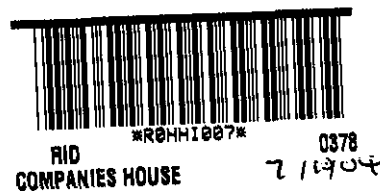


British Medical Association
Directors' report and financial statements
for the year ended 31 December 2003

Registered Number 8848



Report of the Directors

Council members, who are also the directors, present their report and the financial statements for the year ended 31 December 2003.

Principal activities

The principal activity of the British Medical Association ("Association") is to provide personal, professional and representation services for its members.

Results

The consolidated net surplus for the year amounted to £1,676,000 (2002: £14,393,000) and this amount is added to the Accumulated Fund. The main reason for the decrease in the consolidated net surplus was the one-off profit of £12.7 million on the sale of Professional Affinity Group Services Limited in 2002.

Council members (* appointed/** resigned during year)

Members who served on Council during the year are listed below.

K J Adams	J Fenton-May	S Minkoff
W J Appleyard	S O Fradd	E O'Sullivan
S J Austin	A S J Freeman	B Patterson *
I G Banks	J A Garner	D E Pickersgill
R N Barnett	J A Gilley	T P Pickersgill
V Bathla	M J Goodman	G Rae
L Bissett *	Sir Anthony Grabham	G Rajaratnam
I G Bogle	P C Hawker	J Rao
E M Borman	P J P Holden	R Rawlins
K A Brent	R L Hooke	M Rees *
P R Brimblecombe	Professor Sir Brian	S J Richards *
Sir David Carter	Jarman *	J A Riddell **
A L Calland	T John	F D Roberts
J W Chisholm	J N Johnson	S A Robson
M Church	S Kay	E D Rose
J J Ciechan	J D Keeling	D Rutter
W J R Currie	G S B Kelly	E Sim
P H Dangerfield	F Kew	C L Smith
A Dearden	M Khan	P B Terry
M Dhatt	J A Langfield	P L P J Thorpe **
G Dillway	A H O Lewis	P Tiplady
J M Dunlop **	D G Machin	R J Walshaw **
S J A Eccles	A McIrvine *	K P Ward
J W Eddy	P B Maguire	S J Watkins
A Elsharkawy *	H R P Meldrum	D M Wilks
G Eunson *	T H McKinstry	I R Wilson
S Everington	P Miller	D G Wrigley

At no time during the year has any Council member had any material beneficial interest in any contract with the Association.

The Association provides insurance cover in respect of professional indemnity for Council members against liabilities in relation to their activities on behalf of the Association.

Future development

The Association intends to carry on its existing activities during the forthcoming year. Further information is provided in the Treasurer's Report.

Close company

The Association is not a close company for the purposes of the Income and Corporation Taxes Act 1988.

Disabled persons

It is the Association's policy to give full consideration to applications from disabled persons, having due regard to their particular aptitudes and abilities, and to provide opportunities for the retention and retraining of employees who become disabled during their employment with the Association. Equal opportunities are also given for the training, career development and promotion of disabled persons.

Information to employees

Information about the Association and its activities is communicated to employees in a number of ways including the internal magazine, notice boards, information bulletins and circulars. In addition, regular meetings are held with staff representatives on general and specific matters.

Political and charitable donations

The Association made no political donations during the year. It made a charitable donation of £35,000 to the Medical Education Trust during the year.

Auditors

PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

Statement required by the Trade Union and Labour Relations (Consolidation) Act 1992

A member who is concerned that some irregularity may be occurring, or has occurred, in the conduct of the financial affairs of the union may take steps with a view to investigating further, obtaining clarification and, if necessary, securing regularisation of that conduct. The member may raise any such concern with one or more of the following as it seems appropriate to raise with: the officials of the union, the trustees of the property of the union, the auditor or auditors of the union, the Certification Officer (who is an independent officer appointed by the Secretary of State) and the police. Where a member believes that the financial affairs of the union have been or are being conducted in breach of the law or in breach of rules of the union and contemplates bringing civil proceedings against the union or responsible officials or trustees, he should consider obtaining independent legal advice.

Responsibilities of Council members in respect of financial statements

Company law requires Council members to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Association and its subsidiaries and of the consolidated result for that period. In preparing those financial statements Council members are required to:

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

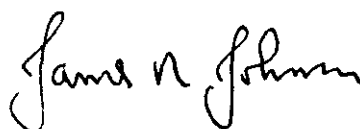
Council members are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association and its subsidiaries and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible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

The maintenance and integrity of the BMA website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board (Council)

Mr J N Johnson, *Chairman of Council*, 3 March 2004



Treasurer's Report

2003 has been a satisfactory year for the Association's finances. The total operating deficit is close to the planned amount for the year, even though there was above budget expenditure on employment costs and significant campaign costs of more than £1.1 million for the new Consultants' and GPs' contracts. In addition, global equity markets improved, lifting the value of the Association's reserves, after three years of decline.

In March 2003, a special contribution of nearly £10 million was paid into the BMA Staff Pension Scheme, funded by the cash generated from the profit on disposal of Professional Affinity Group Services Limited in September 2002. Details of the impact of this special contribution on 2003's and future years' financial statements are provided in note 8(b).

2003 income from membership subscriptions is more than 6% greater, and from publishing activities more than 3% greater, than in 2002. The increase in membership subscription income reflects increases in both the membership subscription rates and the membership of the Association, which has reached more than 128,500 at the end of 2003. The growth in income from publishing activities in 2003 was less than in recent years, mainly reflecting a flat year for advertising revenue after several years of exceptional growth. The long-anticipated threats to this profitable revenue stream have started to crystallise. The BMJ Publishing Group, however, has made significant investment in the development of innovative new products in recent years, the revenue from which has contributed to the overall revenue growth in 2003.

