



A COMPANY LIMITED BY GUARANTEE WITHOUT A SHARE CAPITAL

REGISTERED IN ENGLAND NUMBER 576970

A REGISTERED CHARITY NUMBER 205533

A REGISTERED CHARITY IN SCOTLAND NUMBER SC041793

REPORT  
AND  
FINANCIAL STATEMENTS  
2010

Registered Office:

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NUFFIELD HEALTH

Principal and Registered Address

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

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## NUFFIELD HEALTH

### 2010 CHAIRMAN'S STATEMENT

I described 2009 as challenging on almost every front and 2010 proved to be equally so, particularly in terms of the UK economic climate which saw GDP shrink by five percent.

Despite this, we delivered a solid performance in 2010, breaking even in the year, as well as investing in a number of significant projects in order to provide a platform for growth. In total, investment in 2010 exceeded £64m (£28m in 2009), comprising more than £35m in existing infrastructure and £29m on acquisitions.

Our focus on delivering services in line with our charitable objects as well as ensuring that we exceed the requirements of our public benefit measures remains core to our ethos and central to decision making. More than 750,000 people were able to improve or maintain their health through our products and services; and in 2010, 17% of revenues (12% in 2009) were derived from products and services delivered for fees of less than £360 (or less than £1 per day) with 14% of services delivered at no cost to the individual.

We continued to pursue our strategy through two significant acquisitions:

- The acquisition of Bladerunner Ltd, our closest competitor in the corporate fitness and wellbeing market, in late 2010. This consolidated our position as the leading provider of on-site corporate fitness and wellbeing facilities as well as opening up a new market in the management of fitness facilities for educational establishments.
- The smaller acquisition of Mythbreaker Ltd early in the year provided access to specialist nutritional expertise and, critically, proprietary nutritional analysis software that is central to our weight management programme and a range of advisory services for individuals and corporate clients.

These acquisitions provided a solid basis for the development of new services to a broader range of individuals in line with our charitable objects. With increasing focus on the growing obesity epidemic in the UK, the ability to provide nutritional advice and tools to complement our bariatric services means that we are in a position to provide meaningful weight management services across the full spectrum of weight issues. Our solid platform of corporate fitness and wellbeing clients, now numbering in excess of 180, provides the basis for growing our corporate wellbeing services in line with government expectations for employers to support employees to take control of their health.

In 2010 we also stepped in to protect the future of our two hospital joint ventures, in Guildford and Cardiff. Both the Guildford Clinic and Vale Healthcare facilities opened in a time of unprecedented uncertainty and economic restraint which impacted their short-term viability. In both cases the Charity took control following extensive consultation with consultant partners. I am delighted that in this way the Charity was able to secure access to services and employment.

Hospitals remain at our core and continue to lead the UK private sector in quality initiatives and patient care. Our hospitals group remains the only UK provider to be fully compliant with EC medical devices directive to ensure safe, sterile instrumentation for consultants and patients through our HSSU network. Following the completion of our Pathology modernisation programme we are the only private hospital group to be 100% Clinical Pathology Accredited (CPA). Significant investment was also made in our estate with refurbishments and redevelopments initiated at our hospitals in Tunbridge Wells, Leicester, Brentwood and Guildford.

More than £16m was invested in 2010 to improve the quality of delivery and access to clinical services within our Consumer Wellbeing division with five additional fully integrated centres (providing access to specialist fitness, physiotherapy, health screening and rehabilitation professionals within a combined fitness and health clinic facility) opened in 2010, taking the number of integrated centres to 12.

I was very pleased that the Board of Governors decided to elect John Evans, who had been a Governor of the Charity since 1988, to become life President of Nuffield Health. We also welcomed four new Governors to the Board bringing a refreshing new perspective to our decision making: Fiona Driscoll, Russell Hardy, Guy McCracken and Neil McCausland (who stepped down in January 2011 to pursue other non Executive Board positions). We continue to seek to recruit additional Governors in order to maintain the breadth of experience required in a modern Board.

Finally, on behalf of the Governors, I would like to thank all our staff for their continued hard work and commitment. It is their passion, enthusiasm and care that make Nuffield Health the great organisation it is.

Michael J Smith  
Chairman

**REPORT OF THE BOARD OF GOVERNORS TO THE MEMBERS**

The Governors present their report together with the financial statements for the year ending 31 December 2010.

**Overview of the year**

Throughout 2010 we continued our absolute focus to become the UK's leading healthcare provider and to improve the health and wellbeing of the UK population through our acute hospital, clinical and fitness facilities.

2010 proved to be another difficult year for UK plc with low economic growth rates, increased unemployment and continued uncertainty about the future. Personal spending restraint, combined with continued constraints on corporate health and wellbeing spending power, resulted in difficult trading conditions across the healthcare sector.

The change of Government in May 2010 also brought with it opportunities and challenges that will continue to shape the health and wellbeing sector for years ahead.

As a result of maintaining our focus on core deliverables we achieved a solid performance, with our like-for-like EBITDA and net surplus both ahead of 2009. This was underpinned by an exceptional performance by our hospital division. Group turnover on a like-for-like basis was slightly behind 2009 at £546m (£548m in 2009) whilst EBITDA excluding acquisitions, disposals and exceptional items was £68.5m (£66.3m in 2009).

Our efforts were concentrated in three primary areas during 2010: investment in our buildings and services for the benefit of our customers; investment in our people; and quality management.

*Investment in our buildings and services*

Investment in the Charity's current portfolio continued with a total of £35m capital expenditure invested over the year (£28m in 2009). Particular highlights in 2010 included:

- The launch of five further integrated Fitness & Wellbeing Centres, bringing together specialist fitness, physiotherapy, health screening and rehabilitation professionals in combined fitness and health clinic facilities.
- The initiation of major refurbishment and redevelopment programmes at our hospitals in Tunbridge Wells, Brentwood and Leicester.

In addition we:

- Opened our new joint venture state-of-the-art Vale Hospital in Hensol Vale, Cardiff, with local consultants, extending our footprint into Wales and providing access to key new services for patients; we acquired the majority shareholding for Vale Healthcare Limited at the end of 2010.
- Initiated a major expansion programme at our Guildford Hospital to accommodate services from the Guildford Clinic following its acquisition from the former joint venture.
- Acquired corporate fitness provider Bladerunner Limited consolidating our position as the leading provider of on-site corporate fitness services in the UK.
- Launched a market-defining, clinically-led weight management programme and nutritional services following the acquisition of Mythbreaker Limited.

## NUFFIELD HEALTH

### *Investment in People*

Investment in people and leadership was a significant focus for the year.

- More than 1200 individuals benefited from management and leadership development courses to ensure that our managers can lead their teams to deliver customer service, quality, safety and performance to the high levels we expect. Leadership development courses were targeted at current managers as well as individuals identified as potential future leaders (our Rising Stars programme).
- In addition, bespoke courses were delivered for Heads of Department within the Hospitals division to focus on the skills needed for leadership within a clinical environment.
- Access to the Learning Management System was extended to all our employees to support mandatory training, including the necessary preparation to meet new guidelines on the protection of children and vulnerable adults. This system complements the emphasis on face-to-face practical health and safety training that continues across the Charity.
- We continued to invest in our Health MOT, providing training for almost 200 new Wellbeing Advisors to deliver the Health MOT across our consumer and corporate estates. In addition we completed a full clinical audit in late 2010 to provide assurance of the quality of delivery.
- Personal Trainers were provided with membership of 'PT on the net' to support their Register of Exercise Professionals (REPs) continuous professional development requirements, provide guidance on new equipment and techniques as well as providing inspiration for their work with customers.

### *Quality Management*

Infection control and patient satisfaction remained high on our agenda and our market-leading low infection rates and high patient satisfaction scores bear witness to this continued emphasis.

- Patients using our hospitals increased their overall satisfaction rating by one percentage point to 97% (with those rating services as 'excellent' increasing by four percentage points).
- Patients who would 'strongly recommend' Nuffield Health hospitals increased by four percentage points to 73%.
- Customer satisfaction in our Fitness & Wellbeing Centres improved from 69% to 74%.
- 98% of individuals completing a health assessment in one of our centres reported that they clearly understood the actions they needed to take to better manage their health following their assessment.
- 93% found their health assessment experience meaningful, relevant and highly personal.

The focus on clinical standards remains core to our ethos.

- All our care facilities completed transitional registration under the Health and Social Care Act 2008 with the Care Quality Commission (CQC).
- We retained our NHS Litigation Authority (NHSLA) level 2 accreditation.
- We retained our Information Governance ISO 27001:2009 standards accreditation.
- We remained the only independent provider that has a fully accredited decontamination service (Medical Devices Directive/93/42 EEC) to ensure the sterile status of our surgical instruments.
- We completed our pathology modernisation programme and the resulting Clinical Pathology Accreditation - making us the only private provider to be 100% accredited.

## NUFFIELD HEALTH

### *Industry Recognition*

In 2010, we were recognised by a number of awards from industry bodies recognising our influential position within the healthcare sector. David Mobbs, Group Chief Executive, was recognised with the Outstanding Contribution by an Individual award by Health Investor Magazine in June 2010: the judging panel, which included former health minister Lord Darzi, described Mr Mobbs as “steady, visionary and strategic”. At the same ceremony, we were awarded the Third Sector Organisation of the Year award in recognition of the work and public benefit delivered by the Charity.

In September our Decontamination Services project implementation team received the prestigious Laing & Buisson Award for Management Excellence.

Finally, for an unprecedented fourth year running our Fitness Centre at Royal Bank of Scotland in Gogarburn won the Fitness Industry Association Flame Award for best UK Corporate Health and Fitness centre.

### Business Review

In 2010 each division had clear priorities to deliver improved services and access to the public in addition to financial performance objectives.

### **Hospital Services**

Hospitals remain at the core of our business and in 2010, despite a continued decline in private medical insurance; we saw our activity grow due to our support of the NHS and an increase in self-pay patients.

### *Investment*

In 2010 we grew our hospital-based activities and services, with investment of £12m in our hospital facilities, bringing our total investment over the course of the past five years to £199m.

This year investment activities included:

- Major refurbishments to transform our Brentwood, Tunbridge Wells and Leicester hospitals - a total spend of £16m planned over the next 18 months.
- Commencement of the expansion of our Guildford Hospital following the acquisition of the non-Nuffield Health shareholdings in the Guildford Clinic - £2m invested by the end of 2010.
- Opening our first hospital in Wales following investment of almost £20m.
- Investment in surgical and medical equipment of £3m as well as a further £3m continued investment in diagnostic services including the roll out of the NHS Image Exchange Portal to allow the sharing of diagnostic images, reinforcing our commitment to the NHS.

### *Improving quality and access*

Throughout the year patient satisfaction scores and clinical audit scores have both improved. The number of total incidents continued a downward trend and is below 2% of activity. The number of serious incidents is 0.07% of activity.

Infection prevention standards continue to improve on their already high levels: we returned a zero rate for MRSA blood stream infections and reported five cases of *C Difficile* to the Health Protection Agency - none of which were in the same hospitals - showing excellent standards of care across all our facilities. An external report by the Health Protection Agency endorsed the high standards delivered by our Hospitals.

We have broadened access to healthcare by providing services relevant to as many people as possible: 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 our IT infrastructure to support this Government initiative. In addition we invested heavily in services that people find increasingly difficult to access via the NHS. This included obesity surgery, laser treatments for a variety of dermatological conditions, assisted conception services and chemotherapy treatments.

Through the extension of our footprint into Cardiff, residents of South Wales can now readily access our services through the Cardiff Bay Clinic and the state-of-the-art hospital at Hensol.

## NUFFIELD HEALTH

### Wellbeing Services

#### Consumer Wellbeing

In 2010 we focused on the integration of clinical health services into our fitness facilities in order to improve access for the public to our unique range of services. We also continued the development of bespoke programmes and the training of our people to manage specific health issues.

#### *Investment*

We invested significantly in our wellbeing services, creating the platform and programmes to help people make behavioural changes to improve their lifestyle and manage their health risks. Key investment highlights were:

- £16m to create five new fully integrated Fitness & Wellbeing Centres at Stoke Poges, St Albans, Aberdeen, Bromley and Covent Garden. These centres bring together clinical health screening, physiotherapy and rehabilitation services with specialist wellbeing advisors and personal trainers to provide a unique approach to managing health issues and lifestyle goals as well as offering high-quality fitness services.
- Expanding our expertise by acquiring a leading nutrition company, Mythbreaker Limited.
- Launching our bespoke weight management programme which offers a sustainable programme of emotional and dietary support, providing a real alternative to short-term and yo-yo dieting.
- Physiotherapy services are now available at 75% of our Fitness & Wellbeing Centres; making a total of 65 physiotherapy facilities in the UK running alongside our Fusion network.

#### *Improving quality and access*

We also continued to develop our wellbeing and health improvement services:

- A total of 69,000 enhanced health assessments were delivered across all our facilities (65,000 in 2009), of which 6,400 were delivered in our Fitness & Wellbeing Centres.
- 53,000 Health MOTs (50,000 in 2009), a core element of our wellbeing strategy, were delivered. The results were used to provide effective, tailored fitness and wellbeing 'prescriptions' and to ensure customers were exercising safely.
- 4.5% of Health MOTs identified issues that a customer was unaware of and warranted further investigation by their GP.
- A new 'Health Score' was launched to ensure the customer had an easily understood, tangible goal and could track their progress.
- 30,000 visits to our Meet the Experts programme (compared to 10,000 in 2009). These provided free access to practitioners and clinicians on themed events such as Hydration, Cancer Awareness, Posture and Stress Management.

## NUFFIELD HEALTH

### Corporate Wellbeing

#### *Investment*

Our focus has been on consolidating our leading position in the increasingly important UK corporate wellbeing market in order to promote and deliver a fully integrated health proposition to corporate clients. This primarily focused on the acquisition of Bladerunner Limited, which is also a provider of onsite corporate fitness facilities. The combined division now manages more than 180 sites in the UK with more than 90,000 members.

