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report & accounts | 1999

BUPA

the personal health service

Taking care of the lives in our hands

During 1999 BUPA:

- Provided medical insurance cover to over four million people in the UK, Spain and a further 180 countries worldwide.
- Treated over 208,000 people in its hospitals on a day-case or inpatient basis, in addition to those attending as outpatients in its hospitals and clinics.
- Admitted 135,000 Accident and Emergency cases in its Spanish hospitals.
- Undertook over 60,000 health screens.
- Provided care for over 26,000 elderly or infirm people on a daily basis, either in care homes or in their own homes.

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President

EF Webb MBE

Vice president

Lord Wigoder QC

Board of Directors

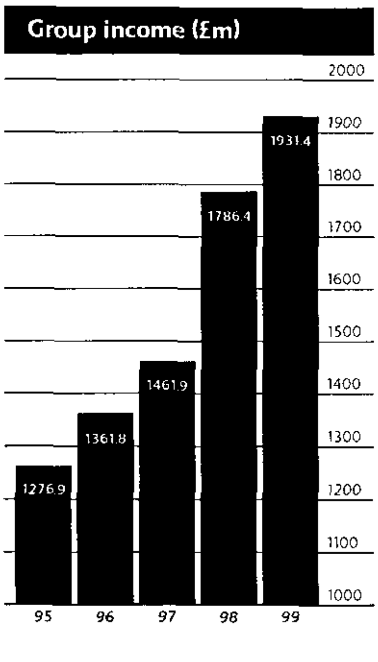
Sir Bryan Nicholson, Chairman
DS Boyle
DM Claisse
Dr M Downes
VF Gooding, Chief Executive
Professor the Hon OFW James
FA Heaton
EW Lea
Sir Duncan Nichol CBE

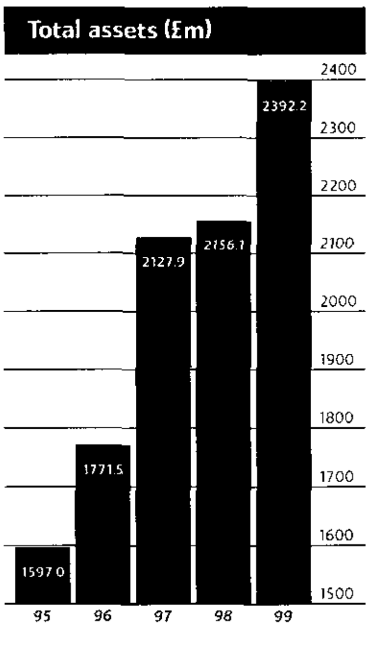
Secretary

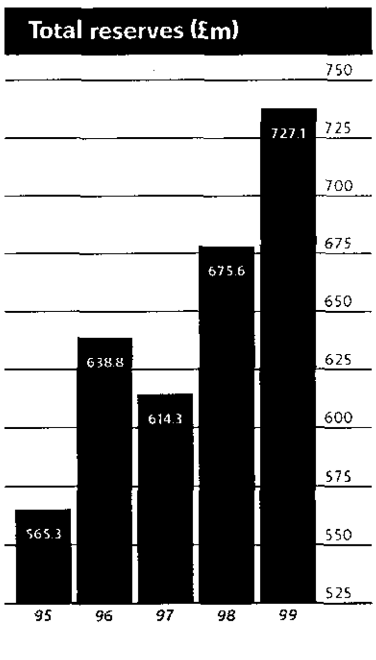
AD Walford

Group highlights

- Group income £1,931.4m, up 8.1% on 1998.
- Surplus before tax £46.7m (1998 £41.9m - restated).
- Reserves grew 7.6% over 1998.
- Queen's Award for Export Achievement won by BUPA International.
- Customer service measures show improved performance over 1998.







Chairman's statement

1999 was a year of steady progress across the BUPA Group. We achieved organic growth in all of our business units and continued to pursue strategic investment opportunities as they arose.

Our surplus before taxation showed a significant increase over 1998. Improvements in the performance of our UK insurance activities together with another good year from Sanitas, our Spanish subsidiary, underpinned the increase in surplus. The Hospitals business maintained its margins but profits in our Care Services business were restrained, despite 10% growth in turnover, by the extra cost of employing agency staff. The dependency on agency staff as a result of a shortage in qualified nursing staff is a problem affecting the whole sector.

The financial result for the year reflects the benefits that we are starting to realise from the integration of our new health provision businesses and from our ongoing investment programmes in the UK and Spain. Our greater profitability will enable us to deliver improved services and to generate the funds to invest properly for the future benefit of all our customers.

The acquisition in January 1999 of Barbican Healthcare PLC enabled us to extend the range of medical services we can provide to corporate customers. Sanitas acquired Robre SA in April 1999, thereby extending our medical insurance activities in Barcelona. BUPA also opened its first primary care and diagnostic clinic in Mumbai (formerly Bombay), India, in partnership with the Piramal Group.

I made reference in my report last year to the public focus on quality assurance, clinical governance and regulation in the health care industry. During 1999, BUPA continued to be at the forefront of the independent sector in developing and implementing improved clinical governance procedures and quality initiatives. These developments include agreeing good practice standards (referred to as care pathways) for commonly performed procedures and monitoring medical outcomes to ensure that all our customers receive the best possible and most effective care.

BUPA has also worked constructively with the Government to improve the regulation of independent health care, providing detailed evidence to the House of Commons Health Select Committee inquiry and responding fully to the Government's consultation exercises. BUPA supports the establishment of a division for the regulation of independent health care within the National Care Standards Commission, and is awaiting further amplification of the Government's position as the Care Standards Bill progresses towards the House of Commons.

In addition to its contribution to the policy debate, BUPA continues to work closely with the NHS and public sector in the day-to-day delivery of health care to our customers, including those whose care is funded by local authorities. We believe that the public and independent sectors play complementary roles in the effective delivery of health care in the UK.

BUPA's comprehensive Year 2000 programme to minimise the impact of the millennium bug on our customers was successfully concluded. The project team carried out checks and remedial work on 140 information technology applications, numerous software and hardware packages, over 7,000 personal computers and 20,000 electronic medical devices across the BUPA Group worldwide. Formal assurances were sought from BUPA's suppliers and customers that they were Y2K compliant. As a result of the care taken in addressing the real risks associated with the millennium bug, our customers and service suffered no adverse effects over the critical period. We are continuing to monitor any possible impact in 2000 and contingency plans are in place to assist with any future issue that may arise.

Sir Terence English, a former President of the Royal College of Surgeons and now retired consultant cardiac surgeon at Papworth Hospital, stepped down as BUPA's Chief Medical Adviser on 31 July. I would like to thank him for his valuable advice and support to the Board since his appointment in April 1991.

In recognition of how much the size and scope of BUPA has changed since Sir Terence's appointment in 1991, the Board decided to establish a new Medical Advisory Panel, which is chaired by Professor Oliver James. The remit of the Panel is to advise the Board on issues facing the Group relating to professional standards, quality of care and clinical governance and on the development of BUPA's medical policy. The Panel includes distinguished practitioners drawn from a wide range of disciplines in the medical profession.

We were very sorry to hear of the death of Sir Michael Milne-Watson on 27 April. Sir Michael joined the Board in 1975, becoming Chairman in 1976. During his period of office, relationships between the private sector and government were very tense, particularly when plans were announced for the closure of paybeds in NHS hospitals. Sir Michael, in conjunction with BUPA's then Chief Executive and the BMA, led BUPA and the entire private sector through this very difficult period. His experience in both the public and private sectors was key to this success. He served as Chairman until his retirement in 1981, when he was appointed a Vice-President of BUPA.

I would like to take this opportunity to say a personal thank you to all our staff for their commitment to delivering the highest possible quality of service and care to our many customers. It is to their skills and dedication that BUPA owes its success.

Bryan Nicholson

Sir Bryan Nicholson, Chairman
9 March 2000

Chief Executive's review

BUPA made good progress in all its main markets during 1999, increasing the Group's surplus before tax from £41.9m in 1998 to £46.7m in the year. We continued our investment programme in businesses, systems, equipment and employees to improve service levels to all our customers.

During the year, BUPA captured the purpose at the heart of the Group in its new vision statement: 'Taking Care of the Lives in Our Hands'. This has been backed up by a TV advertising campaign which has been highly successful in reinforcing awareness of the breadth of BUPA's activities in health and care. In addition, 800 managers across the Group have participated in an intensive three-day management development programme to enhance their leadership skills and to ensure that the service we give our customers reflects our vision statement.

UK Membership

BUPA is the UK market leader in private medical insurance, providing cover for over 2.5 million people through its personal and corporate products. It also provides critical illness and other long-term health and care funding products through its subsidiary, BUPA Health Assurance.

BUPA has taken a number of initiatives in recent years to build partnerships with consultants and hospitals. The objective of these initiatives is to deliver high quality healthcare whilst ensuring best possible value for money for our members. These measures were challenged by a number of private hospitals and consultants who made representations to the Office of Fair Trading (OFT).

Following ten months of deliberation, the OFT vindicated BUPA's stance by confirming in November that the development of networks and benefit maxima for doctors was consistent with the need of insurers to improve efficiencies and deliver value for money to consumers. The OFT said that the complaints it had received did not warrant an investigation by the Competition Commission. The OFT did, however, make a number of recommendations where improvements should be made by the private medical insurance industry in general; in particular in the quality and quantity of information available to policyholders. We are following up these recommendations as part of our continuing efforts to provide the best possible products and services to our members. In this regard BUPA is an active member of the PMI Industry Panel, whose consumer guide to PMI won a special award from the Plain English Campaign in December 1999.

In very challenging market conditions, UK Membership's financial performance improved over 1998. During 1999 and in consultation with the medical profession, we introduced mandatory pre-authorisation of claims for certain procedures such as hysterectomies, to allow members to make more informed choices about their treatment. Towards the end of the year, we launched an innovative new Fixed Price product which sets premium levels for a five or ten year horizon, thereby addressing the concern felt by many of our customers over the uncertainty of future price increases.

