

“We’re dedicated  
to taking care of the  
lives in our hands”



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O G Ni-Chionna

## **SECRETARY**

A D Walford

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# 'Taking care of the lives in our hands'

Our mission statement

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

## In 2002, BUPA:

- served over seven million customers worldwide
- provided medical insurance cover to more than six million people in the UK, Australia, Spain, Ireland and over 180 further countries
- treated over 230,000 people in its hospitals on a day-case or in-patient basis, in addition to those attending as out-patients in its hospitals and clinics
- carried out over 75,000 health screens
- provided care for 17,000 elderly or infirm people on a daily basis in its care homes in the UK and in Spain
- employed over 41,000 people dedicated to 'taking care of the lives in our hands'



# Group highlights

- Group income £2,814.5m, up 17 percent
- Operating surplus before other charges £107.9m, up 19 percent
- Group reserves of £1,120.8m, up 15 percent
- Acquired the third largest medical insurer in Australia
- Opened the first Diagnostic and Treatment Centre dedicated to the NHS
- Major awards won during the year included:

**Best group medical insurance provider for the third consecutive year**

[Health Insurance Magazine](#)

**Best international medical insurance provider for the fourth year running**

[Health Insurance Magazine](#)

**Company providing the 'best work/life solutions'**

[2002 HR Excellence Awards](#)

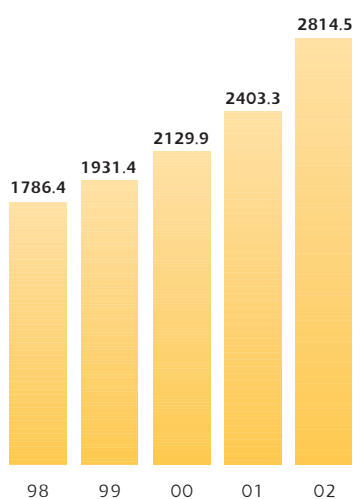
**isanitas.com, best health insurance internet service in Spain**

[Cap Gemini Ernst & Young](#)

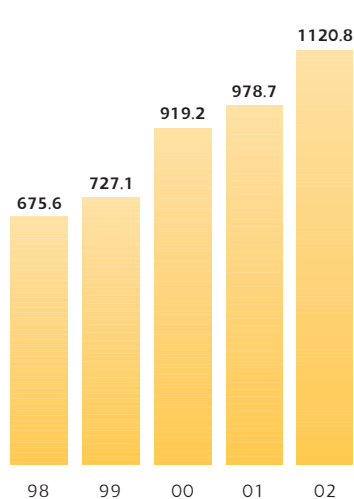
**Personnel Today Overall Winner 2002**

[Personnel Today Awards](#)

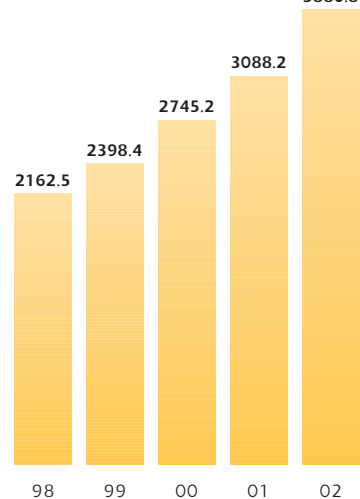
**Group income (£m)**



**Total reserves (£m)**



**Total assets (£m)**



# Chairman's statement



2002 was a year of real progress for BUPA with all of our businesses performing well, in terms of both customer service and financial results. Starting from our strong base in the UK we have continued to expand our international operations both organically and through acquisition. Nearly half of our insurance customers are outside the United Kingdom, we earn 27 percent of our operating surplus before goodwill and investment and financing from overseas and in 2002 served seven million customers worldwide through our range of health and care activities.

Our employees are BUPA's best asset. Many of them have achieved awards for BUPA through the way they have done their jobs. Some departments in the Group have won awards for being the best in their specialty and we are especially proud of those individuals who have won awards through their work in their own right. Our employees have achieved much for the Group over the past year and I would like to extend my thanks and appreciation for their efforts.

Across all our businesses and regions, we aim to provide high-quality services focusing on areas where we can make a real difference for our customers. In

our chosen markets, our goal is therefore to make BUPA the health and care company of choice. As a company with no shareholders we reinvest our surpluses to improve and expand our services to benefit the key stakeholders in the business, our customers.

2002 was marked by the acquisition of BUPA Australia Health (formerly Axa Australia Health). Fifty percent of the shares in the consortium owning all of the shares in BUPA Australia Health Pty Limited were acquired in August. At the same time BUPA gained effective management control. The remaining 50 percent were acquired on 28 February 2003. The business has already become a highly respected and established player in Australia with an 11 percent overall share of the market. In Australia private funding plays a significant part in the delivery of health care to patients and 45 percent of the population has medical insurance. The majority of companies operating in the market are mutual, not-for-profit organisations. We are pleased to be in Australia and aim to grow and deliver first class services to our customers there.

In the year we also made a number of acquisitions in the UK and Spain. We enhanced our UK care home portfolio by acquiring 14 high quality care homes. In Spain, in January we acquired Novomedic, a medical insurer in the Balearic Islands and in July bought our partner's share of Gestion de Recursos Sociales SA (GERS), the Spanish care home operator. We now operate 15 care homes in Spain.

We welcome the opportunity to work with the government to help improve the overall level of health care in the UK. Under the Concordat between the public and private sectors we have contributed to the government's aim of reducing waiting lists by treating

# “2002 was a very successful year for BUPA”

NHS patients in our hospitals, ensuring that work does not conflict with the treatment and care of our own customers. We were also the first private sector company to provide the NHS with a dedicated Diagnostic and Treatment Centre. Our Redwood DTC in Surrey opened in December and will treat up to 12,000 NHS patients a year.

As regards care for the elderly, the sector has received some improvement in funding from local authorities, although the additional funds take a long time to trickle through to where they are needed. This must gather pace to avoid further damaging reductions in the nation's stock of care home beds.

Looking to the future, BUPA would like to see private and voluntary funding play a valuable role within the funding of health care in the UK by increasing the total amount of investment available, reducing pressure on NHS facilities and extending patient choice.



Our business is becoming increasingly regulated under authorities such as the Financial Services Authority and the National Care Standards Commission. The cost of compliance with the various regulatory regimes has added considerably to our overheads as well as requiring significant capital investment. We are fully committed to ensuring full compliance but are concerned on behalf of our customers that the increasing volume of regulation is putting pressure on operating costs.

BUPA has continued to support events promoting health and fitness. We were the official health partner to the Commonwealth Games and more than one billion people around the world saw the high profile exposure of BUPA's logo while watching the events on television. We also sponsor the Great Run series and the BUPA Care Home Open Bowls tournament.

I would like to welcome Orna Ni-Chionna who joined the Board as a Non-Executive Director on 1 January 2003. Orna has significant experience in retail and consumer businesses and the financial services sector. We look forward to the contribution she will make as we continue to develop the UK's largest health and care company.

A handwritten signature in black ink that reads "Bryan K. Sanderson". The signature is written in a cursive style with a long horizontal line extending from the end.

**Bryan K Sanderson CBE, Chairman**

13 March 2003

# Chief Executive's review



BUPA performed strongly in 2002 in all its core businesses and the operating surplus before other charges increased by 19 percent to £107.9 million. This reflects the success of our consistent investment in recent years in service, people and the BUPA brand and was achieved despite soft economic conditions and the effect of the volatile stock market on our investment portfolio.

In 2002 Group turnover increased by 17 percent to £2.8 billion, including acquisitions. The operating surplus before investment and financing increased from £127.9m to £160.0m mainly reflecting organic growth and including £6.4m profit (net of goodwill amortisation of £5.5m) from acquisitions. Charges from investments and financing increased to £52.1m from £37.5m in 2001 mainly due to lower interest rates, weak equity markets and funding acquisitions. The surplus on ordinary activities before taxation was £103.6m (2001: £91.9m), up 13 percent. However, a higher effective tax rate reduced the growth in surplus after tax.

In all our businesses BUPA works consistently to maintain and develop the quality of its assets and systems and in 2002 capital expenditure totalled

£102.0m (2001: £75.3m). As well as continuing to invest in our hospitals, care homes and UK insurance businesses, we committed over £300m on acquisitions to acquire the third largest medical insurance business in Australia and to expand our overseas operations in Spain. We also grew our UK care home portfolio. This furthers our objective of expanding the business in markets where we can have a strong position and can offer our services to an increasing number of people.

## UK Membership

BUPA is market leader in private medical insurance providing cover to over three million people in the UK through its personal and corporate products. It also offers critical illness and other long-term protection products through BUPA Health Assurance and specialised cover through BUPA Travel and BUPA Dental.

In UK Membership the number of members grew by over five percent in 2002. During the year we launched further enhancements to our Heartbeat product allowing individuals to choose a tailored product for cancer, heart disease and other options, the first product of its type in the market. In addition, we launched BUPA On Call in London; this service arranges private treatment for those without insurance who are prepared to pay on a one-off basis.

We have continued to ensure our members are our top priority by investing in our systems and our people and this year we achieved our best-ever scores in our customer satisfaction survey. In our annual survey to measure consultants' satisfaction with BUPA and its competitors, our score has increased for the third consecutive year.

Our other businesses including BUPA Travel, BUPA Health Assurance and BUPA Dental all showed growth in the year.

## Hospitals and Medical Services

BUPA has 35 hospitals in the UK where it is one of the largest independent operators. BUPA also operates the Blackrock Clinic in Ireland. In 2002 we continued to invest in the quality of services to meet our objective of making BUPA Hospitals the provider of choice for patients, consultants and staff.

In the UK, BUPA cared for over 200,000 in-patients and day-cases during the year, plus a much larger number of out-patients. While sales continued to grow, the operating margin decreased after allowing for a non-recurring charge for VAT. Growth in the number of patients was seen in all sectors, but particularly in NHS patients and those who paid for their own care. Our patients continue to rate us highly and we improved our scores in the patient satisfaction survey.

Our ongoing investment programme included major extensions at Leeds and Gatwick Park with the addition of a new MRI scanner in Manchester and new diagnostic imaging, physiotherapy and out-patient facilities at The Wirral. In addition BUPA continued to implement the Health Quality Service programme with 18 hospitals having achieved full accreditation at the end of 2002. In Ireland, the Blackrock Clinic was the first private hospital to receive the Joint Commission International accreditation from America's leading body for setting and measuring standards in health care. Under the new UK National Care Standards Commission regulations, all private hospitals will be required to be inspected regularly. By the end of 2002, 17 of our hospitals had satisfactory inspections with the remainder of our hospitals in England due to be inspected by the end of March 2003.

We opened the first privately run Diagnostic and Treatment Centre dedicated to the NHS in December 2002 at Redwood Hospital in Surrey. Patients are treated on a mainly day-case or short stay basis for procedures including orthopaedic joint replacements, general surgery and endoscopy. Under a joint staffing

arrangement NHS staff have transferred to work alongside BUPA staff under our management.

We had to close our Belvedere hospital in Scarborough as it was not viable for us to make the improvements needed to meet modern standards of care and to ensure regulatory compliance.

BUPA Wellness offers a range of services for individuals and the employees of corporate clients. We are the UK's largest provider of health assessments carrying out over 75,000 per year and we also provide occupational health services, dentistry and general practitioner services at clients' premises.

Teddies Nurseries has continued to expand its chain of day nurseries with 35 now in operation, caring for over 2,000 children, with nine more nurseries currently in the pipeline. The nurseries cater for children aged from three months to four-and-a-half years.

A photograph showing a male patient in a hospital bed, wearing a blue and white striped hospital gown. He is looking towards a female healthcare professional who is standing by his side, holding a white plate of food. The patient is holding a fork and appears to be eating. The healthcare professional is wearing a dark, patterned shirt. The background shows a hospital room with a table, a lamp, and some medical equipment.

“In a world increasingly focused on health care BUPA will have exciting opportunities ahead”

## Care Services

As the UK's leading provider, BUPA Care Homes provides high-quality 24-hour nursing, residential and respite care to over 16,000 residents every day. Our intention is to continue to grow the business as suitable opportunities arise to acquire or build good homes. In 2002 BUPA Care Homes performed well against a continuing backdrop of closures in the industry. Occupancy was maintained throughout the year in excess of 93 percent.

In 2002 14 homes and over 1,000 beds were added, bringing the total number of homes we operate to 246. The new homes fit well into the portfolio, are all high quality and give us access to locations where we previously had no presence. We continue to invest in the business to improve the care our residents receive. Record numbers of our nursing and care staff have received training and 1,750 have commenced training for a National Vocational Qualification in care. In addition, we rolled out a major new computer system across all our homes.

Significant additional regulation to promote the safety and wellbeing of those in care has been introduced for the first time under the National Care Standards Commission ('NCSC'). BUPA is supportive of the aims of the NCSC and is fully compliant with the new National Care Standards.

Today the industry is facing higher staff costs as a result of the increase in the national minimum wage, NHS nursing pay awards well above the rate of inflation, and the imposition of the additional employer's National Insurance surcharge of one percent. Increases in government funding for care homes are essential if capacity is to be maintained.

BUPA Healthcare Professionals supplies health and care staff, including doctors, nurses and carers to hospitals, care homes, private businesses and individuals. Four new branches were opened during the year and we were successful in winning preferred supplier status with the NHS for the supply of agency staff across the country.

## Sanitas

Sanitas, the leading private medical insurance brand in Spain now provides cover to over one million members, up 11 percent in the year. In line with the company's objective of increasing the volume of business outside Madrid, Sanitas acquired the medical insurer Novomedic, based in the Balearic Islands.

The company's two hospitals in Madrid cared for 680,000 in-patient, out-patient and day-case patients for planned surgery and consultations and had over 155,000 emergency admissions. Over 450 people a day attend the primary care facilities at Sanitas' Millennium Day Centre in Madrid and in December 2002 we opened a similar centre in Valencia. We have also begun a three-year project to build another flagship hospital in north Madrid.

During the year Sanitas acquired the remaining 50 percent stake in GERS, one of the largest care home operators in Spain. It has 15 homes in operation and a further five under development. The business has since been re-branded as 'Sanitas Residencial'.

## International

The International division provides private medical insurance cover for over 1.9 million people through local operations in Australia, Ireland, the Far East and Saudi Arabia and through UK based BUPA International. The division also has primary and



secondary care activities in some markets. BUPA's strategy is to focus on selected markets where we can develop a strong competitive position, achieve satisfactory growth and provide an attractive offering for customers.

The division grew significantly in the year through the acquisition on 30 August of BUPA Australia Health (formerly Axa Australia Health), which trades as HBA and Mutual Community. BUPA Australia Health is the third largest private medical insurer providing cover to almost one million members and is the most cost efficient and innovative in the sector. BUPA is committed to developing the business and since acquisition it has performed in line with expectations. Operations will be relocating to new headquarters in Melbourne by mid-2003.

BUPA International continues to be the leading provider of medical insurance to the global expatriate community covering over 240,000 members. During the year it introduced a new computer system designed to service the needs of a global customer base more effectively than before.

BUPA Ireland continued to develop well and grew its customer base by 20 percent in the year to over 280,000 while maintaining its high customer satisfaction ratings. The business offers customers a very attractive alternative to its principal competitor, the VHI. We continue to be concerned that any moves by the Irish government to introduce 'risk equalisation', where one insurer with a good claims experience pays a subsidy to another insurer with a poorer claims experience, would be bad for customers, destroy any basis for competition in the market place and prejudice the viability of our business.

Trading conditions in Asia have been difficult in 2002 and our medical insurance and primary care businesses have been affected by the downturn, particularly in Singapore where BUPA Healthcare Asia is predominantly based. However, the businesses remain fundamentally



sound. BUPA Hong Kong achieved the Caring Company Award given by the Hong Kong Council of Social Service for its family friendly policies, encouraging applications from disabled or disadvantaged people and for its charity giving.

BUPA Middle East, our joint venture with the Nazer Group in Saudi Arabia, achieved a further satisfactory growth in sales, increasing membership by over 33 percent.

## Conclusion

We have made considerable advances in recent years to enhance services for customers and establish a robust trading performance, notwithstanding the current economic uncertainty. In a world increasingly focused on health care BUPA will have exciting opportunities ahead. Our objective is to ensure that we capitalise on our strong positions in the markets we serve and continue to improve and develop our services to our seven million customers and beyond. Without the commitment and enthusiasm of our employees this would be impossible and I would like to extend my thanks to all BUPA people for their support.

**Val Gooding CBE, Chief Executive**

13 March 2003

# Finance Director's report



## Trading activities

Group income grew by 17 percent to £2,814.5m in 2002 including 12 percent organic growth and a further five percent growth from acquisitions in the year.

The Group operating surplus before investment and financing was £160.0m, an increase of 25 percent on 2001. All of the Group's main businesses performed well. The operating surplus before other charges was £107.9m, up over 19 percent on 2001.

A segmental analysis of BUPA's trading results is given in note 1.

## Insurance activities

All the Group's insurance activities reported significant increases in income, up in total by 20 percent over 2001, including seven percent from acquisitions. Income in the UK increased by 11 percent and the rest of Europe was up 17 percent. Insurance income in the rest of the world was nearly four times the 2001 level following the acquisition of BUPA Australia Health which added £100.0m in the last four months of the year. Lives covered increased by 28 percent worldwide to six million.

