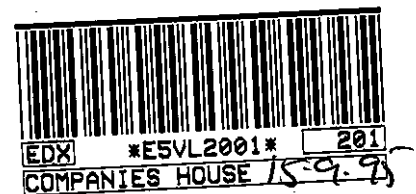


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A C C O U N T S
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BUPA

PRESIDENT

E.F. Webb MBE

VICE-PRESIDENTS

Sir Michael Milne-Watson Bt CBE

Lord Wigoder QC

BOARD OF GOVERNORS

Sir Bryan Nicholson, Chairman

Sir David Plastow, Deputy Chairman

D.S. Boyle

J.K. Elbourne

S.C. Ellen

R.F. Hymas

PA. Jacobs, Chief Executive

E.W. Lea

Dr. E.B. Lewis

Sir Duncan Nichol CBE

R.N. Quartano CBE

Dr. H. Thelwall-Jones

SECRETARY

A.D. Walford

CHIEF MEDICAL ADVISER

Sir Terence English KBE FRCS

*We will be pre-eminent
in independent health
care, delivering best value,
highest quality, personal
service to our customers
in a caring manner.*

C O N T E N T S

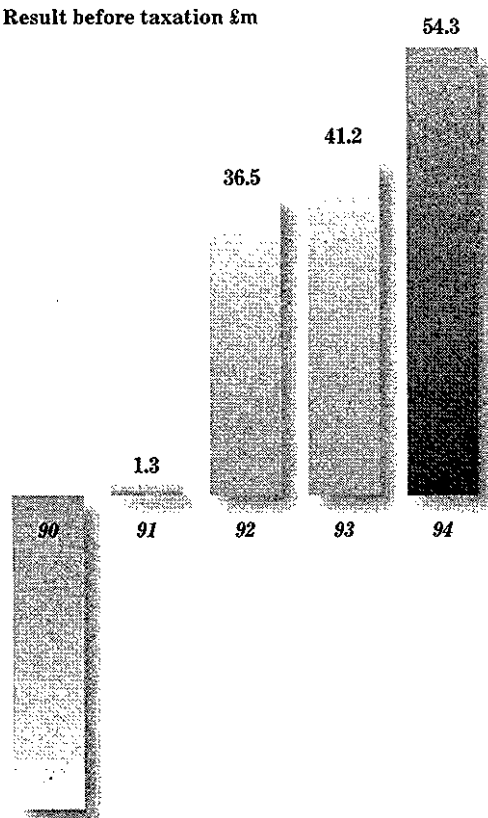
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*H I G H L I G H T S
O F T H E Y E A R*

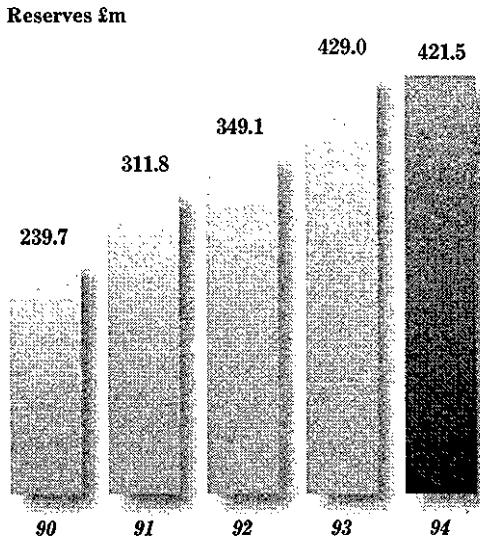
- Group income increased 5% to over £1.2 billion.
- Surplus before taxation increased 32% to £54.3m.
- Membership of both UK and International private medical insurance schemes increased.
- UK private medical insurance schemes further improved to offer even more customer choice.
- Improved trading performance from Sanitas, our Spanish subsidiary.
- Strong growth in membership of our Hong Kong and expatriate businesses.
- BUPA Health Assurance was launched offering a range of long term health insurance schemes.
- BUPA hospitals achieved higher profits and an increase in market share.
- Positive start in BUPA DentalCover's first full year.
- BUPA's network of nursing homes was sold to the Boddington Group plc for £30.7m.
- Highly visible advertising and increased sports sponsorship continued to reinforce our positive health care campaign.

FINANCIAL HIGHLIGHTS

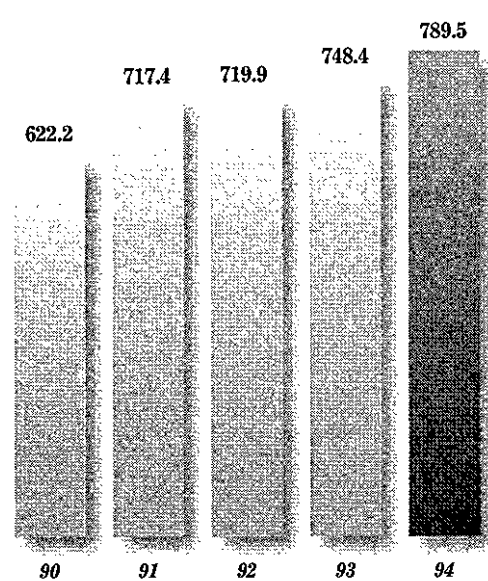
Result before taxation £m



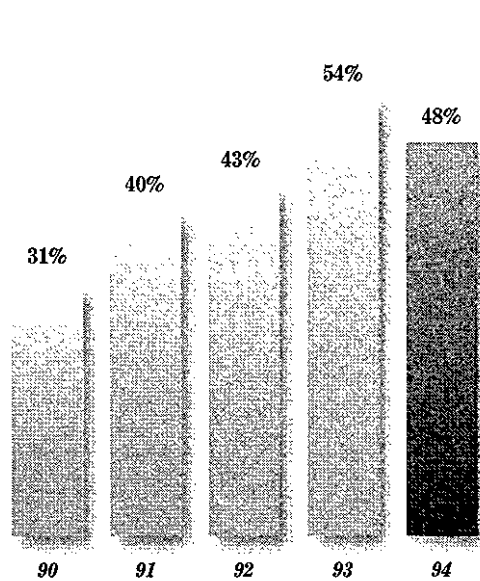
Reserves £m



Benefits incurred £m



Solvency



C H A I R M A N ' S
S T A T E M E N T



I N the year to December 1994, BUPA achieved a surplus before taxation of £54.3m compared with £41.2m in the previous year. In spite of this improved result, reserves, which were affected by the poor performance of both the UK and global bond and equity markets, fell by £7.5m to £421.5m at the end of 1994. BUPA's solvency ratio was 48% at the end of 1994 compared with 54% last year.

Our financial performance results from the steady progress that is being made to restructure our business activities in a way which improves cost effectiveness and the standard of care that we offer. In 1994, we continued to streamline our UK insurance activities. We remain committed to reducing our cost base and this will require continuing exceptional charges for restructuring our health insurance activities over the next three years.

In December we sold our 10 nursing homes as part of our strategy to concentrate on our core business activities of health insurance and the ownership and management of private hospital facilities. The profit on disposal of our nursing homes of £12.0m is included in the surplus before taxation.

In spite of a general improvement in the UK economy there has been little increase in the size of the private health care market during 1994 and trading conditions remain extremely competitive, particularly in the business sector. In our other main market place, Spain, the severe recession appears to be ending although trading conditions have not improved significantly. Against this difficult background, BUPA increased its membership base both in the UK and Spain. This has been achieved by improving the quality of our services and offering a wider range of schemes at more competitive prices.

At the same time, BUPA has continued to pay attention to the traditional values which have guided the Group's development since its inception. Our purpose remains to deliver best value, highest quality, personal service to all our members in a caring manner.

But at the same time our members expect us to manage costs effectively, so that is also a key objective. Our aim is to provide quality health care which is affordable, carefully controlled and widely available. In order to achieve this, we have established a dedicated team and in 1995 we will pilot a range of initiatives to ensure that we will simultaneously reduce costs and improve the quality of health care that we are able to deliver to our members. We have developed a range of clinical guidelines in conjunction with members of the medical profession and shared information on practice patterns with over 2,000 consultants.

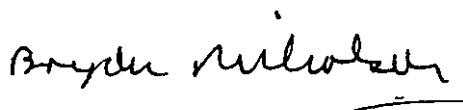
As I have stated before, the Board strongly supports the recommendations of the Cadbury Committee on Corporate Governance and I am pleased to report that the Group complied with all guidelines in force during 1994. Final guidelines for the scope and content of statements on internal control and going concern have now been issued. Our system of corporate governance is explained on pages 12 and 13 along with an outline of our system of internal control and our statement on going concern.

BUPA's Board comprises 12 Governors who bring a balanced range of skills in medicine, health care management, commerce and insurance. We were delighted to welcome Sir Duncan Nichol to the Board as a non-executive Governor in October 1994. Sir Duncan is a former Chief Executive of the

National Health Service Executive and brings to BUPA enormous experience of health care management. Norman Lessels retired as a non-executive Governor during the year, and at the forthcoming Annual General Meeting, Sir David Plastow our Deputy Chairman and Dr Brian Lewis will retire as non-executive Governors. BUPA is indebted to Norman Lessels and Sir David for the sound commercial judgement that they have brought to bear since 1990 and to Brian Lewis for the medical expertise which he has given to BUPA over the last 15 years.

