Registered No: 134396

PERFORMING RIGHT SOCIETY LIMITED

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

The directors present the annual report and accounts for the year ended 31 December 2006.

Principal activity and review of the business

The principal activity of the Society is the licensing, collection and distribution of royalties and fees from the performing rights vested in it by its members and affiliated societies.

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

	2006 £'000	2005 £'000	Change %
Result before and after tax	292.6	272.8	+7%
Donations	1.3	1.5	-13%
Net Distributable Income	291.3	271.3	+7%
Administrative expenses	45.1	47 .1	-4%
JOL Tribunal costs	3.4	1.0	+240%

Principal risks and uncertainties

There is a continuous appraisal of the risks and uncertainties that affect the company. The principal areas of issue are summarised below:

- **Competitive Risks**

Owing to the monopolistic nature of the company in the UK and of other societies in Europe there is a sustained focus on ensuring EC guidelines are met so as to avert any anti – competitive rulings.
Changing working practices are currently opening up the market to more competition from societies abroad and the company is at the forefront of these changes.

- **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.

- **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 resource to meet its objectives and to manage financial risk at a business unit level.

- **Changing Technology**

With the increasing move towards digital product there is uncertainty over the future market for music and how it will evolve. These changing technologies will offer new market opportunities in the future and active review of existing and potential new streams is therefore a key area of focus for the Company.

- **Use of Forward Foreign Currency Contracts**

The company uses forward foreign currency contracts for receipts in US Dollars and Euros, so as to reduce exposure to fluctuating foreign exchange rates. This hedging occurred on 50% of US dollar receipts and 50% of Euro receipts in 2006. All forward currency contracts had been settled before year end.

- **Exposure to price, credit and liquidity risk**

Price risk for the company arises where new licence schemes are challenged as in the case on 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 8 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.

Transfer to reserves
No appropriations have been made from the income and expenditure account and transferred to distributable reserves.

Directors
The directors during the year were:

Writers

Nigel Beaham-Powell	Guy Fletcher	Mitch Murray
David Bedford	Nicholas Graham	Andrew Neve
Peter Callander	Edward Gregson	Lynsey de Paul (from 30.06.06)
David Ferguson	Michael Leeson (until 30.06.06)	Francis Shaw

Publishers

Catherine Bell	Jane Dyball	Andrew King
William Booth	Nigel Elderton	Richard King
Christopher Butler	Andrew Heath	Ellis Rich
Paul Curran	Stuart Hornall	

Executive Directors	**External Directors**
Adam Singer (until 15.11.06)	Wanda Goldwag
	Estelle Morris

Pursuant to article 38, Malcom Coster was re-appointed by the Board to act in an advisory capacity as a Consultant Director for a further year with effect from 1 July 2006, but does not have voting powers.

Pursuant to article 57 of the articles of association, the following directors will retire this year and are eligible for nomination for re-appointment pursuant to article 59:

Writers

Peter Callander	Edward Gregson
David Ferguson	Mitch Murray
Guy Fletcher	Andrew Neve
Nicholas Graham	Francis Shaw

Publishers

William Booth	Richard King
Nigel Elderton	

Chairman and Deputy Chairmen
Ellis Rich continued as Chairman for the year. Nigel Elderton continued as Deputy Chairman (Publisher) and Nigel Beaham-Powell continued as Deputy Chairman (Writer). Andrew King took over as Deputy Chairman (Publisher) with effect from 1 January 2007.

Donations
Donations and other payments made pursuant to article 48(a) of the articles of association totalled £1.27 million (2005: £1.52 million) of which £1.25 million (2005: £1.5 million) was to The Performing Right Society Foundation. The principal activity of The Foundation is to provide funds, to support, to sustain and to further the creation and performance of new music in the UK and increase the public's appreciation of, and education in new music.
The memorandum and articles of association do not authorise the making of political donations or contributions of any kind and none was made.

Corporate governance
The Society's Board had eleven main meetings this year, and is responsible for the direction of the Society. It monitors the financial progress, formulates policy and horizon plans, appoints the Chairman, Deputy Chairmen, Chief Executive, Secretary, External and Executive Directors, and receives regular reports on individual business units within the Society.

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 advise the Board on significant matters arising.

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.

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

Ellis Rich
On behalf of the Board
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.

