Bupa Finance plc: half year statement for the six months ended 30 June 2016

MODEST GROWTH IN CHALLENGING MARKET CONDITIONS

HIGHLIGHTS

- Revenue £5.3bn (2015 HY: £5.0bn), up 7% at constant exchange rates (CER)[1]; up 8% at actual exchange rates (AER) (2015 HY: £4.9bn)
- Underlying profit[2] before taxation £303.8m, up 2% at CER (2015 HY: £298.4m); up 3% at AER (2015 HY: £295.3m)
- Statutory profit before taxation £185.7m, down 38% at AER (2015 HY: £297.5m) impacted by the planned early redemption of a £235m legacy securitisation, enabling lower funding costs in the future
- 28.2m customers[3], up 11%, including 7.1m from joint ventures and associates (2015 HY: 25.3m, 2015 FY: 32.2m)
- Net cash flow from operations of £547.0m, up 14% at AER (2015 HY: £480.2m)

Performance overview

In the first half of 2016, we remained focused on delivering value for money and providing great service and care to our customers. We have delivered modest growth in profitability despite challenging economic conditions in our key markets.

The immediate impact on Bupa Finance plc's financial position following the EU referendum in June has been limited. While there will be some operational and legal impacts, it is too early to conclude how the Leave vote will affect our underlying businesses and employees. We will continue to monitor the situation closely.

Looking forward, we currently anticipate modest growth for the full year, with continued emphasis on deepening our relationships with our customers, combined with robust financial management.

Market Unit performance

- Revenue growth in most of our Market Units: Australia and New Zealand (up 8%); the UK (up 8%); Spain and Latin America (up 7%); and International Development Markets (up 12%).
- Underlying profit growth in Australia and New Zealand (up 10%), the UK (up 24%) and International Development Markets (up 5%). Underlying profit down in Spain and Latin America (down 4%) mainly driven by the negative impact of the Free Choice Act affecting the Public Private Partnership (PPP) in Valencia[4].
- Revenue down 3% and underlying profit down 40% in Bupa Global, reflecting investment in capability and infrastructure and 2013 decision to exit non-strategic markets.

Operational highlights

- Continued expansion in dental, having increased the number of centres in Australia and New Zealand by nine to 239, in Spain and Latin America by eight to 221, and in the UK by four to 43.
- Opened four new care homes in Australia, one in New Zealand, and one in Spain. Integrated five care homes acquired from Hadrian Healthcare Limited in the UK in December 2015.
- Launched new jointly-branded international private medical insurance (IPMI) products with Blue Cross Blue Shield Association in the UK, France, Guernsey, Jersey, Gibraltar, the Dominican Republic, and Bolivia.
- 100% ownership of Bupa Chile (from 56.4% at 2015 half year), and increased ownership of Max Bupa in India to 49% (from 26%).

[1] Constant Exchange Rates (CER) are used to aid comparison. All figures presented are CER unless otherwise stated.
[2] Underlying profit is based on profit before taxation expense adjusted to reflect trading performance only (for further details of non-underlying profit items, see the Financial Review). Total Group underlying profit includes central expenses and net interest margin not allocated to Market Units.
[3] This reflects total customers that we have served during the period.
[4] As outlined in the 2015 Results, the Valencian Regional Department of Health introduced a new regulation; the Free Choice Act which came into force in May 2015, which allows people from the catchment area of our Manises hospital greater flexibility to choose other hospitals for primary and specialised care.

Financial position

- Bupa, which includes Bupa Finance plc and its subsidiaries, is well capitalised under the Solvency II regime, with a solvency coverage ratio of 180%
- Statutory profit adversely affected by the early redemption of a legacy securitisation, to simplify debt structure, remove complexity and reduce future financial expense charges. This has resulted in a £112.3m net expense in 2016, as planned. In future years, Bupa will benefit from a lower cost of funding.
- Leverage ratio down to 25.8% (2015 HY: 28.8%; 2015 FY: 28.9%), driven by lower borrowings alongside the increase in equity from profits and foreign exchange movements, following the weakening of sterling.
- Bupa Finance plc's senior credit ratings remain at A- stable (Fitch) and Baa2 positive (Moody's).
- Net cash generated from operating activities of £547.0m remains strong; £66.8m increase reflecting favourable timing of invoice collection and favourable foreign exchange impacts.

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About Bupa Finance plc

Bupa Finance plc (the "Company") is a company incorporated in England and Wales. The condensed consolidated half year financial statements comprise the financial results and position of the Company and its subsidiary companies (together referred to as the 'Group'). The immediate parent company of Bupa Finance plc is The British United Provident Association Limited, which is also the ultimate parent company of the Bupa Group ("Bupa"). Around 70% of Bupa's revenue is from health insurance, with the balance coming from health and care provision. This includes our 17 hospitals, 336 clinics, 453 care homes and 60 retirement villages, 565 dental centres, and 36 optical outlets[5].

We serve 32 million customers[6] in 190 countries. We employ 82,000 people, principally in the UK, Australia, Spain, Poland, New Zealand and Chile, as well as Saudi Arabia, Hong Kong, India, Thailand and the US.

[5] Refer to Bupa around the world on page 13 for more information.
[6] Total customers served in the twelve months to 31 December 2015.

Management review

In 2016, we have remained focused on delivering value for money and providing great service and care to our customers. We have delivered modest growth in profitability despite challenging economic conditions in our key markets.

We have refreshed Bupa's strategy, deepening our position in key markets with an increased focus and better execution. We are placing our customers front and centre and, as a service organisation, recognise that our people are central. To serve customers in the digital age, we need to be relentless in our focus on improving all aspects of the customer experience, transforming how we operate.

We see opportunity for profitable growth in our current geographies by focusing on strengthening our businesses in our chosen markets. We continue to seek to expand selectively in Asia and Latin America and leverage our partnerships to grow and innovate. We remain focused on cost-efficiency and highly disciplined in capital management.

In the first half of 2016, we have delivered revenue and underlying profit growth and maintained our strong market positions, despite the tough operating environment and increased political uncertainty in the UK, Australia and Spain.

The immediate impact on the Group's financial position following the EU referendum in June has been limited. Liquidity remains strong, our investment portfolio is largely cash-based and low risk and weaker sterling has a positive impact on our statutory profits and cash flows. There was also a small positive impact from market movements on Bupa's solvency capital coverage at the half year. While there will be some operational and legal impacts, it is too early to conclude how the Leave vote will affect our underlying businesses and employees. We continue to monitor the situation closely.

In Australia and New Zealand, underlying profit and revenue increased, mainly due to higher customer numbers, higher premiums and a stable loss ratio. Political uncertainty around July's federal election also impacted consumer and business confidence. The new coalition Government has now been formed. The Government has signalled significant changes to its Aged Care Funding Instrument which will reduce funding for high quality care for residents with complex needs[7]. The changes could impact revenue and profitability of our Aged Care Australia business and the sustainability of the wider aged care industry, which faces the increasing demands of an ageing population. In New Zealand, a pending fair wage case may also increase costs in the sector.

In the UK, revenue and profit growth has been good across all areas of the business, despite continued challenges in the market. Profit increased 24%, reflecting good customer retention and improved loss ratios, as well as the continued expansion of our dental business. The increase in Insurance Premium Tax continues to penalise our customers. We are focused on ensuring the fees charged by hospitals and consultants are fair and reasonable for the benefit of our customers. The aged care sector is challenging, with the introduction of the National Living Wage increasing staffing costs. We are in active negotiations with local authorities to ensure their fees reflect the true cost of care. On 1 July 2016, we announced the completion of the sale of Bupa Home Healthcare in the UK to Celesio, a leading provider of healthcare services to the NHS. As this transaction completed in the second half of our financial calendar, the financial impact will be reflected in our 2016 full year results.

In Spain and Latin America, we achieved good revenue and customer growth. This is despite a backdrop of political uncertainty in Spain following the second general election in June, in which no party secured a majority and a coalition government is still under negotiation. The decrease in underlying profit is mainly driven by regulatory changes affecting our Manises PPP hospital in Valencia[8], as signalled in our 2015 full year reporting.