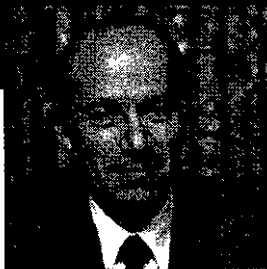
The strong emphasis that the Group places on training and management development was reinforced in 1994 by a comprehensive management development programme which covered over 240 managers. Together with our on-going commitment to develop the skills of all our people, staff training and development is now a priority through which the quality of our service and care can be continually enhanced.

Once again, I should like to record my personal thanks to all members of staff for their loyalty and commitment to the changes taking place at BUPA. Without their support and on-going dedication, the progress that BUPA has achieved, and is seeking to achieve, would not be possible.



Sir Bryan Nicholson
Chairman

C H I E F
E X E C U T I V E ' S
R E V I E W



I N 1994 BUPA used the sound financial platform, which had been established during the previous two years, to increase its membership both in its UK and overseas insurance operations and to increase its share of the UK independent hospital market.

At the same time, we have focused our efforts on transforming the way we operate and on improving our ability to deliver the highest quality care to our members at the very best value.

UK MEMBERSHIP

Having arrested the decline in our UK membership in 1993, we achieved a 2.8% growth in membership during 1994. This is an excellent performance given the difficult market conditions which, together with the recent reductions in the tax relief on subscriptions for those members aged over 60 and the imposition of insurance premium tax, have slowed the growth of the private medical insurance market.

Our success has stemmed from the revitalised range of options which BUPA now offers and the competitive prices that we set. Quality of service has been enhanced and our customer satisfaction surveys show that our members are reaping the benefits of the various initiatives which have been introduced over the last few years. For instance, we have extended our opening hours for members to 8am to 8pm and introduced an automatic telephone call distribution system to speed up response times and enable members to use a local call telephone number for all their enquiries. Claims are also being paid more speedily and more accurately through electronic data interchange which has been introduced into 38 hospitals.

Over the last few years we have been gradually streamlining our operating cost base so as to become

more cost effective. In 1994, we continued this process and our expense ratio, which measures the level of underlying operating costs as a proportion of subscriptions earned, fell to 15.5% from 16.0% in 1993. We have initiated steps to rationalise our member service administration into two centres during 1995 and 1996 which will bring significant cost savings. To ensure that we continue to provide the highest quality of service, we have invested in state-of-the-art telecommunications ensuring that all members' enquiries are answered promptly. Now we are turning our attention to the claims administration system which will be replaced progressively over the next three years.

Personal sector

BUPA has significantly more individual members than any other health insurer in the UK and provides for them a comprehensive range of schemes which was enhanced during 1994. The relaunch of BUPACare has made available a flexible choice of benefit options which can be selected by the member to suit his or her personal requirements. We introduced BUPA Local HospitalCare which offers a low cost option by excluding out-patient consultations at the member's nominated approved local hospital. In order to meet the demand for our new schemes we have increased the number of health care advisers, our sales staff, to over 500: we give them a high level of training so that they can properly advise members and prospective members. We also have begun to strengthen our relationship with brokers so as to make our schemes as accessible as possible.

Business sector

Our CorporateCare proposition, designed for large companies with more than 100 members, continued

to grow in 1994 and the number of members covered increased by 27,000 in the year. We have achieved this by supplying corporate customers with focused cost management initiatives providing best value health care at realistic, competitive prices. The CompanyCare scheme, designed for medium sized and small businesses was extended in 1994 and now includes a Local Network option. This lower cost alternative uses a network of 67 hospitals chosen for the quality and range of service they supply.

BUPA Health Assurance

BUPA entered the long term insurance market in 1994 with a range of schemes offering long term disability, critical illness, and major medical expenses cover. BUPA is committed to developing this growing area of health insurance and will continue to develop long term methods of funding health care.

BUPA DentalCover

In its first full year, DentalCover established a network of almost 2,000 dentists covering the whole of the UK and we are introducing a rigorous system of quality control to ensure that our dentists maintain the very highest standards of care for our members. The importance that BUPA places on quality services together with the competitive prices offered, attracted nearly 20,000 members to BUPA DentalCover in 1994.

HEALTH SERVICES

BUPA operates a network of 29 hospitals and 33 health screening centres in the UK and one hospital in the Republic of Ireland. During 1994 our hospitals succeeded in increasing market share in spite of the growth of NHS private units which have added to the competition from other independent hospitals.

Occupancy levels were higher than in 1993 and reflect the favourable impact of our marketing initiatives which were targeted at both the corporate and personal markets. As an example, we launched Corporate Health Plus which offers discounts to companies on their subscriptions if they agree to use a BUPA hospital for all their in-patient and day case needs. Day-case surgery continues to account for an increasing proportion of our activity and we forecast that in 1995 over half of all admissions to our hospitals will be on a day-case basis. In recognition of this growing trend, and in order to ensure that we deliver the highest quality, we have issued guidelines on the use of minimally invasive surgery in our hospitals.

The business improvement programmes which were initiated in 1993 throughout our Health Services operations have proved highly successful and our cost base has been reduced. In addition, we have commenced the first phase of a major systems development project known as the Patient Support System which will replace our existing systems and significantly improve our capabilities in clinical audit and documentation and outcome management.

Our health screening business, which is the largest in Europe, continued to perform well and we added two new screening centres to the network.

INTERNATIONAL

Our International businesses provide health insurance worldwide. They include Sanitas, a leading health care company in Spain, a health insurance business in Hong Kong, as well as a growing business meeting the special needs of the expatriate community throughout the world. Overall our International businesses continued to grow during

1994 and made a significant contribution to BUPA's operating surplus.

Whilst Sanitas continued to dominate the health insurance market in and around the Madrid region, it also succeeded in increasing its share of the market in Catalonia during 1994. Our membership base in Catalonia increased 11% and this strong growth was aided by Sanitas' contract to provide medical services to Barcelona Football Club. Sanitas strengthened the number and quality of accredited medical providers in 1994 by appointing 700 new physicians including a significant number of general practitioners, gynaecologists and paediatricians. Sanitas also continued a programme of cost control in 1994 which focuses on reducing medical costs by introducing managed care practices.

Our operations in Hong Kong enjoyed another profitable year and an increase in membership. The service levels have been enhanced significantly during 1994 by the introduction of a customer service help desk and a customer newsletter. We have also introduced automatic telephone call distribution and improved our computer systems to provide better service.

Our operations for expatriates moved profitably forward in a competitive market and we achieved significant growth in membership during the year. Currently, we provide medical insurance to members in over 170 countries and are able to settle claims in 84 currencies. We have added further options to our Senior Lifeline scheme which provides cover for those members aged over 60 living overseas. Under this scheme, members requiring hospital treatment will be treated in one of BUPA's hospitals in the UK.

WORKING WITH THE NHS

BUPA continued to work constructively with the NHS in 1994 and a number of NHS trust hospitals are included in our LocalCare network, while the number of patients treated under contract with the NHS in BUPA hospitals rose significantly. BUPA is in discussions with NHS hospitals in Bradford and Hastings to build and manage private patient facilities. These represent progress towards a greater alliance between the private and public sectors and would provide benefits to both parties. We welcome the Government's initiative to encourage private sector investment in the development of the NHS and look forward to new opportunities in the future.

WORKING WITH THE MEDICAL PROFESSION

BUPA continues to seek to have the best possible relationships with the medical profession. Working in partnership, we aim to identify best medical practice and agree the most effective methods of delivering care. To achieve this aim we have begun a new initiative, Clinical Care Analysis, which draws on the wealth of data in our claims database. This initiative involves sharing information about specific procedures in order to give us a better understanding of the reason for variations in care.

We have also extended business partnerships between GP fundholders and our hospitals and we believe this offers a positive new area of co-operation.

We strengthened our managed care capability during the year. Managed care initiatives are a key element in controlling and reducing health care costs whilst maintaining and improving quality. Dr Gordon Moore who joined us in October 1994 is leading this

development for us. He is a practising doctor who has been closely involved with the development of managed care in the United States as well as working in the UK for the King's Fund on various research projects. In 1995, we have begun to pilot a number of managed care initiatives in our hospitals and we will extend BUPA's managed care schemes into the corporate market place later in the year.

CONCLUSION

The provision of health care in the industrialised world is undergoing enormous change at present. At BUPA, we are seeking to be at the forefront of these changes by applying innovative solutions to the delivery of high quality private health care. This process of change is not easy and I would like to thank all the staff at BUPA for their loyalty and dedication during the last year. Their commitment and hard work has enabled BUPA to strengthen its pre-eminence in independent health care and make real progress in 1994.



Peter A Jacobs
Chief Executive

IN the year to December 1994, BUPA achieved a surplus before taxation of £54.3m compared with £41.2m in 1993. The presentation of these results in the income and expenditure account has been changed this year so as to report separately the results of two new operations, namely BUPA Health Assurance and BUPA DentalCover. As a result, the 1994 income and expenditure account comprises three segments which report the principal activities of the Group more

FINANCIAL REVIEW

accurately: **Health Insurance** which is split between *short term*, which includes the results of our UK and overseas health insurance operations, and *long term*, which reports the results of our long term health insurance subsidiary, BUPA Health Assurance; **Health Services** which includes the results of our hospital operations and **Dental Activities** which reports the results of BUPA DentalCover.

