COMPANY NO. 288046

PHONOGRAPHIC PERFORMANCE LIMITED
(A Company Limited by Guarantee)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

PHONOGRAPHIC PERFORMANCE LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2010

The directors submit the annual report and financial statements to the Members for the year ended 31 December 2010.

PRINCIPAL ACTIVITY

The company's principal activity is the collection of UK and International income for broadcasting and public performance of sound recordings on behalf of its Members.

The total amount available for distribution is distributed to the company's Members and Performer members, with the intention that there are no retained reserves at any particular balance sheet date. The recognition of the net pension liability on introduction of FRS 17 in 2005 resulted in a deficit on the income, expenditure and distribution account.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

During the year the company increased its licence fee revenue from most sources in accordance with management objectives. It is expected that this trend will continue.

PPL considers its key performance indicators to be income, income growth and cost to income ratio. After a difficult year in 2009, following the Copyright Tribunal decision on three Public Performance Background Music Tariffs, PPL has delivered a strong set of results in 2010. Broadcasting income grew by £1.2 million (4%). Public performance income in the year increased by £2.6 million (2.5%), despite the focus placed on processing the significant volume of refunds resulting from the Copyright Tribunal decision in 2009. International revenue increased by £10.1 million (47%) to £31.7 million. The cost to revenue ratio was 13.6%, the lowest level for over 10 years. This was driven by strong revenue growth in the year and management expects the level to return closer to 15% in future periods, as further investment is required to drive increased income growth.

BUSINESS ENVIRONMENT

In tough market conditions for PPL's Members the changes within the music business in recent times have been immense. Sales of physical music carriers continue to decline generally around the world though the 'use' of music continues to grow as media expands and public performance and dubbing increases. Additionally, in 2010 PPL has operated against the backdrop of the public performance Copyright Tribunal decision, which has meant a number changes to existing processes as well as the calculation and processing of a huge volume of refunds, as ordered by the tribunal

STRATEGY

It is critical that the company plans carefully for the future. Investment in systems will continue to meet the demands of increasing membership, evolving media, new tariffs and the developments that the company has started, and will continue, to make in overseas collection for Members and Performer members. In addition to investment in systems, the company will continue to place increasing emphasis on staff and employee training. The company needs to maintain the high quality of service for Members and Performer members against a backdrop of increasing media platforms and expanding numbers of territories.

PRINCIPAL RISKS & UNCERTAINTIES

The economy continues to play a part in our ability to collect licensing income and 2010 proved particularly difficult in some markets; such as the retail and pub industry where business closures resulted in less venues playing music. We would hope to see collection rates and income increase in

2011 as PPL continues to increase resources and improve systems in areas that relate to income collection.

KEY PERFORMANCE INDICATORS

The Key Performance Indicators (KPIs) used by PPL to measure annual performance are summarised below:-

KPI	**2010**	**2009**
Public performance and dubbing income	£50.1m	£48.9m
Broadcasting and online income	£61.7m	£59.1m
International income	£31.7m	£21.6m
Licence fee income before public performance refund	£143.5m	£129.6m
Licence fee income	£143.5m	£111.4m
Distributable revenue	£121.1m	£91.5m
Cost to income ratio	13.6%	14.6%

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting 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 financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to auditors

In the case of each of the persons who are directors at the time when the report is approved, the following applies:

- so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware; and

- they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

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

CHARITABLE DONATIONS

The following charitable donations were made during the year ended 31 December 2010:

Hospital Broadcasting Association	£30,000
The Young Musicians Symphony Orchestra	£5,000
Crisis UK	£9,500
Young Persons Concert Foundation	£11,000
The Brit School	£10,000

DIRECTORS AND THEIR INTERESTS

The directors of the company, who served throughout the year from 1 January 2010 to 31 December 2010, unless otherwise noted, were as follows:

G Barnham
D Carroll
A Clark
J Cross (appointed 12 October 2010*)
R Evers
J French
M Kelly
P Leathem
D McGonigal
M Mills
F Nevrkla
G Newson
J Radice
A Sear
P Stack (appointed 16 February 2010)
Rt Hon. Lord Smith of Finsbury
M Smith
J Smith

*(*as alternate for R Evers)*

None of the directors who held office at the end of the financial year had any disclosable interest in the company.

