BUPA FINANCE PLC

(Company No. 2779134)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

Bupa Finance plc
Report of the Directors
for the year ended 31 December 2010

The Directors of Bupa Finance plc (the Company) present their annual report and the financial statements for the year ended 31 December 2010 The parent company of Bupa Finance plc is The British United Provident Association Limited (Bupa Limited) which is also the ultimate parent company of The British United Provident Association Limited Group (Bupa Group) The Bupa Finance plc Group is referred to as 'Bupa' or 'the Group' in these financial statements

1 Principal activities

The principal activities of the Group are the provision of health insurance, and health and care facilities and services The latter includes ownership and management of care homes, hospitals and clinics, health screening, provision of disease management services, and occupational and community health services

2. Review of the business

Bupa delivered a good trading performance in 2010 with underlying surplus increased for the third successive year since the start of the global recession, despite mixed economic conditions in some of our markets

We achieved strong growth in our insurance businesses in Australia and Asia and increased operational efficiency in our businesses in Europe and North America, where market conditions were more challenging We maintained performance in Care Services in the UK by focusing on occupancy and managing costs carefully, despite downward pressure on public sector fees We also delivered good growth in Care Services in Australia and New Zealand, where market conditions were more benign

Group performance

Group revenues grew by 9% Our underlying surplus before taxation increased by 18% to £514 9m, with strong advances by our International Markets division and Bupa Health and Wellbeing UK (BHW)

Group surplus before taxation was down by £255 7m to £168 0m as the increase in underlying surplus generated by Bupa's businesses units was offset by goodwill impairments of £249 2m These impairments were attributable to sustained weak economic conditions and continuing healthcare reforms in the US and UK, which have impacted near term prospects for Health Dialog and Bupa Home Healthcare Goodwill for The Bupa Cromwell Hospital was also impaired, as we have allocated additional investment required for the development of the hospital, which is important to Bupa's position in the London market We remain fully committed to these businesses and are confident of their ability to generate value for the Group

Amortisation and impairment charges amounted to £52 4m (2009 £54 2m) and a net charge to the income statement of £35 1m was made, arising from the revaluation of properties (offset by net revaluation gains of £82 2m reflected in revaluation reserves) The disposal of non-core businesses in Australia and the UK gave rise to a book loss of £18 1m

Cash generation was excellent, with net cash generated from operating activities before capital expenditure at £586 5m Total borrowings declined by £201 8m to £1,288 8m, with leverage reduced to 22% (2009 26%)

Capital expenditure remained strong at £149 1m (2009 £183 3m) as we continued to invest in our businesses to provide more and better healthcare Bupa's customer base increased by 4% to 11 2 million customers

Economic developments

2010 was a year of mixed conditions in our major markets Bupa enjoyed benign economic conditions and good growth in markets such as Australia and Asia, demonstrating once again the benefits of the Group's international scale and range of healthcare businesses The UK, US and Spanish economies, however, remained challenging, with high unemployment levels and weak consumer confidence At the same time, we saw health reform agendas in the UK and US create uncertainty

2 Review of the business – continued

Segmental Summary

- **Europe and North America**

The Europe and North America division delivered a resilient performance, despite weak economic conditions, high unemployment levels, the impact of government deficit reduction measures and the uncertainty created by health reform agendas in the UK and US This performance was achieved through a focus on customer retention, operational efficiency and the delivery of differentiated and compelling products and services Overall revenues increased by 1% to £2,999 5m, surplus grew 28% to £135 4m and insurance customer numbers were ahead by 1% The advance in profitability was driven in particular by BHW, following an improvement in margins and the implementation of a significant restructuring programme

BHW delivered a good performance, growing revenues and increasing surplus, despite continuing economic uncertainty and high unemployment levels in the UK This performance was achieved through a focus on customer retention, restructuring the business to improve efficiency, the launch of a range of new products and services and actions taken to improve margins

Sanitas, the leading healthcare brand in Spain, continued to benefit from its integrated business model, which combines insurance and provision assets and offers real differentiation in a highly competitive marketplace This integrated model helped the business to deliver revenue and surplus growth, despite challenging economic conditions This performance was supported by the launch of new products, a focus on efficiency and the impact of the first full year of operations at the public hospital run by Sanitas in Manises, Valencia

In the US, in the face of challenging market conditions, Health Dialog restructured the business to realign its cost base and focused on customer retention The business also developed new propositions and launched in Australia at the end of the year

- **International Markets**

Bupa's International Markets division, which includes health insurance businesses in Australia, Asia, Latin America and the Middle East, delivered an excellent performance in 2010 Overall revenues grew by 20% to £3,394 0m and surplus increased by 31% to £226 9m, driven by a strong operating performance in Bupa Australia and favourable foreign exchange movements, primarily due to the strong Australian dollar Growth in surplus, excluding the impact of foreign exchange movements and acquisitions and disposals, was 20%

Customer numbers grew strongly across the division by 6%, with the most notable increase in Bupa Arabia, an associated company, which reached one million customers, and Bupa Australia, which also completed the integration of MBF and launched a single product suite in the second half of the year

- **Care Services**

Care Services continued to perform well despite increasing pressure on public sector budgets, notably in the UK, where the impact of both the Comprehensive Spending Review and White Paper on Health produced uncertainty within local government and the NHS This impacted aged care fees and referrals, as well as new business in Bupa Home Healthcare The division benefited, however, from more benign economic conditions in Australia and New Zealand

In this environment, Care Services focused on managing occupancy and costs to maintain profitability Revenues for the division increased, driven by a strong performance in Australia, New Zealand and improved results in Spain Surplus was marginally ahead on the previous year and occupancy was maintained at 88 2% (2009 88 3%)

Bupa remains committed to developing its portfolio of care homes Over £77m was invested in building, extending or refurbishing homes to provide the best environment for care Throughout the year, we provided expert information to governments in all markets to help shape the social care agenda, including actively participating in the Commission on Funding of Care and Support in England

2 Review of the business – continued

Our strategy

Helping people live longer, healthier, happier lives is Bupa's unifying purpose The way we do this is to use our expertise in healthcare, developed over six decades, to support our customers to get the most out of life, for life Our ambition is to become their healthcare partner throughout life

To achieve this ambition, we are focused on three strategic priorities

Firstly, developing high quality, good value products that respond to our customers' changing healthcare needs and allow them to exercise choice and control in healthcare

Secondly, we are committed to using our expertise in healthcare to help people make more informed decisions about their health, improving their health outcomes and driving high standards in clinical governance and quality We are also dedicated to working with individuals, companies, providers and governments to manage escalating medical costs

Finally, we believe in making our international healthcare knowledge and the scale of our Group count for customers at local level This means harnessing our expertise and talent and sharing it across business units and markets One example of how we are doing this is the rolling out of Care Services award winning "Personal Best" staff recognition programme from the UK to Australia, New Zealand and Spain in 2010

It is these three overarching strategic priorities that underpin our business strategies and the future growth and development of our portfolio in 2011 and beyond

As a Group, we will continue to focus on differentiation in our existing markets, while expanding into new markets to bring Bupa's healthcare partner capabilities to a wider customer base

The future

In 2011, with continued growth in Asia Pacific and Latin America, we anticipate further strong momentum for our businesses in these markets In Australia, in particular, our newly merged business is in an excellent position to develop an increasingly differentiated proposition for customers

In Europe and the US, high unemployment levels are likely to continue to impact our health insurance related businesses in the near term In this environment, we will maintain our focus on operational efficiency and customer retention, while continuing to develop compelling new products and services that respond to our customers' changing healthcare needs and that allow them to exercise choice and control in healthcare

In Care Services, we anticipate Australia and New Zealand will continue to perform well In the UK, while demographic trends support good long-term growth, we expect pressure on public spending on aged care to continue to constrain performance in the short-term We will therefore maintain our focus on occupancy and managing costs, while continuing to invest in the development of our care homes portfolio, with a focus on dementia care

Across the Group, the long-term drivers of growth remain strong The global trends of advances in medical technology, the increasing incidence of chronic disease, the rise of ageing populations and changing consumer expectations about healthcare will drive demand for our products and services We are well positioned to take advantage of these trends given our international scale, trusted brands, excellent market positions and strong balance sheet

We group our business into three reporting segments, each consisting of a portfolio of operating units The results of Bupa's three business segments are discussed further below

2 Review of the business – continued

EUROPE AND NORTH AMERICA

Bupa's Europe and North America division operates businesses in the UK, Spain and the US The division offers health insurance, hospital care, dental and wellbeing services, health analytics and health coaching

Results overview

The Europe and North America division delivered a resilient performance, with increased revenue and surplus and stable insurance customer numbers, despite weak economic conditions, high unemployment levels, the impact of government deficit reduction measures and the uncertainty created by health reform agendas in the UK and US This performance was achieved through a focus on customer retention, operational efficiency and the delivery of differentiated and compelling products and services The advance in profitability was driven in particular by BHW, following an improvement in margins and the implementation of a significant restructuring programme

Bupa Health and Wellbeing UK (BHW)

BHW is the UK's leading health insurer serving the individual, corporate and small business segments, with 3 0m customers

The business delivered an improved performance, growing revenues and surplus, despite continuing economic uncertainty and high unemployment levels This performance was achieved through a focus on customer retention, restructuring the business to improve efficiency, the launch of a range of new products and services and actions taken to improve margins The business was also named as one of the UK's top three companies for customer service, in a survey of 26,000 consumers, by the Institute of Customer Service Bupa was the only health insurer to make the top 10

BHW improved customer retention by placing strong emphasis on service levels and developing closer relationships with existing customers This included the launch of specialist patient support teams for cancer and mental wellbeing, with BHW working in partnership with consultants to enable more customers to have their chemotherapy treatment at home and to gain quicker access to mental wellbeing treatment by promoting 'talking therapies'

Operations were streamlined to improve long-term productivity, as BHW benefited from its new, more efficient IT operating system, introduced in August 2009 Headcount was reduced by 15%, resulting in a one off restructuring charge of £6 6m

New product launches included a best in class dental product, which performed above expectations, and 'Select', a new B2B product allowing small to medium sized businesses to better manage their healthcare costs Select was named Best New Product Innovation at the 2010 Health Insurance Awards

The quality of the business was recognised by a series of awards over the course of the year, including Best Healthcare Insurance Provider at the Financial Adviser Awards for the fourth year in succession

BHW's preventative health and wellbeing offering includes occupational health services and health assessments via 47 Bupa centres The number of lives covered by employee assistance programmes and health assessments reduced, as unemployment levels remained high During the period, a new range of health assessment products, including a Core Assessment providing customers with an accessible, entry level health assessment for £149, were launched

In October, BHW announced the sale of its life, income protection and critical illness business, Bupa Health Assurance, in order to focus on its core healthcare products and services The sale completed on 31 January 2011 with proceeds of £168 2m and a book loss of £6 5m was recognised in the period

Sanitas

Sanitas, the leading private healthcare brand in Spain, provides services that cover many aspects of customers' healthcare needs Its offerings include health insurance, hospitals, clinics and wellbeing services for the private and public sectors The business has over 1 4m health insurance customers

2 Review of the business – continued

During 2010, Sanitas continued to benefit from its integrated business model, which combines insurance and provision assets and offers real differentiation in a highly competitive marketplace This integrated model helped the business to deliver a good performance despite ongoing weak economic conditions and Sanitas sees opportunities to further strengthen its provision activities

Revenue and surplus increased, supported by the launch of new products, a focus on efficiency and the impact of the first full year of operations at the public hospital run by Sanitas in Manises, Valencia Health insurance customer numbers remained broadly stable as the business focused on customer loyalty and retention programmes and delivered a number of new corporate wins

Highlights during the year included the launch of UCCO, a new specialist cancer unit, offering whole person care for cancer patients, and the launch of the Healthcare Partner programme, which provides tailored services to target specific health concerns of customers, including cardiology, gynaecology and mother and baby programmes

Sanitas Hospitales enjoyed very strong occupancy at its hospitals and 'Milenium centres' as well as improvements in productivity Sanitas Health Services, which provides dental care and laser eye surgery, grew well, increasing revenue and surplus Sanitas is investing to support the growth of its 'Milenium centre' network and owned dental centres During 2010, three new medical centres and five dental centres neared completion and are due to open in 2011 Sanitas also continued to expand its franchised network of dental centres, adding a further nine centres during the period

Sanitas benefited from the first full year of revenues from the Manises public hospital, which opened in May 2009 as part of an innovative public-private partnership with the Valencian regional government The hospital performed well and increased its coverage by incorporating the adjacent population of Mislata, adding an extra 44,000 lives and taking the total coverage of the hospital to 197,000 people Sanitas also secured the contract to take over the operations and refurbishment of another hospital in the region, which will provide chronic and psychiatric care

Scandinavia

The Group decided to cease providing domestic health insurance in Scandinavia because of the small scale of the business in a highly competitive market Provision was made for customers to move to a leading Scandinavian provider to ensure continuity of cover A one off charge of £16 1m was incurred relating to redundancies, property exit costs and run off costs

Health Dialog

Health Dialog is a leading US based provider of health analytics and care management services that works with health plans, public insurers and employers to manage the cost and quality of healthcare

In 2010, Health Dialog continued to operate against a backdrop of high unemployment in the US Revenues decreased as some customers held back from purchasing care management services due to financial constraints and uncertainty regarding new healthcare reforms The business realigned its cost base with current sales volumes at a cost of £2 5m However, surplus declined, notwithstanding a £7 4m benefit relating to the closure of a prior year contract

In this challenging environment, Health Dialog reduced operating costs by 16%, and focused on the retention of major clients The business also increased its capabilities and developed new products to meet the changing demands of the market This included the launch of the Medicare Stars programme, which helps providers of Medicare, the US public health insurance subsidy for the elderly and disabled, to show measurable improvements in healthcare, driving government reimbursements

The implementation of the new healthcare reforms in the US is expected to present significant business opportunities for Health Dialog in the medium term, as they provide incentives for health insurers to purchase services that provide measurable improvements in the quality of healthcare and reduce costs These attributes are central to Health Dialog's proposition, which was independently validated in 2010 by a peer reviewed study in The New England Journal of Medicine This study concluded that Health Dialog's health

2. Review of the business – continued

analytics, health coaching and shared decision making services provide a 400% return on investment for customers and reduce hospital admissions by 10% Health Dialog is the first care management company to have its services validated through such a study

Health Dialog also continued to progress its international development Health Dialog Australia was launched in November, offering chronic disease management services to Bupa Australia customers and Health Dialog España, which provides health coaching services to Sanitas health insurance customers, reached its annual customer targets ahead of schedule In addition, Health Dialog delivered the first health coaching programme in France for diabetes patients for the national health insurance body, Caisse Nationale de l'Assurance Maladie des Travailleurs Salariés (CNAMTS)

The Bupa Cromwell Hospital

The Bupa Cromwell Hospital is a 128 bed London hospital caring mainly for health insurance, self pay and international customers In the first half of the year, revenues were impacted by a fall in the number of international patients, who were unable to fly to the UK due to the volcanic ash cloud Revenue growth rebounded in the second half, as international patient volumes returned to normal levels

Strategic overview and outlook

With economic conditions remaining challenging in many of Europe and North America's key markets, the division's strategy in 2011 is focused on customer retention, operational efficiency and the delivery of differentiated and compelling products and services Through development and innovation, the division will bring Bupa's healthcare partner capabilities and funding expertise to a wider audience

In the UK, BHW will support the delivery of this strategy by introducing a new menu based range of health insurance products to provide customers with greater choice and flexibility, supported by a new brand advertising campaign The business will continue to enhance service levels and develop closer relationships with customers, including the development of services to help customers manage their health conditions and a range of digital tools to engage with customers about their healthcare needs online

In Spain, Sanitas will continue to focus on leveraging its integrated business model, which combines insurance and provision assets, to offer real differentiation in a highly competitive marketplace The business will launch a new range of products in 2011 and continue to develop its Healthcare Partner programmes, which provide a tailored set of services focused on customers' major health concerns Growth will also be supported by the development of Sanitas' network of hospitals, 'Milenium' and dental centres

In the US, as the new healthcare reforms take effect, Health Dialog will increase its differentiation through the development of new products to meet the changing demands of the market that require health insurers and businesses to make measureable improvements in the quality of healthcare and reduce costs Health Dialog will also continue to develop its international capabilities, growing its business in Australia, France and Spain

The Bupa Cromwell Hospital is focused on becoming a centre of excellence in London for patient experience and clinical outcomes This is being supported by a major redevelopment plan, involving the installation of specialist medical equipment and new management systems, as well as the extensive refurbishment of the hospital

INTERNATIONAL MARKETS

Bupa's International Markets division consists of domestic health insurance businesses in Australia, Asia, and the Middle East, and international health insurance businesses, Bupa International and Bupa Latin America

Results overview

The International Markets division delivered an excellent performance in 2010, with revenues increasing by 20% and surplus up 31% This performance was driven by strong growth in Bupa Australia and favourable

2. Review of the business – continued

foreign exchange movements, primarily due to the strong Australian dollar Growth in surplus, excluding the impact of foreign exchange movements, was 20%

Customer numbers grew strongly across the division by 6% with the most notable increase in Bupa Arabia, an associated company, which reached one million customers, and in Bupa Australia

Bupa Australia

Bupa Australia is the largest privately owned health insurer in Australia, serving the healthcare needs of 3 2m people The business serves customers through the MBF, HBA and Mutual Community brands

Bupa Australia delivered a strong financial performance and completed the integration of MBF In July, the business moved to one operating system and, in the second half of the year, introduced a single product suite Revenue and surplus increased as health insurance customer numbers grew by 3% and the business improved its loss ratio and achieved back office synergies This increase in surplus was after final integration costs of £17 7m (2009 £12 4m) and a one off stamp duty levy of £10 9m on the integration of three separately registered health funds into one single Bupa Australia fund

Customer focus remained central throughout the integration, with the business maintaining its high customer satisfaction rating The business is increasingly working with customers to help them develop healthier lifestyles and to offer them quality evidence based information on treatments As part of this strategy, Bupa Australia has formed an alliance with the Genesis Heart Care Group, the largest group of private cardiologists in Australia, providing patients with information on cardiology services to help them discuss their healthcare choices with their doctor

In June, Bupa Australia sold its non-core life insurance and wealth management businesses in order to focus on healthcare The business also acquired Peak Health, a corporate wellness business, and the remaining 50% of Health Eyewear, a chain of optical stores

Bupa International

Bupa International is the world's leading provider of international health insurance It provides individual and group medical cover to customers in more than 190 countries

Continued economic uncertainty impacted the overall international health insurance market, although this was not a global story with markets such as Asia and the Middle East continuing to perform well By the second half of 2010, there were early indications that corporate confidence was returning, particularly in the oil and gas sector Against this mixed backdrop, Bupa International experienced a marginal decline in customer numbers, driven by the repricing of certain accounts that did not offer appropriate profitability, and recorded a small decline in surplus

Bupa International focused on customer retention, further improving customer service levels and extending its proposition for customers, such as introducing a second medical opinion service for customers and launching cover for pre-existing conditions that were previously excluded

Hong Kong

Bupa Hong Kong's health insurance business delivered a very good performance, increasing surplus and revenue as customer numbers grew 12% This was driven by excellent customer service and retention, as well as investment in award winning advertising to support sales to individuals

Thailand

Bupa Thailand experienced good growth in customer numbers of 9%, despite political instability during the year, driven by strong sales and good customer retention in the corporate and SME sectors Surplus rose in line with customer growth and through careful management of the cost base

2 Review of the business - continued

Latin America

Bupa Latin America is the largest international health insurer in the region The business improved its revenues and profitability while maintaining its customer numbers During 2010, Bupa Latin America invested in developing its operational infrastructure and successfully migrated a significant portion of policies onto a new operating system

India

Max Bupa, our health insurance joint venture in India, was launched in April By year end, the business had opened offices in nine cities and established a network of over 700 hospitals across the country

'Heartbeat', Max Bupa's product for customers across all life stages, secured over 27,000 customers The business will be launching a series of new products in 2011 to broaden its offer to new customers

Saudi Arabia

Bupa Arabia, an associate of the Bupa Group, had another very good year, as it continued to benefit from both a robust economy in Saudi Arabia and legislation requiring expatriates to hold private health insurance New entrants made the market increasingly competitive in 2010, but Bupa Arabia distinguished itself through outstanding customer service The business achieved growth in surplus as customer numbers rose 19% to reach over one million, with strong new corporate sales and good retention in the corporate and SME sectors

Strategic overview and outlook

International Markets will pursue growth in 2011 through a strategy focused on quality, highly differentiated products and services and exceptional customer service in all of the markets in which it operates

Following the successful integration of MBF, Bupa Australia has laid the foundations on which to build an increasingly differentiated proposition The business will focus throughout the year on expanding into products and services that complement its existing business and adding value for customers

Bupa International is seeking to grow customers in all segments, by tailoring its products to the needs of customers in specific regions and through market specific partnerships In early 2011, this will include the launch of a partnership with insurer Alltrust to provide international private health insurance to customers in China

Bupa Hong Kong, the only specialist health insurance business in the market, is focused on the delivery of exceptional customer service and distinguishing itself as a health insurance expert This strategy will be supported by the launch of new products and further investment in technology to improve customer experience and operational efficiency

In Thailand, Bupa is focused on growing its customer base, by continuing to develop differentiated, value based products To support this strategy, the business is looking to increase its distribution channels and raise public awareness of the Bupa brand through investment in marketing

In Latin America, Bupa is focused on consolidating its leadership position in international health insurance in the region, particularly in Mexico

Max Bupa's ambition is to become India's most admired health insurance company, delivering high quality products and services to its customers In 2011, the business will look to accelerate customer growth through the launch of new products and a multi-channel distribution strategy

In 2011, Bupa Arabia is looking to build on its strong market position and reputation for superior service to support continued profitable growth It will do this by expanding its distribution network, further enhancing customer service and improving awareness of Bupa's brand and healthcare expertise

2. Review of the business – continued

CARE SERVICES

Bupa's Care Services division is a world leading care homes operator providing nursing and residential care to more than 29,000 residents in over 430 care homes in the UK, Spain, Australia and New Zealand

Results overview

Bupa Home Healthcare (BHH), which provides out-of hospital care to the NHS, was incorporated into the division during the period, as the Group sees opportunities for the business to work with Bupa Care Homes UK in providing services to the NHS

Care Services continued to perform well despite increasing pressure on public sector budgets, notably in the UK, where the impact of both the Comprehensive Spending Review and White Paper on Health produced uncertainty within local government and the NHS This impacted aged care fees and referrals, as well as new business in BHH The division benefited, however, from more benign economic conditions in Australia and New Zealand

In this environment, Care Services focused on managing occupancy and costs to maintain profitability Revenues for the division increased, driven by a strong performance in Australia, New Zealand and Spain Surplus was marginally ahead on the previous year and occupancy was maintained at 88 2% (2009 88 3%)

Bupa remains committed to developing its portfolio of care homes Over £77m was invested in building, extending or refurbishing homes to provide high quality care Four new care homes were opened and a further four care home extensions completed, adding a total of 467 new beds across the division Bupa also continues to retain freehold ownership of 80% of its care homes

Bupa Care Homes UK

In the UK, Bupa cares for over 18,000 residents in 305 homes, over 70% of whom are funded wholly or in part by local authorities and primary care trusts (PCTs)

Overall occupancy was 88 0% (2009 88 4%), while occupancy from mature homes increased slightly to 88 5% (2009 88 4%) Revenues grew and surplus was maintained despite public authority funding restrictions, with the average local authority fee increase across England from 1 April 2010 just 0 5%

This unsustainably low level of funding increase reflects the current pressure on public sector budgets Research commissioned by Bupa shows that continuing local authority spending cuts will inevitably lead to a significant shortfall in care home places and a potential bed blocking crisis for the NHS The business is therefore calling for the £2bn allocated for adult social care by the UK government to be ring fenced immediately, rather than be directed to plug holes in other areas of local council budgets

Bupa is actively contributing to the UK government's Commission on Funding of Care and Support in England, which is tasked with proposing a new, sustainable funding system that will meet the demands of the growing number of older people for the longer term and is due to report in the second half of 2011 The business also submitted responses to consultations by the All-Party Parliamentary Group on quality standards for dementia and to the Care Quality Commission on its plans for 2010-2015

In 2010, two new specialist dementia care homes were opened in Southampton and in Church Crookham, Hampshire, one care home extension was completed in Cobham, Surrey and 23 homes were refurbished A further new care home in Ashford and a care home extension at Newbury will open early in 2011

Throughout the year, Bupa Care Homes UK demonstrated its commitment to investing in the training and development of its staff The business launched its "Person First, Dementia Second" specialist training programme and nearly 3,000 employees were trained to deliver high quality end of life care, through Bupa Care Services' partnership with the Marie Curie Palliative Care Institute

This investment in its workforce resulted in the business securing a number of awards, including 'Daily Mail Care Home Carer of the Year' and 'Outstanding Dementia Care Support Worker' at the National Dementia

2 Review of the business – continued

Care Awards The quality of Bupa's care was also recognised by its highest ever resident satisfaction levels, with 74% rating the quality of care they receive as 'excellent' or 'very good'

New business opportunities for BHH were impacted by the White Paper on Health, which produced uncertainty within the NHS The business invested in higher growth and higher margin products, such as home infusion and pharmacy services, and divested less profitable contracts

Bupa Care Services Australia

Bupa Care Services Australia provides aged care for more than 3,700 residents in 47 homes

Occupancy levels remained high at 93 9% (2009 95 5%), despite the addition of new capacity, and revenues and surplus increased, supported by good control over costs

The business also contributed to the inquiry on Caring for Older Australians by the Productivity Commission Draft recommendations were published in January 2011 and the business will be working with the government and other industry organisations to ensure funding and availability of high quality nursing care is at the forefront of the aged care agenda in Australia

The business opened a new home in Berry and a significant extension at Tamworth Investment in care home development is set to continue in 2011, with around 200 new beds due to be added by year end

Customer satisfaction levels were excellent, with 92% saying they would recommend Bupa Care Services Australia

Bupa Care Services New Zealand

Bupa Care Services New Zealand delivers care and services to 3,700 residents in 44 care homes and retirement villages It also provides telecare services via a personal alarm network

Despite fee increases for aged care coming under pressure, the business achieved excellent occupancy levels of 93 5% (2009 92 1%) and delivered growth in surplus and revenue This was supported by excellent management of costs and increased surplus from retirement villages due to higher value sales and an increase in the valuation of the village properties

Two care home extensions and a village development were completed in 2010 and a home was acquired in Auckland, which will open in 2011 following comprehensive refurbishment The development pipeline is strong, with five major care home and village extensions under construction at year end

Customer satisfaction levels were excellent with 93% saying they would recommend Bupa Care Services New Zealand

Sanitas Residencial

Sanitas Residencial operates 41 care homes and cares for over 4,100 residents throughout Spain

An unprecedented level of public spending cuts imposed by the Spanish government to reduce the budget deficit slowed the growth of the aged care system in 2010 and resulted in fewer public tenders, a freeze on fees in some areas and an increase in competition for privately funded residents

In this context, Sanitas Residencial delivered robust results as it continued to fill recently completed care homes Occupancy levels increased to 81 4% (2009 80 2%), and when coupled with good control over operating costs, surplus increased

The business opened a new home in Madrid during the period and a fully refurbished home of 167 beds is due to open under a rental agreement in 2011

2. Review of the business – continued

Strategic overview and outlook

Bupa Care Services is focused on maintaining its position as a world leading care homes operator, providing high quality aged and dementia care

In 2011, we anticipate continued momentum in Australia and New Zealand, supported by favourable economic conditions in these markets However, with the funding of aged care under review, particularly in the UK and Spain, Care Services will manage occupancy and control costs carefully to maintain profitability

The division will also continue to demonstrate its leadership in aged care by providing input to governments to help shape social care policies, investing in specialist training for staff and developing its care homes portfolio in order to provide the best possible environment for care

In the UK, the care homes business is focusing on growing occupancy levels, particularly with private pay customers, strengthening relationships with key partners in the NHS and local authorities, and continuing to develop and invest in its property portfolio

Bupa Home Healthcare is looking to build its presence in the UK as a leading out-of-hospital care provider for NHS patients, particularly in complex care and home infusion services

In Australia and New Zealand, Bupa enjoys a strong care home development pipeline and both businesses continue to focus on maintaining their excellent occupancy and customer satisfaction levels

Sanitas Residencial is focusing on driving occupancy in new homes and increasing the proportion of privately funded residents, while implementing operational efficiencies

FINANCE REPORT

There was good growth in underlying surplus of 18% to £514 9m and a further strengthening of the Group's funding position

Trading activities

We use underlying surplus before taxation as our key performance measure when discussing the results of the Group We believe that this measure provides a meaningful view of the results without distortion from items that impact comparability, as shown in the table below The underlying surplus before taxation grew by 18% reflecting growth in International Markets and BHW Detailed information on the divisional achievements is contained in pages 4 to 10

The significant items that impact statutory surplus before taxation which are excluded from underlying surplus are discussed below In addition, we comment on financial income and expenses, taxation and the balance sheet, funding and solvency position

	2010 £m	2009 £m	Growth %
Surplus before taxation expense	168 0	423 7	(60%)
Exclude			
Gain on return seeking assets	(13 2)	(52 2)	
Impairment of goodwill arising on business combinations	249 2	-	
Amortisation and impairment of intangible assets	52 4	54 2	
Deficit arising on revaluation of property	35 1	16 2	
Loss / (profit) on sale of businesses and assets	18 1	(20 0)	
Other items	5 3	13 5	
Underlying surplus before taxation expense	514 9	435 4	18%

2 Review of the business – continued

Items excluded from underlying surplus

Impairment of goodwill

As a result of our annual impairment testing, we have identified the need to write down the carrying value of goodwill arising on acquisition in respect of Health Dialog, The Bupa Cromwell Hospital and Bupa Home Healthcare

Over the last two years, Health Dialog has experienced a reduction in the number of lives served in the US due to rising unemployment The continuing challenges faced by the US economy and uncertainty surrounding the enacted healthcare reforms have constrained our ability to win significant new business This has adversely impacted our financial forecasts for the business, resulting in an impairment charge on goodwill of £158 8m

We acquired The Bupa Cromwell Hospital as part of our strategy for the London market in order to provide a flagship asset to provide high quality treatment for all patients in this market The Group is investing more than originally expected to develop the hospital and, as a result, is taking an impairment charge against goodwill of £53 7m

A significant portion of BHH's business comes from sales to the NHS Due to the uncertainty around future funding for the NHS arising from the UK government's White Paper on Health, we have reduced our expectations of future growth resulting in an impairment charge of £36 7m

Not withstanding these revisions to future cash flow forecasts, all three businesses remain integral to our strategy and we continue to explore all means by which future financial performance can be improved

Amortisation and impairment of intangible assets arising on business combinations

Amortisation of intangible assets arising on business combinations relates to our previous acquisitions and totalled £34 7m (2009 £34 9m)

As part of the triennial valuation of the care home property estate, we have written down the value of related intangible assets, including bed licences and licences to operate care homes In addition, we have written off the value of a distribution agreement that terminated on the disposal of MBF Life and Clearview The aggregate charge for the impairment of these intangible assets amounted to £17 7m (2009 £11 7m)

Revaluation of property

On a triennial basis, Bupa obtains an external market valuation of its property portfolio and in the intervening years prepares a directors' valuation In 2010, Bupa revalued its entire care home portfolio resulting in a net uplift in value of £46 1m In general, any upward revaluations are taken to reserves, and any reduction in the value of individual properties below historic cost is taken to the income statement The total charge taken to the income statement for 2010 was £35 1m (2009 £16 2m)