Care Services

BUPA Care Services is the largest provider of care for the elderly in the UK. Through its network of 233 care homes, 68 home care branches and 49 close care and retirement apartment complexes, it provides care to over 26,000 people on a daily basis. In addition, Care Services runs one of the largest nursing and medical staffing businesses in the country. BUPA continued a significant investment programme in all these businesses, particularly to ensure that our care homes are maintained to high standards. We also acquired Primrose Care Ltd, which provides care for individuals in their own homes.

Care Services continued to deliver quality care and to perform well in a very difficult market, achieving occupancy levels well ahead of the industry average. Shortages of skilled staff together with the changes introduced by the Working Time Directive have attracted employees towards agency working. This has adversely affected the profitability of our care home and home care businesses as it has not always been possible to pass the incremental costs of agency workers on to our customers.

Hospitals

During 1999, BUPA Hospitals treated over 195,000 people on an inpatient or day-case basis at its 37 hospitals, including the Blackrock Clinic in Dublin.

We invested over £20m as part of a continuing programme to reconfigure our facilities to reflect the changing pattern of clinical practice. This included opening five new MRI and two spiral CT scanning facilities, increased critical care capability, and additional outpatient and ambulatory care capacity. We have also made important progress in developing new information systems to support the development of 21st century patient care, including electronic patient records and online access to diagnostic services.

Our hospitals have led the independent sector in the development of measures to ensure effective clinical governance. In particular, we have adopted the Framework for Quality agreed in conjunction with the medical royal colleges and the Independent Healthcare Association.

BUPA Hospitals achieved growth across all sectors but especially in the self-pay market which increased by more than 25% over 1998, supported by our TV advertising campaign. Operating margins were maintained through careful cost management.

Chief Executive's review - continued

Sanitas

Sanitas continued to grow its private medical insurance business during the year and now provides cover to 830,000 medical insurance customers across Spain. The company's two hospitals in Madrid cared for 13,000 inpatient and day-case patients for planned surgery and 135,000 Accident and Emergency admissions. Sanitas' network of primary care and specialist clinics was enhanced by the opening of the Millennium Day Centre in Madrid in November 1999.

Sanitas continued to deliver year-on-year growth in revenue and profits, further enhanced by the acquisition in April 1999 of Robre SA. This is a particularly creditable performance in the light of increasing levels of competition in the Spanish market.

New Businesses

Our New Businesses business unit continues to provide private medical insurance cover to customers in 180 countries from our BUPA International ex-patriate business based in the UK, and through local operations in Ireland, Hong Kong, Thailand and the Middle East. It also provides dental health funding products in the UK and has recently started up a joint venture with the Piramal Group in India, providing healthcare services from its clinic in Mumbai.

BUPA International performed strongly, growing both revenue and profits, and winning the Queen's Award for Export Achievement in the year.

BUPA Ireland also continued to grow strongly, celebrating its 100,000th member in the first half of the year. In September 1999, the Irish Government published its White Paper on health insurance. We have made a number of submissions during the consultation process and continue to work closely with Government on those issues of particular significance to BUPA.

Both BUPA Hong Kong and BUPA Thailand performed satisfactorily in the year and are well placed to take advantage of opportunities arising as the local economies come out of recession.

BUPA Middle East, our joint venture with the Nazer Group in Saudi Arabia, has continued to grow throughout its first full year of operation.

BUPA Wellness

In January 1999, BUPA acquired Barbican Healthcare PLC, a company providing a range of medical services principally to corporate customers. During the year the activities of Barbican were integrated with BUPA's existing occupational health and screening activities to form a new business unit, BUPA Wellness. The strategic direction of the newly combined operation has now been established and good progress has been made on the integration programme.

Conclusion

I would like to extend my thanks to all BUPA's employees, whose enthusiasm, hard work and commitment have enabled the many successes achieved across the Group during the year.

I am confident that by continuing to improve the focus on our customers, BUPA will build on its position as a market leader in its chosen health and care markets for many years to come. I look forward to taking the Group forward in the new millennium.

Val Gooding, Chief Executive
9 March 2000

Finance Director's report

Overview

The Group's surplus before tax of £46.7m (1998 £41.9m - restated) reflected an improving performance by all our insurance activities and creditable results from our healthcare provision businesses.

Following the introduction of Financial Reporting Standard 12 - Provisions and Contingencies (FRS 12), results for 1999 and 1998 are stated after charging £9.2m and £8.1m respectively for Year 2000 rectification costs. These were previously provided in full in 1997, and comparative amounts have been restated accordingly. In addition, BUPA's 1999 acquisitions have resulted in a significant increase in goodwill amortisation in 1999 (£6.0m as against £0.2m in 1998) following the introduction of FRS 10 - Goodwill and Intangible Assets in 1998.

Surplus and movements in reserves

Group reserves increased by £57.6m on those reported in 1998. The increase reflects the retained surplus of £31.2m, an increase in the revaluation reserve of £31.7m, foreign exchange losses of £11.4m and the £6.1m effect of prior year adjustments following the introduction of FRS 12.

Acquisitions in 1999

During 1999 we made a number of small, strategic acquisitions.

In January 1999, BUPA acquired Barbican Healthcare PLC, a company that provides a range of medical services to corporate customers, for £24.7m.

We also acquired Primrose Care Ltd in January for £2.9m. The acquisition of Primrose made BUPA the UK's leading provider of homecare services.

Sanitas purchased Robre SA, an insurance company based in Barcelona for £14.6m in April 1999.

BUPA also acquired the Brampton Nursery for £0.9m, marking our first step into the childcare provision market.

Insurance activities

The Technical Account - General Business comprises all BUPA's insurance activities across the Group, including, under Other Technical Charges, the long term insurance activities of BUPA Health Assurance (BHA). Insurance premiums earned of £1,141.8m compare with £1,008.7m in 1998, reflecting growth in all our markets. The balance on the Technical Account for General Business was a loss of £16.4m (1998 loss of £29.8m - restated). This overall result is explained in more detail below.

UK Insurance

General Business in the UK generated an operating loss of £35.4m (1998 loss of £43.7m - restated). The improved result is derived from our increased focus on customers and from our ongoing investment programme.

BHA's results are shown under Long Term Health Insurance in the UK. The long term care funding market continues to develop more slowly than we had hoped, and as a result we operated at a loss of £4.2m (1998 loss of £3.4m).

Spain

Sanitas continued to grow its membership base, up 5.5% on 1998, and delivered an operating surplus of £20.4m, up 15.9% on 1998 (£17.6m), despite an increasingly competitive market and sterling's 13.5% appreciation against the Spanish peseta/euro in the year.

Health Provision activities

Hospitals

Turnover from our hospitals in the UK increased by 10.2% on 1998, to £322.1m, reflecting a general increase in activity levels, but particularly in the self-pay market and day-case and outpatient procedures. Operating surplus decreased from £32.6m (restated) in 1998 to £31.8m after charging £2.9m goodwill amortisation in respect of Barbican.

Care Services

Revenues from our Care Services activities increased 9.9% on 1998 to £363.5m, principally through improved occupancy rates in our care homes. Operating surplus decreased from £38.4m (restated) to £31.1m, as a result of increased agency costs arising in part as a result of the introduction of the Working Time Directive.

Treasury activities

Net investment income of £(0.1)m compares with £0.4m in 1998.

Realised and unrealised investment returns of £18.7m compare with £22.1m in 1998. Unrealised gains reflect increases on the international stock exchanges in the last two months of the year.

Investment expenses and charges of £58.7m (1998 £67.0m) comprises interest payable of £55.6m (1998 £61.0m) and investment management charges. Interest payable has decreased due to lower interest rates and lower average borrowings in the year.

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 limited basis to hedge exposures which arise within the business and to facilitate efficient portfolio management.

Borrowings

Total borrowings (including subordinated debt) at 31 December 1999 were £709.5m, compared with £607.2m last year. During the year we took out additional borrowings of £172.2m, and repaid £270.7m existing debt which fell due for repayment. In addition, we granted 99-year overriding leases on 116 care home properties for a premium of £206.0m which has been re-characterised as a loan in accordance with Financial Reporting Standard 5 - Reporting the Substance of Transactions (see Note 31).

Cashflow

The cash outflow of £103.4m compares with an outflow of £49.9m in 1998. In 1999, we repaid a net £98.1m of debt including the £100.0m Deep Discounted Security (1998 net inflow of funds of £65.1m). The cost of our acquisitions in 1999 was £36.0m, compared with £139.0m in 1998 of which £125.0m was spent on completing the acquisition of Care First.

Expenditure on fixed assets was largely represented by new systems in our insurance businesses, equipment in hospitals and refurbishment of care homes.

Taxation

The tax charge for the year was £13.8m (1998 £10.5m). Further details relating to the tax charge are set out in Note 11 to the financial statements.

Finance Director's report - continued

Foreign exchange

Our main exchange exposure arises on the Spanish peseta/euro due to our investment in Sanitas. During the year, sterling strengthened against the peseta, generating a net loss of £11.4m on the retranslation of opening net assets.

Going concern

The Directors consider, after making appropriate enquiries, that the Group has adequate resources to continue operations for the foreseeable future. Accordingly, the financial statements continue to be prepared on the going concern basis.

Conclusion

Investments in our systems, products and services have started to improve our financial returns and have delivered growth in all our markets in 1999. Our balance sheet is in good shape and we have raised further significant long-term debt to support our future development.

Edward Lea, Finance Director
9 March 2000

Report of the Board of Directors

The Directors of The British United Provident Association Limited present their Annual Report and the financial statements for the year ended 31 December 1999.

