Annual report and accounts 2001

The British United Provident Association Limited
(Registered No. 432511)

Accounts and notes 2001

Contents

'Taking care of the lives in our hands'

Our mission statement

BUPA is a provident association and all surpluses are fully re-invested to improve the quality of our health and care services for current and future customers.

During 2001, BUPA:

- Provided medical insurance cover to over 4.7 million people in the UK, Spain, Ireland and over 180 further countries worldwide
- Treated over 235,000 people in its hospitals
- Provided over 72,000 health assessments
- Provided care for over 17,000 elderly or infirm people on a daily basis in its care homes
- Employed over 39,000 people dedicated to our mission of 'taking care of the lives in our hands'

Group highlights

- Group income £2,403.3m, up 12.8% on 2000
- Surplus before tax and other income £90.4m (2000: £86.4m), up 4.6%
- Reserves grew 6.5% in 2001 to £979.1m
- BUPA launched Community Connections to promote work with its local communities
- Major awards won during the year included:

Best UK large group private medical insurer
Health Insurance magazine

Best Large Service Company award for BUPA Ireland
Excellence Ireland

Marketing Effectiveness - Best company in the 'services and utilities' category
Marketing Week/Chartered Institute of Marketing Awards

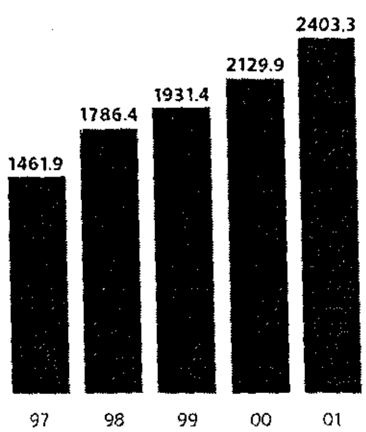
One of the UK Top 100 Employers
Corporate Research Foundation

Sanitas voted best health care provider
Cinco Dias - El Pais Newspaper Group, Spain

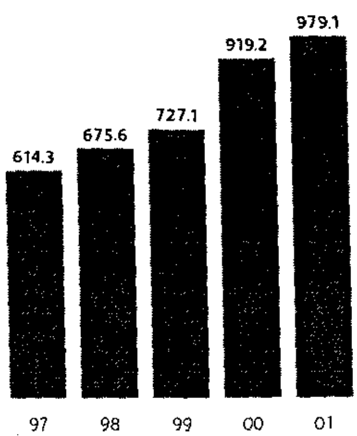
Care Services won New Deal Award - commitment to diversity and quality
UK government

Best Company in the Private Sector, for the way BUPA supports equality of opportunity in the workplace
Opportunity Now

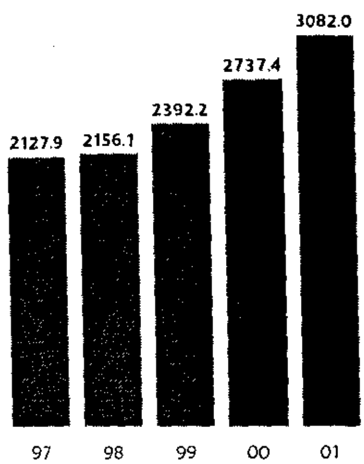
Group income (£m)



Total reserves (£m)



Total assets (£m)



Chairman's statement

In my first year as Chairman I am pleased to report that BUPA has made solid progress, delivering a good financial performance which will form the foundation for long-term growth and expansion. We achieved organic growth in each of our operations, benefiting from the investment made in our people and customer service in recent years. We continued to pursue attractive business opportunities as they arose.

All our businesses performed well, particularly the insurance operations which achieved good growth in income, profits and customer numbers. We also achieved satisfactory growth in our hospitals and care services businesses despite challenging market conditions. This growth helped to offset a reduction in investment income due to weak equity markets.

Our strategic objective is to develop as a balanced health and care organisation whilst continuously improving the quality of services for our customers. We have continued to look for opportunities to grow the company both organically and through acquisition. In May we acquired a group of quality homes in Cumbria. We also added 10 children's nurseries to our portfolio during the year. In July, we acquired Vista Healthcare Asia, whose activities are mainly in primary care, day-case surgery and diagnostics, with significant interests in Singapore, Hong Kong and Australia and minority interests in mainland China and Malaysia. At the end of 2001, Sanitas acquired the Previlabor and Laborservis companies in Spain, which provide services for health and safety in the workplace.

In April our home care business which focused on providing care at home was sold, enabling our care services business to concentrate its full attention on the expansion of care provision in our residential and nursing homes and on healthcare staffing.

In our hospitals we remain committed to our insured and self-pay customers and will continue to invest in new facilities and services for them. In addition, the first year of the Concordat between the public and private sectors has brought an increase in the work we undertake for the NHS. We are pleased to have a constructive working relationship. In December the Secretary of State for Health announced that BUPA is to run the first privately managed fast-track diagnostic and treatment centre for the NHS.

BUPA is facing increased regulation both in our insurance and provision operations. We have been involved in consultation with the Department of Health together with the Independent Healthcare Association (IHA), the General Medical Council and the British Medical Association in advance of the National Care Standards coming into operation in April 2002. Under the new regulations, our responsibility for quality of care, provision of health information to patients and consulting customers on quality of treatment is made increasingly explicit. The regulations and minimum standards will go some way towards harmonising standards between the NHS and the independent sector. The investment that BUPA has already made in improving quality over the years will ensure we will be well placed to achieve and surpass the new requirements.

Following Sir Bryan Nicholson's retirement at the previous Annual General Meeting, I succeeded him as Chairman. Edward Lea, Group Finance Director, retired from the Board in September 2001. Edward was appointed in 1991 and played a leading role in the acquisition programme that has resulted in significant growth in existing and new market sectors.

Ray King, who was appointed to the Board in August 2001, succeeded Edward as Group Finance Director. Ray joined BUPA from Parity Group plc where he held the position of Group Finance Director and Deputy CEO. Previous appointments included Director of Group Finance and Control of Diageo plc and Finance Director of Southern Water plc.

David Boyle will be retiring in April. David was appointed in 1993 and has managed and developed BUPA's interests overseas including launching operations in Ireland and the Middle East, acquiring BUPA's business in Thailand and, in 2001, Vista Healthcare. Sanitas and BUPA International have seen strong growth under David's management.

Sir Duncan Nichol will retire at the end of the forthcoming Annual General Meeting. He has brought to BUPA a wealth of experience in healthcare and I would like to thank him for his valuable contribution to the Board.

I would like to take this opportunity to congratulate our Chief Executive, Val Gooding, who has been appointed a Commander of the Order of the British Empire for her services to business. This honour recognises her strengths as a leader at BUPA and her contribution to the business community.

BUPA will continue to provide its customers with the highest quality products and services in health and care. This is not possible without the dedication and commitment demonstrated by our employees. I would like to thank them all for their exceptional efforts and contribution throughout the year.

Bryan K. Sanderson.

Bryan Sanderson CBE, Chairman
14 March 2002

Chief Executive's review

Introduction

BUPA performed well in 2001 due to a continued focus on customer service and providing quality products. Group income rose by 12.8 percent to £2.4 billion in the year. The operating surplus before tax and other income increased from £86.4m to £90.4m despite lower investment income arising from declining stock market performance.

Our insurance businesses, both in the UK and overseas, have again performed well. Our care homes and hospitals are operating in a changing environment, with new regulations coming into force in April, changes in funding in long-term care and the Government's National Plan for the NHS. The extra cost of employing nursing and care staff as a result of a shortage in qualified nurses and carers, as well as the increase in the national minimum wage, are problems affecting the whole industry. Despite these pressures our provision businesses achieved growth in 2001.

We are now seeing the benefits from investment in recent years in systems and training to provide good customer service. Customer satisfaction measures have continued to improve but we recognise that there is still much to do. As a company with no shareholders our customers are our first priority. During 2001 our investment programme included improvements in our hospitals, care homes and screening centres, investments in training our people to deliver the high quality of care that is expected of BUPA, and an extension of our activities into new health and care businesses in the UK, Spain and Asia.

UK Membership

BUPA is the UK market leader in private medical insurance, covering 2.8 million members through its personal and corporate products. It also provides critical illness and other long-term health and care funding through BUPA Health Assurance.

Continued investment in systems and training has enabled BUPA to improve the already high level of customer service and to ensure that BUPA members have access to high quality, good value healthcare. Customer service performance continued to improve through 2001, the most encouraging aspect being the increased numbers of customers choosing to join BUPA. Last year total membership grew by over eight percent, the highest level of increase for a number of years. The business sector provided much of the growth but we also started to see an improvement in the personal sector following the launch of our award winning Heartbeat product at the end of 2000.

BUPA Travel and BUPA Health Assurance continue to grow.

Care Services

BUPA Care Services is the largest independent provider of care for the elderly and mentally infirm in the UK. It provides care to over 16,000 people on a daily basis through its network of 236 care homes, eight assisted living centres and 40 retirement properties. In 2001 BUPA achieved its highest ever occupancy rate of 94 percent which is well in excess of the industry average.

The care home industry as a whole faces pressure on costs. The increase in the national minimum wage, shortages of nurses and carers resulting in the use of higher-cost agency staff, increased costs of regulation and inadequate funding. Local authority fee increases continue to stay well below the level of staff cost inflation. Many independent operators are being forced to leave the sector leading to a significant decline in the number of beds.

BUPA Care Services also runs a healthcare staffing business providing professional people to hospitals, care homes, pharmacies and GP practices. This business grew well in 2001 whilst also improving operating margins.

Hospitals and medical services

During 2001, BUPA's 37 hospitals in the UK and Ireland cared for over 216,000 patients. Growth has been seen in all sectors, but particularly in NHS patients and patients who paid for their own treatment.

We continued to invest in the development and improvement of our hospitals. Developments were completed during the year at our Hull and East Riding, Cambridge Lea, Bristol, Worcester, Washington, Harpenden, Sutton Coldfield and Bushey hospitals.

BUPA Hospitals is investing significant time and resource towards achieving accreditation for the Health Quality Service, a recognised quality assurance programme. This will contribute to achieving the National Care Standards Commission requirements which are being introduced in April 2002.

Discussions are taking place between BUPA and the Surrey and Sussex Healthcare NHS Trust to enable BUPA Redwood Hospital in Redhill, Surrey to be dedicated exclusively to treating NHS patients in the South East, helping to cut waiting times and increase patient choice. Private patients in the Surrey area will continue to be well served at our Gatwick Park hospital.

BUPA Wellness offers a number of services to look after the health of individuals, and employees of corporate clients. These include health screening, dentistry, musculo-skeletal treatments, occupational health services and providing general practitioners at clients' premises.

At the beginning of the year we enhanced our screening services, offering a new range of health assessments to our corporate and personal sector customers. New Wellness centres were opened in Reading, Bristol and Leeds.

The number of nursery places on offer at Teddies Nurseries increased by over 50 percent during the year as a result of an additional 10 new nurseries. This brings the total number of nurseries open or under development to 31.

International Businesses

Sanitas, our Spanish business continues to perform well, confirming its position as the premier brand in the private medical insurance market. The number of medical insurance customers grew by over six percent to 932,000 in a slow growing market.

Gestión de Recursos Sociales SA (GERS), Sanitas' joint venture in care homes, opened three homes in the year and now has a total of 13 care homes with a further 11 under development.

BUPA International, headquartered in the UK, is the leading provider of medical insurance to the global expatriate community. It continues to grow and has recently strengthened its distribution capability and range of products through a strategic alliance with United Healthcare in the USA.

BUPA Ireland has continued to grow strongly, increasing membership by over 27 percent in the year. BUPA Ireland has retained the Excellence Ireland Award for the third year running.