In International Development Markets, we have delivered good revenue and profit growth and maintained strong market positions in Poland, Hong Kong, Saudi Arabia and India.

[7] Australian Government Budget 2016-17, Aged Care Provider Funding — 'Further revision of the Aged Care Funding Instrument'
[8] The Valencian Regional Department of Health introduced a new regulation; the Free Choice Act which came into force in May 2015, which allows people from the catchment area of our Manises hospital greater flexibility to choose other hospitals for primary and specialised care.

In Bupa Global, profit has been impacted by our investment in capability and infrastructure to improve the customer experience and grow our Corporate book. We have also seen the continued impact on revenue and profit of our 2013 decision to exit non-strategic markets, with a higher rate of lapses in the period.

Outlook

Looking forward, we expect challenging market conditions to continue in our key markets, but anticipate modest growth for the rest of 2016. We are focused on deepening our relationships with customers and strengthening our key market positions.

MARKET UNIT PERFORMANCE

Australia and New Zealand

	Revenue	Underlying Profit	Customers
HY 2016	£1,989.3m	£143.8m	5.3m
HY 2015 (CER)	£1,845.3m	£131.3m	5.1m
% growth (CER)	8%	10%	4%

Australia and New Zealand generated good revenue growth across all business lines during the reporting period, up 8%, in a challenging and highly competitive health and care environment. This was driven mainly by the health insurance business, now Australia's largest health fund, accounting for more than 80% of the Market Unit's revenue. We have grown our market share marginally against the backdrop of slower growth in the health insurance market, which continues to face significant consumer affordability pressures and public policy headwinds. This is expected to lead to increased downgrades and discontinuances across the Australian private health insurance sector.

Our Aged Care Australia and Care Services New Zealand businesses continue to perform well, with high occupancy levels, and four new homes opened in Australia[9] and one in New Zealand[10].

Our Health Services business achieved good profit growth, particularly through the branded dental centres. Bupa's 239 centres across Australia and New Zealand make us the region's largest dental provider. We opened two optical stores in Australia and are running two private medical clinics in Sydney to explore how we can increase coordination of health and care for our customers.

We are working on important preventative health measures and joined forces with The George Institute for Global Health to develop a new 'polypill' to reduce the impact of heart disease and stroke[11].

UK

	Revenue	Underlying Profit	Customers
HY 2016	£1,479.1m	£73.4m	4.8m
HY 2015 (CER)	£1,375.0m	£59.1m	3.6m
% growth (CER)	8%	24%	33%

In the UK, revenue growth has been good across all areas of the business, despite continued challenges in the market. Revenue is up 8%, driven by the health insurance business with higher earned premiums, most notably in the Corporate and small and medium-sized enterprises (SME) segments, and strong customer retention rates.

Underlying profit growth was driven by the health insurance business, through good customer retention and improved loss ratios in the Consumer and Corporate segments, as well as the continued expansion of our dental business.

In Care Services, our acquisition of five care homes from Hadrian Healthcare Limited in December 2015 and strong sales in Richmond Witney, a retirement village currently under construction, have had a positive impact. The aged care sector continues to be challenging, with the introduction of the National Living Wage increasing staffing costs. We are continuing our disciplined approach to fee negotiations, focusing on recovering the cost of caring for our residents from local authority contracts. Occupancy is flat at almost 86%.

[9] New Bupa Aged Care homes in Australia - Queens Park, New South Wales and Clemton Park, New South Wales opened March 2016. Ballarat, Victoria opened May 2016. Rangeville, Queensland opened June 2016.
[10] New Bupa Aged Care home in New Zealand – Wattle Downs, Auckland, opened March 2016.
[11] Bupa Media Release, 15 June 2016

Bupa Cromwell Hospital maintained solid performance throughout an extensive refurbishment programme. Increased trading activity in Bupa Home Healthcare also made a positive contribution. The sale of this business to Celesio completed on 1 July, and the financial impact will be reflected in our 2016 full year results.

In Health Clinics, we opened four new dental centres in the first half of 2016, which combined with the three opened in the second half of 2015 brings our total to 43. We have also enhanced our range of health assessments.

Spain and Latin America

	Revenue	Underlying Profit	Customers
HY 2016	£1,034.9m	£62.2m	4.8m
HY 2015 (CER)	£964.8m	£64.9m	4.2m
% growth/(decline) (CER)	7%	(4)%	14%

In Spain and Latin America, revenue and customer growth has been good. Revenue was driven mainly by increased customer numbers in both Sanitas Seguros and our dental businesses, led by the addition of eight dental centres. Bupa Chile has also contributed to increased revenue through higher premiums from the Isapre business[12] and increased outpatient numbers in clinics. Hospitals and clinics in Spain produced good revenue growth.

There was a decrease in profit, driven by the impact of the Free Choice Act on our Manises PPP hospital in Valencia, and the increased investment in customer acquisition and retention.

Record occupancy levels were achieved in Sanitas Mayores, our Spanish aged care business, up 2% to 95%, in comparison with HY 2015. Jardines de Sabatini, a new care home in Madrid, opened with occupancy levels already at 60%.

Clínica Bupa Santiago in Chile, set to be Bupa's largest hospital in the country with 460 beds, is under construction and is expected to be completed by early 2018, with some services expected to be provided towards the end of 2017.

International Development Markets

	Revenue	Underlying Profit	Customers
HY 2016	£312.4m	£22.8m	11.4m
HY 2015 (CER)	£279.7m	£21.7m	10.5m
% growth (CER)	12%	5%	9%

International Development Markets experienced higher volatility across all businesses compared to last year. Overall, revenue increased by 12% and profit grew by 5%.

Our Bupa Hong Kong insurance business and Quality HealthCare, our Hong Kong clinics business, continue to perform well. Our market position in Poland, through our LUX MED business, remains strong. We have increased walk-in customers and recently opened a flagship clinic in Warsaw to support this.

Our associate business, Bupa Arabia, is the largest health insurer in Saudi Arabia[13]. The macroeconomic environment has been affected by lower oil prices[14] impacting margins, and we have also seen increased claims and more price competition. This has been more than offset by the growth in our customer numbers,

[12] Chile's healthcare sector was partially privatised in 1981, and allowed health insurance companies, called Isapres (Instituciones de Salud Previsional) to compete for customers.
[13] Albilad Capital – Saudi Insurance Sector Q1
[14] World Bank economic data

driving an increase in underlying profit in Bupa Arabia. We are pursuing a number of new growth opportunities in the market, closely monitoring the Government's major economic reform programme[15].

This is partially offset by high claims in the health insurance business in Thailand due mainly to a very heavy flu season.

Bupa Global

	Revenue	Underlying Profit	Customers
HY 2016	£484.7m	£33.2m	1.9m
HY 2015 (CER)	£499.9m	£55.5m	1.9m
% decline (CER)	(3)%	(40)%	Flat

In Bupa Global, underlying profit is down 40% in the first half of 2016, primarily due to investment in capability and infrastructure. This investment will strengthen our efficiency and effectiveness in sales, operations, health and benefits, and actuarial. Two key areas of investment include moving from a centralised to regional distribution model in our priority markets of Greater China and the Middle East, as well as investment in sales capability to grow our Corporate book. In 2013 we took the decision to exit non-strategic markets; this continues to contribute to significantly higher lapses in some areas, which is likely to continue into the second half.

In our priority markets, new business has grown by 83% since 2015 half year; this is driven by strong performance in Greater China, the Middle East and North America, with the loss ratio of our priority markets in line with 2015.

Some corporate clients have faced economic pressures, particularly in the oil and gas sector, reducing the Corporate and SME books. This has had a significant impact on earned revenue in some regions and remains a key area of focus for 2016. However, there has been record new business performance in the Corporate book in 2016.

The bancassurance partnership with Hang Seng Bank in Hong Kong, and International Development Markets, has been a key contributor to new business growth and continues to deliver above expectations.

