

REPORT AND FINANCIAL STATEMENTS 2011

A COMPANY LIMITED BY GUARANTEE WITHOUT A SHARE CAPITAL

REGISTERED IN ENGLAND NUMBER 576970

A REGISTERED CHARITY NUMBER 205533

A REGISTERED CHARITY IN SCOTLAND NUMBER SC041793

Registered Office:

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NUFFIELD HEALTH

Principal and Registered Address

40-44 Coombe Road
New Malden
Surrey KT3 4QF

Company number

Charity number in England and Wales

Charity number in Scotland

576970

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2011 CHAIRMAN'S STATEMENT

2011 was once again a challenging year for Nuffield Health, with prevailing difficult economic conditions that have characterised the business environment in the UK for some time. Nevertheless, 2011 was marked by notable achievement in pursuit of the Charity's strategy.

Our finances remained on a path of improvement with a turnover of £575m in 2011 and our ongoing investment in expanding and improving our services rose to £44m (£35m 2010). We also secured £270m refinancing allowing us to sustain and extend operations across our divisions.

We improved performance and quality systems, successfully refinanced, increased customer satisfaction across all areas, and made considerable progress in the implementation of our strategy. Despite the tough economic conditions, the Charity ended 2011 in a strong position with hospitals busy, our wellbeing centres reporting strong uptake of new clients and corporate wellbeing showing a strong pipeline of new business.

Our continued focus on delivering high quality health and wellbeing services to improve the nation's health, pursuant with our charitable objects and public benefit ethos, meant that in 2011, we helped over 82,000 people (58,000 in 2010) understand their health and fitness through our Health MOT. 4.5% of health MOTs carried out in our consumer wellbeing centres identified issues that were hitherto unknown to the clients concerned and allowed them to seek early expert advice and intervention. We undertook a study which showed that 71% of our customers using our fitness and wellbeing services improved their health.

We continued with our programme of investing in our services and in our estate. Nearly £31m was spent in 2011 improving our hospital facilities, including the refurbishment of Leicester Hospital and a new chemotherapy suite in Brighton. £9m was invested in a major redevelopment of Guildford Hospital. We opened a health clinic in our Farnham centre and extended our physiotherapy services to cover 85% of our fitness and wellbeing centres; and our corporate wellbeing division won several major new contracts to manage health and fitness facilities in major business and educational institutions. These new investments further demonstrated our commitment to delivering services to help people at all stages of their health and fitness.

The quality and breadth of services we provide were recognised with a number of awards in 2011 including the 'Hospitals Group of the Year' in the prestigious *Health Investor Awards* and 'Health Club Operator of the Year' at the *Health Club Management Awards*. During the year, Nuffield Health secured the National Health Service Litigation Authority's Level Three Award, the only independent sector provider to achieve this level of excellence across a range of important quality indicators. I am pleased to see that satisfaction with our services improved, with 98% of our customers rating our care as good or excellent.

During 2011 the Board of Governors welcomed two new members, Joanne Shaw and Marisa Cassoni, further strengthening our team and bringing a broad spectrum of experience. Neil McCausland left in January to pursue other executive positions although we are delighted that he continues to support Nuffield Health as a member. We all thank him for the contribution he made to Nuffield Health.

My term of office finishes towards the end of 2012 and I will be standing down as Chairman of the Board at the Annual General Meeting in June. I have been a Governor for nine years, and have held the chairmanship for the past two years. My time with Nuffield Health has been both fascinating and fulfilling and it has been a privilege to be associated with an organisation which shows such vigour and determination in pursuing its charitable aims.

Following my retirement, I am pleased to say that the Governors have announced their intention to elect Russell Hardy as Chairman in my place. Russell Hardy has been a Governor since 2010 and has already made a strong contribution to our progress. I wish him all the best in his new role.

Finally, on behalf of the Governors, I would like to thank all our 13,000 employees for their continued hard work and commitment. It is they who turn our aspirations into reality, helping hundreds of thousands of people each year to retain - and regain - good health. For their commitment, passion and enthusiasm, everyone working for Nuffield Health deserves our profound gratitude. It is their passion, enthusiasm and care that make Nuffield Health the great organisation it is.

Michael J Smith
Chairman

REPORT OF THE BOARD OF GOVERNORS TO THE MEMBERS

The Governors present their report together with the financial statements for the year ending 31 December 2011.

OUR ACTIVITIES IN 2011

For Nuffield Health, 2011 was a year of challenge and of achievement.

The economic background provided significant challenge but through investment to expand and improve our services and a single-minded focus on the pursuit of our charitable objectives we were able to maintain and enhance our strong financial position to make it a year of great achievement.

Our finances have maintained a clear trajectory of improvement. Our turnover grew to £575m in 2011. After a net surplus of £0.1m in 2010, this year we achieved a net surplus of £3.7m. And our ongoing investment in expanding and improving our services rose to £44m, an increase of £9m from 2010.

Our past investments have facilitated Nuffield Health in improving the health of the nation for more than half a century. We intend to continue to do so for a further fifty years and beyond. In order to do this we need to maintain a robust financial foundation for our operations, so it was particularly satisfying that during the year we secured a £270m refinancing, allowing us to sustain and extend our operations.

We continued to expand and improve our hospital services, constantly striving to ensure that they are second to none. We were proud to be named 'Private Hospital Group of the Year' in the *HealthInvestor* awards. We achieved the highest possible level of accreditation from the NHS Litigation Authority, reflecting our unstinting commitment to the best levels of patient care and were the first independent sector group to achieve this. Our hospital services expanded as we increased the work carried out for NHS patients and for those paying for their own treatment despite a continuing decline in revenues from private medical insurers. No less important, feedback indicated that patients are more satisfied than ever before with the service we provide, with 98% of customers rating our care as good or excellent.

Our wellbeing services grew strongly. Helped by the acquisition of Bladerunner in late 2010, we are now Britain's largest operator of fitness and wellbeing facilities for companies. Membership of our fitness and wellbeing centres reached 234,000 and, following the year-end, we bought Greens Health & Fitness, adding a further 15 centres and 55,000 members to our operations. The successes in this area were added to when we were awarded 'Best National Chain' at the Member's Choice Health Club Awards.

Furthermore, within our wellbeing division, we have continued to invest in our fitness and wellbeing centres including the integration of our clinical health services with our fitness facilities and introduced an integrated centre in Farnham. These integrated centres bring together services such as health screening and physiotherapy with specialist wellbeing advisers and personal trainers. We also continue to build strong relationships with our corporate wellbeing partners and are looking to expand access and develop the services we offer to further improve the health and wellbeing of the UK workforce.

The spread of services offered by our centres gives a neat illustration of our broader approach to healthcare: maintaining good health involves far more than dealing with illness; it is also about fitness, lifestyle and an awareness of what contributes to the maintenance of good health. Put simply, we offer everything from yoga classes to state-of-the-art surgical procedures - and we want all our services to be accessible to as many people as possible. In 2011, we achieved a major increase of 40%, in the number of people benefiting from our Health MOTs - a central element of our drive to support our members in looking after themselves.

In all areas of our business, Nuffield Health constantly strives for clinical excellence so in conjunction with this report, Nuffield Health will publish its annual Quality Report. The report details our clinical priorities for 2012, our programme for integrated governance across the charity, our emphasis on transparency and how that helps us put the patient first, the use of benchmarked clinical data to bring about improvements and highlights the lessons learned during 2011.

We are proud of our status as a social enterprise, committed to making our services widely available. We strive to operate efficiently, with the sole aim of reinvesting any surplus to improve and extend our services in pursuit of our charitable objects: "to advance, promote and maintain health and healthcare of all descriptions and to prevent, relieve and cure sickness and ill health of any kind, all for the public benefit."

We achieved our charitable objects by providing high-quality services for which institutions and individuals are prepared to pay, thus allowing us to broaden and enhance our activities. The very services we provide help us meet our charitable objectives by supporting people in their efforts to improve and maintain their health.

Our ambition is to establish a widely-accessible health programme which seamlessly connects the three key elements of an integrated healthcare service:

- Preventing sickness by helping people to become and remain fit and healthy;
- Assessing and containing health risks;
- Treating health problems.

We therefore help people take active steps to prevent health problems through fitness, nutrition, avoiding stress and making choices about the way they lead their daily lives. We aim to monitor an individual's health and advise on how to minimise risks. And where someone has a health problem, we offer the best possible clinical procedures - followed by support to ensure fast and full recovery.

We also aim to ensure that access to our benefits are not unreasonably restricted by the ability to pay. We have policies in place to ensure that a range of our expert products, services and activities are available at a low fee for those on low incomes or are available, free at the point of access, to those in poverty. Over the year half of our activities were for the provision of low cost products. In 2011, 15% of our revenues came from low fee products and services and 14% of our revenues at market rates were from products and services free at the point of delivery to the patient or customer.

These included:

- Almost 35,000 visits for out-patient, day case, surgical out-patient and inpatient treatment free of charge to NHS patients;
- A further 86,200 visits funded by the NHS giving access to an extensive range of diagnostic tests, or for physiotherapy treatments.

Through all these activities, Nuffield Health is uniquely positioned to support the UK population in taking responsibility for their long term health and wellbeing. Our long term strategy of providing joined up healthcare is further supported by our activities and helps us to reach our goal of improving the health of the nation.

Nuffield Health's Hospital Services

Hospitals remain at the core of our activities. During 2011 total business grew despite a decline in work funded by private medical insurance, reflecting our support of the NHS and an increase in the number of patients paying for their own treatment.

In 2011, our hospitals carried out:

- 46,800 hip and other orthopaedic procedures, reducing patients' pain and increasing their mobility;
- 30,900 general surgical procedures;
- 14,500 ophthalmic procedures to improve patients' sight.

Our extensive range of diagnostic imaging and testing services meant we offered:

- 58,500 MRI or CT scans;
- 131,300 radiology examinations;
- More than 21,200 breast scans, many through a visit to our specially-designed mobile mammography unit.

During 2011 Nuffield Health secured the National Health Service Litigation Authority's (NHSLA) Level Three Award for risk management: this followed an assessment of Nuffield Health's standards of governance, competent and capable workforce, safe environment, clinical care and learning from experience. This covered areas including training, hygiene, clinical care, patient information, record-keeping and the maintenance of medical equipment. Nuffield Health is the only private hospital group in Britain to hold a level three award which is the highest attainable level and was the first to hold level one and the only one to hold level two.

In 2011, we spent nearly £31m improving and expanding our hospital facilities. We completed the refurbishment of our hospital at Leicester and embarked upon major upgrades at Tunbridge Wells, Brighton, Brentwood, Wessex and North Staffordshire. We also secured approval for the redevelopment of our Bristol hospital and have now begun building work.

We invested nearly £9m on redeveloping Guildford Hospital in order to accommodate Guildford Clinics services. Additionally, in early 2012 we purchased BMI's Oxford Clinic and integrated the business to the Nuffield Health Manor Hospital.

The quality of care and safety of our patients is paramount and we monitor and seek to improve our delivery of care all the time. Throughout the year patient satisfaction scores and clinical audit scores have both improved. Infection prevention standards continue at their already high levels. External reports by regulatory agencies including the Health Protection Agency have endorsed the high standards of care we deliver.

We have broadened access to healthcare, providing services to the NHS under the 'Choice' agenda. And we invested heavily in services that people find increasingly difficult to obtain via the NHS. Among others, these included obesity surgery, laser treatments for a variety of dermatological conditions, assisted conception services and chemotherapy treatments.

The quality and breadth of the service we provide, and the significant investment made, was recognised in the *HealthInvestor* awards, when Nuffield Health was named 'Private Hospital Group of the Year'.

Nuffield Health's Wellbeing Services

Nuffield Health provided fitness and wellbeing memberships for 234,000 people in 2011. Many of these members also received Health MOTs and attended Meet the Expert events as part of a broader health proposition. The Meet the Expert events are available to members, corporate staff and the general public for free and 35,000 attendees took up this offer in 2011. Additionally, we offer full health assessments, physiotherapy and rehabilitation sessions in many of our corporate, consumer and clinical centres. The 72,800 enhanced Health Assessments and 82,000 Health MOTs undertaken mean that Nuffield Health is the largest health screener in Europe.

Last year:

- More than 365,000 people benefited from our expert healthcare services through our fitness and wellbeing centres, and our medical centres;
- Nuffield Health provided 82,000 Health MOTs across our consumer and corporate fitness and wellbeing centres - an increase of almost 40% from 2010;
- We carried out 460,000 physiotherapy sessions; the largest number outside of the NHS;
- Membership of our consumer centres reached 134,000 and corporate membership of our health and wellbeing centres reached almost 100,000.

During the year, Nuffield Health withdrew from the market for direct management of fitness facilities for local authorities. This had previously fallen within our corporate wellbeing activities.

Wellbeing Services for Consumers

Throughout the year, we pressed ahead with the integration of clinical health services within our fitness and wellbeing facilities. We also developed a strategy to move towards a national network of fitness and wellbeing facilities to make our services accessible to as many people as possible. In 2011, membership of our individual centres reached 137,000, an increase of almost 4,000 from 2010.

