THE MCPS-PRS ALLIANCE LIMITED

DIRECTORS' REPORT & ACCOUNTS
For the year ended 31 December 2003

Registered No: 3444246

The directors herewith present the annual report and accounts for the year ended 31 December 2003.

Principal activity and review of the business
The principal activity of the Company is to provide operational services to the Mechanical-Copyright Protection Society Limited (MCPS) and the Performing Right Society Limited (PRS). The costs incurred by the Company are charged to MCPS and PRS as operating fees in proportion to the work carried out on behalf of each Society. MCPS and PRS each own 50% of the Company. The allocation of costs is in accordance with the principles set out in the shareholders' agreement between MCPS and PRS. The profit and loss account shows a loss before tax of £72,000 for the year (2002: £126,000). No dividend is proposed.

Directors
The directors during the year were:

Nominated by MCPS

Jonathan Simon (Joint Chairman)	Peter Cornish	Barrie Guard
Tom Bradley	Crispin Evans	Sarah Rodgers

Nominated by PRS

David Bedford (Joint Chairman)	Peter Callander	Michael Leeson
Nigel Beaham Powell	Nigel Elderton	Ellis Rich

Executive Directors

John Hutchinson	Steve Porter
David Lester	John Rathbone

External Directors
Malcolm Coster
David Kee

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

Corporate governance
The Company's Board has eight 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 Joint Chairmen, Chief Executive and Secretary, and receives regular reports on individual business units within the Company.

The Risk Management Committee met three 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.

Charitable donations
The Company paid donations on behalf of MCPS amounting to £9,330 during the year (2002: £14,195).

Employee involvement
The Company recognises the importance of keeping employees informed of all developments regarding the Company's work and progress and to this end, copies of all the publications produced by the Company are freely available to all employees.

To achieve a common understanding and awareness amongst all employees of the Company's five and one year plans, an extensive briefing and consultation process is undertaken annually.

Equal opportunity
The Company actively pursues a policy of providing equal opportunity to all its employees for internal training, development and promotion, and to applicants for employment. It does so without regard to colour, creed, ethnic origins, gender or any other grounds.

Disabled persons
The Company complies with the requirements of the Disability Discrimination Act of 1995, which came into effect in December 1996, and is keeping its employment policies and procedures under review to ensure that disabled persons are not treated any less favourably than able-bodied persons.

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

J. A. Lester

By order of the Board
David Lester
Secretary
12 May 2004

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare the accounts for each financial year which give a true and fair view of the state of affairs of the Company and of its profit or loss for that year. In preparing those accounts, the directors are required to:

(a) select suitable accounting policies and then apply them consistently;

(b) make judgements and estimates that are reasonable and prudent;

(c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and

(d) 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.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF THE MCPS-PRS ALLIANCE LIMITED

We have audited the Company's accounts for the year ended 31 December 2003, 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 18. These accounts have been prepared on the basis of 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
As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards.
Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

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 if, in our opinion, the directors' report is not consistent with the accounts, 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 with the company 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 United Kingdom 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 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 of the state of affairs of the Company as at 31 December 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

12 May 2004

PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2003

	Notes	2003 £'000	As restated 2002 £'000
Turnover	2	**59,963**	55,833
Licensing and administration expenses	3,4,18	**(60,041)**	(55,968)
Operating loss		**(78)**	(135)
Bank interest receivable		**6**	9
Loss on ordinary activities before taxation		**(72)**	(126)
Tax on loss on ordinary activities	5	**(90)**	44
Retained loss for the year	15	**(162)**	(82)

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2003 £'000	As restated 2002 £'000
Loss for the financial year	**(162)**	(82)
Unrealised surplus on revaluation of land and buildings	**188**	-
Total recognised gain/(loss) for the year	**26**	(82)
Prior year adjustment (note 1)	**11,195**	-
Total gain/(loss) recognised since the last annual report	**11,221**	(82)