In the Far East, BUPA Hong Kong celebrated its 25th year of trading by growing revenue by 14 percent. BUPA Thailand has successfully opened four branches. During the year BUPA acquired Vista Healthcare which includes 28 GP clinics and a pathology-based diagnostics business in Singapore, a substantial primary care and multi-speciality centre in Hong Kong, and interests in facilities in China, Australia and Malaysia.

BUPA Middle East, our joint venture with the Nazer Group in Saudi Arabia, achieved further satisfactory growth in sales and broke even in its fourth year of trading.

Community Involvement

BUPA continues to support The BUPA Foundation, an independent charitable organisation that provides funding for medical research into the prevention, relief and cure of disease and ill health. Projects included research into improving patient safety in operating theatres, prevention of heart attacks and improving teenage health.

BUPA continues to be an active participant in the community. BUPA Community Connections was launched to our employees to support the good work already being done by our people in their local communities and to encourage more employees to participate. Projects included the renovation of St George's Crypt, a refuge for the homeless and disadvantaged in Leeds; the renovation of the Salford Playhouse Theatre, which holds drama groups for people with learning disabilities and the refurbishment of Coram Family facilities at Kings Cross for the benefit of disadvantaged local children. A number of employees also help primary school children with their reading.

Conclusion

Finally, I would like to extend my thanks to all our employees for their enthusiasm and commitment to providing the best possible care to our customers, and demonstrating our dedication to 'taking care of the lives in our hands'.

Val Gooding

Val Gooding CBE, Chief Executive
14 March 2002

Finance Director's report

Overview

Group income grew by 12.8 percent to £2,403.3m in 2001. Gross earned premiums in Health Insurance rose 16.6 percent to £1,522.4m while income in Health and Care Provision increased by 6.9 percent to £880.9m.

All of the Group's main businesses continued to perform well and, notwithstanding an increase of £20.4m in investment and financing costs much of which was due to weak equity markets, the operating surplus before taxation and other income increased by 4.6 percent to £90.4m in the year. Other income and charges (Note 9) added a further £1.5m to profits compared with a charge of £21.0m in 2000, the main factor in this improvement being the recovery in 2001 of revaluation losses incurred in 2000 on a loan associated with the prohibited bid for Community Hospitals Group PLC.

The operating surplus on ordinary activities before taxation was £91.9m, an increase of £26.5m on 2000.

Surplus and movements in reserves

The tax charge of £37.5m represented an effective rate of 36.9 percent (2000: 37.2 percent) on profits before goodwill amortisation. Further details are provided in Note 10.

The surplus after taxation and minority interests amounted to £53.9m (2000: £38.1m). After movements relating to goodwill on disposal of businesses and exchange differences arising in the year, Group reserves increased by £59.9m (6.5 percent) to £979.1m.

Trading activities

A segmental analysis of BUPA's trading activities is given in Note 1.

Insurance activities

All of the Group's insurance businesses reported significant increases in income with UK based businesses up 17 percent, the Rest of Europe up 13 percent and the Rest of the World up 25 percent. Lives covered grew by 9 percent to 4.7 million.

The operating surplus in insurance advanced by £19.6m to £62.0m. The results included good growth in the UK business where membership rose by 8 percent and margins continued to improve. However, reported losses on long-term health protection business increased due to growth in the business and higher claims provisions. BUPA International, our expatriate insurer based in the UK and our insurance businesses in Spain and Ireland all performed well with overall membership numbers up 8 percent. The Group also continued to make encouraging progress in the Asian and Middle Eastern markets.

On 2 January 2001, The British United Provident Association Limited (BUPA) successfully applied to the Financial Services Authority to transfer its rights and obligations under general insurance policies written within its UK Membership business to its subsidiary company BUPA Insurance Limited (see Note 22).

Hospitals and medical services

This segment comprises BUPA Hospitals, BUPA Wellness, childcare in the UK and a range of hospital and primary care activities elsewhere in the world.

In the UK market, income increased by 10 percent from £381.1m to £419.6m, however, the operating surplus only increased by £0.1m to £31.8m. In Hospitals, while activity levels increased, margins suffered from continuing cost pressures in areas such as nursing staff, regulation, and changes in the mix of business.

In Spain the number of people treated in our hospitals and day-centres was 820,000 in the year, an increase of 6.7 percent. In Asia, Vista Healthcare was successfully integrated adding £11.4m to Group income.

Care Services

This segment comprises our care homes and healthcare staffing businesses in the UK.

Following the disposal of home care, turnover was almost unchanged at £384.8m. The operating surplus advanced to £33.0m (2000: £28.4m) but the trading conditions in care homes remained difficult due to inadequate levels of funding from the public sector and an increase in the national minimum wage. Our healthcare staffing business grew well in sales and profits.

Investment and financing activities

Investment and financing activities gave rise to a net cost of £37.5m compared with a cost of £17.1m in 2000. The key factor in the increase was the effect of weaker equity markets, which impacted on approximately 20 percent of the Group's portfolio invested in equities. Nevertheless, with the benefit of efficient hedging arrangements, the Group achieved an acceptable return on its total investment portfolio.

Cash flow

The cash inflow of £227.7m in the year compares with £306.0m in 2000. Excluding changes in financing, cash flows amounted to £128.0m, an increase of £51.4m over 2000.

Operating activities yielded an inflow of £345.2m (2000: £241.9m) the increase reflecting the improvement in trading activities partly offset by a reduction in investment income.

Interest payments amounted to £62.3m (2000: £55.5m) and taxation paid increased to £42.4m (2000: £16.4m) due mainly to an increase in taxable profits and the change in the timing of tax payments following the introduction of payments on account in the UK.

The group continued to invest significantly in new fixed assets to improve quality and service, to grow the business and to deploy the latest technology. Cash spent on capital expenditure decreased to £81.4m against £100.0m in 2000, however, capital commitments at the year-end were significantly higher than last year.

As mentioned in the Chairman's statement, the Group made cash payments on a number of acquisitions during the year totalling £52.4m (2000: £7.3m), mainly in respect of a primary care business in the Far East and a company which provides health and safety services in the workplace in Spain. In addition we acquired seven new care homes in the UK and 10 nurseries have been added to the Teddies portfolio (see Note 21).

Business disposals of £8.0m (2000: nil) included the sale of Home Care and BUPA Dentalcover capitation business. Goodwill of £9.6m, previously written off to reserves, has been charged to the income and expenditure account.

Borrowings

Total borrowings (including subordinated debt) at 31 December 2001 were £888.8m compared with £742.9m last year.

The movement in the year included new borrowings of £125.3m, and repayments of existing debt of £25.6m. In addition overdrafts increased by £41.7m and other movements added £4.5m. Cash and portfolio investments exceeded total borrowings by £79.5m at 31 December 2001.

Derivatives

The Group has continued to use derivatives such as futures, options and swaps to manage interest rate, exchange rate and equity price risks. These derivatives are used on a controlled basis to hedge exposures which arise within the business and to facilitate efficient portfolio management.

Foreign exchange

BUPA's main exchange exposure arises on the euro due to its investment in Sanitas. During the year, sterling strengthened, generating an adverse movement of £3.6m on the retranslation of opening net assets, mainly those held in Spain.

FRS 17

Transitional disclosures relating to the implementation of FRS17 'Retirement benefits' are included in Note 29 to the financial statements. These show that notwithstanding a pension liability of £22.0m, Group reserves at 31 December 2001 would have increased by £56.1m under the new standard.

Conclusion

BUPA has continued to achieve organic growth in all its major markets in 2001. I am confident that the Group is in a strong position to build on this success in the future.

R King

Ray King, Group Finance Director
14 March 2002

Report of the Board of Directors

The Directors of The British United Provident Association Limited (BUPA) present their Annual Report and the financial statements for the year ended 31 December 2001.

Introduction

The Chairman's statement, Chief Executive's review, and the Finance Director's report on pages 9 to 11, the discussion on corporate governance on pages 16 and 17 and the Board's remuneration report on pages 18 to 20 form part of this Report. The audited financial statements are presented on pages 25 to 57.

Principal activities

The principal activities of the Group are the operation of health insurance funds and the provision of health and care facilities and services including ownership and management of hospitals, care homes, children's nurseries, health screening and occupational health services.

Financial results

The results of the Group for the year are reported on page 25. The retained surplus of £53.9m (2000: £38.1m) has been transferred to reserves.

Charitable and political contributions

During 2001 BUPA made charitable donations totalling £2.6m (2000: £2.2m), of which payments made to The BUPA Foundation, a medical charity established by the Group, totalled £1.5m (2000: £1.5m). No political donations were made.

Employment policies

We continue to be committed to recruiting and retaining high calibre employees at all levels. BUPA therefore offers competitive pay and benefit levels, a clearly stated set of values based on ethical principles, management practices reflecting and underpinning our values and access to appropriate training and development opportunities. We also continue to upgrade our buildings and facilities to provide attractive, healthy and safe places of work.

We aim to provide an environment that gives equality of opportunity to all regardless of age, gender, race or disability. Our policies, procedures, working practices and physical environments are designed to support this objective. In 2001, BUPA was voted the Best Company in the Private Sector, by Opportunity Now for the way it supports equal opportunities in the workplace. People with disabilities have been employed within the BUPA Group for many years, pre-dating the current legislation. We also provide the necessary support, including such facilities as wheelchair access, wherever possible, to enable employees with disabilities to work for BUPA.

We provide career development opportunities for employees at all levels and are committed to helping each individual realise their maximum potential within BUPA. There is a wide range of training and development activities across the Group to support this.

We place a high priority on internal communications to help achieve a common understanding of activities across the Group and to address issues of key concern to employees. Regular team meetings take place at a local level and are supported by management conferences which are held annually at both Business Unit and Group level. An internal newspaper, BUPA Today, which is distributed fortnightly to all employees across the world, provides a regular update on Group activities as well as allowing employees to present views on those issues of significance to them. This is complemented by BUPA TV, a quarterly video providing updates on developments across the business.

An Employee Recognition Programme is run in all parts of the business to celebrate and recognise exceptional customer service and performance. Employees are encouraged to submit ideas for business opportunities and performance improvement through a Group-wide suggestion scheme.

BUPA puts a strong emphasis on the health and safety of its employees and has in place a programme of regular risk assessments and reviews to provide guidance to employees on safe working practices. BUPA also provides modern, well-equipped and professionally supervised gym facilities at its major office sites, and offers a wide choice of healthy menu options at its staff restaurant facilities.

Board of Directors

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

Biographical details of the three Executive Directors and six Non-Executive Directors who currently hold office are set out on pages 14 and 15.

Mr BK Sanderson CBE was appointed Chairman for an initial term of three years commencing as from the 2001 Annual General Meeting.

Mr R King was appointed to the Board on 1 August 2001. Under the provisions of Article 42 he will retire and, being eligible, will offer himself for first election.

Professor OFW James retires by rotation and, being eligible, offers himself for re-election.

Mr EW Lea retired from the Board on 14 September 2001.

Mr DS Boyle will be retiring on 23 April 2002.

Sir Duncan Nichol will be retiring from the Board at the conclusion of the forthcoming Annual General Meeting.

Policy for paying creditors

It is BUPA's policy to pay its providers and other creditors promptly and in any event in accordance with agreed terms and conditions.

At 31 December 2001 the Group's outstanding trade creditors represented approximately 34 days' (2000: 42 days') purchases.

Auditors

In accordance with Section 384 of the Companies Act, 1985 KPMG Audit Plc offers itself for re-appointment as auditors of the Company at the Annual General Meeting.