HEALTH INSURANCE

Short term

The operating result of our health insurance activities was £17.6m in 1994 compared with £21.0m in 1993. Excluding investment income, the underwriting result increased to £9.8m from £5.4m in the previous year. The 1994 operating result of £17.6m is stated after exceptional charges of £12.7m (1993 - £14.9m). These cover restructuring costs of £10.5m in our UK health insurance division and £2.2m in our Spanish subsidiary,

Sanitas. Excluding the effect of these exceptional charges, the operating result in 1994 was £30.3m compared with £35.9m in 1993. Whilst the UK operating result before exceptional costs deteriorated to £25.4m from £27.8m in 1993 as a result of higher medical costs, the Sanitas operating result before exceptional charges improved from £3.1m in 1993 to £10.8m in 1994. The improvement in the Sanitas performance reflects a small recovery in the Spanish economy as well as the benefits of management action in 1994. During the year BUPA Re, a wholly owned reinsurance company, was set up in the Republic of Ireland to reinsure certain of the short term risks. The losses in Ireland represent the costs of setting up the reinsurance operation and the costs of first year technical provisions.

Long term

BUPA Health Assurance, our long term health insurance operation, commenced trading in September 1994. Losses in 1994 of £0.8m are due to start up costs and, in a business of this nature, we would not anticipate a positive contribution in the initial years of operation.

HEALTH SERVICES

Our Health Services division generated an operating profit of £29.0m compared with £21.7m in 1993. The operating profit in 1994 is stated after a charge of £2.4m (1993 - £4.0m) for the reduction in the carrying value of certain of our hospitals and £1.2m for restructuring costs. An increase in the carrying value of certain other hospitals of £2.2m has been included in reserves compared with a charge of £7.6m in 1993. Turnover increased 6.4% to £246.8m due to higher occupancy levels than in 1993 although the impact of this stronger demand has been diminished by the continuing shift to day-case surgery.

DENTAL ACTIVITIES

BUPA DentalCover started operations in November 1993. In 1994, it incurred losses of £3.5m compared with

£1.3m in 1993. The losses are in line with our forecasts and reflect the rapid growth in this business activity. BUPA DentalCover is forecast to continue to grow rapidly in the next few years but we envisage it will continue to be loss-making in 1995.

PROFIT ON SALE OF SUBSIDIARY

In December 1994, the Group disposed of our nursing home subsidiary, BUPA Care for the Elderly Limited, for a consideration of £30.7m. In accordance with FRS3 the profit on disposal of £12.0m is reported in the income and expenditure account.

INVESTMENT RETURNS

During 1994, the global equity and bond markets performed badly and, coupled with the low interest rates in the UK, resulted in a negative investment return for BUPA in the year. In 1994, the treasury fund generated a loss of £49.0m compared with a gain in 1993 of £98.5m. The return represents capital losses which are partially off-set by net investment income. Net investment income of £7.8m has been included in the income and expenditure account compared with £15.6m in 1993. The lower level of investment income in 1994 reflects the low levels of UK interest rates as well as the costs of increased borrowings. Realised losses and a reduction in unrealised gains which total £56.8m have been included in the statement of total recognised gains and losses after providing for taxation.

CASH FLOW

BUPA increased operating cash flow to £117.8m from £100.5m in the previous year. Future capital expenditure requirements will be financed out of operating cash flow.

BORROWINGS

BUPA took advantage of the continuing low interest rates and raised £193.8m of fixed rate debt, net of issue costs, in 1994 with terms varying from five to 15 years.

This debt was made up of £95.8m from a Eurobond issue to finance BUPA Re, our reinsurance subsidiary, and £98.0m of finance leases on 13 hospitals. The underlying freeholds of the hospitals remain in the ownership of BUPA. The proceeds from the increased borrowing have been added to our treasury funds. Overall, the level of borrowings increased by £193.9m to £347.9m at the year end. Interest payable increased to £21.8m in 1994 from £12.3m in 1993 as a result of the higher levels of borrowing. The Group is not materially exposed to changes in interest rates as over 80% of Group borrowings are at fixed rates of interest.

CAPITAL EXPENDITURE

Capital expenditure in 1994 was £33.7m compared with £23.7m in 1993. The expenditure has been incurred substantially in our Health Services division in order to improve our medical facilities. Expenditure also includes £9.0m in respect of the purchase of the freehold property for a new head office in central London.

EXCHANGE GAIN

BUPA's principal exchange risk is the Spanish Peseta due to our investment in Sanitas. The translation exposure is not hedged as we do not believe that this necessarily adds value in the long term. The £1.0m exchange gain was due in the main to the 3% appreciation in the value of the Spanish Peseta against Sterling during 1994.

RESERVES AND SOLVENCY

At the end of 1994, reserves were £421.5m compared with £429.0m at the end of 1993. As a result, our UK solvency ratio which measures the ratio of net admissible assets to gross subscriptions written, fell to 48% from 54% at the end of 1993. Our solvency margin remains above the level which the Board considers adequate and is significantly in excess of the minimum solvency margin required by the Insurance Companies Act 1982.

C O R P O R A T E G O V E R N A N C E

THE Group has complied throughout the financial year with those elements of the Code of Best Practice issued by the Committee on the Financial Aspects of Corporate Governance that were in force for the year. Guidance for directors on reporting on internal controls has only recently been issued and will be effective for our next financial year. However, the Governors acknowledge their responsibility for the Group's system of internal financial control.

BOARD OF GOVERNORS

- Governors meet regularly and are responsible, inter alia, for overall Group strategy, acquisition and divestment policy, approval of major capital expenditure and financing arrangements.
- The Board reviews the strategic direction of the operating divisions, their annual budgets, their progress towards achieving those budgets and their capital expenditure programmes.
- The Board consists of the Chairman, who is non-executive, five further non-executive Governors and six executive Governors.
- Details of the Governors are set out on pages 16 and 17.

BOARD COMMITTEES

Chief Executive's committee

Executive management of the Group is the responsibility of the Chief Executive's committee chaired by Peter Jacobs. The committee meets twice a month and comprises the executive Governors, the Company Secretary and the Managed Care Director, Dr Gordon Moore.

Audit committee

The Audit committee meets a minimum of three times a year and provides a forum for reporting by the Group's external and internal auditors. It is also

responsible for monitoring internal controls and reviewing the Annual Report and Accounts prior to submission to the Board. The committee is chaired by Ralph Quartano with two other non-executive Governors as its members. The Audit committee met five times in 1994.

Remuneration committee

Governors' pay and benefits are decided by the Remuneration committee composed solely of non-executive Governors. The committee is chaired by Sir Bryan Nicholson and includes the Deputy Chairman and one other non-executive Governor. By invitation, the Chief Executive also attends meetings. No Governor attends any meeting relating to his or her own remuneration.

Nomination committee

The Nomination committee is responsible for making recommendations on the selection and nomination of Governors for appointment to the Board. It is chaired by the Chairman and includes the Deputy Chairman, one other non-executive Governor and the Chief Executive.

Treasury committee

Overall Treasury policy is set by the Treasury committee which meets four times a year to review performance and set asset allocation parameters. It is chaired by the Finance Director and includes the Chairman, the Chief Executive, and one other non-executive Governor.

GOING CONCERN

After making reasonable enquiries, the Governors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

INTERNAL CONTROL

The Group has an established framework of internal control under the following headings:

- **Financial reporting** - there is a comprehensive annual planning system with an Annual Operating Plan approved by the Governors. Monthly actual results are reported against plan, variances are investigated and revised forecasts are prepared quarterly.
- **Quality and integrity of personnel** - BUPA's recruitment and selection policy is to identify the best person for the job. Corporate and personal ethics and integrity are detailed in our Statement of Ethics published to all staff.
- **Operating level controls** - financial controls and procedures including controls over information systems are in operation throughout the Group. Compliance with control procedures and systems is reviewed by both the Group's internal auditors and by the external auditors as part of their annual audit.
- **Functionality speciality reporting** - the Group has identified a number of key areas which are subject to regular reporting to the Board. These areas include Treasury Management, Reinsurance, Information Systems, Public Relations and Medical Relations.
- **Investment appraisal** - the Group has clearly stipulated guidelines for capital expenditure. These include an annual budget review of total expenditure, detailed appraisal and review of individual amounts with varying levels of authority.

The above framework can only provide reasonable and not absolute assurance against material misstatement or loss.

R E P O R T O F
T H E B O A R D O F
G O V E R N O R S

THE Governors of The British United Provident Association Limited present their Annual Report and the financial accounts for the year ended 31 December 1994.

PRINCIPAL ACTIVITIES

The principal activities of the BUPA Group are the operation of health insurance funds and the provision of health care facilities including ownership and management of hospitals and health screening services.

FINANCIAL RESULTS

Results of the BUPA Group for the year are reported on page 18. The result after taxation of £37.3m (1993 - £28.5m) has been transferred to reserves.

OPERATING REVIEW

A review of the operations is contained in the Chairman's statement, the Chief Executive's review and the financial review.

