



21708

Report & Accounts 2001



The Medical Defence Union Ltd
for the year ended 31 December 2001

Board of Management, Council and Committees

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

Mr Hedley E Berry MB BS FRCS
Sir John Caines KCB MA
Dr E M Cooke OBE BSc MD FRCPath FRCP Hon Dip HIC
Mr R D Corley CBE FIA FRSA
Dr C C Evans MD FRCP FRCPI
Mr M M Gallivan BA(Hons) FCMA MBA
The Lord Glenarthur DL
Mr R W Hiles MB ChB FRCS FRCSed
Dr J G Kennedy BSc MDS MPhil PhD FDS FFD
Mr D E Markham MB ChB FRCS
Dr M T Saunders MB BS MRCS LRCP DOBstRCOG
Dr C M Tomkins MB ChB(Hons) FRCS MBA
Mr J P de Bloq van Kuffeler MA FCA
Dr P R Williams MA MB BChirCamb MRCP

Council

Prof A A J Adgey CBE MD MB BCh BAO FRCP
Prof A R Aitkenhead BSc MD FRCA
Prof P Armstrong FRCP
Mr D F Badenoch DM MCh FEBU FRCS
Prof J E Banatvala CBE MA MD FRCP FRCPath DCH DPH
Prof Sir Peter Bell MD FRCS FRCSed
Mr Hedley E Berry MB BS FRCS
Dr S J Bewley MD FRCP
Prof M M Brown MD FRCP
Dr R J K Caddick BDS MGDSRCS (Ed)
Dr E M Cooke OBE BSc MD FRCPath FRCP Hon Dip HIC
Prof A W Craft MD MB BS FRCP MRCP T (M) (Paediat)
Dr J Cunningham MDS FDSRCS (Ed)
Dr C C Evans MD FRCP FRCPI
Mr A Fitzgerald O'Connor MB ChB FRCS
Dr J M Heath BDS FDSRCS DGDP (UK)
Mr R W Hiles MB ChB FRCS FRCSed
Prof Sir David Hull MB ChB FRCP
Mr G J Jarvis MA(Oxon) FRCS FRCOG
Dr J G Kennedy BSc MDS MPhil PhD FDS FFD
Dr W S L La Frenais MB ChB DOBstRCOG
Mr I Z MacKenzie MA MD FRCOG DSc
Mr D E Markham MB ChB FRCS
Mr P J Mulligan MB ChB FRCS FRCSGlas
Mr G Neil-Dwyer MB BS FRCS(Ed) FRCS MS
Prof T O'Dowd MA MB MRCGP FRCGP
Prof O A Oyebode MBBS MD PhD FRCPsych
Dr R K Prasad MB MS FRCS (Glas) FRCGP
Prof M A L Pringle CBE FRCP FRCGP
Dr B Riley MBE BSc MB BS LRCP MRCS FRCA
Dr P D Robinson PhD MB BS BDS FDSRCS
Mr R C G Russell MS FRCS
Sir Patrick Holmes Sellors KCVO MA BM BCh FRCS
Prof J P Shepherd PhD DSc MSc BDS FDSRCS FFPHM FFAEM
Dr G Strube MB BS MRCS LRCP DCH

Prof E M Symonds MD FRCOG FFPHM FACOG (Hon) FRANZCOG (Hon)

Prof C Thompson MBBS BSc MPhil MD AFBPS 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 FRCP FRCPI

Dr P R Williams MA MB BChir (Camb) MRCP

Prof J S Wyatt FRCP FRCPC

Irish Affairs Committee

Dr P F Corkery MB MRCP

Prof N M Duignan MD MAO FRCOG

Senator M Henry MD MA DSc(hcUU)

Prof T O'Dowd MA MB FRCGP

Prof C O'Herlihy MD FRCPI FRCOG FRANZCOG

Prof W A Tanner MD FRCSI

Consultants

J W Brooke Barnett MB MBS

J A Wall MB BS DOBstRCOG

The Dental Defence Union

The specialist dental division of the MDU

Dental Advisory Committee

Dr R J K Caddick BDS MGDSRCS (Ed)

Dr J Cunningham MDS FDSRCS(Ed)

Dr J M Heath BDS FDSRCS DGDP (UK)

Dr J G Kennedy BSc MDS MPhil PhD FDS FFD

Dr P D Robinson PhD MB BS BDS FDSRCS

Prof J P Shepherd PhD DSc MSc BDS FDSRCS FFPHM FFAEM

Honorary Clinical Advisers

Prof A H Brook MDS FDSRCS

Dr R J K Caddick BDS MGDSRCS (Ed)

Dr J Cunningham MDS FDSRCS(Ed)

Dr J M Heath BDS FDSRCS DGDP (UK)

Dr J C G Jones BDS LDS FDSRCS PhD

Dr J G Kennedy BSc MDS MPhil PhD FDS FFD

Dr D R Kramer BDS LDSRCS

Prof R J McConnell BDS PhD FFD

Dr C Parnell BDS DGDP

Dr J R Radford PhD BDS FDSRCS FDSRCS (Ed)

Dr P D Robinson PhD MB BS BDS FDSRCS

Prof J P Shepherd PhD DSc MSc BDS FDSRCS FFPHM FFAEM

Mrs M Slater MEd EDH FETC DipDHE

Prof C D Stephens OBE MDS FDS MOrth RCS

Dr R E Turner LDS MGDS

Dr A G Vaughan FDSRCS FDSRCS MRDRC

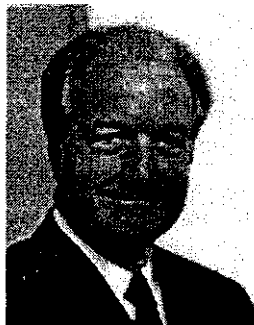
Prof R M Watson MDS FDSRCS

Prof P S Wright BDS PhD FDSRCS

Report of the Chairman

Supporting members throughout their professional careers

In September 2001 your Board invited me to be its new Chairman. I was honoured to take up a post which has been held by many eminent clinicians, not least my predecessor, Joe Smith. I was privileged to be his Vice-Chairman for four years and, before that, to admire his tireless work on behalf of the MDU over many years. Joe has held virtually every MDU Council office, always with distinction. His wise counsel, tact and diplomacy were very much appreciated and will be missed. I wish him a long, healthy and happy retirement.