The operating surplus from insurance activities before goodwill amortisation increased by £35.7m to £97.9m including £8.1m from acquisitions. The result reflected good growth in UK insurance where membership increased by over five percent. Results in BUPA International, our expatriate insurer based in the UK, and BUPA Ireland, continued to advance. BUPA Health Assurance, our long-term protection business, also grew in the year, measured on an embedded value basis. However, the business continued to report losses on the conservative basis required for financial statement reporting. Overseas, our insurance businesses in Spain, the Middle East and Asia all performed well, as did BUPA Australia Health.

## Hospital and medical services

This segment comprises BUPA Hospitals, BUPA Wellness, Teddies Nurseries and a range of hospital and primary care services overseas.

Income of £569.7m increased by 15 percent with the majority of the increase arising in UK Hospitals. The operating surplus before goodwill increased by £4.1m, 10 percent over 2001, notwithstanding pressure from increasing costs and regulation. In the UK, a non-recurring provision of £7.2m was made for irrecoverable VAT.

## Care services

This segment comprises our care homes in the UK and Spain and our Healthcare Professionals business in the UK.

Turnover increased by nine percent to £418.0m. A little under half the growth in turnover was organic, reflecting strong occupancy of over 93 percent and normal fee increases. The acquisition of 14 homes in the UK and Sanitas Residencial in Spain accounted for the remainder of the increase.

The operating surplus before goodwill increased by £6.6m to £39.9m, including profits of £4m from the newly acquired homes.

### Investment and financing

Investment and financing activities gave rise to a net charge of £52.1m (2001: £37.5m). The key factors in the increase were a one percent decrease in average interest rates in 2002, funding costs associated with acquisitions and the impact of weak equity markets on the Group investment portfolio. The Group's average holding in equities amounted to only 17 percent of the total investment portfolio in 2002 and with the benefit of hedging arrangements the impact of the market decline on overall investment returns was considerably reduced.

### Goodwill and other charges/income

Goodwill amortisation increased from £9.6m in 2001 to £16.7m in 2002. Goodwill in insurance activities increased from £2.1m in 2001 to £7.6m in 2002 reflecting the acquisition of BUPA Australia Health and Novomedic in Spain. An increase of £1.6m in goodwill amortised in health and care provision related mainly to the acquisition of Sanitas Residencial in Spain.

Other charges, including value adjustments, were £4.3m, (2001: £1.5m income). These comprise profit on disposal of fixed assets of £0.8m (2001: £nil), net losses on disposal and closure of businesses £2.9m (2001: £9.5m) and value adjustments representing deficits on property revaluations of £2.2m (2001: £nil). In 2001 there was a value increase of £11.0m on the loan associated with the Community Hospitals bid in 2000.

### Surplus and movements in reserves

The surplus on ordinary activities before taxation was £103.6m (2001: £91.9m) up 13 percent.

The tax on surplus on ordinary activities of £48.7m represented a headline tax rate of 40 percent (2001: 38 percent) on profits before goodwill amortisation,

the increase being due to timing differences not reflected in the deferred tax charge.

The surplus on ordinary activities after tax was £54.9m (2001: £53.4m). After property revaluations of £80.0m, exchange differences arising in the year and movements relating to goodwill on disposal of businesses, Group reserves increased by £142.1m to £1,120.8m.

### Cash flow

The cash inflow in the year of £460.3m compares with £227.7m in 2001. Excluding changes in financing, the cash inflow amounted to £208.0m before acquisitions and disposals, an increase of £39.6m over 2001. Operating activities yielded an inflow of £433.6m (2001: £348.4m), the increase reflecting the improved trading activities, offset by a reduction in investment income, together with a decrease in non-trade debtors.

Interest payments amounted to £71.0m (2001: £62.3m) and taxation paid increased to £52.6m (2001: £42.4m) due mainly to an increase in taxable profits and the additional transitional payment under Corporation Tax Self Assessment required to satisfy the 2001 tax liability.

The Group continued to invest significantly in new fixed assets to improve quality and service, to grow the business and to deploy the latest technology. Capital expenditure increased to £102.0m against £75.3m in 2001, mainly representing investment in our hospitals and care homes.

The Group made cash payments on a number of acquisitions during the year totalling £92.7m (2001: £52.4m) in respect of 14 UK care homes, Novomedic and the remaining 50 percent share of Sanitas Residencial in Spain and BUPA Australia Health. The Group also recorded deferred consideration of £201.8m (AUS \$557.9m) relating to the purchase of BUPA Australia Health which was paid on 28 February 2003 (see note 35). At the year end part of the

consideration had been pre-funded giving rise to a £71.8m increase in both borrowings and deposits.

Business disposals of £1.6m (2001: £8.0m) include the deferred consideration received from the 2001 sales of Homecare subsidiaries and BUPA Dental Cover together with the sale of Piramal in India in 2002.

### Borrowings

Total borrowings (including subordinated debt) at 31 December 2002 were £1,133.7m compared with £893.8m last year.

During the year we made additional borrowings of £639.1m and repaid £308.9m existing debt. Activity included a re-financing programme where the Group raised £450.0m on the capital markets through a whole business securitisation of BUPA Hospitals.

### Derivatives

The Group has continued to use derivatives such as futures, options and swaps to manage interest rate, exchange rate and equity price risks. These derivatives are used on a controlled basis to hedge exposures which arise within the business and to facilitate efficient portfolio management. In 2002 our derivatives gave a strong contribution to hedge the Group's equity portfolio.

### Foreign exchange

Before the acquisition of BUPA Australia Health, BUPA's main exchange exposure arose on the Euro due to its investment in Sanitas and Ireland. During the year sterling weakened, generating a net gain of £5.1m which principally relates to the retranslation of opening net assets, mainly those held in Spain.

### Post balance sheet events

Deferred consideration of AUS \$557.9m (£211.6m) was paid on 28 February 2003 in respect of BUPA Australia Health.

## Accounting policies

### FRS 17

Transitional disclosures relating to the implementation of FRS 17, 'Retirement Benefits' are included in note 11 to the financial statements. These show that under FRS 17 Group net assets at 31 December 2002 would have decreased by £52.6m to £1,080.9m.

### FRS 19

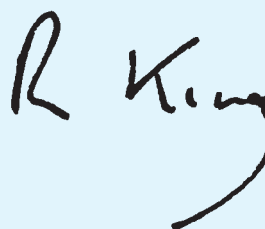
FRS 19 is applicable for BUPA for the first time for the year ended 31 December 2002. Under FRS 19 the Group is required to account for deferred tax on a full provision basis, whether or not an actual liability will crystallise. Previously the Group provided for deferred tax on the liability method to the extent that it was probable that liabilities would crystallise in the foreseeable future. The deferred tax balance at the start of the period has been restated to take account of the change in accounting policy resulting in a charge of £0.4m against reserves brought forward from 2001.

## International Accounting Standards (IAS)

IAS becomes a requirement for publicly quoted companies from 2005. Although not a public company BUPA has initiated a project to prepare for this significant change.

## Conclusion

Investment in our systems, products and services has continued to deliver good financial returns in all our major markets in 2002, with all businesses achieving good organic growth. Our strong cash generation will provide an excellent platform for the future development of the Group.



R King, Group Finance Director

13 March 2003

# Corporate social responsibility

BUPA employs over 40,000 people at 300 locations across the UK and overseas and has over seven million customers worldwide. BUPA's commitment is to prevent, diagnose, relieve and cure sickness and ill health of every kind, and promote health and wellbeing.

Social, environmental and economic considerations have a strong influence on how we do business. Customers, employees and other stakeholders have increasing expectations and these elements are incorporated into the strategy and performance measures of our business. For us it means making our commitment to 'taking care of the lives in our hands' visible through our strategy, policy and activity across the Group.

Good corporate citizenship has been defined as 'responsibly managing the company's economic, social and environmental impacts, aiming to minimise negative impacts and optimise positive ones, and building accountable and transparent relationships with key stakeholder groups'. BUPA is a founder member of Business in the Community's Business Impact Review Group, which provides a benchmark for companies concerned with demonstrating corporate social responsibility and ensuring related issues are incorporated in strategic decision making and best practice.

BUPA is committed to demonstrating responsibility in its relationships with the communities in which it conducts business. It is culturally sensitive and seeks to adopt best practice standards applicable to the markets in which it operates. It is well placed to add value through local community partnerships, particularly in the areas of health and care. Its commitments are reflected in key policies in the areas

of community, workplace, health, safety and environment, marketplace, human rights and professional ethics. The policies apply throughout the BUPA Group worldwide and govern its approach to all its activities. BUPA is committed to the continuous improvement of its corporate social responsibility programme. The policy for each area and some key activities are summarised below.

## Community

BUPA strives to contribute to economic, social and environmental development in the communities in which it operates.

BUPA contributes £1.5m each year to medical research through the BUPA Foundation. In addition to funding research, the Foundation supports a number of annual awards to recognise and promote excellence in medical research and health care information. Over the last year it has funded projects ranging from research into patient attitudes on the use of chaperones in general practice to a major study on systems for error reduction in the operating theatre using aviation 'black box' technology. The Sanitas Foundation was established in 1996 and promotes research and medical education in Spain.



BUPA is a member of Business in the Community ('BITC') - a business-led organisation encouraging responsible business practice and engagement with local communities. More than 75 percent of the FTSE's top 100 companies are members of BITC and all are committed to best practice and measuring impacts in the areas of corporate social responsibility.

BUPA Community Connections was launched in 2001 to achieve employee engagement in local communities and establish a network of sustainable local community partnerships. It promotes team-based projects and connects BUPA people with community partners around the UK. In Leeds 60 BUPA volunteers renovated St George's Crypt, a facility in the city centre utilised by socially deprived people. Similar challenges have taken place in Manchester, London, Bristol, Reading, Staines and Brighton, saving community partners significant sums in time, materials and support.

BITC's Per Cent Club requires members to commit a minimum of 0.5 percent of pre-tax profits to community investment. BUPA has exceeded this level for the past five years and intends to continue to do so. Last year BUPA was ranked 14th out of the top 100 corporate givers in the Guardian Giving List 2002. BUPA also encourages employees to make regular donations to the charities of their choice and tops up any contributions made under the Company's payroll giving scheme by 10 percent.

The BUPA Great Runs series is the biggest of its kind in the UK and encourages participation from local community organisations to raise funds to the benefit of a wide range of charities.

And in Hong Kong BUPA has received the Caring Company Award from the Hong Kong Council of Social Service in honour of its work in five key areas including family friendly policies and employing vulnerable people.

## Workplace

The principles of equal opportunity are firmly integrated in human resources policies and BUPA welcomes diversity of all kinds as a competitive advantage to its business.

BUPA is a Gold Card core funder of the Employers' Forum on Disability promoting equal access for disabled customers and employees. This also provides a platform to influence policy development with government and other decision-makers.

BUPA is a leadership member of Opportunity Now, promoting gender equality in the workplace. Race for Opportunity and Employers Forum on Age are key campaign organisations promoting ethnic and age diversity and BUPA supports these as part of its commitment to equality and diversity.

Recruitment, retention and people development through succession planning enable BUPA to attract and retain the best candidates, and part of its diversity policy is to ensure that all vacancies are advertised internally first.

BUPA also conducts an annual employee satisfaction survey covering areas such as leadership and management practices. Results are linked to



objectives and performance management and all areas of the business are required to develop action plans to encourage continuous improvement. The survey has returned positive results worldwide and in the UK the results have shown a year-on-year improvement for the last seven years.

The Board reviews annually the nature of BUPA's workforce which includes turnover, diversity, succession planning and management capability. Each year a programme of developments and improvements is set and progress against this is reviewed by the Board.

### Health, safety and environment

BUPA is committed to making proper provision for the health, safety and welfare of its employees at work and to protect the health and safety of its patients, customers, visitors and all other people who may be affected by its activities. Health and safety committees are set up in all major business units. In addition, there is a Group Health and Safety Committee that oversees the Group's health and safety activities and reports to the Board on an annual basis.

BUPA is also committed to managing the environmental impacts of its business properly and the Managing Directors of each of its business areas take responsibility for implementing environmental policy across the Group. BUPA is committed to complying fully with environmental regulations in every country in which it operates and ensuring that environmental considerations are integrated into its business decisions.

### Human rights

BUPA supports and respects the protection of human rights of those affected by its activities and aims to work consistently with the host government's



obligations and commitments. BUPA also has its own Statement of Ethics for all BUPA employees, which clearly sets out standards of conduct and behaviour in delivering best quality care to all BUPA customers.

### Marketplace

BUPA is committed to customer service and believes that sustainable business development is only possible by putting the customer at the heart of everything it does. Suppliers are regarded as partners working with BUPA to help achieve policy aspirations in the delivery of products and services. BUPA conducts regular external customer satisfaction surveys.

### Professional ethics

BUPA recognises and supports the principles set out in the International Code of Medical Ethics produced by the World Health Organisation and government guidance with regard to personal health information. It seeks to maintain the highest standards of medical ethics.

BUPA is committed to offering high standards of care to all its customers, in particular treating them individually with dignity and respect.

# Report of the Board of Directors

The Directors of The British United Provident Association Limited ('BUPA') present their annual report and the financial statements for the year ended 31 December 2002.

## Introduction

The Chairman's statement, Chief Executive's review, Finance Director's report and the statement of corporate social responsibility on pages 4 to 15, the discussion on corporate governance on pages 20 to 21 and the report of the Board's Remuneration Committee on pages 22 to 24 form part of this report. The audited financial statements are presented on pages 29 to 77.

## Principal activities

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

## Financial results

A review of the year is discussed in the Chairman's statement and the Chief Executive's review. Results of the Group for the year are reported on page 29. The retained surplus of £55.4m (2001: £52.9m) has been transferred to reserves. Post balance sheet events are disclosed in note 40 of the financial statements.

## Acquisitions and disposals

Details of the acquisitions and disposals during the year are shown in notes 35 and 36 respectively.

## Charitable and political contributions

During 2002 BUPA made charitable donations totalling £2.3m (2001: £2.2m), of which payments made to the BUPA Foundation, a medical charity established by the Group, totalled £1.5m (2001: £1.5m). No political donations were made.

## Employment policies

We continue to be committed to recruiting, motivating and retaining high calibre employees at all levels. BUPA has a clearly stated set of values based on ethical principles, management practices reflecting and underpinning our values and access to appropriate training and development opportunities. Group remuneration policies support the business values and strategies and are targeted at offering market related and competitive pay and benefit levels.

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

An Employee Recognition Programme is run in all parts of the business to celebrate and recognise exceptional customer service and performance. Employees are encouraged to submit ideas for business opportunities and performance improvement through a Group-wide suggestion scheme. Employees in many business units are able to earn a bonus of up to three weeks pay per annum based on the financial success of the business unit in which they are working.

We aim to provide an environment that gives equality of opportunity to all regardless of age, gender, race or disability. Our policies, procedures, working practices and physical environments are designed to support this objective. As discussed in corporate social responsibility, BUPA supports several equal opportunity organisations.

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

BUPA puts a strong emphasis on the health and safety of its employees and we continue to upgrade our buildings and facilities to provide attractive, healthy and safe places of work. In addition there is in place a programme of regular risk assessments and reviews to provide guidance to employees on safe working practices. BUPA also provides modern, well-equipped and professionally supervised gym facilities at its major office sites, and offers a wide choice of healthy menu options at its staff restaurant facilities.

## Board of Directors

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

David Boyle and Sir Duncan Nichol held office until 23 April and 22 May 2002 respectively.

Biographical details of the two Executive Directors and six Non-Executive Directors who currently hold office are set out on pages 18 and 19.

Ms O G Ni-Chionna was appointed to the Board on 1 January 2003. Under the provisions of Article 42 she will retire and, being eligible, will offer herself for first election.

Miss V F Gooding and Mr D M Claisse retire by rotation and, being eligible, offer themselves for re-election.

## Policy for paying creditors

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

As described in note 25 the Company has transferred its operations to BUPA Insurance Limited. As at 31 December 2002 its status was that of a holding company and therefore has no trade creditors.

## Auditors

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

By order of the Board

**A D Walford, Secretary**

13 March 2003

# Directors and advisers

## Executive Directors



**Val Gooding CBE<sup>3</sup>**

Age 52. Appointed Chief Executive in August 1998.

Joined the Board and BUPA in 1996 as Managing Director of the UK health insurance and hospitals businesses. Non-Executive Director of BAA plc, Compass Group Plc, a Board member of the Association of British Insurers, and President of the International Federation of Health Plans. Before joining BUPA had a varied career with British Airways plc, latterly as Director of Business Units and Director Asia-Pacific.



**Ray King**

Age 49. Appointed Group Finance Director of BUPA in August 2001. Chartered

Accountant. Former Deputy Chief Executive and Group Finance Director of Parity Group Plc. Former Director of Group Finance and Control at Diageo plc and former Group Finance Director of Southern Water Plc.

## Independent Non-Executive Directors



**Bryan Sanderson CBE<sup>2,3</sup>**

Age 62. Director and Chairman since 2001. Chairman of the Learning and Skills Council.