**CHARITABLE AND POLITICAL
CONTRIBUTIONS**

During the financial year BUPA gave support to a range of predominantly medical charitable organisations amounting to £410,000 (1993 - £227,000). In addition payments made during the year to two medical charities established by BUPA totalled £483,000 (1993 - £404,000). No political donations were made.

FIXED ASSETS

Changes in fixed assets during the year are shown in note 7 to the financial accounts.

EMPLOYEES AND REMUNERATION

The average weekly number of persons employed by the Group during the year ended 31 December 1994 was 8,770 (1993 - 9,045) and the aggregate gross remuneration amounted to £144.1m (1993 - £138.3m).

EMPLOYMENT POLICIES

The BUPA Group is committed to providing equal opportunities for all persons regardless of their sex, religion or ethnic origin.

We encourage employee involvement throughout the business. We promote a common awareness of the objectives of the Group through established methods of personal briefing and regular meetings. In addition, we provide employees with news and information through our in-house publications including Pacemaker, the BUPA newspaper.

DISABLED EMPLOYEES

We continue our policy of giving disabled people full and fair consideration for all job vacancies for which they are suitable applicants.

BOARD OF GOVERNORS

The Governors of the Company at the date of this report are shown on pages 16 to 17.

Mr. A.R.W. Large and Mr. N. Lessels, CBE resigned from the Board on 2 March 1994 and 5 July 1994 respectively.

Sir David Plastow, the Deputy Chairman, and Dr. E.B. Lewis both retire from the Board at the conclusion of the forthcoming Annual General Meeting.

Mrs. S.C. Ellen, Sir Bryan Nicholson and Dr. H. Thelwall-Jones retire by rotation and, being eligible, offer themselves for re-election.

Professor Sir Duncan Nichol, CBE who was appointed to the Board since the last Annual General Meeting, under the provisions of Article 42 retires and, being eligible, offers himself for election.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Company purchases liability insurance covering the directors and officers of the Company and its subsidiaries.

AUDITORS

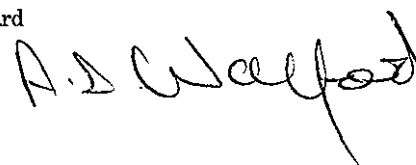
On 6 February 1995 the auditors changed the name under which they practise to KPMG and, accordingly, have signed their report in their new name. In accordance with Section 384 of the Companies Act 1985, KPMG offer themselves for re-appointment and resolutions will be proposed at the Annual General Meeting to re-appoint them and to authorise the Governors to fix their remuneration.

By order of the Board

A.D. Walford

Secretary

16 March 1995



G O V E R N O R S
A N D A D V I S E R S

EXECUTIVE GOVERNORS

David Boyle Age 52. Governor and Managing Director of BUPA's International Division since 1993. Former Chairman of SmithKline Beecham Consumer Brands, Europe.

Susan Ellen Age 46. Governor and Managing Director of BUPA's Health Services Division since 1990. Joined BUPA in 1977. Non-executive Director of ASDA Group plc.

Roger Hymas Age 48. Governor and Managing Director of BUPA's Membership Division since March 1994. Joined BUPA in 1992 as Group Marketing Director. Previous appointments include senior positions at American Express, The Burton Group plc and GE Capital Corporation (USA).

Peter Jacobs³⁴ Age 52. Governor and Chief Executive since 1991. Former Chief Executive of Berisford International plc, Chairman of British Sugar Plc and Sales Director of Mars Confectionery. Non-executive Director of Dairy Crest Limited.

Edward Lea⁴ Age 53. Governor and Finance Director since 1991. Previous appointments include Finance Director of ASDA Group plc and Finance Director and Deputy Chairman of MFI Furniture Group Plc.

Dr Hugh Thelwall-Jones Age 53. Governor and Group Medical Director since 1991. Joined BUPA in 1990 as Group Medical Adviser. Former Consultant Obstetrician and Gynaecologist, West Dorset Health Authority. Former Member of Council, British Medical Association.

NON-EXECUTIVE GOVERNORS

John Elbourne¹ Age 50. Governor since March 1994. Director, TSB Group plc. Member of the Lautro Board. Director, Association of British Insurers. Council Member of the Institute of Bankers. Former Group Director, Life and Pensions, Legal and General Group plc.

Dr Brian Lewis Age 64. Governor since 1980. Retired Consultant Anaesthetist. Member, General Medical Council and Central Consultants and Specialists Committee. Vice-President and Fellow, British Medical Association. Former Surgeon-in-Chief, St. John Ambulance Brigade; Vice-President Association of Anaesthetists of Great Britain and Ireland and Chairman of the Representative Body of the British Medical Association.

Sir Duncan Nichol Age 53. Governor since October 1994. Head of the Centre for International Healthcare Management. Chairman, Healthcare 2000 and non-executive Director, HM Prison Board. Former Chief Executive, National Health Service Executive.

Sir Bryan Nicholson^{1,2,3,4} Age 62. Governor and Chairman since 1992. President, CBI. Chairman, Varsity Europe Ltd. Chancellor, Sheffield Hallam University. Director, GKN plc. Former Chairman and Chief Executive, The Post Office. Former Chairman, Rank Xerox (UK) Ltd., Manpower Services Commission, National Council for Vocational Qualifications (NCVQ).

Sir David Plastow^{2,3} Age 62. Governor since 1990 and Deputy Chairman since 1992. Chairman, Inchcape plc and the Medical Research Council. Deputy Chairman, TSB Group plc. Chancellor, Luton University. Former Chairman and Chief Executive, Vickers Plc.

Ralph Quartano^{1,4} Age 67. Governor since 1987. Chairman, Murray Emerging Economies Trust Plc. Director, Heitman Financial Limited, Non-executive director of 3i Group Plc, Booker Plc, Clerical Medical Investment Group, Enterprise Oil plc and The Laird Group Plc. Former Chairman, PosTel Investment Management Limited and Deputy Chairman, Securities and Investments Board.

SECRETARY

Arthur Walford Age 49. Joined BUPA in 1988 as Company Secretary and Solicitor.

CHIEF MEDICAL ADVISER

Sir Terence English Age 62. Chief Medical Adviser to BUPA since 1991. Consultant Cardiac Surgeon, Papworth and Addenbrooke's Hospitals. President, The British Medical Association 1995/96. Past President, The Royal College of Surgeons of England. Master of St. Catharine's College, Cambridge. Member of the Audit Commission.

AUDITORS

KPMG

BANKERS

Midland Bank plc
National Westminster Bank Plc

¹ Member of the Audit Committee

² Member of the Remuneration Committee

³ Member of the Board Nomination Committee

⁴ Member of the Treasury Committee

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

for the year ended 31 December 1994

	Notes	1994 £m	1993 £m
Health Insurance			
<i>Short term</i>			
Subscriptions earned		965.6	923.2
Benefits		(789.5)	(748.4)
		176.1	174.8
Expenses		(166.3)	(169.4)
		9.8	5.4
Investment income	2	7.8	15.6
		17.6	21.0
<i>Long term</i>			
Losses arising on BUPA Health Assurance		(0.8)	(0.2)
		16.8	20.8
Health Services			
Turnover		246.8	232.0
Expenses		(217.3)	(210.3)
		29.0	21.7
Dental Activities		(3.5)	(1.3)
Operating result	1	42.3	41.2
Profit on sale of subsidiary	3	12.0	-
Result before taxation	4	54.3	41.2
Taxation	5	(17.0)	(12.7)
Result after taxation	13	37.3	28.5

STATEMENT OF RECOGNISED GAINS AND LOSSES

for the year ended 31 December 1994

Result after taxation	13	37.3	28.5
Investment (depreciation)/appreciation	14	(48.8)	68.5
Property revaluation		2.2	(7.6)
Exchange gain/(loss)		1.0	(9.5)
Total recognised gains and losses	13	(8.3)	79.9

The movement in reserves is set out in note 13 to the financial accounts.

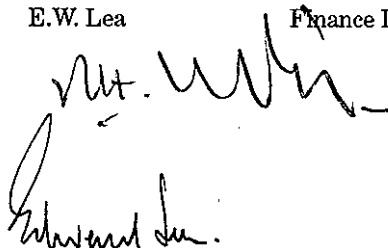
CONSOLIDATED BALANCE SHEET

at 31 December 1994

	Notes	1994 £m	1993 £m
Fixed assets	7	386.2	387.4
Investments			
Unlisted		53.3	0.3
Listed	8	593.9	518.4
Short term deposits		110.9	22.9
		758.1	541.6
Current assets			
Subscriptions receivable		202.8	186.0
Debtors	9	70.3	70.0
Bank balances		47.9	52.1
		321.0	308.1
		1,465.3	1,237.1
Liabilities			
Unearned subscriptions		336.1	324.6
Outstanding claims		155.2	142.5
Other creditors		158.1	129.4
Taxation	10	18.5	26.5
Deferred consideration	11	23.8	27.9
Borrowings	12	249.5	55.6
		941.2	706.5
		524.1	530.6
Subordinated bonds 2018	12	98.4	98.4
Minority interests		4.2	3.2
		421.5	429.0
Represented by:			
Reserves	13	421.5	429.0