Members' response to our risk management initiatives has been overwhelming. We are building on the success of last year's significant event audit pack by offering detailed advice on adverse incident reporting. This is available for GPs and hospital members, either in packs or on our website.

The website has been totally redesigned and has a unique feature – a "hot topics" section. It is updated weekly and features expert advice on topical medico-legal issues covering all areas of practice. The

new website is an extensive and unmatched medico-legal resource. I urge you to visit it at www.the-mdu.com

The strength of this company stems from a successful marriage between clinical and commercial expertise. Our commitment to clinical matters, our "raison d'être", is reflected in the fact that we are one of the few thriving companies led by doctors at Board and Executive level. More than half of the UK's doctors choose to belong to the MDU. This must be due in large measure to the fact that clinical considerations are integral to everything the MDU undertakes.

To succeed in business, the MDU needs to have a Board, Executive and staff with commercial experience, complemented by skilled advisers. In his report, Dr Michael Saunders outlines the continuing success of our commercial strategy, built upon that skill and expertise. I am convinced that the major factor in our success is that we, as clinicians, know what our fellow professionals want and need in the rapidly-changing environment in which our professions work.

When I set out to write this report, it became clear that the theme had to be the extensive and constant support the MDU offers to members throughout their professional lives: while they are undergraduates, in clinical practice and in retirement. Medical and dental students may not think they need medico-legal advice, but they do. For instance, when they embark on elective projects we can provide indemnity, as well as other practical support and assistance. The MDU helps students in a number of other areas and we are becoming increasingly inventive in our approach to undergraduate support. This year we launched an e-journal for medical students and we are particularly proud of the ten-week surgery revision course we sponsored in London. The lectures were provided for final-year medical students and were extremely popular, so much so that they are to be extended to include other cities in 2003.

For other medical and dental members there has been a range of initiatives designed to assist them to meet their ever changing clinical and professional requirements. We are sponsors of the RCGP's Accredited Professional Development programme. This was launched in April and is designed as a 'one-stop shop' to help GPs to assess their learning needs and to collect evidence which will be required for appraisals and GMC revalidation. MDU members get a considerable discount on this invaluable resource.

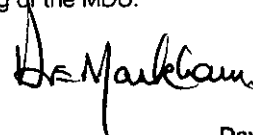
Recertification has been mandatory for dentists since January 2002. Dentists are required to undertake 15 hours of verifiable continuing professional development each year. To support them we offer dental members free access to *An Open and Shut Case*. This is one of a suite of interactive drama / documentary style Continuous Professional Development programmes produced by Redbus CPD, in collaboration with the Eastman Dental Institute. Presented by Head of DDU Rupert Hoppenbrouwers, it has proved extremely popular with new and existing members.

These are but a few of the highlights of a very full and busy year. We are able to offer members such a consistently high level of support and assistance because we employ a high calibre of talented and committed staff, exclusively dedicated to you, our members. Everyone plays a vital role and it is a pleasure to work with colleagues who really believe that our members should experience what our Chief Executive calls the 'WOW' factor whenever they contact us.

Baroness Hooper and Michael Rendle have also retired from the Board. Their wisdom and deep interest in the success of the MDU has been invaluable; Lady Hooper because of her extensive knowledge of government, and Michael Rendle because of his very considerable commercial expertise. I thank them both and wish them well.

There is one new Board member. Lord Glenarthur has personal experience of government. He was also involved in the management of St Mary's NHS Trust, as well as having diverse commercial experience.

I end by thanking you, our members, for your continuing support. I assure you that, in facing the challenges ahead, I will always endeavour to maintain and enhance the high standing of the MDU.



David Markham

Chairman of the Board of Management
President of the MDU

Operating and Financial Review

I am pleased to report that membership numbers in all categories continue to rise as does our share of the market. Over 50% of the UK's GPs and hospital doctors are MDU members and we continue as the leading medical defence provider in the UK and Ireland.

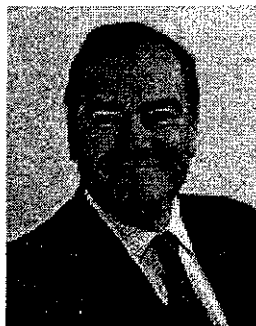
This loyalty testifies to members' faith in our strategy. Your Board believes that when it comes to meeting compensation claims arising from clinical acts, only the contractual certainty of regulated insurance will do. You need to know that you are covered and this, combined with traditional assistance and discretionary benefits of membership, including medico-legal advice, risk management, case studies and other matters not covered by an insurance policy, gives the best of both worlds and unparalleled security to members.

Sound financial planning

Medical indemnity is a long-term business. It may take years from the incident to resolution of a claim and, in general, the bigger the value of the claim, the longer it takes to resolve. This delay gives plenty of time for a claim's value and costs to rise well ahead of general inflation, an effect we know only too well. A recent example is the adjustment downwards of the UK discount rates which increased the value of many major claims.

While this escalation inevitably drives up subscriptions, MDU members who report an incident while they hold a policy have the reassurance that their claims are increasingly protected by their Zurich or Eagle Star insurance. Discretionary benefits rely, as ever, on the MDU's own funds and these are supported by re-insurance contracts with some of the world's largest providers. The establishment of our joint venture company allowed us to transfer, in 2001, the majority of the MDU's risks relating to future claims to insurers, the better to ensure peace of mind and security for our members.