The investment in Highway to Health is performing well, with increased year-on-year profit. We have strengthened our global partnership with Blue Cross Blue Shield Association[16], by jointly branding IPMI products, Blue Cross Blue Shield Global[17]. So far this year these products have been introduced in the UK, France, Guernsey, Jersey, Gibraltar, the Dominican Republic and Bolivia.

[15] Saudi Council of Economic and Development Affairs
[16] Blue Cross Blue Shield Association is a national federation of 36 independent, community-based and locally operated Blue Cross and Blue Shield companies that collectively provide healthcare coverage for more than 106 million members. Bupa Global is an independent licensee of the Blue Cross Blue Shield Association.
[17] Restrictions and limitations apply in some areas. See www.bupaglobalaccess.com for more information.

FINANCIAL REVIEW

Summary of results

The Group's statutory profit before taxation was £185.7m (HY 2015: £297.5m), with underlying profit[18] before taxation of £303.8m (HY 2015: £295.3m) at actual exchange rates (AER). The statutory profit reflects a slight increase in underlying profit being offset by the net loss on non-underlying items in 2016 compared to a net gain in the prior year, mainly due to the net expense on the early redemption of the legacy £235m securitisation. Profit exceeds that of Bupa as there are expenses incurred by the ultimate parent company which are not included within the Group.

Consolidated total revenues were up 7% at constant exchange rates (CER) with growth achieved through expansion and increased customer numbers in all Market Units except Bupa Global. Underlying profit increased by 2% at CER, mainly driven by increased numbers of members and higher revenue in the UK and Australia and New Zealand and lower net interest expense following the securitisation redemption. Underlying profit was higher in International Development Markets due to increased customers, particularly in Bupa Arabia, partially offset by a high level of claims experienced in Thailand. This was partially offset by challenging conditions in the other Market Units with Bupa Global reflecting investment in capability and infrastructure and the 2013 decision to exit non-strategic markets. Spain and Latin America was negatively impacted by the Free Choice Act affecting the PPP in Valencia.

Operating segments at constant exchange rates:

	Australia and New Zealand		UK		Spain and Latin America Domestic		International Development Markets		Bupa Global		Total	
Six months ended 30 June	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
External revenues for reportable segments	1,989.3	1,845.3	1,479.1	1,375.0	1,034.9	964.8	312.4	279.7	484.7	499.9	5,300.4	4,964.7
% Variance to HY 2015	*8%*		*8%*		*7%*		*12%*		*(3)%*		*7%*	
Net reclassification to other expenses or financial income and expense											(0.5)	(0.5)
Consolidated total revenues												
% Variance to HY 2015												
Underlying profit for reportable segments	143.8	131.3	73.4	59.1	62.2	64.9	22.8	21.7	33.2	55.5	335.4	332.5
% Variance to HY 2015	*10%*		*24%*		*(4)%*		*5%*		*(40)%*		*1%*	
Central expenses and net interest margin											(31.6)	(34.1)
Consolidated underlying profit before taxation											303.8	298.4
% Variance to HY 2015												

Following the result of the EU referendum, sterling weakened considerably against the major currencies the Group trades in. The impact of the EU referendum on the half year segmental financial performance was minimal as these are based on year to date average exchange rates.

Currency	**HY 2016**	**HY 2015**	**% Change**
AUD average rate	1.9548	1.9491	0%
AUD closing rate	1.7818	2.0399	(13)%
EUR average rate	1.2838	1.3659	(6)%
EUR closing rate	1.1982	1.4099	(15)%
USD average rate	1.4330	1.5239	(6)%
USD closing rate	1.3268	1.5725	(16)%

[18] Underlying profit is defined as profit before taxation adjusted to remove amortisation and impairment of intangible assets arising on business combinations, impairment of goodwill, net property revaluation gains or losses, realised and unrealised foreign exchange gains and losses, gains or losses on return seeking assets, profits or losses on the sale of businesses and fixed assets, restructuring costs, transaction costs on acquisitions and disposals and one-off non trading items.

After the impact of foreign exchange is considered, notably a strengthening of the euro and US dollar compared with sterling, underlying profit increased by 3% at AER.

Summary of results (AER) Six months ended 30 June	2016 £m	2015 £m
Total revenues	5,299.9	4,916.6
Underlying profit before taxation	303.8	295.3
Non-underlying items	(118.1)	2.2
Profit before taxation	185.7	297.5
Taxation	(47.1)	(58.8)
Profit for the period	**138.6**	**238.7**

Non-underlying profit items

In order to reflect trading performance in a consistent manner year on year, a number of non-trading items that limit comparability are removed from the Group's reported profit to arrive at underlying profit. These items are presented in the table below:

Non-underlying profit items (AER) Six months ended 30 June	2016 £m	2015 £m
Amortisation of intangible assets arising on business combinations	(22.9)	(24.7)
Transaction costs on acquisitions and disposals	(1.1)	(0.6)
Realised and unrealised foreign exchange loss	(0.8)	(9.1)
Net property revaluation gains	3.6	6.6
Net loss on disposal of fixed assets	(0.8)	(0.8)
Net loss on disposal of businesses	(1.5)	-
Gains on return-seeking assets, net of hedging	17.7	6.8
Deferred consideration in relation to sale of Bupa Ireland Limited	-	24.1
Early termination of secured loans	(112.3)	-
Other	-	(0.1)
	(118.1)	2.2

Non-underlying items for the six months to 30 June 2016 resulted in a net loss compared to a net gain in the six months to 30 June 2015, primarily driven by the net loss of £112.3m on the redemption of the secured loan notes. This comprised of the early redemption of the notes (£151.6m) and profit on early termination of the zero coupon deposit (£39.3m) which provided security for repayment of the notes. 2015 benefitted from the £24.1m receipt of deferred consideration in relation to the 2007 sale of Bupa Ireland Limited.

The gains on return-seeking assets (£17.7m) were driven by the corporate bond and emerging market debt exposure. The global corporate bond market benefitted from the sharp decline in developed market sovereign bond yields in response to expectations of less aggressive interest rate changes in the US and further monetary policy easing in the euro area. The emerging market debt fund performed strongly due to the rebound in oil prices and reduced concerns over key emerging market economies.

Taxation

The Group's effective tax rate for the period was 25.4% (HY 2015: 19.8%), which is higher than the UK corporation tax rate of 20%, mainly due to the the Group's profits arising in jurisdictions with a higher rate of corporate income tax. The rate was lower for the six months to 30 June 2015 due to tax savings recognised in the period.

Funding

The Group manages funding prudently to secure a sustainable platform for continued growth. A key element of the Group's funding policy is to target an A-/A3 senior credit rating for the Group, the main issuer of Bupa debt.

There have been no changes to the ratings since 31 December 2015: the Group is currently rated A- (stable) and Baa2 (positive) by Fitch and Moody's respectively.

The £800m committed bank facility was drawn down by £90m at 30 June 2016 in addition to £6.4m of outstanding letters of credit required for general business purposes.

An additional committed bank facility of £250m was agreed in June 2016. This new facility matures in December 2017 with an option to extend for an additional six months thereafter. This new facility will help ensure that the Group continues to maintain its strong liquidity position, as well as remain within its liquidity risk appetite – even after the repayment of the Group's senior £350m bond which took place on 4 July 2016. The facility was undrawn at 30 June 2016.

Leverage at the half year was 25.8% (FY 2015: 28.9%). This is largely due to lower borrowings alongside the increase in equity as a result of profits in the period and foreign exchange translation movements, following the weakening of sterling. Financial covenant coverage remains considerably within levels required in the Group's bank facilities.

In 2000 the Group issued £235m secured notes in two tranches with coupons of 6.3% and 7.5% respectively. On 1 April 2016, the Group took the opportunity to early redeem both tranches of the securitisation, which were due to mature in 2029 and 2031. This redemption reduced the complexity and cost inherent in maintaining the debt in place. It also reduced the ongoing interest cost of the Group's debt. A zero coupon bond which was in place to support the ultimate repayment of one of the tranches of debt was simultaneously unwound and helped to fund the redemption.