Loss on sale of businesses and assets

The loss on sale of business and assets of £18 1m primarily relates to the disposal of non-core businesses MBF Life and Clearview, and BHA, and is reported within other (charges) / income

Gains on return seeking assets

Gains from our return seeking asset portfolio amounted to £13 2m (2009 £52 2m) due to the continuing recovery in the value of the various credit funds in the portfolio Income from the return seeking asset portfolio is excluded from our underlying results, as the volatility in market values and investment performance distorts comparability between years

2. Review of the business – continued

At 31 December 2010, the return seeking asset portfolio represented 7% (2009 6%) of total cash and financial investments and is invested primarily in funds holding investment grade bonds and loans

Financial income and expenses

Net financial income decreased to £21 7m (2009 £51 1m) due to the full year effect on interest expense of the 7 5% bond issued in June 2009 and lower gains on the return seeking asset portfolio, partly offset by higher financial income on cash investments in Australia

Cash generated from operations continued to be used to pay down bank borrowings and reduce interest expense In 2010, excluding net gains on return seeking assets, our net financial income was £8 5m compared to a net financial expense of £1 1m in 2009

Taxation

Taxation expense of £137 0m (2009 £113 7m) represents an effective rate of 82% (2009 27%) The headline effective tax rate is distorted due to the impairment of goodwill and intangible assets, the loss on sale of businesses and assets, and other items which do not qualify for taxation relief The effective rate, based on the underlying surplus of £514 9m is 27% (2009 26%) which is broadly consistent with the UK corporation tax rate of 28%

Balance sheet

We maintain a strong balance sheet through rigorous financial planning and a conservative approach to leverage Our long-term financial strategy is to facilitate growth within our risk appetite

This approach is designed to ensure continued compliance with borrowing covenants and with solvency requirements in our regulated businesses Our financial strength is a function of operating cash flows combined with the benefits of our status as a company without shareholders, which allows all surpluses to be reinvested in the business During 2010, leverage decreased from 26% to 22% (on a debt / debt plus equity basis) as the Group repaid bank debt using cash generated in the period This level of leverage is well within our Board approved risk appetite and we expect that operational cash flows will be available for further repayment of borrowings in the near future The solvency positions of our regulated companies and of the Group as a whole are routinely monitored against the requirements of local regulators and of the UK's Financial Services Authority (FSA)

Balance sheet management

Financial risk management is carried out by the Group Treasury department, which is responsible for cash and debt management as well as all hedging activities Our goal is to ensure that there is adequate funding to allow the Group to meet its obligations, manage interest rate risk and foreign currencies and protect our financial assets

In addition, the Group and each of the regulated companies complied with all externally imposed capital requirements during 2010

Credit ratings

Our goal is to operate within a targeted range for leverage and interest cover ratios which are designed to support an investment grade rating These ratios are monitored and reported to the Board on a regular basis, with sensitivity analysis carried out to provide early warning of any potential issues

The Bupa Group as a whole is not rated by any rating agency, although individual debt issues and various regulated insurance companies within the Group do have a public rating

2 Review of the business – continued

The principal debt ratings relate to the senior, unsecured bonds issued in 2009, secured loans in the care homes business and the callable subordinated perpetual guaranteed bonds

During the year, Fitch affirmed Bupa Finance plc's senior unsecured rating at A- and revised the outlook from negative to stable All other key ratings remained constant during the year

Cash flow and financing

Strong cash flows generated from operations of £586 5m (2009 £523 7m) reflect the growth in underlying business The Group invested £149 1m in capital expenditure, paid down £223 9m of interest bearing liabilities and invested the balance in cash deposits and financial investments

The Group's main source of funding comes from a £900m committed bank facility, negotiated in June 2010, which matures in September 2013 Funding headroom under the committed facility was £696 8m at 31 December 2010

Cash and other financial assets

We hold cash and other financial assets principally to meet the liabilities and solvency requirements of our regulated insurance subsidiaries Cash and other financial investments totalled £2,847 8m (2009 £2,694 4m) at 31 December 2010

Interest bearing liabilities

At 31 December 2010, Bupa had total interest bearing liabilities of £1,288 8m (2009 £1,490 6m), which consisted primarily of bank borrowings, secured loans and bonds

Foreign exchange

Approximately 66% (2009 67%) of net assets are denominated in foreign currencies The principal foreign exchange translation exposures arise on the Australian Dollar, the Euro and the US Dollar Overall, 24% (2009 22%) of the Group's net asset exposure was hedged using foreign currency borrowings and currency forward contracts

The net increase in the foreign exchange translation reserve was £322 6m (2009 £209 1m) and represents the increase in the value of the underlying net assets of the Group's overseas subsidiaries, net of hedging Much of the increase in reserves reflects the appreciation in 2010 of the Australian Dollar against Sterling

Solvency II

Bupa Group, as well as our regulated insurance subsidiaries in the UK and Spain, will be subject to the requirements of Solvency II from 1 January 2013 The regulation imposes new requirements for solvency capital, governance and risk management, as well as external reporting

Solvency capital requirements will be linked more closely to the risks that the business faces and increased public disclosure will enhance transparency to stakeholders

Bupa has established a multi-disciplinary programme to assist all businesses across the Group with the implementation of Solvency II The Board's involvement with the programme includes direct engagement on all key programme decisions and training sessions to develop its understanding and awareness

We believe that Solvency II is positive for the industry as it will improve understanding and confidence across the European insurance sector

Relative to other insurance segments, Bupa believes health insurance has a lower level of risk On this basis, we continue to engage with European policymakers and regulators to support the development of regulations which reflect fairly and are proportionate for a mixed health insurance and healthcare provider such as Bupa

2. Review of the business – continued

Conclusion

We delivered a strong performance in 2010 in mixed economic conditions across our key markets Our underlying surplus has increased, reflecting our international diversification, the strength of our brands and attractive market positions Business performance was underpinned by strong cash flows from operations and a healthy balance sheet which provides a firm basis for growth in the future

BUSINESS RISKS AND UNCERTAINTIES

Balancing risk and reward is an integral part of running a successful business Bupa, like all large, complex companies, has to identify and manage a range of business risks in order to achieve its objectives Outlined below are the Group's processes for managing risks, its key areas of risk and how it mitigates them

Risk management framework

The Bupa Risk Management Framework was agreed and approved by the Bupa Board in 2009 and outlines Bupa's approach to risk management across the Group At the heart of the framework is the requirement for the various business units to periodically identify and quantify the key risks they face and to assess the effectiveness of control strategies to mitigate the risks to an acceptable level

The Bupa Risk Management Framework assesses risks under five broad headings

Strategic risks – specifically focused on the economic environment, the products offered, Bupa's channel / markets and brand

Insurance risks – those risks associated with providing insurance products including underwriting, pricing and claims, reserving and reinsurance

Financial risks – risks associated with the financial operation of the Group including capital management, investments, liquidity and credit

Clinical risks – those risks associated with the provision of healthcare services to Bupa's customers

Operational risks – those risks associated with inadequate or failed internal processes, people and systems, or from external events

Our risk management process

1 Monitoring and management

Bupa's risk appetite statements are set by the Board and provide a benchmark against which to identify risks that are outside Bupa's tolerance Risk monitoring is further aided by a suite of key risk indicators that provide an early indicator of an adverse shift in risk exposure Risks are assessed on a quarterly basis in line with good practice and are reviewed and challenged by the Group Risk team

2 Assessment

Each Quarterly Risk Assessment (QRA) seeks to identify the key risks faced by the business, the residual likelihood and impact of the risk based on the existing controls and an evaluation of the level of risk against management's risk appetite Stress tests, including reverse stress tests, are performed to assess certain risk scenarios and their potential impact on the Group, as well as identifying scenarios which could lead to insolvency

3 Evaluation

The output of the QRA forms the basis for the Chief Risk Officer's report which is presented to the Group Audit, Risk & Compliance Committee quarterly The report presents a view of the key risks faced by the Group, trends that present themselves across the business and a view on the action plans that are in place to mitigate identified risks The Chief Executive's Committee (CEC) is apprised frequently of the key risks identified via the QRA process

2 Review of the business – continued

4 Action plans

Actions required to bring risks within tolerance levels are assigned specific owners, with the nominated risk owner responsible for ensuring they progress appropriately Progress on actions is monitored as part of the QRA process with performance against plan reported to local management on a regular basis and by local management to the Group Board

Risk and mitigation

Strategic

Business environment, government policy and development of the healthcare system

Impact
Many governments are reviewing their approaches to healthcare and funding provision and the involvement of the private sector Such changes to government policy may have an impact on Bupa's businesses in a number of geographies and market sectors

Mitigation
Bupa actively monitors the changing political environment across all areas of operation and, where possible, seeks to engage with relevant government officials The Care Services division actively monitors demand and fee levels for residential care and responds appropriately where levels are consistently low In the face of these pressures, opportunities for cost savings are identified

The geographic spread of Bupa's operations reduces the organisation's exposure to significant changes in government healthcare policy within any one country

Competition

Impact
Private medical insurance markets are increasingly competitive as companies diversify in search of profits A number of new entrants has entered the market in recent years, with many seeking to compete on price and often offering products with more limited benefits

Mitigation
Bupa keeps its competitive position in each of its markets under continuous scrutiny, regularly reviewing competitor activity, and strategic and tactical objectives The Board and senior management monitor performance via key indicators such as trend data, customer satisfaction results and monthly financial results

Insurance

Underwriting, pricing and claims

Impact
Bupa's insurance businesses face the risk that unexpected variations in the frequency, size or timing of claims will lead to variations in financial returns By virtue of being in the healthcare insurance business, Bupa is exposed to a number of factors affecting its insurance risk These include macroeconomic trends, medical inflation, shifts in demographics, changes in population health, developments in healthcare technology, natural catastrophes and statistical fluctuation

Mitigation
Bupa manages its insurance risks by the use of advanced analytic models of products and prices, controls on underwriting and claims settlement, clarity over policy contract definitions, and internal and external actuarial reviews Customers purchase our products primarily to cover the costs of unexpected acute illness The majority of Bupa's insurance business covers costs for conditions in a prospective twelve month period which enables regular pricing review in the event of changes in claims trends

2. Review of the business – continued

__Financial__

Capital and solvency

Impact
Solvency II will require all insurance businesses to reconsider their approaches to capital management and their overarching governance regimes This will have particular relevance to Bupa due to the unique nature of its mixed activity operations

Mitigation
Bupa has established a dedicated Solvency II programme team with work streams created to ensure that robust and proportionate solutions are embedded throughout the organisation in line with regulatory requirements Bupa is actively involved in lobbying the relevant regulators to ensure that Solvency II requirements appropriately take into account mixed activity insurance firms such as Bupa

Investment

Impact
Bupa had financial investments and cash equivalents totalling £2 85bn at year end Failure to manage these assets effectively may result in financial loss and a reduction in Group solvency

Mitigation
Most of the investments are managed by the Group's Treasury department in London under the supervision of the Treasury and Investment Committee, chaired by the Group Finance Director Most of the investments are held in cash, exposure to individual counterparties is restricted and generally deposits are not held with institutions without two credit ratings of AA-/Aa3 or better by the major credit rating agencies A small percentage of the Group portfolio is invested in return seeking assets, which may be volatile during periods of market stress or dislocation The return seeking asset portfolio is managed within a risk budget framework using Value at Risk methodology

Funding

Impact
Bupa supports its current operations and future growth from a combination of internally generated profits and externally raised debt The Group needs to maintain good access to a variety of funding sources to ensure that short-term and long-term liquidity is maintained

Mitigation
Bupa commits to maintaining an appropriate level of undrawn headroom through a £900m committed bank facility which expires in September 2013 In addition, Bupa has access to a variety of debt capital markets including the senior and hybrid bond markets Bupa is committed to maintaining an appropriate investment grade rating and monitors key financial ratios, such as gearing and interest cover

__Clinical__

Clinical governance

Impact
Bupa is dedicated to ensuring its customers are treated and cared for according to evidence based best practice, high patient safety and clinical standards Failure to fulfil these obligations could lead to significant financial, regulatory and reputational impact

Mitigation
All key business units have a medical director responsible for ensuring clinical quality and governance within the business They are professionally accountable to the Group Medical Director (GMD) for clinical governance, the GMD has been nominated as the senior manager, independent from the businesses, who takes overall responsibility on behalf of the Group, for the oversight of systems and controls relating to clinical governance The Board has a Medical Advisory Panel (MAP), chaired by Professor Sir John Tooke,

2. Review of the business – continued

which advises it on medical issues and considers external perspectives from a number of leading clinicians and health professionals to help inform and develop Bupa's approach The GMD provides a quarterly report on clinical governance to the MAP with an annual report also going to the Board, this annual report makes commendations and recommendations for improvements The MAP receives summary information regarding clinical incidents and the results of clinical audits undertaken across the Bupa Group

Operational

Provider costs

Impact
Bupa's insurance customers benefit from high quality, cost effective services procured from a wide range of providers including hospitals and consultants In the face of inflationary pressures, there is a risk that increasing provider charges will lead to substantial increases in premium rates and customer dissatisfaction

Mitigation
Bupa's policy is to work with its providers to maintain and improve quality while containing the cost of procuring medical services This includes, where possible, the use of contracts, preferred supplier arrangements and case management techniques

Regulatory

Impact
Bupa serves customers in more than 190 countries and could, therefore, be affected by changes in financial, clinical and health and safety regulations in a number of countries This could affect the way it carries out business and, in certain cases, might increase costs or reduce revenues

Mitigation
Bupa seeks to operate to high regulatory standards and to maintain an awareness of and, where possible, anticipate regulatory change Bupa's principal financial regulator is the UK's Financial Services Authority, with which Bupa senior managers maintain a close working relationship

People

Impact
As Bupa changes and grows, it needs to make sure it has the right people to move the Group forward The Board views the development and training of Bupa's people, and the recruitment of experienced individuals from outside the Group, as central to the organisation's future success

Mitigation
Bupa has sound selection, evaluation and reward processes to recruit, develop, recognise and motivate strong performance and has a structured succession planning process

Change management

Impact
Like all major organisations, Bupa has an ongoing programme of change and development to drive continued improvement in the products and services it provides Should these changes be managed ineffectively, the risk of failure to deliver the intended benefits may be increased

Mitigation
Bupa mitigates the risk inherent in change by having stringent change management procedures Major project expenditure on new developments is approved by the Board following a rigorous assessment of plans Professional programme management resources are used and the internal audit function reviews the impact of major changes on Bupa's operational controls Progress on key projects is reviewed by the Audit, Risk & Compliance Committee or the Board

2 Review of the business – continued

Information technology

Impact
The services provided by each of Bupa's businesses are underpinned by information technology systems and infrastructure that enable the delivery of core processes and products Failure of these systems may reduce the ability of Bupa to deliver products and services to its customer base or increase the risk of information security breaches

Mitigation
Bupa has a number of dedicated IT teams who are responsible for the development, maintenance and monitoring of IT services A programme of work is in place to ensure the continued development and enhancement of all IT services to provide the levels of services required by the business and adequately protect sensitive customer and business data Bupa has a dedicated information technology risk management function which monitors and manages specific risks across the information technology estate, reporting to both senior management and Group Risk on a routine basis

SUSTAINABILITY REPORT

The World Health Organisation estimates that, by 2020, chronic disease will account for almost 70% of ill health and death, impacting people's lives and the sustainability of healthcare systems With people living longer than ever before, this brings new challenges – such as funding care for older people without compromising the quality of life of the next generation Keeping people well and empowering them to change behaviour is our core sustainability commitment to help address these challenges

During 2010, Bupa invested in a wide range of projects to keep people well, both directly and through the Bupa Foundations (independent charitable organisations funded by Bupa), including

Australia Kidfit Triathlon
In Australia, over 12,000 children aged 7-15 were involved in Bupa Australia's Kidfit Triathalon series during 2010 Most children undertook exercise to prepare for the event and over 40% enjoyed changes in behaviour

UK Great North Run
The Bupa Great North Run is the world's largest half-marathon, with over 54,000 people taking part in 2010 One of the longest running sports partnerships in the world, the Bupa Great Run series raised over £28m for charity in 2010 and helped tens of thousands of people stay well by keeping fit

Spain Inclusive Sport
The Sanitas Foundation promotes inclusive sports activities and research through a number of activities, such as the Strategic Alliance for Inclusive Sport The Alliance endeavours to improve the health and quality of life of people with disabilities

International Partnering on Alzheimer's
Our partnerships with Alzheimer's charities in the UK, Australia and New Zealand have supported progress on care for people living with dementia

Supporting a healthy planet

We are helping people to take actions that are good for their health and the environment, and we are reducing our carbon footprint

Changes in the Earth's climate are already having a major impact on human health, affecting food prices, the spread of disease, and the availability of clean and safe water Supporting a healthy planet is our second sustainability commitment

2. Review of the business – continued

During 2010, Bupa reduced its corporate carbon footprint by 2% We mapped our carbon hotspots, and focused attention on our care homes – which make up 69% of our overall footprint Our care services business will invest around £1 5m in carbon reducing technology in 2011, including a low carbon care home where new solutions to dramatically reduce our footprint will be explored We are also identifying new ways to engage our people, and customers, in win-win actions to support healthy people and a healthy planet

Our sustainability strategy

In 2010, the Bupa Board agreed a new strategic approach to sustainability that builds on Bupa's strong history of philanthropy, volunteering, and funding for independent charitable foundations A new Group Sustainability Committee was formed to sponsor and drive progress, and sustainability champions at director level were appointed in each of our businesses An ambitious set of global commitments and goals, alongside a roadmap for delivery, has been developed to keep people well and support a healthy planet This will also contribute to fulfilling Bupa's purpose of helping people live longer, healthier, happier lives, and becoming a healthcare partner beyond our current customer base

Partnering with our people

We know that to be seen as a healthcare partner to our customers requires a diverse group of talented people working in an environment in which they can deliver their very best every day for our customers and reach their own potential

We value being accountable, caring, respectful, ethical, enabling and dedicated in our interactions with each other and in providing services for our customers

We employ nearly 51,000 people in roles including medical professionals, health coaches, residential aged care workers, chefs, call centre operators and professionals in a range of disciplines from IT to sales, marketing, finance and general management

We offer challenging, rewarding careers at all levels in a sector that really makes a difference to people Many employees are proud to work for Bupa for its market leadership and the trust and respect associated with the brand

Development and opportunity

We are committed to creating competitive advantage by attracting, developing, motivating and retaining passionate, talented people who deliver on the company's business strategy We begin by recruiting people that fit our culture and capability requirements

For the last eleven years, we have run a graduate programme which operates across Bupa In 2010, we welcomed 13 graduates to the business on four different programmes, general, finance, marketing and technology The three year retention rate is 74% and many of our graduates now hold senior positions in the company In 2010, we received approximately 100 applications for every graduate position offered

Contribution and recognition

In 2010, Bupa continued to recognise innovation and excellence at all levels through our One Life Recognition Scheme More than 2,000 employees from all over the world received excellence awards Over 1,000 employees participated in our suggestions scheme, which recognises innovation and business improvement suggestions In the last nine years, Bupa has implemented over 2,000 ideas which have delivered an estimated £9 2m in financial benefits for the Group

The Bupa One Life Recognition Scheme is accredited through IdeasUK, the professional body for best practice of recognition schemes, which is affiliated with other professional bodies around the world In 2010, for the fourth consecutive year, our scheme was accredited with PLATINUM status (the highest level achievable)

2 Review of the business – continued

Diversity

The principles of diversity and inclusion are firmly established at the core of our business We recognise that a diverse and inclusive organisation attracts talent that reflects Bupa's customer base and makes good business sense

The employment of people with disabilities is part of Bupa's commitment to diversity and the recruitment, training, career development and promotion of people with disabilities is based on the aptitudes and abilities of the individual Should employees become disabled during employment, Bupa is committed to making every effort to continue their employment and providing appropriate training as necessary

Health and safety

Bupa has continued to develop and promote a good health and safety culture across the business General employee accidents for the Group increased from 7,065 to 7,113, however, the accident ratio for 2010 reduced by 0 07 over the 2009 ratio to 3 66 per 100 employees

The number of RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) for the UK only rose from 109 in 2009 to 111 in 2010 The RIDDOR ratio for 2010 was 0 06, which has remained the same as the 2009 ratio There were no reported employee fatalities in the year

Engaging employees

For our customers, Bupa employees are the company, so we make sure they are informed, regularly sharing news on key business developments and financial performance through a network of channels including magazines, video podcasts, roadshows, small group forums, seminars and briefings

We highly value the views and opinions of our employees and we have a number of methods for generating dialogue between management and employees including

- An annual employee opinion survey (called Surveying Our People) where we ensure that all views expressed by employees are properly evaluated and follow up actions taken
- Our employee collaboration community site, Bupa Live, has grown to more than 10,000 registered users, over 1,600 user generated groups, 4,000 discussions, 3,500 blogs, over 1,000 videos and 15,000 documents In 2010, Bupa Live won a DigiAward for Best Use of Social Media in Internal Communications
- Bupa Health and Wellbeing UK and Bupa Australia rolled out engagement events to thousands of frontline employees to begin the process of building understanding and commitment to the concept of being a healthcare partner to our customers

Looking ahead

Priorities for the year ahead include further aligning our people strategy to deliver the business strategy, communicating distinctive senior career propositions for people who work at Bupa and increasing our visibility as a destination employer

3. Results and dividends

The Group profit for the year, after taxation, amounted to £31 0m (2009 £310 0m) The Group paid dividends of £nil (2009 £nil) during the year

4 Directors

The names of persons who were Directors of the Company at any time during the year are as follows

N T Beazley
G M Evans
I J Goodacre
F D Gregory (resigned 21 June 2010)
S M Los (appointed 21 June 2010)
M A Merchant
T D Singer

5 International Financial Reporting Standards

The Group has prepared the consolidated group accounts in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) The Company is not required to report under IFRS and therefore the individual Company accounts, attached at Appendix I, are prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP)

6 Charitable and political contributions

During 2010, Bupa made charitable donations totalling £2 2m (2009 £2 0m) This included payments to the MBF Foundation of £1 8m (2009 £1 5m) and to the Sanitas Foundation of £0 4m (2009 £0 4m) No donations were made to overseas registered charities (2009 £0 1m)

The Group made no political donations in the year (2009 £nil)

7 Corporate governance

The Company was a wholly owned subsidiary of The British United Provident Association Limited (Bupa) throughout the year A statement on the Bupa Group corporate governance policies and the report of the Bupa Group remuneration committee are included in the Bupa Group's annual report and accounts

8 Employment policies

Details of the Bupa Group's employment policies, including policies on equal opportunities for disabled employees, are included in the Bupa Group's annual report and accounts

9 Directors' Indemnity

As at the date of this report, indemnities are in force under which the Company has agreed to indemnify the Directors, to the extent permitted, in respect of all losses in connection with the exercise of their duties and responsibilities, as Directors of the Company or any of its subsidiaries

10. Going Concern

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

11 Policy for paying creditors

It is the Bupa policy to pay its providers and other creditors promptly and in any event in accordance with agreed terms and conditions As a holding company, the Company itself has no trade creditors

12. Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

13 Auditors

In accordance with Section 485 of the Companies Act 2006, a resolution for the re-appointment of KPMG Audit plc as auditors of the Company will be proposed at the Annual General Meeting

Registered Office

Bupa House
15 -19 Bloomsbury Way
London WC1A 2BA

15 April 2011

By Order of the Board

N T Beazley
Secretary
Company Number 2779134

Bupa Finance plc
Statement of Directors' Responsibilities in Respect of the Directors' Report and the Financial Statements

The directors are responsible for preparing the Directors' Report and the group and parent company financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare group and parent company financial statements for each financial year Under that law they have elected to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their surplus or deficit for that period

In preparing each of the group and parent company financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU,
- for the parent company financial statements, state whether applicable UK 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 and the parent company will continue in business

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

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

Bupa Finance plc
Independent Auditor's Report to the Members of Bupa Finance plc

We have audited the financial statements of Bupa Finance plc for the year ended 31 December 2010 set out on pages 26 to 118 The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on page 24, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/private cfm

Opinion on financial statements
In our opinion

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2010 and of the group's surplus for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU,
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice,
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

Mary H Trussell

Mary Trussell (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
15 Canada Square
London E14 5GL
15 April 2011

Bupa Finance plc
Consolidated income statement
for the year ended 31 December 2010

	Note	2010 £m	2009 £m
Revenues			
Gross insurance premiums	2	**6,011 8**	5,443 5
Premiums ceded to reinsurers	2	**(90 8)**	(83 9)
Net insurance premiums earned		**5,921 0**	5,359 6
Revenues from life investment contracts		**7 9**	15 4
Revenues from service contracts		**3 5**	4 3
Care, health and other revenues		**1,643 6**	1,562 1
Total revenues	1, 2	**7,576 0**	6 941 4
Claims and expenses			
Insurance claims incurred	3	**(4,648 7)**	(4,222 4)
Reinsurers' share of claims incurred	3	**75 3**	61 8
Net insurance claims incurred		**(4,573 4)**	(4 160 6)
Decrease / (increase) in fair value of life investment contract liabilities	16	**9 9**	(96 6)
Return on financial investments backing life investment contract liabilities	16	**(10 1)**	96 6
Share of post-taxation results of equity accounted investments	13	**(0 7)**	2 8
Other operating expenses	4	**(2,534 7)**	(2 401 9)
Impairment of goodwill	10	**(249 2)**	-
Impairment of other intangible assets arising on business combinations	10	**(17 7)**	(11 7)
Other (charges) / income	6	**(53 8)**	2 6
Total claims and expenses		**(7,429 7)**	(6 568 8)
Surplus before impairment of goodwill, impairment of other intangible assets arising on business combinations, other (charges) / income, and financial income and expenses	1	**467 0**	381 7
Impairment of goodwill	1	**(249 2)**	-
Impairment of other intangible assets arising on business combinations	1	**(17 7)**	(11 7)
Other (charges) / income		**(53 8)**	2 6
Surplus before financial income and expenses		**146 3**	372 6
Financial income and expenses			
Financial income	7	**105 0**	125 2
Financial expenses	8	**(83 3)**	(74 1)
		21 7	51 1
Surplus before taxation expense	1	**168 0**	423 7
Taxation expense	9	**(137 0)**	(113 7)
Surplus for the financial year		**31 0**	310 0
Attributable to			
Bupa Finance plc		**25 2**	298 1
Non-controlling interests		**5 8**	11 9
		31 0	310 0

The notes on pages 47 to 106 form part of these financial statements

Bupa Finance plc
Consolidated statement of comprehensive income
for the year ended 31 December 2010

	Note	2010 £m	2009 £m
Surplus for the financial year		**31 0**	310 0
Other comprehensive income / (expense)			
Unrealised gain / (loss) on revaluation of property		82 2	(44 7)
Actuarial gain / (loss) on pension schemes	26	4 8	(2 9)
Realisation of foreign exchange on disposal of overseas subsidiary companies		1 6	(2 2)
Foreign exchange translation differences on goodwill		212 6	114 8
Other foreign exchange translation differences		150 5	142 5
Net loss on hedge of net investment in overseas subsidiary companies		(43 2)	(57 7)
Realisation of cash flow hedge on disposal of overseas subsidiary companies		(0 9)	-
Realisation of cash flow hedge on impairment of overseas subsidiary companies		2 8	-
Change in fair value of underlying derivative of cash flow hedge		(0 4)	(2 8)
Disposal of subsidiary companies		0 1	-
Other movements in non-controlling interests		(6 8)	-
Taxation (charge) / credit on income and expense recognised directly in other comprehensive income	9	(18 7)	16 1
Other comprehensive income for the year, net of taxation		384 6	163 1
Total comprehensive income for the year		415 6	473 1
Attributable to			
Bupa Finance plc		416 1	464 8
Non-controlling interest		(0 5)	8 3
Total comprehensive income for the year		415 6	473 1

The notes on pages 47 to 106 form part of the financial statements

Bupa Finance plc
Consolidated balance sheet
as at 31 December 2010

	Note	2010 £m	2009 £m
Non-current assets			
Intangible assets	10	**2,492 7**	2 575 6
Property, plant and equipment	11	**2,271 6**	2,134 5
Investment property	12	**120 3**	104 7
Equity accounted investments	13	**42 2**	38 4
Financial investments	15	**1,031 8**	541 9
Assets arising from insurance business	17	**4 4**	86 9
Deferred taxation assets	28	**-**	13 2
Other receivables	18	**309 8**	251 6
Post employment benefit net assets	26	**0 7**	0 2
		6,273 5	5,747 0
Current assets			
Financial investments	15	**1,127 0**	1,083 1
Assets backing life investment contract liabilities	16	**-**	830 5
Inventories	19	**19 9**	17 0
Assets arising from insurance business	17	**785 0**	833 9
Trade and other receivables	18	**870 0**	982 6
Assets held for sale	20	**351 5**	-
Cash and cash equivalents	21	**689 0**	1,069 4
		3,842 4	4,816 5
Total assets		**10,115 9**	10,563 5
Non-current liabilities			
Subordinated liabilities	22	**(374 7)**	(356 5)
Other interest bearing liabilities	23	**(886 6)**	(1,106 4)
Provisions under insurance contracts issued	24	**(24 1)**	(93 8)
Post employment benefit net liabilities	26	**(3 9)**	(11 0)
Provisions for liabilities and charges	27	**(17 9)**	(19 5)
Deferred taxation liabilities	28	**(212 1)**	(205 9)
Trade and other payables	29	**(56 0)**	(289 1)
		(1,575 3)	(2,082 2)
Current liabilities			
Subordinated liabilities	22	**(5 9)**	(5 9)
Other interest bearing liabilities	23	**(21 6)**	(21 8)
Provisions under insurance contracts issued	24	**(2,134 5)**	(1,996 3)
Other liabilities under insurance contracts issued	25	**(18 9)**	(32 8)
Provisions for liabilities and charges	27	**(60 3)**	(21 6)
Life investment contract liabilities	16	**-**	(832 0)
Current taxation liabilities		**(156 9)**	(155 9)
Trade and other payables	29	**(1,307 0)**	(1,169 9)
Liabilities associated with assets held for sale	20	**(181 4)**	-
		(3,886 5)	(4,236 2)
Total liabilities		**(5,461 8)**	(6,318 4)
Net assets		**4,654 1**	4,245 1
Equity			
Called up share capital	30	**200 1**	200 1
Property revaluation reserve		**660 4**	596 6
Income and expenditure reserve		**3,077 5**	3 048 8
Cash flow hedge reserve		**30 7**	29 7
Foreign exchange translation reserve		**655 7**	333 1
Equity attributable to Bupa Finance plc		**4,624 4**	4,208 3
Equity attributable to non-controlling interests		**29 7**	36 8
Total equity		**4,654 1**	4,245 1

Approved by the Board of Directors and signed on its behalf on 15 April 2011 by

Thomas Singer
Director

The notes on pages 47 to 106 form part of the financial statements

Bupa Finance plc
Consolidated statement of cash flows
for the year ended 31 December 2010