2003 expenditure on members' services is nearly 9% higher, and on publishing activities more than 13% higher than in 2002. Most of this increase in expenditure relates to higher employment costs caused by an annual salary increase for most employees of 9.5% on 1 April 2003, together with the cost of one-off payments to a significant proportion of employees to buy out a contractual link between their annual salary increases and the Doctors' and Dentists' Review Body annual recommended pay awards. This buy-out enables the Association to have much greater control over its future employment costs.

Expenditure on members' services, excluding employment costs, has increased by 3% during 2003. This increase includes the higher campaign costs and the cost of enhancement of existing services.

Expenditure on publishing activities, excluding employment costs, is 11% higher in 2003. This mainly represents higher investment in the development of new products and new systems.

The total operating deficit from continuing operations in 2003 is £996,000, a deterioration of £3.2 million on 2002. Most of this relates to publishing activities, whose operating surplus decreased from £8.8 million in 2002 to £6.8 million in 2003.

The total cost in 2003 of the one-off buy-out payments to employees referred to above was close to £900,000. The increase in total annual employment costs arising from the 9.5% annual salary increase on 1 April 2003 is approximately £3 million.

The income generated from dividends, interest and property rents from external tenants was similar in 2003 to 2002. During the year we completed a major refurbishment programme of the meeting rooms at BMA House.

The Association's investments have increased significantly in 2003 for two reasons. Firstly, just over £8 million of cash reserves was invested during September/October 2003. Secondly, global equity markets have improved during 2003, resulting in an increase in market value of about 15%, excluding income yield. At the end of 2003 the value of the Association's investments was over £71 million, of which £55 million represents equities and £16 million represents Government and Corporate Bonds.

As I mentioned in my report last year, the Association has decided to change the pension scheme benefits for new recruits. The full final salary scheme continues for existing employees but, with effect from 1 September 2003, new recruits will be eligible only for the newly established sections of the pension scheme. These new sections provide defined contribution benefits for those aged up to 40, and final salary benefits for new recruits' service after the age of 40. The future cost of pension benefits will decrease as a result of this change in pension scheme benefits and it also will be less vulnerable to fluctuations arising from the investment performance of the pension scheme's assets.

There was a full actuarial valuation of the BMA Staff Pension Scheme at 31 March 2003. This valuation resulted in the employer's contribution rate being increased from 19.2% to 25.0% with effect from 1 January 2004 for those employees in the final salary sections of the scheme. These individuals contribute 6% of their salaries to the pension scheme.

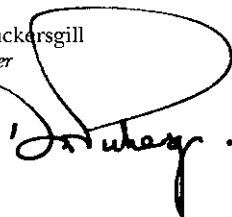
As detailed in note 8(a) to the financial statements, the scheme's net pension deficit, calculated in accordance with Financial Reporting Standard 17 ('FRS 17'), has reduced from £24.0 million at 31 December 2002 to £18.4 million at 31 December 2003. It is important to note that the accumulated funds of the Association, as disclosed in the balance sheet at 31 December 2003, do not reflect this FRS 17 deficit. The total cash and short-term deposits have decreased by £17.1 million during the year, mainly reflecting the £10 million special contribution to the pension scheme and the £8 million investment of cash reserves.

On 1 January 2003, all of the net assets and goodwill relating to BMJ Publishing Group were transferred into a wholly owned subsidiary company, BMJ Publishing Group Limited. For 2003, and future years, therefore, the income and expenditure, and net assets, relating to its publishing activities are included only within the columns headed "Consolidated" in the financial statements. For 2002 and earlier years these amounts were included in the columns headed both "BMA" and "Consolidated".

To complicate comparisons further, the consolidated income and expenditure account in 2002 includes approximately nine months' trading results for BMA Services prior to its sale to the Wesleyan Assurance Society in September 2002.

As I mentioned in my report last year, the emphasis of the financial management of the Association during the next few years is to reduce the deficit arising from members' services. The increase in this deficit during the last five years has been caused partially by some of the annual increases in membership subscriptions being lower than the annual increases in salaries to employees. Employment costs now represent more than 62% of expenditure on members' services. I consider that some of that deficit needs to be recovered within the increase in subscription rates in October 2004. In addition, the Association's senior managers will be identifying, and implementing, opportunities for continuing to develop and deliver high-quality support and services to BMA members in more cost-effective ways. These initiatives will help to ensure that the Association continues to have a sound financial base for many years to come for its vital task as the pre-eminent organisation for supporting all UK doctors and medical students.

Dr D Pickersgill
Treasurer



Audit Committee's Report

During the year, the Audit Committee has comprised four members, namely: John Bishop (Chair), James Appleyard, Rachel Hooke and Brian Keighley. In addition, the Treasurer, David Pickersgill, and the Finance Director, Leigh Whittingham, normally attend each meeting and other senior representatives of management, as well as the external and internal auditors, are invited to attend as and when required.

The Committee met four times during the year and the agenda of items is designed to enable it to meet the requirements of its terms of reference, including:

- Integrity of financial reporting: the Committee receives regular reports from the Treasurer and the Finance Director regarding the financial performance, systems and processes operating within the BMA and its subsidiary companies. The Committee considers the annual directors' report and financial statements and recommends their approval to Council
- External auditors: the Committee receives regular reports from the external auditors throughout the year. The Committee is responsible for approving the proposed audit strategy, for agreeing the schedule of audit fees and for receiving the auditors' final report at the conclusion of their audit work. In addition, the Committee continues to ensure independence of the external auditors by, inter alia:
 - Setting out an appropriate policy on the provision by the external auditor of non-audit work and
 - Receiving written confirmation of their continued independence from the auditors, having carried out sufficient internal enquiries.
- Risk assessment/management: the Association has continued to develop its risk assessment and management procedures and the Committee has received reports on this from both the Secretary and the Executive Director of the BMJ Publishing Group. With the exception of matters concerned with the governance of the Association, which are covered below, the Audit Committee believes that, during 2003, the Association has further enhanced its processes for the identification and management of risks, including its processes for reviewing the effectiveness of the Association's systems of internal control.
- Internal audit: the internal audit service, which is provided by KPMG under the management of the Finance Director, has undertaken four internal audit assignments during 2003. Each assignment results in a detailed report of the actions which have been agreed with managers to improve controls and which provide the Audit Committee with an increased degree of comfort. The Audit Committee has received a formal report of the internal audit service's work during 2003 and has also approved a detailed plan of the internal audit work which will be undertaken during 2004 for which eight assignments are planned.

