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ANNUAL REPORT 2013

LIVING BUPA'S PURPOSE TOGETHER

bupa

Cover image: People from Bupa Global's Brighton office take part in the Ground Miles Challenge on Brighton beach, UK.

This page: Demonstrating the Ground Miles smartphone app, designed to get millions more people around the world walking.

bupa.com/groundmiles

2013 HIGHLIGHTS

GROUP REVENUES - UP 8%

£9.1bn

GROUP UNDERLYING PROFIT BEFORE TAX - UP 5%

£638.5m

UNDERLYING PROFIT IS DEFINED IN THE FINANCIAL REVIEW ON PAGE 18

TOTAL CUSTOMER NUMBERS - UP 57%

22m

2012: 14m (restated)

PROGRESS TOWARDS OUR SUSTAINABILITY GOALS

Keeping people well

29m (target 60m by 2015)

FOR MORE INFORMATION GO TO PAGE 10

Supporting a healthy planet

6% reduction in our absolute carbon footprint since 2009 (target 20% by 2015)

FOR MORE INFORMATION GO TO PAGE 36

REVENUES BY MARKET UNIT

UNDERLYING PROFIT BY MARKET UNIT

- Australia and New Zealand (ANZ)
- United Kingdom (UK)
- Spain and Latin America Domestic (SLA)
- International Development Markets (IDM)
- Bupa Global (BG)

FULL SEGMENTAL RESULTS ON PAGE 21

It has been a significant year for Bupa, building a foundation for a new phase of development and growth towards our vision.

Stuart Fletcher
Chief Executive Officer

Collectively our people are embracing our vision and are mobilised to start realising our ambitions through all we do. We continue to extend our footprint in healthcare across segments and geographies, bringing affordable and accessible healthcare to more people. Working together with a wide network of trusted partners and stakeholders, *we are committed to fulfilling our purpose* of longer, healthier, happier lives.

FOR MORE GO TO PAGE 7

Our people have achieved tremendous things this year. They are wholeheartedly embracing our Bupa 2020 vision, and are building momentum in big ways and small. We have continued our investment in leadership capability, empowering our people and seeking to leverage the talent of every person in Bupa, having them be our greatest ambassadors and love working here. We celebrated the best of our people's successes with the inaugural Breakthrough Awards.

FOR MORE GO TO PAGE 34

Our commitment to positively impact the world includes not just people but the environment. Recognising the strong interdependence between our environment and people's health, we gladly accept our responsibility for ensuring that the impact we have on the environment is a positive one. Being awarded the global certification to the Carbon Trust Standard was a *significant milestone in this journey.*

FOR MORE GO TO PAGE 36

Our sustainability agenda is being woven into our activities across the globe. Case studies marked with this icon highlight the ways we have been building this agenda in 2013.

VIEW OUR ANNUAL REPORT AND ACCOUNTS ONLINE

For video and other additional information, go to **bupa.com/annualreport**

STRATEGIC REPORT

GOVERNANCE REPORT

FINANCIAL STATEMENTS

BUPA AT A GLANCE

As a leading international healthcare group, we offer health insurance and medical subscription products, and run care homes, retirement villages, hospitals, primary care centres and dental clinics. We also provide workplace health services, home healthcare, health assessments and long-term condition management services.

TOTAL CUSTOMERS

22m

CUSTOMERS BY MARKET UNIT

TOTAL EMPLOYEES

70,000

EMPLOYEES BY MARKET UNIT

- Australia and New Zealand (ANZ)
- United Kingdom (UK)
- Spain and Latin America Domestic (SLA)
- International Development Markets (IDM)
- Bupa Global (BG)

OUR MARKET AND BUSINESS UNITS

AUSTRALIA AND NEW ZEALAND
- Bupa Australia Health Insurance
- Bupa Aged Care Australia
- Bupa Care Services New Zealand
- Bupa Health Services Australia

UNITED KINGDOM
- Bupa Health Funding
- Bupa Health Clinics
- Bupa Care Services UK
- Bupa Home Healthcare
- Bupa Cromwell Hospital

SPAIN AND LATIN AMERICA DOMESTIC
- Sanitas Seguros
- Sanitas Hospitales and New Services
- Sanitas Dental
- Sanitas Residencial
- Latin America Domestic Development

INTERNATIONAL DEVELOPMENT MARKETS
- Bupa Hong Kong
- Bupa Thailand
- Max Bupa
- Bupa Arabia
- Bupa China
- LUX MED
- Quality HealthCare
- Health Dialog

BUPA GLOBAL
- Bupa Global Business Unit
- Bupa Global Latin America
- Bupa Global North America

TOTAL COUNTRIES

190

CHAIRMAN'S STATEMENT

2013 has been another good year for Bupa. The momentum and sense of what's possible for our organisation, our customers and wider society is increasingly clear at all levels within the company. Our Bupa 2020 vision, which we announced late in 2012, is being embraced by our people, and we are progressing towards our goals.

Lord Leitch
Chairman

Our ability to generate strong financial performance despite adverse market conditions and whilst investing in significant change and development, is testament to both the efforts of our teams across the world and the clarity provided by our Bupa 2020 vision.

We have also been focused on our acquisition strategy, confidently moving at pace to enter new markets and expand in existing ones, where we see the opportunity to add value. 2013 has seen six major acquisitions enabling investment in new growth segments such as dental and provision, including primary care and diagnostics. Our status, with no shareholders, allows us to focus more on the long-term. We have invested our capital in businesses that build on our expertise in funding and providing healthcare services for every life stage.

At the start of the year, we welcomed LUX MED to Bupa, following our acquisition of the business in April 2013. A month later we completed the acquisition of Dental Corporation, Australia and New Zealand's largest dental group.

Over the summer we announced the acquisition of Richmond Care Villages, five high quality care villages across England, with planning permission for an additional three.

In October, we purchased Quality HealthCare, Hong Kong's largest private clinic network.

Towards the end of the year we acquired 49% of Highway to Health, Inc, a US-based specialist health insurance and services company. Finally, early in 2014 we were successful in acquiring 56% of Cruz Blanca, one of Chile's leading healthcare companies.

In 2014, we will focus on delivering growth from our existing and acquired businesses, whilst realising further benefits from integration.

BOARD UPDATE
We continued to implement our succession plan for retiring Board members.

Following her retirement, my thanks go to The Rt Hon Baroness Bottomley for her invaluable contribution to the Board during her six-year tenure.

The Rt Hon Patricia Hewitt joined as Non-Executive Director in July. Patricia brings a wealth of experience of business and healthcare, a deep understanding of the needs of our customers and strong public sector experience.

We also announced Martin Houston's appointment as Non-Executive Director effective 1 January 2014. Martin was previously Chief Operating Officer of BG Group and a board member of Severn Trent Plc.

In October we welcomed Alan Buchanan to the position of Company Secretary. Alan joins us following an extensive career at British Airways.

After seven years as a Non-Executive Director and Chairman of the Remuneration Committee, Peter Cawdron will retire at the AGM on 11 June 2014. I'd like to thank Peter for his dedication to Bupa over the last seven years. George Mitchell has succeeded Peter as Senior Independent Director.

Finally, I am very sad to tell you that, in May 2013, Nicholas Beazley, our Company Secretary and dearly loved colleague, passed away after a period of illness. He was a wonderful man who is very much missed by all who knew him. Our thoughts remain with Nicholas's family.

I would like to take this opportunity to thank the Board, Stuart and his team, and all of our people around the world for contributing to what has been another good year. It is their commitment to supporting our customers, along with executing our strategy, that allows us to be confident that millions of people enjoy better health because of Bupa.

CHAIRMAN'S STATEMENT CONTINUED

INTEGRATED HEALTHCARE DELIVERING IMPROVED OUTCOMES

We believe that public-private partnerships (PPPs) like the ones we operate in Spain can help to tackle the challenges faced by healthcare systems, including rising costs, ageing populations and increasing patient demands for high quality services.

Through two PPP agreements with regional governments in Spain, we provide healthcare to more than 350,000 people. Furthermore, in Manises, Valencia, we manage the healthcare system, covering the entire range of care needs by operating a district hospital, 20 primary healthcare centres, two specialised centres, and a long-term care hospital.

In 2013, we received some of the most prestigious awards in the Spanish healthcare sector in recognition of our work to deliver the highest standards of healthcare at our PPP hospitals. We apply a strict framework of performance targets, outcome measurement, and reporting in order to continuously improve quality and performance.

OUR MARKETPLACE

We operate in a diverse range of countries, each with their own opportunities and challenges. We are also in the midst of a global change in the nature of disease burden and customer expectations. Healthcare systems around the world are experiencing similar challenges as they seek to adapt to these new realities.

CHANGING NATURE OF HEALTHCARE NEEDS

Healthcare needs are evolving from one-off acute cases to long-term illness management, with long-term conditions, such as cardiovascular disease and diabetes, now accounting for over 60% of all deaths globally.[1] This change is principally driven by unhealthy lifestyle choices, and a growing and ageing population driving greater prevalence of age-related diseases, such as dementia. We expect this trend to continue, with diabetes alone expected to affect 10% of the world's adult population by 2030.[2]

The changing nature of illness poses a huge organisational and cost challenge for all healthcare systems, and is driving changes in how healthcare is delivered and paid for.

PERSON-CENTRED CARE

Elderly people and patients with long-term conditions often have complex needs and require the expertise of multiple specialists. Historically, across the healthcare system, this care has been fragmented, lacking in coordination between different specialists, causing duplicated efforts that result in higher cost and poorer outcomes for the patient.

Integrating care to provide a coherent and connected service that is focused around the individual, can deliver good quality care for the patient at a lower cost. For clinicians, this means looking at how better to partner patients to make more informed healthcare decisions that will deliver the outcome which best suits the individual.

> "It is increasingly important to shift focus to prevention. The majority of long-term conditions are due to preventable, modifiable risk factors, including poor diet, physical inactivity, tobacco and excessive use of alcohol."

PROACTIVE RATHER THAN REACTIVE

Healthcare systems can no longer afford to focus only on reactive treatment. It is increasingly important to shift focus to prevention. The majority of long-term conditions are due to preventable, modifiable risk factors, including poor diet, physical inactivity, tobacco and excessive use of alcohol. Prevention and wellness are critical to containing this growing epidemic - keeping healthy people well and helping those with long-term conditions manage their health to avoid acute episodes.

Helping people adopt and sustain a healthier lifestyle is one of the most effective ways to help them live longer, healthier, happier lives.

MOVING CARE OUT OF THE HOSPITAL

Hospitals are not designed for the management of long-term conditions and, as a result, we are seeing a move to delivering care in more economical and convenient out-of-hospital settings.

The growing trend for integrated care - all parts of a healthcare system working together - produces better patient outcomes more cost effectively. Integrated models make greater use of primary care settings in delivering health services which have traditionally been delivered in hospitals.

Technological advances can help enable delivery of these new models of care in remote locations.

PAYING FOR OUTCOMES RATHER THAN SERVICE

Traditional funding and payment models are more suited to unpredictable acute illnesses or events. Some governments are now thinking about new measures and payment systems based on health outcomes, not quantity or type of interventions, and exploring new funding models, such as

[1] 'The Global Burden of Noncommunicable Diseases', World Economic Forum, 2011.
[2] 'Atlas 5th edition' International Diabetes Federation, 2012 update.

"...as the world becomes more connected digitally, patients are becoming empowered by easier access to knowledge and information."

personal budgets. Funders of care are also more wary of paying for unnecessary, expensive treatments and those treatments for which there is limited clinical evidence.

Integration between funders and providers can help ensure that all participants within a system are aligned to a common goal - achieving the best outcomes for the patient at affordable prices.

CHANGES IN PATIENT EXPECTATIONS

It is not just the healthcare needs of the global population that are evolving - their expectations are changing too. The growing 'middle classes', particularly within emerging countries, are increasingly expecting more from healthcare providers. In addition, as the world becomes more connected digitally, patients are becoming empowered by easier access to knowledge and information. This increased awareness is leading to more patients wanting more involvement in their own healthcare.

Demand is also growing for increasingly personalised care facilitated through appropriate use of data, such as health coaching.

IMPLICATIONS FOR BUPA

These trends present opportunities as well as challenges for Bupa. We are committed to tackling these issues head on, striving to deliver more personalised care, with better outcomes, at lower cost.

We will continue to focus on helping people effect healthy behaviour changes, designing care around our customers' needs in an integrated way, and providing people with access to advice and care that is right for them.

We will nurture our relationships with providers and clinicians, to provide the highest quality care at sustainable prices. Our initiatives to address rising healthcare costs in the UK, Spain and Australia are already delivering results.

For wider society, we will build on our partnerships with non-governmental organisations and the third sector to cost-effectively reach large numbers of people, including people in the poorest areas of the world. In October 2013 we became the lead healthcare partner on the 'Be Healthy, Be Mobile' programme, which is co-led by the International Telecommunication Union (ITU) and World Health Organization, to tackle non-communicable diseases in low- and middle-income countries through mobile health interventions. In 2014, we will also be partnering with national governments to transform how they deliver prevention and care through mobile devices.

By doing these things we believe we will make a positive difference to millions of people around the world.

Our strategy and business model, as outlined over the next few pages, reflect the market conditions and the changing needs of our customers. Above all, we recognise that we operate in a competitive market where additional challenges continue to emerge and the only way of ensuring success is by focusing on delivering on our purpose of longer, healthier, happier lives.

STRATEGIC REPORT

Our 2013 Strategic Report, from pages 6 to 41, has been reviewed and approved by the Board of Directors on 12 March 2014.

By order of the Board

Lord Leitch
Chairman

Lord Leitch

COLLABORATING FOR QUALITY IMPROVEMENT

In November, Bupa Global hosted the first global providers' summit, gathering health professionals from the largest hospitals in over 20 countries to discuss the changing needs of customers and emerging trends in the delivery of healthcare around the world. Together with hospital providers, we are committed to improving the patient experience and making healthcare more affordable and accessible.

"It's critical that providers and insurers work together to improve healthcare quality and efficiency for the benefit of customers." Robert Lang, Managing Director, Bupa Global.

OUR BUSINESS MODEL

Customers are at the centre of everything we do. We focus on being a healthcare partner across every stage of their life, funding and providing quality care to 22m people.

OUR BUSINESS MODEL

Our experience and ability to deliver quality, integrated care is a stable platform to continue strong and sustainable growth. With no shareholders, we adopt a long-term perspective and invest strategically to create value, bringing meaningful expertise to the healthcare market.

FUND
We fund healthcare for customers in over 190 countries, working in partnership with healthcare professionals to ensure customers receive access to the best possible care and advice.

PROVIDE
We provide quality healthcare across multiple settings including hospitals, clinics, dental centres, care homes, residential care villages and the workplace. Greater access to healthcare is also delivered through mobile screening and diagnostics, and treatment at home.

ENGAGE
We engage millions of people in their health, providing information, advice and coaching to empower them to live well and better manage long-term conditions. We initiate and contribute to debate and thought leadership in order to tackle the health challenges facing society.

INTEGRATION
We have seen increasing evidence that combining funding and provision activities is an effective approach for delivering better customer experiences and health outcomes in a financially sustainable way. Early and active engagement empowers people to make healthy behaviour choices and more informed decisions in managing their own health.

Where Bupa has broader and deeper participation across healthcare pathways, we are better positioned to influence the patient's journey, ensuring the advice and care is right for them, while managing the associated risk.

We look to develop repeatable models for integrated care which are tailored to the opportunities and health systems of each market.

In Spain, Sanitas offers hospitals, clinics and wellbeing services, integrated with private medical insurance. Customers can choose where they receive treatment, but the integrated model means we offer unique services through our owned provision that give customers faster access and a more personalised experience.

In the UK, early involvement and guidance in navigating the complexities of healthcare through our decision support services, means an improved and more holistic customer experience overall.

We extended our presence in integrated healthcare with the acquisition of LUX MED. Its integrated subscription and provision model differentiates our offering in the Polish healthcare market. The acquisition of Quality HealthCare, a network of clinics and doctors in Hong Kong, complements our fast growing health insurance business.

CEO'S STATEMENT

2013 was a year of building momentum at Bupa, as we began executing the strategic vision set out in 2012 and expanding our global presence. We saw strong customer growth, up 57%, and revenues exceeded £9bn for the first time.

Underlying profit increased by 5% to £638.5m, continuing over ten years of unbroken growth.

We invested significantly to expand in our existing markets. In Australia and New Zealand we became the leading private aged care provider and in the UK we now operate care villages as well as care homes. We continued to invest in growing our dental businesses in Spain and the UK, and also acquired Australia and New Zealand's largest dental business, Dental Corporation.

In Hong Kong, our health insurance business, which has operated for over 30 years, is now complemented by Hong Kong's largest private healthcare clinic network, following the acquisition of Quality HealthCare. In the US, we announced a new strategic partnership through a trademark licence, with the Blue Cross Blue Shield system, via our acquisition of 49% of Highway to Health, Inc. The partnership will enable our international private medical insurance customers to access the biggest global network of hospitals and medical professionals.

We entered new geographic markets in 2013 with the acquisition of LUX MED, Poland's largest private medical healthcare provider, further deepening our integrated

BUPA 2020

- In 2012, we created an ambitious strategic vision for what Bupa will look like in 2020
- Bupa 2020 is defined by our enduring purpose of longer, healthier, happier lives
- One year on we are building momentum as our people embrace and seek to deliver our vision

Stuart Fletcher
Chief Executive Officer

CEO'S STATEMENT CONTINUED

healthcare offer. In February 2014, we acquired a majority stake in Chile's leading healthcare funding and provision group, Cruz Blanca, having agreed to tender in December 2013.

Our acquisitions meet rigorous strategic and financial criteria, selected to leverage and develop our expertise and knowledge across markets and healthcare systems, and to create value. We have been thoughtful and measured in the integration of these new businesses, taking time for both parties to learn from each other and ensure that we maximise the benefits of working together. Teams and resources have been shared to ensure that management is focused on successful delivery of our purpose and commercial objectives. This approach has proved successful. All investments in 2012 and 2013 performed at, or above, business case expectations.

Our bond issue in April 2013 was ten times oversubscribed and alongside the reaffirmation of our senior debt rating, indicated a vote of confidence in our financial strength and strategy. We remain well positioned to capitalise on opportunities to grow our business through a selective combination of organic growth, acquisition and partnerships, both with industry and non-profit organisations.

"We are committed to providing access to advice and care that's right for our customers."

In the UK, we continued to work for more affordable healthcare for our customers, reducing our operating expenditure and engaging with the Competition Commission in its investigation into private healthcare. We welcomed the Commission's findings and subsequent provisional remedies published in 2014. The remedies propose significant reform to change how private hospitals and consultants work, to address behaviour that has led to higher prices, inadequate competition and inefficiency. The Commission acknowledged that amid an uncompetitive market, insurers like Bupa are doing "exactly what their customers would expect" by introducing initiatives to tackle rising healthcare costs and keep premiums down. The remedies offer an opportunity to keep private healthcare affordable and help return the industry to growth.

As announced in 2012, we reorganised our business into Market Units to bring closer alignment between our operations and customers. In 2013, we also introduced Bupa Global, a rebrand of the International PMI Market Unit. Bupa Global reflects a renewed customer and market orientation, working in partnership with other Bupa businesses to unlock greater capabilities and growth potential for Bupa.

DELIVERING ON OUR PURPOSE

As part of our brand development programme we engaged with over 8,500 individuals in five geographies to gather insights about how we can best serve their healthcare needs. The results of this significant piece of work are proving invaluable, and we are currently working on our brand and business development plans to leverage these insights.

After creating our strategic vision in 2012, we began developing and embedding a number of performance indicators to provide a clear framework for tracking our trajectory towards Bupa 2020. The measures link directly with our strategic goals – being a healthcare partner to millions, delivering extraordinary business performance, and being an organisation where people love to work.

In 2013, we focused on increasing capability to gather rich and robust data from across the business, for both established and newly introduced metrics. While some measures were already in place, others required calibration and consistent definition across our businesses to provide a truly global snapshot of our performance. We have made good progress in improving reporting capabilities in 2013, and will continue to develop this in 2014.

"We are truly excited about the potential of this new partnership with Bupa to help accelerate the adoption of mobile health interventions worldwide."

Hamadoun I. Touré,
Secretary-General of International Telecommunication Union

Lord Leitch, pictured above, meeting Hamadoun I. Touré. The ITU is the United Nations agency for information and communication technology and is collaborating with Bupa on a global mobile health initiative, 'Be Healthy, Be Mobile', alongside the World Health Organization.

As part of this work, we redefined the way we count our customers. Previously a person was counted as a customer if they had an active relationship with Bupa at the end of the year. This measurement did not take into consideration the many customers we serve throughout the year, nor the wider breadth of health expertise and services that we now deliver. The new definition counts any person who can elect to use our services, and better reflects the number of people who access our services across the globe. As a result the 2012 customers have been restated by 2.2m to 14m. The 57% growth in our customers in 2013 is primarily due to our newly acquired businesses which added 5.4m customers (39%), as well as growth of 1.2m (9%) in our Indian micro insurance scheme customers.

Our work in measuring, managing and reducing our carbon footprint was rewarded with the global certification to the Carbon Trust Standard. While it is clear there is still considerable work ahead to deliver the ambitious targets we have set ourselves, the progress to date is encouraging.

Together the Bupa Executive Team created a vision that enrols and empowers people to make a positive difference not just for our customers, but for wider health systems and society at large.

£1.3bn
spent on strategic M&A

6
Major acquisitions executed with a further 22 smaller transactions

Taking on such a challenge is, we believe, best done in partnership with others. By working together with leading partners and experts we are tackling some of the toughest challenges in healthcare.

We led the way with the launch of a joint Global Dementia Charter with Alzheimer's Disease International. The charter is the first of its kind, and outlines the rights that people living with dementia around the world should expect, to allow them to live well.

Our partnership with the International Telecommunication Union (ITU) and World Health Organization to combat non-communicable diseases using mobile health, means we are at the heart of a systemic intervention in healthcare and will bring millions of people access to health information to help keep them well.

The Ground Miles campaign, our global movement for walking, was launched in partnership with the World Heart Federation in September 2013. Collectively our people walked over 450,000 miles in the last four months of 2013, and together with friends, family, and wider society, contributed to a total of 4.8m miles globally.

We recognise the key to delivering our vision is our leadership, and momentum has been building in the cohesion and capability of our leaders across the globe. We are investing in growing our people and bringing to the fore the skills, talents and capabilities of all our people.

OUTLOOK

I am greatly encouraged as I reflect on the strides we have made this year, and the pace at which they have been achieved.

2014 is about making our businesses even more customer-centred, establishing our global brand direction, and integrating and driving growth from our newly acquired businesses.

Whilst trading conditions in some key markets are expected to remain tough, our teams are focused on delivering sustained growth and continuing to drive operational efficiencies. Our strategic partnerships create opportunities to reach and have an impact on greater numbers of people, and 2014 will see a cementing of these arrangements.

2014 looks set to be another significant year for Bupa. As we continue to build on our diversified international platform, our purpose of longer, healthier, happier lives remains the driving force behind everything we do.

LUX MED IS THE LEADING PROVIDER OF HEALTHCARE IN POLAND

In April we completed the acquisition of LUX MED, Poland's largest private healthcare provider. This acquisition was one of several strategic acquisitions which extended our integrated healthcare presence into new markets. LUX MED runs a medical subscription business alongside outpatient clinics, a network of diagnostic centres and a day hospital. It also operates a 157-bed care home and two endoscopy centres. The business performed in line with expectations, and we have seen a smooth and successful transition to date.

CEO'S STATEMENT CONTINUED OUR KPIs

We track our performance against a number of key performance indicators which are aligned to our strategic vision. We conduct regular pulse checks to review our progress.

STRATEGIC GOAL	KPI	PERFORMANCE AND SIGNIFICANCE
HEALTHCARE PARTNER TO MILLIONS MORE PEOPLE	**22m** **Customer numbers*** 2012: 14m	We saw strong growth across all markets, becoming market leader in some geographies, and extending provision in existing markets. We welcomed 5.4m new customers as a result of acquisitions, including LUX MED in Poland and Quality HealthCare in Hong Kong. We also saw growth in our Indian micro insurance scheme customers. As we expand our reach into new geographies and segments, such as dental provision, we engage and partner with millions more people about their health and wellbeing. FIND OUT MORE ON PAGES 22-31
	29m **Health engagement** 2012: 18m	Our ambition is to engage millions of people around the world in their health and wellbeing, enabling them to make simple and positive changes to be healthier. We have committed to helping 60m people by 2015. This is an ambitious and stretching goal, and one that we are driven to achieve. We are continuing to improve our reporting capabilities for this measure, implementing enhanced data-gathering tools consistently across markets. FIND OUT MORE ON PAGES 12-17
EXTRAORDINARY BUSINESS PERFORMANCE	**£9.1bn** **Revenue** 2012: £8.4bn	We are committed to delivering solid and sustainable financial performance, and investing in activities that create long-term economic value. We saw revenue growth in all Market Units, reflecting the strength of our proposition across geographies and segments. Revenue grew 8% to over £9bn for the first time. Over 70% of Bupa's revenue is generated by international operations, reflecting our truly global footprint. Strong business performance means we are well-resourced to be a healthcare partner to millions more people. FIND OUT MORE ON PAGE 18
	£638.5m **Underlying profit** 2012: £609.5m	We delivered good growth in underlying profit, driven by expansion in existing and new geographies and segments, alongside successful initiatives to tackle rising healthcare costs. With no shareholders, our profits are reinvested to provide more and better healthcare for our current and future customers and to fulfil our purpose more broadly in society. FIND OUT MORE ON PAGE 18
	6% **Carbon footprint reduction** 2012: 5% reduction	We measure our absolute carbon footprint. By investing in carbon reduction projects such as Building Energy Management Systems, and sharing environmental expertise, we reduced our footprint by 6% from our 2009 baseline. In 2013, we became the first private sector healthcare company to be awarded global Carbon Trust Standard certification. By measuring and reducing the energy we use, and the carbon it generates, we can positively impact the rates of asthma and other illnesses by reducing particulate pollution. FIND OUT MORE ON PAGE 36
PEOPLE LOVE WORKING AT BUPA	**67%** **Employee engagement index** 2012: 72%	*Our people - their passion, dedication and drive - are the engine that powers all that we do.* We excel when our people love working at Bupa. In 2013, we saw a significant increase in participation in our annual Global People Survey, making it our most meaningful survey ever. This underlying change in composition and sample size has naturally impacted results when compared to 2012. Employee engagement remained high, demonstrating the strong understanding and connection that our people have with Bupa's purpose. By building on this extraordinary culture and affinity our people have to our purpose, we are reaching millions more people in more places. FIND OUT MORE FROM PAGE 32
	73% **Performance excellence index** 2012: 75%	Performance excellence measures how enabled our people feel in delivering for our customers. It draws from a cross-section of indicators including the extent of training for our people, speed of response to customers and perception of leadership commitment to high quality products, services and care. We have made good progress in developing additional performance indicators in this area that will be included with comparatives in future. FIND OUT MORE FROM PAGE 32

* We have changed our definition of customers to be an individual or a party from whom Bupa derives revenue and who can elect to use our services. 2012 comparatives have also been restated. *This includes joint ventures and associates. Find out more on page 9.*

BUPA EXECUTIVE TEAM

Bupa's executive team takes collective responsibility for the fulfilment of our purpose, strategic vision, and delivery on our total Bupa performance goals.

1 2 3 4 5

6 7 8 9 10

11 12 13

1. Stuart Fletcher
Chief Executive Officer

2. Evelyn Bourke
Chief Financial Officer

3. Dean Holden
Managing Director, Australia and New Zealand

4. Richard Bowden
Managing Director, United Kingdom

5. Iñaki Ereño
Managing Director, Spain and Latin America Domestic

6. Alison Platt
Managing Director, International Development Markets

7. Robert Lang
Managing Director, Bupa Global

8. Denise Collis
Chief People Officer

9. Yasmin Jetha
Chief Information Officer

10. Paul Zollinger-Read
Chief Medical Officer

11. Steve John
Corporate Affairs Director

12. Theresa Heggie
Chief Marketing and Strategy Officer

13. Paul Newton
Chief Legal Officer

ACTION TOWARDS 2020

SEE HOW WE'RE BRINGING OUR NEW VISION TO LIFE

Access to advice and care that's right for me

We are dedicated to supporting our customers at critical times in their lives. We will help more people take steps to proactively improve their overall health and quality of life, and reduce their risk of developing serious conditions. We will partner with the best, to be the best at providing advice and care that is right for the individual.

THERE'S ALWAYS A DOCTOR IN THE HOUSE

Aged care providers often find that residents' GP services focus on those with health problems and the times when residents are ill. In 2013, Bupa Aged Care Australia committed to employing dedicated GPs in each of its care homes in the future. The project means that, as well as prompt access to treatment of acute illness, residents benefit from more preventive and proactive care, and better long-term condition management and palliative care. The key outcomes are reduced hospital transfers and improved customer satisfaction. In 2013, ten care homes employed GPs, with more set to join in 2014. The project looks set to transform the aged care industry in Australia.

"The feedback that I've had is universally that people feel a lot happier knowing I'm here. When somebody becomes ill, in the normal healthcare system there's a gap between them becoming unwell and getting treatment. Here, that gap doesn't exist. We see some amazing responses to our early intervention that are outside of my experience before coming here."

Dr Bob Hoskins,
In-House GP, Bupa Edithvale Care Home

A VITAL PARTNERSHIP

We announced a partnership with Jubilee Insurance, east Africa's largest insurance group, to provide international health insurance products to customers in Kenya. The partnership includes the recently launched Vital Africa product, an 'emergency only' plan which ensures customers get the emergency treatment they need, anywhere in Africa. The partnership enables us to deliver a tailored service for customers, providing a blend of local knowledge and international know-how.

Patrick Tumbo, CEO of Jubilee Kenya, said: "Jubilee is constantly striving to increase its product offerings, and the partnership with Bupa will enable us to meet the growing demand for international medical insurance and provide a 'one-stop shop' for medical cover to all of our clients, whether they are private individuals, families or major corporations."

GOING THE EXTRA MILE FOR OUR RESIDENTS

Moving into a care home can be unsettling for some people. To help residents feel at home, more than 2,500 Sanitas Residencial employees across all 40 homes in Spain, have participated in an initiative called 'A special resident for me'. Each employee has their own resident to whom they give special attention. In 2013, our people performed over 25,000 thoughtful acts .

Sanitas's Head of Customer Experience, Carmen Abelanet, said: "As well as fantastic physical care, our residents need to feel part of society; that they are loved and admired."

25,000

ACTS OF KINDNESS PERFORMED BY 2,500 SANITAS RESIDENCIAL EMPLOYEES

HELP IS JUST A PHONE CALL AWAY

This year Bupa Care Services UK launched a phone helpline to help people navigate the aged care system, providing free advice on paying for care, accessing support for age-related conditions, getting extra help at home, and finding a care home. The line is open seven days a week, even to non-Bupa customers.

ONE-STOP HEALTHCARE SHOP

In the UK, we opened a state-of-the-art, purpose-built Bupa Health Centre in the heart of the City of London. Services include musculoskeletal, cardiology, dermatology, cosmetic treatments, radiology, and private GP appointments. It also has its own MRI scanner, so patients don't need to be treated elsewhere, and a fully-equipped rehabilitation gym to help patients get back to fitness after an injury. The new centre is open to everyone, whether or not they are Bupa members, and the location is convenient with early morning, lunchtime and evening appointments.

OPENING FAR AND WIDE

In 2013 we grew our dental offering around the world, increasing the number of dental centres we own to 359, principally in Spain, Australia, New Zealand, and the UK, providing more customers with access to high quality, affordable dentistry.

359

BUPA DENTAL CENTRES PRINCIPALLY IN SPAIN, AUSTRALIA, NEW ZEALAND, AND THE UK

Obsessive about making quality healthcare affordable and accessible

Affordability is essential for good quality healthcare to be accessible, and it is fundamental to our commitment to democratise access to quality healthcare. We will harness our expertise to better effect for customers and wider society, taking a greater role in shaping the patient's healthcare journey and working with health systems to shape health policy in the interests of communities.

HELP TO MAKE HEALTHIER CHOICES

Working with The George Institute, we developed a smartphone app for the Australian market, called FoodSwitch, which helps people make healthier food choices in supermarkets and shops while buying their food. The app is customised to individual health needs, for example low-salt or gluten-free diets. Since its launch, it has been downloaded by nearly 450,000 people in Australia and New Zealand, and remains one of the top 50 free health apps. It is one of the most successful healthy food apps in its category and continues to attract over 1,000 new users each week.

450,000
USERS ESTIMATED IN AUSTRALIA AND NEW ZEALAND

1,000
NEW USERS PER WEEK

BREAKING DOWN FINANCIAL BARRIERS

Using innovative healthcare models, technology and tackling rising healthcare costs, we want to reach millions of people and their families and provide them with access to high quality healthcare.

Working in partnership with MicroEnsure, we are piloting an innovative model in Ghana, Africa, which aims to reduce the financial barriers of accessing healthcare, through micro health insurance.

CHANGING THE FACE OF HEALTHCARE

In October, we signed a ground-breaking partnership agreement with United Nations agency, the International Telecommunication Union (ITU), to collaborate on a global mHealth initiative called 'Be Healthy, Be Mobile'. Bupa and ITU will join forces to provide multidisciplinary expertise, health information and mobile technology to fight chronic non-communicable diseases (NCDs), including diabetes, cancer, cardiovascular and chronic respiratory diseases, in low- and middle-income countries. The programme is led by ITU and the World Health Organization (WHO).

"Non-communicable diseases are the single greatest factor contributing to mortality and the overall disease burden in developed countries and emerging economies alike."

Hamadoun I. Touré
ITU Secretary-General

KNOW YOUR KNEES

"It is so important that people understand their options when it comes to treating knee pain and that they're not suffering in silence."

Michael Vaughan,
Former England cricket captain

In the UK, we launched the Bupa Knee Clinic, an online hub which hosts a wealth of information to help people understand their knee problems and the treatment options available to them. Topics include injury prevention and recovery, diagnosis and shared decision making.

Former England cricket captain, Michael Vaughan, backed the launch of the Bupa Knee Clinic, following his retirement from the sport due to a succession of knee injuries.

CARING FOR SAUDI'S ORPHANS

Bupa Arabia has signed an agreement with the Saudi Ministry of Social Affairs to provide free health insurance to all 3,000 children living in orphanages under the Ministry's supervision.

A team of Bupa doctors and nurses travel to each orphanage where they carry out comprehensive medical check-ups on each child, and they make recommendations about any conditions that require special care and attention.

In addition to free health insurance cover, Bupa Arabia provided the orphanages with health education, such as advice about oral hygiene and diabetes management. Bupa Arabia also supported the orphanages by organising 'donation drives', to collect clothes, food and toys for the children.

3,000

CHILDREN PROVIDED WITH FREE HEALTH INSURANCE SO FAR

Tackling the toughest challenges in healthcare

The burden of long-term conditions is ever-growing, and people are living longer than ever before. We will use our expertise to help people take steps to keep well into old age, and reduce their risk of developing a long-term condition, starting with dementia and cardiovascular disease. We will take a holistic approach to cancer – from prevention and treatment to surviving well and dying with dignity.

GETTING THE WORLD MOVING

In September 2013 we launched a global movement for walking, starting with the Ground Miles Challenge to walk five million miles (eight million kilometres) by the end of the year. To contribute to this target, we challenged Bupa employees to walk 500,000 miles (800,000 kilometres) – which is 20 times around the world, or the equivalent of about a billion steps.

We also invested in programmes, in partnership with the World Heart Federation, that will protect thousands of children from heart failure and early death.

To help people get walking, we launched a free smartphone app, available for iPhone and Android, allowing us to measure how far users have walked, and allowing them to create virtual groups with friends and colleagues, compete with others, win rewards, receive personalised motivational messages and set personal targets.

4.8m

MILES WALKED BY PEOPLE AROUND THE WORLD IN 2013, AS PART OF GROUND MILES CHALLENGE

450,000

MILES WALKED BY BUPA PEOPLE AROUND THE WORLD IN 2013, AS PART OF GROUND MILES CHALLENGE

SOCIAL MEDIA FRENZY FOR GROUND MILES

Ground Miles has captured the imagination of social media communities in Thailand and India, resulting in hundreds of posts and tweets, reaching more than 200,000 followers in Thailand alone.

In Thailand, Ground Miles even made an appearance on television, giving the challenge greater exposure. In India, popular Indian celebrities joined walking events and created conversations about walking on social media.

200,000

SOCIAL MEDIA CONVERSATIONS ABOUT GROUND MILES IN THAILAND

AT THE FOREFRONT OF DEMENTIA CARE

We launched a global partnership with international dementia federation Alzheimer's Disease International (ADI), to advocate for improved dementia care and support around the world. With ADI, which represents over 75 Alzheimer charities, we developed and launched a ten-point Global Dementia Charter, called 'I can live well with dementia', that outlines the fundamentals of best practice dementia care and support.

Then in December, the first ever G8 Dementia Summit was held in London, to determine an effective global response to dementia. Bupa, with our partner ADI, held an event in London on the eve of the summit to discuss the importance of investing in diagnosis and care to enable people to live well with dementia. More than 60 guests attended, including representatives from the UK Department of Health, UK Dementia Parliamentary Group, Japanese and French embassies, and guests from ADI's global network. Angela Rippon, UK television journalist, was also in attendance.

"The G8 Dementia Summit is a truly exciting step toward dementia receiving the international collaboration and focus it requires."

Professor Graham Stokes
Director of Dementia Care at Bupa

PARTNERING FOR CANCER PREVENTION

In Poland, LUX MED has partnered with the national cancer prevention society to campaign jointly on early screening and diagnosis, health checks, cancer awareness and healthy lifestyles.

The partnership will make a direct difference to hundreds of thousands of lives, and also pays commercial dividends by highlighting our healthcare expertise on cancer prevention, management and oncology - contributing to making Bupa and LUX MED famous for tackling cancer.

In the UK, Bupa Health Funding launched a free online guide for those living with and beyond cancer, featuring an inspiring collection of personal stories and expert advice. It aims to reassure people by explaining the many 'normal' side effects of cancer treatment, and to provide guidance on subjects like relationships and returning to work.

GIVING DIABETES A CHECK-UP

We are working with the International Diabetes Federation on a Diabetes Scorecard, a tool designed to measure progress on political commitments for diabetes - most notably the UN Political Declaration on Noncommunicable Diseases (NCD) Prevention and Control, global NCD targets, and other important diabetes priorities. The Scorecard aims to track government progress and build accountability on diabetes and NCD prevention, treatment and care.

GO VEGGIE AND 'SAVE THE PLANET'

According to the WWF Hong Kong, the average amount of beef consumed per person in Hong Kong is twice that of those in Europe and seven times higher than mainland China, leading to higher instances of colorectal cancer.

To promote the benefits of vegetarian diets, Bupa Hong Kong partnered with Green Monday to launch the mobile Bupa Green Café, serving 7,000 boxes of free vegetarian dishes designed by Jacky Yu, a renowned chef.

Ann Coughlan, Managing Director of Bupa Hong Kong, said, "We hope that this will set in motion a gradual change in people's diets, helping them to consume less meat and in turn minimise their risk of chronic diseases."

Adopting a green diet not only benefits people's health but also the environment. If every Hong Kong citizen were to eat meat-free for one day a week, it would be equivalent to taking 86,000 cars off the road.

7,000

BOXES OF FREE VEGETARIAN DISHES GIVEN AWAY

FINANCIAL REVIEW

We delivered good financial results in the year. Despite a continued uncertain economic environment in our core markets, especially in Europe, our revenues grew by 8% and underlying profit before tax was up 5%.

Evelyn Bourke
Chief Financial Officer

During 2013, we have laid strong foundations for future expansion on our ambitious journey to Bupa 2020. Revenues and underlying profit showed good growth, driven by our focus on organic growth and acquisitions.

Our expansion in 2013 has been underpinned by investor confidence in Bupa. Fitch and Moody's Investor Services both reaffirmed their financial ratings during the year. In April, we issued a £500m subordinated bond which was ten times oversubscribed, reflecting the financial strength of our business. We continued to generate robust cash flows in the year.

ACQUISITIONS

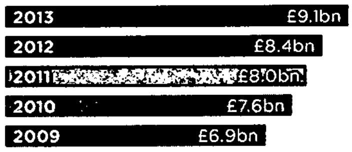
Bupa has grown substantially through acquisitions during the year. We complemented our business in existing markets and entered new geographies through six major acquisitions and a number of smaller purchases.

Our most significant acquisitions contributed £319.7m revenue, £36.1m underlying profit and 5.4m customers to the Group during 2013.

We strengthened our care home and retirement village portfolios in Australia, New Zealand and the UK, and also entered into the care villages market in the UK for

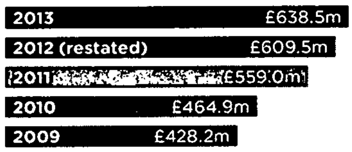
GROUP REVENUE

£9.1bn



UNDERLYING PROFIT BEFORE TAX[1]

£638.5m



SUMMARY OF RESULTS

	2013 £m	2012 £m (Restated)*
Total revenues	9,058.7	8,373.9
Underlying profit before tax	638.5	609.5
Non-underlying items**	(124.1)	(24.4)
Profit before taxation	514.4	585.1
Taxation	(103.0)	(134.9)
Profit for the year	**411.4**	**450.2**

* 2012 restated to reflect the £1.5m impact of IAS19R and, for underlying profit, to exclude £4.0m of transaction costs.
** Restated to include £4.0m transaction costs.

"Our underlying profit grew by 5% to £638.5m, reflecting 11% growth across our Market Units."

[1] Profit before tax is adjusted for amortisation and impairment of intangible assets arising on business combinations, impairment of goodwill, net property revaluation gains or losses, realised and unrealised foreign exchange gains and losses, gains or losses on return seeking assets, profit or loss on sale of businesses and fixed assets, restructuring costs and transaction costs on acquisitions and disposals.

REVENUES BY MARKET UNIT

UNDERLYING PROFIT BY MARKET UNIT

NUMBER OF CUSTOMERS BY MARKET UNIT

- Australia and New Zealand (ANZ)
- United Kingdom (UK)
- Spain and Latin America Domestic (SLA)
- International Development Markets (IDM)
- Bupa Global (BG)

the first time with the acquisition of Richmond Care Villages. We have significantly expanded our dental offering with acquisitions of dental clinics in the UK, Spain and Australia; and the acquisition of Dental Corporation, which operates dental clinics primarily in Australia and New Zealand. We will continue to expand our dental network in 2014.

The integration of the businesses has gathered pace and is beginning to deliver business and customer benefits. In Australia, the consolidation of our businesses has created opportunities to offer dental and optical services to our aged care residents. The centralisation of shared services will continue to drive synergies and improve efficiency across all businesses.

We have further expanded our reach in healthcare provision through the acquisition of Quality HealthCare in Hong Kong and Clínica Londres in Spain. We made an important entry into the Polish market through the acquisition of LUX MED, Poland's largest private healthcare provider. We will continue the expansion of our presence in the Polish market.

In December we acquired a 49% stake in Highway to Health, Inc forming a partnership with the Blue Cross Blue Shield system to create the largest global network of hospitals and medical professionals to date for our international PMI customers.

Also in December we agreed to tender for the majority stake in Cruz Blanca, a healthcare insurer and provider, in Chile. In February 2014 we completed this acquisition.

Our M&A activity is underpinned by rigorous risk governance, with acquisitions selected to meet clear financial and strategic objectives. These include sustainable value creation, good use of our economic capital, an attractive market with good prospects and a good fit with our purpose and vision.

UNDERLYING PROFIT

Our ambitious acquisition programme combined with our expansion of Max Bupa through our micro insurance scheme, has led to a 57% increase in our customer base to 22m. The increase in customers supported growth in revenues of 8%; our revenues exceeded £9bn for the first time.

Our underlying profit grew by 5% to £638.5m, reflecting 11% growth across our Market Units offset by a reduced return on our financial investments and increased borrowing costs to fund our acquisitions.

We have shown good growth in our Australia and New Zealand business, although this has been adversely impacted by the weakening of the Australian dollar. Our Spanish business continued to grow, despite tough economic conditions, through expansions in our hospitals and dental businesses. The UK has shown much needed profit growth, particularly in our health insurance business.

We have enhanced the offerings in our existing markets by a mixture of acquisitions and innovative internal partnerships. For example, in Saudi Arabia, we combined product elements of our Bupa Arabia domestic insurance and Bupa Global international private medical insurance offering, to provide coverage for employees of the Saudi Ministry of Foreign Affairs. The product covers employees irrespective of whether they are stationed at home or abroad.

FINANCIAL REVIEW CONTINUED

NON-UNDERLYING PROFIT ITEMS

Reported profit before tax declined 12% to £514.4m. Reported profit includes a number of items that impact comparability as set out in the table below. These items are removed from underlying profit to better reflect the year-on-year trading performance in a consistent manner, and how Bupa is managed.

BALANCE SHEET AND FUNDING

In order to ensure sufficient funding we issued a £500m subordinated bond in April and more recently made drawings under Bupa's committed bank facilities. As a result, our leverage has increased to 29% (2012: 19%). We continue to manage our funding prudently to secure a sustainable funding platform for our continued growth.

Fitch and Moody's Investors Service provide senior credit ratings for Bupa Finance Plc, as it is the main issuer of our debt. Bupa Finance Plc is currently rated A- (stable) and Baa2 (stable) by Fitch and Moody's respectively.

Bupa's continued international expansion results in an increased exposure to foreign exchange movements. Our foreign exchange risk is centrally managed by Corporate Treasury, within parameters approved by the Bupa Board.

Approximately 82% (up 17%) of net assets are denominated in foreign currencies, primarily Australian Dollars and Euros. We do not hedge the translation of foreign currency profit and loss into sterling; however we do hedge parts of our foreign currency balance sheet and future cash flows on major transactions. Any hedging strategies are put in place within our risk appetite and are not carried out for speculative purposes.

In 2013, we agreed a change in the risk appetite of the defined benefit pension scheme with the Trustee. This will have the effect of reducing balance sheet and capital volatility.

CASH FLOW

We generated £467.6m in cash from operating activities, down 37% from 2012. Cash flow from 2012 was impacted by one-off regulatory changes in Australia, whereby a significant number of our customers paid their insurance premiums in advance. Notwithstanding that, we are pleased with our operating cash flows which, once adjusted for income tax paid, exceed 90% of our underlying profit.

We used £1.3bn to fund acquisitions in 2013 (including repayment of third-party loans). We invested a further £330.9m to expand, enhance and maintain our portfolio of care homes, retirement villages and dental centres.

SOLVENCY II

Solvency II is expected to come into force on 1 January 2016, with preparatory reporting to the Prudential Regulatory Authority from 2015 onwards. Our preparations for meeting the new and interim requirements are reviewed by our Solvency II oversight committee, which I chair. Our business decision-making entails assessing the impacts on solvency capital under both the Solvency I and Solvency II regimes.

OUTLOOK

Bupa delivered good results in 2013 and we believe that growth will be sustained despite the difficult economic trading conditions in which we operate. As a result of our hard work in 2013 we have built a strong foundation for future growth.

We have and will continue to invest prudently for growth. In 2014, we will focus on the integration of our acquired businesses and newly established partnerships to deliver business and customer benefits.

We are in a good position to continue Bupa's journey to giving more people access to quality healthcare. While we remain cautious about the economic developments, we are confident that 2014 will mark a number of further exciting milestones in our ambitious journey.

NOTES

Tax

Bupa's taxation expense represents a headline rate of 20%, which is lower than the UK corporation tax rate as a result of prior period tax credits.

The Finance Act passed in July 2013 reduced the UK corporation tax rate to 21% with effect from 1 April 2014 and 20% from 1 April 2015.

Cash and cash equivalents

These decreased by 25% to £939.7m mainly as a result of our investment for future growth. We actively manage our counterparty exposures as part of our ongoing risk management. Cash is invested with A/A2 counterparties unless approved by the Investment Committee.

Solvency

We monitor Bupa's solvency on an ongoing basis and continued to maintain strong solvency headroom in 2013. The estimated surplus under the Insurance Group Directive (IGD) was £1.7bn (2012: £2.1bn), representing a solvency coverage ratio of 309% (2012: 367%).

NON-UNDERLYING PROFIT ITEMS

	2013 £m	2012 £m (Restated)*
Amortisation of intangible assets arising on business combinations	37.3	26.8
Impairment of goodwill and intangible assets	33.5	-
Restructuring costs	21.7	17.9
Transaction costs on acquisitions and disposals	28.6	4.0
Gains on return seeking assets, net of hedging	-	(26.1)
Other**	3.0	1.8
Total	**124.1**	**24.4**

* 2012 restated to include £4.0m of transaction costs.
** Includes foreign exchange, net property revaluation gains or losses, profit on sale of equity accounted investments, profit or loss on sale of fixed assets and central non-underlying items.

MARKET UNIT HIGHLIGHTS

AUSTRALIA AND NEW ZEALAND

Australia and New Zealand comprises the largest privately owned health insurance provider in Australia, as well as health services and care home operations in Australia and New Zealand. The Market Unit continued to perform well with good growth in customers, revenue and profit despite competitive market conditions and a challenging economic and political landscape. In 2014, we will continue to integrate our new businesses and drive synergies across the Market Unit.

FIND OUT MORE ON PAGE 22

REVENUE

£3,791.8m

2012: £3,554.0m (up 7%)

UNDERLYING PROFIT

£284.1m

2012: £274.6m (up 3%)

UNITED KINGDOM

The UK Market Unit comprises health insurance, wellbeing services, care homes and villages, out-of-hospital healthcare services and a hospital providing complex care in London. These businesses continued to operate in very challenging conditions with constraints on both public and private spend in a static private health insurance market. Revenues increased 2% alongside much needed improvement in profit from a focus on costs. We expect a continued challenging trading environment in 2014; to address this we will have a new strategy which targets three main customer groups. We will continue to focus on operational efficiencies and growth.

