Nuffield Health

A COMPANY LIMITED BY GUARANTEE WITHOUT A SHARE CAPITAL

REGISTERED IN ENGLAND NUMBER 576970

A REGISTERED CHARITY NUMBER 205533

REPORT
AND
FINANCIAL STATEMENTS
2009

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Company number **576970**
Charity number **205533**

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2009 CHAIRMAN'S STATEMENT

If I could I use one word to describe the last few years, that word would be 'challenge'.

As a Charity we have *challenged* ourselves to review and re-evaluate our charitable objectives to make them clear and unequivocal: to advance, promote and maintain health and healthcare of all descriptions and to prevent, relieve and cure sickness and ill health of any kind. As an independent healthcare provider, we are transforming our offering to better meet some of the major health *challenges* facing people in the UK today. As an industry leader, we have had to manage our business through some of the most *challenging* economic conditions since our establishment more than 50 years ago.

In 2009, I am delighted that we have met all these challenges head on, and I believe, have risen to them.

Our endeavour to expand our healthcare expertise beyond our hospital business into the traditional fitness arena by integrating clinical services and expert health advice and services into our commercial, corporate and local authority facilities is coming to fruition, and indeed accelerating. More than 750,000 people were able to improve or maintain their health through our products and services, 41% of which were delivered through non-hospital facilities. In addition, 12% of revenues derived from all our products and services were delivered for fees of less than £360 (or less than £1 per day). This is a proud achievement given the macroeconomic challenges we encountered as a business and our patients and customers face as individuals.

Following the success of our first fully integrated commercial Fitness and Wellbeing site in Nottingham, opened in 2008, we invested in five more sites in 2009 and have plans to invest in a further six in 2010. As a result, we are now able to reach more people with services that help them assess, maintain and improve their health. These services delivered by trained health experts include Health MOTs and assessments, specialist programmes to manage more serious health conditions such as diabetes, and free advice and support on a range of conditions through our free 'Meet the Expert' programmes.

For those who have undergone treatment at our hospitals, we are also able to help them through their ongoing rehabilitation through our 'Recovery Plus' programmes, devised and delivered by experts and physiotherapists at our Fitness and Wellbeing Centres. It is this kind of forward-thinking, 'joined-up' approach that truly improves long-term health outcomes for those being treated for health conditions and for those who wish to avoid problems in the future.

Our credibility in becoming the leading consumer healthcare brand in the UK is, of course, built from our core hospital business and heritage, and this too has weathered well in tough economic conditions. Like Fitness and Wellbeing, we have re-invested in expertise and innovation; including a state of the art diagnostics programme and substantial development of our pathology capabilities and equipment to ensure improvements in service quality. Significant re-investment also allowed the refurbishment of our Bournemouth and Warwickshire hospitals.

As a not-for-profit organisation, we are driven to ensure that surplus profits are re-invested back into the business in order that more customers, members and patients benefit from our success through access to more health improvement innovation and expertise. Although capital expenditure was constrained we were able to invest £28 million in our buildings and equipment during the year. As the economic situation improves I am confident that capital expenditure will increase.

As well as driving us to re-invest to deliver more, unhampered by having to meet shareholder and investor needs for financial return, our not-for-profit status also allows us to take a longer-term view of what is in the best interests of customers and patients. It is this long-term and truly independent view that has created this expansion and increased accessibility of our expertise to people interested and concerned about maintaining and improving their long-term health.

Perhaps more than 'challenge' then; 'long-term,' is the word we should think of when describing our activities; past, present and future.

Finally, Douglas Gardner retired as Chairman and Simon Glenarthur, Christopher Tetley and Lars Evander retired as Governors during 2009, having completed the maximum permitted period of service. At the conclusion of the Annual General Meeting on 23 June 2010, we will also lose the services of John Evans, who became a Governor in 1988. The Board of Governors is most grateful to them for their wise counsel and the very significant contribution that they have made to the Charity's development over many years. I am however, pleased to report that we have been able to obtain the services of Fiona Driscoll, Russell Hardy, Neil McCausland and Guy McCracken. The Members will be requested to approve their election as Governors at the 2010 AGM and full particulars of their careers are contained within the Explanatory Note attached to the Notice of the AGM.

On behalf of the Governors, I would also like to thank all staff for their hard work and commitment through a difficult time in Nuffield Health's history. It is their cultural outlook and performance which differentiates Nuffield Health in both the healthcare environment and with our customers.

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 ended 31 December 2009.

Overview

In line with our charitable objects, Nuffield Health's strategy is to become the leading consumer healthcare brand that provides healthcare services; from health assessment and maintenance through to prevention, treatment and health rehabilitation.

This strategy has been driven by our focus on expertise and innovation, and is backed by continued investment in our people and services; new services and expert individuals that differentiate Nuffield Health from other operators within the healthcare and health and fitness industry.

By taking a different approach to healthcare, in 2009, we were able to help improve the health and wellbeing of an estimated 750,000 people through products and services delivered at almost 200 Nuffield Health facilities.

In addition, we have further improved accessibility of our expertise with 12% of our revenues generated from products and services made available at a low fee of less than £360 (or a £1 per day per year) and 13% of our revenues derived from products and services made available free at the point of contact. We have also invested significantly in equipment and services that people find difficult to access via the NHS, including obesity surgery, laser treatments for a variety of dermatological conditions, assisted conception services and chemotherapy treatment for cancers.

As a not-for-profit organisation, Nuffield Health is driven to ensure that we manage our finances transparently, prudently and to the maximum benefit of our patients, members and stakeholders. We believe that the more successful the Charity is as a business, the more able we are to fulfil our charitable objects and achieve our strategic objectives.

Against the back drop of an unprecedented consumer recession, the Charity made significant progress in implementing plans to achieve its strategic ambitions in 2009. Whilst revenues came under pressure EBITDA (earnings before interest, tax, depreciation and amortisation) on continuing activities before exceptional items - a measure of our cash generation - was up 5% at £66 million. This was largely as a result of firm cost control and efficiency measures implemented in the year.

A key enabling activity in 2009 was the completion of the refinancing of bank borrowings. This was successfully achieved in a constricted lending market and has secured the financial headroom required to support short and mid-term investment that will assist in realising our strategy.

Given the uncertainty caused by the economic climate, the Board introduced a policy of reducing indebtedness, which has resulted in Group borrowings being reduced by £32 million during the year. This was largely achieved by restricting capital expenditure and by selling Vanguard Healthcare Solutions Limited to its management as the business was no longer core to the Group's strategy. Although capital expenditure was constricted the Group invested £28 million in its buildings and equipment during the year. As the economic situation improves the capital investment will increase in line with the improvements in performance of the underlying businesses.

We expect the economic outlook for 2010 to remain challenging. However, we approach it with vigour and a determination to increase access to our differentiated expert services to a greater number of individuals who, like us, are truly focused on health maintenance and improvement.

Business review

In 2009, we continued to improve the level of expertise and innovation across our services in both Hospitals and Fitness and Wellbeing. This is having a positive impact on our performance and our ability to maintain and extend the delivery of public benefit in line with our charitable objects.

Critically, we have continued to build upon the 'joined-up-health' strategy that we introduced in 2008. Consequently, more clinical experts are now available, providing an expanded range of services to our Fitness and Wellbeing members. Furthermore, we are making our expertise more accessible by way of specially arranged events; we are also fast becoming a centre of learning for senior medical professionals, with specific knowledge programmes for GPs. The result being that these and other initiatives are reinforcing Nuffield Health's reputation for clinical expertise among customers and staff, not only in the hospital sector but also across the health and fitness sector.

This joined-up approach is also producing benefits in other innovative ways. Nuffield Health is behind of raft of new services focusing particularly on tackling lifestyle-related health issues, which is tapping into its integrated approach to healthcare; a move that is proving both distinctive to the competition and meaningful and attractive to members and patients.

Hospital services

Investment
Hospitals remain core to the Charity's purpose and during 2009 we continued to invest and grow our hospital-based activities and services. In 2009, we invested £17 million in our hospital services, which brings the total to £122 million over the last 5 years.

This year our investment activities included:

- Investment in surgical and medical equipment of more than £7 million.
- We also concluded our £21 million diagnostic investment programme that modernised the radiological equipment across our Hospitals, allowing clinicians and patients to reap the benefits of new technology and digital imaging. This investment means that the Charity can provide higher quality, more cost effective services to greater numbers of patients and can continue to support the provision of services to the NHS at tariff rates.
- Our diagnostic investment programme also included the development of our pathology capabilities and equipment to ensure improvements in service quality and value for money. During the year we concluded the roll out of a fully automated blood release system to minimise risk in the blood transfusion process and reduce waste of blood products. We also completed a £1 million upgrade of our pathology analyser platform and completed the 'hub and spoke' approach to pathology services.
- Significant re-investment also allowed £4 million refurbishments in both our Warwickshire Hospital and Bournemouth Hospital. We also prepared business plans to develop our Tunbridge Wells, Brentwood, Leicester and Bristol Hospitals with a view of proceeding at these sites in 2010.
- We lead the field in the provision of decontamination services and with the opening of our sixth decontamination unit in the course of the year we are now the only independent provider fully compliant with EC Medical Devices Directive 93/42. These facilities now process some 12 million instruments per annum; a significant landmark for the Charity that demonstrates our commitment to the highest levels of patient safety.

Maintaining and improving quality
The provision of high quality services for our patients remains a priority. In 2009 we maintained our National Health Service Litigation Authority (NHSLA) Risk Management Standards Level 2 accreditation in recognition of our structured approach to minimising risk in our organisation and launched a new Quality Account process. Our clinical risk management approach was recognised as industry-leading with a Laing & Buisson Award in 2009.

In addition, Patient Reported Outcome Measures (PROMS) were embedded across the organisation, providing a patient-centred record of improvement following surgery – Nuffield Health is the first independent provider to have introduced this NHS standard. Some 96% (2008 – 95%) of patients rate overall satisfaction with our services as 'good to excellent'.

Accessibility
In addition to investment, we have broadened access to healthcare by providing services relevant and available to as many people as possible. Nuffield Health's hospitals invested significantly in equipment and services that people find it difficult to access via the NHS including obesity surgery, laser treatments for a variety of dermatological conditions, assisted conception services and chemotherapy treatment for cancers.

We continued to provide services to the NHS under the Extended Choice Network in line with the NHS policy of Patient Choice and have maintained our investment in the IT infrastructure to support this Government initiative. Many people without the benefit of private medical insurance (PMI) or the means to pay for themselves, therefore received NHS-funded treatments at our hospitals.

Fitness and wellbeing services

Investment
Clearly differentiating us from traditional gym and fitness competitors, we have accelerated the integration of expertise derived from more than 50 years in clinical healthcare into our Fitness and Wellbeing offering, focusing particularly on helping people to manage a range of lifestyle-related issues. This approach is better meeting the needs of our patients, members, corporate clients and customers of local authority leisure centres. In 2009, we invested £4 million in our Fitness and Wellbeing offering, which brings the total to £23 million since our acquisition of Cannons Health and Fitness in 2007.

During 2009 we invested significantly in opening five further fully integrated commercial centres (our first centre opened in September 2008 in Nottingham) to offer a broad range of health, wellbeing and clinical services. This development allowed physiotherapy and our full range of health assessment services to be introduced with onsite GPs, nurses, nutritionists and physiologists. Integrated centres are now in place at Bristol, Cannock, Nottingham, Reading, Surbiton and Warwick, with six more planned to open in 2010.

On-site physiotherapy services are now operated from 27 of our wellbeing centres with plans to extend these across the portfolio. Combined with the hospital locations this has created the largest and fastest growing national physiotherapy network within the UK.

We acquired the Tennyson Call Centre to create a more client centric approach to both corporate account management and become 'fit for purpose' to handle the business-to-consumer market of the future.

