Registered No: 199120

MECHANICAL-COPYRIGHT PROTECTION SOCIETY LIMITED

DIRECTORS' REPORT & ACCOUNTS
For the year ended 31 December 2006

The directors submit the eighty second report and statement of accounts for the year ended 31 December 2006.

Results and Dividends
The profit for the year, after taxation, is £248,000 (2005: £618,000). The directors do not recommend payment of a dividend in respect of the year ended 31 December 2006.

Principal activities and review of the business
The principal activity of the Company is the licensing, collection and distribution of royalties and licence fees from mechanical copyrights. There has been no significant change in the principal activity of the Company during the year. The Company has one branch in Ireland.

In accordance with sections 229(2) and 229(5) of the Companies Act 1985, consolidated accounts have not been prepared as none of the Company's subsidiaries is material. All of the subsidiary undertakings were dormant throughout the year.

The Company's key financial and other performance indicators during the year were as follows:

	2006 £'000	2005 £'000	Change %
Profit before tax	248	618	-60%
Tax	nil	nil	nil
Profit after tax	248	618	-60%
Royalties distributed during the year	209,590	212,441	-1%
Administrative expenses	19,184	19,020	+1%

Profit after tax has fallen by 60% during the year. This is primarily due to a decrease in total commissions levied on distributions.

There was a slight decrease in royalties distributed during the year owing to the contingency deduction.

Principal risks and uncertainties
There is an ongoing appraisal of the risks and uncertainties that affect the company. The principal areas of issue are summarised below.

- Competitive Risks

Historically the monopolistic nature of the Company in the UK and of other societies in Europe has meant that there has been a sustained focus on ensuring EC and UK Monopolies & Merger Commission guidelines are met so as to avert any anti-competitive rulings. The changing nature of the music industry with the growth of online distribution is currently opening up the market to more competition from societies abroad and hence changing the working practices of the Company.

- Future developments

The directors feel the changing nature of the industry will give rise to new opportunities in the future, and the management policies in place will actively seek to exploit these as and when they occur. They consider that 2007 will not see much if any growth in the domestic market, the area of expansion will be within Europe as the competition barriers come down and new markets become available.

- Legislative Risks

The monopolistic nature of the Company also leads it into a number of areas of risk concerned with the legislative process. The Company is also subject to copyright law changes and given the changing nature of the industry this could have a significant impact on the Company's operating procedures in the future.

- Financial Instrument Risks

The Company has in place a financial management framework which ensures that the Company has sufficient financial resources to meet its objectives and to manage financial risk.

- Changing Technology

With the increasing move towards digital product there is uncertainty over the future market for music and how it will evolve. With this change in technology some revenue streams will inevitably fall in future years. Active review of existing and potential new streams is therefore a key area of focus for the Company in future years.

- Exposure to price, credit and liquidity risk

Price risk for the company arises where new licence schemes are challenged as in the case of the ongoing tribunal for Online product.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for that other party by failing to discharge an obligation. Company policies are aimed at minimising such losses, and require that deferred terms are only granted to customers who demonstrate an appropriate payment history and satisfy credit worthiness procedures. Details of the Company's debtors are shown in Note 7 to the accounts.

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The company aims to mitigate liquidity risk by managing cash generation. In addition royalties are only distributed once collected and the company holds substantial cash balances.

Directors' qualifying third party indemnity provisions

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985. Such qualifying third party indemnity provision remains in force as at the date of approving the Directors' Report.

Directors

The directors who served since 1 January 2006 were as follows:

Writers

P R Callander	B S Guard (until 21.6.06)	S L Rodgers
D Ferguson	S A Levine (from 21.6.06)	

Publishers

C W Booth	A Heath	R Sanghvi
T F Bradley (Chairman)	S A Hornall	J R Simon (until 21.6.06)
P T Cornish	S E Levin	I Wright (from 21.6.06)
P G Curran (Deputy Chairman)	B R Newing	
J M Dyball	E S Rich	

Executive Directors

J R Fabinyi	A N Singer (until 15.11.06)

All directors appointed before 24 October 1989 are holders of a director's qualification share in the Company. Qualification shares do not entitle the holder to any beneficial interest in the Company.