NOTE OF HISTORICAL COST PROFITS AND LOSSES

	2003 £'000	As restated 2002 £'000
Reported loss on ordinary activities before taxation	**(72)**	(126)
Difference between historical cost depreciation Charge and the actual charge calculated on the revalued amount	**78**	157
Historical cost profit on ordinary activities before taxation	**6**	31
Historical cost (loss)/profit for the year retained after taxation	**(84)**	75

BALANCE SHEET
At 31 December 2003

	Notes	2003 £'000	As restated 2002 £'000
Fixed assets			
Tangible assets	6	**54,772**	54,125
Investments	9	**17,003**	17,003
		71,775	71,128
Current assets			
Debtors	10	**1,567**	2,732
Cash at bank and in hand		**220**	79
		1,787	2,811
Creditors: amounts falling due within one year	11	**(7,141)**	(6,701)
Net current liabilities		**(5,354)**	(3,890)
Total assets less current liabilities		**66,421**	67,238
Creditors: amounts falling due after more than one year	12	**(37,647)**	(38,580)
Provisions for liabilities and charges			
Deferred taxation	5	**(404)**	(314)
		(38,051)	(38,894)
		28,370	28,344
Financed by			
Called up share capital	13	**1**	1
Other reserves	14	**17,002**	17,002
Revaluation reserve	15	**11,305**	11,195
Profit and loss account	15	**62**	146
Equity shareholders' funds	15	**28,370**	28,344

The accounts were approved by the Board on 12 May 2004 and were signed on its behalf by:

Directors

STATEMENT OF CASH FLOWS
For the year ended 31 December 2003

	2003 £'000	2002 £'000
Net cash inflow from operating activities	**12,555**	19,089
Returns on investments and servicing of finance	**6**	9
Taxation received/(paid)	**2**	(1)
Capital expenditure	**(12,422)**	(19,205)
Increase/(decrease) in cash	**141**	(108)

NOTES TO STATEMENT OF CASH FLOWS

Reconciliation of operating loss to net cash inflow from operating activities:

	£'000	£'000
Operating loss	**(78)**	(135)
Depreciation	**11,976**	11,110
(Profit)/loss on sale of fixed assets	**(13)**	2
Decrease/(increase) in debtors	**1,165**	(926)
(Decrease)/increase in net amount due to parent companies	**(933)**	9,409
Increase/(decrease) in creditors	**438**	(371)
Net cash inflow from operating activities	**12,555**	19,089

Gross Cash Flows:

	2003 £'000	2002 £'000
a. **Returns on investments and servicing of finance**		
Interest received	**6**	9
b. **Taxation**		
Corporation tax refund/(paid)	**2**	(1)
c. **Capital expenditure**		
Payments to acquire tangible fixed assets	**(12,448)**	(19,238)
Receipts from sale of tangible fixed assets	**26**	33
	(12,422)	(19,205)

Reconciliation of net cash flow to movement in net funds

	2003 £'000	2002 £'000
Increase/(decrease) in cash in the year	**141**	(108)
Net funds at 1 January	**79**	187
Net funds at 31 December	**220**	79

Analysis of changes in net funds

	At 1 Jan 2003 £'000	Cash flow 2003 £'000	At 31 Dec 2003 £'000
Cash at bank and in hand	79	141	220

1. Accounting Policies

Accounting convention and change in accounting policy

The accounts have been prepared under the historical cost convention modified to include the revaluation of freehold and leasehold land and buildings and in accordance with applicable accounting standards.

Previously the freehold and leasehold land and buildings were stated at either historic cost or surrogate historic cost, in accordance with the transitional provisions of FRS15 Tangible Fixed Assets. This change in accounting policy has resulted in a prior year adjustment. Shareholders' funds have been increased by £10,954,000 at 1 January 2002 and by £241,000 at 31 December 2002. The loss for the current year has been increased by £78,000 as a result of the change in accounting policy.

Definitions

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

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.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated 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.

Pension costs

The expected cost of pensions in respect of the defined benefit pension schemes is charged to the profit and loss account so as to spread the cost of pensions over the service lives of employees in the scheme. Variations from the regular cost are spread over the expected remaining service lives of current employees in the scheme. The pension cost is assessed in accordance with the advice of qualified actuaries.