#### *Improving quality and access*

In order to encourage greater participation and get the UK workforce healthier we continually look for opportunities to expand access and develop the services we offer to our corporate partners. In 2010 this included:

- Increasing participation in exercise by encouraging workplace gym members to join their local Nuffield Health Fitness & Wellbeing Centre by offering reduced membership rates.
- Rolling out our popular 'Meet the Experts' programme to select client sites during 2010.
- We continued to develop our range of Wellbeing services available to people at their work place including the Health MOT, Weight Management, Physiotherapy and Nutrition.

In addition, we introduced a new health and wellbeing proposition for educational establishments building on our corporate proposition and the experience of Bladerunner.

### Community Fitness

In 2010 Nuffield Health made a strategic decision to withdraw from the market for direct management of local authority fitness facilities. On 31 March 2011 the transfer of contracts for managing the community fitness sites to Greenwich Leisure Limited (GLL) was completed. We are however committed to continuing our support to local authorities to deliver health improvement interventions and services for their communities. We have announced a strategic partnership with GLL in order to facilitate the delivery of such services and this partnership will be a key focus in 2011.

### 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*

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, all for the public benefit.*

Our principal activity is the provision of a broad range of clinical, fitness and wellbeing services to the general public, private organisations, local authorities and the NHS. 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 2010 to improve clarity within the organisation and to explain to external stakeholders our delivery of public benefit.

## NUFFIELD HEALTH

As outlined in the 2009 Annual Report, during 2010 a policy 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.
- 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 that the objects of the Charity remain entirely for the public benefit. The Governors are also satisfied that the activities of the Charity are overwhelmingly carried out to fulfil its charitable objectives; that there are no activities that are inconsistent with its objects and that the Charity meets the requirements of the policies described above. In addition, the Governors are confident that plans are in place for 2011 that will further enhance the accessibility of the Charity's activities.

### Charitable objects

In 2010 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 health services delivered at almost 300 Nuffield Health facilities.

### Activities

#### *Providing people with more ways to access expertise*

Despite the UK GDP falling by 5% in 2010, 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 (171,000 in 2009) of treatment were carried out in our hospitals, including day cases, outpatient, surgical outpatient and inpatient activity, all of which were in line with our objectives and included:
  - 44,000 hip and other orthopaedic procedures resulting in improved mobility and reduced pain for patients (43,500 in 2009)
  - 13,600 ophthalmic procedures such as cataract replacements, improving patients' sight (13,500 in 2009)
  - 7,450 oncology treatments delivered in a growing number of locations (7,500 in 2009)
- Our extensive range of diagnostic imaging and testing services meant that we offered:
  - 52,700 MRI or CT scans, using some of the most up-to-date equipment available (51,000 in 2009)
  - 130,000 radiology examinations were delivered to patients (132,000 in 2009)
  - Almost 12,000 breast scans, many through a visit to our specially designed mobile mammography unit (12,000 in 2009)
- We also provided more opportunities for people to access our expert healthcare services through our Consumer, Corporate and Community Fitness & Wellbeing Centres and medical centres. Last year, more than 205,000 people benefited. Benefits included:
  - More than 53,000 Health MOTs (50,000 in 2009) and 69,000 enhanced health assessments (65,000 in 2009) delivered in 2010
  - 50,000 physiotherapy sessions conducted through our The Nuffield Fusion network of accredited physiotherapists and our hospital services (43,000 in 2009)
  - 147,000 individual memberships of Consumer and Community Fitness & Wellbeing Centres (146,500 in 2009) and 98,000 (including recently acquired Bladerunner sites) people with corporate membership (61,000 in 2009)
- We invested significantly in services that people find increasingly 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.

## NUFFIELD HEALTH

### 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 2010 we were able to further improve accessibility to our expertise with 17% of our revenues generated from products and services made available at a low fee of less than £360 (or a £1 per day) and 14% of our revenues derived from products and services made available free at the point of delivery to the patient or customer.

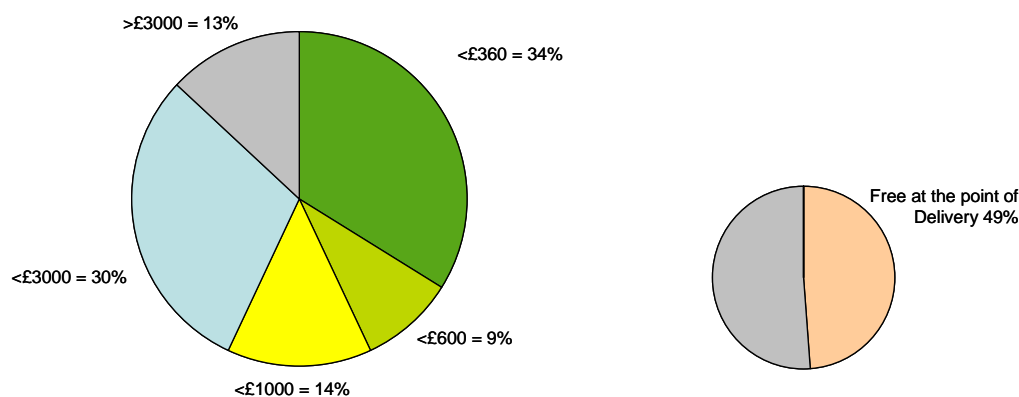
These low fee and free at the point of delivery products and services included:

- 31,900 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 (27,600 in 2009)
- A further 69,700 visits were funded by 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 (57,800 in 2009)
- To increase accessibility, we strive to keep fees reasonable for people of all incomes. Consequently, more than 550,000 visits to our Community Fitness & Wellbeing 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 (580,000 in 2009)
- Thousands of free swims, gym sessions and classes were delivered through Community Fitness & Wellbeing 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 300 GP Learning Events, totalling more than 5000 attendees, which were held to assist GPs with accreditation requirements for revalidating their licence to practise.

#### Breakdown of 2010 product range by fees charged

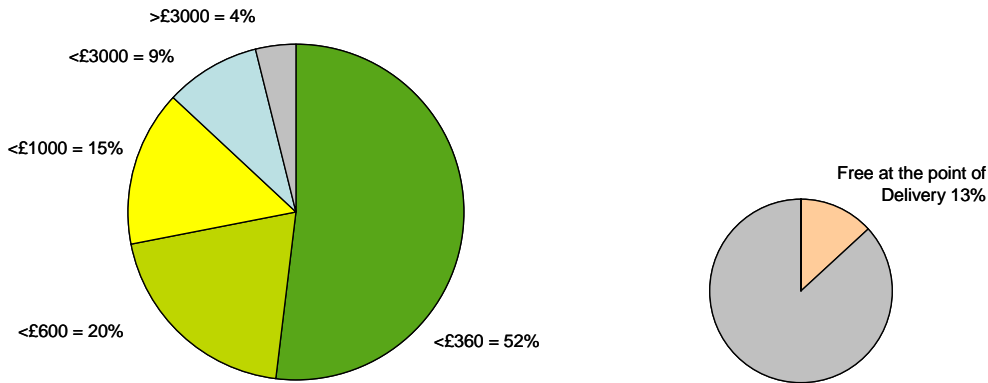
Examining our product and service range in 2010, 34% of products were offered at £360 or less and just under half (49%) were offered free at the point of delivery. This is a slight increase over 2009's figures.



**NUFFIELD HEALTH**

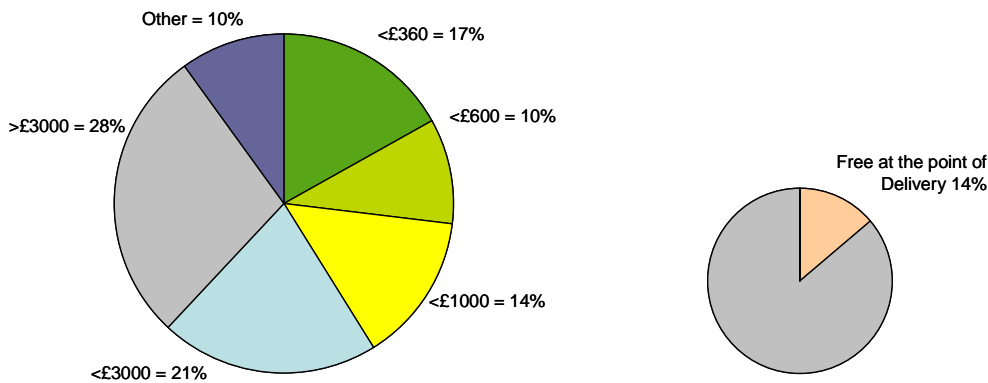
**Breakdown of 2010 total units of activity by fees charged**

Looking at total units of activity, more than half (52%) were delivered at £360 or less, and 13% were free at the point of delivery.



**Breakdown of 2010 revenues by fees charged**

In terms of revenues, some 17% were derived from low fee services; whilst 14% 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 13% of the users of the Charity’s services during 2010 came from the lowest 2 socio-demographic groups, slightly up from 2009. This does not include the Pay As You Go users of the Community Fitness & Wellbeing 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.

## NUFFIELD HEALTH

### Expanding access in 2011

In 2010 we took the first steps to introduce a Facilitated Access, or bursary scheme. At seven Consumer Fitness & Wellbeing sites across the country, access to the centre was made available at highly discounted rates, or in most cases, free to those on low incomes or in poverty. Access followed local GP's recommendations based on medical need and initial results from the pilot in terms of feedback and health improvements of participant have proved successful.

Operationally this scheme has proved successful, but our ability to attract suitable members varied considerably, mainly due to different levels of interest from local GPs. Prior to rolling-out the scheme more broadly the Charity will need to understand and improve the ease with which the scheme can be run from the GP's perspective to encourage greater uptake and more referrals from GPs.

We are looking at ways of improving the uptake of the scheme and hope to roll out an improved programme to the rest of the estate during 2011.

### Financial review

Key financial highlights in 2010 included:

- The Group broke even in the year with a net surplus of £0.1m (2009 - loss of £53.5m).
- Group operating surplus excluding exceptional items increased by £6.4m to £18.8m (2009 - £12.4m)
- EBITDA on a like-for-like basis showed an increase of £2.2m to £68.5m
- Investments in the year in expanding and refurbishing services totalled £35m (2009 - £28m)
- Investments in acquiring new subsidiaries, including their debt, and restructuring operations totalled £29m (2009 - £nil)

The increase in group operating surplus before exceptional items is the result of an exceptional performance by the Hospital division. Its turnover increased as a result of the growth in self pay and NHS activities, which exceeded a small reduction in insured patients. The decline in insured patients is similar to that of the private medical insurance market. The division instigated efficiency programmes that increased margins despite the unfavourable change in mix, establishing a firm foundation for the future. Its share of the group operating surplus before exceptionals of £21.6m is £9.6m higher than in 2009.

The economic uncertainty has affected our Wellbeing division, resulting in a drop in membership numbers at the Fitness & Wellbeing Centres. Cost management tactics were implemented to manage the decline, whilst protecting services and employment. This ensured the division maintained a solid footing to achieve our clear fitness and wellbeing strategy.

The exceptionals before and after operating surplus gave a net credit of £1m, comprising £8m credit from changing the index that is used to determine the deferred pension increases from the retail price index (RPI) to the consumer price index (CPI), £9m restructuring costs of our Guildford market, net impairment release of £1m and net surplus on disposal of businesses and fixed assets of £1m.

Major capital projects commenced at the Brentwood, Guildford, Leicester and Tunbridge Wells Hospitals and the formation of integrated Fitness & Wellbeing Centres at Stoke Poges, St Albans, Aberdeen, Bromley and Covent Garden were completed, the spend on these projects during the year was £16m, the latter resulting in a £2.6m reversal of prior year impairments. £19m of expenditure was used to improve the facilities and services in the rest of our estate.

The Group investment in acquiring and restructuring services comprised the purchases of the Guildford Clinic LLP and Vale Health Partners Limited, which were conversions of joint ventures into subsidiaries, Mythbreaker Limited and Bladerunner Limited.

The Guildford Clinic LLP went into administration in 2010 and the Charity purchased the business, fixed assets, stock and debtors from the administrator. In addition the Charity and the administrator entered into an agreement by which the Charity has a licence to occupy the Clinic site in order for there to be an orderly transfer of the activities from the Clinic site to that of the Nuffield Health Guildford Hospital. The cost to the Group of this restructuring was £9m.

## NUFFIELD HEALTH

The Group has a significant positive cash flow with the result that despite the £64m investment mentioned above, net debt only increased by £18m in the year. In spite of this increase, Nuffield Health is one of the least-leveraged businesses in the independent healthcare industry with borrowings of less than three and half times EBITDA.

As mentioned on page 7 Nuffield Health made a strategic decision to exit the market of direct management of fitness facilities for local authorities. This disposal was completed on 31 March 2011 and as such this activity is treated as discontinued in the financial statements.

Nuffield Health has taken affirmative action on its funded pension deficit, valued at £94m 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 2010 was £68m. Following the Government's announcement that the statutory deferred pension will be based on the CPI, the valuation of the deferred pension liabilities of the funded scheme is also now based on CPI. The Governors are of the opinion that there has been a change in the employees' expectation as correspondence with the deferred pensioners in earlier years had made reference to RPI as the inflationary increase and the change was communicated before the year end. Therefore there is an exceptional credit of £8.2m to the income and expenditure account and statement of financial activities. The Charity has agreed with the pension trustees to implement a deficit reduction programme of £7m per annum which will enable recovery within ten 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.

An impairment review of the Group in its entirety and by division showed that we would not require an impairment, meaning we maintained the value of our assets despite recessionary pressure.

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 £815m, giving a surplus of £467m over the net book value of the assets at that time, which has not been incorporated in the financial statements.

