

Registered in England : Company No. 21708

**THE MEDICAL DEFENCE UNION LIMITED**

ANNUAL REPORT AND ACCOUNTS

YEAR ENDED 31 DECEMBER 2004



## REPORT OF THE CHAIRMAN

Clinical experts, and particularly medical expert witnesses are under considerable scrutiny at present and in a number of ways. Most prominent of these are recent high-profile complaints to the GMC and in the Legal Services Commission's 2005 consultation on the use of expert witnesses in publicly-funded civil and criminal litigation.

As far as the GMC cases are concerned, at the time of writing some of these investigations are ongoing and some are concluded. Because some of the experts who are subject to complaint are MDU members, it would be inappropriate to discuss details of the cases. However, I draw them to your attention because, whatever their outcome, the fact that medical experts can be reported to the GMC because of reports they have written or evidence they have given is a cause of concern for many doctors. It is an issue that is often raised with us by medical and dental members who act as experts and who are concerned about their position.

It is understandable that there are some concerns, but members who act as clinical experts are assured that they can approach the MDU for advice and assistance in the event of a complaint or claim arising from their work as a clinical expert. The MDU encourages members to act as experts, not least because they play such an important role in achieving a fair outcome for our members and their patients. We instruct experts in a wide range of medico-legal contexts. Principally, we instruct experts for claims, and maintain a database of experts whom we provide with instruction on the role of expert witnesses and to whom we offer training. We make it clear in our instructions to experts that their duty is to help the court with matters within their expertise, and that this duty overrides any obligation to the person from whom they have received instruction or by whom they are paid. We also expect and encourage experts on our database to accept instructions from claimants and other defendants. The MDU also instructs experts in criminal cases, regulatory and employers' disciplinary proceedings and at tribunals. Our members also act as experts for a wide range of healthcare organisations, such as the Healthcare Commission and the National Clinical Assessment Service.

The MDU took part in the Legal Services Commission consultation in early 2005 and responded that it is imperative in the interests of justice and fairness that both parties in litigation should have equal access to experts and that experts should be encouraged to take instructions from either side. The consultation document suggests that experts in publicly funded cases could be accredited under a scheme approved by the Commission. We opposed this suggestion. Experts instructed by the MDU meet agreed service standards and are subject to quality control which includes the sanction that those who do not meet the standards expected are offered no further instructions. Clinical experts are also subject to scrutiny by their regulatory body, and this scrutiny will increase in future. The MDU believes that to ask clinical experts to subject themselves to yet further requirements may be counter productive. In some circumstances there may be only a small number of practitioners in a highly specialised field and consequently a small pool of experts from whom

appropriate advice can be obtained. If their primary interest is their professional clinical practice, as it usually will be, these experts are unlikely to wish to provide an opinion if an accreditation scheme impinges upon the time they are able to devote to their patients.


As far as training and quality assurance of expert witnesses are concerned, we believe that the recommendations contained in the report *Sudden unexpected death in infancy: a multi-agency protocol for care and investigation* have considerable merit. This report of the working party of the Royal College of Pathologists and the Royal College of Paediatrics and Child Health, chaired by Baroness Kennedy of the Shaws QC, made the following recommendations about expert witnesses:

- Royal Colleges or specialty associations should accredit experts.
- Doctors should have specialist instruction on the role of the expert witness before holding themselves out as court experts.
- Such instruction should be renewed at least every five years.

The recommendations were drawn up specifically to address training for expert witnesses acting for the courts, but we believe that the principles could apply equally to any clinician who acts as an expert. We commend them to members.

Our involvement in these matters is of course just one aspect of the service we provide to MDU members. Everything we do, from handling claims and advising individual members to governmental relations, depends on our staff. On behalf of members, I would like to thank the staff for all their efforts to develop and maintain the quality of the service.

Finally, we are sad to lose, through retirement, Dr Gillian Strube and Prof Malcolm Symonds, both of whom have made invaluable contributions to the Council and Cases Committees over many years. I would like to thank them for all they have done for the MDU, and wish them both well.



David Markham  
Chairman of the Board of Management  
President of the MDU

## OPERATING AND FINANCIAL REVIEW

This year the MDU is 120 years old. It is a discretionary mutual organisation, wholly owned by its members and committed to providing them with the best medico-legal support throughout their professional lives. The MDU is one of a small number of British companies that has remained in the same ownership through well over a century.

As you will know the Board's strategy is to concentrate our activities on the UK and Ireland. In the last few years we have ceased to offer membership in over 100 countries worldwide and there are now hardly any new cases being reported from these countries. With over 165,000 members at year-end, we continue to dominate the UK market. Operating only in these islands, with just a few members who are temporarily overseas, enables us to focus clearly and use to our members' best advantage our strong local knowledge and considerable experience. Equally important, we can limit effectively any possibility that funds subscribed will end up subsidising practice in countries that may be subject to dramatic rises in the number and cost of claims that are beyond our control.

The MDU provides services to members through MDU Services Limited, which is a joint venture with Converium AG, a Swiss reinsurance company listed on the New York Stock Exchange and the Swiss Exchange. On 14 January 2005 MDU Services Limited became authorised and regulated by the Financial Services Authority (FSA) as an intermediary. The MDU has a majority of both the ordinary and voting shares of MDU Services Limited. The joint venture brings access to detailed insurance skills, in provision and administration of insurance and also in risk management. It also provides the MDU with additional reinsurance and financial support, if required, as described in note 11. It is a successful and ongoing relationship.

Broadly three areas of business are conducted.

Most UK paying members are provided with an insurance policy, giving a contractual right to assistance, subject only to the terms of the policy. No other UK medical defence organisation provides its members with insurance policies, which are a unique additional feature of MDU membership.

Insurance is provided by Converium Insurance (UK) Limited (CIL). The FSA regulates both MDU Services Limited and CIL.

CIL was set up largely to write the MDU's business and our premiums are held in ring-fenced accounts and are subject to CIL's parental (Converium AG) and bank guarantees. This provides significant security for members.

Second, the MDU helps, on a discretionary basis, with medico-legal problems arising from clinical practice. Many of these are disciplinary in nature and members will know only too well that in the current climate this is a significant area of activity.

Third, we have a well-used advisory service, which is available by phone at all times. Not unexpectedly, given the current medico-legal climate, members' demand for our advisory and risk management services continues to rise.

Examples of areas where we can and do help are set out in the new membership guide, which is sent to members as they renew. I urge you to read it so that you can make the best use of our services.