FIND OUT MORE ON PAGE 24

REVENUE

£2,573.5m

2012: £2,528.8m (up 2%)

UNDERLYING PROFIT

£139.5m

2012: £110.9m (up 26%)

SPAIN AND LATIN AMERICA DOMESTIC

Bupa's operations in Spain provide integrated private health insurance and provision, along with care for the elderly. The Market Unit continued to deliver good growth with customers, revenue and profit being up from last year, against the backdrop of continued economic stagnation with high unemployment rates and sustained pressure on disposable income. Our growth was driven by the expansion in the hospitals business through our public-private partnerships, Torrejón and Manises. In 2014, we will maximise efficiencies, generate growth and invest in Latin America.

FIND OUT MORE ON PAGE 26

REVENUE

£1,363.5m

2012: £1,190.8m (up 15%)

UNDERLYING PROFIT

£126.5m

2012: £113.4m (up 12%)

INTERNATIONAL DEVELOPMENT MARKETS

International Development Markets is focused primarily on investments in both developed and emerging markets. The existing insurance businesses have shown strong growth in customers and revenue. Customers grew as a result of key account wins coupled with improved distribution. The overall growth in the year was also driven by our acquisitions of LUX MED and Quality HealthCare. In 2014, we will continue to integrate our newly acquired businesses and partnerships to drive expansion in this Market Unit.

FIND OUT MORE ON PAGE 28

REVENUE

£377.3m

2012: £227.3m (up 66%)

UNDERLYING PROFIT

£5.9m

2012 (restated): £4.7m (up 26%)

BUPA GLOBAL

Bupa Global is the international business that provides a tailored insurance proposition to customers who require healthcare cover as they study, live, travel or work abroad. The Market Unit delivered strong growth in customer numbers, revenue and profit mainly driven by large corporate contract wins. The development of a new, global customer-focused strategy will result in increased collaboration and co-propositions with other Bupa businesses alongside new product development and partnerships.

FIND OUT MORE ON PAGE 30

REVENUE

£953.0m

2012: £872.0m (up 9%)

UNDERLYING PROFIT

£114.0m

2012: £100.7m (up 13%)

AUSTRALIA AND NEW ZEALAND

The Market Unit delivered good growth in revenue and underlying profit against a backdrop of competitive market conditions, and a challenging economic and political landscape.

Dean Holden
MD of Australia and New Zealand Market Unit

Revenue is up 7%, driven by strong customer growth of 19%, and underlying profit has increased 3%, primarily reflecting the expansion of our presence in dental and aged care. Excluding the impact of foreign exchange movements, underlying profit grew by 9%.

Although the Australian health insurance sector remains strong, it was a difficult year in this marketplace as we saw an industry-wide trend towards downgrades and discontinuances in response to regulatory change initiated by the previous Federal Government. During 2013, this trend continued as a consequence of further changes to the Private Health Insurance rebate and the removal of the rebate on Lifetime Health Cover loading for some people.

Throughout the year, management has taken actions to mitigate these trends by actively seeking and taking opportunities to expand the diversity of the health and care services we offer, to improve affordability, accessibility, quality and connectivity of care to our customers and residents.

We have continued to focus on our customers, in line with our commitment to be Australia and New Zealand's most trusted health and care company. The introduction of Net Promoter Score is helping the health insurance business better understand and consistently meet customer expectations. In the first year of measurement our score increased by around four percentage points. This increase has been underpinned by a number of initiatives such as 'Find a Provider' and 'Effective Payment Options', which have improved the customer experience, made claiming simpler and enabled customers to make more informed choices in health service providers.

The integration of the Bupa Australia and New Zealand businesses has gathered pace and is beginning to deliver commercial and customer benefits. In Australia, the consolidation of our businesses has created opportunities to offer dental and optical services to our aged care residents. The centralisation of shared services will continue to drive synergies and improve efficiency across the Market Unit.

In April 2013, Bupa Aged Care Australia launched its 'Integrated Healthcare Programme'. By employing GPs in our homes, we have changed our model of care to improve quality of life for residents. By the end of 2013, there were GPs working in ten Bupa homes, with 500 residents benefiting from person-centred medical care. The Integrated Healthcare model represents a significant innovation for the aged care industry.

HEALTH INSURANCE

Revenue in the health insurance business was flat, despite solid growth in customers. This result was largely driven by foreign exchange, but was also impacted by an increasing number of downgrades across the membership base. These downgrades are mainly responses to regulatory changes that have resulted in increased premiums for some customers. To address this trend, the business has developed a number of new, more affordable, tailored products and services, such as Live Well, a new product for the over-55 age group that provides specific cover for cataract operations, hip and knee replacements, as well as health aids and home care.

HEALTH SERVICES

Health Services performed strongly with revenue growth in Bupa Optical, driven by an increase in customer numbers following its rebrand in July. Bupa Health Dialog delivered increased profits compared to 2012. The acquisition of Dental Corporation has been very well received by practices and customers, and there are many

REVENUE
£3,791.8m
Up 7%

UNDERLYING PROFIT
£284.1m
Up 3%

CUSTOMERS
4.9m
Up 19%

EMPLOYEES
14,500

opportunities for growth. Dental Corporation has contributed significant revenue and profit since its acquisition at the end of May. Excluding Dental Corporation, Health Services achieved a double digit increase in revenue while profit grew strongly.

CARE SERVICES
The Australian aged care business performed strongly with double digit profit growth driven by solid revenue growth, despite the Federal Government's care contribution increasing at 1% below the consumer price index. We maintained a relentless focus on delivering great quality care whilst improving efficiency in our homes. The acquisition of Innovative Care's ten care homes contributed additional revenue growth as well as valuable cross-learning, and established Bupa as the largest private aged care provider in Australia. The integration of the homes is well underway.

Occupancy levels remained high at 92.2% despite available beds increasing by 36% due to organic development activity and acquisition.

In New Zealand, Bupa Care Services has established itself as the largest provider of aged care services, with an 11% market share. We also retained our position as the most respected aged care provider with the best quality results in the industry. The acquisition of a number of new homes throughout 2013 has contributed additional revenue. We have also added 183 retirement village units to take our portfolio to over 1,000 village units and are the fifth largest retirement village operator, with a 4.1% market share.

Our new greenfield development in Invercargill is proving extremely popular and unit sales are ahead of expectations. Occupancy in the retirement villages, care homes and rehabilitation services has remained strong at 91.1%, a direct result of high customer recommendation and satisfaction rates. We continue to take a leading role in shaping dementia services in New Zealand and now provide 33% of New Zealand's specialist dementia care beds.

OUTLOOK
Looking forward, the Australian economy is expected to be stable for the first half of the year, with a potential improvement towards the end of 2014. The challenges around affordability and consumer sentiment will remain, and we will continue to mitigate these factors.

In New Zealand, the overall macroeconomic and fiscal outlook remains strong, however, the business environment is set to face some challenges, with government spending capped to deliver a balanced budget in 2015.

The Living Longer, Living Better reform bills were passed in June 2013, affecting aged care in Australia. Some changes were effective from July 2013, and we have been proactive in complying with the new requirements. More significant changes will be effective from July 2014. These changes are intended to bring greater choice and flexibility in how residents pay for their care. We are continuing to work with the Government and other stakeholders to plan for these changes, as details become more clearly defined. The reforms apply only to new residents entering care and so the effects will not become evident until 2015.

CUSTOMER-CENTRED STORES LEADING THE WAY
In 2013, our first 'Health Experience' store won a Melbourne Design Award for Best Interior Design (Retail). The store is the first of its kind in Australia. The retail space brings under one roof a range of services, including an optical store, corporate medical suite, consultation rooms, an experiential zone and health-related merchandise.

"Our new design offers an interactive and inviting environment where customers feel welcome and enjoy personalised service and advice."

Nigel Ivanovic,
National In-store Experience and Operations Manager, Bupa Australia

UNITED KINGDOM

The Market Unit performed well despite a challenging trading environment with constraints on both public and private spending and a flat private health insurance market.

Richard Bowden
MD of United Kingdom Market Unit

Revenue increased 2% year-on-year, while customer numbers were also stable, reflecting new contracts and expansion in Bupa Home Healthcare and Bupa Health Clinics, but a health insurance market that remains static. Underlying profits increased overall, with a much needed improvement for our health insurance business partly offset by continued public funding pressure on our care homes.

We acted on behalf of our customers to address longstanding issues around the sustainability of the private health and care markets. We welcomed the provisional findings published by the Competition Commission in August. The findings showed that patients have been bearing the cost of a lack of competition among private hospitals, particularly in London.

The Commission's provisional remedies represent the most significant potential reform to the private hospital market in decades. The Competition Commission's final report is due in April 2014.

The Care Bill, affecting care provision and funding for the frail and elderly, is currently passing through the House of Commons, after successfully being passed through the House of Lords. The purpose of the legislation is to provide protection and support to the elderly.

We participated in consultation on these proposals, and while welcoming the principles, highlighted serious concerns about the downward pressure of these reforms on local authority funding and long-term market sustainability. We also urged the Government to prioritise the integration of health and social care, given that older, vulnerable people are most likely to benefit from a properly integrated system.

Following the announcement of our organisation restructure at the end of 2012, good progress has been made in integrating and streamlining teams to deliver centralised services across the businesses. The Market Unit has realised significant benefits through the reduction of operating cost and duplication, which has been a contributing factor in improved profit performance.

HEALTH INSURANCE

Bupa Health Funding delivered good, and much needed, growth in profit year-on-year. This growth was driven by reduced operating costs and more effective management of healthcare costs, as we continued to implement initiatives to tackle unsustainable medical inflation. Market conditions remained challenging given constrained consumer spending and falling income in real terms. The market as a whole was flat year-on-year and aggressive price-led competition ensued.

We are innovating to meet customer needs, introducing a new cancer survivorship programme, including an e-book to support members living through, and beyond, cancer. The launch of our online knee clinic and mental health support services underpinned our commitment to ensuring access to the right advice and care for customers. We also launched 'Bupa Member Offers', providing discounts on products and services that help our members be proactive about staying fit and healthy for life.

We believe the actions we have taken to improve operating margins in the health insurance business, allowing us to cover our cost of capital, are the first important steps to putting the business back on a sustainable footing for the long-term. Reforms recommended by the Competition Commission also signal a positive step that, if implemented, would aid sustainability of the market.

CARE SERVICES

Revenue and occupancy remained flat in a competitive trading environment. While the overall number of residents remained stable, we saw an increase in the number of residents funded by local authorities and the NHS, in particular more short stay

REVENUE
£2,573.5m
Up 2%

UNDERLYING PROFIT
£139.5m
Up 26%

CUSTOMERS
3.9m
Flat

EMPLOYEES
33,300

placements. Profitability declined significantly as margins were eroded by a combination of below inflation fee increases from local authorities, and rising running costs including staffing, utilities and food.

Strong competition for self-pay customers also added pressure. However we maintained good resident satisfaction, with 94% of residents rating our quality of care as excellent or very good. We invested in training and measures to improve quality, including the delivery of half a million learning events in a five-month period for all our care home employees. We also launched a new helpline and support services which are accessible to our residents, their families and the general public.

As noted, pressure on local authority fee rates for care home places continued to impact results in Bupa Care Services. We have long believed that the current model results in real and pressing needs going unmet, pressure on the NHS and under-investment in social care. This is ultimately an unsustainable situation.

We invested £59m in our care home portfolio, opening new homes in Glasgow, Brighton and Farnham. The acquisition of Richmond Care Villages marked an expansion in our aged care offering. With more than 660 residents in total, the transaction added five operating care villages and enables us to play a broader role in healthcare.

HEALTH CLINICS
Customers and revenue increased year-on-year, driven by the expansion of our dental centre network and the introduction of new services in existing health clinics. We invested nearly £5m in our dental services, including the opening of three new dental centres in Leeds, Canary Wharf and Sheffield. We also acquired a dental chain with six practices in supermarkets across Manchester and London.

These acquisitions mean Bupa now provides over 27,000 customers with easily accessible, high quality dental treatment across the UK. In July we opened a new health clinic located in the heart of the City of London. The purpose-built clinic offers a wider range of treatment options including MRI and diagnostics for musculoskeletal conditions and specialist cardiac technology.

OUR FOCUS IS YOUR HEALTH
In September, we launched a new advertising campaign in the UK to communicate our focus on health rather than shareholders and that because of this, we can reinvest in better treatments and services. The adverts ask children to paint their ideal healthcare company and allow us to show how we deliver these ideals. The campaign demonstrates how we are contributing to our Bupa 2020 goals of reaching millions more people and delivering extraordinary business performance.

HOME HEALTHCARE AND HOSPITAL SERVICES
Revenue increased significantly year-on-year with a number of key contract wins in the medicines management services. However, pricing pressure from public sector commissioners and increasing competition caused margins to be eroded, such that the business made a loss in 2013.

The trading environment and outlook is expected to remain challenging with margins remaining pressured. As a result, there has been a full impairment of the goodwill and intangible assets relating to the home healthcare business. The business is focused on developing new services and building capability to bid for new and profitable contracts going forward.

The Bupa Cromwell Hospital delivered increases in patient numbers and revenue, as treatment of international patients grew. Coupled with good cost control, profit also increased. We invested £7.1m in hospital infrastructure, including a full refurbishment of the paediatric theatre and enhanced cardiac scanning.

OUTLOOK
Our plans for 2014 include continued expansion in the dental market, in line with our intention to open at least 50 centres by 2015. Our ambition is to broaden our offer to consumers, and to partner with employers and public sector commissioners to drive greater access to high quality healthcare. We expect to continue to make significant cost savings in the UK as a consequence of an ongoing efficiency programme.

SPAIN AND LATIN AMERICA DOMESTIC

We delivered good growth despite a continued tough economy with high unemployment rates and constant pressures on disposable income.

Iñaki Ereño
MD of Spain and Latin America Domestic Market Unit

The Market Unit delivered an increase in revenue of 15% to £1.4bn and growth in customer numbers of 8% to 2.4m. Underlying profit increased by 12% to £126.5m, mainly driven by expansion in our hospitals and provision business, and management action in our insurance business. Excluding the impact of foreign exchange movements, underlying profit grew by 6%.

We have responded to mitigate market pressures and effects of the challenging external operating environment. The actions we have taken include continuous innovation in products and services, ongoing enhancement of our multi-channel sales model through the signing of new agreements with strategic partners, developing tailored incentive schemes, and strong cost control.

We maintained high quality standards for customers in our hospitals, medical and dental centres, care homes, and call centres.

Our hospitals and provision business delivered strong revenue and profit growth driven by a 10% increase in the volume of services compared to last year. This was coupled with a higher volume of self-pay treatments in our hospitals and medical centres. The recently acquired Torrejón Hospital and Clínica Londres, also performed strongly. We continued to expand our branded dental centres, reaching 148 in 2013, and increasing our network by 36. The integration of our newly acquired businesses is well underway to ensure a smooth transition.

HEALTH INSURANCE

Revenues increased year-on-year driven by good growth in customers. Growth was driven by the launch of new products, combined with an increased focus on intermediated channels such as brokers, and strategic partnerships as a complement to our own sales force.

The insurance business was impacted by a deteriorating perception of the national, publicly-funded health services as waiting times grew longer for treatments. This deterioration in the state sector caused an increase in claims per customer as customers moved more of their treatment to the private sector.

To mitigate the increase in incidence and cost of claims, several measures were put in place, such as renegotiations of contracts with providers and a focus on prevention.

HOSPITALS AND PROVISION

Our public-private partnership (PPP) in Manises, together with the acquisition of 50% of the public Torrejón Hospital in December 2012, helped drive double digit revenue and profit growth in our hospitals and provision business. Torrejón Hospital is a recently opened PPP in Madrid with 250 beds providing services to 137,000 people.

Although we successfully tendered a bid to run a third PPP, Hospital del Henares, the Madrid Government has since suspended the process for any further partnerships. However, our existing PPPs in Torrejón and Manises are unaffected and continue to perform well, despite our third opportunity not progressing.

Capacity and activity in our privately owned hospitals and clinics continued to grow, with the opening of two new centres in La Coruña and Zaragoza, as well as the expansion of our centre in Seville.

Our new services business increased its revenues due to the acquisition of Clínica Londres, one of the best regarded businesses in the Spanish wellbeing market, as well as organic growth in the existing business. We continue to develop the business and improve operational efficiency.

REVENUE
£1,363.5m
Up 15%

UNDERLYING PROFIT
£126.5m
Up 12%

CUSTOMERS
2.4m
Up 8%

EMPLOYEES
8,900

"We maintained high quality standards for customers in our hospitals, medical and dental centres, care homes and call centres."

DENTAL
Sale of dental products increased significantly, with 80,000 new customers, independent of PMI policies in 2013. This is almost double the number achieved in 2012. Our low-cost product Dental XXI, launched in early 2012, and a new product for exclusive use in our owned centres, were fundamental to driving sales to new customers who do not have health insurance. The opening of new dental centres also helped drive new sales.

CARE SERVICES
Sanitas Residencial has seen growth in residents and occupancy resulting from a strong focus on sales efforts in the private market. Average occupancy increased from 82.8% to 88.0%. This increase in residents partially offset the impact of lower fees due to reductions in public expenditure. The business was affected by consumers' lower disposable income and the constraints on public sector spending which is pushing average fees down.

LATIN AMERICA DOMESTIC
In December 2013, we signed an agreement to tender for the acquisition of Cruz Blanca, one of Chile's leading healthcare groups. In February 2014, we successfully acquired a 56% stake. Like Sanitas, it participates as both an insurer and healthcare provider, offering integrated, high quality healthcare at affordable prices.

This acquisition marks Bupa's entry into Chile, one of the most attractive markets in Latin America due to the profile of its population, rising levels of disposable income, economic stability and long-term growth potential.

Cruz Blanca has 640,000 health insurance customers, equivalent to a 21% market share. The company, which has over 7,000 employees and 2,000 affiliated doctors, is also Chile's leading provider of private outpatient services, with 27 clinics, three hospitals and a fourth being built in Santiago. It also has Chile's largest clinical laboratory.

OUTLOOK
We expect the operating environment in Spain to remain tough with ongoing pressure on disposable income and public funding. We will continue with product and service innovation to meet customer demand for new, more affordable propositions, and work to retain valuable customers. We are committed to having a relentless focus on driving cost efficiencies within all our businesses.

We will focus on expanding our owned dental provision network, which has delivered good growth in 2013.

A key priority will be the integration of Cruz Blanca in 2014. We intend that our proven international experience and expertise in integrated healthcare will benefit existing and new customers as well as the wider Chilean health system. As ever, we expect there will be learnings from Cruz Blanca which will benefit other Bupa operations around the world.

GREATER ACCESS TO HEALTH AND WELLBEING SERVICES IN SPAIN
2013 has been a year of growth for our health clinics business, having invested to create new medical centres in La Coruña and Zaragoza, and the acquisition of Clínica Londres, one of the leading Spanish health and wellbeing groups.

The acquisition of Clínica Londres adds 14 health clinics to our portfolio, and provides a full complement of health and wellbeing services in more locations across Spain.

INTERNATIONAL DEVELOPMENT MARKETS

In its first full year as a Market Unit, IDM delivered good overall performance. The Market Unit is focused on delivering strong near-term performance in existing businesses, and contributing to Bupa's international expansion through investing in markets and businesses that offer significant future growth potential.

Alison Platt
MD of International Development Markets Market Unit

There was strong growth in key markets, with revenue increasing by 66% to £377.3m, driven primarily by recent acquisitions which are performing well, and customer growth in Hong Kong and Thailand. Underlying profit grew by 26%.

We acquired LUX MED, a private health clinic and medical subscriptions business in Poland, making Bupa the leader in integrated private healthcare delivery in that market. We also acquired Quality HealthCare, a clinic network in Hong Kong to complement our existing funding business. The acquisitions provide a strong platform for future growth, through greater participation in their local healthcare systems.

The two new businesses added over 9,000 people to the Bupa team, including over 4,000 clinical staff. Following completion of the acquisition of LUX MED in April 2013, we have invested to consolidate the market-leading position of the business through the opening of new clinics, and targeted acquisitions of local healthcare facilities that expand Bupa's reach and scale in Poland.

HEALTH INSURANCE

Each of our wholly-owned insurance businesses has delivered strong growth in competitive marketplaces by providing access to high quality and affordable healthcare to customers. Bupa Hong Kong and Bupa Thailand have made major gains in customer numbers, delivering good growth to exceed 300,000 customers each. Key corporate account wins and improved distribution have driven revenue and profit growth for Bupa Thailand. In Thailand we also continued our retail expansion plan, opening two new branches. Bupa Hong Kong increased profit, driven by new corporate client wins and good customer retention.

Bupa's associate company in Saudi Arabia, Bupa Arabia, capitalised on a strengthened proposition and exceptional customer service to add over 427,000 customers, up 26% on 2012, and driving profit growth. The business has also invested in its capability in healthcare provider management in the face of significant price increases from hospitals, helping to keep healthcare more affordable for its 2.1m customers. Bupa Arabia won the award for 'Best working environment for women' for the third consecutive year in Saudi Arabia. As part of its commitment to wider society, the company provides free health insurance to all government-registered orphanages in Saudi Arabia, covering over 3,000 children.

In India, Max Bupa, our joint venture with partner Max India, has also continued to grow customer numbers with the addition of 1.2m new Rastriya Swasthya Bima Yogna (RSBY) customers bringing the total served to over 2m. It has expanded into the corporate health insurance market and successfully entered new bancassurance partnerships to considerably extend its sales reach. The business won the 'All India Management Association Breakthrough Innovation in Marketing' award for its Walk for Health initiative, which succeeded in getting over 20,000 people walking in Delhi and Mumbai, and reached millions of people through a TV and social media awareness-raising campaign.

We launched a number of new products tailored to meet customer needs, including a new health insurance product to cover all members of Indian families, and in Saudi, two new products specifically for families and newlyweds.

REVENUE
£377.3m
Up 66%

UNDERLYING PROFIT
£5.9m*
Up 26%

CUSTOMERS
8.7m
Up 216%

EMPLOYEES
11,000

SUBSCRIPTION AND PROVISION

The acquisition of LUX MED, Poland's largest private healthcare provider, added over 8,000 people and 3m customers to Bupa. Since the acquisition, LUX MED's position has been consolidated through targeted acquisitions, including a diagnostics business in September and a specialist orthopaedic hospital in Warsaw in December. LUX MED has performed strongly, driven by sales of the core business-to-business subscription product and new growth in direct consumer business. The business has performed in line with investment case.

In Hong Kong, Bupa completed the acquisition in October of Quality HealthCare, the leading private clinic network in the market. Since then, we have worked to integrate Quality HealthCare into Bupa in terms of systems, policies and business processes, while ensuring its independent operation in the local market is maintained. The business employs 1,000 people and has 820,000 customers. Quality HealthCare performed in line with expectations in 2013.

HEALTH ANALYTICS

The Health Dialog business in the USA still faces a number of commercial and operational challenges in areas including the external policy environment. There is uncertainty in the buying environment, driven primarily by the Government's ongoing health reforms, which have continued to impact revenue.

OUTLOOK

In 2014, we will focus on integrating our new acquisitions into Bupa and look to develop both businesses in their local markets. In Hong Kong particularly, we will look to leverage our enhanced presence to deliver synergies and accelerate our involvement in the greater China region.

Our partnerships, in Saudi Arabia and India, continue to grow health insurance membership strongly and we will consider additional healthcare services that we can provide in these markets. In Asia, as well as building on our increased presence in Hong Kong, we will develop prospective relationships with other ASEAN countries.

We will work closely with policymakers in Poland on possible reforms in the funding of healthcare, while further leveraging LUX MED's leading position.

As well as developing each of our existing businesses, we will continue to explore opportunities around the world, including potential partnerships in the Middle East and Asia, and micro insurance in Africa.

> "The acquisitions provide a strong platform for future growth through greater participation in the local healthcare systems."

EXTENDING OUR PRESENCE IN HONG KONG

In October 2013, we acquired Quality HealthCare, the largest private healthcare clinic network in Hong Kong.

The acquisition makes us the leading healthcare funder and provider in Hong Kong, complementing our existing insurance business there.

Extending our global presence in primary care and provision enables us to deliver quality healthcare to millions more people.

* 2012 restated to exclude £4.0m of transaction costs.

BUPA GLOBAL

The Market Unit delivered good performance, with revenues up 9% and continued underlying profit growth of 13%.

Robert Lang
MD of Bupa Global Market Unit

International migration has increased dramatically in recent years and assignments abroad are expected to double over this decade, which will further accelerate individual and corporate segment growth.

We have invested in the creation of the Market Unit this year, including the development of a new, global customer-focused strategy.

Customer numbers grew overall for the Market Unit, driven by new strategic partnerships and a particularly strong corporate client base which delivered double digit growth. There has been continued improvement in customer satisfaction scores, which are up 10% in 2013.

The good performance was driven by several large corporate contract wins reflecting the increasing need for global health cover as employees are more frequently required to travel and work abroad for short- or long-term assignments.

In 2013, Bupa Global won a number of significant diplomatic contracts, driving increased customer numbers, revenue and profit.

Bupa Global worked with Bupa Arabia to win the contract for the Saudi Ministry of Foreign Affairs (MOFA), which was seeking a single health insurance provider for domestic employees and those stationed abroad.

MOFA accounts were also won in Mexico and Peru. These contract wins expanded our presence in Latin America and were supported by the opening of two new offices in the Dominican Republic and Ecuador.

Bupa Global continued to perform well across our key markets, particularly in the United Arab Emirates, Singapore and Hong Kong. Despite political and economic challenges in a number of other important markets, including Egypt, customer numbers continued to grow. For example, in Egypt, Bupa became the market leader with a 46% market share.

We also focused on improving digital capability, both to strengthen existing sales channels and to improve the customer journey. In addition, our online portal for agents and brokers was redesigned to allow better access to our digital tools and information on the policies we offer.

In Sub-Saharan Africa, Bupa Global became the first international insurer to use cloud technology to provide highly secure, real-time data exchange of membership, claims and approval information.

This development enables our healthcare partners to efficiently complete pre-authorisation and claims, meaning customers can access treatment and have claims settled more quickly.

Our worldwide medical assistance services, managed from Copenhagen, continued to play a pivotal part in the Market Unit's operations and capabilities to serve our customers.

In 2013, we managed over 1,400 medical evacuations and repatriations for our customers wherever they were in the world, to a country where they could access treatment. This includes during events such as natural disasters or periods of political unrest.

"There has been continued improvement in customer satisfaction scores, which are up 10% in 2013."

REVENUE
£953.0m
Up 9%

UNDERLYING PROFIT
£114.0m
Up 13%

CUSTOMERS
1.9m
Up 117%

EMPLOYEES
1,700

In December, we acquired 49% of Highway to Health, Inc. (HTH), a US company that specialises in providing international health insurance for US residents planning to live or work abroad.

As a consequence of our investment in HTH, Bupa has formed a strategic partnership through a trademark licence with the Blue Cross Blue Shield system, America's largest health insurance group and co-shareholders in HTH.

OUTLOOK
The Market Unit will continue to seek other MOFA contracts and similar opportunities working in partnership with other parts of Bupa.

We expect to see growth in the individual segment which will complement the strong performance this year from our corporate customers.

Our new approach and strategy will result in increased collaboration and co-propositions with other Bupa businesses, as well as in new product development and partnerships to meet customers' needs. We will continue to invest in building an improved platform for growth to support our new global customer strategy.

Following the US partnership announcement, a new business unit called Bupa Global North America has been established.

"Our new approach and strategy will result in increased collaboration with other Bupa businesses."

EXPANSION THROUGH PARTNERSHIP
In 2013, we announced a strategic partnership through a trademark licence with the Blue Cross Blue Shield (BCBS) system, America's largest health insurance group. The partnership will create the largest global healthcare provider network, totalling over 11,500 hospitals and approximately 750,000 medical professionals. As a consequence, Bupa Global customers will have greater access to healthcare around the world than ever before. In addition, GeoBlue, the global health insurance product offered in the US under the BCBS brand, will be expanded.

OUR PEOPLE

Our ambitious goals compel us to harness the dedication and talent of all our people to work in new and innovative ways that bring our purpose to life.

Denise Collis
Chief People Officer

Throughout 2013 we continued to work towards creating an extraordinary working environment, developing our leaders, growing our people and striving to be pace setters in employee health and wellbeing.

EXTRAORDINARY ENVIRONMENT
Creating an organisation where our people love to work benefits our people, our customers and our business.

We are committed to developing the skills, capabilities and leadership potential of all our people, aligning their personal purpose, wellbeing and potential alongside Bupa's.

Being on the frontline of healthcare, our people are focused on improving the health of millions and on making a real difference in tackling the toughest challenges in the sector.

We constantly review our progress towards being an extraordinary organisation. We focus on five factors which, when strongly present in the working environment, drive speed, reliability, quality, engagement and innovation, and result in exceptional business performance.

Over 130 of our senior leaders and their teams are continually working on creating the conditions for superior business and customer outcomes by building these characteristics into our thinking and behaviours. We use a performance diagnostic tool twice a year to measure how the dynamic of each team of leaders is progressing to enable further breakthroughs in their results.

We also create a physical environment that grows the presence of these factors. For example, our new Melbourne office has world-class facilities and technology that promote collaboration and healthier living. It also offers space for health consultations, has on-site gym facilities and healthy catering.

Everything we do is in service of our purpose. In our Global People Survey (GPS) the majority of our people agreed that Bupa's day-to-day decisions demonstrate commitment to our purpose. This commitment is lived out daily, as our people collectively mobilise to make our vision a reality. For example, in partnership with the World Heart Federation we launched the Ground Miles campaign, a global movement for walking. Our people stepped up to the challenge, committing to walk 500,000 miles and contributing to a global target of five million miles. In the last four months of 2013, together with friends, family, and wider society, our people walked over 4.8m miles.

LEADERSHIP
A crucial factor in delivering our vision is our leadership. With this in mind, in July we gathered Bupa's senior 250 leaders in Barcelona. The two-day event was highly successful, designed to invoke a permanent change in the way our people lead, and to accelerate their activity in achieving Bupa 2020. Together we explored the required profile of a Bupa leader, providing a clear line of sight from our attitudes and actions, to our purpose and delivery of our vision.

"Our people are focused on improving the health of millions and on making a real difference in tackling the toughest challenges in healthcare."

LEADERSHIP AND TALENT
We recognise that exceptional leadership is key to achieving our Bupa 2020 ambitions. In 2013 the Bupa Executive Team created a leadership framework called 'Bupa Leaders Are,' which outlines what will be required of leaders to deliver Bupa 2020.

It calls for Bupa leaders to 'grow themselves, to grow others, to grow the business to improve the health of the world'. The framework was introduced to 250 senior leaders through our leadership conference and has had an immediate and tangible impact on our organisation.

Our GPS results show that leaders who are immersed in the 'Bupa Leaders Are' framework are consistently meeting, or exceeding, the global external high performing benchmark in areas of purpose, vision and customer focus. Following a hugely positive reception from our senior community, the framework will be deeply embedded throughout Bupa over the coming years.

2013 also saw significant developments in our approach to talent management. The Bupa Executive Team remains committed to liberating the talent of all our 70,000 people. By creating global talent boards and conducting talent discovery conversations with our people, we will have a global leadership population with the best values, skill sets and ambition to drive achievement of our goals.

At Bupa, our people receive extensive training to further their development and help them grow their careers.

Achievements in 2013 include the delivery of half a million learning events in a five month period for all our employees across our UK care homes. Nearly three quarters of caregivers in our New Zealand business enrolled in, or attained, a national qualification this year.

We recruit, train and promote our people on an equal basis, ensuring our decisions give full consideration to ability and aptitude. We actively create an *environment free from bias, discrimination* or unfair disadvantage. In our recruitment and employment practices, factors that are not relevant to any role or individual's performance, such as race, religion or disability, are not taken into consideration.

Diversity is essential to Bupa's ability to deliver our committed level of business performance. With customers in more than 190 countries, a diverse workforce enables us to better understand and meet the needs of our broad customer base.

Our executive team is varied in nationality, international experience, leadership style and gender. 46% of Bupa Executive Team members were born and educated outside the UK, and nearly 40% are women. The representation of women is similar within our senior management team, and across our global workforce, is over 70%.[1] Our diversity efforts have been recognised in countries such as Saudi Arabia, where we were again awarded the best place for women to work in Saudi Arabia.

We continue to expand our diverse workforce, welcoming over 12,000 new employees from LUX MED, Quality HealthCare, Innovative Care, Richmond Care Villages, Clínica Londres and Dental Corporation to the Bupa family. We are excited to work with these teams to maximise skills and talent, and to share expertise and experience across the businesses.

EMPLOYEE HEALTH AND WELLBEING
We are committed to enabling our people to be healthier because they work at Bupa. During 2013 we made a step change in our approach to health and wellbeing. By building on localised activities we aligned behind a unified strategy across Bupa, with a strong internal brand and a common goal to understand and improve the health of our people.

EMPLOYEE HEALTH AND WELLBEING
Our purpose of longer, healthier, happier lives is as important for our own people, as it is for our customers. Initiatives introduced in 2013 include:

- Two significant causes of absence from work in the UK are musculoskeletal conditions and mental health conditions. We launched a suite of services to our 26,000 permanent UK employees. The treatment services are tailored to support our people to return to health and include free access to physiotherapy, support for mental health conditions, a 24/7 GP helpline, and at some sites, an in-house GP.
- In Australia, our wide-ranging wellbeing programme has been extended to include a telephone-based dietitian coaching service to provide information, support and motivation to help people reach their dietary goals. As part of the Melbourne office relocation, we are partnering with renowned research facility, Baker ADI Heart, and the University of Queensland, to measure the enhancement to wellbeing as a result of the relocation. Bupa Australia's programme was recognised at the Australian HR Awards in 2013.
- Our Sanitas 'Smile' programme promotes healthy living habits among our people. In 2013, it was piloted within Sanitas Residencial for planned roll out in 2014.

[1] Global workforce gender percentage is based on gender of GPS respondents, an approximation of our entire workforce.

BREAKTHROUGH AWARDS

2013 marked the first year of our Breakthrough Awards. These awards recognise our people for their truly extraordinary achievements in support of our journey to Bupa 2020.

The awards showcase actions demonstrating commitment to breakthrough performance, for example, customers receiving an extraordinary level of care and advice, creation and delivery of a new product, making an amazing impact in the community, or delivering strong and sustainable revenue and profit growth.

More than 180 shortlisted nominations from our businesses around the world were submitted to a central judging panel. Fifteen finalists were then invited to attend the Breakthrough Awards Ceremony in Barcelona, where the five winners were announced.

The Breakthrough Awards, along with initiatives like the 'Living our purpose' campaign, have been highly successful in bringing to the fore the diverse ways that our people connect with and live our purpose.

A HEALTHCARE PARTNER TO MILLIONS MORE
Winner: Health Content Team, Bupa Australia

Working with the George Institute, the team developed a smartphone app, FoodSwitch, to help people make healthier food choices, customised to their needs. Within the first two years, FoodSwitch has already been downloaded by nearly 450,000 people in Australia and New Zealand, and doctors in Australia are recommending the app to patients to adopt a healthier lifestyle. The app helps users to reduce fat and salt intake, manage blood pressure and heart disease, and aid those with gluten intolerance. In the long-term, this contributes to reduced health risk and healthier lifestyles.

EXTRAORDINARY BUSINESS PERFORMANCE
Winner: Products Team, Sanitas Seguros

The team developed a new product range in response to changing market circumstances in Spain, with nearly 285,000 customers purchasing one of the new products, delivering a 38% increase in sales. Since launch, the team has enhanced the offering and sold more than 111,000 add-ons through all channels, bringing greater choice and flexibility for customers. This extraordinary business performance was delivered using existing resources and budget. The team generated efficiencies in the way Bupa delivers its products, and delivered strong and sustainable revenue and profit growth, while offering greater choice and flexibility for our customers.

PEOPLE LOVE WORKING HERE
Winner: Sunset Rest Home and Hospital Team,
Bupa Care Services New Zealand

When Bupa acquired Sunset Rest Home and Hospital, there was a history of low staff engagement and underperformance of the people working there. Two leaders in the team, Pauline and Shalini, worked together to institute a culture change and create an environment where people are engaged with our purpose. By focusing on health and education, introducing initiatives such as the B-Fit employee wellbeing programme, and leading with a visible, consistent management style, they orchestrated an amazing culture shift. Now Sunset has the best GPS results in New Zealand, achieving outstanding scores across the board, and dramatically lower employee turnover, making it a place where people are proud to work.

INNOVATING FOR SUCCESS
Winner: Bupa Health Funding UK

In 2012, Marc Lyne launched finder.bupa.co.uk, a free online extensive directory of consultants and facilities which helps customers find out who and where is right for them. This has received a positive response from our customers. The site uses key information including the patient's medical requirements, travel distance and consultant information to help customers easily find Bupa recognised consultants or facilities. The site currently handles more than 150,000 visits per month, is fully indexed by Google, and is used internationally.

TEDDY WEBB MEMORIAL AWARD
Winner: Sanitas Residencial

Noemí Pérez joined Sanitas Residencial in 2011 with a visual impairment of 65%. In 2012, she suffered a macular degeneration while at home. This caused a sudden and irreversible loss of her peripheral vision. Despite this serious disability, Noemí continues to show superior dedication and extraordinary customer care, going above and beyond to put her personal best into practice daily. With the support of an amazing team alongside her, she not only contributes to the home being a lovely place for residents to live, but makes it a place where her colleagues love working too.

"Our people are proud to work for us, and believe their work makes a real difference in the pursuit of our purpose."

Our health and wellbeing strategy is designed around a model that focuses on healthy cultures, healthy minds, healthy bodies and healthy workplaces. We will empower our people to make lifestyle changes that reduce the risk factors of chronic disease, and so make tangible steps toward a healthier workforce.

In 2013, our GPS results show 60% of our people have access to the tools and advice they need to help manage their health, and 40% were actively engaged in managing their health. Whilst good, our ambition is to significantly improve this in 2014.

As active participants in improving their health, our people are our best ambassadors. They add enormous value by helping to innovate and develop future products and services.

HEALTH AND SAFETY

Our health and wellbeing strategy is underpinned by an absolute commitment to employee safety, and we continue to raise the bar towards industry excellence in this area.

Our three-year health and safety strategy devised in 2012, commits Bupa to a zero-harm culture, and good progress has been made since the implementation of this policy. We have enhanced existing operational controls and strengthened governance arrangements across the business. In the past two years, the majority of our businesses have benefited from independent health and safety audits.

Sadly, during the year, a respected and well-liked driver for our UK home healthcare business lost his life in a tragic road accident. Our thoughts and support continue to be with his family at this time.

In the UK there were 98 RIDDOR[2] reportable incidents in 2013, compared with 115 in 2012. There were 4,666 employee incidents in total in 2013, an increase on 2012. The increase was driven by improvements to our reporting and measurement of minor incidents, particularly in UK Care Services.

PEOPLE LOVE WORKING AT BUPA

We place strong emphasis on informed two-way dialogue about all matters affecting our people. We use a variety of channels to do this including regular face-to-face and telephone briefings, emails, events, employee listening groups, internal magazines and our internal social media site, Bupa Live. This communication enables a common understanding of Bupa's purpose, strategy and performance. Our employee engagement index remained high at 67%.

Our annual GPS is a key mechanism for hearing views from our employees and this year an impressive 50,606 people participated, representing nearly 80% of our workforce at the time of the survey. This response rate is a substantial increase from 2012, and is the most significant contribution ever made by our people to the conversations that shape Bupa's future. We are committed to taking action based on the survey results, and saw a pleasing increase in perceived commitment to action in 2013.

Every employee plays a significant role in delivering our performance and strategic vision. Our company-wide programme, 'Share the Success' is designed to promote and reward involvement in Bupa's performance. Our people are proud to work for us, believing their work makes a real difference in the pursuit of our purpose. Across the globe, Bupa employees feel engaged and are committed to achieving our ambitious Bupa 2020 vision.

PRIDE

Our people are proud to work at Bupa.

PURPOSE

Our people believe their work makes a real difference in the pursuit of our purpose.

[2] Within the UK, the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013, require more serious categories of incidents and accidents to be reported to the Health and Safety Executive.

ENVIRONMENTAL IMPACTS

Keeping people well and supporting a healthy planet are integral to our Bupa 2020 vision. We are committed to focusing our energy and resources for the benefit of current and future customers, and wider society.

Steve John
Corporate Affairs Director

From air pollution in Europe to water shortages in Australia, there is a growing recognition that good health is dependent on a healthy environment.

We are committed to monitoring, managing and reducing our environmental impact. In order to do this in our hospitals, care homes, wellness centres and offices, we have globally monitored and managed carbon emissions since 2009. From renewable energy to water recycling, many of our businesses around the world have also trialled and adopted leading-edge environmental practices to reduce our impact on the environment. We are encouraged by progress to date, but we recognise that there is more work to be done.

DATA COLLECTION

In 2010, we set ourselves the ambitious target of reducing our carbon footprint by 20% by 2015, based on our 2009 footprint. Collecting data from hundreds of sites in five Market Units around the world is not an insignificant task. We were very proud to be the first healthcare company in the private sector to be awarded global Carbon Trust Standard certification in 2013, for the completeness and accuracy of our carbon data. The Carbon Trust is an independent organisation which partners with businesses, governments and the public sector around the world, helping them contribute to a more sustainable future.

STAMP OF APPROVAL

This year we were awarded global certification to the Carbon Trust Standard, for our work on measuring, managing and reducing our global carbon footprint. Bupa is one of only a handful of companies to achieve the Carbon Trust Standard globally, and the first healthcare company in the private sector to do so.

The Carbon Trust assessed and certified our carbon footprint over a three-year period across 11 countries, looking at data from hundreds of sites in five Market Units. In total, almost half a million tonnes of CO_2 were measured over the three years. The certified reduction reinforces our intention to reduce our carbon footprint by 20% by 2015.

Darran Messem, Managing Director of Certification at the Carbon Trust, said: "Bupa's achievement across such a large and complex operation is testament to the commitment and leadership strength of the company, and its success is clear evidence of the significant results that can be delivered through senior sponsorship and ingraining good practice throughout a business."

REDUCING CARBON EMISSIONS

Our business continues to grow organically and through acquisition, challenging us to reduce gross carbon emissions. Existing business investment budgets allow us to drive down emissions through energy efficient equipment. We are exploring green health centres and carbon neutral care in the UK, Spain and Australia, setting a new standard for low-carbon business growth. We are also exploring renewable energy production as a mechanism to reduce carbon and save money.

GREEN DENTAL CENTRES, SPAIN
With 36 new dental centres opening in Spain during 2013, ensuring maximum energy efficiency was a priority. As a result, Sanitas created our first 'Green Dental Centre', ensuring all new facilities are using the latest energy efficient technology to reduce our carbon footprint. These technologies included the installation of *LED lighting and photocatalysis at all new* facilities, and remote monitoring of energy consumption, in order to benchmark different clinics and detect and act on irregular consumption behaviours.

Equally, as our business grows, so do our carbon emissions from travel. We continue to make use of video teleconferencing and other technology to reduce the need for unnecessary travel.

In 2013, we also adjusted our carbon data to reflect business growth, including the major acquisitions of LUX MED in Poland and Dental Corporation in Australia.

Globally, our revised data indicates that we have been successful in reducing absolute gross global carbon emissions by 6% since 2009.

Reducing carbon emissions during a strong period of business growth is a significant achievement. Experienced teams in our care homes businesses, which account for over half of our global carbon emissions, have been fundamental in reducing global emissions. For example, the installation of Building Environment Management Systems (BEMS) in more than 320 offices and care homes in the UK and Spain over the last few years, has driven significant carbon reductions and financial savings, whilst providing better monitoring and analysis. New technologies, including renewable energy, have been trialled and implemented. Our people have been engaged through a variety of internal communication programmes and activities.

ACCELERATING PERFORMANCE
However, there is a renewed focus to go further and faster as we work towards achieving our 20% target by 2015.

To do this, we have established a fund of £20m to invest in energy saving measures during 2014. Successful carbon reduction initiatives will be further developed and repeated across our portfolio. Working together, environment and facilities professionals will also develop, implement, and launch ambitious projects that will further accelerate our carbon reduction performance.

To support this work, in 2014 we will be rolling out a global carbon management tool to drive greater carbon management and reduction. Working with a market leader in carbon reporting software, this tool will centrally store and track environmental data; monitor and project the performance of our energy efficiency investments; and allow better data analysis and reporting to inform decision-making and local level accountability.

These activities will enable us to meet our commitments to reduce our carbon footprint and support the delivery of extraordinary business growth, in line with our Bupa 2020 vision, and deliver on our purpose of longer, healthier, happier lives.

"Achieving certification and reducing our carbon footprint are the result of more than £8m of investment in carbon reduction projects. By sharing environmental expertise across our offices, care homes, clinics, hospitals and other facilities worldwide, we have been able to make the right first steps, and we are committed to accelerating our progress over the next few years."

Stuart Fletcher
CEO, Bupa

Our carbon footprint is measured in tonnes of CO_2 equivalent, including Scope 1 and Scope 2 emissions, as well as business travel, electricity transmission and distribution losses.

RISKS AND UNCERTAINTIES

Delivering healthcare on a global scale means the risks Bupa faces are many and interconnected. Effective management of these risks supports the business in achieving the right customer and financial outcomes, ultimately ensuring we are able to fulfil our purpose.

Evelyn Bourke
Chief Financial Officer

The risk teams across Bupa work together to identify risks, informing decision-making and capital management. We continue to strengthen our risk framework and governance approach, and maintain a risk-focused culture that aligns to our Board risk appetite.

OUR RISKS

The markets where we operate present a particular set of risk exposures. The profile of risk differs across our businesses, reflecting the different mix of funding and provision, and varied political, legal and economic contexts. We manage the risks to Bupa as a whole by understanding the drivers of risk for these individual businesses and assessing how these risks interact across the portfolio. Understanding our risks enables us to maximise opportunities to benefit from diversification of risk while identifying any emerging concentrations of risk.

Through the development of our 'Own Risk and Solvency Assessment' (ORSA), we are integrating our risk and capital management processes. As we continue to develop this approach we will enrich our insights into the capital available under different scenarios. These insights are based on an understanding of the risks inherent in our business, taking into account planned business strategy and the Board's risk appetite. These inherent risks are defined in the table on page 41.

Delivering consistently good outcomes for our customers is central to our risk management approach and so the effective management of clinical risk is paramount. The most significant quantifiable risks facing Bupa are insurance risk and property risk, reflecting potential volatility arising from claims patterns and the significant property portfolio, namely care homes, owned by Bupa.

Movements in property markets aside, exposure to investment market fluctuations is relatively low, reflecting our conservative investment strategy. Other significant risks to Bupa include risks that cannot readily be quantified. Examples include the importance of managing brand value and reputation, and the potential impacts of future changes to government and regulatory policy.

RISK APPETITE

Our risk appetite framework reflects Bupa's purpose and expresses the degree of risk we are prepared to accept as we work to deliver on our strategy and business plans. Our core risk appetite statements relate to:

- the clinical and conduct risk outcomes that support Bupa's purpose;
- the holding of an appropriate buffer of capital resources above group regulatory capital requirements;
- the return on capital we look to achieve; and
- the maintenance of a solid investment grade credit rating and prudent levels of liquidity.

Our risk appetite statements are a central reference point for key decisions and provide a governance and assessment framework for all significant investment decisions.

DEVELOPING OUR RISK MANAGEMENT FRAMEWORK

Supporting a growing and changing business means constantly challenging our risk culture and risk management framework. We use a 'Three Lines of Defence' risk governance model. While our framework to support this is now well established, we have implemented some changes during 2013:

- We have strengthened our risk management function to partner more closely and effectively with the business on a day-to-day basis, while ensuring a strong focus on the interplay of risk across Bupa as a whole. We supply our Risk Committee with considered top-down insights on risk exposures which are informed by risk reporting and analysis gathered from our businesses.

- We have strengthened our risk governance by establishing the Bupa Enterprise Risk Committee (BERC). The Committee brings together the leaders of our Market Units with members of our Corporate Centre leadership team, including the CEO, CFO, Chief Medical Officer (CMO), Chief Legal Officer and Chief Risk Officer. The Committee ensures it is sighted on the whole of Bupa's *risk profile and focused on ownership of* Bupa's risk culture. We have also strengthened the risk committees that operate within our different businesses, for example, by reviewing their responsibilities and membership.
- We recognise the specialist expertise in key risk types that exists in our different Corporate Centre teams. The Risk function has aligned more closely with these colleagues. This means that we are better placed to look across the business to identify risk themes and support the sharing of best practice.
- We have taken steps to ensure that high standards of risk management are shared by all our businesses. We recognise that the risks facing each of our Market Units are unique and we continue to work to ensure that through tools such as our risk policies and our risk appetite framework, we support all our people in their efforts to safeguard customers and Bupa.

We will continue to embed these changes during 2014.

RISK GOVERNANCE

Our approach to risk governance recognises Bupa's position as a leading funder and provider of healthcare services. While we place a very strong focus on clinical risk, we also ensure that our Board and Enterprise Risk Committees have a view of risk that encompasses all risk categories, enabling the aggregate risk position of the Group to be understood. These committees are supported by a depth of specialist oversight of clinical risk commensurate with the scale of the clinical risks being managed.

The Main Board's Risk Committee has responsibility to the Board for the oversight of risk. The BERC takes ownership for the whole of Bupa's risk profile and risk culture. It acts to ensure that risk management supports delivery of the right customer and financial outcomes. It also recommends to the Board Risk Committee where risk appetite needs to change. The latter is supported by a governance framework of Market Unit risk committees and Bupa-wide risk committees and forums focused on specific key categories of risk. An example of these forums includes the Clinical Governance and Quality Steering Committee shown in this diagram.

BUPA RISK GOVERNANCE STRUCTURE

LUX MED ACQUISITION

The acquisition of LUX MED marked an exciting step towards our Bupa 2020 vision, and as Poland's largest private healthcare provider, represents one of our most significant investments since 2008, in terms of scale and strategy.

Key risks identified for this development included the uncertainties inherent in a new market entry, the complex and diversified nature of LUX MED's business, and the challenge to continue driving strong growth while focusing on successful integration.