Non-Executive Director and Executive Chairman Elect of Standard Chartered PLC. Non-Executive Chairman of Sunderland PLC. Non-Executive Director of Six Continents plc and London School of Economics. Former Managing Director of BP Amoco p.l.c. and Chief Executive Officer of BP Chemicals.



**Roy Brown<sup>1</sup>**

Age 56. Joined the Board in April 2001. Chairman of THUS plc. Vice-Chairman of HMV

Group PLC. Non-Executive Director of GKN PLC, Brambles Industries Plc and the Lloyds Franchise Board. Former Director of Unilever PLC and Unilever NV and President of its Foods Europe Division.



**Douglas Claisse<sup>1,2</sup>**

Age 68. Director since 1998 and appointed as the senior independent Non-Executive

Director in May 2002, Chairman of Business Link West Ltd, UBS Asset Management Life Ltd and Momentum Financial Services Ltd. Former Deputy Chief Executive of Clerical Medical Investment Group Ltd and Chairman of IFA Promotion Ltd.



**Greg Clarke**<sup>1,2</sup>

Age 45. Joined the Board in April 2001. Chief Executive of Lend Lease Corporation Ltd.

Non-Executive Director of Leicester City Football Club plc. Former CEO of ICO-Global Communications and Chairman of Eteach UK Ltd; former Chief Executive of Cable and Wireless Communications plc and Vice President of Nortel’s Cellular business.



**Oliver James**<sup>3</sup>

Age 59. Director since 1999. Professor of Geriatric Medicine. Head of the School of Clinical

Medical Sciences, University of Newcastle upon Tyne. Former Senior Censor and Senior Vice-President of the Royal College of Physicians.

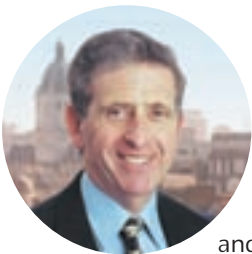


**Orna Ni-Chionna**<sup>3</sup>

Age 47. Joined the Board in January 2003. Non-Executive Director of Bank of Ireland UK

Holdings plc (including Bristol & West plc) and of Northern Foods plc. Advisory Board Member, Eden McCallum. Trustee of the Soil Association. Former Partner McKinsey & Company.

**Secretary**



**Arthur Walford**

Age 57. Joined BUPA in 1988 as Company Secretary and Group General Counsel.

**Medical Advisory Panel**

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

**Val Gooding** CBE

**Professor J Malcolm Harrington** CBE, MSc, MD, FRCP, FFOM, MFPHM

**Professor Jennifer Hunt** MPhil, FRCN

**Professor Oliver James** FRCP, F Med Sci, Chairman

**Janet Jenkins** BSc, FRCA

**Professor Martin McKee** MSc, MD, FRCP, FRCPI, FFPHM

**Orna Ni-Chionna** MEngSc, MBA

**Keith Parsons** FEBU, FRCSE, FRCS

**Chris Renfrew** MRCCGP

**Andrew Vallance-Owen** MBA, FRCS Ed

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

# Corporate governance

The Board supports the principles of corporate governance set out in the Combined Code (the Code) published by the Financial Services Authority. While not itself a listed company, BUPA has been in compliance with the provisions set out in section 1 of the Code, throughout the year ended 31 December 2002.

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

## Board of Directors

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

The Board currently comprises the Chairman, who is Non-Executive, five further Non-Executive Directors, one of whom, Douglas Claisse, has been appointed the senior independent Non-Executive Director and two Executive Directors. All Directors are subject to rotation by triennial retirement.

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

Details of the Directors are set out on pages 18 and 19.

## Board Committees

Members of the following committees are disclosed in Directors and Advisers.

### Audit Committee

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

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

### Remuneration Committee

The Board's Remuneration Committee determines, inter alia, the detailed terms of service of the Executive Directors and senior managers, including basic salary, incentives and benefits. The Committee comprises the Chairman and two other Non-Executive Directors. The Chief Executive attends meetings by invitation. No Director attends any meeting relating to his or her remuneration. The Board's Remuneration Committee report can be found on pages 22 to 24.

### Nomination Committee

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

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

## Internal control statement

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

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Group which accords with the guidance set out in Internal Control: Guidance for Directors on the Combined Code. This process is regularly reviewed by the Audit Committee on behalf of the Board and has been in place for the year ended 31 December 2002 and up to the date of approval of the annual report. The processes used by the Board to review the effectiveness of the system of internal control include the following:

- The management executive teams of each business unit and support services area complete an annual internal control commentary, which seeks to confirm that internal controls are operating effectively at an operational level. This commentary forms part of the annual risk assessment process that identifies significant risks in each area and evaluates the effectiveness of the relevant systems of internal control. Changes to the risk profile in each area, new risks identified and new internal controls implemented to mitigate risks are collated by each business unit and support services area quarterly and reported directly to the Board.
- The results of these processes are reported to and monitored by the Business Review Team, which comprises the Chief Executive, the Group Finance Director and heads of central functions. The Chief Executive reports significant issues to the Board. The annual risk assessment is reported to the Audit Committee, the minutes of which are received and reviewed by the Board which also receives oral reports from the Committee Chairman as appropriate.
- In addition to the Audit Committee, other committees, subsidiary boards and advisers to the Board monitor the Group's significant risks on an ongoing basis and report to the Group Board as appropriate. These include the Boards of BUPA Insurance Limited and BUPA Health Assurance Limited, their Investment and Compliance Committees, the Medical Advisory panel and sub-committees established to manage specific projects.
- The internal control system is monitored and supported by an internal audit function that reports to management and the Audit Committee on the Group's operations. The work of the internal audit function is focused on areas of highest risk, as identified by the Group's business review process and by members of the management executive teams, Executive Directors and heads of central functions through facilitated workshops and one-to-one interviews.
- The external auditors are engaged to express an opinion on BUPA's financial statements, which are prepared from the Group's accounting records and comply with generally accepted accounting principles. They review and test the systems of internal financial control and the data contained in the financial statements to the extent necessary to express their opinion.

# Report of the Board's Remuneration Committee

## Introduction

The Board's Remuneration Committee report has the approval of the Board and covers the compensation and benefit policies of the BUPA Group as they relate to the Directors and senior managers of the Group.

The statement covers:

- the membership and operation of the Remuneration Committee;
- the Group remuneration policy definitions as well as current and future remuneration objectives;
- an explanation of each of the key elements of remuneration policy including the rationale behind the Group's approach;
- details of performance conditions where applicable;
- the independent advisers appointed and used by the Remuneration Committee;
- a summary of Executive Directors' contractual terms;
- details of Executive Directors' pensions;
- the remuneration policy in respect of Non-Executive Directors.

## Members of the Remuneration Committee

Bryan Sanderson CBE - Non-Executive Chairman  
Douglas Claisse - Non-Executive Director  
Greg Clarke - Non-Executive Director

## Operation of the Remuneration Committee

The Remuneration Committee conducts an annual review of executive remuneration and approves all aspects of remuneration for the Chief Executive, other Executive Directors, divisional Managing Directors and the Company Secretary.

The remit of the Committee covers all aspects of service contracts which includes salaries, annual bonus, the long-term incentive plan (LTIP) as well as pension and benefits rights. The Committee meets at least twice a year.

Non-Executive remuneration is determined by the BUPA Board as a whole.

## Remuneration policy

The remuneration policy includes a number of elements designed to deliver an appropriate balance between short- and long-term incentives. These are set at a level sufficient to attract and retain key talent to ensure that BUPA's performance is sustained over time. In summary these elements are:

### Cash elements

Base salary  
Annual bonus  
Long-term incentive plan  
Car or cash allowance

### Non-cash elements

Pension  
Other benefits  
- permanent health insurance  
- medical insurance  
- life insurance

## Base salary

Base salaries are positioned at market median for comparable levels of accountability and aim to reflect the market value for the executive's core responsibilities. An annual review is conducted to ensure that levels reflect current market conditions, any changes in level of accountability and individual performance.

## Annual bonus

The Chief Executive has the potential to receive a bonus of up to 50 percent of base salary depending on the achievement of the Group's annual profit budget. The bonus target for other Executive Directors is up to 40 percent.

The annual bonus for Managing Directors is linked directly to a combination of Group profit targets, individual divisional targets and customer satisfaction measures. These targets are set at the start of the year.

## Long-term incentive plan (LTIP)

The LTIP is designed to reward senior BUPA Executives over a number of years for the part they play in achieving the Group's long-term growth objectives. BUPA has no share capital, and the LTIP provides an incentive that is a surrogate for equity-based plans in other comparable organisations in the private sector.

Introduced in 1996, the LTIP is designed to provide a cash payment subject to the Group achieving pre-determined targets. The LTIP targets are currently based on growth in Group reserves included in the Group's medium-term plan. The targets are reviewed and approved by the Remuneration Committee at the start of the performance period. The decision to offer the LTIP to an Executive is contingent on past and expected future contribution to the business. Participation is subject to ratification by the Remuneration Committee.

The LTIP has a two-year rolling performance period and the last performance period ended on 31 December 2002. The next performance period covers calendar years 2003 and 2004.

The incentive is linked to an individual's base salary. It is calculated on the basis of a notional amount being allocated to the participant's account at the beginning of the LTIP period. Notional interest is also added each year and the incentive is the total of the notionally accumulated funds at the end of the two-year performance period.

The amount of the fund payable depends on meeting the Group target for growth in reserves. No payment is made if less than 40 percent of the target is met and a pro rata amount is paid, up to the plan maximum of 100 percent of the available fund, for achieving target performance. There is no accelerator for performance beyond target.

When performance against target is established an initial payment of 60 percent is made and the remaining 40 percent is then deferred for a further two years. Payment is normally only made to Executives still in the employment of the Group on the date of payment.

Where an Executive leaves the Group, there are some circumstances, such as normal retirement where a payment will be made. Any payment is then dependent on the timing and circumstances of the departure.

## Contracts and notice periods

Executive Directors are appointed on one year rolling contracts.

The Group recognises that its Executive Directors are likely to be invited to become Non-Executive Directors of other companies. Participation in these duties can broaden their experience and knowledge in a way that may benefit BUPA. Executive Directors are therefore usually allowed, subject to approval, to accept and retain the fees for up to two other Non-Executive Director appointments. This is on the basis that any appointment is not with a competing organisation and does not give rise to a conflict of interest.

## Pensions

Existing Executive Directors are entitled to a defined benefit pension calculated by reference to final salary and length of service. In all cases, pensionable salary is the Executive Director's basic salary only.

Executive Pensions are funded up to the earnings cap through The BUPA Pension Scheme. Additional unfunded arrangements are made for those above the earnings cap for which a separate provision is made.

## Non-Executive Directors

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

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

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

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

## Advisers

Mercer Human Resource Consulting provide independent remuneration advice and market information to the Committee on an ongoing basis. Mercer and related companies also provide employee benefit consulting, risk and insurance broking services to the Company.

The Group Human Resources Director, Bob Watson, retains Mercer's services on behalf of the Committee and provides advice to the Committee on matters of compensation policy and interpretation of market data.

## Performance graphs

As BUPA is a company limited by guarantee with no share capital it has not been possible to illustrate company performance in terms of total shareholder return.

## Disclosure tables

Further details of each Director's remuneration and numerical information subject to audit is disclosed in note 10 to the financial statements.

On behalf of the Board

**Bryan K Sanderson, CBE, Chairman**

# Statement of Directors' responsibilities

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

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

The Directors are responsible for ensuring proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors confirm that they comply with these requirements and after making appropriate enquiries, consider that the Group has adequate resources to continue operations for the foreseeable future. Accordingly the financial statements have been prepared on a going concern basis.

# Independent auditors' report to the members of The British United Provident Association Limited

We have audited the financial statements on pages 29 to 77. In addition to our audit of the financial statements, the Directors have engaged us to audit the information in the report of the Board's Remuneration Committee that is described as having been audited, which the Directors have decided to prepare (in addition to that required to be prepared) as if the Company were required to comply with the requirements under Schedule 7A to the Companies Act 1985.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985 and the terms of our engagement. 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 our 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

The Directors are responsible for preparing the annual report and the report of the Board's Remuneration Committee. As described on page 25, this includes responsibility for preparing 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 whether the financial statements and the part of the report of the Board's Remuneration Committee to be audited have been 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.

In addition to our audit of the financial statements, the Directors have engaged us to review their corporate governance statement as if the Company were required to comply with the Listing Rules of the Financial Services Authority in relation to these matters. We review whether the statement on pages 20 to 21 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by those rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report, including the corporate governance statement and the unaudited part of the report of the Board's Remuneration Committee, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### 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 and the part of the report of the Board's Remuneration Committee to be audited. 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 and the part of the report of the Board's Remuneration Committee to be audited 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 and the part of the report of the Board's Remuneration Committee to be audited.

### Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2002 and of the surplus of the Group for the year then ended; and
- the financial statements and the part of the report of the Board's Remuneration Committee to be audited have been properly prepared in accordance with the Companies Act 1985.

### KPMG Audit Plc

Chartered Accountants  
Registered Auditor  
London  
13 March 2003

# Financial statements

# Consolidated income and expenditure account

for the year ended 31 December 2002

## Technical account - general business

	Notes	2002 £m	2002 £m	2001 (Restated) £m	2001 (Restated) £m
<b>Earned premiums</b>					
Premiums written					
Continuing operations		1,765.8		1,587.5	
Acquisitions		103.3		-	
		1,869.1		1,587.5	
Change in provision for unearned premiums		(54.4)		(76.3)	
	1.7		1,814.7		1,511.2
<b>Claims incurred</b>					
Claims paid		(1,384.6)		(1,157.0)	
Change in provision for claims		(5.8)		(25.2)	
			(1,390.4)		(1,182.2)
Net operating expenses	2		(321.2)		(263.2)
Other technical charges, net of reinsurance	3		(5.2)		(3.6)
<b>Balance on the technical account - general business</b>					
Continuing operations			89.8		62.2
Acquisitions			8.1		-
	1.7		97.9		62.2
<b>Non-technical account</b>					
<b>Balance on the technical account - general business</b>					
			97.9		62.2
<b>Health and care provision</b>					
<b>Turnover</b>					
Continuing operations		967.9		880.9	
Acquisitions		19.8		-	
	1.7	987.7		880.9	
<b>Expenses</b>					
Continuing operations			75.0		75.3
Acquisitions			3.8		-
	1.7		78.8		75.3
<b>Operating surplus before goodwill amortisation and investment and financing</b>					
Continuing operations			164.8		137.5
Acquisitions			11.9		-
	1.7		176.7		137.5
Goodwill amortisation	1.7		(16.7)		(9.6)
<b>Operating surplus before investment and financing</b>					
			160.0		127.9
<b>Investment and financing</b>					
Investment income	4	42.7		43.0	
Unrealised losses on investments		(10.3)		(3.3)	
Investment expenses and charges	5	(84.5)		(77.2)	
			(52.1)		(37.5)
<b>Operating surplus before other (charges)/income</b>					
			107.9		90.4
Other (charges)/income, including (loss)/profit on disposal/closure of businesses and on disposal of fixed assets totalling £(2.1)m (2001: £(9.5)m)	6.7		(4.3)		1.5
<b>Operating surplus on ordinary activities before taxation</b>					
	1.8		103.6		91.9
Tax on surplus on ordinary activities	12		(48.7)		(38.5)
<b>Surplus on ordinary activities after taxation</b>					
			54.9		53.4
Minority interest - equity			0.5		(0.5)
<b>Surplus for the financial year</b>					
	23		55.4		52.9

The notes on pages 42 to 77 form part of these financial statements.

# Consolidated balance sheet

at 31 December 2002

## Assets

	Notes	2002 £m	2002 £m	2001 (Restated) £m	2001 (Restated) £m
<b>Intangible fixed assets</b>	14		247.9		70.9
<b>Hospitals, care homes and equipment</b>	15		1,429.7		1,227.0
<b>Investments</b>					
Land and buildings - own use	16	82.3		79.8	
Financial investments	17	1,319.0		917.2	
			1,401.3		997.0
			3,078.9		2,294.9
<b>Debtors</b>					
Debtors arising out of direct insurance operations	19	432.6		392.5	
Other debtors : amounts falling due within one year	20	154.7		205.3	
Other debtors : amounts falling due after more than one year	20	17.1		6.2	
		171.8		211.5	
			604.4		604.0
<b>Other assets</b>					
Tangible assets	21	80.7		79.6	
Stocks		19.3		12.9	
Cash at bank and in hand		41.3		51.1	
			141.3		143.6
<b>Prepayments and accrued income</b>					
Deferred acquisition costs		31.6		22.1	
Other prepayments and accrued income	22	24.6		23.6	
			56.2		45.7
<b>Total assets</b>			3,880.8		3,088.2

# Consolidated balance sheet - continued

at 31 December 2002

## Liabilities

	Notes	2002 £m	2002 £m	2001 (Restated) £m	2001 (Restated) £m
<b>Reserves</b>					
Property revaluation reserve	23	438.6		361.9	
Income and expenditure account	23	682.2		616.8	
			1,120.8		978.7
<b>Minority interests - equity</b>					
			12.7		12.5
	1		1,133.5		991.2
<b>Subordinated liabilities</b>					
	24,30		98.9		98.8
<b>Technical provisions</b>					
Provision for unearned premiums	25	676.3		584.9	
Claims outstanding	25	321.5		266.1	
			997.8		851.0
<b>Provisions for other risks and charges</b>					
	26		128.2		111.2
<b>Creditors</b>					
Secured, debenture and other loans	27,30	701.5		275.1	
Amounts owed to credit institutions	28,30	332.0		409.7	
Obligations under finance leases	29,30	1.3		110.2	
Other creditors including taxation and social security	31	346.3		114.2	
			1,381.1		909.2
<b>Accruals and deferred income</b>					
	32		141.3		126.8
<b>Total liabilities</b>			<b>3,880.8</b>		<b>3,088.2</b>

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

**Bryan K Sanderson CBE**

Chairman

**R King**

Finance Director

13 March 2003

The notes on pages 42 to 77 form part of these financial statements.