Introduction

The Chairman's statement, Chief Executive's review, and the Finance Director's report on pages 2 to 10, the discussion on Corporate governance on pages 15 to 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 23 to 56.

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, home care, health screening and occupational health services.

Financial results

Results of the Group for the year are reported on page 23. The retained surplus of £31.2m (1998 - £30.6m restated) has been transferred to reserves.

Charitable and political contributions

We remain a committed member of the Per Cent Club, donating in excess of ½% of the Group's surplus before tax to charity. During 1999 BUPA made charitable donations totalling £2.0m (1998 - £0.9m), of which payments made to the BUPA Foundation, a medical charity established by the Group, totalled £1.5m (1998 - £0.5m). No political donations were made.

Employment policies

BUPA is dedicated to providing a working environment which is designed to make people feel positive about coming to work. We feel that this not only helps to recruit committed, high calibre staff, but it also goes a long way to motivating and retaining them. In 1999, 800 of our senior managers attended a development programme which helped to improve their skills in creating this climate.

We believe strongly in the principles of equal opportunity and we encourage people to make the most of these opportunities. There are career and personal development initiatives in place, including learning centres, where staff can follow both professional and personal interests. We also carry out regular performance reviews to help staff fulfil their potential, and continually look at ways to help improve employee performance. As a company, we are committed to Investors in People and, in addition, we continue to support Opportunity Now (formerly Opportunity 2000) and its objective of achieving a balanced workforce.

BUPA puts a strong emphasis on health and well-being in the office environment and, to this end, at two of our larger sites, we have installed modern, well equipped and professionally supervised gyms. Restaurant facilities are provided at all hospitals and care homes, and at three office sites, offering employees a wide choice of healthy food. We have also introduced an employee health line giving telephone access on personal health matters. Employee communications at all levels are also a top priority, whether through regular team briefings, news bulletins, videos, or magazines and newspapers. They promote awareness of the breadth of activities across the different business areas.

Report of the Board of Directors - continued

We are very aware of the aims of the Disability Discrimination Act. We have incorporated the 'Positive about Disabled People' symbol in our recruitment advertising and are an active member of the Employers' Forum on Disability. 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 disabled toilets and wheelchair access, wherever possible, to enable employees who become disabled to continue working with us.

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 13 and 14.

Mr AD Walford and Mr PA Jacobs resigned from the Board on 1 May 1999 and 12 May 1999 respectively. Professor Oliver James joined the Board on 1 May 1999.

Mr DS Boyle, Miss VF Gooding and Mr EW Lea retire by rotation and, being eligible, offer themselves for re-election.

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.

We are a registered supporter of the CBI's Prompt Payers Code of Good Practice, copies of which can be obtained from the Company Secretary at our head office.

At 31 December 1999 the Company's trade creditors outstanding represented approximately 37 days' (1998 34 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.

By order of the Board

AD Walford, Secretary
9 March 2000

Directors and advisers

Executive Directors

David Boyle Age 57. Managing Director, New Businesses. Joined the Board and BUPA in 1993. Former Chairman of SmithKline Beecham Consumer Brands, Europe.

Val Gooding[3,4] Age 49. 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 Cable & Wireless Communications plc, BAA plc, Compass Group Plc and a Board member of the Association of British Insurers. Member of the Advisory Board of Warwick Business School and of the Leadership Team of Opportunity Now. Honorary doctorate in Business Administration, University of Bournemouth, awarded in 1999. Before joining BUPA had a varied career with British Airways plc, latterly as Director of Business Units and Director Asia-Pacific.

Edward Lea[4] Age 58. Finance Director. Joined the Board and BUPA in 1991. Previous appointments include Finance Director of ASDA Group plc and Finance Director and Deputy Chairman of MFI Furniture Group plc.

Independent non-executive Directors

Douglas Claisse[1,2,4] Age 65. Joined the Board in 1998. Chairman, IFA Promotion Ltd. and Business Link West Ltd. Director, PDFM Life. Former Deputy Chief Executive, Clerical Medical Investment Group and Chairman, Clerical Medical International.

Dr Margaret Downes[1,2] Age 67. Director since 1995. Chairman, BUPA Ireland. Director, Bank of Ireland Group and Ardagh plc. Past President of the Institute of Chartered Accountants in Ireland and of the Federation of European Accounting Bodies.

Frances Heaton[1,4] Age 55. Joined the Board in 1998. Director Lazard Brothers & Co., Limited. Deputy Chairman, W.S. Atkins plc. Director of the Bank of England. Member of the Committee on Standards in Public Life. Former Director General of the Take-over Panel, and a former director of Commercial Union plc.

Oliver James[3] Age 56. Director since May 1999. Professor of Geriatric Medicine, Head of the School of Clinical Medical Sciences, University of Newcastle upon Tyne. Former Senior Censor and Senior Vice-President Royal College of Physicians.

Sir Duncan Nichol[3] Age 58. 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. Chairman, B Plan Information Systems Ltd. Non-executive Director, HM Prison Board. Former Chief Executive, National Health Service Management Executive.

Sir Bryan Nicholson[2,3,4] Age 67. Director and Chairman since 1992. Chairman, Cookson Group plc. Director, GKN plc and Equitas Holdings Limited. Chancellor, Sheffield Hallam University and Chairman of Council, The Open University. Past President, CBI. Former Chairman and Chief Executive, The Post Office. Former Chairman, Rank Xerox (UK) Limited, Manpower Services Commission and National Council for Vocational Qualifications.

Directors and advisers - continued

Secretary

Arthur Walford Age 54. Joined BUPA in 1988 as Company Secretary and Solicitor.

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

Professor John Harrington CBE, MSc, MD, FRCP, FFOM

Professor Oliver James F Med Sci, Chairman

Janet Jenkins MB, ChB, 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 the Audit Committee

2 Member of the Remuneration Committee

3 Member of the Board Nomination Committee

4 Member of the Treasury 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's Board has sought to comply with the provisions of the Code, and hence reports below on compliance with the Code throughout the year ended 31 December 1999.

In relation to all provisions of the Code, the Company complied throughout the period under review unless stated otherwise.

BUPA, as a company with no share capital, has no institutional 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 the non-executive Directors are considered by the Board to be independent. The Board nominated Sir Duncan Nichol as BUPA's senior non-executive independent director in March 1999. Accordingly, the Company was in compliance with the provisions of the Code after that date.

In accordance with BUPA's Articles, the Chief Executive was the only Director not subject to retirement by triennial rotation. The Company's Articles were amended at the Annual General Meeting in May 1999 to bring the provisions for the Chief Executive into line with those for other Board Members. In this respect, BUPA was in compliance with the provisions of the Code from the date of the Annual General Meeting.

Details of the Directors are set out on pages 13 and 14.

Board Committees

Audit Committee

The Audit Committee meets at least three times a year. It is responsible for overall monitoring of the Group's system of internal controls, and receives reports from the Group's external and internal auditors on a regular basis. It also reviews published financial reports, and recommends appropriate disclosures 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 Internal Audit 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.

Corporate governance - continued

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.

Treasury Committee

The Treasury Committee meets four times a year to decide, on behalf of the Board, overall investment policy, and to set asset allocation parameters and review performance.

The Committee is chaired by the Finance Director, and includes the Chairman, the Chief Executive and two non-executive Directors.

Internal control

The Board of Directors has overall responsibility for the Group's system of internal control, which is designed to provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board maintains full control and direction over appropriate strategic, financial, organisational and compliance issues. It has delegated to executive management the establishment and implementation of a system of internal controls appropriate to the business. Key features of that system, which includes Board review and approval mechanisms as appropriate, are:

- an organisational structure with clearly defined lines of responsibility and delegation of authority
- comprehensive annual and three-year plans, which are approved by the Directors
- monthly reporting and review by the Board of financial and operational performance and preparation of revised forecasts on a quarterly basis
- procedures for the review and authorisation of capital investment
- specific treasury policies and objectives, and ongoing reporting and review of all significant transactions and financing operations
- financial controls and procedures which are in place at an operational level throughout the Group
- formal business risk reviews performed by management which set control standards to mitigate those risks.

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 auditors is focused on areas of highest risk, as identified by the Group's business risk review process.

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.

In September 1999, guidance was published by the Institute of Chartered Accountants in England and Wales on implementing certain aspects of the Combined Code relating to internal controls. The Directors confirm that by the end of the year, the minor amendments to the Group's procedures required to implement the remaining provisions of the Combined Code had been made.

For 1999, BUPA adopted the transitional approach permitted by the London Stock Exchange. Accordingly, and on behalf of the Board, the Audit Committee has reviewed the effectiveness of the system of internal financial control in operation during the financial year.

Board remuneration report

BUPA has a Remuneration Committee comprising 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.

Policy on executive remuneration

The aims of the policy are to ensure that the remuneration packages offered are competitive 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 takes independent external advice and reviews data 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 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 information from independent sources on the rates of salary for similar jobs in a number of other companies of comparable size and complexity. Other benefits include a fully expensed motor vehicle (or cash equivalent), private medical insurance and permanent health insurance cover.

Annual bonus and Performance Related Pay

All the executive Directors participate in a 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. However, the Remuneration Committee may, in exceptional circumstances, recommend a one-off payment to an individual executive Director who has rendered a particular and exceptional contribution. The Company's Approved Profit Related Pay Scheme, in which all eligible employees, including executive Directors were able to participate, made its final payments in May 1999.

Long term incentive scheme

BUPA's long term incentive scheme is designed to attract and retain members of BUPA's senior management team over a number of years, and to reward them for the part they play in the Group's long term success. The scheme is designed to be a surrogate, in a company without share capital, for the rewards offered by Listed companies through their long term incentive plans.

The scheme, 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 to be achieved over a period of time. The scheme provides for targets to be reset at two-yearly periods from 1 January 1999. The target for the period to 31 December 2000 is based upon growth in Group reserves.