We have a meaningful, measured wellbeing and health improvement proposition, now visibly evidenced by:

- Investment providing intensive, clinical training to introduce new roles into fitness centres, including Senior Wellbeing Advisors and Wellbeing Advisors. These new, clinically trained practitioners are a core part of our front line customer facing teams and deliver Health MOTs, structured exercise programmes, weekly health chats and support. More than 200 Senior/Wellbeing Advisors have benefited from this unique training.
- Delivery of almost 50,000 Health MOTs in 2009. A key brand differentiator and now underpinning improved retention member rates, Health MOTs are included as part of the membership of the wellbeing centres and assess a range of clinical measures, including body composition, aerobic capacity, cholesterol, blood pressure and glucose level, to identify potential health risks and empower members to take control of their health. The results are used to understand the individual's overall health, agree desired outcomes and build a targeted personal action plan. This can be followed by regular checks to assess progress against specific measures or actions. Almost 50,000 health MOTs were delivered in 2009 of which some 4.5% identified issues that the consumer was unaware of and required additional investigation by a GP.
- The introduction of the new monthly "Meet Our Experts" drop in health events free to members and their guests across the entire Fitness and Wellbeing portfolio. Themes have included Back Care, Anti-Aging, Nutrition, Cancer Awareness and Stress Management with customers gaining free open access to physiologists, physiotherapists, doctors and wellbeing advisors. The events have proved popular across the UK have averaged 800-900 customers per month with very positive client feedback.
- The development of specialist programmes to assist specific and high-risk health conditions. In 2009 we piloted a programme, developed in partnership with *Diabetes UK*, to support monitored activity and lifestyle change for individuals with type-2 diabetes. The structured 12-week programme provides support and advice which is generally unavailable through the NHS. In 2010 the main emphasis is to develop similar specialist programmes for stroke, cardiac, diabetes, musculo-skeletal disorders and weight management services.
- Working with the Hospitals team, Nuffield Health has launched an innovative new programme called Recovery Plus operated from four pilot Hospitals and Fitness and Wellbeing Centres. Recovery Plus allows patients from a Nuffield hospital to benefit from pre-operative assessments and to continue their rehabilitation and activity programme at a Fitness and Wellbeing Centre, under the guidance of health experts and physiotherapists, once clinical rehabilitation has been complete.
- The Introduction of a new Leadership Development Programme for all our general managers to support their transition towards managing the new integrated fitness and wellbeing proposition.

Corporate and local authority facilities
The Charity has also continued to develop services within the 90 plus corporate client facilities that we manage. A number of the corporate sites now offer additional clinical services, with two offering our full range of wellbeing clinical services. In addition, we launched a supplementary membership programme to corporate client employees and their partners, which provides reduced fee access to our Fitness & Wellbeing Centres at times when it is not possible or convenient to go to their on-site facility, for example at weekends.

In 2009 we secured corporate contracts to provide healthcare services to CIGNA Healthcare, BUPA and the Civil Aviation Authority.

Finally the rebranding of the Courtneys Leisure Management business to operate under the Nuffield Health Community Fitness banner was a significant move to fully integrate the sites into Nuffield Health. We also offer the Health MOT assessments at two local authority sites in central London.

In 2010 we will continue to explore opportunities to expand the range of expert services we offer to the public and to bring the benefits of new technologies and treatments to the users of our services.

Awards
In 2009, we won the FIA Flame Award for Best UK Health and Fitness Club with our Bristol site, testimony to our new integrated proposition and our Nuffield Health run Royal Bank of Scotland facilities won the corporate award for the third year in row.

In addition, David Mobbs, Group Chief Executive, was recognised as one of the three most influential individuals within the UK healthcare industry in the *Health Investor* Power 50.

Public benefit review

As the UK's leading healthcare charity, it is important that the Governors review the objects of the Charity, its activities and the level of accessibility of those activities each year. This review examines the Charity's achievements and the outcomes of its activities in the previous 12 months, together with the benefits delivered to the users of the Charity's services. The review also ensures that the objects of the Charity remain focused entirely for the public benefit.

In undertaking this review, the Governors have given careful consideration to the Charity Commission's general guidance on public benefit and in particular to its supplementary public benefit guidance to fee-charging charities. As a result 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.

Outcome of review

The objects of the Charity
At the Annual General Meeting of the Charity on 23 June 2010, the Members will be requested to agree, subject to the Charity Commission's consent, a Special Resolution to change the Memorandum and Articles of Association to simplify the objects of the Charity to reflect the current activities.

The objects of the Charity are to advance, promote and maintain health and healthcare of all descriptions and to prevent, relieve and cure sickness and ill health of any kind.

Our principal activity is the provision of a broad range of clinical and health services to the public, private organisations, local authorities and the operation of facilities and equipment suitable to deliver those activities: including hospitals, wellbeing centres, local authority leisure centres and diagnostic facilities. There are no restrictions on who is eligible to benefit from the activities based on geography, ethnicity, gender or age.

To ensure that delivery of public benefit continues to develop, a number of recommendations regarding the activities of the Charity were agreed. The Governors initiated the necessary steps during 2009 to improve clarity within the organisation and to explain to external stakeholders our delivery of public benefit.

As outlined in the 2008 Annual Report, during 2009 a policy, Charity 01: Policy on delivering Public Benefit, was developed that governs the range and accessibility of the Charity's activities and ensures that they remain overwhelmingly charitable. The policy also includes clear thresholds for accessibility against which the Charity's performances can be benchmarked. The policy includes:

- a limit of 10% for activities not directly in line with the aims of the Charity. This ensures that they are not carried out to the exclusion or detriment of core purpose activities
- establishment of guidelines for the appropriateness of any ancillary or fundraising activities to ensure that they are directly related to and necessary for the carrying out of the Charity's purposes
- the requirement that no detrimental or harmful activities will be permitted
- the requirement that at least 5% of the Charity's revenue comes from products and services available at a low fee and
- 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.

Fulfilling our role as a charity

The Governors have concluded 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 fulfil its charitable objects; that there are no activities that are inconsistent and that the Charity meets the requirements of the policy. In addition, the Governors are confident that plans are in place for 2010 that will further enhance the accessibility of our activities.

Charitable objects

With very clear objects of the Charity in place - *to advance, promote and maintain health and healthcare of all descriptions and to prevent, relieve and cure sickness and ill health of any kind* - in 2009 we continued to fulfil our Charitable objectives by being able to help improve the health and wellbeing of an estimated 750,000 people through access to broader health services delivered at almost 200 Nuffield Health facilities.

Activities

Providing people with more ways to access expertise
Despite the UK GDP falling by 5% in 2009, Nuffield Health has seen only a marginal decline in activity levels across the Group – a strong endorsement of our strategy. In particular, by continuing to take a different approach to healthcare, which broadens the ways in which people can access Nuffield Health, we were able to give more people the opportunity to benefit from expert advice, support, treatment and care, not just in hospitals but through our integrated Fitness and Wellbeing offering.

- More than 171,000 courses (170,000 in 2008) of treatment were carried out in our hospitals, including day cases, outpatient, surgical outpatient inpatient activity, all of which were in line with our objectives and included:
    - 43,500 hip and other orthopaedic procedures resulting in improved mobility and reduced pain for patients (44,000 in 2008)
    - 13,500 ophthalmic procedures such as cataract replacements, improving patients' sight (14,700 in 2008)
    - 7,500 oncology treatments delivered in a growing number of locations (7,800 in 2008)
- Our extensive range of diagnostic imaging and testing services meant that we offered:
    - 51,000 MRI or CT scans, using some of the most up-to-date equipment available (52,000 in 2008)
    - 132,000 radiology examinations were delivered to patients (150,000 in 2008)
    - More than 12,000 breast scans, many through a visit to our specially designed mobile mammography unit
- We are also providing more opportunity for people to access our expert healthcare services through our Commercial, Corporate and Community Fitness and Wellbeing Centres and medical centres. Last year, more than more than 205,000 people benefited. Benefits included:
    - More than 50,000 Health MOTs and 65,000 enhanced health assessments
    - 43,000 physiotherapy sessions conducted through our The Nuffield Fusion network of accredited physiotherapists and our hospital services
    - 146,500 individual memberships of Commercial and Community Fitness and Wellbeing Centres (165,000 in 2008) and 61,000 people with corporate membership
- We invested significantly in equipment and services that people find it difficult to access via the NHS including obesity surgery, laser treatments for a variety of dermatological conditions, assisted conception services and chemotherapy treatments for cancers

Accessibility

Providing more expertise to people with less Income
Nuffield Health is determined to ensure that access to its benefits is not unreasonably restricted by the ability to pay. The Charity has in place policies to ensure that a range of expert products, services and activities are available at a low fee, defined as £1 per day or up to £360 per year, for those on low incomes or are available, free at the point of access, to those in poverty.

In 2009 we were able to further improve accessibility to our expertise with 12% of our revenues generated from products and services made available at a low fee of less than £360 (or a £1 per day per year) and 13% of our revenues derived from products and services made available free at the point of delivery to the patient or customer.

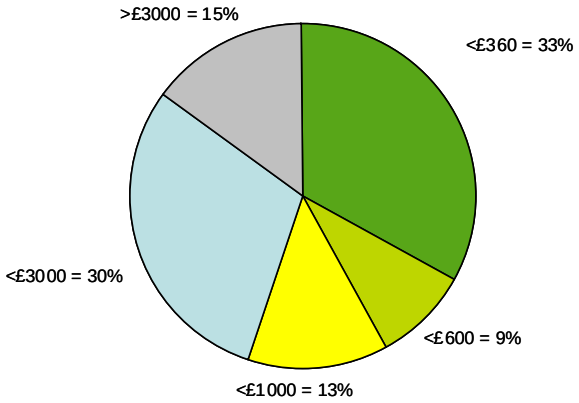
These low fee and free at the point of delivery products and services included:

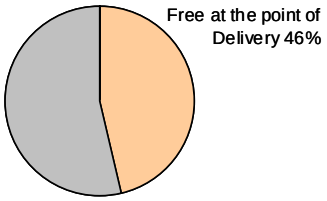
- 27,600 visits for out-patient, day case, surgical out-patient and inpatient treatment were provided free of charge to NHS patients. Funded by the NHS, many of these treatments were provided through the Choose and Book scheme;
- A further 57,800 visits were made on the NHS for access to an extensive range of diagnostic tests, using some of the most up-to-date equipment possible or to benefit from physiotherapy treatments through our network of hospitals and clinics;
- To increase accessibility, we strive to keep fees reasonable for people of all incomes. Consequently, 580,000 visits to our Community Fitness Centres cost less than a pound per day, and 1.8 million individual visits were made on a low fee pay-as-you go basis;
- Thousand of free swims, gym sessions and classes were delivered through Community Fitness Centres to adults and children.

In addition to increasing patient and member accessibility to our expertise, we have also arranged, free of charge, more than 200 GP Learning Events, totalling 3,000 attendees, which were held to assist GPs with new accreditation requirements for revalidating their licence to practise.

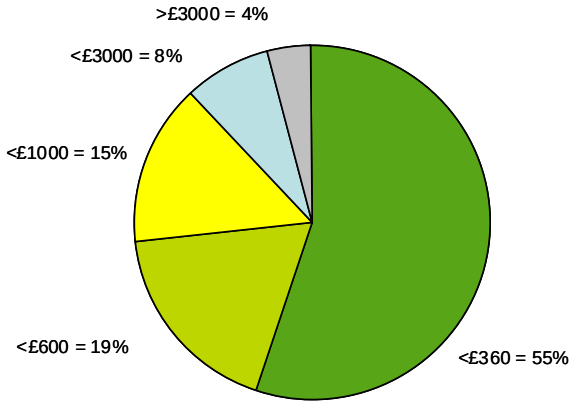
Breakdown of 2009 product range by fees charged

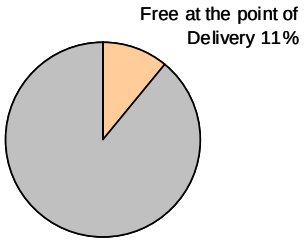
Examining our product and service range in 2009, 33% of products were offered at £360 or less and just under half (46%) were offered free at the point of delivery.



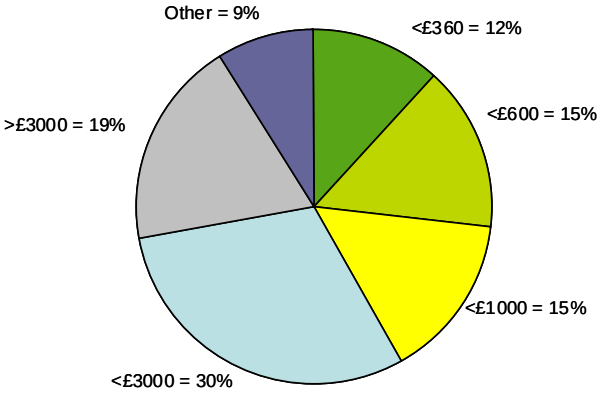


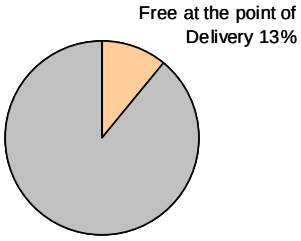
Breakdown of 2009 total units of activity by fees charged
Looking at total units of activity, more than half (55%) were delivered at £360 or less, and 11% were free at the point of delivery.





Breakdown of 2009 revenues by fees charged
In terms of revenues, some 12% were derived from low fee services; whilst 13% of revenues were derived from services provided free at the point of delivery.