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

None of the directors has any interest in the shares of the Company.

Chairman and Deputy Chairman

Tom Bradley was re-appointed as Chairman for one year, (according to the Articles) with effect from 1 July 2006. Paul Curran continued as Deputy Chairman.

Corporate governance

The Company's Board has eleven main meetings each year and is responsible for the direction of the Company. It monitors the financial progress, formulates policy and horizon plans, appoints the Chairman, Deputy Chairman, Chief Executive and Secretary, and receives regular reports on individual business units within the Company.

The MCPS-PRS Alliance Audit Committee met five times during the year to review management's policies, processes and procedures for identifying, controlling and managing key risks, and to advise the Board on significant matters arising.

Charitable donations

Donations of £9,270 (2005: £9,534) were paid on the Company's behalf by The MCPS-PRS Alliance Limited and are included in costs recharged.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Re-appointment of auditors

A resolution to re-appoint Ernst & Young LLP as the Company's auditor will be put to the forthcoming Annual General Meeting.

By Order of the Board

Deborah Stones
Secretary
25 April 2007

The directors are responsible for preparing the Annual Report and the accounts in accordance with applicable law and regulations.

Company law requires the directors to prepare accounts for each financial year. Under that law the directors have elected to prepare the accounts in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The accounts are required by law to 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 those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MECHANICAL-COPYRIGHT PROTECTION SOCIETY LIMITED

We have audited the Company's accounts for the year ended 31 December 2006, which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the statement of cash flows and the related notes 1 to 15. These accounts have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the accounts in accordance with applicable law and United Kingdom Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the accounts.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion:

- the accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006 and of its profit for the year then ended;
- the accounts have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the accounts.

Ernst & Young LLP
Registered Auditor
London
25 April 2007

PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2006

	Notes	2006 £'000	2005 £'000
Royalties distributed in the year			
Gross royalties distributed		**212,514**	212,962
Contingency deduction		**(2,924)**	(521)
Net royalties distributed	9	**209,590**	212,441
Royalties distributed in the year to			
MCPS members		**206,351**	209,398
Societies under European Central Licensing Agreements		**3,239**	3,043
		209,590	212,441
Income			
Commission levied on distributions	2	**16,034**	16,251
Interest receivable on short-term deposits		**2,741**	2,731
Fees receivable		**116**	97
Minor sums		**541**	559
		19,432	19,638
Administrative expenses	3	**(19,184)**	(19,020)
Profit on ordinary activities before tax		**248**	618
Tax on profit on ordinary activities	5	**-**	-
Retained profit for the year	11	**248**	618

There is no difference between the result on ordinary activities before tax and the result for the year stated above and their historical cost equivalents.

All of the Company's operations are classed as continuing.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There are no recognised gains or losses other than those shown in the Profit and Loss Account above.

BALANCE SHEET
At 31 December 2006

	Notes	2006 £'000	2005 £'000
Fixed assets			
Investments - subsidiary undertaking	6	**1**	1
Investments - associated undertakings	6	**9,651**	9,651
		9,652	9,652
Current assets			
Debtors:			
amounts falling due after one year		**8,199**	8,750
amounts falling due within in one year		**10,314**	13,292
	7	**18,513**	22,042
Investments - short-term deposits		**37,000**	37,000
Cash at bank and in hand		**12,771**	10,303
		68,284	69,345
Creditors: amounts falling due within one year			
Creditors	8	**(3,479)**	(3,265)
Royalties payable	9	**(66,433)**	(67,956)
		(69,912)	(71,221)
Net current liabilities		**(1,628)**	(1,876)
Total assets less current liabilities		**8,024**	7,776
Capital and reserves			
Called up share capital	10	**19**	19
Revaluation reserve	11	**6,918**	6,918
Profit and loss account	11	**1,087**	839
Shareholders' funds	11	**8,024**	7,776

