

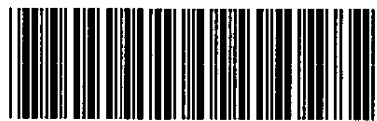
The Medical Defence Union Limited

(Registered number 21708)

Consolidated Financial Statements

for the year ended 31 December 2009

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The Medical Defence Union Limited

for the year ended 31 December 2009

Contents

	Page
Report of the Chairman	A1 - A3
Operating and Financial Review	B1 - B6
Directors' Report	C1 - C6
Independent Auditors' Report	1 - 2
Consolidated Income and Expenditure Account	3
Consolidated Statement of Total Recognised Gains and Losses	3
Consolidated and Company Balance Sheets	4
Consolidated Cash Flow Statement	5
Reconciliation of Net Cash Flow to Movement in Net Funds	5
Notes to the Financial Statements	6 - 23

Report of the Chairman

In contrast to last year's report, themed on the future, in this our 125th year I am proud to adopt a more reflective focus. While the MDU continually and successfully strives to break new ground in medical defence, in 2010 it seems fitting to look back at notable firsts and milestones which have helped to secure the MDU's position as the market leader for UK doctors and dentists.

The first MDO

The MDU, the first medical defence organisation (MDO) in the world, was founded on 23 October 1885 to 'support doctors morally and financially in medico-legal matters' and this also benefited patients by promoting measures to prevent mishap and malpractice. The need for such an organisation was recognised in particular as a result of two high-profile cases in which doctors were groundlessly accused of criminal assault but still had to organise and fund their own defence. In February 1887 Mr Lawson Tait, a prominent surgeon in the Midlands, was elected as the MDU's first president and our 'doctors for doctors' tradition began.

By 1947, and reflecting the times, the MDU had expanded to cover members' activities as they travelled to other 'parts of the Empire' to practise medicine and the MDU became an international organisation. However, 50 years later, the newly formed Board of Management realised that the increasing complexity of the international medico-legal climate meant the MDU was no longer in a position to affect the differing legal and regulatory systems in other jurisdictions where it did not have a substantial presence. It was no longer in members' interests for the MDU to be an international organisation and in 1999 we decided to concentrate on assisting members in the UK and the Republic of Ireland. The MDU strongly believes this is to the positive benefit of all our members and it enables us to continue to provide the highest possible standard of service to members, without any distractions.

MDU pays first £1million

The MDU paid its first one million pound medical negligence compensation award on behalf of a member in 1987, to a patient who suffered severe brain damage following an operation to remove a colloid cyst from his brain. In 1990 the Government introduced NHS indemnity for all healthcare professionals working in NHS hospitals and the community. Despite being indemnified by the NHS for all their NHS work, most hospital clinicians remained MDU

members as it is equally important to have access to advice and assistance on a wide range of medico-legal matters including disciplinary charges, criminal procedures and GMC and other complaints

First 24-hour advisory helpline

When I joined the MDU the major reason for membership of an MDO was to guard against the potential financial threat of clinical negligence claims. I did not even consider there might be a need for other advisory services. However, our members now face multiple jeopardy in that they can be held to account in several very different ways after just one incident. In 1983 the MDU was the first MDO to introduce a 24-hour advisory helpline for doctors and this is often the first point of contact that members have with us. In 2009 an analysis of medical advice line calls indicated that clinical negligence claims accounted for fewer than 10 per cent of the calls whereas the remainder were from members who wished to receive medico-legal advice.

First in-house claims handling

The MDU was the first MDO to have a dedicated claims handling unit. In the 1990s the numbers of clinical negligence claims against doctors and dentists rose steadily and peaked in 1999. Subsequently changes brought about by Lord Woolfe's reforms to the civil justice procedure began to take effect with the result that the claims the MDU now sees are more likely to result in settlement and payment of compensation on behalf of our members. Furthermore, there has been an increase in claims costs generally, because of increases in the cost of care, and a disproportionate increase in claimants' solicitors' costs as I highlighted in last year's report. Lord Justice Jackson published in January the findings of his review of civil litigation costs and we warmly welcome the proposals which, if adopted, should reverse the current discrepancy where claimants' solicitors' costs can greatly exceed the compensation the claimant receives.

I joined the MDU cases committee and Council in 1983, and became chairman in September 2006 on the retirement of Mr David Markham. It has been a privilege to have been associated with the MDU for over 45 years and to have played a part in continuing the 'doctors for doctors' ethos upon which everything that we do is grounded. It has also been a fascinating time medico-legally.

First dento-legal education awards

In 1948, on the introduction of the NHS, the MDU began to welcome dentists as members. In 1994 this element of the MDU was strengthened by the establishment of the Dental

Defence Union, a dedicated division for dental members. This division has gone from strength to strength and continues to grow, with two new dento-legal advisers being added to the team in 2009 in response to the increasing demand for advice and assistance from dentists and dental professionals. The DDU is proud to have been the first dental defence organisation to introduce vocational training awards for teachers and each year I have been glad to be involved in the dental educational awards scheme which rewards undergraduate and postgraduate dental and DCP teachers for their excellence.

First and only mutual providing members with discretionary indemnity and insurance

In 2000 the MDU was the first mutual medical and dental defence organisation to provide members with an insurance policy for clinical negligence claims. This has proved very popular in guaranteeing a growing number of members security of cover and the certainty that their patients will receive compensation when appropriate. In 2006 the MDU designed a special package for corporate members aimed at companies who provide medical and dental services and require indemnity in their own name. This is an example of how the MDU responds to members' needs in an ever-changing professional climate.

Proud to be a doctor-led mutual

2009 saw the appointment of Dr Christine Tomkins to the position of Chief Executive of the MDU and under her leadership, with the support and dedication of her loyal team of staff, I am confident that the MDU can look forward to continuing success as demonstrated in this year's encouraging financial report. We are not resting on our laurels, and while I am proud to reflect on the MDU's prominent involvement in the field of medical defence over the last 125 years, we continue to look to the future and to strive for excellence in the support and advice that we provide to our members.

It is with pleasure and thanks that I acknowledge the vigorous contribution made by Professor Peter Armstrong who retired from the Board in September 2009, and I am delighted to welcome his successor, Professor Sir Alan Craft.