# Consolidated cash flow statement

for the year ended 31 December 2002

	Notes	2002 £m	2001 (Restated) £m
Cash inflow from operating activities	34	433.6	348.4
Interest paid	34	(71.0)	(62.3)
Taxation paid		(52.6)	(42.4)
Capital expenditure	34	(102.0)	(75.3)
Acquisitions and disposals	34	(77.9)	(40.4)
Financing	34	330.2	99.7
Cash available for investment		460.3	227.7

Cash flows were invested as follows:

	2002 £m	2002 £m	2001 £m	2001 £m
Increase/(decrease) in cash holdings		50.4		(27.3)
<b>Net portfolio investment</b>				
Shares and other variable yield securities	71.6		(1.5)	
Debt securities - government stocks	(20.6)		(8.7)	
Debt securities - corporate bonds	(31.5)		(56.9)	
Deposits with credit institutions	390.4		322.1	
		409.9		255.0
<b>Net investment of cash flows</b>		460.3		227.7

Movement in opening and closing portfolio investments net of financing

	2002 £m	2001 (Restated) £m
Net cash inflow/(outflow) for the year	50.4	(27.3)
Increase in portfolio investments	409.9	255.0
Decrease in loans	(330.2)	(99.7)
Movement arising from cash flows	130.1	128.0
Acquired with subsidiary undertakings	57.3	5.0
Changes in market values and exchange rate effects	(13.9)	(12.4)
Other movements	(21.4)	-
Total movement in portfolio investment net of financing	152.1	120.6
Portfolio investments net of financing at beginning of year	74.5	(46.1)
<b>Portfolio investments net of financing at end of year</b>	226.6	74.5

The notes on pages 42 to 77 form part of these financial statements.

# Consolidated statement of total recognised gains and losses

for the year ended 31 December 2002

	Notes	2002 £m	2001 (Restated) £m
Surplus for the financial year	23	55.4	52.9
Increase in property revaluation reserve	23	80.0	-
Currency translation differences on foreign currency net investments	23	5.1	(3.6)
Tax (charge)/credit on currency translation difference on foreign currency net investments		-	-
		5.1	(3.6)
<b>Total recognised gains and losses for the year</b>		<b>140.5</b>	<b>49.3</b>
Prior year adjustment	33	(0.4)	
<b>Total recognised gains and losses since last annual report</b>		<b>140.1</b>	

# Reconciliation of movements in reserves

for the year ended 31 December 2002

	Notes	2002 £m	2001 (Restated) £m
Surplus for the financial year	23	55.4	52.9
Increase in property revaluation reserve	23	80.0	-
Currency translation differences on foreign currency net investments, net of tax	23	5.1	(3.6)
Goodwill written back on closure of businesses	23	1.6	9.6
Net addition to reserves		142.1	58.9
Opening reserves		979.1	919.2
Prior year adjustment	33	(0.4)	0.6
Opening reserves (restated)		978.7	919.8
<b>Closing reserves</b>		<b>1,120.8</b>	<b>978.7</b>

In accordance with Financial Reporting Standard No 3: Reporting Financial Performance (FRS 3), no note of historical cost profits has been prepared as the Group's only material gains and losses on assets relate to the holding and disposal of investments.

# Company balance sheet

at 31 December 2002

## Assets

	Notes	2002 £m	2002 £m	2001 (Restated) £m	2001 (Restated) £m
<b>Investments</b>					
Land and buildings - own use	16	2.2		1.5	
Investments in subsidiary undertakings	18	1,239.2		1,101.1	
Financial investments	17	-		0.3	
			1,241.4		1,102.9
<b>Reinsurers' share of technical provisions</b>					
Provision for unearned premiums	25	-		-	
Claims outstanding	25	-		1.8	
			-		1.8
<b>Debtors</b>					
Debtors arising out of direct insurance operations	19	-		1.2	
Other debtors: amounts falling due within one year	20	545.3		432.6	
Other debtors: amounts falling due after more than one year	20	15.3		11.6	
		560.6		444.2	
<b>Other assets</b>					
Tangible assets	21	19.1	560.6	20.2	445.4
Cash at bank and in hand		1.4		3.0	
			20.5		23.2
<b>Prepayments and accrued income</b>					
	22		5.0		4.0
<b>Total assets</b>			<b>1,827.5</b>		<b>1,577.3</b>

# Company balance sheet

at 31 December 2002

## Liabilities

	Notes	2002 £m	2002 £m	2001 (Restated) £m	2001 (Restated) £m
<b>Reserves</b>					
Income and expenditure account	23		1,120.8		986.2
<b>Technical provisions</b>					
Provision for unearned premiums	25	-		-	
Claims outstanding	25	-		1.8	
			-		1.8
<b>Provisions for other risks and charges</b>					
	26		43.3		37.0
<b>Creditors</b>					
Other creditors including taxation and social security	31		641.0		537.0
<b>Accruals and deferred income</b>					
	32		22.4		15.3
<b>Total liabilities</b>			<b>1,827.5</b>		<b>1,577.3</b>

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

**Bryan K Sanderson CBE**

Chairman

**R King**

Finance Director

13 March 2003

The notes on pages 42 to 77 form part of these financial statements.

# Accounting policies

## Basis of preparation

The Group accounts have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985. The accounts have also been prepared in accordance with applicable UK accounting standards and under the historical cost convention modified to include the revaluation of investments, including land and buildings, hospitals and care home properties. The accounts also comply with the Statement of Recommended Practice issued by the Association of British Insurers in December 1998 except for the treatment of the unrealised gains arising on the revaluation of hospitals and care homes, which are taken to the revaluation reserve. All accounting standards have been applied consistently with the exception of Financial Reporting Standard No 19: Deferred Tax (FRS 19) which has been implemented during the year.

The Board of Directors has reviewed and approved the Group's accounting policies which are set out below.

## Basis of consolidation

The Group accounts consolidate the accounts of the Company and its subsidiary undertakings together with the Group's share of the results of associated undertakings for the financial year to 31 December 2002. The results of subsidiary undertakings sold or acquired during the year are included in the consolidated income and expenditure account up to or from the date control passes.

## New financial reporting standards

### (i) Adoption of FRS 17

In accordance with the transitional provisions of Financial Reporting Standard No 17: Post Retirement Benefits (FRS 17), BUPA has disclosed in note 11 the impact that FRS 17 would have on the income and expenditure account and movement in reserves for the year to 31 December 2002. The impact of FRS 17 on the balance sheet of the Group as at 31 December 2002 is also included in note 11.

In November 2002 the transitional arrangements of FRS 17 were extended and, as a result the full implementation of FRS 17, due to take place in 2003, has been delayed by the Accounting Standards Board.

### (ii) Adoption of FRS 19

Under 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 Group 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. Deferred tax unprovided as at 31 December 2001, and which is now required to be provided under FRS 19, has been provided and

shown as a prior year adjustment (see note 33). The comparative figures have been restated accordingly. As permitted by FRS 19, the Group has adopted a policy of not discounting deferred tax assets and liabilities.

## Basis of accounting for underwriting activities

Underwriting activities are accounted for on an annual basis.

A separate technical account for long-term business is not presented due to the immaterial amounts involved. The results of this business have been included in other technical charges or income, net of reinsurance. The accounting policies described below in respect of premiums, claims, other technical provisions and acquisition costs relate to short-term business.

## Premiums

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

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

Premiums include commissions and are stated after deduction of any taxes and duties.

## Claims

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

Outstanding claims comprise provisions for the estimated cost of claims incurred up to but not paid at the balance sheet date whether reported or not, together with related claims handling expenses.

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

## Other technical provisions

Provision is made for unexpired risks where the claims and administrative expenses likely to arise after the end of the financial year in respect of contracts commencing before that date are expected to exceed the related unearned premiums.

## Acquisition costs

Acquisition costs represent commissions payable and other related expenses of acquiring insurance policies written during the financial year.

Acquisition costs which relate to a subsequent period are deferred and charged to accounting periods in which the related premiums are earned.

## Health and care provision turnover

Turnover represents income receivable for health and care provision services rendered and goods supplied. Turnover excludes VAT and other sales taxes.

## Investment income

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

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

## Unrealised investment gains and losses

Unrealised gains and losses on land and buildings for own use and financial investments are included in the non-technical account. Such gains and losses are calculated as the difference between the valuation of those investments at the balance sheet

date and their valuation at the previous balance sheet date or their purchase price if purchased during the year. Unrealised gains and losses also include an adjustment for previously recognised gains and losses on investments disposed of during the year.

## Goodwill

On acquisition, the fair value of net assets acquired is assessed and adjustments are made to bring the accounting policies of businesses acquired in alignment with those of the Group. Goodwill arising on acquisitions, which represents the excess of the fair value of consideration paid for subsidiaries over the fair value of separable, identifiable net assets acquired is capitalised and amortised over its estimated useful economic life on a straight line basis. The useful economic life is determined after taking into account factors such as type of business, customer relationships and distribution channels but will normally be limited to periods of 20 years or less.

Goodwill arising on acquisitions prior to 31 December 1997, which was written off against reserves in accordance with then applicable accounting standards, remains eliminated against reserves. Such goodwill previously eliminated against reserves is included in the calculation of the profit or loss on disposal of a business in so far as it relates to disposals in the year.

## Hospitals, care homes and equipment

Hospitals, care homes and equipment are valued on an existing use basis as fully operational concerns by an external valuer. In accordance with Financial Reporting Standard No 15: Tangible Fixed Assets (FRS 15) full valuations are completed every three years.

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

## Investments

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

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

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

## Depreciation

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

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

## Taxation including deferred taxation

The charge for taxation is based on the result for the year and takes into account 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:

- Provision is made for the tax on gains arising from the revaluation of property to its market 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.
- 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.
- 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 currencies

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

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

## Leases

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

interest elements. The capital element is applied to reduce the outstanding obligation, and the interest element is charged against results in proportion to the capital element outstanding.

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

## Pension and other post retirement benefits

In respect of defined benefit pension and other post retirement benefit schemes, the expected cost of providing these benefits is charged to the income and expenditure account so as to spread the cost over the expected average remaining service lives of the participating employees. Any difference between the cumulative charge to the income and expenditure account and the contributions paid to the schemes is included as an asset or liability in the balance sheet.

In respect of defined contribution schemes the amount charged to the income and expenditure account represents the employer contributions payable to the scheme during the year.

## Derivatives

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

## Estimation techniques

The preparation of the Group accounts, as permitted by generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and in particular in respect of insurance provisions.

Significant estimation techniques are used in the calculation of claims and unexpired risk provisions of the insurance subsidiaries of the Group. Estimation techniques are also used in the technical mathematical reserves of the Group's life assurance business.

Outstanding claims provisions for private medical insurance constitute the largest part of provisions which are subject to estimation techniques. These provisions comprise, in each subsidiary, two items:

- claims reported but not paid ('reported')
- claims incurred but not reported ('IBNR')

Reporteds are computed from data extracted directly from claims administration systems.

For IBNR the method of computation is based upon the development of previously settled claims and the extrapolation of payments to date for each

prior month. The extrapolation methods used are recognised methods described in the Institute and Faculty of Actuaries Claims Reserving Manual (1997). Typically, large homogenous sections of insurance business (eg corporate business in a specific region) are analysed by more than one single method; such as chain ladder, link ratio, Bornheutter-Ferguson and paid loss ratio methods. Because of the short-tail nature of the liabilities, the methods used analyse claims settlement patterns by months, not by years.

For a small minority of private medical insurance policies, where future claims may exceed future earned premiums, an estimate of the deficiency is recorded as an unexpired risk provision. In instances where there is large variability in the size of the eventual deficiency, prudent assumptions are made so that the provision would be sufficient in reasonably foreseeable adverse circumstances.

The technical mathematical reserves of the life assurance business are estimated by the 'gross premium valuation' actuarial method which subtracts the present value of future premiums (for the long-term duration of the contract) from the present value of all future claims and expenses. Prudent assumptions are made, for example, for the discount rate, mortality or morbidity and future expenses.

# Notes to the financial statements

## 1 Segmental information

### (i) Income by origin

	UK		Rest of Europe		Rest of the World		Total	
	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m
<b>Health insurance premiums earned</b>								
General business	1,309.4	1,182.3	332.7	284.0	172.6	44.9	1,814.7	1,511.2
Long-term business	12.1	11.2	-	-	-	-	12.1	11.2
	1,321.5	1,193.5	332.7	284.0	172.6	44.9	1,826.8	1,522.4
<b>Health and care provision turnover</b>								
Hospitals and medical services	464.4	419.6	76.9	65.1	28.4	11.4	569.7	496.1
Care services	412.4	384.8	5.6	-	-	-	418.0	384.8
	876.8	804.4	82.5	65.1	28.4	11.4	987.7	880.9
	2,198.3	1,997.9	415.2	349.1	201.0	56.3	2,814.5	2,403.3

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

### (ii) Operating surplus on ordinary activities before taxation

	UK		Rest of Europe		Rest of the World		Total	
	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m
<b>Health insurance</b>								
General business	58.0	33.5	36.7	30.4	8.4	1.9	103.1	65.8
Long-term business	(5.2)	(3.6)	-	-	-	-	(5.2)	(3.6)
	52.8	29.9	36.7	30.4	8.4	1.9	97.9	62.2
<b>Health and care provision</b>								
Hospitals and medical services	43.2	39.6	1.9	1.9	1.0	0.5	46.1	42.0
Provision for VAT unrecoverable	(7.2)	-	-	-	-	-	(7.2)	-
	36.0	39.6	1.9	1.9	1.0	0.5	38.9	42.0
Care services	40.0	33.3	(0.1)	-	-	-	39.9	33.3
	76.0	72.9	1.8	1.9	1.0	0.5	78.8	75.3
<b>Operating surplus before goodwill amortisation and investment and financing</b>								
	128.8	102.8	38.5	32.3	9.4	2.4	176.7	137.5
<b>Goodwill amortisation</b>								
Health insurance	(0.1)	(0.2)	(4.5)	(1.6)	(3.0)	(0.3)	(7.6)	(2.1)
Health and care provision	(6.1)	(6.2)	(0.8)	(0.1)	(2.2)	(1.2)	(9.1)	(7.5)
	(6.2)	(6.4)	(5.3)	(1.7)	(5.2)	(1.5)	(16.7)	(9.6)
<b>Operating surplus before investment and financing</b>								
	122.6	96.4	33.2	30.6	4.2	0.9	160.0	127.9
Investment and financing	(63.3)	(51.3)	9.5	12.6	1.7	1.2	(52.1)	(37.5)
<b>Operating surplus on ordinary activities before other (charges)/income</b>								
	59.3	45.1	42.7	43.2	5.9	2.1	107.9	90.4
Other (charges)/income	(4.7)	1.5	0.4	-	-	-	(4.3)	1.5
<b>Operating surplus on ordinary activities before taxation</b>								
	54.6	46.6	43.1	43.2	5.9	2.1	103.6	91.9

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

# Notes to the financial statements - continued

## 1 Segmental information - continued

### (iii) Net assets

	2002 £m	UK 2001 (Restated) £m	2002 £m	Rest of Europe 2001 (Restated) £m	2002 £m	Rest of the World 2001 (Restated) £m	2002 £m	Total 2001 (Restated) £m
<b>Health insurance</b>								
General business	487.2	459.0	145.7	126.5	26.3	23.0	659.2	608.5
Long-term business	16.9	12.4	-	-	-	-	16.9	12.4
	504.1	471.4	145.7	126.5	26.3	23.0	676.1	620.9
<b>Health and care provision</b>								
Hospitals and medical services	616.6	552.0	35.3	34.6	6.7	7.1	658.6	593.7
Care services	513.0	489.4	17.5	-	-	-	530.5	489.4
	1,129.6	1,041.4	52.8	34.6	6.7	7.1	1,189.1	1,083.1
<b>Investment and financing</b>	<b>(741.7)</b>	<b>(826.3)</b>	<b>10.0</b>	<b>113.5</b>	<b>-</b>	<b>-</b>	<b>(731.7)</b>	<b>(712.8)</b>
<b>Net assets</b>	<b>892.0</b>	<b>686.5</b>	<b>208.5</b>	<b>274.6</b>	<b>33.0</b>	<b>30.1</b>	<b>1,133.5</b>	<b>991.2</b>

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

## 2 Net operating expenses

	2002 £m	2001 £m
Acquisition costs	68.6	70.1
Increase in deferred acquisition costs on general business	(1.3)	(3.1)
	67.3	67.0
Administrative expenses	253.9	196.2
	321.2	263.2

Total commissions for direct insurance, excluding payments to employees, amounted to £51.1m (2001: £41.2m).