In Ireland, the Department of Health and Children (DoHC) imposed a Clinical Indemnity Scheme, against the stated wishes of the consultants, in February 2004. It is not dissimilar to NHS indemnity save that it affords indemnity for both private and public practice in state hospitals going forward. Crucially, unlike NHS indemnity and as I reported last year, it does not address the problem of historic obstetric liabilities, despite repeated assurances to us that it would do so. The cost of settling Irish obstetric cases has been doubling every three years and the MDU has spent a great deal of time in discussing this with the Irish DoHC. That no progress has been made is not our fault. In the latter half of the year your Board decided, in the interests of all the MDU's members, that in some Irish obstetric cases it would not exercise its discretion to assist. Further such decisions have been made in the current year and may, regrettably, continue to be made.

The Irish Government has recently said that no person who has suffered from a medical mishap in Ireland would be left without compensation and no consultant would be left without cover in all reasonable circumstances and in accordance with law. What value this may have in practice remains to be seen. The situation remains unclear and unsatisfactory despite our best efforts.

## Financial Review

## Income

Subscription income for the year ended 31 December 2004 was £137.5m (2003 - £133m). Over 95% of members' subscriptions come from our UK members, the remainder being from our members in Ireland.

Added to the subscription income are investment income/gains for the year of £2.6m bringing the total mutual income for the MDU Group in 2004 to £140m (2003 - £136m).

## Expenditure

During the year the MDU paid out on behalf of its members £51m in indemnity claims and legal costs (2003 - £68m). This reduction, which is in line with expectations, results from a planned transfer of risk to the individual insurance policies for MDU's UK and Irish members.

## OPERATING AND FINANCIAL REVIEW

Within the £51m of indemnity and legal payments for 2004, £16m (31%) relates to our Irish members' claims.

Insurance and reinsurance premiums were £94m in 2004 (2003 - £103m). The reduction of £9m in insurance premiums is due to the introduction of the Clinical Indemnity Scheme in Ireland in February 2004 under which most new claims now fall to the State.

The insurance premium provides each paying member of the MDU in the UK with the security of a £10m individual insurance policy in his/her name. The insurance policy covers claims first made in the policy period, including indemnity and legal costs, arising from an incident whilst a member.

The MDU has an extensive reinsurance programme, which includes additional protection for discretionary claims. The amount of reinsurance recoveries in 2004 was £3.4m.

In overall terms the MDU's estimated gross obligations in respect of outstanding indemnity claims have reduced by £28.5m in the year (2003 - £25.0m).

Medical and Dental advisory costs along with administrative and finance costs amounted to £23.5m in 2004 (2003 - £23.4m).

### Assets/Indemnity Provision

The balance sheet for the MDU now shows total assets of £83m compared to £106m in 2003. As explained in last year's report, this is an anticipated reduction in the fund, due to settlement of claims in the year and will continue as the MDU settles claims notified prior to the issue of individual insurance policies to its members. When these claims have been paid, the fund will again accumulate.

In assessing the provision for indemnity, the MDU takes account of all reported incidents notified up to the balance sheet date. This includes all notifications from members including incidents relating to potential claims, pre-claims where incidents are still being investigated and actual claims where there has been a demand for compensation or where legal proceedings have been served. It does not include any case where the Board has declined to exercise or to continue to exercise its discretion to assist. The level of indemnity provision, see note 11(a), has been estimated taking all the above factors into consideration and is shown in the accounts up to the value of the total net book assets. The joint venture provides the MDU with additional reinsurance and capital funding.

This has been a good year for the MDU. Membership continues to rise, as does our market share in the UK. Increasing regulation and other legal changes mean an increase in work on behalf of members and, as ever, the MDU remains committed to your support.



Dr Michael Saunders  
Chief Executive

## REPORT OF THE BOARD OF MANAGEMENT

The Directors present their report and the financial statements for the year ended 31 December 2004.

### Activities

The group's activities encompass the joint venture interest in MDU Services Limited. The joint venture partner is Converium AG. Through MDU Services Limited, the group provides paying members with insurance policies for claims of clinical negligence. These are underwritten by Converium Insurance (UK) Limited in the UK and by Eagle Star Insurance Company (Ireland) Limited in Ireland. On 14 January 2005, the Financial Services Authority (FSA) became responsible for regulation of insurance intermediaries. On that date, MDU Services Limited became authorised and regulated by the FSA as an intermediary.

The MDU's activities include the discretionary provision, in accordance with the *Memorandum and Articles of Association*, of indemnity and advisory services for its members.

The MDU provides advice and assistance to governments and other bodies relating to risk management and the handling of indemnity claims.

### Review of business

Members' attention is drawn to the Report of the Chairman and the Operating and Financial Review, in which the salient features of the year are highlighted. The financial statements on pages 7 to 20, set out the financial results of the year's activities.

The MDU continues to set subscriptions which the directors, on the advice of the consulting actuaries, consider sufficient to meet insurance premiums, overheads and foreseeable discretionary indemnity payments and legal costs.

### Disabled employees

The MDU Group gives full consideration to applications for employment from disabled people where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled it is the MDU's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion where possible.

### Directors

The following served as directors in 2004:

D E Markham \*\*^

P Armstrong

M Arnold\*# (Appointed 21 September 2004)

Hedley E Berry \*\*^

Sir John Caines (Retired 21 September 2004)

A D Chambers \*# (Appointed 22 September 2004)

R D Corley (Retired 21 September 2004)

C C Evans \*\*^

M M Gallivan ^

The Lord Glenarthur \*#

J G Kennedy (Retired 21 September 2004)

Sir Robin Mountfield \*\*^ (Appointed 21 September 2004)

P D Robinson (Appointed 21 September 2004)

M T Saunders \*\*^

C M Tomkins ^

J P de Blocq van Kuffeler (Retired 21 September 2004)

T J Walley

P R Williams ^

\*Members of the Remuneration Committee

#Members of the Audit Committee

^Directors or alternate directors of MDU Services Limited

In accordance with the Articles of Association, the following directors are due to retire by rotation and, being eligible, offer themselves for re-election at the next Annual General Meeting:

The Lord Glenarthur

D E Markham

C M Tomkins

### Corporate governance

Although the MDU is not a listed company, the Board is committed to the highest standards of corporate governance and seeks to apply the Principles set out in the Combined Code, to the extent appropriate for the MDU. Set out below is a summary of the MDU's approach to corporate governance. The participation of MDU members on the board is a particular feature and strength of the governance arrangements.

Seven members of the MDU serve on the Board in a non-executive capacity. There are three executive directors, two of whom are also MDU members. The Board also has four independent non-executive directors who are not members of the MDU. The non-executive directors are sufficiently strong in numbers and independence to provide a proper balance on the Board.