To manage these risks, we established direct relationships with LUX MED's management team, and laid groundwork during an extended due diligence period, while sharing best practice and experiences in running integrated healthcare.

Together the Bupa and LUX MED teams oversaw integration in a planned and coordinated way, while focusing on continued delivery of LUX MED's growth strategy. The integration programme for risk management was based on training and pragmatic timelines to bring about alignment of existing governance, compliance and risk policies.

RISKS AND UNCERTAINTIES CONTINUED

Our risk management approach is built on early identification of risks and quick implementation of actions to mitigate or remove that risk. This is coupled with ongoing monitoring and a robust reporting framework.

OUR CURRENT PRINCIPAL RISKS AND UNCERTAINTIES

The table below lists the key risks and uncertainties that are of the greatest significance and debate for the Board and Enterprise Risk Committees.

Risk	Mitigating action
Delivering excellent healthcare Bupa's responsibilities as a provider of healthcare services mean that management of risks relating to customer wellbeing and safety is always in the spotlight.	All Market Units have a Medical Director responsible for ensuring clinical quality and governance within the business. They are accountable to the Chief Medical Officer (CMO) for clinical governance and, along with the CMO, are part of our 'second line of defence'. The CMO works closely with the Market Unit Medical Directors to seek ways to share best practice in the management of clinical risk across Bupa's businesses. Our structure of clinical risk committees means that there is oversight both within Market Units and across Bupa at Group level, including through the Medical Advisory Panel. This oversight is informed by quarterly reporting of key quality indicators.
Organisational capacity and capability Bupa's growth agenda brings with it increased risk of failure to manage the overall volume and pace of organisational change. This could lead to excessive management stretch, inadequate capability within the organisation, failure to identify and manage key risks, and loss of ownership of culture.	This an important area of focus for the Bupa Enterprise Risk Committee which takes ownership of the risk culture and drives action in relation to the factors that influence it. Management of transformational change is a key leadership accountability. Leaders are supported in this with specific change management resources and by the results of a regular Global People Survey which aims to capture the views of as large a proportion of Bupa people as possible.
Government and regulatory policy Changes to government and regulatory policy in one or more of the key geographies in which we operate may damage the viability or profitability of the business model. While we now have a greater degree of clarity with regard to the implementation of the EU Solvency II directive, the risk of policy change remains high in a number of our business areas, particularly those where Bupa is dependent on public sector relationships and funding.	Bupa maintains a diversified business model to lessen the potential impact of changes affecting one product or service in any geography. We seek to maintain competitive positions to enable us to respond to government and regulatory policy change from a position of relative strength. On areas of policy significant to Bupa, we seek to influence decision-making through both direct and collective means.
Operational systems and processes Failures of our systems and processes in relation to areas such as information governance, maintenance of IT systems, prevention of financial crime, regulatory compliance and the reporting of financial information are key risks. Such failures could cause unanticipated financial loss, customer detriment, reputational damage and failure to meet regulatory expectations. While we have strengthened our risk and control framework further during 2013 and have a low appetite for operational risks, some degree of risk exposure will always remain. We focus on operational risks to ensure that our risk management approach is proportionate, and that incidents and trends are identified and acted upon.	The profile of key operational risk exposures against risk appetite is overseen by Market Unit Risk Committees and aggregate exposures across Bupa are reported to the Bupa Enterprise Risk Committee. Bupa's global framework of risk policies and policy owners ensures that principles for the management of key risks are clear and consistent across the Group so that these can be meaningfully implemented within Bupa's businesses. Risk Committees are kept up-to-date on regulatory requirements as these evolve. Bupa's businesses seek to maintain strong relationships with all local regulators.

INHERENT BUSINESS RISKS IN BUPA

Bupa's different business activities create different inherent risk landscapes across the Market Units. The table below reflects those risks for which we hold the largest proportions of economic capital, as well as those risks which could cause harm to our customers, or our reputation, if not managed effectively.

Risk	Australia and New Zealand	UK	Spain and Latin America	International Development Markets	Bupa Global
Property Risk Risk of volatility in property markets leading to a material devaluation of Bupa's property portfolio such as head offices, hospitals and care homes.	H	H	M	L	L
Insurance Risk Risks relating to Bupa's insurance businesses. Risks of inadequate pricing and underwriting of insurance policies, and of claims experience being materially different to expectations.	H	H	H	M	H
Currency Risk Risk arising from changes in the level, or volatility, of currency exchange rates impacting on cash flows and assets held in currencies other than sterling, and on the financial statements.	H	L	M	M	H
Operational Risk Risk of loss arising from inadequate or failed internal processes, or from personnel, systems or external events.	M	M	M	M	M
Credit Default Risk Risk that a counterparty fails to pay its obligations in the face of difficult economic conditions.	M	M	M	M	M
Liquidity Risk Risk that there will not be available funds to meet liabilities when they fall due. Market Unit risk is inherently low due to central management of this risk.	L	L	L	L	L
Conduct Risk Risk that Bupa's behaviours or actions result in unfair outcomes or detriment to our customers.	H	H	H	H	H
Clinical Risk Risk of injury, loss or harm due to a failure of clinical care, or inadequate governance, of the clinical networks used when funding treatment through health insurance.	H	H	H	M	M

H The business has high inherent exposure to this risk.

M The business has moderate inherent exposure to this risk.

L The business has low inherent exposure to this risk.

CHAIRMAN'S INTRODUCTION TO GOVERNANCE

Bupa's structure enables us to focus on delivering our long-term strategy and sustainable growth.

Lord Leitch
Chairman

Bupa was founded in 1947 as a company limited by guarantee with no shareholders. This structure has served us well since then, enabling us to focus entirely on the original objects including 'to prevent, relieve and cure sickness and ill-health of every kind ...'. This has been translated into today's purpose as 'longer, healthier, happier lives', with Bupa's structure underpinning our ability to focus exclusively on delivering that objective.

We aim to operate to the highest standards of governance which are the same as those expected of large, global public companies. Bupa complies with the principles and provisions of the UK Corporate Governance Code and associated guidance, and our governance arrangements are continually reviewed in line with developments in best practice. Having no shareholders, the role of the Bupa Board and Bupa's Association Members is even more significant in governance terms. The Board currently comprises myself as Chairman, eight independent Non-Executive Directors and two Executive Directors.

Bupa has around 100 Association Members who are independent and hold the Board to account. These Association Members fulfil a crucial oversight role, providing challenge to the Board on matters of strategy and performance.

2013 DEVELOPMENTS

During 2013, we implemented the phased Non-Executive Director succession plans set out in this report last year.

The Rt Hon Baroness Bottomley retired from the Board in April 2013, and George Mitchell assumed the position as Senior Independent Director from Peter Cawdron in May 2013. Peter Cawdron is due to retire in 2014.

In July 2013, the Board appointed The Rt Hon Patricia Hewitt as a Non-Executive Director. Patricia brings great knowledge and experience of international healthcare systems and corporate governance to the Board, as well as insight into developments in remuneration practices and reporting.

Martin Houston was appointed to the Board in January 2014. He brings experience in international business and expertise in running the operations of a major, multinational company.

My tenure as Chairman of the Board has also been confirmed until December 2017. This provides continuity for the Board whilst Stuart fully settles into the role as CEO and we implement our Bupa 2020 vision.

Gender is a publicised measure of diversity when making Board appointments. With two Non-Executive and one Executive Director being female, Bupa compares favourably with some of the higher female board representation ratios within FTSE 100 companies. Women are also strongly represented in management positions within the business and we actively continue to encourage initiatives within the organisation which seek to enhance the pipeline of women at senior levels. It is however, only one measure, and Bupa believes diversity should be considered more broadly, including diversity of skills, experience, race, gender, disability and age, for example. All these factors are, among others, taken into consideration in appointments to the Board and to roles more broadly within Bupa.

Also, during 2013, we designed an enhanced corporate governance framework for Bupa's major operating subsidiaries; the key drivers being the further mitigation of risk and still more effective oversight.

Finally, 2013 saw the introduction in the UK of new legislation to improve both narrative reporting and directors' remuneration reporting. We are fully supportive of these initiatives in their intent to further enhance the standards and quality of corporate reporting. Although aspects of this new legislation are not strictly applicable to

Bupa, to the extent practicable, we have sought to mirror its requirements in the preparation of this year's Remuneration Report. For the forthcoming Annual General Meeting (AGM) in June 2014, we will also be adopting a new voting regime on remuneration, by including an advisory vote on the forward-looking Directors' Remuneration Policy as well as on the Remuneration Report itself.

Our second externally facilitated Board evaluation was conducted in the autumn of 2013, the results of which are set out in more detail in the Effectiveness Report on page 48. The Board discussed the results at its meeting in December 2013, and is developing a plan to address the key areas for further development. However, the process confirmed that the Board and its committees continue to be effective.

THE FUTURE

We will continue to monitor our governance arrangements and make changes where beneficial. The implementation of our succession plans will ensure an orderly refreshment of the Board and continuity when Non-Executive Directors come to the end of their tenure.

BOARD REFRESHMENT

The implementation of our Non-Executive Director succession plans are continuing to bring about the refreshment of the Board in an orderly fashion and to ensure continuity when Non-Executive Directors retire from the Board.

During 2013, the Board appointed The Rt Hon Patricia Hewitt (profile set out overleaf) and Martin Houston joined the Board on 1 January 2014.

Martin joins the Board from BG Group plc, where he was Chief Operating Officer between 2011 and 2013, responsible for operational performance, the energy marketing business, as well as group-wide business development. He brings extensive international experience from a wide variety of technical, commercial and management roles. Martin is a fellow of the Geological Society of London and a Companion of the Institution of Gas Engineers and Managers, and a former Non-Executive Director of Severn Trent plc.

Further appointments will be announced in due course as the Board refreshment programme continues.

Living Bupa's purpose together – we exist for the benefit of our present and future customers, and wider society.

EXTERNALLY FACILITATED BOARD EVALUATION

The external organisation, Boardroom Review, was retained, and facilitated the 2013 board evaluation programme. Boardroom Review also undertook the previous externally facilitated evaluation in 2010. This provided a useful point of comparison.

The report found the Board continued to be highly effective and highlighted three areas for consideration to further improve:

- further development of succession planning including a review of the mix of skills, knowledge and experience that the Board will require in future directors;
- a rolling programme of strategic discussions throughout the year; and
- regular attendance at subsidiary Boards' Audit and Risk Committees by Bupa Committee Chairmen.

The Board has discussed the results of the evaluation and is developing a plan, performance against which will be monitored on an ongoing basis.

STATEMENT OF COMPLIANCE

Our stated aim is to operate with the same governance standards as FTSE 100 companies. I am pleased to report that we have applied the main principles, and have complied with all of the relevant provisions, of the UK Corporate Governance Code published in September 2012 (the Code) throughout the year except Code Section E: Relations with Shareholders, which is not wholly possible for a company without shareholders.

We recognise the importance of maintaining effective relationships with our Association Members. In keeping with the full spirit of the Code, great effort is made to engage fully with our Association Members, particularly through the constructive use of the AGM each year and briefing sessions organised each Autumn. We ensure that Association Members are kept informed of strategy and performance and that their views are communicated to the Board on an ongoing basis.

This Corporate Governance Report on pages 42 to 56, together with the Remuneration Report on pages 57 to 66, describes how we have applied the main principles of the Code during the year.

GOVERNANCE CONTINUED THE BOARD OF DIRECTORS

COMMITTEE KEY

- A Audit Committee
- Ri Risk Committee
- M Medical Advisory Panel
- N Nomination & Governance Committee
- Re Remuneration Committee

George Mitchell, CBE
Senior Independent Director
Re/A/N/Ri

Joined the Board in May 2007; appointed Senior Independent Director from May 2013. George is currently Chairman of The Malcolm Group and Non-Executive Director of Intrinsic Financial Services. Previously he was an Executive Director of HBOS plc and the former Governor of the Bank of Scotland plc. George has worked in financial services for over 40 years and brings an in-depth knowledge of capital management and banking, including financial discipline and control, to the Board. He chairs the Board of Bupa's Regulated Entities in the UK.

Evelyn Bourke, Chief Financial Officer
Executive Director

Appointed CFO in October 2012. Evelyn joined from Friends Life where she was Chief Executive Officer of its Heritage division. Previously at Friends Provident, she was the Executive Director responsible for strategy, capital and risk and, before that, Chief Financial Officer. A qualified actuary, Evelyn is also a Non-Executive Director of the IFG Group in Ireland and is a Board member of Opportunity Now. Evelyn has a strong track record and extensive experience in financial services, risk and capital management, operations, and mergers and acquisitions.

Lord Leitch, Chairman
Non-Executive Chairman
N(Chair)/Re

Joined the Board in May 2005; appointed Chairman in November 2006. Currently Chairman of Intrinsic Financial Services, Chairman of FNZ, and member of the House of Lords. Previously Deputy Chairman of Lloyds Banking Group plc, Chairman of Scottish Widows plc, Senior Independent Director at United Business Media plc, Chairman and Chief Executive Zurich Financial Services UK, Ireland, South Africa and Asia Pacific, and Chairman of the Association of British Insurers. Lord Leitch has a deep and broad knowledge of insurance and financial services gained over 40 years as a senior executive in a number of major international businesses.

Stuart Fletcher, Chief Executive Officer
Executive Director
N/M

Appointed CEO in 2012. Stuart joined from Diageo where, most recently, he was President, Diageo International. Other senior management positions at Diageo include Global Finance Director of Guinness. Previously, he held financial roles at Procter & Gamble and United Glass. Stuart has over 25 years' experience in senior management and a strong international track record having lived and worked in Japan, USA and Hong Kong. He is accomplished in setting and executing growth strategies, developing strategic partnerships, embedding employee engagement, and leader and team capability development across complex and international businesses.

Peter Cawdron
Independent Non-Executive Director
Re(Chair)/A/N

Joined the Board in May 2007; formerly Senior Independent Director from January 2009 to April 2013. Peter is a former Chairman of Punch Taverns plc and has held non-executive director roles at ProStrakan Group plc, The Capita Group plc, Compass Group plc, ARM (Holdings) plc, Johnston Press plc and GCap Media plc. Previously the Strategy Director for Grand Metropolitan plc, Peter is a chartered accountant and has considerable financial and business expertise gained over many years, with in-depth knowledge of audit, strategy, marketing and brand development.

Lawrence Churchill, CBE
Independent Non-Executive Director
RI(Chair)/A

Joined the Board in July 2009. Lawrence is Chairman of the NEST Corporation and Chairman of the board of the Financial Services Compensation Scheme. Previously Chairman of the Pension Protection Fund, a member of the Board for Actuarial Standards, Chief Executive of Zurich Financial Services UK, Executive Chairman of UNUM and CEO of NatWest Life and Investments. Lawrence brings considerable expertise from operating in large, complex organisations and has extensive knowledge of financial services, risk management, general management and public policy.

Rt Hon Patricia Hewitt
Independent Non-Executive Director
Re/M

Joined the Board in July 2013. Patricia is Senior Independent Director of BT Group plc, a Non-Executive Director of Groupe Eurotunnel SA, Chair of the UK India Business Council (UKIBC) and Katha Children's Trust. She was Secretary of State for Health from 2005 to 2007 and previously Secretary of State for Trade and Industry, Cabinet Minister for Women from 2001 to 2005, and Deputy Chair of the Commission on Social Justice. Before entering Parliament in 1997, she was Director of Research, EMEA at Andersen Consulting (now Accenture) and Deputy Director of the Institute for Public Policy Research. Patricia brings experience in international healthcare systems and clinical governance to the Board, together with experience of FTSE 100 corporate governance.

Professor Sir John Tooke
Independent Non-Executive Director
M(Chair)

Joined the Board in July 2009. A consultant physician, Sir John is President of the Academy of Medical Sciences and holds a number of positions at University College London, including Vice-Provost (Health), Head of the School of Life and Medical Sciences, and Head of the Medical School. Currently Non-Executive Director of UCL Hospitals NHS Foundation Trust. Sir John brings his medical expertise, gained over 40 years, to advise the Board on clinical governance and advances in healthcare practices and treatments.

Rita Clifton, CBE
Independent Non-Executive Director
Re/M/N

Joined the Board in July 2010. Formerly Chief Executive and then Chairman of Interbrand UK, Rita is currently on the Board of Nationwide Building Society and is Chairman of Populus, the opinion pollster, and of BrandCap. Before this, she was Vice Chairman and Strategy Director at Saatchi & Saatchi. Previous board appointments have included Judge Business School in Cambridge and EMAP plc. She also served on the Sustainable Development Commission, is a Fellow of WWF-UK and a visiting Professor of Henley Business School. Rita is an expert in brand management, marketing, strategy and sustainability.

John Lorimer
Independent Non-Executive Director
A(Chair)/RI

Joined the Board in July 2011. John is currently a Non-Executive Director of Aberdeen New Dawn Investment Trust plc and was formerly a Non-Executive Director of International Personal Finance plc. Of his extensive commercial career of over three decades, 22 years were spent in financial services, including time with Standard Chartered and Citigroup. He has considerable experience working in Asia and Australasia. John brings expertise in governance and oversight, regulation, risk management and financial services.

Alan Buchanan
Company Secretary

Joined as Company Secretary in October 2013. Alan joined Bupa following an extensive career at British Airways, where he started as the Principal Legal Adviser - Finance. He was appointed Company Secretary of British Airways Plc in 2000, a position he held for 12 years. Latterly he was also Chief of Staff for the British Airways CEO. He remains a Trustee of BA's two defined benefit pension schemes.

GOVERNANCE CONTINUED LEADERSHIP

BUPA'S GOVERNANCE FRAMEWORK

Bupa's Board normally meets ten times a year and at other times as required. It devotes much of its time to overseeing Bupa's strategy and policies, the approval of business plans and significant capital expenditure, acquisitions and disposals, as well as monitoring business performance. The Board is also responsible for driving regulatory compliance through the organisation. Minutes of all Board and Committee meetings are recorded and reflect the substance of the discussion, as well as the decisions made.

Bupa has a schedule of matters reserved for the Board's approval and all other items are delegated to the CEO. The levels of authority delegated to management are regularly reviewed and updated when appropriate. The roles of the Board, the Chairman and the CEO, the Senior Independent Director, and the Non-Executive Directors are clearly defined and set out in detail on bupa.com.

Bupa's governance structure is designed to enable the Board to lead Bupa within a framework of prudent and effective controls which enables risk to be assessed and managed. All Board and Committee members are provided with sufficient resources to undertake their duties, including both internal and external specialist advice. The Directors individually and collectively act in accordance with their duties under the Companies Act 2006. Bupa has a directors' and officers' insurance policy in place.

THE ROLE OF THE BOARD

The Board is responsible for the oversight of the management of Bupa, including:

- agreeing Bupa's long-term direction and objectives;
- determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives;
- oversight of Bupa's operations;
- setting Bupa's values and standards;
- appointment and retention of the senior management team, and ensuring that succession plans are in place;
- ensuring that the necessary financial and people resources are in place to meet Bupa's objectives; and
- responsibility to ensure that the highest standards of both corporate and clinical governance are followed.

THE ROLE OF THE CHAIRMAN

Lord Leitch is responsible for the leadership of the Board and is pivotal in the creation of the conditions necessary for overall Board and individual Director effectiveness, both in and outside the boardroom, including:

- embedding constructive relations between Non-Executive and Executive Directors;
- setting agendas;
- ensuring adequate time in meetings to discuss agenda items, in particular strategic items;
- ensuring clear, accurate and timely information is provided to the Board;
- facilitation of contributions from Non-Executive Directors;
- effective Board Governance;
- succession planning and recruitment of Non-Executive Directors;
- management of the CEO; and
- oversight of major subsidiary chairmen.

It is also the Chairman's role to ensure effective communication with Association Members and to chair General Meetings.

THE ROLE OF THE CEO

Stuart Fletcher is responsible for the day-to-day leadership and management of the business, in line with the strategy and long-term objectives approved by the Board. The CEO may make decisions in all matters affecting the operations, performance and strategy of Bupa's businesses, with the exception of those matters reserved for the Board or specifically delegated by the Board to its Committees, executive committees or subsidiary company boards.

THE ROLE OF THE SENIOR INDEPENDENT DIRECTOR (SID)

The role of the SID includes the following key elements:

- acting as a sounding board for the Chairman and CEO on Board and Association Member matters;
- leading the Non-Executive Directors in the annual review of the Chairman's performance;
- being the focal point for Board members for any concerns regarding the Chairman, or the relationship between the Chairman and the CEO;
- acting as a trusted intermediary for Non-Executive Directors; and
- being available to Association Members.

THE ROLE OF THE NON-EXECUTIVE DIRECTORS

The role of the Non-Executive Directors has the following key elements:

- constructively challenging and helping develop proposals on longer-term direction and strategy;
- scrutinising the performance of management in meeting agreed goals and objectives, and monitoring the reporting of performance;
- satisfying themselves of the integrity of financial information, and that financial controls and systems of risk management are robust and defensible; and
- the Non-Executive Directors have a prime role in appointing and, where necessary, removing Executive Directors, in succession planning, and determining appropriate levels of remuneration, for those roles.

A copy of the standard Non-Executive Director Terms of Appointment, which set out their expected time commitment, is available on bupa.com, at Bupa's registered office and is available for inspection before and during the AGM.

which is considered to impede his role at Bupa. Details of his other appointments are set out on page 44.

An annual review of all Directors' actual or potential conflicts of interest is undertaken. Any conflicts must be authorised and a Director would abstain from discussions on any matter where they may be conflicted. Many of Bupa's Non-Executive Directors hold appointments at other organisations, as does the CFO, as set out in their profiles on pages 44 and 45. Each Non-Executive Director annually confirms that they are able to devote sufficient time to perform their role effectively.

The Board has reviewed succession plans for Non-Executive Directors and a phased replacement of Non-Executive Directors coming to the end of their tenure has been agreed. This approach gives continuity to the Board as well as maintaining an appropriate balance of skills and experience on the Board and its committees. A policy on Board diversity was adopted by the Board in 2012, which sets out Bupa's policy to ensure that there is broad experience and diversity on the Board. Diversity in Bupa embraces knowledge and understanding of relevant diverse geographies, peoples and their backgrounds, including race, disability, gender, sexual orientation, religion, belief and age, as well as culture, personality and work-style. In particular Bupa's Board is focused upon increasing Board diversity without compromising on the calibre of directors. Appointments to the Board are based on merit as well as complementing and expanding the skills, knowledge and experience of the Board as a whole. Within this context the Board aspires to have an appropriate proportion of Directors who have direct experience of some of Bupa's key markets.

Following any appointment to the Board, a personalised induction programme is drawn up, which includes Bupa-specific knowledge building, site visits to Bupa's businesses in both the UK and overseas, information and discussion on strategy, and development plans for the business. Board and Committee members also receive specific training and development on topics which are of relevance during the year. These can take the form of presentations on specific markets from leading academics and economists, to more detailed training on forthcoming developments. During 2013, these included sessions on developments in medical innovation and the future of healthcare technology, as well as training on the 'Own Risk and Solvency Assessment' (ORSA) reporting process.

BOARD COMPOSITION, TENURE AND DIVERSITY

Bupa's Board primarily consists of Independent Non-Executive Directors, substantially outnumbering the Executive Directors. The independence of the Non-Executive Directors from management and any other business or relationship which could materially interfere with their independence, is considered and confirmed on an annual basis. All Directors offer themselves for annual re-election by the Association Members.

Lord Leitch, Bupa's Chairman, who was independent on appointment, holds a number of other appointments, none of

BOARD COMPOSITION AS AT 31 DECEMBER 2013

- 8 Independent Directors (2012: 8)
- 2 Executive Directors (2012: 2)

The Independent Directors include the Chairman, SID and Non-Executive Directors

The Executive Directors are the CEO and CFO

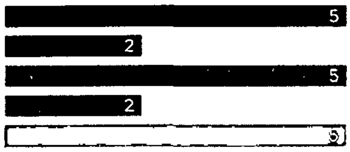
Independent 80%

Executive 20%

LENGTH OF TENURE (YEARS)

- Stuart Fletcher, Evelyn Bourke, Patricia Hewitt, John Lorimer (2012: 4)
- Rita Clifton, Lawrence Churchill, Prof Sir John Tooke, George Mitchell, Peter Cawdron (2012: 5)
- Lord Leitch (2012: 1)

SECTOR EXPERIENCE



- Financial Services (2012: 4)
- Clinical and Healthcare Systems (2012: 2)
- Strategy and Development (2012: 4)
- Brand and Marketing
- International Business

GOVERNANCE CONTINUED EFFECTIVENESS

BOARD PERFORMANCE AND EVALUATION

The results of the Board's previous evaluation in 2012 showed that the Board and its Committees continued to operate effectively, with a small number of areas identified for further development. These centred on two key factors, which were monitored throughout 2013:

- greater information on the competitive environment in each of the key markets in which Bupa operates; and
- a growing international knowledge and experience on the Board.

We are pleased to report that this has been addressed with more detailed information on the competitive environment now provided in each Market Unit update to the Board and for the annual strategy Board offsite. We are also pleased to report that the appointment of both Patricia Hewitt and Martin Houston has provided the Board with greater international experience and knowledge.

In 2013, the Board and individual Directors underwent an externally facilitated Board evaluation process. This was conducted by Dr Tracy Long of Boardroom Review. Boardroom Review has no connection with Bupa, other than having previously facilitated a similar review in 2010. In 2013, the Board evaluation process took the form of one-to-one interviews, attendance at the October Board meeting and culminated in a group discussion at the December meeting. The evaluation concluded that Bupa's Board continued to operate effectively in an open and honest manner, providing support and challenge to executive management. Three areas for further refinement were the continued development of succession planning to include a review of the future skill set and diversity needs of the Board; a rolling programme of strategic discussions throughout the year; and greater interaction between the Board's committees and Bupa's major subsidiary company committees.

A plan is being developed based on these recommendations which will be monitored throughout 2014 by the Nomination & Governance Committee and we will report progress against these recommendations in our 2014 Annual Report and Accounts.

ATTENDANCE AT BOARD MEETINGS

The Board holds ten scheduled meetings each year (both in the UK and overseas) and others as necessary, plus an annual strategy offsite session. Set out below are some examples of the items discussed over and above standing items of review and approval of minutes, CEO Report, CFO Report, and reports from the committees. Also set out below is a table showing the extremely high levels of attendance at the Board meetings held during 2013.

ATTENDANCE IN 2013

	February	March	April	May	July	August	September	October	November	December
LORD LEITCH	•	•	•	•	•	•	•	•	•	•
STUART FLETCHER	•	•	•	•	•	•	•	•	•	•
EVELYN BOURKE	•	•	•	•	•	•	•	•	•	•
BARONESS BOTTOMLEY[1]	•	•	-	-	-	-	-	-	-	-
PETER CAWDRON	•	•	•	•	•	•	•	•	•	•
LAWRENCE CHURCHILL	•	•	•	•	•	•	•	•	•	•
RITA CLIFTON	•	•	•	•	•	•	•	•	•	•
PATRICIA HEWITT[2]	-	-	-	-	•	A	•	•	•	•
JOHN LORIMER	•	•	•	•	•	•	•	•	•	•
GEORGE MITCHELL	•	•	•	•	•	•	•	•	A	•
PROF SIR JOHN TOOKE	•	•	•	•	•	A	•	•	•	•

ITEMS COVERED INCLUDED:

February	Hybrid Bond Issue/Three-Year Plan/Risk Report
March	Approval of Annual Report and Accounts/Approval of AGM Notice and Articles of Association Update/ Global People Survey Results
April (meeting held in Australia)	Strategic Partnerships: Diabetes/Bupa Australia and New Zealand MU Strategy and Business Update
May	Bupa UK MU Strategy and Business Update/Pension Scheme Risk Appetite
July	Follow-up from Board Strategy Offsite/Potential Funding and Solvency Implications of M&A/NED Fees
August	Approval of Half-Year Results
September	Bupa Global MU Strategy and Business Update/ Wellbeing, Health and Safety Update/Bupa People: Liberating Talent
October (meeting held in Madrid)	Chief Medical Officer's Report/Funding and Solvency Implications of M&A/Spain and Latin America MU Strategy and Business Update/Chief Risk Officer's Report
November	International Development Markets Strategy and Business Update/LUX MED Integration Update/Tax and Treasury Updates
December	Approval of 2014 Plan/Board Effectiveness Review/ Pension Scheme Risk Appetite/ Bupa UK MU Strategy Update

1 Baroness Bottomley stepped down from the Board on 30 April 2013.
2 Patricia Hewitt joined the Board on 1 July 2013.
A Apologies

ENGAGEMENT

WHO BUPA ENGAGES WITH

Association Members

Bupa maintains a register of around 100 Association Members who perform a key governance role similar to that which would normally be undertaken by shareholders in a FTSE 100 company. They generally serve for a period of ten years. The key difference for Bupa is that these Association Members have no equity interest and, consequently, no right to dividends.

The Association Members are eminent individuals in their own field, coming from a diverse range of sectors, including health and social care, business, regulatory, academia, as well as charities and the public sector. Their expertise enables them to provide significant challenge to the Board on matters of performance and strategy, and furthermore, to draw upon their skills, knowledge and experience to help inform future strategy and development.

Fundamentally, their role is to hold the Board to account in delivering on our purpose of longer, healthier, happier lives.

Bupa's Association Members have a number of opportunities to engage with the entire Board, including at the AGM which will be held in June in 2014, and will be preceded by a choice of seminar updates in relation to Bupa's business areas.

The AGM is traditionally well attended by the Association Members and is also attended by all members of the Board. At the AGM, Bupa proposes a separate resolution on each substantially separate issue, including a resolution on the Annual Report and Accounts.

Voting at the AGM is conducted on a show of hands with the numbers of votes for, against or withheld on each resolution being made available on bupa.com as soon as practicable after the AGM. The questions raised by Association Members at the 2013 AGM covered areas such as financial performance, aged care funding, charitable giving and Bupa's reaction to the UK Competition Commission inquiry into private healthcare provision.

Bupa also runs a series of Autumn briefing sessions for the Association Members which gives another opportunity for engagement with representatives of the Board on matters of strategy and performance. These sessions are well attended and include rigorous challenge and questioning by the Association Members with a summary of the questions circulated to all Association Members, the Board and Bupa's executive management team. This ensures that the views of Association Members are well communicated and understood. These more formal sessions are combined with regular correspondence on key changes and developments within Bupa, such as major acquisitions.

Bupa runs an induction session for new Association Members each year. This is an opportunity for newly appointed Association Members to gain a further understanding of Bupa, our strategy and their role in our governance.

Bondholders

Bupa also has a number of debt securities in issue by subsidiary companies and, therefore, operates in accordance with the UK Listing Rules, Disclosure Rules and Transparency Rules in respect of its announcements of financial results and operations. Bupa's bondholders and other interested parties are formally made aware of the half-year and full-year results via briefing calls, and have the opportunity to question management on the financial performance and strategy of Bupa.

Other stakeholders

Across our markets, we engage regularly with policymakers and regulators, healthcare professionals, consumer groups, NGOs and other key stakeholders. This engagement enables us to contribute to health policy debate and build an understanding of issues relevant to our customers and healthcare generally. We also partner with a number of bodies, largely NGOs, to campaign on specific health issues as part of our commitment to help more people in accessing better healthcare.

ENGAGEMENT WITH ASSOCIATION MEMBERS

AGM seminar and AGM

- In 2013 the seminars focused on the newly acquired business in Poland, LUX MED, and on the public-private partnership hospital model operating in Spain.
- 49% of Association Members attended the 2013 AGM (2012: 44%).

Autumn briefing sessions

Four briefing sessions were held with between six and 12 Association Members attending each session.

A short presentation on Bupa's performance and development was followed by an in-depth Q&A at each session.

Induction

An induction briefing was held in July 2013, for nine of the newly appointed Association Members on the role they perform and how they can assist Bupa to achieve our purpose.

AUDIT COMMITTEE REPORT

ATTENDANCE

	March	June	August	October	December
JOHN LORIMER	•	•	•	•	•
PETER CAWDRON	•	•	•	•	•
LAWRENCE CHURCHILL	•	•	•	•	•
GEORGE MITCHELL	•	•	•	•	•

ITEMS COVERED INCLUDED:

March	Internal Audit Update/Review of Systems of Internal Control and Risk Management/Outstanding Claims Provisions/Review and Recommendation of Annual Report and Accounts 2012
June	Internal Audit Update/External Audit Plan 2013/Accounting Issues and Areas of Significant Judgement/Audit Fee Proposal 2013
August	Approval of Half-Year Report
October	Internal Audit Update/Financial Controls Review/Segregation of Duties Update
December	Internal Audit Update and 2014 Audit Plan/Accounting and Reporting Issues for Year End/Changes to Annual Report/External Audit Update on Audit Status and Year End Plan/Financial Controls Review Update

The Audit Committee is responsible for the integrity of the financial statements, and reviewing auditor performance and independence.

John Lorimer
Committee Chairman

The remit of the Audit Committee includes monitoring the integrity of Bupa's financial statements, the effectiveness of internal control systems and reviewing the effectiveness, performance and objectivity of the internal and external auditors.

All members of the Committee are Non-Executive Directors and this applied throughout the year. Martin Houston joined the Committee with effect from 13 February 2014. A majority of the members of the Committee have recent and relevant financial experience. The CEO, CFO, Corporate Controller, Chief Internal Auditor, Chief Risk Officer and external auditors are routinely invited to attend meetings. The Committee regularly holds discussions with the external auditors without management present. A copy of the current terms of reference are available on bupa.com.

2013 ACTIVITIES

In discharging its responsibilities, the Committee met five times during the year. In addition to ensuring the integrity of the financial results, the Committee was also active throughout the year in other key areas, including:

- reviewing the preliminary announcement, Annual Report and Accounts and half-year results announcement, including the going concern statements;
- considering reports from the external auditors reviewing any accounting or judgemental issues requiring its attention, as well as any other matters the external auditors wished to bring to the Committee's attention;
- approving audit plans for the external and internal auditors;
- considering reports from the Chief Internal Auditor on the results of internal audit reviews, significant findings, management action plans, and timeliness of resolution;
- reviewing the Company's internal financial controls;
- meeting privately with external auditors;
- monitoring and reviewing the effectiveness of the internal audit activities, and reviewing the independence and performance of the external auditors; and
- reporting to the Board on how it has discharged its responsibilities.

FINANCIAL REPORTING

The Committee reviews the appropriateness of the half-year and annual financial statements, which it carries out with both management and the external auditors, and includes:

- whether the Annual Report and Accounts represents a fair, balanced and understandable view of the information;
- the clarity of disclosures and whether compliance with financial reporting standards is acceptable; and
- the material areas in which significant judgements have been applied.

In carrying out the review, the Committee regularly considers independent papers from both the Corporate Controller and the external auditors, highlighting any significant areas of risk or judgement that have arisen in the period. The significant areas of judgement raised in these reports for 2013 and how they were addressed were:

- Claims provisioning: This primarily relates to the treatment of the estimate that is made of the expected claims payments and expense required to settle existing insurance contract obligations. Calculation of the outstanding claims provision is based on assumptions including claims development, margin of prudence, claims cost inflation, medical at the value in use key assumptions are made regarding future cash flows based on management forecasts, discount rates and terminal growth rates which take into account long-term business plans, and macroeconomic conditions. The Committee reviews management reports outlining the basis of the assumptions used for our most sensitive Cash Generating Units (CGUs) and considers these in light of business performance and the current valuations of comparable companies. The Committee also reviews reporting from the external auditor.

trends and seasonality. The Committee receives reports from management outlining claims reserving methodologies, and reviews and approves the approach to claims reserving; in particular the assessment of margins of prudence. In making these judgements, the Committee also considers reports from the external auditor.

- Property valuations: Bupa has a significant portfolio of care home, hospital and office properties, and fluctuations in the value of this portfolio can have a significant impact on the balance sheet, income statement and solvency position of the Group. Revaluations of the freehold and leasehold property portfolio are carried out on a periodic, at least triennial, basis to ensure that the carrying value does not differ significantly from the fair value at the balance sheet date. Directors' valuations are performed in interim years, where impairment indicators exist. The principal assumptions underpinning these valuations are: quantifying a fair, maintainable level of trade and profitability; levels of competition; and assumed ability to renew existing licences, consents, certificates or permits. Revaluations are carried out by external surveyors (Knight Frank and Extensor). The Committee considers the results from the external valuations and discusses these with management in light of current trading performance of the businesses in which the properties are used, and the external environment. The Committee also reviews reporting from the external auditor addressing the valuations.
- Goodwill and intangible asset impairments: Goodwill and intangible assets with indefinite lives are tested for impairment on an annual basis; other intangible assets are impairment tested if a trigger of impairment is identified. Impairment tests measure carrying value against value in use. In arriving

EXTERNAL AUDITORS

In relation to the external auditors, KPMG, the Committee assesses the scope, fee, objectivity and effectiveness of the audit process annually. In assessing the effectiveness of the audit process, prior to making any recommendation on the appointment or re-appointment of the external auditors, the Committee reviews the effectiveness of their performance against criteria which it agrees, in liaison with executive management, at the outset of each year's audit. In so doing, the Committee also considers feedback on the prior year's external audit obtained through a satisfaction survey. This considers a number of areas such as the overall quality of service, timeliness of the resolution of issues, the quality of the audit resource and whether the audit plan was followed.

Prior to agreeing the auditors' proposed audit fee, it having been reviewed by executive management, the Committee considers cost comparisons to ensure that it is fair and appropriate for Bupa. There are no contractual obligations that restrict the Committee's capacity to recommend a particular firm as the Group's external auditors.

During the year, the Committee discussed placing the audit out to tender during 2014 and considered whether benefits such as increased independence or financial savings were likely and, if so, whether they would outweigh the significant management time and effort needed to conduct a thorough tender process. KPMG has been Bupa's auditor since 1985 and the current audit partner will rotate after the conclusion of the 2013 audit. After consideration of cost, effectiveness and KPMG's independence, and taking account of the rotation of the lead audit partner, the Committee was satisfied that KPMG continued to be independent and agreed that it would likely be disruptive to management to place the audit out to tender during 2014. The Committee will continue to keep the position under review.

To ensure that their objectivity and independence is safeguarded, the Committee has a formal policy on Bupa's relationship with KPMG, which includes financial approval limits for non-audit services and restrictions on the nature of work that can be performed. This policy is reviewed regularly. As part of the evaluation of the external auditors, the Directors confirmed that they were satisfied the external auditors had maintained their independence. In addition, KPMG also annually reports on whether and why it deems itself to be independent. Fees paid to KPMG for non-audit services are shown in Note 2.3 to the Accounts. The Committee is satisfied that KPMG continues to provide an effective audit service.

Due to internal restructuring of operations within KPMG, KPMG Audit Plc has confirmed that it will resign as auditors following the AGM in 2014. KPMG LLP has indicated its willingness to act as auditors from 2014. A resolution to appoint KPMG LLP will be proposed at the AGM.

INTERNAL CONTROL AND RISK MANAGEMENT ASSURANCE

The Board has overall responsibility for maintaining Bupa's system of internal control and risk management, and for reviewing its effectiveness. Such a system is designed to manage or mitigate rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable, and not absolute, assurance against material misstatement or loss. There is an ongoing process for identifying, evaluating and managing significant risks faced by Bupa. This process was in place throughout the year under review and up to the date of approval of the Annual Report and Accounts, and accords with the revised guidance on internal control published in October 2005 (formerly referred to as the 'Turnbull Guidance').

The Committee carried out a review of the effectiveness of the systems of internal control and risk management in place

AUDIT COMMITTEE REPORT CONTINUED

during the year, which considered all significant aspects of internal control arising during the period. This included the work of internal audit and operation of material controls (financial, operational and regulatory compliance). During this review, the Committee identified a number of weaknesses, however, none which it determined to be significant to the financial statements. The Committee noted the steps that had already been, and were planned to be, taken by management, to address those areas identified, and the plans to further enhance the internal control systems and strengthen risk management and the second and third lines of defence.

Key features of the internal controls and risk management processes include:

- a framework of internal controls covering both financial and non-financial controls, the effectiveness of which is regularly reviewed by executive management and the Board; and
- the 'Three Lines of Defence' model. The risk management function, under the leadership of the Chief Risk Officer, provides the primary second line of defence. Internal Audit acts as a third line of defence. The medical function, reporting to the Chief Medical Officer, provides the second line of defence in relation to clinical risk. It provides independent and objective assurance to the Committee over the adequacy of systems of internal control, risk and governance established by management (the first line of defence) and monitored by the risk management function based in the Corporate Centre and Market Units. Bupa's internal audit team acts in accordance with the Global Institute of Internal Auditors' professional standards and has unrestricted access to the Chairman of the Committee. Where specific skills are not available in-house, the Chief Internal Auditor and Committee Chairman have the ability to procure the services of expert external advisers.

The system of financial control includes:

- a comprehensive system for budgeting and planning, together with monitoring and reporting the performance to the Board;
- appraising major investment projects, including M&A;
- a Financial Control Framework, which provides a consistent standard for financial controls across the businesses;
- a suite of financial control and financial accounting policies, operating alongside a periodic attestation process;
- key controls over major business risks including reviews against performance indicators and exception reporting, and the preparation of monthly management accounts; and
- monthly reporting of treasury activities and risks, for review by senior executives.

Additional non-financial controls include:

- the risk management function, working with the business to assess risks and introduce systems to mitigate them. Details of major business incidents are reported to both the Risk and Audit Committees and all notified accidents are investigated;
- a commitment by Bupa to ensure that its personnel meet high standards of integrity and competence as well as systems covering recruitment, training and development, and the communication of policies and procedures throughout the organisation;
- Business Continuity Plans to enable the business to continue with minimum disruption to customers in the event of a disaster; and
- strict guidelines for the use of confidential customer data.

Internal audit provides assurance over adequacy in the operation of internal controls, and reviews their effectiveness by undertaking an agreed schedule of internal audits each year and reporting its findings to management and the Committee. The schedule of internal audits forms part of an annually approved audit plan.

PLANS FOR 2014

In 2014, some of the areas the Committee plans to focus on include:

- further strengthening the internal audit function following the appointment of the new Chief Internal Auditor early in 2014;
- overseeing the enhancing of controls in respect of Segregation of Duties;
- supporting the monitoring of the policy attestation process, consistent with the Three Lines of Defence model; and
- ensuring compliance with the Financial Control Framework.

RISK COMMITTEE REPORT

The Risk Committee is responsible for monitoring the nature and extent of the risks across the business.

Lawrence Churchill
Committee Chairman

ATTENDANCE

	March	April	June	October	December
LAWRENCE CHURCHILL	•	•	•	•	•
JOHN LORIMER	•	•	•	•	•
GEORGE MITCHELL	•	•	•	•	•

ITEMS COVERED INCLUDED:

March	Chief Risk Officer's Report/Review of Group Risk Appetite and Capital Buffer/ Review of the Bupa Group Risk Appetite Statements/Review of Second Line of Defence/Business Continuity Report/Information Governance Review/Financial Crime Update
April	Review of Risk Aspects of M&A Activities
June	Chief Risk Officer's Report/Top Risks Report/Second Line of Defence Target Operating Model/Sanitas Report
October	Chief Risk Officer's Report/Top Risks Report/Investment Risk Appetite/'Three Lines of Defence' Target Operating Model/Group ORSA Update
December	Chief Risk Officer's Report/Top Risks Report/Financial Crime Update/Group Solvency Capital Review/Clinical Governance Review/Solvency II Implementation

The principal role of the Committee is to assist the Board in its leadership and oversight of risk across Bupa.

This includes the understanding and, where appropriate, optimisation of current risk exposures and future risk strategy, reviewing and recommending overall risk appetite and tolerance to the Board, building the risk management framework including risk policies, process and controls, receiving and considering reports on all categories of risk and the promotion of a risk awareness culture throughout Bupa. In making this report, the Committee does not want to duplicate the detailed description of Bupa's Risks and Uncertainties which are set out on pages 38 to 41 and which should be read in conjunction with this report. A copy of the current Terms of Reference is available on bupa.com.

The Committee membership has remained unchanged since its formation in June 2012, and all members have been in attendance at all meetings. Martin Houston joined the Committee with effect from 13 February 2014. All members of the Committee are Non-Executive Directors; the CEO, CFO, Chief Medical Officer, Chief Internal Auditor and Chief Risk Officer are routinely invited to attend meetings. Representatives from the external auditors, KPMG, are also invited to attend meetings.

2013 ACTIVITIES

During the year the Committee focused on the continued monitoring of the operation of the Risk Management Framework, including the review of Bupa's risk appetite statements, the assessment of key areas of risk thematically across Bupa, including the analysis of the different risk profiles of the various businesses, and reviewing the outputs from Bupa's risk management processes.

The Committee also worked closely with executive management on strengthening the 'Three Lines of Defence' framework.

In addition, the Committee also oversaw the development of enhanced risk reporting and the further refinement of risk management frameworks to assist in the management of different categories of risk across the business.

Throughout the year, the Committee considered the risks associated with Bupa's expansion plans and the specific risks associated with each proposed major acquisition. These reviews included, for example, the risks associated with expanding into new geographies as well as continued expansion in existing markets and the associated impact on Bupa's solvency position arising from rapid growth through acquisition.

During 2013, the Committee approved the appointment of a new Chief Risk Officer, who joined Bupa in September 2013. The Chief Risk Officer continues to have unrestricted access to all Committee members.

PLANS FOR 2014

In 2014, the Committee plans to:

- continue the programme of thematic risk reviews, first instigated in 2012;
- oversee implementation of Solvency II within Bupa;
- oversee the strengthening of the 'Three Lines of Defence' model, and in particular the second line of defence; and
- oversee the continued strengthening of the risk management framework and risk governance across Bupa.

MEDICAL ADVISORY PANEL REPORT

ATTENDANCE

	March	June	Sept	November
PROF SIR JOHN TOOKE (CHAIRMAN)	•	•	•	•
BARONESS BOTTOMLEY[1]	•	-	-	-
RITA CLIFTON	•	•	•	•
PATRICIA HEWITT[2]	-	-	A	•
TESSA GREEN[3]*	-	-	•	A
PROF GILLIAN LENG CBE[4]*	-	•	•	•
PROF MARY WATKINS*	•	•	•	•
STUART FLETCHER	•	•	•	•
DR PAUL ZOLLINGER-READ CBE	•	•	•	•

ITEMS COVERED INCLUDED:

March	Clinical Governance Reporting/Implications of the Francis Report
June	Update on Mental Health Treatments/Clinical Governance Quality Improvement Strategy
September	Cancer Treatments - New Developments/Clinical Governance and Quality Accounts
November	Sanitas Dental Update/Quality and Safety Indicators

[1] Baroness Bottomley stepped down from the Panel on 30 April 2013.
[2] Patricia Hewitt joined the Panel on 1 September 2013.
[3] Tessa Green joined the Panel on 20 September 2013.
[4] Prof Gillian Leng joined the Panel on 1 June 2013.
* Independent Panel Member.
A Apologies

The Panel seeks to ensure that Bupa inspires a culture of innovation and excellence to achieve the very best in care for all our customers, patients and residents.

Prof Sir John Tooke
Committee Chairman

The principal role of the Medical Advisory Panel is to advise the Board on issues relating to clinical governance and clinical risk, and advise the Board on developments in medical practice that may impact on Bupa.

Clinical governance supports a system-wide, sustained approach to continuous quality of care improvement within Bupa. It relies heavily on a system of capture and scrutiny of data reflecting the quality of care in all Bupa's clinical or care related activities.

2013 has been a new beginning for the work of the Panel, building on the achievements of the past in order to deliver Bupa 2020.

A copy of the Panel's Terms of Reference is available on bupa.com. These were reviewed and updated during 2013 to further clarify the Panel's responsibilities with regards to the monitoring and reporting of clinical risk.

PANEL MEMBERSHIP

The Panel comprises the CEO, three Non-Executive Directors and three independent members. During 2013, the Panel appointed two new independent Panel members to fill the vacancies created by the refreshment programme which started in 2012. The independent members, highly respected individuals from medical practice and academia, provide invaluable input into the clinical governance standards and strategy at Bupa. The Panel is supported by the Chief Medical Officer and the Chief Nurse.

2013 ACTIVITIES

In 2013, the Panel approved the Clinical Governance and Quality Strategy which sets out a three-year vision underpinned by Bupa's purpose - longer, healthier, happier lives. The strategy continues Bupa's journey to excellence in the delivery of care through either direct provision by Bupa itself or through the network of Bupa-approved hospitals.

Supporting this strategy was the development of the 'Bupa Quality Accounts'. This sets out Bupa's clinical governance and quality priorities.

The Quality Accounts demonstrate the extraordinary value Bupa places on being obsessive about improving the quality of services we deliver to all our customers, residents, patients and staff across the globe. It takes a holistic perspective, reflecting on the outcomes achieved at both an individual customer level and across whole communities.

Two examples of the outcome from this strategy include:

- the development of a smartphone app to assist residents and families in choosing a care home by Bupa Aged Care Australia, in collaboration with Alzheimer's Australia. The app uses the 'Seven Signposts of Personal Centred Care' to assist them in making the choice of which home is most suited to them; and
- the development of a formal assurance process by the clinical governance and quality team working with Bupa Arabia and Bupa Thailand to gain assurance from their providers in the use of the World Health Organization Surgical Safety Checklist, and VTE (venous thromboembolism) Risk Assessment as standard practice in all cases.

Throughout 2013, the Panel oversaw all businesses within Bupa continuing to strengthen and clarify clinical governance and quality accountabilities, including bringing greater clarity and alignment of clinical risk management. The Panel also oversaw revisions to the Bupa Critical Incident Policy. This included a clinical incident grading matrix and the submission of the Clinical Critical Incident thematic analysis report to the newly established Bupa Enterprise Risk Committee, which has increased transparency and understanding of clinical risk within Bupa.

Fundamental to any continuous quality improvement strategy is the review and interrogation of key quality performance indicators. Throughout 2013, the Panel reviewed the current performance indicators and encouraged the ongoing development of the Quality Management System (QMS) to bring forward more and better quality information on clinical risk and performance.