Smith Report

In July 2003, the report of a committee of the Financial Reporting Council, chaired by Sir Robert Smith, which provided guidance for audit committees on their functions and responsibilities was incorporated into the Combined Code on Corporate Governance. The requirements of the Smith report are now mandatory for all listed companies and are considered best practice for non-listed companies, such as the BMA. The Audit Committee has bench-marked its terms of reference, processes and roles against these new criteria.

The result was generally satisfactory, but in a few areas a need for change was identified and steps are being taken to implement the necessary action, some of which involve, in the first instance, a reference to Council.

Governance of the Association

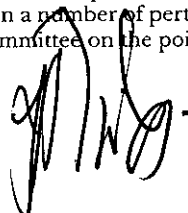
The Audit Committee has a specific responsibility for monitoring the effectiveness of the governance process within the BMA and developments in 2003 have given it cause for concern.

The governance process within the Association is acknowledged by both Council and the ARM to be inadequate, a serious risk, and in urgent need of reform. Phase one of governance reform, the establishment of processes and defined responsibilities of the bodies reporting to Council, has been implemented and is operating effectively. However, the structure of the second phase of the governance reform process, defining and codifying the fundamental issues of who is ultimately responsible to members for the conduct of the affairs of the BMA, is unclear and unsatisfactory.

It may be that the Committee established by the 2003 ARM will produce a report which will meet with universal approval leading to satisfactory implementation, but what will happen, should this not occur, is indeterminate. In the meantime, the execution of the process leaves the Association exposed to reputational risk among its members and the world at large.

The Audit Committee has maintained contact with the Governance Committee of the Representative Body and has written to its Chairman on a number of pertinent issues and awaits reassurances from the committee on the points that it has raised.

J H Bishop
Chairman



Independent auditors' report to the members of the British Medical Association

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report and the treasurer's report.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 financial statements 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 financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the company and the group at 31 December 2003, the net surplus of the group, net deficit of the company and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
3 March 2004

Financial statements for the year ended 31 December 2003

Income and expenditure account for the year ended 31 December 2003

	Notes	BMA		Consolidated	
		2003 £000	2002 £000	2003 £000	2002 £000
Income					
Membership subscriptions		28,658	26,958	28,658	26,958
Income from other activities		5,316	4,291	2,184	4,291
Publishing					
Subscriptions		—	—	15,321	14,446
Advertising and other income (incl. share of joint venture)		1,571	1,396	30,725	29,199
		35,545	32,645	76,888	74,894
Less: Share of joint venture income		—	—	(773)	(1,155)
Continuing operations		35,545	32,645	76,115	73,739
Discontinued operations – publishing in BMA		—	40,936	—	—
– financial services		—	—	—	10,439
		35,545	73,581	76,115	84,178
Expenditure					
Members' services		38,612	33,421	38,680	33,506
Other activities		3,132	4,291	—	4,291
Publications		—	—	38,431	33,733
Continuing operations		41,744	37,712	77,111	71,530
Discontinued operations – publishing in BMA		—	33,748	—	—
– financial services		—	—	—	8,844
		41,744	71,460	77,111	80,374
Operating (Deficit)/Surplus					
Members' services		(7,770)	(6,463)	(7,838)	(6,548)
Publishing		1,571	—	6,842	8,757
Continuing operations		(6,199)	(6,463)	(996)	2,209
Discontinued operations – publishing in BMA		—	8,584	—	—
– financial services		—	—	—	1,595
		(6,199)	2,121	(996)	3,804
Share of operating profit in joint venture		—	—	4	12
Income from fixed assets	3	1,967	1,624	2,850	3,046
Income from current assets	4	150	440	980	715
Surplus/(Deficit) on sales of fixed asset investments		—	1,447	3,264	(3,044)
(Loss)/profit on sale of subsidiary company – discontinued operations		—	—	(649)	17,625
(Deficit)/surplus on ordinary activities before taxation	6	(4,082)	5,632	5,453	22,158
Taxation	7	(1,163)	(2,966)	(3,777)	(7,801)
(Deficit)/surplus on ordinary activities after taxation		(5,245)	2,666	1,676	14,357
Minority interest, equity		—	—	—	36
Net (deficit)/surplus for the year	14	(5,245)	2,666	1,676	14,393
The income and surplus/(deficit) on ordinary activities before taxation for the year relate to continuing operations apart from (1) those amounts relating to financial services (sold during 2002) and (2) those publishing activities in the BMA transferred to BMJ Publishing Group Ltd.					
Statement of total recognised gains and losses					
(Deficit)/surplus for the year		(5,245)	2,666	1,676	14,393
Unrealised (losses)/gains on fixed asset investments		59,000	—	5,106	(13,217)
Release of revaluation reserve on disposal of fixed asset investments		—	—	140	—
Total recognised gains relating to the year		53,755	2,666	6,922	1,176
Total gains recognised since last financial statements		53,755	2,666	6,922	1,176
Note of historical cost surplus					
Reported (deficit)/surplus on ordinary activities before taxation		(4,082)	5,632	5,453	22,158
Difference between market value and cost of investment realised		—	398	—	398
Historical cost surplus before taxation and minority interest		(4,082)	6,030	5,453	22,556
Taxation and minority interest		(1,163)	(2,966)	(3,777)	(7,765)
Historical cost surplus after taxation and minority interest		(5,245)	3,064	1,676	14,791