The accounts were approved by the Board on 25 April 2007 and were signed on its behalf by:

T Bradley
Chairman

STATEMENT OF CASH FLOWS
For the year ended 31 December 2006

	2006	2005
	£'000	£'000
Cash outflow from operating activities	**(273)**	(3,821)
Returns on investments and servicing of finance – interest received	**2,741**	2,731
Taxation	**-**	-
Management of liquid resources	**-**	(7,000)
Increase/(decrease) in cash	**2,468**	(8,090)

NOTES TO STATEMENT OF CASH FLOWS
For the year ended 31 December 2006

Reconciliation of profit on ordinary activities before taxation to net cash outflow from operating activities

	2006	2005
	£'000	£'000
Profit on ordinary activities before taxation	**248**	618
Interest received	**(2,741)**	(2,731)
Decrease/(increase) in amounts due from associated undertakings	**2,952**	(12,350)
Decrease in debtors	**577**	212
(Decrease)/increase in creditors - royalty	**(1,523)**	10,372
Increase in creditors - non-royalty	**214**	58
Net cash outflow from operating activities	**(273)**	(3,821)

Management of liquid resources

	2006	2005
Short-term deposits made	**(21,000)**	(55,000)
Short-term deposits repaid	**21,000**	48,000
	-	(7,000)

Reconciliation of net cash flow to movements in net funds

	2006	2005
Increase/(decrease) in cash in the year	**2,468**	(8,090)
Cash outflow from movement in liquid resources	**-**	7,000
Movement in net funds in the year	**2,468**	(1,090)
Net funds at 1 January	**47,303**	48,393
Net funds at 31 December	**49,771**	47,303

Analysis of changes in net funds

	At 1 January 2006 £'000	Cash flow £'000	At 31 December 2006 £'000
Cash at bank and in hand	10,303	2,468	12,771
Liquid resources - short term deposits	37,000	-	37,000
	47,303	**2,468**	**49,771**

1. Accounting convention

The accounts have been prepared in accordance with applicable accounting standards and under the historical cost convention, modified to include the revaluation of investments in associated undertakings.

Companies Act 1985

The accounts have been drawn up under the provisions of the Companies Act 1985. Owing to the special circumstances of the business, the directors have departed from certain requirements of Schedule 4 to the Act in order to provide sufficient information to comply with Section 226 of that Act. This departure from the Schedule 4 requirements relates solely to the disclosure of the Company's income where the directors have provided additional information in a manner better suited to give a true and fair view of the business.

Consolidated accounts

In accordance with sections 229(2) and 229(5) of the Companies Act, consolidated accounts have not been prepared for the Company and its wholly owned subsidiaries as the directors do not consider the subsidiaries to be material. Consequently these accounts present information about the Company as an individual undertaking and not about its group.

Entities, other than subsidiary undertakings, in which the Company has a participating interest and over whose operating and financial policies the Company exercises significant influence are treated as associates.

Definitions

'MCPS' means Mechanical-Copyright Protection Society Limited.
'PRS' means Performing Right Society Limited.
'MCPS-PRS Alliance' means The MCPS-PRS Alliance Limited.

Commission

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

Foreign currencies

All transactions during the year are translated at the rate ruling at the date of the transactions, other than those of the Irish branch, which have been translated at the average rate for the year.

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

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

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, or gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;

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

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

Pensions
MCPS-PRS Alliance makes pension contributions to one defined contribution pension scheme and two defined benefit pension schemes in accordance with the advice of actuaries and the rules of the scheme in respect of its employees and an appropriate proportion is recharged to MCPS. The costs are charged to the profit and loss account.