AD Walford

By order of the Board
AD Walford, Secretary
14 March 2002

Directors and advisers

Executive Directors

Val Gooding CBE [3]

Age 51. Appointed Chief Executive in August 1998. Joined the Board and BUPA in 1996 as Managing Director of the UK health insurance and hospitals businesses. Non-Executive Director of BAA plc, Compass Group Plc and a Board member of the Association of British Insurers. Before joining BUPA had a varied career with British Airways plc, latterly as Director of Business Units and Director Asia-Pacific.

Ray King

Age 48. Appointed Group Finance Director in August 2001. Chartered Accountant, former Group Finance Director and Deputy Chief Executive of Parity Group Plc. Former Director of Group Finance and Control at Diageo plc and former Finance Director of Southern Water Plc.

David Boyle

Age 59. Managing Director, New Businesses. Joined the Board and BUPA in 1993. Non-Executive Director of Clerical Medical Investment Group Ltd. Former Chairman of SmithKline Beecham Consumer Brands, Europe.

Independent Non-Executive Directors

Bryan Sanderson CBE [2,3]

Age 61. Director and Chairman since 2001. Chairman of the Learning and Skills Council. Non-Executive Chairman of Sunderland PLC. Non-Executive Director of Six Continents plc and London School of Economics. Former Managing Director of BP Amoco p.l.c. and former Chief Executive Officer of BP Chemicals.

Sir Duncan Nichol CBE [3]

Age 60. Director since 1994 and nominated as the senior independent Non-Executive Director in March 1999. Honorary Professor in the Manchester Centre for Healthcare Management at the University of Manchester. Non-Executive Director of the Home Office Strategy Board for Correctional Services. Former Chief Executive of the National Health Service Management Executive.

Roy Brown [1]

Age 55. Joined the Board in April 2001. Non-Executive Director of GKN PLC, THUS PLC and Brambles Industries Plc. Former Director of Unilever PLC and Unilever NV and President of its Foods Europe Division.

Douglas Claisse [1,2]

Age 67. Director since 1998. Chairman of Business Link West Ltd, PDFM Life and Momentum Financial Services Ltd. Former Deputy Chief Executive of Clerical Medical Investment Group Ltd and former Chairman of IFA Promotion Ltd.

Greg Clarke [1,2]

Age 44. Joined the Board in April 2001. Chief Executive of ICO-Global Communications. Non-Executive Director of Leicester City FC and Chairman of Eteach UK Ltd. Former Vice President of Nortel's Cellular business. Former Chief Executive of Cable and Wireless Communications plc.

Oliver James [3]

Age 58. Director since 1999. Professor of Geriatric Medicine and Head of the School of Clinical Medical Sciences, University of Newcastle upon Tyne. Former Senior Censor and Senior Vice-President of the Royal College of Physicians.

Secretary

Arthur Walford

Age 56. Joined BUPA in 1988 as Company Secretary and Group General Counsel.

Medical Advisory Panel

The principal role of the Medical Advisory Panel is to advise the Board on medical issues affecting any part of the Group. Membership of the Panel is as follows:

Val Gooding CBE
Professor J Malcolm Harrington CBE, MSc, MD, FRCP, FFOM, MFPHM
Professor Jennifer Hunt MPhil, FRCN
Professor Oliver James FRCP, F Med Sci, Chairman
Janet Jenkins BSc, FRCA
Professor Martin McKee MSc, MD, FRCP, FRCPI, FFPHM
Professor Sir Duncan Nichol CBE
Keith Parsons FEBU, FRCSE, FRCS
Chris Renfrew MRCGP
Andrew Vallance-Owen MBA, FRCS Ed

1 Member of Audit Committee
2 Member of the Remuneration Committee
3 Member of the Nomination Committee

Corporate governance

The Board supports the principles of corporate governance set out in the Combined Code (the Code) published by the London Stock Exchange. While not itself a Listed company, BUPA has been in compliance with the Provisions set out in Section 1 of the Code, throughout the year ended 31 December 2001.

BUPA, as a company with no share capital, has no shareholders. In accordance with Section 372 of the Companies Act 1985, it is not required to distribute proxy forms with notices calling general meetings and therefore Code provision C.2.1 referring to the counting of proxy votes, has not been applied.

Board of Directors

The Board of Directors meets regularly throughout the year. It has adopted a schedule of matters which are required to be brought to it, or its duly authorised Committees, for decision or review. Information, in a form and of a quality appropriate to enable them to discharge their duties, is provided to members of the Board, so that they may consider such information and any issues arising therefrom in good time.

The Board comprises the Chairman, who is Non-Executive, five further Non-Executive Directors and three Executive Directors. All Directors are subject to rotation by triennial retirement.

All the Non-Executive Directors are considered by the Board to be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

Details of the Directors are set out on pages 14 and 15.

Board Committees

Audit Committee

The Audit Committee meets at least four times a year. It is responsible for overall monitoring of the Group's system of internal controls including risk management processes, and receives reports from the Group's external and internal auditors on a regular basis. It also reviews financial reports, and recommends appropriate disclosure to the Board.

The Committee comprises three Non-Executive Directors. The Chief Executive and the Finance Director also attend meetings by invitation. The external auditors and the Head of Operational Control attend all meetings.

Remuneration Committee

The Remuneration Committee determines, inter alia, the detailed terms of service of the Executive Directors, including basic salary, incentives and benefits. The Committee comprises the Chairman and two other Non-Executive Directors. The Chief Executive attends meetings by invitation. No Director attends any meeting relating to his or her remuneration. The report of the Remuneration Committee can be found on pages 18 to 20.

Nomination Committee

The Nomination Committee meets as required to select and propose to the Board suitable candidates for appointment as Executive and Non-Executive Directors.

The Committee comprises the Chairman, two other Non-Executive Directors and the Chief Executive.

Internal control statement

The Board of Directors is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable not absolute assurance against material misstatement or loss.

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Group which accords with the guidance set out in Internal Control: Guidance for Directors on the Combined Code. This process is regularly reviewed by the Audit Committee on behalf of the Board and has been in place for the year ended 31 December 2001 and up to the date of approval of the Annual Report. The processes used by the Board to review the effectiveness of the system of internal control include the following:

- The Management Executive Teams of each Business Unit and Support Services area complete an annual internal control commentary, which seeks to confirm that internal controls are operating effectively at an operational level. This commentary forms part of the annual risk assessment process that identifies significant risks in each area and evaluates the effectiveness of the relevant systems of internal control. Changes to the risk profile in each area, new risks identified and new internal controls implemented to mitigate risks are collated by each Business Unit and Support Services area quarterly and reported directly to the Board.

- The results of these processes are reported and monitored by the Business Review Team, which comprises the Chief Executive, the Finance Director and Policy Unit Directors. The Chief Executive reports significant issues to the Board. The annual risk assessment is reported to the Audit Committee, the minutes of which are received and reviewed by the Board which also receives oral reports from the Chairman as appropriate.

- In addition to the Audit Committee, other committees, subsidiary boards and advisers to the Board monitor the Group's significant risks on an on-going basis and report to the Group Board as appropriate. These include the Group's Investment and Compliance Committees and Boards of BUPA Insurance Limited and BUPA Health Assurance Limited, the Medical Advisory Panel, and sub-committees established to manage specific projects.

- The internal control system is monitored and supported by an internal audit function that reports to management and the Audit Committee on the Group's operations. The work of the internal audit function is focused on areas of highest risk, as identified by the Group's business review process (as described) and by members of the Management Executive Teams, Executive Directors and Policy Unit Directors through facilitated workshops and one to one interviews.

- The external auditors are engaged to express an opinion on BUPA's financial statements, which are prepared from the Group's accounting records and comply with generally accepted accounting principles. They review and test the systems of internal financial control and the data contained in the financial statements to the extent necessary to express their opinion.

Board remuneration report

BUPA's Remuneration Committee comprises the Chairman and two other independent Non-Executive Directors. The Board has approved the policy on executive remuneration recommended by the Committee. The Committee determines the individual remuneration packages for each of the Executive Directors and certain other members of the senior management team. The remuneration of the Non-Executive Directors is determined by the Board as a whole. No Director is involved in determining their own remuneration.

Policy on executive remuneration

The aims of the policy are to ensure that the remuneration packages offered are competitive with the private sector and designed to attract, retain and motivate Executive Directors of the right calibre. The remuneration of the Executive Directors comprises basic salary, benefits in kind, an annual performance related bonus, a long-term incentive scheme, and pension benefits. These are discussed in more detail in the following paragraphs.

In making its decisions, the Remuneration Committee considers independent external comparisons and reviews data, from a number of different sources, on the pay and benefit packages being offered by companies of comparable size and complexity.

All Executive Directors have one year rolling contracts.

The Company recognises that its Executive Directors are likely to be invited to become Non-Executive Directors of other companies, and that exposure to such non-executive duties can broaden experience and knowledge which will benefit BUPA. Executive Directors are therefore usually allowed, subject to approval, to accept up to two non-executive appointments, as long as these are not with competing companies and are not likely to lead to conflicts of interest. Executive Directors are allowed to retain the fees paid.

Short term rewards

Basic salary and benefits in kind

Basic salary for each Executive Director is determined by the Remuneration Committee, and reviewed annually, taking into account the performance of the individual and market data from independent sources as mentioned above. Other benefits include a fully expensed motor vehicle (or cash equivalent), private medical insurance, permanent health insurance and life insurance cover.

Annual bonus

All Executive Directors participate in an annual performance related bonus scheme. Superior performance is encouraged by linking entitlement to any bonus payment to challenging corporate performance goals. Each Director's bonus payment is capped by a pre-determined maximum amount, calculated as a percentage of basic salary.

Long term incentive plan

BUPA's long term incentive plan (formerly known as the long term incentive scheme) is designed to reward members of BUPA's senior management team over a number of years for the part they play in achieving the Group's longer term growth target. The plan is designed to be a surrogate, in a company without share capital, for the rewards offered by Listed companies through their equity based long term incentive plans.

The plan, which came into effect on 1 January 1996, is designed to provide a monetary reward dependent upon the Group's performance against pre-determined targets. The plan provides for targets to be reset at two-yearly periods from 1 January 1999. Targets for the period to 31 December 2002 are based upon growth in Group reserves.

Amounts paid into the plan are based upon individuals' basic salaries, and notional interest is earned on the fund balance. The size of the fund available for distribution to each executive depends upon the Group's level of achievement against the pre-set targets. Sixty percent of the resultant fund is distributed when performance against targets has been established, with the remaining 40 percent deferred for two years and paid out to executives then still in employment with the Group.

Executives who leave the Group before a payment date may in certain circumstances retain the full amount of their accrued bonus entitlement, depending on the timing and circumstances of their departure.

Pensions and other post retirement benefits

Executive Directors are entitled to a pension calculated by reference to final salary and length of service. Directors are also provided with certain other benefits, including a pension on death for their spouses and dependent children.

Pension arrangements are funded through personal pension plans subject to restrictions arising from Inland Revenue limits, and additional arrangements are made for those whose entitlements are restricted by those limits. A separate provision has been set up to cover any unfunded pension obligations.

In all cases, pensionable salary is the Executive Director's basic salary only.

In respect of BUPA's four Executive Directors who served for all or part of the year, the Company paid £43,000 (2000: £47,000) into personal pension plans during the year.

In respect of unfunded obligations, the amount which has been provided at 31 December 2001 in respect of the past service of current Executive Directors is £1,545,000 (2000: £931,000). Unfunded pensions are paid to six (2000: six) former Directors in accordance with agreed arrangements. Such pensions amounted to £162,000 (2000: £158,000).

