

BUPA FINANCE NO. 2 LIMITED

(Registered No. 3786845)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002



BUPA FINANCE NO. 2 LIMITED

REPORT OF THE DIRECTORS for the year ended 31 December 2002

The directors present their annual report and the audited financial statements for the year ended 31 December 2002.

1. Principal activities

The principal activity of the Company is that of an investment holding company.

2. Review of the business

The directors consider the development of the Company during the year to be satisfactory and do not foresee any significant changes in the forthcoming year.

3. Results and dividends

The loss for the year, after taxation, amounted to £1,169 (2001 : £1,452).

No dividend is proposed for 2002 (2001 : £ nil).

4. Directors and directors' interests

The names of persons who were directors at any time during the year are as follows:

J P Davies	
M I Dugdale	(Appointed 1/1/02)
R King	
A D Walford	

There were no Directors' interests requiring disclosure under Section 234 of the Companies Act 1985.

5. Auditors

Pursuant to a shareholders resolution, the Company is not obliged to reappoint its auditors annually and KPMG Audit Plc will therefore continue in office.

Registered Office :

BUPA House
15-19 Bloomsbury Way
London
WC1A 2BA

13 March 2003

By Order of the Board



A D Walford
Secretary

BUPA FINANCE NO. 2 LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the directors are required to :

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

BUPA FINANCE NO. 2 LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BUPA FINANCE NO. 2 LIMITED

We have audited the financial statements on pages 4 to 11.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditor's 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

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

Basis of audit opinion

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company at 31 December 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
KPMG Audit Plc

Chartered Accountants
Registered Auditor

13 March 2003

BUPA FINANCE NO. 2 LIMITED**PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2002**

	<i>Note</i>	2002 £	2001 £
Operating expenses		(1,670)	(1,452)
Loss on ordinary activities before taxation	4	(1,670)	(1,452)
Tax on loss on ordinary activities	5	501	-
Retained loss for the financial year		(1,169)	(1,452)

The operating loss is all derived from continuing operations.

There were no recognised gains and losses other than the loss for the financial year.

There were no material differences between reported profit and losses and historical profit and losses on ordinary activities before and after taxation.

BUPA FINANCE NO. 2 LIMITED**BALANCE SHEET****as at 31 December 2002**

	<i>Note</i>	2002	2001 £
Fixed assets			
Investments	6	300,000,002	300,000,002
Creditors: amounts falling due within one year	7	(2,621)	(1,452)
Net current liabilities		<u>(2,621)</u>	<u>(1,452)</u>
Total assets less current liabilities		<u>299,997,381</u>	<u>299,998,550</u>
Capital and reserves			
Called up share capital	8	302	302
Share Premium	9	299,999,700	299,999,700
Profit & Loss Account	9	(2,621)	(1,452)
Shareholders' funds		<u>299,997,381</u>	<u>299,998,550</u>

These financial statements were approved by the Board of Directors on 13 March 2003 and were signed on its behalf by



M I Dugdale

Director

The accounting policies and notes on pages 7 to 11 form part of these Financial Statements.

BUPA FINANCE NO. 2 LIMITED**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS****for the year ended 31 December 2002**

	2002 £	2001 £
Loss for the financial year	(1,169)	(1,452)
Net reduction to shareholders' funds	<u>(1,169)</u>	<u>(1,452)</u>
Opening shareholders' funds	299,998,550	2
New share capital subscribed	-	300
Share premium	-	299,999,700
Closing shareholders' funds	<u><u>299,997,381</u></u>	<u><u>299,998,550</u></u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2002

1. STATEMENT OF ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting convention and on a going concern basis.

(b) Related party transactions

As the company is a wholly owned subsidiary undertaking of The British United Provident Association 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.

(c) New financial reporting standard : Adoption of FRS 19

Under Financial Reporting Standard No 19 : Deferred Tax (FRS 19) deferred tax is recognised in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Previously the company provided for deferred tax using the liability method to the extent that it was probable that liabilities would crystallise in the foreseeable future. Under FRS 19 full provision is required, whether or not an actual liability will crystallise. The adoption of FRS 19 has had no effect on the prior period profit and loss account or balance sheet. As permitted by FRS 19, the company has adopted a policy of not discounting deferred tax assets and liabilities.

(d) Cash flow statement

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 that it is a wholly owned subsidiary undertaking of The British United Provident Association Limited, a company that prepares a consolidated cash flow statement for the BUPA Group.

(e) Investments

Listed investments are stated at market value and unrealised gains and losses are taken directly to the reserves. All other investments are included at cost less any provision for impairment in value. Dividends on equity investments are accounted for on a received basis; other investment income is accounted for on an accruals basis. Profits or losses on disposal are accounted for by reference to carrying values.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2002 - continued

1. STATEMENT OF ACCOUNTING POLICIES - continued

(f) Taxation including deferred taxation

The charge for taxation is based on the result for the year and takes into account deferred tax.