The Charity does not currently attempt to assess the means of individuals who use its products and services. Using available postcode and socio-demographic modelling of the population we have been able to estimate the number of people from lower income groups that access the activities provided by the Charity. Based on the available data 12% of the users of the Charity's services during 2009 came from the lowest 2 socio-demographic groups. This does not include the Pay As You Go users of the community fitness centres, many of whom are drawn from the surrounding areas and are offered subsidised access.

We acknowledge that this estimate cannot be entirely accurate; however, we believe it provides an appropriate, reasonable approximation of the level of access to our services.

Expanding access in 2010

In 2010 we will take the first steps to introduce a Facilitated Access, or bursary scheme. As services are already provided free under various NHS schemes, the pilot of a Facilitated Access scheme will focus on Wellbeing services. Access will be based on a diagnosed medical need but will be means tested. Access will follow local GPs' recommendations and will be available at highly discounted rates or free to those on low incomes or in poverty. Following evaluation, this scheme will be further developed across the Charity during 2010.

Financial review

As mentioned on page 4, the Group's EBITDA on continuing operations is 5.2% higher than last year; this is despite the recession reducing the Group's turnover from continuing operations by 1.3%. The improvement in EBITDA was achieved by actions to control costs throughout the organisation. The areas that experienced the largest reductions in activity were self pay patients and the membership of the fitness and wellbeing centres.

At a time of constriction in the lending market, we successfully refinanced bank borrowings, securing the financial headroom required to support short/mid-term investment that will assist in realising our strategy. The total facility of £250 million was maintained. Given the uncertainty caused by the economic climate the Governors introduced a policy of reducing indebtedness. This was largely achieved by restricting capital expenditure and by selling Vanguard Healthcare Solutions Limited to its management as that business was no longer core to the Group's strategy.

The impact of these actions resulted in the Group's borrowings being reduced by £32 million during the year; the organisation has therefore reduced its indebtedness by almost £150 million over the last two years, ensuring that Nuffield Health is one of the least-leveraged businesses in the independent healthcare industry with borrowings of less than three times our EBITDA on continuing activities.

As a fee-charging not-for-profit organisation, we ensure that all surplus profits are re-invested back into the business in order that more customers, members and patients benefit from our success through a broader range of innovative services and access to experts devoted to improving health. Although capital expenditure was constrained the Group was able to invest £28 million in its buildings and equipment during the year. As the economic situation improves the capital expenditure will increase.

Nuffield Health has also taken affirmative action on its funded pension deficit, valued at £94 million as at 31 March 2009, the date of the latest actuarial valuation. The deficit as valued under Financial Reporting Standard Retirement Benefits (FRS 17) as at 31 December 2009 is £70 million, see note 9 of the financial statements. It has agreed with its Trustees to implement a cash acceleration programme of £7 million per annum which will enable recovery within ten to fifteen years.

Fixed assets and impairment review

Particulars of the Charity's fixed assets are stated in notes 15, 16 and 17 of the financial statements.

The valuation of the hospitals for loan security purposes at 16 October 2009 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 was £815 million, giving a surplus of £467 million over the net book value of the assets at that time, which has not been incorporated in the financial statements. The surplus on the valuation is £237 million less than the previous valuation that was carried out on 31 March 2007, reflecting the general downturn in property valuations at the height of the recession.

Like many businesses, the deterioration in the economic climate has required the Governors to undertake an impairment review of its assets and to review the property leases to determine if any of them are onerous in nature to ensure that our balance sheet is a fair reflection of the business value.

The review shows that on a portfolio basis neither the hospitals nor wellbeing activities would require an impairment, meaning we maintained the value of our assets despite recessionary pressure.

However following the technical application of accounting standards, the future earnings of some of the individual Wellbeing Centres are less than their book values. In addition the leases of five properties were found to be onerous. We have therefore charged £32 million for the impairment of the assets and £3 million for the onerous leases to the income and expenditure account in the year.

Likewise whilst our hospital portfolio overall was valued at more than their net book value, two hospitals were valued at less than their book value and we have impaired their values by £9 million.

Key financial performance indicators

The key financial indicators are set out below.

	2009	2008
Group turnover – continuing operations(£m)	548.1	555.6
Change in Group turnover – continuing operations (%)	(1.3%)	5.5%
EBITDA excluding exceptional items– continuing operations (£m)	66.3	63.0
Change in EBITDA excluding exceptional items - continuing operations (%)	5.2%	(4.7%)
EBITDA excluding exceptional items as percentage of Group turnover – continuing operations (%)	12.1%	11.3%
Group operating surplus excluding exceptional items – continuing operations (£m)	11.3	10.8
Group operating surplus excluding exceptional items as percentage of Group turnover – continuing operations (%)	2.1%	1.9%
Net debt as percentage of net assets excluding post retirement liability (%)	74.3%	70.6%
Reduction in net debt (£m)	31.7	111.7

EBITDA is Group operating deficit with depreciation and amortisation added back. The EBITDA above is that for continuing services excluding exceptional items.

Subsidiary and joint venture undertakings

The main subsidiary and joint venture undertakings of the Charity are as listed in note 17 of the financial statements.

Vanguard Healthcare Solutions Limited and its subsidiary were sold on 31 March 2009.

The principal assets and trade of Nuffield Health Wellbeing Limited (formerly Cannons Health and Fitness Limited) and the Nuffield Proactive Health Limited were transferred to the Charity during 2008.

During the year Nuffield Health increased its capital contribution to the joint ventures by £1.0 million and increased its loans by £0.6 million.

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 £50 million of unutilised bank facilities and £7 million 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 2009 and separate accounts are prepared for this Fund.

Payment of creditors

It is the policy of the Governors that its trade creditors are paid on average within 45 days of the invoice date and no undisputed invoice being paid later than 62 days from the invoice date.

Risk management and quality

The Board is responsible for establishing the Charity's risk management policy and strategy and overseeing the risk management and assurance framework. They are assisted by two committees: the Board Integrated Governance Committee, focusing on clinical and health and safety risks and the Audit Committee, which is responsible for financial controls.

In 2008, the Government published the paper 'High Quality Care for All', which proposed that all providers of healthcare should produce annual 'Quality Accounts' in addition to the published financial statements. The Charity supports this initiative and regards the principles of clinical quality and financial stability as of equal importance.

The changing financial climate has led to a Board review of strategic and operational risks. The Charity also benchmarked its systems of risk management against relevant ISO standards. The principal risks facing the Charity have changed to reflect the following:

- reduced banking liquidity and the pricing of the available debt;
- market pressures facing customers and partners;
- uncertainty for our hospital based services due to changes in the market , including NHS reform;
- changes in traditional purchasing and supply models;
- the same market pressures and mitigating strategies are reflected in membership in the Wellbeing Division.

Factors amenable to mitigation include scaling business units to local markets, addressing cost inflation for the procurement of materials, tailoring services to those requiring Hospital and Wellbeing services and clinical operational factors arising from the risk based nature of healthcare.

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 the cash flow is controlled.

The Group's forecast cash flows have been subjected to 'stress' tests to assess the risk of a major cash shortfall. Whilst current forecasts do not indicate any significant reduction in the amount of cash generated by the Group, any shortfall would be addressed by tight control over capital expenditure and implementation of any steps necessary to control the level of operating costs.

The Group's interest rate management policy is to optimise 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 23.

The Board has reviewed the principal risks relating to the Charity and allocated responsibility for the management of those risks to specific members of the Senior Executive Team. The principal risks are reviewed and updated on an on-going basis and the Board continues to note the wider economic situation and its effect on the Charity's objectives and activities.

The Charity's Board committees ensure that the risks to its activities, in particular the relationship with the users of the Charity's services, are continuously monitored.

Integrated governance and quality

Our third annual quality report highlights our evolving approach to quality management, quality audit and quality improvement. There is no single accepted definition of quality in healthcare but we have adapted seven internal data sources to measure, benchmark and monitor the quality of care.

The seven quality account measures are:

- Clinical variance – mortality, morbidity, hospital infection, readmission;
- Range of services – as set out in our objectives;
- Patient engagement – satisfaction, recommendation and complaints;
- Incidents – significant untoward events;
- Audit – prescribed audit for specific technical areas such as infection prevention, radiology and medicines;
- Training – compliance for eligible staff in each area of risk management;
- Outcomes – patient reported outcomes of clinical care.

Integrated governance is the mechanism the Charity uses to challenge and measure the quality of everything it does. The Charity fosters an open culture to enable it to respond to safety concerns, measure responses from service users, understand the root cause of adverse incidents and evaluate outcomes.

The maintenance and review of risk registers is now an integral part of the wider strategy for effective risk management through the use of the 'Datix' Information Technology system. Presentation of the top ten non-financial risks, together with the actions being taken to mitigate them, form part of the Quality Report to the Board of Governors, which is submitted four times each year.

An executive Group Health, Safety and Environment Committee (GSEC) was established in 2009 to focus on health and safety, property governance and occupational health.

Quality highlights

During 2009 the following Group quality highlights took place:

- The launch of an integrated Wellbeing programme offering enhanced recovery and disease management. Pilots have been introduced in orthopaedics with the Recovery Plus programme offering extended physiotherapy and gym rehabilitation following hip and knee surgery. Care programmes have also been launched at the wellbeing centres for diabetes in partnership with Diabetes UK and for exercise therapy for those suffering from depression;
- The completion of an electronic X-ray and imaging Picture Archiving Communication System (PACS) thereby improving diagnostic reporting and image transferability across the network;
- The rollout of an online learning management system across a hospital workforce with a full suite of modules relating to mandatory training and risk management;
- The integration of hospital care pathways across the clinical patient journey linking pre-assessment, pathway documentation, patient information and patient reported outcomes.
- The Charity was externally audited by Lloyds Register Quality Assurance in December 2009 to measure the Charity's compliance with the international standard for information security (ISO 27001). The assessors reported that: "Nuffield Health have embraced the ISO27001:2005 standard and demonstrated a high level of Information Security Management. The integrated governance framework, of which Information Security management is a part, shows a level of maturity rarely seen across all sectors of Industry";
- The Charity remains committed to achieving full compliance with the NHSLA Risk Management Standards following successful accreditation to level 2 with 100% compliance in 50 domains. A benchmarking exercise for the highest level 3 standard will take place in 2010;
- The Charity received the FLAME award for our wellbeing centre in Bristol which recognises it to be the best mid-sized fitness club in the UK. The Charity also received the prestigious Laing and Buisson Award for risk management.

Governance

Governing document

Nuffield Health is a registered Charity incorporated under the Companies Acts 1948-2006 being a company limited by guarantee without a 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 the Annual Report and Financial Statements were approved were:

Mr Michael J Smith, Chairman and Chair of the Executive Remuneration Committee [Member: a, b,]
Mr John S Evans, Deputy Chairman and Chair of the Audit Committee [Member: a, b, c]
Mr David Budd (resigned on 30 November 2009)
Ms Fiona E Driscoll [Member: c]
Mr Lars P Evander (retired on 28 February 2010)
Mr Douglas F Gardner (retired on 30 November 2009)
The Lord Glenarthur DL (retired on 31 December 2009)
Mr Russell S M Hardy [Member: c]
Mr Neil W McCausland [Member: d]
Mr Guy McCracken LVO [Member: d]
Mr Christopher M Tetley (retired on 31 January 2010)
Ms Jane L Wesson Chair of the Board Integrated Governance Committee [Member: b, d]

a The Executive Remuneration Committee
b The Nominations Committee
c The Audit Committee
d The Board Integrated Governance Committee

In April 2009 the Board approved proposals for the recruitment of new Governors to replace those existing members of the Board who are required to retire within 18 months from 1 January 2009. Odgers Berndtson, Recruitment Consultants, was 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 in a national newspaper 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 28 September 2009 the Board approved the appointment, with effect from 1 January 2010, of Ms Fiona Elizabeth Driscoll, Mr Russell Stephen Mons Hardy, Mr Neil William McCausland and Mr Philip Guy McCracken LVO as Governors of Nuffield Health.

Ms Driscoll, Mr Hardy, Mr McCausland and Mr McCracken will offer themselves for election as Governors by the Members at the Annual General Meeting to take place on Wednesday, 23 June 2010.

Mr John Sandford Evans will retire as a Governor from the end of the 2010 Annual General Meeting and will not offer himself for re-election having completed a transitional term of office as defined in Article 29 of the Articles of Association.