Cash flow

Six months ended 30 June	2016 £m	2015 £m
Net cash from operating activities	**547.0**	480.2
Net cash used in investing activities		
- Acquisition of subsidiaries, net of cash acquired	(23.1)	(18.7)
- Capital expenditure[19]	(159.5)	(152.8)
- Financial Investments and deposits with credit institutions	198.6	(316.3)
- Receipt of deferred consideration on disposal of Bupa Ireland Limited	-	24.1
- Disposal of equity accounted investments	0.1	-
- Acquisition of non-controlling interests in subsidiary companies	(93.9)	-
- Other	12.2	32.6
	(65.6)	(431.1)
Net cash used in financing activities	**(423.4)**	(63.4)
Net increase / (decrease) in cash and cash equivalents	**58.0**	(14.3)
Cash and cash equivalents at beginning of year	1,185.6	1,186.6
Effect of exchange rate changes	122.3	(44.6)
Cash and cash equivalents at six months ended 30 June	**1,365.9**	1,127.7

Net cash generated from operating activities for the six months to 30 June 2016 has increased by £66.8m compared to the same period in 2015. This reflects the impact of Market Unit working capital cash flows, including higher receipts in Spain and Latin America.

[19] Capital expenditure includes the purchase of property, plant and equipment, intangibles and investment properties

Cash used in investing activities has decreased by £365.5m compared to half year 2015. Financial investments and deposits with credit institutions withdrawals were made primarily as a result of a change in portfolio mix to increase other financial investments and to make cash available to repay interest bearing liabilities, partly offset by £128.5m cash received on sale of the zero coupon bond that provided security for repayment of the £235m secured loan notes. This is offset by the Group acquiring a further 26.3% interest in Bupa Chile for £93.1m for full ownership in 2016. HY 2015 also benefitted from a deferred consideration of £24.1m on the 2007 disposal of Bupa Ireland Limited.

Cash outflows from financing activities in the first half of 2016 have increased by £360m compared to half year 2015. The variance to the prior period is due to the £381.6m repayment of the aforementioned secured loan notes. Offsetting this, the additional revolving credit facility has been drawn down by £90m in the period. Payments to hedging instruments of £24.4m were driven by the weakening of sterling.

The Group has maintained a strong cash position throughout the period with favourable foreign exchange impacts of £166.9m.

Cash and cash equivalents, in addition to the Group's financial investments and longer term deposits, continue to be managed conservatively, in line with a clearly articulated risk appetite. The Group actively manages its counterparty exposures and cash is only invested with counterparties rated A/A2 or higher, unless approved by the relevant investment committee of Bupa.

The Group has a preference for low risk asset classes, with modest holdings of corporate and other bonds, therefore it is not significantly exposed to market movements.

Solvency

Bupa, which includes Bupa Finance plc and its subsidiaries, monitors its solvency capital on an ongoing basis and has continued to maintain regulatory capital well in excess of its requirements.

Since 1 January 2016, Bupa has been subject to the Solvency II Directive which requires Bupa to hold sufficient eligible Own Funds (Own Funds) to cover its Solvency Capital Requirement (SCR) which takes account of all the risks in Bupa, including those related to non-insurance business. The estimated Solvency II surplus capital as at 30 June 2016 was £1.5bn[20], compared to £1.3bn at 31 December 2015. The Solvency ratio was 180% at 30 June 2016 (31 December 2015: 178%).

[20] The Solvency II Capital Position (Own Funds and Solvency Capital Requirement) and related disclosures are estimated values.

BUSINESS RISKS AND UNCERTAINTIES

The principal risks and uncertainties faced by the Group are set out in the Risks and Uncertainties section of the Group Directors' Report and Financial Statements 2015.

The Group maintains a well established process for identifying and managing all business risks, including all aspects of operational risk, such as conduct risk, cyber security risk, and clinical risk. This also includes effective oversight of the risks associated with the change programmes underpinning delivery of the Group's strategy.

The most significant quantifiable risks facing the Group are property risk and insurance risk, reflecting the significant property portfolio, mainly care homes, owned or leased by the Group and the potential volatility arising from claims patterns in our insurance businesses. Movements in property markets aside, exposure to investment market fluctuations is relatively low, reflecting the Group's conservative investment strategy.

Economic conditions may impact trading performance in the Group's insurance and care services businesses, reducing demand for insurance and constraining public support for health and care services. In many markets in which the Group operates, the decisions of governments and regulators on issues such as tax relief, the pricing and regulation of health insurance, as well as care services fees and referrals, or national minimum wage levels, continue to present a risk to some Group businesses. To mitigate this risk, the Group's businesses continue to develop differentiated products and services, focus on customer retention and work to control costs carefully.

The immediate impact on the Group's financial position following the EU referendum in June has been limited. Liquidity remains strong, the Group's investment portfolio is largely cash-based and low risk, and there was a small positive impact of market movements on Bupa's solvency capital coverage at the half year. Given the Group's globally diversified portfolio of businesses and in particular its significant euro and Australian dollar denominated revenues, a weaker sterling has a positive impact on underlying and statutory profits and cash flows. The Group is closely monitoring the implications of the UK's vote to leave the EU and is analysing potential business, employee, customer, legal and regulatory impacts on its operations in the UK and other subsidiaries in the EU. The Group's head office, the UK Market Unit and key operations of its Bupa Global Market Unit are based and regulated in the UK, and the Group's European subsidiaries (including the Group's key operations in Spain and Poland) are incorporated and regulated in their relevant markets. The Group is monitoring developments and note that the negotiations to agree the new terms of the future relationship between the UK and the EU are likely to take a number of years.

The Group faces competition in its insurance and healthcare businesses, which can affect customer growth and retention and erode margins. A lack of competition among hospitals and other suppliers can also lead to higher claims costs for insurance businesses. In recent times, the regulatory focus applied to the Group, and other companies operating within regulated markets, has continued to increase.

Therefore, in continuing to monitor and manage the Group's risks, the Group seeks to ensure that the evolving expectations of its customers, investors and regulators continue to be met.

BUPA AROUND THE WORLD

Bupa is organised across five Market Units:

Australia and New Zealand

- *Bupa Health Insurance*, a leading health insurance provider in Australia, which also offers health insurance for overseas workers and visitors.
- *Bupa Health Services*, a health provision business, which comprises Bupa Dental, Bupa Optical, Bupa Medical Visa Services, Bupa Medical TeleHealth and Bupa Medical GP Clinics.
- *Bupa Aged Care Australia*, the largest privately-owned residential aged care provider, caring for almost 11,000[21] residents each year across 70 homes.
- *Bupa Care Services New Zealand*, a leading aged care provider, caring for around 24,000[21] people a year in 60 homes, 32 retirement villages, seven rehabilitation sites and through its personal medical alarm network.

UK

- *Bupa Health Funding*, offering health insurance and health funding products.
- *Bupa Care Services*, caring for around 43,000[21] people each year in 283 homes and 27 retirement villages.
- *Bupa Health Clinics,* wellness centres, clinics, occupational health services and dental clinics.
- *Bupa Home Healthcare*[22], providing out-of-hospital healthcare services to around 40,000[21] patients.
- *Bupa Cromwell Hospital*, complex care hospital in London, providing care for insured, self-pay and international patients.

Spain and Latin America

- *Sanitas Seguros*, the second largest health insurance provider in Spain.
- *Sanitas Hospitales and New Services*, four private hospitals, 34 private medical clinics and two PPPs in Spain.
- *Sanitas Dental*, dental insurance services through 184 centres and third-party networks in Spain.
- *Sanitas Mayores (previously known as Sanitas Residencial)*, caring for around 9,000[21] people every year in 39 care homes and three day care centres in Spain.
- *Bupa Chile*, a leading health insurer and provider with three hospitals and 37 medical clinics.

International Development Markets

- *Bupa Arabia,* an associate company in which Bupa has a 26.25% stake, and the largest health insurance business in Saudi Arabia.
- *LUX MED,* the largest private healthcare business in Poland operating in health funding and provision.
- *Max Bupa*, a 49:51 associate between Bupa and Max India Limited (increased from 26% ownership in June 2016), offering private medical insurance.
- *Bupa Hong Kong*, a leading specialist private health insurer in Hong Kong.
- *Quality HealthCare*, a leading private clinic network in Hong Kong.
- *Bupa Thailand,* a leading specialist health insurer.
- *Bupa China,* a representative office in China.