Impairments are monitored for the five years following their initial calculation. Those carried out in 2009 were reviewed. When the actual results for 2010 replace the forecast used in the 2009 impairment calculation the impairment increases for some sites and reduces for others, the net effect is a potential impairment of £2.1m. A new review was carried out taking into consideration current cash forecasts, which identified that the potential impairment of £2.1m had reversed and there was an additional £2.6m reversal. The £2.6m reversal is recognised in the income and expenditure account and statement of financial activities. The reversal of the impairment is due to the completion of the investment in the integrated Fitness & Wellbeing Centres with the resultant increase in future cash flows.

An impairment test was undertaken on Vale Healthcare Limited when it became a subsidiary which resulted in an impairment charge of £1.5m against its goodwill.

## NUFFIELD HEALTH

### Key financial performance indicators

The key financial indicators are set out below. The income and expenditure account items exclude the impact of acquisitions and disposals that happened in 2009 and 2010 in order to report a like-for-like comparison.

	2010	2009
Group turnover (£m)	545.7	548.1
Change in Group turnover (%)	(0.4)%	(1.3)%
EBITDA excluding exceptional items (£m)	68.5	66.3
Change in EBITDA excluding exceptional items (%)	3.3%	5.2%
EBITDA excluding exceptional items as percentage of Group turnover (%)	12.6%	12.1%
Group operating surplus excluding exceptional items (£m)	20.5	11.3
Group operating surplus excluding exceptional items as percentage of Group turnover (%)	3.8%	2.1%
Net debt as percentage of net assets excluding post retirement liability (%)	85.7%	74.3%
(Increase)/reduction in net debt (£m)	(18.3)	31.7

EBITDA is Group operating surplus with depreciation and amortisation added back. The EBITDA above is that for services in 2010 excluding that from Bladerunner Limited and Guildford Clinic LLP and the comparator for 2009 is the continuing services for that year plus the trade from local authority Fitness & Wellbeing centres. Exceptional items are also excluded.

### 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.

The subsidiaries purchased in 2010 were Mythbreaker Limited on 19 March 2010, the Guildford Clinic LLP on 9 July 2010, Bladerunner Limited on 5 November 2010 and Vale Health Partners Limited on 22 December 2010. The Guildford Clinic LLP and Vale Health Partners Limited were joint ventures prior to them becoming subsidiaries. The Guildford Clinic LLP went into administration on 8 October 2010 (note 30). Vanguard Healthcare Solutions Limited and its subsidiary were sold on 31 March 2009.

### 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 £48m of unutilised bank facilities and £8m 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 2010 and separate accounts are prepared for this Fund.

### Payment of creditors

It is the policy of the Governors that its trade creditors are paid in accordance with the agreed payment terms. On average invoices are paid within 45 days of the invoice date with no undisputed invoice being paid later than 62 days from the invoice date.

**Risk management and quality**

The Board of Governors is responsible for establishing the Group’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 the clinical and health and safety risks and the Audit Committee, responsible for commercial risk and financial controls.

During 2010 the Executive reviewed strategic risks in line with the principles set out by the Institute of Risk Management concentrating on the areas of strategic, financial, operational and hazard risk. The table below outlines some of the key strategic risks identified for 2010 and 2011. This is not an exhaustive list but is intended to provide an overview of some of the key risks to the organisation and the approach taken to minimise their impact.

<i>Risk</i>	<i>Potential impact</i>	<i>Mitigation</i>
<b>Revenue</b>		
Private medical insurers’ reduce the number of our hospitals that are included in their network products.	Exclusion from insurer networks could reduce the number of patients treated in the Hospitals Division which in turn could lead to deterioration in cash flow and surpluses.	Not all insurers/products incorporate network exclusions; we work with the insurers that do to minimise the impact of any exclusions. The hospitals seek to maintain positive relationships and long-term contracts with insurers as well as focusing on quality, reputation and cost effectiveness to ensure they are valued partners for insurers and consultants.
There is uncertainty about NHS reform and its impact on hospital based services.	The reform of the NHS may reduce the number of NHS patients treated by the private sector which could result in a deterioration in cash flow and surpluses. It is important to note that there may also be opportunities to grow the Hospitals business as a result of the reforms with a switch to considering ‘any willing provider’ and providing services that are no longer delivered by the NHS.	The hospitals continually strive to maintain and improve their cost effectiveness. If business is lost costs will be managed to reduce the impact on cash flow and surpluses. Hospitals are conscious of not being over-reliant on a single income source and operate a portfolio approach to their business.
The Consumer Fitness & Wellbeing Centres are particularly affected by consumer confidence in the economic climate.	A lower than expected growth rate may result in fewer members with the resultant impact on cash flow and surpluses.	Our Consumer Fitness & Wellbeing Centre strategy is aimed at retaining our existing membership and attracting new members. We are also offering more stand-alone health services through our consumer facilities that are not linked to memberships thereby diversifying our consumer base.
<b>Clinical</b>		
A major clinical event.	A major clinical event could have a serious impact on the Group’s reputation.	Staff are key to the control of these risks. We foster an open culture with easy reporting of clinical risk. A comprehensive risk mitigation, monitoring and management system (Datix) is in place to stop or highlight issues promptly.
<b>Financial</b>		
Unable to access financing to support the operations of the Group.	£100m of bank facilities are to be refinanced in the second half of 2012. If replacement facilities cannot be found capital expenditure may have to be curtailed.	Active dialogue is maintained with the existing banks in the syndicate and alternative sources of medium term finance are being investigated. Nuffield Health is in a strong financial position with good credit risk and a lower than average leverage for the sector.

## NUFFIELD HEALTH

The Board has reviewed the principal risks relating to the Group and allocated responsibility for the management of those risks to specific members of the senior executive team. The profile is reviewed and updated on an on-going basis through a rigorous risk register - with a focus on both operational management and overarching governance through the Integrated Governance and Audit Committees. The Board also continues to note the wider economic situation in relation to charitable trading.

### *Integrated Group Governance*

Integrated governance is the mechanism the Group uses to challenge and measure the quality and the safety of services we deliver to patients and customers. We foster an open and transparent culture to enable us to respond to safety concerns, measure customer feedback, understand and determine the root cause of our mistakes and evaluate clinical outcomes.

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

Nuffield Health will publish its annual Quality Report for the fourth year running in accordance with Department of Health guidance, detailing:

- clinical priorities for 2010
- the change in regulation in the last year with the creation of the Care Quality Commission
- our continued support for integrated governance across the Charity
- transparency and what it means for Nuffield Health
- our use of benchmarked clinical data to drive clinical improvements
- highlights and lessons-learned during 2010

Our highlights in 2010 included:

- All our care facilities completed transitional registration under the Health and Social Care Act 2008 with the Care Quality Commission (CQC).
- We remained the only independent provider that has a fully accredited decontamination service (Medical Devices Directive/93/42 EEC) to ensure the sterility of our surgical instruments.
- Our pathology and diagnostic services were fully accredited with the Medicines Healthcare Regulatory Authority (MHRA) and Clinical Pathology Accreditation (CPA) being the only independent provider to have an electronic blood transfusion safety system.
- We continued to hold NHS Litigation Authority (NHSLA) level 2 accreditation and Information Governance ISO 27001:2009 standard.
- Customer service initiatives improved patient satisfaction for the excellence of services by 4 percentage points.
- There were no major complaints in 2010 and a reduced number of minor complaints.
- We completed the implementation of our on-line learning system with access for 11,000 staff who completed over 36,000 training modules.
- We received the prestigious Laing & Buisson Award for Management Excellence in our decontamination services.
- Our mandatory surveillance infection data again reported zero cases of MRSA bacteraemia.
- Our hospitals were again subject to cleanliness inspections conducted by the independent and external Patient Environment Action Team (PEAT) - with positive outcomes.
- 

The Board Integrated Governance Committee continues to provide Board-to-ward scrutiny and oversight to the integrated governance approach. The Committee's response to our integrated governance programme for 2010 is set out in the Quality Report.

## NUFFIELD HEALTH

### *Financial risk*

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

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 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.

## Governance

### Governing document

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

### Governors

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

Mr Michael J Smith	Chairman and Chair of the Executive Remuneration and Succession Committee and Chair of the Nominations Committee [Member: a, b]
Ms Jane L Wesson	Deputy Chair and Chair of the Board Integrated Governance Committee [Member: a, b, d]
Mr John S Evans	(retired on 23 June 2010)
Ms Fiona E Driscoll	Chair of the Audit Committee [Member: a, c]
Mr Lars P Evander	(retired on 28 February 2010)
Mr Russell S M Hardy	[Member c]
Mr Neil W McCausland	[Member: d] (resigned 25 January 2011)
Mr P Guy McCracken LVO	[Member a, d]
Mr Christopher M Tetley	(retired on 31 January 2010)

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

In accordance with Articles 28 and 29 of the Charity's Articles of Association, each Governor is required to retire by rotation. Mr Smith and Ms Wesson will offer themselves for re-election as Governors, by the Members, at the Annual General Meeting to take place on Wednesday, 22 June 2011.

### Honorary President

In accordance with Article 32 of the Charity's Articles of Association the Board may, from time to time, elect an Honorary President.

At its meeting on 23 June 2010 the Board unanimously elected Mr John S Evans to be the life President of Nuffield Health.

## NUFFIELD HEALTH

### Governors' Appointment 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 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. During 2010 Egon Zehnder International was appointed to undertake a Board Effectiveness Review, together with an appraisal of each individual Governor's performance. It was concluded that the current Board of Governors has the necessary mix of experience and skills. The results of the appraisals were independently reviewed and discussed with the individual Governors. All necessary action has been taken to ensure that each Governor meets the requirements of the role.

In addition, as in previous years, the Chairman undertook a programme of individual meetings with each Governor to discuss his or her concerns and consider suggestions for any improvements in the management and future direction of the Charity.

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

### Governors' Remuneration

The Report to the Members from the Chairman of the Governors' Remuneration Committee follows this Report on page 23 and gives details of the Governors' remuneration and the Committee's activities. The amounts paid during 2010 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Governors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the charitable company and the Group and of the incoming resources and application of resources, including the income and expenditure, of the charitable Group for that period.

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

- select suitable accounting policies and then apply them consistently
- observe the methods and principles in the Charities SORP
- make judgments and accounting estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charitable Group will continue in business.

The Governors are responsible for keeping adequate accounting records that are sufficient to show and explain the charitable company's transactions and disclose with reasonable accuracy at anytime the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the charitable company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as each of the Governors is aware:

- there is no relevant audit information of which the charitable company's 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.

## NUFFIELD HEALTH

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 £10m due for repayment in December 2011, £100m that is due for renewal in July 2012 and £150m 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 possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities.

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

### 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.

Twelve Board meetings of the Governors were held in the year, in addition to the Annual General Meeting and two Workshops for the Governors on the subject of Nuffield Health's Strategy. Additionally, the Governors also undertook informal visits to the Charity's hospitals and other facilities through the United Kingdom.

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 and Succession Committee

Under the Chairmanship of Mr Michael Smith, the Executive Remuneration and Succession 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.

In addition, the Committee periodically considers and makes recommendations to the Board of Governors on succession planning proposals in respect of the Group Chief Executive and the Senior Executives.

##### Nominations Committee

The names of prospective Governors are referred to the Charity's Nominations Committee, under the Chairmanship of Mr Michael Smith. This Committee also considers recommendations for appointment for Membership of the Charity. No person may be appointed as a Governor unless he or she is also a Member.

## NUFFIELD HEALTH

### 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 Ms Fiona Driscoll, 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 as well as the assessment of financial and commercial risk. In addition the Committee oversees the effectiveness of the Group's risk management systems in co-operation with the Board Integrated Governance Committee. The Audit Committee also recommends to the Board the appointment of the external and internal auditors.

It is with great regret that Mr Paul Williams, the Member's representative on the Audit Committee, passed away on 14 January 2011 and Nuffield Health has conveyed its condolences to Mr Williams' family, on behalf of Members and Staff.

### Board Integrated Governance Committee

The Board Integrated Governance Committee, under the Chairmanship of Ms Jane Wesson, meets at least four times each year. The 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.

### 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 Secretary at the date when the Annual Report and Financial Statements were approved were:

Mr David Mobbs	Group Chief Executive
Mr K P Doyle	Chief Financial Officer
Mr David Grint	Group Marketing Director
Dr Andrew Jones	Group Medical Director
Ms Laura Kerby	Managing Director Consumer Wellbeing
Ms Patricia Lee	Chief Executive, Hospitals Division
Mr Marcus Powell	Group Organisation Development & HR Director/Managing Director Corporate Wellbeing
Ms Heather Rogers Hutton	Group Director of Communications and Government Affairs
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 now been registered as a Scottish charity in view of the ownership of the Nuffield Health Glasgow Hospital and the Charity's other activities in Scotland. The registration took effect from 21 September 2010 and the registered number is SC041793.

#### Donations and bequests

Donations and bequests amounting to £0.2m (2009 - £0.4m) were received during the year. The Board is most grateful and thanks donors and their representatives.

## **NUFFIELD HEALTH**

### **Employee involvement**

The Charity keeps staff fully informed of its progress and performance. Regular monthly communications focus on corporate and local news and provide a sense of community across the Charity's diverse, geographic and functional locations.

Communications plans are developed to enhance the knowledge and understanding of specific projects and programmes and to help employees understand changes being made within the organisation. 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 communication of matters that affect employees.

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

### **Disabled employees and others**

The Charity recognises its responsibilities under the Disability Discrimination Act 1995. It has continued to ensure that disabled employees are given consideration on an equal basis with other candidates in respect of all areas of employment, including recruitment, training, career development and promotion.

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 to take appropriate measures to protect disabled users of its services.