Governors' appointment, induction, replacement and appraisal

The Board may appoint replacement or additional Governors at any time. Persons so appointed must be formally elected by the Members at the next following Annual General Meeting. On appointment, new Governors undertake an induction programme during which they will meet all senior executives and will visit a number of the Charity's locations. As in previous years, in 2009 the Chairman undertook a programme of individual meetings with each Governor to discuss his or her concerns and suggestions for any improvements in the management and the future direction of the Charity.

The Chairman is responsible for ensuring that each Governor undertakes a performance appraisal at least once each year. The results of the appraisals will be compiled by an external independent organisation. The outcomes will be discussed with the individual Governors and necessary action taken to ensure that each Governor meets the requirements of the role. In addition, the Chairman is also responsible for ensuring that the Board is appraised in respect of its collective performance and, again, the results of the Board appraisal will be compiled by an external independent organisation. A report will be provided to the Chairman and each individual Governor will be given the opportunity to share aspects of the appraisal with a view to improving the overall performance of the Board.

At the Annual General Meeting to be held on 23 June 2010 the Members will be asked to approve, subject to the Charity Commission consent, amendments to the Memorandum & Articles of Association, permitting the Board to appoint a maximum of three Senior Executives to be Governors of the Charity. The reasons for the proposed changes are set out within an Explanatory Note to the Members.

The Articles of Association contain provisions for the disqualification or removal of Governors.

Governors' remuneration

The report to the Members from the Governors' Remuneration Committee follows this Report on page 24 and gives details of the Governors' remuneration and the Committee's activities. The amounts paid during 2009 are set out in Note 11 of the Financial Statements.

Qualifying third party indemnity insurance is in place for the benefit of the Governors during the year.

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 prepared financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to 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 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 SORP;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charitable group will continue in business.

The Governors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the charitable 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 auditors are unaware; and
- 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 auditors are 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 statement

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the business review and public benefit review. 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 note 32. In addition the financial review and risk management and quality sections 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 its day to day financing needs through its internal cash generation supported by bank borrowings. The available bank facilities comprise of £100 million that is due for renewal in July 2012 and £150 million in July 2014. The 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 reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facility.

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.

Organisational structure

Board and board meetings

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 those strategic aims; monitoring the performance of the Charity; overseeing risk management; and setting the Charity's values.

Eleven Board meetings of the Governors were held in the year, in addition to the Annual General Meeting and three Workshops for the Governors on the subject of Public Benefit. Three Board meetings were held at different Charity locations and formal presentations were given to the Board by the local general manager. The meetings were followed by an inspection of the facilities with an opportunity for the Governors to speak to the staff, in order that they gain a greater understanding of the services delivered. Additionally, Governors also undertake informal visits to the Charity's hospitals and other facilities in their local area and elsewhere.

The Group Chief Executive, the Chief Financial Officer and other Senior Executives are in attendance at meetings of the Board, as required.

Board committees

Executive Remuneration Committee

The Executive Remuneration Committee is responsible for ensuring that the Group Chief Executive and the senior executives are, with the benefit of appropriate professional advice, properly rewarded for their individual and collective contributions to the Charity's overall performance. With effect from 1 December 2009 Mr Michael Smith assumed the Chairmanship of the Executive Remuneration Committee.

Nominations Committee
The names of prospective Governors and Members are referred to the Charity's Nominations Committee, which considers whether recommendations for appointment as a Governor should be made to the Board. The Nominations Committee also considers recommendations for Membership of the Charity, as no person may be appointed as a Governor unless he or she is also a Member. With effect from 1 December 2009 Mr Michael Smith assumed the Chairmanship of the Nominations Committee.

Audit Committee
The Audit Committee meets at least twice each year. Representatives from each of the external and internal auditors are in attendance, as are the Group Chief Executive and Chief Financial Officer. Under the Chairmanship of Mr John S Evans, its main duties are to assist the Board in the discharge of its duties by providing independent and authoritative advice on the accuracy of financial reporting and the effectiveness of financial controls and systems. 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. This Committee is responsible for monitoring the effective operation of clinical governance throughout the Group and also considers clinical risk and health and safety matters. The Group Medical Director and senior members of staff from within the Clinical Directorate are in attendance at the Committee's meetings. Following the retirement as a Governor of The Lord Glenarthur, with effect from 1 January 2010 the Board has appointed Ms Jane Louise Wesson to be Chair of the Board Integrated Governance Committee.

Executive management

The Board has appointed senior staff to manage the activities of the Charity and to ensure that the Charity's operational plans are implemented. The Board has established a framework of delegated authority levels covering all aspects of the Charity's operations including commercial and financial activities, clinical risk, employment practices and health and safety matters.

The names of the senior executives and Group Company Secretary at the date when the Annual Report and Financial Statements were approved were:

Mr David Mobbs	Group Chief Executive
Mr KP Doyle	Chief Financial Officer
Mr Nicholas Burrows	Managing Director, Commercial Fitness & Wellbeing
Mr Mathew Hart	Group Marketing Director
Dr Andrew Jones	Group Medical Director
Ms Laura Kerby	Managing Director, Clinical Services & Products
Ms Patricia Lee	Chief Executive, Hospitals Division
Mr Marcus Powell	Group Organisation Development & Human Resources Director and Managing Director, Corporate & Contract Fitness
Mr David Holben	Group Secretary & Solicitor

Charity legislation, community and employment

Charity legislation

Following the introduction of the Charity and Trustee Investment (Scotland) Act 2005 the Charity has applied for registration as a Scottish charity in view of the ownership of the Nuffield Health Glasgow Hospital and the Charity's other activities in Scotland. A response is currently awaited from the Office of the Scottish Charity Regulator as to whether the application has been granted.

During 2008, the Charity Commission consulted on and published its General Guidance on Public Benefit in January, and additional guidance was issued in December 2008 entitled "Public Benefit and Fee Charging". In July 2009, the Commission published the first 12 pilot Public Benefit Assessment Reports and a further report outlining the key findings entitled "Emerging findings for charity trustees from the Charity Commission's public benefit assessment work: 2008-09". The assessment reports were carefully analysed by the Board and although none of the 12 pilot assessments were of charities for "the advancement of health", the Governors have had regard to this guidance and have implemented the policies and activities as outlined in the public benefit review.

Donations and bequests

Donations and bequests amounting to £0.3 million (2008 - £0.6 million) were received during the year. The Board is most grateful and thanks donors and their representatives.

Organisational development

Learning and development

The Board of Nuffield Health understands the importance of a highly skilled and effective leadership team in delivering business strategy, change, governance and compliance for an organisation. During 2009 significant organisational resource was invested to begin the journey to improve our management capabilities through targeted training and development programmes, in addition to the regular management skills workshops that are delivered across the business.

Developing our current leaders

All Hospital General Managers and the Hospitals Management Board took part in an extended, workshop-based development programme aimed at helping each individual to understand their own leadership style, the impact this has on their teams and professional relationships and their ability to deliver business objectives. This programme was run in conjunction with Ashridge, one of the UK's leading business schools.

Our Matrons and Finance Managers also participated in targeted leadership skills development courses to build confidence and enhance their day-to-day management capabilities.

All Commercial Fitness & Wellbeing General Managers, as well as a number of potential Centre Managers, undertook a multi-stage development programme to improve their understanding of leadership, the difference that good leadership can make to achieving objectives, and help them step-up to lead their teams through a year of considerable change.

Developing our future leaders

In 2009 Nuffield Health also invested in training managers from across the business to help them perform their roles more effectively. In our Clinical Products & Services and Corporate Fitness Divisions this meant targeted training in consultative selling skills for the account management and business development teams to improve their relationship management and cross-selling skills.

In the Hospitals Division, the focus was on general management skills development for our Clinical Heads of Department – picking up key individuals who had been promoted because they were talented from a clinical perspective, but who had had no previous management training or development.

Developing talent within Nuffield Health

In 2009 we also developed two unique programmes that will be available to employees in 2010. Our Senior Leadership Development and our Rising Stars Programmes will help the organisation identify and develop a talent pool for the future coming from all levels and all disciplines within the business.

Employee involvement

The Charity keeps staff fully informed of its progress and performance. A periodic staff journal and regular newsletters focus on corporate and local news and people and provides a sense of community across the Charity's diverse geographic and functional spread. Communications plans are developed to enhance the knowledge and understanding of specific projects and programmes. Managers are encouraged to seek other means of involving staff in the day to day running of the organisation, with the aim of continuously improving the Charity's services. Some parts of the organisation have standing committees and other forums for formal consultation and communication of matters which may affect employees.

The Charity continues to work in partnership with a number of recognised trade unions for the benefit of its employees.

Disabled employees

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

The Charity also recognises its obligations as a service provider, under further legislation introduced in October 1999, to take appropriate measures to protect disabled users of its services.

Professional advisers

External Auditor Grant Thornton UK LLP The Explorer Building Fleming Way Manor Royal Crawley RH10 9GT	Internal Auditor Service Provider Deloitte LLP Stonecutter Court 1 Stonecutter Street London EC4A 4TR
Solicitors CMS Cameron McKenna Mitre House 160 Aldersgate Street London EC1A 4DD	
Bankers Barclays Bank Plc Level 28 1 Churchill Place Canary Wharf London E14 5HP	Royal Bank of Scotland Plc 135 Bishopsgate London EC2M 3UR
Allied Irish Bank (GB) St Helen's 1 Undershaft London EC3A 8AB	Santander UK plc 2 Triton Square Regent's Place London NW1 3AN
Property Advisers GVA Grimley LLP 3 Brindleyplace Birmingham B1 2JB	
Pension and Remuneration Advisors 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 2010.

26 May 2010
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 2009 the members of the Committee were Lady Forester, Mr Lindsay Doig and myself, as Chairman. Mr Lindsay Doig retired as a member of the Committee in March 2009. Following Mr Douglas Gardner's retirement as Chairman of the Board of Governors on 30 November 2009, he has subsequently been appointed a member of the Committee. The Secretary of the Committee is Mr David Holben, Group Secretary & Solicitor of Nuffield Health.

At the 2009 Annual General Meeting, held on 24 June 2009, the Members duly approved a Special Resolution to amend the Memorandum & Articles of Association of Nuffield Health following receipt of the Charity Commission's formal letter of consent dated 18 May 2009 to the new arrangements for the remuneration of Governors. An explanatory note giving full details of the reasons for the changes was also sent to the Members. With effect from 1 January 2010 the maximum amount which may be awarded to the Governors is as follows:

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

In future years the maximum payable to any Governor may be adjusted, subject to the Committee's approval, by an amount equal to the percentage increase recommended by the Review Body on Senior Civil Service Salaries by reference to the lowest point in the scale of pay for Permanent Secretaries. The Senior Civil Service Salary Scales are usually published in April of each year.

On 2 December 2009 the Committee met to determine the level of remuneration to be paid to the Governors with effect from 1 January 2010. Mr Michael Smith, Chairman of the Board of Governors and Mr David Mobbs, Group Chief Executive, were in attendance and provided an overview of the Charity's activities in the period 2008-2009. They were also able to answer the Committee's questions concerning the Group's performance and the activities of the Governors during this period. Following careful consideration the Committee resolved to make the full award, as described above and permitted under the terms of the Charity Commission's consent. The Committee will meet again in early December 2010 to assess the Governors' remuneration payments from 1 January 2011.

In addition, Mr Mobbs informed the Committee that four new Governors have now been recruited who will commence their terms of office on 1 January 2010. During the recruitment process, due regard was paid to the principles within the Code of Practice of the Office of the Commissioner for Public Appointments. Mr John Davies, a Member of Nuffield Health, was appointed as Independent Assessor who oversaw the recruitment process to ensure that the Code of Practice was followed. With effect from 1 January 2010 the following were appointed Governors of Nuffield Health:

Ms Fiona Driscoll
Mr Russell Hardy
Mr Neil McCausland
Mr Guy McCracken LVO

Each of the new Governors will receive the basic payment of £28,000 per annum, with effect from 1 January 2010.

Finally, I would like to thank Lady Forester, Mr Lindsay Doig and Mr Douglas Gardner for all their 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

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF NUFFIELD HEALTH

We have audited the Group and parent charitable company financial statements (the 'financial statements') of Nuffield Health for the year ended 31 December 2009 which comprise the consolidated income and expenditure account, the consolidated statement of financial activities, the consolidated balance sheet, the charity balance sheet, the consolidated cash flow statement, the accounting policies and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the charitable company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the charitable company's members 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 the charitable company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Governors and Auditors

The Governors' (who are also the directors of Nuffield Health for the purposes of company law) responsibilities for preparing the Report of the Board of Governors to the Members and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and for being satisfied that the financial statements give a true and fair view are set out in the Statement of Governors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and have been prepared in accordance with the Companies Act 2006. We also report to you whether the information given in the Report of the Board of Governors to the Members is consistent with those financial statements.