	Note	2010 £m	2009 £m
Operating activities			
Surplus before taxation expense		168 0	423 7
Adjustments for			
Net financial income and expenses		(21 7)	(51 1)
Depreciation amortisation and impairment		439 9	184 3
Other non-cash items		54 5	2 2
Changes in working capital and provisions			
Increase in provisions and other liabilities under insurance contracts issued		80 1	62 1
Increase in assets under insurance contracts issued		(19 5)	(34 1)
Increase / decrease in net pension asset / liability		(2 9)	(1 6)
(Increase) / decrease in trade and other receivables and other assets		(96 4)	362 4
Increase / (decrease) in trade and other payables and other liabilities		93 8	(361 3)
Cash generated from operations		695 8	586 6
Income taxation paid		(105 1)	(75 2)
(Increase) / decrease in cash held in restricted access deposits	21	(4 2)	12 3
Net cash generated from operating activities		586 5	523 7
Cash flow from investing activities			
Acquisition of subsidiary companies, net of cash acquired	33	(3 4)	-
Acquisition of joint ventures and associates	13	(3 5)	(5 5)
Disposal of subsidiary companies, net of cash disposed of	20	115 1	(25 5)
Disposal of joint ventures and associates		-	0 4
Purchase of intangible assets		(26 6)	(65 3)
Purchase of property, plant and equipment		(122 5)	(118 0)
Proceeds from sale of property, plant and equipment		1 8	2 6
Purchase of investment property		(5 1)	(4 0)
Proceeds from sale of investment property		0 2	1 3
Purchase of financial investments, excluding deposits with credit institutions		(261 5)	(1,005 2)
Proceeds from sale of financial investments excluding deposits with credit institutions		375 2	817 7
Net (investment into) / withdrawal from deposits with credit institutions		(778 7)	312 0
Interest received		76 4	68 3
Net cash used in investing activities		(632 6)	(21 2)
Cash flow from financing activities			
Proceeds from issue of interest bearing liabilities		-	376 1
Repayment of interest bearing liabilities		(223 9)	(680 7)
Interest paid		(80 0)	(59 1)
Payments for hedging instruments		(2 7)	(39 6)
Payment of capital redemption to non-controlling interests		(6 8)	-
Dividends paid to non-controlling interests		(6 6)	(8 5)
Net cash used in financing activities		(320 0)	(411 8)
Net (decrease) / increase in cash and cash equivalents		(366 1)	90 7
Cash and cash equivalents at beginning of year		1,037 5	871 1
Effect of exchange rate changes		65 3	47 6
Cash and cash equivalents reclassified (to) / from assets held for sale		(85 4)	28 1
Cash and cash equivalents at end of year	21	651 3	1,037 5

The notes on pages 47 to 106 form part of the financial statements

Bupa Finance plc
Consolidated statement of changes in equity
for the year ended 31 December 2010

	Property revaluation reserve	Income and expenditure reserve	Cash flow hedge reserve	Foreign exchange translation reserve	Total attributable to Bupa Finance plc	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m
2010							
At beginning of year	596 6	3,048 8	29 7	333 1	**4,008 2**	36 8	**4,045 0**
Retained surplus for the financial year	-	25 2	-	-	**25 2**	5 8	**31 0**
Other comprehensive income / (expense)							
Unrealised gain on revaluation of property	82 2	-	-	-	**82 2**	-	**82 2**
Actuarial gain on pension schemes	-	4 8	-	-	**4 8**	-	**4 8**
Realisation of foreign exchange on disposal of overseas subsidiary companies	-	-	-	1 6	**1 6**	-	**1 6**
Foreign exchange translation differences on goodwill	-	-	-	212 6	**212.6**	-	**212 6**
Other foreign exchange translation differences	(1 1)	-	-	151 0	**149 9**	0 6	**150 5**
Net loss on hedge of net investment in overseas subsidiary companies	-	-	-	(43 2)	**(43 2)**	-	**(43 2)**
Realisation of cash flow hedge on disposal of overseas subsidiary companies	-	-	(0 9)	-	**(0 9)**	-	**(0 9)**
Realisation of cash flow hedge on impairment of overseas subsidiary companies	-	-	2 8	-	**2 8**	-	**2 8**
Change in fair value of underlying derivative of cash flow hedge	-	-	(0 2)	-	**(0 2)**	(0 2)	**(0 4)**
Disposal of subsidiary companies	-	-	-	-	-	0 1	**0 1**
Other movements in non-controlling interests	-	-	-	-	-	(6 8)	**(6 8)**
Taxation (charge) / credit on income and expense recognised directly in other comprehensive income	(17 3)	(1 3)	(0 7)	0 6	**(18 7)**	-	**(18 7)**
Other comprehensive income / (expense) for the year, net of taxation	63 8	3 5	1 0	322 6	**390 9**	(6 3)	**384 6**
Total comprehensive income / (expense) for the year	63 8	28 7	1 0	322 6	**416 1**	(0 5)	**415 6**
Contributions to non-controlling interests							
Dividends paid to non-controlling interests	-	-	-	-	-	(6 6)	**(6 6)**
Total contributions to non-controlling interests for the year	-	-	-	-	-	**(6 6)**	**(6 6)**
At end of year	**660 4**	**3,077 5**	**30 7**	**655 7**	**4,424 3**	**29 7**	**4,454 0**
Share capital at beginning and end of year							**200 1**
Total equity							**4,654 1**

Bupa Finance plc
Consolidated statement of changes in equity - continued
for the year ended 31 December 2010

	Property revaluation reserve	Income and expenditure reserve	Cash flow hedge reserve	Foreign exchange translation reserve	Total attributable to Bupa Finance plc	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m
2009							
At beginning of year	636 3	2,752 2	30 9	124 0	**3,543 4**	37 0	**3,580 4**
Retained surplus for the financial year	-	298 1	-	-	**298 1**	11 9	**310 0**
Other comprehensive income / (expense)							
Unrealised loss on revaluation of property	(44 7)	-	-	-	**(44 7)**	-	**(44 7)**
Actuarial loss on pension schemes	-	(2 9)	-	-	**(2 9)**	-	**(2 9)**
Realisation of foreign exchange on disposal of overseas subsidiary companies	-	-	-	(2 2)	**(2 2)**	-	**(2 2)**
Foreign exchange translation differences on goodwill	-	-	-	114 8	**114 8**	-	**114 8**
Other foreign exchange translation differences	(3 0)	-	-	148 3	**145 3**	(2 8)	**142 5**
Net loss on hedge of net investment in overseas subsidiary companies	-	-	-	(57 7)	**(57 7)**	-	**(57 7)**
Change in fair value of underlying derivative of cash flow hedge	-	-	(1 7)	-	**(1 7)**	(1 1)	**(2 8)**
Taxation credit on income and expense recognised directly in other comprehensive income	8 6	0 8	0 5	5 9	**15 8**	0 3	**16 1**
Other comprehensive income / (expense) for the year, net of taxation	(39 1)	(2 1)	(1 2)	209 1	**166 7**	(3 6)	**163 1**
Realised revaluation surplus on disposal of subsidiary companies	(0 6)	0 6	-	-	-	-	-
Total comprehensive income / (expense) for the year	(39 7)	296 6	(1 2)	209 1	**464 8**	8 3	**473 1**
Contributions to non-controlling interests							
Dividends paid to non-controlling interests	-	-	-	-	-	(8 5)	**(8 5)**
Total contributions to non-controlling interests for the year	-	-	-	-	-	(8 5)	**(8 5)**
At end of year	596 6	3,048 8	29 7	333 1	**4,008 2**	36 8	**4,045 0**
Share capital at beginning and end of year							**200 1**
Total equity							**4,245 1**

The notes on pages 47 to 106 form part of the financial statements

Basis of consolidation
The consolidated financial statements for the year ended 31 December 2010 comprise those of the Company and its subsidiary companies (together referred to as the 'Group')

The Group's consolidated financial statements are prepared under International Financial Reporting Standards as adopted by the EU ('IFRS') The appropriate provisions of the Companies Act have also been complied with

A summary of IFRS that are relevant for the Group are included on page 118

The financial statements were approved by the Board of Directors on 15 April 2011 The Directors have reviewed and approved the Group's accounting policies, which are set out below and which have been applied consistently to all the years presented, unless otherwise stated For the purposes of consolidation, the accounting policies of subsidiary companies have been aligned with those of the parent company

Statement of compliance
The Group financial statements have been prepared in accordance with IFRS and approved by the Directors The parent Company has continued to present individual financial statements prepared on a UK Generally Accepted Accounting Practice (UK GAAP) basis as permitted by Section 396 to the Companies Act 2006 The Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes The parent Company financial statements, with their respective accounting policies, are presented at Appendix I

Basis of preparation
The financial statements are prepared on a going concern basis, and under the historical cost convention, as modified by the revaluation of property, investment property, financial investments at fair value through profit or loss, available for sale financial investments, derivative instruments, life investment contract liabilities and financial investments backing life investment contract liabilities

Going concern
Details of the Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 1 to 21 The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Report on pages 11 to 15, together with further information disclosed in notes 21 to 23 In addition, notes 31 and 32 summarise the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk

IAS 1 requires the Group to make an assessment of its ability to continue as a going concern when preparing its financial statements In making this assessment, management have considered the discussions with the relationship banks as well as forecasts based on the Group's three year plan for the period 2011 to 2013, which take account of reasonably possible changes in trading performance

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing these financial statements

The Group maintains significant cash balances to meet its day to day working capital requirements (see note 21) The Group's medium term financing requirements are funded by these balances and bank loans drawn under the Group's £900m committed bank facility, which matures in September 2013

New financial reporting requirements
The Group has applied the following financial reporting standards for the first time in preparing its financial statements for the year ended 31 December 2010 The impact on the Group financial statements is quantified below All other newly effective financial reporting standards applicable to Bupa for the first time for the year ended 31 December 2010 have been reviewed and it has been concluded that they have no impact on the financial statements of the Group

IFRS 3 (revised) is applicable for financial periods beginning on or after 1 July 2009 The Group has applied this standard to all business combinations from 1 January 2010 The revised standard continues to apply the acquisition method to business combinations, but with some significant changes All transaction costs must be expensed through the income statement All payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments, in most cases, classified as debt and subsequently re-measured through the income statement There is a choice on a transaction by transaction basis to measure the non-controlling interest either at fair value ('full goodwill method') or at the non-controlling interest's proportionate share of identifiable net assets ('partial goodwill method') In step acquisitions, any previously held interests are re-measured to fair value at the date of the subsequent acquisition, with any resulting gain or loss recognised in the income statement The impact of applying IFRS 3 (revised) has not resulted in any material changes to the Group's financial statements for the year ended 31 December 2010

IAS 27 (revised) is applicable for financial periods beginning on or after 1 July 2009, and the Group has applied this standard to transactions with non-controlling interests from 1 January 2010 This standard requires the effect of all transactions with non-controlling interests to be recorded in equity Therefore, those transactions with non-controlling interests will no longer result in goodwill, nor gains and losses in the income statement Adjustments to non-controlling interests that do not result in a change in control are measured at the proportionate amount of the net assets of the subsidiary Where control is lost, any remaining interest in the entity is required to be remeasured to fair value and any resulting gain or loss recognised in the income statement Any losses that are incurred by the subsidiary are allocated between the controlling and non-controlling interests, even if the losses exceed the non-controlling equity investment in the subsidiary There has been no impact to the Group's financial statements for the year ended 31 December 2010 as a result of the application of IAS 27 (revised)

Financial reporting standards applicable to the Group for future financial periods
The following interpretation has been issued and endorsed by the EU but is not effective for the year ended 31 December 2010, and has not been early adopted by the Group The Group has reviewed the effect of all other amendments to IFRS and interpretations effective for accounting periods beginning on or after 1 January 2011 and does not expect them to have an impact on the financial statements of the Group

The amendment to IFRIC 14 is effective for periods beginning on or after 1 January 2011 The amendment applies in the limited circumstances where an entity's defined benefit pension scheme is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements This amendment permits the entity to treat the benefit of these early payments as an asset The Group is currently reviewing the impact of this on its financial statements

Re-presentation of 2009 financial information
Following the change in the divisional structure of the Group in 2010 the reportable segments of the Group have been revised In 2009, the Group disclosed four reportable segments UK and North America, EMEALA, Asia Pacific and Care Services As a result of the divisional reorganisation, the UK and North America, EMEALA and Asia Pacific businesses have been reallocated between two new divisions Europe and North America, and International Markets Bupa Home Healthcare has been moved to the Care Services division and The Bupa Cromwell Hospital has been aggregated into the Europe and North America division for the purposes of segmental reporting, although it is managed separately by the Group Development Director

The segmental disclosures for the comparative period have been re-presented based on the new divisional structure The new segments reported for the first time in the segmental analysis information (note 1) are Europe and North America, International Markets and Care Services The Group reorganisation has no effect on amounts presented on the face of the income statement

Business combinations
Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable assets acquired is recorded as goodwill If the cost of acquisition is less than the fair value of the Group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination, are expensed as incurred

Subsidiary companies
Subsidiary companies include all entities over which the Group or Company has the power, directly or indirectly, to govern the financial and operating policies so as to obtain benefits from their activities

Subsidiary companies are included in the consolidated financial statements using the purchase method, from the date that control commences until the date that control ceases

Transactions between Group companies are on commercial terms Intra Group balances and any gains, losses, income and expenses arising from intra Group transactions are eliminated in preparing the consolidated financial statements

Non-controlling interests in the net assets of subsidiaries are identified separately from the Group's equity Non-controlling interests consist of the amount of those interests at the date of the original acquisition and the non-controlling shareholder's share of changes in equity since this date

Equity accounted investments
Equity accounted investments comprise associated companies and joint ventures Associated companies include those entities in which the Group has significant influence, but no control, over the financial and operating policies of the entity Joint ventures include those entities over the activities of which the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions Associated companies and joint ventures are accounted for using the equity method and are initially recognised at cost The Group's investment in equity accounted investments includes goodwill identified on acquisition, and is presented net of any accumulated impairment losses The consolidated financial statements include the Group's share of the income and expenses, from the date that significant influence or control commences or that the Group gains significant influence, until the date that control or significant influence ceases

When the Group's share of losses exceed its interest in an equity accounted investment, the carrying amount of that interest (including any long-term interests that, in substance, form part of the Group's net investment), is reduced to nil In addition the recognition of further losses is discontinued except to the extent that the Group has incurred a legal or constructive obligation or made payments on behalf of the equity accounted investment

Foreign currency
The consolidated financial statements are presented in Sterling, which is the functional and presentational currency of the Company

Foreign currency transactions
In the Group's subsidiary companies, transactions in foreign currencies are translated into the functional currency at the exchange rate ruling at the date of the transaction

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate ruling at the balance sheet date, the resulting foreign exchange gain or loss is recognised in the income statement Non-monetary assets and liabilities denominated in a foreign currency at historical cost are translated using the exchange rate at the date of the transaction, no exchange differences therefore arise Non-monetary assets and liabilities denominated in a foreign currency at fair value are translated using the exchange rate ruling at the date that the fair value was determined Foreign exchange differences that arise on retranslation are recognised in the income statement

In the consolidated financial statements, where a loan between Group entities results in the recognition of a foreign exchange gain or loss, the exchange difference is recognised in the statement of comprehensive income to the extent that it relates to the Group's net investment in overseas operations

Foreign operations
The assets and liabilities of foreign operations, including associated goodwill, held in functional currencies other than Sterling are translated from their functional currency into Sterling at the exchange rate at the balance sheet date Income and expenses are translated at average rates for the period, provided the average approximates the rates ruling at the date of the transactions Foreign exchange differences arising on translation are recognised initially in the statement of comprehensive income, and only in the income statement in the period in which the entity is eventually disposed of Cumulative translation differences for overseas operations were deemed to be nil at 1 January 2004, the date of the Group's transition to IFRS

Revenues
Revenues arise from insurance contracts entered into with customers, care and health provision services rendered and contracts relating to the administration of claims funds on behalf of corporate customers The accounting policies relevant to these revenues are described below

Insurance activities
Contracts entered into by the Group's insurance entities are classified into those that result in the transfer of significant insurance risk to the Group and those that do not Contracts that result in the transfer of significant insurance risk are accounted for as either general insurance or long-term insurance contracts under IFRS 4 Revenues from contracts that do not result in the transfer of significant insurance risk are included within service contract revenues

Under current IFRS requirements, insurance contract liabilities are measured using local Generally Accepted Accounting Principles (GAAP), as permitted by IFRS 4

Basis of accounting for general insurance activities

Gross insurance premiums
Gross insurance premiums represent the premiums earned relating to risk exposure for the reported financial year They comprise gross premiums written, adjusted for the change in the gross provision for unearned premiums during the financial year The unearned premium provision represents the proportion of premiums written in the year relating to periods of risk in subsequent financial years It is calculated on a straight line basis, which is not materially different from a calculation based on the pattern of incidence of risk

Premiums are shown gross of commissions payable and net of insurance premium taxes that may apply in certain jurisdictions

Premiums ceded to reinsurers
Premiums ceded to reinsurers represent reinsurance premiums payable for contracts entered into that relate to risk mitigation for the reported financial year These comprise written premiums ceded to reinsurers, adjusted for the reinsurers' share of the movement in the gross provision for unearned premiums

In cases where the Group cedes reinsurance for the purpose of limiting its net loss potential, the arrangements do not relieve the Group of its direct obligations under insurance policies written

Premiums, losses and other amounts relating to reinsurance treaties are recognised over the period from inception of a treaty to expiration of the related business The actual profit or loss is therefore recognised not at inception but as such profit or loss emerges In particular, any initial reinsurance commissions are recognised on the same basis as the acquisition costs incurred

Insurance claims incurred
Insurance claims incurred comprise insurance claims paid during the year together with related handling costs, the movement in the gross provision for claims in the period and the Risk Equalisation Trust Fund levy for Australian health insurance business

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

The gross provision for claims represents the estimated liability arising from claims episodes in current and preceding financial years which have not yet given rise to claims paid The provision includes an allowance for claims management and handling expenses

The gross provision for claims is estimated based on current information and the ultimate liability may vary as a result of subsequent information and events Adjustments to the amount of claims provision for prior years are included in the income statement in the financial year in which the change is made In setting the provisions for claims outstanding, a best estimate is determined on an undiscounted basis and then a margin of prudence is added such that there is confidence that future claims will be met from the provisions The level of prudence set is either one required by regulation or one that provides a high degree of confidence

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, less related deferred acquisition costs

The methods used and estimates made for claims provisions are reviewed regularly

Reinsurers' share of claims incurred
Reinsurers' share of claims incurred represents recoveries from reinsurers on claims paid, adjusted for the reinsurers' share of the change in the gross provision for claims The recoverables due from reinsurers are shown within assets arising from insurance business and are assessed for impairment at each balance sheet date Impairments are accounted for within the income statement on an incurred loss basis

Acquisition costs
Acquisition costs, included within other operating expenses, represent commissions payable and other expenses related to the acquisition of insurance contract revenues written during the financial year Acquisition costs that have been paid but not yet been incurred are deferred to the subsequent period at the point at which they are paid, and recognised in the income statement in the relevant period

Medicare rebate
In Australia, the government provides a rebate to health insurers in respect of the premiums paid for private health insurance Rebates due from the government but not received at the balance sheet date are recognised in assets arising from insurance business

Basis of accounting for long-term insurance business

Recognition and measurement of contracts
Long-term insurance contracts are measured and accounted for under existing practices at the later of the date of transition to IFRS or the date of the business combination The Group has adopted the modified statutory solvency basis of accounting for long-term insurance business in the UK

Net insurance premiums earned
Premiums are recognised on a receivable basis excluding any taxes or duties Outward reinsurance premiums are recognised on a payable basis In cases where the Group cedes reinsurance, the arrangements do not relieve the Group of its direct obligations under insurance policies written Reinsurance contracts relating to the long-term business are accounted for over the life of the underlying policies using assumptions consistent with those for the underlying policies

Net insurance claims incurred
Insurance claims incurred and reinsurers' share of claims incurred are accounted for as described for the general insurance business Death claims are accounted for on notification of death Critical illness and income protection claims are accounted for when admitted The amounts recoverable under reinsurance contracts are assessed for impairment at each balance sheet date Impairments are accounted for within the income statement on an incurred loss basis

Long-term business provisions
In the UK, long-term business provisions are calculated on a gross premium valuation basis The provision is calculated by subtracting the present value of future premiums from the present value of future benefits payable under the policy The gross premium method makes explicit allowance for future policy maintenance costs and taxes The provision is calculated using actuarial methods that include assumptions such as estimates of mortality, morbidity, investment performance, expenses and taxes These assumptions are based on best estimates of future experience plus margins for the risk of adverse deviation

In Australia, long-term business provisions are calculated on a margin on services valuation basis Under this methodology, planned profit margins and an estimate of future liabilities are calculated separately for each related product group, with future cash flows determined using best estimate assumptions and discounted to the reporting date The provision is calculated using actuarial methods that include assumptions such as estimates of mortality, morbidity, interest rates, voluntary discontinuances and expenses These assumptions are based on best estimates of future experience

Acquisition costs
Acquisition costs are included within other operating expenses In the UK, the costs of acquiring new and renewal long-term business are deferred and amortised in proportion to the margins in respect of the related policies or over the life of the policy Acquisition costs are not deferred to the extent that available future margins are not expected to cover such future costs

In Australia, acquisition costs represent the costs of acquiring new and renewal business The acquisition costs incurred in relation to life insurance contracts are capitalised in the valuation of the policy liabilities

Liabilities and related assets under liability adequacy test
Insurance contract provisions for long-term insurance are tested for adequacy by discounting current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability net of deferred acquisition costs and any other related intangible assets Where a shortfall is identified, an additional provision is made and the Group recognises the deficiency in the income statement for the period

Basis of accounting for life investment contracts
Life investment contracts comprise deposits held on behalf of investment policyholders and include investment linked contracts where the benefit is directly linked to the market value of the investments held in the particular investment linked fund While the underlying investments are registered in the name of the life insurer and the investment linked policyholder has no direct access to the specific investments, the contractual arrangements are such that the investment linked policyholder bears the risks and rewards of the fund's investment performance

Net assets backing life investment contract liabilities include financial investments, receivables, deferred taxation assets, cash, deposits, payables, other liabilities and taxation liabilities

Financial investments backing life investment contract liabilities are valued at fair value through profit or loss and consist of investments such as equities, fixed income securities and property trusts

Deposits, contributions, surrenders and withdrawals which relate to life investment contracts are treated as movements in life investment contract liabilities

Revenues from life investment contracts
Fee income is derived from the administration of life investment contracts and reduces the value of the investment contract liability A single management fee is applied for each investment option, which is based on the value of the assets held in each investment option The fee is calculated each time an investment option is valued, before the unit price is declared Management fee revenue with respect to life investment contracts is recognised in the income statement on an accruals basis, as services are provided

Revenues from service contracts
A number of contracts written by the Group's general insurance entities do not result in the transfer of significant insurance risk to the Group The contracts mainly relate to the administration of claims funds on behalf of corporate customers Some of these contracts contain financial liabilities representing deposits repayable to the customer These are measured at amortised cost Revenues from service contracts represents the surplus receivable on such contracts and are recognised as the services are provided

The claims fund deposit held on behalf of customers is reported within other payables, accruals and deferred income

Care, health and other revenues
Care, health and other revenues represents revenues receivable from care and health provision services rendered

Revenues are stated net of value added taxation and other sales taxes, rebates and discounts Revenues are recognised in the accounting period in which the Group obtains the right to consideration in exchange for its performance

Revenues associated with service concession receivables include revenues from the construction of the infrastructure and operation revenues Construction revenues are recognised based on the stage of completion of the work performed Operation revenues are recognised in the accounting period in which the services are provided

Financial income and expenses

Financial income comprises interest receivable, realised gains and losses on investments, dividend income on equity investments, changes in the fair value of items recognised at fair value through profit or loss, change in the fair value of derivatives, changes in the fair value of investment property and foreign exchange gains and losses

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

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

Financial expenses includes interest payable on borrowings, calculated using the effective interest method, impairment losses on financial investments not measured at fair value through profit or loss and other financial expenses

Taxation

Income taxation on the surplus or deficit for the year comprises current and deferred taxation Income taxation is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised directly in other comprehensive income

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

Deferred taxation is recognised in full using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes The following temporary differences are not recognised goodwill not deductible for taxation purposes and the initial recognition of an asset or liability in a transaction that is not a business combination and which, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

The amount of deferred taxation recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using taxation rates enacted or substantively enacted at the balance sheet date

Deferred taxation is recognised on temporary differences arising on investments in subsidiary companies, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future

A deferred taxation asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised

Deferred taxation assets and liabilities are off set when they relate to income taxes levied by the same taxation authority and when the Group can settle its current taxation assets and liabilities on a net basis

Segmental reporting

The Group determines and presents its reportable segments based on information that internally is provided to the Chief Executive and the Group Finance Director, who together fulfil the function of the Group's chief operating decision makers

A reportable segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including inter segment transactions The reportable segments reflect the Group's main operating divisions The divisional structure is defined by the different products and services provided by each division and the geographic areas in which they operate Discrete financial information is available for these segments and is reviewed regularly by the Group's chief operating decision makers to monitor the results of the business, assess performance and make decisions about the allocation of resources

Segment results that are reported to the Group's chief operating decision makers include items directly attributable to a segment as well as those that can be allocated on a reasonable basis Unallocated results comprise mainly head office revenues, income and expenses which cannot be specifically allocated to the reportable segments

Non-current assets acquired by the reportable segments, as reported to the Group's chief operating decision makers, is the total cost of additions to intangible assets, property, plant and equipment and investment property, but excludes assets acquired through business combinations and other intangible assets arising on business combinations

The accounting policies of the reportable segments are the same as those for the Group as a whole Any transactions between reportable segments are on commercial terms

Geographical information is also presented, revenues are based on the geographical source of revenues and non-current assets are based on the geographical location of the assets

Current / non-current classification
Assets and liabilities are classified as current if they are expected to be realised within twelve months from the balance sheet date, the primary purpose of the asset or liability is to be traded or, for loans and receivables, where they have a maturity of less than twelve months from the balance sheet date All other assets and liabilities are classified as non-current

Intangible assets

Goodwill
Goodwill represents the excess of the cost of a business combination over the fair value of the Group's share of identifiable assets, liabilities and contingent liabilities of the acquired subsidiary company or associated company at the date of business combination Where goodwill can only be determined on a provisional basis for a financial year, adjustments may be made to this balance for up to twelve months from the date of business combination

Goodwill arising on business combinations is capitalised and presented as part of intangible assets in the consolidated balance sheet Goodwill is stated at cost less accumulated impairment losses Impairment reviews are performed annually, or more frequently if there is an indication that the carrying value may be impaired Impairment reviews are performed at the level of the relevant cash generating unit

Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors goodwill

Any excess of the Group's interest in the net fair value of the acquired identifiable assets, liabilities and contingent liabilities over cost that arises on an acquisition is recognised immediately in the income statement

Goodwill arising on business combinations before the date of transition to IFRS and capitalised in the balance sheet has, at the date of transition, been retained at the amount recorded previously under UK GAAP, subject to impairment testing Goodwill previously written off to reserves under UK GAAP (on business combinations prior to 31 December 1997) remains eliminated against reserves and is not included in calculating any subsequent profit or loss on disposal

Other intangible assets
Intangible assets, other than goodwill, that are acquired separately are stated at cost less accumulated amortisation and impairment Amortisation is charged to the income statement on a straight line basis as follows

▪ Computer software	2 to 10 years

Intangible assets, other than goodwill, acquired as part of a business combination are capitalised at fair value Amortisation is charged to the income statement on a straight line basis as follows

▪ Brand and trademarks	10 years
▪ Technology and databases	10 years
▪ Distribution networks	10 to 11 years
▪ Customer relationships	10 to 21 years
▪ Present value of acquired in-force business	13 to 20 years
▪ Licences to operate care homes	term of licence
▪ Non-compete agreements	term of agreement
▪ Leases term of lease	term of lease

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable An impairment loss is recognised in the income statement to reduce the carrying amount to the recoverable amount Intangible assets acquired as part of a business combination deemed to have an indefinite life are subject to annual impairment reviews and are substantiated as follows

- Bed licences attributed an indefinite useful life due to the fact that these licences, which are issued by the Australian government, have no expiry date It is common practice in Australia to attribute an indefinite life to bed licences

- MBF brand determined upon acquisition by an external valuation expert, based upon the existing awareness, age and market share of the MBF brand in Australia and the retention rates of brand names in acquisitions in the same business sector

Property, plant and equipment
Freehold and leasehold properties comprise care homes, hospitals and offices These properties are shown at fair value based on periodic, but at least triennial, valuations performed by external independent valuers, less subsequent depreciation and impairment losses The valuations are performed with sufficient regularity to ensure that the carrying value does not differ significantly from fair value at the balance sheet date Directors' valuations are performed in interim years where impairment indicators exist Fair value for care homes and hospitals is considered to be existing use value Valuations of office buildings are on a market value basis Borrowing costs relating to the acquisition or construction of qualifying assets are capitalised as part of the cost of that asset

Equipment (including leasehold improvements) is stated at historical cost less subsequent depreciation and impairment losses

Gains and losses on revaluation are recognised in the revaluation reserve, except where an asset is revalued below historical cost, in which case the deficit is recognised in the income statement Where a revaluation reverses deficits taken to the income statement in prior years, then it is credited to the income statement

Depreciation
Freehold land and assets under construction, included within freehold or leasehold properties as appropriate, are not depreciated Depreciation on other items of property, plant and equipment is calculated using the straight line method to allocate cost or revalued amount less residual value over estimated useful lives, as follows

▪ Freehold buildings	50 years
▪ Leasehold buildings	shorter of useful life and lease term
▪ Equipment (leasehold improvements)	shorter of useful life and lease term
▪ Equipment	3 to 10 years

The assets' residual values and useful lives are reviewed, where significant, at each balance sheet date and adjusted if appropriate

Impairment reviews are undertaken where there are indications that carrying value may not be recoverable An impairment loss on assets carried at cost is recognised in the income statement to reduce the carrying value to the recoverable amount An impairment loss on assets carried at revalued amount is recognised in the revaluation reserve, except where an asset is revalued below historical cost, in which case the deficit is recognised in the income statement

Leased assets
Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee All other leases are classified as operating leases

Assets obtained under finance leases are capitalised within property, plant and equipment at fair value at acquisition or, if lower, at the present value of the minimum lease payments and depreciated over the shorter of their useful economic life and the lease term

Obligations relating to finance leases, net of finance charges in respect of future periods, are included within other interest bearing liabilities The interest element of the obligation is allocated over the lease term to reflect a constant rate of interest on the outstanding obligation

Leasehold land, where no option to obtain title exists, is treated as an operating lease

Payments made under operating leases are recognised as prepayments within trade and other receivables and are recognised in the income statement on a straight line basis over the term of the lease

Investment properties
Property leased to third parties or held for capital appreciation is classified within investment properties Investment properties are stated at fair value

Fair values are determined individually, on a basis appropriate to the purpose for which the property is intended and with regard to recent market transactions for similar properties in the same location

In an active market, an independent valuer, holding a recognised and relevant professional qualification and with recent experience in the location and category of investment property being valued, values the portfolio annually

In the absence of current prices in an active market, the properties are valued using discounted cash flow projections based on reliable estimates of future cash flows Discount rates are used to reflect current market assessments of the uncertainty in the amount or timing of the cash flows

Any gain or loss arising from a change in the fair value is recognised in the income statement

Financial investments
The Group has classified its financial investments into the following categories at fair value through profit or loss, available for sale, held to maturity, and loans and receivables Management determines the classification at initial recognition

All financial investments are initially recognised at fair value, which includes transaction costs for financial investments not classified as at fair value through profit or loss Financial investments are derecognised when the rights to receive cash flows from the financial investments have expired or where the Group has transferred substantially all risks and rewards of ownership

Financial investments at fair value through profit or loss
An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy

The investments are carried at fair value, with gains and losses arising from changes in this value recognised in the income statement in the period in which they arise The fair values of quoted investments in active markets are based on current bid prices The fair values of unlisted securities, and quoted investments for which there is no active market, are established using valuation techniques corroborated by independent third parties These may include reference to the current fair value of other instruments that are substantially the same and discounted cash flow analysis