## 3 Other technical charges, net of reinsurance

	2002 £m	2001 £m
Long-term business		
Premiums earned, net of reinsurance	12.1	11.2
Investment income	1.1	0.8
Claims incurred, net of reinsurance	(3.7)	(2.4)
Change in other technical provisions, net of reinsurance	(8.8)	(8.1)
Net operating expenses	(5.9)	(5.1)
	(5.2)	(3.6)

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

All long-term business is included within continuing operations (see note 7).

## Notes to the financial statements - continued

### 4 Investment income

	2002 £m	2001 £m
Income from investments		
Listed investments	1.8	1.5
Unlisted investments	3.9	-
Deposits with credit institutions	34.4	36.6
Recognition of deferred consideration	2.6	4.9
	42.7	43.0

### 5 Investment expenses and charges

	2002 £m	2001 £m
Interest on bank loans, overdrafts and other loans	64.2	55.4
Finance charges payable in respect of finance leases	6.5	9.7
Realised losses on investments	7.0	4.4
Investment expenses and charges	6.8	7.7
	84.5	77.2

Finance charges payable in respect of finance leases of £6.5m (2001: £9.7m) is disclosed net of interest receivable on deposits of £3.0m (2001: £nil) relating to collateral deposits (see note 29).

### 6 Other (charges)/income

	2002 £m	2001 £m
Profit on sale of businesses	3.8	0.9
Loss on sale and closure of businesses	(5.1)	(0.8)
Goodwill on closure of businesses previously written off to reserves	(1.6)	(9.6)
Net loss on sale and closure of businesses (note 36)	(2.9)	(9.5)
Profit on disposal of fixed assets	0.8	-
	(2.1)	(9.5)
Diminution in value of hospitals and care homes below original cost	(2.2)	-
Value adjustment on loan associated with prohibited acquisition in 2000 which was repaid in 2001	-	11.0
	(4.3)	1.5

# Notes to the financial statements - continued

## 7 Operating surplus

	Continuing operations 2002 £m	Acquisitions 2002 £m	Total 2002 £m	Continuing operations 2001 £m
<b>Technical account - general business</b>				
<b>Earned premiums</b>				
Premiums written	1,765.8	103.3	1,869.1	1,587.5
Change in provision for unearned premiums	(58.9)	4.5	(54.4)	(76.3)
	1,706.9	107.8	1,814.7	1,511.2
<b>Claims incurred</b>				
Claims paid	(1,290.2)	(94.4)	(1,384.6)	(1,157.0)
Change in provision for claims	(10.6)	4.8	(5.8)	(25.2)
	(1,300.8)	(89.6)	(1,390.4)	(1,182.2)
Net operating expenses	(311.1)	(10.1)	(321.2)	(263.2)
Other technical charges, net of reinsurance	(5.2)	-	(5.2)	(3.6)
<b>Balance on the technical account - general business</b>	<b>89.8</b>	<b>8.1</b>	<b>97.9</b>	<b>62.2</b>
<b>Non-technical account</b>				
<b>Balance on the technical account - general business</b>	<b>89.8</b>	<b>8.1</b>	<b>97.9</b>	<b>62.2</b>
<b>Health and care provision</b>				
Turnover	967.9	19.8	987.7	880.9
Expenses	(892.9)	(16.0)	(908.9)	(805.6)
	75.0	3.8	78.8	75.3
<b>Operating surplus before goodwill amortisation and investment and financing</b>	<b>164.8</b>	<b>11.9</b>	<b>176.7</b>	<b>137.5</b>
Goodwill amortisation analysed between continuing operations and acquisitions is as follows:				
Goodwill amortisation	(11.2)	(5.5)	(16.7)	(9.6)
Other charges analysed between continuing operations and acquisitions are as follows:				
Other charges	(4.3)	-	(4.3)	1.5

# Notes to the financial statements - continued

## 8 Operating surplus on ordinary activities before taxation

Operating surplus on ordinary activities before taxation is stated after charging:

	2002 £m	2001 £m
Depreciation and other amounts written off tangible fixed assets		
Owned	78.1	63.2
Leased	6.1	10.1
Goodwill amortisation	16.7	9.6
Operating lease rentals		
Hire of plant and machinery	1.8	2.3
Other	9.2	7.5
Auditors' remuneration		
Fees payable to KPMG		
Audit of Group accounts	1.2	1.0
Audit of Company	0.1	0.1
Other transaction work as auditors or reporting accountants	0.7	0.1
Tax advisory	0.4	0.1
Mergers and acquisitions		
Due diligence	0.1	-
Corporate finance	0.3	0.5
Other	0.2	0.3
	3.0	2.1
Fees payable to other auditors		
Audit of overseas subsidiary undertakings	0.1	-

## 9 Employee numbers and costs

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

	2002	2001
Health insurance	4,990	4,422
Health and care provision	28,202	26,469
	33,192	30,891

The aggregate payroll costs of these employees were:

	2002 £m	2001 £m
Wages and salaries	497.7	431.5
Social security costs	37.9	38.1
Pension and post retirement costs (note 11)	17.8	15.4
	553.4	485.0

# Notes to the financial statements - continued

## 10 Directors' emoluments

### (i) Directors' remuneration

Directors' remuneration for the year ended 31 December 2002 was as follows:

	Notes	Salary/ fees £	Benefits £	Annual bonus £	Total 2002 £	Total 2001 £
<b>Executive Directors</b>						
V F Gooding	1	457,920	31,468	233,280	722,668	662,242
R King		293,550	20,976	118,560	433,086	173,240
		<b>751,470</b>	<b>52,444</b>	<b>351,840</b>	<b>1,155,754</b>	<b>835,482</b>
<b>Non-Executive Directors</b>						
B K Sanderson (Chairman)		130,000	27,817	-	157,817	106,610
Prof O F W James		31,500	586	-	32,086	32,074
D M Claisse	2	43,500	586	-	44,086	40,115
R D Brown		31,000	-	-	31,000	21,375
G A Clarke		28,500	733	-	29,233	21,931
		<b>264,500</b>	<b>29,722</b>	<b>-</b>	<b>294,222</b>	<b>222,105</b>
<b>Former Directors</b>						
E W Lea	3	-	-	-	-	298,621
D S Boyle	4	64,173	4,427	-	68,600	303,408
Sir Bryan Nicholson		-	-	-	-	66,620
Dr M Downes	5	-	-	-	-	25,762
F A Heaton		-	-	-	-	3,883
Prof Sir Duncan Nichol	6	11,152	228	-	11,380	29,118
		<b>75,325</b>	<b>4,655</b>	<b>-</b>	<b>79,980</b>	<b>727,412</b>
		<b>1,091,295</b>	<b>86,821</b>	<b>351,840</b>	<b>1,529,956</b>	<b>1,784,999</b>

### Notes

1 The highest paid director was V F Gooding.

2 The fees receivable by D M Claisse include amounts of £12,500 (2001: £7,292) receivable as a Non-Executive Director of BUPA Insurance Limited and BUPA Health Assurance Limited.

3 E W Lea, who resigned from the Board of Directors on 14 September 2001, remained an employee of the Company until he retired on 2 January 2002. During this period he received £2,222 (2001: £80,805) as an employee.

4 D S Boyle retired from the Board of Directors with effect from 23 April 2002.

5 The fees receivable by Dr M Downes, who resigned on 23 May 2001, include amounts of £nil (2001: £13,882) receivable as Non-Executive Chairman of BUPA Ireland Limited.

6 Professor Sir Duncan Nichol resigned on 22 May 2002.

# Notes to the financial statements - continued

## 10 Directors' emoluments - continued

### (ii) Long-term incentive plan (LTIP) awards

Details of awards in respect of the Company's LTIP earned and paid during the year for individual Directors are set out below:

Notes	At 31 December 2001 (or date of appointment) £	Earned award £	Paid in year £	Interest on accrued balance £	Earned awards becoming payable £	At 31 December 2002 (or date of cessation) £	Payable in April 2003 £	Payable in April 2005 £
<b>Payable awards</b>								
V F Gooding								
1999/2000 plan	1	160,801	-	-	6,127	-	166,928	166,928
2001/2002 plan	2	-	-	-	-	530,727	530,727	318,436
R King								
2001/2002 plan	2	-	-	-	-	298,953	298,953	179,372
E W Lea								
1999/2000 plan	3	118,339	-	(118,339)	-	-	-	-
2001/2002 plan	4,7	-	-	-	-	168,953	168,953	168,953
D S Boyle								
1999/2000 plan	5	83,405	-	(83,405)	-	-	-	-
2001/2002 plan	6,7	-	-	-	-	141,956	141,956	141,956
<b>Earned awards</b>								
V F Gooding								
2001/2002 plan	7	252,048	259,200	-	19,479	(530,727)	-	-
R King								
2001/2002 plan	7	145,481	142,500	-	10,972	(298,953)	-	-
E W Lea								
2001/2002 plan	7	161,996	756	-	6,201	(168,953)	-	-
D S Boyle								
2001/2002 plan	7	103,060	34,989	-	3,907	(141,956)	-	-

#### Notes

- In accordance with the rules of the LTIP, 40 percent of the award earned under the 1999/2000 plan is payable in April 2003, 60 percent having been paid in April 2001.
- 60 percent of the award made under the 2001/2002 plan will be paid in April 2003. The remaining 40 percent of the award will be paid in April 2005 on the condition that the Director is still employed by the Company.
- The balance of the 1999/2000 plan represents 40 percent of the award made in respect of the 1999/2000 plan and was paid on 2 January 2002, the date E W Lea retired from the Company.
- In respect of the 2001/2002 plan, and in accordance with the terms of the LTIP, E W Lea was awarded a pro rata amount in respect of the 2001/2002 plan to reflect his retirement from the Company on 2 January 2002.
- The balance of the 1999/2000 plan represents 40 percent of the award made in respect of the 1999/2000 plan and was paid on 23 April 2002, the date D S Boyle retired from the Company.
- In respect of the 2001/2002 plan, and in accordance with the terms of the LTIP, D S Boyle was awarded a pro rata amount in respect of the 2001/2002 plan to reflect his retirement from the Company on 23 April 2002.
- On 31 December 2002, amounts earned under the 2001/2002 plan during 2001 and 2002 become eligible for payment in April 2003 or April 2005 as specified in the rules of the LTIP scheme, provided the Director is still employed by the Company at those respective dates. In addition, under the terms of the LTIP, those amounts which have become payable to those Directors who have retired cannot be deferred. Therefore, E W Lea and D S Boyle will be paid their full entitlement to the 2001/2002 plan in April 2003.

# Notes to the financial statements - continued

## 10 Directors' emoluments - continued

### (iii) Directors' pensions

Executive Directors participate in defined benefit pension arrangements sponsored by the Company. These schemes provide benefits based on earnings at or near retirement and are part funded and part unfunded. The unfunded element is provided for by the Group. The following table shows details of the Executive Directors' accrued pension benefits at the end of the year or, at the date of cessation, if earlier:

	Notes	Total accrued pension at 31 December 2001 (or date of cessation) £	Total accrued pension at 31 December 2002 (or date of cessation) £	Transfer value at 31 December (or date of cessation) £	Transfer value at 31 December (or date of cessation) £	Increase in transfer value less Directors' contributions £
V F Gooding	1	75,600	112,752	1,343,000	1,984,000	621,000
R King	1	3,958	13,997	59,000	195,000	121,000
D S Boyle	1,2	44,392	51,319	840,000	953,000	110,000
E W Lea	3	90,838	-	1,718,000	-	-

#### Notes

- The accrued pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year. The increase in accrued pension during the year, excluding any increase for inflation, was £35,854, £9,970 and £6,164 for V F Gooding, R King and D S Boyle respectively. The transfer value of these increases, less directors' contributions, was £611,000, £124,000 and £110,000 for V F Gooding, R King and D S Boyle respectively.
- In respect of D S Boyle, his total accrued pension for 2002 is as at 23 April 2002, the date he resigned from the Board of Directors and the Company.
- In respect of E W Lea, his total accrued pension for 2001 is as at 14 September 2001, the date he resigned from the Board of Directors.

## 11 Pensions and other post retirement benefits

The Group has continued to account for pensions and post retirement benefits in accordance with Statement of Standard Accounting Practice No 24: Pension Costs (SSAP 24) and the disclosures given in notes (i) and (ii) below respectively, are those required by this standard. Financial Reporting Standard No 17: Retirement Benefits (FRS 17) was issued in November 2000. The transitional disclosures required by FRS 17, to the extent they are not given in notes (i) and (ii), are set out in note (iii) below. The full implementation of FRS 17, due to take place in 2003, has been delayed by the Accounting Standards Board.

### (i) Pensions

The Group operates several defined contribution and funded and unfunded defined benefit pension schemes for the benefit of employees and Directors. The defined benefit schemes provide benefits based on final pensionable salary. Contributions by Group companies to such schemes are made in accordance with the recommendations of independent scheme actuaries of the individual schemes. Complete disclosure of each separate pension scheme details is not practicable within this report. The most pertinent factors relating to the Group's pension arrangements are discussed below.

# Notes to the financial statements - continued

## 11 Pensions and other post retirement benefits - continued

The principal defined benefit scheme in the UK is The BUPA Pension Scheme. Contributions by employees and by BUPA Group companies are administered by trustees in funds independent of the Group. The scheme was closed to new entrants from 1 October 2002 but its existing members continue to accrue entitlements in respect of future service.

An independent actuary performs detailed valuations every three years together with periodic interim reviews. The latest valuation of The BUPA Pension Scheme was carried out as at 1 July 2002 using the projected unit method. The key assumptions were the rate of return on investments of 6.75 percent, the rate of increase in pensionable salaries of 4.5 percent and the rate of increase in pensions in payment of 2.5 percent.

At the date of the last valuation the value of the accrued benefits was £302.0m. The aggregate market value of The BUPA Pension Scheme assets, excluding members' additional voluntary contributions, at the valuation date was £265.6m representing 88 percent of the accrued benefits. The accounts include a provision of £67.7m (2001: £60.2m) representing the excess of the accumulated pension cost over the contributions made at 31 December 2002.

As recommended by the independent actuary, employer contributions have been paid at the rate of 3.0 percent of pensionable salary with effect from 1 July 2001 and then 5.0 percent with effect from 1 July 2002. In accordance with the valuation dated 1 July 2002, and with effect from 1 January 2003, employer contributions have been increased to 18.25 percent of pensionable salary in respect of those employees of the companies within the hospitals business and to 17.0 percent of pensionable salary in respect of other employees. The contribution rates from 1 January 2003 include an element to recover over a period of 15 years the deficit shown in the valuation dated 1 July 2002.

The principal defined contribution pension scheme in the UK is The BUPA Retirement Savings Plan, which 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 income and expenditure account in respect of this scheme, and all other defined contribution schemes, is the amount of 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 triennially by independent actuaries in accordance with UK or local practice.

Unfunded defined benefit pension arrangements exist for certain employees and ex-employees. The latest valuations of these arrangements were performed as at 31 December 2002 by an independent actuary. The charge to the consolidated income and expenditure account in respect of these arrangements and the assessment of the related pension liability as at 31 December 2002 have been made in accordance with the latest valuation which used the same principal assumptions adopted during 2002 for The BUPA Pension Scheme. The gross liability of £7.8m (2001: £6.2m) is provided for within provisions for other risks and charges (note 26).

The total pension cost reported in the income and expenditure account in respect of pension schemes and unfunded arrangements in 2002 amounted to £17.8m (2001: £15.4m).

### (ii) Post retirement benefits

The Group also provides unfunded post retirement medical benefits for certain ex-employees and a small number of long-serving current employees. These benefits were granted before 1992. The latest valuation of this scheme was carried out as at 31 December 2002 by an actuary employed by the Group using the same key assumptions adopted during 2002 for The BUPA Pension Scheme. There was no charge to the income and expenditure account as no new benefits were granted during the year and the provision remains sufficient to cover expected liabilities after medical benefits have been paid during 2002. The provision included in the accounts at 31 December 2002 amounts to £11.3m (2001: £11.6m).

# Notes to the financial statements - continued

## 11 Pensions and other post retirement benefits - continued

### (iii) FRS 17

The Group operates both funded and unfunded pension and post retirement schemes. There are no separate funds or assets in the balance sheet to support the unfunded schemes but provisions are included in the balance sheet in respect of these liabilities.