At the core of our approach to wellbeing services for consumers is a drive to help people modify their lifestyles to improve their health.

In 2011, we:

- Invested £7m in our fitness & wellbeing centres including the creation of an integrated centre at Farnham. The integrated centres bring together clinical health screening, physiotherapy and rehabilitation services with specialist wellbeing advisors and personal trainers. By 2015, we hope to have 18 integrated centres across the UK;
- Extended our physiotherapy services to cover 85% of our fitness and wellbeing centres;
- Invested heavily in training our staff teams to ensure they provide the best possible service.

Since the year-end, we have acquired a further 15 fitness centres with the purchase of Greens Health and Fitness, with 55,000 members. This took us a further step towards our ambition of ensuring that as many people as possible can benefit from our unique approach to health. To help us meet this we aim to have a fitness and wellbeing centre in every major city across the UK.

In helping our customers to understand their health and fitness needs, we:

- Conducted 72,800 enhanced health assessments;
- Gave 74,000 Health MOTs - up from 53,000 in 2010. This is a core element of our wellbeing strategy, enabling us to provide effective, tailored fitness and wellbeing 'prescriptions' and to ensure customers exercise safely. Some 4.5% of Health MOTs identified issues that a customer was unaware of and warranted further investigation by their GP;
- Undertook a study that showed 71% of our customers using fitness and wellbeing facilities improved their health - this is unique to Nuffield Health;
- Facilitated 35,000 visits to our Meet the Experts programme, a 5,000 increase from 2010. These provided free access to practitioners and clinicians on themed events such as hydration, cancer awareness, posture and stress management.

In 2011, we introduced our *'Get Healthy, Get Rewarded'* campaign to get the nation healthy - inside and out. With Nuffield Health's support, following a health MOT, members can achieve positive health results over time and enjoy incentives such as one month free membership to stimulate continued enthusiasm. Following the success of this campaign we were awarded 'Best National Chain' at the Member's Choice Health Club Awards.

In 2012 we will be widening access to our facilities, so more people can benefit from our services, by looking to work in conjunction with selected partners who have aims and objectives in line with our own charitable purpose. We will be looking to provide access to our facilities and services to those that would otherwise not take advantage of our services and we believe uptake will be stronger than before.

Wellbeing Services for Employees

It has been a year of great achievement for our corporate wellbeing activities. The number of members of our corporate facilities, in 2011, reached almost 100,000 an increase of 4% from 2010.

We successfully integrated Bladerunner - acquired in late 2010 - and have firmly established ourselves as Britain's pre-eminent operator in the corporate fitness sphere. During 2011, we secured contracts for more than 20 new sites, and we expect a similar increase in 2012.

In 2011 we:

- Had an average penetration in our corporate wellbeing sites of 37%;
- Increased the number of integrated sites from 17 to 19;
- Won £4.5m of health screening contracts and conducted more than 46,000 individual health screenings.

Over the coming year, our priority is to continue to make clinical services available to fitness clients and vice versa. We have committed to build a medical centre at Canary Wharf offering state-of-the-art services to corporate customers which will open in Spring 2012.

Also in 2012, we will be endeavouring to retain a number of our corporate contracts as well as pushing into new markets, principally in universities and schools and bidding to operate wellbeing centres for a number of further companies. And we are pursuing opportunities with several clients to develop more on-site integrated health activities including physiotherapy services - a key objective for expansion in 2012.

OUR FINANCES

Financial highlights in 2011 include:

- The Group achieved a net surplus for the year £3.7m (2010 - £0.1m);
- EBITDA before exceptionals showed an increase of £4.3m to £72.1m;
- Total operating surplus excluding exceptional items increased to £18.0m (2010 - £17.0m);
- Investments in the year in expanding and refurbishing services totalled £44m (2010 - £35m).

Our Hospital Division performed strongly with its turnover increasing as a result of the growth in self-pay and NHS activities, which more than offset a small decrease in insured patients. Alongside this the division continued to strive for greater efficiency and increased margins.

Despite ongoing economic uncertainty, the Wellbeing Division has seen a strong growth in membership numbers. Cost pressures, mainly from rent and utility increases, have eroded some of the operating margin, but Nuffield Health's determination to offer services that attract and retain consumers and improve their health is showing clear results. The provision of wellbeing services remains a key element in fulfilling our charitable objective - to promote health and healthcare in all its forms.

The group has a substantial positive trading cash flow. As a result, net debt increased by only £2.0m - despite significant investment. Relative to its size, Nuffield Health is one of the least-indebted businesses in the independent healthcare industry with net debt of just under three times EBITDA. EBITDA is Group operating surplus with normal depreciation and amortisation added back.

Key financial indicators	2011	2010	2009
Group turnover (£m)	575.2	552.2	552.4
EBITDA excluding exceptional items (£m)	72.1	67.8	68.6
EBITDA excluding exceptional items as share of group turnover (%)	12.5%	12.3%	12.4%
Total operating surplus excluding exceptional items (£m)	18.0	17.0	9.6
Total operating surplus excluding exceptional items as share of group turnover (%)	3.1%	3.1%	1.7%
Net debt as share of net assets excluding post-retirement liability (%)	86.7%	85.4%	74.3%
Increase/(decrease) in net debt (£m)	2.0	18.3	(31.7)

Reserves

The Charity's intention is that there are sufficient funds available to ensure that it can continue investment in its activities, meet its short and long term liabilities and repay or refinance its borrowings. The key to this is the Charity's cash flow. The Board assesses the Charity's medium term cash flow and thereby its requirements for free income reserves on a regular basis during the year. The Charity has negative free reserves as much of its assets are of a fixed nature and therefore not readily available. As at the end of the year there was £52m of unutilised bank facilities and £13m of cash.

The unrestricted funds of the Charity are principally invested in the tangible fixed assets and working capital that are used to provide services in accordance with the objectives of the Charity. The working capital and some of the fixed assets of the Charity have been used as security for bank finance facilities.

A permanent endowment is held for the benefit of the Nuffield Health Brentwood Hospital. In addition, the Charity is the Trustee of The Desmond Hayton Williams Fund which is held for the benefit of past, present and future employees of Nuffield Health who experience financial difficulties. No payments were made in 2011 and separate accounts are prepared for this Fund.

Payment of creditors

It is the policy of the Governors that its trade creditors are paid in accordance with the agreed payment terms. On average invoices are paid within 50 days of the invoice date.

Financing

During 2011 Nuffield Health secured financing covering £270m of bank facilities. These new facilities require repayment by late 2015.

A valuation of our hospitals was carried out during the year. This put their value at £843m, an increase of £28m from the 2009 value, giving a surplus of £513m over the net book value of the assets. This has not been incorporated in the financial statements.

Given the continued challenges in the financial markets, we consider this a really positive position and reflects our banks' view of Nuffield Health's financial strength. It is our medium term objective to drive more value from our balance sheet and secure financing that better matches the length of our underlying investments.

Donations and bequests

Donations and bequests amounting to £11,000 were received during the year. The Board is most grateful and thanks donors and their representatives.

GOVERNANCE

Governing document

Nuffield Health is a registered Charity incorporated under the Companies Acts 1948-2006 being a company limited by guarantee without share capital. The Charity's governing document is the Memorandum and Articles of Association.

Governors

The members of the Board of Governors during the financial year and at the date of the Annual Report and Financial Statements were approved were:

Mr Michael J Smith	Chairman; chair of Executive Remuneration and Succession Committee; chair of Nominations Committee [Member: a, b]
Ms Jane L Wesson	Deputy chair; chair of the Board Integrated Governance Committee [Member: a, b, d]
Ms Fiona E Driscoll	Chair of the Audit Committee [Member: a, c]
Mr Russell S M Hardy	[Member c]
Mr P Guy McCracken LVO	[Member; a, d]
Mrs Joanne M Shaw	[Member d]
Ms Marisa Cassoni	[Member c]

- a Executive Remuneration and Succession Committee
- b Nominations Committee
- c Audit Committee
- d Board Integrated Governance Committee

On 22 February 2011 the Nominations Committee approved proposals for the recruitment of at least two new Governors to replace Mr Neil McCausland who had resigned on 25 January 2011. Recruitment Consultants, Odgers Berndtson, were instructed to prepare proposals for the recruitment process. In addition, Mr David John Davies, a Member of Nuffield Health, was appointed to be the External Assessor to ensure that the recruitment process had regard to the Code of Practice of the Office of the Commissioner for Public Appointments (OCPA). As part of the search for suitable candidates, advertisements were placed and Odgers Berndtson commenced the recruitment process.

Following a review of the applicants, a shortlist was prepared and rigorously assessed by the Nominations Committee, Odgers Berndtson and Mr D J Davies. On 12 July 2011 the Board agreed to offer membership to Mrs Joanne Mary Shaw and Ms Maria Luisa (Marisa) Cassoni and approved that they be appointed as new Governors upon their acceptance of such offers. Mrs Shaw was duly appointed as a new Governor of Nuffield Health with effect from 27 July 2011 and Ms Cassoni was duly appointed as a new Governor of Nuffield Health with effect from 1 October 2011.

Mrs Shaw and Ms Cassoni will offer themselves for election as Governors by the Members at the Annual General Meeting to take place on Wednesday, 20 June 2012.

In accordance with Articles 28 and 29 of the Charity's Articles of Association, each Governor is required to retire by rotation. Mr Michael J Smith will retire as Chairman of the Board of Governors from the end of the 2012 Annual General Meeting and will not offer himself for re-election.

Board Committees

Executive Remuneration and Succession Committee

The Executive Remuneration and Succession Committee is responsible for ensuring that the Group Chief Executive and the Senior Executives are remunerated appropriately. The Committee periodically considers and makes recommendations to the Board of Governors on succession planning proposals in respect of the Group Chief Executive and Senior Executives.

Nominations Committee

The names of prospective Governors are referred to the charity's Nominations Committee. This Committee also considers recommendations for appointment for membership of the Charity. No person may be appointed as a Governor unless he or she is a member.

Audit Committee

The Audit Committee meets regularly during the year. Representatives of external and internal auditors attend, as do the Group Chief Executive and Chief Financial Officer. Its main duties are to assist the Board by providing independent and authoritative advice on the accuracy of financial reporting and the effectiveness of financial controls and systems as well as the assessment of financial and commercial risk. The Committee oversees the effectiveness of the Group's risk management systems in co-operation with the Board Integrated Governance Committee. The Audit Committee also recommends the appointment of the external and internal auditors.

Board Integrated Governance Committee

The Board Integrated Governance Committee meets at least four times each year. The Committee is responsible for monitoring the effective operation of clinical governance throughout the group and considers clinical risk and health and safety matters. The Group Medical Director and senior members of staff from within the Clinical Directorate attend the Committee's meetings.

Governors' appointment and appraisal

All new governors undertake an extensive induction programme throughout the charity to understand the organisation and, annually, the chairman holds a review with each Governor.

Governors' Remuneration

The report to the members from the chairman of the Governors' Remuneration Committee is on page 17. Amounts paid during 2011 are set out in Note 11 of the Financial Statements.

Organisational structure

The Governors are trustees of the charity as well as directors of the company and collectively constitute the board. The Board is responsible for setting strategy, ensuring that there are the necessary financial, human and physical assets to meet strategic aims; monitoring the performance of the charity; overseeing risk management; and setting the charity's values.

Fourteen board meetings of the Governors were held in the year, in addition to the Annual General Meeting. Additionally, the Governors visited the charity's hospitals and other facilities both formally as part of the governance agenda and informally on a personal level.

The Group Chief Executive and the Chief Financial Officer attend all board meetings and other Senior Executives attend as required.

Executive Management

Senior staff manages the activities of the Charity. At the date when the Annual Report and Financial Statements were approved, the following senior staff were in place:

Mr David Mobbs	Group Chief Executive
Mr K P Doyle	Chief Financial Officer
Dr Andrew Jones	Group Medical Director
Ms Laura Kerby	Managing Director, Consumer Wellbeing
Ms Patricia Lee	Chief Executive, Hospitals Division
Mr Marcus Powell	Group Organisation Development & Human Resources Director and Managing Director, Corporate Wellbeing
Ms Heather Rogers Hutton	Group Director of Communications and Government Affairs
Mr Luke Talbutt	General Counsel & Company Secretary

Governors' review of the Charity's objects

Each year, the Charity's Governors review the Charity's objects, its activities and the degree to which the services it provides are made accessible to the public. This review examines the Charity's achievements and the outcomes of its activities in the previous 12 months, together with the benefits delivered to users of the Charity's services. Crucially, the Governors' review also ensures that the Charity remains focussed on providing public benefit.