Balance sheet at 31 December 2003

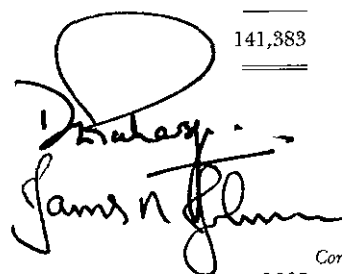
		BMA		Consolidated	
	Notes	2003 £000	2002 £000 <i>Restated*</i>	2003 £000	2002 £000 <i>Restated*</i>
Employment of funds					
Fixed assets					
Tangible assets	9	7,039	7,269	7,301	7,269
Investments	10(a), (b)	—	—	71,455	55,100
Investments in group undertakings	10(c)	140,878	79,878	—	—
Interest in joint venture	10(c)	—	—	20	246
Share of gross assets		—	—	(3)	(246)
Share of gross liabilities		—	—	—	—
		147,917	87,147	78,773	62,369
Current assets					
Stocks		18	844	814	844
Debtors	11				
Receivable within one year		10,530	12,375	13,927	12,592
Receivable after more than one year		5,602	—	8,325	—
Short term deposits		12,250	15,000	25,250	39,000
Cash at bank and in hand		—	940	134	1,681
		28,400	29,159	48,450	54,117
Less: current liabilities					
Creditors (amounts falling due within one year)	12	(33,340)	(27,684)	(31,084)	(28,032)
Net current (liabilities)/assets		(4,940)	1,475	17,366	26,085
Total assets less current liabilities		142,977	88,622	96,139	88,454
Provisions for liabilities and charges	13	(1,594)	(994)	(1,757)	(994)
Net assets		141,383	87,628	94,382	87,460
Funds employed					
Revaluation reserve – freehold property	9	454	454	454	454
Revaluation reserve – investments	15	—	—	5,828	582
Revaluation reserve – investment in subsidiary	10(c)	59,000	—	—	—
Accumulated funds	14	81,929	87,174	88,100	86,424
		141,383	87,628	94,382	87,460

* See note 18

* See note 13

D E Pickersgill, *Treasurer*

J N Johnson, *Chairman of Council, 3 March 2004*



Consolidated cash flow statement for the year ended 31 December 2003

	Consolidated		Consolidated	
	2003 £000	2003 £000	2002 £000	2002 £000
Net cash inflow from operating activities (note a)		3,372		8,703
Special contributions to pension scheme		(9,989)		-
Returns on investments and servicing of finance				
Interest and dividends received		2,739		2,406
Taxation		(3,837)		(4,192)
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(1,278)		(1,320)	
Proceeds on disposal of tangible fixed assets	113		-	
Purchase of investments	(57,413)		(22,254)	
Proceeds on disposal of investments	49,568	(9,010)	22,072	(1,502)
Acquisitions and disposals				
Proceeds on sale of subsidiary	-		24,700	
Purchase of minority interest	-		(5,000)	
Costs relating to purchase of minority interest	-		(154)	
Costs relating to sale of subsidiary	(329)		(1,298)	
Cash disposed of with subsidiary	-	(329)	(4,284)	13,964
Cash (outflow)/inflow before use of liquid resources and financing		(17,054)		19,379
Management of liquid resources				
Decrease/(Increase) in short term deposits		13,750		(21,500)
(Decrease) in cash in the period		(3,304)		(2,121)

	Consolidated	
	2003 £000	2002 £000
Note a: Reconciliation of operating surplus/(deficit) to net cash inflow from operating activities		
Operating (deficit)/surplus	(996)	3,804
Special pension contribution	9,989	-
Surplus on rental income	1,141	1,411
Depreciation	1,199	1,294
(Profit)/Loss on disposal of tangible fixed assets	(66)	279
Increase/(Decrease) in creditors (excluding bank overdraft)	1,798	(1,971)
(Increase)/Decrease in debtors	(9,723)	3,669
Decrease in stock	30	217
Net cash inflow from operating activities	<u>3,372</u>	<u>8,703</u>
Note b: Reconciliation of net cash flow to movements in net funds*		
(Decrease) in cash in the period	(1,484)	(2,121)
(Increase) in overdraft in period	(1,757)	-
Cash used to increase/(decrease) liquid resources**	<u>(13,750)</u>	<u>21,500</u>
Change in net funds*	(16,991)	19,379
Exchange differences	(63)	(56)
Net movement in net funds in the period	<u>(17,054)</u>	<u>19,323</u>
Net funds at 1 January*	<u>40,681</u>	<u>21,358</u>
Net funds at 31 December*	<u>23,627</u>	<u>40,681</u>

* Net funds comprise cash at bank and in hand, bank overdrafts and liquid resources**

** Liquid resources comprise short term deposits.

Notes to the financial statements for the year ended 31 December 2003

1 Status

The Association is a company limited by guarantee (registration number 8848), the liability of members being limited to one guinea each.

2 Accounting policies

a Accounting convention

The financial statements are prepared on the historical cost basis of accounting, as modified to include the 1957 revaluation of freehold premises and fixed asset investments in accordance with applicable Accounting Standards.