In addition we report to you if, in our opinion, the charitable company has not kept adequate accounting records, if the charitable company's financial statements are not in agreement with the accounting records and returns, if we have not received all the information and explanations we require for our audit, or if certain disclosures of Governors' remuneration specified by law are not made.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, The Report of The Board of Governors to the Members and The Report of the Governors' Remuneration Committee to the Members. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Governors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and parent charitable company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent charitable company's affairs as at 31 December 2009 and of the Group's incoming resources and application of resources, including its income and expenditure, for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the Companies Act 2006; and
- the information given in the Report of the Board of Governors to the Members is consistent with the financial statements for the year ended 31 December 2009.

Stephen Maslin
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
26 May 2010

Consolidated Income and Expenditure Account
For the year ended 31 December 2009

	Note	Discontinued £m	Continuing £m	2009 Total £m	2008 Total £m
Turnover (including share of joint venture)		4.3	550.9	555.2	581.5
Share of turnover of joint ventures		-	(2.8)	(2.8)	(0.6)
Group turnover		4.3	548.1	552.4	580.9
Cost of services					
Normal	2	(3.2)	(528.1)	(531.3)	(554.8)
Exceptional	5	-	(45.2)	(45.2)	(3.8)
Gross (deficit)/surplus		1.1	(25.2)	(24.1)	22.3
Support and governance costs					
Normal	3	-	(8.7)	(8.7)	(11.5)
Exceptional	5	-	-	-	(0.2)
Group operating (deficit)/surplus		1.1	(33.9)	(32.8)	10.6
Share of operating losses of joint ventures		-	(2.8)	(2.8)	(2.2)
Total operating (deficit)/surplus		1.1	(36.7)	(35.6)	8.4
(Deficit)/surplus on sale of business and dilution of interest in joint ventures	7	(0.1)	-	(0.1)	2.8
(Deficit)/surplus on disposal of tangible fixed assets	7	0.1	(1.0)	(0.9)	2.1
(Deficit)/surplus before interest and tax		1.1	(37.7)	(36.6)	13.3
Net interest (payable)/receivable and similar income					
Group	8			(16.3)	(17.0)
Joint venture	8			(0.3)	0.1
Deficit on ordinary activities before taxation				(53.2)	(3.6)
Tax on surplus on ordinary activities	13			(0.3)	-
Retained deficit for the financial year				(53.5)	(3.6)

Consolidated Statement of Financial Activities
For the year ended 31 December 2009

	Note	Permanent endowment £m	Restricted £m	Unrestricted £m	2009 Total £m	2008 Total £m
Incoming resources						
Incoming resources from generated funds						
Donations, gifts and legacies		-	0.4	-	0.4	0.6
Investment income	8	-	-	0.5	0.5	0.7
Incoming resources from charitable activities						
Services to patients and others						
Continuing		-	-	550.5	550.5	555.6
Discontinued	4	-	-	4.3	4.3	25.3
Less share of joint ventures' services		-	-	(2.8)	(2.8)	(0.6)
Other incoming resources						
Surplus on sale of business						
Discontinued	4	-	-	0.1	0.1	2.8
Surplus on disposal of tangible fixed assets						
Continuing	7	-	-	-	-	0.5
Discontinued	4	-	-	0.1	0.1	1.6
Total incoming resources		-	0.4	552.7	553.1	586.5
Resources expended						
Charitable activities						
Continuing						
Normal	2	-	-	(534.5)	(534.5)	(542.5)
Exceptional	2	-	-	(45.2)	(45.2)	(4.0)
Discontinued	4	-	-	(3.2)	(3.2)	(21.6)
Governance costs	3	-	-	(2.3)	(2.3)	(2.2)
Other resources expended						
Deficit on disposal of business						
Discontinued	4	-	-	(0.2)	(0.2)	-
Deficit on disposal of tangible fixed assets						
Continuing	7			(1.0)	(1.0)	-
Interest payable	8	-	-	(13.6)	(13.6)	(16.2)
Post retirement finance expense	9	-	-	(3.2)	(3.2)	(1.5)
Taxation	13			(0.3)	(0.3)	-
Total resources expended		-	-	(603.5)	(603.5)	(588.0)
Net resources expended		-	0.4	(50.8)	(50.4)	(1.5)
Share of joint ventures net losses		-	-	(3.1)	(3.1)	(2.1)
Net (outgoing)/incoming resources before other recognised gains and losses		-	0.4	(53.9)	(53.5)	(3.6)
Other recognised gains and losses						
Actuarial (losses)/gains on defined benefit retirement scheme	9	-	-	(51.0)	(51.0)	19.8
(Losses) on investment assets		-	-	-	-	(0.1)
Net movement in funds		-	0.4	(104.9)	(104.5)	16.1
Fund balances at 1 January		0.1	0.8	287.6	288.5	272.4
Fund balances at 31 December	26	0.1	1.2	182.7	184.0	288.5

NUFFIELD HEALTH

Company number 576970
Charity number 205533

Balance Sheets
at 31 December 2009

	Note	Group 2009 £m	Group 2008 £m	Charity 2009 £m	Charity 2008 £m
Fixed assets					
Intangible assets	15	38.2	46.0	27.3	30.8
Tangible assets	16	437.8	521.7	431.4	499.2
Investments	17	0.4	0.4	35.4	40.9
Interest in joint ventures:					
Share of gross assets		15.3	9.4	-	-
Share of gross liabilities		(12.9)	(5.2)	-	-
Share of intangible assets		-	0.3	-	-
	17	2.4	4.5	-	-
		478.8	572.6	494.1	570.9
Current assets					
Stocks	18	8.4	8.6	8.4	8.6
Debtors	19	70.0	72.0	203.1	218.5
Cash at bank and in hand		6.6	7.4	6.6	7.0
		85.0	88.0	218.1	234.1
Creditors: amounts falling due within one year	20	(73.7)	(170.7)	(209.8)	(306.0)
Net current assets/(liabilities)		11.3	(82.7)	8.3	(71.9)
Total assets less current liabilities		490.1	489.9	502.4	499.0
Creditors: amounts falling due after more than one year	21	(220.0)	(162.6)	(220.0)	(162.6)
Provisions for liabilities	24	(8.2)	(6.6)	(5.7)	(2.8)
Net assets excluding post retirement liability		261.9	320.7	276.7	333.6
Post retirement defined benefit liability	9	(77.9)	(32.2)	(77.9)	(32.2)
Net assets		184.0	288.5	198.8	301.4
Income funds					
Restricted funds	26	1.2	0.8	1.2	0.8
Unrestricted funds:					
General fund	26	260.6	319.8	275.4	332.7
Post retirement reserve	26	(77.9)	(32.2)	(77.9)	(32.2)
Total unrestricted funds	26	182.7	287.6	197.5	300.5
Total income funds		183.9	288.4	198.7	301.3
Permanent endowment	25 and 26	0.1	0.1	0.1	0.1
Group funds		184.0	288.5	198.8	301.4

Approved by the Board of Governors on 26 May 2010

Michael J Smith – Chairman

David Mobbs - Group Chief Executive

Consolidated Cash Flow Statement
For the year ended 31 December 2009

	Note	£m	2009 £m	£m	2008 £m
Net cash inflow from operating activities					
Normal	27	52.7		64.0	
Exceptional	27	(3.0)		(1.0)	
			49.7		63.0
Net cash outflow from returns on investments and servicing of finance	28		(12.8)		(14.7)
Capital expenditure and financial investment					
Purchase of tangible fixed assets	29	(28.2)		(68.5)	
Increase in loans to joint ventures		(0.6)		(5.4)	
Exceptional disposal of tangible fixed assets	29	0.9		9.8	
Net cash outflow from capital expenditure and financial investment			(27.9)		(64.1)
Acquisitions and disposals					
Purchase of subsidiaries		-		(7.9)	
Investment in joint ventures	30	(1.0)		-	
Sale of business	30	24.7		135.8	
Net cash outflow from acquisitions and disposals			23.7		127.9
Cash inflow/(outflow) before use of liquid resources and financing			32.7		112.1
Financing	31		(33.5)		(111.9)
(Decrease)/increase in cash for the financial year	32		(0.8)		0.2

Reconciliation of net cash flow to movement in net debt

(Decrease)/increase in cash for the financial year		(0.8)	0.2
Cash outflow from changes in debt and lease finance	31	33.5	111.9
Change in net debt resulting from cash flows	32	32.7	112.1
Loans acquired with acquisition		-	(0.1)
New finance leases	32	(1.0)	(0.3)
Movement in net debt in the financial year		31.7	111.7
Net debt at 1 January	32	(226.2)	(337.9)
Net debt at 31 December	32	(194.5)	(226.2)

Accounting Policies
For the year ended 31 December 2009

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 years.

The Charity's Balance Sheet is restated to show the amounts owed to and from Health Club Investments Group Limited and its subsidiaries on a gross basis while the amounts were previously shown on a net basis. The impact of this change is to increase both debtors and creditors; amounts falling due within one year by £132.5m. This restatement has no effect on the income and expenditure recorded for the 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 2009 are £150 million, fully drawn, that is repayable in instalments commencing December 2012; £50 million, fully drawn, expiring in July 2012; and a further £50 million, which is undrawn and is due to expire in July 2012.

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 2009. The results of subsidiary and joint venture undertakings acquired during the year are included from the date of acquisition. Surplus 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, all of the undertaking's 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 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 and others. Income from such services is recognised in 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 and 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) **True and fair override**

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.

i) **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).

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

j) **Tangible fixed assets and depreciation**

Tangible fixed assets costing more than £1,000 are capitalised at cost including any incidental expenses of acquisition.

The cost of new hospitals and major extension works includes 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 works in progress during the year.

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

No depreciation is charged on freehold land or buildings in the course of construction.

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

When the original cost of any tangible fixed assets is subsequently reduced then depreciation is calculated over the average remaining useful lives of the assets affected.

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 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.

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 increases 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**

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 2009

1 Segmental analysis

The analysis of the businesses is based on the Group's management structure. The segmental information for Hospital Services includes Vanguard Healthcare Services Limited that was disposed of during the year.

	Hospital services £m	Wellbeing services £m	Central & other £m	2009 Total £m	Hospital services £m	Wellbeing services £m	Central & other £m	2008 Total £m
Incoming resources from generated funds								
Voluntary income	-	-	0.4	0.4	-	-	0.6	0.6
Investment income	-	-	0.5	0.5	-	-	0.7	0.7
Incoming resources from charitable activities								
Continuing								
Normal								
Including inter-company	397.5	163.2	-	560.7	404.3	160.6	-	564.9
Inter-company	-	-	(10.2)	(10.2)	-	-	(9.3)	(9.3)
	397.5	163.2	(9.3)	551.4	404.3	160.6	(8.0)	556.9
Discontinued	4.3	-	-	4.3	25.3	-	-	25.3
Less share of joint ventures	(2.8)	-	-	(2.8)	(0.6)	-	-	(0.6)
Other incoming resources								
Surplus on sale of business								
Discontinued	0.1	-	-	0.1	2.8	-	-	2.8
Surplus on disposal of tangible fixed assets								
Continuing	-	-	-	-	0.5	-	-	0.5
Discontinued	0.1	-	-	0.1	1.6	-	-	1.6
Total incoming resources	399.2	163.2	(9.3)	553.1	433.9	160.6	(8.0)	586.5
Resources expended								
Charitable activities								
Continuing								
Normal								
Including inter-company	(383.8)	(154.7)	(6.2)	(544.7)	(393.5)	(149.0)	(9.4)	(551.9)
Inter-company	-	-	10.2	10.2	-	-	9.4	9.4
	(383.8)	(154.7)	4.0	(534.5)	(393.5)	(149.0)	-	(542.5)
Exceptional	(9.4)	(35.8)	-	(45.2)	(2.8)	(1.0)	(0.2)	(4.0)
Discontinued	(3.2)	-	-	(3.2)	(21.6)	-	-	(21.6)
Governance costs	-	-	(2.3)	(2.3)	-	-	(2.2)	(2.2)
Deficit on disposal of business								
Discontinued	(0.2)	-	-	(0.2)	-	-	-	-
Deficit on disposal of tangible fixed assets – continuing	(1.0)	-	-	(1.0)	-	-	-	-
Interest payable	-	-	(13.6)	(13.6)	-	-	(16.2)	(16.2)
Retirement finance expenses	-	-	(3.2)	(3.2)	-	-	(1.5)	(1.5)
Taxation	(0.3)	-	-	(0.3)	-	-	-	-
Total resources expended	(397.9)	(190.5)	(15.1)	(603.5)	(417.9)	(150.0)	(20.1)	(588.0)
Net resources (expended)/ incoming	1.3	(27.3)	(24.4)	(50.4)	16.0	10.6	(28.1)	(1.5)
Share of joint ventures net losses	(3.1)	-	-	(3.1)	(2.1)	-	-	(2.1)
Net resources (expended) before transfer of funds	(1.8)	(27.3)	(24.4)	(53.5)	13.9	10.6	(28.1)	(3.6)
Net assets	363.8	104.0	(283.8)	184.0	404.4	142.8	(258.7)	288.5
Staff numbers (WTE)	3,960	2,793	46	6,799	4,167	2,716	43	6,926