Nuffield Health laid down policies to clarify - both to those inside the organisation and those outside - how we should deliver benefits to the public, fulfilling our charitable aims. These included:

- A limit of 10% on activities that were ancillary to the aims of the Charity. This is to ensure nothing excludes or causes detriment to our core purpose.
- The establishment of guidelines by which any ancillary or fundraising activities can be judged, ensuring that they are directly related to and necessary for carrying out the Charity's purposes.
- A requirement that no detrimental or harmful activities are permitted.
- A requirement that at least 5% of the Charity revenue comes from products and services available at a low fee.
- The requirement that products worth at least 5% of total revenues, if valued at the market rate, are available free at the point of delivery for those in poverty.

The Governors have given careful consideration to the Charity Commission's general guidance on public benefit and in particular to its guidance for fee-charging charities. The Governors have also considered the level of access and affordability of all its services to each section of the population, in particular to those on a low income or who are considered to be in poverty.

The governors have concluded that the objects of the Charity remain entirely for the public benefit. The Governors are also satisfied that the activities of the Charity are overwhelmingly carried out to fulfill its charitable objectives; that there are no activities that are inconsistent with its objects; and that the Charity meets the requirements of the policies described above. In addition, the Governors are confident that plans are in place for 2012 that will further enhance the accessibility of the Charity's activities.

Governors' Responsibilities for the Financial Statements

The Governors, who are also directors of Nuffield Health for the purposes of company law, are responsible for preparing the Report of the Board of Governors to the Members and the financial statements, in accordance with applicable law and regulations.

Company law requires the Governors to prepare financial statements for each financial year. Under that law the Governors 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 governors 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 charitable company and the Group and of the incoming resources and application of resources, including the income and expenditure, of the charitable group for that period.

In preparing these financial statements, the Governors are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities Statement of Recommended Practice;
- make judgments 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 charitable group will continue in business.

The Governors are responsible for keeping adequate accounting records that are sufficient to show and explain the charitable 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 charitable company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as each of the Governors is aware:

- there is no relevant audit information of which the charitable company's auditor is unaware;
- the governors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

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

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Our Activities section. The financial position of the Group, its cash flows and liquidity position are set out in the consolidated balance sheet, consolidated cash flow statement and notes 23 and 33. In addition, our finances and risk management sections and note 24 include the Group's objectives, policies and processes for managing its reserves; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Charity and Group meets day-to-day financing needs through internal cash generation supported by medium term bank borrowings. Current economic conditions create uncertainty particularly over the level of demand for the group's services and interest rates. The Group's forecasts, taking account of possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities.

The Governors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, therefore they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

RISK MANAGEMENT

Risk management is the responsibility of the board of Governors. Two committees of the board are particularly involved; the Board Integrated Governance Committee focuses on clinical and health and safety risks and the Audit Committee is responsible for commercial risk and financial controls. In addition, the Board as a whole considers the strategic risk on a regular basis.

Areas of strategic potential risk include:

- The economic environment. Our consumer wellbeing businesses can be impacted by changes in consumer confidence. Our corporate wellbeing division can be affected by the economic cycle and any significant contraction in the economy could change the demand for our hospitals' services from self-pay clients;
- Private medical insurers. In a strongly mediated market where a significant number of patients come through private medical insurers there would be risk if any of our hospitals were to be delisted;
- Uncertainty generated by NHS reform. A reduction in the number of NHS patients being treated in the private sector would have an impact on our hospital services;
- Financing. Risk could be increased if there were difficulties in securing sufficient financing to support the activities of the group;
- Pensions. The Pension Regulator approved the recovery plan writ, repayment is due October 2023 (Details about the pension deficit are disclosed in note 9);
- Serious clinical incident. With a strong status for clinical excellence a major clinical event could have a serious impact on our reputation.

In anticipating risks and taking steps to mitigate their potential impact we have:

- Diverse business streams which place us in a strong financial position;
- Subjected our cash flow forecasts to stress tests to assess the risk of a major cash shortfall. Any severe shortfall would be addressed by tight control over capital spending and operating costs;
- Optimised the balance between the fixed and floating interest rates, in order to minimise the annual interest rate costs and reduce volatility. This is achieved through modifying the interest rate exposure through the use of interest rate swaps. Details of the interest rate swaps are set out in note 24;
- Negotiations following the tri-annual actuary valuation (to be undertaken in 2012);
- New financing has been arranged with repayments commencing in 2014;
- Trained our staff to use a comprehensive risk mitigation, monitoring and management system (Datix) to stop or highlight any issues immediately.

The Group keeps the prices it charges to the users of its services under continuous review. Prices that we are charged for goods and services can fluctuate and could have an impact on the Group's margins and cash flows. These fluctuations are kept under review so that their impact on cash flow is controlled.

SUSTAINABILITY

As one of the country's largest social enterprises Nuffield Health has a responsibility to reduce our environmental impact. With our extensive property portfolio of almost 4 million sq ft, we have been hit more than most organisations by increases to utilities costs and new carbon levy.

To help address these issues we have created the 'Group Energy Forum' to look at ways to help us reduce the amount of energy we consume and keep our carbon footprint to a minimum.

OUR STAFF

Nuffield Health keeps staff fully informed of its progress, performance, news and organisational changes through a number of formal channels and day-to-day line management procedures. Managers are encouraged to involve staff in the day-to-day running and decision making processes of the organisation, with the aim of continuously improving the services the organisation is able to offer. Additionally, the charity continues to work in partnership with a number of recognised trade unions for the benefit of its employees.

The organisation places a particular focus on the importance of the ongoing training and career development of staff with particular emphasis on leadership, management and customer care. Last year, we supported 150 managers in long-term courses and saw more than 500 managers participating in short courses. We also support continuing professional development for our clinicians and ongoing training for our wellbeing advisors, physiologists and infection prevention specialists. All staff members have access to our Learning Management System in order to take their required modules and optional courses.

To help us to deliver excellent customer service to our fitness and wellbeing members, a training programme called **'Service As It Should Be'** was introduced across our fitness and wellbeing centres. Continuing to build on customer service, 2012 sees the launch of the Nuffield Health Academy - a programme designed to develop fitness and wellbeing advisors into industry leading experts. In preparation for this investment was made in 2011 to define expectations, roles and career pathways for our 1,000 fitness centre staff.

2011 built on the successes of 2010 by introducing a number of sophisticated monitoring and enforcement systems to manage our commitment to risk management learning. In 2011, 88% of all staff completed their minimum risk management learning module and in December we achieved NHSLA Level 3 status for these modules, the premier risk management standard in healthcare.

The Charity recognises its responsibilities under the Disability Discrimination Act 1995 and has continued to ensure that disabled employees are given consideration on an equal basis with other candidates in respect of all areas of employment, including recruitment, training, career development and promotion. We endeavour to provide continuing employment and, where necessary, arrange appropriate training for employees who have become disabled during their employment.

The Charity also recognises its obligations as a service provider to take appropriate measures to protect disabled users of its services.

PROFESSIONAL ADVISERS

<u>External Auditor</u> Grant Thornton UK LLP The Explorer Building Fleming Way Manor Royal Crawley RH10 9GT	<u>Internal Auditor</u> Deloitte LLP Stonecutter Court 1 Stonecutter Street London EC4A 4TR
<u>Solicitors</u> CMS Cameron McKenna Mitre House 160 Aldersgate Street London EC1A 4DD	
<u>Bankers</u> Barclays Bank Plc Level 28 1 Churchill Place Canary Wharf London E14 5HP Allied Irish Bank (GB) St Helen's 1 Undershaft London EC3A 8AB The Co-operative Bank 1 Balloon Street Manchester M60 4EP	Royal Bank of Scotland Plc 135 Bishopsgate London EC2M 3UR Santander UK plc 2 Triton Square Regent's Place London NW1 3AN
<u>Property Adviser</u> GVA Grimley LLP 3 Brindleyplace Birmingham B1 2JB	
<u>Pension and Remuneration Adviser</u> Mercer Ltd Riverside Court Guildford Road Leatherhead Surrey KT22 9DF	

APPOINTMENT OF AUDITOR

Grant Thornton UK LLP offer themselves for reappointment as Auditors in accordance with Section 485 of the Companies Act 2006. Resolutions will be proposed at the Annual General Meeting to reappoint them and to authorise the Governors to fix the remuneration of the Auditors for the year ending 31 December 2012.

23 May 2012

Authorised by the Board of Governors

Michael J Smith
Chairman

REPORT OF THE GOVERNORS' REMUNERATION COMMITTEE TO THE MEMBERS

The Governors' Remuneration Committee was established in August 2000, following the approval of the Charity Commission to permit the remuneration of the Governors. As a condition of such approval, the Charity Commission required the remuneration levels to be independently reviewed and assessed by a Committee of the Members.

During 2011 the members of the Committee were Lady Forester, Mr Douglas Gardner and myself, as Chairman. The Secretary of the Committee is Mr Luke Talbutt, General Counsel & Company Secretary of Nuffield Health.

The Committee met on 7 December 2011 to consider the remuneration of the Governors, to take effect from 1 January 2012. The review mechanism agreed with the Charity Commission is that the maximum amount payable is assessed by reference to the lowest point in the pay scale recommended by the Review Body on Civil Service Salaries, using the scales of Permanent Secretaries as a benchmark. The Committee sought the advice of Mr Michael Smith, the Chairman of the Board of Governors as in previous years, and having carefully considered the matter, agreed with Mr Smith's recommendation that it would not be appropriate for the Governors to receive an increase in their remuneration for the year commencing 1 January 2012, in view of the present economic climate and the ongoing freeze in pay for all public servants paid more than £21,000 per year.

The current remuneration paid to each Governor is therefore as stated below:

The Chairman of the Board of Governors:	£49,000 per annum
Deputy Chair of the Board of Governors:	£35,000 per annum
Chairs of Board Committees:	£35,000 per annum
Governor:	£28,000 per annum.

The Committee was informed of the appointment of Mrs Joanne Shaw and Ms Marisa Cassoni following the resignation of Mr Neil McCausland in January 2011 and the Committee was informed that the new Governors had undergone an Induction Programme. Mr Smith provided the Committee with an overview of the proposed approach to Governor appraisal for 2011. Following the external review for 2010 by Egon Zehnder, it had been agreed that the appraisal would be conducted internally with initial internet based questionnaires being completed in December and January. The Committee confirmed that it was very supportive of this approach. It was explained to the Committee that, in general, the new Board has a satisfactory mix of skills and experience. A further Board Effectiveness Review and appraisal will be undertaken at the end of 2012.

Mr Smith confirmed that he had asked Ms Jane Wesson, in her role as Deputy Chairman, to commence the process to identify a successor to Mr Smith, who will have held the post of Governor for nine years on 1 October 2012 and it was his intention to retire from the Board after the Annual General Meeting in June 2012.

Finally, I would like to thank Lady Forester and Mr Douglas Gardner for all their continuing help and support during the year and I am most grateful to them for devoting the necessary time and effort to the Committee's affairs.

The Lord Wade of Chorlton
Chairman: Governors' Remuneration Committee

INDEPENDENT AUDITORS REPORT TO THE MEMBERS AND GOVERNORS OF NUFFIELD HEALTH

We have audited the financial statements of Nuffield Health for the year ended 31 December 2011 which comprise the consolidated income and expenditure account, the consolidated statement of financial activities, the group balance sheet, the charity balance sheet, the consolidated cash flow statement, the accounting policies 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).

This report is made solely to the charitable company's Members and Governors, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. Our audit work has been undertaken so that we might state to the charitable company's Members and Governors those matters we are required to state to them in an auditor's 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 charitable company and its Members and Governors as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Governors and Auditors

As explained more fully in the Governors' Responsibilities Statement set out on page 13, the Governors (who are also the directors of the charitable company for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

We have been appointed as auditor under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and under the Companies Act 2006 and report in accordance with regulations made under those Acts.

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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the parent charitable company's affairs as at 31 December 2011 and of the Group's incoming resources and application of resources, including the Group's income and expenditure, 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 Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and regulations 6 and 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Governors' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

INDEPENDENT AUDITORS REPORT TO THE MEMBERS AND GOVERNORS OF NUFFIELD HEALTH (continued)

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 and the Charities Accounts (Scotland) Regulations 2006 (as amended) requires us to report to you if, in our opinion:

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

Stephen Maslin
Senior Statutory Auditor
For and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
23 May 2012

Grant Thornton UK LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006.