Amounts paid into the scheme are based upon individuals' annual performance bonuses, 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 forty 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 can join the BUPA Group pension scheme or arrange a personal pension plan. In either case, the Company makes a contribution to the cost.

The Group scheme allows a member to make a choice between defined contribution or final salary arrangements. In the latter case, the scheme provides a pension calculated by reference to final salary and length of service, subject to restrictions arising from Inland Revenue limits. The scheme also provides certain other benefits, including life insurance cover and a pension on death for the members' spouses and dependent children.

Additional arrangements are made for those whose entitlements are restricted by Inland Revenue limits. Supplementary life insurance cover is purchased, and 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 four of the executive Directors who served for all or part of the year, the Company paid £47,000 (1998 - £73,000) into personal pension plans during the year. The other executive Director has final salary arrangements with the BUPA Group scheme, in respect of which the Company's contribution was zero in 1998 and during his term of office in 1999, due to a contribution holiday.

In respect of unfunded obligations, the amount which has been provided at 31 December 1999 in respect of the past service of current executive Directors is £1,293,300 (1998 - £885,000).

Unfunded pensions are paid to six (1998 - five) former Directors in accordance with agreed arrangements. Such pensions amounted to £95,000 (1998 - £49,000).

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.

Board remuneration report - continued

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.

No non-executive Director is entitled to participate in any bonus or profit related scheme.

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 8 to the financial statements.

On behalf of the Board

Sir Bryan Nicholson, Chairman
9 March 2000

Statement of Directors' responsibilities in respect of the financial statements

The following statement, which should be read in conjunction with the auditors' report set out on page 22, is made for the purpose of clarifying the respective responsibilities of the Directors and the auditors in the preparation of 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; and
- 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 keeping proper accounting records 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.

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

We have audited the financial statements on pages 23 to 56.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Annual 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. 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 contained in the Annual Report, including the corporate governance statement, 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 London Stock Exchange in relation to these matters.

We review whether the statement on pages 15 to 17 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by those rules, and we would report below if it did 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 Company'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 affairs of the Company and the Group as at 31 December 1999 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
9 March 2000

Consolidated income and expenditure account

for the year ended 31 December 1999

Technical account - general business

	Note	1999 £m	1999 £m	1998 Restated £m	1998 Restated £m
Earned premiums					
Premiums written		1,194.5		1,033.5	
Change in the provision for unearned premiums		(52.7)		(24.8)	
	1		1,141.8		1,008.7
Claims incurred					
Claims paid		(908.6)		(807.9)	
Change in the provision for claims		(29.8)		(22.5)	
			(938.4)		(830.4)
Net operating expenses	2		(215.7)		(201.4)
Other technical charges, net of reinsurance	3		(4.1)		(6.7)
Balance on the technical account for general business			(16.4)		(29.8)

Non-technical account

	Note	1999 £m	1999 £m	1998 Restated £m	1998 Restated £m
Balance on the general business technical account			(16.4)		(29.8)
Health Provision	1				
Turnover		763.2		699.4	
Expenses		(697.4)		(626.2)	
			65.8		73.2
Net investment income					
Investment income	5	48.0		86.3	
Investment expenses and charges (including interest)	6	(58.7)		(67.0)	
Unrealised gains/(losses) on investments		10.6		(18.9)	
			(0.1)		0.4
Operating surplus before taxation	7		49.3		43.8
Other charges, including value adjustments			(2.6)		(1.9)
Surplus on ordinary activities before taxation			46.7		41.9
Tax on surplus on ordinary activities	11		(13.8)		(10.5)
Surplus on ordinary activities after taxation			32.9		31.4
Minority equity interest			(1.7)		(0.8)
Surplus for the financial year			31.2		30.6

All income and expenditure relates to continuing operations.

The notes on pages 30 to 56 form part of these financial statements.

Consolidated balance sheet

as at 31 December 1999

Assets

	Note	1999 £m	1999 £m	1998 Restated £m	1998 Restated £m
Intangible assets					
Goodwill	12		42.6		4.4
Hospitals, care homes and equipment	13		1,047.7		1,011.9
Investments					
Land and buildings	14	58.0		52.4	
Other financial investments	16	593.3		500.1	
			651.3		552.5
			1,741.6		1,568.8
Debtors					
Debtors arising out of direct insurance operations	17	300.5		274.4	
Other debtors: amounts falling due after more than one year	18	86.4		86.4	
Other debtors: amounts falling due within one year	18	122.3		105.3	
			509.2		466.1
Other assets					
Tangible assets	19	70.5		69.4	
Stocks		9.9		8.3	
Cash at bank and in hand		16.3		7.3	
			96.7		85.0
Prepayments and accrued income					
Deferred acquisition costs	23	16.1		15.8	
Other prepayments and accrued income	20	28.6		20.4	
			44.7		36.2
Total assets			2,392.2		2,156.1

Consolidated balance sheet - continued

as at 31 December 1999

Liabilities

		1999		1998 Restated	
	Note	£m	£m	£m	£m
Reserves					
Property revaluation reserve	21	211.8		181.7	
Income and expenditure account	21	515.3		493.9	
			727.1		675.6
Minority equity interest			10.4		9.7
Subordinated bonds and debenture stock	25		385.4		173.9
Technical provisions					
Provision for unearned premiums	23	446.1		409.5	
Claims outstanding	23	184.1		163.3	
			630.2		572.8
Provisions for other risks and charges	24		96.8		91.3
Creditors					
Amounts owed to credit institutions	25	212.5		323.0	
Obligations under finance leases	25	111.6		110.3	
Other creditors including taxation and social security	26	106.5		82.3	
			430.6		515.6
Accruals and deferred income	27		111.7		117.2
Total liabilities			2,392.2		2,156.1

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

Sir Bryan Nicholson, Chairman
EW Lea, Finance Director
9 March 2000

The notes on pages 30 to 56 form part of these financial statements.

Consolidated cash flow statement

For the year ended 31 December 1999

	Note	1999 £m	1999 £m	1998 £m	1998 £m
Cash inflow from operating activities	33		172.6		169.2
Interest paid					
Interest paid		(48.2)		(42.9)	
Interest element of finance lease rental payments		(8.9)		(8.1)	
			(57.1)		(51.0)
Taxation paid			(13.3)		(20.9)
Capital expenditure					
Purchase of tangible fixed assets		(86.1)		(75.4)	
Sale of tangible fixed assets		10.8		2.1	
			(75.3)		(73.3)
Acquisitions and disposals					
Acquisition of businesses		(0.9)		-	
Acquisition of subsidiaries		(35.1)		(125.0)	
Investments acquired with subsidiaries		3.8		-	
Deferred consideration		-		(14.0)	
			(32.2)		(139.0)
Financing					
New borrowings		172.2		148.2	
Repayment of borrowings		(270.7)		(44.1)	
Increase/(repayment) of finance leases		0.4		(39.0)	
			(98.1)		65.1
			(103.4)		(49.9)

Cash flows were invested as follows:

		1999 £m	1999 £m	1998 £m	1998 £m
(Decrease)/increase in cash holdings			(15.6)		7.4
Net portfolio investment					
Shares and other variable yield securities		6.9		(114.0)	
Debt securities - Government stocks		22.4		7.9	
Debt securities - Corporate bonds		(70.0)		-	
Deposits with credit institutions		(47.1)		48.8	
			(87.8)		(57.3)
Net investment of cash flows			(103.4)		(49.9)

The notes on pages 30 to 56 form part of these financial statements.

Consolidated statement of total recognised gains and losses

for the year ended 31 December 1999

	1999 £m	1998 Restated £m
Surplus for the financial year	**31.2**	30.6
Increase in property revaluation reserve	**31.7**	37.3
Exchange translation differences on foreign currency net investments	**(11.4)**	(2.1)
Total recognised gains and losses relating to the year	**51.5**	65.8
Prior year adjustment complying with FRS 12	**6.1**	-
Total gains and losses recognised since last year	**57.6**	65.8

Reconciliation of movements in reserves

for the year ended 31 December 1999

	1999 £m	1998 Restated £m
Opening balances as previously reported	**669.5**	600.1
Prior year adjustment complying with FRS 12	**6.1**	14.2
Opening balances restated	**675.6**	614.3
Total recognised gains and losses relating to the year	**51.5**	65.8
Goodwill written off	**-**	(4.5)
Closing reserves	**727.1**	675.6

Statement of historical cost income and expenditure

for the year ended 31 December 1999

	1999 £m	1998 Restated £m
Reported surplus on ordinary activities before tax	**46.7**	41.9
Unrealised (gains)/losses recognised in the year	**(10.6)**	18.9
Historical cost surplus on ordinary activities before tax	**36.1**	60.8
Historical cost surplus for the year retained after tax and minority interests	**20.6**	49.5

Balance sheet

as at 31 December 1999

Assets

	Note	1999 £m	1999 £m	1998 Restated £m	1998 Restated £m
Investments					
Land and buildings	14	1.3		1.8	
Investments in Group undertakings	15	840.3		743.0	
Other financial investments	16	4.6		37.6	
			846.2		782.4
Reinsurers' share of technical provisions					
Claims outstanding	23		38.0		31.9
Debtors					
Debtors arising out of direct insurance operations	17	281.4		236.3	
Other debtors	18	536.9		434.4	
			818.3		670.7
Other assets					
Tangible assets	19	55.7		53.7	
Cash at bank and in hand		6.9		-	
			62.6		53.7
Prepayments and accrued income					
Deferred acquisition costs	23	15.0		14.8	
Other prepayments and accrued income	20	4.4		5.8	
			19.4		20.6
Total assets			1,784.5		1,559.3

Balance sheet - continued

as at 31 December 1999

Liabilities

		1999		1998 Restated	
	Note	£m	£m	£m	£m
Reserves					
Income and expenditure account	21		**727.1**		675.6
Technical provisions					
Provision for unearned premiums	23	**422.2**		371.0	
Claims outstanding	23	**129.0**		109.6	
			551.2		480.6
Provisions for other risks and charges	24		**59.2**		54.3
Deposit received from reinsurer			**35.6**		29.9
Creditors					
Amounts owed to credit institutions	25	**18.4**		17.6	
Obligations under finance leases	25	**8.5**		-	
Other creditors including taxation and social security	26	**349.9**		263.5	
			376.8		281.1
Accruals and deferred income	27		**34.6**		37.8
Total liabilities			**1,784.5**		1,559.3

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

Sir Bryan Nicholson, Chairman

EW Lea, Finance Director

9 March 2000

The notes on pages 30 to 56 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 1999, 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, applicable SORPs and under the historical cost convention, modified to include the revaluation of investments, including land and buildings, hospitals and care home properties.