2 Resources expended charitable activities

	Direct activities		Support costs			Total
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
Normal						
Continuing operations						
Staff and related costs	166.1	168.8	23.4	23.6	189.5	192.4
Third party fees	108.8	108.1	-	-	108.8	108.1
Supply costs	66.7	67.1	-	-	66.7	67.1
Depreciation and amortisation	48.2	44.7	6.9	7.5	55.1	52.2
Other costs	93.4	108.5	21.0	14.2	114.4	122.7
	483.2	497.2	51.3	45.3	534.5	542.5
Support costs transferred to direct activities	44.9	36.0	(44.9)	(36.0)	-	-
After recharge	528.1	533.2	6.4	9.3	534.5	542.5
Discontinued operations						
Staff and related costs	2.1	10.4	-	-	2.1	10.4
Third party fees	-	3.9	-	-	-	3.9
Supply costs	-	1.5	-	-	-	1.5
Depreciation and amortisation	1.1	3.2	-	-	1.1	3.2
Other costs	-	2.4	-	0.2	-	2.6
	3.2	21.4	-	0.2	3.2	21.6
Support costs transferred to direct activities	-	0.2	-	(0.2)	-	-
After recharge	3.2	21.6	-	-	3.2	21.6
Total normal	531.3	554.8	6.4	9.3	537.7	564.1
Exceptional						
Continuing operations	45.2	3.8	-	0.2	45.2	4.0
Total resources expended charitable activities	576.5	558.6	6.4	9.5	582.9	568.1

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

	2009 £m	2008 £m
Normal		
Governance		
Staff and related costs	1.5	1.4
Other costs	0.8	0.8
	2.3	2.2
Support costs normal (note 2)	6.4	9.3
Total support and governance - normal	8.7	11.5
Support costs exceptional (note 2)	-	0.2
Total support and governance	8.7	11.7

4 Discontinued business

	2009 £m	2008 £m
Turnover	4.3	25.3
Cost of services	(3.2)	(21.6)
Total operating surplus	1.1	3.7
Surplus on sale of hospitals	0.1	2.8
Deficit on sale of Vanguard Healthcare Limited	(0.2)	-
Surplus on disposal of tangible fixed assets	0.1	1.6
Surplus before interest and tax	1.1	8.1

The above represents the financial statements of the hospitals sold during 2008 together with the sale of Vanguard completed on 31 March 2009.

5 Exceptional items

The change in trading conditions, as described in the in the Report of the Governors to the Members, required an impairment review of tangible fixed assets and an assessment of property leases to determine if any are onerous to be conducted in 2009. This resulted in an impairment of tangible fixed assets that is explained in note 16.

The onerous property lease costs are the difference between the rent and the market rent for income generating units that are loss making and whose tangible fixed assets have been fully written down.

In 2008 it was necessary to restructure the Group in recognition of the impact of the economy and the crisis in the financial markets on the health care and wellbeing markets. The restructuring exceptional costs relate to payments and legal fees incurred in making staff redundant.

The exceptional costs are:

	2009 £m	2008 £m
Cost of services		
Impairment of tangible fixed assets	(41.4)	-
Onerous property leases	(3.3)	-
Restructuring	0.1	(3.8)
Other	(0.6)	-
	(45.2)	(3.8)
Support costs		
Restructuring	-	(0.2)
	(45.2)	(4.0)

6 Operating surplus

	2009 £m	2008 £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:		
Audit of Charity's subsidiaries pursuant of legislation	-	0.1
Tax services	0.1	0.1
Total fees to the company's auditor	0.4	0.5

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.

	2009 £m	2008 £m
Depreciation on tangible fixed assets:		
On owned assets	50.2	50.5
On assets held under finance leases and hire purchase contracts for equipment and motor vehicles	0.4	0.2
Depreciation charge (note 16)	50.6	50.7
Loss on disposal of tangible fixed assets	1.6	0.9
Normal depreciation	52.2	51.6
Impairment of tangible fixed assets	41.4	-
Total depreciation	93.6	51.6
Amortisation of goodwill of subsidiaries (note 15)	4.0	3.8
Impairment of goodwill of joint ventures (note 17)	0.4	-
Hire of plant and machinery (including operating lease charges)	3.7	3.7
Property operating lease rentals	21.6	20.0
Rental income from operating leases	0.5	0.4
Third party indemnity insurance	1.0	1.1

Indemnity insurance for the Governors and officers amounted to £14,000 (2008: £14,000)

7 Exceptional items reported after operating surplus

	2009 Total £m	2008 Total £m
(Deficit)/surplus on disposals of business and dilution of interest in joint ventures		
Deficit on disposal of Vanguard Healthcare Limited	(0.2)	-
Surplus on disposal of hospitals	0.1	2.8
	(0.1)	2.8
(Deficit)/surplus on disposal of tangible fixed assets		
Continuing	(1.0)	0.5
Discontinued	0.1	1.6
	(0.9)	2.1
	(1.0)	4.9

The loss on the disposal of a business is that resulting from the disposal of Vanguard Healthcare Limited during the year and the release of accruals and provisions during the year relating to the sale of hospitals in previous years. The (deficit)/surplus on disposal of tangible fixed assets relates to non-core property sales.

8 Net interest (payable)/receivable and similar income

	2009 £m	2008 £m
Interest receivable and similar income		
Interest receivable	0.5	0.7
Interest receivable and similar income for Group	0.5	0.7
Interest payable		
Bank loans and overdraft	(10.6)	(15.0)
Finance charges in respect of finance leases	(0.1)	-
Unwinding of discounting on purchase of subsidiaries	(1.5)	(0.6)
Total interest payable	(12.2)	(15.6)
Costs in connection with loan facilities	(0.8)	(0.6)
Unamortised costs written off at time of refinancing	(0.6)	-
	(13.6)	(16.2)
Retirement benefit finance costs	(3.2)	(1.5)
Total interest payable	(16.8)	(17.7)
Group net interest (payable)/receivable and similar income	(16.3)	(17.0)
Joint ventures		
Share of joint ventures loan interest payable	(0.3)	0.1

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 £9.5m (2008 - £13.1m). The employer has agreed to contribute £7.2m annually to fund the past service deficit, which is currently projected to recover the deficit over ten to fifteen 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 2009. 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 2009.

The main FRS 17 assumptions are:

	2009 %pa	2008 %pa
Rate of increase in medical inflation	5.6%	5.0%
Rate of increase for pensions in payment pre 1 August 2005 service	3.6%	3.2%
Rate of increase for pensions in payment post 31 July 2005 service	2.4%	2.3%
Discount rate	5.7%	6.5%
Inflation rate	3.6%	3.0%

The post-retirement mortality assumptions used to value the benefit obligation at 31 December 2009 and 31 December 2008 are based on the mortality tables S1NM/FA mc and PMA92 c 2025 mc respectively. Assumed life expectancies on retirement age at 65 are:

		2009	2008
Retiring today	Males	21.5	21.6
	Females	24.6	24.4
Retiring in 20 year's time	Males	23.5	22.3
	Females	26.2	25.1

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	2009 Value £m	Expected rate of return %pa	2008 Value £m
Equity and equity hedge	1.7%	7.6%	84.2	6.9%	82.4
Bonds	2.4%	5.1%	73.7	4.6%	68.7
Dynamic assets fund	20.2%	7.2%	58.3	6.5%	48.4
Property	(7.8%)	6.6%	5.1	5.9%	5.9
Other	1.2%	1.8%	7.6	2.0%	5.9

The dynamic asset fund invests in a variety of assets that may change daily. At 31 December 2009 the allocation was equities 50.4%, bonds 28.7%, property 2.6% and other 18.3% (2008 – equities 51.2%, bonds 43.1%, property 1.3% and other 4.4%).

The pension scheme hedges its exposure to a fall in returns from equities. Summaries of the hedges in place within the pension scheme at the end of 2009 and 2008 are set out below.

	2009	2008
Hedge against a basket of indexes that give equal weighting to S&P 500, DJ Eurostoxx 50, FTSE 100 and Nikkei 225		
Amount hedged (£m)	18	84
Pension fund share of return/loss		
Market loss	0.0%	0.0%
Market return up to 28 %	91.9%	91.9%
Market return above 28%	50.0%	50.0%
Maturity	December 2010	December 2010
Hedge against a basket of indexes that is weighed 50% FTSE 100, 25% S&P 500 and 25% DJ Eurostoxx 50		
Amount hedged (£m)	65	-
Pension fund share of return/loss		
Market loss of up to 25%	0.0%	-
Market loss of between 25% and 45%	180.0%	-
Market loss of more than 45%	100.0%	-
Market return up to 20 %	148.0%	-
Market return above 20%	50.0%	-
Maturity	June 2012	-

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

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

	Defined benefit pension funds		Retirement healthcare		Total	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
Operating surplus – current service cost	1.4	1.4	-	0.1	1.4	1.5
Net interest payable/(receivable):						
Expected return on schemes' assets	(12.4)	(14.2)	-	-	(12.4)	(14.2)
Interest on schemes' liabilities	15.3	15.4	0.3	0.3	15.6	15.7
Total charged to finance expenses	2.9	1.2	0.3	0.3	3.2	1.5
Total	4.3	2.6	0.3	0.4	4.6	3.0
Actual return on assets	18.1	(6.8)	-	-	18.1	(6.8)

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

	2009 £m	2008 £m
On obligations – interest costs	(56.7)	39.3
On fund assets – expected return	5.7	(19.5)
Net actuarial losses/gains on defined benefit retirement schemes	(51.0)	19.8

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

	Defined benefit pension funds		Retirement healthcare		Total	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
Fair value of schemes' asset	228.9	211.3	-	-	228.9	211.3
Present value of funded obligations	(299.3)	(237.0)	-	-	(299.3)	(237.0)
	(70.4)	(25.7)	-	-	(70.4)	(25.7)
Present value of unfunded obligations	(1.9)	(1.5)	(5.6)	(5.0)	(7.5)	(6.5)
Net liabilities	(72.3)	(27.2)	(5.6)	(5.0)	(77.9)	(32.2)

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

	Defined benefit pension funds		Retirement healthcare		Total	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
Opening defined benefit obligations	(238.5)	(269.3)	(5.0)	(6.0)	(243.5)	(275.3)
Current service cost	(1.4)	(1.4)	-	(0.1)	(1.4)	(1.5)
Benefits paid	10.1	9.4	0.3	0.3	10.4	9.7
Interest cost	(15.3)	(15.4)	(0.3)	(0.3)	(15.6)	(15.7)
Actuarial (gains)/losses	(56.1)	38.2	(0.6)	1.1	(56.7)	39.3
Closing defined benefit obligations	(301.2)	(238.5)	(5.6)	(5.0)	(306.8)	(243.5)

The cumulative actuarial losses recognised in the statement of total recognised gains and losses at 31 December 2009 was £75.7m (2008 - £24.7m).

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

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

	Defined benefit pension funds		Retirement healthcare		Total	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
Opening fair value of plan assets	211.3	212.9	-	-	211.3	212.9
Expected return	12.4	14.2	-	-	12.4	14.2
Actuarial (losses)/gains	5.7	(19.6)	-	-	5.7	(19.5)
Contributions paid	9.6	13.2	0.3	0.3	9.9	13.4
Benefits paid	(10.1)	(9.4)	(0.3)	(0.3)	(10.4)	(9.7)
Closing fair value of plan assets	228.9	211.3	-	-	228.9	211.3

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

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Defined benefit obligation	(301.2)	(238.5)	(269.3)	(298.3)	(284.1)
Plan assets	228.9	211.3	212.9	206.7	181.6
Deficit	(72.3)	(27.2)	(56.4)	(91.6)	(102.5)
Experience adjustments on obligation	2.6	(12.1)	1.3	(8.9)	-
Experience adjustments on plan assets	5.7	(19.6)	(12.0)	3.3	13.5

The plan assets are valued at mid market price for years 2005 to 2007 and at bid price for 2008 to 2009.