Company number	576970
Charity number in England and Wales	205533
Charity number in Scotland	SC041793

Consolidated Income and Expenditure Account
For the year ended 31 December 2011

	Note	2011 Total £m	2010 Total £m
Turnover (including share of joint venture)		575.2	557.2
Share of turnover of joint ventures		-	(5.0)
Group turnover		575.2	552.2
Cost of services			
Normal	2	(545.5)	(522.7)
Exceptional	5	2.5	1.1
Gross surplus		32.2	30.6
Support and governance costs			
Normal	3	(11.7)	(10.7)
Exceptional	5	-	8.2
Group operating surplus		20.5	28.1
Share of operating losses of joint ventures		-	(1.8)
Total operating surplus		20.5	26.3
Deficit on sale of business	7	(0.2)	(0.5)
Costs of restructuring	7	-	(9.0)
Surplus on disposal of tangible fixed assets	7	0.7	1.4
Surplus before interest and tax		21.0	18.2
Net interest payable and similar income			
Group	8	(17.2)	(17.0)
Joint venture	8	-	(0.7)
Surplus on ordinary activities before taxation		3.8	0.5
Tax on surplus on ordinary activities	13	(0.1)	(0.4)
Retained surplus for the financial year		3.7	0.1

Consolidated Statement of Financial Activities
For the year ended 31 December 2011

	Note	Permanent endowment £m	Restricted £m	Unrestricted £m	2011 Total £m	2010 Total £m
Incoming resources						
Incoming resources from generated funds						
Donations, gifts and legacies		-	-	-	-	0.2
Investment income	8	-	-	0.5	0.5	0.9
Incoming resources from charitable activities						
Services to patients and others						
Before share of joint ventures' services		-	-	575.2	575.2	557.0
Less share of joint ventures' services		-	-	-	-	(5.0)
Other incoming resources						
Surplus on sale of business	7	-	-	-	-	0.1
Surplus on disposal of tangible fixed assets	7	-	-	0.7	0.7	1.4
Total incoming resources		-	-	576.4	576.4	554.6
Resources expended						
Charitable activities						
Normal	2	-	-	(554.7)	(554.7)	(530.8)
Exceptional	5	-	-	2.5	2.5	9.3
Governance costs	3	-	-	(2.5)	(2.5)	(2.6)
Other resources expended						
Deficit on disposal of business	7	-	-	(0.2)	(0.2)	(0.6)
Costs of restructuring	7	-	-	-	-	(9.0)
Interest payable	8	-	-	(15.5)	(15.5)	(15.5)
Post retirement finance expense	8 and 9	-	-	(2.2)	(2.2)	(2.4)
Taxation	13	-	-	(0.1)	(0.1)	(0.4)
Total resources expended		-	-	(572.7)	(572.7)	(552.0)
Net incoming resources						
Share of joint ventures net losses		-	-	3.7	3.7	2.6
		-	-	-	-	(2.5)
Net incoming resources before other recognised gains and losses		-	-	3.7	3.7	0.1
Transfer between funds		-	(0.2)	0.2	-	-
Other recognised gains and losses						
Actuarial (losses) on defined benefit retirement scheme	9	-	-	(15.1)	(15.1)	(9.9)
Net movement in funds		-	(0.2)	(11.2)	(11.4)	(9.8)
Fund balances at 1 January		0.1	1.4	172.7	174.2	184.0
Fund balances at 31 December	27	0.1	1.2	161.5	162.8	174.2

Balance Sheets
at 31 December 2011

	Note	2011 £m	Group 2010 £m	2011 £m	Charity 2010 £m
Fixed assets					
Intangible assets	15	43.7	53.1	29.4	23.8
Tangible assets	16	449.1	450.0	443.2	424.9
Investments	18	0.4	0.4	41.0	45.4
		<u>493.2</u>	<u>503.5</u>	<u>513.6</u>	<u>494.1</u>
Current assets					
Stocks	19	7.0	8.0	7.0	7.8
Debtors	20	66.2	74.9	200.0	213.1
Cash at bank and in hand		12.8	9.1	12.4	8.0
		<u>86.0</u>	<u>92.0</u>	<u>219.4</u>	<u>228.9</u>
Creditors: amounts falling due within one year	21	(99.1)	(122.4)	(246.4)	(243.8)
Net current liabilities		<u>(13.1)</u>	<u>(30.4)</u>	<u>(27.0)</u>	<u>(14.9)</u>
Total assets less current liabilities		<u>480.1</u>	<u>473.1</u>	<u>486.6</u>	<u>479.2</u>
Creditors: amounts falling due after more than one year	22	(226.2)	(217.1)	(225.9)	(213.7)
Provisions for liabilities	25	(6.2)	(6.8)	(4.2)	(4.9)
Net assets excluding post retirement liability		<u>247.7</u>	<u>249.2</u>	<u>256.5</u>	<u>260.6</u>
Post retirement defined benefit liability	9	(84.9)	(75.0)	(84.9)	(75.0)
Net assets		<u>162.8</u>	<u>174.2</u>	<u>171.6</u>	<u>185.6</u>
Income funds					
Restricted funds	27	1.2	1.4	1.2	1.4
Unrestricted funds:					
General fund	27	246.4	247.7	255.2	259.1
Post retirement reserve	27	(84.9)	(75.0)	(84.9)	(75.0)
Total unrestricted funds	27	<u>161.5</u>	<u>172.7</u>	<u>170.3</u>	<u>184.1</u>
Total income funds		<u>162.7</u>	<u>174.1</u>	<u>171.5</u>	<u>185.5</u>
Permanent endowment	26 and 27	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>
Group funds		<u>162.8</u>	<u>174.2</u>	<u>171.6</u>	<u>185.6</u>

Approved by the Board of Governors on 23 May 2012

Michael J Smith - Chairman

David Mobbs - Group Chief Executive

Consolidated Cash Flow Statement
For the year ended 31 December 2011

	Note	£m	2011 £m	£m	2010 £m
Net cash inflow from operating activities					
Normal	28	75.5		56.3	
Exceptional	28	(0.4)		(0.4)	
			75.1		55.9
Net cash outflow from returns on investments and servicing of finance	29		(16.9)		(11.5)
Taxation			(0.2)		(0.3)
Capital expenditure and financial investment					
Purchase of tangible fixed assets	30	(42.3)		(27.3)	
Increase in loans to joint ventures		-		(2.0)	
Exceptional disposal of tangible fixed assets	30	2.7		2.0	
Net cash outflow from capital expenditure and financial investment			(39.6)		(27.3)
Acquisitions and disposals					
Purchase of subsidiaries	31	(18.4)		(10.6)	
Sale of business		0.2		(0.9)	
Restructuring		-		(4.7)	
Net cash (outflow)/inflow from acquisitions and disposals			(18.2)		(16.2)
Cash inflow before use of liquid resources and financing			0.2		0.6
Financing	32		4.4		0.9
Increase in cash for the financial year	33		4.6		1.5
Reconciliation of net cash flow to movement in net debt					
Increase in cash for the financial year			4.6		1.5
Cash outflow from changes in debt and lease finance	32		(4.4)		(0.9)
Change in net debt resulting from cash flows	33		0.2		0.6
Loans issued with acquisition	31	(2.0)		-	
Loans acquired with acquisition		-		(19.9)	
Loans cancelled on restructuring		-		6.1	
			(2.0)		(13.8)
New finance leases	33		(0.2)		(5.1)
Movement in net debt in the financial year			(2.0)		(18.3)
Net debt at 1 January	33		(212.8)		(194.5)
Net debt at 31 December	33		(214.8)		(212.8)

Accounting Policies

For the year ended 31 December 2011

The financial statements have been prepared under the historical cost convention, as modified to include the revaluation of certain fixed asset investments and post retirement defined benefits, and in accordance with the Statement of Recommended Practice, Accounting and Reporting by Charities (SORP Revised 2005), applicable accounting standards and the Companies Act 2006.

The accounting policies are consistent with the previous year.

a) Going concern

The Group meets its day to day working capital requirements through its internal cash generation supported by bank borrowings. The available bank facilities at 31 December 2011 are £200m, fully drawn, that is repayable in instalments between June 2014 and November 2015; and a further £70m, of which £18m is drawn and is due to expire in November 2015.

The current economic conditions create uncertainty particularly over the level of demand for the Group's services. The Group's forecasts and projections, taking account of possible changes in trading performance and the level of discretionary capital expenditure, show that the Group will be able to operate within the bank facilities over the next year.

Accordingly the Governors are satisfied that the Charity and the Group have adequate resources to continue in operational existence for at least twelve months and as a result they continue to adopt the going concern basis in preparing the annual report and accounts.

b) Basis of consolidation

The Group financial statements consolidate the accounts of the Charity, its subsidiary undertakings and joint ventures drawn up to 31 December 2011. The results of subsidiary and joint venture undertakings acquired during the year are included from the date of acquisition. Surpluses or deficits on intra-group transactions and the Group's share of surpluses or deficits on transactions with joint ventures are eliminated on consolidation. On acquisition of an undertaking, the undertaking's identifiable assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date.

Shares of subsidiary undertakings owned by non-Group companies are included within minority interest except so far as there are obligations to the third parties that are likely to result in the purchase of those shares, in which case the discounted value of the expected purchase price is reported as a liability.

Subsidiary undertakings are consolidated using the acquisition accounting method.

The joint venture undertakings are consolidated using the gross equity method, the effect of which is to report the Group's share of the joint ventures' net assets and any unamortised goodwill. The Group's share of the results of the joint ventures is recognised in the consolidated income and expenditure account and consolidated statement of financial activities.

c) Funds

Unrestricted general funds are expendable at the discretion of the Governors in furtherance of the objects of the Charity. The liability for post retirement defined benefits is reported separately in the post retirement reserve.

Restricted funds are subject to specific trusts, which may be declared by the donor(s), and are within the objects of the Charity. Restricted funds are transferred to unrestricted when the specific requirements of the donation are satisfied.

Permanent endowments are capital funds where the Governors have no power to convert the capital into income.

d) Incoming resources and turnover

Incoming resources from charitable activities is the total amount receivable by the Group, excluding VAT, from charges made for services to patients, Wellbeing members and others. Income from such services are recognised at the time or over the period that the services are provided.

Turnover is incoming resources from charitable activities plus donations, gifts and legacies.

Donations and gifts are accounted for at the earlier of receipt or unconditional entitlement to the donation or gift.

Legacies are included in the financial statements when there is reasonable certainty that the legacy will be received and the value can be measured with reasonable certainty.

Gifts in kind are valued at their market value on the date of transfer or the estimated value to the Charity when there is no market value.

e) Resources expended

Expenditure is classified using the headings in SORP Revised 2005. The direct costs of providing services to patients and others are categorised as charitable activities. Support costs are the Group's corporate office costs and as such are indirect costs incurred in supporting the charitable activities. Governance costs comprise the expenditure associated with the strategic management of the Group and compliance with constitutional and statutory requirements. Where departments undertake support and governance activities the costs are apportioned using an estimate of the time spent on each activity.

f) Exceptional items

Exceptional items are events or transactions that are undertaken as part of Group's ordinary activities that are uncommon and of a material value either individually or if of a similar type in aggregate and are therefore separately disclosed in order for the financial statements to give a true and fair view.

g) Financial derivatives

The Group enters into financial derivatives to manage its exposure to fluctuating interest rates but does not enter into speculative derivative contracts. Amounts payable or receivable in respect of interest rate derivatives are recognised as adjustments to interest payable over the period of the contracts.

h) Intangible assets

Goodwill, representing the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised. The Charity's goodwill includes the value of investments in certain subsidiaries in which the trade and assets have been transferred to the Charity.

Positive goodwill is written off on a straight line basis over its expected useful life, of between 10 and 20 years. Provision is made for any impairment in accordance with Financial Reporting Standard 11 Impairment of Fixed Assets and Goodwill (FRS11). In determining whether goodwill is impaired, it is allocated to an income generating unit with other related assets for testing.

A change in the value of contingent purchase consideration is recognised immediately as an adjustment to goodwill and written off on a straight line basis over its expected useful life from the date of the original purchase.

i) **Tangible fixed assets and depreciation**

Tangible fixed assets are capitalised at cost including any incidental expenses of acquisition.

The cost of new hospitals and major extension and refurbishments include internal project development costs and interest incurred on borrowings to finance the development. The cost of computer software, which is included in furniture and equipment, includes internal project development costs. All other development costs are written off in the year of expenditure.

Capitalised interest is calculated by applying a weighted average interest rate to the cost of new hospitals and major extension and refurbishments in progress during the year.

Tangible fixed assets are transferred from assets in the course of construction at practical completion of the project. No depreciation is charged while assets are in the course of construction, depreciation on assets in the course of construction commences at practical completion.

Depreciation on the other tangible fixed assets is calculated on a straight line basis to write down the cost over their expected useful economic lives. The applicable periods are:

Freehold buildings	-	Between 50 and 60 years or the remaining useful life
Leasehold properties	-	Over the period of the lease or remaining useful life
Furniture and equipment	-	Between 3 and 15 years
Motor vehicles	-	Between 4 and 5 years

j) **Impairment of intangible and tangible fixed assets**

Impairment reviews are carried out when there is an indication that impairment exists and any impairment losses identified are immediately expensed.

Impairments of tangible fixed are reversed when a change in economic conditions or the expected use of an asset increases the recoverable amount of an impaired asset above its impaired carrying value. Impairment reversals are recognised in the income and expenditure statement and statement of financial activities to the extent that they increase the carrying amount of the asset up to the amount that it would have been had the original impairment not occurred.

k) **Purchase and disposal of properties**

The purchase or disposal of a property is accounted for in the year in which an unconditional and irrevocable contract is exchanged.

l) **Investments**

Investments in subsidiaries and joint ventures that further the charitable objectives are treated as programme related investments and are stated as cost, less provision for impairment. Other investments are stated at market value at the balance sheet date.