As is shown in the Accounts, the effect of this is that the MDU's own fund is being deliberately reduced. Over the next few years the assets of the company, and the value of outstanding claims, will fall as we pay off the uninsured claims from the past. This is what these assets are for. When these claims have been paid, assets will again accumulate but at a slower rate than in past years because we will assume fewer potential liabilities. The majority of the liabilities and the financial risks will be covered by the Zurich or Eagle Star insurance policies as the claims are made, including those from incurred but not reported incidents.



The MDU has focused its services on the UK and Ireland. While a few claims from former members may yet emerge, the company is largely protected from the threat of having to meet claims from other territories, where the medico-legal climate can be very hostile and uncertain.

Robust reinsurance arrangements

The re-insurance arrangements described in last year's Annual Report protect our own funds and therefore do much to support our members' interests. These arrangements have been extended and revised. They help to protect members from the adverse consequences of stock market downturns. Moreover, additional capital funding is available if required. This further demonstrates the advantage to members of the joint venture arising out of long-term insurance relationships built up over many years.

Strong business partnerships

Members' own policies are underwritten by Zurich Insurance Company in the UK and by Eagle Star Insurance Company (Ireland) Limited in Ireland.

At the tail end of the year, the re-insurance arm of Zurich Financial Services was successfully floated off to form a separate, substantial and independent re-insurance company, Converium. Given the business and personal relationships built up over many years the Board of Management agreed that Converium should be the joint venture partner in MDU Services in the place of Zurich Insurance.

Nevertheless, your company's relationship with Zurich Insurance, one of the world's largest insurers, is a long term contractual one. This means that we are able now, and into the future, to give members the financial security of an insurance policy coupled with all the traditional benefits of discretion.

Ireland

In Ireland the obstetric litigation crisis continues, with the value of settled claims doubling in less than three years. Discussions continue concerning the introduction of the Clinical Indemnity Scheme. Broadly this would see the State assuming the liability for medical indemnity arising in public hospitals and for obstetric cases. Much of the detail remains to be agreed.

Supporting our members

In his report our Chairman, Mr David Markham, highlights some of the new services we introduced for members in 2001. The ethos of a "doctors for doctors" mutual is as strong as ever. The MDU, through MDU Services, continues to provide advice and support to members and specialised handling of claims, as it has always done, using experienced fellow professionals. The service we provide for members continues to be delivered in the same way as it has always been, with the same expertise.

During the year MDU Services became a member of the General Insurance Standards Council (GISC) which is: 'the watchdog established to set, monitor and enforce standards in areas of general insurance, including the fair treatment of customers'. Our membership further demonstrates our commitment to providing the highest quality of service to members.

St. Paul

The St Paul insurance company announced substantial losses arising from medical indemnity, and these led it to 'exit' medical professional indemnity insurance, world wide. It is pleasing that, at the time of writing, substantial numbers of former policyholders of the St. Paul have turned to the MDU for their continuing defence needs.

The departure of the St Paul shows what can happen when a company fails to charge the right price. The MDU believes that financial security for members is paramount and, sadly, this is not compatible with cheapness. As ever, one gets what one pays for.

Financial Review

Income

Subscription income for the year ended 31st December 2001 was £103m (2000 : £101m). As outlined last year this is solely from our UK and Ireland members following our planned exit from overseas territories over the last few years.

Investment income was £5.2m (2000 : £6.1m) and losses from disposal of investments were £10m (2000 : £1.2m). The latter was due to the sharp fall in the stock market in 2001.

Expenditure

In 2001 the MDU paid out on behalf of its members £64m in indemnity claims and legal costs (2000 : £77m). This reduction is in part due to a planned transfer of risk to the insurance policy underwritten by Zurich Insurance Company, withdrawal from overseas territories and the closure of the Irish courts due to the 'foot and mouth' crisis last year resulting in delays in proceedings.

Assets / Indemnity Provision

The balance sheet shows the total assets to be £211m compared to £299m in 2000. This reduction is due to stock market performance in the year, payment of insurance and reinsurance premiums and the settlement of known claims.

In assessing the position 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.

The level of indemnity provision has been calculated taking all of the above into consideration and is shown in the accounts up to the value of the total net book assets.

In overall terms the MDU's gross obligations in respect of outstanding indemnity claims have reduced by £33m in the year.

The level of indemnity provision in the accounts has been restricted by £81.7m (note 10a) because of the reduction in the total assets mentioned earlier. This sum is covered by our re-insurance programme and capital funding if required.

Joint Venture

The benefits of our joint venture provide additional security with the individual insurance policy of £10m (€12.7m in Ireland) that has been issued to nearly every paying member in the UK and Ireland. This policy covers all claims first notified in the policy period and associated claims handling and legal costs.

The net result of this strategy put in place over the last few years is that the Group can concentrate on providing the best advisory service, risk management and claims handling to members, the financial security for indemnity claims and associated legal costs being provided by a regulated insurer.

The changes in the last year serve to reinforce the Board's belief in its strategy for the future and the strengths of our joint venture. The core business remains strong with a growing membership base. Traditional values of service and commitment to members are being successfully combined with the strength of modern insurance practice.



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 2001.

Activities

The group's activities encompass the joint venture interest in MDU Services Ltd. Through MDU Services Ltd, the group provides paying members with insurance policies for claims of clinical negligence. These are underwritten by Zurich Insurance Company in the UK and by Eagle Star Insurance Company (Ireland) Limited in Ireland.