The Panel also received reports on emerging and key issues, which included developments in cancer treatment and mental health services as well as considering the implications arising from the Mid Staffordshire NHS Foundation Trust Public Inquiry report in the UK, led by Robert Francis QC. The Francis Report looked in detail at the poor care and treatment received by patients at the hospital between 2005 and 2008. The inquiry presented 290 recommendations, the key issue being the safety of patients. In response we undertook a survey covering all businesses in the five Market Units, using the 'Seven Steps to Safety' methodology and gained an overarching feel for the safety pulse of the organisation. As a result of this review, we intend to focus on three specific areas of development covering:

- the need to build on, and increase, the sharing of experience;
- the need for increased support of our people in terms of more education and training; and
- the need to be even more patient-centred; taking our customer and people experience as a learning opportunity for continued improvement.

PLANS FOR 2014

In 2014, the Panel will focus on a number of key issues which will include:

- building a risk management framework to strengthen clinical risk management by implementing a standardised incidents and complaints reporting system across all Bupa businesses. This will be underpinned by a standardised approach to identifying, reporting, investigating and learning from critical incidents;
- continued development of the Clinical Governance and Quality Assurance framework, which delivers effective monitoring and improves the safety of all clinical services across both existing and newly acquired businesses; and
- developing a system which enhances the ability to track the performance of the quality and safety of clinical services, and build a repository of international based evidence.

NOMINATION & GOVERNANCE COMMITTEE REPORT

The Nomination & Governance Committee has two functions: overseeing Board appointments and Bupa's governance arrangements.

Lord Leitch
Committee Chairman

ATTENDANCE

	February	March	April	May	September	December
LORD LEITCH	•	•	•	•	•	•
BARONESS BOTTOMLEY[1]	•	•	•	-	-	-
RITA CLIFTON	•	•	•	•	•	•
STUART FLETCHER	•	•	•	•	•	•
PETER CAWDRON	•	•	•	•	•	•
GEORGE MITCHELL	•	•	•	•	•	•

ITEMS COVERED INCLUDED:

February	NED Recruitment Update/Corporate Governance Statement Approval/Articles of Association Update/Association Members Recruitment/Committee Composition
March	Subsidiary NED Recruitment
April	NED Recruitment Update/Subsidiary Governance Review
May	NED Appointment Recommendation
September	2013 Board Evaluation Process/NED Recruitment Update and Appointments/ Association Members Appointments/Corporate Governance Developments Update
December	UK Corporate Governance Code Compliance/Corporate Governance Developments Update/Subsidiary Governance Review Update

[1] Baroness Bottomley stepped down from the Committee on 30 April 2013.

The Committee leads the process for Board appointments and makes recommendations, together with reviewing the balance of skills, experience, knowledge, structure and composition of the Board and its Committees.

The Committee keeps Bupa's governance structures under review and makes appropriate recommendations to ensure that Bupa's arrangements are, where appropriate, consistent with best practice governance standards. The Committee also identifies and selects suitable Association Member candidates. The Terms of Reference are available on bupa.com.

All members of the Committee are Non-Executive, save for Stuart Fletcher as CEO. The Chief People Officer is invited to attend meetings where the recruitment of new Directors is discussed. Baroness Bottomley stepped down from the Committee on 30 April 2013 and Rita Clifton was appointed on 1 January 2013.

2013 ACTIVITIES

During the year, the Committee undertook significant work on Board recruitment. The Committee considered the role specification for the recruitment of new Non-Executive Directors to enhance the diversity of skills, knowledge and experience of the Board, particularly seeking further international experience. The process involved establishing two role specifications, followed by a formal and rigorous interview process of shortlisted candidates, against set objective criteria. Ridgeway Partners LLP, who also provide other executive recruitment services to Bupa, was retained to provide a shortlist of candidates who met the role specification. The appointment of Patricia Hewitt as a Non-Executive Director followed an extensive search and review process and was based on her abilities, skills, knowledge and experience. This process continued and resulted in the appointment of Martin Houston from 1 January 2014.

The process for identification and selection of new Association Members has also been a key activity during 2013, with 12 new Association Members appointed during the year. This recruitment exercise continues to form a major part of the programme of Association Member refreshment.

The Committee also monitored Bupa's compliance with the UK Corporate Governance Code and initiated a review of the effectiveness of the governance arrangements of Bupa's major subsidiary companies. The proposed update to Bupa's Articles of Association were also reviewed by the Committee prior to being proposed for adoption at the 2013 AGM.

PLANS FOR 2014

In 2014, the Committee plans to focus on:

- Board succession planning. This will include the recruitment of new Non-Executive Directors as successors to current Non-Executive Directors when they reach the end of their tenure, as well as the identification of the key skills, knowledge and experience that the Board requires into the future; and
- continued monitoring of compliance with the UK Corporate Governance Code.

REMUNERATION REPORT

The principal role of the Committee is to set remuneration policy (including pension rights and compensation payments) in respect of the Company's Executive Directors and senior executives.

Peter Cawdron
Committee Chairman

The Committee has responsibility for reviewing the design of the remuneration packages on an annual basis for the CEO, CFO and the Managing Directors of each Market Unit. It also agrees remuneration of new recruits and leavers within this group.

Each year, the Committee assesses the appropriateness of the remuneration packages in line with its aim to deliver a competitive level and mix of remuneration compared with companies of a similar scale and complexity to Bupa. The annual process typically includes a review of performance, basic salary, annual bonus targets and payments, long-term incentive plan (LTIP) awards and payments, and also pension and other benefits. The Executive Directors are not involved in any discussions or decisions relating to their own performance or remuneration.

The Committee also has specific ownership of the rules of the LTIP including the responsibility to set appropriate targets and determine the payout levels. Payouts are based on assessment of the achievements against objectives and performance targets over a three-year period. The Committee also has oversight of the performance management framework and the annual bonus for the management population.

The Board is committed to achieving best practice in the determination and implementation of Bupa's Remuneration Policy. It has sought to align this report with the Directors' Remuneration Reporting regulations and it describes the Remuneration Policy and Implementation Report as they relate to the Directors of the Company. It is divided into three distinct sections – the first being a summary statement from the Remuneration Committee Chairman, the second being a description of the Remuneration Policy and the third being the implementation of the policy. The Implementation Report on pages 62 to 65 is subject to audit by the external auditors, KPMG. The Remuneration Policy is not subject to audit.

SUMMARY OF 2013

Bupa has chosen to report against the requirements of the new Directors' Remuneration Reporting regulations and will be presenting the Remuneration Policy set out on pages 58 to 61 for an advisory vote at the AGM. The Remuneration Report is not fully compliant with those regulations in part due to the absence of shareholders and in part due to decisions made by the Committee, for example, not to specify minimum and maximum amounts for certain elements of the pay for Executive Directors. The Committee did not consult with employees when drawing up the policy but incorporated advice from Deloitte regarding market practice for companies of similar scale and complexity. We welcome feedback from the Association Members.

During 2013, one of the main focuses of the Committee was the design of a new LTIP applicable from 2014 onwards. The main aims were to design an LTIP which aligned with Bupa's ambitions for extraordinary but sustainable growth whilst also meeting the highest standards of governance in executive reward and keeping true to Bupa's purpose: longer, healthier, happier lives. The Committee debated the LTIP in detail over a number of meetings and I am pleased that we have been able to design a scheme that meets our aims. More details of the new scheme are provided later in this report.

Another area of focus was the determination of the payout under the 2011-13 LTIP for which the three-year performance period ended on 31 December 2013. The Committee's approach and decisions are included in this report.

In addition to remuneration decisions for the Executive Directors, the Committee also reviewed and approved remuneration and incentives for the five Market Unit Managing Directors to ensure these remain appropriate. A key outcome for 2013 was to reinforce the importance of ownership by linking a greater portion of incentives to group-wide performance.

The Committee's independent adviser, Deloitte, continued to provide guidance and challenge, and I am pleased with the continuous improvement in our approach, and quality of discussions and decision making.

Peter Cawdron
Committee Chairman
12 March 2014

REMUNERATION REPORT CONTINUED POLICY

The aim of Bupa's remuneration policy is to provide total remuneration at a level sufficient to attract and retain key executives and to motivate them to deliver strong and sustainable business performance aligned with Bupa's purpose: longer, healthier, happier lives. The policy is intended to deliver a competitive level and mix of remuneration compared with companies of a similar scale and complexity to Bupa.

The Remuneration Policy for the Executive Directors has been designed to be broadly similar to the policy applicable to Bupa employees to ensure that they are all aligned to delivering sustainable business performance. Although the size of the opportunity varies, the underlying principles of the salary review cycle, annual incentive and LTIP remain the same for the senior employee population. Junior employees are not eligible for LTIP awards, although most have an annual bonus opportunity. In some cases, additional flexibility has been introduced for the Executive Directors and senior employees (e.g. to provide the choice to receive cash in lieu of pension contributions) to allow for personal circumstances. Employees have not been consulted when drawing up the Remuneration Policy.

In drafting this section of the Remuneration Report, the Committee reserves the right to make any remuneration payments or payments for loss of office, notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed (i) before the policy came into effect or (ii) at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company.

This Policy is effective from 11 June 2014.

PAY POLICY TABLE - EXECUTIVE DIRECTORS

Element	*Purpose and link to strategy*
Base Salary	Core element of remuneration set to attract and retain Executive Directors, reflecting their role and contribution.
Annual Bonus	To incentivise the achievement of annual objectives and drive sustainable business performance.
Long-Term Incentive Plan	To attract, retain and incentivise Executive Directors to deliver sustainable long-term growth aligned to Bupa's purpose and strategic objectives.
Pension	To provide an income after retirement, health security and family protection benefits.
Benefits	To attract and retain Executive Directors by providing health and wellbeing benefits and providing security for families.

Operation	Maximum Opportunity	Performance metrics
Salary levels are reviewed annually with any changes becoming effective in April. Factors taken into account include: • size and scope of the role; • appropriate market data; • overall business performance and individual performance; and • salary increases across Bupa.	Salary increases are normally in line with those of the Bupa employee population. Larger increases may be given in certain circumstances including where a new recruit has been appointed on lower than market rate salary with the expectation of phased increases to bring it up to market level. The Committee does not consider it appropriate to set a maximum salary level.	None
Target bonus levels are set annually by the Committee at the start of the financial year. Bonus payments are determined by the Committee after the financial year end, based on performance against agreed targets and objectives. There is a clawback provision for three years following a bonus payment. If the Remuneration Committee concludes that some part of, or the full bonus payment should not have been made, the Executive Director(s) will be required to repay the amount net of any statutory deductions to Bupa.	The maximum bonus opportunity will not exceed 150% of base salary.	Annual bonus payments are based on the achievement of challenging financial, non-financial and personal objectives. No less than 75% of the annual bonus will be subject to the achievement of financial measures which will be aligned to the strategic priorities of the business. If the Committee determines that a minimum level of performance has not been achieved, no bonus will be payable.
As Bupa cannot provide incentives based on equity participation, it provides an LTIP in the form of a deferred cash incentive that is broadly reflective of equity-based plans in comparable companies. Awards are usually made on an annual basis and relate to performance over a three-year period. Vesting of awards is based on the extent to which performance targets, set and assessed by the Committee, are achieved. Payments may be made at the end of the performance period or deferred. *Clawback and forfeiture provisions will apply.*	The LTIP award for each Executive Director will be determined by the Remuneration Committee at the start of each plan period. The maximum award will not exceed 275% of base salary.	Vesting of awards is based on performance against a combination of financial and non-financial measures. Threshold performance results in a payment of 15% of the maximum. The Committee has discretion to adjust the level of vesting to ensure that it is aligned to the underlying performance of the business. No less than 75% of the LTIP will be based on financial measures with the remainder based on measures linked to key strategic priorities of the business.
For the current Executive Directors and new appointments, the Company operates a defined contribution pension scheme, called The Bupa Retirement Savings Plan. Executive Directors have the option to take any employer contribution as a cash allowance or a combination of pension and cash allowance. Although the Company has closed its defined benefit scheme (The Bupa Pension Scheme) to new members, a small number of current employees continue to accrue benefits under this plan.	Executive Directors who are eligible to be members of The Bupa Retirement Savings Plan receive employer contributions of up to 30% of base salary. Members of The Bupa Pension Scheme accrue benefits in line with their contractual terms up to a maximum of 1/30th accrual.	None
Executive Directors are entitled to a number of benefits which may include private health cover for themselves and their family, an annual health assessment for themselves and their partner, life assurance, income protection insurance, car allowance and 30 days' annual holiday. The CEO is also entitled to the use of a car and driver. The benefits offered may need to be changed from time to time to reflect changing circumstances.	There is no specific maximum benefit spend.	None

REMUNERATION REPORT CONTINUED POLICY

SERVICE CONTRACTS

Executive Directors have a 12-month rolling employment contract. The notice requirements are 12 months on either side, which may be payable in lieu. The contracts also include specific post-termination restrictions. Executive Directors are usually permitted, subject to approval, to have one external Non-Executive Director role and to accept and retain the fee for this Non-Executive Director appointment. This is on the basis that any external appointment does not give rise to a conflict of interest.

Terms of engagement for the Non-Executive Directors of Bupa set out the fees and benefits to which they are entitled as well as the expectation of the time commitment required to effectively perform their role. Copies of the standard terms of engagement are available on bupa.com.

APPROACH TO REMUNERATION ON RECRUITMENT

When considering the remuneration package for a new Executive Director, the Remuneration Committee will review the candidate's current remuneration arrangements and determine the appropriate base salary, target bonus opportunity, LTIP award, pension and benefits at the time of appointment.

It is expected that the remuneration package will follow the policy described in the Pay Policy Table. However, in some circumstances it may be necessary to set up additional or alternative arrangements, including but not limited to:

- customised remuneration to buy-out existing bonus and long-term incentives which are forfeited on leaving a previous employer (which will take into account relevant factors including potential value, time horizons and performance conditions that may apply);
- responsibility allowance or fees;
- relocation-related expenses; and
- international assignment allowances and expenses.

In the case of internal promotions, any commitments made before appointment may continue to be honoured unless an alternative approach, more closely aligned to the prevailing policy, is agreed by the Remuneration Committee.

On the appointment of a new Chairman or Non-Executive Director, the fee to be paid on appointment will normally be consistent with the policy as set out in the Pay Policy Table below.

POLICY ON PAYMENT FOR LOSS OF OFFICE

The Remuneration Committee will review the circumstances leading to an Executive Director's loss of office and contractual terms to determine any payments or arrangements that are appropriate.

The key terms considered include:

- the extent to which the Executive is required to work their notice or receive pay in lieu of notice;
- continuation of any relevant benefits;
- adjustments to pension arrangements;
- treatment of any annual bonus for contribution in the year of leaving;
- treatment of any unvested long-term incentive plan award(s);
- damages for loss of office, if relevant; and
- clawback or forfeiture requirements.

The Committee must satisfy any contractual obligations agreed with the Executive Director.

PAY POLICY TABLE - NON-EXECUTIVE DIRECTORS

Element	Purpose and link to strategy	Operation
Fees	To attract and provide stability, reflecting the complexity of the role and time commitment required.	The Chairman receives an all inclusive fee. NEDs receive a fixed basic fee. Additional fees are paid for chairing and/or board committees membership and/or additional work in relation to subsidiaries, and for the Senior Independent Director role. Fees are reviewed annually by the Board with any changes implemented in July. Key factors taken into account include: • overall business performance; • scope and responsibility of the role; and • appropriate market data.
Benefits	To provide health and wellbeing benefits aligned with Bupa's purpose.	During their time in office, NEDs are entitled to private health cover for themselves and their family and an annual health assessment for themselves and their partner. The Chairman is also entitled to the use of a car and driver.

PERFORMANCE MEASURES AND TARGET SETTING

The performance measures for the annual bonus are aligned to the delivery of Bupa's annual business plan and may include personal objectives which change from year to year.

Targets for the LTIP are set by the Committee, taking into account a number of internal and external reference points which include historic Bupa performance, internal forward-looking plans and broader market trends. Targets are set for vesting at threshold, on-target and out-performance levels.

ILLUSTRATIONS OF THE APPLICATION OF THE REMUNERATION POLICY

Bupa aims to provide a balance of fixed and variable compensation to provide stability while incentivising superior performance. At target, the aim is for at least 50% of Executive Directors' remuneration to be based on variable factors including individual and company performance.

The graphs illustrate the possible variation for different levels of performance. The percentages represent each element as a percentage of base salary.

REMUNERATION REPORT CONTINUED IMPLEMENTATION (AUDITED)

The Implementation Report sets out details of Directors' pay and shows how the Directors' Remuneration Policy has been implemented in the reporting year. As well as disclosing remuneration figures for the Executive Directors and Non-Executive Directors, it includes details on the degree to which performance targets have been achieved, and the resulting level of annual bonus payout, and vesting of long-term awards.

Set out below is a table showing a single total figure of remuneration for each Director in 2013. Comparable figures for 2012 are set out in the table opposite.

2013 SINGLE TOTAL FIGURE OF REMUNERATION (£'000)

	Notes	Salary/ fees 2013	Benefits 2013	Annual bonus* 2013	LTIP* 2013	Pension 2013	Total 2013
Executive Directors							
Stuart Fletcher	a	700	45	748	-	210	**1,703**
Evelyn Bourke	b	475	13	588	-	133	**1,209**
		1,175	**58**	**1,336**	**-**	**343**	**2,912**
Non-Executive Directors							
Lord Leitch (Chairman)		350	47	-	-	-	**397**
Baroness Bottomley	c	20	-	-	-	-	**20**
Peter Cawdron	d	80	1	-	-	-	**81**
Lawrence Churchill		115	1	-	-	-	**116**
John Lorimer		115	1	-	-	-	**116**
George Mitchell	e	164	1	-	-	-	**165**
Prof Sir John Tooke		78	1	-	-	-	**79**
Rita Clifton	f	65	1	-	-	-	**66**
Patricia Hewitt	g	29	-	-	-	-	**29**
		1,016	**53**	**-**	**-**	**-**	**1,069**
Former Director							
Ray King	h	-	-	-	493	-	**493**
		-	**-**	**-**	**493**	**-**	**493**
		2,191	**111**	**1,336**	**493**	**343**	**4,474**

Notes

* Annual bonus 2013 refers to bonus payments earned in 2013, and LTIP 2013 refers to payouts from the Plan which ended in 2013 (2011-2013 Plan).

[a] Stuart Fletcher did not receive a payment from the 2011-13 LTIP as he did not participate in this plan. The 2013 Pension figure was all paid as a cash allowance.

[b] Evelyn Bourke participated in the Bupa Retirement Savings Plan under a salary sacrifice arrangement, the effects of which have not been taken into account when reporting her base salary and pension benefits above. The bonus figure includes a payment of £202,500 which was a contractual commitment made at the time of her appointment to compensate her for the loss of her 2012 annual bonus award at her previous employer. She did not receive a payment from the 2011-13 LTIP as she did not participate in this plan. The 2013 Pension figure was a combination of cash allowance (87%) and participation in the Bupa Retirement Savings Plan (13%). The pension benefit becomes receivable at age 60, or accessible at age 55. In addition to the above, Evelyn Bourke also received €45,000 in respect of her position as Non-Executive Director of IFG.

[c] Baroness Bottomley ceased to be a Non-Executive Director from 1 May 2013.

[d] Peter Cawdron ceased to be Senior Independent Director from 1 May 2013.

[e] George Mitchell became Senior Independent Director from 1 May 2013.

[f] Rita Clifton joined the Nomination & Governance Committee from 1 January 2013.

[g] Patricia Hewitt was appointed as a Non-Executive Director with effect from 1 July 2013. She joined the Remuneration Committee and the Medical Advisory Panel from 1 September 2013.

[h] Ray King retired from the Company on 30 June 2012 and is included as he received a payment linked to the 2011-13 LTIP.

2012 SINGLE TOTAL FIGURE OF REMUNERATION (£'000)

	Notes	Salary/ fees 2012	Benefits* 2012	Annual bonus** 2012	LTIP** 2012	Pension 2012	Total* 2012
Executive Directors							
Stuart Fletcher	a	583	37	875	-	175	**1,670**
Evelyn Bourke	b	129	4	98	-	36	**267**
		712	**41**	**973**	**-**	**211**	**1,937**
Non-Executive Directors							
Lord Leitch (Chairman)		317	55	-	-	-	**372**
Baroness Bottomley		57	-	-	-	-	**57**
Peter Cawdron		85	1	-	-	-	**86**
Lawrence Churchill	c	103	2	-	-	-	**105**
John Lorimer	d	85	1	-	-	-	**86**
George Mitchell		153	1	-	-	-	**154**
Prof Sir John Tooke		77	1	-	-	-	**78**
Rita Clifton		59	-	-	-	-	**59**
		936	**61**	**-**	**-**	**-**	**997**
Former Director							
Ray King	e	406	13	363	743	262	**1,787**
		406	**13**	**363**	**743**	**262**	**1,787**
		2,054	**115**	**1,336**	**743**	**473**	**4,721**

Notes

* The 2012 benefit figures have been restated for comparability with the new approach for 2013.

** Annual bonus 2012 refers to bonus payments earned in 2012, and LTIP 2012 refers to payouts from the plan which ended in 2012 (2010-2012 Plan).

[a] Stuart Fletcher was appointed as Chief Executive Officer on 1 March 2012 and figures in the table are for a part year.

[b] Evelyn Bourke was appointed as Chief Financial Officer on 24 September 2012 and figures in the table are for a part year.

[c] Lawrence Churchill became Chairman of the Risk Committee from 1 July 2012.

[d] John Lorimer became a Non-Executive Director of Bupa Insurance Limited from 13 June 2012 and Chairman of the Audit Committee from 1 July 2012.

[e] Ray King retired from the Company on 30 June 2012.

REMUNERATION REPORT CONTINUED IMPLEMENTATION (AUDITED)

DETAIL OF PERFORMANCE AGAINST METRICS FOR VARIABLE AWARDS

For 2013, the CEO's target bonus opportunity was 100% of salary with a maximum of 150% of salary. The CFO's target opportunity was 75% of salary with a maximum 112.5% of salary. The performance measures used to determine the 2013 annual bonus for the Executive Directors were as follows:

- Group profit (50% of award)
- Group revenue (25% of award)
- Key personal objectives (25% of award)

The Committee used a formulaic approach to determine the payout against the profit and revenue elements. The financial targets for the annual bonus have not been retrospectively disclosed as they are considered commercially sensitive. However, an indication of the Group's performance has been provided in the tables below. For both Executive Directors, their achievement against key personal objectives was assessed independently by the Committee.

In respect of the 2011-2013 LTIP, performance in the three-year period to 31 December 2013 was assessed by the Committee, and payments will be made in April 2014. The payouts under this plan were linked to growth in calculated reserves. The reserves grew by 31% over the three-year performance period to a total of £5,718.0m compared to the predetermined target of £5,715.0m, leading to a calculated payout at 100.6% of award. The Remuneration Committee, in reviewing the overall performance of Bupa during the plan period, discussed key factors contributing to the outcome and determined this was an appropriate payout level. This payout has been included in the single total figure of remuneration on page 62 for the Former Director only.

CEO

	Below threshold	Between threshold and target	On target	Above target	Max bonus (% of salary)	Actual payout (% of salary)
Group profit				✓	75.0%	51.0%
Group revenue		✓			37.5%	23.3%
Key personal objectives				✓	37.5%	32.5%
Total					150.0%	106.8%

In terms of performance against key personal objectives, the CEO's contribution to the transformation of the business, international business expansion and leadership development, were taken into account in determining his payout.

CFO

	Below threshold	Between threshold and target	On target	Above target	Max bonus (% of salary)	Actual payout (% of salary)
Group profit				✓	56.3%	38.3%
Group revenue		✓			28.1%	17.4%
Key personal objectives				✓	28.1%	25.3%
Total					112.5%	81.1%

The Committee recognised the CFO's capital management, successful bond launch, role in M&A activity and strengthening of risk and compliance in determining the personal element of her bonus.

The CFO also received a payment of £202,500 which was a contractual commitment made at the time of her appointment to compensate her for the loss of deferred awards from her previous employer.

INTERESTS AWARDED DURING THE FINANCIAL YEAR

During 2013, LTIP awards for the 2013-2015 Plan were made to Executive Directors. The Plan covers the three-year performance period from 1 January 2013 to 31 December 2015 with a potential payout in April 2016. The payouts for this plan are based on growth in reserves (75% weighting) and Risk Adjusted Profit (25% weighting). The specific targets are not disclosed due to commercial sensitivity. This particular scheme does not have any provision for clawback of payments. The table shows more detail of the awards made in the year.

LONG-TERM INCENTIVE PLAN

Scheme type	2013-2015 Long-Term Incentive Plan	
	CEO	**CFO**
Basis of award	**150% of base salary**	**100% of base salary***
Face value of award (100% of award)	£1,050,000	£560,000
Amount that would vest at maximum performance (130% of award)	£1,365,000	£728,000
Amount that would vest at threshold performance (30% of award)	£315,000	£168,000
Date performance period ends	31 December 2015	
Payment due date	April 2016	

* The CFO, Evelyn Bourke, joined Bupa on 24 September 2012. To compensate her for the loss of certain deferred awards from her previous employer, Evelyn Bourke was awarded certain additional one-off awards (reported in 2012). These include a one-off LTIP award under the 2012-2014 plan and a one-off additional award of £85,000 under the 2013-2015 LTIP included in the numbers above.

HISTORICAL PAYOUT

The table shows levels of payout of the CEO against the maximum opportunity for the last five years.

HISTORICAL PAYOUT

Year	CEO	Single figure of total remuneration (£000s)	Annual bonus payout against maximum opportunity %	Long-term incentive vesting rates against maximum opportunity %
2013	Stuart Fletcher	1,703	71%	**N/A
2012*	Stuart Fletcher	1,670	100%	**N/A
2012*	Ray King	1,797	67%	83%
2011	Ray King	3,099	67%	83%
2010	Ray King	2,715	100%	100%
2009	Ray King	1,545	100%	***N/A

* Stuart Fletcher started with Bupa on 1 March 2012 and Ray King retired on 30 June 2012.

** Stuart Fletcher did not receive payouts from these plans. However, the payment to other eligible participants was 83% in 2012 and 84% in 2013 respectively.

*** No LTIP payments vested this year as plans prior to 2009 ended every 2 years.

PERCENTAGE CHANGE IN REMUNERATION OF THE CEO

The table shows the change in salary, benefits and short-term incentives for the CEO for 2013 compared to 2012, alongside a corresponding average figure for the Bupa employee comparator group. The UK salaried population has been chosen as the comparator group as the market trends and economic environment are most closely aligned to a UK-based CEO.

PERCENTAGE CHANGE IN REMUNERATION OF THE CEO

	CEO	Employees
Salary	0%	2.6%
Benefits (excluding pension)	no material change	no material change
Short-term incentives	*(28.8%)	**not available

* For comparison purposes, the CEO's payments for 2012 have been annualised as he joined Bupa on 1 March 2012.

** 2013 bonuses payable c. 31 March 2014 have not yet been finalised.

RELATIVE IMPORTANCE OF SPEND ON PAY

The table shows the relative importance of spend on pay. Given that Bupa does not have shareholders and therefore does not pay dividends, cash flow used in investing activities has been shown as an alternative measure.

RELATIVE IMPORTANCE OF SPEND ON PAY

	2013 £m	2012 £m	Difference £m
Remuneration paid to all employees	1,326.6	1,155.3	171.3
Cash flow used in investing activities	1,167.6	558.4	609.2

REMUNERATION REPORT CONTINUED

ATTENDANCE

	February	March	June	September	November	December
PETER CAWDRON (CHAIRMAN)	•	•	•	•	•	•
LORD LEITCH	•	•	•	•	•	•
RITA CLIFTON	•	•	•	•	•	•
PATRICIA HEWITT[1]	-	-	-	•	•	•
GEORGE MITCHELL	•	•	•	•	A	•

ITEMS COVERED INCLUDED:

February	Annual Remuneration Proposals for Executives/Determining LTIP Payout Level for the 2010-2012 plan/Changes to Incentive Schemes for 2013-2015 Directors' Remuneration Report
March	Review of 2013-2015 LTIP Performance Measures and Targets/Proposed Changes to Executive Bonus Structure
June	Framework and Initial Thinking of LTIP 2014-2016
September	LTIP 2014-2016 Update and Strawman/De-Risking Pensions Project
November	Update on 2014-2016 LTIP design
December	Market Update: FTSE 100 Financial Analysis vs Bupa and Executive Remuneration Trends/Pay Benchmarking: Constituents of the Comparator Groups, Individual Market Benchmarking/Proposal for 2014-2016 LTIP/Update on 2013 Directors' Remuneration Report

[1] Patricia Hewitt joined the Committee on 1 September 2013.
A Apologies

STATEMENT OF IMPLEMENTATION OF REMUNERATION POLICY IN THE CURRENT FINANCIAL YEAR

In the current financial year (2014), Bupa intends to implement the Remuneration Policy as described in the Pay Policy Table on page 58.

The CEO and CFO's salaries were reviewed by the Committee with increases effective from 1 April 2014. Their new annual base salaries are £714,000 (2% increase) and £486,875 (2.5% increase) respectively.

The Annual Bonus opportunity remains similar to 2013, with the target opportunity for the CEO set at 100% of salary (maximum 150% of salary) and the target opportunity for the CFO set at 75% of salary (maximum 112.5% of salary).

The Long-Term Incentive Plan was reviewed during 2013 and a new plan for 2014-2016 is being recommended to the Association Members for approval.

The payouts for this plan are based on profit after tax (75% weighting), revenue (including proportionate revenue from joint ventures and associated companies) (15% weighting) and quality and sustainability measures (10% weighting). The quality and sustainability measures include elements related to customers, people and culture, governance and controls, and clinical and sustainability. In line with Bupa's strategy, these measures have been chosen to incentivise safe and sustainable growth.

The Committee has set specific targets for the profit after tax and revenue elements, however, these cannot be disclosed due to commercial sensitivities. Although hard targets have not been set for the quality and sustainability measures, a measurement and evaluation framework has been put in place.

In line with the pay policy, the payout range has been set at 0%-100% of award; performance in line with expectations (on-target) results in 50% vesting. The awards represent an increase in the maximum opportunity associated with significantly more stretching targets. There is no increase in the payout for on-target or threshold performance.

It is intended that an award of £1,925,000 (275% of salary) is made to the CEO and an award of £950,000 (200% of salary) is made to the CFO. The fair (on-target) value of these awards is £962,500 (137.5% of salary) for the CEO and £475,000 (100% of salary) for the CFO, which is comparable to their awards in the 2013-2015 LTIP.

Payments are expected following the end of the performance period, with any vesting above 50% being deferred for a further two years. Clawback and forfeiture provisions have been introduced.

CONSIDERATION BY THE DIRECTORS OF MATTERS RELATING TO DIRECTORS' REMUNERATION

The Remuneration Committee comprises Peter Cawdron (Chairman), Lord Leitch, Rita Clifton, George Mitchell and Patricia Hewitt. In addition to the Company Secretary, regular attendees at Committee meetings who have provided comment and advice, were the CEO, the Chief People Officer and the Director of Reward.

The Committee currently takes advice from Deloitte, a voluntary member of the Remuneration Consultants' Group. Deloitte was appointed by the Committee as Remuneration Adviser in 2012 following a review.

During the year, Deloitte also provided taxation, corporate finance and consulting advice, and provided audit services in respect of two Australian subsidiaries. During 2013, Deloitte was paid £56,000 with respect to the provision of advice in relation to directors' remuneration.

A copy of the current Terms of Reference of the Committee is available on bupa.com.

PLANS FOR 2014

In 2014, the Committee plans to focus on a detailed review of the annual bonus arrangements with the aim to implement a revised plan for 2015.

VOTING AT THE ANNUAL GENERAL MEETING

The Association Members will be invited to vote at the Annual General Meeting in 2014 on the Remuneration Policy, the Implementation Report and on the proposed new LTIP for 2014-2016.

REPORT OF THE BOARD OF DIRECTORS

The Directors of The British United Provident Association Limited ('Bupa') present their reports and the financial statements for the year ended 31 December 2013.

The Strategic Report and the audited Financial Statements are presented on pages 3 to 41, and from page 72, respectively. The Governance Report on pages 42 to 66, including the Remuneration Report on pages 57 to 66, all form part of this report.

The Directors have chosen, in accordance with section 414C(11) of the Companies Act 2006, to set out in the Strategic Report on pages 36 to 37 the following information which would otherwise be required by Schedule 7 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 to be disclosed *in the Directors' Report: Disclosures* concerning Greenhouse Gas Emissions.

FINANCIAL RESULTS

The results of the Group for 2013 are reported on pages 72 to 126. The profit for the financial year of £411.4m (2012 (restated): profit £450.2m) has been transferred to equity.

ACQUISITIONS AND DISPOSALS

Details of the acquisitions made during the year are shown in note 4.0. There were no disposals made during the year.

BOARD OF DIRECTORS

The Board is responsible for the good standing of the Company, the management of its assets, including the management of risk, and the strategy for its future development. There are ten Board meetings each year and other meetings are convened as needed.

Biographical details of the Non-Executive Chairman, two Executive Directors and seven Non-Executive Directors who held office at the end of the year, are set out on pages 44 to 45. The Rt Hon Baroness Bottomley, DL, stepped down from the Board on 30 April 2013. The Rt Hon Patricia Hewitt was appointed a Non-Executive Director on 1 July 2013, and Martin Houston was appointed as a Non-Executive Director with effect from 1 January 2014.

As at the date of this report, indemnities are in force under which the Company has agreed to indemnify the Directors and certain senior managers, to the extent permitted by law and the Company's articles of association, in respect of all losses arising out of, or in connection with, the execution of their powers, duties and responsibilities, as Directors of the Company or any of its subsidiaries.

GOING CONCERN

The Directors confirm that they are satisfied that the Company and the Group has adequate resources to continue in operation for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

POLITICAL CONTRIBUTIONS

No political donations were made, nor any political expenditure incurred.

EMPLOYMENT POLICIES

Details of Bupa's employment policies, including policies on equal opportunities for disabled employees, are included in Our People on pages 32 to 35.

DISCLOSURE OF INFORMATION TO AUDITORS

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director 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 that information.

AUDITORS

Our auditors, KPMG Audit Plc has instigated an orderly wind down of business. The Board has decided to put KPMG LLP forward to be appointed as auditors and a resolution concerning its appointment will be put to the forthcoming Annual General Meeting of the Company.

By order of the Board

Alan Buchanan
Company Secretary

12 March 2014

Company number: 432511

STATEMENT OF DIRECTORS' RESPONSIBILITIES

IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they have elected to prepare the Group and the Parent Company financial statements in accordance with IFRSs as adopted by the EU 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 Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

The Directors have decided to prepare voluntarily a Directors' Remuneration Report in accordance with Schedule 8 to The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 made under the Companies Act 2006, as if those requirements were to apply to the company, except as described on page 57.

The Directors have also decided to prepare, voluntarily, a Corporate Governance Statement as if the company were required to comply with the Listing Rules and the Disclosure Rules and Transparency Rules of the Financial Conduct Authority in relation to those matters.

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

FINANCIAL STATEMENTS

Accounting policies that are relevant to the financial statements as a whole are described in Section 1 'Basis of preparation'. Thereafter, the notes to the financial statements have been presented under five key headings: 'Results for the year', 'Operating assets and liabilities', 'Business combinations and disposals', 'Risk management and Capital management', and 'Other notes'.

For The British United Provident Association Limited on a standalone basis (the 'Company') primary statements and associated notes are set out in Section 7.

Each section sets out the relevant accounting policies applied in producing the notes, along with disclosures of any key judgements and estimates used.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE BRITISH UNITED PROVIDENT ASSOCIATION LIMITED ONLY

Opinions and conclusions arising from our audit

OUR OPINION ON THE FINANCIAL STATEMENTS IS UNMODIFIED
We have audited the financial statements of The British United Provident Association Limited for the year ended 31 December 2013, set out on pages 72 to 138. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2013 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS as adopted by the EU);
- the Parent Company financial statements have been properly prepared in accordance with IFRS as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT
In arriving at our audit opinion above on the Group financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

Valuation of General Insurance contracts - Provisions for Claims, within Provisions under Insurance Contracts Issued (refer to pages 50 to 52 and Section 3.4)

- The risk - The Group's operations include a number of general insurance entities writing health insurance policies primarily in the UK, Spain, Australia and Latin America. The process of recognising the provision for claims arising from general insurance contracts is an inherently complex area, requiring judgement and actuarial expertise to determine the carrying value for the financial statements. This complexity arises from the need to estimate the provision using historical data which is sensitive to external inputs as well as on actuarial assumptions on current and future experience.
- Our response - Our audit procedures included, amongst others, evaluating and testing the key controls over the reserving process, including controls over the completeness and accuracy of the data that supports key reserving calculations, such as the accuracy of data in respect of current and historical claims. This provides us with evidence over trends in claims episodes and their costs which drive the assumptions in respect of claims episodes, in current and preceding financial years which have not yet been paid at the date of the financial statements. We used our own actuarial specialists to assist us in evaluating and challenging the assumptions and methodologies used by the Group in each territory, comparing them to expectations based on the Group's historical experience, current trends and our own industry knowledge in each territory. These assumptions include trends in the cost of claims over time, claims cost inflation and medical trends and current claims experience. We also compared the Group's assumptions against its historical claims experience and applied sensitivities to the assumptions in assessing the appropriateness and adequacy of the provisions recognised by the Group. We used our industry knowledge to benchmark the Group's reserving methodologies and claims experience. We assessed whether the Group's disclosures in relation to the assumptions in respect of provisions for claims in respect of general insurance business were appropriate.

Carrying value of goodwill in Bupa Care Services businesses (refer to pages 50 to 52 and Section 3.1)

- The risk - The valuation of goodwill within the Bupa Care Services UK, Australia and New Zealand cash-generating units is complex and typically requires a high level of judgement in the performance of impairment reviews, particularly in the current economic climate, as growth in some markets has slowed down significantly in recent years and the cost base in the care services sector may increase faster than revenues, reducing future profitability. The most significant judgements arise from the inherent uncertainty involved in forecasting future cash flows and the discount rate applied to those future cash flows in calculating the present value of future cash flows in order to assess whether goodwill has been impaired.
- Our response - In this area our audit procedures included, amongst others, challenging the cash flow forecasts and the corresponding assumptions, based on our understanding of the relevant business and the sector and economic environment in which it operates. We compared forecasts to business plans and also previous forecasts to actual results to assess the performance of the business and the accuracy of forecasting. We compared the Group's assumptions to externally derived data as well as our own sector knowledge in relation to key inputs such as the projected cash flows for these cash generating units, terminal growth rates, cost inflation and discount rates and applied sensitivities in evaluating the Group's assessments. Our own valuation specialists assisted us in evaluating the assumptions and methodologies used by the Group, in particular those relating to terminal growth rates and in evaluating these assumptions with reference to valuations of similar businesses. Our focus has been on the valuation of goodwill in respect of the businesses that are most sensitive to the assumptions underlying the impairment reviews performed, which are the Bupa Care Services businesses in the UK, Australia and New Zealand. We have examined the cash flow forecasts and related assumptions provided to support the impairment review and hence the carrying value of the goodwill, comparing them to our understanding of the business and relevant economic and sector-specific factors, to evaluate whether these cash flows support the current carrying value of goodwill. We assessed whether the Group's disclosures over the sensitivity of the outcome of the impairment reviews to changes in key assumptions properly reflected the inherent risks.

Valuation of properties (refer to pages 50 to 52 and Section 3.2)

- The risk - As detailed in the summary of significant accounting policies (Section 3.2), the Group revalues its freehold, leasehold and investment properties, including care homes, hospitals and offices primarily in the UK, Spain, Australia and New Zealand, on a periodic basis but external valuations are performed on at least a triennial basis, however retirement villages in New Zealand are subject to an external valuation annually. Freehold and leasehold properties are used to perform business activities and generate revenue and profits. A full external valuation of freehold, leasehold and investment properties was performed by chartered surveyors, during 2013. As described in the Audit Committee Report, the principal assumptions underpinning these valuations require the exercise of judgement to ensure that the carrying value does not differ significantly from the fair value at the balance sheet date, the carrying value is recoverable from future cash flows to be generated from the use of the properties and there are no indicators of impairment.
- Our response - Our audit procedures included, amongst others, reviewing the external valuers' reports and assessing the qualifications of the external valuers. Where appropriate, we also performed detailed testing to challenge the value in use models, which are driven by assessing the operating cash flows generated by the businesses which occupy the properties. We used our own valuation specialists to assist us in challenging the key assumptions relating to operating cash flows, future profitability and competitor activity used in the valuations. In addition, for the key assumptions, we critically assessed the reasonableness of directors' assumptions by reference to external benchmarks and forecasts, along with reports from external chartered surveyors. We also considered the completeness of the Group's disclosures regarding revaluation gains and any impairment losses.

OUR APPLICATION OF MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT
The materiality for the Group financial statements as a whole was set at £22 million. This has been determined with reference to a benchmark of Group profit before taxation (of which it represents 4.3%) which we consider to be one of the principal considerations used by members of the Company in assessing financial performance of the Group.

We agreed with the Audit Committee to report to it, all corrected and uncorrected misstatements we identified through our audit with a value in excess of £1.1m, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Audits for Group reporting purposes were performed at the key reporting components in the following countries by component auditors: UK, Spain, Poland, Latin America, Australia and New Zealand. These audits covered 95% of total Group revenue; 97% of Group profit before taxation; and 98% of total Group assets. The segment disclosures in Section 2.0 set out the individual significance of specific countries.

The audits undertaken for Group reporting purposes at the key reporting components of the Company were all performed to local materiality levels and agreed by the Group audit team. These local materiality levels were set individually for each component and ranged from £1.0m to £16.0m.

Detailed audit instructions were sent to all the auditors in these locations. These instructions covered the significant audit areas that should be covered by these audits (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported back to the Group audit team. The Group audit team visited the following locations: UK, Spain, Poland and Australia. Telephone meetings were also held with the auditors at these locations and the other locations that were not physically visited.

OUR OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006 IS UNMODIFIED

In addition to our audit of the financial statements, the directors have engaged us to audit the information in the Directors' Remuneration Report that is described as having been audited, which the directors have decided to prepare as if the Company were required to comply with the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) made under the Companies Act 2006.
In our opinion:

- the part of the Directors' Remuneration Report which we were engaged to audit has been properly prepared in accordance with Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 made under the Companies Act 2006, as if those requirements were to apply to the Company; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

WE HAVE NOTHING TO REPORT IN RESPECT OF MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy; or
- the Audit Committee Report on pages 50 to 52 does not appropriately address matters communicated by us to the Audit Committee.

Under the Companies Act 2006 and under the terms of our *engagement we are required 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 and the part of the Directors' Remuneration Report which we were engaged to audit 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.

In addition to our audit of the financial statements, the directors have engaged us to review their Corporate Governance Statement as if the Company were required to comply with the Listing Rules and the Disclosure Rules and Transparency Rules of the Financial Conduct Authority in relation to those matters. Under the terms of our engagement we are required to review:

- the Report of the Board of Directors, set out on page 67, in relation to going concern; and
- the part of the Corporate Governance Statement on pages 42-43, relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

SCOPE OF REPORT AND RESPONSIBILITIES

As explained more fully in the Statement of Directors' responsibilities set out on page 68, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.co.uk/uk/auditscopeukco2013b, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Mary H Trussell

Mary Trussell
(Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

12 March 2014

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2013

	Section	2013 £m	2012 (Restated[1]) £m
Revenues			
Gross insurance premiums	2.1	**6,895.8**	6,692.8
Premiums ceded to reinsurers	2.1	**(37.1)**	(29.2)
Net insurance premiums earned		**6,858.7**	6,663.6
Revenues from insurance service contracts	2.1	**13.5**	11.4
Care, health and other revenues	2.1	**2,186.5**	1,698.9
Total revenues		**9,058.7**	8,373.9
Claims and expenses			
Insurance claims incurred	2.2	**(5,312.1)**	(5,187.9)
Reinsurers' share of claims incurred	2.2	**27.7**	15.5
Net insurance claims incurred		**(5,284.4)**	(5,172.4)
Share of post-taxation results of equity accounted investments		**5.0**	2.9
Other operating expenses	2.3	**(3,218.4)**	(2,670.9)
Impairment of goodwill	3.1	**(20.7)**	-
Impairment of intangible assets arising on business combinations	3.1	**(12.8)**	-
Other income and charges	2.4	**(7.1)**	(3.2)
Total claims and expenses		**(8,538.4)**	(7,843.6)
Profit before financial income and expenses		**520.3**	530.3
Financial income and expenses			
Financial income	2.5	**82.1**	124.6
Financial expenses	2.5	**(88.0)**	(69.8)
		(5.9)	54.8
Profit before taxation expense		**514.4**	585.1
Taxation expense	2.6	**(103.0)**	(134.9)
Profit for the financial year		**411.4**	450.2
Attributable to:			
Bupa		**405.6**	439.7
Non-controlling interests		**5.8**	10.5
Profit for the financial year		**411.4**	450.2

[1] The Consolidated Income Statement has been restated for IAS19 Employee Benefits, see Section 1.7 for further details.

Sections 2 to 6 form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2013

	Section	2013 £m	2012 (Restated[1]) £m
Profit for the financial year		**411.4**	450.2
Other comprehensive income / (expense)			
Items that will not be reclassified to the income statement			
Actuarial (losses) / gains on pension schemes	3.6	**(10.3)**	17.0
Taxation on actuarial (loss) / gain on pension schemes	2.6	**(0.1)**	(1.0)
Unrealised gain / (loss) on revaluation of property	3.2	**94.3**	(17.0)
Items that may be reclassified subsequently to the income statement			
Foreign exchange translation differences on goodwill	3.1	**(257.7)**	(40.7)
Other foreign exchange translation differences		**(152.9)**	(39.4)
Net gain on hedge of net investment in overseas subsidiary companies		**0.1**	5.3
Change in fair value of underlying derivative of cash flow hedge		**1.2**	(0.8)
Cash flow hedge on acquisition of subsidiary companies	5.4.2	**(1.0)**	(2.2)
Taxation (expense) / credit on income and expenses recognised directly in other comprehensive income	2.6	**(22.3)**	9.2
Other comprehensive expense for the year, net of taxation[2]		**(348.7)**	(69.6)
Total comprehensive income for the year		**62.7**	380.6
Attributable to:			
Bupa		**56.6**	371.1
Non-controlling interests		**6.1**	9.5
Total comprehensive income for the year		**62.7**	380.6

[1] The Consolidated Statement of Comprehensive Income has been restated for IAS19 Employee Benefits, see Section 1.7 for further details.
[2] In accordance with IAS1, transactions relating to acquisitions totalling £0.9m loss (2012: £0.5m gain) have been removed from other comprehensive income and included directly within equity.

Sections 2 to 6 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2013

	Section	2013 £m	2012 £m
Non-current assets			
Intangible assets	3.1	**2,779.4**	2,146.1
Property, plant and equipment	3.2	**2,697.1**	2,323.4
Investment property	3.3	**184.2**	159.9
Equity accounted investments	4.1	**212.8**	34.2
Financial investments	5.0	**755.5**	1,086.1
Derivative assets	5.2	**50.0**	84.0
Assets arising from insurance business	3.0.2	**0.6**	0.6
Deferred taxation assets	3.7	**0.9**	2.6
Trade and other receivables	3.0.1	**134.9**	121.9
Restricted assets	3.0.4	**39.3**	44.0
Post employment benefit net assets	3.6	**130.5**	104.9
		6,985.2	6,107.7
Current assets			
Financial investments	5.0	**1,305.8**	1,165.4
Derivative assets	5.2	**12.9**	1.6
Inventories	3.0.5	**52.8**	19.9
Assets arising from insurance business	3.0.2	**942.6**	870.4
Trade and other receivables	3.0.1	**505.5**	404.7
Restricted assets	3.0.4	**13.4**	8.7
Cash and cash equivalents	3.0.3	**939.8**	1,255.7
		3,772.8	3,726.4
Total assets		**10,758.0**	9,834.1
Non-current liabilities			
Subordinated liabilities	5.1	**(907.4)**	(451.2)
Other interest bearing liabilities	5.1	**(766.4)**	(667.3)
Derivative liabilities	5.2	**(3.6)**	(4.5)
Provisions under insurance contracts issued	3.4.1	**(24.4)**	(24.8)
Post employment benefit net liabilities	3.6	**(58.0)**	(62.5)
Provisions for liabilities and charges	3.5	**(31.1)**	(26.3)
Deferred taxation liabilities	3.7	**(190.2)**	(158.3)
Other payables	3.0.6	**(17.9)**	(19.9)
		(1,999.0)	(1,414.8)
Current liabilities			
Subordinated liabilities	5.1	**(9.9)**	(6.0)
Other interest bearing liabilities	5.1	**(298.8)**	(21.4)
Derivative liabilities	5.2	**(1.2)**	(3.7)
Provisions under insurance contracts issued	3.4	**(2,171.6)**	(2,355.2)
Other liabilities under insurance contracts issued	3.4.2	**(17.2)**	(16.8)
Provisions for liabilities and charges	3.5	**(119.4)**	(58.5)
Current taxation liabilities		**(157.8)**	(157.4)
Trade and other payables	3.0.6	**(1,112.3)**	(982.4)
		(3,888.2)	(3,601.4)
Total liabilities		**(5,887.2)**	(5,016.2)
Net assets		**4,870.8**	4,817.9
Equity			
Property revaluation reserve		**700.2**	631.9
Income and expenditure reserve		**3,940.6**	3,544.9
Cash flow hedge reserve		**25.0**	25.1
Foreign exchange translation reserve		**182.8**	590.1
Equity attributable to Bupa		**4,848.6**	4,792.0
Equity attributable to non-controlling interests		**22.2**	25.9
Total equity		**4,870.8**	4,817.9

Approved by the Board of Directors and signed on its behalf on 12 March 2014 by

Lord Leitch
Chairman

Lord Leitch

Evelyn Bourke
Chief Financial Officer

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2013

	Section	2013 £m	2012 (Restated[1]) £m
Operating activities			
Profit before taxation expense		**514.4**	585.1
Adjustments for:			
Net financial expense / (income)		**5.9**	(54.8)
Depreciation, amortisation and impairment		**259.6**	196.8
Other non-cash items		**18.6**	1.2
Changes in working capital and provisions:			
(Decrease) / increase in provisions and other liabilities under insurance contracts issued		**(84.2)**	260.3
Increase in assets arising from insurance business		**(93.1)**	(47.3)
Change in net pension asset / liability		**(40.7)**	(22.4)
Increase in trade and other receivables, and other assets		**(92.7)**	(74.1)
Increase in trade and other payables, and other liabilities		**95.1**	26.6
Cash generated from operations		**582.9**	871.4
Income taxation paid		**(115.3)**	(121.1)
Increase in cash held in restricted assets	3.0.4	**-**	(7.4)
Net cash generated from operating activities		**467.6**	742.9
Cash flow from investing activities			
Acquisition of subsidiary companies, net of cash acquired	4.0	**(808.7)**	(21.6)
Acquisition of equity accounted investments	4.1	**(168.4)**	(3.7)
Acquisition of non-controlling interest in subsidiary company		**-**	(3.9)
Dividends received from associates		**1.8**	-
Disposal of equity accounted investments		**0.5**	25.1
Purchase of intangible assets	3.1	**(68.9)**	(67.6)
Purchase of property, plant and equipment		**(241.8)**	(178.0)
Proceeds from sale of property, plant and equipment		**1.2**	4.2
Purchase of investment property		**(20.2)**	(19.3)
Net (purchase) / proceeds from sale of financial investments, excluding deposits with credit institutions		**(29.8)**	72.6
Net withdrawal from / (investment into) deposits with credit institutions		**88.1**	(425.0)
Interest received		**79.0**	58.8
Net cash used in investing activities		**(1,167.2)**	(558.4)
Cash flow from financing activities			
Proceeds from issue of interest bearing liabilities and drawdowns on other borrowings		**868.5**	-
Repayment of interest bearing liabilities		**(334.5)**	(26.7)
Interest paid		**(81.4)**	(65.8)
(Payments for) / receipts from hedging instruments		**(11.7)**	10.6
Dividends paid to non-controlling interests		**(8.9)**	(7.1)
Net cash generated from / (used in) financing activities		**432.0**	(89.0)
Net (decrease) / increase in cash and cash equivalents		**(267.6)**	95.5
Cash and cash equivalents at beginning of year		**1,253.4**	1,183.0
Effect of exchange rate changes		**(46.1)**	(25.1)
Cash and cash equivalents at end of year	3.0.3	**939.7**	1,253.4

[1] The Consolidated Statement of Cash Flows has been restated for IAS19 Employee Benefits, see Section 1.7 for further details.