Fixed asset investments
The directors have adopted the alternative accounting policy of carrying investments in associate undertakings at a valuation reflecting their value on the basis of ongoing use by the Company. The directors feel this treatment provides a fairer indication of the value of the assets used by the business. The revaluation surplus was taken to the revaluation reserve.

2. Turnover – commission income
Commission income is deducted from royalties sourced from the following territories:

	2006	2005
	£'000	£'000
United Kingdom	**14,345**	15,033
Ireland	**582**	473
Rest of the world	**1,107**	745
	16,034	16,251

3. Administrative expenses

	2006	2005
	£'000	£'000
Recharge from MCPS-PRS Alliance:		
Staff costs	**12,601**	11,912
Office and accommodation costs	**990**	1,086
Information technology	**1,206**	1,218
Legal and professional costs	**744**	699
Other costs	**1,536**	1,548
Depreciation	**2,107**	2,557
	19,184	19,020

3. Administrative expenses (continued)

The recharge from MCPS-PRS Alliance includes the following items:

Auditors' Remuneration – audit services	**5**	5

Included in the MCPS-PRS Alliance financial statements are the costs of the Joint Online tribunal. These will be borne by MCPS and PRS on an equal basis. The MCPS share of these costs is being recovered via a 1.5% contingency deduction from royalties. For the year ended 31 December 2006 £2.9m (2005: £0.5m) had been deducted. However, there are additional costs of £1.0m relating to MCPS which have been incurred by the MCPS-PRS Alliance and are due to be re-charged in 2007. Further contingency deductions will be made to meet those costs in 2007. See note 14.

4. Directors' emoluments

The emoluments of the non-executive directors, excluding pension contributions, were £242,854 (2005: £190,595). No pensions or other benefits are paid to non-executive directors.

In addition the Company has two executive directors. The directors in office during 2006 were A Singer until 15 November 2006 and J Fabinyi. The directors are employed by MCPS-PRS Alliance and paid by that company. A Singer's remuneration until 15 November 2006, excluding pension contributions, was £223,524 (2005: £322,424), 50% of which was recharged to MCPS - 2006: £111,762 (2005: £161,212). The highest paid director was J Fabinyi and his remuneration during the year, excluding pension contributions was £180,413 (2005: £114,442), 100% of which was recharged to MCPS.

The pension contributions of A Singer to a defined contribution scheme were £27,020 (2005: £27,258). The contributions of J Fabinyi to a defined contribution scheme during the year were £9,647 (2005: £5,513). These were recharged to MCPS on the same basis as the remuneration above.

5. Taxation

(a) Current tax

	2006	2005
	£'000	£'000
Current tax :		
Tax on profit on ordinary activities	**-**	-
	-	-

(b) Factors affecting tax for year

The tax assessed for the period differs from the standard rate of corporation tax in the UK.
The differences are explained below :

Total recognised profit for the year	**248**	618
Corporation tax at 30% (2005: 30%)	**74**	185
Effects of :		
Adjustments for transfer pricing	**(32)**	(15)
Prior year losses used to relieve current tax	**(42)**	(170)
Current tax for the year	-	-

A deferred tax asset of £148,000 (2005: £190,000) in respect of losses has not been recognised due to insufficient certainty of future trading profits.

c) Factors which may affect future tax charges

The directors are not aware of any factors that may affect future tax charges, other than as follows:

Should MCPS dispose of its investment in the MCPS-PRS Alliance at net asset value, a gain on disposal of £867,500 (2005: loss of £9,783,000) with an associated tax liability of £260,250 (2005: asset of £2,934,900) would arise, based on the full tax rate of 30%.

6. Fixed asset investments

(a) Subsidiary undertakings

	Cost and valuation of shares in subsidiary undertaking £'000
Cost at 1 January and 31 December 2006	**1**

The Company owns 1,000 ordinary £1 shares, being 100% of the share capital, of Ampleform Limited. Ampleform Limited did not trade during the year nor is it expected to trade in the foreseeable future.