The Company also makes contributions to a defined contribution pension scheme. Contributions are charged in the profit and loss account as they become payable.

Fixed assets

Fixed assets are initially stated at cost. All freehold and leasehold land and buildings have been revalued as at 31 December 2003, at market value, based on existing use, as in the directors' opinion this provides a fairer indication of the value of assets used by the business. The increase has been taken to the revaluation reserve.

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Company are capitalised in the balance sheet and are depreciated over their useful lives.

Depreciation

Depreciation is calculated to write-off the assets evenly over their expected useful lives at the following rates:

Freehold land and buildings	1% per annum
Leasehold buildings	length of lease - min 1% per annum
Property improvements	5% per annum
Computer systems and equipment	14-50% per annum
Motor vehicles	length of lease

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable. During the year, the directors reviewed the economic useful life of the computer systems, as a result some are now being depreciated over seven years.

Investments
Investments are valued at cost less provisions where, in the opinion of the directors, there has been an impairment in value. The carrying values of investments are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Deferred taxation
Deferred tax 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 a right to pay less or to receive more tax, except that 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.

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 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.

Leasing commitments
Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

2. Turnover
Turnover, which is stated net of VAT, comprises the costs of operating the Company (as charged to the parent companies in proportion to the work carried out on behalf of each). Turnover is accounted for on an invoiced basis and is made up as follows:

	2003	2002
	£'000	£'000
Operating fees to MCPS	**17,338**	16,695
Operating fees to PRS	**42,625**	39,032
Licence Fees	-	106
	59,963	55,833

3. Licensing and administration expenses
Licensing and administration expenses include:

		2003	As restated 2002
		£'000	£'000
Depreciation on owned fixed assets		**11,671**	10,801
Depreciation of assets held under finance leases		**305**	309
(Profit)/loss on disposal of fixed assets		**(13)**	2
Auditors' remuneration	- audit	**53**	55
	- non-audit services	**54**	80
Operating lease rentals	- computer and office machinery	**1,529**	173

4. Emoluments of directors and employees

a. Directors' emoluments:

The Company had four executive directors, J Hutchinson, D Lester, S Porter and J Rathbone throughout the year ended 31 December 2003. Their total emoluments, and those of the non-executive directors, were recharged to MCPS and PRS in proportion to the services supplied to each company, and are included in the table below:

	2003	2002
	£'000	£'000
Emoluments	**1,273**	1,069
Company contributions paid to defined benefit pension schemes	**37**	26
Company contributions to defined contribution pension schemes	**107**	91

	2003	2002
	No.	No.
Members of defined benefit pension schemes	**2**	2
Members of defined contribution pension schemes	**3**	3

The amounts in respect of the highest paid director are as follows:

	2003	2002
	£'000	£'000
Emoluments	**394**	315
Company contributions to defined contribution pension schemes	**76**	73

The following information is provided, in relation to loans to directors, pursuant to section 232 to the Companies Act 1985 as amended.

		Balance Outstanding 1 January 2003	**Balance Outstanding 31 December 2003**	**Maximum Liability during the period**
		£	**£**	**£**
J Rathbone	- season ticket loan	243	249	2,987
S Porter	- season ticket loan	0	0	2,295

The season ticket loans were both interest-free loans repayable in 12 monthly instalments.

b. Staff costs:

The monthly average number of persons, excluding directors, employed by the Company during the year was:

	2003	2002
	No.	No.
Licensing	**260**	251
Distribution and Membership	**359**	388
Support services	**227**	242
	846	881

The aggregate staff costs are analysed as follows:

	2003 £'000	2002 £'000
Salaries	**23,608**	23,367
Social security costs	**2,155**	2,107
Costs of pension and similar benefits	**3,029**	2,316
	28,792	27,790

5. Taxation

(a) Analysis of charge/(credit) in year

	2003 £'000	(As restated) 2002 £'000
Current tax		
UK Corporation tax charge	-	-
Deferred taxation		
Origination and reversal of timing differences	**90**	(44)
Tax on loss on ordinary activities	**90**	(44)