## NUFFIELD HEALTH

### Professional advisers

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

### Appointment of auditor

Grant Thornton UK LLP offer themselves for reappointment as Auditors in accordance with Section 485 of the Companies Act 2006. Resolutions will be proposed at the Annual General Meeting to reappoint them and to authorise the Governors to fix the remuneration of the Auditors for the year ending 31 December 2011.

4 May 2011

Authorised by the Board of Governors

Michael J Smith  
Chairman

## NUFFIELD HEALTH

### 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 2010 the members of the Committee were Lady Forester, Mr Douglas Gardner and myself, as Chairman. The Secretary of the Committee is Mr David Holben, Group Secretary & Solicitor of Nuffield Health.

The Committee met on 8 December 2010 to consider the remuneration of the Governors, to take effect from 1 January 2011. The review mechanism agreed with the Charity Commission is that the maximum amount payable is assessed by reference to the lowest point in the pay scale recommended by the Review Body on Civil Service Salaries, using the scales of Permanent Secretaries as a benchmark. In 2010 the Office of Manpower Economics revised the pay scales for Permanent Secretaries and an award of 1.5% to the lowest point in the scale was made. The award has been frozen by the HM's Government, however, this does not prevent the Committee from awarding an increase, limited to 1.5%, if it so resolves.

The Committee sought the advice of Mr Michael Smith, the Chairman of the Board of Governors, and having carefully considered the matter, particularly in the light of the present economic climate, no increase was awarded to the current rates of remuneration to take effect from 1 January 2011. The present rates of remuneration are as follows:

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

The Committee was informed that during 2010, following the appointment of Ms Fiona Driscoll, Mr Russell Hardy, Mr Neil McCausland and Mr Guy McCracken as Governors, Nuffield Health appointed Egon Zehnder International to undertake a Board Effectiveness Review. The new Governors have undergone an Induction Programme and an appraisal of the Board's effectiveness since their appointment on 1 January 2010. It was explained to the Committee that, in general, the new Board has a satisfactory mix of skills and experience. A further Board Effectiveness Review and appraisal will be undertaken at the end of 2011.

Finally, I would like to thank Lady Forester 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

## **NUFFIELD HEALTH**

### **REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF NUFFIELD HEALTH**

We have audited the financial statements of Nuffield Health for the year ended 31 December 2010 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. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the charitable company's Members and Governors, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. Our audit work has been undertaken so that we might state to the charitable company's Members and Governors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charitable company and its Members and Governors as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of Governors and Auditors**

As explained more fully in the Governors' responsibilities for the financial statements set out on page 18, the Governors (who are also the directors of the charitable company for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

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

#### **Opinion on the financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the parent charitable company's affairs as at 31 December 2010 and of the Group's incoming resources and application of resources, including the Group's income and expenditure, for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and regulations 6 and 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

#### **Opinion on other matter prescribed by the Companies Act 2006**

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

## NUFFIELD HEALTH

### REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF NUFFIELD HEALTH (continued)

#### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 and the Charities Accounts (Scotland) Regulations 2006 (as amended) requires us to report to you if, in our opinion:

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

Stephen Maslin  
Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
London  
4 May 2011

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

**NUFFIELD HEALTH**

**Consolidated Income and Expenditure Account**  
For the year ended 31 December 2010

	Note	Discontinued £m	Continuing £m	2010 Total £m	2009 Total £m
Turnover (including share of joint venture)		16.7	540.5	557.2	555.2
Share of turnover of joint ventures		-	(5.0)	(5.0)	(2.8)
Group turnover		16.7	535.5	552.2	552.4
Cost of services					
Normal	2	(16.3)	(506.4)	(522.7)	(531.3)
Exceptional	5	-	1.1	1.1	(45.2)
Gross surplus/(deficit)		0.4	30.2	30.6	(24.1)
Support and governance costs					
Normal	3	-	(10.7)	(10.7)	(8.7)
Exceptional	5	-	8.2	8.2	-
Group operating surplus/(deficit)		0.4	27.7	28.1	(32.8)
Share of operating losses of joint ventures		-	(1.8)	(1.8)	(2.8)
Total operating surplus/(deficit)		0.4	25.9	26.3	(35.6)
Deficit on sale of business	7	(0.5)	-	(0.5)	(0.1)
Costs of restructuring	7 and 30	-	(9.0)	(9.0)	-
Surplus/(deficit) on disposal of tangible fixed assets	7	-	1.4	1.4	(0.9)
Surplus/(deficit) before interest and tax		(0.1)	18.3	18.2	(36.6)
Net interest payable and similar income					
Group	8			(17.0)	(16.3)
Joint venture	8			(0.7)	(0.3)
Surplus/(deficit) on ordinary activities before taxation				0.5	(53.2)
Tax on surplus on ordinary activities	13			(0.4)	(0.3)
Retained surplus/(deficit) for the financial year				0.1	(53.5)

NUFFIELD HEALTH

Consolidated Statement of Financial Activities  
For the year ended 31 December 2010

	Note	Permanent endowment £m	Restricted £m	Unrestricted £m	2010 Total £m	Restated 2009 Total £m
<b>Incoming resources</b>						
<b>Incoming resources from generated funds</b>						
Donations, gifts and legacies		-	0.2	-	0.2	0.4
Investment income	8	-	-	0.9	0.9	0.5
<b>Incoming resources from charitable activities</b>						
<b>Services to patients and others</b>						
Continuing		-	-	540.3	540.3	533.9
Discontinued	4	-	-	16.7	16.7	20.9
Less share of joint ventures' services		-	-	(5.0)	(5.0)	(2.8)
<b>Other incoming resources</b>						
<b>Surplus on sale of business</b>						
Discontinued	4	-	-	0.1	0.1	0.1
<b>Surplus on disposal of tangible fixed assets</b>						
Continuing	7	-	-	1.4	1.4	-
Discontinued	4	-	-	-	-	0.1
<b>Total incoming resources</b>		-	0.2	554.4	554.6	553.1
<b>Resources expended</b>						
<b>Charitable activities</b>						
<b>Continuing</b>						
Normal	2	-	-	(514.5)	(514.5)	(518.7)
Exceptional	2	-	-	9.3	9.3	(45.2)
Discontinued	4	-	-	(16.3)	(16.3)	(19.0)
<b>Governance costs</b>	3	-	-	(2.6)	(2.6)	(2.3)
<b>Other resources expended</b>						
<b>Deficit on disposal of business</b>						
Discontinued	4	-	-	(0.6)	(0.6)	(0.2)
<b>Costs of restructuring</b>						
Continuing	7	-	-	(9.0)	(9.0)	-
<b>Deficit on disposal of tangible fixed assets</b>						
Continuing	7	-	-	-	-	(1.0)
Interest payable	8	-	-	(15.5)	(15.5)	(13.6)
Post retirement finance expense	9	-	-	(2.4)	(2.4)	(3.2)
Taxation	13	-	-	(0.4)	(0.4)	(0.3)
<b>Total resources expended</b>		-	-	(552.0)	(552.0)	(603.5)
<b>Net incoming/(expended)resources</b>		-	0.2	2.4	2.6	(50.4)
Share of joint ventures net losses		-	-	(2.5)	(2.5)	(3.1)
<b>Net incoming/(outgoing) resources before other recognised gains and losses</b>		-	0.2	(0.1)	0.1	(53.5)
<b>Other recognised gains and losses</b>						
Actuarial (losses) on defined benefit retirement scheme	9	-	-	(9.9)	(9.9)	(51.0)
<b>Net movement in funds</b>		-	0.2	(10.0)	(9.8)	(104.5)
Fund balances at 1 January		0.1	1.2	182.7	184.0	288.5
<b>Fund balances at 31 December</b>	26	0.1	1.4	172.7	174.2	184.0

NUFFIELD HEALTH

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

Balance Sheets  
 at 31 December 2010

	Note	2010 £m	Group 2009 £m	2010 £m	Charity 2009 £m
<b>Fixed assets</b>					
Intangible assets	15	53.1	38.2	23.8	27.3
Tangible assets	16	450.0	437.8	424.9	431.4
Investments	17	0.4	0.4	45.4	35.4
Interest in joint ventures:					
Share of gross assets		-	15.3	-	-
Share of gross liabilities		-	(12.9)	-	-
	17	-	2.4	-	-
		<u>503.5</u>	<u>478.8</u>	<u>494.1</u>	<u>494.1</u>
<b>Current assets</b>					
Stocks	18	8.0	8.4	7.8	8.4
Debtors	19	74.9	70.0	213.1	203.1
Cash at bank and in hand		9.1	6.6	8.0	6.6
		<u>92.0</u>	<u>85.0</u>	<u>228.9</u>	<u>218.1</u>
<b>Creditors: amounts falling due within one year</b>	20	(122.4)	(73.7)	(243.8)	(209.8)
<b>Net current (liabilities)/assets</b>		<u>(30.4)</u>	<u>11.3</u>	<u>(14.9)</u>	<u>8.3</u>
<b>Total assets less current liabilities</b>		<u>473.1</u>	<u>490.1</u>	<u>479.2</u>	<u>502.4</u>
<b>Creditors: amounts falling due after more than one year</b>	21	(217.1)	(220.0)	(213.7)	(220.0)
<b>Provisions for liabilities</b>	24	(6.8)	(8.2)	(4.9)	(5.7)
<b>Net assets excluding post retirement liability</b>		<u>249.2</u>	<u>261.9</u>	<u>260.6</u>	<u>276.7</u>
<b>Post retirement defined benefit liability</b>	9	(75.0)	(77.9)	(75.0)	(77.9)
<b>Net assets</b>		<u>174.2</u>	<u>184.0</u>	<u>185.6</u>	<u>198.8</u>
<b>Income funds</b>					
Restricted funds	26	1.4	1.2	1.4	1.2
Unrestricted funds:					
General fund	26	247.7	260.6	259.1	275.4
Post retirement reserve	26	(75.0)	(77.9)	(75.0)	(77.9)
Total unrestricted funds	26	<u>172.7</u>	<u>182.7</u>	<u>184.1</u>	<u>197.5</u>
Total income funds		<u>174.1</u>	<u>183.9</u>	<u>185.5</u>	<u>198.7</u>
<b>Permanent endowment</b>	25 and 26	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>
<b>Group funds</b>		<u>174.2</u>	<u>184.0</u>	<u>185.6</u>	<u>198.8</u>

Approved by the Board of Governors on 4 May 2011

Michael J Smith - Chairman

David Mobbs - Group Chief Executive

NUFFIELD HEALTH

Consolidated Cash Flow Statement  
For the year ended 31 December 2010

	Note	£m	2010 £m	£m	2009 £m
<b>Net cash inflow from operating activities</b>					
Normal	27	56.3		52.7	
Exceptional	27	(0.4)		(3.0)	
			55.9		49.7
<b>Net cash outflow from returns on investments and servicing of finance</b>	28		(11.5)		(12.8)
<b>Taxation</b>			(0.3)		-
<b>Capital expenditure and financial investment</b>					
Purchase of tangible fixed assets	29	(27.3)		(28.2)	
Increase in loans to joint ventures		(2.0)		(0.6)	
Exceptional disposal of tangible fixed assets	29	2.0		0.9	
<b>Net cash outflow from capital expenditure and financial investment</b>			(27.3)		(27.9)
<b>Acquisitions and disposals</b>					
Purchase of subsidiaries	30	(10.6)		-	
Investment in joint ventures	30	-		(1.0)	
Sale of business	30	(0.9)		24.7	
Restructuring	30	(4.7)		-	
<b>Net cash (outflow)/inflow from acquisitions and disposals</b>			(16.2)		23.7
<b>Cash inflow before use of liquid resources and financing</b>			0.6		32.7
<b>Financing</b>	31		0.9		(33.5)
<b>Increase/(decrease) in cash for the financial year</b>	32		1.5		(0.8)
<b>Reconciliation of net cash flow to movement in net debt</b>					
<b>Increase/(decrease) in cash for the financial year</b>			1.5		(0.8)
Cash outflow from changes in debt and lease finance	31		(0.9)		33.5
Change in net debt resulting from cash flows	32		0.6		32.7
Loans acquired with acquisition	30	(19.9)		-	
Loans cancelled on restructuring	30	6.1		-	
			(13.8)		-
New finance leases	32		(5.1)		(1.0)
<b>Movement in net debt in the financial year</b>			(18.3)		31.7
Net debt at 1 January	32		(194.5)		(226.2)
<b>Net debt at 31 December</b>	32		(212.8)		(194.5)

## NUFFIELD HEALTH

### Accounting Policies

For the year ended 31 December 2010

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 Group has invoked the true and fair override in relation to the accounting for goodwill when a joint venture becomes a subsidiary undertaking as noted in section b) below. This impacts the financial statements of the Group and has no impact on those of the Charity.

The accounting policies are consistent with the previous year. The analysis of incoming resources and resources expended in the prior year have been restated to move those relating to sale of the management contracts of local authority Fitness & Wellbeing Centres from continuing to discontinuing.

#### 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 2010 are £150m, fully drawn, that is repayable in instalments commencing December 2012; £50m, fully drawn, expiring in July 2012; £10m of which £9m is drawn and is repayable in December 2011; and a further £50m, of which £2m is drawn 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 2010. The results of subsidiary and joint venture undertakings acquired during the year are included from the date of acquisition. Surpluses or deficits on intra-group transactions and the Group's share of surpluses or deficits on transactions with joint ventures are eliminated on consolidation. On acquisition of an undertaking, the undertaking's identifiable assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date.

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

Subsidiary undertakings are consolidated using the acquisition accounting method.

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

## NUFFIELD HEALTH

### *True and fair override on acquisition of joint ventures*

During the year the Group acquired the controlling interest in the entities that were previously joint ventures. The Companies Act normally requires goodwill arising on acquisition of a subsidiary undertaking to be calculated as the difference between the total acquisition cost of the undertaking and the fair value of the Group's share of identifiable assets and liabilities at the date it became a subsidiary.