The posts of Chairman and Chief Executive are separate. This distinguishes the running of the Board from executive responsibility for the business. The Chairman was non-executive at the time of his appointment.

## REPORT OF THE BOARD OF MANAGEMENT

All Board members are subject to election by MDU members at the first Annual General Meeting after their appointment. All, including the executive directors, are also subject to retirement by rotation and re-election at least every three years.

The Board met eight times in the year. The Board has a schedule of matters reserved to it for decision, including the following:

- Approval of commercial strategy;
- Changes to corporate structure;
- Internal control arrangements;
- Board and committee appointments;
- Contracts not in the ordinary course of business;

The Board has a procedure for directors to obtain independent advice.

The Board has an Audit Committee, which meets as often as necessary. The committee is chaired by Prof Andrew Chambers, an independent director. Prof Chambers is the Deloitte Professor of Internal Auditing at London South Bank University. The committee consists of the Chairman of the Board, and the Vice-Chairman of the Board, who are both members of the MDU, all the non-executive members of the Board who are not members of the MDU and two non-executive members of the Board of MDU Services Limited. The committee meets with the internal and external auditors, and the committee spends time alone with both the internal and external auditors. The committee reviews risk management and internal control arrangements, and their effectiveness. It guides the activities and reviews the results of internal audit. The committee also reviews the scope and results of the external audit, and reviews the annual financial statements and other information in the Annual Report before publication. The committee meets the MDU's actuarial advisers each year and reviews the results of their work.

The Board's Nomination Committee, chaired by the Chairman of the Board, makes recommendations on the appointment of directors. Membership of the Nomination Committee varies according to the nature of the vacancy. The committee prepares a description of the role and capabilities required for a particular appointment. It selects a shortlist of candidates for consideration by the Board, on merit and against objective criteria.

There is an induction process for new directors. This is tailored to meet the needs of individuals. It is designed to give new directors knowledge of the business and of their role in it as directors.

The Remuneration Committee, also chaired by the Chairman of the Board, makes recommendations on the remuneration of non-executive directors and members of the Council and of committees. The remuneration of the executive directors is determined by the Remuneration Committee of MDU Services Limited. Members of this committee, including the Chairman of the MDU, are identified in the Annual Report of MDU Services Limited.

The Remuneration Committees work on the basis that remuneration should be sufficient to attract, retain and motivate individuals of the quality required to run the company successfully, but without paying more than is necessary.

The Board is ultimately responsible for the internal control and risk management of the MDU and for the effectiveness of these systems. The Audit Committee has authority to advise the Board on these matters. Management is responsible for identifying, assessing, managing and monitoring risk, and for developing, operating and monitoring the system of internal control.

Control is exercised through an organisational structure with clearly defined levels of responsibility and authority and appropriate reporting procedures. Information is regularly provided at all levels and compared with budgeted targets which are reviewed on a quarterly basis. The Board considers regular reports on the risks inherent in the business.

The internal control and risk management systems cannot eliminate risks to the business, but they are designed to manage them. Internal controls can provide only reasonable and not absolute assurance against material misstatement or loss. The Board, with advice from the Audit Committee, has reviewed the effectiveness of the internal control environment of the group.

The financial statements are prepared on a going concern basis. In deciding to adopt the going concern basis the directors have reviewed the group's business plans and budgets and taken account of the discretionary nature of the company's indemnity obligations and the steps taken for future funding.

The MDU uses the Annual Report and Annual General Meeting to communicate with members about the business. It values highly communications with members, and encourages members to attend the Annual General Meeting.

## REPORT OF THE BOARD OF MANAGEMENT

### Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group and of the surplus or deficit of the group for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are required to ensure that their report and other information included in the Annual Report is prepared in accordance with company law in the United Kingdom. They must also maintain and ensure the integrity of the company's website, in particular those pages displaying audited financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Auditors

The auditors, PKF, have signified their willingness to *continue in office*. A resolution to reappoint them will be proposed at the Annual General Meeting.

By order of the Board of Management



N J Bowman  
Company Secretary  
26 April 2005

**CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT**  
for the year ended 31 December 2004

		2004	2003
	Notes	£'000	£'000
Members' subscriptions		137,528	132,892
Investment income	2	2,408	2,944
Realised gains from disposal of investments		167	534
<b>Total mutual income</b>		<b>140,103</b>	<b>136,370</b>
<b>Less:</b>			
Medical and dental advisory services		12,168	11,521
Indemnity, legal, reinsurance and insurance costs	3	116,449	113,523
Administrative costs		9,369	8,376
Finance cost	11 (a)	1,992	3,457
<b>Total mutual expenditure</b>		<b>139,978</b>	<b>136,877</b>
<b>Result from mutual activities</b>		<b>125</b>	<b>(507)</b>
Income from non-mutual activities		11,030	10,316
Less: share of joint venture's turnover		(11,030)	(10,316)
Share of operating profit in joint venture	7	266	162
<b>Result before taxation</b>	4 (a)	<b>391</b>	<b>(345)</b>
Taxation charge	5 (a)	(262)	(297)
<b>Result after taxation transferred to accumulated fund</b>	12	<b>129</b>	<b>(642)</b>

All activities relate to continuing operations.



**CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
for the year ended 31 December 2004

		2004	2003
	Notes	£'000	£'000
Result after taxation excluding share of profits of joint venture		(137)	(804)
Share of joint venture's profit for the year		266	162
Unrealised surplus on revaluation of investments		-	653
Taxation charge on investment gains	5 (b)	(129)	(11)
<b>Total recognised gains and losses since the last Annual Report</b>		<b>-</b>	<b>-</b>

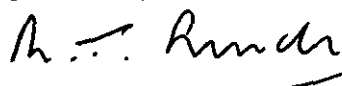
**NOTE OF HISTORICAL COST GAINS AND LOSSES**  
for the year ended 31 December 2004

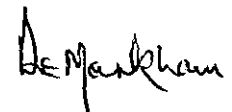
	2004	2003
	£'000	£'000
Reported result before taxation	391	(345)
Realisation of investment gains of previous years	1,028	2,539
Historical cost result before taxation	1,419	2,194
Historical cost result after taxation	1,157	1,897