By Order of the Board

D HARMSWORTH
SECRETARY

5th April 2011

We have audited the financial statements of Phonographic Performance Limited for the year ended 31 December 2010 which comprise the Income, Expenditure and Distribution Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on page 4 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its result and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PHONOGRAPHIC PERFORMANCE LIMITED FOR THE YEAR ENDED 31 DECEMBER 2010

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

B Henderson

Brian Henderson (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
5th April 2011

PHONOGRAPHIC PERFORMANCE LIMITED INCOME, EXPENDITURE AND DISTRIBUTION ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2010

		Year Ended 31 December 2010		Year Ended 31 December 2009	
	Note	**£'000**	**£'000**	**£'000**	**£'000**
Licence fee income before exceptional item		143,494		129,567	
Public performance refund		-		(18,127)	
	2		143,494		111,440
Cost of collection and distribution		(19,582)		(18,868)	
Cost of servicing the defined benefit pension scheme		(383)		(180)	
Total cost of collection and distribution			(19,965)		(19,048)
Net income from operating activities before interest and taxation	3		123,529		92,392
Interest receivable			990		2,104
Interest payable	5		(464)		(1,521)
Other finance income/(costs)	13		27		(71)
Net income from operating activities before taxation			124,082		92,904
Taxation	8		-		-
Amount available for distribution			124,082		92,904
Anti-piracy/copyright protection/industry contributions	4		(3,005)		(1,383)
Amount to be distributed to Members and Performers			(121,077)		(91,521)
Retained reserves	14		Nil		Nil

Cost to Income Ratio (excluding pension scheme costs and exceptional item)	13.6%	14.6%

The results above relate entirely to continuing operations.

PHONOGRAPHIC PERFORMANCE LIMITED
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	Year Ended 31 December 2010 £'000	Year Ended 31 December 2009 £'000
Retained reserves		-	-
Actuarial gain / (loss) on pension scheme	14	424	(2,730)
Movement in deferred tax on pension scheme	14	(263)	-
Total recognised gains / (losses) for the year		161	(2,730)

PHONOGRAPHIC PERFORMANCE LIMITED
BALANCE SHEET
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	31 December 2010 £'000	31 December 2010 £'000	31 December 2009 £'000	31 December 2009 £'000
Fixed assets					
Tangible assets	9		8,009		6,208
Current assets					
Licence fees receivable		21,623		25,124	
Other debtors		500		1,697	
Prepayments and accrued income		912		2,997	
Short term fixed deposits		50,000		62,000	
Cash at bank and in hand		22,548		24,656	
		95,583		116,474	
Creditors: amounts falling due within one year	10	(105,895)		(122,351)	
Net current liabilities			(10,312)		(5,877)
Total assets less current liabilities			(2,303)		331
Provisions for liabilities and charges	11		(790)		(1,220)
Net pension liability	13		(1,207)		(3,572)
Net liabilities			(4,300)		(4,461)
Reserves					
Income, expenditure and distribution account	14		(4,300)		(4,461)

The financial statements which comprise the Income, Expenditure and Distribution account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes were approved by the board of directors on 5 April 2011 and are signed on its behalf by:

F Nevrkla
Director

M Mills
Director

COMPANY NO. 288046

PHONOGRAPHIC PERFORMANCE LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	Year Ended 31 December 2010 £'000	Year Ended 31 December 2010 £'000	Year Ended 31 December 2009 £'000	Year Ended 31 December 2009 £'000
Net cash inflow from operating activities	15		109,430		113,889
Returns on investments and servicing of finance					
Interest received		573		1,328	
Interest paid		(464)		(1,521)	
Net cash inflow/(outflow) from returns on investments and servicing of finance			109		(193)
Capital Expenditure					
Payment to acquire tangible fixed assets		(3,322)		(4,365)	
Net cash outflow from capital expenditure			(3,322)		(4,365)
Distributions					
Payments to Members & Performers		(117,320)		(112,682)	
Anti-piracy/copyright protection contributions paid		(3,005)		(1,898)	
Net cash outflow from distributions			(120,325)		(114,580)
Net cash outflow before use of liquid resources			(14,108)		(5,249)
Management of liquid resources					
Decrease in cash placed on fixed term deposits			12,000		11,000
(Decrease) / increase in cash	16		(2,108)		5,751