(b) Factors affecting tax charge for year

The tax assessed for the period is higher than the standard rate of corporation tax in the UK. The differences are explained below:

	2003	2002
Loss on ordinary activities before tax	**(72)**	(126)
Corporation tax at 30% (2002 - 30%)	**(22)**	(38)
Effects of		
Expenses not deductible for tax purposes	**45**	150
Capital allowances for period in excess of depreciation	**(9)**	(619)
Increase in provisions	**(14)**	(3)
Losses arising in the year not relievable against current tax	-	510
Total current tax	-	-

(c) Factors that may affect future tax charges

The Company has recognised a net deferred tax liability of £404,000 (2002 - £314,000). The actual corporation tax that will arise on the reversal of this liability in the future will depend on the tax rate applicable to the level of taxable profits reported by the Company. The deferred tax liability has been calculated based on the full 30% tax rate. The increase in the provision for deferred tax is due to the origination and reversal of timing differences during the year.

(d) Deferred tax

The deferred tax included within provisions for liabilities and charges on the balance sheet is as follows:

	2003 £'000	2002 £'000
Accelerated capital allowances	**454**	1,004
Tax losses carried forward	**(34)**	(659)
Other timing differences	**(16)**	(31)
	404	314

No provision has been made for deferred tax on gains recognised on revaluing property to its market value. Such tax would become payable only if the properties were sold without it being possible to claim rollover relief. The total amount not provided for is £480,000. At present it is not envisaged that any tax will become payable in the foreseeable future.

6. Tangible fixed assets

	Land & Buildings Freehold £'000	Land & Buildings Leasehold & Improvements £'000	Computer Systems & Equipment £'000	Motor Vehicles £'000	Total £'000
Cost or valuation					
At 1 January 2003 as previously stated	2,103	13,383	64,042	1,263	80,791
Effect of prior year adjustment on :					
Revaluation gain in respect of 2001	225	10,808	-	-	11,033
Revaluation gain in respect of 2002	43	276	-	-	319
At 1 January 2003 as restated	2,371	24,467	64,042	1,263	92,143
Surplus on revaluation	44	144	-	-	188
Additions	-	398	11,829	221	12,448
Disposals	-	-	(6,996)	(150)	(7,146)
At 31 December 2003	**2,415**	**25,009**	**68,875**	**1,334**	**97,633**
Depreciation					
At 1 January 2003 as previously stated	736	6,367	30,182	576	37,861
Effect of prior year adjustment on :					
Depreciation in respect of 2001	5	74	-	-	79
Depreciation in respect of 2002	5	73	-	-	78
At 1 January 2003 as restated	746	6,514	30,182	576	38,018
Charge for the year	44	513	11,114	305	11,976
Disposals	-	-	(6,996)	(137)	(7,133)
At 31 December 2003	**790**	**7,027**	**34,300**	**744**	**42,861**
Net book value					
At 31 December 2003	**1,625**	**17,982**	**34,575**	**590**	**54,772**
Net book value					
At 1 January 2003 as restated	1,625	17,953	33,860	687	54,125
Net book value					
At 1 January 2003 as previously stated	1,367	7,016	33,860	687	42,930

The net book value of leasehold and improvements at 31 December 2003 included £17.6m (2002: £6.7m) on long leases and £0.3m (2002 : £0.3m) on short leases. The net book value of motor vehicles held under finance lease agreements is £0.6m (2002: £0.7m) with all lease obligations paid in advance.

Freehold and leasehold land and buildings were revalued by Edwin Hill Chartered Surveyors on 30 September 2003 on the basis of their current use value. This value has been used at 31 December 2003 as in the directors' opinion there was no material change in the three months to this date. This represents a change in accounting policy as, in the opinion of the directors, the market value provides a fairer view of the resources used by the Company than the historical cost value. On the historical cost basis, freehold and leasehold land and buildings would have been included as follows :

	Freehold £'000	Leasehold £'000
Cost		
At 1 January 2003	2,103	13,383
At 31 December 2003	2,103	13,781
Cumulative depreciation based on cost		
At 1 January 2003	736	6,367
At 31 December 2003	775	6,807

During the year a review of the estimated useful life of the tangible fixed assets resulted in some computer systems being depreciated over seven years. The effect of this was to reduce the depreciation charge for the year and increase the net book value of tangible fixed assets at 31 December 2003 by £835,000.