In addition to the above, Directors appointed before April 1992 (but not subsequently) are entitled to post-retirement benefits in the form of private medical insurance cover with BUPA for life, for themselves, their spouses and dependent children. Full provision for such post retirement benefits has been made in aggregate for obligations to Directors appointed before April 1992 and, on an ex-gratia basis, in respect of certain other employees. Pending guidance in respect of the disclosure of post retirement benefits other than pensions, no value has been attributed in the tables of Directors' remuneration.

Policy in respect of Non-Executive Directors

Non-Executive Directors are appointed for an initial term of three years, with the possibility of extension. Non-Executive Directors are paid a fee for their services to the Group.

All Non-Executive Directors are entitled, during their time in office, to private medical insurance cover for themselves, spouses and dependent children. The Chairman is also entitled to car benefits.

Non-Executive Directors are not entitled to participate in any bonus, long term incentive plan or pension arrangement funded by the Company.

Non-Executive Directors' fees are reviewed periodically by the Board with the help of independent outside advice.

Disclosure tables

Further details of each Director's remuneration are provided in Note 7 to the financial statements.

On behalf of the Board
Bryan Sanderson CBE, Chairman

Statement of Directors' responsibilities in respect of the financial statements

Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the income and expenditure of the Group for the year then ended. In preparing those financial statements, the Directors are required to:

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

The Directors are responsible for ensuring proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have a 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 confirm that they comply with these requirements and after making appropriate enquiries, consider that the Group has adequate resources to continue operations for the foreseeable future. Accordingly the financial statements have been prepared on a going concern basis.

Auditors' report to the members of the British United Provident Association Limited

We have audited the financial statements on pages 25 to 57.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Directors' report and, as described on page 21, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

We read the other information accompanying the financial statements and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

In addition to our audit of the financial statements, the Directors have instructed us to review their corporate governance statement as if the Company were required to comply with the Listing Rules of the Financial Services Authority in relation to these matters.

We review whether the statement on pages 16 and 17 reflects the Group's compliance with the seven provisions of the Combined Code specified for our review by those rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company and Group's affairs as at 31 December 2001 and of the surplus of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor, London
14 March 2002

Consolidated income and expenditure account

for the year ended 31 December 2001

Technical account - general business

	Note	2001 £m	2001 £m	2000 £m	2000 £m
Earned premiums					
Premiums written		1,587.5		1,368.1	
Change in the provision for unearned premiums		(76.3)		(72.4)	
	1		1,511.2		1,295.7
Claims incurred					
Claims paid		(1,157.0)		(995.0)	
Change in the provision for claims		(25.2)		(39.9)	
			(1,182.2)		(1,034.9)
Net operating expenses	2		(263.4)		(218.7)
Other technical (charges)/income, net of reinsurance	3		(3.6)		0.3
Balance on the technical account for general business			62.0		42.4

Non-technical account

	Note	2001 £m	2001 £m	2000 £m	2000 £m
Balance on the technical account for general business			62.0		42.4
Health and Care Provision					
Turnover		880.9		824.0	
Expenses		(815.0)		(762.9)	
	1		65.9		61.1
Investment and financing					
Investment income	4	43.0		32.0	
Unrealised (losses)/gains on investments		(3.3)		10.8	
Investment expenses and charges (including interest)	5	(77.2)		(59.9)	
			(37.5)		(17.1)
Operating surplus before taxation and other income/(charges) including value adjustments	6		90.4		86.4
Other income/(charges), including value adjustments (which in 2001 includes a charge of £9.6m on disposal of subsidiaries).	9		1.5		(21.0)
Operating surplus on ordinary activities before taxation			91.9		65.4
Tax on surplus on ordinary activities	10		(37.5)		(27.0)
Surplus on ordinary activities after taxation			54.4		38.4
Minority equity interest			(0.5)		(0.3)
Surplus for the financial year			53.9		38.1

All income and expenditure relates to continuing operations.

The notes on pages 32 to 57 form part of these financial statements.

Consolidated balance sheet

as at 31 December 2001

Assets

	Note	2001 £m	£m	2000 £m	£m
Intangible assets					
Goodwill	11		70.9		52.4
Hospitals, care homes and equipment	12		1,227.0		1,203.3
Investments					
Land and buildings	13	79.8		83.4	
Financial investments	15	917.2		679.0	
			997.0		762.4
			2,294.9		2,018.1
Debtors					
Debtors arising out of direct insurance operations	16	392.5		334.9	
Other debtors : amounts falling due within one year	17	205.3		153.8	
Other debtors : amounts falling due after more than one year	17	-		77.8	
		205.3		231.6	
			597.8		566.5
Other assets					
Tangible assets	18	79.6		74.2	
Stocks		12.9		10.4	
Cash at bank and in hand		51.1		23.4	
			143.6		108.0
Prepayments and accrued income					
Deferred acquisition costs	22	22.1		19.0	
Other prepayments and accrued income	19	23.6		25.8	
			45.7		44.8
Total assets			3,082.0		2,737.4

Consolidated balance sheet - continued

as at 31 December 2001

Liabilities

	Note	2001 £m	2001 £m	2000 £m	2000 £m
Reserves					
Property revaluation reserve	20	361.9		362.2	
Income and expenditure account	20	617.2		557.0	
			979.1		919.2
Minority equity interest			12.5		10.5
Subordinated liabilities	24		98.8		98.7
Technical provisions					
Provision for unearned premiums	22	584.9		505.7	
Claims outstanding	22	266.1		231.4	
			851.0		737.1
Provisions for other risks and charges	23		112.1		95.2
Creditors					
Debenture loans	24	271.7		271.0	
Amounts owed to credit institutions	24	408.1		261.9	
Obligations under finance leases	24	110.2		111.3	
Other creditors including taxation and social security	25	111.7		127.2	
			901.7		771.4
Accruals and deferred income	26		126.8		105.3
Total liabilities			3,082.0		2,737.4

Approved by the Board of Directors and signed on its behalf by

B K Sanderson CBE
Chairman

R King
Finance Director

14 March 2002

The notes on pages 32 to 57 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 December 2001

	Note	2001 £m	2001 £m	2000 £m	2000 £m
Cash inflow from operating activities	31		345.2		241.9
Interest paid					
Interest paid		(51.3)		(44.1)	
Interest element of finance lease rental payments		(11.0)		(11.4)	
			(62.3)		(55.5)
Taxation paid			(42.4)		(16.4)
Capital expenditure					
Purchase of tangible fixed assets		(81.4)		(100.0)	
Sale of tangible fixed assets		6.1		13.7	
			(75.3)		(86.3)
Acquisitions and disposals					
Acquisition of subsidiaries		(40.9)		(0.2)	
Acquisition of businesses		(11.5)		(7.1)	
Cash acquired with subsidiaries		4.0		-	
Investments acquired with subsidiaries		3.2		0.2	
Disposal of subsidiaries		8.0		-	
			(37.2)		(7.1)
Net cash inflow before financing			128.0		76.6
Financing					
New borrowings		125.3		350.8	
Repayment of borrowings		(24.3)		(120.1)	
Repayment of finance leases		(1.3)		(1.3)	
			99.7		229.4
			227.7		306.0

Cash flows were invested as follows:

(Decrease)/increase in cash holdings		(27.3)		36.2
Net portfolio investment				
Shares and other variable yield securities	(1.5)		5.3	
Debt securities - Government stocks	(8.7)		(9.9)	
Debt securities - Corporate bonds	(56.9)		62.1	
Deposits with credit institutions	322.1		212.3	
		255.0		269.8
Net investment of cash flows		227.7		306.0

The notes on pages 32 to 57 form part of these financial statements.

Consolidated statement of total recognised gains and losses

for the year ended 31 December 2001

	2001 £m	2000 £m
Surplus for the financial year	53.9	38.1
Increase in property revaluation reserve	-	150.1
Exchange translation differences on foreign currency net investments	(3.6)	3.9
Total recognised gains and losses relating to the year	50.3	192.1

Reconciliation of movements in reserves

year ended 31 December 2001

	2001 £m	2000 £m
Opening balance	919.2	727.1
Total recognised gains and losses relating to the year	50.3	192.1
Goodwill charged to the income and expenditure account in respect of businesses sold	9.6	-
Closing reserves	979.1	919.2

Note of historical cost income and expenditure

for the year ended 31 December 2001

	2001 £m	2000 £m
Reported surplus on ordinary activities before tax	91.9	65.4
Unrealised loss/(gains) recognised in year	3.3	(10.8)
Depreciation on revalued assets	0.8	-
Historical cost surplus on ordinary activities before tax	96.0	54.6
Historical cost surplus for the year retained after tax and minority interests	58.0	27.3

Company balance sheet

as at 31 December 2001

Assets

	Note	2001 £m	2001 £m	2000 £m	2000 £m
Investments					
Land and buildings	13	1.5		-	
Investments in group undertakings	14	1,101.1		1,028.6	
Financial investments	15	0.3		13.3	
			1,102.9		1,041.9
Reinsurers' share of technical provisions					
Provision for unearned premiums	22	-		27.8	
Claims outstanding	22	1.8		56.8	
			1.8		84.6
Debtors					
Debtors arising out of direct insurance operations	16	1.2		314.8	
Other debtors	17	437.1		676.9	
			438.3		991.7
Other assets					
Tangible assets	18	20.2		5.2	
Cash at bank and in hand		3.0		16.2	
			23.2		21.4
Prepayments and accrued income					
Deferred acquisition costs	22	-		17.1	
Other prepayments and accrued income	19	4.0		1.1	
			4.0		18.2
Total assets			1,570.2		2,157.8

Company balance sheet

as at 31 December 2001

Liabilities

	Note	2001 £m	2001 £m	2000 £m	2000 £m
Reserves					
Income and expenditure account	20		979.1		919.2
Technical provisions					
Provision for unearned premiums	22	-		481.6	
Claims outstanding	22	1.8		167.1	
			1.8		648.7
Provisions for other risks and charges	23		37.0		36.1
Deposit received from reinsurer			-		33.5
Creditors					
Amounts owed to credit institutions payable within one year		-		0.5	
Other creditors including taxation and social security	25	537.0		504.1	
			537.0		504.6
Accruals and deferred income	26		15.3		15.7
Total liabilities			1,570.2		2,157.8

Approved by the Board of Directors and signed on its behalf by

B K Sanderson CBE
Chairman

R King
Finance Director

14 March 2002

The notes on pages 32 to 57 form part of these financial statements.

Accounting policies

Basis of preparation

The Group financial statements, which consolidate the accounts of the Company and its subsidiary undertakings made up to 31 December 2001, have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985.

The financial statements have also been prepared in accordance with applicable accounting standards, under the historical cost convention, modified to include the revaluation of investments, including land and buildings, hospitals and care home properties, and comply with the Statement of Recommended Practice issued by the Association of British Insurers.

The results of all subsidiary undertakings are included in the consolidated accounts. The results of subsidiary undertakings acquired during the year are brought into the accounts from the date of purchase.

The accounts of all group companies are made up to 31 December.

As permitted by Section 230 of the Companies Act 1985, the Company's own income and expenditure account is not presented.

Changes in accounting policies

The Group has complied with Financial Reporting Standard 17 'Retirement benefits'. The transitional reporting requirements provided for in the standard are being adopted for the next two years and full compliance will be reported in respect of 2003.

The Directors consider the accounting standards adopted by the Group are all appropriate to the Group's reporting requirements in accordance with FRS 18 'Accounting policies'. The effect of adopting FRS 18 has had no effect on the group result and net assets.

Accounting conventions

A summary of the more significant accounting policies, which have been applied consistently except as noted above is set out below.

Basis of accounting for underwriting activities

Underwriting activities are accounted for on an annual basis.

A separate technical account for long term business is not presented due to the immaterial amounts involved. The results of this business have been included under other technical charges, net of reinsurance.

Premiums

Premiums written relate to business commencing during the year, together with any difference between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the company, less an allowance for cancellations.