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom and the Companies Act 2006. A summary of the more important accounting policies, which have been applied consistently, is set out below.

a) Format of income, expenditure and distribution account and the balance sheet

The formats of the income, expenditure and distribution account and the balance sheet have been adapted from that prescribed by the Companies Act 2006 in order to better reflect the nature of the business.

b) Basis of accounting

The financial statements have been prepared on the going concern basis under the historical cost convention. Management considers the going concern basis to be appropriate despite the net current liability position as the timing of current liabilities payable to members is at the discretion of PPL.

c) Contributions to pensions

During the year the company operated a contributory defined benefit pension scheme covering its permanent employees and those of Video Performance Limited. FRS17 “Retirement Benefits” requires the net pension asset or liability of a company’s pension scheme to be recognised in full on the balance sheet. Since Phonographic Performance Limited makes the majority of contributions to the pension scheme and is also making additional contributions in order to fund the deficit, then it is Phonographic Performance Limited who bears the risks and rewards of the deficit or surplus in the scheme. Accordingly the full net pension liability has been recorded in the balance sheet of Phonographic Performance Limited and no liability has been recorded in Video Performance Limited.

The regular service cost of providing pension benefits to employees during the year, together with the costs of any benefits relating to past service, is charged to costs of collection and distribution in the income, expenditure and distribution account in the year.

Interest on the pension scheme liabilities is charged to other finance costs in the income, expenditure and distribution account.

The expected return on the assets of the pension scheme during the year is based on the market value of the assets at the start of the financial year and is offset within other finance costs in the income, expenditure and distribution account.

The difference between the actual and expected return on the assets of the scheme is shown in the statement of total recognised gains and losses for the year, along with any related movement in deferred tax.

The difference between the market value of the assets and the present value of the scheme liabilities is shown net of deferred tax in the balance sheet.

The last formal valuation was undertaken on the position as at 30^{th} June 2009.

1. ACCOUNTING POLICIES (continued)

d) Licence fee income

Licence fee income, which excludes value added tax, represents the invoiced value, and is recognised evenly over the period of the licence term.

Licence fee income from overseas societies is recognised when an agreement is in place with the overseas society and on a cash-received basis.

e) Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is provided at rates calculated to write off the cost of each asset over the expected useful life or pre-determined replacement date:

Fixtures and fittings	3 years on a straight line basis
Office equipment	3 years on a straight line basis
Computer hardware & software	3 years on a straight line basis
Computer software (systems)	5 years on a straight line basis

f) Unclaimed Members' and Performers' distributions

Allocations to Members and Performers remaining unclaimed for more than seven years are reallocated and redistributed in accordance with the Distribution Policy.

g) Interest payable to Members and Performers

Interest is accrued on balances payable to Members and Performers who do not receive advances at a rate based on the average deposit rate earned by the company for the relevant periods.

h) Foreign currencies

Foreign currency assets and liabilities are translated at the rates of exchange ruling at the balance sheet date. Foreign currency transactions during the year are translated at the rate ruling on the date of the transaction. All foreign exchange differences are taken to the income, expenditure and distribution account in the year in which they arise.

i) Operating leases

Costs in respect of operating leases are charged to the income, expenditure and distribution account on a straight-line basis over the lease term.

PHONOGRAPHIC PERFORMANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

1. ACCOUNTING POLICIES (continued)

j) Taxation

Corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

k) Deferred taxation

Deferred taxation has been recognised as a liability or an asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in the future, or a right to pay less taxation in the future, using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date. An asset is not recognised to the extent that the transfer of economic benefits in the future is uncertain. Deferred tax assets and liabilities recognised have not been discounted

l) Provisions for liabilities and charges

Dilapidations
Provision is made for dilapidations where the lease requires the reinstatement of the premises to its original state. The level of provision is based upon a damages report and is reviewed annually.