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 6 to 17, 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 2001:

D E Markham*#† (Chairman)
Hedley E Berry*†
Sir John Caines*#†
E M Cooke
R D Corley*#
C C Evans*#†
M M Gallivan†
R W Hiles
J G Kennedy
M T Saunders*†
C M Tomkins†
J P de Blocq van Kuffeler*#†
P R Williams†

M J Gifford† (resigned on 11 January 2001)
Baroness Hooper*# (resigned on retirement 18 September 2001)
M R Rendle*# (resigned on retirement 18 September 2001)
J C Smith*#† (resigned on retirement 18 September 2001)

* members of the Remuneration Committee

members of the Audit Committee

† directors or alternate directors of MDU Services Ltd

The following director, having been appointed since the last Annual General Meeting, stands for election at the 2002 Annual General Meeting:

The Lord Glenarthur

Lord Glenarthur joined the Board of Management in February 2002. He currently holds non-executive directorships of Millennium Chemicals Inc, the British Helicopter Advisory Board, The Air League, and Whirly Bird Services Ltd. He is also a Governor of Nuffield Hospitals, Chairman of the European Helicopter Association and of the International Federation of Helicopter Associations. He is a Commissioner of the Royal Hospital Chelsea and a consultant to Audax Trading Ltd. 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 an hereditary peer to remain in the transitional House.

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:

Sir John Caines
Mr R W Hiles
Dr J G Kennedy
Mr D E Markham

Corporate governance

The Board of the MDU supports the principles expressed in the Combined Code. The Board complies with the bulk of the provisions of the code where they are appropriate to the MDU's structure as a company limited by guarantee, there being no shareholders and no payment of dividends.

The Board has a schedule of matters reserved to itself and has a procedure for directors to obtain independent advice.

The Board has an audit committee (chaired by Mr R D Corley, a non-executive director) which consists of the Chairman of the Board, the Vice-Chairman of the Board, all the non-executive members of the Board who are not also members of The MDU and two members of the Board of MDU Services Ltd. The committee meets not less than twice a year. The Board also has nomination and remuneration committees.

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 directors acknowledge that they are responsible for the group's 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 Board, through the audit committee, has reviewed the effectiveness of the internal control environment of the group. The internal and external auditors attend meetings of the audit committee.

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
12 September 2002

Consolidated Income and Expenditure Account

for the year ended 31 December 2001

		2001	2000
	Notes	£'000	£'000
Members' subscriptions		102,810	100,612
Investment income	2	5,205	6,137
Realised gains and losses from disposal of investments		(10,011)	(1,194)
Total mutual income		98,004	105,555
Less:			
Medical and dental advisory services		13,725	12,255
Indemnity, legal, reinsurance and insurance costs	3	52,258	77,601
Administrative costs		8,469	8,230
Reorganisation and relocation costs		-	2,527
Finance cost		8,327	12,141
Total mutual expenditure		82,779	112,754
Result from mutual activities		15,225	(7,199)
Income from non-mutual activities		11,395	7,045
Less: share of joint ventures turnover		(11,395)	(7,045)
Share of operating profit in joint venture		101	42
Exceptional item before taxation	4(a)	-	527
Result before taxation	4(b)	15,326	(6,630)
Taxation	5(a)	635	312
Result after taxation transferred to accumulated fund	11	14,691	(6,942)

All activities relate to continuing operations

Consolidated Statement of Total Recognised Gains and Losses

for the year ended 31 December 2001

	Notes	2001	2000
		£'000	£'000
Result after taxation excluding share of profits of joint venture		14,590	(6,984)
Share of joint venture's profit for the year		101	42
Unrealised (deficit)/surplus on revaluation of investments		(13,109)	(6,822)
Impairment of leasehold property		(425)	-
Taxation charge on investment gains	5(b)	(1,157)	(3,940)
Total recognised gains and losses since the last annual report		-	(17,704)

Note of Historical Cost Gains and Losses

for the year ended 31 December 2001

	2001	2000
	£'000	£'000
Reported result before taxation	15,326	(6,630)
Realisation of investment gains of previous years	17,504	16,713
Difference between an historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	29	62
Historical cost result before taxation	32,859	10,145
Historical cost result after taxation	32,224	9,833

Consolidated and Company Balance Sheets

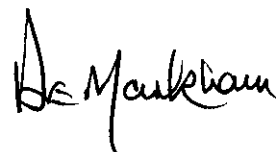
at 31 December 2001

	Notes	2001		2000	
		Group £'000	Company £'000	Group £'000	Company £'000
Fixed assets					
Tangible assets	6	4,371	4,371	5,009	5,009
Investments	7	149,187	7,357	237,597	144,557
Investment in joint venture					
Share of gross assets		6,290	-	5,522	-
Share of gross liabilities		(4,944)	-	(4,277)	-
	7	1,346	-	1,245	-
		154,904	11,728	243,851	149,566
Current assets					
Debtors	8	59,255	181,977	58,769	134,443
Cash at bank and in hand		8,820	6,042	8,687	8,588
		68,075	188,019	67,456	143,031
Creditors - amounts falling due within one year	9	12,005	11,604	12,316	11,748
Net current assets		56,070	176,415	55,140	131,283
Total - fixed assets and net current assets		210,974	188,143	298,991	280,849
Provisions					
Indemnity	10(a)	210,919	188,088	298,622	280,480
Other provisions	10(b)	55	55	369	369
Total provisions		210,974	188,143	298,991	280,849
Reserves					
Property revaluation reserve		671	671	1,096	1,096
Investment revaluation reserve		2,565	-	33,178	25,296
Accumulated fund		(3,236)	(671)	(34,274)	(26,392)
Total reserves	11	-	-	-	-
Total - provisions and reserves		210,974	188,143	298,991	280,849

Approved by the Board of Management on 12 September 2002



MT Saunders - Chief Executive



DE Markham - Chairman

Consolidated Cash Flow Statement

for the year ended 31 December 2001

		2001	2000
	Notes	£'000	£'000
Net cash (outflow) from operating activities	12(a)	(65,662)	(49,091)
Returns on investments			
Interest received		726	963
Investment income		3,646	4,820
Net cash inflow from returns on investments		4,372	5,783
Corporation tax paid		(3,829)	(3,735)
Capital expenditure and financial investment			
Purchases of fixed assets		(73)	(2,282)
Sales of fixed assets		-	5,555
Purchases of investments		(107,952)	(80,945)
Sales of investments		170,159	122,566
Net cash inflow from capital expenditure and financial investment		62,134	44,894
(Decrease) in cash	12(b)	(2,985)	(2,149)

Reconciliation of Net Cash Flow to Movement in Net Funds

for the year ended 31 December 2001

	2001	2000
	£'000	£'000
(Decrease) in cash	(2,985)	(2,149)
Movement in net funds	(2,985)	(2,149)
Net funds as at 1 January 2001	12,441	14,590
Net funds at 31 December 2001	9,456	12,441

Notes to the Financial Statements

for the year ended 31 December 2001

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 leasehold properties, 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 2001. No income and expenditure account is presented for The Medical Defence Union Ltd as permitted by section 230 of the Companies Act 1985.