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 Financial Reporting Standard 12 'Provisions, Contingent Liabilities and Contingent Assets' (FRS 12) contains a more prescribed set of conditions for recognition than that used in previous years and as a result some of the provisions included in the 1998 financial statements have been reviewed and restated to ensure compliance with the Standard. The Standard does not apply to insurance technical provisions. The main impact relates to a provision created in 1997 to cover Transmillenium costs. The restatement of this provision changes the current year and prior year income and expenditure accounts to include the actual expenditure incurred: 1999 £9.2m (1998 £8.1m). The net prior year adjustment of £6.1m is shown in the consolidated statement of total recognised gains and losses and the reconciliation of movements on reserves.

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.

Accounting policies - continued

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 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 including 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.

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 Provision turnover

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

Accounting policies - continued

Investment income

Dividends on equity investments are included, together with the related tax credit, 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 and other investments are taken to the non-technical account. Realised gains and losses on the disposal of own use land and buildings and financial investments are calculated as the difference between net proceeds and cost.

Unrealised investment gains and losses

Unrealised gains and losses on land and buildings (own use) and other 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 by an external valuer on a triennial rolling basis. Unrealised gains/losses are taken to revaluation reserves.

Investments

Freehold and leasehold land and buildings, which are all occupied by the Group for its own use, are stated at current value.

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

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

Those investments which have been sold after the balance sheet date, or are to be sold in the short term, are shown at net realisable value.

Accounting policies - continued

Depreciation

No depreciation is provided on freehold land or properties 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.

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.

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

	UK		Spain		Republic of Ireland		Total	
	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m
Health Insurance								
General business	**901.3**	792.5	**240.5**	216.2	-	-	**1,141.8**	1,008.7
Intra-group reinsurance	**(374.3)**	(320.1)	-	-	**374.3**	320.1	-	-
	527.0	472.4	**240.5**	216.2	**374.3**	320.1	**1,141.8**	1,008.7
Long term	**26.4**	78.3	-	-	-	-	**26.4**	78.3
Intra-group reinsurance	**(26.5)**	(58.4)	-	-	**26.5**	58.4	-	-
	(0.1)	19.9	-	-	**26.5**	58.4	**26.4**	78.3
Health Provision								
Hospitals	**322.1**	292.4	**35.9**	37.0	**23.1**	22.0	**381.1**	351.4
Care services	**363.5**	330.8	-	-	-	-	**363.5**	330.8
Dental activities	**18.6**	17.2	-	-	-	-	**18.6**	17.2
	704.2	640.4	**35.9**	37.0	**23.1**	22.0	**763.2**	699.4
	1,231.1	1,132.7	**276.4**	253.2	**423.9**	400.5	**1,931.4**	1,786.4

Health insurance premiums by destination are not materially different from those by origin.

(b) Operating surplus

	UK		Spain		Republic of Ireland		Total	
	1999 £m	1998 Restated £m	1999 £m	1998 Restated £m	1999 £m	1998 Restated £m	1999 £m	1998 Restated £m
Health Insurance								
General business	**(35.4)**	(43.7)	**20.4**	17.6	**2.7**	3.0	**(12.3)**	(23.1)
Long term	**(4.2)**	(3.4)	-	-	**0.1**	(3.3)	**(4.1)**	(6.7)
	(39.6)	(47.1)	**20.4**	17.6	**2.8**	(0.3)	**(16.4)**	(29.8)
Health Provision								
Hospitals	**31.8**	32.6	**0.4**	0.5	**2.9**	2.8	**35.1**	35.9
Care services	**31.1**	38.4	-	-	-	-	**31.1**	38.4
Dental activities	**(0.4)**	(1.1)	-	-	-	-	**(0.4)**	(1.1)
	62.5	69.9	**0.4**	0.5	**2.9**	2.8	**65.8**	73.2
Trading Activities	**22.9**	22.8	**20.8**	18.1	**5.7**	2.5	**49.4**	43.4
Investment Activities	**(4.5)**	(12.8)	**3.1**	7.2	**1.3**	5.9	**(0.1)**	0.4
	18.4	10.0	**23.9**	25.3	**7.0**	8.4	**49.3**	43.8

Investment performance has been separately analysed as the Directors consider it to be a separate activity. The operating result from investment activities includes financing costs of £55.6m (1998 - £61.0m).

Notes to the financial statements - continued

1. Segmental information - continued

(c) Net assets

	UK		Spain		Republic of Ireland		Total	
	1999 £m	1998 Restated £m	1999 £m	1998 Restated £m	1999 £m	1998 Restated £m	1999 £m	1998 Restated £m
Health Insurance								
General business	**36.8**	42.6	**61.9**	51.9	**117.9**	141.7	**216.6**	236.2
Long term	**8.1**	12.7	**-**	-	**-**	-	**8.1**	12.7
	44.9	55.3	**61.9**	51.9	**117.9**	141.7	**224.7**	248.9
Health Provision								
Hospitals	**484.9**	387.4	**18.4**	14.4	**21.7**	23.7	**525.0**	425.5
Care services	**406.9**	378.4	**-**	-	**-**	-	**406.9**	378.4
Dental activities	**(11.6)**	(11.2)	**-**	-	**-**	-	**(11.6)**	(11.2)
	880.2	754.6	**18.4**	14.4	**21.7**	23.7	**920.3**	792.7
Investment activities	**(407.5)**	(356.3)	**-**	-	**-**	-	**(407.5)**	(356.3)
	517.6	453.6	**80.3**	66.3	**139.6**	165.4	**737.5**	685.3

UK includes branches in Cyprus, Malta and the Republic of Ireland, and businesses in Hong Kong, Thailand, Saudi Arabia and India which are not material enough to be shown as separate segments.

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

2. Net operating expenses

	1999 £m	1998 Restated £m
Acquisition costs	**53.8**	51.9
(Decrease)/increase in deferred acquisition costs	**(0.4)**	0.3
	53.4	52.2
Administrative expenses	**162.3**	149.2
	215.7	201.4

Total commissions for direct insurance, excluding payments to employees, amounted to £31.8m (1998 - £28.5m).

3. Other technical charges, net of reinsurance

	1999 £m	1998 £m
Long term business		
Premiums written, net of reinsurance	**26.4**	78.3
Investment income	**1.2**	2.2
Claims incurred, net of reinsurance	**(31.7)**	(77.7)
Change in other technical provisions, net of reinsurance	**7.2**	1.6
Net operating expenses	**(7.2)**	(11.1)
Balance on long term business	**(4.1)**	(6.7)

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

Notes to the financial statements - continued

4. Prior years' claims provisions

	1999 £m	1998 £m
Over provisions 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 as follows:		
Health Insurance	**4.1**	1.3

5. Investment income

	1999 £m	1998 £m
Income from investments		
Listed investments	**12.2**	20.4
Unlisted investments	**3.1**	0.1
Deposits with credit institutions	**19.7**	19.7
Realised gains on investments	**8.1**	41.0
Recognition of deferred consideration (note 18)	**4.9**	5.1
	48.0	86.3

6. Investment expenses and charges (including interest)

	1999 £m	1998 Restated £m
Investment expenses and charges	**3.1**	6.0
Bank loans, overdrafts and other loans	**45.4**	50.7
Finance charges payable in respect of finance leases	**10.2**	10.3
	58.7	67.0

7. Operating surplus

	1999 £m	1998 £m
Operating surplus is stated after charging:		
Operating lease rentals:		
hire of plant and machinery	**3.0**	2.4
other	**3.3**	4.5
Depreciation and other amounts written off tangible fixed assets:		
owned	**52.0**	44.8
leased	**5.9**	5.0
Amortisation of goodwill	**6.0**	0.2
Auditors' remuneration:		
audit of Group accounts	**0.8**	0.8
audit of Company	**0.1**	0.1
other services provided by the auditors and their associates	**0.8**	0.6

Notes to the financial statements - continued

8. Directors' remuneration

	1999 £m	1998 £m
Aggregate emoluments of the Directors of the Company were as follows:		
Basic salaries	**980**	1,116
Fees	**303**	286
Benefits	**71**	96
Annual bonuses	**304**	338
	1,658	1,836
Payments to money purchase pension schemes	**47**	73
Provision for unfunded pensions	**408**	697
	2,113	2,606

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

The aggregate emoluments of the highest paid Director were £492,000 (1998 - PA Jacobs £568,000), and Company pension contributions of £8,078 (1998 - PA Jacobs £26,280) were made to a money purchase scheme. Additional pension arrangements were also made as pension entitlements are restricted by Inland Revenue limits. The accrued pension to which the highest paid Director would be entitled from normal retirement date, was £36,823 providing retirement had been taken at the year end (1998 - PA Jacobs £107,329).

