€	€
Administration fee CEDAR	A]	274,646	216,388
General operating expenses	B]	117,896	117,068
Recharging extra costs to STM		(40,000)	(50,000)
Operating expenses Subito		39,132	74,797
Recharging Subito settlement		(70,000)	(84,650)
Operating expenses incidental settlements		11,692	15,745
Recharging incidental settlements		(18,732)	(13,101)
		<u>314,634</u>	<u>276,247</u>

A) Administration fee CEDAR

The expenses incurred by CEDAR increased and this resulted in a higher administration fee invoice from CEDAR. The increase in expenses is also due to an incidental reduction (€ 30,000) in 2012. Without this incidental cost effect of 2012, CEDAR costs were raised by 12%.

B) General operating expenses

This amount can be specified as follows:

	<u>2013</u>	<u>2012</u>
	€	€
Travel costs	4,761	16,044
CFC	8,939	4,400
Certification expenses	1,451	40,041
Administration and advisory costs	23,830	30,294
Car costs	-	8,449
Office costs	6,676	7,221
IFRRO	2,260	2,165
Telecommunication	1,080	3,334
Future scenarios	63,614	-
Housing	5,285	5,120
	<u>117,896</u>	<u>117,068</u>

13) Financial income and expenses

	<u>2013</u>	<u>2012</u>
	€	€
Interest bonds	5,743	24,166
Other financial income	25,395	24,443
Gain on disposal of securities	4,875	-
Financial income	<u>36,013</u>	<u>48,609</u>
Bank costs	1,645	2,058
Loss on disposal of securities	-	10,039
Interest Subito	2,760	10,651
Financial expense	<u>(4,405)</u>	<u>(22,748)</u>
Total financial income and expenses	<u>31,608</u>	<u>25,861</u>

Other notes

Remuneration of the board of directors

In accordance with article 383 sub 1 Title 9 of Book 2 of the Netherlands Civil Code the remuneration of the board of directors is not disclosed since it can be reduced to one person.

Stichting International Publishers Rights Organisation
(IPRO) Amsterdam



Signing of the financial statements

Amsterdam, May 28, 2014

The board of
Stichting International Publishers Rights Organisation (IPRO)

Geert Noorman
Chairman & Treasurer

Jan Bijdeweg
Secretary/ Legal Counsel

Eric Merkel-Sobotta
Finance Committee

Ian Bannerman
Member

Jean-Frank Cavanagh
Member

Jayne Marks
Member

Sue Joshua
Member

Eefke Smit
Managing director

Other information

Audit

The foundation has utilized the exemption from an audit by virtue of art. 2:396, paragraph 7 of the Netherlands Civil Code.

Appropriation of result according to articles of association

In the articles of association no article has been included concerning the appropriation of result.

Proposed appropriation of the surplus over the financial year 2013

The board proposes, that the surplus over the year 2013 amounting to € 976,099 should be distributed to the rightsholders.

The financial statements do reflect this proposal.