MDU Services Ltd, 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 in the UK and Eagle Star Insurance Company (Ireland) Ltd in Ireland. 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.

(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 Eagle Star Insurance Company (Ireland) Ltd as and when received from members. These costs include claimants' 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 net book assets, on the advice of the consulting actuaries. The provision has been discounted to allow for future investment returns in accordance with Financial Reporting Standard 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 financial cost is that the rate used to unwind the discount is 3.6% 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. 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 (2000: 7.9% per annum) over the period to settlement and that a net discount rate of 3.8% per annum (2000: 4.1% per annum) is used to discount the claim payments to the balance sheet date.

(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 Ltd comprising expenses recharged to The Medical Defence Union Ltd for the year ended 31 December 2001.

Notes to the Financial Statements

for the year ended 31 December 2001

Share of operating profit/(loss) in joint venture represents the Group's share of the profit/(loss) after tax of MDU Services Ltd for the year ended 31 December 2001.

(g) Tangible fixed assets and depreciation

The cost/revalued amounts of tangible fixed assets are 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.

■ Long leasehold properties:

Long leasehold properties were valued on an existing use basis in 1999. On adoption of Financial Reporting Standard 15, the Group has followed the transitional provisions to retain the book value of long leasehold properties, but not to adopt a policy of revaluation in the future.

The cost/revalued amounts of long leasehold properties are written off over 50 years. Refurbishment costs on leasehold properties are written off over the shorter of the length of the lease and 10 years.

■ Office equipment:

20-33 per cent per annum on cost

■ Motor vehicles:

25 per cent per annum on cost

(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.

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 liability method only to the extent that it is probable that a liability or asset will crystallise.

(k) Pension costs

Pension costs represent amounts recharged from MDU Services Ltd.

All disclosures relating to the Medical Defence Union Pension and Life Assurance Scheme are included in the accounts of MDU Services Ltd.

(l) Leases

Operating lease rentals are charged to the income and expenditure account.

The Group has no assets held under finance lease arrangements.

(m) Investment income

Investment income is accounted for on an accruals basis.

Notes to the Financial Statements

for the year ended 31 December 2001

	2001 £'000	2000 £'000
2. Investment Income		
Investment income	4,479	5,174
Loan and bank interest	726	963
	5,205	6,137
3. Indemnity, Legal, Reinsurance and Insurance Costs	£'000	£'000
Indemnity paid	47,114	62,277
Reduction in indemnity provision (note 10a)	(96,030)	(32,511)
Reinsurance recoveries	(67)	(22,657)
Legal costs	16,604	14,912
Reinsurance and insurance costs	84,637	55,580
	52,258	77,601
4. (a) Exceptional Item Before Taxation	£'000	£'000
Profit on disposal of property in London	-	527
(b) Result Before Taxation	£'000	£'000
Result before taxation has been arrived at after charging/(crediting) the following:		
Depreciation (note 6)	286	652
(Profit) on disposal of fixed assets (including exceptional items)	-	(578)
Auditors' remuneration - as auditors	57	89
- for non-audit work	91	268
Operating lease rentals - land and buildings	-	66
(c) Directors' Remuneration	£'000	£'000
Fees	279	345
Other emoluments (including pension contributions)	245	397
	524	742
Emoluments (excluding pension contributions) of the highest paid director	91	140
At 31 December 2001 the accrued pension rights of the highest paid director was £36,882 (2000: £61,778). Retirement benefits are accruing to three directors under a defined benefit scheme (2000: four directors).		
(d) Staff Costs	£'000	£'000
Salaries	-	2,802
Social security costs	-	220
Other pension and related costs (note 1(k))	-	399
	-	3,421
Average number of employees in the year (including directors)	Number 3	Number 81

Notes to the Financial Statements

for the year ended 31 December 2001

	2001	2000
	£'000	£'000
5. Taxation		
(a) Income and Expenditure Account		
Corporation tax for the year at 30 per cent		
(2000: 30 per cent) on income and capital gains from investments	245	869
Adjustment in respect of previous years	390	(175)
Deferred taxation	-	(382)
	635	312

(b) Statement of Total Recognised Gains and Losses

Corporation tax for the year at 30 per cent		
(2000: 30 per cent) on capital gains from investments	1,157	3,940

The potential tax liability on unrealised gains arising on the revaluation of investments is estimated to be £490,000 (2000: £6,800,000) for the Group and £ nil (2000: £6,800,000) for the Company.