**CONSOLIDATED AND COMPANY BALANCE SHEETS**  
at 31 December 2004

	Notes	2004		2003	
		Group £'000	Company £'000	Group £'000	Company £'000
<b>Fixed assets</b>					
Tangible assets	6	1,070	1,070	1,275	1,275
Investments	7	36,791	2,367	63,283	2,367
Investment in joint venture					
Share of gross assets		8,119	-	5,874	-
Share of gross liabilities		(6,473)	-	(4,305)	-
	7	1,646	-	1,569	-
		<b>39,507</b>	<b>3,437</b>	<b>66,127</b>	<b>3,642</b>
<b>Current assets</b>					
Investments	8	4	-	16	-
Debtors	9	47,442	66,967	45,225	80,296
Cash at bank and in hand		7,640	7,374	5,733	5,697
		<b>55,086</b>	<b>74,341</b>	<b>50,974</b>	<b>85,993</b>
Creditors - amounts falling due within one year	10	11,731	10,543	11,180	6,580
<b>Net current assets</b>		<b>43,355</b>	<b>63,798</b>	<b>39,794</b>	<b>79,413</b>
<b>Total - fixed assets and net current assets</b>		<b>82,862</b>	<b>67,235</b>	<b>105,921</b>	<b>83,055</b>
<b>Provisions</b>					
Indemnity	11(a)	82,765	67,138	105,812	82,946
Other provisions	11(b)	97	97	109	109
<b>Total provisions</b>		<b>82,862</b>	<b>67,235</b>	<b>105,921</b>	<b>83,055</b>
<b>Reserves</b>					
Investment revaluation reserve		-	-	1,028	-
Accumulated fund		-	-	(1,028)	-
<b>Total reserves</b>	12	-	-	-	-
<b>Total - provisions and reserves</b>		<b>82,862</b>	<b>67,235</b>	<b>105,921</b>	<b>83,055</b>

Approved by the Board of Management on 26 April 2005

  
M T Saunders - Chief Executive

  
D E Markham - Chairman

**CONSOLIDATED CASH FLOW STATEMENT**  
for the year ended 31 December 2004

		2004	2003
	Notes	£'000	£'000
<b>Net cash (outflow) from operating activities</b>	13 (a)	(26,958)	(49,361)
<b>Returns on investments</b>			
Interest received		2,409	2,863
<b>Net cash inflow from returns on investments</b>		2,409	2,863
<b>Corporation tax paid</b>		(235)	(764)
<b>Capital expenditure and financial investment</b>			
Purchases of fixed assets		-	(17)
Sales of fixed assets		18	-
Transfer to Cash Fund		24,706	-
Purchases of investments		-	(38,586)
Sales of investments		38,374	84,935
<b>Net cash inflow from capital expenditure and financial investment</b>		63,098	46,332
<b>Increase / (Decrease) in cash</b>	13 (b)	38,314	(930)

**RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS**  
for the year ended 31 December 2004

		2004	2003
		£'000	£'000
<b>Increase/(Decrease) in cash</b>	13 (b)	38,314	(930)
<b>Movement in net funds</b>		38,314	(930)
<b>Net funds as at 1 January 2004</b>		6,117	7,047
<b>Net funds at 31 December 2004</b>		44,431	6,117

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2004

### 1. Accounting Policies

#### (a) Basis of preparation of financial statements

The Group financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments, and in accordance with the Companies Act 1985 and applicable accounting standards. As permitted by the Companies Act 1985, the financial statements formats have been adapted, as necessary, to give a true and fair view of the state of affairs of the Company and Group.

#### (b) Basis of consolidation

The consolidated income and expenditure account and balance sheet include the financial statements of the company and its subsidiary undertakings made up to 31 December 2004. No income and expenditure account is presented for The Medical Defence Union Limited as permitted by section 230 of the Companies Act 1985.

MDU Services Limited, in which the Group holds an interest on a long-term basis and is jointly controlled by the Group and Converium AG under a contractual agreement, is treated as a joint venture. In the Group financial statements the joint venture is accounted for using the gross equity method.

#### (c) Members' subscriptions

Members' subscriptions consists of subscriptions for members' services and insurance premiums received on behalf of members for payment to Zurich Insurance Company and Converium Insurance (UK) Limited in the UK and Eagle Star Insurance Company (Ireland) Limited in Ireland with the Group operating as principal. These are accounted for on the basis of amounts due and received by the Group before the balance sheet date, without apportionment. No segmental or geographical analysis of members' subscriptions is provided as, in the opinion of the Board, it is not in the interest of the Group to disclose this information.

Subscriptions retained by the Company and Group, net of reinsurance premiums paid, referred to in note (d) below, represent additional income for the funding of indemnity payments and the provision of advisory services to members. It is not practical to allocate a separate fair value to these two components.

#### (d) Indemnity, legal, reinsurance and insurance costs

Expenditure on indemnity payments including the movement on the indemnity provision between the beginning and end of the year and legal charges covers the aggregate of all indemnity settlements, and legal services provided for members, together with insurance premiums, including those paid over to Zurich Insurance Company and Converium Insurance (UK) Limited in the UK and Eagle Star Insurance Company (Ireland) Limited in Ireland as and when received from members. These costs include plaintiffs' costs, payments on account, legal costs, representation at service committee appeals, at hospital enquiries and at the General Medical and Dental Councils, and legal assistance to members.

#### (e) Indemnity provision

Provision is made for the outstanding cost of settlement and related claimants' costs for indemnity cases from all reported incidents notified as at the balance sheet date up to the amount of Group and Company net book assets as the Group and Company liabilities cannot exceed their assets (see note 11(a)). The provision is calculated on the advice of the consulting actuaries and has been discounted to allow for future investment returns in accordance with FRS 12.

The estimated value of this provision is stated before estimated recoveries from insurers, which are disclosed separately as debtors and calculated by the consulting actuaries. The provision will be paid over an extended period and subject to agreement by all parties. The movement on the provision separately identifies the unwinding of the discount which is disclosed as a finance cost in the income and expenditure account. The principal financial assumption used in the calculation of the finance cost is that the rate used to unwind the discount is 3.25% per annum.

No provision is made for claims that may arise from incidents incurred before the balance sheet date but not reported to the Group at that date or for defendant legal costs, or for any case where the Board has declined to exercise or to continue to exercise its discretion to assist. Nearly all paying members now have an insurance policy and, for those who do, such claims are covered under the terms of the policy.

The principal financial assumptions used in the actuaries' calculation of the indemnity provision for the Group are that claims inflation will be 7.6% per annum (2003: 7.6% per annum) over the period of settlement and that a net discount rate of 2.8% per annum (2003: 3.3% per annum) is used to discount the claims payments to the balance sheet date.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2004

### (f) Non-mutual activities

Income from non-mutual activities and share of joint venture turnover represents the Group's share of the turnover of MDU Services Limited comprising expenses recharged to The Medical Defence Union Limited for the year ended 31 December 2004.

Share of operating profit in joint venture represents the Group's share of the profit before tax of MDU Services Limited for the year ended 31 December 2004.