The format of the income and expenditure account in the financial statements departs from the requirements of the Companies Act 1985, which states that a company's profit and loss account shall show all the items as listed in any one of its prescribed formats. This departure is, in the opinion of the directors necessary to give a true and fair view of the activities of the Association.

b Basis of consolidation

The consolidated financial statements are of the Association and its 100% owned subsidiaries - BMJ Publishing Group Ltd., BMA Investments Ltd. and BMJ Publishing Inc. (incorporated and registered in California, USA) and 50% of Unified Ltd (joint venture).

c Membership subscriptions

Membership subscriptions are taken into income in the year to which they relate. Amounts received by the balance sheet date in respect of future years are deferred.

d Publications

Income and expenditure relating to publications is accounted for in the year within which the date of the publication falls. Income from publications subscriptions is deemed to accrue evenly over the period of the subscription; the proportion of subscriptions invoiced but unearned at the balance sheet date is deferred.

e Deferred tax

The group has adopted FRS 19 (deferred tax) in these financial statements.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date. Deferred tax is not recognised on permanent differences.

f Foreign exchange

The Association maintains certain monetary assets and liabilities in foreign currencies. These have been converted at the midmarket rate

ruling at the year end. All exchange differences are taken to the income and expenditure account.

g Freehold premises

With the exception of a surplus of £454,000 that arose on the revaluation of BMA House, London in 1957, all acquisitions of, and additions to freehold premises, are shown in the balance sheet at cost. Expenditure since 1957 is capitalised where it is probable that future economic benefit in excess of that valuation will flow as a result of that expenditure.

This expenditure is depreciated at 1% on a straight line basis. All other expenditure is treated as an expense.

h Short leasehold premises

Expenditure on leasehold premises is depreciated up until the first break clause.

i Plant, computers, office equipment and motor vehicles

Items of plant, computers, office equipment and motor vehicles costing more than £1,500 are capitalised and are stated at cost. Depreciation is calculated on a straight line basis over the estimated useful lives of the assets ranging from three to ten years. All other expenditure is treated as an expense.

j Fixed assets - investments

Investments comprise equities and unit trusts which are included at market value. These are treated as fixed asset investments due to the permanent nature of the investment fund. Loss on disposal of investments is the difference between their market value and proceeds of sale.

k Current assets - stocks

Stocks are stated at the lower of cost or net realisable value and comprise paper and books.

l Leases

Costs and rental income in respect of operating leases are recognised on a straight line basis over the lease term.

m Pensions

Pension costs comprise the normal contributions for the period, determined according to actuarial advice where appropriate, together with appropriate proportions of actuarial deficiencies or surpluses, and special contributions, which are recognised over the average expected remaining service lives of employees.

n Goodwill

Goodwill on acquisition is amortised over 20 years.

3 Income from fixed assets

	BMA		Consolidated	
	2003	2002	2003	2002
	£000	£000	£000	£000
Gross rental income	3,020	2,012	2,025	2,012
Less				
- service & maintenance costs	(649)	(543)	(480)	(543)
- refurbishment costs	(404)	(58)	(404)	(58)
Net property income	1,967	1,411	1,141	1,411
Dividends and interest	-	249	1,889	1,834
Investment Management fees	-	(36)	(180)	(199)
	<u>1,967</u>	<u>1,624</u>	<u>2,850</u>	<u>3,046</u>

4 Income from current assets

	BMA		Consolidated	
	2003	2002	2003	2002
	£000	£000	£000	£000
Interest on bank deposit accounts	168	496	1,043	771
Exchange (losses)	(18)	(56)	(63)	(56)
	<u>150</u>	<u>440</u>	<u>980</u>	<u>715</u>

5(a) (Loss)/Profit on sale of subsidiary company

	Consolidated	
	2003	2002
	£000	£000
Original sales proceeds	-	24,590
Adjustments to original sales proceeds	(649)	-
Cost of goodwill disposed of	-	(3,720)
Costs of disposal	-	(1,188)
Net assets disposed of	-	(2,057)
Pre-tax (loss)/profit on sale	<u>(649)</u>	<u>17,625</u>

5(b) Goodwill

	Consolidated	
	2003	2002
	£000	£000
Goodwill acquired on purchase of 50% of Professional Affinity Group Services Limited	-	3,805
Goodwill amortised in 2002	-	(85)
Goodwill disposed of in 2002	-	<u>3,720</u>

On 8 February 2002, the British Medical Association acquired, from Jardine Lloyd Thompson plc, the 50% of the share capital of Professional Affinity Group Services Limited (formerly BMA Services Limited) which it did not already own. From that date Professional Affinity Group Services Limited became a wholly owned subsidiary of the Association. In April 2002 the 100% holding of Professional Affinity Group Services Limited was transferred to BMA Investments Ltd. On 16 September 2002 that company sold its 100% interest in the issued share capital of Professional Affinity Group Services Limited for a cash consideration of £24.7 million. The sale agreement included terms under which there could be future adjustments to this consideration amount in certain circumstances. Some repayments of consideration have arisen during 2003. In addition, an assessment of the likelihood of further circumstances occurring has been undertaken, which has led to a provision being made in these financial statements.

6 Surplus on ordinary activities before taxation is stated after charging the following amounts:

	BMA		Consolidated	
	2003	2002	2003	2002
	£000	£000	£000	£000
Staff costs:				
Wages and salaries	17,611	23,321	26,786	28,508
Social security costs	1,545	1,909	2,419	2,427
Other pension costs:				
Normal contributions	2,701	3,574	3,980	3,788
Special contributions	560	-	832	-

	BMA		Consolidated	
	2003	2002	2003	2002
	£000	£000	£000	£000
Depreciation	1,081	1,294	1,199	1,294
Profit/(Loss) on disposal of fixed assets	59	(55)	66	(278)
Auditors' remuneration				
Audit fees	30	63	83	105
Other services	127	70	217*	457**
Operating lease rentals:				
Plant and machinery	-	-	-	46
Land and buildings	409	404	409	465
Motor vehicles	-	-	-	203

	Number	Number	Number	Number
Average number of employees during year	544	741	750	900

* Comprises mainly non-recurring tax advice

** Includes £401,000 in respect of the cost of corporate finance services relating to the disposal of Professional Affinity Group Services Ltd.

7 Taxation

	BMA		Consolidated	
	2003	2002	2003	2002
	£000	£000	£000	£000
UK Corporation Tax @ 30%	1,163	2,897	3,760	7,732
Prior year	-	43	(66)	43
Deferred tax	-	-	163	-
Taxation suffered on franked investment income	-	26	(80)	26
	<u>1,163</u>	<u>2,966</u>	<u>3,777</u>	<u>7,801</u>

UK taxation is based on the surplus for the year arising on income from properties, investments, publications and financial services activities.