Bupa Global

International health insurance, travel insurance and medical assistance provided worldwide to individuals, small businesses and global corporate customers. Five regions:

- *Bupa Global Business Unit, oversees the regional operations in Greater China, the Middle East and Rest of the World (Africa, South East Asia and Europe).*
- *Bupa Global Latin America, the largest provider of international health insurance in Latin America.*
- *Bupa Global North America, responsible for Bupa's (49%) investment in Highway to Health, Inc. in the US and the strategic global partnership with the Blue Cross Blue Shield® (BCBS) Association, which created the largest combined healthcare provider network ever formed in the IPMI market.*

[21] For the year ended 31 December 2015.
[22] On 1 July 2016 Bupa Home Healthcare was sold to Celesio.

Bupa Finance plc

(Company No. 2779134)

Condensed consolidated half year financial statements (unaudited)

Six months ended 30 June 2016

BUPA FINANCE PLC

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

for the six months ended 30 June 2016

	Notes	For six months ended 30 June 2016 £m	For six months ended 30 June 2015 £m	For year ended 31 December 2015 £m
Revenues				
Gross insurance premiums		**3,762.5**	3,543.8	7,059.0
Premiums ceded to reinsurers		**(25.4)**	(23.6)	(48.6)
Net insurance premiums earned		**3,737.1**	3,520.2	7,010.4
Revenues from insurance service contracts		**11.1**	20.5	42.6
Care, health and other revenues		**1,551.7**	1,375.9	2,775.4
Total revenues	2	**5,299.9**	4,916.6	9,828.4
Claims and expenses				
Insurance claims incurred		**(2,994.2)**	(2,723.6)	(5,505.8)
Reinsurers' share of claims incurred		**20.0**	18.5	37.1
Net insurance claims incurred		**(2,974.2)**	(2,705.1)	(5,468.7)
Share of post-taxation results of equity accounted investments		**8.0**	3.7	22.4
Other operating expenses		**(2,041.9)**	(1,922.9)	(3,716.5)
Impairment of goodwill		-	-	(114.1)
Other income and charges	3	**(5.4)**	23.4	(40.6)
Total claims and expenses		**(5,013.5)**	(4,600.9)	(9,317.5)
Profit before financial income and expense		**286.4**	315.7	510.9
Financial income and expense				
Financial income	4	106.2	40.2	68.4
Financial expense	5	(206.9)	(58.4)	(117.4)
Net financial expense		**(100.7)**	(18.2)	(49.0)
Profit before taxation expense		**185.7**	297.5	461.9
Taxation expense	6	**(47.1)**	(58.8)	(112.6)
Profit for the financial period		**138.6**	238.7	349.3
Attributable to:				
Bupa Finance plc		**138.1**	235.9	349.3
Non-controlling interests		**0.5**	2.8	-
Profit for the financial period		**138.6**	238.7	349.3

BUPA FINANCE PLC
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
for the six months ended 30 June 2016

	For six months ended 30 June 2016 £m	For six months ended 30 June 2015 £m	For year ended 31 December 2015 £m
Profit for the financial period	**138.6**	238.7	349.3
Other Comprehensive Income / (Expense)			
Items that will not be reclassified to the Income Statement			
Remeasurement (losses) / gains on pension schemes	**(0.7)**	0.5	5.9
Unrealised losses on revaluation of property	**(2.0)**	-	(84.6)
Taxation (expense) / credit on income and expenses recognised directly in Other Comprehensive Income	**(0.6)**	(0.1)	19.3
Items that may be reclassified subsequently to the Income Statement			
Foreign exchange translation differences on goodwill	**241.8**	(117.8)	(96.0)
Other foreign exchange translation differences	**362.4**	(176.7)	(89.3)
Net (loss) / gain on hedge of net investment in overseas subsidiary companies	**(62.8)**	24.2	8.5
Change in fair value of underlying derivative of cash flow hedge	**0.9**	1.1	1.2
Foreign exchange reserve on disposal of subsidiary	**2.1**	-	(4.1)
Taxation (expense) / credit on income and expenses recognised directly in Other Comprehensive Income	**(0.1)**	0.5	(0.4)
Other Comprehensive Income / (Expense) for the period, net of taxation	**541.0**	(268.3)	(239.5)
Total Comprehensive Income / (Expense) for the period	**679.6**	(29.6)	109.8
Attributable to:			
Bupa Finance plc	**669.2**	(28.3)	115.3
Non-controlling interests	**10.4**	(1.3)	(5.5)
Total Comprehensive Income / (Expense) for the period	**679.6**	(29.6)	109.8

BUPA FINANCE PLC

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

as at 30 June 2016

	Notes	**At 30 June 2016 £m**	At 30 June 2015 £m	At 31 December 2015 £m
Non-current assets				
Intangible assets	9	**3,167.8**	2,885.1	2,832.2
Property, plant and equipment	10	**3,051.7**	2,803.7	2,813.6
Investment property		**338.7**	230.3	270.7
Equity accounted investments		**269.7**	216.7	238.0
Financial investments	14	**915.6**	750.8	831.9
Derivative assets		**61.1**	54.4	51.3
Assets arising from insurance business	7	**0.1**	0.4	0.2
Deferred taxation asset		**0.7**	0.7	2.5
Trade and other receivables		**112.6**	97.8	96.9
Restricted assets	8	**45.2**	41.0	45.1
Post employment benefit net assets	12	**4.9**	2.7	5.0
		7,968.1	7,083.6	7,187.4
Current assets				
Financial investments	14	**1,301.2**	1,481.0	1,356.4
Derivative assets		**23.0**	8.7	6.0
Inventories		**101.6**	67.0	82.9
Assets arising from insurance business	7	**1,543.4**	1,369.6	980.5
Trade and other receivables		**624.4**	608.8	541.8
Restricted assets	8	**2.5**	12.7	10.8
Cash and cash equivalents	8	**1,365.9**	1,127.7	1,185.6
		4,962.0	4,675.5	4,164.0
Total assets		**12,930.1**	11,759.1	11,351.4
Non-current liabilities				
Subordinated liabilities	15	**(916.5)**	(909.5)	(909.5)
Other interest bearing liabilities	16	**(602.7)**	(1,081.8)	(726.8)
Derivative liabilities		**(17.2)**	(69.9)	(10.3)
Provisions under insurance contracts issued	11	**(31.0)**	(26.4)	(27.6)
Post employment benefit net liabilities	12	**(8.2)**	(10.9)	(8.2)
Provisions for liabilities and charges		**(28.7)**	(21.3)	(22.1)
Deferred taxation liabilities		**(184.2)**	(184.8)	(167.6)
Other payables		**(17.6)**	(7.3)	(12.8)
		(1,806.1)	(2,311.9)	(1,884.9)
Current liabilities				
Subordinated liabilities	15	**(19.9)**	(19.9)	(9.9)
Other interest bearing liabilities	16	**(448.5)**	(65.4)	(427.9)
Derivative liabilities		**(59.5)**	(2.2)	(22.1)
Provisions under insurance contracts issued	11	**(3,082.1)**	(2,708.2)	(2,227.5)
Other liabilities under insurance contracts issued		**(153.1)**	(111.5)	(72.1)
Provisions for liabilities and charges		**(75.1)**	(79.5)	(64.0)
Current taxation liabilities		**(33.0)**	(76.1)	(43.8)
Trade and other payables		**(1,536.3)**	(1,246.9)	(1,504.0)
		(5,407.5)	(4,309.7)	(4,371.3)
Total liabilities		**(7,213.6)**	(6,621.6)	(6,256.2)
Net assets		**5,716.5**	5,137.5	5,095.2
Equity				
Called up share capital		**200.1**	200.1	200.1
Property revaluation reserve		**645.8**	697.9	632.3
Income and expenditure reserve		**4,401.4**	4,329.8	4,269.8
Cash flow hedge reserve		**21.6**	20.8	20.8
Foreign exchange translation reserve		**419.0**	(185.3)	(97.3)
Equity attributable to Bupa Finance plc		**5,687.9**	5,063.3	5,025.7
Equity attributable to non-controlling interests		**28.6**	74.2	69.5
Total equity		**5,716.5**	5,137.5	5,095.2