Premiums earned represent the proportion of premiums relating to cover provided for the year.

The proportion of premiums written in the year relating to periods of risk beyond the end of the year are carried forward as unearned premiums, calculated on a time apportionment basis. The resulting provision is not materially different from one based on the pattern of incidence of risk.

Premiums are shown gross of commissions and after deduction of any taxes and duties.

Other than certain intra-group reinsurance arrangements, BUPA does not enter into any material reinsurance agreements.

Claims

Claims incurred comprise claims and related expenses paid in the year and changes in provisions for outstanding claims. This includes claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years.

Outstanding claims comprise provisions for the estimated cost of claims incurred up to but not paid at the balance sheet date whether reported or not, together with related claims handling expenses. Statistical techniques and market knowledge have been used to derive the appropriate level of provisions.

Whilst the Directors consider that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made, and disclosed separately if material. The methods used and the estimates made are reviewed regularly.

Other technical provisions

Provision is made for unexpired risks where the claims and administrative expenses 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.

Acquisition costs

Acquisition costs represent commission payable and other related expenses of acquiring insurance policies written during the financial year. Acquisition costs which relate to a subsequent period are deferred and charged to accounting periods in which the related premiums are earned.

Health and Care Provision turnover

Turnover represents income receivable by Health and Care Provision for services rendered and goods supplied. Turnover excludes VAT and other sales taxes.

Investment income

Dividends on equity investments are included in the non-technical account on a cash basis which is not materially different from an ex-dividend basis; other investment income is recognised on an accruals basis.

Realised gains and losses on the disposal of land and buildings (own use) and other investments are taken to the non-technical account. Realised gains and losses on the disposal of land and buildings and financial investments are calculated as the difference between net proceeds and the latest carrying value.

Unrealised investment gains and losses

Unrealised gains and losses on land and buildings (own use) and financial investments are included in the non-technical account. Such gains and losses are calculated as the difference between the valuation of those investments at the balance sheet date and their valuation at the previous balance sheet date or their purchase price if purchased during the year. Unrealised gains and losses also include an adjustment for previously recognised gains and losses on investments disposed of during the year.

Goodwill

Goodwill arising on acquisitions (representing the excess of purchase consideration for subsidiaries over the fair value of net assets acquired) since 31 December 1997 is capitalised on the balance sheet and is amortised over its estimated useful economic life on a straight line basis. The useful economic life is determined after taking into account factors such as type of business, customer relationships and distribution channels but will normally be limited to periods of 20 years or less.

Goodwill arising on acquisitions up to 31 December 1997, which was written off against reserves in accordance with then applicable accounting policies, remains eliminated against reserves. The calculation of the profit or loss arising on any subsequent disposal of a business to which some of this goodwill is attributable will include the relevant amount of goodwill.

Hospitals, care homes and equipment

Hospitals, care homes and equipment are valued on an existing use basis as fully operational concerns by an external valuer. In accordance with Financial Reporting Standard 15 'Tangible Fixed Assets' interim valuations are completed every three years and full valuations are completed at least every five years.

Unrealised gains/losses are taken to revaluation reserves or the income and expenditure account in accordance with FRS 15.

Investments

Freehold and leasehold land and buildings, which are all occupied by the Group for its own use, are stated at either cost or valuation.

Other financial investments where listed are stated at market value, otherwise they are carried at current value.

Investments in subsidiary undertakings are carried at net asset value in the Company's accounts.

Depreciation

No depreciation is provided on freehold land or assets under construction. All other tangible assets are depreciated so as to write off the cost or valuation by equal instalments over their estimated useful lives, as follows:

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

Taxation including deferred taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred due to timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred taxation only to the extent that it is probable that a liability will crystallise in the forseeable future.

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling using the prevailing exchange rate. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. Any gains or losses are taken to the income and expenditure account.

On consolidation, assets and liabilities of overseas subsidiaries and branches are translated into sterling using exchange rates ruling at the balance sheet date, and their results are translated at average rates. Exchange differences arising on translation are taken directly to reserves.

Leases

Leasing arrangements which transfer to the Group substantially all the risks and rewards of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in tangible assets and depreciated over their estimated economic lives or over the term of the lease, whichever is shorter. The capital element of the leasing commitments is included in liabilities as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligation, and the interest element is charged against results in proportion to the capital element outstanding.

Operating lease rentals are charged against results on a straight line basis over the term of the lease.

Pension and other post retirement benefits

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

Derivatives

Derivatives are marked to market value and the gain or loss arising is accounted for on the same basis as that arising from the underlying assets, liabilities or net positions.

Notes to the financial statements

1. Segmental information

(a) Income by origin

	UK 2001 £m	UK 2000 £m	Rest of Europe 2001 £m	Rest of Europe 2000 £m	Rest of the World 2001 £m	Rest of the World 2000 £m	Total 2001 £m	Total 2000 £m
Health Insurance Premiums								
General business	1,182.3	1,009.5	284.0	250.3	44.9	35.9	1,511.2	1,295.7
Long term	11.2	10.2	-	-	-	-	11.2	10.2
	1,193.5	1,019.7	284.0	250.3	44.9	35.9	1,522.4	1,305.9
Health and Care Provision Turnover								
Hospitals & medical services	419.6	381.1	65.1	57.7	11.4	-	496.1	438.8
Care services	384.8	385.2	-	-	-	-	384.8	385.2
	804.4	766.3	65.1	57.7	11.4	-	880.9	824.0
	1,997.9	1,786.0	349.1	308.0	56.3	35.9	2,403.3	2,129.9

Income by destination is not materially different from that by origin.

(b) Operating surplus before taxation

	UK 2001 £m	UK 2000 £m	Rest of Europe 2001 £m	Rest of Europe 2000 £m	Rest of the World 2001 £m	Rest of the World 2000 £m	Total 2001 £m	Total 2000 £m
Health Insurance								
General business	35.2	13.5	28.8	27.1	1.6	1.5	65.6	42.1
Long term	(3.6)	(0.4)	-	0.7	-	-	(3.6)	0.3
	31.6	13.1	28.8	27.8	1.6	1.5	62.0	42.4
Health and Care Provision								
Hospitals & medical services	31.8	31.7	1.8	1.0	(0.7)	-	32.9	32.7
Care services	33.0	28.4	-	-	-	-	33.0	28.4
	64.8	60.1	1.8	1.0	(0.7)	-	65.9	61.1
Trading Activities	96.4	73.2	30.6	28.8	0.9	1.5	127.9	103.5
Investment and Financing	(51.3)	(36.1)	12.6	16.3	1.2	2.7	(37.5)	(17.1)
Operating surplus before taxation and other income/(charges) including value adjustments	45.1	37.1	43.2	45.1	2.1	4.2	90.4	86.4
Other income/(charges) including value adjustments	1.5	(21.0)	-	-	-	-	1.5	(21.0)
	46.6	16.1	43.2	45.1	2.1	4.2	91.9	65.4

Investment and financing activities have been separately analysed as the Directors consider it to be a separate activity.

Notes to the financial statements - continued

1. Segmental information - continued

(c) Net assets

	UK		Rest of Europe		Rest of the World		Total	
	2001 £m	2000 £m	**2001 £m**	2000 £m	**2001 £m**	2000 £m	**2001 £m**	2000 £m
Health Insurance								
General business	441.1	393.8	125.2	149.7	23.0	19.7	589.3	563.2
Long term	12.3	9.7	-	-	-	-	12.3	9.7
	453.4	403.5	125.2	149.7	23.0	19.7	601.6	572.9
Health and Care Provision								
Hospitals & medical services	544.2	630.7	34.5	39.0	7.1	-	585.8	669.7
Care services	498.8	492.3	-	-	-	-	498.8	492.3
	1,043.0	1,123.0	34.5	39.0	7.1	-	1,084.6	1,162.0
Investment Activities	(808.1)	(880.8)	113.5	75.6	-	-	(694.6)	(805.2)
	688.3	645.7	273.2	264.3	30.1	19.7	991.6	929.7

UK includes branches in Cyprus, Malta and the Republic of Ireland.

2. Net operating expenses

	2001 £m	2000 £m
Acquisition costs	70.1	60.0
Increase in deferred acquisition costs	(3.1)	(2.4)
	67.0	57.6
Administrative expenses	196.4	161.1
	263.4	218.7

Total commissions for direct insurance, excluding payments to employees, amounted to £41.2m (2000: £36.2m).

3. Other technical charges, net of reinsurance

	2001 £m	2000 £m
Long term business		
Premiums earned, net of reinsurance	11.2	10.1
Investment income	0.8	0.7
Claims incurred, net of reinsurance	(2.4)	(9.4)
Change in other technical provisions, net of reinsurance	(8.1)	2.9
Net operating expenses	(5.1)	(4.0)
Balance on long term business	(3.6)	0.3

There are no material reinsurance arrangements with parties outside of the BUPA group of companies.

Notes to the financial statements - continued

4. Investment income

	2001 £m	2000 £m
Income from investments		
Listed investments	1.5	3.6
Unlisted investments	-	2.9
Deposits with credit institutions	36.6	20.2
Recognition of deferred consideration (Note 26)	4.9	5.3
	43.0	32.0

5. Investment expenses and charges (including interest)

	2001 £m	2000 £m
Investment expenses, charges and diminutions	7.7	3.3
Bank loans, overdrafts and other loans	55.4	42.3
Finance charges payable in respect of finance leases	9.7	10.4
Realised losses on investments	4.4	3.9
	77.2	59.9

6. Operating surplus

	2001 £m	2000 £m
Operating surplus is stated after charging:		
Operating lease rentals:		
Hire of plant and machinery	2.3	2.9
Other	7.5	7.0
Depreciation and other amounts written off tangible fixed assets:		
Owned	63.2	57.9
Leased	10.1	4.7
Amortisation of goodwill	9.6	7.2
Auditors' remuneration:		
Audit of Group accounts	1.0	1.0
Audit of Company	0.1	0.1
Other services provided by the auditors and their associates	1.0	1.0

Notes to the financial statements - continued

7. Directors' emoluments

	2001 £'000	2000 £'000
Aggregate emoluments of the Directors of the Company were as follows:		
Basic salaries	939	824
Fees	321	320
Benefits	86	84
Annual bonuses	442	314
	1,788	1,542
Payments to money purchase pension schemes	43	47
Provision for unfunded pensions	1,010	632
	2,841	2,221

The Board remuneration report, which explains the approach to the remuneration policy, is set out on pages 18 to 20.

Short term rewards

	Salary or Fees £'000	Benefits (note (a)) £'000	Annual Bonus £'000	2001 Total £'000	2000 Total £'000
Executive Directors					
VF Gooding	424	22	216	662	546
EW Lea - resigned 14 September 2001	190	13	96	299	379
DS Boyle	205	17	82	304	271
R King - appointed 1 August 2001	120	6	48	174	-
	939	58	442	1,439	1,196
Non-Executive Directors					
BK Sanderson (Chairman) - appointed 1 January 2001	90	16	-	106	-
Sir Bryan Nicholson - resigned 23 May 2001	59	7	-	66	162
Prof Sir Duncan Nichol	29	1	-	30	28
Dr M Downes - resigned 23 May 2001 - (Note (b))	25	1	-	26	64
Prof OFW James	32	1	-	33	30
FA Heaton - resigned 12 February 2001	4	-	-	4	33
DM Claisse	40	1	-	41	29
RD Brown - appointed 1 April 2001	21	-	-	21	-
GA Clarke - appointed 1 April 2001	21	1	-	22	-
	321	28	-	349	346
Total emoluments (excluding pensions)	1,260	86	442	1,788	1,542

7. Directors' emoluments - continued

Long term incentive plan

	Balance brought forward (note (c)) £000	Interest accrued £000	Balance carried forward £000
VF Gooding	153	8	161
EW Lea	113	6	119
DS Boyle	79	4	83

Notes to tables

(a) Benefits incorporate all benefits arising from employment by the Group and include private medical insurance for the year, car benefits, permanent health insurance cover and life insurance cover.