Derivatives are held at fair value through profit or loss unless they are designated as hedges The accounting policy for hedging instruments is described on page 45

Available for sale
Available for sale financial investments are those intended to be held for an undisclosed period of time which may be sold in response to liquidity needs or changes in interest rates, exchange rates or equity prices

Available for sale financial investments are carried at fair value, with the exception of investments in equity instruments where fair value cannot be reliably determined, which are carried at cost Fair values are determined in the same manner as for investments at fair value through profit or loss Changes in fair value are recognised in other comprehensive income whilst an investment is held, and are subsequently transferred to the income statement upon sale or derecognition of the investment

Held to maturity investments
Held to maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity Investments are designated as held to maturity where the Group has a positive intention and ability to hold investments to maturity Held to maturity investments are measured at amortised cost using the effective interest method, less any impairment losses

Any discount or premium on purchase is amortised over the life of the investment through the income statement The intent and ability to hold the asset to maturity is assessed at each reporting date

Loans and receivables
Loans and receivables are non-derivative financial investments with fixed or determinable payments that are not quoted in an active market They arise when the Group provides money, goods or services directly to a borrower or customer with no intention of trading the receivable Loans are recognised when cash is advanced to the borrowers

Loans and receivables are carried at amortised cost calculated using the effective interest method, less impairment losses

Sale and repurchase agreements
Securities purchased under commitments to resell ('reverse repos') are not recognised on the balance sheet, however, the consideration paid is recognised in loans and receivables within financial investments The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method

Trade and other receivables
Trade and other receivables, including service concession receivables but excluding derivative assets, are carried at amortised cost less impairment losses Derivative assets are carried at fair value as detailed in the derivative financial instruments note

Impairment of financial assets
Financial assets comprise investment properties, financial investments, and trade and other receivables If they are not already held at fair value, financial assets are assessed at each reporting date to determine whether there is any objective evidence that they are impaired A financial asset is considered impaired if objective evidence indicates that one or more events that have occurred since the initial recognition of the asset have had a negative impact on the estimated future cash flows of that asset

An impairment loss in respect of a financial investment measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the effective interest rate at the date the investment was made

Significant financial assets are tested for impairment on an individual basis The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics All impairment losses are recognised in the income statement

Inventories
Inventories are stated at the lower of cost and net realisable value Cost is determined using the first-in first-out method, or methods that approximate this, and includes costs incurred in acquiring the inventories and in bringing them to their current location and condition

Non-current assets classified as held for sale and discontinued operations
Non-current assets or disposal groups are classified as held for sale where their carrying amount will be recovered principally through a sale transaction rather than continuing use, where sale is highly probable and where the asset or disposal group is available for immediate sale in its present condition

Non-current assets and disposal groups held for sale are recognised at the lower of carrying amount and fair value less costs to sell Impairment losses are recognised in the income statement

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary company acquired exclusively with a view to resale Classification as a discontinued operation occurs upon disposal, abandonment or when the operation meets the criteria to be classified as held for sale, if earlier

Cash and cash equivalents
Cash and cash equivalents comprise cash balances, call deposits and other short-term highly liquid investments (including money market funds) with original maturities of three months or less which are subject to an insignificant risk of change in value Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows

Callable subordinated perpetual guaranteed bonds
The Group has issued callable subordinated perpetual guaranteed bonds The terms of the bonds are such that Bupa cannot defer payments of interest in certain limited circumstances The bonds are therefore classified as financial liabilities The liability is stated at amortised cost using the effective interest method The carrying value is adjusted for the gain or loss on hedged risk, changes in the fair value of derivatives that mitigate interest rate risk resulting from the fixed interest rate of the bonds are recognised in the income statement as an effective fair value hedge of this exposure The coupon payable on the bonds is recognised as a financial expense

The bonds have no set maturity date but are subject to an increase in the interest payments from 2020 and the Group is therefore likely to refinance the bonds as a result of economic compulsion

Other subordinated liabilities and other interest bearing liabilities
All interest bearing liabilities are recognised initially as proceeds receivable less attributable transaction costs Subsequent to initial recognition, they are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis The amortised cost of borrowings with a corresponding fair value hedge is adjusted for the fair value of the risk being hedged

Offsetting financial instruments
Financial investments and financial liabilities are off set and the net amount reported in the balance sheet when there is a legally enforceable right to off set the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously

Provisions for liabilities and charges
A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation that can be reliably estimated If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-taxation rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability

Trade and other payables
Trade and other payables, excluding derivative liabilities, are carried at amortised cost Derivative liabilities are stated at fair value, as detailed in the derivative financial instruments note

Accommodation bond liabilities
Accommodation bonds are non-interest bearing deposits paid by the resident of the care home as payment for a place in the care home facility These deposits are liabilities which fall due and are payable when the resident leaves the facility The bonds are recorded at an amount equal to the proceeds received, net of retention and any other amounts deducted from the bond at the election of the bondholder

Employee post employment benefits
The Group operates defined contribution and funded defined benefit pension schemes

Defined contribution pension schemes
Obligations for contributions to defined contribution pension schemes are recognised as an expense in the income statement as incurred

Defined benefit post employment schemes
The employees of the Group participate in The Bupa Pension Scheme As no agreement exists to allocate pension scheme assets and liabilities between group companies, Financial Reporting Standard No 17 Retirement Benefits permits those group companies to account for their pension costs as if the group company participates in a defined contribution pension scheme Therefore the costs of the pension contributions made to the scheme are recognised in the income statement

The assets of other smaller pension schemes are held separately from those of the Company in independently administered funds

The Group's net obligation in respect of the smaller defined benefit pension schemes is calculated separately for each scheme and represents the present value of the defined benefit obligation less, for funded schemes, the fair value of scheme assets The discount rate used is the yield at the balance sheet date on high quality corporate bonds denominated in the currency in which the benefits will be paid When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of any future refunds from the scheme or reductions in future contributions to the scheme, plus the total of any unrecognised past service costs

The charge to the income statement for these smaller defined benefit schemes represents the following current service cost calculated on the projected unit credit method, the expected return on scheme assets, less the interest cost on scheme liabilities, and gains and losses on curtailments

All actuarial gains and losses are recognised in full in the statement of comprehensive income in the period in which they occur

Derivative financial instruments
The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risk Derivatives that have been purchased or issued as part of a hedge that subsequently does not qualify for hedge accounting are accounted for as if they were trading instruments

Derivative financial instruments are recognised initially at fair value Subsequent to initial recognition, they are re-measured at fair value within trade and other receivables, or within trade and other payables
Fair values are obtained from exchange quoted prices and, where specific exchange prices are not available, from market observable pricing information including interest rate yield curves The fair values of futures and options are obtained from the quoted prices on the relevant exchange, including LIFFE The value of foreign exchange forward contracts is established using listed market prices

Hedge accounting
The Group applies fair value, net investment and cash flow hedge accounting The Group formally documents the hedging relationship between a hedging instrument and a hedged item Documentation includes the risk management objectives and the strategy in undertaking the hedge transaction

Fair value hedges
Where a derivative financial instrument hedges the change in fair value of a recognised asset or liability or an unrecognised firm commitment, any gain or loss on measurement of the hedging instrument at fair value is recognised in the income statement The hedged item is fair valued for the hedged risk with any adjustment being recognised in the income statement

Cash flow hedges
Gains and losses on derivative financial instruments designated as a hedge to the exposure in the variability in cash flows that are attributed to a recognised asset or liability, a firm commitment or a highly probable forecast transaction are accounted for as cash flow hedges

The effectiveness of a cash flow hedge is the degree to which the cash flows attributable to a hedged risk are offset by changes in the cash flows of the hedging instrument The effective portion of any gain or loss on the hedging instrument is recognised directly in other comprehensive income until the forecast transaction occurs and results in the recognition of a financial asset or liability which impacts the income statement The ineffective portion of the gain or loss is recognised in the income statement

If the hedged cash flow is no longer expected to take place, all deferred gains and losses are released to the income statement immediately If the hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss at that point remains in other comprehensive income and is recognised in accordance with the above policy when the transaction occurs

Foreign currency hedging of net investment
The Group applies hedge accounting to its foreign currency exposure on a net investment basis The Group uses foreign currency denominated borrowings and foreign currency forward contracts to hedge net investment risk

If an external foreign currency denominated loan is used as a hedge, the portion of the exchange gains or losses arising from the retranslation, that is found to be an effective hedge, is recognised in other comprehensive income The same treatment is applied to both the realised and unrealised exchange gains and losses arising from foreign currency forward contracts Any ineffective portion is recognised directly in the income statement If an entity is subsequently sold or liquidated, any gains or losses that have been previously recognised in other comprehensive income are recognised in the income statement

Accounting estimates and judgements
The preparation of financial statements in conformity with IFRS requires the use of certain accounting estimates It also requires management to exercise its judgement in applying the Group's accounting policies The estimates and assumptions are based on historical experience and other related variables, updated to reflect current trading performance The estimates and assumptions are reviewed on an ongoing basis and are considered to be prudent and appropriate but actual results may differ from these estimates Judgements made by management in applying the Group's accounting policies that have a significant effect on the financial statements, and estimates with a significant risk of material adjustment in subsequent periods, are described below

Insurance accounting The estimates, uncertainties and judgements arising as a result of the Group's insurance operations are detailed in note 32

Deferred revenue In respect of the Group's revenue and deferred revenue for performance based health service contracts, estimates are made by the Group based on the most recent performance evaluation data available at the year end and these estimates are utilised if they are determined to be reliable Reliable estimates can only be made on an individual contract basis once the results of an initial performance evaluation is available, and revenue is deferred until the first reliable evaluation is available Where the results of final performance assessment differ from the estimation or if an updated reliable estimate is available Where reliable estimates are not available, the Group recognises revenue only to the extent of the contract costs recognised that the Group believes are recoverable

Financial instruments The Group is exposed to uncertainty as a result of exposure to currency, credit, liquidity and interest rate risks These risks, together with the Group's procedures to mitigate resulting uncertainty, are discussed in notes 31 and 32

Pension assumptions Note 26 details the estimation techniques involved in calculating the Group's net pension assets or liabilities

Intangible assets arising on business combinations All identifiable assets arising as part of a business combination must be recognised at fair value The calculation of fair value requires the use of estimates and judgements, including modelling techniques These assets are described in note 10

Goodwill impairment Note 10 contains information about the assumptions and estimates used to calculate the impairment of goodwill

Property valuations The Group's care home and hospital properties are valued with regard to their trading potential Valuations are performed by independent, external valuers who incorporate assumptions The principal assumptions relate to quantifying a fair, maintainable level of trade and profitability, levels of competition, and assumed ability to renew existing licences, consents, certificates or permits

Income taxes The Group is subject to income taxes in numerous jurisdictions There are many transactions and calculations for which the ultimate taxation determination is uncertain during the ordinary course of business Where the final taxation outcome is different from the amount that was initially recorded, the difference is recognised in the period in which such determination is made

The areas of judgement made in the process of applying the Group's accounting policies to categorise how transactions are displayed and that have the most significant effect on the amounts recognised in the financial statements are

- establishing whether special purpose entities are controlled by the Group,
- determining the nature of intangible assets arising on business combinations,
- determining the presence or absence of insurance risk in contracts entered into by the Group's insurance entities,
- determining whether a substantial transfer of risks and rewards has occurred in relation to leased assets, and
- determining the necessary taxation provision where the effect of taxation laws and regulations is unclear

1 Segmental information

The Group has three reportable segments which are defined by the different products and services they provide and the geographic areas in which they operate

- Europe and North America
  - provision of health insurance, life assurance and related products sold in domestic markets within UK and Europe,
  - provision of care management and analytic services,
  - management and operation of a private London hospital, The Bupa Cromwell Hospital, providing medical and ancillary services to patients

- International Markets
  - provision of health insurance, life assurance, life investment contracts and related products sold in the international expatriate market and domestic markets in the Middle East, Latin America and Asia Pacific

- Care Services
  - provision of nursing, residential and respite care within the UK, Spain, Australia and New Zealand,
  - provision of home healthcare products and services within the UK

These reportable segments reflect the management structure used by management to monitor the results of the business and to assess performance and make decisions about the allocation of resources Segmental performance is assessed based on surplus before share of post taxation results of equity accounted investments, amortisation of intangible assets arising on business combinations, impairment of goodwill, impairment of other intangible assets arising on business combinations, other charges and income, financial income and expenses, taxation expense and non-controlling equity interests The total surplus of the reportable segments is reconciled below to surplus before taxation expense in the consolidated income statement Financial income and expenses and taxation expense are reported and monitored on a Group basis and are not attributed to individual segments

	Europe and North America		International Markets		Care Services		Total	
	2010	2009 (restated)	2010	2009 (restated)	2010	2009 (restated)	2010	2009 (restated)
	£m	£m	£m	£m	£m	£m	£m	£m
(i) Revenues								
Total revenues for reportable segments	**3,008 0**	2 981 8	**3,394 0**	2 831 4	**1,183 2**	1 134 6	**7,585 2**	**6,947 8**
Inter segment elimination	**(8 5)**	(6 6)	**-**	-	**(0 3)**	(0 3)	**(8 8)**	**(6 9)**
External revenues for reportable segments	**2,999 5**	2,975 2	**3 394 0**	2,831 4	**1,182 9**	1,134 3	**7,576 4**	**6,940 9**
Net reclassifications to other expenses or financial income and expenses							**(0 6)**	(0 1)
Unallocated central revenues							**0 2**	0 6
Consolidated total revenues							**7,576 0**	**6,941 4**

Bupa Finance plc
Notes to the financial statements - continued
for the year ended 31 December 2010

1. Segmental information - continued

	Europe and North America		International Markets		Care Services		Total	
	2010	2009 (restated)	2010	2009 (restated)	2010	2009 (restated)	2010	2009 (restated)
	£m	£m	£m	£m	£m	£m	£m	£m
(ii) Segment result								
Surplus for reportable segments	**135 4**	105 6	**226 9**	173 7	**139 7**	138 7	**502 0**	418 0
Share of post taxation results of equity accounted investments	**(0 3)**	-	**(0 4)**	2 8	-	-	**(0 7)**	2 8
Amortisation of other intangible assets arising on business combinations	**(8 8)**	(8 7)	**(20 7)**	(20 2)	**(5 2)**	(6 0)	**(34 7)**	(34 9)
	126 3	96 9	**205 8**	156 3	**134 5**	132 7	**466 6**	385 9
Net reclassification to financial income and expenses							**(8 8)**	(6 8)
Unallocated central (expenses) / income							**9 2**	2 6
Surplus*							**467 0**	381 7
Impairment of goodwill	**(212 5)**	-	-	-	**(36 7)**	-	**(249 2)**	-
Impairment of other intangible assets arising on business combinations	-	-	**(4 8)**	-	**(12 9)**	(11 7)	**(17 7)**	(11 7)
Other (charges) / income							**(53 8)**	2 6
Surplus before financial income and expenses							**146 3**	372 6
Financial income and expenses							**21 7**	51 1
	(86 2)	96 9	**201 0**	156 3	**84 9**	121 0		
Consolidated surplus before taxation expense							**168 0**	423 7
(iii) Other information								
Amortisation and depreciation costs for reportable segments	**71 0**	70 8	**38 7**	34 8	**63 3**	59 4	**173 0**	165 0
Non-cash (expenses) / income** for reportable segments	**(50 3)**	24 7	**(50 6)**	(66 4)	**(41 6)**	(17 9)	**(142 5)**	**(59 6)**
Unallocated non-cash expenses							**(29 9)**	**29 5**
Total non-cash expenses							(172 4)	(30 1)

*Surplus before impairment of goodwill, impairment of other intangible assets arising on business combination, other (charges) / income, and financial income and expenses
** Excluding amortisation and depreciation costs

Bupa Finance plc
Notes to the financial statements - continued
for the year ended 31 December 2010

1. Segmental information - continued

Geographic segments

	Note	UK 2010 £m	UK 2009 £m	Spain 2010 £m	Spain 2009 £m	Australasia 2010 £m	Australasia 2009 £m	Rest of the World[a] 2010 £m	Rest of the World[a] 2009 £m	Total 2010 £m	Total 2009 £m
Consolidated total revenues		2,982 2	2,953 0	1,161 5	1,116 5	2,804 0	2,236 7	628 3	635 2	7,576 0	6,941 4
Consolidated non-current assets	b	589 9	525 6	554 1	788 6	2,918 3	2,423 2	1,174 3	1,369 4	5,236 6	5,104 8

Notes

a Included within Rest of the World are operations in the US, Denmark, the Middle East, Hong Kong, Thailand, Egypt, Malta, China and Bolivia

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

2 Total revenues

	General Insurance 2010 £m	General Insurance 2009 £m	Long-term business 2010 £m	Long-term business 2009 £m	Total 2010 £m	Total 2009 £m
Gross premiums written	5,881 6	5,289 0	167 7	170 8	6,049 3	5,459 8
Change in gross provision for unearned premiums	(42 5)	(13 7)	5 0	(2 6)	(37 5)	(16 3)
Gross insurance premiums	5,839 1	5,275 3	172 7	168 2	6,011 8	5 443 5
Gross premiums written ceded to reinsurers	(20 9)	(21 2)	(67 4)	(65 4)	(88 3)	(86 6)
Reinsurers' share of change in gross provision for unearned premiums	0 6	1 4	(3 1)	1 3	(2 5)	2 7
Premiums ceded to reinsurers	(20 3)	(19 8)	(70 5)	(64 1)	(90 8)	(83 9)
Net insurance premiums earned	5,818 8	5,255 5	102 2	104 1	5,921 0	5,359 6
Revenues from life investment contracts					7 9	15 4
Revenues from service contracts					3 5	4 3
Care, health and other revenues					1,643 6	1,562 1
Total revenues					7,576 0	6,941 4

3. Net insurance claims incurred

	General insurance 2010 £m	General insurance 2009 £m	Long-term business 2010 £m	Long-term business 2009 £m	Total 2010 £m	Total 2009 £m
Insurance claims paid	4,597 4	4,177 2	81 0	69 2	4,678 4	4,246 4
Change in gross provisions for claims	40 8	19 0	8 9	13 8	49 7	32 8
	4,638 2	4,196 2	89 9	83 0	4,728 1	4,279 2
Risk Equalisation Trust Fund levy	(79 4)	(56 8)	-	-	(79 4)	(56 8)
Insurance claims incurred	4,558 8	4,139 4	89 9	83 0	4,648 7	4,222 4
Recoveries from reinsurers on claims paid	(18 7)	(14 1)	(46 1)	(41 8)	(64 8)	(55 9)
Reinsurers' share of change in gross provisions for claims	(3 5)	0 4	(7 0)	(6 3)	(10 5)	(5 9)
Reinsurers' share of claims incurred	(22 2)	(13 7)	(53 1)	(48 1)	(75 3)	(61 8)
Net insurance claims incurred	4,536 6	4,125 7	36 8	34 9	4,573 4	4,160 6

4. Other operating expenses

	2010 £m	2009 £m
Amortisation of intangible assets arising on business combinations and computer software	**76 9**	69 9
Impairment of computer software	**-**	7 6
Depreciation expense	**96 1**	95 1
Acquisition costs		
Commission for direct insurance	**208 2**	216 4
Other acquisition costs paid	**12 0**	15 2
Changes in deferred acquisition costs	**0 1**	(11 7)
Total acquisition costs	**220 3**	219 9
Cost of sales	**168 1**	176 1
Property costs	**142 4**	122 4
Marketing costs	**92 8**	71 1
Medical supplies and fees	**156 7**	130 8
Operating lease rentals	**41 8**	40 0
Staff costs		
Wages and salaries	**1,028 9**	970 1
Social security costs	**85 2**	81 8
Contributions to defined contribution schemes	**19 9**	16 5
Other pension costs	**0 1**	2 3
Net loss on foreign exchange transactions	**0 3**	4 8
Other operating expenses (including auditor's remuneration)	**405 2**	393 5
Total other operating expenses	**2,534 7**	2,401 9

Auditors' remuneration	2010 £m	2009 £m
Fees payable to the Company's auditors, KPMG Audit Plc and its associates		
Statutory audit of the Company's consolidated annual accounts	**0 7**	0 6
Fees payable to the Company's auditors and its associates for other services		
Statutory audit of the company's subsidiaries and pension scheme audits pursuant to legislation	**3 5**	3 2
Total audit fees payable to the Company's auditors, KPMG Audit Plc and its associates	**4 2**	3 8
Fees payable to other auditors		
Audit of overseas subsidiary companies	**0 1**	0 3
Total audit fees	**4 3**	4 1
Other services relating to taxation	**0 4**	0 3
Services relating to corporate finance transactions	**0 7**	-
All other services	**2 2**	1 0
Total auditors' remuneration	**7 6**	5 4

Bupa Finance plc
Notes to the financial statements – continued
for the year ended 31 December 2010

4. Other operating expenses - continued

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

	2010	2009
Health insurance	**9,604**	9,210
Care and health provision	**32,268**	32 094
	41,872	41 304

5 Directors' emoluments

No remuneration was paid to any of the Directors during the year (2009 £nil) in their capacity as Directors of the Group

6 Other income / (charges)

	2010 £m	2009 £m
Net (loss) / gain on sale of business	**(11 6)**	20 3
Net charge on disposal group held for sale	**(6 5)**	-
Net loss on sale of equity accounted investment	-	(0 3)
Deficit on revaluation of property	**(35 2)**	(15 7)
Net loss on disposal of property, plant and equipment	**(0 5)**	(1 7)
Total other (charges) / income	**(53 8)**	2 6

7. Financial income

	2010 £m	2009 £m
Interest income		
Investments designated at fair value through profit or loss	**5 1**	3 3
Loans and receivables	**74 2**	70 3
Investments held to maturity	**10 0**	7 0
Net realised gains on financial investments designated at fair value through profit or loss	**0 5**	14 5
Net increase / (decrease) in fair value		
Investments designated at fair value through profit or loss	**15 5**	41 7
Derivatives	**0 3**	-
Investment property	**0 1**	(0 5)
Net foreign exchange loss	**(0 7)**	(11 1)
Total financial income	**105 0**	125 2

No financial investments designated at fair value through profit or loss are held for trading

The net amount of foreign exchange differences recognised in financial income for the year, excluding those arising on financial assets and financial liabilities measured at fair value through profit or loss, was a gain of £0 5m (2009 gain of £4 6m)

Included within financial income of £105 0m (2009 £125 2m) is a net gain, after hedging, on the Group's return seeking asset portfolio of £13 2m (2009 net gain of £52 2m)

8 Financial expenses

	2010 £m	2009 £m
Interest expense on financial liabilities at amortised cost	**82 0**	72 7
Finance charges in respect of finance leases	**0 2**	0 2
Other financial expenses	**1 1**	1 2
Total financial expenses	**83 3**	74 1

9. Taxation expense

(i) Recognised in the income statement

	2010 £m	2009 £m
Current taxation expense / (income)		
UK taxation on income for the year	**75 4**	92 3
Adjustments in respect of prior periods	**(11 0)**	(13 3)
	64 4	79 0
Double taxation relief	**(2 0)**	(14 8)
Foreign taxation on income for the year	**59 1**	103 9
Adjustments in respect of prior periods	**(0 5)**	(4 7)
	58 6	99 2
Total current taxation	**121 0**	163 4
Deferred taxation expense / (income)		
Origination and reversal of temporary differences	**11 5**	(36 5)
Adjustments in respect of prior periods	**4 7**	(13 9)
Changes in taxation rates	**(0 2)**	0 7
Total deferred taxation	**16 0**	(49 7)
Taxation expense	**137 0**	113 7

(ii) Reconciliation of effective taxation rate

	2010 £m	2009 £m
Surplus before taxation expense	**168 0**	**423 7**
Taxation at the domestic UK corporate taxation rate of 28 0% (2009 28 0%)	**47 0**	**118 6**
Effect of		
Different taxation rates in foreign jurisdictions	**(0 1)**	(3 7)
Transfer pricing adjustment	**(5 0)**	(5 2)
Non-deductible expenses	**107 3**	35 0
Current income taxation adjustments in respect of prior periods	**(11 5)**	(18 0)
Deferred taxation adjustments in respect of prior periods	**4 7**	(13 9)
Changes in taxation rate	**(0 2)**	0 7
Movement on deferred taxation asset not recognised	**(5 2)**	0 2
Taxation expense at the effective taxation rate of 81 6% (2009 26 8%)	**137 0**	**113 7**

Bupa Finance plc
Notes to the financial statements – continued
for the year ended 31 December 2010

9 Taxation expense (continued)

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

	2010			2009		
	Before taxation	Taxation (expense) / benefit	Net of taxation	Before taxation	Taxation benefit / (expense)	Net of taxation
	£m	£m	£m	£m	£m	£m
Current taxation credit / (charge) in respect of:						
Realisation of foreign exchange on disposal of overseas subsidiary companies	1 6	-	1 6	(2 2)	-	(2 2)
Foreign exchange translation differences on goodwill	212 6	-	212 6	114 8	-	114 8
Other foreign exchange translation differences	150 5	(1 1)	149 4	142 5	(0 3)	142 2
Net loss on hedge of net investment in overseas subsidiary companies	(43 2)	1 7	(41 5)	(57 7)	6 2	(51 5)
Realisation of cash flow hedge on disposal of subsidiary companies	(0 9)	(0 8)	(1 7)	-	-	-
Realisation of cash flow hedge on impairment of subsidiary companies	2 8	-	2 8	-	-	-
Disposal of subsidiary companies	0 1	-	0 1	-	-	-
Other movements in non-controlling interests	(6 8)	-	(6 8)	-	-	-
Deferred taxation credit / (charge) in respect of						
Unrealised deficit on revaluation of property	82 2	(17 3)	64 9	(44 7)	8 6	(36 1)
Actuarial gain / (loss) on pension schemes	4 8	(1 3)	3 5	(2 9)	0 8	(2 1)
Change in fair value of underlying derivative of cash flow hedge	(0 4)	0 1	(0 3)	(2 8)	0 8	(2 0)
Taxation credit on income / (expense) recognised directly in other comprehensive income	403 3	(18 7)	384 6	147 0	16 1	163 1

(iv) Factors that may affect future tax charges

The budget in March 2011 announced that the UK corporation tax rate will reduce to 23% over a period of 4 years from 2011 The first reduction from 28% to 27% was substantively enacted on 20 July 2010 and the second reduction from 27% to 26% was substantively enacted on 29 March 2011, both to be effective from 1 April 2011 The group's deferred tax balances have been provided for at 27%, being the rate that was substantively enacted at 31 December 2010

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Notes to the financial statements – continued
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10 Intangible assets

	Goodwill £m	Computer software £m	Customer relationships £m	Other £m	Total £m
2010					
Cost					
At beginning of year	2,023 7	382 2	291 4	325 2	**3,022 5**
Assets arising on business combinations	3 0	-	-	-	**3 0**
Additions	-	26 6	-	-	**26 6**
Transfer to assets held for sale	-	(12 3)	-	-	**(12 3)**
Disposal of subsidiary companies	(22 2)	-	-	(23 4)	**(45 6)**
Disposals	-	(10 7)	-	-	**(10 7)**
Foreign exchange	226 2	4 1	37 8	31 3	**299 4**
At end of year	**2,230 7**	**389 9**	**329 2**	**333 1**	**3,282 9**
Amortisation and impairment loss					
At beginning of year	180 5	165 5	42 1	58 8	**446 9**
Amortisation for year	-	47 5	21 1	8 3	**76 9**
Impairment loss	246 4	-	-	17 7	**264 1**
Transfer to assets held for sale	-	(6 4)	-	-	**(6 4)**
Disposals of subsidiary companies	(0 3)	-	-	(3 6)	**(3 9)**
Disposals	-	(11 4)	-	-	**(11 4)**
Foreign exchange	13 6	2 3	5 8	2 3	**24 0**
At end of year	**440 2**	**197 5**	**69 0**	**83 5**	**790 2**
Net book value at end of year	**1,790 5**	**192 4**	**260 2**	**249 6**	**2,492 7**
Net book value at beginning of year	1,843 2	216 7	249 3	266 4	**2,575 6**

10. Intangıble assets – continued

	Goodwill	Computer software	Customer relatıonshıps	Other	Total
	£m	£m	£m	£m	£m
2009					
Cost					
At begınnıng of year	1,918 3	337 5	270 5	306 5	**2,832 8**
Addıtıons	-	65 2	-	0 1	**65 3**
Transfer to property, plant and equıpment	-	(4 1)	-	-	**(4 1)**
Dısposal of subsıdıary companıes	(10 5)	-	-	-	**(10 5)**
Dısposals	-	(6 9)	-	-	**(6 9)**
Foreıgn exchange	115 9	(9 5)	20 9	18 6	**145 9**
At end of year	**2,023 7**	**382 2**	**291 4**	**325 2**	**3,022 5**
Amortisation and impairment loss					
At begınnıng of year	189 9	129 0	21 7	37 7	**378 3**
Amortısatıon for year	-	40 2	18 7	11 0	**69 9**
Impaırment loss	-	7 6	-	11 7	**19 3**
Transfer to property, plant and equıpment	-	(3 0)	-	-	**(3 0)**
Dısposal of subsıdıary companıes	(10 5)	-	-	-	**(10 5)**
Dısposals	-	(6 1)	-	-	**(6 1)**
Foreıgn exchange	1 1	(2 2)	1 7	(1 6)	**(1 0)**
At end of year	**180 5**	**165 5**	**42 1**	**58 8**	**446 9**
Net book value at end of year	**1,843 2**	**216 7**	**249 3**	**266 4**	**2,575 6**
Net book value at begınnıng of year	1,728 4	208 5	248 8	268 8	**2,454 5**

Intangıble assets of £2,492 7m (2009 £2,575 6m) ıncludes £546 7m (2009 £556 4m) whıch ıs attrıbutable to ıntangıble assets arısıng on acquısıtıons (ıncluded wıthın computer software, customer relatıonshıps and other) as follows

	2010	2009
	£m	£m
Customer relatıonshıps	**260 2**	249 3
Bed lıcences (wıthın Bupa Care Servıces Australıa)	**99 8**	99 8
Brand and trademarks	**68 6**	61 2
Lıcences to operate care homes	**54 9**	55 4
Technology and database	**36 9**	40 7
Leases	**13 4**	11 9
Dıstrıbutıon networks	**11 4**	18 0
Present valuatıon of acquıred ın-force busıness	**1 5**	20 0
Non-compete agreements	**-**	0 1
	546 7	556 4

Brand and trademarks ıncludes £59 7m (2009 51 2m) ın respect of the MBF brand, whıch can be attrıbuted to MBF PHI £59 7m (2009 £50 5m) and MBF Fınancıal Servıces £nıl (2009 £0 7m)

10. Intangible assets – continued

Impairment of other intangible assets arising on business combinations
During the year, impairment of other intangible assets arising on business combinations totalled £17 7m (2009 £11 7m)

An impairment charge of £16 4m (2009 £nil) has been recognised in respect of the bed licences that are held within Bupa Care Services Australia The bed licences are intangible assets with an indefinite useful life and are tested annually for impairment The current year impairment has arisen due to reduced demand for licences in some regions of Australia

An impairment charge of £4 8m (2009 £nil) has arisen after the distribution agreement that was recognised as an intangible asset on acquisition of MBF was fully written down due to a decision during the year to terminate the agreement

Licences to operate care homes have been impaired by £1 6m (2009 £11 7m) due to the reduction in the cash flow projections of the Spanish care homes In addition, £5 1m of impairment losses that were recognised in prior years in respect of licences to operate care homes have been reversed The reversal arose due to increased occupancy levels leading to favourable changes in the cash flow projections of a number of individual Spanish care homes A discounted cash flow model was used to value these assets