Sections 2 to 6 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2013

	Section	Property revaluation reserve £m	Income and expenditure reserve £m	Cash flow hedge reserve £m	Foreign exchange translation reserve £m	Total attributable to Bupa £m	Non-controlling interests £m	Total equity £m
2013								
At beginning of year		631.9	3,544.9	25.1	590.1	4,792.0	25.9	4,817.9
Retained profit for the financial year		-	405.6	-	-	405.6	5.8	411.4
Other comprehensive income / (expense)								
Unrealised profit on revaluation of property	3.2	94.3	-	-	-	94.3	-	94.3
Realised revaluation profit on disposal of property		(0.5)	0.5	-	-	-	-	-
Actuarial loss on pension schemes	3.6	-	(10.3)	-	-	(10.3)	-	(10.3)
Foreign exchange translation differences on goodwill	3.1	-	-	-	(257.7)	(257.7)	-	(257.7)
Other foreign exchange translation differences		(4.0)	-	-	(149.2)	(153.2)	0.3	(152.9)
Net gain on hedge of net investment in overseas subsidiary companies		-	-	-	0.1	0.1	-	0.1
Cash flow hedge on acquisition of subsidiary companies	5.4.2	-	-	(1.0)	-	(1.0)	-	(1.0)
Change in fair value of underlying derivative of cash flow hedge		-	-	1.2	-	1.2	-	1.2
Taxation expense on income and expenses recognised directly in other comprehensive income	2.6	(21.5)	(0.1)	(0.3)	(0.5)	(22.4)	-	(22.4)
Other comprehensive income / (expense) for the year, net of taxation		68.3	(9.9)	(0.1)	(407.3)	(349.0)	0.3	(348.7)
Total comprehensive income / (expense) for the year		68.3	395.7	(0.1)	(407.3)	56.6	6.1	62.7
Acquisition of subsidiary companies attributable to non-controlling interest[1]	4.0	-	-	-	-	-	(0.9)	(0.9)
Dividends paid to non-controlling interests		-	-	-	-	-	(8.9)	(8.9)
At end of year		**700.2**	**3,940.6**	**25.0**	**182.8**	**4,848.6**	**22.2**	**4,870.8**
2012								
At beginning of year		642.7	3,075.9	29.0	662.7	4,410.3	33.6	4,443.9
Retained profit for the financial year[2]		-	439.7	-	-	439.7	10.5	450.2
Other comprehensive (expense) / income								
Unrealised loss on revaluation of property	3.2	(17.0)	-	-	-	(17.0)	-	(17.0)
Realised revaluation profit on disposal of property		(1.3)	1.3	-	-	-	-	-
Actuarial gain on pension schemes[2]	3.6	-	17.0	-	-	17.0	-	17.0
Foreign exchange translation differences on goodwill	3.1	-	-	-	(40.7)	(40.7)	-	(40.7)
Other foreign exchange translation differences		(1.6)	-	-	(37.0)	(38.6)	(0.8)	(39.4)
Net gain on hedge of net investment in overseas subsidiary companies		-	-	-	5.3	5.3	-	5.3
Cash flow hedge on acquisition of subsidiary company	5.4.2	-	-	(2.2)	-	(2.2)	-	(2.2)
Change in fair value of underlying derivative of cash flow hedge		-	-	(0.5)	-	(0.5)	(0.3)	(0.8)
Taxation credit / (expense) on income and expenses recognised directly in other comprehensive income	2.6	9.1	(1.0)	0.2	(0.2)	8.1	0.1	8.2
Other comprehensive (expense) / income for the year, net of taxation[2]		(10.8)	17.3	(2.5)	(72.6)	(68.6)	(1.0)	(69.6)
Total comprehensive (expense) / income for the year		(10.8)	457.0	(2.5)	(72.6)	371.1	9.5	380.6
Acquisition of subsidiary companies attributable to non-controlling interest[1]	4.0	-	-	-	-	-	5.8	5.8
Acquisition of non-controlling interest in subsidiary company[1]	4.0	-	12.0	(1.4)	-	10.6	(15.9)	(5.3)
Dividends paid to non-controlling interests		-	-	-	-	-	(7.1)	(7.1)
At end of year		**631.9**	**3,544.9**	**25.1**	**590.1**	**4,792.0**	**25.9**	**4,817.9**

[1] In accordance with IAS1, transactions relating to acquisitions totalling £0.9m loss (2012: £0.5m gain) have been removed from other comprehensive income and included directly within equity.

[2] The Consolidated Statement of Changes in Equity has been restated, please see Section 1.7 for further details.

Sections 2 to 6 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

1.0 BASIS OF PREPARATION

BASIS OF PREPARATION IN BRIEF
This section describes the Group's significant accounting policies and accounting estimates and judgements that relate to the financial statements and notes as a whole. Where accounting policies relate to a specific note, the applicable accounting policies and estimates are contained within the note.

1.1 BASIS OF PREPARATION

The British United Provident Association Limited ('Bupa' or the 'Company'), the ultimate parent entity of the Group, is a company incorporated in England and Wales. The Company is limited by guarantee.

Both the Company financial statements and the Group's consolidated financial statements have been prepared under International Financial Reporting Standards (IFRSs) as adopted by the EU. The appropriate provisions of the Companies Act 2006 applicable to companies reporting under IFRSs have also been complied with.

A summary of IFRSs that are relevant for the Group is included on page 140.

The financial statements were approved by the Board of Directors on 12 March 2014. The Directors have reviewed and approved the Group's accounting policies which have been applied consistently to all the years presented, unless otherwise stated. For the purposes of consolidation, the accounting policies of subsidiary companies have been aligned with those of the Parent Company.

The financial statements are prepared on a going concern basis, and under the historical cost convention, as modified by the revaluation of property, investment property, financial investments at fair value through profit or loss and derivative instruments.

1.2 BASIS OF CONSOLIDATION

The consolidated financial statements for the year ended 31 December 2013 comprise those of the Company and its subsidiary companies (together referred to as the 'Group'), and the share of results of equity accounted investments.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences to the date that control ceases. Non-controlling interests in the net assets of subsidiaries are identified separately from the Group's equity. Non-controlling interests consist of the amount of those interests at the date of the original acquisition and the non-controlling shareholder's share of changes in equity since this date.

Intra Group related party transactions and outstanding balances are eliminated in the preparation of the consolidated financial statements of the Group.

The consolidated financial statements are presented in Sterling, which is the Group's presentation currency.

1.3 ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of certain accounting estimates and assumptions that affect the reported assets, liabilities, income and expenses. It also requires management to exercise judgement in applying the Group's accounting policies.

The areas involving a higher degree of judgement or complexity, or where assumptions are significant to the consolidated financial statements, are set out below and in more detail in the related sections:

- Claims provisioning (Section 3.4)
- Property valuations (Section 3.2)
- Goodwill and intangible asset impairments (Section 3.1)

Other judgements:

- Taxation (Section 2.6)
- Provisions (Section 3.5)
- Pension assumptions (Section 3.6.2)
- Business Combinations (Section 4.0)
- Financial Investments (Section 5.0)

1.4 GOING CONCERN

Management have conducted an assessment of the Group's going concern status based on its current position and forecast results. They have concluded that the Group has adequate resources to operate for the foreseeable future. In making this assessment, management have considered the discussions with the relationship banks as well as forecasts which take account of reasonably possible changes in trading performance and recently announced acquisitions.

Details of the Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report on pages 2 to 41. The financial position of the Group, its cash flow, liquidity position and borrowing facilities are described in the Financial Review on pages 18 to 21.

The Group's £800.0m committed bank facility, which was renegotiated in October 2012 and matures in October 2017, was £150.0m drawn as of 31 December 2013, in addition to £6.4m of outstanding letters of credit for general business purposes. The Group also had bank borrowings of £225.0m under a one year £300.0m committed facility signed 18 December 2013.

1.5 NEW FINANCIAL REPORTING REQUIREMENTS

During the year we have adopted the following new financial reporting standards, whose requirements have been fully reflected in this Annual Report and Accounts.

a) IAS19 Employee Benefits (Amendment)
The amendment became effective in 2013 and the 2012 accounts have been restated to reflect this (see Section 1.7). The amendment does not change the total return on defined benefit plan assets, but it does change the accounting split between recognition in the income statement and in other comprehensive income. This is done by changing the way the interest expense is calculated in the income statement, with administrative expenses now shown separately. Actuarial assumptions now include specific sensitivity analysis of the principal assumptions used to measure scheme liabilities. For full disclosures see Section 3.6.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2013

b) IFRS13 Fair value measurement

IFRS13 defines fair value and sets out the required disclosures concerning fair value measurements, with 2013 being the first full year of adoption for Bupa. The new standard has no impact on the net assets of Bupa, as the existing valuation methods used were already compliant with the new requirements.

For details regarding specific fair value methodology used, please see specific Sections;

- Section 3.2 - Property, Plant and Equipment
- Section 3.3 - Investment Properties
- Section 5.0 - Financial Investments
- Section 5.1 - Borrowings

1.6 FORTHCOMING FINANCIAL REPORTING REQUIREMENTS

The following financial reporting standards have been issued but are not effective for the year ended 31 December 2013 and have not been early adopted by the Group. The Group has reviewed the effect of all other amendments to IFRSs and interpretations effective for accounting periods beginning on or after 1 January 2014 and does not expect them to have a significant impact on the financial statements.

a) IFRS11 Joint arrangements

IFRS11: Joint arrangements will supersede SIC-13: Jointly controlled entities - Non-Monetary Contributions by Venturers and IAS31 Interests in Joint Ventures. It sets out the principles for when a joint arrangement exists.

The amendment becomes effective for annual periods beginning on or after 1 January 2014. If the amendment had been adopted for the year ended 31 December 2013 there would be no changes to the joint arrangements recognised within the Group financial statements and therefore no impact to the primary statements.

b) IFRS12 Disclosure of interests in other entities

IFRS12 replaces the disclosure requirements in IAS27: Separate Financial Statements, IAS28: Investments in Associates and IAS31: Interests in Joint Ventures applicable to consolidated financial statements. It introduces additional disclosure requirements for all subsidiaries, associates and joint venture arrangements, and would apply to existing entities consolidated in the Group.

The amendment becomes effective for annual periods beginning on or after 1 January 2014.

1.7 RESTATEMENT OF 2012 FINANCIAL INFORMATION

a) IAS 19 Employee Benefits (Amendment)

As per Section 1.5, the amended IAS19: Employee Benefits has been adopted for the first time in 2013. The impact of the application in 31 December 2012 is a decrease of £1.5m in other operating expenses, with a corresponding decrease in other comprehensive income. There is no impact to Group net assets. See Section 3.6 for details.

b) Restatement of segmental information

During the year, the profit measure for the segmental disclosure has been redefined to reflect the underlying profit by Market Unit. Previously this measure has been widely used by the Group to provide comparability of the results by adjusting profit before tax for impairment and amortisation of intangible assets arising on business combinations, impairment of goodwill, net property revaluation gains or losses, gains or losses on return seeking assets, realised and unrealised foreign exchange gains and losses, profit or loss on sale of businesses and fixed assets, restructuring costs and transaction costs on acquisitions and disposals.

The 2012 underlying profit has been restated for International Development Markets to exclude £4.0m of transaction costs on acquisitions.

2.0 OPERATING SEGMENTS

OPERATING SEGMENTS IN BRIEF
The Group is managed through five Market Units based on geographic locations and customers. Management monitors the operating results of the Market Units separately to assess performance and make decisions about the allocation of resources. The segmental disclosures below are reported on a basis that is consistent with the way the business is managed and reported internally.

The operating results of each Market Unit, which form the operating segments on which the information in this section has been prepared, are regularly reviewed by the Chief Executive Officer (the Group's chief operating decision maker) to assess performance and make decisions about the allocation of resources.

The segmental underlying profit includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Underlying profit is based on profit before taxation expense, adjusted for non-underlying items to reflect trading performance.

Profit before taxation expense is adjusted for amortisation and impairment of intangible assets arising on business combinations, impairment of goodwill, net property revaluation gains and losses, gains or losses on return seeking assets, realised and unrealised foreign exchange gains and losses, profit or loss on sale of businesses and fixed assets, restructuring costs and transaction costs on acquisitions and disposals.

Central expenses and net interest margin comprise of income and expenses generated at the Corporate Centre, which cannot be specifically allocated to the operating segments.

The prior period figures have been restated to reflect underlying profit by segment and IAS19R. Further details are provided in Section 1.7.

Reportable segments	Services and products
Australia and New Zealand	Health insurance, health assessments, health coaching and international health cover
	Dental provision in Australia and New Zealand, optical care within Australia
	Nursing, residential and respite care in Australia and New Zealand
	Retirement villages and telecare services within New Zealand
UK	Health insurance, dental services, health assessments and related products
	Nursing, residential, care villages and respite care
	Management and operation of a private hospital providing medical and ancillary services to patients
	Home healthcare products and services
Spain and Latin America Domestic	Health insurance and related products sold in Spain
	Management and operation of hospitals, clinics and dental centres in Spain providing medical and ancillary services to patients
	Provision of nursing, residential and respite care in Spain
International Development Markets	Domestic health insurance and related products within Hong Kong, Thailand, China, Saudi Arabia and India
	Care management and analytic services primarily in the US
	Medical subscription, health insurance, diagnostics and the operation of clinics and hospitals in Poland
	Diagnostics, primary healthcare and day care clinics in Hong Kong
Bupa Global	International health insurance to individuals, small businesses and corporate customers in over 190 countries

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2013

The total underlying profit of the reportable segments is reconciled below to profit before taxation expense in the consolidated income statement.

	Australia and New Zealand		UK		Spain and Latin America Domestic		International Development Markets		Bupa Global		Total	
	2013 £m	2012 (Restated) £m	2013 £m	2012 (Restated) £m	2013 £m	2012 (Restated) £m	2013 £m	2012 (Restated) £m	2013 £m	2012 (Restated) £m	2013 £m	2012 (Restated) £m
(i) Revenues												
Total revenues for reportable segments	**3,791.8**	3,554.0	**2,575.3**	2,529.4	**1,363.5**	1,190.8	**378.1**	228.2	**953.0**	872.0	**9,061.7**	8,374.4
Inter segment income	**-**	-	**(1.8)**	(0.6)	**-**	-	**(0.8)**	(0.9)	**-**	-	**(2.6)**	(1.5)
External revenues for reportable segments	**3,791.8**	3,554.0	**2,573.5**	2,528.8	**1,363.5**	1,190.8	**377.3**	227.3	**953.0**	872.0	**9,059.1**	8,372.9
Net reclassifications to other expenses or financial income and expenses											**(0.4)**	0.9
Unallocated central revenues											**-**	0.1
Consolidated total revenues											**9,058.7**	8,373.9
(ii) Segment result												
Underlying profits for reportable segments	**284.1**	274.6	**139.5**	110.9	**126.5**	113.4	**5.9**	4.7	**114.0**	100.7	**670.0**	604.3
Central expenses and net interest margin											**(31.5)**	5.2
Consolidated underlying profit before taxation											**638.5**	609.5
Non-underlying items:												
Amortisation of intangible assets	**(15.8)**	(16.8)	**(4.0)**	(2.7)	**(2.1)**	(2.3)	**(10.4)**	-	**(5.0)**	(5.0)	**(37.3)**	(26.8)
Impairment of goodwill arising on business combinations	**-**	-	**(20.7)**	-	**-**	-	**-**	-	**-**	-	**(20.7)**	-
Impairment of intangible assets arising on business combinations	**-**	-	**(12.1)**	-	**(0.7)**	-	**-**	-	**-**	-	**(12.8)**	-
Restructuring costs	**-**	(4.3)	**(17.9)**	(1.3)	**-**	-	**(0.8)**	(12.3)	**(3.0)**	-	**(21.7)**	(17.9)
Transaction costs on acquisitions and disposals	**(11.4)**	-	**(2.2)**	-	**(1.7)**	-	**(11.9)**	(4.0)	**(1.4)**	-	**(28.6)**	(4.0)
Realised and unrealised foreign exchange (losses) / gains	**-**	-	**(0.1)**	0.1	**-**	-	**-**	-	**(16.0)**	(4.5)	**(16.1)**	(4.4)
Net property revaluation gain / (loss)	**7.9**	7.5	**(3.6)**	(8.0)	**2.1**	(4.0)	**-**	-	**-**	-	**6.4**	(4.5)
Gains on return seeking assets, net of hedging											**-**	26.1
Net loss on disposal of fixed assets											**(2.3)**	(0.2)
Other[1]											**9.0**	7.3
											(124.1)	(24.4)
Consolidated profit before taxation expense											**514.4**	585.1
(iii) Other information												
Amortisation and depreciation costs for reportable segments	**50.2**	47.2	**99.4**	91.6	**33.9**	28.4	**23.7**	8.3	**15.5**	15.0	**222.7**	190.5
Non-cash (expense) / income for reportable segments	**(31.4)**	(186.6)	**(19.5)**	(80.5)	**57.7**	13.1	**(6.0)**	(9.9)	**13.2**	(33.4)	**14.0**	(297.3)
Unallocated non-cash (expense) / income											**(16.6)**	11.8
Total non-cash expenses											**(2.6)**	(285.5)

Notes

1 Includes Central non-underlying items, unrealised foreign exchange and profit on sale of equity accounted investments.

(iv) Geographic information

	Australasia		UK		Spain		Rest of the World		Total	
	2013 £m	2012 (Restated) £m	2013 £m	2012 (Restated) £m	2013 £m	2012 (Restated) £m	2013 £m	2012 (Restated) £m	2013 £m	2012 £m
Consolidated total revenues	**3,791.8**	3,554.0	**3,086.9**	2,999.0	**1,363.5**	1,190.8	**816.5**	630.1	**9,058.7**	8,373.9
Consolidated non-current assets[1]	**2,692.0**	2,349.6	**2,008.7**	1,953.3	**504.4**	453.7	**853.3**	112.9	**6,058.4**	4,869.5

Notes
1 Consolidated non-current assets excludes financial investments, restricted assets, assets arising from insurance business, deferred taxation assets and post employment benefit net assets.

2.1 REVENUES

REVENUES IN BRIEF
The Group generates revenues from its underwriting activities (insurance premiums), trading activities through the provision of insurance management services (insurance service contracts) and the provision of healthcare services (care, health, dental and other).

Revenue stream	Recognition policy
Insurance premiums	***Gross insurance premiums*** Gross insurance premiums represent the premiums earned relating to risk exposure for the reported financial year. They comprise gross premiums written, adjusted for the change in the provision for unearned premiums for premiums written relating to periods of risk in subsequent financial years. Premiums are shown gross of commissions payable and net of insurance premium taxes that may apply in certain jurisdictions. ***Premiums ceded to reinsurers*** Premiums ceded to reinsurers represent reinsurance premiums payable for contracts entered into that relate to risk mitigation for the reported financial year. These comprise written premiums ceded to reinsurers, adjusted for the reinsurers' share of the movement in the gross provision for unearned premiums. Premiums, losses and other amounts relating to reinsurance treaties are recognised over the period from inception of a treaty to expiration of the related business.
Insurance service contracts	Contracts entered into by the Group's general insurance entities that do not result in the transfer of significant insurance risk to the Group are accounted for as insurance service contracts. These contracts mainly relate to the administration of claims funds on behalf of corporate customers. Revenues from service contracts represent the profit receivable on such contracts and are recognised as the services are provided. Some of these contracts contain financial liabilities representing deposits repayable to the customer. These are measured at amortised cost. The claims fund deposit held on behalf of customers is reported within other payables, accruals and deferred income as appropriate.
Care, health, dental and other	The Group generates income from fees receivable from the operation of its care homes, hospitals, dental centres and other healthcare and wellbeing centres. Revenues are recognised in the period in which services are provided. These revenues are stated net of value added taxation and other sales taxes, rebates and discounts. ***Service concession receivables*** The Group also operates two public hospitals in Spain under separate service concession arrangements granted by the local governments (the grantors). Revenue is recognised from the construction of infrastructure and for operation of the hospitals. Construction revenues are recognised in line with the stage of completion of the work performed. Operational revenues are recognised in the period in which the services are provided, in line with the service concession arrangements. The accounting policy for the service concession receivables is explained in Section 3.0.1.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2013

TOTAL REVENUES

	2013 £m	2012 £m
Gross premiums written	**6,892.9**	6,904.9
Change in gross provision for unearned premiums	**2.9**	(212.1)
Gross insurance premiums	**6,895.8**	6,692.8
Gross premiums written ceded to reinsurers	**(37.9)**	(29.2)
Reinsurers' share of change in gross provision for unearned premiums	**0.8**	-
Premiums ceded to reinsurers	**(37.1)**	(29.2)
Net insurance premiums earned	**6,858.7**	6,663.6
Revenues from insurance service contracts	**13.5**	11.4
Care, health and other revenues	**2,186.5**	1,698.9
Total revenues	**9,058.7**	8,373.9

2.2 INSURANCE CLAIMS

INSURANCE CLAIMS IN BRIEF
Insurance claims relate to the Group's insurance underwriting activities. Insurance claims incurred are amounts payable under insurance contracts arising from the occurrence of an insured event.

INSURANCE CLAIMS

Insurance claims incurred comprise insurance claims paid during the year together with related handling costs, the movement in the gross provision for claims in the period and the Risk Equalisation Trust Fund levy for Australian health insurance businesses. See Section 3.4 for details of the claims provision.

In Australia, the Risk Equalisation Trust Fund charges a levy to all registered private health insurers and then allocates a proportion of the cost of eligible claims between all fund participants.

REINSURERS' SHARE OF CLAIMS INCURRED

Reinsurers' share of claims incurred represents recoveries from reinsurers on claims paid, adjusted for the reinsurers' share of the change in the gross provision for claims.

See 'Assets arising from insurance business' within Section 3.0.2 *for the related balance sheet item and detail of impairments.*

NET INSURANCE CLAIMS INCURRED

	2013 £m	2012 £m
Insurance claims paid	**5,497.7**	5,255.3
Change in gross provisions for claims	**(80.7)**	45.8
	5,417.0	5,301.1
Risk Equalisation Trust Fund levy	**(104.9)**	(113.2)
Insurance claims incurred	**5,312.1**	5,187.9
Recoveries from reinsurers on claims paid	**(27.1)**	(20.6)
Reinsurers' share of change in gross provisions for claims	**(0.6)**	5.1
Reinsurers' share of claims incurred	**(27.7)**	(15.5)
Net insurance claims incurred	**5,284.4**	5,172.4

2.3 OTHER OPERATING EXPENSES

OTHER OPERATING EXPENSES IN BRIEF
Other operating expenses are costs incurred by the Group as a consequence of operating healthcare provision businesses. This includes staff costs, overheads, depreciation, amortisation of intangible assets, and gains or losses on foreign exchange transactions.

Operating expenses exclude finance costs and taxation.

OTHER OPERATING EXPENSES

		2013 £m	2012 (Restated) £m
Staff costs	(a)	**1,474.9**	1,290.5
Acquisition costs	(b)	**220.0**	200.3
Cost of sales		**309.2**	171.5
Property costs		**167.4**	157.2
Marketing costs		**106.5**	115.7
Medical supplies and fees		**244.0**	174.4
Operating lease rentals		**95.4**	63.5
Net loss / (gain) on foreign exchange transactions		**11.7**	(0.8)
Amortisation of intangible assets	3.1	**99.4**	83.1
Depreciation expense	3.2	**123.4**	107.4
Other operating expenses (including auditors' remuneration)	(c)	**366.5**	308.1
Total other operating expenses		**3,218.4**	2,670.9

Further details of the restatement reflecting the impact of IAS19 are provided in Section 1.7.

(a) Staff costs and employee numbers

(i) Staff costs

		2013 £m	2012 (Restated) £m
Wages and salaries		**1,326.6**	1,155.3
Social security costs		**107.1**	93.7
Contributions to defined contribution scheme	3.6	**26.4**	23.7
Other pension costs	3.6	**14.8**	17.8
Total staff costs		**1,474.9**	1,290.5

Directors' Remuneration Report is described in pages 57 to 66 of this report.

(ii) Employee numbers
The average number of full time equivalent employees, including Executive Directors, employed by the Group during the year was:

Average employee numbers	2013	2012
Australia and New Zealand	**10,328**	7,809
UK	**27,597**	26,511
Spain and Latin America Domestic	**8,344**	7,782
International Development Markets	**4,202**	984
Bupa Global	**1,618**	1,486
Corporate Centre	**293**	378
Total employee numbers	**52,382**	44,950

The total employee headcount as at 31 December 2013 was 69,644 (2012: 53,562).

(b) Acquisition costs

	2013 £m	2012 £m
Commission for direct insurance	**210.8**	189.0
Other acquisition costs paid	**13.7**	17.3
Changes in deferred acquisition costs	**(4.5)**	(6.0)
Total acquisition costs	**220.0**	200.3

(c) Auditors' remuneration

	2013 £m	2012 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.7**	0.7
Fees payable to the Company's auditor and its associates for:		
- the audit of the Company's subsidiaries pursuant to legislation	**3.4**	3.0
- audit-related assurance services	**0.7**	0.7
Total audit fees payable to the Company's auditors, KPMG Audit Plc and its associates	**4.8**	4.4
Fees payable to other auditors:		
Audit of overseas subsidiary companies	**0.3**	0.1
Total audit fees	**5.1**	4.5
Fees payable to the Company's auditor and its associates for other services:		
Tax compliance services	**0.4**	0.3
Tax advisory services	**0.1**	0.2
Other assurance services	**-**	0.4
Corporate finance services	**0.1**	0.3
All other non-audit services	**1.5**	0.1
Total non-audit fees	**2.1**	1.3
Total auditors' remuneration	**7.2**	5.8

In addition, fees in respect of the audit of The Bupa Pension Scheme were £38,000 (2012: £41,000).

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2013

2.4 OTHER INCOME AND CHARGES

OTHER INCOME AND CHARGES IN BRIEF
Other income and charges comprise income or expenses that are not related to the operating activities of the Group and not reported in other operating expenses, financial income or financial expenses.

OTHER INCOME AND CHARGES

	2013 £m	2012 £m
Net gain on sale of equity accounted investments	**0.5**	8.7
Deficit on revaluation of property	**(5.3)**	(0.7)
Impairment of property	**-**	(11.0)
Net loss on disposal of property, plant and equipment	**(2.3)**	(0.2)
Total other income and charges	**(7.1)**	(3.2)

Impairment of property is explained in Section 3.2.

2.5 FINANCIAL INCOME AND EXPENSES

FINANCIAL INCOME AND EXPENSES IN BRIEF
Financial income and expenses are earned / (incurred) from the Group's financial assets and liabilities, and non-financial assets such as investment property.

FINANCIAL INCOME

Interest income, except in relation to assets classified at fair value through profit or loss, is recognised in the income statement as it accrues, using the effective interest method.

Changes in the value of financial assets designated as at fair value through profit or loss are recognised within financial income as an unrealised gain or loss while the asset is held. Upon realisation of these assets, the change in fair value since the last valuation is recognised within financial income as a realised gain or loss.

	2013 £m	2012 £m
Interest income:		
Loans and receivables	**64.1**	84.4
Investments held to maturity	**1.9**	6.4
Investments designated at fair value through profit or loss	**2.5**	1.7
Net realised gains on financial investments designated at fair value through profit or loss	**3.2**	-
Net (decrease) / increase in fair value:		
Investments designated at fair value through profit or loss	**(5.3)**	27.1
Investment property	**11.7**	6.6
Net foreign exchange gain / (loss)	**4.0**	(1.6)
Total financial income	**82.1**	124.6

Included within financial income is a net gain, after hedging, on the Group's return seeking asset portfolio of £nil (2012: net gain of £26.1m). No financial investments designated at fair value through profit or loss are held for trading.

FINANCIAL EXPENSES

Interest payable on borrowings is calculated using the effective interest method.

The net amount of foreign exchange differences recognised in financial expenses for the year, excluding those arising on financial assets and financial liabilities measured at fair value through profit or loss was £nil (2012: £nil).

	2013 £m	2012 £m
Interest expense on financial liabilities at amortised cost	**85.3**	68.4
Finance charges in respect of finance leases	**0.5**	0.1
Other financial expenses	**2.2**	1.3
Total financial expenses	**88.0**	69.8

2.6
TAXATION EXPENSE

TAXATION EXPENSE IN BRIEF
Taxation expense on the profit for the year comprises current and deferred taxation and considers foreign tax, double tax relief and absorbs adjustments in respect of prior periods.

The taxation expense on the profit for the year comprises current and deferred taxation. Income taxation is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised directly in the statement of comprehensive income.

(i) Recognised in the income statement

	2013 £m	2012 £m
Current taxation expense		
UK taxation on income for the year	**36.7**	66.0
Adjustments in respect of prior periods	**(26.5)**	(24.6)
	10.2	41.4
Double taxation relief	**(3.3)**	(1.6)
Foreign taxation on income for the year	**118.9**	102.8
Adjustments in respect of prior periods	**(10.1)**	0.4
	108.8	103.2
Total current taxation	**115.7**	143.0
Deferred taxation (income) / expense		
Origination and reversal of temporary differences	**(10.0)**	(0.6)
Adjustments in respect of prior periods	**(3.7)**	(9.7)
Changes in taxation rates	**1.0**	2.2
Total deferred taxation	**(12.7)**	(8.1)
Taxation expense	**103.0**	134.9

Current taxation is the expected taxation payable on the taxable profit for the year, using taxation rates enacted or substantively enacted at the balance sheet date, and any adjustments to taxation payable in respect of previous years.

The Group is subject to tax audits in the territories in which it operates and considers each issue on its merits when deciding whether to hold a provision against the potential tax liability that may arise. However the amount that is ultimately paid could differ from the amount initially recorded and this difference is recognised in the period in which such determination is made.

(ii) Reconciliation of effective taxation rate

	2013 £m	2012 (Restated) £m
Profit before taxation expense	**514.4**	585.1
Taxation at the domestic UK corporation taxation rate of 23.25% (2012: 24.5%)	**119.6**	143.3
Effect of:		
Different taxation rates in foreign jurisdictions	**21.5**	12.0
Non-deductible expenses	**(0.7)**	3.0
Current income taxation adjustments in respect of prior periods	**(36.6)**	(24.2)
Deferred taxation adjustments in respect of prior periods	**(3.7)**	(9.7)
Changes in taxation rate	**1.0**	2.2
Movement on deferred taxation asset not recognised	**1.9**	8.3
Taxation expense at the effective taxation rate of 20.0% (2012: 23.1%)	**103.0**	134.9

(iii) Current and deferred taxation recognised directly in other comprehensive income

	2013			2012		
	Before taxation £m	**Taxation benefit / (expense) £m**	**Net of taxation £m**	Before taxation £m	Taxation benefit / (expense) £m	Net of taxation £m
Current taxation (charge) / credit in respect of:						
Foreign exchange translation differences on goodwill	**(257.7)**	**-**	**(257.7)**	(40.7)	-	(40.7)
Other foreign exchange translation differences	**(152.9)**	**(0.5)**	**(153.4)**	(39.4)	(0.2)	(39.6)
Net gain on hedge of net investment in overseas subsidiary companies	**0.1**	**-**	**0.1**	5.3	-	5.3
Cash flow hedge on acquisition of subsidiary company	**(1.0)**	**-**	**(1.0)**	(2.2)	-	(2.2)
Other movements in non-controlling interests	**-**	**-**	**-**	-	0.1	0.1
Deferred taxation (charge) / credit in respect of:						
Unrealised loss on revaluation of property	**94.3**	**(21.5)**	**72.8**	(17.0)	9.1	(7.9)
Actuarial (loss) / gain on pension schemes	**(10.3)**	**(0.1)**	**(10.4)**	17.0	(1.0)	16.0
Change in fair value of underlying derivative of cash flow hedge	**1.2**	**(0.3)**	**0.9**	(0.8)	0.2	(0.6)
Taxation (charge) / credit on income and expenses recognised directly in other comprehensive income	**(326.3)**	**(22.4)**	**(348.7)**	(77.8)	8.2	(69.6)

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2013

3.0 WORKING CAPITAL

WORKING CAPITAL IN BRIEF
Working capital represents the assets and liabilities arising from underwriting and trading activities. The Group therefore defines working capital as trade and other receivables, assets arising from insurance business, cash, restricted assets, inventories and trade and other payables.

3.0.1 TRADE AND OTHER RECEIVABLES

Trade and other receivables are carried at amortised cost less impairment losses.

		2013 £m	2012 £m
Non-current			
Investment receivables and accrued investment income		**2.6**	2.3
Other receivables		**9.9**	1.0
Service concession receivables	(a)	**110.0**	106.3
Prepayments		**9.7**	9.3
Accrued income		**2.7**	3.0
Total non-current other receivables		**134.9**	121.9
Current			
Trade receivables - net of impairment losses	(b)	**189.9**	126.6
Investment receivables and accrued investment income		**0.3**	0.7
Other receivables		**60.2**	74.9
Service concession receivables	(a)	**188.5**	152.1
Prepayments		**48.6**	46.9
Accrued income		**18.0**	3.5
Total current trade and other receivables		**505.5**	404.7
Total trade and other receivables		**640.4**	526.6

The above balance is stated net of provisions for impairment losses. Information regarding the ageing of trade and other receivables is shown in Section 5.4.3.

The fair value of non-current investment receivables and accrued investment income is £2.1m (2012: £2.1m). The carrying value of the other non-current receivable balances are a reasonable approximation of the fair value.

(a) Service concession receivables
The Group has recognised two service concession receivables in respect of the public-private partnership arrangement with the Valencian and Madrid Governments (the grantors). Under the arrangement with the Valencian Government the Sanitas business was contracted to build and operate the Manises hospital for the grantor for 15 years. Under the current arrangement with the Madrid Government, the Sanitas business was contracted to operate the Torrejón hospital for the grantor for 30 years.

A financial asset has been recognised for each arrangement to the extent that the Group has an unconditional contractual right to receive cash from, or at the direction of, the grantors for the services provided, per capita head of the population covered. At the end of the contracts, ownership of the hospitals reverts to the grantors. The service concession receivables are carried at amortised cost less impairment losses.

(b) Impairment of financial assets
Financial assets comprise trade and other receivables and financial investments. Refer to Section 5.0 for financial investments.

If they are not already held at fair value, financial assets are assessed at each reporting date to determine whether there is any objective evidence that they are impaired. A financial asset is considered impaired if objective evidence indicates that one or more events that have occurred since the initial recognition of the asset have had a negative impact on the estimated future cash flows of that asset.

An impairment loss in respect of a financial investment measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the effective interest rate at the date the investment was made.

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement.

Impairment losses on trade receivables amounting to £0.9m (2012: £0.7m) and on investment receivables amounting to £nil (2012: £nil) have been charged to other operating expenses in the income statement.

3.0.2 ASSETS ARISING FROM INSURANCE BUSINESS

Financial assets arising from insurance business are held at amortised cost less impairment losses.

		2013 £m	2012 £m
Non-current			
Deferred acquisition costs	(a)	**0.6**	0.6
Total non-current assets arising from insurance business		**0.6**	0.6
Current			
Insurance debtors	(b)	**759.9**	692.5
Reinsurers' share of insurance provisions	(c)	**14.7**	13.6
Deferred acquisition costs	(a)	**73.2**	68.7
Medicare rebate	(d)	**74.8**	73.8
Risk Equalisation Trust Fund recoveries		**20.0**	21.8
Total current assets arising from insurance business		**942.6**	870.4
Total assets arising from insurance business		**943.2**	871.0

The above balance is stated net of provision for impairment losses. Information regarding the ageing of insurance debtors, Medicare rebate and Risk Equalisation Trust Fund recoveries is shown in Section 5.4.3.

(a) Deferred acquisition costs
Acquisition costs represent commissions payable and other expenses related to the acquisition of insurance contract revenues written during the financial year. Acquisition costs that have been paid that relate to subsequent periods are deferred and recognised in the income statement in the relevant period on a straight line basis.

The movement in deferred acquisition costs is as follows:

	2013 £m	2012 £m
At beginning of year	**69.3**	63.8
Acquisition costs deferred	**311.8**	282.7
Acquisition costs released to income statement	**(307.3)**	(276.7)
Foreign exchange	**-**	(0.5)
At end of year	**73.8**	69.3

(b) Insurance debtors
Impairment losses in respect of insurance debtors amounting to £12.9m (2012: £10.7m) have been charged to other operating expenses in the income statement, detailed in Section 2.3

(c) Reinsurers' share of insurance provisions
The recoverables due from reinsurers are shown within assets arising from insurance business and are assessed for impairment at each balance sheet date. Impairments are accounted for within the income statement on an incurred loss basis.

Reinsurers' share of insurance provisions are further analysed in Section 3.4.

(d) Medicare rebate
In Australia, the Government provides a rebate to health insurers in respect of the premiums paid for private health insurance. Rebates due from the Government but not received at the balance sheet date are recognised in assets arising from insurance business.

3.0.3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances, call deposits and other short-term highly liquid investments (including money market funds) with original maturities of three months or less which are subject to an insignificant risk of change in value.

Bank overdrafts that are repayable on demand and form an integral part of the Group's capital management (see Section 5.3) are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

	2013 £m	2012 £m
Cash at bank and in hand	**561.8**	447.7
Short-term deposits	**378.0**	808.0
Cash and cash equivalents	**939.8**	1,255.7
Bank overdrafts	**(0.1)**	(2.3)
Cash and cash equivalents in the statement of cash flows	**939.7**	1,253.4

3.0.4 RESTRICTED ASSETS

Restricted assets are amounts held in respect of specific obligations and potential liabilities and may be used only to discharge those obligations and potential liabilities if and when they crystallise.

	2013 £m	2012 £m
Non-current restricted assets	**39.3**	44.0
Current restricted assets	**13.4**	8.7
Total restricted assets	**52.7**	52.7

The non-current restricted assets balance of £39.3m (2012: £44.0m) consists of cash deposits held to secure a charge over the non-registered pension arrangement maturing after 2022 (see Section 6.0 (ii)). Included in current restricted assets is £3.3m (2012: £2.3m) in respect of claims funds held on behalf of corporate customers.

3.0.5 INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in-first-out method, or methods that approximate this and includes costs incurred in acquiring the inventories and in bringing them to their current location and condition.

Inventories relating to drugs, prostheses, consumables and housing stock were £52.8m (2012: £19.9m).

Inventory write downs of £0.1m (2012: £0.1m) were made during the year. The Group consumed £309.8m (2012: £216.5m) of inventories, which are recognised within other operating expenses in the income statement.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2013

3.0.6 TRADE AND OTHER PAYABLES

Trade and other payables (excluding deferred income) are carried at amortised cost.

		2013 £m	2012 £m
Non-current			
Deferred income	(a)	**1.3**	1.3
Other payables		**6.9**	9.0
Accruals		**9.7**	9.6
Total non-current other payables		**17.9**	19.9
Current			
Trade payables		**175.9**	138.3
Social security and other taxes		**34.4**	31.2
Deferred income	(a)	**67.7**	61.5
Other payables		**204.3**	183.0
Accommodation bond liabilities	(b)	**279.3**	263.9
Accruals		**350.7**	304.5
Total current trade and other payables		**1,112.3**	982.4
Total trade and other payables		**1,130.2**	1,002.3

The fair values of other payables and accruals are £210.5m (2012: £191.5m) and £360.2m (2012: £313.9m) respectively. The carrying value of the other trade and other payables is a reasonable approximation of the fair value. Information regarding the ageing of trade payables, other payables, accommodation bond liabilities and accruals is shown in Section 5.4.4.

(a) Deferred income
In respect of the Group's revenue and deferred revenue for performance based health service contracts, estimates are made by the Group based on the most recent performance evaluation data available at the year end and these estimates are utilised if they are determined to be reliable. Reliable estimates can only be made on an individual contract basis once the results of an initial performance evaluation are available, and revenue is deferred until the first reliable evaluation is available.

Where the results of the final performance assessment differ from the estimation or if an updated reliable estimate is available, the difference is recognised in the period in which such determination is made. Where reliable estimates are not available, the Group recognises revenue only to the extent of the contract costs recognised that the Group believes are recoverable.

(b) Accommodation bond liabilities
Accommodation bonds are non-interest bearing deposits paid by the residents of the care homes in Australia as payment for a place in the care home facility. These deposits are repayable when the resident leaves the facility. The bonds are recorded as the proceeds received, net of retention and any other amounts deducted at the election of the bondholder.

3.1 INTANGIBLE ASSETS

INTANGIBLE ASSETS IN BRIEF
Intangible assets, including goodwill, are the non-physical assets used by the Group to generate revenues.

GOODWILL

Goodwill represents the excess of the cost of a business combination over the fair value of the Group's share of identifiable assets, liabilities and contingent liabilities of the acquired subsidiary company or associated company at the date of business combination. The carrying value of goodwill may be adjusted up to 12 months from the date of acquisition, as the allocation of the purchase price to identifiable intangible assets is finalised within that period. Goodwill arising on business combinations is capitalised and presented as part of intangible assets in the consolidated balance sheet.

Goodwill is stated at cost less accumulated impairment losses. Impairment reviews are performed annually or more frequently if there is an indication that the carrying value may be impaired. Impairment reviews are performed at the level of the relevant cash generating unit (CGU). A CGU is the smallest identifiable group of assets generating cash inflows and outflows measured for goodwill. Where the fair value of net assets acquired is greater than the consideration paid, the excess is recognised immediately in the income statement.

Revision to CGUs
In 2013, following the 2012 restructure, the allocation of CGUs was revised. This resulted in the Bupa Global CGU which combined Bupa International and Bupa Latin America. This decision has been made due to various interdependencies of cash flows and the generation of revenue from similar products and markets.

During the year, a new CGU (Bupa Health Services Australia) was created comprising Blink Optical, Health Dialog Australia and the newly acquired Dental Corporation, reflecting the fact that these businesses are managed and reported together.

OTHER INTANGIBLE ASSETS

Intangible assets, other than goodwill, that are acquired as part of a business combination are capitalised at fair value. Intangible assets acquired separately are stated at cost less accumulated amortisation and impairment.

Amortisation is charged to the income statement on a straight line basis as follows:

• Computer software	2 to 10 years
• Brand and trademarks	10 to 15 years
• Technology and databases	10 years
• Distribution networks	10 to 11 years
• Customer relationships	10 to 21 years
• Present value of acquired in-force business	13 to 20 years
• Customer contracts	4 to 6 years
• Order backlogs	1 year
• Licences to operate care homes	term of licence
• Non-compete agreements	term of agreement
• Leases	term of lease

Intangible assets that are subject to amortisation are reviewed for impairment if circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement to reduce the carrying amount to the recoverable amount.

Bed licences held by the Group have been attributed an indefinite useful life due to the fact that these licences, which are issued by the Australian Government, have no expiry date. Assets with an indefinite useful life are subject to annual impairment reviews.

INTANGIBLE ASSETS

	Goodwill £m	Computer software £m	Customer relation-ships £m	Other £m	Total £m
2013					
Cost					
At beginning of year	2,200.4	553.9	322.3	329.4	3,406.0
Assets arising on business combinations	799.5	7.5	98.7	97.1	1,002.8
Additions	-	65.4	-	3.5	68.9
Disposals	-	(2.7)	-	-	(2.7)
Other	0.6	0.7	(0.6)	-	0.7
Foreign exchange	(276.0)	(6.8)	(37.7)	(33.4)	(353.9)
At end of year	2,724.5	618.0	382.7	396.6	4,121.8
Amortisation and impairment loss					
At beginning of year	593.2	358.6	146.2	161.9	1,259.9
Amortisation for year	-	62.1	23.1	14.2	99.4
Impairment loss	20.7	3.3	12.1	0.7	36.8
Disposals	-	(2.6)	-	-	(2.6)
Foreign exchange	(18.4)	(4.9)	(14.5)	(13.3)	(51.1)
At end of year	595.5	416.5	166.9	163.5	1,342.4
Net book value at end of year	**2,129.0**	**201.5**	**215.8**	**233.1**	**2,779.4**
Net book value at beginning of year	1,607.2	195.3	176.1	167.5	2,146.1
2012					
Cost					
At beginning of year	2,253.4	521.3	331.3	333.9	3,439.9
Assets arising on business combinations	6.3	-	-	4.1	10.4
Additions	-	67.0	0.6	-	67.6
Disposals	-	(28.8)	-	-	(28.8)
Other	-	1.1	-	-	1.1
Foreign exchange	(59.3)	(6.7)	(9.6)	(8.6)	(84.2)
At end of year	2,200.4	553.9	322.3	329.4	3,406.0
Amortisation and impairment loss					
At beginning of year	611.8	329.2	130.3	159.8	1,231.1
Amortisation for year	-	56.5	20.3	6.3	83.1
Impairment loss	-	6.3	-	-	6.3
Disposals	-	(27.9)	-	-	(27.9)
Foreign exchange	(18.6)	(5.5)	(4.4)	(4.2)	(32.7)
At end of year	593.2	358.6	146.2	161.9	1,259.9
Net book value at end of year	**1,607.2**	**195.3**	**176.1**	**167.5**	**2,146.1**
Net book value at beginning of year	1,641.6	192.1	201.0	174.1	2,208.8

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Intangible assets of £2,779.4m (2012: £2,146.1m) includes £448.9m (2012: £343.6m) which is attributable to other intangible assets arising on business combinations (included within Computer software, Customer relationships and Other) as follows:

	2013 £m	2012 £m
Customer relationships	**215.7**	176.1
Bed licences (within Bupa Aged Care Australia)	**102.4**	101.3
Brands and trademarks	**57.0**	0.6
Licences to operate care homes	**43.2**	45.9
Customer contracts	**15.0**	-
Leases	**10.4**	12.1
Distribution networks	**4.0**	6.3
Present valuation of acquired in-force business	**1.1**	1.3
Order backlogs	**0.1**	-
Total	**448.9**	343.6

Impairment of intangible assets

Impairment testing

Goodwill and intangible assets with indefinite useful lives are tested at least annually for impairment by comparing the net carrying value with the recoverable amount using value in use calculations. In arriving at the value in use for each CGU, key assumptions have been made regarding future projected cash flows, discount rates and terminal growth rates. The main assumptions upon which the cash flow projections are based include premiums and claims costs for our Health Insurance businesses, fee rate and occupancy for our care services businesses, and revenue growth and gross margins for our Bupa Home Healthcare and Bupa Cromwell Hospital businesses.

Except for Bupa Care Services UK, LUX MED and Bupa Care Services New Zealand, cash flow projections have been based on management operating profit projections for a three-year period, which have been approved by the Board. Cash flow projections for Bupa Care Services UK, LUX MED and Bupa Care Services New Zealand have been based on periods of five, eight and 11 years respectively, as their business model relies on continual capital investment and expansion. A longer period was utilised for these as this is an appropriate timescale over which to look at the annual cash flow projections, given the nature of the business. Taxation has been applied to the pre-taxation management operating profits based on the statutory taxation rates in the country of operation.

Future post-taxation cash flows have been discounted at post-taxation discount rates. Discount rates used for the value in use calculations for each of the Group's CGUs are based on considerations of the specific risks associated with the business plans of each CGU, as well as external factors. These include the market assessment of the time value of money and the risks inherent in the relevant country where the cash flows are generated.

Cash flow projections beyond the forecast periods have been extrapolated by applying a terminal growth rate between 2.4% and 4.6% (2012: 1.0% and 3.0%) for all CGUs. The terminal growth rates represent an estimate of the long-term growth rate for each of the CGUs, taking into account the future and past growth rates, and external sources of data. They are conservative estimates which do not exceed the long-term average growth rate for the respective industries, countries or markets in which the CGUs operate.