We have audited the Company's accounts for the year ended 31 December 2006, which comprise the income and expenditure account, the statement of total recognised gains and losses, the balance sheet, the statement of cash flows and the related notes 1 to 14. 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' reports 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 result 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

INCOME AND EXPENDITURE ACCOUNT

For the year ended 31 December 2006

	Notes	2006 £'000	2005 £'000
Licence revenue	1b, 2	**336,004**	315,090
Interest receivable		**5,123**	5,815
Total income for the year		**341,127**	320,905
Licensing and administration expenses	3	**(45,100)**	(47,053)
Joint Online Tribunal Costs	3	**(3,421)**	(1,025)
Result on ordinary activities before tax		**292,606**	272,827
Tax on result on ordinary activities	6	**-**	-
Result before appropriations		**292,606**	272,827
Less amounts appropriated:			
Donations and awards		**(1,270)**	(1,520)
Net distributable income		**291,336**	271,307

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 figures are in relation to continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2006

	2006 £'000	2005 £'000
Net distributable income	**291,336**	271,307
Distributions allocable to members & affiliated societies	**(291,336)**	(271,307)
Total recognised gains for the year	**-**	-

BALANCE SHEET
At 31 December 2006

	Notes	**2006** £'000	**2006** £'000	2005 £'000	2005 £'000
Fixed assets					
Investments	7	**18,724**		18,724	
			18,724		18,724
Current assets					
Debtors:					
amounts falling due after one year	8	**15,181**		16,250	
amounts falling due within one year	8	**37,598**		33,423	
Investments – short term deposits		**63,000**		49,000	
Cash at bank and in hand		**10,375**		23,512	
			126,154		122,185
Creditors: amounts falling due within one year	9		**(136,650)**		(132,681)
Net current liabilities			**(10,496)**		(10,496)
Total assets less current liabilities			**8,228**		8,228
Non Distributable revaluation reserve	12		**4,449**		4,449
Distributable reserves	12		**3,779**		3,779
Balance at 31 December	12		**8,228**		8,228

Distributable reserves represent the amount provided for under article 48(b) of the articles of association of the Society which enables the Board to retain such funds as it may consider necessary.

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

Nigel Beaham-Powell
Andrew King
Directors

STATEMENT OF CASH FLOWS
For the year ended 31 December 2006

	2006 £'000	2005 £'000
Cash inflow from operating activities	**289,068**	256,672
Amounts paid to members and affiliated societies	**(293,435)**	(272,109)
Net cash outflow from operating activities	**(4,367)**	(15,437)
Returns on investments and servicing of finance - interest received	**5,230**	5,665
Management of liquid resources	**(14,000)**	16,000
(Decrease) / Increase in cash	**(13,137)**	6,228

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

	2006 £'000	2005 £'000
Reconciliation of result on ordinary activities before tax to net cash inflow from operating activities		
Result on ordinary activities before tax	**292,606**	272,827
Donations and awards	**(1,270)**	(1,520)
Interest	**(5,123)**	(5,815)
Increase in amounts due from associated undertakings	**(1,235)**	(11,785)
(Increase)/ decrease in debtors	**(1,977)**	639
Increase in creditors	**6,067**	2,326
Net cash inflow from operating activities	**289,068**	256,672
Management of liquid resources		
Short-term deposits made	**(289,000)**	(241,000)
Short-term deposits repaid	**275,000**	257,000
	(14,000)	16,000
Reconciliation of net cash flow to movement in net funds		
(Decrease) / increase in cash in the year	**(13,137)**	6,228
Cash outflow/ (inflow) from movement in liquid resources	**14,000**	(16,000)
Movement in net funds in the year	**863**	(9,772)
Net funds at 1 January	**72,512**	82,284
Net funds at 31 December	**73,375**	72,512

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	**23,512**	**(13,137)**	**10,375**
Liquid resources - short term deposits	**49,000**	**14,000**	**63,000**
	72,512	**863**	**73,375**

1. Basis of preparation

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

The accounts have been prepared in the format required by the Companies Act 1985, except that the directors have amended certain headings in the Income and Expenditure statement and the order in which items are included so as to better reflect the special circumstances of the Company as permitted under Schedule 4 of that Act.

The following is a summary of the more important accounting policies used by the Company and is given to assist in the interpretation of the accounts.

a. Definitions

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

b. Licence revenue

i. Public Performance revenue is accounted for on an accruals basis.
ii. Broadcasting licence revenue is accounted for on an accruals basis. Where income is received directly as a result of audit activities it is recognised net of the associated costs.
iii. Income from affiliated societies is accounted for on an accruals basis.

c. Pension costs

MCPS-PRS Alliance makes pension contributions to a number of its 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 PRS. Pension costs are charged to the income and expenditure account as they are invoiced by MCPS-PRS Alliance.

d. Fixed asset investments

The Directors have adopted the alternative accounting policy of carrying the investment in the associate undertaking at a valuation reflecting its value on the basis of its ongoing use by the Company. The Directors feel this treatment provides a fairer indication of the value of the assets used by the business.

e. Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign currency contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange ruling at the balance sheet date. All differences are taken to the income and expenditure account.

f. Forward Contracts

The company uses forward foreign currency contracts to reduce exposure to foreign exchange rates. All forward foreign currency contracts had been settled before year end.

g. 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.