Changes in market values are accounted for through other recognised gains and losses within the statement of financial activities.

Most of the trade and assets of Health Club Investments Group Limited, Nuffield Proactive Health Group Limited and their subsidiaries were transferred to the Charity in prior years. As a result of the hive-up the carrying values of the investments in the subsidiaries were not supported by their net assets, however the Charity did not suffer a loss in respect of these transactions. Accordingly the investment, not represented by the subsidiary's underlying assets, has been treated as goodwill and will be amortised over their useful life of between 6 and 20 years.

m) **Stocks**

Stocks are stated at the lower of net realisable value and cost, where cost is average cost.

Consignment stock is not included in the balance sheet when the supplier retains the risk and reward of ownership.

n) Provisions for liabilities

Provisions are recognised when there are obligations resulting from a past action where it is probable that payment will be made and the amounts can be reliably estimated.

Provisions are made for onerous property leases in which the unavoidable costs of meeting the obligations under them exceed the economic benefits expected to be received under them. Onerous lease provisions are made on vacant properties and on the difference between the property rental and its market rental on income generating units that are fully written down.

Provisions are discounted when this materially affects the financial statements.

o) Defined benefit pension schemes and other post retirement benefits

Scheme assets are measured at fair values. Scheme liabilities are measured annually on an actuarial basis using the projected unit method and are discounted at appropriate high quality corporate bond rates of equivalent currency and term of the scheme liabilities. The net surplus or deficit is presented separately from other net assets on the balance sheet. A net surplus is recognised only to the extent that it is recoverable by the Group.

The current service cost and costs from settlements and curtailments are charged against operating surplus. Past service costs are recognised over the period in which the benefit changes vest. Interest on the scheme liabilities and the expected return on scheme assets are included in other finance costs. Actuarial gains and losses are reported as recognised gains and losses in the statement of financial activities.

p) Defined contribution pension schemes

Contributions payable for the year are charged against operating surplus.

q) Leased assets and hire purchase commitments

A finance lease is one in which substantially all of the risks and benefits of the leased asset is transferred to the Group. Assets held under finance leases and hire purchase contracts are recorded as fixed assets and the capital element of future rentals is included in creditors. The interest element of the leasing payments represents a constant portion of the capital balance outstanding and is charged to the income and expenditure account and the statement of financial activities over the period of the lease.

All other leases are regarded as operating leases and the total payments made under them are charged to the income and expenditure account and the statement of financial activities on a straight line basis over the lease term.

Rentals receivable from operating leases are accounted for on a straight line basis over the lease term.

r) Deferred taxation

Deferred taxation is recognised on all timing differences where the transactions or events that give the Group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantially enacted at the balance sheet date.

Notes to the Financial Statements
For the year ended 31 December 2011

1 Segmental analysis

There is minimal overseas trade and therefore no geographical analysis. The analysis of the businesses is based on the Group's management structure.

	Hospital services £m	Wellbeing services £m	Central & other £m	2011 Total £m	Hospital services £m	Wellbeing services £m	Central & other £m	2010 Total £m
Incoming resources from generated funds								
Voluntary income	-	-	-	-	-	-	0.2	0.2
Investment income	-	-	0.5	0.5	-	-	0.9	0.9
Incoming resources from charitable activities								
Normal								
Including inter-company	424.3	161.0	-	585.3	406.1	160.6	-	566.7
Inter-company	-	-	(10.1)	(10.1)	-	-	(9.7)	(9.7)
	424.3	161.0	(9.6)	575.7	406.1	160.6	(8.6)	558.1
Less share of joint ventures	-	-	-	-	(5.0)	-	-	(5.0)
Other incoming resources								
Surplus on sale of business	-	-	-	-	0.1	-	-	0.1
Surplus on disposal of tangible fixed assets								
Continuing	-	-	0.7	0.7	1.4	-	-	1.4
Total incoming resources	424.3	161.0	(8.9)	576.4	402.6	160.6	(8.6)	554.6
Resources expended								
Charitable activities								
Normal								
Including inter-company	(396.1)	(159.5)	(9.2)	(564.8)	(379.6)	(152.8)	(8.1)	(540.5)
Inter-company	-	-	10.1	10.1	-	-	9.7	9.7
	(396.1)	(159.5)	0.9	(554.7)	(379.6)	(152.8)	1.6	(530.8)
Exceptional	1.5	1.0	-	2.5	(1.5)	2.6	8.2	9.3
Governance costs	-	-	(2.5)	(2.5)	-	-	(2.6)	(2.6)
Deficit on disposal of business	-	(0.2)	-	(0.2)	(0.6)	-	-	(0.6)
Cost of restructuring	-	-	-	-	(9.0)	-	-	(9.0)
Interest payable	-	-	(15.5)	(15.5)	-	-	(15.5)	(15.5)
Retirement finance expenses	-	-	(2.2)	(2.2)	-	-	(2.4)	(2.4)
Taxation	(0.1)	-	-	(0.1)	(0.4)	-	-	(0.4)
Total resources expended	(394.7)	(158.7)	(19.3)	(572.7)	(391.1)	(150.2)	(10.7)	(552.0)
Net incoming resources	29.6	2.3	(28.2)	3.7	11.5	10.4	(19.3)	2.6
Share of joint ventures net losses	-	-	-	-	(2.5)	-	-	(2.5)
Net resources incoming before transfer of funds	29.6	2.3	(28.2)	3.7	9.0	10.4	(19.3)	0.1
Net assets	344.1	124.4	(305.7)	162.8	352.5	129.4	(307.7)	174.2
Staff numbers (WTE)	4,235	2,346	84	6,665	4,027	2,796	58	6,881

2 Resources expended charitable activities

	Direct activities		Support costs		2011 £m	Total 2010 £m
	2011 £m	2010 £m	2011 £m	2010 £m		
Normal						
Staff and related costs	172.5	166.1	27.5	26.5	200.0	192.6
Third party fees	112.9	104.2	-	-	112.9	104.2
Supply costs	74.6	64.5	-	-	74.6	64.5
Depreciation and amortisation	48.2	43.4	5.9	5.6	54.1	49.0
Other costs	83.4	97.9	29.7	22.6	113.1	120.5
	<u>491.6</u>	<u>476.1</u>	<u>63.1</u>	<u>54.7</u>	<u>554.7</u>	<u>530.8</u>
Support costs transferred to direct activities	53.9	46.6	(53.9)	(46.6)	-	-
After recharge	<u>545.5</u>	<u>522.7</u>	<u>9.2</u>	<u>8.1</u>	<u>554.7</u>	<u>530.8</u>
Exceptional						
Staff and related costs	-	-	-	(8.2)	-	(8.2)
Depreciation and amortisation	(2.5)	(1.1)	-	-	(2.5)	(1.1)
Total exceptional	<u>(2.5)</u>	<u>(1.1)</u>	<u>-</u>	<u>(8.2)</u>	<u>(2.5)</u>	<u>(9.3)</u>
Total resources expended charitable activities	<u>543.0</u>	<u>521.6</u>	<u>9.2</u>	<u>(0.1)</u>	<u>552.2</u>	<u>521.5</u>

The support costs transferred to direct activities are divisional office and central service costs that are incurred in delivering or managing the delivery of services.

3 Support and governance costs

	2011 £m	2010 £m
Normal		
Governance		
Staff and related costs	1.5	1.6
Other costs	1.0	1.0
	<u>2.5</u>	<u>2.6</u>
Support costs normal (note 2)	9.2	8.1
Total support and governance - normal	<u>11.7</u>	<u>10.7</u>
Exceptional support costs	-	(8.2)
Total support and governance	<u>11.7</u>	<u>2.5</u>

4 Discontinued business

	2011 £m	2010 £m
Turnover	1.4	16.7
Other costs	(1.4)	(16.3)
Total operating surplus	<u>-</u>	<u>0.4</u>

The sale of the management contracts of the local authority fitness centres was completed in March 2011 with an effective date of 1 February 2011.

5 Exceptional items

An impairment review was carried out on Vale Healthcare Limited and resulted in a full impairment of the remaining goodwill of £3.4m.

The change in trading conditions in 2009 required an impairment review of tangible fixed assets. This resulted in an impairment of tangible fixed assets in that year. The follow up reviews in 2011 resulted in a net reversal of the impairments in Wellbeing Centres of £1.0m (2010 - £2.6m) and £4.9m (2010 - nil) in the Hospital Division.

The Government's announcement that the statutory deferred pension will be based on CPI rather than RPI has resulted in the valuation of the deferred pension liabilities of the funded scheme now being based on CPI. This reduced the liabilities by £8.2m in 2010.

The exceptional costs are:

	2011 £m	2010 £m
Cost of services		
Impairment of intangible fixed assets	(3.4)	(1.5)
Reversal of impairment of tangible fixed assets	5.9	2.6
	<u>2.5</u>	<u>1.1</u>
Support costs		
Pension past service costs	-	8.2
	<u>2.5</u>	<u>9.3</u>

6 Operating surplus

	2011 £m	2010 £m
This is stated after charging or crediting (including VAT):		
Fees payable by the Charity for the audit of the Charity's annual accounts	0.3	0.3
Fees payable by the company's auditor and its associates for other services:		
Tax services	0.2	0.1
Total fees to the company's auditor	<u>0.5</u>	<u>0.4</u>

Fees paid to Grant Thornton UK LLP for non-audit services to the charitable company itself are not disclosed in the individual accounts of Nuffield Health because the charitable company's consolidated accounts are required to disclose such fees on a consolidated basis.

	2011 £m	2010 £m
Depreciation on tangible fixed assets:		
On owned assets	44.5	43.2
On assets held under finance leases and hire purchase contracts For equipment and motor vehicles	2.6	1.8
	<u>47.1</u>	<u>45.0</u>
Depreciation charge (note 16)	47.1	45.0
Loss on disposal of tangible fixed assets	1.2	0.3
	<u>48.3</u>	<u>45.3</u>
Normal depreciation	48.3	45.3
Reversal of impairment of tangible fixed assets (note 16)	(5.9)	(2.6)
	<u>42.4</u>	<u>42.7</u>

6 Operating surplus (continued)

	2011 £m	2010 £m
Amortisation of goodwill of subsidiaries (note 15)	5.8	3.7
Impairment of goodwill of subsidiaries (note 15)	3.4	1.5
Hire of plant and machinery (including operating lease charges)	7.7	7.8
Property operating lease rentals	22.2	21.1
Rental income from operating leases	1.1	0.5
Third party indemnity insurance	0.9	1.4

Indemnity insurance for the Governors and officers amounted to £14,000 (2010 - £14,000).

7 Exceptional items reported after operating surplus

	2011 Total £m	2010 Total £m
(Deficit)/surplus on disposals of business		
Deficit on disposal of local authority fitness and wellbeing centres	(0.2)	-
Deficit on disposal of Vanguard Healthcare Limited	-	(0.6)
Surplus on disposal of hospitals	-	0.1
	<u>(0.2)</u>	<u>(0.5)</u>
Costs of restructuring Guildford Clinic	-	(9.0)
Surplus on disposal of tangible fixed assets	0.7	1.4
	<u>0.5</u>	<u>(8.1)</u>

The deficit on disposal of business in 2011 arises from the strategic decision to exit the market of direct management of local authority fitness centres. The management contracts were sold with effect from 1 February 2011. The surplus on disposal of tangible fixed assets relates to non-core property sales.

The loss on the disposal of businesses in 2010 results from the disposal of Vanguard Healthcare Limited in 2009 and the release of accruals and provisions during the year relating to the sale of hospitals in previous years. The cost of restructuring relates to the Guildford Clinic LLP going into administration and the buy back of the business during the year.

8 Net interest payable and similar income

	2011 £m	2010 £m
Group interest receivable	0.5	0.9
Interest payable	<u>(13.3)</u>	<u>(12.3)</u>
Bank loans and overdraft	(13.3)	(12.3)
Finance charges in respect of finance leases	(0.3)	(0.1)
Unwinding of discounting on purchase of subsidiaries	(0.2)	(1.2)
Total interest payable	<u>(13.8)</u>	<u>(13.6)</u>
Costs in connection with loan facilities	(1.1)	(1.9)
Unamortised costs written off at time of refinancing	(0.6)	-
	<u>(15.5)</u>	<u>(15.5)</u>
Retirement benefit finance costs	(2.2)	(2.4)
Total interest payable	<u>(17.7)</u>	<u>(17.9)</u>
Group net interest payable and similar income	<u>(17.2)</u>	<u>(17.0)</u>
Joint ventures		
Share of joint ventures loan interest payable	-	(0.7)

9 Defined benefit pensions and other post retirement benefits

The Group's funded defined pension scheme was closed to future contributions and replaced with a new defined contribution scheme with effect from 1 June 2007. During the year the Group operated one unfunded defined benefit pension scheme. The assets of the funded scheme are administered by trustees in funds independent from the assets of the Group. The Group also provides post retirement healthcare benefits to some of its employees, which is now closed to new entrants.