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

	2009 £m	2008 £m	2006 £m	2005 £m	2004 £m
Defined benefit obligation	(5.6)	(5.0)	(6.0)	(7.1)	(7.4)
Experience adjustments on obligation	0.1	0.5	0.4	0.6	0.6

10 Defined contribution pension schemes

	2009 £m	2008 £m
The amounts charged to the income and expenditure account and statement of financial activities	5.4	5.8
Contributions owing to the pension schemes at 31 December	0.5	0.7

11 Governors

	2009 £	2008 £
Fees paid to the Governors:		
Mr D F Gardner	42,860	46,756
Mr J S Evans	35,376	35,376
The Lord Glenarthur	23,700	23,700
Mr M J Smith	20,399	18,000
Mr C Tetley	20,700	20,700
Ms J L Wesson	20,700	20,700
Mr L P Evander	18,708	18,708
Mr D Budd	15,511	10,911
Sir M Moody-Stuart	-	6,236
	197,954	201,087

No other emoluments were paid to the Governors. Travel and subsistence paid on behalf of or reimbursed to all the Governors was £24,946 (2008 - £39,839) in the year.

12 Employees

	2009 Number	2009 WTE	2008 Number	2008 WTE
Average number of employees:				
Direct charitable activities	9,943	6,753	10,132	6,883
Support and governance	48	46	45	43
	9,991	6,799	10,177	6,926

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

	2009	2008
Number of employees in defined contribution pension schemes	2,016	2,227

	2009 £m	2008 £m
Staff costs during the year:		
Wages and salaries	158.9	161.9
Social security costs	13.7	14.3
Other pension costs		
Defined benefit current services cost (note 9)	1.4	1.5
Defined contribution (note 10)	5.4	5.8
Agency costs	8.2	11.4
	187.6	194.9

12 Employees (continued)

The emoluments of the higher-paid employees fell within the ranges indicated below. These emoluments include bonuses payable, redundancy payments and compromise agreement payments but exclude pension contributions.

	2009 Number	2008 Number
£60,000 to £69,999	45	45
£70,000 to £79,999	28	24
£80,000 to £89,999	12	22
£90,000 to £99,999	13	18
£100,000 to £109,999	9	10
£110,000 to £119,999	6	4
£120,000 to £129,999	1	8
£130,000 to £139,999	5	5
£140,000 to £149,999	1	2
£150,000 to £159,999	3	1
£160,000 to £169,999	1	3
£170,000 to £179,999	2	2
£180,000 to £189,999	2	3
£190,000 to £199,999	1	2
£200,000 to £209,999	2	1
£210,000 to £219,999	1	1
£220,000 to £229,999	-	2
£250,000 to £259,999	-	2
£260,000 to £269,999	-	1
£280,000 to £289,999	2	-
£300,000 to £309,999	3	-
£310,000 to £319,999	1	-
£320,000 to £329,999	1	-
£330,000 to £339,999	-	1
£370,000 to £379,999	1	-
£400,000 to £409,999	-	2
£480,000 to £489,999	1	-
£490,000 to £499,999	-	1
£540,000 to £549,999	1	-

	2009 £m	2008 £m
Employer contributions towards defined contribution pension schemes for higher-paid staff	1.0	0.9

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 Remuneration Committee of the Board, which takes independent advice from specialist executive remuneration consultants and applies median rates based on equivalent positions in healthcare and other relevant organisations.

13 Tax on surplus on ordinary activities

	2009 £m	2008 £m
Current tax		
United Kingdom corporation tax at 28% payable by Medica Reporting Limited	0.3	-

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 2009 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:

	2009 £m	2008 £m
Total incoming resources	545.1	483.9
Total resources expended	(596.7)	(486.1)
Net resources expended before transfer of funds	(51.6)	(2.2)
Actuarial losses on retirement schemes	(51.0)	19.7
Net movement in funds	(102.6)	17.5

15 Intangible fixed assets

	Group £m	Charity £m
Goodwill		
Cost		
At 1 January 2009	57.5	39.0
Adjustments to cost	6.9	-
Sale of business	(13.8)	-
At 31 December 2009	50.6	39.0
Amortisation		
At 1 January 2008	11.5	8.2
Charge for year	4.0	3.5
Sale of business	(3.1)	-
At 31 December 2008	12.4	11.7
Net book value at 31 December 2009	38.2	27.3
Net book value at 31 December 2008	46.0	30.8

The adjustments to goodwill costs arise from updating the estimate of the contingent consideration on the purchase of Medica Reporting Limited. The contingent consideration is largely dependent on the performance of the subsidiary in the second half of 2010. Variances from the forecast may affect the size of the final payment, for example if turnover and earnings before interest, tax, depreciation and amortisation are 10% different from the forecast the contingent liability will change by £1.8m.

16 Tangible fixed assets

Group	Assets in course of construction £m	Freeholds £m	Long leaseholds £m	Short leaseholds £m	Equipment and motor vehicles £m	Total £m
Cost						
At 1 January 2009	11.5	231.5	43.3	91.1	421.9	799.3
Additions at cost	10.4	-	0.1	-	17.9	28.4
Sale of business	-	-	-	-	(24.0)	(24.0)
Disposals	-	(0.7)	(1.8)	(2.4)	(20.8)	(25.7)
Transfers	(12.7)	0.1	-	-	12.6	-
At 31 December 2009	9.2	230.9	41.6	88.7	407.6	778.0
Depreciation						
At 1 January 2009	-	58.4	5.1	5.2	208.9	277.6
Charge for year	-	6.4	0.6	3.9	39.7	50.6
Impairment	-	5.6	(0.1)	24.7	11.2	41.4
Sale of business	-	-	-	-	(8.0)	(8.0)
Disposals	-	(0.2)	-	(2.3)	(18.9)	(21.4)
At 31 December 2009	-	70.2	5.6	31.5	232.9	340.2
Net book value at 31 December 2009	9.2	160.7	36.0	57.2	174.7	437.8
Net book value at 31 December 2008	11.5	173.1	38.2	85.9	213.0	521.7

The gross amount on which depreciation on freehold buildings is being provided is £206.5m (2008 - £207.1m).

The net book value of equipment and motor vehicles held under finance leases and similar hire purchase contracts is £1.1m (2008 - £0.8m).

Charity	Assets in course of construction £m	Freeholds £m	Long leaseholds £m	Short leaseholds £m	Equipment and motor vehicles £m	Total £m
Cost						
At 1 January 2009	11.5	220.4	43.3	93.7	397.2	766.1
Additions at cost	10.4	-	0.1	-	16.7	27.2
Disposals	-	(0.7)	(1.8)	(2.4)	(20.9)	(25.8)
Transfers	(12.7)	(0.1)	-	0.1	12.7	-
At 31 December 2009	9.2	219.6	41.6	91.4	405.7	767.5
Depreciation						
At 1 January 2009	-	57.0	5.1	4.3	200.5	266.9
Charge for year - normal	-	6.2	0.6	3.8	38.6	49.2
Impairment	-	5.6	(0.1)	24.7	11.2	41.4
Disposals	-	(0.2)	-	(2.4)	(18.8)	(21.4)
At 31 December 2009	-	68.6	5.6	30.4	231.5	336.1
Net book value at 31 December 2009	9.2	151.0	36.0	61.0	174.2	431.4
Net book value at 31 December 2008	11.5	163.4	38.2	89.4	196.7	499.2

16 Tangible fixed assets (continued)

Group and Charity

Additions during the year included capitalised internal project development costs of £0.9m (2008 - £0.4m). The disposals during the year include capitalised interest of £nil (2008 - £0.3m) and internal project development costs of £nil (2008 - £0.1m). The interest charges and internal project development costs capitalised to date are £10.6m (2008 - £10.6m) and £11.0m (2008 - £10.1m) respectively.

A valuation of the hospitals for loan security purposes at 16 October 2009 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 £815m, giving a surplus of £467m over the net book value at the date of valuation.

Impairment

The income generating units are individual hospitals in the Hospital Division and the commercial fitness and wellbeing centres in the Wellbeing Division. The hospitals are valued at the higher of realisable value and value in use and the commercial fitness and wellbeing centres at their value in use as there are no reasonable estimates for realisable value.

The value in use calculations use the pre-interest cash flow forecasts based on the 2010 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.

	Hospitals	Wellbeing
Average growth rate in first five years	0.0%	4.0%
Growth rate beyond five years	1.9%	1.9%
Inflation rate beyond five years	1.8%	1.8%
Discount rate	10.0%	12.5%

The growth rates in the first five years of Wellbeing are such to reach the same membership levels as 2007. A 1% change in the Wellbeing growth rate assumption in the first five years alters the value in use by £9m. A change in the discount rate of 1% affects the value in use by £3m.

The impairment deficits are included in exceptional items within cost of sales.

The Hospital Division was valued by GVA Grimley LLP at £467m in excess of its book value, however the value for some hospitals were less than its book value which results in an impairment of £8.8m. Similarly, the valuation of Wellbeing Division is in excess of its book value but individual commercial fitness and wellbeing centres have been impaired by £32.6m.

17 Fixed asset investments

Group	UK Listed investment £m	Unlisted investment £m	Total £m
Market value			
At 1 January 2009 and 31 December 2009	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.

17 Fixed asset investments (continued)

Charity	Subsidiary undertakings £m	Joint ventures £m	UK listed investments £m	Unlisted investments £m	Total £m
Cost or market value					
At 1 January 2009	38.5	7.1	0.1	0.3	46.0
Additions	6.9	1.0	-	-	7.9
Sale of business	(13.4)	-	-	-	(13.4)
At 31 December 2009	32.0	8.1	0.1	0.3	40.5
Provision for impairment					
At 1 January and 31 December 2009	5.1	-	-	-	5.1
Net book value at 31 December 2009	26.9	8.1	0.1	0.3	35.4
Net book value at 31 December 2008	33.4	7.1	0.1	0.3	40.9

Subsidiary undertakings

The principal subsidiary undertakings in the Group at 31 December 2009 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.

Company name	Class of share capital held	Portion held by the parent company	Portion held by other group companies	Nature of business
Nuffield Proactive Health Group Limited	Ordinary	100%	-	Health and fitness
Health Club Investments Group Limited	Ordinary	100%	-	Holding company
Medica Reporting Limited	Ordinary	100%	-	Medical diagnostics

Vanguard Healthcare Limited was sold on 31 March 2009. The principal trades of Health Club Investments Group (Cannons) and Nuffield Proactive Group Limited were transferred to the Charity transferred to the Charity on 1 August and 1 November 2008 respectively.

Their summary financial information 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.

	Health Club Investments		Nuffield Proactive Health		Vanguard Healthcare	
Number of months trading in subsidiary	2009 12 mths £m	2008 7 mths £m	2009 12 mths £m	2008 10 mths £m	2009 3 mths £m	2008 12 mths £m
Turnover	0.8	66.3	-	37.0	4.3	14.1
Cost of services, support and governance costs and net interest payable	(0.6)	(66.8)	-	(36.0)	(3.3)	(11.8)
Retained gain/(loss) in subsidiary groups	0.2	(0.5)	-	1.0	1.0	2.3
Fixed and current assets	0.1	5.1	-	1.7	-	19.2
Current liabilities and creditors falling due after more than one year	(1.5)	(4.6)	-	-	-	(19.5)
Net (liabilities)/assets	(1.4)	0.5	-	1.7	-	(0.3)

17 Fixed asset investments (continued)

Group interest in joint ventures	Net assets £m	Goodwill £m	Total £m
Net assets			
At 1 January	4.1	0.4	4.5
Capital contribution	1.0	-	1.0
Share of retained losses	(3.0)	-	(3.0)
Surplus on dilution of interest in joint ventures	0.4	-	0.4
At 31 December 2009	2.5	0.4	2.9
Amortisation of goodwill and impairment			
At 1 January	-	-	-
Impairment	(0.1)	(0.4)	(0.5)
At 31 December 2009	(0.1)	(0.4)	(0.5)
Net book value at 31 December 2009	2.4	-	2.4
Net book value at 1 January 2009	4.1	0.4	4.5

The joint venture undertakings in the Group at 31 December 2009 which are registered in England and Wales are shown below.

Company name	Class of share capital held	Portion held by the Charity	Charity share of portion held by other group undertakings	Nature of business
The Guildford Clinic LLP	Capital	50%	-	Medical services
Vale Health Partners Limited	Ordinary	50%	-	Holding company
Vale Healthcare Limited	Ordinary	-	40%	Medical services

18 Stock

	Group and Charity 2009 £m	2008 £m
Raw materials and consumables	8.4	8.6
Consignment stock not included in the balance sheet	11.9	11.5

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.