Reconciliation of tax charge

	BMA		Consolidated	
	2003	2002	2003	2002
	£000	£000	£000	£000
Profit before tax	(4,082)	5,632	5,453	22,158
Profit before tax multiplied by standard rate of corporation tax in the UK of 30% (2002: 30%)	(1,225)	1,690	1,636	6,647
Expenses not deductible for tax	2,421	1,470	2,449	1,347
Income not taxable	(33)	-	(344)	-
Capital allowances in excess of depreciation	-	(194)	(61)	(193)
Adjustments to tax charge in respect of prior periods	-	-	(66)	-
Current tax charge for the period	<u>1,163</u>	<u>2,966</u>	<u>3,614</u>	<u>7,801</u>

8(a) Pension commitments

The British Medical Association participates in a defined benefit funded scheme called the BMA Staff Pension Scheme. The assets of the scheme are held separately from those of the Association, being invested in trustee administered funds, mainly through investment management agreements with specialist Fund Managers. Pension costs are charged to the income and expenditure account so as to spread the cost of the defined benefit scheme over the employees' period of employment with the Association, based on the advice of an independent qualified actuary using the projected unit method. The pension costs relating to the scheme during 2003 are disclosed in notes 6 and 8(b).

The most recent formal actuarial valuation was at 31 March 2003 and at this date there were 590 contributing members in the scheme. The principal assumption used in that actuarial valuation is that the rate of return on investments would exceed future salary increases by

1.5% per annum. In addition, the actuarial valuation assumed that present and future pensions would increase at the rate of 2.5% per annum. On this basis, the market value of the assets at 31 March 2003 was £75,673,000, and the actuarial value of the assets represented 73% of the benefits that had accrued to members, after allowing for future increases in earnings.

With effect from 1 September 2003, all new employees will be eligible to join a defined contribution scheme from the start date of their employment, with an option to transfer to a new defined benefit section of the scheme at age 40. The accrual rate for this new defined benefit section is one-sixtieths, compared to one-fiftyfirsts for the existing defined benefit section.

The actuarial valuation has been updated to 31 December 2003 and the major assumptions used at that date were:

	2003	2002
- rate of increase in salaries	5.25%	4.25%
- rate of increase in pensions in payment	2.75%	2.25%
- discount rate	5.50%	5.50%
- inflation assumption	2.75%	2.25%

As at 31 December the market value of assets in the scheme and the expected rates of return are:

	Long-term rate of return expected at 31 December		Value at 31 December £000	
	2003	2002	2003	2002
Equities	7.05%	6.75%	63,622	39,169
Bonds	4.75%	4.50%	28,028	26,195
Other	3.50%	3.75%	1,664	1,124
Total market value of assets			93,314	66,488
Present value of scheme Liabilities			(113,495)	(92,652)
Scheme deficit			(20,181)	(26,164)
Related deferred tax asset			1,800	2,120
Net pension deficit			(18,381)	(24,044)

If the amounts had been recognised in the financial statements, the group's assets and accumulated funds at 31 December would be as follows:

	2003 £000	2002 £000
Net assets excluding pension deficit	94,382	87,460
Pension deficit	(18,381)	(24,044)
Net assets including pension deficit	76,001	63,416
Accumulated fund excluding pension deficit	88,100	86,424
Pension deficit	(18,381)	(24,044)
Accumulated fund including pension deficit	69,719	62,380

In addition, the following figures would be reflected within the income and expenditure account and the statement of total recognised gains and losses.

	2003 £000	2002 £000
Deficit in scheme at 1 January	(24,044)	(5,700)
Movement in year – current service costs charged to operating profit	(4,455)	(4,139)
Expected return on pension scheme assets	4,360	5,117
Interest on pension liabilities	(5,169)	(4,762)
Net return on assets	(809)	355
Contributions	13,963	3,679
Decrease in deferred tax asset	(320)	1,620
Amounts recognised in statement of total recognised gains and losses (STRGL)		
Actual return less expected return on assets	10,297	(15,362)
Experience gains and losses on liabilities	(3,016)	(1,333)
Changes on assumptions	(9,997)	(3,164)
Net actuarial loss recognised	(2,716)	(19,859)
Deficit in scheme at end of year	(18,381)	(24,044)

History

	Year to 31 December	
	2003	2002
Difference between expected and actual return on scheme assets:		
amount	10,298	(15,362)
percentage of scheme assets	+11%	-23%
Experience gains and losses on scheme liabilities:		
amount	(3,016)	(1,333)
percentage of scheme liabilities	-3%	-1%
Total amount recognised in statement of total recognised gains and losses:		
amount	(2,716)	(19,859)
percentage of scheme liabilities	-2%	-21%

8(b) Special contribution during 2003

A special contribution of nearly £10 million was paid into the BMA Staff Pension Scheme on 14 March 2003. In accordance with the requirements of Statement of Standard Accounting Practice 24 – Accounting for Pensions Cost, the cost of this special contribution is to be spread over the expected future service periods of the active members of the pension scheme. The Scheme's actuary estimates this period to be 12 years.

This accounting treatment has a significant impact on these financial statements. The following tables provide details of the amounts of the special contribution which are reflected in the income and expenditure account within these financial statements and the amounts which will be reflected in future years' financial statements, and of the impact on the net deficit/surplus for 2003.

	BMA £000	Consolidated £000
Amount of special contribution reflected in the income and expenditure account for 31 December 2003	560	832
Amount of special contribution to be reflected in the income and expenditure accounts in 2004 to 2014 years	6,162	9,157
Total special contribution paid on 14 March 2003	6,722	9,989
Net (deficit)/surplus for 2003 in the income and expenditure account for 31 December 2003	(5,245)	1,676
Amount of special contribution to be reflected in the income and expenditure accounts in 2004 to 2014 years	(6,162)	(9,157)
Net deficit for 2003 if all of the special contribution had been attributed to 2003	(11,407)	(7,481)

For tax purposes, the deduction for this special contribution is spread over four years. This gives rise to a deferred tax liability as disclosed in note 7.