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 tax on gains arising from the revaluation of property to its fixed value, the fair value adjustment of fixed assets, or gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned and without it being possible to claim rollover relief. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.
- (ii)** 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.
- (iii)** 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.

Trading losses surrendered to other Group subsidiary undertakings are made on a full payment basis.

(g) Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction, or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains and losses on translation are included in the profit and loss account.

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NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2002 - continued

2. IMMEDIATE AND ULTIMATE PARENT UNDERTAKINGS

The immediate parent undertaking of BUPA Finance No 2 Limited is BUPA Investments Overseas Limited, a company registered in England and Wales.

The ultimate holding company of BUPA Finance No 2 Limited is The British United Provident Association Limited (BUPA), a company registered in England and Wales. The only group preparing consolidated group accounts which include BUPA Finance No 2 Limited is BUPA. Copies of the accounts of BUPA can be obtained from The Registrar of Companies, Cardiff, CR4 3UZ.

3. STAFF COSTS AND DIRECTORS' REMUNERATION

(a) Employees

The Company had no employees during the year (2001 : nil) and consequently incurred no staff costs.

(b) Directors' remuneration

No remuneration was paid to any of the directors for the year (2001 : £nil).

4. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	2002	2001
	£	£
<i>Loss on ordinary activities is stated after charging:</i>		
Auditors' remuneration	<u>1,670</u>	<u>1,452</u>

5. TAX ON LOSS ON ORDINARY ACTIVITIES

(i) Analysis of tax credit in the period

	2002	2001
	£	£
Current tax		
UK corporation tax on losses of the period	<u>(501)</u>	<u>-</u>
Tax on loss on ordinary activities	<u>(501)</u>	<u>-</u>

BUPA FINANCE NO. 2 LIMITED**NOTES TO THE FINANCIAL STATEMENTS**
for the year ended 31 December 2002 - continued**5. TAX ON LOSS ON ORDINARY ACTIVITIES - continued****(ii) Factors affecting the tax credit**

The tax assessed for the period differs from the standard rate of corporation tax in the UK of 30%. The differences are explained below :

	2002 £	2001 £
Loss on ordinary activities before tax	<u>(1,670)</u>	<u>(1,452)</u>
Tax credit on loss on ordinary activities at 30%	(501)	(436)
Effects of :		
Group relief not paid for	<u>-</u>	<u>436</u>
Total current tax credit for period	<u><u>(501)</u></u>	<u><u>-</u></u>

6. INVESTMENTS

	2002 £	2001 £
Investments in subsidiaries		
Shares in Group undertakings as at 1 January	300,000,002	-
Additions	-	600,000,004
Disposals	-	<u>(300,000,002)</u>
Shares in Group undertakings as at 31 December	<u><u>300,000,002</u></u>	<u><u>300,000,002</u></u>

In the opinion of the directors the investment in the Company's subsidiary is worth at least the amount at which it is stated in the balance sheet.

The principal subsidiary undertaking is listed below:

	Holding	Class of shares	Place of incorporation
BUPA Spain BV	100%	Preference	Netherlands

BUPA FINANCE NO. 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2002 - continued

7. CREDITORS

	2002	2001
	£	£
Amounts falling due within one year :		
Amounts due to Group undertakings	949	-
Accruals and deferred income	1,672	1,452
	<u>2,621</u>	<u>1,452</u>

8. SHARE CAPITAL

	2002	2001
	£	£
Authorised		
Ordinary shares of £1 each	9,999,700	9,999,700
5% Non-cumulative preference of £1 each	<u>300</u>	<u>300</u>
Allotted, called-up and fully paid		
Ordinary shares of £1 each	2	2
5% Non-cumulative preference of £1 each	<u>300</u>	<u>300</u>
	<u>302</u>	<u>302</u>

The voting preference shares do not confer any right to participate in the profits or assets of the company other than the right to the fixed non cumulative annual preferential dividend at the rate of 5%.

The preference shares rank in priority to ordinary shares in a distribution of surplus assets in a winding up or other return of capital paid up.

9. RESERVES

	2002	2001
	£	£
Share Premium		
As at 1 January	299,999,700	-
Additions	-	299,999,700
As at 31 December	<u>299,999,700</u>	<u>299,999,700</u>
Profit and Loss Account		
At the beginning of the year	(1,452)	-
Retained loss	<u>(1,169)</u>	<u>(1,452)</u>
At the end of the year	<u>(2,621)</u>	<u>(1,452)</u>