6. Fixed Assets - Tangible

Group and Company

	Leasehold Properties
	£'000
Cost/valuation	
At 1 January 2001	5,211
Additions	73
Impairment of leasehold property (note 11)	(425)
At 31 December 2001	4,859
Cost	1,784
Valuation	3,075
	4,859
Depreciation	
At 1 January 2001	202
Provided in year	286
At 31 December 2001	488
Net book amount	
At 31 December 2001	4,371
At 31 December 2000	5,009

Leasehold properties were externally valued in 1999, on an existing use basis. On adoption of Financial Reporting Standard 15, the Group has followed the transitional provisions to retain the book value of leasehold properties, but not to adopt a policy of revaluation in the future. On an historic cost basis, leasehold properties at valuation would have been included as follows:

	2001	2000
	£'000	£'000
Cost	4,400	4,400
Depreciation	(2,172)	(2,084)
	2,228	2,316
Leasehold properties at net book values comprise:		
Leases in excess of 50 years	2,841	3,381
Leases under 50 years	1,530	1,628

Notes to the Financial Statements

for the year ended 31 December 2001

7. Fixed Assets - Investments Group

	Listed Investments £'000	Unlisted Investments £'000	Cash held for Investment £'000	Total £'000		
At 1 January 2001:						
At valuation	233,767	76	-	233,843		
At cost	-	-	3,754	3,754		
	233,767	76	3,754	237,597		
Additions at cost	107,987	-	378	108,365		
Disposals	(180,170)	-	(3,496)	(183,666)		
Revaluation movement (note 11)	(13,074)	(35)	-	(13,109)		
At 31 December 2001	148,510	41	636	149,187		
Joint Venture – Group				Group £'000		
At 1 January 2001				1,245		
Increase in share of operating profit in joint venture				101		
At 31 December 2001				1,346		
Company	Subsidiary Undertakings £'000	Joint Venture £'000	Listed Investments £'000	Unlisted Investments £'000	Cash held for Investment £'000	Total £'000
At 1 January 2001:						
At valuation	-	-	133,600	76	-	133,676
At cost	5,000	2,357	-	-	3,524	10,881
	5,000	2,357	133,600	76	3,524	144,557
Additions at cost	-	-	24,597	-	-	24,597
Disposals	-	-	(48,392)	-	(1,073)	(49,465)
Revaluation movement (note 11)	-	-	(1,839)	(11)	-	(1,850)
Transfer of portfolio to subsidiary	-	-	(107,966)	(65)	(2,451)	(110,482)
At 31 December 2001	5,000	2,357	-	-	-	7,357

Listed and unlisted 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, listed investments would have been included as follows:

	2001		2000	
	Group £'000	Company £'000	Group £'000	Company £'000
Listed investments	145,892	-	200,612	108,327
Unlisted investments	54	-	54	54
	145,946	-	200,666	108,381

The Company holds the entire issued ordinary share capital of the following subsidiaries which principally affect the figures shown in the Company's accounts: MDU Insurance Limited, an insurance company, incorporated in Guernsey; and MDU Investments Limited, an investment company, incorporated in England. 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 51% of the voting shares of MDU Services Limited. This company was incorporated as a limited liability company in England and as from 2 May 2000 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 which acquired the shareholding in MDU Services Limited previously held by Zurich Insurance Company on 3 October 2001. The Company's interest comprises 100% of the A and B ordinary shares and F participating preference shares of MDU Services Limited.

Notes to the Financial Statements

for the year ended 31 December 2001

		2001		2000	
8.	Debtors	Group £'000	Company £'000	Group £'000	Company £'000
	Amounts owed by subsidiary undertakings	-	64,948	-	4,760
	Amounts owed by joint venture	8,618	8,618	6,317	6,317
	Other debtors	1,497	961	303	303
	Prepayments and accrued income	1,601	1,059	2,587	2,585
	Reinsurance and insurance recoveries	47,539	106,391	49,562	120,478
		59,255	181,977	58,769	134,443
Amounts falling due after more than one year included above are:					
	Amounts owed by subsidiary undertakings	-	19,948	-	-
	Prepayments and accrued income	142	142	142	142
	Reinsurance and insurance recoveries	37,108	82,164	44,686	107,154
		37,250	102,254	44,828	107,296
9.	Creditors	Group £'000	Company £'000	Group £'000	Company £'000
	Falling due within one year:				
	Taxation and social security	1,845	1,698	2,823	2,502
	Other creditors and accruals	10,160	9,906	9,493	9,246
		12,005	11,604	12,316	11,748
				Group £'000	Company £'000
10.(a)	Indemnity Provisions				
	At 1 January 2001			298,622	280,480
	Finance costs			8,327	4,313
	Reduction in indemnity provision			(96,030)	(96,705)
	At 31 December 2001			210,919	188,088
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 restricted by £54.9m (2000: £26.8m) to maintain the indemnity provision at no more than the net assets of the Group. This sum is covered by the Group's reinsurance programme and capital funding if required.					
10.(b)	Other Provisions			Reorganisation Costs £'000	
	Group and Company				
	At 1 January 2001			369	
	Utilised in the year			(314)	
	Income and Expenditure Account			-	
	At 31 December 2001			55	

Notes to the Financial Statements

for the year ended 31 December 2001

11. Reserves Group

	Property Revaluation Reserve	Investment Revaluation Reserve	Accumulated Fund	Total
	£'000	£'000	£'000	£'000
At 1 January 2001	1,096	33,178	(34,274)	-
Movement on revaluation of investments (note 7)	-	(13,109)	-	(13,109)
Impairment of the value of leasehold property (note 6)	(425)	-	-	(425)
Taxation charge on investment gains	-	-	(1,157)	(1,157)
Transfer of realised gains	-	(17,504)	17,504	-
Result for year	-	-	14,691	14,691
At 31 December 2001	671	2,565	(3,236)	-

Reserves Company

At 1 January 2001	1,096	25,296	(26,392)	-
Movement on revaluation of investments (note 7)	-	(1,850)	-	(1,850)
Impairment of the value of leasehold property (note 6)	(425)	-	-	(425)
Transfer of realised gains	-	(7,430)	7,430	-
Transfer of investment assets to group company	-	(16,016)	-	(16,016)
Taxation charge on investment gains	-	-	(1,065)	(1,065)
Result for year	-	-	19,356	19,356
At 31 December 2001	671	-	(671)	-