2. Licence revenue

Licence revenue, which is stated net of value added tax, is made up as follows:

		2006	2005
		£'000	£'000
a.	**United Kingdom, Channel Islands and Isle of Man**		
	Public Performance	**121,810**	114,298
	Broadcasting	**104,313**	99,113
		226,123	213,411
b.	**Overseas**		
	Europe	**68,921**	62,399
	North America	**26,272**	25,799
	Asia	**7,541**	6,992
	Australasia	**3,865**	3,793
	Central and South America	**2,314**	1,661
	Africa and Middle East	**968**	1,035
		109,881	101,679
		336,004	315,090

3. Licensing and administration expenses

	2006	2005
	£'000	£'000
Recharge from MCPS-PRS Alliance:		
Staff costs	**22,855**	23,761
Office and accommodation costs	**3,952**	3,513
Information Technology costs	**2,071**	3,193
Legal and professional costs	**3,093**	2,799
Other costs	**3,056**	2,842
Depreciation	**10,073**	10,945
	45,100	47,053

In July 2005 The MCPS-PRS Alliance Joint Online Licensing scheme was jointly referred to the Copyright Tribunal by the BPI and several digital service providers. Both PRS and MCPS are determined to defend the provisions of the Joint Online Licence. The costs of this defence are significant in 2006 and have been shared equally by MCPS and PRS (see note 13b).

Joint Online Tribunal costs are being recharged by the Alliance and expensed as incurred by PRS.

The recharge from MCPS-PRS Alliance includes the following items:		
Auditors remuneration		
-Audit services	5	5

There were no employees during this year or last year other than the directors.

4. Directors' emoluments

The emoluments of the non-executive directors, excluding pension contributions, were £431,057 (2005: £398,573). No pensions or other benefits are paid to non-executive directors.

The emoluments of the Chairman, Ellis Rich amounted to £54,312 (2005: £52,972) As Deputy Chairmen, Nigel Elderton and Nigel Beaham-Powell received £28,433 (2005: £30,215) and £34,605 (2005: £39,681) respectively.

During the year ended 31 December 2005, the Company had one Executive Director, Adam Singer who resigned on 15 November 2006. Adam Singer was employed and paid by MCPS-PRS Alliance, he was the highest paid director in 2006, his total remuneration during the year was £223,524 (2005: £322,424), 50% of which was recharged to PRS.

The pension contributions in respect of Mr Singer were £27,020 (2005: £27,258) to a defined contribution scheme. This was recharged to PRS on the same basis as the remuneration above.

5. Related party transactions

The Board comprises both executive and non-executive directors. In addition to the three external non-executive directors, there exist two groups of non-executive directors, Publisher directors and Writer directors.

Like all members of the Society, these directors and parties related to them are entitled to royalties from the Society in respect of the performance of any copyright works owned by them. Parties related to Publisher and Writer directors include family members and companies controlled by these directors. Parties related to Publisher directors also include the publishing companies who nominate those Publisher directors to the Board and their subsidiaries.

During 2006, total royalties paid by the Society to the directors and to parties related to the directors amounted to £47.2 million (2005: £52.3 million). £46.7 million (2005: £51.8 million) of this was paid to Publisher directors and parties related to the Publisher directors, and £0.5 million (2005: £0.5 million) was paid to the Writer directors and parties related to the Writer directors. 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.

During 2006, £48.5 million (2005: £48.1 million) of the Society's licensing and administrative expenses were recharged by MCPS-PRS Alliance. PRS funds an appropriate proportion of MCPS-PRS Alliance's costs and at 31 December 2006 had a balance due from MCPS-PRS Alliance of £24.3 million (2005: £23.1 million), this included a long term loan of £15.2m to fund the society's share of an exceptional contribution to the defined contribution pension schemes (2005: 16.3 million).

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

6. Tax on result on ordinary activities

(a) Analysis of charge in year

	2006 £'000	2005 £'000
Current tax :		
Adjustment in respect of previous years	-	-
Tax on result on ordinary activities	**-**	-

(b) Factors affecting tax charge for year

The tax assessed for the year differs from the standard rate of corporation tax in the UK (30%). The differences are explained below :

	2006 £'000	2005 £'000
Total recognised gains for the year	-	-
Corporation tax at 30%	-	-
Effects of :		
Adjustment for transfer pricing	**(217)**	(229)
Losses arising in the year (utilised)/ not relievable against current tax	**217**	229
	-	-

A cumulative deferred tax asset of £446,000 (2005: £229,000) has not been recognised in respect of losses due to insufficient certainty of future trading profits.