Impairment testing
Goodwill and intangible assets with indefinite useful lives are tested at least annually for impairment by comparing the net carrying value with the recoverable amount using value in use calculations In arriving at the value in use for each cash generating unit (CGU), key assumptions have been made regarding future projected cash flows, discount rates and terminal growth rates

Except for Bupa Care Services Australia and The Bupa Cromwell Hospital, cash flow projections have been based on management operating profit projections for a three year period which have been approved by the Board Cash flow projections for Bupa Care Services Australia and The Bupa Cromwell Hospital have been based on a period of eight and six years respectively A longer period was justified for these CGUs as management believes that this is an appropriate timescale over which to look at the annual cash flow projections before applying the terminal growth rate to the final year Taxation has been applied to the pre-taxation management operating profits based on the statutory taxation rates in the country of operation

Future post-taxation cash flows have been discounted at post-taxation discount rates The discount rates used for the value in use calculations for each of the Group's CGUs are an estimate of a market assessment of the time value of money and the risks inherent in the relevant country where the cash flows are generated and within the Group's business plans

The following table summarises the pre-taxation discount rates used for impairment testing

	2010 %	2009 %
Bupa Australia	**12 8**	12 4
Bupa Care Services Australia	**9 3**	9 3
Bupa Care Services UK	**9 0**	9 3
Health Dialog	**12 6**	12 0
Bupa International	**10 4**	10 4
Bupa Care Services New Zealand	**10 0**	10 1
Bupa Home Healthcare	**11 9**	11 4
The Bupa Cromwell Hospital	**13 0**	12 9
Other - range of discount rates	**12 7 – 14 3**	11 6-12 1

10 Intangible assets – continued

Cash flow projections beyond the three year period have been extrapolated by applying a terminal growth rate between 1 5% and 3 0% (2009 1 5% and 3 5%) for all CGUs The terminal growth rates represent management's estimate of the long-term growth rate for each of the CGUs, taking into account both the future and past growth rates and external sources of data They are conservative estimates which do not exceed the long-term average growth rate for the respective industries, countries or markets in which the CGUs operate

The values assigned to the key assumptions are based on management's past experience and assessment of future trends in the relevant industry

Impairment of goodwill and other intangible assets with indefinite useful lives
At 31 December 2010, the carrying values of the following CGUs are determined to be higher than their recoverable amounts, resulting in impairments to goodwill arising on business combinations totalling £246 4m (2009 £nil)

Health Dialog
An impairment has been made to the goodwill relating to Health Dialog (acquired in 2008) of £156 0m Health Dialog is a US based provider of health analytics and care management services that helps health plans, public insurers and employers manage the cost and quality of healthcare Due to the weak economic conditions in the US and the uncertainty surrounding the enacted US healthcare reforms, the short term outlook for the business has become more uncertain The main assumptions on which the cash flow projections were based include revenue growth rates and gross margins The key valuation assumptions used to test the carrying value of goodwill include a pre-taxation discount rate of 12 6% (2009 12 0%) and a terminal growth rate of 3 0%

The Bupa Cromwell Hospital
An impairment has been made to the goodwill relating to The Bupa Cromwell Hospital (acquired in 2008) of £53 7m Whilst the business has been trading in line with expectations to date, the capital investment required for the hospital re-development has increased, leading to a decline in cash flow projections The main assumptions on which the cash flow projections were based include cost of re-development of the hospital, future projected occupancy levels and the achievement of future operating margins The key valuation assumptions used to test the carrying value of goodwill include a pre-taxation discount rate of 13 0% (2009 12 9%) and a terminal growth rate of 3 0%

Bupa Home Healthcare
An impairment has been made to the goodwill relating to Bupa Home Healthcare (acquired in 2006) of £36 7m Bupa Home Healthcare provides out of hospital care predominantly to the NHS Due to the future uncertainty around NHS funding arising from the UK Government's Health White Paper, the business has reduced its expectations of growth in short-term cash flows The main assumptions on which the cash flow projections were based include revenue growth rates and gross margins The key valuation assumptions used to test the carrying value of goodwill include a pre-taxation discount rate of 11 9% (2009 11 4%) and a terminal growth rate of 3 0%

Impairment of intangible assets with indefinite useful lives
Other than the £16 4m impairment to the bed licences held by Bupa Care Services Australia, described above, there have been no further impairments during the year to intangible assets with indefinite useful lives (2009 £nil)

10 Intangible assets – continued

The following table summarises goodwill by CGU as at 31 December

	2010	2009
	£m	£m
MBF PHI	-	559 1
Bupa Australia	961 2	254 3
Bupa Care Services Australia	314 3	266 0
Bupa Care Services UK	178 2	178 2
Health Dialog	170 4	313 6
Bupa International	59 3	59 3
Bupa Care Services New Zealand	31 2	28 0
Bupa Home Healthcare	20 5	64 2
Sanitas PMI	19 8	20 4
Bupa Cromwell Hospital	16 2	70 0
Bupa Latin America	8 5	8 5
MBF Financial Services	-	13 8
Other	10 9	7 8
	1,790 5	1,843 2

As at 1 July 2010, the goodwill allocated to the Bupa Australia and MBF PHI CGUs has been combined into a single merged CGU, Bupa Australia The three separately registered health funds across Bupa Australia and MBF Australia were transferred into a single fund and as a result the related businesses are now being managed and monitored on a combined basis

Sensitivity to changes in key assumptions
A sensitivity analysis has been performed on the key assumptions used to determine the value in use for each CGU as at 31 December 2010

Other than as disclosed below, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of any goodwill or intangible asset with an indefinite useful life to exceed its recoverable amount

Following the goodwill impairments in 2010 the recoverable amount of Health Dialog, The Bupa Cromwell Hospital and Bupa Home Healthcare equalled their respective carrying values as at 31 December 2010 and consequently any adverse change in the assumptions would, in isolation, cause a further impairment loss to be recognised

It is possible that a change in key assumptions could cause the impairment of goodwill for Bupa Care Services Australia and Bupa Care Services New Zealand The table below shows the change required in the terminal growth rate, currently 3 0% for both CGUs, and discount rate for the recoverable amount of the goodwill to equal the carrying amount

	Headroom	Decrease in terminal growth rate	Increase in discount rate*
	£m	%	%
Bupa Care Services Australia	96 9	1 3	0 9
Bupa Care Services New Zealand	62 8	2 0	1 8

Both Bupa Care Services Australia and Bupa Care Services New Zealand were impaired to recoverable amounts in 2008 Since then, they have built up additional headroom, however, they remain sensitive to changes in assumptions

11 Property, plant and equipment

	Freehold Property	Leasehold Property	Equipment	Total
	£m	£m	£m	£m
2010				
Cost or valuation				
At beginning of year	1,865 9	143 8	589 2	2,598 9
Additions through business combinations	-	1 0	0 1	1 1
Additions	35 9	11 4	81 5	128 8
Reclassifications	(2 6)	(1 3)	3 9	-
Transfer from investment properties	0 3	-	-	0 3
Transfer to assets held for sale	-	-	(2 2)	(2 2)
Disposal of subsidiary companies	-	(0 8)	(1 8)	(2 6)
Disposals	(0 3)	(2 5)	(15 3)	(18 1)
Revaluations	(59 4)	(4 7)	-	(64 1)
Foreign exchange	57 5	4 4	8 1	70 0
At end of year	**1,897 3**	**151 3**	**663 5**	**2,712 1**
Depreciation and impairment loss				
At beginning of year	98 4	31 6	334 4	464 4
Depreciation charge for year	25 4	8 7	62 0	96 1
Transfer to assets held for sale	-	-	(1 9)	(1 9)
Disposal of subsidiary companies	-	(0 7)	(1 1)	(1 8)
Disposals	-	(1 3)	(14 5)	(15 8)
Revaluations	(105 8)	(4 4)	-	(110 2)
Foreign exchange	3 5	2 0	4 2	9 7
At end of year	21 5	35 9	383 1	440 5
Net book value at end of year	**1,875 8**	**115 4**	**280 4**	**2,271 6**
Net book value at beginning of year	1,767 5	112 2	254 8	2,134 5

11. Property, plant and equipment – continued

	Freehold Property £m	Leasehold Property £m	Equipment £m	Total £m
2009				
Cost or valuation				
At beginning of year	1,843 1	143 5	533 0	2,519 6
Additions	41 5	6 1	65 2	112 8
Reclassifications	(9 8)	5 8	4 0	-
Transfer to investment properties	(6 4)	-	-	(6 4)
Transfer (to) / from intangible assets	-	(0 1)	4 2	4 1
Disposal of subsidiary companies	(2 6)	(9 1)	(1 4)	(13 1)
Disposals	(2 8)	(4 1)	(10 7)	(17 6)
Revaluations	(29 2)	0 1	-	(29 1)
Foreign exchange	32 1	1 7	(5 1)	28 7
At end of year	**1,865 9**	**143 9**	**589 2**	**2,599 0**
Depreciation and impairment loss				
At beginning of year	40 4	27 4	285 2	353 0
Depreciation charge for year	25 6	9 4	60 1	95 1
Reclassifications	0 1	(0 1)	-	-
Transfer from intangible assets	-	-	3 0	3 0
Disposals of subsidiary companies	(0 1)	(3 3)	(1 3)	(4 7)
Disposals	(0 1)	(3 1)	(9 9)	(13 1)
Revaluations	31 7	-	-	31 7
Foreign exchange	0 8	1 3	(2 6)	(0 5)
At end of year	98 4	31 6	334 5	464 5
Net book value at end of year	**1,767 5**	**112 3**	**254 7**	**2,134 5**
Net book value at beginning of year	1,802 7	116 1	247 8	2,166 6

Certain property, plant and equipment is held as securitised assets under borrowing arrangements described in note 23

Analysis of cost or valuation of the Group's freehold and leasehold properties

	Freehold property £m	Leasehold property £m
Valuation – December 2010	1,750 1	71 5
Valuation – December 2009	106 2	1 2
Assets held at cost	41 0	78 6
	1,897 3	151 3

The valuation of properties was carried out independently by Knight Frank and Darroch, Chartered Surveyors and, where impairment indicators exist, internally using Directors' valuations The revaluations were effective as of 31 December in the year in which they were undertaken The fair values of corporate use properties were determined mainly by reference to active market prices Care homes and hospitals were valued based on value in use valuation techniques The principal assumptions inherent in such valuations are described on page 46

11. Property, plant and equipment – continued

Historical cost of the Group's revalued assets

An £82 2m revaluation gain (2009 £44 7m deficit) has been recognised in the property revaluation reserve In 2010, a net deficit of £35 2m (2009 £15 7m) below historical cost was charged to the income statement (see note 6) The entire £47 0m net revaluation surplus was valued by external valuers (2009 £19 7m deficit was valued by external valuers and £40 7m deficit was valued internally)

	2010 £m	2009 £m
Historical cost of revalued assets	**1,488 7**	1,385 7
Accumulated depreciation based on historical cost	**(175 5)**	(142 2)
Historical cost net book value	**1,313 2**	1,243 5
Depreciation		
Depreciation charge for the year on historical cost	**29 8**	27 7

The historical cost of all property, plant and equipment is £2,152 2m (2009 £1,974 9m)

Amounts included in property, plant and equipment in respect of assets held under finance leases

	Equipment £m
Net book value	
At end of year	2 5
At beginning of year	3 6
Depreciation	
Charge for year	1 1

Property, plant and equipment in the course of construction

Recognised in the carrying amount of freehold property is £11 4m (2009 £19 2m) in relation to freehold property in the course of construction

12 Investment property

	2010 £m	2009 £m
At beginning of year	**104 7**	87 4
Additions	**5 1**	4 0
Increase / (decrease) in fair value	**0 1**	(0 5)
Transfer (to) / from property, plant and equipment	**(0 3)**	6 4
Disposals	**(0 2)**	(1 3)
Foreign exchange	**10 9**	8 7
At end of year	**120 3**	104 7

The historical cost of investment property is £106 2m (2009 £92 0m)

The carrying value of investment properties is the fair value of the properties Where there is an active market for a property, valuations are carried out annually by an external valuer, Knight Frank, Chartered Surveyors The most recent independent valuation was effective as of 31 December 2010

Where there is an absence of current prices in an active market, the properties are valued using discounted cash flow projections, supported by the terms of any existing lease and other contracts and, when possible, by external evidence such as current market rents for similar properties in the same location and condition Discount rates are used to reflect current market assessments of the uncertainty in the amount or timing of the cash flows The discounted cash flow projections are reviewed by an independent valuer, Deloitte

Of the £120 3m (2009 £104 7m) of investment properties in the balance sheet as at 31 December 2010, £9 8m (2009 £13 4m) was valued by an external valuer, Knight Frank, Chartered Surveyors and £110 5m (2009 £91 3m) was valued using discounted cash flow projections

Investment properties include commercial properties which are leased to third parties The leases contain an initial non-cancellable period of between five and seven years Subsequent renewals are negotiated with the lessee

13. Equity accounted investments

	2010 £m	2009 £m
At beginning of year	**38 4**	**31 4**
Additions	**3 5**	**5 5**
Disposals	**(0 9)**	**(0 4)**
Share of (deficit) / surplus after taxation	**(0 7)**	**2 8**
Foreign exchange	**1 9**	**(0 9)**
At end of year	**42 2**	**38 4**

The Group's principal equity accounted investments are

	Business activity	Share of issued share capital	Principally operates in	Country of incorporation	Accounting period end date
ADD Wellness Holdings Limited	Retail	50 00%	UK	England and Wales	31 July
Bupa Arabia For Cooperative Insurance Company	Insurance	26 25%	Saudi Arabia	Saudi Arabia	31 December
Forsikringsselskaber Nes Data Centre A/S	Insurance	33 30%	Denmark	Denmark	31 December
Mutual Community General Insurance Pty Limited	Insurance	49 00%	Australia	Australia	31 December
MAX Bupa Health Insurance Company Limited	Insurance	26 00%	India	India	31 December
IBC Asia Healthcare Limited	Healthcare	26 00%	USA	Cayman Islands	31 December

13 Equity accounted investments – continued

The accounting period end date for ADD Wellness Holdings Limited is 31 July In respect of each year ended 31 December, this company is included in the Group's results based on the latest available financial statements and management accounts All other equity accounted investments are included on a coterminous basis

The Group has not recognised losses relating to Bupa Healthcare Asia in the year of £0 1m (2009 £0 3m) and cumulatively £0 5m (2009 £0 4m) as this investment has been fully impaired and the share of losses exceeds the interest in the associate

In November 2010, the Group's previously held 23 85% shareholding in Fitbug Holdings plc was diluted to 9 24% and the investment was reclassified from equity accounted investments to financial investments In 2009, the Group's 50 00% investment in Core Exercise Clinics Limited was disposed of for proceeds of £0 1m

In 2009, the Group acquired a 26 0% investment in MAX Bupa Health Insurance This is a joint venture providing a health insurance service in India During 2010, a capital injection of £3 2m was made to maintain the shareholding of 26 0%

The Group's share of the assets, liabilities, revenue and surplus as reported in the most recent accounts of the individual equity accounted investments, is as follows

	2010 £m	2009 £m
Assets	100 9	88 8
Liabilities	(68 3)	(58 4)
	32 6	30 4
Revenues	102 5	78 1
Surplus before taxation expense	2 8	0 3

The Group's share of the assets, liabilities, revenue and surplus as reported in the most recent accounts of the individual joint ventures, is as follows

	2010 £m	2009 £m
Non-current assets	5 0	7 5
Current assets	0 6	0 9
Non-current liabilities	-	(2 5)
Current liabilities	(1 7)	(1 3)
	3 9	4 6
Revenues	0 4	3 3
Expenses	(4 1)	(4 6)

14 Investment in subsidiary companies

The ultimate parent company is The British United Provident Association Limited

The principal subsidiary companies of the Group as at 31 December 2010 are listed below and, except where stated, are incorporated in England and Wales Subsidiary companies are 100% owned unless otherwise stated Full details of all Group undertakings will be annexed to the Company's next annual return in compliance with the Companies Act 2006

Health insurance – general business	
Bupa Insurance Limited	
Sanitas, SA de Seguros (99% holding)	Spain
Bupa Australia Pty Limited	Australia
Bupa Asia Pacific Pty Limited	Australia
Bupa (Asia) Limited	Hong Kong
Bupa Insurance Company	US
Health insurance – long-term	
Bupa Health Assurance Limited	
Investment and financing activities	
Bupa Investments Limited	
Bupa Investments Overseas Limited	
Bupa Treasury Limited	
Bupa Financial Securities (1992) Limited	
Grupo Bupa Sanitas SL	Spain
UK Care No 1 Limited	Guernsey

Care and health provision	
Bupa Care Homes (CFG) plc	
Bupa Care Homes Group Limited	
Bupa Care Homes (BNH) Limited	
Bupa Care Services Limited	
Bupa Care Homes (CFCHomes) Limited	
Bupa Care Homes (CFHCare) Limited	
Bupa Care Homes (GL) Limited	
Bupa Care Homes (Partnerships) Limited	
ANS 2003 Limited	
Bupa Home Healthcare Group Limited	
Bupa Occupational Health Limited	
Bupa Aged Care Australasia Pty Limited	Australia
Bupa Healthcare New Zealand Limited	New Zealand
Euroresidencias Sotogrande SL	Spain
Sanitas Residencial SL	Spain
Sanitas, SA de Hospitales	Spain
Bupa Health Care Asia Pte Limited	Singapore
Health Dialog Services Corporation	US
Medical Services International Limited	

Although the Group holds none of the voting power of UK Care No 1 Limited, it has the right to obtain benefits or is exposed to risks relating to the activities of this company Consequently, the Group has included the results of this entity in its consolidated income statement

15. Financial investments

	Carrying value 2010 £m	Cost 2010 £m	Carrying value 2009 £m	Cost 2009 £m
Non-current				
Designated at fair value through profit or loss				
Debt securities – government gilts	**39 3**	**39 1**	66 1	64 2
Debt securities – corporate bonds	**54 8**	**69 4**	122 7	143 7
Shares and other variable yield securities	**132 6**	**124 3**	0 1	0 1
Held to maturity				
Medium-term notes	**150 8**	**150 0**	122 9	121 8
Loans and receivables				
Debt securities – corporate bonds	**69 0**	**40 2**	65 6	40 2
Deposits with credit institutions	**585 3**	**585 3**	164 5	164 5
	1,031 8	**1,008 3**	541 9	534 5
Current				
Designated at fair value through profit or loss				
Debt securities – government gilts	**6 2**	**6 0**	87 8	87 9
Shares and other variable yield securities	**10 1**	**19 0**	131 3	138 0
Held to maturity				
Medium-term notes	**75 5**	**74 5**	259 3	257 4
Debt securities – government gilts	**0 3**	**0 3**	-	-
Loans and receivables				
Reverse repo securities	**202 2**	**202 2**	191 8	191 8
Deposits with credit institutions	**832 7**	**832 7**	410 2	410 2
Property trusts	-	-	2 7	2 7
	1,127 0	**1,134 7**	1,083 1	1,088 0
Total financial investments	**2,158 8**	**2,143 0**	1,625 0	1,622 5

Included within current financial investments of £1,127 0m (2009 £1,083 1m) is £nil (2009 £92 4m), which supports the liability to external unit trust holders in the MBF Life business (disclosed within trade and other payables)

15 Financial investments – continued

Financial investments comprise:

	Fair value 2010 £m	Cost 2010 £m	Fair value 2009 £m	Cost 2009 £m
Listed investments	**110 7**	**133 8**	407 9	433 8
Unlisted investments	**630 1**	**591 2**	642 4	614 0
Deposits with credit institutions	**1,418 0**	**1,418 0**	574 7	574 7
	2,158 8	**2,143 0**	1,625 0	1,622 5

The movement in fair value attributable to credit risk on loans and receivables designated at fair value is immaterial

16. Life investment contracts

Assets backing life investment contract liabilities

	Carrying value 2010 £m	Cost 2010 £m	Carrying value 2009 £m	Cost 2009 £m
Current				
Financial investments				
Designated at fair value through profit or loss				
Shares and other variable yield securities	-	-	415 1	511 6
Debt securities	-	-	374 5	369 4
Property trusts	-	-	36 3	48 1
Total financial investments backing life investment contract liabilities	-	-	825 9	929 1
Net other assets backing life investment contract liabilities	-	-	4 6	4 6
Assets backing life investment contract liabilities	-	-	830 5	933 7

Return on financial investments backing life investment contract liabilities

	2010 £m	2009 £m
Distribution income	**8 8**	21 8
Net (decrease) / increase in fair value		
Investments designated at fair value through profit or loss	**(18 9)**	74 8
Total return on financial investments backing life investment contract liabilities	**(10 1)**	96 6

16 Life investment contracts - continued

Life investment contract liabilities

	2010 £m	2009 £m
Current		
At beginning of year	**(832 0)**	(679 4)
Net decrease / (increase) in fair value	**8 4**	(95 3)
Management fees	**7 9**	15 4
Deposits received from life investment contract holders	**(88 6)**	(221 0)
Withdrawals paid to life investment contract holders	**110 7**	260 7
Disposal of subsidiary companies	**852 8**	-
Foreign exchange	**(59 2)**	(112 4)
At end of year	**-**	(832 0)

Other assets backing life investment contract liabilities comprise cash, receivables, other liabilities and policyholder taxation A policyholder taxation credit of £1 5m (2009 taxation charge £1 3m) is recognised in the income statement

The assets backing life investment contract liabilities and life investment contract liabilities are £nil at 31 December 2010 as they were sold as part of the disposal of the MBF Life business

17 Assets arising from insurance business

	2010 £m	2009 £m
Non-current		
Reinsurers' share of insurance provisions	**1 3**	56 0
Deferred acquisition costs	**3 1**	30 9
	4 4	86 9
Current		
Insurance debtors	**607 1**	626 3
Reinsurers share of insurance provisions	**8 5**	25 7
Deferred acquisition costs	**60 6**	108 4
Medicare rebate	**80 2**	57 6
Risk Equalisation Trust Fund recoveries	**28 6**	15 9
	785 0	833 9
Total assets arising from insurance business	**789 4**	920 8

Reinsurers' share in insurance provisions are further analysed in note 24

Impairment losses in respect of insurance debtors amounting to £8 4m (2009 £5 7m) have been charged to other operating expenses in the income statement

17 Assets arısing from insurance business - continued

Deferred acquısıtıon costs

As part of the Group's ınsurance busıness, dırect costs ın relatıon to the acquısıtıon of ınsurance contract revenues are deferred The movement ın these deferred costs ıs set out below

	2010	2009
	£m	£m
At begınnıng of year	**139 3**	129 9
Acquısıtıon costs deferred	**300 7**	270 4
Acquısıtıon costs released to ıncome statement	**(300 8)**	(258 7)
Transferred to assets held for sale	**(76 4)**	-
Foreıgn exchange	**0 9**	(2 3)
At end of year	**63 7**	139 3

In complıance wıth IFRS 4, local GAAP applıes for ınsurance accountıng Under Australıan IFRS, acquısıtıon costs ıncurred ın Australıa ın relatıon to lıfe ınsurance contracts are capıtalısed ın the valuatıon of the polıcy lıabılıtıes and are ıncluded wıthın provısıons under ınsurance contracts ıssued

18 Trade and other receivables

	2010	2009
	£m	£m
Non-current		
Investment receıvables and accrued ınvestment ıncome	**2 1**	2 1
Amounts owed by ultımate parent company	**232 6**	198 9
Other receıvables	**1 8**	0 2
Servıce concessıon receıvables	**22 0**	17 3
Faır value of derıvatıve assets	**40 8**	22 6
Prepayments	**7 6**	7 7
Accrued ıncome	**2 9**	2 8
	309 8	251 6
Current		
Trade receıvables – net of ımpaırment losses	**123 5**	138 2
Investment receıvables and accrued ınvestment ıncome	**0 8**	11 1
Amounts owed by ultımate parent company	**520 7**	609 8
Other receıvables	**53 9**	79 1
Servıce concessıon receıvables	**130 2**	88 3
Faır value of derıvatıve assets	**3 0**	
Prepayments	**22 8**	30 4
Accrued ıncome	**15 1**	25 7
	870 0	982 6
Total trade and other receivables	**1,179 8**	1,234 2

Impaırment losses on trade receıvables amountıng to £7 4m (2009 £0 9m) and on ınvestment receıvables amountıng to £1 6m (2009 £nıl) have been charged to other operatıng expenses ın the ıncome statement

19 Inventories

	2010 £m	2009 £m
Drugs, prostheses and consumables	19 9	17 0

Inventory write downs of £0 2m (2009 £0 1m) were made during the year The Group consumed £201 8m (2009 £191 7m) of inventories, which is recognised within other operating expenses in the income statement Certain inventories are subject to a floating charge in respect of certain interest bearing liabilities (see note 24)

20 Disposals and assets and associated liabilities classified as held for sale

(i) Disposals

2010 disposals
On 9 June 2010, the Group sold its 100% shareholding in MBF Management Pty Limited and its subsidiary companies These subsidiary companies held the trade of the life insurance business (MBF Life) and wealth management business (ClearView) in Australia, and were included within the International Markets segment The MBF Life and ClearView businesses were sold for cash proceeds of £121 4m (AU$204 3m)

On 24 September 2010, the Group completed the sale of its 100% shareholding in Guardian Homecare UK Limited, the domiciliary care business of Bupa Home Healthcare included within the Care Services segment, for cash proceeds of £6 9m, of which £0 2m is deferred

On 21 June 2010, the Group sold its 88% shareholding in Byrne and Hickman Limited, which was included in the International Markets segment, for cash proceeds of £0 4m (HKD4 8m)

2009 disposals
On 1 January 2009, the Group sold the insurance book and the related assets and liabilities of Bupa Middle East Limited Company EC (BME), a 50% owned subsidiary to Bupa Arabia For Cooperative Insurance Company, a 26 25% owned associate, both of which are included within the International Markets Segment The assets and liabilities of BME were sold for cash proceeds of £16 0m, of which £8 0m was deferred as at 31 December 2009 The deferred proceeds are being settled through a series of annual payments between 2010 and 2015 representing 50% of the annual net profi ts of Bupa Arabia The total of these payments will not exceed £8 0m and any deferred proceeds that remain unpaid after 2015 will not be recovered In the year to 31 December 2010 £4 9m of the deferred proceeds amount was received

On 30 April 2009, the Group sold its 100% shareholding in Bupa Childcare Provision Limited and its subsidiary companies, which traded as Teddies Nurseries and was included within the Care Services segment, for cash proceeds of £10 7m The primary assets held by these companies were the leasehold improvements on their 30 nurseries

20. Disposals and assets and associated lιabilιtιes classιfied as held for sale - contιnued

Total dιsposals are analysed below

	2010 £m	2009 £m
Intangιble assets	41 7	1 6
Property plant and equιpment	0 8	10 2
Fιnancιal ιnvestments	148 3	-
Assets backιng lιfe ιnvestment contract lιabιlιtιes	852 4	-
Assets arιsιng from ιnsurance busιness	0 4	55 4
Deferred taxatιon asset	-	0 3
Trade and other receιvables	9 1	3 1
Cash and cash equιvalents	5 0	43 9
Provιsιons under ιnsurance contracts ιssued	37 1	(97 6)
Provιsιons for lιabιlιtιes and charges	(0 4)	(2 3)
Lιfe ιnvestment contract lιabιlιtιes	(852 8)	-
Deferred taxatιon lιabιlιtιes	(5 5)	-
Trade and other payables	(99 2)	(6 5)
Net assets dιvested	136 9	8 1
Foreιgn exchange	1 6	(2 2)
Cash flow hedge	(0 9)	-
Dιrectly related costs of dιsposal		
- cash	2 7	0 8
- non-cash	-	0 2
Net (loss) / gaιn on the sale of busιnesses	(11 6)	20 3
Sale proceeds	**128 7**	**27 2**

The net gaιn on sale of busιness ιs ιncluded wιthιn other (charges) / ιncome ιn the consolιdated ιncome statement (see note 6)

The sale proceeds from the dιsposal of subsιdιary companιes were satιsfied by cash of £128 7m, of whιch £5 9m was deferred The cash proceeds receιved, net of dιsposal costs paιd to 31 December, and cash and cash equιvalents dιsposed of resulted ιn a cash ιnflow of £115 1m

20 Disposals and assets and associated liabilities classified as held for sale - continued

(ii) Assets and associated liabilities classified as held for sale

The assets and liabilities of the Group's subsidiary Bupa Health Assurance Limited, part of the Europe and North America segment, are presented as held for sale at 31 December 2010 following the decision to sell the business after a review of strategy for the life market The completion date of the transaction is 31 January 2011

There were no assets or liabilities classified as held for sale as at 31 December 2009

	2010 £m	2009 £m
Assets held for sale		
Intangible assets	**4 6**	-
Property, plant and equipment	**0 2**	-
Financial investments	**88 2**	-
Assets arising from insurance business	**170 8**	-
Trade and other receivables	**2 3**	-
Cash and cash equivalents	**85 4**	-
Total assets classified as held for sale	**351 5**	-
Liabilities associated with assets held for sale		
Provisions under insurance contracts issued	**(151 9)**	-
Other liabilities under insurance contracts issued	**(8 9)**	
Net deferred tax liability	**(18 0)**	
Trade and other payables	**(2 6)**	
Total liabilities classified as held for sale	**(181 4)**	-
Net assets classified as held for sale	**170 1**	-

In the year ended 31 December 2010 an impairment loss on intangible assets of £1 3m (2009 £nil) and on property, plant and equipment of £0 1m (2009 £nil) was included within other (charges) / income in the income statement

21. Cash and cash equivalents

	2010 £m	2009 £m
Cash at bank and in hand	**480 6**	234 9
Short-term bank deposits	**208 4**	834 5
Cash and cash equivalents	**689 0**	1,069 4
Bank overdrafts	**(2 3)**	(0 7)
Restricted access deposits	**(35 4)**	(31 2)
Cash and cash equivalents in the statement of cash flows	**651 3**	1,037 5

21. Cash and cash equivalents - continued

Cash and cash equivalents include £35 4m (2009 £31 2m) over which the Group has restricted access These amounts are held in respect of specific obligations and potential liabilities and may be used only to discharge those obligations and potential liabilities if and when they crystallise Included in short-term deposits is £29 5m (2009 £25 4m) to secure a liability for unapproved pension arrangements

22 Subordinated liabilities

	2010 £m	2009 £m
Non-current		
Callable subordinated perpetual guaranteed bonds	330 0	330 0
Fair value adjustment in respect of hedged interest rate risk	40 8	22 6
Callable subordinated perpetual guaranteed bonds at carrying value	370 8	352 6
10 5% subordinated guaranteed bonds due 2018	3 9	3 9
	374 7	356 5
Current		
Callable subordinated perpetual guaranteed bonds	5 9	5 9
Total subordinated liabilities	380 6	362 4

Callable subordinated perpetual guaranteed bonds
In December 2004, Bupa Finance plc issued £330 0m of callable subordinated perpetual guaranteed bonds, which are guaranteed by Bupa Insurance Limited Interest is payable on the bonds at 6 125% per annum The bonds have no fixed maturity date but a call option is exercisable by Bupa Finance plc to redeem the bonds on 16 September 2020 This call option coincides with an increase in the interest rate applicable on the bonds, which makes redemption at this point highly likely In the event of the winding up of Bupa Finance plc or Bupa Insurance Limited the claims of the bondholders are subordinated to the claims of other creditors of these companies

The total fair value of the callable subordinated perpetual guaranteed bonds, net of accrued interest, is £376 7m (2009 £358 5m)

The valuation adjustment is the change in value arising from interest rate risk, which is matched by the fair value of swap contracts in place to hedge this risk