Legal costs
Provision is made for the estimated legal costs where litigation is pending and an obligating event has occurred prior to the balance sheet date.

Refunds
Provision is made for all significant refunds made in the post balance sheet period which relate to licence fees received in the year.

Provisions for liabilities and charges are not discounted and any movements in the provisions are recorded in the income, expenditure and distribution account.

2. LICENCE FEE INCOME

Licence fee income comprises the following:

	Year Ended 31 December 2010 £'000	Year Ended 31 December 2009 £'000
Public performance and dubbing income	50,098	48,912
Broadcasting income	61,720	59,071
International income	31,676	21,584
Licence fee income before exceptional item	143,494	129,567
Public performance refund	-	(18,127)
Licence fee income	143,494	111,440

Analysis of turnover by territory of origin:

United Kingdom	111,818	107,983
Rest of Europe	24,568	17,328
Rest of World	7,108	4,256
	143,494	129,567

3. NET INCOME FROM OPERATING ACTIVITIES BEFORE INTEREST AND TAXATION

Net income from operating activities before interest and taxation is stated after charging:

	Year Ended 31 December 2010 £'000	Year Ended 31 December 2009 £'000
Fees payable to the company's auditor for the audit of the company's annual accounts	58	54
Fees payable to the company's auditor and its associates for other services:		
Taxation services	4	3
Other services	20	12
Depreciation	1,521	1,150
Operating lease rentals:		
Land and buildings	795	855
Motor vehicles	26	21

Net income includes a recharge of £1,219,615 of operating expenses to Video Performance Ltd. PPL's debtors include a balance of £159,920 owed by VPL.

PHONOGRAPHIC PERFORMANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

4. ANTI-PIRACY / COPYRIGHT PROTECTION/INDUSTRY CONTRIBUTIONS

	Year Ended 31 December 2010 £'000	Year Ended 31 December 2009 £'000
The British Phonographic Industry Limited:		
Contributions	2,022	1,874
Legal anti-piracy recoveries	(262)	(1,757)
Total	1,760	117
The International Federation of the Phonographic Industry	773	794
Impala	65	65
UK Music	407	407
	3,005	1,383

Anti-piracy recoveries relates to the recovery of contributions made to BPI in prior periods through damages awarded in legal action against piracy.

5. INTEREST PAYABLE

	Year Ended 31 December 2010 £'000	Year Ended 31 December 2009 £'000
Interest payable on Member and Performer balances	464	1,521

6. EMPLOYEES AND DIRECTORS

	Year Ended 31 December 2010 £'000	Year Ended 31 December 2009 £'000
Gross staff costs during the year amounted to:		
Wages and salaries	10,174	9,182
Social security costs	952	904
Other pension costs	578	249
	11,704	10,335

Average number of employees during the year:

	No.	No.
Office and management	250	234

Directors' emoluments

	£'000	£'000
Total directors' emoluments	1,546	1,334

Emoluments in respect of the highest paid director amounted to:

Aggregate emoluments	719	550
Defined Benefit Pension Scheme - accrued pension at end of year	10	10

	No.	No.
Number of directors to whom retirement benefits are accruing under the Defined Benefit Pension Scheme	4	4

7. TRANSACTIONS WITH DIRECTORS

There were no other transactions with directors during the year.

PHONOGRAPHIC PERFORMANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

8. TAXATION

The charge for taxation for the year is calculated on disallowable items after the deduction of capital allowances.

	Year Ended 31 December 2010 £'000	Year Ended 31 December 2009 £'000
Current Tax:		
UK corporation tax	-	-
Total current tax credit for the year	-	-

	Year Ended 31 December 2010 £'000	Year Ended 31 December 2009 £'000
Net income from ordinary activities before taxation	124,082	92,904
Net income from ordinary activities at the UK tax rate 21% (2009: 21%)	26,057	19,510
Effects of:		
Permanent differences	(26,036)	(19,481)
Accelerated capital allowances / other timing differences	(21)	(29)
Current tax credit for the year	-	-

The Company had an unrecognised deferred tax asset at 31 December 2010 as follows:

	Year Ended 31 December 2010 £'000	Year Ended 31 December 2009 £'000
Capital allowances in excess of depreciation	86	100
Other timing differences	302	60
Deferred tax on pension scheme	253	543
Net deferred tax asset - unprovided	641	703

No provision has been made for this deferred tax asset on the basis that given that the majority of the Company's net income is not taxable, the availability of suitable future taxable profits is not probable.