Finally it is my sad duty to report the death of Dr Fred Shelley, who was a medico-legal adviser at the MDU from 1969 to 1984 and well known to the many members whom he assisted.



C C Evans
Chairman of the Board of Management
President of the MDU

Operating and Financial Review 2009

Having become Chief Executive of the MDU in 2009, I must first congratulate and thank my predecessor, Dr Michael Saunders. It is a tribute to him and the way he managed the company and inspired staff members that the MDU is in such good shape and, as we describe in this Annual Report, we continue to build on that success.

The MDU remains the only mutual defence organisation to have a doctor at the helm and I am delighted to carry on that tradition. It is important that the MDU is led by clinicians because our experience means we understand what matters most to members. All clinicians learn as students the value of working in teams, dedicated to the same end and supporting and encouraging one another. That same ethos applies to the way we work at the MDU. We are a modern, forward-thinking and innovative company and combine that with an entirely member-focused culture where all the MDU's staff are dedicated to giving members a first class service. The MDU is here for our members, and not just when something goes wrong. It is an honour to lead the MDU team and members often tell me how much they appreciate our specialised service. I can best illustrate this with a quote from a member. It is about an in-house solicitor, but it exemplifies the approach that all of us at the MDU take to our jobs, whatever we do.

'I don't suppose looking after a doctor facing the GMC is easy. His superb legal knowledge, understanding and tactics have been applied along with a very courteous and attentive manner. His seriousness, prompt attention to the last and tiniest details meant I could always trust his judgements. He was always well prepared and ahead at every twist and turn.'

Dr Saunders promoted the MDU's culture of dedicated service to our members and I will make sure it continues.

Business Review

Strategy

The company's objective is to provide the highest quality of medico-legal support to members at the lowest cost compatible with financial security. We do this by providing members with specialist advice from doctors, dentists, lawyers and other professionals who combine an understanding of the realities of clinical practice with medico-legal expertise, and through the provision of insurance policies provided by regulated insurers. As a not-for-profit mutual organisation, fairness and quality are essential to our reputation.

It remains your Board's view that insurance offers the best guarantee of compensation for patients and indemnity for practitioners. The MDU is unique in providing members with a policy of insurance for clinical negligence claims, in addition to the traditional discretionary benefits of membership. Legislation was passed, in 2006 and 2005 respectively, which would require doctors and dental professionals to have adequate and appropriate indemnity in force for liabilities they may incur in their practice. The GMC and GDC have powers to put in place regulations to define adequate and appropriate indemnity and have not used these powers. The legislation is not yet in force. We are now awaiting a decision by the Department of Health, following a review of its whole policy, as to whether it will require all healthcare professionals to have mandatory insured indemnity as a condition of registration. We do not believe this continuing uncertainty is satisfactory for clinicians or patients, all of whom need to know that there is a contractual guarantee of indemnity for clinical negligence claims which only a regulated insurance policy can provide.

Principal risks and uncertainties

The key challenge for the MDU is to maintain and improve its position in the competitive market in which it operates, while ensuring it has sufficient financial resources to meet future liabilities.

The medico-legal environment is ever-changing and the MDU monitors developments closely, making representations in members' interests when appropriate.

The MDU has an established risk management procedure which includes assessment of insurance/reinsurance security, currency risk and staff development and retention policy. It also has a conflict of interest register and procedures to ensure that members are treated fairly. These are reviewed by the Board regularly to ensure that the necessary procedures and strategies are in place to manage risks appropriately.

Key performance indicators

The company is committed to maintaining strong management, organisational effectiveness, tight cost control and appropriate investment in systems and technology, to deliver the optimal service to members.

The MDU monitors its business activity by means of a number of key performance indicators (KPIs) which the Board considers on a quarterly basis. These KPIs are designed to track the activity and achievement of the company. They are described below in conjunction with relevant results, in order to illustrate the MDU's achievements during 2009.

1 Membership statistics

The MDU monitors all areas of its membership and evaluates any movements in renewals activity, leavers, junior doctor, graduate and student applications, and recruitment overall

Our membership base continues to rise and by the end of 2009 the MDU had over 196,000 members. This represents in excess of 50% of the UK market, underlining the MDU's status as the UK's leading medical defence organisation. There is a prospect that we will register our 200,000th current member in 2010, our 125th year.

2. Quality of service

The company monitors, by means of regular membership surveys, satisfaction with service levels provided by the Medical and Dental Advisory, Claims and Membership Departments. The company encourages members to comment on the quality of services provided.

In 2009 the combined results of our regular member satisfaction surveys indicated that none of the members questioned was considering leaving the MDU, and 99% would be likely to recommend the MDU to colleagues.

We understand how important it is to members that your calls are answered as quickly as possible and we made further significant investment in our Membership Department to improve the speed and efficiency of the service. We are delighted that, during 2009, membership staff answered over 99% of the 126,615 calls we received. Of those calls, over 88% were answered in 20 seconds.

More important, it is clear that members appreciate the improvements in the service. A survey of members who had used the membership helpline indicated that nearly two-thirds thought the courtesy and speed of service offered by the MDU was superior to other organisations they had recently contacted, with just one caller considering the MDU inferior, for speed of answer.

As the NHS continues to increase the proportion of services commissioned from corporate entities, we have been actively helping a growing number of members who have established companies to put in place appropriate indemnity arrangements for their organisation. Our corporate indemnity solution includes a clinical indemnity policy for the company which intermeshes with the professional indemnity policy provided for individual MDU members, so both the company and the clinician are covered. Through a strategic alliance we are also able to source other insurance cover, such as public and employer's liability, to assist members to meet their needs.

3 Financial performance

Every quarter the Board reviews the MDU's overall financial performance including subscription levels, insurance premiums, claims payments, legal costs and claims reserves. Details are given below in the Financial Review, but the key figures are

The MDU's assets now total £194m (2008 £178m) with the balance sheet showing a surplus of £63.4m (2008 £28.5m) over indemnity, pension and other provisions of £131m (2008 £149m). This figure does not represent the total potential liability of our members since it excludes incurred but not reported cases (IBNR). The majority of these are picked up, as they are notified to us, by the insurance policy held by most paying members. The MDU remains the only UK medical defence organisation which gives its members the added security of insurance coupled with the advantages of discretion for claims outside the insurance policy and for all other medico-legal matters.