10 5% subordinated guaranteed bonds
At 31 December 2010, £3 9m (2009 £3 9m) was outstanding in respect of 10 5% subordinated guaranteed bonds, which are repayable on 3 December 2018 The bonds were issued by Bupa Finance plc and are guaranteed by Bupa Limited A call option is exercisable by Bupa Finance plc to redeem the bonds on 3 December 2013 In the event of the winding up of Bupa Finance plc or Bupa Limited, the claims of the bondholders are subordinated in right of payment to the claims of other creditors of Bupa Finance plc and Bupa Limited Interest is payable at 10 5% per annum

The Group has not had any defaults of principal, interest or other breaches with respect to its subordinated liabilities during 2010 or 2009

23. Other interest bearing liabilities

This note provides information about the contractual terms of the Group's interest bearing liabilities Further information about the Group's exposure to interest rate and foreign currency risk is included in note 32

	Note	Non-current £m	Current £m	Total £m
2010				
Secured loans	(i)	234 0	4 1	238 1
Debenture stock	(ii)	55 1	1 8	56 9
Senior unsecured bonds	(iii)	347 7	12 3	360 0
Bank loans	(iv)	246 5	0 3	246 8
Bank overdrafts	(iv)	-	2 3	2 3
Finance lease liabilities	(v)	3 3	0 8	4 1
Total interest bearing liabilities		886 6	21 6	908 2
2009				
Secured loans	(i)	234 1	4 1	238 2
Debenture stock	(ii)	57 0	1 7	58 7
Senior unsecured bonds	(iii)	347 1	12 5	359 6
Bank loans	(iv)	464 0	1 9	465 9
Bank overdrafts	(iv)	-	0 7	0 7
Finance lease liabilities	(v)	4 2	0 9	5 1
Total interest bearing liabilities		1,106 4	21 8	1,128 2

(i) Secured loans

The secured loans balance of £238 1m (2009 £238 2m) relates to a loan issue by UK Care No 1 Limited On 17 February 2000, UK Care No 1 Limited issued two classes of secured notes A £175 0m Class A1 note is due to mature in 2029 and a £60 0m Class A2 note is due to mature in 2031 The £238 1m balance is shown net of initial issue costs and discount on issue not yet fully amortised of £5 0m The A1 and A2 loan notes bear a fixed interest rate of 6 3% and 7 5% respectively The loan notes are secured by fixed and floating charges over the assets and undertakings of UK Care No 1 Limited The security includes UK Care No 1 Limited's overriding lease interest, and the rental income receivable thereunder, held in a number of the Group's care homes which eliminates on consolidation The carrying value of the property, plant and equipment of these homes is £571 2m (2009 £461 6m)

(ii) Debenture stock

The 11 8% debenture stock of £56 9m (2009 £58 7m) is repayable at par in 2014 The stock is secured by a fixed charge over certain of the Group's assets and a first floating charge over the businesses attached thereto and a general floating charge over certain assets The assets pledged as security include £86 8m (2009 £86 4m) of property, plant and equipment and £0 5m (2009 £0 2m) of inventories

(iii) Senior unsecured bonds

On 2 July 2009, Bupa Finance plc issued £350 0m of 7 5% senior unsecured bonds The bonds are repayable in July 2016 They are guaranteed by Bupa Limited and other Group subsidiary companies The £360 0m balance (2009 £359 6m) is net of initial issue costs, discount on issue and accrued interest

(iv) Bank loans and bank overdrafts

Bank loans of £246 8m (2009 £465 9m) include balances of £196 9m (2009 £407 6m) which are guaranteed by Bupa Limited and other Group subsidiary companies The overdraft facilities are subject to cross guarantees within the Group The bank loans and overdrafts bear interest at commercial rates linked to LIBOR, EURIBOR, or at commercial fixed rates

23 Other interest bearing liabilities - continued

(v) Obligations under finance leases

Future minimum payments under finance leases are as follows

	Future minimum lease payments 2010 £m	Present value of minimum lease payments 2010 £m	Future minimum lease payments 2009 £m	Present value of minimum lease payments 2009 £m
Payable within one year	1 0	0 9	1 0	0 9
Payable after one but within five years	1 4	1 0	2 1	1 6
Payable after five years	3 1	2 2	3 7	2 6
Total gross payments	5 5		6 8	
Less finance charges included above	(1 4)		(1 7)	
Total payments net of finance charges	4 1	4 1	5 1	5 1

The balance of £4 1m (2009 £5 1m) due under finance leases relates to leases of equipment

24 Provisions under insurance contracts issued

		2010			2009		
	Note	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
General insurance business							
Provision for unearned premiums	(i)	1,292 1	(4 6)	1,287 5	1,202 2	(2 8)	1,199 4
Provision for claims	(ii)	843 2	(3 9)	839 3	755 4	(0 5)	754 9
Long-term business							
Provisions for life insurance benefits	(iii)	23 3	(1 3)	22 0	132 5	(78 4)	54 1
Total insurance provisions		2,158 6	(9 8)	2,148 8	2,090 1	(81 7)	2,008 4
Non-current		24 1	(1 3)	22 8	93 8	(56 0)	37 8
Current		2,134 5	(8 5)	2,126 0	1,996 3	(25 7)	1,970 6
		2,158 6	(9 8)	2,148 8	2,090 1	(81 7)	2,008 4

24 Provisions under insurance contracts issued – continued

	2010			2009		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
	£m	**£m**	**£m**	£m	£m	£m
General insurance						
(i) Analysis of movements in provisions for unearned premiums						
At beginning of year	**1,202 2**	**(2 8)**	**1,199 4**	**1,165 0**	**(1 4)**	**1,163 6**
Premiums deferred	**5,881 8**	**(20 9)**	**5,860 9**	**5,289 0**	**(21 2)**	**5,267 8**
Deferred premiums released to income	**(5,839 3)**	**20 3**	**(5,819 0)**	**(5,275 3)**	**19 8**	**(5,255 5)**
Foreign exchange	**47 4**	**(1 2)**	**46 2**	**23 5**	**-**	**23 5**
At end of year	**1,292 1**	**(4 6)**	**1,287 5**	**1,202 2**	**(2 8)**	**1,199 4**
(ii) Analysis of movements in provisions for claims						
At beginning of year	**755 4**	**(0 5)**	**754 9**	709 6	(0 9)	708 7
Cash paid to settle claims	**(4,518 0)**	**18 7**	**(4,499 3)**	(4,122 3)	14 1	(4,108 2)
Decrease for prior years' claims	**(86 9)**	**-**	**(86 9)**	(95 7)	-	(95 7)
Increase for current year claims	**4,725 1**	**(22 2)**	**4,702 9**	4,306 0	(13 7)	4,292 3
Increase in Risk Equalisation Trust Fund levy	**(79 4)**	**-**	**(79 4)**	(56 8)	-	(56 8)
Disposal of subsidiary companies	**(5 7)**	**-**	**(5 7)**	-	-	-
Foreign exchange	**52 7**	**0 1**	**52 8**	14 6	-	14 6
At end of year	**843 2**	**(3 9)**	**839 3**	755 4	(0 5)	754 9
Long-term business						
(iii) Analysis of movement in provisions for life insurance benefits						
At beginning of year	**132 5**	**(78 4)**	**54 1**	121 6	(71 0)	50 6
Movement in opening value of in force business	**(29 7)**	**12 9**	**(16 8)**	(24 6)	8 9	(15 7)
New business written	**30 1**	**(14 9)**	**15 2**	35 6	(17 5)	18 1
Assumption changes	**3 5**	**(1 9)**	**1 6**	0 5	1 0	1 5
Net movement in deferred acquisition costs in Bupa Australia	**(2 2)**	**-**	**(2 2)**	2 5	-	2 5
Transfer to assets held for sale	**(151 9)**	**81 3**	**(70 6)**	-	-	-
Disposal of subsidiary companies	**42 8**	**-**	**42 8**	-	-	-
Foreign exchange	**(1 8)**	**(0 3)**	**(2 1)**	(3 1)	0 2	(2 9)
At end of year	**23 3**	**(1 3)**	**22 0**	132 5	(78 4)	54 1

In compliance with IFRS 4, local GAAP applies for insurance accounting Under Australian IFRS, acquisition costs incurred in Australia in relation to life insurance contracts are capitalised within the valuation of the policy liabilities The Group's Australian life business was disposed of in the year (see note 20) The Group's other deferred acquisition costs are included within assets arising from insurance business (see note 17)

The movement in the long-term business provision includes £2 2m (2009 £2 3m) in respect of the movements in policyholder deposits relating to certain policies that include savings features The receipts associated with these deposits are accounted for directly in provisions under insurance contracts

At 31 December 2010, the increase in the long-term business provision in respect of net assumption changes of £1 6m (2009 £1 5m) relates to model changes, demographic and economic changes

24. Provisions under insurance contracts issued – continued

Assumptions for general insurance business
The process of recognising liabilities arising from general insurance contracts requires the exercise of judgement in relation to estimating future claims payments, claims handling expenses and unexpired risk provisions The principal assumption affecting the measurement of liabilities is that the nature of recent claims development profile of the Group's insurance entities and that current claims experience will be consistent with recent trends Other assumptions are also applied in measuring the Group's insurance liabilities but have a less material effect The aim of these assumptions is to arrive at the best estimate of future obligations and cash outflows of the Group A margin for adverse deviation is reflected within the estimates

Claims development patterns are analysed in each of the Group's general insurance entities and, in some cases, are further sub-analysed where an entity has distinct portfolios of general insurance with distinct characteristics The characteristics may differ by product line, geographic sector or market sector The analysis is used to determine a claims settlement pattern using recent experience, adjusted where appropriate by observed trends over time Claims are assessed on a case by case basis Extrapolation methods based on the claims settlement pattern are used these are recognised methods described in the Institute and Faculty of Actuaries Claims Reserving Manual (1997) Large homogeneous sections of insurance business (eg corporate business in a specific region) are often analysed by more than one method, such as the chain ladder, Bornheutter-Ferguson and paid claim loss ratio methods

While there is some diversity in the claims development profile across the Group, the Group's general insurance contracts principally relate to healthcare benefits that occur with stable frequencies and exhibit very short development patterns that can be characterised in months rather than years Less automated medical insurance portfolios may have development patterns of twelve to 18 months, whereas pre-authorisation electronic claims settlement and network provider arrangements may produce development patterns of four to six months

Insurance premiums are estimates Actual experience may vary, primarily as a result of claims or administrative expenses being greater than expected The following table shows the sensitivities to such variation from expectations

	2010		2009	
	Change in variable	**Reduction in surplus net of reinsurance before taxation**	Change in variable	Reduction in surplus net of reinsurance before taxation
	%	£m	%	£m
Base run				
Increase in claims	**5 0**	**50 2**	5 0	47 1
Increase in expenses	**10 0**	**19 8**	10 0	16 2

These variances would lower the amount of surplus that would otherwise be expected to emerge in subsequent periods Since premium provisions include profit margins and claim provisions include margins of prudence, variance from expectations by the amounts shown will be absorbed by these margins for the current book of business

Assumptions for long-term insurance business
The Group makes estimates of future policyholder deaths, illnesses and recoveries for the period that it is exposed to risk The principal assumptions underlying the calculation of the long-term business provision include mortality and morbidity, discount rate and renewal expenses, lapse rates and inflation These estimates are based on industry mortality and morbidity tables, adjusted to reflect anticipated changes in market conditions, experience, price inflation and the Group's own experience There is a considerable level of uncertainty in these estimates in relation to changing lifestyles, future advances in medical prevention and detection, epidemics and catastrophes The estimates are reviewed at least annually to reflect changes in the Group's and industry experience The assumptions derived represent best estimates of future experience as required under Prudential Sourcebook for Insurers (INSPRU) 1 2 in the UK, plus a margin for adverse deviation, and in Australia under Prudential Standards that support the Life Insurance Act 1995 without the additional margin

24. Provisions under insurance contracts issued – continued

Mortality and morbidity

The incidences of death and disability are derived from studies, performed by independent actuarial bodies, on the experience of assured lives published by the Continuous Mortality Investigation (CMI) and the Institute and Faculty of Actuaries These estimates are adjusted, where appropriate, to refl ect the Group's own experience and expected improvement or deterioration in industry experience, including more recent CMI data and reinsurers' data

Discount rate

The interest rate risk is managed through asset / liability matching that seeks to match the interest rate sensitivity of the assets to that of the underlying liabilities The valuation rate of interest is the risk adjusted gross redemption yield for the matching gilts, corporate bonds and cash This rate implicitly includes an allowance for risk over and above the best estimate

Renewal expenses, lapse rates and inflation

The current level of renewal expenses is assumed to be an appropriate expense base In the UK and Australia, lapse rates are set by policy and are based on actual experience Expense inflation is derived from the Consumer Price Index and the National Average Earnings Index

The Group runs its valuation models on various bases An analysis of sensitivity around various scenarios provides an indication of the adequacy of the Group's estimation process in respect of its life assurance contracts In the UK an additional margin is applied The table below shows the sensitivity of insured liability estimates to particular movements in assumptions used in the estimation process Certain variables can be expected to impact on life assurance liabilities more than others, and consequently a greater degree of sensitivity to these variables may be expected

	2010		2009	
	Change in variable	**Reduction in surplus net of reinsurance before taxation**	Change in variable	Reduction in surplus net of reinsurance before taxation
	%	**£m**	%	£m
Base run				
Increase in mortality/morbidity	**10 0**	**0 7**	10 0	0 8
Increase in renewal expenses	**10 0**	**0 1**	10 0	0 1
Increase in inflation	**1 0**	**0 5**	1 0	0 4
Decrease in interest rates	**1 0**	**1 2**	1 0	1 2
Decrease in lapses	**10 0**	**0 2**	10 0	0 3

The reduction in equity as a result of the various changes in variables detailed in the table above would be materially the same as the reduction in surplus highlighted

The analysis above has been prepared for a change in variable with all other assumptions remaining constant and ignores changes in values of related assets Performing the sensitivity analysis gross or net of reinsurance will result in a similar effect with the difference being immaterial

25. Other liabilities under insurance contracts issued

	2010 £m	2009 £m
Current		
Reinsurers' deposit	1 8	4 1
Reinsurance payables	-	10 7
Commission payable	10 5	9 8
Risk Equalisation Trust Fund	-	2 3
Other insurance payables	6 6	5 9
Total other liabilities under insurance contracts issued	**18 9**	**32 8**

26. Post employment benefits

The assets and liabilities in respect of defined benefit funded pension schemes are as follows

	Note	Defined benefit funded pension schemes 2010 £m	2009 £m
Present value of funded obligations	(ii)	(74 6)	(71 3)
Fair value of scheme assets	(iii)	71 4	60 5
Net recognised liabilities		**(3 2)**	**(10 8)**

Individual pension schemes showing a net deficit are classified on the balance sheet within post employment benefit liabilities and those schemes showing a net surplus are classified within post employment benefit assets as follows

Net assets	0 7	0 2
Net liabilities	(3 9)	(11 0)
Net recognised liabilities	**(3 2)**	**(10 8)**

Pensions — funded schemes

The Bupa Group operates defined benefit and defined contribution pension schemes for the benefit of employees The Bupa Pension Scheme is the principal defined benefit pension scheme which provides benefits based on final pensionable salary, with charges made to the income statement of Bupa Limited comprising the current service cost calculated on the projected unit method, interest cost on plan liabilities, less the expected return on plan assets, and gains and losses on curtailments Employees of the Group are members of this scheme

The Bupa Pension Scheme was closed to new entrants from 1 October 2002 Under this scheme, contributions by employees and the Bupa 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 Detailed triennial valuations and periodic interim reviews are undertaken by an independent actuary The last detailed triennial valuation of The Bupa Pension Scheme was carried out as at 1 July 2008 The attained age method was used in the 2008 triennial valuation On the basis of this valuation the independent actuary recommends the rate of contributions

The Bupa Pension Scheme was valued as at 31 December 2010 under the requirements of International Accounting Standard No 19 Employee Benefits (IAS 19) as Bupa Limited prepares its consolidated financial statements under International Financial Reporting Standards This valuation showed a surplus before deferred tax of £120 6m (2009 £24 9m) with assets of £967 9m (2009 £855 7m) and liabilities of £847 3m (2009 £830 8m) It is not possible to identify the Company's share of this deficit on a consistent and reliable basis, therefore, as permitted by IAS 19, the pension contributions paid by the Group's subsidiary companies relating to this scheme are charged to the profit and loss account of the respective subsidiary companies

26. Post employment benefits - continued

Details of the latest valuations of the scheme and main assumptions are included in the annual report and accounts of the ultimate holding company, The British United Provident Association Limited (Bupa)

In accordance with the triennial valuation dated 1 July 2008, regular employer contributions increased from 1 July 2009 to 31 9% of pensionable salaries Prior to July 2009, regular employer contributions were paid at the rate of 26 34%, as recommended by the independent actuary in the triennial valuation dated 1 July 2005 Included in the employer contributions is 7 0% which represents the employer pension contributions paid as part of the Group's salary sacrifice arrangement, PeopleChoice Pensions There is a corresponding reduction in wages and salaries as a result

The full disclosure requirements under IAS 19 are disclosed in the Annual Report and Accounts of Bupa

The sponsoring employer, Bupa Limited has made a series of additional payments in order to reduce the deficit in the scheme During 2010, the total of additional payments made was £24 5m (2009 £24 5m), bringing the total of additional payments made since November 2003 to £303 6m (2009 £279 1m) Following the disposal of its UK hospitals business in 2007, Bupa Limited agreed to pay, or procure the payment of, a number of further contributions to the Trustees of the scheme Certain of these contributions remain payable on the following terms

- on or before 31 December 2011, a payment of £24 5m, and
- on or before 31 December 2012, a further payment intended to equate to the investment return that the scheme would have achieved had £98 0m been paid into the scheme at the time of the sale of the UK hospitals business, assuming that the scheme would have achieved investment returns of 7 0% per annum compound during that period The payments may be reduced if, in the view of the scheme's independent actuary, the liability to take the entire scheme to a closed scheme funding level is secured by a lesser payment

In addition, the Company (which is not an employer in respect of the scheme) entered into a legally binding and irrevocable guarantee for the benefit of the Trustees in respect of the payments due from Bupa Limited as set out above

The principal defined contribution pension plan in the UK is The Bupa Retirement Benefits Scheme, which is a discrete tier of The Bupa Pension Scheme It provides benefits based on the accumulated contributions made by employee and employer This scheme was opened with effect from 1 October 2002 The charge to the consolidated income statement in respect of this plan, and all other defined contribution schemes, is the amount of employer contributions payable to the scheme in respect of the accounting period

There are several other minor schemes operated by UK and overseas subsidiaries Of these, the defined benefit schemes are assessed by independent actuaries in accordance with UK or local practice and under IAS 19 as at 31 December 2010 for the purposes of inclusion in the Group's consolidated financial statements

(i) Actuarial assumptions
The responsibility for setting the assumptions underlying the IAS 19 valuations rests with the Directors, having first taken advice from the Group's independent actuary The key weighted average financial assumptions used when valuing the obligations of the post employment benefit schemes under IAS 19 for the smaller schemes are as follows

	Defined benefit funded pension schemes	
	2010	2009
	%	%
Inflation rate	**2 9**	3 8
Rate of increase in salaries	**4 5**	5 2
Rate of increase to pensions in payment	**2 1**	2 5
Discount rate for scheme obligations	**5 2**	5 5
Rate of increase to pensions in deferment	**2 0**	2 5
Overall expected return on scheme assets	**6 8**	6 8

26 Post employment benefits - continued

Asset performance for the disclosures for the year ended 31 December 2010 have been measured against the expected return on assets disclosed as at 31 December 2009

In July 2010, the Government announced that the Consumer Price Index (CPI) should replace the Retail Price Index (RPI) as the inflation measure to use in determining the minimum pension increase that must be applied to statutory index-linked features of retirement benefits Where deferred pension and pensions in payment obligations have been re-measured using the CPI, and Bupa has no constructive obligation to use the RPI in the rate of pensions increase, then the impact of the change in indexation has been presented as an actuarial gain in the statement of other comprehensive income In funded schemes, where a constructive obligation to use RPI in the rate of pensions increase exists, then the impact of the change in indexation has been presented as a negative past service cost through the income statement

Actuarial assumptions underlying the valuation of obligations
The inflation assumption is set by reference to the difference between the yield on long-term fixed interest gilts and the real yield on index-linked gilts, with a deduction of 0 2% to reflect an inflation risk premium The rate of increase of pensions in payment is the same as the inflation rate, with the exception of benefits which receive fixed increases in payment as defined under the respective scheme rules

The rate of increase in salaries is equal to the long-term expected annual average salary pay increase for the employees who are members of the respective schemes This assumption is set relative to the inflation rate assumption

The discount rate used to value scheme liabilities is the yield at the balance sheet date on high quality corporate bonds of appropriate term

Expected rate of return on assets
The overall expected return on scheme assets has been derived by calculating the weighted average expected return applied to each of the major asset classes, equities, bonds and 'other'

The expected return on equities and other return seeking assets has been taken as the yield on fixed interest gilts at the balance sheet date plus a margin of 3 5% representing the additional return on top of the risk-free return available on the asset class The expected return on bonds has been taken as an average of the yield available on fixed interest gilts and high quality corporate bonds at the balance sheet date The expected return on 'other' has been taken as 3 0% pa, representing the long-term expected return on cash and short dated securities

(ii) Present value of the scheme obligations

The movement in the present value of the schemes' obligations is

	Defined benefit funded pension schemes	
	2010	2009
	£m	£m
At beginning of year	**71 3**	55 6
Current service cost	**2 8**	2 4
Interest on obligations	**3 6**	2 9
Contributions by employees	**0 7**	0 7
Actuarial (gains) / losses	**(1 6)**	9 1
Benefits paid	**(3 4)**	(2 0)
Past service cost	**(2 2)**	-
Foreign exchange	**3 4**	2 6
At end of year	**74 6**	71 3

26 Post employment benefits - continued

(iii) Fair value of funded schemes' assets

The movement in the fair value of the funded schemes' assets is

	2010 £m	2009 £m
At beginning of year	**60 5**	46 5
Expected return on scheme assets	**4 2**	3 0
Actuarial gains	**1 1**	5 5
Contributions by employer	**4 8**	4 4
Contributions by employees	**0 7**	0 7
Benefits paid	**(3 2)**	(1 8)
Foreign exchange	**3 3**	2 2
At end of year	**71 4**	60 5

The market value of the assets of the funded schemes is as follows

	2010 £m	2009 £m
Equity	**46 0**	39 1
Bonds	**17 2**	15 0
Other assets	**8 2**	6 4
	71 4	60 5

Equity assets comprise index tracker funds as well as specialist equity managers and other absolute return managers, who seek a return above pre-set benchmarks

(iv) Amounts recognised in the consolidated income statement

The amounts charged/(credited) directly to other operating expenses for the year are

	2010 £m	2009 £m
Current service cost	**2 8**	2 4
Interest on obligations	**3 6**	2 9
Expected return on scheme assets	**(4 2)**	(3 0)
Past service cost	**(2 2)**	-
Total amount charged to consolidated income statement	**-**	2 3
Actual return on scheme assets	**(5 3)**	(8 5)

The charge to other operating expenses in respect of cash contributions to defined contribution schemes is £19 9m (2009 £16 5m)

26 Post employment benefits - continued

(v) Amounts recognised directly in other comprehensive income

The amounts charged / (credited) directly to other comprehensive income are

	2010 £m	2009 £m
Actual return less expected return on assets	**(1 1)**	(5 5)
Experience losses arising on obligations	**(3 5)**	(0 5)
Changes in assumptions	**(0 2)**	8 9
Total actuarial (gains) / losses (credited) / charged directly to other comprehensive income	**(4 8)**	2 9

The cumulative amount of actuarial losses recognised directly in other comprehensive income is £8 0m (2009 £12 8m)

(vi) History of experience gains and losses

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Defined benefit funded pension schemes					
Present value of scheme obligations	**(74 6)**	(71 3)	(55 6)	(32 6)	(46 7)
Fair value of scheme assets	**71 4**	60 5	46 5	35 1	42 2
Net (deficit) / surplus	**(3 2)**	(10 8)	(9 1)	2 5	(4 5)
Experience (credit) / charge arising on					
Scheme obligations	**(1 4)**	0 2	1 6	(5 3)	0 2
Scheme assets	**(1 1)**	(5 5)	12 6	2 8	(2 6)

27. Provisions for liabilities and charges

	Long service and annual leave £m	Regulatory provisions £m	Unoccupied property £m	Other £m	Total £m
At beginning of year	22 2	5 5	3 7	9 7	41 1
Acquisitions through business combinations	-	-	-	0 3	0 3
Charge for year	15 0	5 3	6 1	23 8	50 2
Released in year	(3 9)	(3 6)	(1 6)	(5 3)	(14 4)
Utilised in year - cash	(11 1)	(1 8)	(0 4)	(0 4)	(13 7)
Transfer from accruals	9 2	-	-	-	9 2
Disposal of subsidiary companies	(0 4)	-	-	-	(0 4)
Foreign exchange	4 6	-	-	1 3	5 9
At end of year	**35 6**	**5 4**	**7 8**	**29 4**	**78 2**
Non-current	7 9	-	5 1	4 9	17 9
Current	27 7	5 4	2 7	24 5	60 3
	35 6	**5 4**	**7 8**	**29 4**	**78 2**

27. Provisions for liabilities and charges - continued

Long service and annual leave
The long service leave provision relates to territories where employees are legally entitled to substantial paid leave after completing a certain length of qualifying service Uncertainty around both the amount and timing of future outflows arises as a result of variations in employee retention rates, which may vary based on historical experience The annual leave provision relates to territories where the annual entitlement of leave is not required to be taken within a pre-determined time nor does it expire Therefore uncertainty exists around the timing of future outflows as well as around the amount of future outflows due to wage inflation Annual leave previously classified within accruals in these territories has been reclassified as a provision

Regulatory provisions
Regulatory provisions relate to levies payable to customer protection bodies by the Group's various regulated entities Such levies are generally determined on a capped percentage of revenues basis Payments are normally made annually, although the frequency may be increased or decreased at the discretion of the customer protection bodies

Unoccupied property
In prior years, the Group entered into non-cancellable leases for property which it no longer fully occupies The Group has provided for lease obligations, net of sub-lease receivables The lease obligations are payable monthly, quarterly or annually, within a range of one to 14 years, the average being six years The future net outflows are uncertain and are affected by the Group's ability to sub-let unoccupied property

Other
Other provisions include amounts relating to restructuring provisions (principally £14 8m in Bupa Scandinavia), legal claims, payments under legislation and deferred consideration

28 Deferred taxation assets and liabilities

Recognised deferred taxation assets and liabilities

Deferred taxation assets and liabilities are attributable to the following

	Assets		Liabilities		Net	
	2010	2009	**2010**	2009	**2010**	2009
	£m	£m	**£m**	£m	**£m**	£m
Accelerated capital allowances	**-**	-	**(39 6)**	(16 3)	**(39 6)**	(16 3)
Post employment benefit asset / liability	**1 0**	2 1	**-**	-	**1 0**	2 1
Revaluation of properties to fair value	**-**	-	**(133 2)**	(108 9)	**(133 2)**	(108 9)
Employee benefits (other than post employment)	**3 0**	0 8	**-**	-	**3 0**	0 8
Provisions	**3 2**	0 6	**-**	-	**3 2**	0 6
Taxation value of losses carried forward	**14 0**	21 1	**-**	-	**14 0**	21 1
Goodwill and intangible assets	**-**	-	**(98 3)**	(108 0)	**(98 3)**	(108 0)
Other	**71 0**	42 4	**(33 2)**	(26 5)	**37 8**	15 9
Deferred taxation assets / (liabilities)	**92 2**	67 0	**(304 3)**	(259 7)	**(212 1)**	(192 7)
Allowable netting of deferred taxation assets and liabilities	**(92 2)**	(53 8)	**92 2**	53 8	**-**	-
Net deferred taxation asset / (liability)	**-**	13 2	**(212 1)**	(205 9)	**(212 1)**	(192 7)

Deferred taxation assets relating to the carry forward of employee benefits, other provisions, unused taxation losses and other deferred taxation assets are recognised to the extent that it is probable that future taxable profits will be available against which the deferred taxation assets can be utilised

Unrecognised deferred taxation assets

As at 31 December 2010, the Group had deductible temporary differences relating to intangible assets of £19 8m (2009 £22 6m), trading losses of £nil (2009 £3 2m) and capital losses of £23 2m (2009 £19 0m) for which no deferred taxation asset was recognised due to uncertainty of utilisation of those temporary differences

28 Deferred tax liabilities - continued

Movement in net deferred taxation liabilities

	At beginning of year	Recognised in income statement	Recognised in other comprehensive income	Disposal of subsidiary companies	Transferred to assets held for sale	Foreign exchange	At end of year
	£m	£m	£m	£m	£m	£m	£m
2010							
Accelerated capital allowances	(16 3)	(18 8)	-	-	-	(4 5)	(39 6)
Post employment benefit asset / liability	2 1	(0 2)	(1 3)	-	-	0 4	1 0
Revaluation of properties to fair value	(108 9)	(7 8)	(17 3)	-	-	0 8	(133 2)
Employee benefits (other than post employment)	0 8	2 2	-	-	-	-	3 0
Provisions	0 6	2 4	-	-	(0 1)	0 3	3 2
Taxation value of losses carried forward	21 1	(7 1)	-	-	-	-	14 0
Goodwill and intangible assets	(108 0)	8 7	-	5 9	-	(4 9)	(98 3)
Other	15 9	4 6	0 1	(0 4)	18 1	(0 5)	37 8
	(192 7)	(16 0)	(18 5)	5 5	18 0	(8 4)	(212 1)
2009							
Accelerated capital allowances	(18 3)	1 9	-	(0 1)	-	0 2	(16 3)
Post employment benefit asset / liability	2 7	(1 4)	0 8	-	-	-	2 1
Revaluation of properties to fair value	(139 7)	20 8	8 6	-	-	1 4	(108 9)
Employee benefits (other than post employment)	0 6	0 4	-	-	-	(0 2)	0 8
Provisions	1 0	(0 2)	-	(0 2)	-	-	0 6
Taxation value of losses carried forward	22 7	(1 9)	-	-	-	0 3	21 1
Goodwill and intangible assets	(138 1)	32 4	-	-	-	(2 3)	(108 0)
Other	17 5	(2 3)	0 8	-	-	(0 1)	15 9
	(251 6)	49 7	10 2	(0 3)	-	(0 7)	(192 7)

29. Trade and other payables

	2010 £m	2009 £m
Non-current		
Amounts owed to ultimate parent company	50 4	244 7
Deferred income	1 6	1 8
Other payables	0 5	38 0
Accruals	0 4	1 5
Fair value of derivative liabilities	3 1	3 1
	56 0	289 1
Current		
Trade payables	121 8	101 4
Liability to external unit trust holders	-	95 1
Amounts owed to ultimate parent company	415 8	348 7
Social security and other taxes	26 7	24 0
Deferred income	65 4	61 1
Other payables	382 9	271 4
Accruals	280 7	268 2
Fair value of derivative instruments	13 7	-
	1,307 0	1,169 9
Total trade and other payables	1,363 0	1,459 0

Current other payables of £382 9m (2009 £271 4m) includes £219 5m (2009 £176 6m) relating to accommodation bonds in Bupa Care Services Australia

30 Equity

Called up share Capital

	2010 £m	2009 £m
Allotted, called up and fully paid		
200,050,000 ordinary shares of £1 each	200 1	200 1