7. Capital commitments

Capital expenditure authorised and contracted for at 31 December 2003 was £0.8 million (2002: £1.0 million).

8. Other financial commitments

At 31 December 2003 the Company had annual commitments under non-cancellable operating leases as set out below:

	Computer systems and equipment	
	2003 £'000	2002 £'000
Operating leases which expire:		
Within one year	**15**	95
In two to five years	**1,369**	1,025
	1,384	1,120

9. Fixed asset investments

There was no movement in the investment in subsidiary undertakings during the year.

The investment in subsidiary undertakings at 31 December 2002 and 31 December 2003 was:

	Number and type of shares held	Cost of shares in subsidiary undertakings £'000	Proportion of share capital owned %	Aggregate capital & reserves £'000
Idealcarry Limited	1,000 ordinary £1 shares	14,275	100	14,275
Carrybuild Limited	1,000 ordinary £1 shares	2,728	100	2,728
		17,003		

Neither of the above companies traded during 2003 nor are they expected to trade in the foreseeable future.

10. Debtors

	2003 £'000	2002 £'000
Trade debtors	**332**	304
Other debtors	**428**	848
Prepayments and accrued income	**807**	1,580
	1,567	2,732

11. Creditors: amounts falling due within one year

	2003 £'000	2002 £'000
Trade creditors	**6,418**	5,890
Corporation tax	**2**	-
Taxation and social security	**721**	811
	7,141	6,701

12. Creditors: amounts falling due after more than one year

	2003 £'000	2002 £'000
Interest-free loans	**17,001**	17,001
Due to PRS	**14,725**	15,318
Due to MCPS	**5,921**	6,261
	37,647	38,580

The interest-free loans represent loans from the Company's subsidiary undertakings, Idealcarry Limited and Carrybuild Limited, arising on the transfer of those companies' assets to MCPS-PRS on 1 January 1998.

13. Share capital

	2003 £'000	2002 £'000
Ordinary shares of £1 each:		
Authorised	**50**	50
Allotted, called up and fully paid	**1**	1

14. Other reserves

This reserve arose as a result of the transactions which took place on 1 January 1998, through which MCPS and PRS transferred their respective fixed assets, employees and back-office operations to the Company and each took a 50% interest in the Company.

15. Reconciliation of shareholders' funds and movement on reserves

	Share capital	Other reserves	Revaluation reserve	Profit and loss account	Total shareholders' funds
	£'000	£'000	£'000	£'000	£'000
At 1 January 2002	1	17,002	-	71	17,074
Profit for the year	-	-	-	75	75
At 1 January 2003 as previously stated	**1**	**17,002**	**-**	**146**	**17,149**
Effect of prior year adjustment on :					
Revaluation in respect of 2001	-	-	11,033	-	11,033
Depreciation charge in 2001	-	-	-	(79)	(79)
Transfer between reserves	-	-	(79)	79	-
Revaluation in respect of 2002	-	-	319	-	319
Depreciation charge in 2002	-	-	-	(78)	(78)
Transfer between reserves	-	-	(78)	78	-
At 1 January 2003 as restated	1	17,002	11,195	146	28,344
Loss for the year	-	-	-	(162)	(162)
Revaluation of tangible assets	-	-	188	-	188
Transfer between reserves	-	-	(78)	78	-
At 31 December 2003	1	17,002	11,305	62	28,370

The prior year adjustment relates to the revaluation of freehold and leasehold land and buildings as described in note 1 under "Accounting convention and change in accounting policy".

The transfer between reserves is the depreciation charged on the revalued amount of freehold and leasehold land and buildings.