Ireland

In Ireland the dispute with the Department of Health and Children continues. Members will recall that it has as its basis the problem of historic obstetric liabilities and the imposition by the Irish Government of the Clinical Indemnity Scheme on consultants. The MDU's Board decided in 2004 in the interest of all members, that in some Irish obstetric cases it would decline to exercise its discretion to assist or continue to assist, and such decisions continue to be made.

The Irish Government has chosen to support litigation to challenge the Board's decisions in some cases. The Supreme Court of Ireland referred the question of jurisdiction as a matter of European law to the European Court of Justice. Judgement was given in October 2008 to the effect that only certain procedural aspects of the exercise of discretion were subject to Irish jurisdiction. The ambit of the Irish jurisdiction remains disputed and the cases are proceeding.

Meanwhile, the Irish Government has said that no Irish person who has suffered from a medical mishap would be left without compensation and no consultant would be left without cover in all reasonable circumstances and in accordance with law. The MDU understands this undertaking has been honoured to date.

The MDU continues to assist with some cases in Ireland and, as detailed in the Financial Review below, made significant payments of £7.5m (2008 £4.8m) on behalf of members and former members in Ireland.

Financial Review

Income

Subscription income for the year ended 31 December 2009 was £185.9m (2008 £180.7m), of which 97% was received from our UK members, the remainder, amounting to £5.4m, being from our members in Ireland

Added to the subscription income is investment income for the year of £3.6m (2008 £6.2m), bringing the total mutual income for the MDU group in 2009 to £189.5m (2008 £186.8m)

Expenditure

In 2009 the MDU paid out on behalf of its members £35.6m (2008 £31m) in discretionary indemnity claims and legal costs. Within the £35.6m of indemnity and legal payments for 2009, £7.5m (21%) relates to our Irish members' claims

Insurance and reinsurance premiums in 2009 were £116m (2008 £107m)

Following the successful renegotiation of the new insurance arrangements with SCOR in December 2007, the MDU has again been able to benefit from a positive adjustment of premium of £12.1m (2008 £20.8m) – see note 4 (premium element adjustment). This was due to an improvement in the claims experience of our members

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

The MDU also has a reinsurance programme, which includes additional protection for discretionary claims

Medical and dental advisory costs along with administrative costs amounted to £29.5m in 2009 (2008 £26.9m), the increase of £2.6m reflecting enhancements in the medical and dental advisory services for our members

Assets/Indemnity Provision

The balance sheet for the MDU now shows total assets of £194m compared to £178m in 2008. This improvement is mainly due to good operating and investment performance in the year and the benefit of the premium element adjustment referred to earlier.

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.

No provision is made for discretionary indemnity claims that may arise from incidents occurring before the balance sheet date but not reported to the MDU 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 level of indemnity provision, see note 13(a), has been estimated on the advice of consulting actuaries taking all the above factors into consideration, and is shown in the accounts at £126m (2008: £143m). This decrease in 2009 reflects the reduction in overall claims reserves as well as a favourable difference on the sterling/euro exchange rate at year end when compared to 31 December 2008.

In summary the MDU concentrates on providing the best advisory, risk management and claims handling service to members, with the financial security of insured claims and associated legal costs being provided through regulated insurance.



Dr Christine Tomkins
Chief Executive

DIRECTORS' REPORT

The directors present their report and the financial statements for the year ended 31 December 2009

Activities

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

Through MDU Services Ltd, the group provides paying members with insurance policies against claims of clinical negligence. These are underwritten by SCOR UK Company Ltd and International Insurance Company of Hannover Ltd in the UK and by Zurich Insurance Ireland Ltd in Ireland. MDU Services Ltd, a wholly owned subsidiary of the MDU, is authorised and regulated by the FSA as an insurance intermediary.

The MDU represents members' medico-legal interests by informing and thereby influencing the government and other bodies on matters relating to healthcare law and the regulatory environment with a view to ensuring that any changes in these areas are equitable and fair.

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 business of the year are highlighted. The financial statements on pages 1 to 23, 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 for 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 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 2009

<u>Board Member</u>	<u>No. of meetings attended</u>
C C Evans 1 3 4	5
P R Williams 1 2 3 4	4
P Armstrong 7	2
K A V Cartwright 1	4
H E Clarke 1 2 3 4	5
Sir Alan Craft 5	1
N A Dungay 3 5	2
M M Gallivan 3 4	5
M T Lee 3 5	2
R J C Pearson 1 2 3 4	5
K F Richardson 1 2 3	5
M S Richmond	5
P Riordan-Eva	5
P D Robinson 2 3	5
M T Saunders 1 3 4 6	2
C M Tomkins 1 3 4	5

- 1 Members of the Remuneration Committee
- 2 Members of the Audit Committee
- 3 Directors of MDU Services Limited
- 4 Member of the Investments Committee of MDU Investments Ltd
- 5 Appointed 15 September 2009
- 6 Retired 30 April 2009
- 7 Retired by rotation and did not stand for re-election at AGM

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

Prof K A V Cartwright
Mr R J C Pearson
Mr K F Richardson
Mr P Riordan-Eva

The Board appointed the following directors who will stand for election at the next Annual General Meeting in accordance with Article 55

Prof Sir Alan Craft
Mr N A Dungay
Dr M T Lee

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.

There are four executive directors, two of whom are also MDU members. The Board has three non-executive directors who are not members of the MDU and have no financial interest in the MDU other than their fees as Board members. There are seven non-executives with MDU membership, who receive fees as Board members and as expert witnesses. The Board does not consider that this compromises their independence as Board members. All the non-executive directors are therefore considered to be independent. 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 roles of Chairman and Chief Executive are defined in writing.

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 Board undertakes an annual evaluation of its performance by questionnaire. The Chairman reports back to the Board on the results of the evaluation.

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 five times in the year. The attendance record of the directors at the Board meetings is set out on page C2. 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. All Board members have access to the advice and services of the Company Secretary.

Audit Committee

The Board has an Audit Committee, which meets as often as necessary. The committee is chaired by Mr R J C Pearson, a non-executive director without MDU membership. Mr Pearson is a chartered accountant and has extensive audit experience. The committee includes four other non-executive members of the Board. The committee meets, and spends time alone with, 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 Audit Committee has a written policy dealing with any recommendation to the Board concerning the appointment of the external auditors, and with their remuneration including fees for non-audit work.