(c) Factors which may affect future tax charges

The Society is subject to United Kingdom corporation tax. However, for this purpose, amounts due to members and affiliated societies are treated as a deductible expense.

There is no potential deferred tax liability.

Should PRS dispose of its investment in the MCPS-PRS Alliance, at net asset value, a loss on disposal of £10,679,500 (2005: loss of £21,330,000) would arise, which would result in a potential deferred tax asset of £3,203,850 (2005: asset of £6,399,000).

7. Fixed asset investments - shares in associated undertaking

	Number and type of shares held	Historical Cost of shares in associated undertaking £'000	% Shares held
The MCPS-PRS Alliance Limited	500 ordinary £1 shares	**14,275**	**50**

The investment in the MCPS-PRS Alliance has been revalued as shown below:

	£'000	
At 31 December 2005 and 31 December 2006	**18,724**	**50**

The investment in MCPS-PRS Alliance is held at a value determined by the directors reflecting its value on the basis of the ongoing use of its assets by the company.

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

7. Fixed asset investments - shares in associated undertaking (continued)

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. PRS' 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 PRS 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 in the tables 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	**(12,682)**	(10,353)
Creditors falling due after more than one year	**(11,690)**	(15,171)
Share of gross liabilities	**(24,372)**	(25,524)
Share of net assets before Pension Scheme Liabilities	**9,337**	2,120
Share of pension scheme liabilities	**(5,742)**	(9,176)
Share of net assets/(liabilities) after Pension Scheme Liabilities	**3,595**	(7,056)
For the year ended 31 December:		
Turnover	**33,853**	33,549
Profit/ (loss) before tax	**782**	(31)
Tax	**(142)**	347
Profit after tax	**640**	316

8. Debtors

Debtors are made up as follows:

	2006 £'000	2005 £'000
Licence income receivable		
Public Performance	**16,227**	16,502
Broadcasting	**3,417**	1,452
	19,644	17,954
Amounts due from associated undertakings	**9,127**	6,824
VAT recoverable	**7,441**	7,045
Sundry debtors	**880**	987
Investment income receivable	**506**	613
	37,598	33,423

An amount of £15.2m (2005: £16.3m) due from associated undertakings due in more than one year has been included separately on the face of the balance sheet. This £15.2m loan balance is the PRS share of exceptional prepaid pension contributions into the Alliance Pension Schemes which was funded by MCPS and PRS. The balance is being amortised over twenty years from 1 January 2006.

9. Creditors: amounts falling due within one year

	2006 £'000	Restated 2005 £'000
Amounts due to members and affiliated societies	**81,380**	83,480
Deferred revenue	**46,059**	41,010
Other creditors	**6,049**	5,917
Accruals	**2,264**	1,280
Taxation and social security	**898**	994
	136,650	132,681

For comparability and to more accurately reflect the nature of creditors, 2005 balances have been reclassified by £3,827,000 from Other Creditors to Deferred Revenue, so that 2005 deferred revenue changes from £37,183,000 to £41,010,000 and Other Creditors changes from £9,744,000 to £5,917,000.

10. Amounts allocated to members and affiliated societies

	2006 £'000	2005 £'000
Allocated to members	**228,496**	216,670
Allocated to affiliated societies	**62,546**	59,407
	291,042	276,077

11. Capital commitments

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

12. Reconciliation of movement in members' funds

	Revaluation reserve £'000	Income and expenditure account £'000	Total members' funds £'000
At 31 December 2005 and 31 December 2006	**4,449**	**3,779**	**8,228**

13. Contingent liability

a. EC Statement of objections

In February 2006 the European Commission, served on CISAC and the performing right societies in the EEA a Statement of Objections which challenges certain provisions in the CISAC model reciprocal agreement and the individual bilateral representation agreements entered into by the societies in relation to cable, satellite and online transmissions. The Commission alleged that these provisions infringe EC competition law and amount to very serious infringements that could result in fines. CISAC and the societies disagreed with these allegations. However, the societies are currently in discussions with the Commission in relation to certain undertakings going forward and are confident that as a result no fines will levied by the Commission.

b. Online Copyright Tribunal

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 is expected to conclude in 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 PRS members.

The total joint cost of the Tribunal to date, including 2005 costs, totals £8.9m, of which 50% is payable by PRS and 50% by MCPS. The total value of PRS online royalties in 2006 was £2.3m (2005: £1.6m).

14. Limitation of liabilities

The Society was founded in 1914 as a company limited by guarantee; it has no share capital and is non-profit making. The liability of each member is limited to £1.