### (g) Tangible fixed assets and depreciation

The cost of tangible fixed assets is written off evenly over their estimated useful economic lives. Reviews are made periodically of the estimated remaining lives of individual assets, taking account of commercial and technological obsolescence as well as normal wear and tear.

- Leasehold property improvements:  
Refurbishment costs on leasehold properties are written off over the shorter of the length of the lease and 10 years.

### (h) Investments

Listed and unlisted investments held at the balance sheet date are stated at closing valuation on that date. Movements on revaluation are accounted for through the investment revaluation reserve.

On disposal the proceeds are compared with the carrying value and the resulting profit or loss credited or charged to the income and expenditure account.

Investments that the Board have agreed to dispose of are transferred from fixed assets to current assets.

In the Company financial statements investments in subsidiary undertakings are carried at cost.

### (i) Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of transaction or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange at the balance sheet date or the appropriate forward contract rate. All differences are taken to the income and expenditure account.

### (j) Deferred taxation

Deferred taxation is provided using the full provision method following adoption of FRS19. Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

Deferred assets and liabilities are calculated at the tax rate expected to be effective at the time that the timing differences are expected to reverse, and are not discounted. Deferred tax assets are recognised to the extent that it is regarded more likely than not that they will be recovered.

### (k) Investment income

Investment income is accounted for on an accruals basis.

### (l) Leased assets

Operating lease rentals are charged to the income and expenditure account. The Group has no assets held under finance leases.

# NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2004

	2004	2003
	£'000	£'000
<b>2 Investment income</b>		
Loan and bank interest	2,408	2,944
<b>3 Indemnity, legal, reinsurance and insurance costs</b>		
Indemnity paid	38,264	56,803
Reduction in indemnity provision (note 11(a))	(25,039)	(57,341)
Reinsurance recoveries	(3,384)	(155)
Legal costs	12,432	11,694
Reinsurance and insurance costs	94,176	102,522
	<b>116,449</b>	<b>113,523</b>
<b>4 (a) Result Before Taxation</b>		
Result before taxation has been arrived at after charging/(crediting) the following:		
Depreciation (note 6)	187	186
Auditors' remuneration - as auditors	47	53
- for non-audit work	131	144
<b>(b) Directors' Remuneration</b>		
Fees	299	278
Other emoluments (including pension contributions)	315	220
	<b>614</b>	<b>498</b>
Emoluments (excluding pension contributions) of the highest paid director	166	116
At 31 December 2004 the accrued pension rights of the highest paid director was £52,303 (2003: £48,198)		
	<b>Number</b>	<b>Number</b>
Average number of employees in the year (including executive directors)	3	3
<b>(c) Pensions</b>		
Under the terms of the arrangements between the Company and MDU Services Limited (see note 16) the Company is responsible for any deficit of the pension scheme for which MDU Services Limited is the principal employer. Full disclosure of the financial position of this scheme is made in the accounts of MDU Services Limited. As at 31 December 2004 the scheme had an excess of liabilities over assets, under FRS 17, of £8.2m (2003: £5.7m).		

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2004

	2004	2003
	£'000	£'000
<b>5 Taxation</b>		
<b>(a) Income and Expenditure Account</b>		
Corporation tax for the year at 30% (2003: 30%) on income and capital gains from investments	415	247
Adjustment in respect of previous years	(336)	(10)
	<b>79</b>	<b>237</b>
Deferred taxation	(6)	12
Share of joint venture's taxation charge	189	48
<b>Taxation charge</b>	<b>262</b>	<b>297</b>
<b>Factors affecting tax charge for the year</b>		
The tax assessed for the year is less than the standard rate of corporation tax in the UK (30%). Reconciling items are explained below:		
Result from mutual activities before taxation	125	(507)
Result before taxation multiplied by standard rate of corporation tax in the UK of 30% (2003:30%)	38	(152)
Effects of:		
Results exempt from taxation	371	411
Capital allowances in excess of depreciation	4	(12)
Capital loss not utilised	2	-
Adjustments to tax charge in previous periods	(336)	(10)
	<b>79</b>	<b>237</b>
<b>(b) Statement of Total Recognised Gains and Losses</b>		
Corporation tax for the year at 30% (2003: 30%) on capital gains from investments	129	11
The potential tax liability on unrealised gains arising on the revaluation of investments is estimated to be nil (2003: £120,000) for the Group and nil (2003: nil) for the Company.		

NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 31 December 2004

**6 Fixed Assets - Tangible  
Group and Company**

	Leasehold Properties and Improvements under 50 years
	£'000
<b>Cost</b>	
At 1 January 2004	1,894
Disposals	(21)
At 31 December 2004	1,873
<b>Depreciation</b>	
At 1 January 2004	619
Provided in year	187
Disposals	(3)
At 31 December 2004	803
<b>Net book amount</b>	
At 31 December 2004	1,070
At 31 December 2003	1,275



**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2004

**7 Fixed Assets - Investments**

Group	Listed Investments	Cash & Investment in Cash Fund	Total
	£'000	£'000	£'000
At 1 January 2004:			
At valuation	38,193	-	38,193
At cost	-	25,090	25,090
	38,193	25,090	63,283
Realisation of investments	(38,193)	-	(38,193)
Net increase in cash	-	11,701	11,701
At 31 December 2004	-	36,791	36,791

Joint Venture - Group	Group
	£'000
At 1 January 2004	1,569
Share of operating profit in joint venture	266
Share of taxation on operating profit in joint venture	(189)
At 31 December 2004	1,646

Company	Subsidiary Undertakings	Joint Venture	Total
	£'000	£'000	£'000
Cost - as at 1 January 2004 & 31 December 2004	10	2,357	2,367

Listed investments are stated at valuation. Cash held for investment and investments in subsidiary undertakings are stated at cost. The listed investments are all listed on recognised stock exchanges. On an historic cost basis, investments would have been included as follows:

	2004		2003	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Listed investments	-	-	37,181	-

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2004

**7 Fixed Assets - Investments (continued)**

The Company, either directly or indirectly, holds the entire issued ordinary share capital of the following subsidiaries which principally affect the figures shown in the Company's accounts: directly MDU Investments Limited, an investment company, incorporated in England and indirectly MDU Insurance Limited, an insurance company, incorporated in Guernsey.

The directors of the Company consider that disclosure of dormant subsidiary undertakings would result in a statement of excessive length and have therefore, as permitted under Schedule 5 of The Companies Act 1985, dispensed with the requirement.