The BUPA Pension Scheme has been valued under FRS 17 based on an actuarial valuation as at 30 June 2002. This valuation has been updated to take account of the requirements of FRS 17 in order to assess the assets and liabilities of the scheme as at 31 December 2002. The other funded pension schemes have also been revalued as at 31 December 2002 and the unfunded pension and post retirement liabilities have been re-calculated on an FRS 17 basis. The valuation of the post retirement health care liability has been valued by an actuary employed by the Group. The asset valuation and all other liabilities under FRS 17 were assessed by independent actuaries. The major financial assumptions used when valuing the assets and liabilities under FRS 17 are as follows:

	Funded schemes				Unfunded schemes	
	The BUPA Pension Scheme and other sterling funded schemes 2002 %	2001 %	Euro funded schemes 2002 %	2001 %	2002 %	2001 %
Rate of increase in salaries	3.9	4.1	4.0	4.5	3.9	4.1
Rate of increase to pensions in payment	2.3	2.5	3.0	4.0	2.3	2.5
Discount rate for scheme liabilities	5.6	5.8	5.5	6.0	5.6	5.8
Inflation rate	2.3	2.5	3.0	4.0	2.3	2.5

### Funded schemes

There is one main funded defined benefit pension scheme, The BUPA Pension Scheme, and several other smaller defined benefit pension schemes which together have a net deficit of £144.3m (2001: £14.1m) as at 31 December 2002. The deferred tax asset in respect of this deficit would be £43.3m (2001: £4.3m). The expected long-term rates of return, the market value of the funded defined benefit schemes' assets and the present value of these schemes' liabilities calculated in accordance with FRS 17 as at 31 December 2002 were:

	The BUPA Pension Scheme		Other funded schemes		Total
	Expected long-term rate of return 2002 %	Market value 2002 £m	Expected long-term rate of return 2002 %	Market value 2002 £m	Market value 2002 £m
Equities	7.0	155.4	7.0	10.9	166.3
Bonds	5.0	71.7	5.0	1.7	73.4
Other	4.0	12.6	4.0	0.5	13.1
Market value of assets		239.7		13.1	252.8
Present value of scheme liabilities		(381.2)		(15.9)	(397.1)
(Deficit)/surplus in the schemes		(141.5)		(2.8)	(144.3)
Related deferred tax asset/(liability)		42.5		0.8	43.3
Net pension/post-retirement liability		(99.0)		(2.0)	(101.0)

# Notes to the financial statements - continued

## 11 Pensions and other post retirement benefits - continued

The expected long-term rate of return and the market value of the funded defined benefit schemes' assets and the present value of these schemes' liabilities at 31 December 2001 were:

	The BUPA Pension Scheme		Other funded schemes		Total
	Expected long-term rate of return 2001 %	Market value 2001 £m	Expected long-term rate of return 2001 %	Market value 2001 £m	Market value 2001 £m
Equities	7.0	227.7	7.0	12.2	239.9
Bonds	5.0	60.4	5.0	1.6	62.0
Other	4.0	3.5	4.0	0.8	4.3
Market value of assets		291.6		14.6	306.2
Present value of scheme liabilities		(306.8)		(13.5)	(320.3)
(Deficit)/surplus in the schemes		(15.2)		1.1	(14.1)
Related deferred tax asset/(liability)		4.6		(0.3)	4.3
Net pension/post-retirement (liability)/asset		(10.6)		0.8	(9.8)

### Unfunded schemes

The Group also operates a number of unfunded pension and post retirement arrangements. Provisions are currently held in the accounts for these liabilities. The present value of unfunded scheme liabilities at 31 December 2002 was:

	Defined benefit pensions 2002 £m	Post retirement medical benefits 2002 £m	Total 2002 £m	Defined benefit pensions 2001 £m	Post retirement medical benefits 2001 £m	Total 2001 £m
Present value of liabilities	(8.8)	(8.8)	(17.6)	(6.8)	(8.4)	(15.2)
Related deferred tax asset	2.6	2.6	5.2	2.0	2.5	4.5
Net pension/post retirement liability (under FRS 17)	(6.2)	(6.2)	(12.4)	(4.8)	(5.9)	(10.7)
Less provisions and accruals net of deferred tax (under SSAP 24)	5.5	7.9	13.4	4.4	8.1	12.5
	(0.7)	1.7	1.0	(0.4)	2.2	1.8

# Notes to the financial statements - continued

## 11 Pensions and other post retirement benefits - continued

### Impact of FRS 17 on the income and expenditure account and reserves

Under FRS 17 the following amounts would be (charged)/credited to the income and expenditure account and reserves for the year ended 31 December 2002:

	£m	£m
Gross liability at beginning of year		
The BUPA Pension Scheme		(15.2)
Other funded schemes		1.1
Unfunded schemes		(15.2)
		(29.3)
<b>Amounts charged to operating profit</b>		
Current service costs	(23.3)	
Past service costs	-	
Total operating charge		(23.3)
<b>Contributions</b>		12.4
<b>Amounts credited to other finance income</b>		
Expected return on pension/post retirement assets	20.3	
Interest on pension/post retirement liabilities	(20.5)	
Net return on pension liability/asset		(0.2)
<b>Amounts (charged)/credited to reserves/the statement of total recognised gains and losses</b>		
Actual return less expected return on pension/post retirement assets	(80.1)	
Experience gains and losses arising on pension/post retirement liabilities	(16.5)	
Changes in assumptions underlying the present value of pension/post retirement liabilities	(24.9)	
Actuarial loss recognised in the statement of total recognised gains and losses		(121.5)
Gross liability at end of year		(161.9)
Analysed as follows:		
The BUPA Pension Scheme		(141.5)
Other funded schemes		(2.8)
Unfunded schemes		(17.6)
		(161.9)

If the above amounts had been recognised in the Group's financial statements, the Group's net assets at 31 December 2002 would be as follows:

	2002 £m	2001 £m
Reported net assets	1,133.5	991.2
SSAP 24 pension/post retirement balances (net of deferred tax)	60.8	54.7
FRS 17 pension/post retirement balances (net of deferred tax)		
Funded	(101.0)	(9.8)
Unfunded	(12.4)	(10.7)
	(113.4)	(20.5)
Net assets under FRS 17	1,080.9	1,025.4

# Notes to the financial statements - continued

## 11 Pensions and other post retirement benefits - continued

The valuation of The BUPA Pension Scheme as at 31 December for the purposes of FRS 17 shows a deficit which is greater than the deficit shown in the 1 July 2002 triennial actuarial valuation produced for SSAP 24 purposes. This has arisen mainly because of the assumptions inherent in the FRS 17 basis of calculation and because the actual investment performance has not matched the assumptions used in the actuarial valuations between 1 July and 31 December 2002.

## 12 Tax on surplus on ordinary activities

### (i) Analysis of tax charge

	2002 £m	2001 (Restated) £m
Current tax		
UK corporation tax on income for the year	33.1	34.5
Adjustments in respect of prior periods	6.0	(10.2)
	<u>39.1</u>	<u>24.3</u>
Double taxation relief	(3.3)	(1.5)
Foreign tax on income for the year	21.4	13.2
Adjustments in respect of prior periods	(0.2)	0.1
	<u>21.2</u>	<u>13.3</u>
Total current tax	<u>57.0</u>	<u>36.1</u>
Deferred tax		
Origination and reversal of timing differences	1.7	(2.2)
Adjustments in respects of prior periods	(10.0)	4.6
Total deferred tax	<u>(8.3)</u>	<u>2.4</u>
Tax on surplus on ordinary activities	<u>48.7</u>	<u>38.5</u>

### (ii) Factors affecting the tax charge

The tax assessed for the period is higher than the standard rate of corporation tax in the UK of 30 percent. The differences are explained below:

	2002 £m	2001 (Restated) £m
Surplus on ordinary activities before tax	<u>103.6</u>	<u>91.9</u>
Tax charge on surplus on ordinary activities at 30%	<u>31.1</u>	<u>27.6</u>
Effects of:		
Expenses not deductible for tax purposes	11.1	9.3
Capital allowances for period in excess of amortisation/depreciation	(2.1)	(3.2)
Deferred tax on short-term and other timing differences	0.5	5.5
Higher tax rates on overseas earnings	1.2	1.8
Adjustments to tax charge in respect of prior periods	5.8	(10.1)
Movement on deferred tax asset not recognised	9.4	5.2
Total current tax	<u>57.0</u>	<u>36.1</u>

# Notes to the financial statements - continued

## 12 Tax on surplus on ordinary activities - continued

### (iii) Factors that may affect future tax charges

As at 31 December 2002, the Group had tax losses to carry forward of approximately £81.0m (2001: £48.0m) against which no deferred tax asset has been recognised. A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

No provision has been made for deferred tax on gains recognised on revaluing property to its market value or on the sale of properties where potentially taxable gains have been rolled over into replacement assets. Such tax would become payable only if the property were sold without it being possible to claim rollover relief. The total amount unprovided is £117.0m. At present, it is not envisaged that any tax will become payable in the foreseeable future.

No deferred tax has been recognised in respect of the earnings of overseas subsidiaries as no dividends have been accrued on these earnings.

## 13 Deficit attributable to the Company

The deficit dealt with in the accounts of the Company, The British United Provident Association Limited, is £3.3m (2001: £14.6m (restated)). In accordance with the exemption granted under Section 230 of the Companies Act 1985, a separate income and expenditure account for the Company has not been presented.

## 14 Intangible fixed assets

Group	Goodwill £m
<b>Cost</b>	
At beginning of year	92.6
Additions (note 35)	198.9
Exchange adjustment	(4.5)
<b>At end of year</b>	<b>287.0</b>
<b>Amortisation</b>	
At beginning of year	21.7
Charge for the year	16.7
Exchange adjustment	0.7
<b>At end of year</b>	<b>39.1</b>
<b>Net book value</b>	
<b>At end of year</b>	<b>247.9</b>
At beginning of year	70.9

# Notes to the financial statements - continued

## 15 Hospitals, care homes and equipment

### Group

	Freehold properties £m	Long leasehold properties £m	Equipment £m	Total £m
<b>Cost or valuation</b>				
At beginning of year	957.5	144.5	331.4	1,433.4
New subsidiary undertakings	104.5	-	4.8	109.3
Additions	25.9	10.1	40.9	76.9
Transfers to land and buildings - own use	(0.3)	-	-	(0.3)
Transfer from tangible assets	-	-	1.8	1.8
Disposals	(3.7)	-	(7.1)	(10.8)
Reclassification	(8.9)	8.9	-	-
Revaluations	34.2	19.2	-	53.4
Exchange adjustment	4.1	-	2.1	6.2
<b>At end of year</b>	<b>1,113.3</b>	<b>182.7</b>	<b>373.9</b>	<b>1,669.9</b>
<b>Depreciation</b>				
At beginning of year	26.4	8.4	171.6	206.4
Charge for the year	15.8	5.1	37.6	58.5
Disposals	(0.1)	-	(2.7)	(2.8)
Revaluations	(19.7)	(3.7)	-	(23.4)
Exchange adjustment	0.3	-	1.2	1.5
<b>At end of year</b>	<b>22.7</b>	<b>9.8</b>	<b>207.7</b>	<b>240.2</b>
<b>Net book value</b>				
<b>At end of year</b>	<b>1,090.6</b>	<b>172.9</b>	<b>166.2</b>	<b>1,429.7</b>
At beginning of year	931.1	136.1	159.8	1,227.0

# Notes to the financial statements - continued

## 15 Hospitals, care homes and equipment - continued

### Analysis of cost or valuation of freehold and long leasehold properties

	Freehold properties £m	Long leasehold properties £m
Valuation 2002	728.5	126.6
Valuation 2000	343.2	12.2
Assets held at cost	41.6	43.9
	1,113.3	182.7

Except for the valuation of certain care homes in the UK, the valuations were carried out by Knight Frank, Chartered Surveyors, in accordance with the Appraisal and Valuation Manual issued by RICS. Three care homes in the UK were the subject of a directors' review of the carrying values of these assets. Particulars relating to the historical cost of revalued assets are given below:

	2002 £m	2001 £m
Historical cost of revalued assets	895.7	755.2
Accumulated depreciation based on historical cost	(94.3)	(73.2)
<b>Historical cost net book value</b>	<b>801.4</b>	<b>682.0</b>
Depreciation charge for the year on historical cost	20.9	19.8

The total historical cost of all assets is £1,269.6m (2001: £1,086.6m).

### Amounts included in respect of assets held under finance leases

	Freehold properties £m	Long leasehold properties £m	Total £m
<b>Net book value</b>			
<b>At end of year</b>	<b>304.9</b>	<b>41.3</b>	<b>346.2</b>
At beginning of year	277.5	33.8	311.3
<b>Depreciation</b>			
Charge for the year	4.5	0.5	5.0

### Company

The Company has no hospitals, care homes and equipment (2001: £nil).

# Notes to the financial statements - continued

## 16 Land and buildings - own use

	Group			Company
	Freehold properties £m	Long leasehold properties £m	Total £m	Long leasehold properties £m
<b>Cost or valuation</b>				
At beginning of year	77.2	6.9	84.1	1.7
New subsidiary undertakings	1.6	-	1.6	-
Additions	3.7	0.9	4.6	0.9
Transfer from hospitals, care homes and equipment	0.3	-	0.3	-
Transfer to financial investments	(5.3)	-	(5.3)	-
Disposals	(0.3)	(0.3)	(0.6)	-
Revaluations	1.0	-	1.0	-
Exchange adjustment	2.1	-	2.1	-
<b>At end of year</b>	<b>80.3</b>	<b>7.5</b>	<b>87.8</b>	<b>2.6</b>
<b>Depreciation</b>				
At beginning of year	1.5	2.8	4.3	0.2
Charge for the year	1.1	0.4	1.5	0.2
Disposals	(0.1)	(0.3)	(0.4)	-
Exchange adjustment	0.1	-	0.1	-
<b>At end of year</b>	<b>2.6</b>	<b>2.9</b>	<b>5.5</b>	<b>0.4</b>
<b>Net book value</b>				
<b>At end of year</b>	<b>77.7</b>	<b>4.6</b>	<b>82.3</b>	<b>2.2</b>
At beginning of year	75.7	4.1	79.8	1.5

A property with a book value of £5.5m as at 31 December 2002, which is available for rent to a third party, has been transferred from land and buildings - own use to financial investments as it is considered to be an investment property.

### Analysis of cost or valuation of freehold properties

	Freehold properties £m
Valuation 2000	63.3
Assets held at cost	17.0
	80.3

The valuations were carried out by Knight Frank, Chartered Surveyors, in accordance with the Appraisal and Valuation Manual issued by the RICS.

### Group

	2002 £m	2001 £m
Historical cost of revalued assets	30.1	27.4
Aggregate depreciation based on historical cost	(1.4)	(1.0)
<b>Historical cost net book value</b>	<b>28.7</b>	<b>26.4</b>
Depreciation charge for year on historical cost	0.6	0.5

The total historical cost of all assets is £37.6m (2001: £34.3m).

# Notes to the financial statements - continued

## 17 Financial investments

### Group

	Market value 2002 £m	Cost 2002 £m	Market value 2001 £m	Cost 2001 £m
Debt securities - government stocks	114.8	114.1	97.3	94.8
Debt securities - corporate bonds and loans	2.7	2.6	7.0	7.0
	117.5	116.7	104.3	101.8
Shares and other variable yield securities	182.0	202.7	113.5	118.7
Deposits with credit institutions	1,014.0	1,014.0	699.4	699.4
Investment property	5.5	4.5	-	-
	1,319.0	1,337.9	917.2	919.9

Deposits with credit institutions include £54.2m (2001: £5.7m) over which the Group has restricted access. These deposits are held in respect of specific obligations and potential liabilities and may only be used to discharge those obligations and potential liabilities if and when they crystallise. Included within these deposits is £11.3m (2001: £nil) arising from the offset of £134.5m (2001: £nil) of finance lease obligations against £145.8m (2001: £nil) of deposits with credit institutions (see note 29).

Included within shares and other variable yield securities are investments in associated undertakings of £3.2m (2001: £9.1m).

Investments comprise:

	Market value 2002 £m	Cost 2002 £m	Market value 2001 £m	Cost 2001 £m
Listed investments	185.4	205.7	102.3	105.8
Unlisted investments	6.8	6.4	15.6	14.8
Other	1,126.8	1,125.8	799.3	799.3
	1,319.0	1,337.9	917.2	919.9

### Company

Debt securities - government stocks	-	-	0.3	0.3
	-	-	0.3	0.3

The market value of listed investments held by the Company is £nil (2001: £0.3m). The cost of listed investments is £nil (2001: £0.3m). The Company had no unlisted investments.

# Notes to the financial statements - continued

## 18 Investments in subsidiary undertakings

### Company

	Cost of shares £m	Revaluations £m	Total £m
At beginning of year	202.4	898.7	1,101.1
Adjustment to reflect underlying net asset value	-	138.1	138.1
<b>At end of year</b>	<b>202.4</b>	<b>1,036.8</b>	<b>1,239.2</b>

The principal subsidiary undertakings of the Group as at 31 December 2002 are listed below and, except where stated, are incorporated in Great Britain. All subsidiary undertakings are 100 percent 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, 1985.

#### Health insurance - general business

BUPA Insurance Limited	
Sanitas, SA de Seguros (99% holding)	Spain
BUPA Australia Health Pty Limited**	Australia
BUPA (Asia) Limited	Hong Kong

#### Health insurance - long-term

BUPA Health Assurance Limited

#### Investment activities

BUPA Investments Limited\*  
 BUPA Finance PLC\*  
 BUPA Hospitals (Holdings) Limited

\* Directly owned by the Company.

\*\* As at 31 December 2002, the Group beneficially owned 50% of BUPA Australia Health Pty Limited although it had effective management control of 100% of the Company (see note 35).