Approved by the Board of Governors
16 March 1995

Sir Bryan Nicholson Chairman
E.W. Lea Finance Director



CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 1994

	Notes	1994 £m	1993 £m
Operating cash flow			
Net cash inflow from operating activities	16(a)	117.8	100.5
Servicing of finance			
Interest paid		(14.6)	(9.5)
Finance lease payment		(1.9)	—
Net cash outflow from servicing of finance		(16.5)	(9.5)
Taxation			
Corporation tax paid		(16.1)	(18.5)
Investing activities			
Net purchases of liquid investments excluding cash equivalents	16(b)	(207.2)	(78.2)
Decrease in investment creditors		—	(19.8)
Purchase of fixed assets		(33.7)	(23.7)
Sale of fixed assets		2.2	2.2
Sale of subsidiary	16(d)	26.7	—
Net cash outflow from investing activities		(212.0)	(119.5)
Net cash outflow before financing		(126.8)	(47.0)
Financing			
Deferred consideration		(5.0)	(5.1)
Borrowings		191.7	(2.8)
Subordinated bonds 2018		—	97.6
Net cash inflow from financing	16(c)	186.7	89.7
Increase in cash and cash equivalents		59.9	42.7

BALANCE SHEET

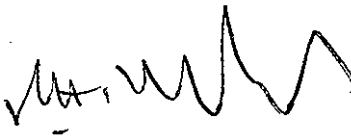

at 31 December 1994

	Notes	1994 £m	1993 £m
Fixed assets	7	2.7	2.7
Investments in subsidiaries	18	0.1	0.1
Current assets			
Subscriptions receivable		193.6	181.1
Reinsurer's share of outstanding claims		47.0	—
Amount owed by subsidiaries		671.1	456.2
Debtors	9	22.2	20.4
Bank balances		36.3	31.3
		970.2	689.0
		973.0	691.8
Liabilities			
Unearned subscriptions		331.5	324.4
Outstanding claims		122.5	121.3
Bank overdraft		0.3	0.3
Amount owed to subsidiaries		318.3	72.3
Other creditors		83.3	68.5
Taxation	10	0.3	0.2
		856.2	587.0
		116.8	104.8
Represented by:			
Reserves	13	116.8	104.8

Approved by the Board of Governors
16 March 1995

Sir Bryan Nicholson
E.W. Lea

Chairman
Finance Director

STATEMENT OF ACCOUNTING POLICIES

Basis of preparation

The financial accounts are prepared in accordance with the provisions of Section 255 and 255A of, and Schedule 9 to, the Companies Act 1985 applicable to insurance companies. As permitted by Section 230 of the Companies Act 1985, no income and expenditure account of the Company is presented. The financial accounts have been prepared in accordance with applicable accounting standards. Changes in the presentation of certain items in the balance sheet have been made as a result of adopting Financial Reporting Standard No.5 - "Reporting the Substance of Transactions". Comparative figures for the year ended 31 December 1993 have been restated where appropriate.

Basis of consolidation

The consolidated financial accounts incorporate the accounts of the Company and its subsidiaries made up to 31 December.

Goodwill

Goodwill arising on consolidation, being the excess of purchase consideration over the fair value of the net assets acquired, is written off against reserves in the year of acquisition. On disposal of a business, any goodwill previously written off against reserves on acquisition is included in determining the profit or loss on disposal.

Subscriptions

Subscriptions earned represent the proportion of subscriptions relating to cover provided for the year. The proportion of subscriptions written in the year which relate to periods of risk beyond the end of the year are carried forward as unearned subscriptions.

Claims

Provision is made for the estimated cost of claims for treatment incurred, whether or not reported, up to the balance sheet date and outstanding at that date, together with the related handling expenses.

Fixed assets

Freehold and leasehold properties are stated at cost or valuation; other fixed assets are stated at cost. No depreciation is provided on freehold land or buildings under construction; depreciation of the cost or valuation of other fixed assets is provided by reference to the expected lives of the assets:

Freehold buildings	- 50 years
Leasehold property	- term of lease
Equipment	- 3 to 10 years

Investments

Listed and unlisted investments are stated at market value. Dividends on equity investments are accounted for on a received basis; other investment income is accounted for on an accruals basis. Realised profits and losses and the difference between market value and cost, less attributable taxation, are taken directly to reserves as investment appreciation.

Foreign exchange

Transactions denominated in foreign currencies are translated into sterling and recorded at prevailing exchange rates. Assets and liabilities of overseas subsidiaries and branches are translated into sterling at the exchange rate ruling at the balance sheet date and their results are translated at average rates. Differences arising on translation are taken directly to reserves.

Leased assets

Assets held under finance leases are capitalised as tangible fixed assets and obligations to the lessor are shown as part of borrowings. The interest is charged to the profit and loss account using the reducing balance method. Rental costs arising under operating leases are charged against profits in the year in which they are incurred.

Contributions to pension funds

The cost of providing pensions and related post retirement benefits is charged to the income and expenditure account over the expected average remaining service lives of employees. Any difference between the cumulative charge to the income and expenditure account and the contributions paid to the schemes is included as an asset or liability in the balance sheet.

Deferred tax

Provision is made for taxation on timing differences arising from the treatment of certain items for taxation and for accounting purposes where it is considered that tax will become payable in the foreseeable future.

NOTES TO THE FINANCIAL ACCOUNTS

1. Segmental information

(a) Income

	UK		Republic of Ireland		Spain		Total	
	1994 £m	1993 £m	1994 £m	1993 £m	1994 £m	1993 £m	1994 £m	1993 £m
Health Insurance								
- Short term	753.8	714.1	192.3	-	211.8	209.1	1,157.9	923.2
- Intra-group reinsurance	-	-	(192.3)	-	-	-	(192.3)	-
	753.8	714.1	-	-	211.8	209.1	965.6	923.2
- Long term	-	-	-	-	-	-	-	-
Health Services	229.2	215.4	17.6	16.6	-	-	246.8	232.0
Dental Activities	0.9	-	-	-	-	-	0.9	-
	983.9	929.5	17.6	16.6	211.8	209.1	1,213.3	1,155.2
(b) Operating result								
Health Insurance								
- Short term	14.9	20.6	(5.9)	-	8.6	0.4	17.6	21.0
- Long term	(0.8)	(0.2)	-	-	-	-	(0.8)	(0.2)
Health Services	27.9	20.8	1.1	0.9	-	-	29.0	21.7
Dental Activities	(3.5)	(1.3)	-	-	-	-	(3.5)	(1.3)
	38.5	39.9	(4.8)	0.9	8.6	0.4	42.3	41.2

The operating result is stated after charging exceptional items of £16.3m (1993 - £18.9m) as follows:

	1994 £m	1993 £m
Health Insurance - Short term (UK) - Restructuring costs	10.5	7.2
Health Insurance - Short term (Spain) - Restructuring costs	2.2	7.7
Health Services - Property valuation	2.4	4.0
Health Services - Restructuring costs	1.2	-
	16.3	18.9

NOTES TO THE FINANCIAL ACCOUNTS

1. Segmental information - (continued)

(c) Net assets

	UK		Republic of Ireland		Spain		Total	
	1994 £m	1993 £m	1994 £m	1993 £m	1994 £m	1993 £m	1994 £m	1993 £m
Health Insurance								
- Short term	54.5	188.0	91.0	-	40.0	35.7	185.5	223.7
- Long term	14.1	(0.2)	-	-	-	-	14.1	(0.2)
Health Services	218.9	200.4	6.3	6.0	-	-	225.2	206.4
Dental Activities	(3.3)	(0.9)	-	-	-	-	(3.3)	(0.9)
	284.2	387.3	97.3	6.0	40.0	35.7	421.5	429.0

UK includes interests in Cyprus, Hong Kong and Malta which are not material.

2. Investment income

	1994 £m	1993 £m
Unlisted	4.0	3.3
Listed	26.9	22.8
Short term deposits	5.2	5.2
	36.1	31.3
Interest payable	(21.6)	(11.6)
Investment expenses	(6.7)	(4.1)
	7.8	15.6

3. Profit on sale of subsidiary

On 21 December 1994, BUPA disposed of its interests in its nursing home activities for a cash consideration of £30.7m, resulting in a profit of £12.0m.

NOTES TO THE FINANCIAL ACCOUNTS

4. Result before taxation

The result for the year is stated after charging:

	1994 £m	1993 £m
Interest payable:		
Deferred consideration	1.4	1.9
Bank loans and overdrafts	3.4	4.1
Guaranteed loan notes 1999	0.9	–
Finance lease charges	5.6	–
Subordinated bonds 2018	10.5	6.3
	21.8	12.3
Charged against:		
Investment income	21.6	11.6
Health Services surplus	0.2	0.7
	21.8	12.3
Depreciation of owned assets	18.3	20.1
Depreciation of assets held under finance leases	1.7	–
Hire of equipment	1.8	1.0
Operating lease rentals	8.0	7.7
Auditors' remuneration	0.5	0.5
Other fees paid to auditors	0.2	0.3
Exceptional items (note 1)	16.3	18.9

5. Taxation

The taxation charge arises on investment income and on the operating results of subsidiaries as follows:

	1994 £m	1993 £m
United Kingdom corporation taxation at 33% (1993 - 33%)	12.5	11.2
Taxation on franked investment income	1.5	0.9
Overseas taxation	3.6	3.4
Deferred taxation	(1.2)	1.7
Adjustments in respect of prior years	0.6	(4.5)
	17.0	12.7

NOTES TO THE FINANCIAL ACCOUNTS

6. Governors' emoluments

	Chairman	Chairman	Chief Executive	Chief Executive	All Governors	All Governors
	1994 £000	1993 £000	1994 £000	1993 £000	1994 £000	1993 £000
Executive Governors						
Salaries			317	301	1,024	973
Other emoluments			38	13	74	45
Performance related bonus			112	119	365	367
			467	433	1,463	1,385
Pension costs: Funded			23	19	96	103
Unfunded			87	84	186	213
			577	536	1,745	1,701
Non-executive Governors						
Fees	78	75			170	260
Other emoluments	13	13			20	26
	91	88			190	286
Pensions to former Governors					24	23
Compensation to former Governor for loss of office					135	-
Total emoluments	91	88	577	536	2,094	2,010

Other emoluments include benefits in kind.