Capital management

The Group manages as capital the cumulative individual amount of the equity of all Group subsidiaries, exclusive of any non-controlling interests, and other inadmissible assets as discussed below The Group has a £330 0m perpetual bond accounted for as debt in these financial statements However, this is managed as though it were capital for regulatory purposes, as discussed below

As Bupa Finance plc's parent company, The British United Provident Association, is limited by guarantee, all surpluses are used to develop the Group's businesses for the benefit of customers

The Group's capital management objective is to maintain sufficient capital to protect the interests of all of its customers, investors, regulators and trading partners while also efficiently deploying capital and managing risk to sustain ongoing business development

The Group aims to operate within a targeted range for solvency, leverage and interest cover ratios designed to support an investment grade rating The Bupa Group as a whole is not rated by any rating agency although individual debt issues and various subsidiaries within the Group do have public ratings

30. Equity - continued

The UK's Financial Services Authority (FSA) classifies the whole of the Group as an insurance group As such, the Group must maintain regulatory capital resources in excess of a collective capital requirement, imposed by the FSA through its Prudential Sourcebook (PSB), for Bupa to comply with the EU Insurance Groups Directive (IGD) When assessing the Group's compliance with its capital requirement, the PSB requires that the Group values and credits towards its net asset position only those assets that meet certain criteria on admissibility, concentration limits and counterparty exposure limits Group companies that are regulated are subject to similar regulatory restrictions within the jurisdictions in which they operate The Group and its regulated subsidiaries complied with all externally imposed capital requirements during the prior year Although they are not insurance businesses, the Group can and does recognise the book value of its care provision businesses as capital resources

It is the Board's policy that the Group maintains capital resources significantly in excess of its capital requirements and furthermore, that all regulated entities within the Group's corporate structure meet any local minimum capital requirement imposed by local regulators at all times

The Group has a number of internal processes to ensure compliance with the Group's capital requirements These include requiring that significant future capital expenditure and growth initiatives be approved by the Board, either as stand alone projects or as part of the budgeting and forecasting exercises The Group's Investment Committee must approve any change to financial investment strategy Strategic developments and acquisitions affecting the Group's capital require Board authorisation

The Group Finance Department routinely reports to the Board the Group's capital position, leverage and interest cover ratios as well as any constraints, risks or uncertainties about this position The Group reports on any regulatory capital resources to local regulators and the FSA each year end

In addition, the Group's management reporting process to the Board includes the regular calculation of the return on capital employed

The Group has in place internal debt and investment management arrangements that allow the assets supporting technical liabilities or any solvency capital to be efficiently managed in a centralised manner The Group's Treasury Department also maintains large external credit lines with several leading banks to ensure the liquidity of the Group as needed

There have been no changes to the Group's capital management objectives, policies or procedures during the year

31 Financial instruments

Hedging activities
The Group applies net investment hedges, fair value hedges and cash flow hedge accounting in order to hedge its exposure to foreign exchange and interest rate risk

Net investment hedges
Net investment foreign exchange risk is managed using both foreign currency forward contracts and foreign currency denominated borrowings These hedging relationships are documented and tested, as required by IAS 39 as net investment hedges and were effective in hedging the designated portion of net investment exposures during the year All foreign currency forward contracts are accounted for on a fair value basis

The Group's Australian Dollar translation exposure of £2,134 6m (AU$3,257 2m) (2009 £1,867 8m (AU$3,367 8m)) arises from the net assets of MBF, Bupa Australia Pty Limited, Bupa Care Services Australia and their subsidiary companies Foreign exchange gains and losses on the Australian Dollar inter company loans that are permitted to be taken to other comprehensive income on consolidation under IAS 21, total a loss of £78 2m (2009 loss of £60 8m) At 31 December, the Group held forward foreign exchange contracts totalling £261 2m (AU$398 5m) (2009 £221 0m (AU$398 5m)) to hedge a portion of net assets, which have been designated as hedges under IAS 39 All forward contracts mature within one month from the balance sheet date and are rolled forward on monthly contracts

Euro translation exposure of £337 0m (€392 6m) (2009 £299 9m (€338 1m)) arises from the net assets of Grupo Bupa Sanitas SL and its subsidiary companies Foreign exchange gains and losses on the Euro inter company loans that are permitted to be taken to other comprehensive income on consolidation under, IAS 21, total a gain of £19 9m (2009 gain of £21 9m) At 31 December, the Group held Euro borrowings of £94 8m (€110 5m) (2009 £98 0m (€110 5m)) to hedge a portion of these net assets, all of which have been designated as hedges under IAS 39 These borrowings have an interest rate reset and a maturity profile that is rolled forward monthly

US Dollar translation exposure of £362 2m (US$550 6m, HK$115 3m) (2009 £418 4m (US$662 2m, HK$111 6m)) arises from the net assets of Health Dialog, Bupa International Miami and their subsidiary companies, and from exposure through the Hong Kong Dollar (which is pegged to the US Dollar), which arises from the net assets of Bupa International (Hong Kong), Bupa Asia Limited and Bupa Limited (HK) Foreign exchange gains and losses on the US Dollar inter company loans that are permitted to be taken to other comprehensive income on consolidation under IAS 21 total a gain of £9 3m (2009 loss of £29 5m) At 31 December, the Group held forward foreign exchange contracts totalling £182 6m (US$285 0m) (2009 £176 3m (US$285 0m)) to hedge a portion of net assets, which have been designated as hedges under IAS 39

The Danish Krone translation exposure of £3 8m (DKK33 0m) (2009 £12 4m (DKK104 2m)) arises from the net liabilities (2009 net assets) of International Health Insurance danmark a/s and its subsidiary companies Foreign exchange gains and losses on the Danish Krone inter company loans that are permitted to be taken to other comprehensive income on consolidation under IAS 21 total a gain of £2 0m (2009 gain of £4 6m) At 31 December, the Group held the following financial instruments to hedge a portion of these net liabilities / assets of the Danish business, all of which were designated as hedges under IAS 39 Danish Krone borrowings of £nil (2009 £36 9m (DKK309 8m)), which had an interest rate reset and a maturity profile that was rolled forward monthly Responding to the restructuring of the Danish business in December 2009 and the resulting decrease in the Danish Krone translation exposure, on 11 February 2010, the Group closed out Danish Krone borrowings of £36 5m (DKK309 8m) A portion of these borrowings were deemed ineffective and recognised in the income statement

31. Financial instruments - continued

Fair value hedges

The following derivative contracts were in place as at 31 December to hedge the Group's interest rate exposure

	Maturity, expiry or execution date	Initial value of contracts sold £m	Notional value of assets £m	Carrying value £m
2010				
Interest rate swaps — fair value	September 2020	330 0	330 0	40 8
2009				
Interest rate swaps — fair value	September 2020	330 0	330 0	22 6

Interest rate swaps totalling £330 0m have been entered into to swap the fixed rate coupon on the £330 0m callable subordinated perpetual guaranteed bond to a floating rate These interest rate swaps are designated as fair value hedges of the underlying interest rate risk on the debt The fixed receipt occurs annually on the payment of the bond coupon in September The variable payment is settled quarterly and the rate is reset on the floating element at this time As at 31 December 2010, the fair value movement in the bond attributable to the hedged risk amounted to £18 2m (2009 £17 2m)

As at 31 December, the following derivative contracts were in place to hedge the Group's currency exposure

	Maturity, expiry or execution date	Initial value of contracts sold £m	Notional value of liabilities £m	Carrying value £m
2010				
Currency forward contracts held in the following currencies				
Euro (€30 3m)	20 January 2011	(25 7)	(26 0)	(0 3)
US Dollar (US$84 0m)	20 January 2011	(54 3)	(53 8)	0 5
2009				
Currency forward contracts held in the following currencies				
Euro (€55 0m)	14 January 2010	(49 8)	(48 8)	1 0
US Dollar (US$67 2m)	15 January 2010	(41 4)	(41 6)	(0 2)

The currency forward contracts hedge the Group's currency exposure, which arises from holding US Dollar and Euro denominated financial investments classed as shares and other variable yield securities These hedged items have resulted in an income statement loss of £0 5m (2009 £3 5m)

Cash flow hedges

During 2009, interest rates swaps were designated to hedge the €40 3m (£35 7m) floating rate debt in Especializada Y Primaria L'Horta Manises The swaps currently cover 70 4% of the floating rate loan principal balance outstanding at the balance sheet date At 31 December 2010, the fair value of the interest rate swap liability was £3 1m (€3 6m) (2009 £2 8m (€3 1m))

In 2008, forward foreign exchange contracts were entered into to hedge cash outflows for the acquisition of MBF amounting to AU$2,001 1m (£915 2m) which led to a cash flow hedge reserve gain of £36 4m, and the acquisition of Health Dialog amounting to US$653 2m (£343 0m) resulting in a cash flow hedge reserve loss of £2 8m In 2010, part of the MBF business was disposed of and as a result £0 9m of the related cash flow hedge gain has been recognised in the income statement The impairment of Health Dialog goodwill in 2010 has resulted in the cash flow hedge loss of £2 8m being recognised in the income statement

31. Fınancıal ınstruments - continued

Effect of hedgıng transactıons
The ımpact of all external foreıgn currency hedgıng actıvıty ıs set out below The ıneffectıve portıon of all hedges recognısed ın the ıncome statement was a gaın of £0 5m (2009 £0 5m)

Gaıns / (losses) ıncluded ın the ıncome statement are

	Currency forward contracts	External borrowing	Total
	£m	£m	£m
2010			
Euro	0 5	-	0 5
US Dollar	(1 7)	-	(1 7)
Danısh Krone	-	0 5	0 5
	(1 2)	0 5	(0 7)
2009			
US Dollar	4 2	-	4 2
Danısh Krone	-	0 5	0 5
	4 2	0 5	4 7

(Losses) / gaıns ıncluded ın other comprehensıve ıncome are

	Currency forward contracts £m	External borrowing £m	Total £m
2010			
Australıan Dollar	(40 2)	-	(40 2)
Euro	-	3 2	3 2
US Dollar	(6 3)	-	(6 3)
Danısh Krone	-	0 1	0 1
	(46 5)	3 3	(43 2)
2009			
Australıan Dollar	(19 6)	-	(19 6)
Euro	(1 4)	7 8	6 4
US Dollar	13 7	-	13 7
Danısh Krone	-	2 3	2 3
	(7 3)	10 1	2 8

At 31 December 2010 and 2009 there were no materıal exposures to foreıgn currency transactıon rısk

Faır value of financıal ınstruments
The faır value of a financıal ınstrument ıs defined as the amount at whıch a financıal ınstrument could be exchanged ın an arm's length transactıon between ınformed and wıllıng partıes Faır values have been calculated as follows

- debt securıtıes, shares and other varıable yıeld securıtıes — dıscounted expected future prıncıpal and ınterest cash flows or quoted prıce ıf avaılable,
- lısted securıtıes — quoted prıce,
- ınterest bearıng loans and borrowıngs — dıscounted expected future prıncıpal and ınterest cash flows or quoted prıce ıf avaılable,
- other receıvables and other payables (current) — carryıng value,
- other receıvables and other payables (non-current) — dıscounted cash flows,
- derıvatıves (currency forward contracts) — quoted prıces at balance sheet date, and
- derıvatıves (ınterest rate swaps) — bank and broker quotes

31 Financial instruments - continued

The carrying values of short-term receivables and payables are a reasonable approximation of the fair value

The Group uses the zero coupon curve as at the balance sheet date to discount financial instruments where the fair value cannot otherwise be found from quoted market values The range of interest rates used is as follows

	2010 %	2009 %
Sterling assets and liabilities	1 5 – 4 2	1 2 – 4 5
Australian Dollar assets and liabilities	5 0 – 5 7	4 6 – 6 4
Euro assets and liabilities	0 7 – 3 6	1 2 – 4 2
US Dollar assets and liabilities	0 3 – 5 0	1 0 – 4 8

The fair values of financial instruments are as follows

	2010		2009	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Assets				
Financial investments				
Debt securities - government gilts	45 8	45 8	153 9	153 9
Debt securities - corporate bonds	123 8	123 8	188 3	188 3
Shares and other variable yield securities	142 7	142 7	131 4	131 4
Medium-term notes	226 3	225 0	382 2	384 5
Reverse repo securities	202 2	202 2	191 8	191 8
Deposits with credit institutions	1,418 0	1,418 0	574 7	574 7
Property trusts	-	-	2 7	2 7
Financial investments backing life investment contract liabilities	-	-	825 9	825 9
Trade and other receivables				
Investment receivables and accrued investment income	2 9	2 5	13 2	12 7
Amounts owed by ultimate parent undertaking	753 3	773 7	808 7	828 0
Other receivables	55 7	55 6	79 3	79 3
Service concession receivables	152 2	152 2	105 6	105 6
Derivative assets	43 8	43 8	22 6	22 6
Accrued income	18 0	17 9	28 5	28 4
Cash and cash equivalents	689 0	689 0	1,069 4	1,069 4
Liabilities				
Subordinated liabilities	(380 6)	(296 1)	(362 4)	(276 7)
Other interest bearing liabilities	(908 2)	(971 6)	(1,128 2)	(1,158 0)
Life investment policy liabilities	-	-	(832 0)	(832 0)
Trade and other payables				
Liability to external unit trust holders	-	-	(95 1)	(95 1)
Amounted owed to ultimate parent undertaking	(466 2)	(470 6)	(593 4)	(618 7)
Other payables	(383 4)	(383 4)	(309 4)	(306 6)
Accruals	(281 1)	(281 1)	(269 7)	(296 6)
Derivative liabilities	(16 8)	(16 8)	(3 1)	(3 1)

31 Financial instruments – continued

Financial instruments carried at fair value are measured by different valuation methods defined by a three level hierarchy The different levels have been defined as follows

- Level 1 quoted prices (unadjusted) in active markets for identical assets or liabilities,
- Level 2 inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices), and
- Level 3 inputs for the asset or liability that are not based on observable market data (unobservable inputs)

An analysis is as follows

2010	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial investments				
Debt securities - government gilts	45 3	0 2	-	45 5
Debt securities - corporate bonds	14 4	40 4	-	54 8
Shares and other variable yield securities	142 6	0 1	-	142 7
Trade and other receivables				
Derivative assets	43 8	-	-	43 8
Trade and other payables				
Derivative liabilities	(13 7)	(3 1)	-	(16 8)

2009	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial investments				
Debt securities - government gilts	153 9	-	-	153 9
Debt securities - corporate bonds	31 5	91 2	-	122 7
Shares and other variable yield securities	122 5	8 9	-	131 4
Financial investments backing life investment contract liabilities	827 6	(1 7)	-	825 9
Trade and other receivables				
Derivative assets	22 6	-	-	22 6
Life investment policy liabilities	-	(832 0)	-	(832 0)
Trade and other payables				
Derivative liabilities	-	(3 1)	-	(3 1)

The financial investments backing the life investment contract liabilities are primarily classified as level 1, as they are based on quoted prices in active markets The fair value of the life investment contract liabilities is calculated using the fair value of the underlying assets and they are therefore classified as level 2

32. Risk management

Risk management policy

The Board is responsible for ensuring that there is a continuous process for identifying, evaluating and managing any material risks faced by the Group and for ensuring that it is effective As such, the Board is responsible for the nature and extent of the risks facing the Group This includes

- the extent and categories of risk the Board regards as acceptable for the Group to bear,
- the likelihood of these risks materialising,
- the Group's ability to reduce the incidence or impact on the business of any risks that do crystallise, and
- the costs of operating particular controls relative to the benefit from managing the related risks

Bupa operates the three lines of defence model Business management provide the first line of defence and is responsible for the identification and assessment of risks and controls The second line is provided by the risk functions together with risk policy owners who provide support and challenge the completeness and accuracy of risk assessments and the adequacy of mitigation plans Internal audit constitutes the third line by

32 Risk management – continued

providing independent and objective assurance on the robustness of the risk management framework, and the appropriateness and effectiveness of internal controls

The principal significant risks of the Group and how they are mitigated are described on pages 15 to 19

The Group has exposure to a number of risks from its use of financial instruments, including credit, liquidity and market risks and from its insurance business The Group has adopted a risk management strategy that endeavours to mitigate these risks, which is approved by the Board In managing these exposures, the Investment Committee reviews and monitors any significant investment and market risks

Risk and future cash flows from general insurance contracts

Underwriting, pricing and claims risk
Underwriting risk affects future cash flows of the general insurance entities in the Group It can be subdivided into claims risk and pricing risk which represent the risk of adverse variances in claims outflows and premium inflows respectively, these are described in more detail on page 16, Risks and Uncertainties Pricing risk arises from routine revisions to premium tariffs and from the processes, in certain businesses, to set bespoke premiums for large corporate health insurance customers The adequacy of pricing rests on thorough actuarial analyses of past and most recent claims levels, combined with forward projections of the most recent observed trends Pricing risk affects only future cash flows since new tariffs impact on levels of premium earned when health insurance contracts renew

In every general insurer in the Group, the dominant product style is of an annually renewable health insurance contract This permits tariff revisions to respond reasonably quickly to changes in claim experience This is a significant mitigant to pricing risk The Group underwrites no material general insurance business that commits it to cover risks at premiums fixed beyond a twelve month period from inception or renewal

Claims risk is controlled by means of pre-authorisation of claims, outpatient benefit limits, the use of consultant networks and agreed networks of hospitals and charges Specific processes vary across the Group depending on local conditions and practice

Future adverse claims experience, for example, caused by external factors such as medical inflation, will affect cash flows after the date of the financial statements Recent adverse claims risks are reflected in these financial statements in claims paid and in the movement in provisions

Generally, the Group's health insurance contracts contain terms and conditions that provide for the reimbursement of incurred medical expenses for treatment related to acute medical conditions The contracts do not provide for capital sums or indemnified amounts Therefore claims experience is necessarily underpinned by prevailing rates of illness Additionally, claims risk is generally mitigated by the insurers running control processes to ensure that both the treatments and the consequent reimbursements are appropriate

Reserving risk
Reserving risk is the risk of technical provisions for claims incurred proving inadequate in light of later events or information Reserving risk is not significant to the Group as a result of the shortness of claims development patterns, coupled with the efficacy of the processes used to derive the assumptions used in setting provisions

The short-tail nature of the Group's general insurance contracts means that movements in claims development assumptions are generally not significant The development patterns are kept under constant review to maintain the validity of the assumptions and hence, the validity of the estimation of recognised general insurance liabilities

The amount of claims provision at any given time that relates to potential claims payments that have not been resolved within one year is not material Also, of the small provisions that do relate to longer than one year, it is possible to predict with reasonable confidence the outstanding amounts Comparisons of actual claims against previous estimates are therefore not provided

32 Risk management – continued

Other risks related to underwriting health insurance business
Claims provisions are not discounted and their short-term nature means that changes in interest rates have no impact on reserving risk In addition, the future premium income and claims outflows of health insurance premium liabilities are unaffected by changes in interest rates

None of the Group's general insurance contracts contain embedded derivatives so the contracts do not in that respect give rise to interest rate risk

The Group is exposed to foreign currency risk through some of the insurance liabilities which are settled in a local currency Where possible these liabilities are matched to assets in the relevant currency to hedge this exposure

All of the Group's general insurance activities are single line health portfolios Even though only one line of business is involved, the Group does not have significant concentrations of insurance risk for the following reasons

- broad geographical diversity across several markets - UK, Spain, Australia, Latin America, the Middle East, and Hong Kong,
- product diversity between domestic and expatriate, and individual and corporate health insurance, and
- a variety of claims type exposures across diverse medical providers - consultants, nursing staff , clinics, individual hospitals and hospital groups

The Group as a whole and its principal general insurance entities are very well diversified Only in select circumstances does the Group use reinsurance The reinsurance that is used does not give rise to a material credit risk exposure to the Group

Long-term insurance risk
The products currently sold within the long-term business are income protection, critical illness and life assurance to both corporate and individual customers, for terms of up to 40 years These products are distributed primarily through intermediary channels in the UK and direct to individual customers in Australia Some closed books of business are operated in the UK, Australia and Bermuda for some products following withdrawal from these markets, in particular immediate needs and pre-funded long-term care products

Critical illness and life assurance products provide for a payment of a lump sum to the policyholder or beneficiary upon the diagnosis of a specified illness or death Income protection provides for a monthly payment to the policyholder following a period of time being unable to work through illness, which is payable until retirement age or when the individual returns to work None of the Group's long-term insurance contracts contain embedded derivatives

The Group is exposed to uncertainty around the timing, frequency and severity of morbidity and mortality claims under these insurance contracts through inadequate pricing and random and catastrophic events It is also exposed to worse than anticipated operating experience on factors such as persistency levels and management and administrative expenses

Morbidity risk
The Group is exposed to the risk of paying higher claim costs than expected This can arise from higher claim incidence rates and longer claim durations than expected If claim costs are higher than estimated, there is a risk that the insurance liabilities are not sufficient to cover future claims A significant proportion of this risk is mitigated by the use of quota share reinsurance arrangements

Mortality risk
For contracts which offer a lump sum benefit payable on death, the Group is exposed to the risk that mortality rates are higher than expected and lead to increased claim costs For long-term care contracts the risk is that mortality rates are lower than expected and hence benefits are payable for longer than expected A significant proportion of this risk is mitigated by the use of quota share reinsurance arrangements

Persistency
The Group is at risk of higher than expected lapse rates at early durations This could result in a loss should insufficient premiums be collected to cover the costs of acquiring the policy At longer durations there is a

32 Risk management – continued

risk of lower than expected lapses leading to higher claims frequency and costs Persistency risk does not affect the Group's single premium contracts or annuities

Expense variability
If expense levels or expense inflation are higher than expected, insurance liabilities may not be sufficient to cover costs

Geographical concentrations of risk
The Group is exposed to the risk that a single event occurs in a location which would result in a large number of claims arising under a Group risk policy

This is mitigated by reinsurance which caps the overall liability arising from a single event

Catastrophe risk
Either a natural disaster, such as the spread of an epidemic, or a man made disaster could lead to a large number of claims and thus higher than expected claims costs Such risks are reduced by quota share, surplus and catastrophe reinsurance cover

To manage all of the above risks presented by long-term business, the Group operates a risk management framework of approval procedures, underwriting limits, pricing guidelines, premium loadings, policy exclusions and close monitoring of actual performance and market developments A significant proportion of the risk that is underwritten is ceded through proportionate and non-proportionate reinsurance treaties Catastrophe reinsurance is also purchased to protect against concentration of risk within the Group life portfolio The Risk & Compliance Committee approves any changes to reinsurance arrangements

Market risk
Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments from fluctuations in interest rates, foreign exchange rates, commodity prices, credit spreads and equity prices The focus of the Group's long-term financial strategy is to facilitate growth without undue balance sheet risk The Treasury and Investment Committee is responsible for the management of the Group's cash and short-term borrowings

Under the guidance of the Committee, the role of the Group Treasury Department is to manage the Group's liquidity position and short-term borrowings, together with the risks arising on interest rates and foreign currencies and to protect the security of the Group's financial assets

Market risk in relation to the long-term insurance business arises from fluctuations in values or income from current invested assets or projected yields for future investments In order to reduce the risk of assets being insufficient to meet future policyholder obligations, the Group matches investments to liabilities In addition, the Group actively manages assets using an approach that balances quality, diversification, liquidity and investment return

In respect of its life assurance contracts, a sensitivity analysis is performed on renewal expenses and inflation based around various scenarios, to provide an indication of the adequacy of the Group's estimation of these Further details of this are set out in note 24

The Group manages price risk by ensuring that the majority of its cash and investments are held with highly rated credit institutions

Where the Group has moved away from straight money market investments and invested in a limited portfolio of absolute return assets (principally corporate bonds), the Group uses a value at risk (VaR) analysis to quantify risk, taking account of asset volatility and correlation between asset classes This portfolio was £184 5m at 31 December 2010 (2009 £161 2m)

32 Risk management – continued

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates

The Group is exposed to interest rate risk arising from fluctuations in market rates This affects both the return on floating rate assets, the cost of floating rate liabilities and the balance sheet value of its investment in fixed rate bonds Floating rate assets represent a natural hedge for floating rate liabilities The net balance on which the Group is exposed as at 31 December 2010 was £1,256 6m (2009 £1,002 6m) The rate at which maturing deposits are reinvested represents a significant potential risk to the Group, in currencies such as the Australian Dollar where the Group has a significant net floating cash or debt position

The Group has also used interest rate swaps to manage interest rate exposure whereby the requirement to settle interest at fixed rates has been swapped for floating rates This increases the ability to match floating rate assets with floating rate liabilities

The Group manages investment liquidity against a target benchmark of four months' duration for deposits with financial institutions and takes actions around this target based on future market expectations The maturity profile of financial assets as at 31 December 2010 and 2009 is as follows

	Cash and cash equivalents £m	Deposits with credit institutions £m	Reverse repo securities £m	UK government gilts £m	Overseas government gilts £m	UK corporate bonds £m	Overseas corporate bonds £m	Medium term notes £m	Shares and other variable yield securities £m	Property trusts £m	Total £m
2010											
2011	689 0	832 7	202 2	-	6 5	-	-	75 5	10 1	-	1,816 0
2012	-	585 3	-	-	39 1	-	14 7	50 1	132 3	-	821 5
2013	-	-	-	-	0 1	-	-	-	-	-	0 1
2014	-	-	-	-	-	-	-	50 0	-	-	50 0
2015	-	-	-	-	-	-	-	50 7	-	-	50 7
2016-2020	-	-	-	-	0 1	-	40 4	-	0 2	-	40 7
After 2020	-	-	-	-	-	68 7	-	-	0 1	-	68 8
Total	689 0	1,418 0	202 2	-	45 8	68 7	55 1	226 3	142 7	-	2,847 8
2009											
2010	1,069 4	410 2	191 8	-	87 8	-	-	259 3	131 3	2 7	2 152 5
2011	-	164 5	-	-	40 5	2 1	1 7	72 9	-	-	281 7
2012	-	-	-	-	-	14 1	4 6	-	-	-	18 7
2013	-	-	-	4 8	-	16 4	1 6	-	-	-	22 8
2014	-	-	-	-	-	24 1	2 1	50 0	-	-	76 2
2015-2019	-	-	-	5 1	-	44 3	6 6	-	-	-	56 0
After 2019	-	-	-	15 7	-	70 7	-	-	0 1	-	86 5
Total	1,069 4	574 7	191 8	25 6	128 3	171 7	16 6	382 2	131 4	2 7	2,694 4

Information regarding the ageing of financial and insurance assets, including those above, and the value of any impairment made against these assets is included on page 100

32. Risk management - continued

Variable loans are re-priced at intervals of between one and six months Interest is settled on all loans in line with agreements and is settled at least annually

The contractual and anticipated repayment profile of interest bearing financial liabilities is as follows

	Variable £m	Fixed £m	Total £m	Undrawn facility £m
2010				
2011	(0 6)	(26 9)	(27 5)	(703 1)
2012	(1 0)	(3 4)	(4 4)	-
2013	(195 8)	(2 6)	(198 4)	-
2014	(4 8)	(51 6)	(56 4)	-
2015	(26 3)	(0 4)	(26 7)	-
2016-2020	(347 5)	(394 8)	(742 3)	-
After 2020	-	(233 1)	(233 1)	-
Total	(576 0)	(712 8)	(1,288 8)	(703 1)
2009				
2010	(2 6)	(25 1)	(27 7)	(685 7)
2011	(410 8)	(2 4)	(413 2)	-
2012	(6 1)	(2 6)	(8 7)	-
2013	(4 7)	(2 6)	(7 3)	-
2014	(5 3)	(51 5)	(56 8)	-
2015-2019	(18 7)	(354 0)	(372 7)	-
After 2019	(348 1)	(256 1)	(604 2)	-
Total	(796 3)	(694 3)	(1 490 6)	(685 7)

The impact of a rise of 100 bps (2009 100 bps) in interest rates at the reporting date, on an annualised basis, would have increased / (decreased) equity and surplus by the amounts shown below This analysis assumes that all other variables, in particular foreign exchange rates, remain constant

	Gains / (losses) included in income statement and equity £m
2010	
Debt securities - government gilts	0 5
Debt securities - corporate bonds	1 2
Medium-term notes	2 3
Reverse repo securities	2 0
Deposits with credit institutions	14 2
Cash and cash equivalents	6 9
Subordinated liabilities	(3 3)
Other interest bearing financial liabilities	(2 5)
Total	21 3
2009	
Debt securities - government gilts	1 5
Debt securities - corporate bonds	1 2
Medium-term notes	3 8
Reverse repo securities	1 9
Financial investments backing life investment contract liabilities	3 7
Deposits with credit institutions	5 7
Cash and cash equivalents	10 7
Subordinated liabilities	(3 3)
Other interest bearing financial liabilities	(4 7)
Life investment contract liabilities	(3 7)
Total	16 8

The impact of a fall of 100 bps (2009 100 bps) in interest rates, on an annualised basis, would have the inverse effect to that shown in the table above

32 Risk management – continued

Foreign exchange risk
The Group is exposed to foreign exchange risks arising from commercial transactions and from recognising assets, liabilities and investments in overseas operations

The Group is exposed to both transaction and translation risk The former is the risk that a company's cash flows and realised profits may be impacted by movements in foreign exchange rates The latter arises from translating the financial statements of a foreign operation into the Group's functional currency

Bupa has exposure to foreign exchange risk arising from its overseas operations Key exposures are to the Australian Dollar, US Dollar, Euro, New Zealand Dollar, Bahraini Dinar, Danish Krone, Hong Kong Dollar, Thai Baht and Swiss Franc

Where appropriate, the Group uses foreign currency forward contracts and foreign currency borrowings to hedge balance sheet translation exposure

The carrying value of total assets and total liabilities categorised by currency is as follows

	Net currency exposure	Currency forward contracts	Borrowing transactions	Net currency exposure including hedges
	£m	£m	£m	£m
2010				
Australian Dollar	2,134 6	(261 2)	-	1,873 4
US Dollar	352 7	(322 8)	-	29 9
Euro	337 0	(44 3)	(94 8)	197 9
New Zealand Dollar	197 1	-	-	197 1
Bahraini Dinar	25 0	-	-	25 0
Danish Krone	(3 8)	-	-	(3 8)
Hong Kong Dollar	9 5	-	-	9 5
Thai Baht	9 6	-	-	9 6
Swiss Franc	4 9	(8 2)	-	(3 3)
Other	7 6	-	-	7 6
Total foreign denominated net assets	3,074 2	(636 5)	(94 8)	2,342 9
Percentage of Group net assets	66 1%			50 3%
2009				
Australian Dollar	1,867 8	(221 0)	-	1,646 8
US Dollar	409 5	(217 8)	-	191 7
Euro	299 9	(48 8)	(98 0)	153 1
New Zealand Dollar	177 1	-	-	177 1
Bahraini Dinar	46 7	-	-	46 7
Danish Krone	12 4	-	(36 9)	(24 5)
Hong Kong Dollar	8 9	-	-	8 9
Thai Baht	7 7	-	-	7 7
Other	8 4	-	-	8 4
Total foreign denominated net assets	2,838 4	(487 6)	(134 9)	2 215 9
Percentage of Group net assets	66 9%			52 2%

The following significant exchange rates applied during the year

	Average Rate		Closing Rate	
	2010	2009	2010	2009
Australian Dollar	1 6832	1 9906	1 5259	1 8031
US Dollar	1 5456	1 5659	1 5610	1 6170
Euro	1 1664	1 1227	1 1650	1 1275

32 Risk management - continued

The impact of 5% strengthening of Sterling (2009 5%) against the currencies below, with all other variables constant, would have (decreased) / increased equity and surplus by the amounts shown below