9. TANGIBLE ASSETS

	Fixtures, Fittings and Office Equipment	Computer Equipment and Software Developments	Total
	£'000	£'000	£'000
Cost			
Balance at start of year	740	14,122	14,862
Additions	13	3,309	3,322
Disposals	(24)	(43)	(67)
Balance at end of year	729	17,388	18,117
Accumulated Depreciation			
Balance at start of year	303	8,351	8,654
Charge for the year	209	1,312	1,521
Disposals	(24)	(43)	(67)
Balance at end of year	488	9,620	10,108
Net Book Value at end of year	**241**	**7,768**	**8,009**
Net Book Value at start of year	437	5,771	6,208

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 December 2010	31 December 2009
	£'000	£'000
Trade creditors	298	596
Other taxation and social security	1,137	2,951
Other creditors and accruals	17,178	37,537
Deferred income	28,098	30,571
Amounts due to Members and Performers	59,184	50,696
	105,895	122,351

The distributions to Members and Performers cannot be separately identified until the usage returns in respect of that period have been received and matched against the repertoire database. This reflects the Distribution rules driven by the Council Directive No 92/100/EEC of 19 November 1992 ("The Rental Directive") introduced in the UK with effect from 1 December 1996.

11. PROVISIONS FOR LIABILITIES AND CHARGES

	At 1 January 2010	Utilised in the year	Released in the year	Increase for the year	At 31 December 2010
	£'000	£'000	£'000	£'000	£'000
Provision for dilapidations	715	-	(225)	-	490
Provision for legal costs	475	(475)	-	300	300
Provision for refunds	30	-	(30)	-	-
	1,220	(475)	(255)	300	790

Dilapidations
The dilapidations provision represents the amount required to reinstate the premises to a state as required under the lease, which expires in 2020. The provision is expected to be fully utilised in 2020.

Legal Costs
Legal costs are provided as required for cases where litigation is pending. This provision is expected to be utilised in 2011.

Refunds
Provision is made for all significant refunds made in the post balance sheet period which relate to licence fees received in the year.

12. COMMITMENTS

Operating Lease Commitments

At 31 December 2010 the company was committed to making the following payments during the next year in respect of operating leases:

	31 December 2010	31 December 2009
	£'000	£'000
Land and Buildings		
Leases which expire after 2-5 years	643	869
Motor Vehicles		
Leases which expire within 1 year	-	20
Leases which expire within 2 - 5 years	27	4

13. PENSION COSTS

The company operates a defined benefit scheme in the UK with assets held in a separately administered fund. The basis on which the net pension liability is recognised in the financial statements is set out in note 1. The scheme was closed to new entrants from 1 July 2003.

A full actuarial valuation using the projected unit method was carried out at 30 June 2009 and updated to 31 December 2010 by a qualified independent actuary.

The company is currently contributing to the Scheme at a rate of 15.4% of pensionable salaries

The major assumptions used by the actuary were (in nominal terms):

	31 December 2010	31 December 2009
Rate of increase in salaries	4.95%	5.20%
Rate of increase of pensions in payment	3.45%	3.70%
Rate of increase of pensions in deferment	3.45%	3.70%
Discount rate	5.45%	5.70%
Inflation assumption	3.45%	3.70%
Expected return on Plan assets	6.30%	7.30%

The expected return on scheme assets is based on market expectations at the beginning of the financial period for returns over the life of the asset. The expected return on equities has been determined by including a premium over fixed interest securities to reflect the out performance of equities relative to fixed interest securities.