(b) Amounts disclosed in respect of Dr Margaret Downes include fees of £13,882 (2000: £34,884) receivable as Non-Executive Chairman of BUPA Ireland Limited.

(c) The balance brought forward represents the remaining 40 percent entitlement for 2000 which attracts interest and is payable in April 2003 or on retirement subject to eligibility under the plan rules.

(d) Any entitlement in respect of 2001 and 2002 cannot be determined until the end of 2002.

Pension costs

	Age at 31 December 2001	Directors' contributions in the year £	Increase in accrued annual pension during year £	Total accrued annual pension at 31 December 2001 £
VF Gooding	51	20,147	21,043	75,600
EW Lea	60	8,698	9,263	90,838
DS Boyle	59	10,010	7,173	44,392
R King	48	5,938	3,958	3,958

The accrued annual pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year. The increase in accrued pension during the year excludes any increase for inflation. In the case of EW Lea, the total accrued annual pension is shown as at the date of resignation from the Board. The normal retirement age is 60. Any pension taken on early retirement by an Executive Director is subject to agreement with the Company.

In the case of death in service, a cash lump sum equal to four times pensionable salary at date of death together with a spouse's pension of two thirds of the member's prospective pension based on salary at the date of death is payable. On death after retirement, a pension will be paid to the spouse of two thirds of gross pension. In both cases a benefit in respect of each dependent child (up to a maximum of four children), normally up to the age of 18 or while in full time education, is payable. All benefit payments are increased annually by 3 percent or by the current increase in the Retail Price Index, whichever is the higher.

8. Staff numbers and costs

	2001	2000
The average number of full time equivalent persons employed by the Group (including Executive Directors) during the year was as follows:		
Health Insurance	4,422	3,826
Health and Care Provision	26,469	24,505
	30,891	28,331

	£m	£m
Wages and salaries	431.5	388.5
Social security costs	38.1	31.4
Other pension costs (see Note 29)	15.4	13.6
	485.0	433.5

9. Other (income)/charges, including value adjustments

	2001 £m	2000 £m
Value adjustment on loan associated with prohibited acquisition in 2000 which was repaid in 2001	(11.0)	11.1
Diminution in value of hospitals and care homes	-	9.9
Profit on sale of subsidiaries	(0.9)	-
Loss on sale of subsidiaries	0.8	-
Goodwill on sale of subsidiaries previously written off to reserves	9.6	-
	(1.5)	21.0

10. Taxation

	2001 £m	2000 £m
UK corporation tax at 30 percent	34.5	21.6
Double taxation relief	(1.5)	(1.8)
	33.0	19.8
Deferred taxation (see Note 23)	(3.2)	(1.1)
Overseas taxation	13.2	11.9
	43.0	30.6
Taxation (over)/under provided in previous years		
UK corporation tax	(10.2)	4.3
Deferred tax	4.6	(7.9)
Overseas tax	0.1	-
	37.5	27.0

11. Goodwill

	2001 £m	2000 £m
Cost		
At beginning of year	65.8	48.7
Exchange adjustment	(0.4)	0.2
Additions (see Note 21)	31.8	16.9
Disposals	(3.7)	-
Other	(0.9)	-
At end of year	92.6	65.8
Amortisation		
At beginning of year	(13.4)	(6.1)
Exchange adjustment	0.1	(0.1)
Charged in the year	(9.6)	(7.2)
Disposals	1.2	-
At end of year	(21.7)	(13.4)
Net book value at end of year	70.9	52.4

Amortisation of goodwill is over periods up to 20 years, in accordance with the Group's accounting policies, the average amortisation period being eight years.

There are no material acquisitions which require separate disclosure of the useful economic life of the goodwill.

12. Hospitals, care homes and equipment

Group

	Freehold properties £m	Long leasehold properties £m	Equipment £m	Total £m
Cost or valuation				
At beginning of year	947.3	119.9	319.4	1,386.6
Exchange adjustment	(0.8)	-	(0.9)	(1.7)
Movements on acquisitions & disposals of subsidiaries	17.8	-	3.2	21.0
Additions	18.8	4.8	32.0	55.6
Transfers and other reclassifications	(22.3)	20.8	(2.2)	(3.7)
Disposal of assets	(3.3)	(1.0)	(20.1)	(24.4)
At end of year	957.5	144.5	331.4	1,433.4
Depreciation				
At beginning of year	20.4	4.2	158.7	183.3
Exchange adjustment	(0.2)	-	(0.5)	(0.7)
Movements on acquisitions & disposals of subsidiaries	0.6	-	2.2	2.8
Charged in the year	15.7	4.1	30.2	50.0
Impairment losses	0.1	-	-	0.1
Transfers and other reclassifications	(8.6)	0.6	(2.3)	(10.3)
Disposal of assets	(1.6)	(0.5)	(16.7)	(18.8)
At end of year	26.4	8.4	171.6	206.4
Net book value				
At 31 December 2001	931.1	136.1	159.8	1,227.0
At 31 December 2000	926.9	115.7	160.7	1,203.3

The above table includes land of £226.9m (2000: £224.9m) on which depreciation has not been charged.

Hospital and care home properties:

	Freehold properties £m	Long leasehold properties £m
Valuation 2000	884.0	112.7
Valuation 1999	41.3	-
Valuation 1998	9.1	-
Assets held at cost	23.1	31.8
	957.5	144.5

The net book value of freehold and leasehold properties of £1,067.2m (2000: £1042.6m) includes £311.3m (2000: £305.9m) in respect of assets held under finance leases. The valuations were carried out in accordance with the Appraisal and Valuation Manual issued by the Royal Institution of Chartered Surveyors. The Directors are not aware of any material change in value since the last valuation and therefore the valuations have not been updated. Particulars relating to the historical cost of revalued assets are given below:

Group

	2001 £m	2000 £m
Historical cost of revalued assets	755.2	720.4
Aggregate depreciation based on historical cost	(73.2)	(61.5)
Historical cost net book value	682.0	658.9

The total historical cost of all assets is £1,086.6m.

Notes to the financial statements - continued

13. Land and buildings: own use

	Group			Company
	Freehold properties £m	Leasehold properties £m	Total £m	Leasehold properties £m
Cost or valuation				
At beginning of year	70.7	16.8	87.5	-
Additions	1.3	0.1	1.4	1.7
Transfers and other reclassifications	5.4	(9.9)	(4.5)	-
Disposal of assets	(0.2)	(0.1)	(0.3)	-
At end of year	77.2	6.9	84.1	1.7
Depreciation				
At beginning of year	1.1	3.0	4.1	-
Charged in the year	1.0	0.2	1.2	0.2
Transfers and other reclassifications	(0.6)	(0.4)	(1.0)	-
At end of year	1.5	2.8	4.3	0.2
Net book value				
At 31 December 2001	75.7	4.1	79.8	1.5
At 31 December 2000	69.6	13.8	83.4	-

The above table includes land of £18.1m (2000: £18.2m) on which depreciation has not been charged.

Freehold properties	
Valuation 2000	63.3
Assets held at cost	13.9
	77.2

The Directors are not aware of any material change in value since the last valuation.

Group	**2001 £m**	2000 £m
Historical cost of revalued assets	27.4	26.3
Aggregate depreciation based on historical cost	(1.0)	(0.5)
Historical cost net book value	26.4	25.8

The total historical cost of all assets is £41.5m (2000: £44.9m).

Notes to the financial statements - continued

14. Investments in Group undertakings

	Cost of shares £m	Revaluations £m	Total £m
At beginning of year	202.4	826.2	1,028.6
Adjustments to reflect underlying net asset value	-	72.5	72.5
At end of year	202.4	898.7	1,101.1

The Company's principal subsidiaries as at 31 December 2001, listed below are, except where stated, incorporated in Great Britain and BUPA owns 100 percent of the ordinary share capital.
Full details of all Group undertakings will be annexed to the Company's next annual return in compliance with the Companies Act, 1985.
All subsidiaries listed below are included in the consolidation.

Health Insurance - general business
BUPA Insurance Limited
Sanitas SA, de Seguros (99 percent holding) - (Spain)
BUPA Asia Limited - (Hong Kong)
BUPA Re - (Republic of Ireland)
BUPA Middle East E C Limited (50 percent holding) - (Saudi Arabia)

Health Insurance - long term
BUPA Health Assurance Limited

Investment activities
BUPA Investments Limited*
BUPA Finance plc*

Health and Care Provision
BUPA Hospitals Limited
Blackrock Hospital Limited (56 percent holding) - (Republic of Ireland)
BUPA Nursing Homes Limited
BUPA Care Services Limited
Care First Group plc
Vista Healthcare Pte Limited (Singapore)
Barbican Healthcare plc
BUPA Occupational Health Limited

* Direct subsidiary of the Company

15. Financial investments

Group

	Market value 2001 £m	Cost 2001 £m	Market value 2000 £m	Cost 2000 £m
Debt securities - Government stocks	97.3	94.8	110.7	110.1
Debt securities - Corporate bonds and loans	7.0	7.0	63.9	73.1
	104.3	101.8	174.6	183.2
Shares and other variable yield securities	113.5	118.7	118.7	126.3
Deposits with credit institutions	699.4	699.4	385.7	385.7
	917.2	919.9	679.0	695.2
Included in the above were investments listed on recognised Stock Exchanges	84.5	92.8	111.3	116.2

Company

	Market value 2001 £m	Cost 2001 £m	Market value 2000 £m	Cost 2000 £m
Debt securities - Government stocks	0.3	0.3	0.3	0.3
Deposits with credit institutions	-	-	13.0	13.0
	0.3	0.3	13.3	13.3

Notes to the financial statements - continued

16. Debtors arising out of direct insurance operations

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Amounts owed by policyholders	392.5	334.9	1.2	314.8

17. Other debtors

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Amounts falling due within one year:				
Trade debtors	84.1	87.1	-	-
Investment debtors and accrued investment income	5.4	27.7	-	0.3
Other debtors	36.3	39.0	3.6	23.3
Amounts owed by Group undertakings	-	-	425.7	648.6
Corporation tax receivable	-	-	3.3	-
Deferred taxation	-	-	4.5	4.7
Deferred consideration receivable	79.5	-	-	-
	205.3	153.8	437.1	676.9

Deferred taxation

Company

	2001 £m	2000 £m
Amounts falling due within one year:		
At beginning of year	4.7	
Credit to Income and expenditure account	(0.2)	4.7
At end of year	4.5	4.7

Amounts provided for deferred taxation and the full potential liability are set out below:

	2001 Provided £m	2000 Provided £m	2001 Full potential liability £m	2000 Full potential liability £m
Accelerated capital allowances	0.9	0.7	0.9	0.7
Other timing differences	(5.4)	(5.4)	(12.4)	(14.5)
At end of year	(4.5)	(4.7)	(11.5)	(13.8)

17. Other debtors - continued

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Amounts falling due after more than one year:				
Deferred consideration receivable	-	77.8	-	-

Deferred consideration represents consideration for the disposal of a qualifying indexed security (QIS) on 30 June 1995. The consideration is receivable in instalments as follows:

	£m
14 April 2002	9.2
14 April 2004	70.3
	79.5

The sale agreement allows BUPA to request early settlement of the sale at any time up to the date the deferred consideration becomes due. The Company expects to seek settlement of the total consideration in 2002. The deferred consideration has been included in debtors falling due within one year on this basis.