(b) Associates

	Number and type of shares held	Historical cost of shares in associated undertakings £'000	Valuation of shares in associated undertakings £'000	% Shares held
The MCPS-PRS Alliance Limited	500 ordinary £1 shares	**2,728**	**9,646**	**50**
National Discography Limited	5,000 ordinary £1 shares	**5**	**5**	**50**
At 1 January and 31 December 2006		**2,733**	**9,651**	

The investment in MCPS-PRS Alliance was previously held at historic cost. As at 31 December 2003, the directors changed the basis of the valuation of this investment and it is now held at a value determined by the directors reflecting its value on the basis of the ongoing use of its assets by the company. Cost is deemed to equate to value in use for National Discography Limited and Ampleform Limited investments.

MCPS owns 25% of British Music Rights Limited (BMR), a company limited by guarantee. Its activities are funded equally by MCPS and PRS.

MCPS-PRS Alliance is equally owned by MCPS and PRS and its principal activity is to provide operational services to the two societies. The costs incurred by the company are recharged to each society according to the services provided. MCPS's accounts do not include any share of the MCPS-PRS Alliance's profit or loss because of the nature of the services and relationship between MCPS and the MCPS-PRS-Alliance.

Summary profit and loss account and balance sheet information for MCPS-PRS Alliance in respect of the Company's 50% share thereof, is set out below:

	2006	2005
	£'000	£'000
As at 31 December:		
Tangible fixed assets	**29,462**	25,217
Investments	**116**	116
Current assets	**4,131**	2,311
Share of gross assets	**33,709**	27,644
Creditors falling due within one year	**(12,681)**	(10,352)
Creditors falling due after more than one year	**(11,690)**	(15,171)
Share of gross liabilities	**(24,371)**	(25,523)
Share of net assets before Pension Scheme Liabilities	**9,338**	2,121
Share of pension scheme liabilities	**(5,742)**	(9,176)
Share of net assets/(liabilities) after Pension Scheme Liabilities	**3,596**	(7,055)
For the year ended 31 December		
Turnover	**33,852**	33,549
Profit/(loss) before tax	**781**	(30)
Tax	**(141)**	346
Profit after tax	**640**	316

MCPS also has a 50% share in National Discography Limited, which has not traded during the year and is not expected to trade in the foreseeable future. The aggregate value of its capital and reserves was £10,000.

7. Debtors

	2006 £'000	2005 £'000
Trade debtors	**912**	1,323
Due from associated undertakings	**16,824**	19,776
Other debtors	**350**	545
Prepayments and accrued income	**5**	398
Other taxes	**422**	-
	18,513	22,042

Amounts falling due after more than one year included above are:

	2006 £'000	2005 £'000
Due from associated undertakings	**8,199**	8,750

This balance is the MCPS share of exceptional prepaid pension contributions into the Alliance Pension Schemes which was funded by MCPS and PRS and is being repaid over twenty years from 1 January 2006.

8. Creditors: amounts falling due within one year

	2006 £'000	2005 £'000
Other creditors, accruals and deferred income	**2,073**	1,478
Other taxes and social security costs	**1,406**	1,787
	3,479	3,265

9. Royalties payable

	2006 £'000	2005 £'000
At 1 January	**67,956**	57,584
Add: royalties received	**210,648**	219,023
	278,604	276,607
Less: taken to profit as minor sums	**(541)**	(558)
contingency deduction	**(2,924)**	(521)
	275,139	275,528
Distributed during year:		
sourced within UK and Ireland	**(200,119)**	(203,422)
sourced elsewhere	**(9,471)**	(9,019)
	(209,590)	(212,441)
	65,549	63,087
Movement in returned royalties, deposits, etc	**884**	4,869
At 31 December	**66,433**	67,956

9. Royalties payable (continued)

The Company's liability to account for royalties payable accrues when amounts due from the corresponding users of the copyright works are received. As at 31 December 2006, potential amounts both receivable and payable of £9.5m (2005: £12.8m), in respect of transactions where amounts due from users had not been received, were recorded within royalties payable.