FRS 2 "Accounting for subsidiary undertakings" recognises that where an investment in a joint venture is increased and it becomes a subsidiary undertaking in order to show a true and fair view goodwill should be calculated on each purchase as the difference between the cost of purchase and the fair value at the date of purchase of the identifiable assets and liabilities attributable to the interest purchased.

If the goodwill had been calculated in accordance with the Companies Act, £4.1m and £3.0m of retained losses previously accounted for by the Group would have been reclassified as goodwill for Guildford Clinic LLP and Vale Health Partners Limited respectively, resulting in total goodwill recognised of £4.1m and £8.5m.

### 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 but does not enter into speculative derivative contracts. Amounts payable or receivable in respect of interest rate derivatives are recognised as adjustments to interest payable over the period of the contracts.

## NUFFIELD HEALTH

### h) Intangible assets

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

Positive goodwill is written off on a straight line basis over its expected useful life, of between 10 and 20 years. Provision is made for any impairment in accordance with Financial Reporting Standard 11 Impairment of Fixed Assets and Goodwill (FRS11).

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.

### i) Tangible fixed assets and depreciation

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

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

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

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

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

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

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

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

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

### k) Purchase and disposal of properties

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

### l) Investments

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

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

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

## NUFFIELD HEALTH

### m) Stocks

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

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

### n) Provisions for liabilities

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

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

Provisions are discounted when this materially affects the financial statements.

### o) Defined benefit pension schemes and other post retirement benefits

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

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

### p) Defined contribution pension schemes

Contributions payable for the year are charged against operating surplus.

### q) Leased assets and hire purchase commitments

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

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

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

### r) Deferred taxation

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

# NUFFIELD HEALTH

## Notes to the Financial Statements For the year ended 31 December 2010

### 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 prior year.

	Hospital services £m	Wellbeing services £m	Central & other £m	2010 Total £m	Hospital services £m	Wellbeing services £m	Central & other £m	Restated 2009 Total £m
<b>Incoming resources from generated funds</b>								
Voluntary income	-	-	0.2	0.2	-	-	0.4	0.4
Investment income	-	-	0.9	0.9	-	-	0.5	0.5
<b>Incoming resources from charitable activities</b>								
Continuing								
Normal								
Including inter-company	406.1	143.9	-	550.0	397.5	146.6	-	544.1
Inter-company	-	-	(9.7)	(9.7)	-	-	(10.2)	(10.2)
	406.1	143.9	(8.6)	541.4	397.5	146.6	(9.3)	534.8
Discontinued	-	16.7	-	16.7	4.3	16.6	-	20.9
Less share of joint ventures	(5.0)	-	-	(5.0)	(2.8)	-	-	(2.8)
<b>Other incoming resources</b>								
Surplus on sale of business								
Discontinued	0.1	-	-	0.1	0.1	-	-	0.1
Surplus on disposal of tangible fixed assets								
Continuing	1.4	-	-	1.4	-	-	-	-
Discontinued	-	-	-	-	0.1	-	-	0.1
<b>Total incoming resources</b>	<b>402.6</b>	<b>160.6</b>	<b>(8.6)</b>	<b>554.6</b>	<b>399.2</b>	<b>163.2</b>	<b>(9.3)</b>	<b>553.1</b>
<b>Resources expended</b>								
<b>Charitable activities</b>								
Continuing								
Normal								
Including inter-company	(379.6)	(136.5)	(8.1)	(524.2)	(383.8)	(138.9)	(6.2)	(528.9)
Inter-company	-	-	9.7	9.7	-	-	10.2	10.2
	(379.6)	(136.5)	1.6	(514.5)	(383.8)	(138.9)	4.0	(518.7)
Exceptional	(1.5)	2.6	8.2	9.3	(9.4)	(35.8)	-	(45.2)
Discontinued	-	(16.3)	-	(16.3)	(3.2)	(15.8)	-	(19.0)
<b>Governance costs</b>								
Deficit on disposal of business								
Discontinued	(0.6)	-	-	(0.6)	(0.2)	-	-	(0.2)
Cost of restructuring	(9.0)	-	-	(9.0)	-	-	-	-
Deficit on disposal of tangible fixed assets - continuing	-	-	-	-	(1.0)	-	-	(1.0)
Interest payable	-	-	(15.5)	(15.5)	-	-	(13.6)	(13.6)
Retirement finance expenses	-	-	(2.4)	(2.4)	-	-	(3.2)	(3.2)
Taxation	(0.4)	-	-	(0.4)	(0.3)	-	-	(0.3)
<b>Total resources expended</b>	<b>(391.1)</b>	<b>(150.2)</b>	<b>(10.7)</b>	<b>(552.0)</b>	<b>(397.9)</b>	<b>(190.5)</b>	<b>(15.1)</b>	<b>(603.5)</b>
<b>Net incoming resources</b>	<b>11.5</b>	<b>10.4</b>	<b>(19.3)</b>	<b>2.6</b>	<b>1.3</b>	<b>(27.3)</b>	<b>(24.4)</b>	<b>(50.4)</b>
Share of joint ventures net losses	(2.5)	-	-	(2.5)	(3.1)	-	-	(3.1)
<b>Net resources incoming before transfer of funds</b>	<b>9.0</b>	<b>10.4</b>	<b>(19.3)</b>	<b>0.1</b>	<b>(1.8)</b>	<b>(27.3)</b>	<b>(24.4)</b>	<b>(53.5)</b>
<b>Net assets</b>	<b>352.5</b>	<b>129.4</b>	<b>(307.7)</b>	<b>174.2</b>	<b>363.8</b>	<b>104.0</b>	<b>(283.8)</b>	<b>184.0</b>
<b>Staff numbers (WTE)</b>	<b>4,027</b>	<b>2,796</b>	<b>58</b>	<b>6,881</b>	<b>3,960</b>	<b>2,793</b>	<b>46</b>	<b>6,799</b>

## NUFFIELD HEALTH

### 2 Resources expended charitable activities

	Direct activities		Support costs		2010 £m	Total 2009 £m
	2010 £m	2009 £m	2010 £m	2009 £m		
Normal						
Continuing operations						
Staff and related costs	158.0	158.9	26.5	23.4	184.5	182.3
Third party fees	104.2	108.8	-	-	104.2	108.8
Supply costs	64.3	66.5	-	-	64.3	66.5
Depreciation and amortisation	42.9	47.6	5.6	6.9	48.5	54.5
Other costs	91.4	85.9	22.6	21.0	114.0	106.9
	<u>460.8</u>	<u>467.7</u>	<u>54.7</u>	<u>51.3</u>	<u>515.5</u>	<u>519.0</u>
Support costs transferred to direct activities	45.6	44.6	(46.6)	(44.9)	(1.0)	(0.3)
After recharge	<u>506.4</u>	<u>512.3</u>	<u>8.1</u>	<u>6.4</u>	<u>514.5</u>	<u>518.7</u>
Discontinued operations						
Staff and related costs	8.1	9.3	-	-	8.1	9.3
Supply costs	0.2	0.2	-	-	0.2	0.2
Depreciation and amortisation	0.5	1.7	-	-	0.5	1.7
Other costs	6.5	7.5	-	-	6.5	7.5
	<u>15.3</u>	<u>18.7</u>	<u>-</u>	<u>-</u>	<u>15.3</u>	<u>18.7</u>
Support costs transferred to direct activities	1.0	0.3	-	-	1.0	0.3
After recharge	<u>16.3</u>	<u>19.0</u>	<u>-</u>	<u>-</u>	<u>16.3</u>	<u>19.0</u>
Total normal	<u>522.7</u>	<u>531.3</u>	<u>8.1</u>	<u>6.4</u>	<u>530.8</u>	<u>537.7</u>
Exceptional						
Continuing operations						
Staff and related costs	-	-	(8.2)	-	(8.2)	-
Depreciation and amortisation	(1.1)	45.2	-	-	(1.1)	45.2
Total exceptional	<u>(1.1)</u>	<u>45.2</u>	<u>(8.2)</u>	<u>-</u>	<u>(9.3)</u>	<u>45.2</u>
Total resources expended charitable activities	<u>521.6</u>	<u>576.5</u>	<u>(0.1)</u>	<u>6.4</u>	<u>521.5</u>	<u>582.9</u>

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

### 3 Support and governance costs

	2010 £m	2009 £m
Normal		
Governance		
Staff and related costs	1.6	1.5
Other costs	1.0	0.8
	<u>2.6</u>	<u>2.3</u>
Support costs normal (note 2)	8.1	6.4
Total support and governance - normal	<u>10.7</u>	<u>8.7</u>
Exceptional support costs	(8.2)	-
Total support and governance	<u>2.5</u>	<u>8.7</u>

## NUFFIELD HEALTH

### 4 Discontinued businesses

	2010 £m	Restated 2009 £m
Turnover	16.7	20.9
Cost of services	(16.3)	(19.0)
Total operating surplus	<u>0.4</u>	<u>1.9</u>
Surplus on sale of hospitals	0.1	0.1
Deficit on sale of Vanguard Healthcare Limited	(0.6)	(0.2)
Surplus on disposal of tangible fixed assets	-	0.1
(Deficit)/surplus before interest and tax	<u>(0.1)</u>	<u>1.9</u>

The sale of the management contracts of local authority Fitness & Wellbeing Centres and the related tangible fixed assets was completed on 31 March 2011. Therefore the 2010 and 2009 operating results are reported as discontinued, the latter causing a restatement of the 2009 numbers. The net sale proceeds is similar to the value of the assets sold.

The 2009 comparative also includes the operating results of Vanguard Healthcare Limited that was sold on 31 March 2009.

The other items in discontinued items are the surplus and deficits in the year resulting from the sales of Vanguard and hospitals.

### 5 Exceptional items

The Government's announcement that the statutory deferred pension will be based on CPI rather than RPI has resulted in the valuation of the deferred pension liabilities of the funded scheme now being based on CPI. This has reduced the liabilities by £8.2m. The Governors are of the opinion that there has been a change in the employees' expectation as correspondence with the deferred pensioners in earlier years had referred to RPI as the inflationary increase and the change in index was communicated to the members before the year end. UITF abstract 48 "Accounting implication of the replacement of retail price index with consumer price index for retirement benefits" requires that when there is a change in expectation the effect is recorded in the income and expenditure account and the statement of financial activities.

An impairment review was carried out on Vale Healthcare Limited when it became a subsidiary and resulted in an impairment of £1.5m of the goodwill generated on acquisition.

The change in trading conditions in 2009 required an impairment review of tangible fixed assets. This resulted in an impairment of tangible fixed assets in that year. The follow up review after the investment in the integrated Fitness & Wellbeing Centres resulted in a £2.6m reversal of the impairment in 2010.

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.

The exceptional costs are:

	2010 £m	2009 £m
Cost of services		
Impairment of intangible fixed assets	(1.5)	-
Reversal of impairment/(impairment) of tangible fixed assets	2.6	(41.4)
Onerous property leases	-	(3.3)
Restructuring	-	0.1
Other	-	(0.6)
	<u>1.1</u>	<u>(45.2)</u>
Support costs		
Pension past service costs	8.2	-
	<u>9.3</u>	<u>(45.2)</u>

## NUFFIELD HEALTH

<b>6 Operating surplus</b>	<b>2010</b>	<b>2009</b>
	<b>£m</b>	<b>£m</b>
This is stated after charging or crediting (including VAT):		
Fees payable by the Charity for the audit of the Charity's annual accounts	0.3	0.3
Fees payable by the company's auditor and its associates for other services:		
Tax services	0.1	0.1
Total fees to the company's auditor	<u>0.4</u>	<u>0.4</u>

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

	<b>2010</b>	<b>2009</b>
	<b>£m</b>	<b>£m</b>
Depreciation on tangible fixed assets:		
On owned assets	43.2	50.2
On assets held under finance leases and hire purchase contracts for equipment and motor vehicles	1.8	0.4
Depreciation charge (note 16)	<u>45.0</u>	<u>50.6</u>
Loss on disposal of tangible fixed assets	0.3	1.6
Normal depreciation	<u>45.3</u>	<u>52.2</u>
Impairment of tangible fixed assets (note 16)	(2.6)	41.4
Total depreciation	<u>42.7</u>	<u>93.6</u>
Amortisation of goodwill of subsidiaries (note 15)	3.7	4.0
Impairment of goodwill of subsidiaries (note 15)	1.5	-
Impairment of goodwill of joint ventures	-	0.4
Hire of plant and machinery (including operating lease charges)	7.8	3.7
Property operating lease rentals	21.1	21.6
Rental income from operating leases	0.5	0.5
Third party indemnity insurance	1.4	1.0

Indemnity insurance for the Governors and officers amounted to £14,000 (2009: £14,000)

## NUFFIELD HEALTH

7 Exceptional items reported after operating surplus	2010 Total £m	2009 Total £m
(Deficit)/surplus on disposals of business and dilution of interest in joint ventures		
Deficit on disposal of Vanguard Healthcare Limited	(0.6)	(0.2)
Surplus on disposal of hospitals	0.1	0.1
	<u>(0.5)</u>	<u>(0.1)</u>
Costs of restructuring Guildford Clinic (note 30)	(9.0)	-
Surplus/(deficit) on disposal of tangible fixed assets		
Continuing	1.4	(1.0)
Discontinued	-	0.1
	<u>1.4</u>	<u>(0.9)</u>
	<u>(8.1)</u>	<u>(1.0)</u>

The loss on the disposal of a business is that resulting from the disposal of Vanguard Healthcare Limited in 2009 and the release of accruals and provisions during the year relating to the sale of hospitals in previous years. The cost of restructuring relates to the Guildford Clinic LLP going into administration and the buy back of the business during the year that is explained in note 30. The surplus/(deficit) on disposal of tangible fixed assets relate to non-core property sales.