BUPA FINANCE PLC
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
for the six months ended 30 June 2016

	Notes	**For six months ended 30 June 2016 £m**	For six months ended 30 June 2015 £m	For year ended 31 December 2015 £m
Operating activities				
Profit before taxation expense		**185.7**	297.5	461.9
Adjustments for:				
Net financial expense		**100.7**	18.2	49.0
Depreciation, amortisation and impairment		**132.6**	123.7	437.5
Deferred consideration on disposal of Bupa Ireland Limited		**-**	(24.1)	(25.5)
Other non-cash items		**21.9**	10.3	13.1
Changes in working capital and provisions:				
Increase in provisions and other liabilities under insurance contracts issued		**719.8**	661.4	104.2
Increase in assets under insurance business		**(470.7)**	(480.2)	(64.9)
Change in net pension asset / liability		**(0.2)**	(0.2)	0.5
Increase in trade and other receivables, and other assets		**(37.6)**	(72.0)	(112.2)
Increase / (decrease) in trade and other payables, and other liabilities		**(50.9)**	(19.6)	138.3
Cash generated from operations		**601.3**	515.0	1,001.9
Income taxation paid		**(62.6)**	(34.1)	(102.7)
Decrease / (increase) in cash held in restricted assets		**8.3**	(0.7)	(2.7)
Net cash generated from operating activities		**547.0**	480.2	896.5
Cash flows from investing activities				
Acquisition of subsidiary companies, net of cash acquired		**(23.1)**	(18.7)	(156.3)
Increase in equity accounted investments		**(21.5)**	(4.5)	(7.5)
Acquisition of non-controlling interests in subsidiary companies		**(93.9)**	-	-
Disposal of equity accounted investments		**0.1**	-	-
Deferred consideration on disposal of Bupa Ireland Limited		**-**	24.1	25.5
Purchase of intangible assets		**(20.3)**	(27.7)	(71.5)
Purchase of property, plant and equipment		**(123.0)**	(107.9)	(257.8)
Proceeds from sale of property, plant and equipment		**11.3**	3.5	9.2
Purchase of investment property		**(16.2)**	(17.2)	(35.0)
Disposal of investment property		**-**	0.2	0.4
Net (purchase of) / proceeds from financial investments, excluding deposits with credit institutions		**(64.7)**	44.7	108.8
Net withdrawal from / (investment into) deposits with credit institutions		**263.3**	(361.0)	(334.8)
Interest received		**22.4**	33.4	45.8
Net cash used in investing activities		**(65.6)**	(431.1)	(673.2)
Cash flow from financing activities				
Proceeds from issue of interest bearing liabilities and drawdowns on other borrowings		**166.2**	35.4	102.0
Repayment of interest bearing liabilities		**(456.4)**	(29.5)	(90.4)
Interest paid		**(53.3)**	(47.4)	(112.0)
(Payments for) / receipts from hedging instruments		**(24.4)**	29.4	33.4
Dividends paid		**(53.6)**	(48.1)	(138.3)
Dividends paid to non-controlling interests		**(1.9)**	(3.2)	(3.6)
Net cash used in financing activities		**(423.4)**	(63.4)	(208.9)
Net increase / (decrease) in cash and cash equivalents		**58.0**	(14.3)	14.4
Cash and cash equivalents at beginning of period		**1,185.6**	1,186.6	1,186.6
Effect of exchange rate changes		**122.3**	(44.6)	(15.4)
Cash and cash equivalents at end of period	8	**1,365.9**	1,127.7	1,185.6

BUPA FINANCE PLC
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
for the six months ended 30 June 2016

	Property revaluation reserve £m	Income and expenditure and other reserve £m	Cash flow hedge reserve £m	Foreign exchange translation reserve £m	Total attributable to Bupa Finance plc £m	Non-controlling interests £m	Total equity £m
For the six months ended 30 June 2016							
At beginning of period	632.3	4,269.8	20.8	(97.3)	4,825.6	69.5	4,895.1
Retained profit for the period	-	138.1	-	-	138.1	0.5	138.6
Other Comprehensive Income / (Expense)							
Unrealised loss on revaluation of property	(2.0)	-	-	-	(2.0)	-	(2.0)
Realised revaluation profit on disposal of property	(6.6)	6.6	-	-	-	-	-
Remeasurement loss on pension schemes	-	(0.7)	-	-	(0.7)	-	(0.7)
Foreign exchange translation differences on goodwill	-	-	-	241.8	241.8	-	241.8
Other foreign exchange translation differences	17.1	0.2	-	335.2	352.5	9.9	362.4
Net loss on hedge of net investment in overseas subsidiary companies	-	-	-	(62.8)	(62.8)	-	(62.8)
Change in fair value of underlying derivative of cash flow hedge	-	-	0.9	-	0.9	-	0.9
Foreign exchange reserve on disposal of subsidiary	-	-	-	2.1	2.1	-	2.1
Taxation credit / (expense) on income and expense recognised directly in Other Comprehensive Income	5.0	(5.6)	(0.1)	-	(0.7)	-	(0.7)
Other Comprehensive Income for the period, net of taxation	13.5	0.5	0.8	516.3	531.1	9.9	541.0
Total Comprehensive Income for the period	13.5	138.6	0.8	516.3	669.2	10.4	679.6
Dividends to equity holders of the company	-	(53.6)	-	-	(53.6)	-	(53.6)
Acquisition of non-controlling interest without a change in control	-	46.6	-	-	46.6	(49.2)	(2.6)
Liquidation of subsidiary	-	-	-	-	-	(0.2)	(0.2)
Dividends paid to non-controlling interests	-	-	-	-	-	(1.9)	(1.9)
At end of period	645.8	4,401.4	21.6	419.0	5,487.8	28.6	5,516.4
Share capital at beginning and end of period							200.1
Total equity							5,716.5
For the six months ended 30 June 2015							
At beginning of period	707.9	4,141.0	20.0	71.0	4,939.9	78.4	5,018.3
Retained profit for the period	-	235.9	-	-	235.9	2.8	238.7
Other Comprehensive Income / (Expense)							
Realised revaluation profit on disposal of property	(0.9)	0.9	-	-	-	-	-
Remeasurement gain on pension schemes	-	0.5	-	-	0.5	-	0.5
Foreign exchange translation differences on goodwill	-	-	-	(117.8)	(117.8)	-	(117.8)
Other foreign exchange translation differences	(9.9)	-	-	(162.7)	(172.6)	(4.1)	(176.7)
Net gain on hedge of net investment in overseas subsidiary companies	-	-	-	24.2	24.2	-	24.2
Change in fair value of underlying derivative of cash flow hedge	-	-	1.1	-	1.1	-	1.1
Taxation credit / (expense) on income and expense recognised directly in other comprehensive income	0.8	(0.1)	(0.3)	-	0.4	-	0.4
Other Comprehensive Income / (Expense) for the period, net of taxation	(10.0)	1.3	0.8	(256.3)	(264.2)	(4.1)	(268.3)
Total Comprehensive Income / (Expense) for the period	(10.0)	237.2	0.8	(256.3)	(28.3)	(1.3)	(29.6)
Dividends to equity holders of the company	-	(48.1)	-	-	(48.1)	-	(48.1)
Dividends paid to non-controlling interests	-	(0.3)	-	-	(0.3)	(2.9)	(3.2)
At end of period	697.9	4,329.8	20.8	(185.3)	4,863.2	74.2	4,937.4
Share capital at beginning and end of period							200.1
Total equity							5,137.5
For the year ended 31 December 2015							
At beginning of year	707.9	4,141.0	20.0	71.0	4,939.9	78.4	5,018.3
Retained profit for the year	-	349.3	-	-	349.3	-	349.3
Other Comprehensive Income / (Expense)							
Unrealised profit on revaluation of property	(84.6)	-	-	-	(84.6)	-	(84.6)
Realised revaluation profit on disposal of property	(0.2)	0.2	-	-	-	-	-
Remeasurement gain on pension schemes	-	5.9	-	-	5.9	-	5.9
Foreign exchange translation differences on goodwill	-	-	-	(96.0)	(96.0)	-	(96.0)
Other foreign exchange translation differences	(6.8)	0.1	-	(77.1)	(83.8)	(5.5)	(89.3)
Net gain on hedge of net investment in overseas subsidiary companies	-	-	-	8.5	8.5	-	8.5
Change in fair value of underlying derivative of cash flow hedge	-	-	1.2	-	1.2	-	1.2
Foreign exchange reserve on disposal of subsidiary	-	(0.4)	-	(3.7)	(4.1)	-	(4.1)
Taxation credit / (expense) on income and expense recognised directly ir recognised directly in other comprehensive income	16.0	3.3	(0.4)	-	18.9	-	18.9
Other Comprehensive Income / (Expense) for the year, net of taxation	(75.6)	9.1	0.8	(168.3)	(234.0)	(5.5)	(239.5)
Total Comprehensive Income / (Expense) for the year	(75.6)	358.4	0.8	(168.3)	115.3	(5.5)	109.8
Dividends to equity holders of the company	-	(138.3)	-	-	(138.3)	-	(138.3)
Acquisitions of subsidiary companies attributable to non-controlling interest	-	(91.1)	-	-	(91.1)		(91.1)
Dividends paid to non-controlling interests	-	(0.2)	-	-	(0.2)	(3.4)	(3.6)
At end of year	632.3	4,269.8	20.8	(97.3)	4,825.6	69.5	4,895.1
Share capital at beginning and end of period							200.1
Total equity							5,095.2