A performance related bonus scheme exists for executive Governors, based on a combination of the results of the Group and the individual's performance as measured against specific objectives. The maximum bonus is 40 per cent of basic salary.

The non-executive Governors do not have service contracts. Executive Governors who joined the Group since January 1991 have service contracts terminable at one year's notice. One executive Governor who joined prior to January 1991 has a two year contract.

The Chairman does not participate in any bonus or profit sharing scheme and is not a member of the BUPA Group pension scheme. The Chairman's fees were increased by £7,500 on 1 October 1994 to £82,500 per annum, the first increase since the Chairman was appointed in October 1992.

The Chief Executive was the highest paid Governor in each year. In 1994 the Chief Executive received compensation for relocation expenses totalling £23,777, in accordance with his contract of employment.

NOTES TO THE FINANCIAL ACCOUNTS

6. Governors' emoluments - (continued)

Executive Governors, in common with all eligible employees, are entitled to a pension based on final salary and length of service with the Group, with a maximum pension of two thirds of final salary. Certain executive Governors who joined the Group since 1 June 1989 are subject to the Inland Revenue earnings cap introduced by the Finance Act 1989. Entitlements above the cap cannot be covered by the BUPA Group pension scheme and therefore the Group has established a separate provision to cover these pension obligations. On present actuarial estimates, the amount of the total provision required relative to the current and earlier years' service of current executive Governors is £588,000.

The emoluments, excluding pension contributions, of the Governors, including the Chairman and the Chief Executive, fell within the following bands:

	1994 No.	1993 No.
£5,001 - £10,000	1	1
£10,001 - £15,000	1	-
£15,001 - £20,000	3	2
£20,001 - £25,000	-	1
£25,001 - £30,000	1	2
£40,001 - £45,000	1	1
£55,001 - £60,000	-	1
£85,001 - £90,000	-	1
£90,001 - £95,000	1	-
£130,001 - £135,000	1	-
£145,001 - £150,000	-	1
£160,001 - £165,000	-	1
£185,001 - £190,000	-	1
£190,001 - £195,000	2	-
£195,001 - £200,000	1	-
£215,001 - £220,000	-	2
£220,001 - £225,000	1	-
£430,001 - £435,000	-	1
£465,001 - £470,000	1	-
	14	15

NOTES TO THE FINANCIAL ACCOUNTS

7. Fixed assets

(a) Group

	Freehold properties £m	Leasehold properties £m	Equipment £m	Total £m
Cost or valuation:				
At 1 January 1994	324.7	35.9	133.1	493.7
Exchange adjustment	0.9	(0.1)	0.8	1.6
Additions	12.1	1.4	20.2	33.7
Disposals	(15.4)	—	(4.5)	(19.9)
On revaluation	(4.6)	—	—	(4.6)
At 31 December 1994	317.7	37.2	149.6	504.5
Depreciation:				
At 1 January 1994	8.6	6.3	91.4	106.3
Exchange adjustment	0.2	—	0.5	0.7
Charge for the year	5.3	0.5	14.2	20.0
On disposals	(0.5)	—	(3.8)	(4.3)
On revaluation	(4.4)	—	—	(4.4)
At 31 December 1994	9.2	6.8	102.3	118.3
Net book value:				
At 31 December 1994	308.5	30.4	47.3	386.2
At 31 December 1993	316.1	29.6	41.7	387.4
Depreciable amount:				
At 31 December 1994	260.8	32.7	149.6	443.1
At 31 December 1993	265.0	31.2	133.1	429.3
Freehold properties:				
Valuation - 1994	105.9			
Valuation - 1993	30.1			
Valuation - 1992	123.4			
Cost	58.3			
	317.7			

The net book value of freehold properties of £308.5m includes £161.0m in respect of assets held under finance leases.

The freehold and leasehold interests in 10 hospitals were valued on 31 December 1994 by Knight Frank & Rutley, chartered surveyors, on the basis of open market value for existing use as fully operational concerns.

NOTES TO THE FINANCIAL ACCOUNTS

7. Fixed assets - (continued)

(b) Company

	Equipment £m
Cost:	
At 1 January 1994	25.4
Additions	1.5
Disposals	(0.6)
At 31 December 1994	26.3
Depreciation:	
At 1 January 1994	22.7
Charge for the year	1.2
On disposals	(0.3)
At 31 December 1994	23.6
Net book value:	
At 31 December 1994	2.7
At 31 December 1993	2.7

8. Listed investments

	1994 £m	1993 £m
Government stocks:		
UK	212.3	41.8
Overseas	41.2	145.6
Equities:		
UK	216.5	227.2
Overseas	72.2	103.8
Corporate bonds:		
UK	51.7	-
	593.9	518.4

NOTES TO THE FINANCIAL ACCOUNTS

9. Debtors

	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
Trade debtors	26.8	25.4	—	—
Investment debtors and accrued investment income	4.5	4.3	—	—
Other debtors	33.7	34.9	22.2	20.4
Stock	5.3	5.4	—	—
	70.3	70.0	22.2	20.4

10. Taxation

	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
Corporation tax	17.1	13.9	0.3	0.2
Deferred taxation	1.4	12.6	—	—
	18.5	26.5	0.3	0.2

The corporation tax is payable within one year.

Deferred taxation

	Group £m	Company £m
At 1 January 1994	12.6	—
Transferred to income and expenditure account	(3.1)	—
Transferred to reserves	(8.6)	—
Other movements	0.5	—
At 31 December 1994	1.4	—

	Amount provided		Potential liability	
	1994 £m	1993 £m	1994 £m	1993 £m
Accelerated capital allowances	0.5	—	13.0	12.2
Other timing differences	0.9	12.6	6.0	21.4
Freehold property revaluation	—	—	30.2	29.7
	1.4	12.6	49.2	63.3

Other timing differences include provision for taxation on unrealised investment appreciation.

No provision for deferred taxation has been made where a liability is not expected to arise in the foreseeable future.

NOTES TO THE FINANCIAL ACCOUNTS

11. Deferred consideration

Deferred consideration represents the amount due to the principal vendor of Sanitas SA, de Seguros and falls due for payment as follows:

	1994 £m	1993 £m
Within one year	5.1	5.1
Between one and two years	5.0	5.1
Between two and five years	4.9	9.9
	15.0	20.1
Deferred net interest	8.8	7.8
	23.8	27.9

The deferred interest at 8% per annum is payable in 1998.

12. Borrowings and subordinated bonds 2018

	1994 £m	1993 £m
Overdrafts	1.6	1.2
Bank loans	52.2	53.2
Other loans	0.2	1.2
Guaranteed loan notes 1999	96.6	—
Obligations under finance leases	98.9	—
	249.5	55.6
Subordinated bonds 2018	98.4	98.4
	347.9	154.0

At 31 December 1994, BUPA Investments Limited had unsecured bank loans totalling £50.0m (1993 - £50.0m). The loans are repayable by December 1999. Interest on the loans is linked to LIBOR.

Bank loans amounting to £2.2m (1993 - £3.2m) relate to Blackrock Hospital Limited and are secured by a first fixed and floating charge on the assets of Blackrock Hospital Limited and its subsidiary. Interest on the loans is linked to DIBOR and the loans are repayable in five annual instalments.

On 28 November 1994, BUPA Finance PLC, a 100% subsidiary of the Company, issued an unsecured Eurobond with a nominal value of £100m. The bonds are repayable on 28 November 1999. The bond issue is guaranteed by the Company.

The obligations under the finance leases are due for repayment after more than five years.

The subordinated bonds are repayable on 3 December 2018 and a call option is exercisable by the Company to redeem the bonds on 3 December 2013. The bond issue is guaranteed by the Company. In the event of a winding up of BUPA Finance PLC or the Company, the claims of the bondholders are subordinated in right of payment to the claims of other creditors of the Company. Interest on the bonds is payable at 10.5%.

NOTES TO THE FINANCIAL ACCOUNTS

13. Reserves

	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
At 1 January	429.0	349.1	104.8	88.0
Total recognised gains and losses	(8.3)	79.9	12.0	16.8
Goodwill written back	0.8	—	—	—
At 31 December	421.5	429.0	116.8	104.8

The excess of income over expenditure transferred to consolidated reserves includes a surplus of £12.3m (1993 - £16.8m) attributable to the Company. Consolidated reserves are stated after writing off accumulated goodwill of £137.4m (1993 - £138.2m). Goodwill written back relates to the sale of the Group's nursing home activities.