The most recent actuarial valuation of the defined benefit pension scheme was at 31 March 2009. The valuation of the scheme used the projected unit method and was carried out by Punter Southall, professionally qualified actuaries. The principal assumptions made by the actuary were:

Assumptions of annual increases:

Investment returns	6.7%
Discount rate	5.7%
Pensionable salaries	
Pre 1 August 2005	3.2%
Post 31 July 2005	2.3%

At the date of the above full valuation the actuarial value of the schemes' assets was sufficient to cover 69% of the benefits that had accrued to the members after allowing for expected future increases in earnings.

The level of employer contributions in the year totalled £8.4m (2010 - £7.8m). The employer has agreed to contribute £8.4m annually to fund the past service deficit and administration costs, which is currently projected to recover the deficit within ten years.

The actuarial valuations have been updated by an independent qualified actuary to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 December 2011. The projected unit method is used to value the liabilities of the defined benefit pension scheme. As the defined benefit pension scheme is closed to new members the current service costs under the projected unit method will increase as the members of the scheme approach retirement. Scheme assets are stated at their market value at 31 December 2011.

The main FRS 17 assumptions are:

	2011 %pa	2010 %pa
Rate of increase in medical inflation	4.3%	5.0%
Rate of increase for pensions in payment pre 1 August 2005 service	3.4%	3.6%
Rate of increase for pensions in payment post 31 July 2005 service	2.1%	2.2%
Rate of increase for deferred pensions	2.3%	3.0%
Discount rate (yield curve basis)	4.7%	5.4%
Inflation rate (CPI)	2.3%	3.5%

Following the Government's announcement that the inflation measure for determining pension increases will be based on CPI rather than RPI the valuation of the deferred pension liabilities of the funded scheme is now based on CPI. The Governors are of the opinion that there was a change in the employee's expectation as correspondence with the deferred pensioners in earlier years had made reference to RPI as the inflationary increase, therefore there is an exceptional credit of £8.2m to the income and expenditure account and statement of financial activities in 2010.

The post-retirement mortality assumptions used to value the benefit obligation at 31 December 2011 and 31 December 2010 are based on the mortality tables S1NM/FA mc and PMA92 c 2025 mc respectively. Assumed life expectancies on retirement age at 65 are:

		2011	2010
Retiring today	Males	21.7	21.6
	Females	24.8	24.7
Retiring in 20 year's time	Males	23.7	23.6
	Females	26.3	26.2

9 Defined benefit pensions and other post retirement benefits (continued)

The expected long term returns on the assets are:

	Actual rate of return %pa	Expected rate of return %pa	2011 Value £m	Expected rate of return %pa	2010 Value £m
Equity and equity hedge	(2.4%)	6.6%	81.6	7.2%	85.0
Bonds	17.7%	3.6%	106.2	4.7%	93.0
Dynamic asset fund	1.5%	6.1%	50.1	6.8%	60.4
Property	6.9%	5.6%	5.7	6.2%	5.5
Other including liability hedge	(1.6%)	0.5%	19.3	2.3%	5.4

Expected returns on bonds are determined by considering the yield curves of gilts and AA corporate bonds over on the duration of the liabilities. The expected returns for other types of assets are based on the likely returns in their respective markets.

The dynamic asset fund invests in a variety of assets that may change daily. At 31 December 2011 the allocation was equities 55.4%, bonds 32.9%, property 3.8% and other 7.9% (2010 - equities 50.8%, bonds 34.9%, property 4.9% and other 9.4%).

The pension scheme had partially hedged its exposure to increases in inflation and interest rates and in 2010 unwound its hedges relating to falls in returns from equities.

The amounts charged to the income and expenditure account/statement of financial activities were:

	Defined benefit pension funds		Retirement healthcare		Total	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
Operating surplus						
Current service cost	1.4	1.3	-	-	1.4	1.3
Exceptional pension past service costs	-	(8.2)	-	-	-	(8.2)
	<u>1.4</u>	<u>(6.9)</u>	<u>-</u>	<u>-</u>	<u>1.4</u>	<u>(6.9)</u>
Net interest payable/(receivable):						
Expected return on schemes' assets	(14.9)	(14.8)	-	-	(14.9)	(14.8)
Interest on schemes' liabilities	16.8	16.9	0.3	0.3	17.1	17.2
Total charged to finance expenses	<u>1.9</u>	<u>2.1</u>	<u>0.3</u>	<u>0.3</u>	<u>2.2</u>	<u>2.4</u>
Total	<u>3.3</u>	<u>(4.8)</u>	<u>0.3</u>	<u>0.3</u>	<u>3.6</u>	<u>(4.5)</u>
Actual return on assets	<u>16.2</u>	<u>23.1</u>	<u>-</u>	<u>-</u>	<u>16.2</u>	<u>23.1</u>

The total actuarial gains on defined benefit retirement schemes are as follows:

	2011 £m	2010 £m
On obligations - interest costs	(16.4)	(18.2)
On fund assets - expected return	1.3	8.3
Net actuarial losses on defined benefit retirement schemes	<u>(15.1)</u>	<u>(9.9)</u>

9 Defined benefit pensions and other post retirement benefits (continued)

The amounts recognised in the Charity and Group balance sheet are as follows:

	Defined benefit pension funds		Retirement healthcare		Total	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
Fair value of schemes' asset	262.9	249.3	-	-	262.9	249.3
Present value of funded obligations	(340.9)	(317.1)	-	-	(340.9)	(317.1)
	<u>(78.0)</u>	<u>(67.8)</u>	<u>-</u>	<u>-</u>	<u>(78.0)</u>	<u>(67.8)</u>
Present value of unfunded obligations	(2.2)	(2.0)	(4.7)	(5.2)	(6.9)	(7.2)
Net liabilities	<u><u>(80.2)</u></u>	<u><u>(69.8)</u></u>	<u><u>(4.7)</u></u>	<u><u>(5.2)</u></u>	<u><u>(84.9)</u></u>	<u><u>(75.0)</u></u>

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

	Defined benefit pension funds		Retirement healthcare		Total	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
Opening defined benefit obligations	(319.1)	(301.2)	(5.2)	(5.6)	(324.3)	(306.8)
Current service cost	(1.4)	(1.2)	-	-	(1.4)	(1.2)
Pension past service costs	-	8.2	-	-	-	8.2
Benefits paid	11.1	10.6	0.3	0.3	11.4	10.9
Interest cost	(16.8)	(16.9)	(0.3)	(0.3)	(17.1)	(17.2)
Actuarial (losses)/gains	(16.9)	(18.6)	0.5	0.4	(16.4)	(18.2)
Closing defined benefit obligations	<u><u>(343.1)</u></u>	<u><u>(319.1)</u></u>	<u><u>(4.7)</u></u>	<u><u>(5.2)</u></u>	<u><u>(347.8)</u></u>	<u><u>(324.3)</u></u>

The cumulative actuarial losses recognised in the statement of financial activities at 31 December 2011 were £102.0m (2010 - £85.6m).

Changes in the fair value of the defined benefit pension funds assets are as follows:

	Defined benefit pension funds		Retirement healthcare		Total	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
Opening fair value of plan assets	249.3	228.9	-	-	249.3	228.9
Expected return	14.9	14.8	-	-	14.9	14.8
Actuarial gains	1.3	8.3	-	-	1.3	8.3
Contributions paid	8.5	7.9	0.3	0.3	8.8	8.2
Benefits paid	(11.1)	(10.6)	(0.3)	(0.3)	(11.4)	(10.9)
Closing fair value of plan assets	<u><u>262.9</u></u>	<u><u>249.3</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>262.9</u></u>	<u><u>249.3</u></u>

9 Defined benefit pensions and other post retirement benefits (continued)

Amounts for the current and previous four periods for the defined benefit pension funds are as follows:

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Defined benefit obligation	(343.1)	(319.1)	(301.2)	(238.5)	(269.3)
Plan assets	262.9	249.3	228.9	211.3	212.9
Deficit	(80.2)	(69.8)	(72.3)	(27.2)	(56.4)
Experience adjustments on obligation					
Value	2.9	(2.7)	2.6	(12.1)	1.3
As percentage of defined benefit obligation	(0.8%)	0.8%	(0.8%)	5.1	(0.4%)
Experience adjustments on plan assets					
Value	1.3	8.3	5.7	(19.6)	(12.0)
As percentage of plan assets	0.5%	3.3%	2.5%	(9.3%)	(5.6%)

The plan assets are valued at mid market price in 2007 and at bid price for 2008 to 2011.

Amounts for the current and previous four periods for the retirement healthcare obligation are as follows:

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Defined benefit obligation	(4.7)	(5.2)	(5.6)	(5.0)	(6.0)
Experience adjustments on obligation	0.3	0.3	0.1	0.5	0.4

10 Defined contribution pension schemes

	2011 £m	2010 £m
The amounts charged to the income and expenditure account and statement of financial activities	5.5	5.2
Contributions owing to the pension schemes at 31 December	0.6	0.5

11 Governors

Fees paid to the Governors:

	2011 £	2010 £
Mr M J Smith	49,000	53,213
Ms J L Wesson	35,000	35,000
Ms F E Driscoll	35,000	31,500
Mr R S M Hardy	28,582	28,000
Mr P G McCracken	28,000	28,000
Mrs J M Shaw	9,333	-
Ms M Cassoni	7,000	-
Mr N W McCausland	2,333	28,000
Mr J S Evans	-	20,000
Mr L P Evander	-	4,666
Mr D Budd	-	3,117
Mr C Tetley	-	2,333
	194,248	233,829

No other emoluments were paid to the Governors. Travel and subsistence paid on behalf of or reimbursed to all the Governors was £22,471 (2010 - £24,410) in the year.

12 Employees

	Number	2011 WTE	Number	2010 WTE
Average number of employees:				
Direct charitable activities	10,206	6,581	9,982	6,823
Support and governance	88	84	60	58
	<u>10,294</u>	<u>6,665</u>	<u>10,042</u>	<u>6,881</u>

The employees are classified into the categories where the related costs are finally charged.

	2011	2010
Number of employees in defined contribution pension schemes	<u>2,064</u>	<u>2,007</u>
	2011 £m	2010 £m
Staff costs during the year:		
Wages and salaries	169.4	162.3
Social security costs	14.8	13.9
Other pension costs		
Defined benefit current services cost (note 9)	1.4	1.2
Defined benefit past service costs (note 9)	-	(8.2)
Defined contribution (note 10)	5.5	5.2
Agency costs	6.2	8.4
	<u>197.3</u>	<u>182.8</u>

12 Employees (continued)

The emoluments of the higher-paid employees fell within the ranges indicated below. These emoluments include bonuses payable, redundancy payments, compromise agreement payments and long term incentive plan benefits but exclude pension contributions. 2010 has been restated to include long term incentive plan benefits earned in 2010, which were excluded from the prior year analysis as they had not vested at that time.

	2011 Number	Restated 2010 Number
£60,000 to £69,999	50	56
£70,000 to £79,999	35	28
£80,000 to £89,999	15	13
£90,000 to £99,999	18	8
£100,000 to £109,999	10	10
£110,000 to £119,999	11	11
£120,000 to £129,999	4	10
£130,000 to £139,999	8	4
£140,000 to £149,999	1	3
£150,000 to £159,999	1	2
£160,000 to £169,999	1	1
£190,000 to £199,999	-	2
£200,000 to £209,999	1	1
£210,000 to £219,999	1	-
£220,000 to £229,999	1	-
£240,000 to £249,999	1	-
£270,000 to £279,999	1	1
£280,000 to £289,999	1	-
£320,000 to £329,999	-	1
£340,000 to £349,999	2	1
£350,000 to £359,999	-	1
£430,000 to £439,999	-	1
£450,000 to £459,999	1	-
£460,000 to £469,999	-	1
£500,000 to £509,999	-	1
£580,000 to £589,999	-	1
£850,000 to £859,999	1	-
£920,000 to £929,999	-	1
	2011	2010
	£m	£m
Employer contributions towards defined contribution pension schemes for higher-paid employees	1.2	1.2
	Number	Number
Number of higher paid employees to whom retirement benefits are accruing under the defined contribution pension scheme	103	109

The Board recognises the need to attract and retain able executives to manage the day to day affairs of the Group. The remuneration of senior executives is determined by the Executive Remuneration and Succession Committee, which takes independent advice from specialist executive remuneration consultants. The total compensation (including base salary, annual bonus and pension contribution) is at 75% of the market median where the data selected is referenced to FTSE 250 companies. The notice periods for senior executives contracts is between nine and twelve months.

13 Tax on surplus on ordinary activities

	2011 £m	2010 £m
Current tax		
United Kingdom corporation tax at 26% (2010 - 28%) payable by Medica Reporting Limited	0.1	0.4

The parent company is a charity and is not subject to tax because its charitable activities are exempt from tax.

The subsidiary companies other than Medica Reporting Limited have tax losses available to carry forward against future taxable profits. No deferred taxation asset has been recognised within the financial statements at 31 December 2011 in respect of these losses because they are unlikely to be recovered. No deferred tax liability is provided in Medica Reporting Limited as the Group expects to continue to be able to claim capital allowances in excess of depreciation in future years.