The values assigned to the key assumptions are based on past experience of the CGUs and assessment of future trends in the relevant industry.

The following table summarises the pre-taxation discount rates used for impairment testing:

	2013 %	2012 %
Bupa Australia Health Insurance	**11.8**	12.1
Bupa Health Services Australia	**13.4**	-
Bupa Aged Care Australia	**9.2**	9.2
Bupa Care Services New Zealand	**9.4**	9.4
Bupa Home Healthcare	**14.0**	15.6
The Bupa Cromwell Hospital	**11.1**	12.5
Bupa Care Services UK	**9.1**	8.5
Sanitas Seguros	**13.2**	14.6
LUX MED	**11.1**	-
Bupa Global[1]	**11.7**	-

[1] 2012: Bupa International (pre-tax WACC 11.2%) and Bupa Latin America (pre-tax WACC 12.7%).

Impairment of goodwill

At 31 December 2013, the recoverable amount of each of the CGUs was tested in respect of the carrying amount. This has resulted in a full impairment of the goodwill relating to Bupa Home Healthcare (£20.7m) along with a write down of associated intangible assets of £12.1m. Bupa Home Healthcare provides nationwide specialist healthcare services to patients at home or in their local community. As at 1 January 2013, the NHS introduced a framework for Home Parenteral Nutrition which introduced standard pricing for contracts; these were at reduced levels and had the effect of reducing margins and contributions. The key valuation assumptions used to test the carrying value of goodwill included a pre-taxation discount rate of 14% and a terminal growth rate of 3%.

The recoverable amount of the remaining CGUs is determined to be higher than their respective carrying amounts, resulting in no impairment to goodwill or intangible assets with indefinite useful lives.

The following table summarises goodwill by CGU as at 31 December:

	2013 £m	2012 £m
Australia and New Zealand		
Bupa Australia Health Insurance	**859.7**	948.3
Bupa Health Services Australia	**259.5**	-
Bupa Aged Care Australia	**261.1**	308.3
Bupa Care Services New Zealand	**33.8**	34.5
UK		
Bupa Home Healthcare	**-**	20.7
The Bupa Cromwell Hospital	**16.2**	16.2
Bupa Care Services UK	**190.8**	178.2
Other	**8.4**	4.1
Spain and Latin America Domestic		
Sanitas Seguros	**28.0**	24.3
Other	**5.8**	4.8
International Development Markets		
Quality HealthCare	**209.3**	-
LUX MED	**188.6**	-
Bupa Global	**67.8**	67.8
Total	**2,129.0**	1,607.2

Sensitivity to changes in key assumptions
A sensitivity analysis has been performed on the key assumptions used to determine the value in use for each CGU as at 31 December 2013.

Other than as disclosed below, management believes that no reasonably probable change in any of the above key assumptions would cause the carrying value of any goodwill or intangible asset with an indefinite useful life to exceed its recoverable amount.

It is possible that a change in key assumptions could cause the impairment of goodwill for Bupa Care Services New Zealand and Bupa Care Services UK. The table below shows the decrease required in the terminal growth rate or increase required in discount rate for the recoverable amount of the CGU to equal the carrying amount.

	Headroom £m	Terminal growth rate %	Decrease in terminal growth rate %	Increase in discount rate %
Bupa Care Services New Zealand	18.6	2.8	0.4	0.4
Bupa Care Services UK	100.3	2.4	0.4	0.8

Impairment of other intangible assets
During the year, impairment of other intangible assets arising on business combinations totalled £0.2m (2012: £nil). Licences to operate Spanish care homes have been impaired by £0.2m (2012: £nil). There have been no other impairments of intangible assets with indefinite lives (2012: £nil).

An impairment loss has also been recognised in relation to the Centro Internacional de Medicina Avazada (CIMA) brand of £0.5m following the merger with Sanitas S.A. de Hospitales and subsequent use of the single Sanitas brand.

3.2 PROPERTY, PLANT AND EQUIPMENT

PROPERTY, PLANT AND EQUIPMENT IN BRIEF
Property, plant and equipment are the physical assets utilised by the Group to carry out business activities and generate revenues and profits.

The majority of the assets held relate to care home and hospital properties, and equipment, and office buildings.

FREEHOLD AND LEASEHOLD PROPERTIES

Freehold and leasehold properties comprise of care homes, care villages, hospitals and offices. These properties are shown at fair value based on periodic, but at least triennial, valuations performed by external independent valuers, less subsequent depreciation and impairment losses. Borrowing costs relating to the acquisition or construction of qualifying assets are capitalised as part of the cost of that asset.

The valuations are performed with sufficient regularity to ensure that the carrying value does not differ significantly from fair value at the balance sheet date. Directors' valuations are performed in interim years where impairment indicators exist.

Revaluation of properties
The revaluation of properties was carried out independently by Knight Frank and Extensor, chartered surveyors. The revaluations were effective as of 31 December in the year in which they were undertaken. The majority of the Group's freehold and leasehold properties were revalued during 2013.

Care homes and hospitals are fair valued with regard to their trading potential based on value in use techniques, the principal assumptions are: quantifying a fair, maintainable level of trade and profitability; levels of competition; and assumed ability to renew existing licences, consents, certificates or permits.

The discount rates or multiples applied to projected cash flows and used in calculating fair values is as follows:

	2013
UK	Average multiple of 7.1
Australia	Average 15.0%
New Zealand	Average 14.5%
Spain	Average 13.8%

The fair value of corporate use properties was determined mainly by reference to recent market transactions for similar properties in the same location.

A substantial portion of the Group's freehold and leasehold properties, comprising care homes, care villages and hospitals, held at fair value are categorised as Level 3 within the fair value hierarchy.

The table below shows the date at which properties were last subject to external valuation.

	Freehold property £m	Leasehold property £m
Valuation - December 2013	1,894.4	69.3
Valuation - December 2012	65.3	0.9
Valuation - December 2011	67.7	-
Assets held at cost	81.5	114.0
Cost or valuation	**2,108.9**	**184.2**

Gains and losses on revaluation are recognised in the property revaluation reserve, except where an asset is revalued below historical cost, in which case the deficit is recognised in the income statement. Where a revaluation reverses the losses taken to the income statement in prior years, the credit is recognised in the income statement.

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Historical cost of the Group's revalued assets

A net £94.3m revaluation gain (2012: £19.4m) and £nil impairment loss (2012: £36.4m) have been recognised in the property revaluation reserve.

In 2013, a revaluation loss of £5.3m (2012: £0.7m) and impairments of £nil (2012: £11.0m) were charged to the income statement (see Section 2.4).

The entire net £89.0m revaluation gain (2012: £18.7m) was valued by external valuers. No impairment with regard to property has been recognised in the current year. In 2012, the total £47.4m property *impairment arose from internal assessments.*

	2013 £m	2012 £m
Historical cost of revalued assets	**1,811.5**	1,617.8
Accumulated depreciation based on historical cost	**(246.8)**	(220.8)
Historical cost net book value	**1,564.7**	1,397.0
Depreciation		
Depreciation charge for the year on historical cost	**36.2**	32.4

The historical cost of all property, plant and equipment is £2,669.8m (2012: £2,354.5m).

EQUIPMENT

Equipment (including leasehold improvements) is stated at historical cost less subsequent depreciation and impairment losses.

DEPRECIATION

Freehold land and assets under construction, included within freehold or leasehold properties as appropriate, are not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight line method to allocate cost or revalued amount less residual value over estimated useful lives, as follows:

- Freehold buildings — 50 years
- Leasehold buildings — shorter of useful life and lease term
- Equipment (leasehold improvements) — shorter of useful life and lease term
- Equipment — 3 to 10 years

IMPAIRMENT

Impairment reviews are undertaken where there are indications that the carrying value of an asset may not be recoverable. An impairment loss on assets carried at cost is recognised in other income and charges to reduce the carrying value to the recoverable amount. An impairment loss on assets carried at revalued amount is recognised in the revaluation reserve, except where an asset is revalued below historical cost, in which case the loss is recognised in the income statement within other income and charges.

LEASED ASSETS

Leases are classified as finance leases when the terms of the lease substantially transfer all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets obtained under finance leases are capitalised within property, plant and equipment at fair value at acquisition or, if lower, at the present value of the minimum lease payments and depreciated over the shorter of their useful economic life and the lease term.

On initial recognition, the leased asset is measured at the amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Finance lease liabilities, net of finance charges in respect of future periods, are included within other interest bearing liabilities (see Section 5.1). The interest element of the obligation is allocated over the lease term to reflect a constant rate of interest on the outstanding obligation.

Leasehold land, where no option to obtain title exists, is treated as an operating lease. Assets classified as being under operating lease are not capitalised and therefore not recognised within the balance sheet. Payments made under operating leases are recognised as prepayments within trade and other receivables within Section 3.0.1 and are recognised in the income statement on a straight line basis over the term of the lease within other operating expenses (section 2.3).

The amounts included in property, plant and equipment in respect of assets held under finance leases are as follows:

	Leasehold property £m	Equipment £m	Total £m
Net book value			
At beginning of year	1.0	1.0	2.0
At end of year	**-**	**0.7**	**0.7**
Depreciation			
Charge for year	-	0.3	0.3

PROPERTY, PLANT AND EQUIPMENT

	Freehold property £m	Leasehold property £m	Equipment £m	Total £m
2013				
Cost or valuation				
At beginning of year	2,017.4	169.6	736.5	2,923.5
Additions through business combinations	177.8	7.4	78.8	264.0
Additions	107.0	15.0	118.3	240.3
Disposals	(1.2)	(7.2)	(37.6)	(46.0)
Revaluations	(87.1)	(0.4)	-	(87.5)
Other[1]	(11.3)	6.7	10.8	6.2
Foreign exchange	(93.7)	(6.9)	(18.6)	(119.2)
At end of year	2,108.9	184.2	888.2	3,181.3
Depreciation and impairment loss				
At beginning of year	151.6	52.1	396.4	600.1
Depreciation charge for year	29.5	10.2	83.7	123.4
Disposals	(0.5)	(6.0)	(36.1)	(42.6)
Revaluations	(167.8)	(9.7)	-	(177.5)
Other	(0.6)	0.3	(0.1)	(0.4)
Foreign exchange	(3.6)	(3.5)	(11.7)	(18.8)
At end of year	8.6	43.4	432.2	484.2
Net book value at end of year	**2,100.3**	**140.8**	**456.0**	**2,697.1**
Net book value at beginning of year	1,865.8	117.5	340.1	2,323.4
2012				
Cost or valuation				
At beginning of year	1,920.5	165.0	711.1	2,796.6
Additions through business combinations	32.4	-	0.3	32.7
Additions	72.3	7.8	98.8	178.9
Disposals	(8.7)	(1.3)	(64.4)	(74.4)
Revaluations	17.1	(0.7)	-	16.4
Other	(0.4)	0.2	(0.9)	(1.1)
Foreign exchange	(15.8)	(1.4)	(8.4)	(25.6)
At end of year	2,017.4	169.6	736.5	2,923.5
Depreciation and impairment loss				
At beginning of year	88.4	40.5	395.2	524.1
Depreciation charge for year	30.2	8.8	68.4	107.4
Disposals	(7.7)	(0.3)	(62.8)	(70.8)
Revaluations	(2.3)	-	-	(2.3)
Impairments	43.8	3.6	0.4	47.8
Reclassification	(0.1)	0.1	-	-
Foreign exchange	(0.7)	(0.6)	(4.8)	(6.1)
At end of year	151.6	52.1	396.4	600.1
Net book value at end of year	**1,865.8**	**117.5**	**340.1**	**2,323.4**
Net book value at beginning of year	1,832.1	124.5	315.9	2,272.5

[1] Included in Other is £6.8m, representing a reclassification from Investment Properties (Section 3.3).

In the prior year, an impairment on freehold property and equipment of £47.8m arose in connection with the Directors' impairment review of the care home portfolio where the decline in future profitability since the last valuation is considered to be of a long-term nature. No such impairment arose in the current year and no impairment of land arose from this review in the period (2012: £nil).

Recognised in the carrying amount of freehold property is £49.7m (2012: £14.2m) in relation to freehold property in the course of construction.

Certain property, plant and equipment is held as securitised assets under borrowing arrangements described in Section 5.1.

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3.3 INVESTMENT PROPERTIES

INVESTMENT PROPERTIES IN BRIEF
Investment properties are physical assets that are not occupied by the Group and are leased to third parties to generate rental income.

The vast majority of investment properties held by the Group relate to a portfolio of retirement villages in New Zealand.

Investment properties are measured at fair value, determined individually, on a basis appropriate to the purpose for which the property is intended and with regard to recent market transactions for similar properties in the same location.

In an active market, an independent valuer, holding a recognised and relevant professional qualification, and with recent experience in the location and category of investment property being valued, values the portfolio annually.

In New Zealand, the retirement village market is fragmented. Growth in new developments is also restricted due to a lack of suitable sites. As a result, no active market exists for the retirement villages from which values can be derived. These properties are valued using discounted cash flow projections based on reliable estimates of future cash flows.

Any gain or loss arising from a change in the fair value is recognised in the income statement within financial income and expenses.

i) Investment properties

	2013 £m	2012 £m
At beginning of year	**159.9**	132.5
Additions through business combinations	**5.3**	-
Additions	**20.2**	19.3
Increase in fair value	**11.2**	6.9
Reclassification to Property, Plant and Equipment	**(6.8)**	-
Foreign exchange	**(5.6)**	1.2
At end of year	**184.2**	159.9

The historical cost of investment properties is £147.8m (2012: £134.6m).

Of the £184.2m (2012: £159.9m) investment properties in the balance sheet as at 31 December 2013, £3.8m (2012: £7.4m) was either valued based on active market prices by external valuers, Knight Frank, Chartered Surveyors or acquired in the year. These properties are categorised as Level 2 within the fair value hierarchy.

The remaining carrying value of investment properties of £180.4m (2012: £152.5m), consisting of the Group's portfolio of retirement villages, was valued by management using internally prepared discounted cash flow projections, supported by the terms of any existing lease and other contracts, and when possible, by external evidence such as current market rents for similar properties in the same location and condition. Discount rates are used to reflect current market assessments of the uncertainty in the amount, or timing, of the cash flows. The discounted cash flow projections are reviewed by an independent valuer, Deloitte. These properties are categorised as Level 3 within the fair value hierarchy.

Significant assumptions used in the valuation include:

Discount rate	9.0%
Capital growth rate	2.4%
Provision for capital replacement	0.4%
Vacancy period	3 months
Turnover in apartments and villas	4-7 years

The following table sets out the reconciliation of the opening and closing balances for investment properties classified as Level 3 fair value measurements as at 31 December 2013.

	Total £m
At beginning of year	152.5
Additions through business combinations	3.9
Additions	18.4
Unrealised gains recognised in financial income	11.2
Foreign exchange	(5.6)
At end of year	**180.4**

The sensitivity analyses below consider the impact on the year end valuation of Level 3 investment properties, and are based on a change in assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in assumptions may be correlated.

Assumptions	**0.5% increase**	**0.5% decrease**
Discount rate	£4.5m decrease	£5.4m increase
Capital growth rate	£12.6m increase	£10.9m decrease

(ii) Leases as lessor
Investment properties include commercial properties which are leased to third parties. The leases contain an initial non-cancellable period of between one and three years. Subsequent renewals are negotiated with the lessee.

The Group leases out its investment properties under operating leases. The future lease receipts under non-cancellable leases are as follows:

	2013 £m	2012 £m
Less than one year	**0.1**	0.8
Between one and five years	**0.1**	0.8
Total	**0.2**	1.6

During the year ended 31 December 2013, the Group's retirement village portfolio generated £7.5m (2012: £6.2m) of income which was recognised as revenue in the income statement. Total direct operating expenses of these retirement villages amounted to £5.4m (2012: £4.1m). £0.6m (2012: £1.0m) was recognised as rental income in the income statement for other investment properties held by the Group. Direct operating expenses of these properties amounted to £0.1m (2012: £0.1m).

3.4 PROVISIONS AND OTHER LIABILITIES UNDER INSURANCE CONTRACTS ISSUED

PROVISIONS AND OTHER LIABILITIES UNDER INSURANCE CONTRACTS ISSUED IN BRIEF
The provisions and other liabilities under insurance contracts issued arise from the Group's underwriting activities.

The provisions mainly relate to unearned premiums, which are deferred revenues that relate to future periods; and claims, where an estimate is made of the expense required to settle existing insurance contract obligations. The other liabilities primarily consist of deposits and commissions payable.

3.4.1 PROVISIONS UNDER INSURANCE CONTRACTS ISSUED

Unearned premiums
The unearned premium provision represents premiums written that relate to periods of risk in future accounting periods. It is calculated on a straight line basis, which is not materially different from a calculation based on the pattern of incidence of risk.

Provision for claims
The gross provision for claims represents the estimated liability arising from claims episodes in current and preceding financial years which have not yet given rise to claims paid. The provision includes an allowance for claims management and handling expenses.

The gross provision for claims is estimated based on current information, and the ultimate liability may vary as a result of subsequent information and events.

Adjustments to the amount of claims provision for prior years are included in the income statement in the financial year in which the change is made. In setting the provisions for claims outstanding, a best estimate is determined on an undiscounted basis and then a margin of prudence is added such that there is confidence that future claims will be met from the provisions. The level of prudence set is either one required by regulation or one that provides an appropriate degree of confidence.

A provision is made for unexpired risks where the claims and administrative expenses are likely to arise after the end of the financial year, in respect of contracts commencing before that date, are expected to exceed the related unearned premiums, less related deferred acquisition costs. The methods used and estimates made for claims provisions are reviewed regularly.

	2013			2012		
	Gross £m	Re-insurance £m	Net £m	Gross £m	Re-insurance £m	Net £m
General insurance business						
Provisions for unearned premiums	**1,488.8**	**(7.7)**	**1,481.1**	1,547.7	(7.5)	1,540.2
Provisions for claims	**684.7**	**(6.2)**	**678.5**	809.4	(5.4)	804.0
Long-term business						
Provisions for life insurance benefits	**22.5**	**(0.8)**	**21.7**	22.9	(0.7)	22.2
Total insurance provisions	**2,196.0**	**(14.7)**	**2,181.3**	2,380.0	(13.6)	2,366.4
Non-current	**24.4**	**-**	**24.4**	24.8	-	24.8
Current	**2,171.6**	**(14.7)**	**2,156.9**	2,355.2	(13.6)	2,341.6
Total insurance provisions	**2,196.0**	**(14.7)**	**2,181.3**	2,380.0	(13.6)	2,366.4
(a) Analysis of movements in provisions for unearned premiums						
At beginning of year	**1,547.7**	**(7.5)**	**1,540.2**	1,353.7	(7.6)	1,346.1
Additions through business combinations	**0.5**	**-**	**0.5**	-	-	-
Premiums deferred	**6,889.6**	**(36.2)**	**6,853.4**	6,900.6	(27.4)	6,873.2
Deferred premiums released to income	**(6,892.5)**	**35.5**	**(6,857.0)**	(6,688.5)	27.4	(6,661.1)
Foreign exchange	**(56.5)**	**0.5**	**(56.0)**	(18.1)	0.1	(18.0)
At end of year	**1,488.8**	**(7.7)**	**1,481.1**	1,547.7	(7.5)	1,540.2
(b) Analysis of movements in provisions for claims						
At beginning of year	**809.4**	**(5.4)**	**804.0**	785.0	(11.0)	774.0
Additions through business combinations	**0.1**	**-**	**0.1**	-	-	-
Cash paid to settle claims	**(5,390.8)**	**25.7**	**(5,365.1)**	(5,139.7)	18.9	(5,120.8)
Decrease for prior years' claims	**(42.0)**	**(0.5)**	**(42.5)**	(52.7)	(0.3)	(53.0)
Increase for current year claims	**5,456.3**	**(25.8)**	**5,430.5**	5,350.1	(13.4)	5,336.7
Risk Equalisation Trust Fund levy	**(104.9)**	**-**	**(104.9)**	(113.2)	-	(113.2)
Foreign exchange	**(43.4)**	**(0.2)**	**(43.6)**	(20.1)	0.4	(19.7)
At end of year	**684.7**	**(6.2)**	**678.5**	809.4	(5.4)	804.0

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Assumptions for general insurance business

The process of recognising liabilities arising from general insurance contracts requires the exercise of judgement in relation to estimating future claims payments, claims handling expenses and unexpired risk provisions. The principal assumption affecting the measurement of liabilities is that the nature of recent claims development profiles of the Group's insurance entities, and current claims experience, will be consistent with recent trends. Other assumptions are also applied in measuring the Group's insurance liabilities but have a less material effect. The aim of these assumptions is to arrive at the best estimate of future obligations and cash outflows of the Group. A margin for adverse deviation is reflected within the estimates.

Claims development patterns are analysed in each of the Group's general insurance entities and, in some cases, are further sub-analysed where an entity has distinct portfolios of general insurance with distinct characteristics. The characteristics may differ by product line, risk profile, geographic sector or market sector. The analysis is used to determine a claims settlement pattern using recent experience, adjusted where appropriate by observed trends over time. Claims are assessed on a case by case basis. Extrapolation methods based on the claims settlement pattern are used: these are recognised methods described in the Institute and Faculty of Actuaries Claims Reserving Manual (1997). Large homogeneous sections of insurance business (e.g. corporate business in a specific region) are often analysed by more than one method, such as the chain ladder, Bornhuetter-Ferguson and paid claim loss ratio methods. Additional industry accepted refinements are made to allow for, but not limited to, the treatment of large claims, claim seasonality, claims inflation and currency conversions.

While there is some diversity in the claims development profile across the Group, the Group's general insurance contracts principally relate to healthcare benefits that occur with stable frequencies and exhibit very short development patterns that can be characterised in months rather than years. Less automated medical insurance portfolios may have development patterns extending out from 12 to 18 months, whereas pre-authorisation electronic claims settlement and network provider arrangements may produce development patterns of four to six months.

Insurance provisions are estimates. Actual experience may vary, primarily as a result of claims or administrative expenses being different than expected. The following table shows the sensitivities to such variation from expectations.

		Increase in claims	Increase in expenses
2013			
Change in variable	%	5.0	10.0
Reduction in profit net of reinsurance before taxation	£m	57.0	18.5
2012			
Change in variable	%	5.0	10.0
Reduction in profit net of reinsurance before taxation	£m	59.8	19.0

These variances would lower the amount of profit that would otherwise be expected to emerge in subsequent periods. Since premium provisions include profit margins and claims provisions include margins of prudence, variance from expectations by the amounts shown will be absorbed by these margins for the current book of business.

Liability adequacy tests

Liability adequacy tests are performed for insurance portfolios on the basis of estimates of future claims, costs and premiums earned. For short duration contracts, a premium deficiency is recognised if the sum of expected claim costs and claim adjustment expenses, capitalised deferred acquisition costs, and maintenance expenses exceeds related unearned premiums while considering anticipated investment income.

3.4.2 OTHER LIABILITIES UNDER INSURANCE CONTRACTS ISSUED

Other liabilities under insurance contracts issued consists of payables to insurance creditors other than policyholders.

	2013 £m	2012 £m
Reinsurers' deposits	**6.1**	4.6
Reinsurance payables	**0.2**	-
Commissions payable	**8.4**	8.5
Other insurance payables	**2.5**	3.7
Total other liabilities under insurance contracts issued	**17.2**	16.8

3.5 PROVISIONS FOR LIABILITIES AND CHARGES

PROVISIONS FOR LIABILITIES AND CHARGES IN BRIEF
A provision is recognised when the Group is expected to make future payments as a result of a past event.

These payments can result from a legal obligation or a constructive obligation, where an expectation has been set by the Group.
A provision is made where an outflow of resources is probable and where the payments can be reliably estimated. If the effect is material, provisions are determined by discounting the estimated future payments at a pre-taxation rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Although provisions are made where payments can be reliably estimated, the amounts provided are based upon a number of assumptions which are inherently uncertain and therefore the amount that is ultimately paid could differ from the amount recorded.

PROVISIONS FOR LIABILITIES AND CHARGES

	Long service and annual leave £m	Deferred consider-ation £m	Customer remediation and legal provisions £m	Insurance provisions £m	Unoccupied property £m	Regulatory provisions £m	Other £m	Total £m
At beginning of year	41.3	-	3.7	15.2	6.8	4.5	13.3	84.8
Acquisitions through business combinations	6.1	9.0	0.1	-	-	-	2.9	18.1
Included in goodwill	-	44.9	-	-	-	-	-	44.9
Charge for year	35.5	-	25.6	7.8	0.1	4.4	5.1	78.5
Released in year	(1.7)	(1.9)	(1.7)	-	(1.1)	(3.6)	(2.3)	(12.3)
Utilised in year - cash	(30.5)	-	-	(2.7)	-	(2.7)	(6.9)	(42.8)
Utilised in year - non-cash	-	-	-	(6.3)	-	-	(0.1)	(6.4)
Foreign exchange	(6.9)	(6.5)	0.1	-	-	-	(1.0)	(14.3)
At end of year	**43.8**	**45.5**	**27.8**	**14.0**	**5.8**	**2.6**	**11.0**	**150.5**
Non-current	10.9	4.4	-	10.1	4.0	-	1.7	31.1
Current	32.9	41.1	27.8	3.9	1.8	2.6	9.3	119.4
Total provisions for liabilities and charges	**43.8**	**45.5**	**27.8**	**14.0**	**5.8**	**2.6**	**11.0**	**150.5**

(a) Long service and annual leave
The long service leave provision relates to territories where employees are legally entitled to substantial paid leave after completing a certain length of qualifying service. Uncertainty around both the amount and timing of future outflows arises as a result of variations in employee retention rates, which may vary based on historical experience. The annual leave provision relates to territories where the annual entitlement of leave is not required to be taken within a predetermined time nor does it expire. Therefore uncertainty exists around the timing of future outflows as well as around the amount of future outflows due to wage inflation.

(b) Deferred consideration
Deferred consideration of AUD90m arises from the purchase of Dental Corporation Pty Ltd (Australia) on 31 May 2013. The balance in 'Included in Goodwill' represents the present value of this obligation at the date of acquisition (AUD72.1m). As at 31 December this balance was fair valued, with a reduction in the provision of £1.9m (AUD3.2m) released to the income statement as a result of Dental Corporation's performance not meeting the relevant criteria for a full payout. This balance will be reviewed at each reporting period and adjustments will go through the income statement.

(c) Customer remediation and legal provisions
Customer remediation provisions relate to the costs of compensating customers for losses or damages associated with a failure to comply with regulations or to treat customers fairly. Legal provisions relate to potential and ongoing legal claims and represent the discounted fair value of the total estimated liabilities. Due to the nature of these provisions, the timing and potential cost is uncertain.

(d) Insurance provisions
The insurance provision is in respect of the Group's self insurance and covers the excess that arises on claims made in relation to losses arising from damage to property, business interruption and medical, employee or public liability. Any outflows relating to this provision are dependent on the frequency and value of claims submitted as well as the excess amount specified within individual policies with insurers. The fund is actuarially assessed twice a year to ensure that the provision is adequate.

(e) Unoccupied property
In prior years, the Group entered into non-cancellable leases for property which it no longer fully occupies. The Group has provided for lease obligations, net of sub-lease receivables. The lease obligations are payable monthly, quarterly or annually, within a range of one to 13 years, the average being five years. The future net outflows are uncertain and are affected by the Group's ability to sub-let unoccupied property.

(f) Regulatory provisions
Regulatory provisions relate to levies payable to customer protection bodies by the Group's various regulated entities. Such levies are generally determined on a capped percentage of revenues basis. Payments are normally made annually, although the frequency may be increased or decreased at the discretion of the customer protection bodies.

(g) Other
Other provisions include amounts relating to payments under legislation and restructuring costs.

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3.6
POST EMPLOYMENT BENEFITS

POST EMPLOYMENT BENEFITS IN BRIEF
The Group operates several funded defined benefit and defined contribution pension schemes for the benefit of employees and Directors, in addition to an unfunded (non-registered) and post retirement medical benefit scheme.

The main defined benefit scheme is The Bupa Pension Scheme which was closed to new entrants from 1 October 2002.

The principal defined contribution pension scheme is The Bupa Retirement Savings Plan. The National Employment Savings Trust (NEST) has been used to meet the Group's automatic enrolment duties for UK employees.

DEFINED CONTRIBUTION PENSION SCHEMES
The defined contribution pension schemes provide employees with a retirement fund accumulated through investment of contributions made by Bupa and the employees. Members of the scheme use their funds to secure benefits at retirement. Benefits are not known in advance and the investment and longevity risks are assumed solely by the members of the scheme. Contributions payable by the relevant sponsoring employers are defined in the scheme rules or plan specifications and these contributions are recognised as an expense in the income statement as incurred.

DEFINED BENEFIT POST EMPLOYMENT SCHEMES
The defined benefit pension schemes provide benefits based on final pensionable salary. The Group's net obligation in respect of defined benefit pension and the post retirement medical scheme is calculated separately for each scheme and represents the present value of the defined benefit obligation less, for funded schemes, the fair value of scheme assets. The discount rate used is the yield at the balance sheet date on high quality corporate bonds denominated in the currency in which the benefit will be paid. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of any future refunds from the scheme or reductions in future contributions to the scheme, plus the total of any unrecognised past service costs.

The charge to the income statement for defined benefit schemes represents the following: current service cost calculated on the projected unit credit method, net interest cost (previously the expected return on scheme assets and interest cost on scheme liabilities), past service costs and administrative expenses.

All actuarial gains and losses are recognised in full in the statement of comprehensive income in the period in which they occur.

(i) Amounts recognised in the consolidated income statement
The amounts charged / (credited) to other operating expenses for the year are:

	2013 £m	2012 (Restated) £m
Current service cost	**15.7**	17.8
Net interest on defined benefit liability / asset	**(2.6)**	(1.6)
Administrative expenses	**1.7**	1.7
Past service cost	**-**	(0.1)
Total amount charged to consolidated income statement	**14.8**	17.8

The charge to other operating expenses in respect of cash contributions to defined contribution schemes is £26.4m (2012: £23.7m).

(ii) Amounts recognised directly in other comprehensive income
The amounts charged / (credited) directly to equity:

	2013 £m	2012 (Restated) £m
Actual return less expected return on assets	**(36.7)**	(44.6)
Experience losses arising on obligations	**2.3**	0.6
Loss arising from changes to financial assumptions	**45.4**	24.1
(Gain) / loss arising from changes to demographic assumptions	**(0.7)**	2.9
Total actuarial losses charged / (gains credited) directly to equity	**10.3**	(17.0)

The cumulative amount of actuarial losses recognised directly in equity is £198.7m (2012 (restated): £188.4m).

3.6.1 GROUP POST EMPLOYMENT BENEFIT SCHEMES
Defined contribution pension schemes
The principal defined contribution pension plan in the UK is the Bupa Retirement Savings Plan. This scheme was opened with effect from 1 October 2002 and is available to permanent employees of The British United Provident Association Limited and Bupa Insurance Services Limited to join on a voluntary basis. There are several other contract based defined contribution arrangements available to employees of other employers within the Bupa Group to join on a voluntary joining basis. The Group automatically enrols any eligible non-pensioned employees into the National Employment Savings Trust (NEST).

Defined benefit post employment schemes
The principal defined benefit scheme in the UK is The Bupa Pension Scheme. Contributions by employees and by Bupa Group companies are paid into separate funds administered by a corporate Trustee. The scheme was closed to new entrants from 1 October 2002, but its existing members continue to accrue pension entitlements.

Contributions by Group companies to this scheme are made in accordance with the recommendations of the independent scheme actuary.

The independent scheme actuary for The Bupa Pension Scheme performs detailed triennial valuations together with annual interim reviews. Both triennial and interim valuations use the attained age method, recognising the closure of the scheme to new entrants.

The expected contributions payable in 2014, with regards to the accumulation of future benefits, are £51.2m in respect of The Bupa Pension Scheme, inclusive of a special contribution of £40.0m following the agreement of the new risk appetite by the Trustee, and £1.5m in respect of PeopleChoice Pensions. In addition, the Company has an obligation to make a series of special contributions to The Bupa Pension Scheme amounting to £40.0m per annum for the years ending 31 December 2015 and 2016 inclusive.

During the year the Company made an additional contribution of £40.0m to The Bupa Pension Scheme.

There are several other smaller defined benefit pension schemes operated by UK and overseas subsidiaries. The defined benefit pension schemes are assessed by independent scheme actuaries in accordance with UK or local practice and under IAS19 as at 31 December 2013, for the purposes of inclusion in the Group's consolidated financial statements. Complete disclosure of these other defined benefit pension schemes is not practicable within this report but they are disclosed within the financial statements of the relevant sponsoring employer of each scheme.

Unfunded schemes
Unfunded defined benefit pension arrangements exist for certain employees and former employees to provide benefits in addition to the funded pension arrangements provided by the Group. There are no separate funds or assets in the balance sheet to support the unfunded schemes; however, provisions are included in the balance sheet in respect of these liabilities and assets are ring-fenced to support these liabilities.

The latest valuation of these arrangements was performed as at 31 December 2013 under IAS19 by the Group's independent actuary. The charge to the consolidated income statement in respect of these arrangements and the assessment of the related pension liability as at 31 December 2013, have been made in accordance with this latest valuation, which used the same principal assumptions as adopted at 31 December 2013 under IAS19 for The Bupa Pension Scheme.

Post retirement medical benefit scheme
The Group also provides unfunded post retirement medical benefits for certain former employees. These benefits were granted under an agreement which closed to new entrants in 1992. The latest valuation of this scheme was carried out as at 31 December 2013 by an actuary employed by the Group using the same key assumptions as adopted at 31 December 2013 under IAS19 for The Bupa Pension Scheme.

(iii) Assets and liabilities of schemes

		Pension schemes		Post retirement medical benefit scheme		Total	
	Note	**2013 £m**	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Present value of funded obligations	(iv)	**(1,250.7)**	(1,165.7)	**-**	-	**(1,250.7)**	(1,165.7)
Fair value of scheme assets	(v)	**1,373.6**	1,260.4	**-**	-	**1,373.6**	1,260.4
Net assets / (liabilities) of funded schemes		**122.9**	94.7	**-**	-	**122.9**	94.7
Present value of unfunded obligations	(iv)	**(39.4)**	(37.4)	**(11.0)**	(14.9)	**(50.4)**	(52.3)
Net recognised assets / (liabilities)		**83.5**	57.3	**(11.0)**	(14.9)	**72.5**	42.4

Represented on the balance sheet as:

Net liabilities	**(58.0)**	(62.5)
Net assets	**130.5**	104.9
Net recognised assets	**72.5**	42.4

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(iv) Present value of the scheme obligations

The movements in the present value of schemes' obligations are:

	Pension schemes		Post retirement medical benefit scheme		Total	
	2013	2012 (Restated)	**2013**	2012	**2013**	2012 (Restated)
	£m	£m	**£m**	£m	**£m**	£m
At beginning of year	**1,203.1**	1,128.0	**14.9**	18.0	**1,218.0**	1,146.0
Current service cost	**15.7**	17.8	**-**	-	**15.7**	17.8
Interest on obligations	**53.2**	52.2	**0.7**	0.8	**53.9**	53.0
Contributions by employees	**0.7**	0.8	**-**	-	**0.7**	0.8
Experience loss / (gain)	**2.5**	2.9	**(0.2)**	(0.4)	**2.3**	2.5
Loss / (gain) arising from changes to financial assumptions	**49.2**	27.1	**(3.8)**	(3.0)	**45.4**	24.1
(Gain) / loss arising from changes to demographic assumptions	**(0.7)**	2.9	**-**	-	**(0.7)**	2.9
Benefits paid	**(30.1)**	(27.7)	**(0.6)**	(0.5)	**(30.7)**	(28.2)
Past service cost	**-**	(0.1)	**-**	-	**-**	(0.1)
Foreign exchange	**(3.5)**	(0.8)	**-**	-	**(3.5)**	(0.8)
At end of year	**1,290.1**	1,203.1	**11.0**	14.9	**1,301.1**	1,218.0

(v) Fair value of funded schemes' assets

The movements in the fair value of the funded schemes' assets are:

	2013	2012 (Restated)
	£m	£m
At beginning of year	**1,260.4**	1,149.0
Interest income	**56.5**	54.6
Return on assets excluding interest income	**36.7**	44.6
Contributions by employer	**53.4**	39.0
Contributions by employees	**0.7**	0.8
Administration expenses	**(1.7)**	(1.7)
Benefits paid	**(28.7)**	(25.3)
Foreign exchange	**(3.7)**	(0.6)
At end of year	**1,373.6**	1,260.4

The market values of the assets of the funded schemes are as follows:

	2013	2012 (Restated)
	£m	£m
Equities	**579.4**	492.5
Debt instruments	**-**	0.7
Government bonds	**3.2**	0.6
Property	**3.0**	2.9
Corporate bonds	**717.2**	715.5
Cash / Other assets	**62.8**	39.0
Gilts	**1.2**	2.8
Diversified growth funds	**6.8**	6.4
Total market value of the assets of the funded schemes	**1,373.6**	1,260.4

All assets have a quoted market price.

3.6.2 ACTUARIAL ASSUMPTIONS

The responsibility for setting the assumptions underlying the IAS19 valuations rests with the Directors, having first taken advice from the Group's independent actuary. The key weighted average financial assumptions used when valuing the obligations of the post employment benefit schemes under IAS19 are as follows:

		Funded schemes		Unfunded schemes	
	Note	**2013 %**	2012 %	**2013 %**	2012 %
Inflation rate	(a)	**3.4**	3.0	**3.5**	3.0
Rate of increase in salaries	(a)	**4.9**	4.5	**5.0**	4.5
Rate of increase to pensions in payment	(a)	**3.3**	2.9	**3.4**	3.0
Rate of increase to pensions in deferment	(a)	**2.6**	2.3	**2.8**	2.3
Discount rate for scheme assets and obligations	(a)	**4.7**	4.5	**4.7**	4.5
Medical cost trend rate	(b)	**-**	-	**3.5**	4.0

(a) Actuarial assumptions underlying the valuation of obligations
The inflation assumption is set by reference to the difference between the yield on long-term fixed interest gilts and the real yield on index-linked gilts, with a deduction of 0.2% to reflect an inflation risk premium.

The rate of increase of pensions in payment is the same as the inflation rate, with the exception of benefits which receive fixed increases in payment as defined under the respective scheme rules.

The derived discount rate is based on the AA corporate bond yield curve from a Bloomberg dataset, to reflect the duration of scheme liabilities. This represents a change to the dataset used in 2012, to reflect current market conditions.

(b) Medical cost trend rate
The medical cost trend rate is the assumed additional escalation of medical costs over and above the assumed inflation rate. It is assumed that such an effect will continue during the remaining run-off of the liability. Assumed medical cost trend rates have a significant effect on the amounts recognised in the consolidated income statement. A one percentage point change in assumed medical cost trend rates would result in the following increase and decrease in the post retirement medical benefit obligation.

	One % point increase 2013	One % point decrease 2013	One % point increase 2012	One % point decrease 2012
Effect on post retirement medical benefit obligation	1.5	(1.3)	2.0	(1.7)
Effect on the aggregate of current service cost and interest cost	0.1	(0.1)	0.1	(0.1)

(c) Mortality assumptions
The Trustees of The Bupa Pension Scheme have undertaken a scheme specific mortality investigation as part of the 1 July 2011 triennial valuation.

The Trustees shared the conclusion drawn from this analysis with the Directors, who have adopted assumptions in line with this analysis for the purposes of the IAS19 valuation as at 31 December 2013.

The mortality tables adopted at 31 December 2013 are the S1 SAPS year of birth mortality tables using the CMI projection model, with a long-term rate of improvement of 1.25% pa and an age rating of minus one year. The average life expectancies at age 60 based on these tables for a male currently aged 60 (45) is 27.9 years (29.4 years) and for a female currently aged 60 (45) is 30.4 years (32.0 years).

(d) Assumptions over duration of liabilities
The weighted average duration of the defined benefit obligation is approximately 21 years.

(e) Sensitivity analysis of the principal assumptions used to measure scheme liabilities
The below sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (projected unit credit method) has been applied as when calculating the pension liability recognised within the statement of financial position. The methods and types of assumption did not change.

Assumption	Change in assumption	Indicative impact on Scheme liabilities
Discount rate	Increase / decrease by 0.25%	Decrease / increase by £59m
Rate of inflation	Increase / decrease by 0.25%	Increase / decrease by £54m
Rate of increase in salaries	Increase / decrease by 0.1%	Increase / decrease by £7m
Rate of mortality	Increase by one year	Increase by £25m

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3.7 DEFERRED TAXATION ASSETS AND LIABILITIES

DEFERRED TAXATION ASSETS AND LIABILITIES IN BRIEF

Deferred tax is an amount which recognises the differences between the carrying amounts of assets and liabilities for financial reporting and the amounts used for taxation purposes.

An example is the variance between the carrying value of equipment due to depreciation being charged for financial reporting purposes and written down allowances being applied for the relevant tax authorities.

Deferred taxation is recognised in full using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences are not recognised: goodwill not deductible for taxation purposes and the initial recognition of an asset or liability in a transaction that is not a business combination and which, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The amount of deferred taxation recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using taxation rates enacted or substantively enacted at the balance sheet date.

Deferred taxation is recognised on temporary differences arising on investments in subsidiary companies, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred taxation asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred taxation assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and when the Group can settle its current taxation assets and liabilities on a net basis.

Recognised deferred taxation assets and liabilities

Deferred taxation assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
Accelerated capital allowances	-	-	(77.2)	(65.2)	(77.2)	(65.2)
Post employment benefit asset / liability	-	-	(14.0)	(8.9)	(14.0)	(8.9)
Revaluation of properties to fair value	-	-	(62.5)	(76.9)	(62.5)	(76.9)
Employee benefits (other than post employment)	22.9	22.3	-	-	22.9	22.3
Provisions	13.8	11.2	-	-	13.8	11.2
Taxation value of losses carried forward	15.4	19.1	-	-	15.4	19.1
Goodwill and intangible assets	-	-	(88.1)	(65.1)	(88.1)	(65.1)
Other	5.4	11.9	(5.0)	(4.1)	0.4	7.8
Deferred taxation assets / (liabilities)	57.5	64.5	(246.8)	(220.2)	(189.3)	(155.7)
Allowable netting of deferred taxation assets and liabilities	(56.6)	(61.9)	56.6	61.9	-	-
Net deferred taxation asset / (liability)	0.9	2.6	(190.2)	(158.3)	(189.3)	(155.7)

Recognised deferred taxation assets

Deferred taxation assets relating to the carry forward of employee benefits, other provisions, unused taxation losses and other deferred taxation assets are recognised to the extent that it is probable that future taxable profits will be available against which the deferred taxation assets can be utilised.

Unrecognised deferred taxation assets

As at 31 December 2013, the Group had deductible temporary differences relating to intangible assets of £13.0m (2012: £28.4m), trading losses of £96.4m (2012: £69.3m) and capital losses of £25.1m (2012: £36.0m) for which no deferred taxation asset was recognised due to uncertainty of utilisation of those temporary differences.

Movement in net deferred taxation (liabilities) / assets

	At beginning of year £m	Recognised in income statement £m	Recognised in other compre-hensive income £m	Acquisitions through business combinations £m	Disposal of subsidiary companies £m	Foreign exchange £m	At end of year £m
2013							
Accelerated capital allowances	(65.2)	(10.2)	-	(2.6)	-	0.8	(77.2)
Post employment benefit asset / liability	(8.9)	(4.9)	(0.1)	-	-	(0.1)	(14.0)
Revaluation of properties to fair value	(76.9)	37.3	(21.5)	-	-	(1.4)	(62.5)
Employee benefits (other than post employment)	22.3	(0.4)	-	1.6	-	(0.6)	22.9
Provisions	11.2	1.6	-	1.2	-	(0.2)	13.8
Taxation value of losses carried forward	19.1	(3.4)	-	-	-	(0.3)	15.4
Goodwill and intangible assets	(65.1)	7.8	-	(32.8)	-	2.0	(88.1)
Other	7.8	(15.1)	(0.3)	1.7	-	6.3	0.4
Total	**(155.7)**	**12.7**	**(21.9)**	**(30.9)**	**-**	**6.5**	**(189.3)**
2012							
Accelerated capital allowances	(36.5)	(29.7)	-	-	-	1.0	(65.2)
Post employment benefit asset / liability	(4.5)	(3.4)	(1.0)	-	-	-	(8.9)
Revaluation of properties to fair value	(117.5)	31.0	9.1	-	-	0.5	(76.9)
Employee benefits (other than post employment)	24.6	(1.7)	-	-	-	(0.6)	22.3
Provisions	3.8	7.4	-	-	-	-	11.2
Taxation value of losses carried forward	13.3	6.1	-	-	-	(0.3)	19.1
Goodwill and intangible assets	(77.3)	10.3	-	-	-	1.9	(65.1)
Other	19.4	(11.9)	0.2	0.5	-	(0.4)	7.8
Total	**(174.7)**	**8.1**	**8.3**	**0.5**	**-**	**2.1**	**(155.7)**

4.0 BUSINESS COMBINATIONS AND DISPOSALS

BUSINESS COMBINATIONS AND DISPOSALS IN BRIEF
A business combination refers to the acquisition of a controlling interest in a business, which is *further defined as an integrated set of activities and assets that is capable of being conducted* and managed for the purpose of providing economic benefits to the owners. A disposal refers to the sale of a subsidiary.

(a) Acquisitions

Business combinations are accounted for using the acquisition method. Identifiable assets and liabilities acquired and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The identification and valuation of intangible assets arising on business combinations is subject to a degree of judgement. We engage independent third parties, including Deloitte, Ernst & Young, and Knight Frank, to assist with the identification and valuation process. This is performed in accordance with the Group's policies.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable assets acquired is recorded as goodwill.

Acquisition accounting must be completed within 12 months of the transaction date.

Costs related to the acquisition are expensed as incurred.

2013 acquisitions

A number of acquisitions were made during the year ended 31 December 2013; the details are as follows:

	Date of acquisition	Percentage of holdings
Australia and New Zealand		
Maxwell - Care Services	28 January 2013	100%
Innovative Care - Care Services	8 February 2013	100%
Dental Corporation	31 May 2013	100%
Te Puke - Care Services	16 September 2013	100%
Oceania - Care Services	29 October 2013	100%
UK		
Richmond Care Villages	19 August 2013	100%
In-Store Dental Ltd	31 October 2013	100%
Store Dental Ltd	31 October 2013	100%
Spain and Latin America Domestic		
Clínica Londres	19 June 2013	100%
International Development Markets		
LUX MED	11 April 2013	100%
Tomograf - Imaging Diagnostics	30 September 2013	100%
Quality HealthCare	24 October 2013	100%
Sport Medica - Carolina Medical Centre	2 December 2013	81%

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2013 summary acquisition tables

	LUX MED			Dental Corporation			Innovative Care		
	Carrying value at acquisition £m	Fair value adjustments £m	Fair value (Provisional) £m	Carrying value at acquisition £m	Fair value adjustments £m	Fair value (Provisional) £m	Carrying value at acquisition £m	Fair value adjustments £m	Fair value £m
Intangibles	106.9	62.0	168.9	1.4	-	1.4	-	17.2	17.2
Property, plant and equipment	31.7	2.3	34.0	16.5	-	16.5	128.8	-	128.8
Inventories	0.3	-	0.3	0.8	-	0.8	-	-	-
Equity accounted investments	0.1	-	0.1	8.3	1.3	9.6	-	-	-
Trade and other receivables	13.4	-	13.4	12.5	-	12.5	0.1	-	0.1
Assets arising from insurance	0.4	-	0.4	-	-	-	-	-	-
Cash and cash equivalents	12.7	-	12.7	11.2	-	11.2	-	-	-
Other interest bearing liabilities	(186.9)	-	(186.9)	(97.4)	-	(97.4)	-	-	-
Deferred tax (liabilities) / assets	(29.4)	(2.6)	(32.0)	4.0	-	4.0	0.5	-	0.5
Deferred income	(1.5)	-	(1.5)	-	-	-	-	-	-
Trade and other payables	(19.6)	-	(19.6)	(17.0)	-	(17.0)	(41.4)	-	(41.4)
Insurance liabilities	(0.6)	-	(0.6)	-	-	-	-	-	-
Provisions for liabilities and charges	(1.3)	-	(1.3)	(13.6)	-	(13.6)	(1.6)	-	(1.6)
	(73.8)	61.7	(12.1)	(73.3)	1.3	(72.0)	86.4	17.2	103.6

	LUX MED	Dental Corporation	Innovative Care
Net assets acquired	(12.1)	(72.0)	103.6
Goodwill	177.7	347.6	1.4
Consideration	**165.6**	**275.6**	**105.0**
Consideration satisfied by:			
Cash	165.6	231.2	105.0
Deferred	-	44.4	-
Total consideration paid	**165.6**	**275.6**	**105.0**
Purchase consideration settled in cash	165.6	231.2	105.0
Cash acquired on acquisition	12.7	11.2	-
Net cash outflow on acquisition	**152.9**	**220.0**	**105.0**

(i) LUX MED

On 11 April 2013 the Group acquired 100% of the share capital of the LUX MED Group, for cash consideration of £165.6m (€198.5m/PLN 818.0m). The LUX MED Group is the largest private healthcare provider in Poland, providing integrated healthcare to over three million customers, including subsequent Polish expansions. As a result of this acquisition £177.7m of goodwill has been recognised.

The goodwill represents a premium required to attain the market leading private healthcare company in Poland. LUX MED represents a clear fit with Bupa's strategy and offers the opportunity to further develop the existing position through greater integration of funding and provision elements of the business, delivery of opportunities to tackle some of the key issues in global healthcare and to work with the Polish Government in shaping the public and private healthcare sector.

In addition to the £5.7m of existing intangible assets, a further £163.2m were identified as part of the acquisition, details are provided in the table below. The most significant of these was the LUX MED brand (£57.0m), which has been allocated a useful life of 15 years to reflect LUX MED's position as market leader and Bupa's ongoing commitment to the brand presence in the region.