14. Investment (depreciation)/appreciation

	1994 £m	1993 £m
Realised	(14.6)	15.8
Unrealised	(34.2)	52.7
	(48.8)	68.5

Provision is made for taxation on unrealised investment appreciation where it is considered that taxation will become payable in the foreseeable future. Unrealised investment appreciation is stated net of such provision.

15. Commitments

(a) Capital commitments

	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
Contracts placed for future capital expenditure	5.8	6.2	—	—
Capital expenditure authorised but not contracted	10.3	0.3	—	—
	16.1	6.5	—	—

(b) Operating lease commitments

	Land and buildings	Equipment	Total	Total
	1994 £m	1994 £m	1994 £m	1993 £m
Expiring within one year	—	0.1	0.1	0.3
Expiring within two to five years	—	0.6	0.6	1.1
Extending over five years	6.5	—	6.5	6.3
	6.5	0.7	7.2	7.7

NOTES TO THE FINANCIAL ACCOUNTS

16. Cash flow statement

(a) Net cash inflow from operating activities

	1994 £m	1993 £m
Result before taxation	54.3	41.2
Interest payable	21.8	12.3
Depreciation	20.0	20.1
Property revaluation	2.4	6.6
Increase in current assets	(17.0)	(1.9)
Increase in unearned subscriptions	11.5	1.6
Decrease in outstanding claims	12.1	6.1
Increase in other creditors	24.7	14.5
Profit on sale of subsidiary	(12.0)	—
	117.8	100.5

An amount of £3.5m in respect of payments relating to the exceptional charge of £16.3m has been deducted from the net cash inflow from operating activities.

(b) Changes in cash and cash equivalents and other liquid investments

	Cash and cash equivalents £m	Other liquid investments			Total £m
		Listed investments £m	Short term deposits £m	Unlisted £m	
At 1 January 1994	103.1	474.5	—	0.3	577.9
Net cash flow	59.9	—	—	—	59.9
Purchases less sales of investments	—	154.5	1.7	51.0	207.2
Change in market value	—	(58.8)	—	2.0	(56.8)
Exchange gain	1.2	—	—	—	1.2
At 31 December 1994	164.2	570.2	1.7	53.3	789.4

Included in cash and cash equivalents is £23.7m (1993 - £43.9m) disclosed under listed investments, £109.2m (1993 - £22.9m) disclosed under short term deposits and £15.0m (1993 - £14.6m) disclosed under other creditors in the consolidated balance sheet.

(c) Changes in financing

	Borrowings	Deferred consideration	Subordinated bonds	Total
	£m	£m	£m	£m
At 1 January 1994	54.4	27.9	98.4	180.7
Net interest accrual	1.8	0.9	—	2.7
Cash inflow/(outflow)	198.1	(5.0)	—	193.1
Issue costs	(6.4)	—	—	(6.4)
At 31 December 1994	247.9	23.8	98.4	370.1

NOTES TO THE FINANCIAL ACCOUNTS

16. Cash flow statement - (continued)

(d) Sale of subsidiary

	£m
Net assets disposed:	
Fixed assets	13.5
Debtors	1.0
Creditors	(0.6)
	13.9
Goodwill written back	0.8
Profit on disposal	12.0
	26.7
Satisfied by:	
Cash received	30.7
Less:	
Cash retained in subsidiary	(2.9)
Sale costs	(1.1)
	26.7

The subsidiary sold during the year contributed £1.2m to the Group's net operating cashflows, paid £0.6m in respect of taxation and utilised £0.1m for investing activities.

NOTES TO THE FINANCIAL ACCOUNTS

17. Pensions and post-retirement benefits

The Company and its UK subsidiaries operate defined benefit pension schemes under which contributions by employees and the companies are administered by trustees in funds independent of the companies. The schemes are funded to cover future pension liabilities allowing for expected future earnings and pension increases. On the basis of detailed valuations undertaken every three years and a periodic interim review, an independent actuary recommends the rates of contribution.

The latest valuation of the main UK scheme was carried out at 1 July 1993 and the projected unit method was used. For the main scheme, the assumed rate of investment return was 2% above the assumed rate of pay increases and 5% above the assumed rate of pension increases.

The aggregate market value of the main UK schemes at their valuation dates was £111.9m. The actuarial value thereof represented 130% of benefits due to members. The excess assets eliminate the need for the Company and its subsidiaries to make any contributions from 1 March 1994 until the next full valuation in July 1996 although the need to resume contributions will be reviewed on an annual basis based on interim valuations. The accounts include a provision of £15.7m (1993 - £10.7m) representing the excess of the accumulated cost over the contributions made.

In addition, unfunded defined benefit pension schemes exist for certain employees. The charge to the consolidated income and expenditure account in respect of the schemes and the assessment of the related pension liability at 31 December 1994 have been made in accordance with the advice of independent actuaries and are based principally on rates of increase in salary and the benefits applicable to each employee concerned. The provision included in the accounts amounts to £1.0m (1993 - £0.9m).

The pension charge in 1994 amounted to £6.0m (1993 - £4.6m).

An amount of £13.7m (1993 - £12.6m) is provided in respect of post retirement medical benefits granted on an ex gratia basis. An informal actuarial valuation of the liability for these medical benefits was carried out at 31 December 1994 by the Group. The next formal valuation will be performed by an independent actuary at 31 December 1995.

18. Principal subsidiaries

The principal subsidiaries listed below, are incorporated in Great Britain, registered in England and Wales and are wholly owned, except where otherwise stated.

Health Insurance - *short term*

BUPA Asia Limited (Hong Kong)

Sanitas SA, de Seguros (99% holding) (Spain)

* BUPA Investments Limited

* BUPA Finance PLC

BUPA Re (Republic of Ireland)

Health Insurance - *long term*

BUPA Health Assurance Limited

Health Services

BUPA Hospitals Limited

BUPA Mobile Screening Limited (99% holding)

Blackrock Hospital Limited (56% holding) (Republic of Ireland)

Dental Activities

BUPA DentalCover Limited

* Direct subsidiary of the Company.

STATEMENT OF GOVERNORS' RESPONSIBILITIES AND AUDITORS' REPORT

Statement of Governors' responsibilities in respect of the financial accounts

The following statement, which should be read in conjunction with the auditors' report set out below, is made for the purpose of clarifying the respective responsibilities of the Governors and the auditors in the preparation of the financial accounts.

Governors' responsibilities

Company law requires the Governors to prepare financial accounts for each financial year which comply with the provisions of the Companies Act 1985 applicable to insurance companies. In preparing those financial accounts, the Governors are required to:

- a) select suitable accounting policies and then apply them consistently;
- b) make judgements and estimates that are reasonable and prudent;
- c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial accounts.

The Governors are responsible for ensuring proper accounting records are maintained which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial accounts comply with the provisions of the Companies Act 1985 applicable to insurance companies. 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' report to the Members of The British United Provident Association Limited

We have audited the financial accounts on pages 18 to 35.

Respective responsibilities of Governors and auditors

As described above the Company's Governors are responsible for the preparation of financial accounts. It is our responsibility to form an independent opinion, based on our audit, on those financial accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with 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 accounts. It also includes an assessment of the significant estimates and judgements made by the Governors in the preparation of the financial accounts, and of whether the accounting policies are appropriate to the Group'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 accounts 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 accounts.

Opinion

In our opinion the financial accounts have been properly prepared in accordance with the provisions of the Companies Act 1985 applicable to insurance companies.

KPMG

Chartered Accountants, Registered Auditors
London, 16 March 1995

KPMG

FINANCIAL INFORMATION - FIVE YEAR SUMMARY

Extracts from income and expenditure account

	1994 £m	1993 £m	1992 £m	1991 £m	1990 £m
Income	965.6	923.2	876.2	819.0	690.7
Health Insurance	246.8	232.0	217.4	201.3	180.6
Health Services	0.9	-	-	-	-
Dental Activities	1,213.3	1,155.2	1,093.6	1,020.3	871.3
Result before taxation	54.3	41.2	36.5	1.3	(38.3)
Statement of total recognised gains and losses					
Result after taxation	37.3	28.5	26.1	(11.2)	(42.2)
Investment (depreciation)/appreciation	(48.8)	68.5	23.0	24.4	(23.6)
Property revaluation	2.2	(7.6)	(14.4)	12.3	-
Exchange gains/(losses)	1.0	(9.5)	2.6	6.0	3.0
Total recognised gains and losses	(8.3)	79.9	37.3	31.5	(62.8)
Balance sheet					
Fixed assets	386.2	387.4	407.4	412.3	399.9
Investments	758.1	541.6	358.5	254.1	205.8
Subscriptions receivable	202.8	186.0	189.3	176.1	163.8
Unearned subscriptions	(336.1)	(324.6)	(322.4)	(297.9)	(276.6)
Outstanding claims	(155.2)	(142.5)	(139.5)	(140.1)	(114.0)
Borrowings	(249.5)	(55.6)	(59.7)	(59.9)	(56.5)
Other net liabilities	(82.2)	(61.7)	(81.7)	(30.8)	(81.6)
Subordinated bonds 2018	(98.4)	(98.4)	-	-	-
Minority interests	(4.2)	(3.2)	(2.8)	(2.0)	(1.1)
	421.5	429.0	349.1	311.8	239.7
Represented by:					
Reserves	558.9	567.2	487.3	450.0	418.5
Cumulative goodwill written off	(137.4)	(138.2)	(138.2)	(138.2)	(178.8)
	421.5	429.0	349.1	311.8	239.7