#### Health and care provision

BUPA Hospitals Limited	
BUPA Redwood Hospital Limited	
Blackrock Hospital Limited (56% holding)	Republic of Ireland
Sanitas, SA de Hospitales	Spain
BUPA Health Care Asia Limited	Singapore
BUPA Nursing Homes Limited	
BUPA Care Services Limited	
Care First Group plc	
Gestion de Recursos Sociales SA	Spain
BUPA Occupational Health Limited	

# Notes to the financial statements - continued

## 19 Debtors arising out of direct insurance operations

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Amounts owed by policyholders	432.6	392.5	-	1.2
	432.6	392.5	-	1.2

## 20 Other debtors

	Group		Company	
	2002 £m	2001 (Restated) £m	2002 £m	2001 (Restated) £m
<b>Amounts falling due within one year</b>				
Trade debtors	87.6	84.1	-	-
Investment debtors and accrued investment income	2.5	5.4	-	-
Amounts owed by subsidiary undertakings	-	-	540.6	425.7
Corporation tax receivable	-	-	-	3.3
Deferred consideration receivable	-	79.5	-	-
Other debtors	64.6	36.3	4.7	3.6
	154.7	205.3	545.3	432.6
<b>Amounts falling due after more than one year</b>				
Deferred taxation (note 33)	17.1	6.2	15.3	11.6
	17.1	6.2	15.3	11.6
	171.8	211.5	560.6	444.2

Deferred consideration receivable of £nil (2001: £79.5m) represents consideration for the disposal of 11 qualifying indexed securities (QIS) on 30 June 1995. The deferred consideration was received on 17 July 2002.

Other debtors include unamortised direct costs of £7.7m (2001: £nil) associated with finance lease obligations. Normally, these costs would be set against the gross finance lease obligations. However, as explained in note 29, gross finance lease obligations have been offset against deposits with credit institutions. Accordingly, the unamortised balance of direct costs has been included within other debtors.

# Notes to the financial statements - continued

## 21 Tangible assets

	Group £m	Company £m
<b>Equipment</b>		
<b>Cost</b>		
At beginning of year	151.0	33.4
New subsidiary undertakings	0.2	-
Additions	28.2	4.9
Transfer to hospitals, care homes and equipment	(1.8)	-
Disposals	(2.6)	(1.4)
Exchange adjustment	1.1	-
<b>At end of year</b>	<b>176.1</b>	<b>36.9</b>
<b>Depreciation</b>		
At beginning of year	71.4	13.2
Charge for the year	24.2	5.5
Disposals	(0.8)	(0.9)
Exchange adjustment	0.6	-
<b>At end of year</b>	<b>95.4</b>	<b>17.8</b>
<b>Net book value</b>		
<b>At end of year</b>	<b>80.7</b>	<b>19.1</b>
At beginning of year	79.6	20.2

The net book value of equipment of the Group includes £1.1 m (2001: £1.1 m) in respect of assets held under finance leases. The depreciation charge for the year on these assets was £0.3m (2001: £0.4m). The Company has no assets held under finance leases.

## 22 Other prepayments and accrued income

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Prepayments	16.5	17.7	5.0	4.0
Accrued income	8.1	5.9	-	-
	<b>24.6</b>	<b>23.6</b>	<b>5.0</b>	<b>4.0</b>

# Notes to the financial statements - continued

## 23 Reserves

### Group

	Property revaluation reserve £m	Income and expenditure account £m	Total £m
At beginning of year	361.9	617.2	979.1
Prior year adjustment (note 33)	-	(0.4)	(0.4)
At beginning of year (restated)	361.9	616.8	978.7
Retained surplus for the financial year	-	55.4	55.4
Realised revaluation surplus on disposals	(3.5)	3.5	-
Goodwill written back on closure of business	-	1.6	1.6
Property revaluation	80.0	-	80.0
Exchange adjustments	0.2	4.9	5.1
<b>At end of year</b>	<b>438.6</b>	<b>682.2</b>	<b>1,120.8</b>

The property revaluation reserve relates to property included within hospitals, care homes and equipment, land and buildings - own use and an investment property included within financial investments.

Unrealised investment gains amounting to £10.8m (2001: £21.7m) are included in the balance of the income and expenditure account at 31 December 2002.

The cumulative amount of goodwill resulting from acquisitions previously written off to reserves prior to 31 December 1997 and which remains in reserves, is £269.2m (2001: £270.8m).

### Company

	Income and expenditure account £m
At beginning of year	979.1
Prior year adjustment (note 33)	7.1
At beginning of year (restated)	986.2
Retained deficit for the year	(3.3)
Increase in underlying net asset value of Group undertakings	138.1
Exchange adjustments	(0.2)
<b>At end of year</b>	<b>1,120.8</b>

## 24 Subordinated liabilities

The subordinated liabilities comprise bonds of £98.9m (2001: £98.8m), issued by BUPA Finance PLC, which are repayable on 3 December 2018 and are guaranteed by the Company. A call option is exercisable by the Company to redeem the bonds on 3 December 2013. In the event of a winding up of BUPA Finance PLC or the Company, the claims of the bondholders are subordinated in right of payment to the claims of other creditors of the Company. Interest on the bonds is payable at 10.5 percent per annum.

The Company had no subordinated liabilities (2001: £nil).

# Notes to the financial statements - continued

## 25 Technical provisions

### Group

	Provision for unearned premiums £m	Claims outstanding £m	Total £m
At beginning of year	584.9	266.1	851.0
New subsidiaries	40.4	38.3	78.7
Movement in the provision	54.0	14.3	68.3
Exchange adjustment	(3.0)	2.8	(0.2)
<b>At end of year</b>	<b>676.3</b>	<b>321.5</b>	<b>997.8</b>

### Company

	Claims outstanding £m
Gross amount	
At beginning of year	1.8
Movement in the provision	(1.8)
<b>At end of year</b>	<b>-</b>
Reinsurance amount	
At beginning of year	1.8
Movement in the provision	(1.8)
<b>At end of year</b>	<b>-</b>
<b>Net technical provisions</b>	
<b>At end of year</b>	<b>-</b>
At beginning of year	-

At the start of the year the Company had an outstanding claims provision of £1.8m arising from general insurance policies of its international division. The Company ceased underwriting in November 2000 and all new business and renewals were underwritten in BUPA Insurance Limited.

During 2001, the majority of business was transferred to BUPA Insurance Limited via a Schedule 2c transfer. During 2002, the Company continued to pay certain claims on an ex gratia basis as a gesture of goodwill to policyholders until 30 September 2002. After this date, all ex gratia payments were met by BUPA Insurance Limited. Consequently, no insurance liabilities remained in the Company at 31 December 2002.

Over provisions on health insurance for claims at the beginning of the year compared with payments and provisions at the end of the year in respect of prior year's claims are £45.9m (2001: £42.9m).

## Notes to the financial statements - continued

### 26 Provisions for other risks and charges

#### Group

	Pensions and post retirement benefits £m	Other £m	Sub-total £m	Deferred taxation £m	Total £m
At beginning of year	78.1	33.1	111.2	0.9	112.1
Prior year adjustment (note 33)	-	-	-	0.4	0.4
Reclassification (note 33)	-	-	-	(7.5)	(7.5)
At beginning of year (restated)	78.1	33.1	111.2	(6.2)	105.0
New subsidiary undertakings	-	9.1	9.1	(2.8)	6.3
Charged in year	15.5	17.3	32.8	5.2	38.0
Released in year	(6.2)	(9.9)	(16.1)	(13.5)	(29.6)
Utilised in year - cash	(0.6)	(6.1)	(6.7)	-	(6.7)
Utilised in year - non cash	-	(2.3)	(2.3)	-	(2.3)
Transfer to debtors (note 33)	-	-	-	17.1	17.1
Exchange adjustment	-	0.2	0.2	0.2	0.4
<b>At end of year</b>	<b>86.8</b>	<b>41.4</b>	<b>128.2</b>	<b>-</b>	<b>128.2</b>

Pensions and post retirement benefits largely represent unfunded liabilities in respect of defined benefit pension arrangements and post retirement medical benefits for certain employees and ex-employees. The Group's main pension schemes are based in the UK and are held in separately administered funds and are described in note 11.

Other provisions include provisions in respect of potential Financial Services Compensation Scheme levies, unoccupied properties, insurance and legal claims.

Deferred tax is described in note 33.

#### Company

	Pensions and post retirement benefits £m	Other £m	Total £m
At beginning of year	23.2	13.8	37.0
Charge for the year	4.1	6.6	10.7
Utilised in year	(1.6)	(2.8)	(4.4)
<b>At end of year</b>	<b>25.7</b>	<b>17.6</b>	<b>43.3</b>

# Notes to the financial statements - continued

## 27 Secured, debenture and other loans

### Group

Secured, debenture and other loans are analysed as follows:

	2002 £m	2001 (Restated) £m
Secured loans	616.9	184.5
Debenture stock	67.6	68.5
Loan notes	17.0	22.1
	<b>701.5</b>	<b>275.1</b>

### (i) Secured loans

In July 2002 the Group borrowed £450.0m from UK Hospitals No1 SA, a company registered in Luxembourg, which has been secured by first fixed and first floating ranking security over all the property, undertaking and assets of BUPA Hospitals Limited and its subsidiaries.

The £450.0m is denominated in four tranches. The rates of interest and final repayment dates of each are set out in the table below. 'A' advances are to be paid in full before repayments of 'B' advances commence.

	Fixed interest rate %	Final maturity date	£m
Term A1 advance	6.531	19 July 2022	80.0
Term A2 advance	6.264	19 July 2022	200.0
Term B1 advance	7.681	19 July 2029	50.0
Term B2 advance	6.882	19 July 2029	120.0
			<b>450.0</b>

In raising the £450.0m, the Group incurred facility fees and issue expenses of £17.4m. The facility fees and issue expenses have been capitalised and are being amortised over the loan terms. As at 31 December 2002, the balance of this loan was £439.1m net of issue costs not yet amortised.

£177.8m (2001: £184.5m) of the balance of secured loans is due to UK Care No 1 Limited, a company incorporated in Guernsey, which is being repaid by instalments until 1 October 2029. In 1999, BUPA granted 99 year overriding leases over 116 care home properties to UK Care No 1 Limited for a premium of £206.0m. The terms of the agreement entitle UK Care No 1 Limited to receive initially rents for a period of 35 years. The granting of the overriding leases has been characterised as a loan liability in accordance with the provisions of Financial Reporting Standard No 5: Substance of Transactions (FRS 5). The loan bears interest at 5.96 percent.

### (ii) Debenture stock

The 11.8 percent debenture stock 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.

### (iii) Loan notes

The loan notes balance of £17.0m (2001: £22.1m) relates to acquisitions made in previous years when part of the consideration was given in the form of loan notes which are guaranteed by the Company.

### Company

The Company had no secured, debenture or other loans (2001: £nil).

# Notes to the financial statements - continued

## 28 Amounts owed to credit institutions

### Group

Amounts owed to credit institutions comprise:

	2002 £m	2001 £m
Bank overdrafts	42.7	47.4
Bank loans	289.3	362.3
	332.0	409.7

Of the £332.0m (2001: £409.7m) owed to credit institutions, certain bank loans and overdrafts are secured by fixed and floating charges over certain assets of the Group, and bear interest at commercial rates linked to LIBOR.

The Company owed £nil (2001: £nil) to credit institutions.

## 29 Obligations under finance leases

### Group

Future minimum payments under finance leases are as follows:

	2002 £m	2001 £m
Payable within one year	11.4	10.4
Payable after one year but within five years	45.7	122.3
Payable after five years	184.1	-
Total gross payments	241.2	132.7
Less finance charges included above	(105.4)	(22.5)
Total payments net of finance charges	135.8	110.2
Less offset with financial investments	(134.5)	-
	1.3	110.2

## Notes to the financial statements - continued

### 29 Obligations under finance leases - continued

The Group occupies 13 hospitals subject to finance leasing arrangements. In July 2002 the existing finance lessors assigned their interests under the head leases to a new finance lessor. BUPA received a one-off payment of £23.4m for agreeing to the assignment of the head leases. This lump sum receipt is being amortised over the term of the leases in accordance with Statement of Standard Accounting Practice No 21: Leases and Hire Purchase Contracts (SSAP 21). This receipt will fall due for repayment, prorated for time elapsed, in the event of the Group exercising an option to purchase the overriding head leases. This option is described below.

The agreement also required BUPA Hospitals Holdings Limited to place £148.0m in long-term deposits. These deposits have been ring-fenced allowing the Group to withdraw periodically from the deposits an amount equivalent to that paid under the finance lease obligations. The agreement provides for net settlement between the deposits and the finance lease obligations in all situations of default. As net settlement is assured beyond doubt the deposits and finance lease obligations have been offset in the financial statements, as required by FRS5, as follows:

	2002 £m	2001 £m
Amounts on deposit	145.8	-
Amounts due under finance leases	(134.5)	-
Net amount included within deposits with credit institutions (note 17)	11.3	-

BUPA has also granted security over these cash deposits to the new lessors to secure their borrowing obligations. The Group has the right to acquire any or all of the head leases by the exercise of call options which are exercisable at any time to 2015. The lessors have put options giving them the right to require the Group to determine the head leases in 2015, if there has been no previous exercise of the call options or, to purchase the head leases for a nominal sum in 2024.

The balance of £1.3m due under finance leases relates to leases of equipment.

#### Company

The Company had no obligations under finance leases (2001: £nil).

# Notes to the financial statements - continued

## 30 Borrowings

### Group

Borrowings comprise the following:

	2002 £m	2001 (Restated) £m
Subordinated liabilities	98.9	98.8
Secured, debenture and other loans	701.5	275.1
Amounts owed to credit institutions	332.0	409.7
	1,132.4	783.6
Obligations under finance leases (note 29)	1.3	110.2
	1,133.7	893.8

Deferred tax assets as at 31 December 2001 of £5.6m, previously netted against borrowings have been reclassified to deferred tax in accordance with FRS19 (see note 33). In addition, £0.6m owed to minorities as at 31 December 2001, previously included within borrowings, has been reclassified to other creditors.

Borrowings, excluding finance leases, falling due after more than one year are repayable as follows:

	2002 £m	2001 (Restated) £m
Repayable other than by instalments		
Repayable wholly within five years	90.6	100.1
Repayable wholly beyond five years	166.5	167.3
	257.1	267.4
Repayable by instalments		
Repayable within five years	62.7	12.6
Repayable beyond five years	559.5	167.8
	622.2	180.4
Repayments falling due within one year	253.1	335.8
	1,132.4	783.6
Repayable over one but not more than two years	80.8	10.8
Repayable over two but not more than five years	72.5	101.9
Repayable beyond five years	726.0	335.1
Amounts falling due after more than one year	879.3	447.8
Repayments falling due within one year	253.1	335.8
	1,132.4	783.6

### Company

The Company had no borrowings (2001: £nil).

# Notes to the financial statements - continued

## 31 Other creditors including taxation and social security

	Group		Company	
	2002 £m	2001 (Restated) £m	2002 £m	2001 £m
Trade creditors - health and care provision	43.5	42.5	-	-
Amounts owed to subsidiary undertakings	-	-	634.2	522.8
Corporation tax payable	20.5	14.9	5.1	-
Social security and payroll taxes	7.1	8.8	-	-
Deferred consideration (note 35)	195.0	-	-	-
Other creditors	80.2	48.0	1.7	14.2
	<b>346.3</b>	<b>114.2</b>	<b>641.0</b>	<b>537.0</b>

Deferred consideration of £195.0m (2001: £nil) comprises deferred consideration of AUS \$557.9m payable in respect of the acquisition of BUPA Australia Health which has been translated at the year end exchange rate (see notes 35 and 40).

## 32 Accruals and deferred income

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Deferred income on sale of QIS (note 20)	-	14.2	-	-
Other accruals and deferred income	141.3	112.6	22.4	15.3
	<b>141.3</b>	<b>126.8</b>	<b>22.4</b>	<b>15.3</b>

## 33 Deferred taxation

Under FRS 19, which has been implemented in 2002, deferred tax unprovided as at 31 December 2001, and which is now required to be provided under FRS 19, has been shown as a prior year adjustment.

As a result, the net assets of the Group as at 31 December 2001 have been reduced by £0.4m. The impact on the Group income and expenditure account is £nil (2001: decrease in surplus after taxation by £1.0m) as a result of the increase in the deferred tax charge.

Deferred tax assets totalling £7.5m previously netted against borrowings (£5.6m) and creditors (£1.9m), have been reclassified to deferred tax in accordance with FRS 19 disclosure requirements. The 2001 comparatives have also been restated.

The net assets of the Company as at 31 December 2001 have been increased by £7.1m. The impact on the income and expenditure account is £nil (2001: increase in deficit after taxation by £2.1m) as a result of the increase in the deferred tax charge.

## Notes to the financial statements - continued

### 33 Deferred taxation - continued

The movement for the year in the net deferred tax provision/(asset) is as follows:

	Group £m	Company £m
At beginning of year	0.9	(4.5)
Prior year adjustment	0.4	(7.1)
Reclassification	(7.5)	-
At beginning of year (restated)	(6.2)	(11.6)
New subsidiary undertakings	(2.8)	-
Deferred tax credit for year	(8.3)	(12.3)
Transfer to subsidiary undertaking	-	8.6
Exchange adjustment	0.2	-
At end of year	(17.1)	(15.3)

A deferred tax asset of £8.6m was transferred from the Company to BUPA Insurance Limited as part of the transfer of assets and liabilities and the transfer of insurance liabilities via a Schedule 2c transfer.