Short term rewards

	Salary or fees £ 000	Benefits (note (a)) £ 000	Annual bonus £ 000	1999 Total £ 000	1998 Total £ 000
Executive Directors					
VF Gooding	**338**	**18**	**136**	**492**	372
EW Lea	**248**	**15**	**99**	**362**	310
DS Boyle	**200**	**6**	**57**	**263**	248
PA Jacobs - resigned 12 May 1999	**154**	**11**	-	**165**	568
AD Walford - resigned 1 May 1999	**40**	**3**	**12**	**55**	36
RF Hymas - resigned 6 January 1998 - (Note (c))	-	-	-	-	277
	980	**53**	**304**	**1,337**	1,811
Non-executive Directors					
Sir Bryan Nicholson - Chairman	**140**	**15**	-	**155**	129
Prof Sir Duncan Nichol	**25**	**1**	-	**26**	25
Dr M Downes (Note (b))	**64**	**1**	-	**65**	67
Prof Oliver James - appointed 1 May 1999	**17**	-	-	**17**	-
FA Heaton	**30**	**1**	-	**31**	26
DM Claisse	**27**	-	-	**27**	26
Dr LP Harvey - resigned 30 September 1998	-	-	-	-	18
RN Quartano - resigned 13 May 1998	-	-	-	-	11
	303	**18**	-	**321**	302
Total emoluments (excl. pensions)	**1,283**	**71**	**304**	**1,658**	2,113

Notes to the financial statements - continued

8. Directors' remuneration - continued

Long term incentive scheme

Three years to 31 December 1998

	Balance brought forward £ 000	Interest accrued (note (d)) £ 000	Amount paid out £ 000	Balance carried forward £ 000
VF Gooding	88	4	-	92
EW Lea	174	9	-	183
DS Boyle	139	7	-	146
PA Jacobs	355	9	(364)	-
AD Walford	91	5	-	96

Notes to tables

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

(b) Amounts disclosed in respect of Dr Margaret Downes include fees of £37,500 (1998 - £39,000) receivable as non-executive Chairman of BUPA Ireland Limited.

(c) Amounts disclosed in 1998 relate to compensation for loss of service.

(d) In accordance with the long term incentive rules, the balance brought forward from the previous year represents 40% of the total accrued entitlement (60% having been paid previously). It attracts interest and is payable in April 2001 or on retirement subject to eligibility under the scheme rules.

Pension costs

	Age at 31 December 1999	Directors' contributions in the year £	Increase in accrued annual pension during year £	Total accrued annual pension at 31 December 1999 £
VF Gooding	**49**	**14,198**	**11,330**	**36,823**
EW Lea	**58**	**11,880**	**8,240**	**68,667**
DS Boyle	**57**	**9,389**	**3,366**	**34,683**
PA Jacobs	**57**	**-**	**6,982**	**115,477**
AD Walford	**54**	**1,943**	**750**	**56,357**

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 PA Jacobs and AD Walford, 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. Peter Jacobs has been in receipt of a pension from 1 August 1999.

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 by 3% or by the current increase in the Retail Price Index, whichever is the higher.

Notes to the financial statements - continued

9. Staff numbers and costs

	1999 number	1998 number
The average number of full time equivalent persons employed by the Group (including executive Directors) during the year was as follows:		
Health Insurance	**3,805**	4,063
Health Provision	**25,179**	24,132
	28,984	28,195

	£m	£m
The aggregate payroll costs in respect of these persons were as follows:		
Wages and salaries	**411.2**	370.9
Social security costs	**31.2**	31.2
Other pension costs (see note 30)	**14.1**	11.5
	456.5	413.6

10. Other charges, including value adjustments

	1999 £m	1998 £m
Net impairment for diminution in hospital and care home values	**2.6**	1.9

11. Taxation

	1999 £m	1998 £m
UK corporation tax at 30.25% (1998 - 31.0%)	**(1.3)**	1.6
Taxation on franked investment income	**-**	0.7
Deferred taxation (see note 24)	**6.4**	8.4
Overseas taxation	**8.8**	9.2
Adjustments in respect of prior years	**(0.1)**	(9.4)
	13.8	10.5

12. Goodwill

	1999 £m	1998 £m
Cost		
At beginning of year	**4.6**	-
Exchange adjustment	**(0.7)**	-
Additions (see note 22)	**44.8**	4.6
At end of year	**48.7**	4.6
Amortisation		
At beginning of year	**(0.2)**	-
Exchange adjustment	**0.1**	-
Charged in the year	**(6.0)**	(0.2)
At end of year	**(6.1)**	(0.2)
Net book value at end of year	**42.6**	4.4

Notes to the financial statements - continued

13. Hospitals, care homes and equipment

Group

	Freehold properties £m	Long leasehold properties £m	Equipment £m	Total £m
Cost or valuation				
At beginning of year	817.0	78.9	256.0	1,151.9
Exchange adjustment	(4.4)	-	(3.7)	(8.1)
Acquisitions	0.8	0.8	0.7	2.3
Additions	9.7	3.1	37.5	50.3
Disposals	(0.2)	-	(7.4)	(7.6)
Revaluations	23.3	-	-	23.3
Reclassifications	(15.3)	15.3	-	-
At end of year	830.9	98.1	283.1	1,212.1
Depreciation				
At beginning of year	20.6	2.8	116.6	140.0
Exchange adjustment	(0.6)	-	(2.4)	(3.0)
Charged in the year	10.8	3.6	23.9	38.3
Disposals	(0.2)	-	(3.7)	(3.9)
Revaluations	(6.2)	(0.8)	-	(7.0)
At end of year	24.4	5.6	134.4	164.4
Net book value:				
At 31 December 1999	806.5	92.5	148.7	1,047.7
At 31 December 1998	796.4	76.1	139.4	1,011.9
Depreciable amount:				
At 31 December 1999	**650.6**	**87.1**	**283.1**	**1,020.8**
At 31 December 1998	642.4	68.0	256.0	966.4
Hospital and care home properties:				
Valuation 1999	197.9	16.9		
Valuation 1998	335.8	46.6		
Valuation 1997	259.5	30.6		
Cost	37.7	4.0		
	830.9	98.1		

Notes to the financial statements - continued

13. Hospitals, care homes and equipment - continued

The net book value of freehold properties of £806.5m (1998 - £796.4m) includes £227.0m (1998 - £236.6m) in respect of assets held under finance leases.

The freehold and leasehold interests in 11 hospitals and 20 care homes were valued as at 30 November 1999 by Knight Frank, Chartered Surveyors, as external valuers, on the basis of existing use value as fully operational concerns. Three properties owned by businesses acquired this year have been valued. These comprise two properties in Barcelona owned by Robre SA and a childcare business in South East London.

The valuations were carried out in accordance with the Appraisal and Valuation Manual issued by the Royal Institution of Chartered Surveyors. The Group has revalued those properties as at 31 December 1999 on the basis of these valuations.
Particulars relating to revalued assets are given below:

Group

	1999 £m	1998 Restated £m
Hospitals, care homes and equipment		
At open market value	**929.0**	896.0
Aggregate depreciation thereon	**(29.9)**	(23.4)
Net book value	**899.1**	872.6
Historical cost of revalued assets	**703.2**	693.3
Aggregate depreciation based on historical cost	**(47.9)**	(34.3)
Historical cost net book value	**655.3**	659.0

The total historical cost of all assets is £986.3m.

14. Land and buildings: own use

	Group			Company
	Freehold properties £m	Short leasehold properties £m	Total £m	Short leasehold properties £m
Cost or valuation				
At beginning of year	43.8	15.7	59.5	1.9
Exchange adjustment	(1.8)	-	(1.8)	-
Acquisitions	0.6	-	0.6	-
Additions	4.8	2.1	6.9	-
Disposals	(1.1)	(1.9)	(3.0)	(0.5)
Revaluations	2.0	-	2.0	-
At end of year	48.3	15.9	64.2	1.4
Depreciation				
At beginning of year	1.3	5.8	7.1	0.1
Charged in the year	0.5	0.7	1.2	0.2
Disposals	(0.4)	(1.6)	(2.0)	(0.2)
Revaluations	(0.1)	-	(0.1)	-
At end of year	1.3	4.9	6.2	0.1
Net book value:				
At 31 December 1999	47.0	11.0	58.0	1.3
At 31 December 1998	42.5	9.9	52.4	1.8
Depreciable amount:				
At 31 December 1999	28.4	15.9	44.3	1.4
At 31 December 1998	24.5	15.7	40.2	1.9

Freehold properties:	
Valuation 1999	32.9
Valuation 1998	8.4
Cost	7.0
	48.3

The freehold interests in three office properties were valued as at 30 November 1999 by Knight Frank, Chartered Surveyors, as external valuers, on the basis of open market value for existing use. The valuations were carried out in accordance with the Appraisal and Valuation Manual issued by the Royal Institution of Chartered Surveyors. The Group has revalued those properties as at 31 December 1999 on the basis of these valuations.

Notes to the financial statements - continued

14. Land and buildings: own use - continued

	1999 £m	1998 Restated £m
Particulars of these assets are given below:		
Group		
At open market value	**48.3**	43.7
Aggregate depreciation thereon	**(1.3)**	(1.2)
Net book value	**47.0**	42.5
Historical cost of revalued assets	**23.1**	20.6
Aggregate depreciation based on historical cost	**(1.2)**	(0.8)
Historical cost net book value	**21.9**	19.8

The total historical cost of all assets is £39.0m.