Nomination Committee

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.

Remuneration Committee

The Remuneration Committee, also chaired by the Chairman of the Board, makes recommendations on the remuneration of the executive directors, non-executive directors and members of the Council and of committees. The Remuneration Committee works on the basis that remuneration should be sufficient to attract, retain and motivate individuals of the quality required but without paying more than is necessary.

Internal Control

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 principal risks are identified in the Operating and Financial Review at pages B1 to B6.

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 risk management and internal control of the group.

Financial instruments

The group's financial risk management objective is broadly to seek to realise neither profit nor loss from exposure to currency or interest rate risks.

The group monitors its likely exposure to non-sterling claims and advisory costs and its policy is, where possible, to finance these through matching subscription and other receipts, and investment assets, held in the same currency. The matter is kept under constant review and if deemed appropriate forward contracts are entered into.

During the year the MDU's investment managers held derivative financial instruments in order to achieve the group's financial risk management objective. These instruments involve the purchase or sale of an underlying asset at a price fixed today for delivery at some date in the future. The table below shows the contracts that were entered into during the year. The net recognised gains and losses of these contracts are included in note 3 to the financial statements.

Risk characteristics of financial instruments

Interest rate risk

Derivatives are sensitive to interest rate movements so it is necessary to determine the interest rate risk that such contracts will be exposed to. This is done by comparing the risk of the underlying asset against the risk of the derivative.

Credit risk

Credit risk encompasses all forms of counterparty risk. The MDU manages this risk through its investment policy, which sets out the type and quality of investments that can be held and the maximum exposure to any particular investment. Credit risk is further managed by all such derivative contracts being of a short term nature.

Contracts entered into during the year

Currency	Contract Type
Australian Dollar	3 year bond future
Euro	Euribor 3 month option
Japanese Yen	Nikkei Index Option
Sterling	FTSE 100 index option
Sterling	Sterling MID-CRV option
US Dollar	US Long bond future

Liquidity risk

The group monitors the likely timing of the payment of its claims liabilities and its policy is to finance these through matching subscription and other receipts, and investment assets. As the Group's investment assets are mostly in easily traded financial instruments or cash the Group ensures that any liquidity risk is minimal.

Going Concern

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.

Relations with Members

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. Members of the Audit, Remuneration and Nomination Committees attend the AGM to respond to any relevant questions if necessary. The notice for the AGM is sent to members at least 21 days before the meeting.

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period.

In preparing these 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 responsible for keeping proper accounting records that are sufficient to show and explain the company's transactions and 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 2006. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

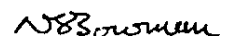
The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may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

Provision of information to auditors

In the case of each of the directors who are directors of the company at the date when this report is approved:

- so far as they are individually aware, there is no relevant audit information of which the company's auditors are unaware, and
- each of the directors has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of the information.

By order of the Directors



N J BOWMAN
Company Secretary
27th April 2010

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 2009 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. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' 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

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2009 and of the group's profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditors' Report to the members of The Medical Defence Union Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

PKF (UK) LLP

Timothy Drew (Senior statutory auditor)
for and on behalf of PKF (UK) LLP, Statutory auditors

London, UK
12 May 2010

Consolidated Income and Expenditure Account

for the year ended 31 December 2009

		2009		2008	
	Notes	£'000	£'000	£'000	£'000
Members' subscriptions			185,854		180,681
Investment income	3		3,646		6,157
Total mutual income			189,500		186,838
<u>Less</u>					
Medical and dental advisory services		18,441		16,248	
Indemnity, legal, reinsurance and insurance costs	4	118,812		122,901	
Administrative costs		11,066		10,626	
Finance cost	5	2,781		2,683	
Total mutual expenditure			151,100		152,458
Result from mutual activities before taxation			38,400		34,380
Taxation charge	7(a)		(867)		(1,668)
Result after taxation transferred to accumulated fund	15		37,533		32,712

All activities relate to continuing operations

Consolidated Statement of Total Recognised Gains and Losses

for the year ended 31 December 2009

	Notes	2009	2008
		£'000	£'000
Result after taxation		37,533	32,712
Actuarial loss on pension scheme	15, 17	(5,400)	(4,200)
Revaluation gain on investments		2,736	-
Total recognised gains and losses since the last annual report		34,869	28,512

Consolidated and Company Balance Sheets

as at 31 December 2009

Registered number 21708

		2009		2008	
	Notes	Group £'000	Company £'000	Group £'000	Company £'000
Fixed assets					
Tangible assets	8	2,914	201	3,236	392
Investments	9	153,861	5,160	118,666	5,160
		156,775	5,361	121,902	5,552
Current assets					
Debtors - amounts falling due within one year	10	19,271	176,679	27,903	156,797
Debtors - amounts falling due after more than one year	11	10,028	10,028	11,651	11,651
Cash at bank and in hand		21,749	6,318	30,648	11,536
		51,048	193,025	70,202	179,984
Creditors - amounts falling due within one year	12	13,783	10,178	14,104	9,647
		37,265	182,847	56,098	170,337
Net current assets					
		194,040	188,208	178,000	175,889
Total - fixed assets and net current assets					
Provisions					
Indemnity	13(a)	126,259	126,259	143,088	143,088
Pension	13(b)	4,400	4,400	6,400	6,400
Other provisions	14	-	15	-	39
Total Provisions		130,659	130,674	149,488	149,527
Reserves					
Accumulated fund	15	63,381	57,534	28,512	26,362
Total - provisions and reserves		194,040	188,208	178,000	175,889

Approved and authorised for issue by the Board of Management on the 27th April 2010
and signed on its behalf by