The majority of customer relationship assets identified (£93.5m) have been allocated a useful life of 20 years, based on historical customer churn rates provided by local management. These are considered to be appropriate and are in line with the Group's policy.

	£m	Useful life	
Brands and Trademarks	60.2	10-15 yrs	Three trademarks recognised: LUX MED, Medycyna Rodzinna and AVI
Customer relationships	98.7	10-20 yrs	Primarily relating to the corporate subscriber base in the outpatient segment
Order backlog	3.7	6m-1 yr	Order backlog has been estimated based on expected cash flows until the end of the notice period
Other	0.6	1-9 yrs	Favourable leasehold contracts, assessed against market rates
Total	**163.2**		

(ii) Dental Corporation

On 31 May 2013 the Group acquired 100% of the Dental Corporation Group, for cash and deferred consideration of £275.6m (AUD447.2m). Dental Corporation is Australia and New Zealand's largest corporate dental provider, and at the date of acquisition, also held a 34.3% share of Dental Corporation Canada. This acquisition added 190 dental clinics and approximately 600,000 customers to the Australia and New Zealand Market Unit. As a result of the acquisition £347.6m of goodwill has been recognised.

The goodwill represents a premium for acquiring an established, market leading dental business with operations in Australia, New Zealand and Canada. In addition, the value of the dentists (assembled workforce), the senior management, the portfolio value and other items that do not meet the recognition criteria of IAS 38 are all incorporated within this goodwill value.

Synergies have been identified with the existing health insurance business, primarily relating to the ability to provide enhanced customer value proposition and the ability to cross sell Bupa's health insurance products to the existing dental customers and vice versa. As a result of these synergies, 20% of the goodwill arising from the Dental Corporation acquisition has been allocated to the Bupa Australia Health Insurance CGU. The remainder of the goodwill will sit within the Bupa Health Services Australia CGU.

The fair value adjustments relating to the acquisition of LUX MED and Dental Corporation are provisional and will be finalised during 2014, but no longer than 12 months after the date of acquisition.

(iii) Innovative Care

The Group acquired nine care home businesses in Australia, from Innovative Care Ltd, on 8 February 2013, for total cash consideration of £93.8m (AUD152.3m). A tenth care home was subsequently acquired on 1 July 2013 for consideration of £11.2m (AUD18.1m). These acquisitions added over 1,100 beds and will improve the quality and diversity of Bupa's residential care portfolio in Australia. The acquired care homes have been independently valued by Knight Frank chartered surveyors and intangible assets of £17.2m, relating to bed licences, have been identified. Goodwill of £1.4m has been recognised as a result of the acquisition.

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	Richmond Care Villages			Quality HealthCare			Other		
	Carrying value at acquisition £m	Fair value adjustments £m	Fair value (Provisional) £m	Carrying value at acquisition £m	Fair value adjustments £m	Fair value (Provisional) £m	Carrying value at acquisition £m	Fair value adjustments £m	Fair value £m
Intangibles	-	15.0	15.0	33.1	(32.7)	0.4	-	0.4	0.4
Property, plant and equipment	43.1	-	43.1	6.8	-	6.8	34.8	-	34.8
Investment property	1.4	-	1.4	-	-	-	3.9	-	3.9
Inventories	18.2	-	18.2	1.6	-	1.6	0.3	-	0.3
Trade and other receivables	0.4	-	0.4	21.3	-	21.3	1.4	-	1.4
Restricted assets	0.2	-	0.2	-	-	-	-	-	-
Cash and cash equivalents	0.6	-	0.6	3.6	-	3.6	0.7	-	0.7
Other interest bearing liabilities	(38.8)	-	(38.8)	-	-	-	(10.6)	-	(10.6)
Deferred tax assets / (liabilities)	0.7	(3.0)	(2.3)	(1.3)	-	(1.3)	0.3	(0.1)	0.2
Deferred income	-	-	-	(2.2)	-	(2.2)	(1.0)	-	(1.0)
Trade and other payables	(3.4)	-	(3.4)	(18.0)	-	(18.0)	(12.6)	-	(12.6)
Provisions for liabilities and charges	-	-	-	(0.4)	-	(0.4)	(1.2)	-	(1.2)
	22.4	12.0	34.4	44.5	(32.7)	11.8	16.0	0.3	16.3
Net assets acquired			34.4			11.8			16.3
Attributable to non-controlling interest			-			-			0.9
Goodwill			12.6			221.5			37.9
Consideration			**47.0**			**233.3**			**55.1**
Consideration satisfied by:									
Cash			47.0			233.3			54.6
Deferred			-			-			0.5
Total consideration paid			**47.0**			**233.3**			**55.1**
Purchase consideration settled in cash			47.0			233.3			54.6
Cash acquired on acquisition			0.6			3.6			0.7
Net cash outflow on acquisition			**46.4**			**229.7**			**53.9**

(iv) Richmond Care Villages
On 19 August 2013 the Group acquired 100% of Richmond Care Villages, for a total consideration of £47.0m. The transaction added five operating care villages and three development sites to the existing aged care portfolio in the UK, and will enable the UK Market Unit to offer a wider choice of care options.

The acquired properties and related assets have been independently valued by Knight Frank, chartered surveyors. As a result, intangible assets of £15.0m relating to existing customer contracts, including assignment fees, have been identified and goodwill of £12.6m has been recognised. This represents a portfolio premium for acquiring a retirement village, which includes a care home business and living apartments for a high proportion of self-pay residents.

The fair value adjustments relating to the Richmond Care Villages acquisition are provisional and will be finalised during 2014, no longer than 12 months after the date of acquisition.

(v) Quality HealthCare
On 25 October 2013 the Group acquired 100% of Quality HealthCare, Hong Kong's largest private clinic network, for a total consideration of £233.3m (USD365.2m/HKD2,831.2m). This acquisition will enhance the Group's healthcare offering in the region.

The acquisition balance sheet is provisional, subject to a purchase price allocation exercise, which will be finalised during 2014, no longer than 12 months after the date of acquisition.

(vi) Other
Other acquisitions during the period include three transactions to add a total of six integrated aged care and retirement village facilities, as well as five care homes, to the existing portfolio in New Zealand, for a total consideration of £16.6m. No goodwill has been recognised in relation to these transactions.

The Group also acquired 100% of the share capital of Clínica Londres, the second largest wellness provider in Spain, for a total consideration of £3.6m. As a result of the acquisition £3.1m of goodwill has been recognised.

Also included in 'Other' is a series of dental clinic acquisitions in Australia, following the Dental Corporation transaction at the end of May 2013, for a total consideration of £18.8m giving rise to £18.2m of goodwill.

In addition, further investment was made into Poland with the acquisition of the Carolina Medical Centre, a 30-bed specialist orthopaedic hospital in Warsaw, and Tomograf, an imaging diagnostic operator. As a result of these further investments, £12.8m of goodwill has been recognised.

No contingent liabilities have been identified in relation to any of the 2013 acquisitions

The above tables are translated at average foreign exchange rates for the period ended 31 December 2013.

Set out below is the calculation of goodwill using the spot rates applicable at the respective dates of acquisition.

	LUX MED £m	Dental Corporation £m	Innovative Care £m	Richmond Care Villages £m	Quality HealthCare £m
Net assets acquired	(12.4)	(73.6)	108.9	34.4	11.4
Goodwill	182.1	355.2	1.5	12.6	214.4
Consideration	**169.7**	**281.6**	**110.4**	**47.0**	**225.8**

In the period from the respective dates of acquisition to the 31 December 2013, the total amount contributed to the Group's revenue and profit by the acquired entities was:

	Revenue £m	Profit £m
LUX MED	133.7	1.4
Dental Corporation	104.2	8.6
Innovative Care	47.1	4.7
Richmond Care Villages	11.2	0.7
Quality HealthCare	23.5	1.2
Total	**319.7**	**16.6**

If all the acquisitions had occurred on 1st January 2013, the total amount contributed to the Group's revenue and profit would have been:

	Revenue £m	Profit £m
LUX MED	172.6	(6.1)
Dental Corporation	173.6	9.1
Innovative Care	55.0	5.5
Richmond Care Villages	29.5	(14.3)
Quality HealthCare	116.7	3.1
Total	**547.4**	**(2.7)**

LUX MED incurred substantial financing costs on external debt, which was extinguished immediately prior to the acquisition by the Group.

The properties held by Richmond Care Villages were subject to a revaluation prior to the acquisition by the Group on 19 August 2013. As a result, a significant revaluation loss was recognised in the income statement, attributable to the prior owners.

Acquisition transaction costs
Transaction costs expensed in the period to 31 December 2013, within Other Operating Expenses are detailed below:

	£m
LUX MED	2.3
Dental Corporation	3.8
Innovative Care	7.2
Richmond Care Villages	2.2
Quality HealthCare	3.5
Other	9.6
Total	**28.6**

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2012 acquisitions

On 5 December 2012, the Group acquired 50% of the share capital of Torrejón Hospital for cash consideration of £6.8m (€8.4m). The investment represents a 30-year public-private partnership arrangement with the local Government to operate the 250-bed hospital in Madrid. As a result, £0.9m of goodwill has been recognised. The fair value exercise conducted during the period identified £0.8m (€1.0m) of contingent consideration payable that had previously been valued at nil. The acquisition table below has been restated to reflect this additional consideration and, consequently, goodwill.

The acquisition related costs included in operating expenses for the year ended 31 December 2012 totalled £0.2m (€0.3m).

	Torrejón (Restated)			Other		
	Carrying value at acquisition £m	Fair value adjustments £m	Fair value £m	Carrying value at acquisition £m	Fair value adjustments £m	Fair value £m
Intangibles	-	-	-	4.1	-	4.1
Property, plant and equipment	-	-	-	30.1	2.6	32.7
Inventories	1.3	-	1.3	-	-	-
Trade and other receivables	101.3	-	101.3	0.5	-	0.5
Cash and cash equivalents	4.9	-	4.9	0.2	-	0.2
Subordinated liabilities	(32.9)	-	(32.9)	-	-	-
Other interest bearing liabilities	(0.2)	-	(0.2)	-	-	-
Deferred tax liabilities	0.5	-	0.5	-	-	-
Trade and other payables	(63.2)	-	(63.2)	(21.6)	-	(21.6)
Provisions for liabilities and charges	-	-	-	(0.8)	-	(0.8)
	11.7	-	**11.7**	**12.5**	2.6	**15.1**
Net assets acquired			11.7			15.1
Attributable to non-controlling interests			(5.8)			-
Gain on bargain purchase			-			(2.6)
Goodwill			0.9			6.2
Consideration			**6.8**			**18.7**
Consideration satisfied by:						
Cash			6.0			18.2
Deferred consideration			0.8			0.5
			6.8			**18.7**
Purchase consideration settled in cash			6.0			18.2
Cash acquired on acquisition			4.9			0.2
Net cash outflow on acquisition			**1.1**			**18.0**

(b) Disposals

At the date when the Group ceases to have control in an entity it is remeasured to its fair value, with the changes in carrying value recognised in the income statement. Any amounts relating to the entity that have previously been recognised in the statement of comprehensive income are reclassified to the income statement.

There were no disposals of businesses during the year ended 31 December 2013 (2012: £nil).

(c) Subsequent Events

On 24 February 2014 Bupa acquired 56% of Cruz Blanca, Chile's leading healthcare group, for a total consideration of £205.6m.

An exercise to determine the fair value of the net assets and contingent liabilities is underway.

4.1 EQUITY ACCOUNTED INVESTMENTS

EQUITY ACCOUNTED INVESTMENTS IN BRIEF
Equity accounted investments comprise associated companies and joint ventures.

EQUITY ACCOUNTED INVESTMENTS
Associated companies and joint ventures are accounted for using the equity method and are initially recognised at cost. The cost of the investment includes transaction costs.

Associated companies include those entities in which the Group has significant influence, but no control, over the financial and operating policies of the entity. Joint ventures include those entities over the activities of which the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

When the Group's share of losses exceeds its interest in an equity accounted investment, the carrying amount of that interest (including any long-term interests that, in substance, form part of the Group's net investment), is reduced to nil. In addition, the recognition of further losses is discontinued except to the extent that the Group has an obligation, or made payments, on behalf of the equity accounted investment.

The consolidated financial statements include the Group's share of income and expenses, and other comprehensive income, after adjustments to align the accounting policies with those of the Group where materially different, from the date that significant influence or control commences until the date that significant influence or control ceases.

The carrying amount of equity accounted investments is £212.8m (2012: £34.2m).

All equity accounted investments are included on a coterminous basis.

(i) Associates
The Group's share of the assets, liabilities, revenue and profit as reported in the most recent accounts of the individual equity accounted associates, is as follows:

	2013 £m	2012 £m
Assets	**196.4**	93.5
Liabilities	**(128.6)**	(57.5)
Net assets	**67.8**	36.0
Revenues	**149.0**	107.6
Profit before taxation expense	**7.5**	6.3

On 18 December 2013 the Group purchased 49.0% of the shares of Highway to Health, Inc, a specialist US-based health insurance and services company, for a consideration of £155.3m.

As part of the acquisition of Dental Corporation Pty Limited on 31 May 2013, the Group obtained a 34.3% shareholding in Dental Corporation of Canada Inc, at a fair value of £9.6m. During the year, Bupa has increased its shareholding to 42.3% for a cash amount of £8.5m.

On 22 August 2013, the Group disposed of 100% of its shares in IBC Asia Healthcare Limited for cash proceeds of £0.5m. The investment was fully impaired, therefore all proceeds were recognised as profit on disposal in 'Other income and charges', see Section 2.4.

(ii) Joint ventures
The Group's share of the assets, liabilities, revenue and expenses as reported in the most recent accounts of the individual joint ventures, is as follows:

	2013 £m	2012 £m
Non-current assets	**8.2**	7.6
Current assets	**1.4**	0.9
Non-current liabilities	**-**	-
Current liabilities	**(2.7)**	(5.2)
Net assets	**6.9**	3.3
Revenues	**8.0**	3.3
Expenses	**(11.1)**	(4.9)

During 2013, a capital injection of £4.6m (2012: £3.7m) was made in Max Bupa Health Insurance Company Limited to maintain the shareholding of 26.0%. This investment has been classified as a joint venture as the Group is party to a shareholder agreement for the sharing of joint control.

The Group's principal equity accounted investments are:

		Business activity	Share of issued share capital	Principally operates in	Country of incorporation
Bupa Arabia For Cooperative Insurance Company	Associate	Insurance	26.25%	Saudi Arabia	Saudi Arabia
Dental Corporation of Canada, Inc	Associate	Insurance	42.30%	Canada	Canada
Highway to Health, Inc	Associate	Insurance	49.00%	USA	USA
Max Bupa Health Insurance Company Limited	Joint Venture	Insurance	26.00%	India	India
Forsikringsselskaber Nes Data Centra A/S	Associate	Insurance	33.33%	Denmark	Denmark

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5.0 FINANCIAL INVESTMENTS

FINANCIAL INVESTMENTS IN BRIEF

The Group generates cash from its underwriting, trading and financing activities and invests the surplus cash in financial investments. These include government bonds, corporate bonds, shares and variable yield securities.

All financial investments are initially recognised at fair value, which includes transaction costs for financial investments not classified at fair value through profit or loss.

Financial investments are derecognised when the rights to receive cash flows from the financial investments have expired or where the Group has transferred substantially all risks and rewards of ownership.

The Group has classified its financial investments into the following categories: at fair value through profit or loss, held to maturity, and loans and receivables. Classification is determined at initial recognition.

The accounting policy for the impairment of financial investments is detailed in Section 3.0.1.

FINANCIAL INVESTMENTS

Financial investments are analysed as follows:

	Carrying value 2013 £m	Cost 2013 £m	Carrying value 2012 £m	Cost 2012 £m
Non-current				
Designated at fair value through profit or loss				
Debt securities - government bonds	**18.4**	**17.8**	11.8	11.8
Debt securities - corporate bonds	**125.3**	**114.1**	109.9	98.2
Shares and other variable yield securities	**139.0**	**112.6**	136.9	111.0
Held to maturity				
Medium-term notes	**50.0**	**50.0**	200.8	200.0
Debt securities - corporate bonds	**5.7**	**5.7**	1.7	1.7
Loans and receivables				
Debt securities - corporate bonds	**79.7**	**39.9**	75.9	39.9
Deposits with credit institutions	**337.4**	**331.5**	549.1	541.8
Total non-current financial investments	**755.5**	**671.6**	1,086.1	1,004.4
Current				
Designated at fair value through profit or loss				
Debt securities - government bonds	**13.5**	**13.9**	10.9	10.9
Debt securities - corporate bonds	**0.8**	**0.8**	1.5	1.5
Shares and other variable yield securities	**24.5**	**24.5**	20.0	16.8
Held to maturity				
Medium-term notes	**150.2**	**150.0**	-	-
Discounted notes	**-**	**-**	2.3	2.3
Debt securities - corporate bonds	**52.4**	**52.2**	53.7	53.2
Loans and receivables				
Deposits with credit institutions	**1,063.2**	**1,049.4**	1,067.7	1,041.0
Other loans	**1.2**	**1.2**	9.3	9.3
Total current financial investments	**1,305.8**	**1,292.0**	1,165.4	1,135.0
Total financial investments	**2,061.3**	**1,963.6**	2,251.5	2,139.4

Classification	Criteria and treatment
Fair value through profit or loss	Financial investments designated at fair value through profit or loss consist of investments or instruments where management make decisions based upon their fair value. The investments are carried at fair value, with gains and losses arising from changes in this value recognised in the income statement in the period in which they arise.
Held to maturity	Held to maturity investments are similar to loans and receivables but where the Group has a positive intention and ability to hold investments to maturity. This is assessed at each reporting date. Held to maturity investments are measured at amortised cost using the effective interest method, less any impairment losses. Any discount or premium on purchase is amortised over the life of the investment through the income statement.
Loans and receivables	Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost calculated using the effective interest method, less impairment losses.

Financial investments comprise:

	Fair value 2013 £m	**Cost 2013 £m**	Fair value 2012 £m	Cost 2012 £m
Listed investments	**248.4**	**221.7**	255.8	225.7
Unlisted investments	**434.8**	**361.0**	378.9	330.8
Deposits with credit institutions	**1,402.8**	**1,380.9**	1,616.8	1,582.9
Total financial investments	**2,086.0**	**1,963.6**	2,251.5	2,139.4

Fair value of financial instruments
The fair value of a financial instrument is defined as the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. Fair values disclosed in the table above have been calculated as follows:

- debt securities, shares and other variable yield securities - quoted price if available or discounted expected future principal and interest cash flows; and
- listed securities - quoted price.

The fair values of quoted investments in active markets are based on current bid prices. The fair values of unlisted securities, and quoted investments for which there is no active market, are established using valuation techniques corroborated by independent third parties. These may include reference to the current fair value of other instruments that are substantially the same and discounted cash flow analysis.

Financial instruments carried at fair value are categorised by the three level hierarchy. The different levels have been defined by reference to the lowest level input that is significant to the fair value measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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An analysis of financial instruments by valuation method is as follows:

	Non-current			Current		
	Level 1 £m	Level 2 £m	Total Non-current £m	Level 1 £m	Level 2 £m	Total Current £m
2013						
Financial Investments						
Debt securities - government bonds	17.6	0.8	18.4	13.5	-	13.5
Debt securities - corporate bonds	20.0	105.3	125.3	0.8	-	0.8
Shares and other variable yield securities	138.3	0.7	139.0	-	24.5	24.5
Derivatives[1]						
Derivative assets	-	50.0	50.0	-	12.9	12.9
Derivative liabilities	-	(3.6)	(3.6)	-	(1.2)	(1.2)
2012						
Financial Investments						
Debt securities - government bonds	11.6	0.2	11.8	10.9	-	10.9
Debt securities - corporate bonds	17.4	92.5	109.9	1.5	-	1.5
Shares and other variable yield securities	136.7	0.2	136.9	20.0	-	20.0
Derivatives[1]						
Derivative assets	-	84.0	84.0	-	1.6	1.6
Derivative liabilities	-	(4.5)	(4.5)	-	(3.7)	(3.7)

Currently the Group does not hold any Level 3 financial instruments.

Note

[1] The accounting policies for derivatives are described in Section 5.2.

The Group uses a market interest curve as at the balance sheet date to discount financial instruments, borrowings and derivatives, where the fair value cannot otherwise be found from quoted market values. The range of interest rates used is as follows:

	2013 %	2012 %
Sterling assets and liabilities	**0.9-3.5**	0.7-3.2
Australian Dollar assets and liabilities	**2.5-3.5**	2.6-3.8
Euro assets and liabilities	**0.2-3.5**	0.1-2.3
US Dollar assets and liabilities	**0.1-4.5**	0.2-3.4

5.1 BORROWINGS

BORROWINGS IN BRIEF
The Group has various sources of funding including subordinated bonds, senior unsecured bonds, debenture stock and loans.

SUBORDINATED LIABILITIES

Subordinated liabilities are stated at amortised cost using the effective interest method. The carrying value is adjusted for the gain or loss on hedged risk; changes in the fair value of derivatives that mitigate interest rate risk resulting from the fixed interest rate of the bonds are recognised in the income statement as an effective fair value hedge of this exposure.

The coupon payable on the bonds is recognised as a financial expense.

The Group holds callable subordinated perpetual guaranteed bonds with a corresponding fair value hedge. The amortised cost of these borrowings is adjusted for the fair value of the risk being hedged.

		2013			2012		
	Note	**Non-current £m**	**Current £m**	**Total £m**	Non-current £m	Current £m	Total £m
Callable subordinated perpetual guaranteed bonds		**330.0**	**5.9**	**335.9**	330.0	6.0	336.0
Fair value adjustment in respect of hedged interest rate risk		**50.0**	**-**	**50.0**	84.0	-	84.0
Callable subordinated perpetual guaranteed bonds at carrying value	(a)	**380.0**	**5.9**	**385.9**	414.0	6.0	420.0
10.5% subordinated guaranteed bonds due 2018	(b)	**-**	**-**	**-**	3.9	-	3.9
Other subordinated debt due 2022	(c)	**32.8**	**-**	**32.8**	33.3	-	33.3
5.0% subordinated unguaranteed bonds due 2023	(d)	**494.6**	**4.0**	**498.6**	-	-	-
Total subordinated liabilities		**907.4**	**9.9**	**917.3**	451.2	6.0	457.2

(a) Callable subordinated perpetual guaranteed bonds
In December 2004, Bupa Finance plc issued £330.0m of callable subordinated perpetual guaranteed bonds, which are guaranteed by Bupa Insurance Limited. Interest is payable on the bonds at 6.125% pa. The bonds have no fixed maturity date but a call option is exercisable by Bupa Finance plc to redeem the bonds on 16 September 2020. In the event of the winding up of Bupa Finance plc or Bupa Insurance Limited, the claims of the bondholders are subordinated to the claims of other creditors of these companies.

The total fair value of the callable subordinated perpetual guaranteed bonds, net of accrued interest, is £385.9m (2012: £420.0m). The valuation adjustment is the change in value arising from interest rate risk which is matched by the fair value of swap contracts in place to hedge this risk.

(b) 10.5% subordinated guaranteed bonds due 2018
On 3 December 2013, Bupa Finance plc exercised its option to redeem at par the 10.5% subordinated guaranteed bonds with a maturity date of 3 December 2018.

(c) Other subordinated debt due 2022
Subordinated debt of £32.8m (€39.4m) issued by Torrejón Salud SA matures on 31 December 2022. Interest accrues on the debt at EURIBOR +6%. In the event of a winding up of Torrejón Salud SA, the claims of the holder of the debt are subordinated to the claims of the senior creditors of that company.

(d) 5.0% subordinated unguaranteed bonds due 2023
On 25 April 2013, Bupa Finance plc issued £500.0m of unguaranteed subordinated bonds which mature on 25 April 2023. Interest is payable on the bonds at 5.0% per annum. In the event of winding up of Bupa Finance plc the claims of the bondholders are subordinated to the claims of other creditors of that company.

OTHER INTEREST BEARING LIABILITIES

Other interest bearing liabilities consist of senior unsecured bonds, secured loans, debenture stock, bank and other loans and finance lease liabilities. These borrowings are recognised initially as proceeds receivable less attributable transaction costs, net of any discount on issue.

Subsequent to initial recognition, they are stated at amortised cost, net of accrued interest, with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

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		2013			2012		
	Note	Non-current £m	Current £m	Total £m	Non-current £m	Current £m	Total £m
Bank loans	(a)	**176.9**	**225.3**	**402.2**	31.1	0.3	31.4
Senior unsecured bonds	(b)	**349.3**	**15.7**	**365.0**	348.7	12.3	361.0
Secured loans	(c)	**234.0**	**4.1**	**238.1**	233.8	4.1	237.9
Debenture stock	(d)	**-**	**51.3**	**51.3**	51.1	2.1	53.2
Finance lease liabilities	(e)	**6.2**	**1.6**	**7.8**	2.6	0.2	2.8
Other loans		**-**	**0.7**	**0.7**	-	-	-
Bank overdrafts	(a)	**-**	**0.1**	**0.1**	-	2.4	2.4
Total interest bearing liabilities		**766.4**	**298.8**	**1,065.2**	667.3	21.4	688.7
Total subordinated liabilities		**907.4**	**9.9**	**917.3**	451.2	6.0	457.2
Total borrowings		**1,673.8**	**308.7**	**1,982.5**	1,118.5	27.4	1,145.9

(a) Bank loans and bank overdrafts
Bank loans of £402.2m (2012: £31.4m) include drawings under a £800.0m revolving credit facility, maturing October 2017 and a one year £300.0m acquisition financing facility, maturing December 2014. At year end the bank facilities were drawn by £150.0m and £225.0m respectively. Further, a tri-syndicate loan was held in Especializada y Primaria L'Horta-Manises SA of £31.6m (2012: £31.4m).

The drawings under the £300.0m facility are guaranteed by the Company. Drawings under the £800.0m facility are guaranteed by the Company and other Group subsidiary companies. The overdraft facilities are subject to cross guarantees within the Group. The bank loans and overdrafts bear interest at commercial rates linked to LIBOR, or EURIBOR, at a commercial fixed rate.

(b) Senior unsecured bonds
On 2 July 2009, Bupa Finance plc issued £350.0m of 7.5% senior unsecured bonds. The bonds are repayable on 4 July 2016. They are guaranteed by the Company and other Group subsidiary companies.

(c) Secured loans
The secured loans balance of £238.1m (2012: £237.9m) relates to a loan issue by UK Care No 1 Limited. On 17 February 2000, UK Care No 1 Limited issued two classes of secured notes. A £175.0m Class A1 note is due to mature in 2029 and a £60.0m Class A2 note is due to mature in 2031. The A1 and A2 loan notes bear a fixed interest rate of 6.3% and 7.5% respectively. The loan notes are secured by fixed and floating charges over the assets and undertakings of UK Care No 1 Limited. The security includes UK Care No 1 Limited's overriding lease interest, and the rental income receivable thereunder, held in a number of the Group's care homes which eliminates on consolidation. The carrying value of the property, plant and equipment of these homes is £541.2m (2012: £529.4m).

(d) Debenture stock
The 11.8% debenture stock of £51.3m (2012: £53.2m) is repayable at par on 30 June 2014. The stock is secured by a fixed charge over certain assets of the Group, and a first floating charge over the businesses attached thereto and a general floating charge over certain assets.

The assets pledged as security include £71.5m (2012: £72.2m) of property, plant and equipment and £nil (2012: £0.8m) of inventories.

(e) Obligations under finance leases
Future minimum payments under finance leases are as follows:

	Future minimum lease payments 2013 £m	Present value of minimum lease payments 2013 £m	Future minimum lease payments 2012 £m	Present value of minimum lease payments 2012 £m
Payable within one year	**2.1**	**1.6**	0.3	0.2
Payable after one year but within five years	**5.6**	**4.7**	1.3	0.9
Payable after five years	**2.1**	**1.5**	2.4	1.7
Total gross payments	**9.8**		4.0	
Less: finance charges included above	**(2.0)**		(1.2)	
Total payments net of finance charges	**7.8**	**7.8**	2.8	2.8

FAIR VALUE OF FINANCIAL LIABILITIES
The fair value of a financial liability is defined as the amount for which a financial liability could be exchanged in an arm's length transaction between informed and willing parties. Fair values disclosed in the table overleaf have been calculated as follows:

- Subordinated liabilities - quoted price if available or discounted expected future principal and interest cash flows;
- Senior unsecured bonds - quoted price;
- Secured loans - quoted price;
- Debenture stock - discounted expected future principal and interest cash flows;

The fair value of quoted liabilities in active markets are based on current bid prices. The fair values of financial liabilities for which there is no active market, are established using valuation techniques corroborated by independent third parties. These may include reference to the current fair value of other instruments that are substantially the same and discounted cash flow analysis.

Financial liabilities are categorised into a three level hierarchy, a description of the different levels is detailed in Section 5.0 along with the market interest rates used to discount financial liabilities, where the fair value cannot otherwise be found from quoted market values.

An analysis of the fair value of financial liabilities by valuation method is as follows:

	2013			2012		
	Level 1 £m	**Level 2 £m**	**Total £m**	Level 1 £m	Level 2 £m	Total £m
Subordinated liabilities	**842.3**	**46.2**	**888.5**	317.7	47.2	364.9
Senior unsecured bonds	**397.3**	**-**	**397.3**	407.9	-	407.9
Secured loan	**287.0**	**-**	**287.0**	300.5	-	300.5
Debenture stock	**-**	**52.8**	**52.8**	-	58.3	58.3

Currently the Group does not hold any Level 3 financial liabilities.

5.2 DERIVATIVES

DERIVATIVES IN BRIEF
The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risk.

Derivatives that have been purchased or issued as part of a hedge that subsequently does not qualify for hedge accounting are accounted for at fair value through profit and loss.

Derivative financial instruments are initially recognised and subsequently measured at fair value. Section 5.0 shows the instrument valuations under Level 2 of the three level hierarchy.

Fair values are obtained from exchange quoted prices and, where specific exchange prices are not available, from market observable pricing information including interest rate yield curves. The value of foreign exchange forward contracts is established using listed market prices.

Fair values have been calculated for each type of derivative as follows:

- Currency forward contracts and swaps - quoted prices in an inactive market at balance sheet date; and
- Interest rate swaps bank or broker quotes.

	2013 £m	2012 £m
Derivative assets		
Non-current*	**50.0**	84.0
Current	**12.9**	1.6
Total derivative assets	**62.9**	85.6
Derivative liabilities		
Non-current	**(3.6)**	(4.5)
Current	**(1.2)**	(3.7)
Total derivative liabilities	**(4.8)**	(8.2)

Note
* See fair value hedges in Section 5.4.2.2.

5.3 CAPITAL MANAGEMENT

CAPITAL MANAGEMENT IN BRIEF
Bupa is a company limited by guarantee, has no shareholders and is funded through retained earnings and borrowings. The Group's capital management objective is to maintain sufficient capital to protect its stakeholders while efficiently deploying capital to sustain ongoing business development.

The Group manages as capital the cumulative individual amount of the equity of all Group subsidiaries, exclusive of any non-controlling interests, and other inadmissible assets as discussed below. The Group has a £330.0m perpetual bond counted as Upper Tier 2 capital and a £500.0m dated bond which matures on 25 April 2023 which counts as Lower Tier 2 capital. Both of these bond issues are accounted for as debt in these financial statements. However, these are managed as though they were capital for regulatory purposes, as discussed below.

As a company limited by guarantee, Bupa has no shareholders or owners. All profits are therefore used to develop the Group's businesses for the benefit of customers. Except for equity attributable to non-controlling interests, any equity in the Group is considered 'equity attributable to Bupa'.

The Group's capital management objective is to maintain sufficient capital to protect the interests of all of its customers, investors, regulators and trading partners while also efficiently deploying capital and managing risk to sustain ongoing business development.

The Group aims to operate within a targeted range for solvency, leverage and interest cover ratios designed to support an investment grade rating. The Bupa Group as a whole is not rated by any rating agency, although individual debt issues and various subsidiaries within the Group do have public ratings.

The UK's Prudential Regulation Authority (PRA) classifies the whole of the Group as an insurance group. As such, the Group must maintain regulatory capital resources in excess of a collective capital requirement, imposed by the PRA through its Prudential Sourcebook (PSB), for Bupa to comply with the EU Insurance Groups Directive (IGD). When assessing the Group's compliance with its capital requirement, the PSB requires that the Group values and credits towards its net asset position only those assets that meet certain criteria on admissibility. Group companies that are regulated are subject to similar regulatory restrictions within the jurisdictions in which they operate. The Group and its regulated subsidiaries complied with all externally imposed capital requirements during the current and prior year. Although they are not insurance businesses, the Group can,

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and does, recognise the book value of its care provision business net assets as capital resources.

It is the Board's policy that the Group maintains capital resources significantly in excess of its capital requirements calculated both in accordance with the current regulatory regime and the expected requirements under Solvency II. Furthermore, all regulated entities within the Group's corporate structure are required to meet any local minimum capital requirement imposed by local regulators at all times. The Group has a number of internal processes to ensure compliance with the Group's capital requirements. These include requiring that significant future capital expenditure and growth initiatives be approved by the Board, either as standalone projects or as part of the budgeting and forecasting exercises. The Group's Risk Committee reviews the regulatory capital position annually and proposes the Group's risk appetite for adoption by the Group's Board. The Group's Treasury and Investment Committee must approve any change to the financial investment strategy. Strategic developments and acquisitions over a *de minimus* amount affecting the Group's capital require Board authorisation.

At 31 December 2013 Bupa's IGD capital resources were £2.5bn (2012: £2.9bn), which was in excess of a capital requirement of £0.8bn (2012: £0.8bn). This represented a solvency coverage ratio of 309% (2012: 367%).

The Group Finance Department routinely reports to the Board the Group's capital position, leverage and interest cover ratios as well as material constraints, risks or uncertainties about this position. The Group reports on any regulatory capital resources to local regulators and the PRA each year-end.

In addition, the calculation of the return on capital employed and risk-adjusted profit are regularly reported to the Board.

The Group has in place internal debt and investment management arrangements that allow the assets supporting technical liabilities or any solvency capital to be efficiently managed in a centralised manner. The Group's Treasury Department also maintains large external credit lines with several leading banks to ensure the liquidity of the Group as needed.

There have been no changes to the Group's capital management objectives during the year.

5.4 RISK MANAGEMENT

RISK MANAGEMENT IN BRIEF
The Board Risk Committee has responsibility to the Board for the oversight of risk. It recommends to the Board a risk appetite that reflects Bupa's purpose and expresses the degree of risk Bupa should accept in delivering on its strategy.

Bupa operates a 'Three Lines of Defence' model.

1. Business management is responsible for the identification and assessment of risks and controls.
2. Risk functions together with risk policy owners provide support and challenge the completeness and accuracy of risk assessments and the adequacy of mitigation plans.
3. Internal audit provides independent and objective assurance on the robustness of the risk management framework, and the appropriateness and effectiveness of internal controls.

The current principal risks of the Group and its inherent risks and how they are mitigated are described on pages 116 to 125.

The Group has adopted a risk management strategy that endeavours to mitigate these risks, which is approved by the Board. In managing these exposures, the Treasury and Investment Committee reviews and monitors any significant investment and market risks.

The Group has exposure to a number of risks from its use of financial instruments and risks associated with its insurance business. These have been categorised into the following types of risk, and details of the nature, extent, and how the Group has managed these risks is described below:

(i) Insurance risk
(ii) Market risk
(iii) Credit risk
(iv) Liquidity risk

5.4.1 INSURANCE RISK

INSURANCE RISK IN BRIEF
Insurance risk only affects the general insurance entities in the Group. It consists of underwriting and pricing risks which relate to inadequate tariffs of insurance products as well as reserving risk which relates to the potential inadequacy of claims provisions.

(i) Underwriting risk
Underwriting risk refers to the potential deviation from the actuarial assumptions used for setting insurance premium rates which could lead to premium inadequacy. Underwriting risk is therefore concerned with both the setting of adequate premium rates (pricing risk) as well as the management of claims (claims risk) for insurance policies underwritten by the Group.

(ii) Pricing risk
Pricing risk relates to the setting of adequate premium rates taking into consideration the volume and characteristics of the insurance policies issued. External influences to pricing risk include (but are not limited to) competitors' pricing and product design initiatives, and regulatory environments. The level of influence from these external factors can vary significantly between regions and largely depend on the maturity of health insurance markets and the role of the regulator. Thorough actuarial analysis performed on a regular basis combined with an understanding of local market dynamics and the ability to change insurance premium rates when necessary can act as effective risk mitigations.

In every general insurer in the Group, the dominant product or policy category is of an annually renewable health insurance contract. This permits insurance premium rate revisions to respond reasonably quickly to changes in customer risk profiles, claims experience and market considerations.

The ability to review benefit levels and premium rates is a significant mitigant to pricing risk. The Group underwrites no material general insurance business that commits it to cover risks at premiums fixed beyond a 12-month period from inception or renewal.

(iii) Claims risk
Claims risk is managed and controlled by means of pre-authorisation of claims, outpatient benefit limits, the use of consultant networks and agreed networks of hospitals and charges. Specific claims management processes vary across the Group depending on local requirements, market environment and practice.

Future adverse claims experience, for example, which is caused by external factors such as medical inflation, will affect cash flows after the date of the financial statements. Recent adverse claims experience is reflected in these financial statements in claims paid and in the movement in the claims provisions.

Generally, the Group's health insurance contracts contain terms and conditions that provide for the reimbursement of incurred medical expenses for treatment related to acute medical conditions. The contracts do not provide for capital sums or indemnified amounts. Therefore claims experience is underpinned by prevailing rates of illness. Additionally, claims risk is generally mitigated by insurers running control processes to ensure that both the treatments and the resulting reimbursements are appropriate.

(iv) Reserving risk
Reserving risk is the risk that provisions made for claims prove to be insufficient in light of later events and claims experience. There is a relatively low exposure to reserving risk compared to underwriting risk due to the very short-term nature of our claims development patterns. The short-term nature of the Group's general insurance contracts means that movements in claims development assumptions are generally not significant. The development claims settlement patterns are kept under constant review to maintain the validity of the assumptions and hence, the validity of the estimation of recognised general insurance liabilities.

The amount of claims provision at any given time that relates to potential claims payments that have not been resolved within one year is relatively small in the context of the Group. Also, of the small provisions that do relate to longer than one year, it is possible to predict with reasonable confidence the outstanding amounts.

(v) Other risks related to underwriting health insurance business
Claims provisions are not discounted and their short-term nature means that changes in interest rates have no impact on reserving risk. In addition, the future premium income and claims outflows of health insurance premium liabilities are largely unaffected by changes in interest rates. However, changes to inflationary factors such as wage inflation and medical provider cost inflation affect the financial soundness of health insurance businesses.

None of the Group's general insurance contracts contain embedded derivatives so the contracts do not give rise to interest rate risk.

The Group is exposed to foreign currency risk through some of the insurance liabilities which are settled in a local currency. Where possible these liabilities are matched to assets in the relevant currency to hedge this exposure.

All of the Group's general insurance activities are single line health portfolios. Even though only one line of business is involved, the Group does not have significant concentration of insurance risk for the following reasons:

- broad geographical diversity across several markets - UK, Spain, Australia, Latin America, the Middle East, Hong Kong and Thailand;
- product diversity between domestic and expatriate, and individual and corporate health insurance; and
- a variety of claims type exposures across diverse medical providers; consultants, nursing staff, clinics, individual hospitals and hospital groups.

The Group as a whole, and its principal general insurance entities, are well diversified. Only in selected circumstances does the Group use reinsurance. The reinsurance used does not give rise to a material counterparty default credit risk exposure to the Group.

5.4.2 MARKET RISK

MARKET RISK IN BRIEF
Market risk is the risk of adverse movements in market prices related to the Group's investments and borrowings. Such adverse movements include increased interest rates on borrowings, a fall in the share price of an investment or adverse currency fluctuations.

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments from fluctuations in interest rates, foreign exchange rates, commodity prices, credit spreads and equity prices. The focus of the Group's long-term financial strategy is to facilitate growth without undue balance sheet risk. The Treasury and Investment Committee is responsible for the management of the Group's liquidity position and short-term borrowings, together with the risks arising on interest rates and foreign currencies and to protect the security of the Group's financial assets.

In order to reduce the risk of assets being insufficient to meet future policyholder obligations, the Group actively manages assets using an approach that balances duration, quality, diversification, liquidity and investment return.

The Group manages price risk by ensuring that the majority of its cash and investments are held with highly rated credit institutions.

Where the Group has moved away from straight money market investments and invested in a limited portfolio of return seeking assets (principally bonds), the Group uses a value at risk analysis (VaR95) to quantify risk, taking account of asset volatility and correlation between asset classes. This portfolio, held in the UK insurance company, was £250.2m at 31 December 2013 (2012: £250.6m) and the one-year VaR95 figure attributable to the portfolio is £23.5m at 31 December 2013 (2012: £22.7m).

5.4.2.1 FOREIGN EXCHANGE RISK
The Group is exposed to foreign exchange risks arising from commercial transactions and from recognising assets, liabilities and investments in overseas operations. The Group is exposed to both transaction and translation risk. The former is the risk that a company's cash flows and realised profits may be impacted by movements in foreign exchange rates. The latter arises from translating the financial statements of a foreign operation into the Group's functional currency.

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The results and financial position of the Group's foreign entities that do not have a functional currency of Sterling are translated into Sterling as follows:

- assets and liabilities at the exchange rate at the balance sheet date;
- income and expenses at average rates for the period.

All foreign exchange differences arising on translation are recognised initially in the statement of comprehensive income, and only in the income statement in the period in which the entity is eventually disposed.

The following significant exchange rates applied during the year:

	Average rate		Closing rate	
	2013	2012	**2013**	2012
Australian Dollar	**1.6228**	1.5301	**1.8557**	1.5643
Euro	**1.1775**	1.2335	**1.2014**	1.2308
Hong Kong Dollar	**12.1362**	12.2959	**12.8456**	12.591
New Zealand Dollar	**1.9084**	1.9563	**2.0110**	1.9657
Polish Zloty	**4.9412**	5.1571	**4.9924**	5.0221
US Dollar	**1.5647**	1.5851	**1.6566**	1.6242

In the consolidated financial statements, where a loan between Group entities results in an exchange gain or loss, then it is recognised in the statement of comprehensive income to the extent that it relates to the Group's net investment in overseas operations.

Bupa has exposure to foreign exchange risk arising from its overseas operations. Key exposures are to the Australian Dollar, Euro, Polish Zloty, New Zealand Dollar, Hong Kong Dollar, US Dollar, Thai Baht, Danish Krone, Singapore Dollar, Bahraini Dinar, Mexican Peso and Brazilian Real:

	Net currency exposure £m	Currency forward contracts £m	Net currency exposure including hedges £m
2013			
Australian Dollar	2,183.1	(129.9)	2,053.2
Euro	676.2	(367.6)	308.6
Polish Zloty	389.2	-	389.2
New Zealand Dollar	303.3	-	303.3
Hong Kong Dollar	245.0	-	245.0
US Dollar	147.9	(195.8)	(47.9)
Thai Baht	12.7	-	12.7
Danish Krone	11.8	-	11.8
Singapore Dollar	6.8	-	6.8
Bahraini Dinar	5.1	-	5.1
Mexican Peso	0.3	17.2	17.5
Brazilian Real	-	12.9	12.9
Swiss Franc	(3.4)	-	(3.4)
Other	9.6	-	9.6
Total foreign currency denominated net assets	**3,987.6**	**(663.2)**	**3,324.4**
Percentage of Group net assets	81.9%		68.3%

	Net currency exposure £m	Currency forward contracts £m	Net currency exposure including hedges £m
2012			
Australian Dollar	2,151.3	(12.5)	2,138.8
Euro	595.8	(133.1)	462.7
Polish Zloty	0.1	-	0.1
New Zealand Dollar	246.8	(7.6)	239.2
Hong Kong Dollar	22.4	-	22.4
US Dollar	70.5	(157.3)	(86.8)
Thai Baht	11.7	-	11.7
Singapore Dollar	4.1	-	4.1
Bahraini Dinar	12.8	-	12.8
Mexican Peso	8.4	19.4	27.8
Brazilian Real	-	15.9	15.9
Swiss Franc	0.1	(2.9)	(2.8)
Other	6.7	-	6.7
Total foreign currency denominated net assets	**3,130.7**	**(278.1)**	**2,852.6**
Percentage of Group net assets	65.0%		59.2%

Certain forward currency contracts are entered into to hedge net monetary asset exposure and future cash flows of the Group, and do not form part of designated hedging arrangements.

Foreign currency transactions in the Group's subsidiary companies are measured using the functional currency of the subsidiary company, which is based on the primary economic environment in which the subsidiary operates. The transactions are translated into the functional currency at the exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate ruling at the balance sheet date; the resulting foreign exchange gain or loss is recognised in operating expenses, except where the gain or loss arises on financial assets or liabilities, when it is presented in financial income or financial expense as appropriate.

Non-monetary assets and liabilities, denominated in a foreign currency at historical cost are translated using the exchange rate at the date of the transaction; therefore no exchange differences arise. Non-monetary assets and liabilities denominated in a foreign currency at fair value are translated using the exchange rate ruling at the date that the fair value was determined. Foreign exchange differences that arise on retranslation are recognised in operating expenses.

Transactional exposures arise primarily in the Bupa Global businesses as a result of currency differences as local revenues are denominated in a different currency to costs. Programmes are in place to hedge a significant proportion of forecast cash flows in those businesses through forward foreign exchange contracts for the coming year. These contracts are not designated hedges. The remaining currency exposures are deemed to be acceptable but are kept under review.

The impact of a hypothetical strengthening / (weakening) of Sterling against the currencies below, with all other variables constant, would have increased / (decreased) equity and profit by the amounts shown below:

	Strengthening 10%		Weakening 10%	
	Gains / (losses) included in income statement £m	Gains / (losses) included in equity £m	Gains / (losses) included in income statement £m	Gains / (losses) included in equity £m
2013				
Australian Dollar	(27.5)	(186.7)	33.6	228.1
Euro	(9.5)	(28.1)	11.7	34.3
New Zealand Dollar	(2.0)	(27.6)	2.4	33.7
US Dollar	(6.4)	4.4	7.8	(5.3)
Polish Zloty	1.3	(35.4)	(1.6)	43.2
Hong Kong Dollar	-	(22.3)	-	27.2
Other	(1.5)	(6.5)	1.8	8.2
Total sensitivity	**(45.6)**	**(302.2)**	**55.7**	**369.4**
2012				
Australian Dollar	(29.3)	(194.4)	35.8	237.6
Euro	(8.7)	(42.1)	10.7	51.4
New Zealand Dollar	(0.8)	(21.7)	1.0	26.6
US Dollar	(4.0)	7.9	4.8	(9.6)
Hong Kong Dollar	-	(2.0)	-	2.5
Other	(1.5)	(7.0)	1.8	8.5
Total sensitivity	**(44.3)**	**(259.3)**	**54.1**	**317.0**

FOREIGN EXCHANGE HEDGING ACTIVITIES

The Group manages its exposure to foreign exchange risk by entering into hedging transactions using derivative financial instruments. The Group applies fair value, cash flow and net investment hedge accounting.

The hedging relationship between a hedging instrument and a hedged item is formally documented. Documentation includes the risk management objectives and the strategy in undertaking the hedge transaction.

(a) Fair value hedges

Where a derivative financial instrument hedges the change in fair value of a recognised asset or liability or an unrecognised firm commitment, any gain or loss on remeasurement of the hedging instrument at fair value is recognised in the income statement. The hedged item is fair valued for the hedged risk with any adjustment being recognised in the income statement.

The currency forward contracts hedge the Group's currency exposure, which arises from holding US Dollar and Euro denominated financial investments classed as shares, and other variable yield securities and corporate bonds. Fair value hedge accounting was discontinued from 1 January 2013.

As at 31 December 2013, there were no currency forward contracts in place to hedge the Group's currency exposure.

	Maturity, expiry or execution date	Initial value of contracts sold £m	Notional value of liabilities £m	Carrying value £m
2012				
Euro (€34.5m)	10 January 2013	(28.1)	(28.0)	0.1
US Dollar (USD93.3m)	10 January 2013	(57.3)	(57.4)	(0.1)

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(b) Cash flow hedges
Where a derivative financial instrument hedges the change in cash flows related to a recognised asset or liability, a firm commitment or a highly probable forecast transaction, it is accounted for as a cash flow hedge.

The effectiveness of a cash flow hedge is the degree to which the cash flows attributable to a hedged risk are offset by changes in the cash flows of the hedging instrument. The effective portion of any gain or loss on the hedging instrument is recognised directly in other comprehensive income until the forecast transaction occurs and results in the recognition of a financial asset or liability which impacts the income statement. The ineffective portion of the gain or loss is recognised in the income statement.

If the hedged cash flow is no longer expected to take place, all deferred gains and losses are released to the income statement immediately. If the hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss at that point remains in other comprehensive income and is recognised in accordance with the above policy when the transaction occurs.

In 2013, foreign currency forward contracts were entered into to hedge cash outflows for the acquisition of:

- Innovative Care AUD167.5m (£90.3m), acquired February 2013
- Dental Corporation AUD217.0m (£116.9m), acquired May 2013
- Quality HealthCare USD355.0m (£214.3m), acquired October 2013
- Highway to Health, Inc. USD253.6m (£153.1m), 49% acquired December 2013

The hedges resulted in a net cash flow hedge reserve loss of £12.6m. A loss of £0.3m is recognised in the income statement as a result of ineffectiveness on the Innovative Care cash flow hedge due to only nine of ten care home properties having been acquired upon expiry of the hedge.

In 2012, foreign currency forward contracts were entered into to hedge cash outflows for the intended acquisition of LUX MED amounting to €274.4m (£228.4m), acquired March 2013. The hedge resulted in a cash flow hedge reserve gain of £11.6m (2012: £2.2m loss).