The investment in the joint venture represents the Company's interest in 75% of the ordinary shares and 50.1% of the voting shares of MDU Services Limited. This company was incorporated as a limited liability company in England and certain aspects of the discretionary cover provided by The Medical Defence Union Limited are being operated by MDU Services Limited on an agency basis. The other party to the joint venture is Converium AG. The Company's interest comprises 100% of the A and B ordinary shares and F participating preference shares of MDU Services Limited.

<b>8</b>	<b>Current Assets - Investments</b>	<b>Group</b>
		<b>£'000</b>
	Valuation at 1 January 2004	16
	Disposals	(6)
	Revaluation movement	(6)
	Valuation at 31 December 2004	4

The above investments represent those investments which it is the intention of the company to dispose of.

<b>9</b>	<b>Debtors</b>	<b>2004</b>		<b>2003</b>	
		<b>Group</b>	<b>Company</b>	<b>Group</b>	<b>Company</b>
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
	Amounts owed by subsidiary undertakings	-	19,344	-	2,451
	Amounts owed by joint venture	10,651	10,651	7,070	7,070
	Other debtors	1,547	232	1,912	214
	Prepayments and accrued income	1,138	1,138	1,200	1,200
	Reinsurance and insurance recoveries	34,106	35,602	35,043	69,361
		<b>47,442</b>	<b>66,967</b>	<b>45,225</b>	<b>80,296</b>
	Amounts falling due after more than one year included above are:				
	Reinsurance and insurance recoveries	32,841	33,796	32,958	60,263
		<b>32,841</b>	<b>33,796</b>	<b>32,958</b>	<b>60,263</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2004

10 Creditors	2004	2003
	£'000	£'000
Falling due within one year:		
Taxation and social security	280	114
Other creditors and accruals	11,451	6,550
	<b>11,731</b>	<b>6,580</b>

	Group	Company
	£'000	£'000
<b>11 (a) Indemnity Provisions</b>		
At 1 January 2004	105,812	82,946
Finance costs	1,992	1,145
Reduction in indemnity provision	(25,039)	(16,953)
At 31 December 2004	<b>82,765</b>	<b>67,138</b>

In accordance with the Group's accounting policy for indemnity provisions explained in note 1(e), the charge to the Income and Expenditure account has been increased by £5.3m, representing a reversal of prior years' restrictions (2003: restriction of £28.9m), to maintain the indemnity provision at no more than the net assets of the Group. This sum will be covered by the Group's future business contributions and by the Group's reinsurance programme and capital funding if required. In aggregate the restriction on the indemnity provision is £119.1m (2003: £124.4m).

**(b) Other Provisions**  
**Group and Company**

	Reorganisation Costs	Deferred Tax	Total
	£'000	£'000	£'000
At 1 January 2004	6	103	109
Utilised in the year	(6)	-	(6)
Income and Expenditure Account	-	(6)	(6)
At 31 December 2004	<b>-</b>	<b>97</b>	<b>97</b>

The deferred tax liability represents the potential tax owing, due to capital allowances on leasehold improvements being less than the depreciation that has been charged to date in the accounts.

NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 31 December 2004

**12 Reserves Group**

	Investment Revaluation Reserve	Accumulated Fund	Total
	£'000	£'000	£'000
At 1 January 2004	1,028	(1,028)	-
Taxation charge on investment gains	-	(129)	(129)
Transfer of realised gains	(1,028)	1,028	-
Result for year	-	129	129
At 31 December 2004	-	-	-

**13 Notes to the Consolidated Cash Flow Statement**

	2004	2003
	£'000	£'000
(a) Reconciliation of surplus/(deficit) before taxation to net cash (outflow) from operating activities		
Result before taxation	391	(345)
Share of operating profit in joint venture	(266)	(162)
Investment income	(2,402)	(2,944)
Realised (gains) from disposal of investments	(167)	(534)
Depreciation	187	186
(Increase)/Decrease in debtors	(2,034)	7,900
Increase in creditors	392	417
(Decrease) in provisions	(23,059)	(53,879)
Net cash (outflow) from operating activities	(26,958)	(49,361)

	At 1 January 2004	Cash Flows	At 31 December 2004
	£'000	£'000	£'000
(b) Analysis of net funds			
Cash held for investment and investments in cash funds	384	36,407	36,791
Deposits at bank	5,733	1,907	7,640
	6,117	38,314	44,431

Cash includes investment cash funds which are repayable on notice of not more than one working day.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2004

**14 Financial Commitments**  
**Group and Company**

Annual commitments in respect of non-cancellable operating leases are as follows:

	<i>Land and Buildings</i>	
	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
Operating leases which expire:		
After five years	<b>965</b>	<b>965</b>

**15 Contingent Liabilities**

Claims are made against The Medical Defence Union Limited in the ordinary course of business.

Having obtained legal advice on such claims and on the basis of the information available, in the opinion of the directors no provision is needed for such claims.

**16 Members' Liability**

The Medical Defence Union Limited is a company limited by guarantee not exceeding £1 per member.

**17 Related Party Transactions**

The Group has taken advantage of the exemptions available in respect of its wholly owned subsidiary undertakings and the disclosure of related party transactions within the Group and balances eliminated on consolidation.

During the year the Group entered into transactions, in the ordinary course of business with MDU Services Limited, a joint venture company in which the Group has an interest in 75% of the ordinary shares and 50.1% of the voting shares. The trading balance outstanding at 31 December is disclosed in note 9 to these accounts. MDU Services Limited collected subscriptions on behalf of the Group's members of £137,523,000 (2003: £132,294,000); handled claims on behalf of the Group amounting to £41,134,000 (2003: £25,652,000) and overheads and other costs totalling £21,957,000 (2003: £20,007,000) were recharged to the Group during the year.