	Gains / (losses) included in income statement £m	Gains / (losses) included in equity £m
2010		
Australian Dollar	(8 9)	(89 2)
US Dollar	6 6	(1 4)
Euro	(4 1)	(9 4)
Other	1 0	(11 7)
Total sensitivity	(5 4)	(111 7)
2009		
Australian Dollar	(6 2)	(78 4)
US Dollar	(1 8)	(9 1)
Euro	(3 1)	(7 3)
Other	(2 1)	(10 7)
Total sensitivity	(13 2)	(105 5)

The impact of 5% weakening of Sterling (2009 5%) against the currencies above, with all other variables constant, would have the inverse effect to that shown above

Credit risk
Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their contractual obligations The Group manages its credit risk exposures under the guidance of the Investment Committee

Investment exposure with external counterparties is managed by ensuring there is a sufficient spread of investments and that all counterparties are rated at least AA– by two of the three key rating agencies used by the Group (unless specifically approved by the Investment Committee)

The investment profile at 31 December is as follows

	2010 £m	2009 £m
UK government gilts	-	25 6
Overseas government gilts	**45 8**	128 3
Investment grade counterparties	**2,761 5**	2,448 0
Non-investment grade counterparties	**40 5**	92 5
	2,847 8	2,694 4

Investment grade counterparties include cash and cash equivalents of £689 0m (2009 £1,069 4m)

The investments which are held with non-investment grade counterparties are classed as shares and other variable yield securities and include commodity funds Non-investment grade counterparties are those rated below BBB-

In aggregate across the Group, reinsurance credit risk is not material, however, what does exist is concentrated in the UK life insurance business Reinsurance credit risk is mitigated by using reinsurers which have been approved by the Risk & Compliance Committee of Bupa Health Assurance Limited (BHA) The Group monitors the exposure and financial status of reinsurers on an ongoing basis The Bupa Insurance Limited and BHA Risk & Compliance Committee is responsible for approving all new reinsurance arrangements

32 Risk management – continued

Information regarding the ageing of financial and insurance assets and the value of the impairment made against these assets is provided below

	Neither past due or impaired £m	0-3 months £m	3-6 months £m	6 months-1 year £m	Greater than 1 year £m	Impairment £m	Carrying value in the balance sheet £m
2010							
Debt securities	169 6	-	-	-	-	-	169 6
Shares and other variable yield securities	142 7	-	-	-	-	-	142 7
Medium-term notes	226 3	-	-	-	-	-	226 3
Reverse repo securities	202 2	-	-	-	-	-	202 2
Deposits with credit institutions	1,418 0	-	-	-	-	-	1,418 0
Reinsurers' share of insurance provisions	9 8	-	-	-	-	-	9 8
Insurance debtors	643 1	72 9	9 1	8 5	0 4	(18 1)	715 9
Investment receivables and accrued investment incomes	2 3	0 3	-	-	1 9	(1 6)	2 9
Trade and other receivables	287 6	52 0	8 4	8 0	33 2	(14 0)	375 2
Total financial and insurance assets	3,101 6	125 2	17 5	16 5	35 5	(33 7)	3,262 6
2009							
Debt securities	342 2	-	-	-	-	-	342 2
Shares and other variable yield securities	131 4	-	-	-	-	-	131 4
Medium-term notes	382 2	-	-	-	-	-	382 2
Reverse repo securities	191 8	-	-	-	-	-	191 8
Deposits with credit institutions	574 7	-	-	-	-	-	574 7
Property trusts	2 7	-	-	-	-	-	2 7
Reinsurers' share of insurance provisions	81 7	-	-	-	-	-	81 7
Insurance debtors	470 2	210 4	22 1	11 9	7 4	(22 2)	699 8
Investment receivables and accrued investment incomes	12 3	0 1	-	-	0 8	-	13 2
Trade and other receivables	225 9	102 7	11 5	3 9	10 8	(9 1)	345 7
Total financial and insurance assets	2,415 1	313 2	33 6	15 8	19 0	(31 3)	2,765 4

The carrying amount of financial and insurance assets of £3,262 6m (2009 £2,765 4m) included on the Group balance sheet represents the maximum credit exposure

The movement in the allowance for impairment in respect of financial and insurance assets during the year was as follows

	2010 £m	2009 £m
At beginning of year	31 2	41 0
Impairment loss recognised	17 4	6 6
Disposal of subsidiary companies	(0 3)	(0 8)
Bad debt provision released in year	(14 1)	(13 0)
Transferred to assets held for sale	(0 4)	-
Foreign exchange	(0 1)	(2 6)
At end of year	33 7	31 2

32 Risk management – continued

The Group believes no impairment allowance is necessary in respect of financial assets not past due date

The Group considers notified disputes, significant changes in the counterparty's financial position and collection experience in determining which assets should be impaired The credit quality of receivables is managed at a local business unit level with uncollectable amounts being impaired when necessary

Assets pledged as security include £35 4m (2009 £31 2m) of cash held in restricted access deposits, £86 8m (2009 £86 4m) of property, plant and equipment and £0 5m (2009 £0 2m) of inventories

Liquidity risk
Liquidity risk is the risk that the Group will not have available funds to meet its liabilities when they fall due

The Group's main source of funding is via a £900m committed bank facility which was put in place in June 2010 and matures in September 2013 Funding headroom under the facility was £696 8m at 31 December 2010 The Group repaid £211 1m of bank borrowings under this facility during 2010 primarily from operating cash flows and proceeds from disposal of businesses As a result of ongoing operating cashflows and proceeds from the sale of Bupa Health Assurance Limited in early 2011, the level of bank borrowings will continue to fall in the short-term

The Group Treasury department monitors funding risk as well as compliance with existing financial covenants within the banking arrangements There were no concerns regarding bank covenant coverage in 2010 and that position is not expected to change in the foreseeable future

The Group enjoys a strong liquidity position and adheres to strict liquidity management policies as set by the Investment Committee as well as adhering to certain liquidity parameters, as defined by the FSA for the Group's regulated entities in the UK and local equivalent authorities for the Group's foreign operations

Liquidity is managed by currency, and by considering the segregation of accounts required for regulatory purposes, short-term operational working capital requirements are met by cash in hand and committed bank facilities

Liquidity risk for the long-term insurance business is managed by matching assets to liabilities and by maintaining a portion of the long-term investment portfolio in liquid, short-term deposits

The maturity of assets which are used to match liabilities and manage liquidity risk is disclosed on page 100

32. Risk management – continued

The contractual maturities of financial liabilities and the expected maturities of insurance liabilities including estimated interest payments of the Group as at 31 December are as follows

	Subordinated liabilities £m	Other interest bearing liabilities £m	Provisions under insurance contracts issued £m	Other liabilities under insurance contracts issued £m	Life investment contract liabilities £m	Trade and other payables £m	Total £m
2010							
2011	(20 6)	(69 4)	(2,134 5)	(18 9)	-	(799 1)	(3,042 5)
2012	(20 6)	(52 3)	(0 8)	-	-	(1 4)	(75 1)
2013	(20 6)	(246 2)	-	-	-	(0 9)	(267 7)
2014	(20 6)	(101 3)	-	-	-	(0 7)	(122 6)
2015-2020	(451 7)	(527 9)	-	-	-	(1 0)	(980 6)
After 2020	-	(377 7)	(23 3)	-	-	-	(401 0)
Total	(534 1)	(1,374 8)	(2,158 6)	(18 9)	-	(803 1)	(4,889 5)
Carrying value in the balance sheet	(380 6)	(908 2)	(2,158 6)	(18 9)	-	(803 1)	(4,269 4)
2009							
2010	(20 6)	(65 8)	(1,996 3)	(32 8)	(832 0)	(736 1)	(3,683 6)
2011	(20 6)	(461 0)	(2 0)	-	-	(12 3)	(495 9)
2012	(20 6)	(56 5)	(2 9)	-	-	(7 7)	(87 7)
2013	(20 6)	(55 1)	(2 8)	-	-	(7 6)	(86 1)
2014-2019	(127 1)	(588 6)	(1 7)	-	-	(15 0)	(732 4)
After 2019	(345 2)	(415 6)	(84 4)	-	-	-	(845 2)
Total	(554 7)	(1,642 6)	(2,090 1)	(32 8)	(832 0)	(778 7)	(5 930 9)
Carrying value in the balance sheet	(362 4)	(1 128 2)	(2,090 1)	(32 8)	(832 0)	(778 7)	(5,224 2)

The total liability is split by remaining duration in proportion to the cash flows expected to arise during that period Interest payments are included in the cash flows for subordinated liabilities and other interest bearing liabilities

33 Acquisitions

2010 acquisitions

On 9 August 2010, the Group acquired the remaining 50% shareholding in the Health Eyewear business from Blink Optical Pty Limited for cash consideration of £1 1m (AU$1 7m) The Group had an existing 50% shareholding in Health Eyewear, which at 31 December 2010 had a fair value of £0 6m The primary reason for this acquisition was to enable cost savings on claims

On 25 August 2010, the Group acquired the assets of Peak Fitness Management for cash consideration of £2 3m (AU$4 1m), this resulted in goodwill of £3 0m being recognised. The primary reason for this acquisition was to complement the existing offerings to customers

The acquisition related costs included in operating expenses within the income statement for the year ended 31 December 2010 are £0 4m(AU$0 7m)

	Carrying value at acquisition £m	Fair value adjustments £m	Fair value £m
Property plant and equipment	1 1	-	1 1
Inventories	0 6	-	0 6
Trade and other receivables	0 2	-	0 2
Provisions for liabilities and charges	(0 3)	-	(0 3)
Trade and other payables	(0 3)	-	(0 3)
	1 3	-	
Net assets acquired			1 3
Goodwill			3 0
Consideration			4 3
Consideration satisfied by			
Cash			3 4
Fair value of previously held equity interest			0 6
Deferred consideration			0 3
			4 3
Purchase consideration settled in cash			3 4
Net cash outflow on acquisition			3 4

The fair value adjustments relating to the acquisition of Health Eyewear and Peak Fitness Management are provisional and will be finalised during the 2011 financial year but within the twelve month anniversary date of each respective acquisition

2009 acquisitions

No acquisitions were made during the year ended 31 December 2009

34. Commitments and contingencies

(i) Capital commitments

Capital expenditure for the Group contracted as at 31 December 2010 but for which no provision has been made in the financial statements amounted to £9 8m (2009 £10 5m), of which £7 6m (2009 £7 1m) related to property, plant and equipment and £2 2m (2009 £3 4m) related to investment property

(ii) Operating leases

The total value of future non-cancellable operating lease rentals is payable as follows

	2010	2009
	£m	£m
Less than one year	**42 3**	39 4
Between one and five years	**152 9**	140 9
More than five years	**362 2**	415 8
	557 4	596 1

The Group leases a number of properties under operating leases The leases typically run for a period of 25 years, with an option to renew the lease after that date Lease payments are reviewed regularly in accordance with the terms and conditions of the individual lease agreements None of these leases include contingent rentals

Some of the leased properties have been sub-let by the Group These leases expire between 2012 and 2024 and the sub-leases between 2010 and 2022 Sub-lease receipts of £1 4m (2009 £1 6m) are expected to be received during the next financial year The Group has recognised an unoccupied property provision of £7 8m (2009 £3 7m) in respect of these leases (see note 27)

Leases as lessor

The Group leases out its investment properties under operating leases (see note 13) The future lease receipts under non-cancellable leases are as follows

	2010	2009
	£m	£m
Less than one year	**1 1**	1 1
Between one and five years	**3 5**	3 6
More than five years	**-**	0 9
	4 6	5 6

During the year ended 31 December 2010, £1 1m (2009 £1 1m) was recognised as rental income in the income statement

(iii) Pension contributions

Bupa Limited has an obligation to make a series of special contributions to The Bupa Pension Scheme between 31 December 2010 and 31 December 2012, details of which are set out in note 26 In addition, Bupa Finance plc has entered into a legally binding and irrevocable guarantee for the benefit of the Trustees of The Bupa Pension Scheme in respect of these payments

(iv) Contingent assets and liabilities

The Group has contingent liabilities arising in the ordinary course of business, including losses which might arise from litigation, from which it is anticipated that the likelihood of any material unprovided liabilities arising is remote

35 Related party transactions

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements, and accounts for them as such In this respect, provision for expected claims is made on an incurred basis

The ultimate parent company of the Group is Bupa Finance plc Intra Group related party transactions and outstanding balances are eliminated in the preparation of the consolidated financial statements of the Group

Transactions with key management personnel

The key management personnel are the Group's Executive and Non-Executive Directors and the Managing Directors of the Group's business segments The remuneration of the business segment Managing Directors is as follows

	2010 £m	2009 £m
Short-term employee benefits	4 3	3 6
Long-term incentive plan	1 5	2 4
Post employment benefits	2 5	2 7
Total remuneration paid to key management personnel	**8 3**	8 7

The total remuneration of key management personnel is included in staff costs (see note 4)

No Director had any material interest in any contracts with Group companies at 31 December 2010 (2009 £nil) or at any time during the year

Transactions with the Trustees of The Bupa Pension Scheme

Bupa Limited has made pension promises to Executive Directors and key management personnel through an unapproved pension arrangement which mirrors the terms of The Bupa Pension Scheme These unfunded benefits have been secured by a charge, in the name of the Trustees of The Bupa Pension Scheme, over £29 5m (2009 £25 4m) of cash deposits

There were no material transactions during the year with any other related parties, as defined by IAS 24

Transactions and balances with ultimate parent company

Transactions with the ultimate parent company of Bupa Group, The British United Provident Association Limited, are as follows

	Transactions during the year		Balance at 31 December	
	2010 £m	2009 £m	2010 £m	2009 £m
Income statement				
Management charges paid	(132 2)	(139 9)		
Interest expense	(4 0)	(6 6)		
Interest income	6 7	9 0		
Expenses paid (including rental expense of £0 1m (2009 £0 2m))	(2 3)	(2 1)		
Income received (including rental income of £6 4m (2009 £6 5m))	6 9	7 0		
Balance sheet				
Amounts owed to ultimate parent company	(67 1)	(108 7)	(415 8)	(348 7)
Amounts owed by ultimate parent company	(89 1)	200 8	520 7	609 8
Loans from ultimate parent company	194 3	(244 7)	(50 4)	(244 7)
Loans to ultimate parent company	33 7	194 3	232 6	198 9

The above outstanding balances arose during the ordinary course of business and are on substantially the same terms, including interest rates, as for comparable transactions with third parties

36. Events after the balance sheet date

On 15 October 2010, the Group announced the proposed sale of the Group's subsidiary Bupa Health Assurance Limited to Resolution Limited The transaction was conditional upon receiving regulatory approval from the FSA The sale completed on 31 January 2011 for cash proceeds of £168 2m The assets and liabilities of Bupa Health Assurance Limited are classified as held for sale in the consolidated balance sheet as 31 December 2010 (see note 20)

Appendix I
Bupa Finance plc Company Accounts

Bupa Fınance plc **Appendıx I**

Company Number 2779134

Company balance sheet

as at 31 December 2010

	Note	2010 £m	2010 £m	2009 £m	2009 £m
Fixed assets					
Fınancıal ınvestments	4	0 2		1 3	
Investment ın subsıdıary undertakıngs	5	5,160 3		5,505 6	
Investment ın assocıate undertakıngs	6	0 1		7 2	
			5,160 6		5,514 1
Current assets					
Fınancıal ınvestments	4	0 1		-	
Debtors amounts fallıng due wıthın one year	7	15 1		41 4	
Cash and cash equıvalents		29 3		25 6	
			44 5		67 0
Credıtors amounts fallıng due wıthın one year	8		(36 9)		(23 2)
Net current assets			**7 6**		**43.8**
Total assets less current liabilities			**5,168 2**		**5,557.9**
Credıtors amounts fallıng due after more than one year	8		(3,476 2)		(4,711 9)
Net assets			**1,692.0**		**846.0**
Shareholder's funds					
Called up share capıtal	10		200 1		200 1
Profit and loss account	11		1,491 9		645 9
Shareholder's funds			**1,692 0**		**846.0**

These financıal statements were approved by the Board of Dırectors on 15 Aprıl 2011 and were sıgned on ıts behalf by

Thomas Sınger
Dırector

Regıstered number 2779134

The notes on the pages 113 to 117 form part of these financıal statements

Reconciliation of movement in shareholder's funds
for the year ended 31 December 2010

	2010 £m	2009 £m
Profit / (loss) for the year	846 0	(71 6)
Net addition / (reduction) to shareholder's funds	**846.0**	**(71 6)**
Opening shareholder's funds	846 0	917 6
Closing shareholder's funds	**1,692.0**	**846.0**

There were no recognised gains and losses other than the profit / (loss) for the financial year

The notes on the pages 113 to 117 form part of these financial statements

Company accounting policies

The principal accounting policies are summarised below They have been applied consistently throughout the financial years disclosed

Basis of preparation

The financial statements have been prepared in accordance with applicable UK accounting standards, under the historical cost convention, modified to include the revaluation of financial investments

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the financial statements

The Company has continued to present individual financial statements prepared on a UK Generally Accepted Accounting Practice basis as permitted by section 396 to the Companies Act 2006 The Company is taking advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual profit and loss account

Under Financial Reporting Standard No 1 'Cash flow statements' (revised 1996) (FRS 1) the Company is exempt from the requirement to prepare a cash flow statement on the grounds it is a wholly owned subsidiary undertaking of The British United Provident Association Limited (Bupa Limited), a company that prepares a consolidated cash flow statement for the Bupa Group

As the Company is a wholly owned subsidiary of Bupa Limited, a company registered in England and Wales, which publishes consolidated accounts, the Company has, pursuant to paragraph 17 of Financial Reporting Standard No 8 Related Party Disclosures (FRS 8), not included details of transactions with other companies which are subsidiary undertakings of the Bupa Group There are no other related party transactions

In addition, the Company has taken advantage of the exemption within FRS 29, 'Financial Instruments Disclosure' (FRS 29) from the disclosure requirements of this standard on the basis that the Company is included in the publicly available consolidated financial statements of the Group which include disclosures that comply with IFRS 7, 'Financial Instruments Disclosure', which is equivalent to FRS 29

Financial income and expenses

Financial income comprises interest receivable, realised gains and losses on investments, foreign exchange gains and losses, dividend income on equity investments and changes in the fair value of items recognised at fair value through profit or loss

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

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

Financial expenses include interest payable on borrowings, calculated using the amortised cost method, and other financial expenses

Company accounting policies – continued

Financial investments
The Company has classified its financial investments as fair value through profit or loss or as loans and receivables Management determines the classification at initial recognition All financial investments are initially recognised at fair value Financial investments are derecognised when the rights to receive cash flows from the financial investments have expired or where the Company has transferred substantially all risks and rewards of ownership

Financial investments at fair value through profit or loss
A financial investment is classified at fair value through profit or loss if acquired principally for the purpose of selling in the short-term or if permissible, it is so designated at inception by management Purchases and sales of financial investments at fair value through profit or loss are recognised on the trade date The trade date is the date on which the Company commits to purchase or sell the investment

The investments are carried at fair value, with gains and losses arising from changes in fair value recognised in the profit and loss account in the period in which they arise The fair values of quoted investments in active markets are based on current bid prices The fair values of unlisted securities, and quoted investments for which there is no active market, are established using valuation techniques corroborated by independent third parties These may include reference to the fair value of other instruments that are substantially the same and discounted cash flow analysis

Loans and receivables
Loans and receivables are non-derivative financial investments with fixed or determinable payments that are not quoted in an active market They arise when the Company provides money, goods or services directly to a borrower or customer with no intention of trading the receivable Loans are recognised when cash is advanced to the borrowers Loans and receivables are carried at amortised cost calculated using the effective interest method, less impairment losses

Impairment of financial assets
Financial assets comprise financial investments and debtors If they are not already held at fair value, financial assets are assessed at each reporting date to determine whether there is any objective evidence that they are impaired A financial asset is considered impaired if objective evidence indicates that one or more events that have occurred since the initial recognition of the asset have had a negative impact on the estimated future cash flows of that asset

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the effective interest rate at the date the investment was made

Significant financial assets are tested for impairment on an individual basis The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics All impairment losses are recognised in the profit and loss account

Derivative financial instruments
Derivatives are recognised initially at fair value, attributable transaction costs are recognised in the profit or loss account when incurred Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in the profit and loss account

Investment in subsidiary companies
Subsidiary companies include all entities over which the Company has the power, directly or indirectly, to govern the financial and operating policies so as to obtain benefits from their activities

Investments in subsidiary undertakings are held at cost less impairment and include loans to subsidiary undertakings

All loans and receivables to and from subsidiary undertakings are shown at cost less amounts written off where deemed irrecoverable

Company accounting policies – continued

Cash and liquid resources
Cash comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand

Taxation including deferred taxation
The charge for taxation is based on the result for the year and takes into account deferred taxation

Deferred tax is provided in full on all timing differences that have originated, but not reversed, at the balance sheet date which result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions

(i) Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable

(ii) Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on current tax rates and laws

Foreign currency transactions
In the Company accounts, transactions denominated in foreign currencies are translated into Sterling using the exchange rate ruling at the date of the transaction

Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the exchange rate ruling at the balance sheet date, the resulting foreign exchange gain or loss is recognised in the profit and loss account

Non-monetary assets and liabilities denominated in a foreign currency at historical cost are translated using the exchange rate at the date of the transaction, no exchange differences therefore arise

Non-monetary assets and liabilities measured in foreign currency at fair value are translated using the exchange rate ruling at the date that the fair value was determined Foreign exchange differences that arise on retranslation are recognised in the profit and loss account

Notes to the Company accounts
for the year ended 31 December 2010

1. Immediate and ultimate parent undertakings

The immediate and ultimate parent undertaking of Bupa Finance plc is The British United Provident Association Limited, a company incorporated in England and Wales which prepares consolidated group accounts Copies of the accounts of The British United Provident Association Limited can be obtained from The Registrar of Companies, Cardiff, CF14 3UZ

2. Profit / (loss) attributable to the Company

The profit within in the accounts of the Company is £846 0m (2009 loss of £71 6m) In accordance with the exemption granted under Section 408 of the Companies Act 2006, a separate profit and loss account for the Company has not been presented

3. Directors and employees

	2010 £m	2009 £m
Staff costs consists of		
Wages and salaries	0 2	0 2
	0.2	**0.2**

The emoluments of the Directors are borne entirely by other Group companies and are disclosed in the financial statements of those companies

Employee numbers
The average number of employees, excluding directors, of the Company during the year was six (2009 six)

4 Financial investments

	2010 £m	2009 £m
Non-current		
Fair value through profit or loss		
Shares and other variable yield securities	0 2	1 3
	0.2	**1 3**
Current		
Fair value through profit or loss		
Shares and other variable yield securities	0 1	-
	0.1	**-**
Total financial assets	**0 3**	**1.3**

Shares and other variable yield securities comprises investments in unlisted commodity funds of £0 1m (2009 £1 3m), and listed investments of £0 2m (2009 £nil)

Notes to the Company accounts - continued
for the year ended 31 December 2010

5. Investment in subsidiary undertakings

	1 January 2010	Additions	Disposals/ Repayments	Provisions for impairment adjustments	Foreign exchange revaluation	31 December 2010
	£m	£m	£m	£m	£m	£m
Group undertakings						
Shares in subsidiary undertakings	4,458 1	383 9	-	-	0 4	**4,842 4**
Loans to Group companies	1,468 8	546 1	(298 0)	-	-	**1,716 9**
	5,926 9	930 0	(298 0)	-	0 4	**6,559 3**
Provisions for impairment	(421 3)	-	-	(977 7)	-	**(1,399 0)**
	5,505 6	930 0	(298 0)	(977 7)	0 4	**5,160 3**

Loans to subsidiary undertakings comprise loan facilities of a fixed amount and a long-term maturity date

The principal subsidiary undertakings of the Company as at 31 December 2010 are listed below

	Holding (%)	Class of shares	Country of incorporation
ANS 2003 Limited	89%	£0 01 Ordinary	England and Wales
BHS (Holdings) 2006 Limited	100%	£1 Ordinary	England and Wales
Bupa Australian Investments Limited	100%	£0 10 Ordinary	England and Wales
Bupa Care Services Limited	100%	£0 20 Ordinary	England and Wales
Bupa Denmark Services a/s	100%	DKK100 Ordinary	Denmark
Bupa Financial Securities (1992) Limited	100%	£1 Ordinary	England and Wales
Bupa Health Dialog Limited	100%	£1 Ordinary	England and Wales
Bupa Home Healthcare Group Limited	100%	£0 01 Ordinary A and £0 01 Ordinary B	England and Wales
Bupa Insurance Limited	87%	£1 Ordinary	England and Wales
Bupa Insurance Services Limited	100%	£1 Ordinary	England and Wales
Bupa Investments Limited	100%	£1 Ordinary	England and Wales
Bupa Investments Overseas Limited	100%	£1 Ordinary	England and Wales
Bupa Wellness Group Limited	100%	£0 01 Ordinary	England and Wales
Cromwell Health Group Limited	100%	£1 Preference and £1 Ordinary A	England and Wales
Hospital Finance Investments Limited	100%	£1 Ordinary	England and Wales

6 Investment in associate undertakings

	2010	2009
	£m	£m
Investment in associate undertakings	0 1	7 2

During the year, the investment in Fitbug Holdings plc was impaired by £3 2m to its recoverable value of £0 2m In November 2010, the Company's previously held 23 85% shareholding in Fitbug Holdings plc was diluted to 9 24% and the remaining £0 2m investment was reclassified from investment in associate undertakings to financial investments

During the year, the investment in ADD Wellness Holdings Limited of £3 7m was provided against in full

Notes to the Company accounts - continued
for the year ended 31 December 2010

7 Debtors

	2010 £m	2009 £m
Amounts falling due within one year		
Amounts owed by subsidiary undertakings	12 9	39 8
Fair value of derivative assets	1 2	-
Trade and other debtors	1 0	1 6
	15 1	**41 4**

8. Creditors

	2010 £m	2009 £m
Creditors: amounts falling due within one year		
Subordinated liabilities (note 9)	5 9	5 9
Senior unsecured bonds	12 3	12 5
Fair value of derivative liabilities	13 2	-
Amounts owed to ultimate parent company (Bupa Limited)	2 4	1 5
Amounts owed to subsidiary undertakings	0 9	1 3
Other creditors	2 2	2 0
	36 9	**23 2**
Creditors amounts falling due after one year		
Subordinated liabilities (note 9)	333 9	333 9
Senior unsecured bonds	347 7	347 1
Amounts owed to credit institutions	193 5	407 9
Amounts owed to subsidiary undertakings	2,601 1	3,623 0
	3,476 2	**4,711 9**
	3,513 1	**4,735 1**

On 2 July 2009, Bupa Finance plc issued £350 0m of 7 5% senior unsecured bonds The bonds are repayable in July 2016 They are guaranteed by Bupa Limited and other Group subsidiary companies The £12 3m current balance includes accrued interest The £347 7m non-current balance is net of initial issue costs and discount on issue

The amounts owed to credit institutions bear interest at commercial rates linked to LIBOR

Notes to the Company accounts - continued
for the year ended 31 December 2010

9 Subordinated liabilities

	2010 £m	2009 £m
Current		
Callable subordinated perpetual guaranteed bonds	5 9	5 9
	5.9	**5 9**
Non-current		
Callable subordinated perpetual guaranteed bonds	330 0	330 0
10 5% subordinated guaranteed bonds due 2018	3 9	3 9
	333 9	**333 9**
	339 8	**339 8**

Callable subordinated perpetual guaranteed bonds
In December 2004, Bupa Finance plc issued £330 0m of callable subordinated perpetual guaranteed bonds, which are guaranteed by Bupa Insurance Limited Interest is payable on the bonds at 6 125% per annum The bonds have no fixed maturity date but a call option is exercisable by Bupa Finance plc to redeem the bonds on 16 September 2020 This call option coincides with an increase in the interest rate applicable on the bonds, which makes redemption at this point highly likely In the event of the winding up of Bupa Finance plc or Bupa Insurance Limited the claims of the bondholders are subordinated to the claims of other creditors of these companies

The total balance of the callable subordinated perpetual guaranteed bonds of £335 9m (2009 £335 9m) is inclusive of accrued interest of £5 9m (2009 £5 9m)

10.5% subordinated guaranteed bonds
At 31 December 2010, £3 9m (2009 £3 9m) was outstanding in respect of 10 5% subordinated guaranteed bonds, which are repayable on 3 December 2018 The bonds were issued by Bupa Finance plc and are guaranteed by Bupa Limited A call option is exercisable by Bupa Finance plc to redeem the bonds on 3 December 2013 In the event of the winding up of Bupa Finance plc or Bupa Limited, the claims of the bondholders are subordinated in right of payment to the claims of other creditors of the Company Interest is payable at 10 5% per annum The Company has not had any defaults of principal, interest or other breaches with respect to its subordinated liabilities during 2010 or 2009

10 Called up share capital

	2010 £m	2009 £m
Allotted, called up and fully paid		
200,050,000 ordinary shares of £1 each	200 1	200 1

11 Reserves

	Profit and loss account £m
At beginning of year	645 9
Profit for the year	846 0
At end of year	**1,491.9**

Notes to the Company accounts - continued
for the year ended 31 December 2010

12 Commitments and contingencies

Pension contributions
The Company has given a legally binding and irrevocable guarantee for the benefit of the trustees of The Bupa Pension Scheme, in respect of payments that Bupa Limited is obliged to make between now and 31 December 2012

Contingent liabilities
Under a Group registration the Company is jointly and severally liable for Value Added Tax due by certain other companies in the Bupa Finance Group

Guarantees
At 31 December 2010, the Company was party to a £900m multi-currency revolving credit facility The Company has joint and several liability for all obligations under the agreement

The Company has given a guarantee and other undertakings, as part of the Group banking arrangements, in respect of the overdrafts of certain other Group undertakings

The Company also has an undertaking to support Group undertakings with net current liabilities

Bupa Finance plc
Glossary of International Financial Reporting Standards

International Financial Reporting Standards (IFRS)

IFRS 1 First-time adoption of International Financial Reporting Standards
IFRS 3 Business combinations
IFRS 4 Insurance contracts
IFRS 5 Non-current assets held for sale and discontinued operations
IFRS 7 Financial instruments Disclosures
IFRS 8 Operating segments

International Accounting Standards (IAS)

IAS 1 Presentation of financial statements
IAS 2 Inventories
IAS 7 Cash flow statements
IAS 8 Accounting policies, changes in accounting estimates and errors
IAS 10 Events after the balance sheet date
IAS 12 Income taxes
IAS 16 Property, plant and equipment
IAS 17 Leases
IAS 18 Revenue
IAS 19 Employee benefits
IAS 21 The effects of changes in foreign exchange rates
IAS 23 Borrowing costs
IAS 24 Related party disclosures
IAS 27 Consolidated and separate financial statements
IAS 28 Investments in associates
IAS 31 Interests in joint ventures
IAS 32 Financial instruments Presentation
IAS 36 Impairment of assets
IAS 37 Provisions, contingent liabilities and contingent assets
IAS 38 Intangible assets
IAS 39 Financial instruments Recognition and measurement
IAS 40 Investment property

Interpretations

IFRIC 4 Determining whether an arrangement contains a lease
IFRIC 9 Embedded derivatives
IFRIC 12 Service concession arrangements
IFRIC 13 Customer loyalty programmes
IFRIC 14 The limit on a defined benefit asset, minimum funding requirements and their interaction
IFRIC 17 Distributions of non-cash assets to owners
IFRIC 18 Transfer of assets from customers
IFRIC 19 Extinguishing financial liabilities with equity instruments
SIC 12 Consolidation Special purpose entities
SIC 27 Evaluating the substance of transactions involving the legal form of a lease