CC EVANS
C C EVANS

Director

C. M. Tomkins
C M Tomkins

Director

Consolidated Cash Flow Statement

for the year ended 31 December 2009

	Notes	2009		2008	
		£'000	£'000	£'000	£'000
Net cash inflow from operating activities	16(a)		22,004		69,989
Returns on investments					
Investment income received		<u>3,918</u>		<u>5,894</u>	
Net cash inflow from returns on investments			3,918		5,894
Corporation tax paid			(1,215)		(1,396)
Acquisitions and disposals					
Purchase of tangible fixed assets		(896)		(1,290)	
Purchase of investments		(133,179)		-	
Sale of tangible fixed assets		21		36	
Sale of investments		<u>4,056</u>		<u>-</u>	
Net cash outflow from acquisitions and disposals			(129,998)		(1,254)
(Decrease)/increase in cash	16(b)		<u>(105,291)</u>		<u>73,233</u>

Reconciliation of Net Cash Flow to Movement in Net Funds

for the year ended 31 December 2009

		2009	2008
		£'000	£'000
(Decrease)/increase in cash	16(b)	<u>(105,291)</u>	<u>73,233</u>
Movement in net funds		(105,291)	73,233
Net funds at 1 January 2009		<u>149,314</u>	<u>76,081</u>
Net funds at 31 December 2009	16(b)	<u>44,023</u>	<u>149,314</u>

Notes to the Financial Statements

for the year ended 31 December 2009

1 Accounting Policies

(a) Basis of preparation of financial statements

The group financial statements have been prepared on the going concern basis under the historical cost convention as modified by the revaluation of certain fixed asset investments and in accordance with the Companies Act 2006 and applicable accounting standards in the UK. As permitted by the Companies Act 2006, 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 group income and expenditure account and balance sheet consolidate the financial statements of the company and its subsidiary undertakings for the year ended 31 December 2009, using acquisition accounting. No income and expenditure account is presented for The Medical Defence Union Ltd (the MDU) as permitted by section 408 of the Companies Act 2006.

(c) Members' subscriptions

Members' subscriptions consist of subscriptions for members' services and insurance premiums received from members for payment to SCOR UK Company Ltd (SCOR) and International Insurance Company of Hannover Limited (Hannover) in the UK and Zurich Insurance Ireland Ltd (Zurich) in Ireland. These are accounted for on the basis of amounts due and received by the group before the balance sheet date, without apportionment.

Subscriptions retained by the company and group, net of insurance 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) Insurance premiums

As explained in note (c) above premiums paid to SCOR, Hannover and Zurich are charged to the income and expenditure account. The insurance arrangements in place provide for an adjustment in premiums if the actual claims experience is better than envisaged at the time the premium is initially established. Such amounts are brought into the accounts as debtors (premium element adjustment) when they can be reliably measured and are re-assessed each year.

(e) 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 on legal charges covers the aggregate of all indemnity payments, and legal services provided for members, together with insurance premiums, including those collected on behalf of and paid over to SCOR and Hannover in the UK and Zurich 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.

Notes to the Financial Statements

for the year ended 31 December 2009

1 Accounting Policies (continued)

(f) Indemnity provision

Provision is made for the estimated 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 indemnity provision cannot exceed their net assets (see note 13(a)). The gross provision, before restriction, is calculated on the advice of the consulting actuaries and has been discounted to allow for future investment returns in accordance with FRS12.

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. It is not practical to estimate the periods in which the indemnity provision might be paid. 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 2.125% (2008 2.625%) per annum.

No provision is made for claims that may arise from incidents occurring before the balance sheet date but not reported to the group at that date (IBNR) or for defendant legal costs, nor for claims where the MDU has not exercised its discretion to assist. Nearly all paying members now have an insurance policy and, for those who do, such IBNR claims are covered under the terms of their policy.

The principal financial assumptions used in the actuaries' calculation of the gross indemnity provision for the company and the group are that claims inflation will be 8.0% per annum (2008 7.5% per annum) over the period of settlement and that a net discount rate of 2.3% per annum (2008 2.1% per annum) is used to discount the claims payments to the balance sheet date.

(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. The principal rates of depreciation per annum, on a straight line basis, are as follows:

- | | |
|--|---|
| ▪ Leasehold property improvements | the shorter of the length of the lease and 10 years |
| ▪ Furniture, office and computer equipment | 3 – 5 years |
| ▪ Motor vehicles | 4 years |

(h) Investments

Listed and unlisted investments held at the balance sheet date are stated at their closing valuation on that date. Movements on revaluation are accounted for through the investment revaluation reserve. On disposal the proceeds are compared to the cost and the resulting profit or loss credited or charged to the income and expenditure account.

Investments in subsidiaries are included at cost less any necessary provision for impairment.

Notes to the Financial Statements

for the year ended 31 December 2009

1 Accounting Policies (continued)

(i) Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the 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 tax 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) Operating leases

Operating lease rentals are charged to the income and expenditure account on a straight line basis over the term of the lease.

(m) Pension costs

Under the terms of the arrangements between the company and MDU Services Ltd, the company is responsible for any deficit of the pension scheme for which MDU Services Ltd is the principal employer.

The assets of the defined benefit pension scheme are measured at their market value at the balance sheet date and the liabilities of the scheme are measured using the projected unit method. The discount rate used is the current rate of return on an AA corporate bond of equivalent term to the liabilities. The following is charged to the income and expenditure account -

- the increase in the present value of pension scheme liabilities arising from employee service in the current period,
- the increase in the present value of pension scheme liabilities as a result of benefit improvements over the period during which such improvements vest,
- gains and losses arising on settlements/curtailments,
- a credit in respect of the expected return on the scheme's assets, and
- a charge in respect of the increase during the period in the present value of the scheme's liabilities because the benefits are one period closer to settlement.

Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

Notes to the Financial Statements

for the year ended 31 December 2009

1 Accounting Policies (continued)

(m) Pension costs (continued)

Contributions to the group's defined contribution pension scheme are charged to the income and expenditure account in the year to which they relate

Notes to the Financial Statements
for the year ended 31 December 2009

2 Employee information

Staff costs including directors' remuneration	2009	2008
	£'000	£'000
Salaries	14,810	13,482
Social security costs	1,533	1,375
Pension costs - defined benefit scheme	1,800	1,979
- defined contribution scheme	381	282
Other staff costs	900	1,172
	<u>19,424</u>	<u>18,290</u>
	2009	2008
Average number of employees in the year	<u>316</u>	<u>291</u>

3 Investment Income

	2009	2008
	£'000	£'000
Gain on investments re exchange rate movements	1,213	-
Bond and gilt interest	1,734	-
Bank interest and similar income	1,153	6,157
Other investment income	12	-
Loss on disposal of investments	(466)	-
Investment Income	<u>3,646</u>	<u>6,157</u>

4 Indemnity, Legal, Reinsurance and Insurance Costs

	£'000	£'000
Insurance and reinsurance premiums	115,635	106,593
Premium element adjustment (see note 1d)	(12,119)	(20,803)
Indemnity paid	19,479	18,802
(Decrease)/increase in indemnity provision	<u>(19,510)</u>	<u>10,596</u>
Net (decrease)/increase in indemnity provision (note 13a)	(31)	29,398
Legal costs	16,144	12,184
Reinsurance recoveries	(817)	(5,271)
Reversal of restriction in indemnity provision (note 13a)	-	800
	<u>118,812</u>	<u>122,901</u>

Notes to the Financial Statements
for the year ended 31 December 2009

5 Finance cost	2009	2008
	£'000	£'000
Finance cost relating to indemnity provision (note 13a)	2,681	2,983
Finance cost/(credit) relating to pension provision (note 17)	100	(300)
	<u>2,781</u>	<u>2,683</u>

6 (a) Result Before Taxation	2009	2008
	£'000	£'000
Result before taxation has been arrived at after charging/(crediting) the following		
Depreciation (note 8)	1,209	1,234
Profit on disposal of fixed assets	(12)	(24)
Operating lease rentals		
- land and buildings	945	965
- office equipment	52	60
- motor vehicles	95	32
Fees payable to the company's auditors and its associates		
- for the audit of the company's annual accounts	55	52
- for the audit of accounts of associates pursuant to legislation	80	79
- for tax services	130	42
- for other services pursuant to legislation	-	5
- for services related to litigation	-	9
- for other services	-	2

(b) Directors' Remuneration	2009	2008
	£'000	£'000
Fees	359	377
Directors' emoluments	734	854
Amounts due and receivable under long term incentive plans	178	231
	<u>1,271</u>	<u>1,462</u>

The highest paid director in The Medical Defence Union Limited earned	£'000	£'000
Emoluments (including short term incentive plans (STIP)) and benefits under the long term incentive plan (LTIP)	335	463
Accrued annual pension (excluding indexation)	111	130

Retirement benefits are accruing to four directors (2008 three) under a defined benefit scheme

The fees disclosed above represent the remuneration of the non-executive directors of the MDU. In addition seven (2008 six) of the non-executive directors received fees totalling £73,000 (2008 £56,000) for acting as expert witnesses on behalf of members

Notes to the Financial Statements

for the year ended 31 December 2009

(b) Directors' Remuneration (continued)

	Fees / Salary £'000	Benefits (note 1) £'000	STIP (note 2) £'000	LTIP (note 3) £'000	Other (note 4) £'000	Total 2009 £'000	2008 £'000
Executive Directors							
C M Tomkins (Chief Executive)	206	15	71	43	-	335	328
M M Gallivan (Finance Director)	154	14	49	37	-	254	294
N A Dungay (Marketing & Sales Director - appointed 15 September 2009)	31	4	7	8	-	50	-
M T Lee (Professional Services Director - appointed 15th September 2009)	44	4	11	8	-	67	-
M T Saunders (Chief Executive - retired 30 April 2009)	68	5	51	82	-	206	463
Non Executive Directors							
C C Evans (Chairman)	62	-	-	-	23	85	79
P R Williams (Vice-Chairman)	38	-	-	-	15	53	60
R J Pearson (Chairman of Audit Committee)	36	-	-	-	4	40	43
P Armstrong (retired 15th September 2009)	6	-	-	-	3	9	13
K A V Cartwright	16	-	-	-	12	28	34
H E Clarke	30	-	-	-	4	34	39
A W Craft (appointed 15 September 2009)	3	-	-	-	7	10	-
K F Richardson	30	-	-	-	3	33	37
M S Richmond	9	-	-	-	10	19	19
P Riordan-Eva	10	-	-	-	20	30	32
P D Robinson	8	-	-	-	10	18	21
	751	42	189	178	111	1,271	1,462

Note 1 - Benefits include car allowances, medical and other benefits in kind or their equivalent monetary value

Note 2 - STIP represents those amounts that have been paid in 2009 and amounts accrued in respect of the year to 31 December 2009. The STIP is determined by comparing actual performance against set targets for key performance indicators over the year.

Note 3 - LTIP represents those amounts that have been paid in 2009 and amounts accrued in respect of the year to 31 December 2009. The LTIP is determined by comparing actual performance against set targets over a three year period, and relates primarily to the overall financial position of the Company and its key membership statistics.

Note 4 - "Other" represents expenses paid to Board members and any fees and expenses for attendance at council and committee meetings other than the MDU Board and its related committees.

Notes to the Financial Statements
for the year ended 31 December 2009

7 Taxation	2009	2008
	£'000	£'000
(a) Income and Expenditure Account		
Corporation tax for the year at 28% (2008 28.5%) on income and capital gains from investments	912	1,702
Adjustment in respect of previous years	<u>6</u>	<u>(2)</u>
	918	1,700
Deferred taxation (note 14)	(56)	(32)
Overseas taxation	<u>5</u>	<u>-</u>
Taxation charge	<u>867</u>	<u>1,668</u>

(b) Factors affecting tax charge for the year

The tax assessed for the year is less than the standard rate of corporation tax in the UK (28%)
Reconciling items are explained below

	£'000	£'000
Result from mutual activities before taxation	<u>38,400</u>	<u>34,380</u>
Result before taxation multiplied by standard rate of corporation tax in the UK of 28% (2008 28.5%)	10,752	9,798
Effects of		
Net mutual income not subject to corporation tax	(9,897)	(8,136)
Other income not subject to corporation tax	(4)	-
Capital allowances less than depreciation	53	32
Expenses not allowable	8	8
Adjustment in respect of previous years	<u>6</u>	<u>(2)</u>
	<u>918</u>	<u>1,700</u>