14 Retained surplus/net movement in funds in the financial year

The Charity has taken advantage of Section 408(3) of the Companies Act 2006 and has not included its own income and expenditure account or statement of financial activities in these financial statements. The summary statement of financial activities for the Charity is as follows:

	2011 £m	2010 £m
Total incoming resources	564.3	542.8
Total resources expended	(563.2)	(546.2)
Net resources expended before transfer of funds	<u>1.1</u>	<u>(3.4)</u>
Actuarial losses on retirement schemes	(15.1)	(9.8)
Net movement in funds	<u>(14.0)</u>	<u>(13.2)</u>

15 Intangible fixed assets

	Group £m	Charity £m
Goodwill		
Cost		
At 1 January 2011	70.7	39.0
Adjustment to cost	0.1	-
Disposals	(0.3)	(0.3)
Transfer from subsidiary	-	10.6
At 31 December 2011	<u>70.5</u>	<u>49.3</u>
Amortisation		
At 1 January 2011	17.6	15.2
Charge for year	5.8	4.3
Impairment	3.4	-
Transfer from subsidiary	-	0.4
At 31 December 2011	<u>26.8</u>	<u>19.9</u>
Net book value at 31 December 2011	<u>43.7</u>	<u>29.4</u>
Net book value at 31 December 2010	<u>53.1</u>	<u>23.8</u>

The transfer of goodwill from subsidiary is Bladerunner Limited's goodwill on acquisition being hived up to the Charity.

Goodwill impairments reviews are carried out in relation to the income generating units and are described in detail in note 17.

16 Tangible fixed assets

Group Cost	Assets in course of construction	Freeholds	Long leaseholds	Short leaseholds	Equipment and motor vehicles	Total
	£m	£m	£m	£m	£m	£m
At 1 January 2011	9.8	233.8	48.1	90.3	439.5	821.5
Additions at cost	24.3	-	-	-	20.1	44.4
Disposals	(0.2)	(0.6)	-	(7.0)	(40.2)	(48.0)
Transfers	(16.1)	0.3	2.1	-	13.7	-
At 31 December 2011	17.8	233.5	50.2	83.3	433.1	817.9
Depreciation						
At 1 January 2011	-	74.6	3.5	31.9	261.5	371.5
Charge for year	-	5.6	1.8	3.0	36.7	47.1
Reversal of impairment	-	(5.0)	(0.3)	(1.1)	0.5	(5.9)
Disposals	-	-	-	(7.0)	(36.9)	(43.9)
Transfers	-	0.1	-	(0.1)	-	-
At 31 December 2011	-	75.3	5.0	26.7	261.8	368.8
Net book value at 31 December 2011	17.8	158.2	45.2	56.6	171.3	449.1
Net book value at 31 December 2010	9.8	159.2	44.6	58.4	178.0	450.0

The gross amount on which depreciation on freehold buildings is being provided is £211.2m (2010 - £211.5m).

The net book value of equipment and motor vehicles held under finance leases and similar hire purchase contracts is £6.7m (2010 - £8.2m).

Charity Cost	Assets in course of construction	Freeholds	Long leaseholds	Short leaseholds	Equipment and motor vehicles	Total
	£m	£m	£m	£m	£m	£m
At 1 January 2011	9.8	222.5	38.5	93.0	428.1	791.9
Additions at cost	24.3	-	-	-	19.8	44.1
Disposals	(0.2)	(0.6)	-	(7.0)	(40.1)	(47.9)
Transfers	(16.1)	0.3	2.1	-	13.7	-
Transfers from subsidiaries	-	-	9.7	-	9.2	18.9
At 31 December 2011	17.8	222.2	50.3	86.0	430.7	807.0
Depreciation						
At 1 January 2011	-	72.8	3.6	30.7	259.9	367.0
Charge for year	-	5.4	1.8	3.0	36.0	46.2
Reversal of impairment	-	(5.0)	(0.3)	(1.1)	0.5	(5.9)
Disposals	-	-	-	(7.0)	(36.8)	(43.8)
Transfers from subsidiaries	-	-	-	-	0.3	0.3
At 31 December 2011	-	73.2	5.1	25.6	259.9	363.8
Net book value at 31 December 2011	17.8	149.0	45.2	60.4	170.8	443.2
Net book value at 31 December 2010	9.8	149.7	34.9	62.3	168.2	424.9

16 Tangible fixed assets (continued)

Group and Charity

Additions during the year included capitalised internal project development costs of £0.9m (2010 - £0.9m). The interest charges and internal project development costs capitalised to date are £10.6m (2010 - £10.6m) and £10.6m (2010 - £11.9m) respectively.

A valuation of the hospitals for loan security purposes at 18 October 2011 was undertaken by GVA Grimley LLP in accordance with the Royal Institution of Chartered Surveyors' Guidance Notes on the Valuation of Assets. The valuation of the hospitals is £843m, giving a surplus of £513m over the net book value at the date of valuation.

17 Impairment

Goodwill and fixed assets are allocated to individual income generating units, where such an allocation is possible on a reasonable basis. Any central assets or overheads, which cannot be allocated to an individual income generating unit on a reasonable basis are allocated and tested for impairment at a divisional level.

The income generating units are hospitals located in a same town or city in the Hospital Division and individual Consumer Fitness & Wellbeing Centres in the Wellbeing Division. The hospitals are valued at the higher of realisable value and value in use and the Consumer Fitness & Wellbeing Centres at their value in use as there are no reasonable estimates for net realisable value.

Impairments measured by discounting cash flows in order to estimate the value in use are monitored for the five years following their initial calculation. The value in use calculations use the pre-interest cash flow forecasts based on the 2012 financial budgets approved by the Board of Governors and management projections for the next four years. The cash flows beyond five years use the long term average growth rates expected in those sectors over the less of 55 years or the remaining period of the leases. The key assumptions used in the calculation are set out below.

	Hospital	Wellbeing
Average growth rate in first five years	2.2%	5.0%
Growth rate beyond five years	2.2%	2.2%
Inflation rate beyond five years	2.0%	1.3%
Discount rate including risk	10.0%	12.0%

The impairments based on the value in use are monitored for the five years following their initial calculation.

Hospital

The property valuation of the hospitals identified a reversal of an impairment of £4.9m on tangible fixed assets recognised in previous years due to an increase in market value of the assets.

In 2010 the recoverable amount of the Vale Hospital was based on a value in use calculation. When the actual result for 2011 replaced the forecast used in the 2010 impairment calculation the impairment would have reduced by £0.1m. A new review was carried out taking into consideration current cash forecasts which identified an additional impairment of £3.4m as the result of a slower forecasted increase in earnings before interest, tax, depreciation and amortisation (EBITDA). A change in annual EBITDA of £0.1m will affect the impairment by £1.2m.

Impairment (continued)

Wellbeing

The growth rates in the first five years of Wellbeing take into consideration an anticipated recovery in the UK economy leading to the membership numbers returning to the 2007 levels. A 1% change in the Wellbeing growth rate assumption in the first five years alters the value in use by £1.7m. A reduction in the discount rate of 1% increases the value in use by £1.5m and an increase in the rate by 1% reduces the value in use by £1.6m.

When the actual results for 2011 replace the forecast used in the 2010 impairment calculation the impairment would increase for some sites and reduce for others, the net effect is a potential impairment increase of £3.3m. A new review was carried out at the year end which showed the potential impairment of £3.3m had reversed and a further £1.0m reversal. The net £1.0m reversal is recognised in the income and expenditure account and statement of financial activities.

The 2011 reversal takes into consideration current cash forecasts, a 0.5% reduction in the discount rate following the refinancing of the loan facilities during 2011 and a change in the basis of allocating central costs. A review during the year identified that certain central costs are fixed and independent of the fitness and wellbeing centres and therefore these costs are no longer allocated to the centres on an arbitrary basis, rather they are assessed at the total divisional level.

18 Fixed asset investments

	UK Listed invest ment £m	Unlisted invest ment £m	Total £m
Group			
Market value			
At 1 January 2011 and 31 December 2011	0.1	0.3	0.4

The Group's investments are held primarily to provide an investment return for the Charity.

The shares of a UK listed investment are valued at their market value at the balance sheet date.

	Subsidiary undertaking £m	UK listed invest ments £m	Unlisted invest ments £m	Total £m
Charity				
Cost or market value				
At 1 January 2011 and 31 December 2011	50.1	0.1	0.3	50.5
Provision for impairment				
At 1 January 2011	5.1	-	-	5.1
Increase in provision	4.4	-	-	4.4
At 31 December 2011	9.5	-	-	9.5
Net book value at 31 December 2011	40.6	0.1	0.3	41.0
Net book value at 31 December 2010	45.0	0.1	0.3	45.4

18 Fixed asset investments (continued)

Subsidiary undertakings

The principal subsidiary undertakings in the Group at 31 December 2011 which are registered in England and Wales are shown below. Only those undertakings that principally affect the figures in the Group accounts are shown, as the total number of subsidiary undertakings is too numerous to disclose. A full list of subsidiary undertakings will be annexed to the Charity's next annual return as allowed by section 410 (2) of the Companies Act 2006.

Company name	Class of share capital held	Portion held by the parent company	Portion held by other group companies	Nature of business
Health Club Investments Group Limited	Ordinary	100%	-	Holding company
Medica Reporting Limited	Ordinary	100%	-	Medical diagnostics
Bladerunner Limited	Ordinary	100%	-	Corporate fitness centres
Vale Healthcare Limited	Ordinary	22%	78%	Hospital operator

Medica Reporting Limited is classified as a wholly owned subsidiary as it is most likely either the put or the call option will be exercised, resulting in the Charity purchasing the 10% of the ordinary shares it does not already own.

The business activities of Vale Healthcare Limited and Bladerunner Limited were hived-up into the Charity on 28 February 2011 and 1 April 2011 respectively.

The summary financial information of the principal subsidiary undertakings prior to consolidation adjustments but excluding donations to the Charity is set out below, showing the number of months trading as a subsidiary of Nuffield Health.

Number of months trading in subsidiary	2011	Medica	Bladerunner	
	12 mths	2010	2011	2010
	£m	12 mths	3 mths	2 mths
		£m	£m	£m
Turnover	7.7	7.0	2.6	1.6
Cost of services, support and governance costs and net interest payable	(6.9)	(6.0)	(2.4)	(2.0)
Profit on hive-up of business to Charity	-	-	8.8	-
Retained gain/(loss) in subsidiary groups	<u>0.8</u>	<u>1.0</u>	<u>9.0</u>	<u>(0.4)</u>
Fixed and current assets	3.4	2.7	9.7	3.6
Current liabilities and creditors falling due after more than one year	(0.8)	(0.8)	-	(3.0)
Net assets	<u>2.6</u>	<u>1.9</u>	<u>9.7</u>	<u>0.6</u>

Joint ventures

The joint ventures became subsidiaries during 2010 resulting in transactions in the consolidated income and expenditure account and consolidated statement of financial activities in 2010 and no balance sheet values at the year ends.

19 Stock

	2011 £m	Group 2010 £m	2011 £m	Charity 2010 £m
Raw materials and consumables	7.0	8.0	7.0	7.8
Consignment stock not included in the balance sheet	12.8	12.2	12.8	11.6

There were no significant differences between the replacement cost and the values disclosed above.

Consignment stock not included in the balance sheet is stock owned by a supplier that is stored in our premises, which will be charged to the Group if drawn on. Therefore the supplier retains the risks and rewards of ownership until the item is used.

20 Debtors falling due within one year

	2011 £m	Group 2010 £m	2011 £m	Charity 2010 £m
Trade debtors	44.6	49.5	42.6	46.6
Amount owed by Group undertakings	-	-	136.0	142.0
Other debtors	7.5	11.1	7.3	10.7
Prepayments and accrued income	14.1	14.3	14.1	13.8
	66.2	74.9	200.0	213.1

Interest is charged on loans to Group undertakings at the average interest rate incurred by the Charity, the loans are repayable on demand and are unsecured.

Within other debtors there is £5.8m (2010 - £5.5m) due from Vanguard Healthcare Limited that is repayable no later than March 2016.