19 Debtors falling due within one year

	Group		Restated Charity	
	2009 £m	2008 £m	2009 £m	2008 £m
Amounts falling due within one year:				
Trade debtors	41.7	49.5	40.5	45.9
Amount owed by Group undertakings	-	-	134.4	151.8
Amount owed by joint ventures	6.3	5.7	6.3	5.7
Other debtors	9.1	3.5	9.0	2.0
Prepayments and accrued income	12.9	13.3	12.9	13.1
	70.0	72.0	203.1	218.5

The amounts owed by Group undertakings at 31 December 2008 have been restated to record the gross amounts due from Health Club Investments Group Limited and its subsidiaries ("the sub group"). Previously this amount had been recorded on a net basis, being offset against amounts due to the sub group. The effect of this restatement was to increase the value of debtors by £132.5m. This restatement had no effect on income and expenditure recorded for the year.

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 £5.0m (2008 - £nil) due from Vanguard Healthcare Limited that is repayable no later than March 2016.

The amounts owed by joint ventures comprise:

	Group and Charity	
	2009 £m	2008 £m
Repayable over one year		
Guildford Clinic LLP	0.4	-
Vale Healthcare Limited repayable between 2011 and 2015	5.9	5.7
	6.3	5.7

The interest rates on the loans to the joint ventures are set at between 4.5% and 5.0% above LIBOR. The loan to Vale Healthcare Limited is secured as a second charge on the property of the Vale Healthcare Limited.

Included within trade debtors and prepayments and accrued income are amounts owed by joint ventures of:

	Group and Charity	
	2009 £m	2008 £m
Guildford Clinic LLP	1.1	-
Vale Healthcare Limited	0.6	-
	1.7	-

20 Creditors : amounts falling due within one year

	Group		Restated Charity	
	2009 £m	2008 £m	2009 £m	2008 £m
Obligations under finance leases	0.3	0.2	0.3	0.1
Bank loans	0.1	83.2	-	83.0
Deferred expenses in connection with bank loans	(0.7)	(0.1)	(0.7)	(0.2)
Trade creditors	10.9	21.1	10.6	20.5
Amounts owed to Group undertakings	-	-	138.0	138.7
Social security and other taxes	7.9	8.2	6.4	6.6
Other creditors	6.6	8.1	6.6	7.9
Pension contributions	1.1	2.5	1.1	2.5
Accruals and deferred income	47.5	47.5	47.5	46.9
	73.7	170.7	209.8	306.0

As set out in note 19, the amounts owed to Group undertakings at 31 December 2008 have been restated to reflect the gross amount due to Health Club Investments Group Limited and its subsidiaries. The effect of this restatement was to increase the amounts owed to Group undertakings by £132.5m.

21 Creditors : amounts falling due after more than one year

	Group and Charity	
	2009 £m	2008 £m
Bank loans		
Loans	200.0	150.0
Deferred expenses in connection with bank loans	(1.1)	(0.7)
	198.9	149.3
Obligations under finance leases repayable between 1 and 5 years	0.7	0.2
Social security and other taxes	2.3	3.5
Deferred consideration	18.1	9.6
	220.0	162.6

22 Borrowings

	Group 2009 £m	Group 2008 £m	Charity 2009 £m	Charity 2008 £m
Borrowings are repayable as follows:				
One year or less				
Finance leases	0.3	0.2	0.3	0.1
Bank loans	0.1	83.2	-	83.0
In more than one but not more than two years:				
Finance leases	0.2	0.1	0.2	0.1
In more than two but not more than five years:				
Finance leases	0.5	0.1	0.5	0.1
Bank loans	200.0	15.0	200.0	15.0
In more than five years				
Bank loans	-	135.0	-	135.0
	201.1	233.6	201.0	233.3

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 Charity 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.

23 Financial derivatives

The Charity and Group had the following financial derivatives in place at 31 December 2009:

	Maturity	Trigger rate Upper %	Fixed rate %	Principal £m
Interest rate swap into a fixed rate	2017	-	5.4%	50.0
Interest rate swap into a fixed rate	2017	-	7.1%	50.0

The Charity and Group had the following financial derivatives in place at 31 December 2008:

	Spread %	Maturity	Trigger rate Upper %	Fixed rate %	Principal £m
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 trigger swap into a fixed rate		2012	7.0%	7.6%	50.0
Basis swaps monthly to three monthly	0.22 to 0.48%	2010	-	-	100.0

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 2009 is a liability of £17.2m (2008 - £22.9m).

24 Provisions for liabilities

	Vacant properties £m	Onerous properties £m	Restructuring £m	Other £m	Total £m
Group					
At 1 January 2009	3.8	-	0.8	2.0	6.6
Utilised in year	(1.7)	-	(0.7)	(1.4)	(3.8)
Charged/(released) in year	0.3	3.3	(0.1)	1.9	5.4
	2.4	3.3	-	2.5	8.2
Charity					
At 1 January 2009	-	-	0.8	2.0	2.8
Utilised in year	-	-	(0.7)	(1.4)	(2.1)
Charged/(released) in year	0.4	3.3	(0.1)	1.4	5.0
	0.4	3.3	-	2.0	5.7

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 four and eight 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 five and twenty seven years. The provision is discounted.

The restructuring provisions are payments and legal fees incurred in making staff redundant in connection with the reorganisation initiated in 2008.

The other provisions are contractual disputes identified by the Group, including instances where legal claims have been instigated and are being defended by the Group, and on going costs relating to the disposal of Vanguard Healthcare Limited. Claims are considered by the Board of Governors and are defended robustly were the Board conclude 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.

25 Permanent endowments

	Group and Charity £m
At 1 January 2009 and at 31 December 2009	0.1

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

26 Analysis of net assets between funds

	Endowment	Restricted	Unrestricted	Total
	£m	£m	£m	£m
Group fund balances at 31 December 2009 are represented by:				
Intangible fixed assets	-	-	38.2	38.2
Tangible fixed assets	-	-	437.8	437.8
Investments	0.1	-	0.3	0.4
Interest in joint ventures	-	-	2.4	2.4
Current assets	-	2.8	82.2	85.0
Current liabilities	-	(1.6)	(72.1)	(73.7)
Creditors : amounts falling due more than one year	-	-	(220.0)	(220.0)
Provisions for liabilities	-	-	(8.2)	(8.2)
Net assets excluding post retirement liability	0.1	1.2	260.6	261.9
Post retirement benefit liability	-	-	(77.9)	(77.9)
Net assets	0.1	1.2	182.7	184.0
Charity fund balances at 31 December 2009 are represented by:				
Intangible fixed assets	-	-	27.3	27.3
Tangible fixed assets	-	-	431.4	431.4
Investments	0.1	-	27.3	27.4
Investment in joint ventures	-	-	8.0	8.0
Current assets	-	2.8	215.3	218.1
Current liabilities	-	(1.6)	(208.2)	(209.8)
Creditors : amounts falling due more than one year	-	-	(220.0)	(220.0)
Provisions for liabilities	-	-	(5.7)	(5.7)
Net assets excluding post retirement liability	0.1	1.2	275.4	276.7
Post retirement benefit liability	-	-	(77.9)	(77.9)
Net assets	0.1	1.2	197.5	198.8

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 were 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.

27 Reconciliation of operating surplus to cash flow from operating activities

	Group 2009 £m	Group 2008 £m
Group operating (deficit)/surplus	(32.8)	10.6
Exceptional items in operating surplus	45.2	4.0
Depreciation charge (note 6)	52.2	51.6
Amortisation of goodwill (6)	4.0	3.8
Earnings before interest, tax, depreciation, amortisation, exceptional items and non-cash elements of post retirement benefits	68.6	70.0
Decrease in stocks	0.2	0.4
Decrease in debtors	4.1	6.5
(Decrease)/increase in creditors	(10.1)	2.0
(Decrease) in provisions	(1.6)	(2.9)
Total cash flow from operations	61.2	76.0
Post retirement benefits - additional cash payments	(8.5)	(12.0)
Normal cash inflow from operating activities	52.7	64.0
Exceptional cash outflow from operations		
Exceptional items in operating surplus	(45.2)	(4.0)
Impairment of tangible fixed assets (note 6)	41.4	-
(Decrease)/increase in creditors	(2.1)	2.1
Increase in provisions	2.9	0.9
Total cash outflow from operating activities	(3.0)	(1.0)

28 Returns on investments and servicing of finance

	Group 2009 £m	Group 2008 £m
Interest received	0.3	0.7
Interest paid	(10.9)	(15.3)
Interest element of finance lease rental repayments	(0.1)	(0.1)
Issue costs on refinanced bank borrowings	(2.1)	-
	(12.8)	(14.7)

29 Capital expenditure and financial investment

	Group 2009 £m	Group 2008 £m
Purchase of tangible fixed assets	(28.6)	(71.0)
Proceeds from sales of tangible fixed assets	0.4	2.5
	(28.2)	(68.5)
Exceptional		
Proceeds from sales of tangible fixed assets	0.9	9.8

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.

30 Acquisitions and disposals

Joint ventures

The partners in The Guildford Clinic LLP equally subscribed capital during the year. The Charity's share was £1.0m.

Disposals

Vanguard Healthcare Limited was disposed on 31 March 2009. Vanguard Healthcare Limited issued a £5.0m loan note to the Charity as part of the proceeds, this loan is repayable no later than March 2016.

The assets, liabilities, net proceeds and loss on sale of Vanguard Healthcare Limited are detailed below:

	£m
Net assets sold	30.2
Net proceeds	30.0
Loss on sale (note 7)	(0.2)

Net proceeds from sale of business comprise:	
Vanguard Healthcare Limited	
Net proceeds	30.0
Loan note	(5.0)
Costs to be paid in future years	0.3
Proceeds received in year	25.3
Cash transferred at sale	(0.5)
	24.8
Other disposals expenditure in year	(0.1)
Net proceeds from sale of business	24.7

The other disposals expenditure in the years are costs relating to the disposals of the hospitals in 2007 and 2008.

31 Financing

	Group 2009 £m	Group 2008 £m
New short term bank loans	-	17.0
Repayment of loans	(33.1)	(128.2)
Capital element of finance lease rental payments	(0.4)	(0.7)
	(33.5)	(111.9)

32 Analysis of net debt

	At 1 Jan £m	Disposals £m	Cash flow Other £m	Non-cash changes £m	Group At 31 Dec £m
Cash at bank and in hand	7.4	(0.5)	(0.3)	-	6.6
Loans due within one year (note 20)	(83.2)	-	33.1	50.0	(0.1)
Loans due after more than one year (note 21)	(150.0)	-	-	(50.0)	(200.0)
Finance leases due within one year (note 20)	(0.2)	-	0.4	(0.5)	(0.3)
Finance leases due after more than one year (note 21)	(0.2)	-	-	(0.5)	(0.7)
	(226.2)	(0.5)	33.2	(1.0)	(194.5)

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 £1.0m (2008- £0.3m) and the re-classification loans.

33 Capital commitments

	Group 2009 £m	Group 2008 £m	Charity 2009 £m	Charity 2008 £m
Contracted for but not provided in these financial statements:				
Share of joint ventures	3.8	5.7	-	-
Other	2.7	11.5	2.7	11.0
	6.5	17.2	2.7	11.0

34 Operating lease commitments

	Group 2009 £m	Group 2008 £m	Charity 2009 £m	Charity 2008 £m
Annual commitments under non-cancellable operating leases which expire as follows:				
Land and buildings				
Less than 1 year	-	0.8	-	0.7
Between 1 and 5 years	1.8	0.9	1.8	0.8
After 5 years	18.9	18.3	18.5	18.4
	20.7	20.0	20.3	19.9
Other				
Less than 1 year	0.2	0.6	0.2	0.5
Between 1 and 5 years	5.2	4.3	5.2	4.2
After 5 years	-	0.1	-	-
	5.4	5.0	5.4	4.7

35 Contingent liabilities

The Charity has guaranteed the bank overdraft of Healthcode Ltd, its unlisted investment, to a value of £0.1m (2008 - £0.1m) and a bank loan to the Guildford Clinic LLP, a joint venture, to a value of £1.0m (2008 - £nil).

36 Related party transactions

The Charity provides loans and diagnostic and decontamination services to its joint ventures. Clinical and decontamination services are charged at market rates. The sales to the joint ventures during the year comprise:

	Vale Healthcare Ltd 2009 £m	Guildford Clinic LLP 2009 £m
Diagnostic services	0.4	0.4
Decontamination services	-	0.3
Pharmacy services	-	0.2
Other	-	0.2
	0.4	1.1

The details of the loans and outstanding trade debtors are set out in note 19 and the guarantee to Guildford Clinic LLP in note 35.