The difference between the total consideration and the book value of the security at the date of disposal is included in accruals and deferred income in Note 26. The deferred income is included in investment income (Note 4) on the basis of the value at which the sale could be closed out at the balance sheet date.

18. Tangible assets

	Group £m	Company £m
Equipment		
Cost		
At beginning of year	127.4	6.3
Exchange adjustment	(0.7)	-
Acquisitions	1.6	-
Additions	32.5	37.9
Transfers and other reclassifications	(1.7)	-
Disposal of assets	(8.1)	(10.8)
At end of year	151.0	33.4
Depreciation		
At beginning of year	53.2	1.1
Exchange adjustment	(0.4)	-
Acquisitions	0.7	-
Charged in the year	22.0	4.6
Transfers and other reclassifications	1.4	-
Disposal of assets	(5.5)	7.5
At end of year	71.4	13.2
Net book value		
At 31 December 2001	79.6	20.2
At 31 December 2000	74.2	5.2

The net book value of equipment of the Group of £79.6m (2000: £74.2m) includes £1.1m (2000: £0.7m) in respect of assets held under finance leases. The net book value of equipment of the Company of £20.2m (2000: £5.2m) includes £nil (2000: £nil) in respect of assets held under finance leases.

Notes to the financial statements - continued

19. Other prepayments and accrued income

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Prepayments	17.7	19.0	4.0	1.1
Accrued income	5.9	6.8	-	-
	23.6	25.8	4.0	1.1

20. Reserves

Group

	Property Revaluation £m	Income and expenditure account £m	Total £m
At beginning of year	362.2	557.0	919.2
Exchange translation differences	(0.3)	(3.3)	(3.6)
Movements arising on disposals of subsidiaries	-	9.6	9.6
Retained surplus for the year	-	53.9	53.9
At end of year	361.9	617.2	979.1

Unrealised investment gains amounting to £21.7m (2000: £25.0m) are included in the balance of the income and expenditure account at the end of the financial year.

The property revaluation reserve only relates to property held as tangible fixed assets within hospitals, care homes and equipment.

Cumulative goodwill arising on acquisitions made prior to 31 December 1997 of £270.8m (2000: £280.4m) remains eliminated against the income and expenditure account as permitted by the transitional provisions of Financial Reporting Standard 10 'Goodwill and Intangible Assets'.

Company

	Income and expenditure account £m
At beginning of year	919.2
Exchange translation differences	(0.1)
Retained deficit for the year	(12.5)
Increase in underlying net asset value of Group undertakings	72.5
At end of year	979.1

The deficit of the Company for the financial year amounted to £12.5m (2000: surplus £2.8m).

Notes to the financial statements - continued

21. Acquisitions and disposals

(a) Acquisitions

BUPA made acquisitions costing £52.6m during 2001, mainly in respect of a Primary care business in the Far East (Vista Healthcare Asia Pte Limited, acquired July 2001) £30.8m, Care Home acquisitions in the UK £9.3m and Hospital Medical services businesses in Spain £8.0m.

Goodwill arising on acquisition has been included as an asset in the balance sheet in accordance with the provisions of FRS 10. This is being amortised over periods of between one and 20 years.

The table below summarises the fair value of the assets and liabilities acquired and resulting goodwill. The Directors consider that Vista Healthcare Asia Pte Limited is the only significant acquisition requiring separate disclosure.

Total acquisitions in 2001

	Fair Value Vista £m	Fair Value Other £m	Fair Value Total £m
Property and equipment	4.9	16.4	21.3
Intangible assets	0.3	-	0.3
Investments	1.9	-	1.9
Current assets	7.9	8.3	16.2
Creditors and provisions	(5.0)	(11.1)	(16.1)
Loans and overdrafts	(2.8)	2.1	(0.7)
Net assets acquired	7.2	15.7	22.9
Less: minority interest	(0.8)	(1.3)	(2.1)
Total net assets acquired	6.4	14.4	20.8
Cash consideration and fees	30.8	21.6	52.4
Deferred consideration	-	0.2	0.2
Goodwill capitalised	24.4	7.4	31.8

The acquisition method of accounting has been adopted for the above acquisitions.

No separate analysis is given on the face of the Income and Expenditure account between on going businesses and acquisitions and disposals as required by FRS 3 as their impact is considered immaterial by the Directors.

(b) Disposals

During the year BUPA sold two small businesses within the Health and Care Provision segment, BUPA Dental Cover Ltd in January and three Home Care companies Goldsborough Homecare and Nursing Services Ltd, Primrose Care Ltd and Helping Hands Care Ltd in April, receiving net proceeds after settlement of intercompany debt, of £2.7m resulting in a net profit to the Group of £0.1m.

In addition £9.6m goodwill attributed to the Homecare businesses, previously written off to reserves, has been charged to the income and expenditure account.

22. Technical provisions and deferred acquisition costs

Group

	Provision for unearned premiums £m	Claims outstanding £m	Total £m
At beginning of year	505.7	231.4	737.1
Movement in the provision	79.5	36.3	115.8
Exchange adjustment	(0.3)	(1.6)	(1.9)
At end of year	584.9	266.1	851.0

	2001 £m	2000 £m
Technical provisions at end of year	851.0	737.1
Deferred acquisition costs	(22.1)	(19.0)
Net insurance funds	828.9	718.1

Company

	Provision for unearned premiums £m	Claims outstanding £m	Total £m
Gross amount			
At beginning of year	481.6	167.1	648.7
Movement in the provision	(481.5)	(165.2)	(646.7)
Exchange adjustment	(0.1)	(0.1)	(0.2)
At end of year	-	1.8	1.8
Reinsurance amount			
At beginning of year	27.8	56.8	84.6
Movement in the provision	(27.8)	(55.0)	(82.8)
At end of year	-	1.8	1.8
Net technical provisions			
At end of year	-	-	-
At beginning of year	453.8	110.3	564.1

	2001 £m	2000 £m
Net technical provisions at end of year	-	564.1
Deferred acquisition costs	-	(17.1)
Net insurance funds	-	547.0

On 2 January 2001, after approval from the Financial Services Authority, all rights and obligations attaching to General insurance policies written by BUPA's UK Membership business were transferred to BUPA Insurance Limited under Part II Schedule 2C of the Insurance Companies Act 1982. All rights and obligations attaching to general insurance policies written by the Company's branches in Cyprus, Malta and the Republic of Ireland were also transferred to BUPA Insurance Limited during the year under the relevant legislation.
The remaining insurance liabilities in the Company have been entirely reinsured to BUPA Insurance Limited.
Over provisions on Health Insurance for claims at the beginning of the year compared with payments and provisions at the end of the year in respect of prior years, claims are £42.9m (2000: £14.5m).

23. Provisions for other risks and charges

Group

	Deferred taxation £m	Pensions and similar obligations £m	Other £m	Total £m
At beginning of year	0.5	68.5	26.2	95.2
Acquisitions	-	-	0.5	0.5
Disposals	-	(0.3)	-	(0.3)
Utilised during year	-	(0.5)	(9.1)	(9.6)
(Credit)/charge for the year	1.4	10.4	15.5	27.3
Other movements	(1.0)	-	-	(1.0)
At end of year	0.9	78.1	33.1	112.1

Other provisions comprise a variety of risks which are expected to be utilised during the next two years.

Amounts provided for deferred taxation and the full potential liability are set out below:

	2001 Provided £m	2000 Provided £m	**2001 Full potential liability £m**	2000 Full potential liability £m
Accelerated capital allowances	0.2	0.6	25.6	24.5
Other timing differences	0.7	(0.1)	(28.4)	(26.0)
Property revaluation	-	-	99.8	96.8
At end of year	0.9	0.5	97.0	95.3

Company

	Pensions and similar obligations £m	Other £m	Total £m
At beginning of year	20.6	15.5	36.1
Utilised during year	(0.5)	(7.0)	(7.5)
Charge for the year	3.1	4.7	7.8
Other movements	-	0.6	0.6
At end of year	23.2	13.8	37.0

Notes to the financial statements - continued

24. Borrowings and subordinated liabilities

Group

	2001 £m	2000 £m
Amounts owed to credit institutions:		
Bank overdrafts	47.4	4.8
Bank loans	360.7	257.1
	408.1	261.9
Obligations under finance leases	110.2	111.3
Subordinated liabilities	98.8	98.7
Debenture loans		
Loan notes	22.1	15.3
Debenture stock	62.9	63.5
Other loans	186.7	192.2
	271.7	271.0
	888.8	742.9
Repayable other than by instalments		
Between two and five years	100.1	87.0
In five years or more	161.7	172.2
	261.8	259.2
Repayable by instalments		
Between two and five years	122.1	73.8
In five years or more	167.8	229.6
	289.9	303.4
Amounts falling due after more than one year by year of repayment	551.7	562.6
Repayments falling due within one year	337.1	180.3
	888.8	742.9

Certain bank loans and overdrafts are secured by fixed and floating charges over certain assets of the Group, and bear interest at commercial rates linked to LIBOR.

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

The 11.8 percent debenture stock which is repayable at par in 2014 was acquired with Care First Group PLC. The stock is secured by a fixed charge over certain of the Group's assets and a first floating charge over the businesses attached thereto and a general floating charge over certain assets.

Notes to the financial statements - continued

24. Borrowings and subordinated liabilities - continued

Other loans represent a liability due to UK Care No 1 Limited (a company incorporated in Guernsey) which is being repaid by instalments until 1 October 2029, in respect of the transactions described below.
In 1999, BUPA granted 99 year overriding leases over 116 care home properties to UK Care No 1 Limited for a premium of £206.0m. These leases entitle UK Care No 1 Limited to initially receive rents from BUPA for a period of 35 years.
In February 2000 UK Care No 1 Limited raised £235.0m by the issue of loan notes with security granted over all of its assets (principally the overriding leases) for its liabilities arising under the loan notes. The particulars of the loan notes are as follows:

	£m
Class A1 Secured 6.3% Notes due 2029	175.0
Class A2 Secured 7.5% Notes due 2031	60.0
	235.0

The Class A1 Secured Notes will be redeemed out of the proceeds of a Swap Agreement the cost of which was deducted from the gross proceeds of the secured notes. All other amounts payable under the notes will be met out of the rental income to which UK Care No 1 Limited is entitled.
The granting of the overriding leases has been characterised as a loan liability in accordance with the provisions of Financial Reporting Standard 5 'Reporting the Substance of Transactions'.

Company

	2001 £m	2000 £m
Amounts owed to credit institutions		
Bank overdrafts repayable within one year	-	0.5
	-	0.5

25. Other creditors including taxation and social security

	Group		Company	
	2001 £m	2000 £m	**2001 £m**	2000 £m
Corporation tax payable	14.9	21.5	-	0.8
Social security	8.8	10.1	-	-
Trade creditors, Health and Care Provision	42.5	38.2	-	-
Other creditors	45.5	57.4	14.2	23.2
Amounts owed to Group undertakings	-	-	522.8	480.1
	111.7	127.2	537.0	504.1

Notes to the financial statements - continued

26. Accruals and deferred income

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Deferred income on sale of QIS (Note 17)	14.2	19.1	-	-
Other accruals and deferred income	112.6	86.2	15.3	15.7
	126.8	105.3	15.3	15.7

27. Contingent liabilities

The Company has guaranteed the borrowings of certain subsidiary undertakings which at 31 December 2001 amounted to £460.1m (2000: £341.6m).

In accordance with the provisions of Section 17 of the Companies (Amendment) Act 1986 of the Republic of Ireland, the Company has irrevocably guaranteed all liabilities and losses of its subsidiary companies, BUPA Ireland Limited and BUPA Ireland Services Limited in respect of the financial years ending 31 December 2002 and 2003 as referred to in Section 5(c) of that Act, for the purposes of enabling those subsidiaries to claim exemption from the requirement to file their own financial statements.