12. Notes to the Cash Flow Statement

	2001 £'000	2000 £'000
(a) Reconciliation of surplus/(deficit) before taxation to net cash (outflow) from operating activities		
Result before taxation	15,326	(6,630)
Provision against investment	-	1,154
Share of operating profit in joint venture	(101)	(42)
Investment income	(5,205)	(6,137)
Realised losses from disposal of investments	10,011	1,194
(Profit) on disposal of fixed assets	-	(578)
Depreciation	286	652
Decrease/(increase) in debtors	1,371	(26,637)
Increase in creditors	667	7,084
(Decrease) in provisions	(88,017)	(19,151)
Net cash (outflow) from operating activities	(65,662)	(49,091)

(b) Analysis of net funds

	At 1 January 2001 £'000	Cash Flows £'000	At 31 December 2001 £'000
Cash held for investment	3,754	(3,118)	636
Deposits at bank	8,687	133	8,820
	12,441	(2,985)	9,456

Notes to the Financial Statements

for the year ended 31 December 2001

13.	Capital Commitments	2001	2000
		£'000	£'000
	Capital expenditure contracted for but not provided for		
	- Group and Company	-	-

14	Financial Commitments		
	Group and Company		
	Annual commitments in respect of non cancellable operating leases are as follows:		
		Land and Buildings	
		2001	2000
		£'000	£'000
	Operating leases which expire:		
	After five years	965	965

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

16.	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 51% of the voting shares. The trading balance outstanding at 31 December is disclosed in note 8 to these accounts. MDU Services Limited collected subscriptions on behalf of the Group's UK members of £102,810,000 (2000: £54,140,000) and overheads and other costs totalling £22,033,000 (2000: £13,939,000) were recharged to the Group during the year.

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, 19 November 2002 at 2.00 pm
for the following purposes:

Resolution No.	
To receive reports of the Board of Management and the auditors and the financial statements for the year ended 31 December 2001.	1
To elect The Lord Glenarthur who is due to retire under Article 56.	2
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 2002 Annual General Meeting.	3
To re-elect the following members of the Board of Management, who are retiring by rotation under Article 51:	
Sir John Caines	4
Mr R W Hiles	5
Dr J G Kennedy	6
Mr D E Markham	7
To invite the Board of Management to appoint as members of the Council of the MDU for 2002-2003 the following:	8
A A J Adgey CBE MD MB BCh BAO FRCP A R Aitkenhead BSc MD FRCA P Armstrong FRCP D F Badenoch DM MCh FEBU FRCS J E Banatvala CBE MA MD FRCP FRCPATH DCH DPH Sir Peter Bell MD FRCS FRCSEd Hedley E Berry MB BS FRCS S J Bewley MD FRCOG M M Brown MD FRCP R J K Caddick BDS MGDS RCS (Ed) E M Cooke OBE BSc MD FRCPATH FRCP Hon Dip HIC A W Craft MD MB BS FRCP MRCP T(M)(Paediat) J Cunningham MDS FDSRCS (Ed) C C Evans MD FRCP FRCPi A Fitzgerald O'Connor MB ChB FRCS J Heath BDS FDSRCS DGD (UK)	
R W Hiles MB ChB FRCS FRCSEd G J Jarvis MA (Oxon) FRCS FRCOG J G Kennedy BSc MDS MPhil PhD FDS FFD W S L La Frenais MB ChB DOBst FRCOG I Z MacKenzie MA MD FRCOG DSc D E Markham MB ChB FRCS P J Mulligan MB ChB FRCS FRCS (Glas) G Neil-Dwyer MB BS FRCS(Ed) FRCS MS T O'Dowd MA MB FRCGP F Oyeboode MB BS MD PhD FRCPsych R K Prasad MB MS FRCS (Glas) FRCGP M A L Pringle CBE MB BS MRCS LRCP B Riley MBE BSc MB BS LRCP MRCS FRCA P D Robinson PhD MB BS BDS FDSRCS R C G Russell MS FRCS Sir Patrick Holmes Sellors KCVO MA BM BCh FRCS J P Shepherd PhD DDSc MSc BDS FDSRCS FFPHM FFAEM G Strube MB BS MRCS LRCP DCH E M Symonds MD FRCOG FFPHM FACOG (Hon) FRANZCOG (Hon) C Thompson MBBS BSc Mphil MD AFBPS FRCPsych FRCP L Turner-Stokes MA MB BS DM FRCP ARCM R H Vickers MA BM BCh FRCS T J Walley MD FRCP FRCPi P R Williams MA MB BChir (Camb) MROGP J S Wyatt FRCP FRCPCH	
To re-appoint Messrs PKF as auditors and to authorise the Board of Management to determine the remuneration of the auditors.	9

By Order of the Board of Management

N J Bowman

N J Bowman
COMPANY SECRETARY
12 September 2002
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 pm on 17 November 2002.
2. Lord Glenarthur joined the Board of Management in February 2002. He currently holds non-executive directorships of Millennium Chemicals Inc, the British Helicopter Advisory Board, The Air League, and Whirly Bird Services Ltd. He is also a Governor of Nuffield Hospitals, Chairman of the European Helicopter Association and of the International Federation of Helicopter Associations. He is a Commissioner of the Royal Hospital Chelsea and a consultant to Audax Trading Ltd. 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 an hereditary peer to remain in the transitional House.
3. Sir John Caines KCB is a former senior civil servant most of whose career was spent at the DTI. He is currently a member of the Financial Services Commission of Gibraltar and is the Independent Reviewer of the Advertising Standards Authority. Since retiring he has held a number of independent directorships and he is a current director of MDU Services Ltd.
4. Mr R W Hiles MB ChB FRCS FRCSEd is a Registered Specialist in Plastic Surgery based in Bristol. He joined the Council in March 1972. Mr Hiles is a past Chairman of the Skin Cancer Research Fund (SCARF) and a past President of the British Association of Plastic Surgeons.
5. Dr J G Kennedy BSc MDS MPhil PhD FDS FFD is a senior lecturer and honorary consultant in restorative dentistry at Queen's University of Belfast dental school. He has been a member of Dental Advisory Committee (formerly the Dental Committee) since 1989 and is currently chairman of that committee.
6. 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 the Council since 2001. He is currently a director of MDU Services Ltd.