Notes to the Financial Statements
for the year ended 31 December 2009

8 Fixed Assets - Tangible

Group

	Motor vehicles	Furniture, office and computer equipment	Leasehold Properties and Improvements under 50 years	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2009	186	3,688	1,933	5,807
Additions in year	-	896	-	896
Disposals	(29)	(33)	-	(62)
At 31 December 2009	157	4,551	1,933	6,641
Depreciation				
At 1 January 2009	70	960	1,541	2,571
Charge for the year	49	969	191	1,209
Disposals	(27)	(26)	-	(53)
At 31 December 2009	92	1,903	1,732	3,727
Net Book Amount				
At 31 December 2009	65	2,648	201	2,914
At 31 December 2008	116	2,728	392	3,236

Company

**Leasehold Properties and
Improvements under 50 years**
£'000

Cost

At 1 January 2009	1,933
Additions in year	-
At 31 December 2009	1,933

Depreciation

At 1 January 2009	1,541
Charge for the year	191
At 31 December 2009	1,732

Net Book Amount

At 31 December 2009	201
At 31 December 2008	392

Notes to the Financial Statements

for the year ended 31 December 2009

9 Fixed Assets - Investments

Group

	Cash & Investment in Cash Fund	Funds held by Investment Managers	Total
	£'000	£'000	£'000
At 1 January 2009	118,666	-	118,666
Transfers	(148,000)	148,000	-
Additions	-	133,179	133,179
Disposals	-	(4,522)	(4,522)
Foreign exchange gains	-	1,118	1,118
Amortisation	-	(779)	(779)
Movement in cash	29,975	(126,512)	(96,537)
Revaluation of investments	-	2,736	2,736
At 31 December 2009	641	153,220	153,861

Analysis of funds held by Investment Managers	%	£'000
UK Equities	0.7	996
Overseas Equities	0.9	1,463
UK Government and Corporate Bonds	60.0	91,913
Overseas Corporate Bonds	23.7	36,354
Unlisted	0.6	861
Cash and liquidity balances	14.1	21,633
	100.0	153,220

A £0.8m (2008: nil) tax charge would arise should the equities and bonds held be sold at the market values at which they are included in the balance sheet

Company	Subsidiary Undertakings
	£'000
At 1 January & 31 December 2009	5,160

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 financial statements: directly MDU Services Ltd and MDU Investments Ltd both incorporated in England and indirectly MDU Guernsey Ltd and MDU Reinsurance Ltd, an insurance company, both 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 2006, dispensed with the requirement.

Notes to the Financial Statements
for the year ended 31 December 2009

10 Debtors - amounts falling due within one year

	2009		2008	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Amounts owed by subsidiary undertakings	-	160,375	-	132,545
Premium element adjustment (see note 1d)	13,973	13,973	21,059	21,059
Reinsurance and insurance recoveries	1,376	1,376	2,157	2,157
Other debtors	1,054	463	2,835	523
Prepayments and accrued income	2,738	306	1,778	210
Corporation tax	-	186	-	303
Deferred tax (note 14)	130	-	74	-
	19,271	176,679	27,903	156,797

11 Debtors - amounts falling due after more than one year

	2009		2008	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Reinsurance and insurance recoveries	7,033	7,033	6,477	6,477
Premium element adjustment (see note 1d)	2,995	2,995	5,174	5,174
	10,028	10,028	11,651	11,651

12 Creditors - falling due within one year

	2009		2008	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Taxation and social security	975	24	1,222	23
Other creditors and accruals	12,808	10,154	12,882	9,624
	13,783	10,178	14,104	9,647

Notes to the Financial Statements
for the year ended 31 December 2009

13 Provisions

(a) Indemnity Provisions

	2009		2008	
	Group £'000	Company £'000	Group £'000	Company £'000
Gross indemnity provision				
At 1 January	143,088	143,088	129,509	129,509
Finance costs	2,681	2,681	2,983	2,965
Indemnity paid	(19,479)	(19,479)	(18,802)	(18,802)
Net (decrease)/increase in indemnity provision (note 4)	(31)	(31)	29,398	29,416
At 31 December	126,259	126,259	143,088	143,088
Restriction on the indemnity provision				
At 1 January	-	-	800	2,129
Reversal of restriction (note 4)	-	-	(800)	(2,129)
At 31 December	-	-	-	-
Indemnity provision at 31 December	126,259	126,259	143,088	143,088

In accordance with the group's accounting policy for indemnity provisions explained in note 1(f), the charge to the income and expenditure account has been increased by £nil (note 4) (2008 £0.8m). In aggregate the restriction on the indemnity provision is £nil (2008 £nil).

(b) Other provisions - pensions

Group and company	2009	2008
	£'000	£'000
At 1 January	6,400	3,200
Movement in year	(2,000)	3,200
At 31 December (note 17)	4,400	6,400

14 Deferred tax

	2009		2008	
	Group £'000	Company £'000	Group £'000	Company £'000
At 1 January	(74)	39	(42)	45
Credited to Income & expenditure Account	(56)	(24)	(32)	(6)
At 31 December	(130)	15	(74)	39

Notes to the Financial Statements

for the year ended 31 December 2009

14 Deferred tax (continued)

The deferred tax asset for the group represents potential relief due to capital allowances on tangible fixed assets held by the group being less than the depreciation that has been charged in the financial statements

The deferred tax liability for the company represents the potential tax owing, on the excess of capital allowances on tangible fixed assets held by the company compared to the depreciation that has been charged in the financial statements

15 Reserves Group

	Income and Expenditure	Revaluation Reserve	Accumulated Fund
	£'000	£'000	£'000
At 1 January 2009	28,512	-	28,512
Result for year	37,533	-	37,533
Revaluation of fixed asset investments	-	2,736	2,736
Actuarial loss on pension scheme	(5,400)	-	(5,400)
At 31 December 2009	60,645	2,736	63,381

Company

	Accumulated Fund
	£'000
At 1 January 2009	26,362
Result for year	36,572
Actuarial loss on pension scheme	(5,400)
At 31 December 2009	57,534

Notes to the Financial Statements

for the year ended 31 December 2009

16 Notes to the Consolidated Cash Flow Statement

(a) Reconciliation of surplus before taxation to net cash inflow from operating activities

	2009	2008
	£'000	£'000
Result before taxation	38,400	34,380
Profit on disposal of fixed assets	(12)	(24)
Loss on disposal of investments	466	-
Investment income	(4,112)	(6,157)
Depreciation	1,209	1,234
Decrease in debtors	8,632	29,840
Decrease in debtors due in more than one year	1,623	736
Increase/(decrease) in creditors	27	(3,399)
(Decrease)/increase in provisions	(24,229)	13,379
Net cash inflow from operating activities	22,004	69,989