In addition to the above, there are other contingent liabilities arising in the ordinary course of business, including losses which might arise from litigation, which are not expected to be material in the context of these financial statements.

28. Commitments

(a) Capital commitments

Capital commitments for the Group at the end of the financial year for which no provision has been made were £18.4m (2000: £8.2m). The Company had no capital commitments at the end of either year.

(b) Operating leases

Annual commitments under non-cancellable operating leases are as follows:

Group

	2001 Land and buildings £m	2001 Other £m	2000 Land and buildings £m	2000 Other £m
Operating leases which expire				
Within one year	2.7	0.4	0.6	1.0
Between two and five years	2.0	2.1	3.1	2.0
Over five years	4.2	-	2.8	-
	8.9	2.5	6.5	3.0

Notes to the financial statements - continued

29. Pension schemes and other post retirement benefits

The Group operates defined contribution and defined benefit pension schemes for the benefit of staff. The principal scheme, the BUPA Pension Scheme, is a defined benefit pension scheme which provides benefits based on final pensionable salary. Under this scheme, contributions by employees and the Group are administered by trustees in funds independent of the Group. The scheme is funded to cover accrued pension liabilities allowing for future earnings and pension increases. On the basis of detailed valuations undertaken every three years and periodic interim reviews, an independent actuary recommends the rates of contribution.

The latest valuation of the BUPA Pension Scheme was carried out as at 1 July 1999 and the projected unit method was used. The assumed rate of investment return was 2 percent above the assumed rate of pay increases and 4 percent above the assumed rate of pension increases.

The actuarial liability at the valuation date was £202.0m. The aggregate market value of the BUPA Pension Scheme assets at the valuation date was £267.2m (132 percent of the liability). There was a pension contribution holiday from 1 July 2000 to 30 June 2001. Employer contributions were then paid at the rate of 3 percent of pensionable salary with effect from 1 July 2001. The accounts include a provision of £60.2m (2000: £51.8m) representing the excess of the accumulated pensions cost over the contributions made.

Unfunded defined benefit pension arrangements exist for certain employees and ex-employees. The charge to the consolidated income and expenditure account in respect of these arrangements and the assessment of the related pension liability at 31 December 2001 have been made in accordance with the advice of independent actuaries and with the same principal assumptions adopted during 2001 for the BUPA Pension Scheme. The assumed rate of investment return is 2 percent above the assumed rate of pay increases and 3.5 percent above the assumed rate of pension increases. The provision included in the accounts amounts to £6.2m (2000: £4.8m).

In addition unfunded post retirement medical benefits are provided for certain employees and ex-employees. These benefits were granted to certain long-serving employees before 1992 on an ex-gratia basis. The charge to the consolidated income and expenditure account in respect of these arrangements and the assessment of the related liability at 31 December 2001 have been made again with the same principal assumptions adopted during 2001 for the BUPA Pension Scheme. The provision included in the accounts amounts to £11.6m (2000: £11.9m).

The pension charge reported in the income and expenditure account in respect of schemes and unfunded arrangements in 2001 amounted to £15.4m (2000: £13.6m).

FRS 17 Pensions disclosure

Under transitional disclosure arrangement in FRS 17 the main pension scheme valuation has been based on an indicative actuarial valuation as at 30 June 2001 and updated to take account of the requirements of FRS 17 in order to assess the liabilities and assets of the scheme at 31 December 2001. The unfunded liabilities have also been re-calculated on FRS 17 assumptions. The FRS 17 post retirement healthcare liability has been valued by an actuary employed by the reporting entity. All other liabilities and the asset valuation were valued by independent actuaries.

The financial assumptions used to calculate liabilities under FRS 17 are:

Discount rate	5.8%
Inflation rate	2.5%
Salary increases	4.1%
Increases to pensions in payment	2.5%

Notes to the financial statements - continued

29. Pension schemes and other post retirement benefits - continued

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Value at 31 December 2001 £m
Equities	227.7
Fixed interest gilts	8.5
Index linked gilts	10.8
Corporate bonds	19.1
Net current assets	3.5
Annuities	22.0
Market value of assets	291.6
Present value of main BUPA scheme liabilities	(306.8)
Deficit in main BUPA scheme	(15.4)
Deficit in minor pension schemes	(0.8)
Unfunded retirement liabilities	(15.2)
	(31.4)
Deferred tax provision	9.4
Total FRS 17 pension liability after deferred tax provision	(22.0)

There is an FRS 17 pension scheme deficit at 31 December 2001 compared with a surplus at the time of the 1999 triennial actuarial valuation. This has arisen because of the continuing employer contribution holiday, because of the assumptions inherent in the FRS 17 basis and because assets have under-performed against the 1999 expectations.

If the above amounts had been recognised in the financial statements, the Group's reserves at 31 December 2001 would be as follows:

	2001 £m
Reserves as per SSAP 24	979.1
Provision to be written back on full implementation of FRS 17	78.1
Pension liability	(22.0)
Reserves as per FRS 17	1,035.2

30. Related party transactions

No Director had any material interest in any contracts with Group companies at the end of 2001 or at any time during the year. There were no material transactions with any other related parties, as defined by FRS 8, during the year.

Notes to the financial statements - continued

31. Notes to the cash flow statement

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

	2001 £m	2000 £m
Surplus before taxation	91.9	65.4
Interest payable	65.1	52.7
Depreciation, amortisation and diminutions	92.4	79.7
Losses on sale of investments	(3.3)	4.2
Loss/(profit) on sale of fixed assets	2.5	(0.6)
Increase in current assets	(31.1)	(57.3)
Increase in unearned premiums	69.9	59.6
Increase in outstanding claims	36.3	47.3
Increase/(decrease) in other creditors	21.5	(9.1)
Net cash inflow from operating activities	345.2	241.9

(b) Movement in opening and closing portfolio investments net of financing

	2001 £m	2000 £m
Net cash flow for the year	(27.3)	36.2
Increase in portfolio investments	255.0	269.8
(Decrease) in loans	(99.7)	(229.4)
Movement arising from cash flows	128.0	76.6
Acquired with subsidiaries	4.4	(1.1)
Changes in market values and exchange rate effects	(12.4)	(16.1)
Total movement in portfolio investment net of financing	120.0	59.4
Portfolio investments net of financing at 1 January	(40.5)	(99.9)
Portfolio investments net of financing at 31 December	79.5	(40.5)

(c) Movement in cash, portfolio investments and financing

	At 1 January 2001 £m	Cash flow £m	Acquired with subsidiaries £m	Market value currency and other changes £m	**At 31 December 2001 £m**
Cash					
Cash at bank and in hand	23.4	22.8	4.9	-	51.1
Overdrafts	(4.8)	(41.7)	(0.9)	-	(47.4)
Overnight deposits	32.5	(8.4)	-	-	24.1
	51.1	(27.3)	4.0	-	27.8
Portfolio investments					
Shares	118.7	(1.5)	3.2	(6.9)	113.5
Debt securities - Government stock	110.7	(8.7)	-	(4.7)	97.3
Debt securities - Corporate bonds	63.9	(56.9)	-	-	7.0
Short term deposits	353.2	322.1	-	-	675.3
	646.5	255.0	3.2	(11.6)	893.1
Financing					
Debt due after 1 year	(451.3)	12.1	(2.2)	(0.8)	(442.2)
Debt due within 1 year	(175.5)	(113.1)	(0.4)	-	(289.0)
Finance leases	(111.3)	1.3	(0.2)	-	(110.2)
	(738.1)	(99.7)	(2.8)	(0.8)	(841.4)
Movement in cash, portfolio investments and financing	(40.5)	128.0	4.4	(12.4)	79.5

Notes to the financial statements - continued

31. Notes to the cash flow statement - continued

Portfolio investments

	2001 £m	2000 £m
Purchase of ordinary shares and other variable yield securities	(84.6)	(85.7)
Purchase of Debt securities - Government stock	(3.6)	(23.4)
Purchase of Debt securities - Corporate bonds	(4.5)	(62.1)
Sale of ordinary shares and other variable yield securities	86.1	80.4
Sale of Debt securities - Government stock	12.3	33.3
Sale of Debt securities - Corporate bonds	61.4	-
Deposits with credit institutions	(322.1)	(212.3)
Net cash (outflow) on portfolio investments	(255.0)	(269.8)

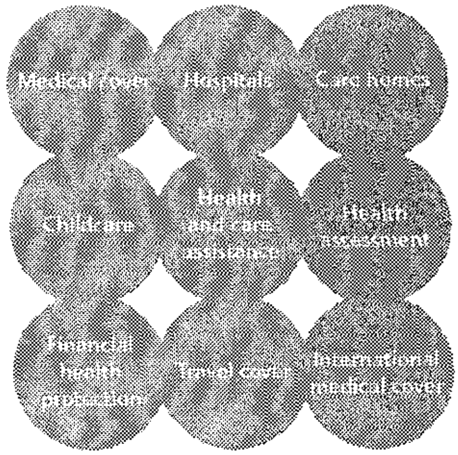
(d) Purchase of subsidiaries and businesses

	2001 £m	2000 £m
Net assets acquired		
Fixed assets	21.3	1.5
Intangible assets	0.3	0.2
Financial investments	1.9	0.2
Current assets	16.2	0.6
Creditors and provisions	(16.1)	(1.4)
Loans and overdrafts	(0.7)	(1.3)
	22.9	(0.2)
Minority interest	(2.1)	-
Goodwill	31.8	16.9
	52.6	16.7
Satisfied by		
Cash	52.4	7.3
Loan stock	-	5.8
Deferred consideration	0.2	3.6
	52.6	16.7

Five year financial summary

	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
Trading income					
Health Insurance - premiums					
General business	1,511.2	1,295.7	1,141.8	1,008.7	981.4
Long term business	11.2	10.2	26.4	78.3	91.9
	1,522.4	1,305.9	1,168.2	1,087.0	1,073.3
Health and Care Provision - turnover					
Hospitals & medical services	496.1	438.8	399.7	368.6	321.2
Care services	384.8	385.2	363.5	330.8	67.4
	880.9	824.0	763.2	699.4	388.6
Trading income	2,403.3	2,129.9	1,931.4	1,786.4	1,461.9
Surplus before tax					
Surplus from trading operations	137.5	110.7	55.4	43.6	67.3
Net investment income	(37.5)	(17.1)	(0.1)	0.4	11.4
Operating surplus before goodwill, taxation and other income/(charges) including value adjustments	100.0	93.6	55.3	44.0	78.7
Goodwill	(9.6)	(7.2)	(6.0)	(0.2)	-
Operating surplus before taxation and other income/(charges) including value adjustments	90.4	86.4	49.3	43.8	78.7
Other income/(charges), including value adjustments	1.5	(21.0)	(2.6)	(1.9)	(6.2)
Surplus before taxation	91.9	65.4	46.7	41.9	72.5
Statement of total recognised gains and losses					
Surplus for the financial year	53.9	38.1	31.2	30.6	58.9
Property revaluation	-	150.1	31.7	37.3	32.2
Exchange gains/(losses)	(3.6)	3.9	(11.4)	(2.1)	(3.5)
	50.3	192.1	51.5	65.8	87.6
Net assets					
Gross reserves	1,249.9	1,199.6	1,007.5	956.0	890.2
Cumulative goodwill written off	(270.8)	(280.4)	(280.4)	(280.4)	(275.9)
Reserves	979.1	919.2	727.1	675.6	614.3

Comparative amounts for 1997 and 1998 have been restated to accord with the accounting policy changes adopted in 1998 and 1999.



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