16. Related party transactions

The Company's turnover is operating fees recharged to its parent companies MCPS and PRS as analysed per note 2, and licence fees. The licence fees receivable were also payable to MCPS and PRS. Amounts due to the Company's parent companies at the balance sheet date are disclosed in note 12.

17. Parent companies

The Company is jointly owned by Mechanical-Copyright Protection Society Limited and Performing Right Society Limited, each of which owns 50% of the issued share capital.

18. Pensions

The Company operates two contributory pension schemes, The MCPS-PRS Alliance Pension Scheme (formerly the PRS scheme) and The MCPS-PRS Alliance Pension Scheme (MCPS), (formerly the MCPS scheme). The MCPS-PRS Alliance Pension Scheme (MCPS) was closed to new entrants from 1 January 1999 and The MCPS-PRS Alliance Pension Scheme was closed to new entrants from 1 January 2003. As a result, under the projected unit valuation method the current service cost for both schemes will increase as employees approach retirement.

Both schemes provide benefits based on final pensionable salary and are funded by the payment of contributions to separately administered trust funds. The cost to the Company of operating these schemes during 2003 was £2.9 million (2002: £2.0 million).

A full actuarial valuation of The MCPS-PRS Alliance Pension Scheme was carried out at 31 December 2002 by a qualified independent actuary. Contributions were paid at 18% of pensionable salaries up to December 2002, 22% up to September 2003, increasing to 30% from October 2003. These rates are inclusive of employee contributions which averaged 4.2% up to December 2002, 5% up to December 2003 and increasing to 8% from January 2004.

A full actuarial valuation of The MCPS-PRS Alliance Pension Scheme (MCPS) was carried out as at 1 January 2003 by a qualified independent actuary. Contributions were paid at 15.4% of pensionable salaries to December 2002, 16.4% from January 2003, increasing to 30% from January 2004. These rates are inclusive of employee contributions which averaged 4% up to December 2002, 4.5% up to December 2003 and increasing to 8% from January 2004.

Main actuarial assumptions used for the valuations were as follows :

	MCPS-PRS Alliance Pension Scheme	MCPS-PRS Alliance Pension Scheme (MCPS)
Main assumptions		
Rate of return on investments (% per annum)	6.5	6.5
Rate of salary increases (% per annum)	3.5	4.0
Rate of pensions increases (% per annum)	2.4	2.4 to 3.5
Market value of scheme's assets (£'000)	50,440	7,993
Level of funding being actuarial value of assets expressed as a percentage of the benefits accrued to members, after allowing for future salary increases	64%	59%

FRS17 valuations of both pension schemes were carried out as at 31 December 2003 by qualified independent actuaries. The major assumptions were:

	MCPS-PRS Alliance Pension Scheme		
	2003	2002	2001
Rate of increase in salaries	**3.80%**	3.90%	3.75%
Rate of increase of LPI pensions in payment	**2.80%**	2.40%	2.25%
Rate of revaluation of deferred pensions	**2.80%**	2.40%	2.25%
Discount rate	**5.40%**	5.50%	6.00%
Inflation assumption	**2.80%**	2.40%	2.25%

	MCPS-PRS Alliance Pension Scheme (MCPS)		
	2003	2002	2001
Rate of increase in salaries	**3.80%**	3.90%	4.25%
Rate of increase of pensions in payment (LPI)	**2.80%**	2.40%	2.75%
Rate of increase of LPI pensions in payment (LPI min 3)	**3.80%**	3.40%	3.75%
Discount rate	**5.40%**	5.40%	5.75%
Inflation assumption	**2.80%**	2.40%	2.75%
Loading for mortality improvements	**5.00%**	0.00%	0.00%

The assets in the scheme and the expected rate of return were:

MCPS-PRS Alliance Pension Scheme

	2003 %	**2003** £'000	2002 %	2002 £'000	2001 %	2001 £'000
Equities	**6.80**	**43,030**	6.30	36,463	7.00	46,427
Bonds (average)	**4.50**	**13,784**	4.10	8,793	4.75	12,416
Other	**3.40**	**3,596**	3.10	4,998	3.5	400
Total market value of assets		**60,410**		50,254		59,243
Actuarial value of liability		**(94,920)**		(87,929)		(73,543)
FRS17 deficit in the scheme		**(34,510)**		(37,675)		(14,300)
Related deferred tax asset		**10,353**		11,303		4,290
Net FRS17 pension liability		**(24,157)**		(26,372)		(10,010)