(b) Analysis of net Funds

	At 1 January	Cash Flows	At 31 December
	2009		2009
	£'000	£'000	£'000
Cash held for investment and investment in cash funds	118,666	(118,025)	641
Cash with investment managers	-	21,633	21,633
Deposits at bank	30,648	(8,899)	21,749
	149,314	(105,291)	44,023

17 Pension costs

As explained in accounting policy note 1(m) the company is responsible for any deficit of the pension scheme for which MDU Services Ltd is the principal employer. The MDU Services Ltd pension scheme provides defined benefits for employees who accepted employment before 1 January 2003, and manages the defined contributions for employees who accepted employment after 31 December 2002. The assets of the scheme are held under trust separately from those of MDU Services Ltd. The funding of the scheme is based on regular triennial actuarial valuations. The last full actuarial valuation of the scheme was carried out as at 31 March 2009 and has been updated to 31 December 2009 by qualified independent actuaries for the purpose of reporting pension costs.

Notes to the Financial Statements

for the year ended 31 December 2009

17 Pension costs (continued)

The major assumptions made by the actuary in the update were:

	2009	2008	2007
Rate of increase in salaries	4.0%	4.1%	4.5%
Rate of increase in pensions pre 97	3.3%	2.9%	3.4%
Rate of increase in pensions post 97	3.3%	2.9%	3.4%
Discount rate	5.7%	6.0%	5.8%
Inflation assumption	3.5%	3.0%	3.4%

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member currently aged 65 will live on average for a further 23 years if they are male and a further 25 years if they are female. For a member who retires in 2029 at the age of 65 the assumptions are they will live on average for a further 25 years after retirement if they are male and a further 26 years after retirement if they are female.

Long term rate of return expected:	2009	2008	2007
Equities	8.3%	7.8%	7.5%
Government bonds	4.5%	4.0%	4.5%
Corporate bonds	5.5%	5.5%	4.8%
Other	0.9%	2.8%	4.9%

Fair value:	£'000	£'000	£'000
Equities	19,000	30,600	40,100
Government bonds	9,200	15,700	14,000
Corporate bonds	38,600	6,600	5,900
Other	600	700	900

The approximate fair value of assets and liabilities of the scheme were

	2009 £'000	2008 £'000	2007 £'000	2006 £'000	2005 £'000
Total market value of assets	67,400	53,600	60,900	56,300	50,700
Present value of scheme liabilities	71,800	60,000	64,100	64,300	59,800
Net pension liability before deferred taxation	(4,400)	(6,400)	(3,200)	(8,000)	(9,100)
Assets as a percentage of liabilities	93.9%	89.3%	95.0%	87.6%	84.8%

Notes to the Financial Statements

for the year ended 31 December 2009

17 Pension costs (continued)

Movement in the present value of scheme liabilities during the year

	2009 £'000	2008 £'000
Opening defined benefit obligations	60,000	64,100
Current service cost	1,800	2,000
Interest cost	3,500	3,600
Contributions by scheme participants	300	300
Actuarial losses/(gains) on scheme liabilities	9,100	(8,400)
Net benefits paid out	(2,900)	(1,600)
Closing defined benefit obligations	<u>71,800</u>	<u>60,000</u>

Movement in the fair value of scheme assets during the year

	2009 £'000	2008 £'000
Opening fair value of scheme assets	53,600	60,900
Expected return on scheme assets	3,400	3,900
Actuarial gains/(losses) on scheme assets	3,700	(12,600)
Contributions by employer	9,300	2,700
Contributions by scheme participants	300	300
Net benefits paid out	(2,900)	(1,600)
Closing fair value of scheme assets	<u>67,400</u>	<u>53,600</u>

Scheme assets do not include any of the group's own financial instruments or any property occupied by the MDU Ltd or its subsidiary undertakings

MDU Services Ltd employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Scheme at 31 December 2009 rounded to the nearest 0.25% per annum.

Analysis of the amount charged to Income & Expenditure

	2009 £'000	2008 £'000
Current service cost	<u>1,800</u>	<u>2,000</u>
Total operating charge	<u>1,800</u>	<u>2,000</u>

Notes to the Financial Statements

for the year ended 31 December 2009

17 Pension costs (continued)

Analysis of the amount (charged)/credited to other finance income

	2009	2008
	£'000	£'000
Expected return on scheme assets	3,400	3,900
Interest on scheme liabilities	(3,500)	(3,600)
Net return	(100)	300

Analysis of amounts recognised in the statement of total recognised gains and losses (STRGL)

	2009	2008
	£'000	£'000
Actuarial gains/(losses) on scheme assets	3,700	(12,600)
Actuarial (losses)/gains on scheme liabilities	(9,100)	8,400
Actuarial loss recognised in the STRGL	(5,400)	(4,200)

History of experience gains and losses:

	2009 £'000	2008 £'000	2007 £'000	2006 £'000	2005 £'000
Actual return less expected return on scheme assets	3,700	(12,600)	200	200	5,600
As a percentage of the scheme assets	5.5%	23.5%	0.3%	0.4%	11.0%
Experience gains/(losses) arising on the scheme liabilities	600	-	100	(300)	(800)
As a percentage of the present value of the scheme liabilities	0.8%	0.0%	0.2%	0.5%	1.3%
Actuarial (loss)/gain recognised in the STRGL	(5,400)	(4,200)	4,200	-	(1,600)
As a percentage of the present value of the scheme liabilities	7.5%	7.0%	6.6%	0.0%	2.7%

18 Financial Commitments

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

Group

	Other		Land & buildings	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
Operating leases which expire				
Within one year	-	1	9	9
Between one and five years	154	114	-	-
After five years	-	-	957	957

Company

	Land and Buildings	
	2009	2008
	£'000	£'000
Operating leases which expire after five years	957	957

Notes to the Financial Statements

for the year ended 31 December 2009

19 Contingent Liabilities

Claims are made against the MDU 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.

20 Members' Liability

The MDU is a company limited by guarantee not exceeding £1 per member.

21 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.