1 Financial information and basis of preparation

1.1 Basis of preparation

Bupa Finance plc (the 'Company'), is a company incorporated in England and Wales. The condensed consolidated half year financial statements of the Company as at and for the six months ended 30 June 2016 comprise those of the Company and its subsidiary companies (together referred to as the 'Group').

These condensed consolidated half year financial statements were approved by the Board of Directors of Bupa Finance plc on 3 August 2016.

These condensed consolidated half year financial statements have been prepared in accordance with Disclosure and Transparency Rules of the Financial Conduct Authority and with International Accounting Standard 34: Interim Financial Reporting, as adopted by the European Union (EU) and should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU ('IFRS').

The financial information contained in these interim results does not constitute statutory accounts of Bupa Finance plc within the meaning of Section 435 of the Companies Act 2006. Statutory accounts for Bupa Finance plc for the year ended 31 December 2015 have been delivered to the Registrar of Companies. The auditors have reported on the accounts: their report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report; and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

1.2 Going concern

Management has conducted a detailed assessment of the Group's going concern status based on its current position and forecast results. They have concluded that the Group has adequate resources to operate for the foreseeable future. In making this assessment, management have considered the discussions with the relationship banks as well as forecasts which take account of reasonably possible changes in trading performance, solvency capital and recently announced acquisitions.

Details of the Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Market Unit Overviews. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review.

The £800.0m committed bank facility was drawn down by £90.0m at 30 June 2016 in addition to £6.4m of outstanding letters of credit required for general business purposes.

An additional committed bank facility of £250.0m was agreed during June 2016. This new facility matures in December 2017 with an option, subject to bank approval, to extend for an additional 6 months thereafter. This further enhances the Group's short-term liquidity position.

1.3 Accounting estimates and judgements

The preparation of the condensed consolidated half year financial statements requires the use of certain accounting estimates and judgements that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended 31 December 2015.

1.4 Accounting policies

The accounting policies applied in the condensed consolidated half year financial statements are the same as those applied in the Group's consolidated financial statements for the year ended 31 December 2015.

1.5 Foreign Exchange

The following significant exchange rates applied during the year

	Average Rate			Closing Rate		
	At 30 June 2016	At 30 June 2015	At 31 December 2015	**At 30 June 2016**	At 30 June 2015	At 31 December 2015
Australian dollar	**1.9548**	1.9491	2.0370	**1.7818**	2.0399	2.0210
Chilean peso	**987.9677**	947.2674	1,001.2247	**875.3091**	1,004.8331	1,044.1436
Euro	**1.2838**	1.3659	1.3782	**1.1982**	1.4099	1.3560
Hong Kong dollar	**11.1319**	11.8162	11.8520	**10.2962**	12.1882	11.4186
New Zealand dollar	**2.1161**	2.0589	2.1963	**1.8626**	2.3215	2.1544
Polish zloty	**5.6098**	5.6545	5.7671	**5.2347**	5.9050	5.7834
US dollar	**1.4330**	1.5239	1.5288	**1.3268**	1.5725	1.4734

1.6 Subsequent events

On 1 July 2016, the Group announced the completion of the sale of Bupa Home Healthcare in the UK to Celesio, a leading provider of healthcare services to the NHS. The net assets of Bupa Home Healthcare at 30 June 2016 prior to disposal were £9.1m.

On 4 July 2016 £350.0m of senior unsecured bonds issued by Bupa Finance plc matured and were repaid in full.

2 Operating segments

Bupa Finance is managed through five Market Units based on geographic locations and customers. The operating segments are the same as Bupa as a whole. Management monitors the operating results of the Market Units separately to assess performance and make decisions about the allocation of resources. The segmental disclosures below are reported on a basis that is consistent with the way the business is managed and reported internally.

Reportable segments	Services and products
Australia and New Zealand	Health insurance, health assessments, health coaching, and international health cover Dental provision in Australia and New Zealand, optical care within Australia Nursing, residential and respite care in Australia and New Zealand Retirement villages and telecare services within New Zealand
UK	Health insurance, dental services, health assessments and related products Nursing, residential and respite care, and care villages Management and operation of a private hospital providing medical and ancillary services to patients Home healthcare products and services
Spain and Latin America Domestic	Health insurance and related products sold in Spain Management and operation of hospitals, clinics and dental centres in Spain providing medical and ancillary services to patients Provision of nursing, residential and respite care in Spain Health insurance and operation of outpatient diagnostic clinics, hospitals and medical laboratories in Chile and clinics in Peru
International Development Markets	Domestic health insurance and related products within Hong Kong, Thailand, China, Saudi Arabia, and India Medical subscription, health insurance, diagnostics and the operation of clinics and hospitals in Poland Diagnostics, primary healthcare and day care clinics in Hong Kong
Bupa Global	International health insurance to individuals, small businesses and corporate customers in over 190 countries, as well as provision of worldwide medical assistance services

Segmental information

	Australia and New Zealand	UK	Spain and Latin America Domestic	International Development Markets	Bupa Global	Total
	£m	£m	£m	£m	£m	£m
For the six months ended 30 June 2016						
(i) Revenues						
Total revenues for reportable segments	1,989.3	1,478.2	1,034.9	312.4	484.7	5,299.5
Inter segment income	-	0.9	-	-	-	0.9
External revenues for reportable segments	1,989.3	1,479.1	1,034.9	312.4	484.7	5,300.4
Net reclassifications to other expenses or financial income and expense						(0.5)
Consolidated total revenues						**5,299.9**
(ii) Segment result						
Underlying profit for reportable segments[1]	143.8	73.4	62.2	22.8	33.2	335.4
Central expense and net interest margin						(31.6)
Consolidated underlying profit before taxation						**303.8**
Non-underlying items:						
Amortisation of intangible assets arising on business combinations	(6.7)	(2.2)	(4.4)	(9.5)	(0.1)	(22.9)
Transaction costs on acquisitions and disposals	(0.3)	(0.8)	-	-	-	(1.1)
Realised and unrealised foreign exchange (losses) / gains	(0.5)	(0.1)	(0.8)	-	0.6	(0.8)
Net property revaluation gain	3.6	-	-	-	-	3.6
Net (losses) / gains on disposal of fixed assets	(0.9)	0.4	(0.3)	-	-	(0.8)
Net losses on disposal of businesses	-	-	-	(1.5)	-	(1.5)
Gains on return-seeking assets, net of hedging						17.7
Early termination of secured loans in UK Care No.1 Ltd						(112.3)
						(118.1)
Consolidated profit before taxation expense						**185.7**

[1] Underlying profit for reportable segments includes share of post-taxation results of equity accounted investments. International Development Markets includes Bupa Arabia and Max Bupa; Bupa Global includes Highway to Health.