# NOTICE OF ANNUAL GENERAL MEETING OF THE MEDICAL DEFENCE UNION LIMITED

Notice is hereby given that the Annual General Meeting of The Medical Defence Union Limited (a company limited by guarantee) will be held at 230 Blackfriars Road, London, SE1 8PJ on Tuesday, 20 September 2005 at 2.00 pm for the following purposes:

To receive reports of the Board of Management and the auditors and the financial statements for the year ended 31 December 2004. **Resolution 1**

To elect M Arnold who is due to retire under Article 56. **Resolution 2**

To elect A D Chambers who is due to retire under Article 56. **Resolution 3**

To elect Sir Robin Mountfield who is due to retire under Article 56. **Resolution 4**

To elect P D Robinson who is due to retire under Article 56. **Resolution 5**

To elect members of the Board of Management appointed under Article 56, recommended under Article 53(b)(i) or nominated under Article 53(b)(ii) after the date of the notice for the 2005 Annual General Meeting. **Resolution 6**

To re-elect the following members of the Board of Management, who are retiring by rotation under Article 51:

The Lord Glenarthur. **Resolution 7**

D E Markham (having been recommended by the Board of Management under Article 53(a)). **Resolution 8**

C M Tomkins (having been recommended by the Board of Management under Article 53(b)(i)). **Resolution 9**

To invite the Board of Management to appoint as members of the Council of the MDU for 2005-2006 the following: **Resolution 10**

A A J Adgey *CBEMD MB BCh BAO FRCP*  
A R Aitkenhead *BSc MD FRCA*  
P Armstrong *FMedSci FRCP FRCA*  
D F Badenoch *DM MCh FEBU FRCS*  
Sir Peter Bell *MD FRCS FRCS (Ed)*  
Hedley E Berry *MB BS FRCS*  
S J Bewley *MD FRCOG*  
M J Blott *MB BS FRCOG*  
M M Brown *MD FRCP*  
J D Budd *MA MB BCh FRCP*  
R J K Caddick *BDS MGS RCS (Ed)*  
K A V Cartwright *MA BM FRCPsych FFPsych*  
Sir Alan W Craft *MD FRCP FRCPsych FFPsych*

C C Evans *MD FRCP FRCPi*  
A Fitzgerald O'Connor *MB ChB FRCS*  
T E E Goodacre *MB BS LRCP FRCS*  
R H Hammond *MB ChB FRCS (Ed) FRCOG*  
J M Heath *BDS FDSRCS DDDP(UK)*  
A J Ireland *PhD MSc BDS FDS MOrth RCS Eng*  
G J Jarvis *MA (Oxon) FRCS FRCOG*  
W S L La Frenais *MB ChB DOBstRCOG*  
I Z MacKenzie *MA MD FRCOG DSc*  
D E Markham *MB ChB FRCS*  
A Middleton *BSc (Ed) MB ChB MPhil*  
P J Mulligan *MB ChB FRCS FRCS (Glas)*  
K W Murphy *MD NUI FRCOG FRCPi*  
G Neil-Dwyer *MB BS FRCS (Ed) FRCS MS*  
T J Norfolk *BDS MFGDP LLM*  
T C O'Dowd *MA MB FRCP FRCPi*  
O A Oyebode *MB BS MD PhD FRCPsych*  
R K Prasad *MB MS FRCS (Glas) FRCP*  
M A L Pringle *CBFRCP FRCP*  
M S Richmond *BSc MB ChB*  
B Riley *MBBS BSc MB BS LRCP MRCS FRCA*  
P Riordan-Eva *MA MB BChir FRCS FRCPsych*  
P D Robinson *PhD MB BS BDS FDSRCS*  
R C G Russell *MS FRCS*  
M Slater *Med EDH FETC DipDHE*  
C Thompson *MB BS BSc MPhil MD AFBPAS FRCPsych FRCP*  
L Turner-Stokes *MA MB BS DM FRCP ARCM*  
R H Vickers *MA BM BCh FRCS*  
T J Walley *MD MB BCh BAO FRCPi FRCP*  
P R Williams *MA MB BChir (Cantab) MRCP*  
J S Wyatt *FRCP FRCPsych*

To re-appoint Messrs PKF as auditors and to authorise the Board of Management to determine the remuneration of the auditors. **Resolution 11**

To consider and, if thought fit, pass the following Resolution, which will be proposed as a Special Resolution, relating to the Company's Articles of Association. **Resolution 12**

THAT the Articles of Association of The Medical Defence Union Limited be amended as follows:

NOTICE OF THE ANNUAL GENERAL MEETING OF  
THE MEDICAL DEFENCE UNION LIMITED

Article 12(b) and (c): delete in their entirety and  
insert:

- "b. Any member whose registration in any register or licence to practise the profession previously carried on by him in any place is suspended or restricted or made subject to conditions, whether or not as an interim measure, shall unless the Board of Management otherwise determines ipso facto forthwith cease to be a member of the MDU.
- c. Any member whose fitness to practise has been found to be impaired or who has been found guilty of serious professional misconduct in disciplinary proceedings in any jurisdiction (whether in those words or not and whether or not any sanction or penalty may have been imposed) or who has been given a warning by a registration body regarding his conduct or performance (whether in those words or not) shall unless the Board of Management otherwise determines ipso facto forthwith cease to be a member of the MDU."

By order of the Board of Management

*N J Bowman*

**N J Bowman**  
Company Secretary  
26 April 2005

**Registered Office**  
230 Blackfriars Road, London SE1 8PJ

## NOTES

1. Every member is entitled to attend and vote or may appoint a proxy who must be a member of the MDU. The proxy form is enclosed with this Annual Report. To be effective it must be deposited at the registered office not later than 2.00 pm on 18 September 2005.
2. Mr Michael Arnold BSc FIA, is the Principal and Head of Life Practice at Milliman UK in London. He joined the firm (formerly Hymans Robertson) in 1971. Previously he was Senior Partner of Hymans Robertson from 1995 to 2002. Mr Arnold acts as the Appointed Actuary to two UK life insurance companies, as well as fulfilling the role of Monitoring Actuary for other organisations. Mr Arnold was Chairman of the International Association of Consulting Actuaries between 1994 and 1996, and Chairman of the Association of Consulting Actuaries between 2000 and 2002. He joined the MDU Board of Management in September 2004.
3. Professor A D Chambers is the Deloitte Professor of Internal Auditing at London South Bank University Business School. He has belonged to audit committees in both public and private sectors for 14 years, chairing the Audit Committee of a FTSE 250 financial institution from 1995 to 2003. He was a Non-Executive Director of the Pilgrim Health NHS Acute Hospital Trust in Boston, is a Council Member of the Tavistock Institute and joined the MDU Board of Management in September 2004. He is the current Chairman of the Audit Committee. Professor Chambers is also author of Tottel's "Corporate Governance Handbook" and Tolley's "Internal Auditor's Handbook".
4. Sir Robin Mountfield KCB is a former senior civil servant and was Permanent Secretary of the Cabinet Office. Most of his previous career was in the DTI and in the Treasury. Since retiring he has held a number of independent directorships. He joined the MDU's Board of Management and the Board of MDU Services Limited in September 2004.
5. Mr P D Robinson PhD MB BS BDS FDSRCS (Eng), is a Consultant Oral & Maxillofacial Surgeon in London. He has been a member of the MDU's Council and Dental Advisory Committee since January 1999, and is the current Chairman of the Dental Advisory Committee. Mr Robinson joined the Board in September 2004.
6. The Lord Glenarthur joined the Board of Management in February 2002. He currently holds non-executive directorships in The Air League and Audax Trading (Overseas) Limited. He is also Governor of Nuffield Hospitals and a Commissioner of the Royal Hospital Chelsea. Lord Glenarthur was a Minister in the Government between 1982 and 1989 in various departments including DHSS from 1983 to 1985, and was responsible for health matters in Scotland between 1985 and 1986. Subsequently, he was Chairman of St Mary's Hospital, Paddington NHS Trust from November 1991 to March 1998. He is an active participant from the backbenches in the House of Lords and was elected in 1999 as a hereditary peer to remain in the transitional House.
7. Mr D E Markham MB ChB FRCS, is a Consultant Orthopaedic Surgeon in Manchester. He has served on the Council since 1980 and became a founder member of the Board in July 1991. Mr Markham chaired the Cases Committee from 1992 to 1997 and was Vice-Chairman of the Board and Vice-President of Council from 1997 to 2001. He has served as Chairman of the Board and President of Council since 2001. He is currently a director of MDU Services Limited.
8. Dr C M Tomkins BSc(Hons) MBChB(Hons) DO FRCS FRCOphth MBA, was appointed to the Board as Professional Services Director in 1995. Dr Tomkins joined the MDU as a medico-legal adviser in 1985 and was appointed Head of Claims Handling in 1993. She spent her clinical years training in ophthalmology.
9. References to clause numbers in the Special Resolution are taken from the published form of the Articles of Association of the MDU prepared following the 2002 Annual General Meeting. These may be seen on the MDU's internet site at [www.the-mdu.com](http://www.the-mdu.com). Copies may be obtained upon application to the Company Secretary. A version of the Articles of Association showing the changes proposed is available by arrangement with the Company Secretary, and a copy will be available at the meeting.
10. The proposed changes to the Articles of Association are for the following purposes:-
  - (i) to clarify the Articles following the introduction by the General Medical Council and General Dental Council of interim orders and fitness to practise procedures;
  - (ii) to make Articles 12(a), (b) and (c) consistent with each other.



## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE MEDICAL DEFENCE UNION LIMITED

We have audited the financial statements of The Medical Defence Union Limited for the year ended 31 December 2004 which comprise the Consolidated Income and Expenditure Account, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities contained within the Report of the Board of Management.

Our responsibility is to audit the financial statements in accordance with the relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Board of Management, the Operating and Financial Review and the Report of the Chairman are not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Report of the Board of Management, the Operating and Financial Review and the Report of the Chairman and consider the implications for our report if we become aware of any apparent misstatements within it.

### Basis of opinion

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

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

### Opinion

In our opinion the financial statements give a true and fair view of the state of the Group's and Company's affairs as at 31 December 2004 and the Group result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**PKF.**

**PKF**  
Registered Auditors  
London  
3 May 2005

## THE MEDICAL DEFENCE UNION LIMITED

### Chairman of the Board and President of Council

Mr D E Markham MB ChB FRCS

### Vice-Chairman of the Board and Vice-President of Council

Dr C C Evans MD FRCP FRCPi

### Board of Management

Prof P Armstrong FMedSci FRCP FRCS

Mr M Arnold BSc FIA

Mr Hedley E Berry MB BS FRCS

Prof A D Chambers BA Cong FCA FBGS

Dr C C Evans MD FRCP FRCPi

Mr M M Gallivan BA(Hons) FCMA MBA

The Lord Glenarthur DL

Mr D E Markham MB ChB FRCS

Sir Robin Mountfield KCB

Mr P D Robinson PhD MB BS BDS FDSRCS

Dr M T Saunders MB BS MRCS LRCP DOBstRCOG MRCGP

Dr C M Tomkins MB ChB(Hons) FRCS MBA

Prof T J Walley MD MB BCh BAO FRCPi FRCP

Dr P R Williams MA MB BChir (Cantab) MRCGP

### Council

Prof A A J Adgey CBE MD MB BCh BAO FRCP

Prof A R Aitkenhead BSc MD FRCA

Prof P Armstrong FMedSci FRCP FRCS

Mr D F Badenoch DM MCh FEBU FRCS

Prof Sir Peter Bell MD FRCS FRCS (Ed)

Mr Hedley E Berry MB BS FRCS

Dr M J Blott MB BS FRCS

Dr S J Bewley MD FRCS

Prof M M Brown MD FRCP

Dr J D Budd MA MB BChir FRCP

Dr R J K Caddick BDS MGDRC (Ed)

Prof K A V Cartwright MA BM FRCP Path FFPH

Prof Sir Alan Craft MD FRCP FRCPH FFPH

Dr C C Evans MD FRCP FRCPi

Mr A Fitzgerald O'Connor MB ChB FRCS

Mr T E E Goodacre MB MS LRCP FRCS

Mr R H Hammond MB ChB FRCS (Ed) FRCS

Dr J M Heath BDS FDSRCS DGD (UK)

Dr A J Ireland PhD MSc BDS FDS MOrth RCSEng

Mr G J Jarvis MA (Oxon) FRCS FRCS

Dr W S L La Frenais MB ChB DOBstRCOG

Mr I Z MacKenzie MA MD FRCS DSc

Mr D E Markham MB ChB FRCS

Dr A Middleton BSc (Ed) MB ChB MPhil

Mr P J Mulligan MB ChB FRCS FRCS (Glas)

Mr K W Murphy MD NUI FRCS FRCPi

Mr G Neil-Dwyer MB BS FRCS (Ed) FRCS MS

Mr T J Norfolk BDS MFGDP LLM

Prof T C O'Dowd MA MD MRCGP FRCP

Prof O A Oyebode MB BS MD PhD FRCPsych

Dr R K Prasad MB MS FRCS (Glas) FRCP

Prof M A L Pringle CBE FRCP FRCP

Dr M S Richmond MB ChB BSc

Dr B Riley MBE BSc MB BS LRCP MRCS FRCA

Mr P Riordan-Eva MA MB BChir FRCS FRCS(PhD)

Mr P D Robinson PhD MB BS BDS FDSRCS

Mr R C G Russell MS FRCS

Mrs M Slater MEd EDH FETC DipDHE

Dr G Strube MB BS MRCS LRCP DCH

Prof E M Symonds MD FRCS FFPH FACOG (Hon) FRANZCOG (Hon)

Prof C Thompson MB BS BSc MPhil MD AFBPaS FRCPsych FRCP

Prof L Turner-Stokes MA MB BS DM FRCP ARCM

Mr R H Vickers MA BM BCh FRCS

Prof T J Walley MD MB BCh BAO FRCPi FRCP

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