9 Tangible assets

(i) BMA

Cost or valuation

	Total £000	Freehold Premises £000	Long Leasehold Premises £000	Plant and Office Equipment £000	Motor Cars £000
- 1 January 2003	15,272	5,242	657	8,376	997
Additions during year	1,069	21	15	816	217
Transfers to group company	(917)	-	-	(750)	(167)
Disposals during year	(1,371)	-	-	(1,111)	(260)
Cost or valuation - 31 December 2003	<u>14,053</u>	<u>5,263</u>	<u>672</u>	<u>7,331</u>	<u>787</u>

Less:

Accumulated depreciation - 1 January 2003	8,003	790	53	6,618	542
Charged in year	1,081	47	80	780	174
Transfers to group company	(743)	-	-	(633)	(110)
Disposals during year	(1,327)	-	-	(1,108)	(219)
Accumulated depreciation - 31 December 2003	<u>7,014</u>	<u>837</u>	<u>133</u>	<u>5,657</u>	<u>387</u>

Net book amount

- 31 December 2003	<u>7,039</u>	<u>4,426</u>	<u>539</u>	<u>1,674</u>	<u>400</u>
Net book amount - 31 December 2002	<u>7,269</u>	<u>4,452</u>	<u>604</u>	<u>1,758</u>	<u>455</u>

(ii) Consolidated

	Total £000	Freehold Premises £000	Long Leasehold Premises £000	Plant and Office Equipment £000	Motor Cars £000
Cost or valuation - 1 January 2003	15,272	5,242	657	8,376	997
Additions during year	1,278	21	15	1,010	232
Disposals and amounts written off during year	(1,401)	-	-	(1,111)	(290)

Cost or valuation - 31 December 2003	<u>15,149</u>	<u>5,263</u>	<u>672</u>	<u>8,275</u>	<u>939</u>
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Less:

Accumulated depreciation - 1 January 2003	8,003	790	53	6,618	542
Charged in year	1,199	47	80	867	205
Disposals and amounts written off during year	(1,354)	-	-	(1,108)	(246)

Accumulated depreciation - 31 December 2003	<u>7,848</u>	<u>837</u>	<u>133</u>	<u>6,377</u>	<u>501</u>
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Net book amount

- 31 December 2003	<u>7,301</u>	<u>4,426</u>	<u>539</u>	<u>1,898</u>	<u>438</u>
Net book amount - 31 December 2002	<u>7,269</u>	<u>4,452</u>	<u>604</u>	<u>1,758</u>	<u>455</u>

With the exception of a surplus of £454,000 that arose on the revaluation of BMA House, London in 1957, all acquisitions of, and additions to freehold premises, are shown in the balance sheet at cost. In the opinion of Council the market value of freehold premises at 31 December 2003 is significantly higher than the carrying value recorded above. In accordance with the transitional provision of FRS 15: Tangible fixed assets, the revaluation of BMA House has not been updated.

10 Investments

(a) Reconciliation of market value of investments

	BMA		Consolidated	
	2003 £000	2002 £000	2003 £000	2002 £000
Market value of other investments at 1 January	-	71,225	55,100	71,225
Additions at cost	-	6,357	57,413	22,167
Proceeds of sale	-	(6,345)	(49,568)	(22,073)
Realised gains/(losses)	-	(350)	3,264	(3,090)
Revaluation deficit included in realised gains	-	-	140	-
Increase (decrease) in market value	-	1,750	5,106	(13,129)
Transfer to BMA Investments Ltd.	-	(72,638)	-	-
Total at 31 December	-	-	<u>71,455</u>	<u>55,100</u>
Historic cost at 31 December	-	-	<u>65,627</u>	<u>54,386</u>

(b) Analysis of market value of investments

UK listed	37,277	27,258
UK non-listed	17,028	6,123
Non-UK listed	13,395	18,091
Non-UK non-listed	3,198	3,006
Bank balances	557	622
	<u>71,455</u>	<u>55,100</u>

(c) Cost of investments in group undertakings

	BMA	
	2003 £000	2002 £000
Balance at 1 January	79,878	100
Additional cost of investment in Professional Affinity Group Services Ltd.	-	5,240
Transfer of cost of investment in April 2002 in Professional Affinity Group Services Ltd.	-	(5,340)
Cost of investment in BMA Investments Ltd.	-	79,878
Cost of investment in BMJ Publishing Group Ltd.	61,000	-
	<u>140,878</u>	<u>79,878</u>

In April 2002, all listed and non-listed investments then owned by the British Medical Association and its investment in Professional Affinity Group Services Ltd. were transferred to BMA Investments Ltd., a 100% owned subsidiary.

On 1 January 2003, the trade and net assets of BMJ Publishing Group, previously a trading division of the British Medical Association, were transferred to BMJ Publishing Group Limited, a 100% owned subsidiary. The assets transferred include 100% of the share capital of BMJ Publishing Inc., a US company registered in California, and 50% of the share capital of Unified Ltd., a UK joint venture company. The consideration for this transfer was £61 million, representing the assessed market value of the business, satisfied by 1,995,000 £1 ordinary shares in BMJ Publishing Group Limited. The directors took advice over this valuation. The profit on this transaction was £59 million. As shares are not qualifying consideration, this has been transferred to the revaluation reserve and the gain recognised through the statement of total recognised gains and losses.