A contingency deduction of 1.5%, £2,924,000 (2005: £521,000), has been made to amounts distributed as a contribution towards the Online tribunal costs.

10. Share capital

	2006	2005
	£'000	£'000
Ordinary shares of £1 each:		
Authorised	**50**	50
Allotted, called up and fully paid	**19**	19

11. Reconciliation of shareholders' funds and movement on reserves

	Share capital	Revaluation reserve	Profit and loss account	Total shareholders' funds
	£'000	£'000	£'000	£'000
At 1 January 2005	19	6,918	221	7,158
Retained profit for the year	-	-	618	618
At 31 December 2005	19	6,918	839	7,776
Retained profit for the year	-	-	248	248
At 31 December 2006	**19**	**6,918**	**1,087**	**8,024**

12. Related party transactions

Like all members of the Society, the directors and parties related to them are entitled to royalties from the Society. Parties related to directors include family members and companies controlled by these directors including, where appropriate, publishing companies and their subsidiaries. During 2006, total royalties paid by the Company to the directors and to parties related to the directors amounted to £110.2m (2005: £113.5m). These royalties were calculated on the same basis as royalties paid to all members and are paid in accordance with the Society's normal procedures. There were no transactions with the Executive Directors during the year.

During 2006, £19.2m (2005: £19.0m) of administrative expenses were recharged by MCPS-PRS Alliance. MCPS funds an appropriate proportion of MCPS-PRS Alliance's costs and, at 31 December 2006, had a balance due from MCPS-PRS Alliance of £16.8m (2005: £19.8m), this included a long term loan of £8.2m to fund the Company's share of an exceptional contribution to the defined contribution pension schemes (2005: £8.8m).

During 2006, MCPS paid a management fee of £0.1m (2005: £0.1m) and incurred costs of £nil (2005:£0.1m) on behalf of the Music Publishers Association Ltd, its ultimate parent undertaking.

MCPS owns 25% of British Music Rights Ltd (BMR). The activities of BMR are funded equally by MCPS and PRS and during 2006 MCPS paid BMR £0.4m (2005:£0.4m).

13. Capital commitments

Capital expenditure authorised and contracted by the Company at 31 December 2006 was £nil (2005: £nil). However, MCPS is required to fund a percentage of the capital expenditure commitments of MCPS-PRS Alliance dependent on the Society's use thereof. MCPS-PRS Alliance's capital expenditure commitment at 31 December 2006 was £0.6m (2005: £0.3m).

14. Contingent liability

The MCPS-PRS Alliance Joint Online Licence (JOL) is the subject of legal proceedings. The JOL has been referred to the UK Copyright Tribunal by the BPI and a consortium of Digital Service Providers (DSPs) and Mobile Network Operators (MNOs). The objection is to the rate at which the Alliance licenses its members' works for use or sale online.

The BPI, DSPs and MNOs claim that both 12% of gross revenues and the current discounted rate of 8% are an unreasonable portion for the creator from online music sales and would like to see the amount reduced.

The Copyright Tribunal hearing was held in the Autumn of 2006 and should be finalised by Spring 2007. In the meantime, the Alliance continues to license the use of music online under the terms of the 2005 JOL. If the Tribunal advocates a lower rate than 8%, then this will reduce the value of royalties available for distribution to MCPS members.

The total cost of the Tribunal cannot be quantified with any certainty at present, although joint costs to date total £8.9m, of which 50% is payable by MCPS and 50% by PRS. The total value of MCPS online royalties in 2006 was £4.0m (2005: £2.3m).

15. Ultimate parent undertaking

The Company is a wholly owned subsidiary of the Music Publishers' Association Ltd, a company limited by guarantee, which does not prepare consolidated accounts.