At 31 December 2013, the cash flow hedge reserve amounts to £25.0m.

Effect of foreign exchange hedging transactions
The impact of all external foreign currency hedging activity is set out below. The ineffective portion of all hedges recognised in the income statement was £0.3m (2012: £nil).

Gains / (losses) included in the income statement are:

	Currency forward contracts £m
2013	
Australian Dollar	(0.3)
Euro	-
US Dollar	-
Total	**(0.3)**
2012	
Australian Dollar	-
Euro	0.8
US Dollar	2.4
Total	**3.2**

Gains / (losses) included in other comprehensive income are:

	Currency forward contracts £m
2013	
Australian Dollar	(0.5)
Euro	5.4
US Dollar	(5.2)
Other	(1.0)
Total	**(1.3)**
2012	
Australian Dollar	2.0
Euro	1.1
US Dollar	-
Total	**3.1**

(c) Net investment hedging
The Group applies hedge accounting to its foreign currency exposure on a net investment basis. By designating opposing instruments in the same currency, the net exposure to currency fluctuations is reported. The Group uses foreign currency forward contracts, foreign currency zero cost collar options and foreign currency borrowings to hedge its net investment foreign exchange risk.

A collar option is an instrument that combines the purchase of a cap and the sale of a floor to specify a range in which a foreign currency rate will fluctuate. The instrument insulates the buyer against the risk of a significant weakening of a foreign currency rate, but limits the benefit of a strengthening of that foreign currency rate. Collar options are only exercised, at specified intervals, if the benchmark rate is exceeded. Settlement amounts are calculated by reference to the agreed notional amounts.

If an external foreign currency denominated loan is used as a hedge, the portion of the exchange gains or losses arising from the retranslation, that is found to be an effective hedge, is recognised in other comprehensive income. The same treatment is applied to both the realised and unrealised exchange gains and losses arising from foreign currency forward contracts and foreign currency collar options.

These hedging relationships are documented and tested as required by IAS 39.

All foreign currency forward contracts and collar options are accounted for on a fair value basis.

Australian Dollar translation exposure
The Group's Australian Dollar translation exposure of £2,183.1m (AUD4,051.1m) (2012: £2,151.3m (AUD3,365.2m)) arises from the net assets of Bupa Australia Holdings Pty Limited, Bupa Australia Healthcare Pty Limited and their subsidiary companies. At 31 December 2013, the Group held foreign currency forward contracts totalling a notional £76.0m (AUD141.0m) (2012: £12.5m (AUD19.6m)) and collar options totalling a notional £107.8m (AUD200.0m) (2012: £127.9m (AUD200.0m)) to hedge a portion of net assets, which have been designated as hedges under IAS 39. At 31 December 2013, £53.9m (AUD100.0m) (2012: nil) of the options were in the money. A total gain of £6.7m (2012: £nil) is reflected in other comprehensive income. The collar options mature within one year (AUD100.0m) and two years (AUD100.0m) from the balance sheet date. The forward contracts mature within one month from the balance sheet date and are rolled forward on an ongoing basis.

Euro translation exposure
Euro translation exposure of £676.2m (€812.4m) (2012: £595.8m (€733.3m)) arises from the net assets of Grupo Bupa Sanitas SL and its subsidiary companies. At 31 December 2013, the Group held foreign currency forward contracts totalling a notional £261.1m (€313.7m) (2012: £254.9m (€313.7m)) to hedge a portion of these net assets, all of which have been designated as hedges under IAS 39. The forward contracts mature within one month from the balance sheet date and are rolled forward on an ongoing basis.

5.4.2.2 INTEREST RATE RISK
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to interest rate risk arising from fluctuations in market rates. This affects both the return on floating rate assets, the cost of floating rate liabilities and the balance sheet value of its investment in fixed rate bonds. Floating rate assets represent a natural hedge for floating rate liabilities.

The net balance on which the Group is exposed as at 31 December 2013 was £1,243.9m (2012: £1,873.2m). The rate at which maturing deposits are reinvested represents a significant potential risk to the Group, in currencies such as Sterling and Australian Dollar where the Group has a significant net floating cash position.

The Group has also used interest rate swaps to manage interest rate exposure whereby the requirement to settle interest at fixed rates has been swapped for floating rates. This increases the ability to match floating rate assets with floating rate liabilities.

The anticipated repayment profile of interest bearing financial liabilities is as follows:

	Variable £m	Fixed £m	Total £m	Undrawn facility £m
2013				
2014	(235.8)	(72.9)	(308.7)	(75.0)
2015	(0.9)	(0.2)	(1.1)	-
2016	(0.9)	(350.5)	(351.4)	-
2017	(151.6)	(0.8)	(152.4)	(643.5)
2018	(2.8)	0.2	(2.6)	-
2019–2023	(434.5)	(499.5)	(934.0)	-
After 2023	-	(232.3)	(232.3)	-
Total	**(826.5)**	**(1,156.0)**	**(1,982.5)**	**(718.5)**
2012				
2013	(8.5)	(18.6)	(27.1)	(793.6)
2014	(0.5)	(52.6)	(53.1)	-
2015	(0.8)	(0.8)	(1.6)	-
2016	(0.8)	(351.1)	(351.9)	-
2017	(1.5)	(1.4)	(2.9)	-
2018–2022	(468.7)	(6.3)	(475.0)	-
After 2022	(1.7)	(232.6)	(234.3)	-
Total	**(482.5)**	**(663.4)**	**(1,145.9)**	**(793.6)**

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Variable loans are repriced at intervals of between one and six months. Interest is settled on all loans in line with agreements and is settled at least annually.

The impact of a hypothetical rise of 100 bps (2012: 100 bps) in interest rates at the reporting date, on an annualised basis, would have increased equity and profit by £12.4m (2012: £27.3m). The impact of a fall of 100 bps (2012: 100 bps) in interest rates, on an annualised basis, would have the inverse effect. This calculation is based on the assumption that all other variables, in particular foreign exchange rates, remain constant.

Interest rate hedging activities

The Group applies fair value hedges and cash flow hedges in order to hedge its exposure to interest rate risk.

(i) Fair value hedges

Interest rate swaps totalling £330.0m have been entered into to swap the fixed rate coupon on the £330.0m callable subordinated perpetual guaranteed bond to a floating rate. These interest rate swaps are designated as fair value hedges of the underlying interest rate risk on the debt. The fixed receipt occurs annually on the payment of the bond coupon in September. The variable payment is settled quarterly and the rate is reset on the floating element at this time. As at 31 December 2013, the fair value movement in the bond attributable to the hedged risk amounted to a £34.0m loss (2012: £7.3m gain).

The following derivative contracts were in place as at 31 December to hedge the Group's interest rate exposure:

	Maturity, expiry or execution date	Initial value of contracts sold £m	Notional value of assets £m	Carrying value £m
2013				
Interest rate swaps - fair value	September 2020	330.0	330.0	50.0
2012				
Interest rate swaps - fair value	September 2020	330.0	330.0	84.0

(ii) Cash flow hedges

During 2009, interest rates swaps were designated to hedge the €40.3m (£35.7m) floating rate debt in Especializada Y Primaria L'Horta Manises. The swaps currently cover 70.4% of the floating rate loan principal balance outstanding at the balance sheet date. At 31 December 2013, the fair value of the interest rate swap liability was £3.6m (€4.3m) (2012: £4.6m (€5.7m)).

5.4.3 CREDIT RISK

CREDIT RISK IN BRIEF

Credit risk is the risk that those that are in debt to the Group default on their obligation. Examples of credit risk would be non-payment of a trade receivable or a corporate bond failing to repay the capital sum and related interest.

Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their contractual obligations. The Group manages its credit risk exposures under the guidance of the Treasury and Investment Committee.

Investment exposure with external counterparties is managed by ensuring there is a sufficient spread of investments and that all counterparties are rated at least A by two of the three key rating agencies used by the Group (unless specifically approved by the Treasury and Investment Committee).

The Group has no direct exposure to peripheral Eurozone sovereign debt, however, there may be small holdings within the Group's portfolio of return seeking assets.

The investment profile at 31 December is as follows:

	2013 £m	2012 (Restated) £m
Overseas government bonds	**77.5**	72.2
Investment grade counterparties	**2,903.5**	3,439.9
Non-investment grade counterparties	**72.8**	47.8
Total	**3,053.8**	3,559.9

Investment grade counterparties include restricted assets of £52.7m (2012: £52.7m). Non-investment grade counterparties are those rated below BBB-, and mainly comprise corporate bonds, shares and other variable rate securities of £57.1m (2012: £23.1m), cash and cash equivalents of £14.5m (2012: £15.4m) and other loans of £1.2m (2012: £9.3m).

Information regarding the ageing and impairment of financial and insurance assets is shown below.

	Neither past due or impaired £m	0-3 months £m	3-6 months £m	6 months-1 year £m	Greater than 1 year £m	Impairment £m	Total carrying value in the balance sheet £m
2013							
Debt securities	295.8	-	-	-	-	-	295.8
Shares and other variable yield securities	163.5	-	-	-	-	-	163.5
Medium-term notes	200.2	-	-	-	-	-	200.2
Deposits with credit institutions	1,400.6	-	-	-	-	-	1,400.6
Other loans	1.2	-	-	-	-	-	1.2
Reinsurers' share of insurance provisions	14.7	-	-	-	-	-	14.7
Insurance debtors[1]	751.2	74.5	31.7	13.1	1.4	(17.2)	854.7
Investment receivables and accrued investment income	2.0	-	-	-	0.9	-	2.9
Trade and other receivables[2]	264.7	156.0	13.9	15.7	120.2	(12.0)	558.5
Total financial and insurance assets	**3,093.9**	**230.5**	**45.6**	**28.8**	**122.5**	**(29.2)**	**3,492.1**
2012							
Debt securities	265.4	-	-	-	-	-	265.4
Shares and other variable yield securities	156.9	-	-	-	-	-	156.9
Medium-term notes	200.8	-	-	-	-	-	200.8
Discounted notes	2.3	-	-	-	-	-	2.3
Deposits with credit institutions	1,616.8	-	-	-	-	-	1,616.8
Other loans	9.3	-	-	-	-	-	9.3
Reinsurers' share of insurance provisions	13.6	-	-	-	-	-	13.6
Insurance debtors[1]	716.0	54.6	28.7	3.6	3.1	(17.9)	788.1
Investment receivables and accrued investment income	1.8	0.1	-	0.1	2.7	(1.7)	3.0
Trade and other receivables[2]	264.9	73.3	6.3	14.8	109.7	(8.1)	460.9
Total financial and insurance assets	**3,247.8**	**128.0**	**35.0**	**18.5**	**115.5**	**(27.7)**	**3,517.1**

[1] Comprises insurance debtors, medicare rebate and Risk Equalisation Trust Fund recoveries detailed in Section 3.0.2.
[2] Comprises trade receivables, other receivables and service concession receivables detailed in Section 3.0.1.

The carrying amount of financial and insurance assets of £3,492.1m (2012: £3,517.1m) included on the Group balance sheet represents the maximum credit exposure. In aggregate across the Group, reinsurance credit risk is not material.

The movement in the allowance for impairment in respect of financial and insurance assets during the year was as follows:

	2013 £m	2012 £m
At beginning of year	**27.7**	29.1
Impairment loss recognised	**17.0**	11.5
Additions through business combinations	**1.8**	-
Bad debt provision released in year	**(17.2)**	(12.6)
Foreign exchange	**(0.1)**	(0.3)
At end of year	**29.2**	27.7

The Group believes no impairment allowance is necessary in respect of financial assets not past due date.

The Group considers notified disputes, significant changes in the counterparty's financial position and collection experience in determining which assets should be impaired. The credit quality of receivables is managed at a local business unit level with uncollectable amounts being impaired when necessary.

Assets pledged as security include £52.7m (2012 £52.7m) of cash held in restricted access deposits, £71.5m (2012: £72.2m) of property, plant and equipment (see Section 3.2) and £nil (2012: £0.8m) of inventories (see Section 3.0.5). The property, plant and equipment is subject to a first legal mortgage and inventories are subject to a first floating charge as security for debenture stock issued by the Group and maturing in 2014.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2013

5.4.4 LIQUIDITY RISK

LIQUIDITY RISK IN BRIEF
Liquidity risk is the risk that the Group will not have available funds to meet its liabilities when they fall due.

The Group's main source of short-term funding is via an £800.0m revolving credit facility, of which £150.0m was drawn at 31 December 2013. The bank facility matures in October 2017. In December 2013, the Group entered into a £300.0m one year acquisition financing facility of which £225.0m was drawn at 31 December 2013. This £300.0m facility was put in place to provide additional comfort over liquidity as the Group completed its acquisitions, including Cruz Blanca in February 2014.

The Group monitors funding risk as well as compliance with existing financial covenants within the banking arrangements. There were no concerns regarding bank covenant coverage in 2013 and that position is not expected to change in the foreseeable future.

The Group enjoys a strong liquidity position and adheres to strict liquidity management policies as set by the Treasury and Investment Committee as well as adhering to certain liquidity parameters, as defined by the PRA for the Group's regulated entities in the UK and local equivalent authorities for the Group's foreign operations.

Liquidity is managed by currency, and by considering the segregation of accounts required for regulatory purposes; short-term operational working capital requirements are met by cash in hand and committed bank facilities.

The contractual maturities of financial liabilities and the expected maturities of insurance liabilities including estimated interest payments of the Group as at 31 December are as follows:

	Sub-ordinated liabilities £m	Other interest bearing liabilities £m	Provisions under insurance contracts issued £m	Other liabilities under insurance contracts issued £m	Trade and other payables[1] £m	Total £m
2013						
2014	(45.2)	(348.6)	(2,171.6)	(17.2)	(1,010.2)	(3,592.8)
2015	(45.2)	(45.5)	(2.3)	-	(9.6)	(102.6)
2016	(45.2)	(382.7)	(0.4)	-	(2.1)	(430.4)
2017	(45.2)	(170.1)	(0.5)	-	(0.8)	(216.6)
2018	(45.2)	(18.4)	(0.5)	-	(0.7)	(64.8)
2019-2023	(1,032.4)	(104.7)	(6.7)	-	(2.1)	(1,145.9)
After 2023	-	(330.5)	(14.0)	-	(1.3)	(345.8)
Total	**(1,258.4)**	**(1,400.5)**	**(2,196.0)**	**(17.2)**	**(1,026.8)**	**(5,898.9)**
Carrying value in the Statement of financial position	(917.3)	(1,065.2)	(2,196.0)	(17.2)	(1,026.8)	(5,222.5)
2012						
2013	(20.6)	(68.9)	(2,355.2)	(16.8)	(889.7)	(3,351.2)
2014	(20.6)	(98.0)	(1.9)	-	(10.5)	(131.0)
2015	(20.6)	(43.5)	-	-	(3.4)	(67.5)
2016	(20.6)	(380.7)	(0.1)	-	(0.7)	(402.1)
2017	(20.6)	(18.5)	-	-	(0.4)	(39.5)
2018-2022	(447.3)	(101.9)	(2.7)	-	(2.1)	(554.0)
After 2022	-	(348.0)	(20.1)	-	(1.5)	(369.6)
Total	**(550.3)**	**(1,059.5)**	**(2,380.0)**	**(16.8)**	**(908.3)**	**(4,914.9)**
Carrying value in the Statement of financial position	(457.2)	(688.7)	(2,380.0)	(16.8)	(908.3)	(4,451.0)

[1] Comprises trade payables, other payables, accommodation bond liabilities and accruals detailed in Section 3.0.6.

The total liability is split by remaining duration in proportion to the cash flows expected to arise during that period. Interest payments are included in the cash flows for subordinated liabilities and other interest bearing liabilities.

Maturity profile of financial assets
The table below shows the financial assets which are available to fund the repayment of liabilities as they crystallise. Of the liabilities maturing in 2014 (£3,592.8m) £1,481.1m relates to unearned premium provisions, which are not financial liabilities.

	Cash and cash equivalents £m	Deposits with credit institutions £m	Discount notes £m	Overseas government bonds £m	UK corporate bonds £m	Overseas corporate bonds £m	Other loans £m	Medium term notes £m	Shares and other variable yield securities £m	Total £m
2013										
2014	939.8	1,063.2	-	13.5	-	53.2	1.2	150.2	24.5	2,245.6
2015	-	337.4	-	6.4	-	57.3	-	50.0	138.3	589.4
2016	-	-	-	-	-	58.3	-	-	-	58.3
2017	-	-	-	-	-	1.7	-	-	-	1.7
2018	-	-	-	-	-	13.5	-	-	-	13.5
2019-2023	-	-	-	11.8	-	-	-	-	-	11.8
After 2023	-	-	-	0.2	79.7	0.2	-	-	0.7	80.8
Total	**939.8**	**1,400.6**	**-**	**31.9**	**79.7**	**184.2**	**1.2**	**200.2**	**163.5**	**3,001.1**
2012										
2013	1,255.7	1,067.6	2.3	10.9	-	55.3	9.3	-	20.0	2,421.1
2014	-	549.2	-	0.5	-	53.5	-	150.7	136.7	890.6
2015	-	-	-	-	-	42.5	-	50.1	-	92.6
2016	-	-	-	-	-	2.0	-	-	-	2.0
2017	-	-	-	-	-	2.2	-	-	-	2.2
2018-2022	-	-	-	11.2	-	11.3	-	-	-	22.5
After 2022	-	-	-	0.1	75.9	-	-	-	0.2	76.2
Total	**1,255.7**	**1,616.8**	**2.3**	**22.7**	**75.9**	**166.8**	**9.3**	**200.8**	**156.9**	**3,507.2**

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS continued
for the year ended 31 December 2013

6.0 RELATED PARTY TRANSACTIONS

RELATED PARTY TRANSACTIONS IN BRIEF
These are transactions between the Group and related individuals or entities by nature of influence or control. The Group has such relationships with its subsidiaries, key management personnel, equity accounted investments and associated pension arrangements. The disclosure of transactions with these parties in this section enables readers to form a view about the impact of related party relationships on the Group.

All transactions with related parties are conducted on an arm's-length basis.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, provision for expected claims is made on an incurred basis.

There were no material transactions during the year with any related parties, as defined by IAS24, other than those disclosed in this section.

(i) Transactions with key management personnel
The key management personnel are the Group's Executive and Non-Executive Directors and includes the Managing Directors of the Group's Market Units. No Director had any material interest in any contracts with Group companies at 31 December 2013 (2012: £nil) or at any time during the year. The remuneration of the Group's Executive and Non-Executive Directors is disclosed on pages 57 to 66.

The total remuneration of the Market Unit Managing Directors is as follows:

	2013 £m	2012 £m
Short-term employee benefits	**4.8**	5.9
Long-term incentive plan	**0.9**	1.1
Post employment benefits	**0.3**	3.1
Total	**6.0**	10.1

The total remuneration of key management personnel is included in staff costs (see Section 2.3).

(ii) Transactions in relation to the non-registered pension arrangements
The Company has made pension commitments to certain current and former Executive Directors and key management personnel through a non-registered pension arrangement which mirrors the terms of The Bupa Pension Scheme (see Section 3.6). These unfunded benefits are governed by The Law Debenture Pension Trust Corporation Plc who are the Trustee of the non-registered pension arrangement, and are secured by a charge over £39.3m (2012: £44.0m) of cash deposits (see Section 3.0.4). The decrease in the charge of £4.7m during 2013 mainly reflects changes in market conditions and market related changes in the underlying actuarial assumptions.

6.1 COMMITMENTS AND CONTINGENCIES

COMMITMENTS AND CONTINGENCIES IN BRIEF
A commitment is future expenditure that is committed to as at 31 December 2013. These commitments fall under non-cancellable operating lease payments and contracted capital expenditure. Contingent assets and liabilities are those that are considered possible at year-end, whose existence will be determined by a future event.

(i) Operating leases
The total value of future non-cancellable operating lease rentals is payable as follows:

	2013 £m	2012 £m
Less than one year	**110.3**	71.5
Between one and five years	**330.9**	251.8
More than five years	**563.3**	546.3
Total operating leases	**1,004.5**	869.6

During the year, a detailed review of operating lease contracts was performed, and as a result, the 2012 value of Bupa's non-cancellable operating lease rentals has been restated by an additional £100.8m.

The Group leases a number of properties under operating leases. The leases typically run for a period between 10 and 25 years, with an option to renew the lease after that date. Lease payments are reviewed regularly in accordance with the terms and conditions of the individual lease agreements. None of these leases include contingent rentals.

Some of the leased properties have been sub-let by the Group. Both the leased properties and the sub-leases expire between 2014 and 2024. Sub-lease receipts of £0.7m (2012: £1.0m) are expected to be received during the next financial year. The Group has an unoccupied property provision of £5.8m (2012: £6.8m) in respect of these leases (see Section 3.5). The Group leases out some of its investment properties as a lessor, see Section 3.3 for details.

(ii) Capital commitments
Capital expenditure for the Group contracted at 31 December 2013 but for which no provision has been made in the financial statements, amounted to £102.9m (2012: £31.8m), of which £48.4m (2012: £14.9m) related to property, plant and equipment and £54.5m (2012: £16.9m) related to investment property.

(iii) Contingent assets and contingent liabilities
The Group currently has no contingent assets.

The Group has contingent liabilities arising in the ordinary course of business, including losses which might arise from litigation, from which it is anticipated that the likelihood of any material unprovided liabilities arising is remote.

(iv) Pensions contributions
The Group has an obligation to make a series of special contributions to the Bupa Pension Scheme amounting to £40.0m pa for the years ending 31 December 2014 to 31 December 2016 inclusive.

7.0
COMPANY PRIMARY STATEMENTS AND ASSOCIATED NOTES

COMPANY PRIMARY STATEMENTS AND ASSOCIATED NOTES IN BRIEF
This section consists of the Company's primary statements including Statement of Financial Position, Statement of Cash Flows and Statement of Changes in Equity. Sections 7.1 to 7.10 form the associated notes to the Company financial statements.

The Company accounting policies are aligned with those of the Group, described at Sections 2 to 6.

STATEMENT OF FINANCIAL POSITION
as at 31 December 2013

	Section	2013 £m	2012 £m
Non-current assets			
Intangible assets	7.1	**23.9**	26.8
Property, plant and equipment	7.2	**28.6**	29.7
Investment in subsidiary companies	7.3	**200.1**	200.1
Other receivables	7.6	**0.4**	0.2
Post employment benefit net assets		**127.5**	104.5
		380.5	361.3
Current assets			
Trade and other receivables	7.6	**78.5**	118.4
Current taxation asset		**0.2**	0.2
Cash and cash equivalents		**1.1**	4.5
		79.8	123.1
Total assets		**460.3**	484.4
Non-current liabilities			
Post employment benefit net liabilities	7.4	**(50.4)**	(52.3)
Provisions for liabilities and charges	7.5	**(11.1)**	(12.3)
Deferred taxation liabilities	7.8	**(7.6)**	(3.2)
Trade and other payables	7.6	**(8.0)**	(9.0)
		(77.1)	(76.8)
Current liabilities			
Provisions for liabilities and charges	7.5	**(4.1)**	(4.5)
Trade and other payables	7.6	**(133.9)**	(119.2)
		(138.0)	(123.7)
Total liabilities		**(215.1)**	(200.5)
Net assets		**245.2**	283.9
Equity			
Income and expenditure reserve		**244.8**	283.5
Foreign exchange translation reserve		**0.4**	0.4
Total equity		**245.2**	283.9

Approved by the Board of Directors and signed on its behalf on 12 March 2014 by

Lord Leitch
Chairman
Lord Leitch

Evelyn Bourke
Chief Financial Officer

Sections 7.1 to 7.10 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2013

INCOME STATEMENT

for the year ended 31 December 2013

The loss for the financial year recorded within the accounts of the Company, The British United Provident Association Limited (Bupa), is £25.1m (2012 (Restated[1]): profit of £250.7m). In accordance with the exemption granted under Section 408 of the Companies Act 2006, a separate income statement and statement of comprehensive income for the Company have not been presented. The average number of full-time equivalent employees, including Executive Directors, employed by the Company during the year was 1,114 (2012: 754).

STATEMENT OF CASH FLOWS

as at 31 December 2013

		2013 £m	2012 (Restated[1]) £m
Operating activities			
(Loss) / Profit before taxation expense		**(40.0)**	235.1
Adjustments for:			
Net financial (income) / expense		**(0.3)**	4.5
Depreciation, amortisation and impairment		**16.6**	14.8
Revaluations		**-**	0.5
Other non-cash items		**4.4**	3.8
Changes in working capital and provisions:			
Changes in net pension asset / liability	7.4	**(40.2)**	(21.4)
Decrease in provisions for liabilities and charges		**(1.6)**	(0.7)
Decrease / (increase) in trade and other receivables, and other assets	7.6	**39.7**	(15.7)
Increase / (decrease) in trade and other payables, and other liabilities		**30.3**	(191.2)
Cash generated from operations		**8.9**	29.7
Cash flow from investing activities			
Purchase of intangible assets	7.1	**(20.9)**	(33.7)
Proceeds from sale of intangible assets	7.1	**14.4**	20.8
Purchase of property, plant and equipment	7.2	**(7.1)**	(9.4)
Proceeds from sale of property, plant and equipment	7.2	**1.0**	1.6
Interest received		**0.4**	1.3
Net cash used in investing activities		**(12.2)**	(19.4)
Cash flow from financing activities			
Interest paid		**(0.1)**	(6.8)
Net cash used in financing activities		**(0.1)**	(6.8)
Net (decrease) / increase in cash and cash equivalents		**(3.4)**	3.5
Cash and cash equivalents at beginning of year		**4.5**	1.0
Cash and cash equivalents at end of year		**1.1**	4.5

[1] Restated for IAS19 Employee Benefits, see Section 1.7 for further details.

Sections 7.1 to 7.10 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2013

	Section	Property revaluation reserve £m	Income and expenditure reserve £m	Foreign exchange translation reserve £m	Total equity £m
2013					
At beginning of year		-	283.5	0.4	283.9
Loss for the financial year		-	(25.1)	-	(25.1)
Other comprehensive income / (expense)					
Actuarial loss on pension scheme	7.4	-	(15.3)	-	(15.3)
Taxation credit recognised directly in other comprehensive income	7.8	-	1.7	-	1.7
Other comprehensive expense for the year, net of taxation		-	(13.6)	-	(13.6)
Total comprehensive expense for the year		-	(38.7)	-	(38.7)
At end of year		**-**	**244.8**	**0.4**	**245.2**
2012					
At beginning of year		0.1	16.4	0.4	16.9
Profit for the financial year[1]		-	250.7	-	250.7
Other comprehensive income / (expense)					
Actuarial gain on pension schemes[1]	7.4	-	17.1	-	17.1
Unrealised gains or losses on property revaluation reserve		(0.1)	-	-	(0.1)
Taxation expense recognised directly in other comprehensive income	7.8	-	(0.7)	-	(0.7)
Other comprehensive (expense) / income for the year, net of taxation		(0.1)	16.4	-	16.3
Total comprehensive income for the year		(0.1)	267.1	-	267.0
At end of year		**-**	**283.5**	**0.4**	**283.9**

Sections 7.1 to 7.10 form part of these financial statements.

[1] The statement of changes in equity has been restated, please see Section 1.7 for further details.

7.1 INTANGIBLE ASSETS

INTANGIBLE ASSETS IN BRIEF
Intangible assets are the non-physical assets held by the Company and consists of computer software only.

INTANGIBLE ASSETS - COMPUTER SOFTWARE

	2013 £m	2012 £m
Cost		
At beginning of year	**58.4**	71.8
Additions	**20.9**	33.7
Disposals	**(15.1)**	(47.1)
At end of year	**64.2**	58.4
Amortisation and impairment loss		
At beginning of year	**31.6**	49.9
Amortisation for year	**9.4**	8.0
Disposals	**(0.7)**	(26.3)
At end of year	**40.3**	31.6
Net book value at end of year	**23.9**	26.8
Net book value at beginning of year	**26.8**	21.9

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2013

7.2 PROPERTY, PLANT AND EQUIPMENT

PROPERTY, PLANT AND EQUIPMENT IN BRIEF
Property, plant and equipment are the physical assets utilised by the Company to carry out business activities and generate revenues and profits. The majority of the assets held relate to care home and hospital properties, and equipment and office buildings.

PROPERTY, PLANT AND EQUIPMENT

	2013			2012		
	Leasehold property £m	Equipment £m	Total £m	Leasehold property £m	Equipment £m	Total £m
Cost or valuation						
At beginning of year	**18.2**	**39.4**	**57.6**	18.5	35.3	53.8
Additions	**0.1**	**7.0**	**7.1**	1.3	8.1	9.4
Disposals	**-**	**(2.1)**	**(2.1)**	(0.9)	(4.1)	(5.0)
Revaluations	**-**	**-**	**-**	(0.6)	-	(0.6)
Other	**-**	**-**	**-**	(0.1)	0.1	-
At end of year	**18.3**	**44.3**	**62.6**	18.2	39.4	57.6
Depreciation and impairment loss						
At beginning of year	**6.9**	**21.0**	**27.9**	5.4	19.2	24.6
Depreciation charge for year	**1.5**	**5.7**	**7.2**	1.5	5.3	6.8
Disposals	**-**	**(1.1)**	**(1.1)**	-	(3.4)	(3.4)
Other	**-**	**-**	**-**	-	(0.1)	(0.1)
At end of year	**8.4**	**25.6**	**34.0**	6.9	21.0	27.9
Net book value at end of year	**9.9**	**18.7**	**28.6**	11.3	18.4	29.7
Net book value at beginning of year	**11.3**	**18.4**	**29.7**	13.1	16.1	29.2

The net book value of finance leased property held by the Company at 31 December 2013 is £nil (2012: £1.0m). The depreciation charge for the year ended 31 December 2013 is £nil (2012: £nil).

7.3 INVESTMENT IN SUBSIDIARIES

INVESTMENT IN SUBSIDIARIES IN BRIEF
Below is a summary of the principal investments in subsidiaries held by the Company.

CARRYING VALUE OF INVESTMENT IN SUBSIDIARIES
Subsidiaries are entities controlled by the Group. Investments in subsidiary companies are carried at cost less impairment in the Company's accounts. Dividends received from subsidiaries are recognised in the income statement when the right to receive the dividend is established.

As at 31 December 2013, the Company held investments in subsidiaries of £200.1m (2012: £200.1m).

The principal subsidiary companies of the Company as at 31 December 2013 are listed below and, except where stated, are incorporated in England and Wales. Subsidiary companies are 100% owned unless otherwise stated. Full details of all Group undertakings will be annexed to the Company's next annual return in compliance with the Companies Act 2006.

Health insurance - general business	
Bupa Insurance Limited	
Sanitas, SA de Seguros (99% holding)	Spain
Bupa Australia Pty Limited	Australia
Bupa Asia Pacific Pty Limited	Australia
Bupa (Asia) Limited	Hong Kong
Bupa Insurance Company	US
Investment and financing activities	
*Bupa Finance plc**	
Bupa Investments Limited	
Bupa Investments Overseas Limited	
Grupo Bupa Sanitas SL	Spain
UK Care No 1 Limited	Guernsey

* Directly owned by the Company

Care and health provision	
Bupa Care Homes (CFG) Plc	
Bupa Care Homes Group Limited	
Bupa Care Homes (BNH) Limited	
Bupa Care Services Limited	
Bupa Care Homes (CFCHomes) Limited	
Bupa Care Homes (CFHCare) Limited	
Bupa Care Homes (GL) Limited	
Bupa Care Homes (Partnerships) Limited	
Richmond Care Villages Holdings Limited	
Bupa Home Healthcare Limited	
Bupa Occupational Health Limited	
Bupa Care Services Australasia Pty Limited	Australia
Bupa Healthcare New Zealand Limited	New Zealand
Euroresidencias Sotogrande SL	Spain
Sanitas Residencial SL	Spain
Especializada y Primaria L'Horta-Manises SA	Spain
Torrejón Salud SA (50% holding)	Spain
Health Dialog Services Corporation	US
Medical Services International Limited	
Bupa Dental Corporation Limited	Australia
LUX MED Sp. z.o.o.	Poland
Quality HealthCare Medical Holdings Limited	Hong Kong

Although the Company holds none of the voting power of UK Care No 1 Limited, it has the right to obtain benefits or is exposed to risks relating to the activities of this company. Consequently, the Group financial statements in Sections 2 to 6 include the results of the entity in it.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2013

7.4 POST EMPLOYMENT BENEFITS

POST EMPLOYMENT BENEFITS IN BRIEF

The Company operates a defined benefit and a defined contribution pension scheme for the benefit of employees and Directors, in addition to an unfunded and post retirement medical benefit scheme.

The defined benefit scheme is The Bupa Pension Scheme which was closed to new entrants from 1 October 2002. The principal defined contribution pension scheme is The Bupa Retirement Savings Plan.

The Company is the sponsoring employer for The Bupa Pension Scheme, the unfunded pension scheme and post retirement medical benefit scheme described in Section 3.6. The actuarial assumptions underlying the valuation of obligations are detailed in Section 3.6.2.

As noted in Section 1.5 IAS19 Employee Benefits (Amendment) became effective for annual periods on or after 1 January 2013. Comparative information has been restated for this.

(i) Assets and liabilities of schemes

The assets and liabilities in respect of the defined benefit funded pension scheme, unfunded pension and post retirement medical benefit scheme are as follows:

		Pension schemes		Post retirement medical benefit scheme		Total	
	Note	**2013 £m**	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Present value of funded obligations	(ii)	**(1,159.1)**	(1,076.2)	**-**	-	**(1,159.1)**	(1,076.2)
Fair value of scheme assets	(iii)	**1,286.6**	1,180.7	**-**	-	**1,286.6**	1,180.7
Net assets of funded scheme		**127.5**	104.5	**-**	-	**127.5**	104.5
Present value of unfunded obligations	(ii)	**(39.4)**	(37.4)	**(11.0)**	(14.9)	**(50.4)**	(52.3)
Net recognised assets / (liabilities)		**88.1**	67.1	**(11.0)**	(14.9)	**77.1**	52.2

Represented on the balance sheet as:

Net liabilities	**(50.4)**	(52.3)
Net assets	**127.5**	104.5
Net recognised assets	**77.1**	52.2

(ii) Present value of the schemes' obligations
The movement in the present value of schemes' obligations is:

	Pension schemes		Post retirement medical benefit scheme		Total	
	2013 **£m**	2012 (Restated) £m	**2013** **£m**	2012 £m	**2013** **£m**	2012 (Restated) £m
At beginning of year	**1,113.6**	1,045.1	**14.9**	18.0	**1,128.5**	1,063.1
Current service cost	**13.6**	15.5	**-**	-	**13.6**	15.5
Interest on obligations	**49.5**	48.6	**0.7**	0.8	**50.2**	49.4
Contributions by employees	**0.1**	0.1	**-**	-	**0.1**	0.1
Experience loss / (gains)	**-**	2.8	**(0.2)**	(0.4)	**(0.2)**	2.4
Losses / (gains) arising from changes to financial assumptions	**46.6**	25.3	**(3.8)**	(3.0)	**42.8**	22.3
Benefits paid	**(24.9)**	(23.6)	**(0.6)**	(0.5)	**(25.5)**	(24.1)
Past service cost	**-**	(0.2)	**-**	-	**-**	(0.2)
At end of year	**1,198.5**	1,113.6	**11.0**	14.9	**1,209.5**	1,128.5

(iii) Fair value of funded scheme's assets
The movement in the fair value of the funded scheme's assets is:

	2013 **£m**	2012 (Restated) £m
At beginning of year	**1,180.7**	1,076.8
Interest income	**52.8**	50.4
Return on assets excluding interest income	**27.3**	40.5
Contributions by employer	**50.8**	35.8
Contributions by employees	**0.1**	0.1
Administrative expenses	**(1.5)**	(1.7)
Benefits paid	**(23.6)**	(21.2)
Foreign exchange	**-**	-
At end of year	**1,286.6**	1,180.7

The market value of the assets of the funded scheme is as follows:

Equities	**532.4**	449.2
Corporate bonds	**696.2**	694.1
Cash / Other assets	**58.0**	37.4
Total market value of the assets of the funded scheme	**1,286.6**	1,180.7

All assets have a quoted market price.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2013

(iv) Amounts recognised in the consolidated income statement
The amounts charged / (credited) to other operating expenses for the year are:

	2013 £m	2012 (Restated) £m
Current service cost	**13.6**	15.5
Net interest on defined benefit liability / asset	**(2.6)**	(0.8)
Administrative expenses	**1.5**	1.7
Past service cost	**-**	(0.2)
Total amount charged to income statement	**12.5**	16.2

(v) Amounts recognised directly in other comprehensive income
The amounts (credited) / charged directly to equity are:

	2013 £m	2012 (Restated) £m
Actual return less expected return on assets	**(27.3)**	(40.5)
Experience losses / (gains) arising on obligations	**(0.2)**	1.1
Loss / (gain) arising from changes to financial assumptions	**42.8**	22.3
Total actuarial losses charged / (gains credited) directly to equity	**15.3**	(17.1)

The cumulative amount of actuarial losses recognised directly in equity is £186.5m as at 31 December 2013 (2012 (Restated): £171.2m).

7.5 PROVISIONS FOR LIABILITIES AND CHARGES

PROVISIONS FOR LIABILITIES AND CHARGES IN BRIEF
Provisions for liabilities and charges are those not related to insurance contracts issued that require settlement in the future as a result of a past event.

PROVISIONS FOR LIABILITIES AND CHARGES

	Insurance £m	Unoccupied property £m	Other £m	Total £m
At beginning of year	15.2	1.1	0.5	16.8
Charge for year	7.8	-	0.1	7.9
Released in year	-	-	(0.5)	(0.5)
Utilised in year - cash	(2.7)	-	-	(2.7)
Utilised in year - non-cash	(6.3)	-	-	(6.3)
At end of year	**14.0**	**1.1**	**0.1**	**15.2**
Non-current	10.1	0.9	0.1	11.1
Current	3.9	0.2	-	4.1
Total provisions for liabilities and charges	**14.0**	**1.1**	**0.1**	**15.2**

7.6 WORKING CAPITAL

WORKING CAPITAL IN BRIEF
Working capital represents the assets and liabilities the Company generates through its trading activities. The Company therefore defines working capital as trade and other receivables, and trade and other payables.

7.6.1 TRADE AND OTHER RECEIVABLES

	2013 £m	2012 £m
Non-current		
Prepayments	**0.4**	0.2
Total non-current other receivables	**0.4**	0.2
Current		
Amounts owed by subsidiary companies	**62.6**	105.3
Other receivables	**1.2**	1.6
Prepayments	**14.7**	11.5
Total current trade and other receivables	**78.5**	118.4
Total trade and other receivables	**78.9**	118.6

7.6.2 TRADE AND OTHER PAYABLES

	2013 £m	2012 £m
Non-current		
Amounts owed to subsidiary companies	0.3	0.3
Accruals	7.7	8.7
Total non-current trade and other payables	**8.0**	9.0
Current		
Amounts owed to subsidiary companies	68.4	60.3
Other payables	7.9	5.5
Accruals	57.6	53.4
Total current trade and other payables	**133.9**	119.2
Total trade and other payables	**141.9**	128.2

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2013

7.7 RISK MANAGEMENT

RISK MANAGEMENT IN BRIEF
The Board is responsible for identifying, evaluating and managing risks faced by the Company and considers the acceptable level of risk, the likelihood of these risks materialising, how to reduce the risk and the cost of operating particular controls relative to the benefit from managing the related risks.

The Group's risk management strategy is outlined in detail within Section 5.4.

The risks faced by the Company have been assessed as part of the Group's ongoing risk management processes, a summary of these risks are outlined below:

Risk type	**Summary of risk assessment**
Insurance risk	The Company is not exposed to insurance risk
Market risk	*The Company is not materially exposed to foreign exchange or interest rate risk*
Credit risk	The maximum credit risk exposure of the Company is £2.3m (2012: £6.1m). The Company believes amounts owed to it by subsidiary companies carry no credit risk
Liquidity risk	The contractual maturity of financial liabilities, held by the Company, fall due within one year

7.8 DEFERRED TAXATION ASSETS AND LIABILITIES

DEFERRED TAXATION ASSETS AND LIABILITIES IN BRIEF
Deferred tax is an adjustment to recognise the differences between the carrying amounts of assets and liabilities for financial reporting and the amounts used for taxation purposes.

Recognised deferred taxation assets and liabilities
Deferred taxation assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2013 £m	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Accelerated capital allowances	1.7	1.0	-	-	1.7	1.0
Post employment benefit liability	-	-	(15.6)	(12.0)	(15.6)	(12.0)
Employee benefits (other than post employment)	2.6	3.2	-	-	2.6	3.2
Provisions	3.6	4.4	-	-	3.6	4.4
Other	0.1	0.2	-	-	0.1	0.2
Net deferred taxation asset / (liability)	**8.0**	8.8	**(15.6)**	(12.0)	**(7.6)**	(3.2)

Recognised deferred taxation assets
Deferred taxation assets relating to the carry forward of employee benefits, other provisions, unused taxation losses and other deferred taxation assets are recognised to the extent that it is probable that future taxable profits will be available against which the deferred taxation assets can be utilised.

Movement in net deferred taxation assets / (liabilities)

	At beginning of year £m	Recognised in income statement £m	Recognised in other comprehensive income £m	At end of year £m
2013				
Accelerated capital allowances	1.0	0.7	-	1.7
Post employment benefit (liability) / asset	(12.0)	(5.3)	1.7	(15.6)
Employee benefits (other than post employment)	3.2	(0.6)	-	2.6
Provisions	4.4	(0.8)	-	3.6
Other	0.2	(0.1)	-	0.1
Total	**(3.2)**	**(6.1)**	**1.7**	**(7.6)**
2012				
Accelerated capital allowances	0.8	0.2	-	1.0
Post employment benefit (liability) / asset	(7.9)	(3.4)	(0.7)	(12.0)
Employee benefits (other than post employment)	3.7	(0.5)	-	3.2
Provisions	4.8	(0.4)	-	4.4
Other	0.4	(0.2)	-	0.2
Total	**1.8**	**(4.3)**	**(0.7)**	**(3.2)**

NOTES TO THE FINANCIAL STATEMENTS continued
for the year ended 31 December 2013

7.9 RELATED PARTY TRANSACTIONS

RELATED PARTY TRANSACTIONS IN BRIEF
These are transactions between the Company and related individuals or entities by nature of influence or control. The Company has such relationships with its subsidiaries, key management personnel and associated pension arrangements. The disclosure of transactions with these parties enables readers to form a view about the impact of related party relationships on the Company.

The Company has a related party relationship with its key management personnel and with its subsidiary companies (see Section 7.3).

(i) Transactions with key management personnel
The key management personnel for the Company are the same as for the Group. These transactions are disclosed in Section 6.0.

The total remuneration of key management personnel is included in staff costs (see Section 2.3).

(ii) Transactions in relation to the non-registered pension arrangements
These transactions are disclosed in Section 6.0.

(iii) Transactions and balances with subsidiary companies

	Transactions during the year		Balance at 31 December	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Income statement				
Management charges received	**154.5**	137.5		
Interest income	**0.4**	1.3		
Interest expense	**(0.1)**	(5.9)		
Income received	**2.3**	2.3		
Expenses paid (including rental expense of £4.9m (2012: £4.9m))	**(6.6)**	(5.5)		
Dividends received	**50.0**	311.0		
Balance sheet				
Amounts owed by subsidiary companies	**(45.2)**	15.1	**60.1**	105.3
Amounts owed to subsidiary companies	**(5.4)**	(10.8)	**(65.7)**	(60.3)
Loans to subsidiary companies	**-**	-	**-**	-
Loans from subsidiary companies	**-**	210.3	**(0.3)**	(0.3)

The above outstanding balances arose during the ordinary course of business and are on substantially the same terms, including interest rates, as for comparable transactions with third parties.

7.10 COMMITMENTS AND CONTINGENCIES

COMMITMENTS AND CONTINGENCIES IN BRIEF
A commitment is future expenditure that is committed to as at 31 December 2013. These commitments primarily consist of contracted capital expenditure.

Contingent liabilities include bank loan and bond issue guarantees.

(i) Commitments
Capital expenditure for the Company contracted as at 31 December 2013 but for which no provision has been made in the financial statements amounted to £nil (2012: £nil).

(ii) Operating leases
The Company has £39.5m (2012: £46.2m) of operating lease obligations.

(iii) Pensions contributions
The Company has an obligation to make a series of special contributions to The Bupa Pension Scheme for the years ending 31 December 2014, 31 December 2015 and 31 December 2016, details of which are set out in Section 3.6.

In addition, Bupa Finance plc has entered into a legally binding and irrevocable guarantee for the benefit of the Trustees of The Bupa Pension Scheme in respect of these payments.

(iv) Contingent assets and liabilities
The Company has given a guarantee in respect of a £350.0m bond issued by Bupa Finance plc.

The Company is party to an £800.0m revolving credit facility, together with various other companies within the Group. The revolving credit facility was drawn down by £150.0m at 31 December 2013 (2012: £nil). In addition to this there are £6.4m of outstanding letters of credit required for general business purposes. The Company has joint and several liability for all obligations under the agreement. An acquisition financing facility of £300.0m was taken out during the year which was guaranteed by the Company and which was drawn down by £225.0m at 31 December 2013.

8.0 FIVE YEAR FINANCIAL SUMMARY

FIVE YEAR FINANCIAL SUMMARY IN BRIEF
The five year financial summary provides a five year time summary in order to better understand trends.

	2013 £m	2012 (Restated) £m	2011 £m	2010 £m	2009 £m
Revenues - segmental analysis					
Australia and New Zealand	**3,791.8**	3,554.0	3,252.8	2,804.0	2,236.8
UK	**2,573.5**	2,528.8	2,506.2	2,593.7	2,584.2
Spain and Latin America Domestic	**1,363.5**	1,190.8	1,212.6	1,151.4	1,125.8
International Development Markets	**377.3**	227.3	244.2	262.0	271.5
Bupa Global	**953.0**	872.0	795.9	765.3	722.6
Net reclassifications to other expenses or financial income and expenses	**(0.4)**	0.9	4.4	(0.6)	(0.1)
Unallocated central revenues	**-**	0.1	2.0	0.2	0.6
Consolidated total revenues	**9,058.7**	8,373.9	8,018.1	7,576.0	6,941.4
Claims and expenses					
Operating expenses (including claims)	**(8,497.8)**	(7,840.4)	(7,496.2)	(7,156.2)	(6,564.3)
Impairment of goodwill	**(20.7)**	-	(165.8)	(249.2)	-
Impairment of other intangible assets arising on business combinations	**(12.8)**	-	(133.7)	(17.7)	(11.7)
Other income and charges	**(7.1)**	(3.2)	(22.9)	(54.0)	2.4
Total claims and expenses	**(8,538.4)**	(7,843.6)	(7,818.6)	(7,477.1)	(6,573.6)
Profit before financial income and expenses	**520.3**	530.3	199.5	98.9	367.8
Financial income and expenses	**(5.9)**	54.8	20.5	19.1	48.7
Profit before taxation expense	**514.4**	585.1	220.0	118.0	416.5
Taxation expense	**(103.0)**	(134.9)	(84.1)	(131.4)	(115.7)
Profit for the financial year	**411.4**	450.2	135.9	(13.4)	300.8
Attributable to:					
Bupa	**405.6**	439.7	131.1	(19.2)	288.9
Non-controlling interests	**5.8**	10.5	4.8	5.8	11.9
Profit for the financial year	**411.4**	450.2	135.9	(13.4)	300.8
Equity					
Property revaluation reserve	**700.2**	631.9	642.7	660.5	596.7
Income and expenditure reserve	**3,940.6**	3,544.9	3,075.9	3,019.1	2,989.1
Cash flow hedge reserve	**25.0**	25.1	29.0	30.7	29.7
Foreign exchange translation reserve	**182.8**	590.1	662.7	656.1	333.6
Equity attributable to Bupa	**4,848.6**	4,792.0	4,410.3	4,366.4	3,949.1
Equity attributable to non-controlling interests	**22.2**	25.9	33.6	29.7	36.8
Total equity	**4,870.8**	4,817.9	4,443.9	4,396.1	3,985.9

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2013

INTERNATIONAL FINANCIAL REPORTING STANDARDS RELEVANT TO BUPA

International Financial Reporting Standards (IFRSs)

IFRS 3	Business combinations
IFRS 4	Insurance contracts
IFRS 5	Non-current assets held for sale and discontinued operations
IFRS 7	Financial instruments: Disclosures
IFRS 8	Operating segments
IFRS13	Fair Value Measurement

International Accounting Standards (IAS)

IAS 1	Presentation of financial statements
IAS 2	Inventories
IAS 7	Cash flow statements
IAS 8	Accounting policies, changes in accounting estimates and errors
IAS 10	Events after the balance sheet date
IAS 12	Income taxes
IAS 16	Property, plant and equipment
IAS 17	Leases
IAS 18	Revenue
IAS 19	Employee benefits (including IAS19R Amendment)
IAS 21	The effects of changes in foreign exchange rates
IAS 23	Borrowing costs
IAS 24	Related party disclosures
IAS 27	Consolidated and separate financial statements
IAS 28	Investments in associates
IAS 31	Interests in joint ventures
IAS 32	Financial instruments: Presentation
IAS 36	Impairment of assets
IAS 37	Provisions, contingent liabilities and contingent assets
IAS 38	Intangible assets
IAS 39	Financial instruments: Recognition and measurement
IAS 40	Investment property

Interpretations

IFRIC 4	Determining whether an arrangement contains a lease
IFRIC 9	Reassessment of embedded derivatives
IFRIC 12	Service concession arrangements
IFRIC 13	Customer loyalty programmes
IFRIC 14	The limit on a defined benefit asset, minimum funding requirements and their interaction
IFRIC 16	Hedges of a net investment in a foreign operation
IFRIC 17	Distributions of non-cash assets to owners
IFRIC 18	Transfer of assets from customers
SIC 12	Consolidation: Special purpose entities
SIC 15	Operating leases - incentives
SIC 27	Evaluating the substance of transactions involving the legal form of a lease
SIC 32	Intangible assets - website costs

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