11 Debtors

	BMA		Consolidated	
	2003	2002	2003	2002
	£000	£000	£000	£000
Amounts falling due within one year:				
Trade debtors	1,040	5,596	6,647	5,596
Amounts owed by joint venture	-	361	-	-
Amounts owed by group undertakings	4,583	-	-	-
Other debtors	2,668	4,945	2,668	5,251
Prepayments - other	1,679	1,473	3,780	1,745
Prepayments - special contribution re Pension Scheme	560	-	832	-
	<u>10,530</u>	<u>12,375</u>	<u>13,927</u>	<u>12,592</u>

Amounts falling due after more than one year:

Prepayments - special contribution re Pension Scheme	5,602	-	8,325	-
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12 Creditors (amounts falling due within one year)

	BMA		Consolidated	
	2003	2002	2003	2002
	£000	£000	£000	£000
	<i>Restated*</i>		<i>Restated*</i>	
Bank overdraft	1,182	-	1,757	-
Trade creditors	910	2,640	1,773	2,640
Amounts owed to group undertakings	21,753	4,657	-	-
Corporation tax	-	1,464	5,934	5,994
Other taxation and social security	1,083	1,174	1,088	1,174
Other creditors	185	2,789	1,905	2,741
Accruals and deferred income	1,239	2,415	3,079	2,938
Subscriptions received in advance	6,988	12,545	15,548	12,545
	<u>33,340</u>	<u>27,684</u>	<u>31,084</u>	<u>28,032</u>

* See note 13

Included in other creditors above is an amount of £452,000 for pension contributions due to be paid to the BMA Staff Pension Scheme for 2003 (2002: £413,000).

13 Provisions for liabilities and charges

	BMA		Consolidated	
	2003	2002	2003	2002
	£000	£000	£000	£000
	<i>Provisions for future liabilities</i>	<i>Total</i>	<i>Provisions for future liabilities</i>	<i>Deferred Tax</i>
At 1 January	994	994	994	-
Arising during the year	600	600	600	163
At 31 December	<u>1,594</u>	<u>1,594</u>	<u>1,594</u>	<u>163</u>

The 2002 balances have been restated to separate certain provisions that were previously included within 'accruals and deferred income' in creditors.

The deferred tax liability comprises short-term timing differences.

14 Accumulated funds

	BMA		Consolidated	
	2003	2002	2003	2002
	£000	£000	£000	£000
As at 1 January	87,174	70,399	86,424	71,633
Net (deficit)/surplus for the years	(5,245)	2,666	1,676	14,393
Transfer from revaluation reserve re current year disposals	-	398	-	398
Transfer from revaluation reserve re transfer of investments to BMA Investments Ltd	-	13,711	-	-
At 31 December	<u>81,929</u>	<u>87,174</u>	<u>88,100</u>	<u>86,424</u>

15 Revaluation reserve - investments

	BMA		Consolidated	
	2003	2002	2003	2002
	£000	£000	£000	£000
At 1 January	-	14,109	582	14,109
Current year disposals (Decrease)/Increase in market value for year	-	(398)	140	(398)
Transferred to accumulated account	-	-	5,106	(13,129)
At 31 December	<u>-</u>	<u>(398)</u>	<u>5,828</u>	<u>582</u>

16 Commitments

	BMA		Consolidated	
	2003	2002	2003	2002
	£000	£000	£000	£000
Annual commitments under operating leases are as follows:				
Expiring within one year				
Motor vehicles	-	-	-	46
Land and buildings	50	-	50	61
Office equipment	-	-	-	9
Expiring between two and five years inclusive				
Motor vehicles	-	-	-	90
Land and buildings	109	90	109	245
Office equipment	-	-	-	22
Expiring in five years or more				
Land and buildings	254	348	254	626

17 Compensation in respect of members of Council

	Consolidated	
	2003	2002
	£	£
Compensation in respect of 25 (2002 - 20) members of Council	478,459	310,302
Emoluments payable to:		
Highest remunerated member of Council	55,670	53,450

Gross amounts of honoraria and compensation paid to current and past members of Council, in the year ended 31 December 2003

	£
Adams, Dr K	12,088 *
Austin, Dr S	2,700
Bogle, Dr I G	42,600 *
Calland, Dr A	17,544
Carter, Sir D	2,850
Ciechen, Miss J	600
Eccles, Mr S	10,112 *
Fenton-May, Dr J	1,350 *
Garner, Dr J A	15,412
Goodman, Dr M J	48,250 *
Grabham, Sir Anthony	37,150 *
Hawker, Dr P C	49,500 *
Hooke, Dr R	450
Jarman, Sir Brian	6,190
Johnson, Mr J N	55,331 *
Maguire, Dr P	2,850 *
Miller, Dr P	900
Pickersgill, Dr D	55,670 *
Pickersgill, Dr T	5,358 *
Rae, Dr G	26,650 *
Sim, Dr E	17,371 *
Terry, Dr P B	38,183 *
Walshaw, Dr R	3,000
Wilks, Dr M	25,750 *
Wilson, Dr I	600

* These figures include amounts paid which relate to pre-2003 activities.

Consolidated Budget for 2004 (unaudited)

	<i>Budget 2004 £000</i>	<i>Actual 2003 £000</i>
Income		
Membership subscriptions	30,250	28,658
Other income	2,400	2,184
Publications	44,766	45,273
Total income	77,416	76,115
Expenditure		
Members' services	39,823	38,680
Publications	37,876	38,431
Operating Expenditure	77,699	77,111
Operating surplus/(deficit)		
Members' services	(7,173)	(7,838)
Publications	6,890	6,842
Share of profit in joint venture	-	4
Operating (deficit)	(283)	(992)
Income – other sources		
Income from fixed assets	3,676	2,850
Income from current assets	1,147	980
Surplus on sales of fixed asset investments	-	3,264
(Loss) on sale of subsidiary company	-	(649)
Total Income – other sources	4,823	6,445
Surplus on ordinary activities before taxation	4,540	5,453
Taxation	(3,163)	(3,777)
Surplus after taxation for the year	1,377	1,676