8 Net interest payable and similar income	2010 £m	2009 £m
Group interest receivable	0.9	0.5
Interest payable		
Bank loans and overdraft	(12.3)	(10.6)
Finance charges in respect of finance leases	(0.1)	(0.1)
Unwinding of discounting on purchase of subsidiaries	(1.2)	(1.5)
Total interest payable	<u>(13.6)</u>	<u>(12.2)</u>
Costs in connection with loan facilities	(1.9)	(0.8)
Unamortised costs written off at time of refinancing	-	(0.6)
	<u>(15.5)</u>	<u>(13.6)</u>
Retirement benefit finance costs	(2.4)	(3.2)
Total interest payable	<u>(17.9)</u>	<u>(16.8)</u>
Group net interest payable and similar income	<u>(17.0)</u>	<u>(16.3)</u>
Joint ventures		
Share of joint ventures loan interest payable	(0.7)	(0.3)

## NUFFIELD HEALTH

### 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 £7.8m (2009 - £9.5m). The employer has agreed to contribute £8.4m annually to fund the past service deficit and administration costs, which is currently projected to recover the deficit within ten years.

The actuarial valuations have been updated by an independent qualified actuary to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 December 2010. 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 2010.

The main FRS 17 assumptions are:

	2010 %pa	2009 %pa
Rate of increase in medical inflation	5.0%	5.6%
Rate of increase for pensions in payment pre 1 August 2005 service	3.6%	3.6%
Rate of increase for pensions in payment post 31 July 2005 service	2.2%	2.4%
Rate of increase for deferred pensions	3.0%	3.6%
Discount rate (2010 - yield curve basis, 2009 - 15 year AA corporate bond)	5.4%	5.7%
Inflation rate	3.5%	3.6%

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

The discount rate on the yield curve basis is 0.05% less in 2010 than the 15 year AA corporate bond basis.

The post-retirement mortality assumptions used to value the benefit obligation at 31 December 2010 and 31 December 2009 are based on the mortality tables S1NM/FA mc and PMA92 c 2025 mc respectively. Assumed life expectancies on retirement age at 65 are:

		2010	2009
Retiring today	Males	21.6	21.5
	Females	24.7	24.6
Retiring in 20 year's time	Males	23.6	23.5
	Females	26.2	26.2

## NUFFIELD HEALTH

### 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	2010 Value £m	Expected rate of return %pa	2009 Value £m
Equity and equity hedge	9.7%	7.2%	85.0	7.6%	84.2
Bonds	8.7%	4.7%	93.0	5.1%	73.7
Dynamic asset fund	10.4%	6.8%	60.4	7.2%	58.3
Property	10.7%	6.2%	5.5	6.6%	5.1
Other including liability hedge	5.8%	2.3%	5.4	1.8%	7.6

The dynamic asset fund invests in a variety of assets that may change daily. At 31 December 2010 the allocation was equities 50.8%, bonds 34.9%, property 4.9% and other 9.4% (2009 - equities 50.4%, bonds 28.7%, property 2.6% and other 18.3%).

By the end of 2010 the pension scheme had partially hedged its exposure to increases in inflation and interest rates and has unwound its hedges relating to falls in returns from equities.

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

	Defined benefit pension funds		Retirement healthcare		Total	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Operating surplus						
Current service cost	1.3	1.4	-	-	1.3	1.4
Exceptional pension past service costs	(8.2)	-	-	-	(8.2)	-
	<u>(6.9)</u>	<u>1.4</u>	<u>-</u>	<u>-</u>	<u>(6.9)</u>	<u>1.4</u>
Net interest payable/(receivable):						
Expected return on schemes' assets	(14.8)	(12.4)	-	-	(14.8)	(12.4)
Interest on schemes' liabilities	16.9	15.3	0.3	0.3	17.2	15.6
Total charged to finance expenses	<u>2.1</u>	<u>2.9</u>	<u>0.3</u>	<u>0.3</u>	<u>2.4</u>	<u>3.2</u>
Total	<u>(4.8)</u>	<u>4.3</u>	<u>0.3</u>	<u>0.3</u>	<u>(4.5)</u>	<u>4.6</u>
Actual return on assets	<u>23.1</u>	<u>18.1</u>	<u>-</u>	<u>-</u>	<u>23.1</u>	<u>18.1</u>

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

	2010 £m	2009 £m
On obligations - interest costs	(18.1)	(56.7)
On fund assets - expected return	8.3	5.7
Net actuarial losses/gains on defined benefit retirement schemes	<u>(9.8)</u>	<u>(51.0)</u>

## NUFFIELD HEALTH

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

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

	Defined benefit pension funds		Retirement healthcare		Total	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Fair value of schemes' asset	249.3	228.9	-	-	249.3	228.9
Present value of funded obligations	(317.1)	(299.3)	-	-	(317.1)	(299.3)
	<u>(67.8)</u>	<u>(70.4)</u>	<u>-</u>	<u>-</u>	<u>(67.8)</u>	<u>(70.4)</u>
Present value of unfunded obligations	(2.0)	(1.9)	(5.2)	(5.6)	(7.2)	(7.5)
Net liabilities	<u>(69.8)</u>	<u>(72.3)</u>	<u>(5.2)</u>	<u>(5.6)</u>	<u>(75.0)</u>	<u>(77.9)</u>

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

	Defined benefit pension funds		Retirement healthcare		Total	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Opening defined benefit obligations	(301.2)	(238.5)	(5.6)	(5.0)	(306.8)	(243.5)
Current service cost	(1.3)	(1.4)	-	-	(1.3)	(1.4)
Pension past service costs	8.2	-	-	-	8.2	-
Benefits paid	10.6	10.1	0.3	0.3	10.9	10.4
Interest cost	(16.9)	(15.3)	(0.3)	(0.3)	(17.2)	(15.6)
Actuarial (gains)/losses	(18.5)	(56.1)	0.4	(0.6)	(18.1)	(56.7)
Closing defined benefit obligations	<u>(319.1)</u>	<u>(301.2)</u>	<u>(5.2)</u>	<u>(5.6)</u>	<u>(324.3)</u>	<u>(306.8)</u>

The cumulative actuarial losses recognised in the statement of financial activities at 31 December 2010 were £85.6m (2009 - £75.7m).

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

	Defined benefit pension funds		Retirement healthcare		Total	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Opening fair value of plan assets	228.9	211.3	-	-	228.9	211.3
Expected return	14.8	12.4	-	-	14.8	12.4
Actuarial gains	8.3	5.7	-	-	8.3	5.7
Contributions paid	7.9	9.6	0.3	0.3	8.2	9.9
Benefits paid	(10.6)	(10.1)	(0.3)	(0.3)	(10.9)	(10.4)
Closing fair value of plan assets	<u>249.3</u>	<u>228.9</u>	<u>-</u>	<u>-</u>	<u>249.3</u>	<u>228.9</u>

## NUFFIELD HEALTH

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

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

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Defined benefit obligation	(319.1)	(301.2)	(238.5)	(269.3)	(298.3)
Plan assets	249.3	228.9	211.3	212.9	206.7
Deficit	<u>(69.8)</u>	<u>(72.3)</u>	<u>(27.2)</u>	<u>(56.4)</u>	<u>(91.6)</u>
Experience adjustments on obligation					
Value	(2.7)	2.6	(12.1)	1.3	(8.9)
As percentage of defined benefit obligation	0.8%	(0.8%)	5.1%	(0.4%)	3.0%
Experience adjustments on plan assets					
Value	8.3	5.7	(19.6)	(12.0)	3.3
As percentage of plan assets	3.3%	2.5%	(9.3%)	(5.6%)	1.6%

The plan assets are valued at mid market price for years 2006 to 2007 and at bid price for 2008 to 2010.

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

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Defined benefit obligation	(5.2)	(5.6)	(5.0)	(6.0)	(7.1)
Experience adjustments on obligation	0.3	0.1	0.5	0.4	0.6

### 10 Defined contribution pension schemes

	2010 £m	2009 £m
The amounts charged to the income and expenditure account and statement of financial activities	<u>5.2</u>	<u>5.4</u>
Contributions owing to the pension schemes at 31 December	<u>0.5</u>	<u>0.5</u>

## NUFFIELD HEALTH

11 Governors	2010	2009
	£	£
Fees paid to the Governors:		
Mr M J Smith	53,213	20,399
Ms J L Wesson	35,000	20,700
Ms F E Driscoll	31,500	-
Mr R S M Hardy	28,000	-
Mr N W McCausland	28,000	-
Mr P G McCracken	28,000	-
Mr J S Evans	20,000	35,376
Mr L P Evander	4,666	18,708
Mr D Budd	3,117	15,511
Mr C Tetley	2,333	20,700
Mr D F Gardner	-	42,860
The Lord Glenarthur	-	23,700
	<u>233,829</u>	<u>197,954</u>

No other emoluments were paid to the Governors. Travel and subsistence paid on behalf of or reimbursed to all the Governors was £24,410 (2009 - £24,946) in the year.

## 12 Employees

	Number	2010 WTE	Number	2009 WTE
Average number of employees:				
Direct charitable activities	9,982	6,823	9,943	6,753
Support and governance	60	58	48	46
	<u>10,042</u>	<u>6,881</u>	<u>9,991</u>	<u>6,799</u>

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

	2010	2009
Number of employees in defined contribution pension schemes	<u>2,007</u>	<u>2,016</u>
	2010	2009
	£m	£m
Staff costs during the year:		
Wages and salaries	162.3	158.9
Social security costs	13.9	13.7
Other pension costs		
Defined benefit current services cost (note 9)	1.3	1.4
Defined benefit past service costs (note 9)	(8.2)	-
Defined contribution (note 10)	5.2	5.4
Agency costs	8.4	8.2
	<u>182.9</u>	<u>187.6</u>

## NUFFIELD HEALTH

### 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.

	2010 Number	2009 Number
£60,000 to £69,999	56	45
£70,000 to £79,999	28	28
£80,000 to £89,999	13	12
£90,000 to £99,999	8	13
£100,000 to £109,999	10	9
£110,000 to £119,999	11	6
£120,000 to £129,999	10	1
£130,000 to £139,999	4	5
£140,000 to £149,999	3	1
£150,000 to £159,999	2	3
£160,000 to £169,999	1	1
£170,000 to £179,999	-	2
£180,000 to £189,999	-	2
£190,000 to £199,999	2	1
£200,000 to £209,999	1	2
£210,000 to £219,999	-	1
£260,000 to £269,999	2	-
£270,000 to £279,999	1	-
£280,000 to £289,999	-	2
£290,000 to £299,999	1	-
£300,000 to £309,999	-	3
£310,000 to £319,999	-	1
£320,000 to £329,999	-	1
£330,000 to £339,999	1	-
£350,000 to £359,999	1	-
£370,000 to £379,999	-	1
£450,000 to £459,999	1	-
£480,000 to £489,999	-	1
£500,000 to £509,999	1	-
£540,000 to £549,999	-	1
£710,000 to £719,999	1	-
	2010 £m	2009 £m
Employer contributions towards defined contribution pension schemes for higher-paid employees	1.2	1.0
	Number	Number
Number of higher paid employees to whom retirement benefits are accruing under the defined contribution pension scheme	109	101

The Board recognises the need to attract and retain able executives to manage the day to day affairs of the Group. The remuneration of senior executives is determined by the Executive Remuneration and Succession Committee, which takes independent advice from specialist executive remuneration consultants and applies median rates based on equivalent positions in healthcare and other relevant organisations.

## NUFFIELD HEALTH

13 Tax on surplus on ordinary activities	2010 £m	2009 £m
Current tax		
United Kingdom corporation tax at 28% payable by Medica Reporting Limited	0.4	0.3
	<u>0.4</u>	<u>0.3</u>

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 2010 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:

	2010 £m	2009 £m
Total incoming resources	542.8	545.1
Total resources expended	(546.2)	(596.7)
Net resources expended before transfer of funds	<u>(3.4)</u>	<u>(51.6)</u>
Actuarial losses on retirement schemes	(9.8)	(51.0)
Net movement in funds	<u>(13.2)</u>	<u>(102.6)</u>

## NUFFIELD HEALTH

15 Intangible fixed assets	Group £m	Charity £m
<b>Goodwill</b>		
<b>Cost</b>		
At 1 January 2010	50.6	39.0
Acquisitions (note 30)	16.5	-
Adjustment to cost	3.6	-
At 31 December 2010	<u>70.7</u>	<u>39.0</u>
<b>Amortisation</b>		
At 1 January 2010	12.4	11.7
Charge for year	3.7	3.5
Impairment	1.5	-
At 31 December 2010	<u>17.6</u>	<u>15.2</u>
Net book value at 31 December 2010	<u>53.1</u>	<u>23.8</u>
Net book value at 31 December 2009	<u>38.2</u>	<u>27.3</u>

In order to show a true and fair view of the goodwill on a joint venture becoming a subsidiary the goodwill is calculated on each purchase of an investment in the undertaking. The goodwill is the difference between cost of that purchase and the fair value of the assets and liabilities attributable to that purchase. The total goodwill recognised on Vale Health Partners Ltd becoming a subsidiary is £5.5m and the Guildford Clinic LLP is £nil.

An impairment test was undertaken on Vale Healthcare Limited when it became a subsidiary which resulted in an impairment charge of £1.5m that is included in exceptional items within cost of sales. The assumptions used are the same as the impairment of tangible fixed assets (note 16) except that earnings before interest, tax, depreciation and amortisation (EBITDA) which is negative in 2010 is forecasted to be positive over the following five years. A change in average EBITDA of £0.1m will affect the impairment by £2.1m.

An agreement has been entered into for the purchase of the remaining shares of Medica Reporting Limited and goodwill has been updated to reflect the terms of this agreement. Included in the revised cost of goodwill is contingent consideration that is dependent on the EBITDA of the company for the twelve months prior to exercising a put or call option for the remaining shares of the company.