The assets in the scheme, the expected rates of return and the amounts recognised in the balance sheets are as follows:

	31 December 2010			31 December 2009		
		EROA	Amount		EROA	Amount
	£'000	(%)	(%)	£'000	(%)	(%)
Equities	11,413	7.00%	78%	9,836	7.45%	95%
Gilts	575	4.00%	4%	430	4.45%	4%
Cash	2,553	3.95%	18%	107	4.20%	1%
Total market value of assets	14,541			10,373		
Actuarial value of liability	(15,748)			(14,208)		
Deficit in the scheme	(1,207)			(3,835)		
Related deferred tax asset	-			263		
Net pension liability	(1,207)			(3,572)		

13. PENSION COSTS (continued)

The amount recognised in the income, expenditure and distribution account:

	Year Ended 31 December 2010 £'000	Year Ended 31 December 2009 £'000
Current service cost	(383)	(180)
Interest costs	(820)	(606)
Expected return on pension scheme assets	847	535
Total	(356)	(251)
Actual return on assets	1,635	2,022

Changes in the present value of the defined benefit obligation are as follows:

	Year Ended 31 December 2010 £'000	Year Ended 31 December 2009 £'000
Opening defined benefit obligation	14,208	9,264
Current service costs	383	180
Employee contributions	72	80
Interest costs	820	606
Actuarial loss	364	4,217
Benefits paid	(99)	(139)
Closing defined benefit obligation	15,748	14,208

Changes in the fair value of plan assets are as follows:

	Year Ended 31 December 2010 £'000	Year Ended 31 December 2009 £'000
Opening fair value of scheme assets	10,373	8,016
Expected return on assets	847	535
Actuarial gain	788	1,487
Employer contributions	2,560	394
Employee contributions	72	80
Benefits paid	(99)	(139)
Closing fair value of scheme assets	14,541	10,373

13. PENSION COSTS (continued)

Amounts for current and previous four years:

	31 December 2010 £'000	31 December 2009 £'000	31 December 2008 £'000	31 December 2007 £'000	31 December 2006 £'000
Defined benefit obligation	(15,748)	(14,208)	(9,264)	(12,380)	(11,303)
Scheme assets	14,541	10,373	8,016	10,236	9,301
Deficit	(1,207)	(3,835)	(1,248)	(2,144)	(2,002)
History of experience gains and losses:					
Adjustment due to change in assumptions	(364)	(4,217)	4,205	(95)	(686)
Experience adjustments on scheme assets	788	1,487	(3,425)	(266)	(88)
Total amount recognised in statement of total recognised gains and losses:	424	(2,730)	780	(361)	(774)

The cumulative loss recorded in the statement of total recognised gains and losses in respect of the defined benefit pension scheme and related deferred tax asset is £4,300,000 (2009: £4,461,000).

14. RETAINED RESERVES – INCOME, EXPENDITURE AND DISTRIBUTION ACCOUNT

	Year Ended 31 December 2010 £'000	Year Ended 31 December 2009 £'000
At start of year	(4,461)	(1,731)
Actuarial gain / (loss) on the pension scheme	424	(2,730)
Movement in deferred tax on the pension scheme	(263)	-
	(4,300)	(4,461)

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15. RECONCILIATION OF NET INCOME FROM OPERATING ACTIVITIES BEFORE INTEREST AND TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Year Ended 31 December 2010 £'000	Year Ended 31 December 2009 £'000
Net income from operating activities before interest and taxation	123,529	92,392
Depreciation	1,521	1,150
Difference between pension charge and cash contributions	(2,177)	214
Decrease / (increase) in debtors	4,064	(8,242)
(Decrease) / increase in creditors	(17,077)	29,069
Decrease in provisions	(430)	(694)
Net cash inflow from operating activities	109,430	113,889

16. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	Year Ended 31 December 2010 £'000	Year Ended 31 December 2009 £'000
(Decrease) / increase in cash in the year	(2,108)	5,751
(Decrease) / increase in cash placed on fixed term deposits	(12,000)	(11,000)
Changes in net funds resulting from cash flows	(14,108)	(5,249)
Net funds at 31 December 2009	86,656	91,905
Net funds at 31 December 2010	72,548	86,656

17. ANALYSIS OF CHANGES IN NET FUNDS

	At 1 January 2010 £'000	Cash flow £'000	At 31 December 2010 £'000
Cash at bank and in hand	24,656	(2,108)	22,548
Short-term investments	62,000	(12,000)	50,000
	86,656	(14,108)	72,548