15. Investments in Group undertakings

	Cost of shares £m	Revaluations £m	Total £m
At beginning of year	202.4	541.4	743.8
Prior year adjustments complying with FRS 12	-	(0.8)	(0.8)
At beginning of year, restated	202.4	540.6	743.0
Adjustments to reflect underlying net asset value	-	97.3	97.3
At end of year	**202.4**	**637.9**	**840.3**

The Company's principal subsidiaries, listed below, are except where stated incorporated in Great Britain and are wholly owned. 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
Sanitas SA, de Seguros (99% holding) - (Spain)
BUPA Asia Limited - (Hong Kong)
BUPA Re - (Republic of Ireland)

Health Insurance - long term
BUPA Health Assurance Limited

Hospitals
BUPA Hospitals Limited
Blackrock Hospital Limited (56% holding) - (Republic of Ireland)

Care Services
BUPA Nursing Homes Limited
BUPA Care Services Limited
Care First Group plc

BUPA Wellness
Barbican Healthcare PLC

Investment Activities
* BUPA Investments Limited
* BUPA Finance PLC

* Direct subsidiary of the Company

Notes to the financial statements - continued

16. Other financial investments

	Market value 1999 £m	Market value 1998 £m	Cost 1999 £m	Cost 1998 £m
Group				
Debt securities - government stocks	**118.8**	107.7	**117.2**	103.2
Debt securities - corporate bonds and loans	**206.0**	70.0	**206.0**	50.0
	324.8	177.7	**323.2**	153.2
Shares and other variable yield securities	**119.5**	97.6	**103.8**	90.3
Deposits with credit institutions	**149.0**	224.8	**149.0**	224.8
	593.3	500.1	**576.0**	468.3
Included in the above were investments:				
Listed on recognised Stock Exchanges	**145.2**	128.5	**131.4**	120.5
Company				
Debt securities - government stocks	**0.2**	0.3	**0.3**	0.3
Deposits with credit institutions	**4.4**	37.3	**4.4**	37.3
	4.6	37.6	**4.7**	37.6

17. Debtors arising out of direct insurance operations

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Amounts owed by policyholders	**300.5**	274.4	**281.4**	236.3

18. Other debtors

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Amounts falling due within one year:				
Trade debtors	**76.7**	56.0	**-**	-
Investment debtors and accrued investment income	**17.6**	14.0	**-**	-
Other debtors	**28.0**	35.3	**18.6**	12.4
Amounts owed by Group undertakings	**-**	-	**518.3**	422.0
	122.3	105.3	**536.9**	434.4

Notes to the financial statements - continued

18. Other debtors - continued

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Amounts falling due after more than one year:				
Deferred consideration receivable	**86.4**	86.4	-	-

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 2001	8.6
14 October 2002	9.7
14 April 2004	68.1
	86.4

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 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 27. The deferred income is included in investment income (note 5) on the basis of the value at which the sale could be closed out at the balance sheet date.

19. Tangible assets

	Group £m	Company £m
Equipment		
Cost		
At beginning of year	**98.7**	**68.8**
Exchange adjustment	**(2.1)**	**-**
Acquisitions	**0.1**	-
Additions	**21.8**	**28.7**
Disposals	**(5.4)**	**(15.9)**
At end of the year	**113.1**	**81.6**
Depreciation		
At beginning of year	**29.3**	**15.1**
Exchange adjustment	**(1.2)**	-
Charged in the year	**18.5**	**14.8**
Disposals	**(4.0)**	
(4.0)		
At end of the year	42.6	25.9
Net book value		
At 31 December 1999	70.5	55.7
At 31 December 1998	69.4	53.7

The net book value of equipment of the company £56.0m (1998 - £53.7m) includes £7.8m (1998 - £nil) in respect of assets held under finance leases.

Notes to the financial statements - continued

20. Other prepayments and accrued income

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Prepayments	**15.0**	13.3	**4.3**	5.8
Accrued income	**13.6**	7.1	**0.1**	-
	28.6	20.4	**4.4**	5.8

21. Reserves

Group

	Property revaluation £m	Income and expenditure account £m	Total £m
At beginning of year			
As previously stated	**181.7**	**487.8**	**669.5**
Prior year adjustment complying with FRS 12	**-**	**6.1**	**6.1**
At beginning of year, restated	**181.7**	**493.9**	**675.6**
Exchange translation differences	**(1.6)**	**(9.8)**	**(11.4)**
Retained surplus for the year	**-**	**31.2**	**31.2**
Property revaluation	**31.7**	**-**	**31.7**
At end of year	**211.8**	**515.3**	**727.1**

Unrealised investment gains amounting to £38.6m (1998 - £25.7m) are included in the balance of the income and expenditure account at the end of the financial year.

The prior year adjustment is the result of compliance with the new accounting standard FRS 12.

The 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 £280.4m remains eliminated against the income and expenditure account as permitted by the transitional provisions of FRS 10. 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.

Company

	Income and expenditure account £m
At beginning of year	
As previously stated	**669.5**
Prior year adjustment complying with FRS 12	**6.1**
At beginning of year, restated	**675.6**
Exchange translation differences	**0.1**
Retained deficit for the year	**(45.9)**
Increase in underlying net asset value of Group undertakings	**97.3**
	727.1

The deficit of the Company for the financial year amounted to £45.9m (1998 restated - deficit £37.0m).

Notes to the financial statements - continued

22. Acquisitions

BUPA has made acquisitions costing £43.1m during 1999, in respect of a Spanish health insurance operation (Robre SA) £14.6m, and in the UK, a childcare business £0.9m, a home care business (Primrose Care Ltd) £2.9m and a BUPA Wellness company (Barbican Healthcare PLC) £24.7m.

Goodwill arising on acquisition has been included as an asset in the balance sheet in accordance with the provisions of FRS 10 and is being amortised over a period of between five and ten years.

Total acquisitions in 1999

	At book value £m	Accounting adjustments £m	Provisional fair value £m
Property and equipment	3.0	0.1 1	3.1
Investments	3.8	-	3.8
Current assets	2.6	(0.3) 2	2.3
Creditors and provisions	(10.7)	1.9 3	(8.8)
Loans and overdrafts	(2.1)	-	(2.1)
Net assets acquired	(3.4)	1.7	(1.7)
Cash consideration and fees (36.0)			
Loan stock			(7.1)
Goodwill capitalised			(44.8)

Accounting adjustments

The accounting adjustments above are in respect of the following:

1 Property revaluation

2 Provision in respect of doubtful debts

3 Adjustment in respect of technical provisions

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

Notes to the financial statements - continued

23. Technical provisions and deferred acquisition costs

Group

	Provision for unearned premiums £m	Claims outstanding £m	Total £m
At beginning of year	409.5	163.3	572.8
Movement in the provision	36.3	24.8	61.1
Exchange and other adjustments	0.3	(4.0)	(3.7)
At end of year	446.1	184.1	630.2

	1999 £m	1998 £m
Technical provisions at end of year	630.2	572.8
Deferred acquisition costs	(16.1)	(15.8)
Net insurance funds	614.1	557.0

Company

	Provision for unearned premiums £m	Claims outstanding £m	Total £m
Gross amount			
At beginning of year	371.0	109.6	480.6
Movement in the provision	51.2	19.4	70.6
At end of year	422.2	129.0	551.2
Reinsurance amount			
At beginning of year	-	31.9	31.9
Movement in the provision	-	6.1	6.1
At end of year	-	38.0	38.0
Net technical provisions			
At end of year	422.2	91.0	513.2
At beginning of year	371.0	77.7	448.7

	1999 £m	1998 £m
Net technical provisions at end of year	513.2	448.7
Deferred acquisition costs	(15.0)	(14.8)
Net insurance funds	498.2	433.9

Notes to the financial statements - continued

24. Provisions for other risks and charges

Group

	Deferred taxation £m	Pensions and similar obligations £m	Other £m	Total £m
At beginning of year as previously stated	6.9	60.3	32.6	99.8
Prior year adjustment transferred from accruals	-	-	0.4	0.4
Prior year adjustment complying with FRS 12	-	-	(8.9)	(8.9)
At beginning of year, restated	6.9	60.3	24.1	91.3
Exchange adjustment	-	(0.1)	(0.4)	(0.5)
Utilised during year	(5.4)	(0.8)	(8.1)	(14.3)
Charge for the year	6.4	5.4	8.5	20.3
At end of year	7.9	64.8	24.1	96.8

At 31 December 1999 other provisions included £6.1m (1998 - £6.3m) in respect of unoccupied premises, which are dependant on the ability to sublet the premises but are not expected to be required for more than two years. All other provisions comprise a variety of risks the majority of 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:

	1999 Provided £m	1998 Provided £m	1999 Full potential liability £m	1998 Full potential liability £m
Accelerated capital allowances	0.9	0.9	23.7	30.4
Freehold property revaluation	-	-	70.4	50.4
Other timing differences	7.0	6.0	(13.0)	(20.0)
At end of year	7.9	6.9	81.1	60.8

Company

	Pensions and similar obligations £m	Other £m	Total £m
At beginning of year as previously stated	38.3	22.9	61.2
Prior year adjustment complying with FRS 12	-	(6.9)	(6.9)
	38.3	16.0	54.3
Utilised during year	(0.8)	(4.6)	(5.4)
Charge for the year	3.6	6.7	10.3
At end of year	41.1	18.1	59.2

Notes to the financial statements - continued

25. Borrowings and subordinated bonds

Group

	1999 £m	1998 £m
Amounts owed to credit institutions:		
Bank overdrafts	9.5	13.6
Bank loans	203.0	217.5
Guaranteed loan notes 1999	-	91.9
	212.5	323.0
Obligations under finance leases	111.6	110.3
Subordinated bonds and debenture stock		
Loan notes	222.7	10.2
Subordinated bonds 2018	98.6	98.6
Debenture stock	64.1	65.1
	385.4	173.9
	709.5	607.2
Repayable other than by instalments:		
Between one and five years	85.0	20.4
In five years or more	385.4	173.7
	470.4	194.1
Repayable by instalments:		
Between one and five years	69.3	18.0
In five years or more	54.1	109.8
	123.4	127.8
Amounts falling due after more than one year by year of repayment	593.8	321.9
Repayments falling due within one year	115.7	285.3
	709.5	607.2

Other 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. During the year the Group borrowed £65.0m from a bank for a five year term at an effective interest rate of 5%, through the sale and repurchase of its share holding in BUPA Holdings (Jersey) Ltd.

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% per annum.

The 11.8% 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 assets.

Loan notes include an amount of £206m (1998 - nil) in respect of the grant of overriding leases on care homes. The premium has been recharacterised as a loan in accordance with FRS 5, Reporting the substance of transactions. See note 31.