The net deferred tax provision is included within:

	Group		Company	
	2002 £m	2001 (Restated) £m	2002 £m	2001 (Restated) £m
Other debtors (note 20)	(17.1)	(6.2)	(15.3)	(11.6)
Provisions for other risks and charges (note 26)	-	-	-	-
	(17.1)	(6.2)	(15.3)	(11.6)

Deferred tax assets and liabilities are analysed as follows:

	Group		Company	
	2002 £m	2001 (Restated) £m	2002 £m	2001 (Restated) £m
Accelerated capital allowances	27.3	25.6	0.9	0.9
Pension provision	(22.5)	(20.0)	(0.1)	(0.1)
Other employee benefits	(7.4)	(4.9)	(6.7)	(5.6)
Other UK timing differences	(9.1)	(5.6)	(9.4)	(6.8)
Overseas timing differences	(5.4)	(1.3)	-	-
	(17.1)	(6.2)	(15.3)	(11.6)

# Notes to the financial statements - continued

## 34 Cash flow statement

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

	2002 £m	2001 (Restated) £m
Operating surplus before taxation	103.6	91.9
Depreciation	84.2	73.3
Amortisation of goodwill	16.7	9.6
Diminution in value of hospitals and care homes	2.2	-
Loss on disposal/closure of businesses	2.9	9.5
Interest payable	70.7	65.1
Losses/(gains) on sale of investments	17.3	(3.3)
(Profit)/loss on sale of fixed assets	(0.8)	2.5
Decrease/(increase) in current assets	21.0	(31.1)
Increase in unearned premiums	54.0	69.9
Increase in outstanding claims	14.3	36.3
Increase in other creditors	47.5	24.7
<b>Net cash inflow from operating activities</b>	<b>433.6</b>	<b>348.4</b>

### (ii) Analysis of cash flows for headings netted in the cash flow statement

	2002 £m	2001 £m
<b>Interest paid</b>		
Interest paid	(61.8)	(51.3)
Interest element of finance lease rental payments	(9.2)	(11.0)
	<b>(71.0)</b>	<b>(62.3)</b>
<b>Capital expenditure</b>		
Purchase of tangible fixed assets	(108.8)	(81.4)
Sale of tangible fixed assets	6.8	6.1
	<b>(102.0)</b>	<b>(75.3)</b>
<b>Acquisitions and disposals</b>		
Acquisition of subsidiary undertakings	(90.3)	(40.9)
Acquisition of businesses	-	(11.5)
Cash acquired with subsidiary undertakings	13.2	4.0
Acquisition of minority interests in subsidiary undertakings	(2.4)	-
Disposal of subsidiary undertakings	1.6	8.0
	<b>(77.9)</b>	<b>(40.4)</b>
<b>Financing</b>		
New borrowings	615.7	125.3
Repayment of borrowings	(303.3)	(24.3)
Capital element of finance lease repayments	(5.6)	(1.3)
Receipt following finance lease restructuring (note 29)	23.4	-
	17.8	(1.3)
	<b>330.2</b>	<b>99.7</b>

# Notes to the financial statements - continued

## 34 Cash flow statement - continued

### (iii) Analysis of changes in cash, portfolio investments and financing

	At 1 January 2002 £m	Cash flow £m	Acquired with subsidiaries excluding cash £m	Changes to market value and currencies £m	Other changes £m	At 31 December 2002 £m
<b>Cash</b>						
Cash at bank and in hand	51.1	(9.8)	-	-	-	41.3
Overdrafts	(47.4)	4.7	-	-	-	(42.7)
Overnight deposits	24.1	55.5	-	-	-	79.6
		50.4				
<b>Portfolio investments</b>						
Shares	113.5	71.6	25.8	(20.7)	(8.2)	182.0
Debt securities - government stock	97.3	(20.6)	31.7	6.4	-	114.8
Debt securities - corporate bonds	7.0	(31.5)	26.9	0.3	-	2.7
Short-term deposits	675.3	390.4	3.2	-	(134.5)	934.4
Investment property	-	-	-	0.2	5.3	5.5
		409.9				
<b>Financing</b>						
Debt due within one year	(289.0)	78.9	-	-	(0.3)	(210.4)
Debt due after one year	(447.2)	(391.3)	(30.3)	(0.1)	(10.4)	(879.3)
Finance leases	(110.2)	(17.8)	-	-	126.7	(1.3)
		(330.2)				
	74.5	130.1	57.3	(13.9)	(21.4)	226.6
<b>Borrowings</b>						
Overdrafts	(47.4)					(42.7)
Debt due within one year	(289.0)					(210.4)
Debt due after one year	(447.2)					(879.3)
Finance leases	(110.2)					(1.3)
	(893.8)					(1,133.7)
Overnight deposits	24.1					79.6
Shares	113.5					182.0
Debt securities - government stock	97.3					114.8
Debt securities - corporate bonds	7.0					2.7
Short-term deposits	675.3					934.4
Investment property	-					5.5
	917.2					1,319.0
<b>Portfolio investments</b>						
					2002 £m	2001 £m
Purchase of ordinary shares and other variable yield securities					(96.3)	(84.6)
Purchase of debt securities - government stock					(13.6)	(3.6)
Purchase of debt securities - corporate bonds					-	(4.5)
Sale of ordinary shares and other variable yield securities					24.7	86.1
Sale of debt securities - government stock					34.2	12.3
Sale of debt securities - corporate bonds					31.5	61.4
Deposits with credit institutions					(390.4)	(322.1)
<b>Net cash outflow on portfolio investments</b>					<b>(409.9)</b>	<b>(255.0)</b>

# Notes to the financial statements - continued

## 35 Acquisitions

A number of acquisitions were made in the year, the most significant of which was the acquisition on 30 August 2002 of 50 percent of the shares in the consortium owning 100 percent of BUPA Australia Health Pty Limited (formerly AXA Health Pty Limited). BUPA gained immediate effective management control and, through control of the board of BUPA Australia Health, gained control of the assets, liabilities and economic benefits of that company. BUPA Australia Health has therefore been treated as a 100 percent owned subsidiary and its net assets have been consolidated within the Group balance sheet as at 31 December 2002 and its trading results for the period from 30 August 2002 to 31 December 2002 have been included in the Group consolidated income and expenditure account. Goodwill arising on the acquisition of BUPA Australia Health is being amortised over 20 years.

During 2002 BUPA also made the following acquisitions:

	Date of acquisition	Percentage holding acquired %	Goodwill amortisation period Years
Ashbourne KW Limited	12 May	100	- **
Novomedic SA	1 January	100	6
Gestion de Recursos Sociales SA	1 July	50	10
Instituto de Cirugias Especiales SA	1 January	44*	3
Outcome Technologies Limited	17 January	51	1
Three clinics acquired by BUPA Health Care Asia	Various	100	20
Human Capital Resources Limited	11 December	49*	- **

\* Buyout of minority interests

\*\* Goodwill written off in year of acquisition

The following table analyses the preliminary fair value of the net assets acquired:

	BUPA Australia Health				Other acquisitions		
	Book value £m	Accounting policy adjustments £m	Fair value adjustments £m	Fair value of net assets £m	Book value £m	Fair value adjustments £m	Fair value of net assets £m
Intangible fixed assets	-	-	-	-	4.2	(4.2)	-
Tangible fixed assets	1.4	-	-	1.4	79.6	30.1	109.7
Investments	86.8	-	-	86.8	0.8	-	0.8
Debtors	18.4	-	-	18.4	8.6	-	8.6
Stock	-	-	-	-	0.1	-	0.1
Cash and deposits	9.0	-	-	9.0	4.2	-	4.2
Prepayments and accrued income	0.3	(0.2)	-	0.1	0.3	-	0.3
Deferred tax	2.5	0.1	0.2	2.8	-	-	-
Technical provisions	(76.5)	-	(0.8)	(77.3)	(1.4)	-	(1.4)
Provisions for other risks and charges	(2.4)	-	-	(2.4)	(6.7)	-	(6.7)
Borrowings	-	-	-	-	(0.1)	-	(0.1)
Other loans	-	-	-	-	(30.1)	-	(30.1)
Creditors	(0.8)	-	-	(0.8)	(8.4)	-	(8.4)
Accruals and deferred income	(1.8)	-	-	(1.8)	(1.4)	-	(1.4)
Minority interests	-	-	-	-	0.1	-	0.1
	36.9	(0.1)	(0.6)	36.2	49.8	25.9	75.7
Consideration - paid in cash				1.8			88.5
Consideration - deferred				201.8			-
Consideration - contingent				-			0.2
Consideration - transfer from investment in associates				-			8.0
Consideration - accrued costs of acquisition				8.0			-
Goodwill				175.4			21.0

# Notes to the financial statements - continued

## 35 Acquisitions - continued

Deferred consideration of £201.8m payable on 28 February 2003 in respect of BUPA Australia Health comprises AUS \$557.9m which has been translated at the average exchange rate for the year and is included within other creditors (see note 31).

The Group paid £2.4m in cash relating to minority interests acquired in the year giving rise to additional goodwill of £2.5m.

Goodwill of £21.0m in respect of other acquisitions relates to Novomedic (£12.7m), Gestion de Recursos Sociales SA (£6.8m) and other acquisitions (£1.5m). Intangible fixed assets acquired of £4.2m represent goodwill on the books of Gestion de Recursos Sociales SA at the date of acquisition which has been attributed a £nil fair value on acquisition. The fair values attributable to tangible fixed assets represent valuations of tangible fixed assets acquired and have been based upon professional valuations on the basis of their open market value or existing use, as appropriate.

The accounting policy adjustment of £0.2m for BUPA Australia Health represents the write off of asset balances considered not to be recoverable. The fair value adjustment of £0.8m for BUPA Australia Health in respect of technical provisions relates to additional amounts for claims outstanding.

In the four months following acquisition to 31 December 2002, the results of BUPA Australia Health were turnover of £100.0m and operating surplus on ordinary activities before goodwill and taxation of £9.7m. The summarised income and expenditure account of BUPA Australia Health for the period from 1 January 2002 to 30 August 2002, extracted from the management accounts and therefore shown on the basis of the accounting policies of BUPA Australia Health prior to the acquisition, is as follows:

	AUS \$m
Turnover	548.9
Operating surplus before investment and financing	40.9
Investment and financing	0.6
Operating surplus on ordinary activities before taxation	41.5
Tax on surplus on ordinary activities	(12.1)
Surplus for the period	29.4

Total recognised gains and losses for the period from 1 January 2002 to 30 August 2002 comprised the surplus for the period of AUS \$29.4m (£10.6m). In the year ended 31 December 2001 the surplus for the period, extracted from the management accounts and therefore shown on the basis of the accounting policies of BUPA Australia Health prior to the acquisition, was AUS \$92.6m (£33.2m).

# Notes to the financial statements - continued

## 36 Disposals and closures

Profit on sale of business of £3.8m comprises the following:

- (i) £2.3m of deferred consideration in respect of the disposal of the Home Care business, £1.6m of which was received in 2002 and £0.7m was received in 2001;
- (ii) £0.7m of deferred consideration received in respect of the disposal of the Denplan business;
- (iii) £0.8m in respect of the disposal of the Piramal business of which £0.7m related to release of provisions for losses and £0.1m was proceeds received.

During the year the BUPA Belvedere Hospital was closed. This gave rise to closure costs of £4.8m comprising £4.0m in respect of the write-off of assets and £0.8m relating to cash expenditure. Goodwill of £1.6m arising on the original acquisition, which was previously written off to reserves, was taken to the income and expenditure account.

Other losses on disposal of businesses of £0.3m comprise the write-off of net assets.

## 37 Commitments

### (i) Capital commitments

Capital expenditure for the Group contracted at the balance sheet date, but for which no provision had been made in the financial statements amounted to £10.8m (2001: £15.5m). The Company had no capital commitments as at 31 December 2002 (2001: £nil).

### (ii) Operating leases

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

Group	2002 Land and buildings £m	2002 Other £m	2002 Total £m	2001 Land and buildings £m	2001 Other £m	2001 Total £m
Operating leases which expire						
Within one year	1.3	0.1	1.4	2.7	0.4	3.1
Between one and five years	3.1	1.6	4.7	2.0	2.1	4.1
After five years	4.8	0.2	5.0	4.2	-	4.2
	<b>9.2</b>	<b>1.9</b>	<b>11.1</b>	<b>8.9</b>	<b>2.5</b>	<b>11.4</b>

The Company had no operating lease obligations (2001: £nil).

# Notes to the financial statements - continued

## 38 Contingent liabilities

### Group

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.

### Company

The Company has guaranteed the borrowings of certain subsidiary undertakings which at 31 December 2002 amounted to £358.3m (2001: £460.1m).

In accordance with the provisions of Section 17 of the Companies (Amendment) Act 1986 of the Republic of Ireland, the Company has irrevocably guaranteed all liabilities and losses of its subsidiary companies, BUPA Ireland Limited, BUPA Ireland Services Limited and BUPA Ireland Health Services Limited, in respect of the financial years ending 31 December 2002, 2003 and 2004 as referred to in Section 5(c) of that Act, for the purposes of enabling those subsidiaries to claim exemption from the requirement to file their own financial statements.

## 39 Related party transactions

No Director had any material interest in any contracts with Group companies at the end of 2002 or at any time during the year. There were no material transactions during the year with any other related parties, as defined by Financial Reporting Standard No 8: Related Party Disclosures (FRS 8).

## 40 Post balance sheet events

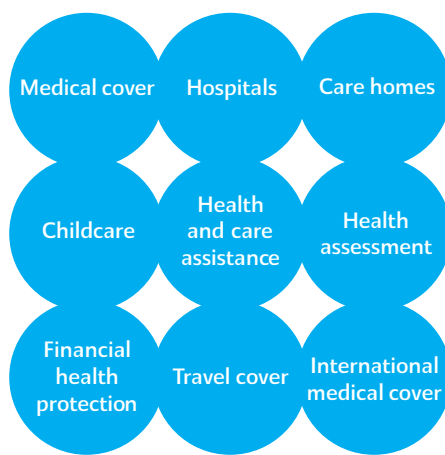
On 28 February 2003 the Group paid AUS \$557.9m (£211.6m) in respect of the deferred consideration for BUPA Australia Health (see notes 31 and 35).

## Five year financial summary

	2002 £m	2001 (Restated) £m	2000 (Restated) £m	1999 (Restated) £m	1998 (Restated) £m
<b>Income and expenditure account</b>					
Health insurance premiums					
General business	1,814.7	1,511.2	1,295.7	1,141.8	1,008.7
Long-term business	12.1	11.2	10.2	26.4	78.3
	<b>1,826.8</b>	<b>1,522.4</b>	<b>1,305.9</b>	<b>1,168.2</b>	<b>1,087.0</b>
Health and care provision turnover					
Hospitals and medical services	569.7	496.1	438.8	399.7	368.6
Care services	418.0	384.8	385.2	363.5	330.8
	<b>987.7</b>	<b>880.9</b>	<b>824.0</b>	<b>763.2</b>	<b>699.4</b>
	<b>2,814.5</b>	<b>2,403.3</b>	<b>2,129.9</b>	<b>1,931.4</b>	<b>1,786.4</b>
Operating surplus before goodwill and investment and financing	176.7	137.5	110.7	55.4	43.6
Goodwill					
Health insurance	(7.6)	(2.1)	(1.9)	(1.9)	-
Health and care provision	(9.1)	(7.5)	(5.3)	(4.1)	(0.2)
	<b>(16.7)</b>	<b>(9.6)</b>	<b>(7.2)</b>	<b>(6.0)</b>	<b>(0.2)</b>
Operating surplus before investment and financing	160.0	127.9	103.5	49.4	43.4
Investment and financing	(52.1)	(37.5)	(17.1)	(0.1)	0.4
Operating surplus before other (charges)/income	107.9	90.4	86.4	49.3	43.8
Other (charges)/income	(4.3)	1.5	(21.0)	(2.6)	(1.9)
Surplus on ordinary activities before taxation	103.6	91.9	65.4	46.7	41.9
Tax on surplus on ordinary activities	(48.7)	(38.5)	(26.4)	(13.8)	(10.5)
Surplus on ordinary activities after taxation	54.9	53.4	39.0	32.9	31.4
Minority interest	0.5	(0.5)	(0.3)	(1.7)	(0.8)
Surplus for the financial year	55.4	52.9	38.7	31.2	30.6
<b>Statement of total recognised gains and losses</b>					
Surplus for the financial year	55.4	52.9	38.7	31.2	30.6
Property revaluation	80.0	-	150.1	31.7	37.3
Exchange adjustments	5.1	(3.6)	3.9	(11.4)	(2.1)
	<b>140.5</b>	<b>49.3</b>	<b>192.7</b>	<b>51.5</b>	<b>65.8</b>
<b>Reserves</b>					
Gross reserves	1,390.0	1,249.5	1,200.2	1,007.5	956.0
Cumulative goodwill written off	(269.2)	(270.8)	(280.4)	(280.4)	(280.4)
	<b>1,120.8</b>	<b>978.7</b>	<b>919.8</b>	<b>727.1</b>	<b>675.6</b>

Comparative amounts for 1998 to 2001 inclusive have been restated to reflect accounting policy changes adopted in 2002 in respect of FRS 19. Comparative amounts for 1998 have been restated to accord with the accounting policy changes adopted in 1999.





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