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 2001 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.

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 judgments 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 and Company's affairs as at 31 December 2001 and the Group result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PKF.

PKF

London Registered Auditors
12 September 2002

Supporting you throughout your professional life

Chief Executive

Michael Saunders MB BS MRCS LRCP DOBstRCOG

Finance Director

Maurice Gallivan BA (Hons) FCMA MBA

Professional Services Director

Christine Tomkins MB ChB(Hons) FRCS MBA

Marketing and Sales General Manager

Nick Dungay BA(Hons) ACII MIDM

Company Secretary

Nicholas Bowman BSc(Econ)(Hons) ACIS

MEDICAL ADVISORY

Patrick Dando MB BS MRCP DOBstRCOG DA

Peter Schütte MB ChB Dip.MRCGP DMJ DA DRCOG

Eleanor Price

Sally Barnard MB ChB MRCGP DFFP

Gill Birt RGN Asth Dip FAETC PN Cert

James Brown BSc MB BS DA

Elizabeth Cheshire MRCS(Eng) MBBS(Hons) LLB(Hons)

Paul Colbrook MB BS MRCP DA

Peter Connell MRCS LRCP D Obst RCOG

Michael Devlin MB BS MRCP DOBstRCOG

John Gilberthorpe MA MB BChir DCH DOBstRCOG

Matthew Lee BM MRCP(UK) MRCPCH

Catriona McColl MB ChB DRCOG DFFP

David Morgan MB ChB MRCGP DRCOG

Nicholas Norwell MB BS MRCP DA DCH

Susan Parker RGN RM RHV FWT DipN(Lond)

Emma Sedgwick MB BS BSc DCH MRCPsych

Brigid Simpson MB ChB MRCGP

Hugh Stewart MB ChB LLB M Phil Dip LP

Louise Wilson MB ChB BSc MRCPCH

CLAIMS

Stephen Fash BA MA MIHM DipHSM

Christopher Blanchard BSc MRCPCH

Michael Byles

Alison Cooper MBBS FRCA

Yvonne Dempsey MB BCh BAO MRCGP

Richard Grimmett BA

Robert Grimmett ACII

Hilary Halfpenny BA PGCE

Jill Harding

Martin Hurst BSc MBBS MRCP(UK) PG Dip Law

Pamela Hutchinson LLB ACII PG Dip in healthcare ethics

Anahita Kirkpatrick MBBS BSc

Michael Kyriagis MBBS LLB

Thomas Leigh MA MB BS MRCPsych

Shamima Limalia LLB ACII

Ian McLaren ACII

Lynne McNamara

Sharmala Moodley MB BCh BAO LRCP

Taiye Omo-Ikerodah ACII

Glynis Parker MB ChB FFARCS DRCOG

David Franklin

Donal Quinn ACII

Frances Szekely MBBS

John Williamson MB BS MRCS LRCP Dip.Comm Em Med

Patricia Towey MA MB BS MRCP DOBstRCOG

CONSULTANT

Julia Neild MB BSc(Hons) FRCP

RISK MANAGEMENT

Stephen Green BSc(Hons) MB BS FRCP MRCP

Karen Dalby MBBS MRCP LLB

Geoff Earle BSc(Hons)

Helen Goodwin BA(Nursing) RGN ONC

Patrick Hoyte MA MRCS LRCP DCH DOBstRCOG

Rupert Lee MB BS MRCP

Joanna Mitchell BDS FDSRCS

Joan Moss SRN

Julie Price BA RGN Dip HE(PracNurs)

Matthew Robson MB ChB MRCP(UK) MRCPCH

THE DDU

Rupert Hoppenbrouwers BDS LDSRCS

Bryan Harvey BDS DGD

Iain Cuthbertson BDS LDSRCS

Mark Phillips BDS LDSRCS

Chris Roome BDS LDSRCS DGD(UK)

Peter Swiss BDS LDSRCS DGD(UK)

Penny Vasey MBE BDS DGD(UK)

LEGAL

Charles Dewhurst LLB

Ian Barker LLB

Joanne Bateman LLB

Joanne Brundrett LLB

Rex Forrester LLB(Cantur) LLM(Cantab)

Christine Freedman BA

John Kingston BA MSC

Sara Mason LLB, MA

Dallas Ross LLB

Tamsin Thomas MA

Alison Troake BA(Hons) Law

Hannah Williams LLB

Victoria Wilson LLB

CASE DECISIONS

Catherine James MB ChB FRCP

MEDIA AND EXTERNAL RELATIONS

Mary-Lou Nesbitt

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AUDITORS

PKF



Supporting you throughout your professional life

In the light of the increasing pressures on doctors and dentists today, the MDU has been devoting more resources to helping our members than ever before:

Advice from fellow professionals, day or night

Medico-legal advisers at your disposal 24-hours a day, 365 days a year, who can provide you with advice, assistance and reassurance.

MDU advice at your fingertips at www.the-mdu.com

A new website offering members online access to the latest medico-legal and dento-legal information, case histories, membership information and advice whenever you need it.

Practical solutions for every day practice improvement

A dedicated team of liaison managers delivering up-to-date medico-legal presentations to members in their surgeries, hospitals and schools on subjects such as risk management and adverse incident reporting.

Support with your continuing professional development

We have put in place exclusive arrangements with the RCGP and for Dentists, Redbus CPD, offering you discounted access to the tools you require for your continuing professional development needs.

Representing Members' Interests

The MDU is using its influence to ensure members are represented with new bodies that affect clinicians' medico-legal interests, such as the National Clinical Assessment Authority and the National Patient Safety Agency.

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