Notes to the financial statements - continued

25. Borrowings and subordinated bonds - continued

Company

	1999 £m	1998 £m
Amounts owed to credit institutions:		
Bank overdrafts repayable within one year	**18.4**	17.6
Obligations under finance leases	**8.5**	-
	26.9	17.6

Obligations under finance leases		
Repayable by instalments:		
Repayable within one year	**3.1**	-
Between one and five years	**5.4**	-
	8.5	-

26. Other creditors including taxation and social security

	Group		Company	
	1999 £m	1998 Restated £m	1999 £m	1998 Restated £m
Corporation tax payable	**3.5**	5.1	**2.4**	2.4
Social security	**12.6**	8.3	**4.2**	2.8
Health Provision trade creditors	**32.1**	32.5	-	-
Other creditors	**58.3**	36.4	**20.5**	10.1
Amounts owed to Group undertakings	-	-	**322.8**	248.2
	106.5	82.3	**349.9**	263.5

27. Accruals and deferred income

	Group		Company	
	1999 £m	1998 Restated £m	1999 £m	1998 Restated £m
Deferred income on sale of QIS (note 18)	**24.5**	29.3	-	-
Other accruals and deferred income	**87.2**	87.9	**34.6**	37.8
	111.7	117.2	**34.6**	37.8

Other accruals and deferred income for 1998 of £117.2m is restated after FRS 12 adjustments.

Notes to the financial statements - continued

28. Contingent liabilities

The Company has guaranteed the borrowings of certain subsidiary undertakings which at 31 December 1999 amounted to £297.1m (1998 - £398.1m).

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 2000 and 2001 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.

29. Commitments

a) Capital commitments for the group, at the end of the financial year for which no provision has been made were £15.4m (1998 - nil). The company had no capital commitments at the end of either year.

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

Group

	1999		1998	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Operating leases which expire:				
Within one year	**0.4**	**0.7**	0.6	0.9
Between one and five years	**2.3**	**1.9**	1.7	1.1
Over five years	**2.0**	**-**	2.4	-
	4.7	**2.6**	4.7	2.0

Notes to the financial statements - continued

30. 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 future 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 1996 and the projected unit method was used. The assumed rate of investment return was 2% above the assumed rate of pay increases and 5% above the assumed rate of pension increases. The 1999 actuarial valuation is currently being undertaken.

The aggregate market value of the BUPA Pension Scheme at the valuation date was £160.3m. The actuarial value thereof represented 121% of benefits due to members. The excess assets eliminated the need for the Company and its subsidiaries to make any contributions to 30 June 1999. Employer contributions at the rate of 13% of pensionable salary have been reinstated with effect from 1 July 1999. The accounts include a provision of £48.0m (1998 - £44.1m) representing the excess of the accumulated cost over the contributions made.

In addition, unfunded defined benefit pension arrangements exist for certain employees. The charge to the consolidated income and expenditure account in respect of the schemes and the assessment of the related pension liability at 31 December 1999 have been made in accordance with the advice of independent actuaries and are based principally on rates of increase in salary and the benefits applicable to each employee concerned. The provision included in the accounts amounts to £4.0m (1998 - £3.1m).

The pension charge reported in the Income and Expenditure account in respect of all schemes in 1999 amounted to £14.1m (1998 - £11.5m).

An amount of £11.7m (1998 - £11.7m) is provided in respect of post-retirement medical benefits granted to certain long-serving employees before 1992 on an ex-gratia basis. A formal actuarial valuation of the liability for these medical benefits was carried out as at 31 December 1995 by an independent actuary.

31. Post balance sheet events

On 17 February 2000 UK Care No 1 Limited, a company incorporated in Guernsey, issued £175.0 million 6.3% secured notes due 2029 and £60.0 million 7.5% secured notes due 2031 to be listed on the Luxembourg stock exchange. The issue is partly secured on overriding leases granted by a BUPA group company to UK Care No 1 Limited over the head leases of 116 care home properties held by a group company. Net proceeds of £206.0 million are receivable as consideration for the grant of these leases, of which £16.0 million remained outstanding at 9 March 2000.

The proceeds arising from the securitisation were used to refinance existing debt.

Certain group companies have issued guarantees in respect of the performance of fellow subsidiaries under operating leases which have been assigned to UK Care No 1 Limited as a result of the grant of the overriding leases.

Notes to the financial statements - continued

32. Related party transactions

No Director had any material interest in any contracts with Group companies at the end of 1999 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.

33. Notes to the cashflow statement

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

	1999 £m	1998 Restated £m
Surplus before taxation	**46.7**	41.9
Interest payable	**55.5**	61.0
Depreciation and amortisation	**63.9**	50.0
Gain on sale of investments	**(18.8)**	(22.5)
Loss on sale of fixed assets	**1.7**	0.2
Increase in current assets	**(56.7)**	(10.8)
Increase in unearned premiums	**36.6**	25.6
Increase in outstanding claims	**20.8**	22.8
Increase in other creditors	**22.9**	1.0
Net cash inflow from operating activities	**172.6**	169.2

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

	1999 £m	1998 Restated £m
Net cash flow for the period	**(15.6)**	7.4
Decrease in portfolio investments	**(87.8)**	(57.3)
Increase/(decrease) in loans	**98.1**	(65.1)
Movement arising from cash flows	**(5.3)**	(115.0)
Acquired with subsidiaries	**3.8**	-
Changes in market values and exchange rate effects	**1.4**	(10.3)
Other changes	**-**	(8.9)
Total movement in portfolio investment net of financing	**(0.1)**	(134.2)
Portfolio investments net of financing at 1 January	**(99.8)**	34.4
Portfolio investments net of financing at 31 December	**(99.9)**	(99.8)

33. Notes to the cashflow statement - continued

(c) Movement in cash, portfolio investments and financing

	At 1 January 1999 £m	Cash flow £m	Acquired with subsidiary £m	Changes to market value and currencies £m	At 31 December 1999 £m
Cash					
Cash at bank and in hand	7.3	9.0	-	-	16.3
Overdrafts	(13.6)	4.0	-	-	(9.6)
Overnight deposits	36.8	(28.6)	-	-	8.2
	30.5	(15.6)	-	-	14.9
Portfolio investments					
Shares	97.6	6.9	3.8	11.2	119.5
Debt securities - Government stock	107.7	22.4	-	(11.3)	118.8
Debt securities - Corporate bonds	70.0	(70.0)	-	206.0	206.0
Short term deposits	188.0	(47.1)	-	-	140.9
	463.3	(87.8)	3.8	205.9	585.2
Financing					
Debt due after 1 year	(211.5)	(68.6)	-	(202.0)	(482.1)
Debt due within 1 year	(271.8)	167.1	-	(1.6)	(106.3)
Finance leases	(110.3)	(0.4)	-	(0.9)	(111.6)
	(593.6)	98.1	-	(204.5)	(700.0)
Movement in cash, portfolio investments and financing	(99.8)	(5.3)	3.8	1.4	(99.9)

Portfolio investments		
Purchase of ordinary shares and other variable yield securities	(258.9)	(91.8)
Purchase of debt securities - government stock	(34.0)	(298.4)
Sale of ordinary shares and other variable yield securities	252.0	205.8
Sale of debt securities - government stock	11.6	290.5
Sale of debt securities - corporate bonds	70.0	-
Deposits with credit institutions	47.1	(48.8)
Net cash inflow on portfolio investments	87.8	57.3

Notes to the financial statements - continued

33. Notes to the cashflow statement - continued

(d) Purchase of subsidiaries

	1999 £m	1998 £m
Net assets acquired:		
Fixed assets	**3.1**	0.7
Financial investments	**3.8**	-
Current assets	**2.3**	0.5
Creditors and provisions	**(8.8)**	(1.0)
Loans and overdrafts	**(2.1)**	-
	(1.7)	0.2
Goodwill	**44.8**	4.6
	43.1	4.8
Satisfied by:		
Cash	**36.0**	4.3
Loan stock	**7.1**	0.5
	43.1	4.8

Five year financial summary

Trading income

	1999 £m	1998 Restated £m	1997 Restated £m	1996 £m	1995 £m
Health Insurance - premiums					
General business	**1,141.8**	1,008.7	981.4	1,029.8	985.6
Long term business	**26.4**	78.3	91.9	9.1	0.4
	1,168.2	1,087.0	1,073.3	1,038.9	986.0
Health Provision - turnover					
Hospitals	**381.1**	351.4	307.2	295.3	285.8
Care Services	**363.5**	330.8	67.4	17.7	-
Dental Activities	**18.6**	17.2	14.0	9.9	5.1
	763.2	699.4	388.6	322.9	290.9
Trading income	**1,931.4**	1,786.4	1,461.9	1,361.8	1,276.9
Surplus before taxation	**46.7**	41.9	72.5	90.4	114.0

Statement of total recognised gains and losses

	1999 £m	1998 Restated £m	1997 Restated £m	1996 £m	1995 £m
Surplus for the financial year	**31.2**	30.6	58.9	78.2	97.1
Property revaluation	**31.7**	37.3	32.2	29.1	16.0
Exchange (losses)/gains	**(11.4)**	(2.1)	(3.5)	(8.5)	5.7
Total recognised gains and losses	**51.5**	65.8	87.6	98.8	118.8
Net assets					
Reserves	**1,007.5**	956.0	890.2	802.6	703.8
Cumulative goodwill written off	**(280.4)**	(280.4)	(275.9)	(163.8)	(138.5)
	727.1	675.6	614.3	638.8	565.3

Comparative amounts for 1995 to 1998 have been restated to accord with the accounting policy changes adopted in 1998. Restatements necessary as a result of compliance with FRS 12 have been made for comparative data in respect of 1998 and 1997 but not for earlier years.

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BUPA

the personal health service