MCPS-PRS Alliance Pension Scheme (MCPS)

	2003 %	**2003** £'000	2002 %	2002 £'000	2001 %	2001 £'000
Equities	**7.40**	**6,823**	7.00	6,616	7.00	8,998
Gilts	**4.80**	**937**	5.40	1,057	5.75	1,170
Corporate bonds	**5.40**	**998**	5.40	-	5.75	-
Other	**4.00**	**129**	5.40	455	7.00	543
Total market value of assets		**8,887**		8,128		10,711
Actuarial value of liability		**(14,604)**		(13,297)		(12,822)
FRS17 deficit in the scheme		**(5,717)**		(5,169)		(2,111)
Related deferred tax asset		**1,715**		1,551		633
Net FRS17 pension liability		**(4,002)**		(3,618)		(1,478)

Reconciliation to the balance sheet:

	2003	**Reserves 2002 (as restated)**	**2001 (as restated)**
	£'000	£'000	£'000
Excluding pension liability	**28,369**	28,343	28,027
FRS 17 pension liability	**(28,159)**	(29,990)	(11,488)
Including pension liability	**210**	(1,647)	16,539

	2003	Net assets 2002 (as restated)	2001 (as restated)
	£'000	£'000	£'000
Excluding pension liability	28,370	28,344	28,028
FRS 17 pension liability	(28,159)	(29,990)	(11,488)
Including pension liability	211	(1,646)	16,540

	MCPS-PRS Alliance Pension Scheme		MCPS-PRS Alliance Pension Scheme (MCPS)	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Analysis of the amount charged to operating profit:				
Current service cost	1,737	1,205	511	586
Past service cost	-	-	(7)	-
Total operating charge	1,737	1,205	504	586
Analysis of net return on pension scheme:				
Expected return on pension scheme assets	2,827	3,861	515	726
Interest on pension liabilities	(4,832)	(4,406)	(696)	(737)
Net return – finance cost	(2,005)	(545)	(181)	(11)
Analysis of amounts recognised in statement of total recognised gains and losses (STRGL):				
Actual return less expected return on assets	6,878	(13,075)	1,143	(3,039)
Experience gains and losses on liabilities	1,532	-	(294)	342
Changes in assumptions	(3,827)	(10,215)	(1,137)	(91)
Actuarial gain/(loss) recognised	4,583	(23,290)	(288)	(2,788)
Movement in deficit during the year:				
Deficit in scheme at beginning of year	(37,675)	(14,300)	(5,169)	(2,111)
Current service cost	(1,737)	(1,205)	(511)	(586)
Contributions	2,324	1,665	425	327
Past service costs	-	-	7	0
Net return - finance cost	(2,005)	(545)	(181)	(11)
Actuarial gain/(loss)	4,583	(23,290)	(288)	(2,788)
Deficit in scheme at end of year	(34,510)	(37,675)	(5,717)	(5,169)
History of experience gains and losses:				
Difference between expected and actual return on scheme assets	6,878	(13,075)	1,143	(3,039)
Percentage of scheme assets (%)	11.0%	(26.0%)	13.0%	(37.0%)
Experience gains and losses on scheme liabilities	1,532	-	(294)	342
Percentage of scheme liabilities (%)	2.0%	0.0%	(2.0%)	2.6%
Total amount recognised in statement of total recognised gains and losses	4,583	(23,290)	(288)	(2,788)
Percentage of scheme liabilities	5.0%	(26.5%)	(2.0%)	(21.0%)

The Company also operates a separate pension scheme for those employees based at the Dublin branch of MCPS. The pension scheme for Ireland-based employees is a defined contribution scheme.

From January 2003, a new defined contribution pension scheme called The Alliance Defined Contribution Pension Scheme was open to all employees not in an existing scheme.