ADDRESSES

BUPA Head office

Registered Office Provident House, Essex Street, London WC2R 3AX. (0171) 353 5212

BUPA Membership

Member Services

BUPA, Staines, Middlesex TW18 4XF. (01345) 553311

Business Services

BUPA, Manchester, PO Box 81, Anchorage 4, The Anchorage, Salford Quays, Salford M5 2YE. (0161) 877 4800

BUPA DentalCover

Head Office 6th Floor, Heron House, 8/10 Christchurch Road, Bournemouth BH1 3NP. (01202) 311650

BUPA Re

Head Office 12/14 Lower Mount Street, Dublin 2. (00 3531) 6762748

BUPA Health Services

Head Office 15 Essex Street, London WC2R 3AU. (0171) 379 1111

BUPA Hospitals

Head Office 15 Essex Street, London WC2R 3AU. (0171) 379 1111

Blackpool BUPA Fylde Coast Hospital, St Walburgas Road, Blackpool, Lancashire FY3 8BP. (01253) 394188
Brentwood BUPA Hartwood Hospital, Eagle Way, Brentwood, Essex CM13 3LE. (01277) 23525
Bristol BUPA Hospital Bristol, The Glen, Redland Hill, Durdham Down, Bristol BS6 7JJ. (01179) 732562
Bushey BUPA Hospital Bushey, Heathbourne Road, Bushey, Watford WD2 1RD. (0181) 950 9090
Cambridge BUPA Cambridge Lea Hospital, 30 New Road, Impington, Cambridge CB4 4EL. (01223) 237474
Cardiff BUPA Hospital Cardiff, Croescadarn Road, Pentwyn, Cardiff CF2 7XL. (01222) 735515
Edinburgh BUPA Murrayfield Hospital - Edinburgh, 122 Corstorphine Road, Edinburgh EH12 6UD. (0131) 334 0363
Farnham BUPA Hospital Clare Park, Crondall Lane, Crondall, Farnham, Surrey GU10 5XX. (01252) 850216
Gatwick BUPA Gatwick Park Hospital, Povey Cross Road, Horley, Surrey RH6 0BB. (01293) 735511
Halifax BUPA Hospital Elland, Elland Lane, Elland, West Yorkshire HX5 9EB. (01422) 375577
Harpenden BUPA Hospital Harpenden, Ambrose Lane, Harpenden, Herts AL5 4BP. (01582) 763191
Hull BUPA Hospital Hull and East Riding, Lowfield Road, Anlaby HU10 7AZ. (01482) 659471
Hythe BUPA St Saviour's Hospital, 73 Seabrook Road, Hythe, Kent CT21 5QW. (01303) 265581
Ilford BUPA Roding Hospital, Roding Lane South, Ilford, Essex IG4 5PZ. (0181) 551 1100
Leeds BUPA Hospital Leeds, Roundhay Hall, Jackson Avenue, Leeds LS8 1NT. (0113) 2693939
Leicester BUPA Hospital Leicester, Gartree Road, Oadby, Leicester LE2 2FF. (0116) 2720888
Maidstone BUPA Alexandra Hospital, Impton Lane, Walderslade, Kent ME5 9PG. (01634) 687166
Manchester BUPA Hospital Manchester, Russell Road, Whalley Range, Manchester M16 8AJ. (0161) 226 0112
Norwich BUPA Hospital Norwich, Old Watton Road, Colney, Norwich NR4 7TD. (01603) 56181
Portsmouth BUPA Hospital Portsmouth, Bartons Road, Havant, Hants PO9 5NP. (01705) 454511
Reading BUPA Dunedin Hospital, 16 Bath Road, Reading RG1 6NB. (01734) 587676
Scarborough BUPA Belvedere Hospital, Belvedere Road, Scarborough, North Yorkshire YO11 2UT. (01723) 365363
Solihull BUPA Parkway Hospital, 1 Damson Parkway, Solihull, West Midlands B91 2PP. (0121) 704 1451
Southampton BUPA Chalybeate Hospital, Chalybeate Close, Tremona Road, Southampton, Hants SO16 6UY. (01703) 775544
Southend-on-Sea BUPA Wellesley Hospital, Eastern Avenue, Southend-on-Sea, Essex SS2 4XH. (01702) 462944
Sutton Coldfield BUPA Hospital Little Aston, Little Aston Hall Drive, Little Aston, Sutton Coldfield, West Midlands B74 3UP. (0121) 353 2444
Warrington BUPA North Cheshire Hospital, Fir Tree Close, Stretton, Warrington WA4 4LU. (01925) 265000
Wirral BUPA Murrayfield Hospital - Wirral, Holmwood Drive, Thingwall, Wirral, Merseyside L61 1AU. (0151) 648 7000
Worcester BUPA South Bank Hospital, 139 Bath Road, Worcester WR5 3AG. (01905) 350003

Hospital managed and part-owned by BUPA

Dublin Blackrock Clinic, Rock Road, Blackrock, Co Dublin. (00 3531) 2832222

BUPA Health Screening Centres

Birmingham 11 Portland Road, Edgbaston, Birmingham B16 9HN. (0121) 455 6777
Blackpool BUPA Fylde Coast Hospital, St Walburgas Road, Blackpool, Lancashire FY3 8BP. (01253) 394188
Brentwood BUPA Hartwood Hospital, Eagle Way, Brentwood, Essex CM13 3LE. (01277) 23525
Bristol 4 Priory Road, Clifton, Bristol BS8 1TY. (0117) 9731433
Bushey BUPA Hospital Bushey, Heathbourne Road, Bushey WD2 1RD. (0181) 950 1380
Cambridge BUPA Cambridge Lea Hospital, 30 New Road, Impington, Cambridge CB4 4EL. (01223) 237474
Cardiff BUPA Hospital Cardiff, Croescadarn Road, Pentwyn, Cardiff CF2 7XL. (01222) 735515
Colchester The Oaks Hospital Colchester, Oaks Drive, Mile End Road, Colchester CO4 5XR. (01206) 752121
Edinburgh BUPA Murrayfield Hospital - Edinburgh, 118 Corstorphine Road, Edinburgh EH12 6TU. (0131) 316 4400
Gatwick BUPA Gatwick Park Hospital, Povey Cross Road, Horley, Surrey RH6 0BB. (01293) 771913
Glasgow 295 Fenwick Road, Giffnock, Glasgow G46 6UH. (0141) 638 4445
Halifax BUPA Hospital Elland, Elland Lane, Elland, West Yorkshire HX5 9EB. (01422) 375577
Harpenden BUPA Hospital Harpenden, Ambrose Lane, Harpenden, Herts AL5 4BP. (01582) 461379
Ilford BUPA Roding Hospital, Roding Lane South, Ilford, Essex IG4 5PZ. (0181) 551 1100
Leeds BUPA Hospital Leeds, Roundhay Hall, Jackson Avenue, Leeds LS8 1NT. (0113) 2370932
Leicester BUPA Hospital Leicester, Gartree Road, Oadby, Leicester LE2 2FF. (0116) 2713388
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Norwich BUPA Hospital Norwich, Old Watton Road, Colney, Norwich NR4 7TA. (01603) 505011
Nottingham Clawson Lodge, 403 Mansfield Road, Nottingham NG5 2DP. (01602) 622826
Portsmouth BUPA Hospital Portsmouth, Bartons Road, Havant, Hants PO9 5NP. (01705) 470379
Reading BUPA Dunedin Hospital, 13 Bath Road, Reading, Berkshire RG1 6HH. (01734) 587676
Sawbridgeworth The Rivers Hospital, Thomas Rivers Medical Centre, High Wych Road, Sawbridgeworth, Herts CM21 0HH. (01279) 600282
Scarborough BUPA Belvedere Hospital, Belvedere Road, Scarborough, North Yorkshire YO11 2UT. (01723) 365363
Southampton BUPA Chalybeate Hospital, Chalybeate Close, Tremona Road, Southampton, Hampshire SO16 6UY. (01703) 702067
Southend-on-Sea BUPA Wellesley Hospital, Eastern Avenue, Southend-on-Sea, Essex SS2 4XH. (01702) 462944
Sutton Coldfield BUPA Hospital Little Aston, Little Aston Hall Drive, Little Aston, Sutton Coldfield, West Midlands B74 3UP. (0121) 352 1788
Torquay Mount Stuart Hospital, St Vincents Road, Torquay TQ1 4UP. (01803) 313881
Warrington BUPA North Cheshire Hospital, Fir Tree Close, Stretton, Warrington WA4 4LU. (01925) 860982
Wirral BUPA Murrayfield Hospital - Wirral, Holmwood Drive, Thingwall, Wirral, Merseyside L61 1AU. (0151) 648 5090
Worcester BUPA South Bank Hospital, 139 Bath Road, Worcester WR5 3AG. (01905) 350003

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N O T E S