## NUFFIELD HEALTH

16 Tangible fixed assets	Assets in course of construction	Freeholds	Long leaseholds	Short leaseholds	Equipment and motor vehicles	Total
Group	£m	£m	£m	£m	£m	£m
<b>Cost</b>						
At 1 January 2010	9.2	230.9	41.6	88.7	407.6	778.0
Additions at cost	18.3	0.2	-	-	16.9	35.4
Acquisitions (note 30)	-	-	21.0	-	12.0	33.0
Disposals	-	(0.1)	(14.5)	(0.1)	(10.2)	(24.9)
Transfers	(17.7)	2.8	-	1.7	13.2	-
At 31 December 2010	<u>9.8</u>	<u>233.8</u>	<u>48.1</u>	<u>90.3</u>	<u>439.5</u>	<u>821.5</u>
<b>Depreciation</b>						
At 1 January 2010	-	70.2	5.6	31.5	232.9	340.2
Charge for year	-	4.4	1.0	2.7	36.9	45.0
Reversal of impairment	-	-	-	(2.5)	(0.1)	(2.6)
Disposals	-	-	(3.1)	(0.1)	(7.9)	(11.1)
Transfers	-	-	-	0.3	(0.3)	-
At 31 December 2010	<u>-</u>	<u>74.6</u>	<u>3.5</u>	<u>31.9</u>	<u>261.5</u>	<u>371.5</u>
Net book value at 31 December 2010	<u>9.8</u>	<u>159.2</u>	<u>44.6</u>	<u>58.4</u>	<u>178.0</u>	<u>450.0</u>
Net book value at 31 December 2009	<u>9.2</u>	<u>160.7</u>	<u>36.0</u>	<u>57.2</u>	<u>174.7</u>	<u>437.8</u>

The gross amount on which depreciation on freehold buildings is being provided is £211.5m (2009 - £206.5m).

The net book value of equipment and motor vehicles held under finance leases and similar hire purchase contracts is £8.2m (2009 - £1.1m).

Charity	Assets in course of construction	Freeholds	Long leaseholds	Short leaseholds	Equipment and motor vehicles	Total
Cost	£m	£m	£m	£m	£m	£m
At 1 January 2010	9.2	219.6	41.6	91.4	405.7	767.5
Additions at cost	18.3	0.2	-	-	16.8	35.3
Disposals	-	(0.1)	(4.0)	(0.1)	(8.6)	(12.8)
Transfers	(17.7)	2.8	-	1.7	13.2	-
Transfers from subsidiaries	-	-	0.9	-	1.0	1.9
At 31 December 2010	<u>9.8</u>	<u>222.5</u>	<u>38.5</u>	<u>93.0</u>	<u>428.1</u>	<u>791.9</u>
<b>Depreciation</b>						
At 1 January 2010	-	68.6	5.6	30.4	231.5	336.1
Charge for year	-	4.2	0.8	2.6	36.5	44.1
Reversal of impairment	-	-	-	(2.5)	(0.1)	(2.6)
Disposals	-	-	(2.8)	(0.1)	(7.7)	(10.6)
Transfers	-	-	-	0.3	(0.3)	-
At 31 December 2010	<u>-</u>	<u>72.8</u>	<u>3.6</u>	<u>30.7</u>	<u>259.9</u>	<u>367.0</u>
Net book value at 31 December 2010	<u>9.8</u>	<u>149.7</u>	<u>34.9</u>	<u>62.3</u>	<u>168.2</u>	<u>424.9</u>
Net book value at 31 December 2009	<u>9.2</u>	<u>151.0</u>	<u>36.0</u>	<u>61.0</u>	<u>174.2</u>	<u>431.4</u>

## NUFFIELD HEALTH

### 16 Tangible fixed assets (continued)

#### Group and Charity

Additions during the year included capitalised internal project development costs of £0.9m (2009 - £0.9m). The interest charges and internal project development costs capitalised to date are £10.6m (2009 - £10.6m) and £11.9m (2009 - £11.0m) 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 hospitals located in a same town or city in the Hospital Division and individual Consumer Fitness & Wellbeing Centres in the Wellbeing Division. The hospitals are valued at the higher of realisable value and value in use and the Consumer Fitness & Wellbeing Centres at their value in use as there are no reasonable estimates for net realisable value.

The value in use calculations use the pre-interest cash flow forecasts based on the 2011 financial budgets approved by the Board of Governors and management projections for the next four years. The cash flows beyond five years use the long term average growth rates expected in those sectors over the less of 55 years or the remaining period of the leases. The key assumptions used in the calculation are set out below.

	Hospital	Wellbeing
Average growth rate in first five years	2.3%	4.0%
Growth rate beyond five years	2.2%	2.2%
Inflation rate beyond five years	2.0%	2.0%
Discount rate including risk	10.0%	12.5%

The growth rates in the first five years of Wellbeing take into consideration an anticipated recovery in the UK economy. A 1% change in the Wellbeing growth rate assumption in the first five years alters the value in use by £1.0m. A reduction in the discount rate of 1% increases the value in use by £14.4m and an increase in the rate by 1% reduces the value in use by £12.5m.

Impairments are monitored for the five years following their initial calculation. Those carried out in 2009 were reviewed. When the actual results for 2010 replace the forecast used in the 2009 impairment calculation the impairment increases for some sites and reduces for others, the net effect is a potential impairment of £2.1m. A new review was carried out taking into consideration current cash forecasts, which identified that the potential impairment of £2.1m had reversed and there was an additional £2.6m reversal. The £2.6m reversal is recognised in the income and expenditure account and statement of financial activities. The reversal of the impairment is due to the completion of the investment in the integrated Fitness & Wellbeing Centres with the resultant increase in future cash flows.

17 Fixed asset investments	UK Listed invest ment £m	Unlisted invest ment £m	Total £m
Group			
Market value			
At 1 January 2010 and 31 December 2010	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.

## NUFFIELD HEALTH

17 Fixed asset investments (continued)	Subsidiary undertakings	Joint ventures	UK listed investments	Unlisted investments	Total
	£m	£m	£m	£m	£m
<b>Charity</b>					
Cost or market value					
At 1 January 2010	32.0	8.1	0.1	0.3	40.5
Additions	14.3	-	-	-	14.3
Joint ventures becoming subsidiaries	12.7	(8.1)	-	-	4.6
Disposal of business	(8.9)	-	-	-	(8.9)
At 31 December 2010	<u>50.1</u>	<u>-</u>	<u>0.1</u>	<u>0.3</u>	<u>50.5</u>
Provision for impairment					
At 1 January and 31 December 2010	5.1	-	-	-	5.1
Net book value at 31 December 2010	<u>45.0</u>	<u>-</u>	<u>0.1</u>	<u>0.3</u>	<u>45.4</u>
Net book value at 31 December 2009	<u>26.9</u>	<u>8.1</u>	<u>0.1</u>	<u>0.3</u>	<u>35.4</u>

### Subsidiary undertakings

The principal subsidiary undertakings in the Group at 31 December 2010 which are registered in England and Wales are shown below. Only those undertakings that principally affect the figures in the Group accounts are shown, as the total number of subsidiary undertakings is too numerous to disclose. A full list of subsidiary undertakings will be annexed to the Charity's next annual return as allowed by section 410 (2) of the Companies Act 2006.

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

The subsidiaries purchased in 2010 were Mythbreaker Limited, the Guildford Clinic LLP, Bladerunner Limited and Vale Health Partners Limited and Vale Healthcare Limited. The Guildford Clinic, Vale Health Partners Limited and Vale Healthcare Limited were joint ventures. The Guildford Clinic LLP went into administration on 8 October 2010 see note 30. Vanguard Healthcare Limited was sold in 2009.

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.

	2010 12 mths £m	Medica 2009 12 mths £m	Bladerunner 2010 2 mths £m	Vale 2010 0 mths £m
Number of months trading in subsidiary				
Turnover	7.0	5.0	1.6	-
Cost of services, support and governance costs and net interest payable	(6.0)	(4.2)	(2.0)	-
Retained gain/(loss) in subsidiary groups	<u>1.0</u>	<u>0.8</u>	<u>(0.4)</u>	<u>-</u>
Fixed and current assets	2.7	1.7	3.6	19.2
Current liabilities and creditors falling due after more than one year	(0.8)	(0.8)	(3.0)	(24.8)
Net assets/(liabilities)	<u>1.9</u>	<u>0.9</u>	<u>0.6</u>	<u>(5.6)</u>

## NUFFIELD HEALTH

### 17 Fixed asset investments (continued)

Group interest in joint ventures	Net assets £m	Goodwill £m	Total £m
Net assets			
At 1 January 2010	2.5	0.4	2.9
Share of retained losses	(2.5)	-	(2.5)
Becoming subsidiaries	-	(0.4)	(0.4)
At 31 December 2010	-	-	-
Amortisation of goodwill and impairment			
At 1 January 2010	(0.1)	(0.4)	(0.5)
Becoming subsidiaries	0.1	0.4	0.5
At 31 December 2010	-	-	-
Net book value at 31 January 2010	-	-	-
Net book value at 1 January 2010	2.4	-	2.4

### 18 Stock

	2010 £m	Group 2009 £m	2010 £m	Charity 2009 £m
Raw materials and consumables	8.0	8.4	7.8	8.4
Consignment stock not included in the balance sheet	12.2	11.9	11.6	11.9

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.

## NUFFIELD HEALTH

### 19 Debtors falling due within one year

	2010	Group	2010	Charity
	£m	2009	£m	2009
		£m		£m
Amounts falling due within one year:				
Trade debtors	49.5	41.7	46.6	40.5
Amount owed by Group undertakings	-	-	142.0	134.4
Amount owed by joint ventures	-	6.3	-	6.3
Other debtors	11.1	9.1	10.7	9.0
Prepayments and accrued income	14.3	12.9	13.8	12.9
	<u>74.9</u>	<u>70.0</u>	<u>213.1</u>	<u>203.1</u>

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 £5.5m (2009 - £5.0m) due from Vanguard Healthcare Limited that is repayable no later than March 2016.

The amounts owed by joint ventures comprise:

	Group and Charity	
	2010	2009
	£m	£m
Repayable over one year		
Guildford Clinic LLP	-	0.4
Vale Healthcare Limited repayable between 2011 and 2015	-	5.9
	<u>-</u>	<u>6.3</u>

The interest rates on the loans to the joint ventures were 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	
	2010	2009
	£m	£m
Guildford Clinic LLP	-	1.1
Vale Healthcare Limited	-	0.6
	<u>-</u>	<u>1.7</u>

## NUFFIELD HEALTH

### 20 Creditors : amounts falling due within one year

	2010 £m	Group 2009 £m	2010 £m	Charity 2009 £m
Obligations under finance leases	2.1	0.3	1.4	0.3
Bank overdrafts	0.9	-	-	-
Bank loans	9.5	0.1	-	-
Deferred expenses in connection with bank loans	(0.4)	(0.7)	(0.4)	(0.7)
Other loans	0.2	-	-	-
Trade creditors	17.5	10.9	16.8	10.6
Amounts owed to Group undertakings	-	-	138.0	138.0
Social security and other taxes	8.6	7.9	6.4	6.4
Deferred/contingent consideration	20.8	-	20.8	-
Other creditors	9.5	6.6	8.9	6.6
Pension contributions	1.2	1.1	1.2	1.1
Accruals and deferred income	52.5	47.5	50.7	47.5
	<u>122.4</u>	<u>73.7</u>	<u>243.8</u>	<u>209.8</u>

### 21 Creditors : amounts falling due after more than one year

	2010 £m	Group 2009 £m	2010 £m	Charity 2009 £m
Bank loans	202.0	200.0	202.0	200.0
Deferred expenses in connection with bank loans	(0.6)	(1.1)	(0.6)	(1.1)
	<u>201.4</u>	<u>198.9</u>	<u>201.4</u>	<u>198.9</u>
Other loans	0.6	-	-	-
Obligations under finance leases repayable				
Between 1 and 5 years	6.6	0.7	3.8	0.7
Social security and other taxes	1.4	2.3	1.4	2.3
Deferred/contingent consideration	7.1	18.1	7.1	18.1
	<u>217.1</u>	<u>220.0</u>	<u>213.7</u>	<u>220.0</u>

## NUFFIELD HEALTH

### 22 Borrowings

	2010 £m	Group 2009 £m	2010 £m	Charity 2009 £m
Borrowings are repayable as follows:				
One year or less				
Finance leases	2.1	0.3	1.4	0.3
Bank overdraft	0.9	-	-	-
Bank loans	9.5	0.1	-	-
Other loans	0.2	-	-	-
In more than one but not more than two years:				
Finance leases	2.0	0.2	1.4	0.2
Bank loans	52.0	-	52.0	-
Other loans	0.1	-	-	-
In more than two but not more than five years:				
Finance leases	4.6	0.5	2.4	0.5
Bank loans	150.0	200.0	150.0	200.0
Other loans	0.3	-	-	-
In more than five years				
Other loans	0.2	-	-	-
	<u>221.9</u>	<u>201.1</u>	<u>207.2</u>	<u>201.0</u>

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

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

### 23 Financial derivatives

The financial derivatives in place at 31 December 2010:

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

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

	Maturity	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 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 2010 is a liability of £22.8m (2009 - £17.2m).

## NUFFIELD HEALTH

### 24 Provisions for liabilities

	Vacant properties £m	Onerous properties £m	Other £m	Total £m
<b>Group</b>				
At 1 January 2010	2.4	3.3	2.5	8.2
Utilised in year	(0.5)	(0.3)	(1.4)	(2.2)
Charged in year	-	0.3	0.5	0.8
	<u>1.9</u>	<u>3.3</u>	<u>1.6</u>	<u>6.8</u>
<b>Charity</b>				
At 1 January 2010	0.4	3.3	2.0	5.7
Utilised in year	(0.2)	(0.3)	(1.3)	(1.8)
Charged in year	-	-	1.0	1.0
	<u>0.2</u>	<u>3.0</u>	<u>1.7</u>	<u>4.9</u>

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

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

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 where the Board concludes that the Group is not liable. Provision is made for the most likely outcome of each individual case, based upon the information available to the Board. The other provisions are likely to be paid over the next three years but their value is uncertain.