21 Creditors : amounts falling due within one year

	2011 £m	Group 2010 £m	2011 £m	Charity 2010 £m
Obligations under finance leases	1.8	2.1	1.8	1.4
Bank overdrafts	-	0.9	-	-
Bank loans	-	9.5	-	-
Deferred expenses in connection with bank loans	(0.7)	(0.4)	(0.7)	(0.4)
Other loans	2.2	0.2	2.2	-
Trade creditors	25.7	17.5	25.3	16.8
Amounts owed to Group undertakings	-	-	147.8	138.0
Social security and other taxes	6.1	8.6	6.1	6.4
Deferred/contingent consideration	3.9	20.8	3.9	20.8
Other creditors	10.7	9.5	10.8	8.9
Pension contributions	1.2	1.2	1.2	1.2
Accruals and deferred income	48.2	52.5	48.0	50.7
	99.1	122.4	246.4	243.8

22 Creditors : amounts falling due after more than one year

	2011 £m	Group 2010 £m	2011 £m	Charity 2010 £m
Bank loans	218.0	202.0	218.0	202.0
Deferred expenses in connection with bank loans	(1.6)	(0.6)	(1.6)	(0.6)
	<u>216.4</u>	<u>201.4</u>	<u>216.4</u>	<u>201.4</u>
Other loans	0.4	0.6	0.1	-
Obligations under finance leases	5.2	6.6	5.2	3.8
Social security and other taxes	0.2	1.4	0.2	1.4
Deferred/contingent consideration	4.0	7.1	4.0	7.1
	<u>226.2</u>	<u>217.1</u>	<u>225.9</u>	<u>213.7</u>

23 Borrowings

	2011 £m	Group 2010 £m	2011 £m	Charity 2010 £m
Borrowings are repayable as follows:				
One year or less				
Finance leases	1.8	2.1	1.8	1.4
Bank overdraft	-	0.9	-	-
Bank loans	-	9.5	-	-
Other loans	2.2	0.2	2.2	-
In more than one but not more than two years:				
Finance leases	2.0	2.0	2.0	1.4
Bank loans	-	52.0	-	52.0
Other loans	0.4	0.1	0.1	-
In more than two but not more than five years:				
Finance leases	2.8	4.6	2.8	2.4
Bank loans	218.0	150.0	218.0	150.0
Other loans	-	0.3	-	-
In more than five years:				
Finance leases	0.4	-	0.4	-
Other loans	-	0.2	-	-
	<u>227.6</u>	<u>221.9</u>	<u>227.3</u>	<u>207.2</u>

The floating interest rates on bank borrowings and derivatives are based on LIBOR. The bank borrowings are secured by a fixed charge on some of the freehold properties of the Group and a floating charge on all the assets of the Charity.

The finance leases are secured on the related assets. The other loans are unsecured and rates of interest are based on LIBOR.

24 Financial derivatives

The financial derivatives in place at 31 December 2011:

	Maturity	Fixed rate %	Principal £m
In Charity			
Interest rate swap into a fixed rate	2017	5.4%	50.0
Interest rate swap into a fixed rate	2017	7.1%	50.0
Interest rate swap into a fixed rate	2017	5.1%	1.8
Interest rate swap into a fixed rate	2020	5.0%	9.8

The financial derivatives in place at 31 December 2010:

	Maturity	Fixed rate %	Principal £m
In Charity			
Interest rate swap into a fixed rate	2017	5.4%	50.0
Interest rate swap into a fixed rate	2017	7.1%	50.0
In Subsidiaries			
Interest rate swap into a fixed rate	2020	5.0%	10.4
Interest rate swap into a fixed rate	2017	5.1%	2.2

The Charity uses financial derivatives to manage the interest rate exposure on its current and expected future debt. The fair value of the derivatives at 31 December 2011 is a liability of £28.7m (2010 - £22.8m).

25 Provisions for liabilities

	Vacant £m	Onerous properties £m	Other provision £m	Total £m
Group				
At 1 January 2011	1.9	3.3	1.6	6.8
Utilised in year	(0.1)	(0.6)	(0.9)	(1.6)
Charged in year	0.4	-	0.6	1.0
	<u>2.2</u>	<u>2.7</u>	<u>1.3</u>	<u>6.2</u>
Charity				
At 1 January 2011	0.2	3.0	1.7	4.9
Utilised in year	-	(0.3)	(1.0)	(1.3)
Charged in year	-	-	0.6	0.6
	<u>0.2</u>	<u>2.7</u>	<u>1.3</u>	<u>4.2</u>

The provision for vacant properties is the estimated costs to be incurred on premises that are vacant, which are expected to be vacant for between three and seven years. The costs of the vacant properties are certain, however their income from sub-lets and the timing of bringing the properties into use or of their disposal are uncertain. The provision is discounted.

The provision for onerous leases is the difference between the rent due and the market rent of properties whose tangible fixed assets are fully written down. The provision is determined on a site by site basis and is for between four and twenty six years. The provision is discounted.

Other provisions comprise those for Poly Implant Protheses (PIP), contractual disputes and on going costs relating to the disposal of Vanguard Healthcare Limited.

25 Provisions for liabilities (continued)

The Charity made the decision to meet the cost of removing and or replacing PIPs that had been implanted in any of its hospitals. The provision is an estimate based on the number of patients who have had PIP implants.

Contractual disputes identified by the Group, including instances where legal claims have been instigated and are being defended by the Group. Claims are considered by the Board of Governors and are defended robustly where the Board concludes that the Group is not liable. Provision is made for the most likely outcome of each individual case, based upon the information available to the Board. The other provisions are likely to be paid over the next three years but their value is uncertain.

26 Permanent endowments

	Group and Charity £m
At 1 January 2011 and at 31 December 2011	0.1

The permanent endowments are held for the benefit of Nuffield Hospital Brentwood and Nuffield Hospital Oxford (The Manor).

27 Analysis of net assets between funds

	Endowment £m	Restricted £m	Unrestricted £m	Total £m
Group fund balances at 31 December 2011 are represented by:				
Intangible fixed assets	-	-	43.7	43.7
Tangible fixed assets	-	-	449.1	449.1
Investments	0.1	-	0.3	0.4
Current assets	-	1.2	84.8	86.0
Current liabilities	-	-	(99.1)	(99.1)
Creditors : amounts falling due more than one year	-	-	(226.2)	(226.2)
Provisions for liabilities	-	-	(6.2)	(6.2)
Net assets excluding post retirement liability	<u>0.1</u>	<u>1.2</u>	<u>246.4</u>	<u>247.7</u>
Post retirement benefit liability	-	-	(84.9)	(84.9)
Net assets	<u><u>0.1</u></u>	<u><u>1.2</u></u>	<u><u>161.5</u></u>	<u><u>162.8</u></u>
Charity fund balances at 31 December 2011 are represented by:				
Intangible fixed assets	-	-	29.4	29.4
Tangible fixed assets	-	-	443.2	443.2
Investments	0.1	-	40.9	41.0
Current assets	-	1.2	218.2	219.4
Current liabilities	-	-	(246.4)	(246.4)
Creditors : amounts falling due more than one year	-	-	(225.9)	(225.9)
Provisions for liabilities	-	-	(4.2)	(4.2)
Net assets excluding post retirement liability	<u>0.1</u>	<u>1.2</u>	<u>255.2</u>	<u>256.5</u>
Post retirement benefit liability	-	-	(84.9)	(84.9)
Net assets	<u><u>0.1</u></u>	<u><u>1.2</u></u>	<u><u>170.3</u></u>	<u><u>171.6</u></u>

The restricted funds represent a number of donations where the monies received have not yet been used for the purpose defined by the donor and client bank accounts where the risks and rewards are with the Charity.

Funds are transferred from restricted to unrestricted when an asset that has been purchased from a restricted donation is used for an unrestricted purpose.

28 Reconciliation of operating surplus to cash flow from operating activities

	2011 £m	Group 2010 £m
Group operating surplus	20.5	28.1
Exceptional items in operating surplus	(2.5)	(9.3)
Depreciation charge (note 6)	48.3	45.3
Amortisation of goodwill (note 6)	5.8	3.7
Earnings before interest, tax, depreciation, amortisation, exceptional items and non-cash elements of post retirement benefits	72.1	67.8
Decrease in stocks	1.0	0.6
Decrease/(increase) in debtors	7.4	(8.7)
Increase in creditors	2.3	4.2
Increase/(decrease) in provisions	0.1	(0.7)
Total cash flow from operations	82.9	63.2
Post retirement benefits - additional cash payments	(7.4)	(6.9)
Normal cash inflow from operating activities	75.5	56.3
Exceptional cash outflow from operations		
Exceptional items in operating surplus	2.5	9.3
Impairment of intangible fixed assets (note 6)	3.4	1.5
Reversal of tangible fixed asset impairment (note 6)	(5.9)	(2.6)
Pension past service costs not involving cash (note 5)	-	(8.2)
(Decrease) in provisions	(0.4)	(0.4)
Total cash outflow from operating activities	(0.4)	(0.4)

29 Returns on investments and servicing of finance

	2011 £m	Group 2010 £m
Interest received	0.2	0.5
Interest paid	(14.8)	(11.8)
Interest element of finance lease rental repayments	(0.1)	(0.1)
Issue costs on refinanced bank borrowings and fees paid to banks	(2.2)	(0.1)
	(16.9)	(11.5)

30 Capital expenditure and financial investment

	2011 £m	Group 2010 £m
Purchase of tangible fixed assets	(42.9)	(27.6)
Proceeds from sales of tangible fixed assets	0.6	0.3
	(42.3)	(27.3)
Exceptional		
Proceeds from sales of tangible fixed assets	2.7	2.0

The exceptional proceeds from the disposal of tangible fixed assets are the significant property sales that relate to the disposal of tangible fixed assets on the consolidated income and expenditure account.

31 Acquisitions and disposals

Purchase of subsidiaries

	Medica £m	Other £m	Group Total £m
Cash	17.7	0.7	18.4
Loan notes issued	2.0	-	2.0
	<u>19.7</u>	<u>0.7</u>	<u>20.4</u>

Medica Reporting Limited is a wholly owned subsidiary due to the put and call options that are in place. The cash payment and loan notes issued in 2011 relates to the Charity purchasing 40% of the nominal share capital of Medica Reporting Limited on 7 April 2011. The remaining 10% shares are subject to a new put and call option, which is likely to be exercised in 2012.

The remaining cash outflow relating to the purchase of subsidiaries are payments of deferred consideration, fees and costs being settled on the acquisitions of Vale Healthcare Limited and Guildford Clinic LLP.

Sale of business

The management contracts of the local fitness centres were disposed of during the year. The proceeds from this sale was offset by the expenditure in the year relating to the disposal of Vanguard Healthcare Limited.

32 Financing

	2011 £m	Group 2010 £m
New bank loans	16.0	2.0
Repayment of bank loans	(9.5)	-
Repayment of loans	(0.2)	(0.1)
Capital element of finance lease rental payments	(1.9)	(1.0)
	<u>4.4</u>	<u>0.9</u>

33 Analysis of net debt

	At 1 Jan £m	Cash flow £m	Non-cash changes £m	Group At 31 Dec £m
Cash at bank and in hand	9.1	3.7	-	12.8
Bank overdraft (note 21)	(0.9)	0.9	-	-
Bank loans due within one year (note 21)	(9.5)	9.5	-	-
Bank due after more than one year (note 22)	(202.0)	(16.0)	-	(218.0)
Other loans due within one year (note 21)	(0.2)	0.2	(2.2)	(2.2)
Other loans due after more than one year (note 22)	(0.6)	-	0.2	(0.4)
Finance leases due within one year (note 21)	(2.1)	1.9	(1.6)	(1.8)
Finance leases due after more than one year (note 22)	(6.6)	-	1.4	(5.2)
	<u>(212.8)</u>	<u>0.2</u>	<u>(2.2)</u>	<u>(214.8)</u>

The non-cash changes include finance lease arrangements entered into by the Group in respect of assets with a capital value at the inception of the lease of £0.2m and £2.0m of loan notes issued during the year to the other shareholders of Medica Reporting Limited.

34 Capital commitments

	Group and Charity 2011 £m	2010 £m
Contracted for but not provided in these financial statements	<u>14.8</u>	<u>9.8</u>

35 Operating lease commitments

	2011 £m	Group 2010 £m	2011 £m	Charity 2010 £m
Annual commitments under non-cancellable operating leases which expire as follows:				
Land and buildings				
Less than 1 year	-	1.0	-	1.0
Between 1 and 5 years	2.1	1.7	2.1	1.7
After 5 years	18.3	18.2	17.9	17.8
	<u>20.4</u>	<u>20.9</u>	<u>20.0</u>	<u>20.5</u>
Other				
Less than 1 year	1.0	0.6	1.0	0.6
Between 1 and 5 years	5.1	5.3	5.1	5.2
	<u>6.1</u>	<u>5.9</u>	<u>6.1</u>	<u>5.8</u>

36 Contingent liabilities

The Charity has guaranteed the bank overdraft of Healthcode Ltd, its unlisted investment, to a value of £0.1m (2010 - £0.1m) and the loans from a previous shareholder in Bladerunner Limited to that company £0.6m (2010 - £0.6m)

37 Related party transactions

The Charity has no related party transactions in 2011, other than to wholly owned undertakings, and is using the exemption allowed by FRS 8 (Related Party Disclosures) not to disclose transactions with such undertakings.

The Charity provided loans and services to its joint ventures during 2010. The services were charged at market rates. The value of the services charged to the joint ventures during that year was £2.1m.

38 Post balance sheet event

The share capital of Greens Health & Fitness Limited was purchased on 23 January 2012. The purchase adds fifteen new consumer fitness and wellbeing centres to our operations. The business was hived up to the Charity on the following day.