### 25 Permanent endowments

	Group and Charity £m
At 1 January 2010 and at 31 December 2010	<u>0.1</u>

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

NUFFIELD HEALTH

26 Analysis of net assets between funds

	Endowment	Restricted	Unrestricted	Total
	£m	£m	£m	£m
<b>Group fund balances at 31 December 2010 are represented by:</b>				
Intangible fixed assets	-	-	53.1	53.1
Tangible fixed assets	-	-	450.0	450.0
Investments	0.1	-	0.3	0.4
Current assets	-	2.1	89.9	92.0
Current liabilities	-	(0.7)	(121.7)	(122.4)
Creditors : amounts falling due more than one year	-	-	(217.1)	(217.1)
Provisions for liabilities	-	-	(6.8)	(6.8)
Net assets excluding post retirement liability	0.1	1.4	247.7	249.2
Post retirement benefit liability	-	-	(75.0)	(75.0)
Net assets	0.1	1.4	172.7	174.2
<b>Charity fund balances at 31 December 2010 are represented by:</b>				
Intangible fixed assets	-	-	23.8	23.8
Tangible fixed assets	-	-	424.9	424.9
Investments	0.1	-	45.3	45.4
Current assets	-	2.1	226.8	228.9
Current liabilities	-	(0.7)	(243.1)	(243.8)
Creditors : amounts falling due more than one year	-	-	(213.7)	(213.7)
Provisions for liabilities	-	-	(4.9)	(4.9)
Net assets excluding post retirement liability	0.1	1.4	259.1	260.6
Post retirement benefit liability	-	-	(75.0)	(75.0)
Net assets	0.1	1.4	184.1	185.6

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

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

## NUFFIELD HEALTH

### 27 Reconciliation of operating surplus to cash flow from operating activities

	2010 £m	Group 2009 £m
Group operating (deficit)/surplus	28.1	(32.8)
Exceptional items in operating surplus	(9.3)	45.2
Depreciation charge (note 6)	45.3	52.2
Amortisation of goodwill (note 6)	3.7	4.0
Earnings before interest, tax, depreciation, amortisation, exceptional items and non-cash elements of post retirement benefits	67.8	68.6
Decrease in stocks	0.6	0.2
(Increase)/decrease in debtors	(8.7)	4.1
Increase/(decrease) in creditors	4.2	(10.1)
(Decrease) in provisions	(0.7)	(1.6)
Total cash flow from operations	63.2	61.2
Post retirement benefits - additional cash payments	(6.9)	(8.5)
Normal cash inflow from operating activities	56.3	52.7
Exceptional cash outflow from operations		
Exceptional items in operating surplus	9.3	(45.2)
Impairment of intangible fixed assets (note 5)	1.5	41.4
Reversal of tangible fixed asset impairment (note 5)	(2.6)	-
Pension past service costs not involving cash (note 5)	(8.2)	-
(Decrease) in creditors	-	(2.1)
(Decrease)/increase in provisions	(0.4)	2.9
Total cash outflow from operating activities	(0.4)	(3.0)

### 28 Returns on investments and servicing of finance

	2010 £m	Group 2009 £m
Interest received	0.5	0.3
Interest paid	(11.8)	(10.9)
Interest element of finance lease rental repayments	(0.1)	(0.1)
Issue costs on refinanced bank borrowings and fees paid to banks	(0.1)	(2.1)
	(11.5)	(12.8)

### 29 Capital expenditure and financial investment

	2010 £m	Group 2009 £m
Purchase of tangible fixed assets	(27.6)	(28.6)
Proceeds from sales of tangible fixed assets	0.3	0.4
	(27.3)	(28.2)
Exceptional Proceeds from sales of tangible fixed assets	2.0	0.9

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.

## NUFFIELD HEALTH

### 30 Acquisitions and disposals

#### Purchase of subsidiaries

The Charity purchased 100% of the nominal share capital of Mythbreaker Limited on 19 March 2010; the remaining 50% of the capital of Guildford Clinic LLP on 9 July 2010; 100% of the nominal share capital of Bladerunner Limited on 5 November 2010; and entered into a binding contract on 22 December 2010 to purchase all of the share capital of Vale Health Partners Limited and Vale Healthcare Limited and immediately owned or controlled at least 75% of the share capital of each company.

Acquisition accounting is used in consolidating all the companies with a true and fair override in place for the calculation of goodwill on joint ventures becoming subsidiaries (note 15). The book values are taken from the management accounts at the time of acquisition and include provisional amounts that will be finalised in the 2011 financial statements.

The amount of assets and liabilities of the acquisition are detailed below:

	Bladerunner	Guildford Clinic	Vale	Other	Total
	£m	£m	£m	£m	£m
Book value:					
Intangible fixed assets	1.4	-	-	-	1.4
Reversal of intangible fixed assets	(1.4)	-	-	-	(1.4)
Provisional fair value of intangible fixed assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Book and provisional fair value:					
Tangible fixed assets	1.0	14.0	18.0	-	33.0
Stock	-	0.3	0.1	-	0.4
Debtors	0.8	1.6	1.2	-	3.6
Cash	0.5	0.4	(0.9)	-	-
Creditors	(1.5)	(5.4)	(11.5)	(0.1)	(18.5)
Loans and finance leases	(1.2)	(6.1)	(12.6)	-	(19.9)
Net (liabilities)/assets	<u>(0.4)</u>	<u>4.8</u>	<u>(5.7)</u>	<u>(0.1)</u>	<u>(1.4)</u>
Share of assets owned as joint venture	-	(2.4)	2.4	-	-
Net (liabilities)/assets purchased	<u>(0.4)</u>	<u>2.4</u>	<u>(3.3)</u>	<u>(0.1)</u>	<u>(1.4)</u>
Goodwill (note 15)	10.6	-	5.5	0.4	16.5
	<u>10.2</u>	<u>2.4</u>	<u>2.2</u>	<u>0.3</u>	<u>15.1</u>
Satisfied by:					
Cash	10.2	0.1	0.3	-	10.6
Deferred/contingent consideration	-	2.3	1.9	0.3	4.5
	<u>10.2</u>	<u>2.4</u>	<u>2.2</u>	<u>0.3</u>	<u>15.1</u>
Subsidiaries' profit/(loss) after tax and minority interest in its latest financial year	<u>0.1</u>	<u>(4.0)</u>	<u>(2.5)</u>		
Profit/(loss) after tax and minority interest of the subsidiaries from the beginning of its financial year until its acquisition	<u>0.7</u>	<u>(1.6)</u>	<u>(4.1)</u>		

The fair value of assets and liabilities are provisional as Bladerunner and Vale Partners were purchased near the year end and will be finalised in the 2011 financial statements.

## NUFFIELD HEALTH

### 30 Acquisitions and disposals (continued)

#### Purchase of subsidiaries (continued)

	Bladerunner £m	Guildford Clinic £m
Summary profit and loss account of material acquisitions from date of acquisition		
Turnover	1.6	4.8
Operating loss	(0.4)	(1.3)
Restructuring	-	(9.0)
Net interest payable	-	(0.1)
Retained deficit	<u>(0.4)</u>	<u>(10.4)</u>
Utilisation of Group cash from date of acquisition		
Net cash flow from operating activities	(0.1)	(1.4)
Return on investment and servicing of finance	(0.1)	(0.1)
Restructuring	-	(4.7)
	<u>(0.2)</u>	<u>(6.2)</u>

The business of Guildford Clinic LLP was purchased by the Charity on 8 October and integrated into the operations of Charity's hospital in Guildford, see note on restructuring for details.

The deferred consideration of the Guildford Clinic LLP is an estimate based on the management forecast as to the timing of the payment of the purchase consideration. The contingent consideration of Vale Health Partners Ltd is dependent on the performance of the subsidiary between 2011 and 2021 and is based on management forecasts of EBITDA and cash generation. Variances from the forecast of the business of the Vale Health Partners may affect the size of the final payment, a 10% variance in cash generation will affect the consideration by £0.2m.

#### Restructuring

The Guildford Clinic LLP became a wholly owned subsidiary of Nuffield Health on 9 July 2010. The aim was to continue operating the business on the Clinic site, retain the co-operative nature of the previous joint venture with the consultants and improve the effectiveness by combining the management of the Clinic with those of the Nuffield Health Guildford Hospital. The Guildford Clinic LLP went into administration on 8 October 2010 and as a result the Group lost control of the assets and liabilities of the partnership. However, the Charity purchased the business, fixed assets, stock and debtors from the administrator on the same day that the Guildford Clinic LLP went into administration. In addition the Charity and the administrator entered into an agreement by which the Charity has a licence to occupy the Clinic site to September 2011 in order to give time for an orderly transfer of the activities from the Clinic site to that of the Nuffield Health Guildford Hospital.

## NUFFIELD HEALTH

### 30 Acquisitions and disposals (continued)

#### Restructuring (continued)

The net effect of the administration and the subsequent repurchase on the same day have been treated as one transaction for the purpose of the financial statements. The cost of these transactions to the Group is £9.0m, comprising:

	£m
Assets and liabilities not repurchased and no longer under the control of the Group	
Tangible fixed assets	(12.0)
Stock	(0.2)
Debtors	(0.3)
Cash	(0.2)
Creditors	2.5
Loans	6.1
	<u>(4.1)</u>
Payments and liabilities of the Charity	
Repurchase of business and assets	(3.0)
Guarantee of the Guildford Clinic LLP loan	(1.0)
Other	(0.9)
	<u>(4.9)</u>
Loss on restructuring (note 7)	<u>(9.0)</u>
Cash payments in year	
Cash to administrator	(0.2)
Purchase of business and assets	(3.0)
Guarantee of the Guildford Clinic LLP loan	(1.0)
Other payments to date	(0.5)
	<u>(4.7)</u>

The write-off values for tangible fixed assets and debtors are provisional as they are dependent on the value of assets that can be transferred from the Clinic site and the collectability of the debtors.

#### Investment in joint ventures

The partners in the Guildford Clinic LLP equally subscribed capital during the 2009; the Charity's share was £1.0m.

#### Sale of business

The disposals expenditure in the years are costs relating to the disposals of the hospitals in 2008 and Vanguard Healthcare Limited 2009.

### 31 Financing

	2010 £m	Group 2009 £m
New bank loans	2.0	-
Repayment of loans	(0.1)	(33.1)
Capital element of finance lease rental payments	(1.0)	(0.4)
	<u>0.9</u>	<u>(33.5)</u>

## NUFFIELD HEALTH

### 32 Analysis of net debt

	At 1 Jan	Restruc turing and acquisitions	Cash flow Other	Non-cash changes	Group At 31 Dec
	£m	£m	£m	£m	£m
Cash at bank and in hand	6.6	-	2.5	-	9.1
Bank overdraft (note 20)	-	-	(0.9)	-	(0.9)
Bank loans due within one year (note 20)	(0.1)	(9.4)	-	-	(9.5)
Bank due after more than one year (note 21)	(200.0)	-	(2.0)	-	(202.0)
Other loans due within one year (note 20)	-	(0.2)	-	-	(0.2)
Other loans due after more than one year (note 21)	-	(0.6)	-	-	(0.6)
Finance leases due within one year (note 20)	(0.3)	(0.6)	1.0	(2.2)	(2.1)
Finance leases due after more than one year (note 21)	(0.7)	(3.0)	-	(2.9)	(6.6)
	<u>(194.5)</u>	<u>(13.8)</u>	<u>0.6</u>	<u>(5.1)</u>	<u>(212.8)</u>

The non-cash changes include finance lease arrangements entered into by the Group in respect of assets with a capital value at the inception of the lease of £5.1m.

### 33 Capital commitments

	2010 £m	Group 2009 £m	2010 £m	Charity 2009 £m
Contracted for but not provided in these financial statements:				
Share of joint ventures	-	3.8	-	-
Other	9.8	2.7	9.8	2.7
	<u>9.8</u>	<u>6.5</u>	<u>9.8</u>	<u>2.7</u>

### 34 Operating lease commitments

	2010 £m	Group 2009 £m	2010 £m	Charity 2009 £m
Annual commitments under non-cancellable operating leases which expire as follows:				
Land and buildings				
Less than 1 year	1.0	-	1.0	-
Between 1 and 5 years	1.7	1.8	1.7	1.8
After 5 years	18.2	18.9	17.8	18.5
	<u>20.9</u>	<u>20.7</u>	<u>20.5</u>	<u>20.3</u>
Other				
Less than 1 year	0.6	0.2	0.6	0.2
Between 1 and 5 years	5.3	5.2	5.2	5.2
	<u>5.9</u>	<u>5.4</u>	<u>5.8</u>	<u>5.4</u>

### 35 Contingent liabilities

The Charity has guaranteed the bank overdraft of Healthcode Ltd, its unlisted investment, to a value of £0.1m (2009 - £0.1m) and the loans from a previous shareholder in Bladerunner Limited to that company £0.6m (2009 - Enil).

## NUFFIELD HEALTH

### 36 Related party transactions

The Charity provided loans and services to its joint ventures that have become subsidiaries during the year. The services were charged at market rates. The value of the services charged to the joint ventures during the year was £2.1m (2009 - £1.5m).

### 37 Post balance sheet event

The businesses of both Vale Healthcare Limited, the trading subsidiary of Vale Health Partners, and Bladerunner Limited were transferred to the Charity in the first quarter of 2011.

The sale of the management contracts of local authority Fitness & Wellbeing Centres and the related tangible fixed assets was completed on 31 March 2011 (note 4).