2 Operating segments (continued)
Segmental information

	Australia and New Zealand £m	UK £m	Spain and Latin America Domestic £m	International Development Markets £m	Bupa Global £m	Total £m
For the six months ended 30 June 2015						
(i) Revenues						
Total revenues for reportable segments	1,852.3	1,374.2	939.8	270.2	479.7	4,916.2
Inter segment income	-	0.8	-	-	-	0.8
External revenues for reportable segments	1,852.3	1,375.0	939.8	270.2	479.7	4,917.0
Net reclassifications to other expenses or financial income and expense						(0.4)
Consolidated total revenues						**4,916.6**
(ii) Segment result						
Underlying profit for reportable segments[1]	131.9	59.1	61.6	21.4	54.0	328.0
Central expense and net interest margin						(32.7)
Consolidated underlying profit before taxation						**295.3**
Non-underlying items:						
Amortisation of intangible assets arising on business combinations	(6.8)	(2.2)	(4.1)	(9.1)	(2.5)	(24.7)
Transaction costs on acquisitions and disposals	(0.2)	(0.4)	-	-	-	(0.6)
Realised and unrealised foreign exchange (losses) / gains	(0.9)	-	(0.8)	0.2	(7.6)	(9.1)
Net property revaluation gain	6.6	-	-	-	-	6.6
Net losses on disposal of fixed assets	-	(0.1)	(0.3)	-	(0.4)	(0.8)
Gains on return-seeking assets, net of hedging						6.8
Deferred consideration in relation to the sale of Bupa Ireland Limited						24.1
Other[2]						(0.1)
						2.2
Consolidated profit before taxation expense						**297.5**

[1] Underlying profit for reportable segments includes share of post-taxation results of equity accounted investments. International Development Markets includes Bupa Arabia and Max Bupa; Bupa Global includes Highway to Health.
[2] Includes £0.1m of central foreign exchange losses.

	Australia and New Zealand £m	UK £m	Spain and Latin America Domestic £m	International Development Markets £m	Bupa Global £m	Total £m
For the year ended 31 December 2015						
(i) Revenues						
Total revenues for reportable segments	3,648.4	2,856.1	1,824.5	551.1	947.5	9,827.6
Inter segment income	-	1.7	-	-	-	1.7
External revenues for reportable segments	3,648.4	2,857.8	1,824.5	551.1	947.5	9,829.3
Net reclassifications to other expenses or financial income and expense						(0.9)
Consolidated total revenues						**9,828.4**
(ii) Segment result						
Underlying profit for reportable segments[1]	299.5	188.6	80.6	64.4	110.0	743.1
Central expense and net interest margin						(74.4)
Consolidated underlying profit before taxation						**668.7**
Non-underlying items:						
Amortisation of intangible assets arising on business combinations	(13.0)	(4.6)	(7.1)	(18.0)	(3.8)	(46.5)
Impairment of goodwill	-	(114.1)	-	-	-	(114.1)
Impairment of investment in associate	-	-	-	(0.7)	-	(0.7)
Transaction costs on acquisitions and disposals	(0.6)	(1.6)	-	(1.3)	-	(3.5)
Realised and unrealised foreign exchange gains / (losses)	0.2	(0.1)	(2.0)	0.2	(9.9)	(11.6)
Net property revaluation gains / (losses)[2]	2.3	(67.7)	3.7	-	-	(61.7)
Net (losses) / gains on disposal of fixed assets	(1.1)	(0.4)	1.4	(0.1)	(0.4)	(0.6)
Net (losses) / gains on disposal of business	-	-	(0.4)	0.3	-	(0.1)
Gains on return-seeking assets, net of hedging						7.0
Deferred consideration in relation to sale of Bupa Ireland Limited						25.5
Other[3]						(0.5)
						(206.8)
Consolidated profit before taxation expense						**461.9**

[1] Underlying profit for reportable segments includes share of post-taxation results of equity accounted investments. International Development Markets includes Bupa Arabia and Max Bupa; Bupa Global includes Highway to Health.
[2] Includes property and equipment write-down in Care Services UK of £67.8m, of which £8.7m is equipment.
[3] Includes £0.4m of central foreign exchange losses.

3 Other income and charges

	For six months ended 30 June 2016 £m	For six months ended 30 June 2015 £m	For year ended 31 December 2015 £m
Net (loss) / gain on disposal of businesses	**(1.5)**	24.1	25.4
Movement in investment in associates provision	**-**	-	(0.7)
Surplus on revaluation of property	**-**	-	3.6
Write-down of property	**(3.1)**	-	(68.2)
Net loss on disposal of property, plant and equipment	**(0.8)**	(0.7)	(0.7)
Total other income and charges	**(5.4)**	23.4	(40.6)

4 Financial income

	For six months ended 30 June 2016 £m	For six months ended 30 June 2015 £m	For year ended 31 December 2015 £m
Interest income:			
Loans and receivables	**20.6**	22.1	40.5
Investments designated as available for sale	**0.4**	-	-
Investments held to maturity	**1.1**	1.4	2.6
Investments designated at fair value through profit or loss	**1.9**	1.5	1.7
Net realised gains on financial investments designated at fair value through profit or loss	**1.2**	11.8	13.6
Realised gain on early termination of long term investment	**39.3**	-	-
Net increase / (decrease) in fair value:			
Investments designated at fair value through profit or loss	**18.5**	(3.0)	(4.4)
Investment property	**6.6**	6.6	11.6
Net foreign exchange gains/(losses)	**16.6**	(0.2)	2.8
Total financial income	**106.2**	40.2	68.4

Included within financial income is a net gain, after hedging, on the Group's return seeking asset portfolio of £17.7m (HY 2015: net gain of £6.8m, FY 2015: net gain of £7.0m). No financial investments designated at fair value through profit or loss are held for trading. A gain of £39.3m was recognised on the early termination of the financial investment which provided security against the repayment of the secured loans issued by UK Care No 1 Limited.

5 Financial expense

	For six months ended 30 June 2016 £m	For six months ended 30 June 2015 £m	For year ended 31 December 2015 £m
Interest expense on financial liabilities at amortised cost	**53.8**	56.7	113.7
Finance charges in respect of finance leases	**0.4**	0.6	1.2
Loss on early repayment of debt	**151.6**	-	-
Other financial expense	**1.1**	1.1	2.5
Total financial expense	**206.9**	58.4	117.4

A loss of £151.6m was recognised following the early redemption of the secured loans issued by UK Care No 1 Limited. This has been partially offset by a £39.3m gain (in financial income) on the early termination of the financial investment which provided security against the A1 notes.

6 Taxation expense

The Group’s effective tax rate for the period was 25.4% (HY 2015: 19.8%), which is higher than the UK corporation tax rate of 20%, mainly due to The Group’s profits arising in jurisdictions with a higher rate of corporate income tax. The rate was lower for the six months to 30 June 2015 due to tax savings recognised in the period. The Group’s effective rate was in line with the 2015 Full Year effective rate of 24.4%.

In the UK Budget on 16 March 2016, the Chancellor announced plans to reduce the corporation tax rate to 17% by 2020. These changes have not been substantively enacted as at the balance sheet date and therefore have not been reflected in these financial statements. Accordingly, the deferred tax liability at 30 June 2016 has been calculated based on the latest enacted rate of 18%.

7 Assets arising from insurance business

	At 30 June 2016 £m	At 30 June 2015 £m	At 31 December 2015 £m
Non-current			
Deferred acquisition costs	**0.1**	0.4	0.2
Total non-current assets arising from insurance business	**0.1**	0.4	0.2
Current			
Insurance debtors	**1,301.8**	1,155.0	799.8
Reinsurers' share of insurance provisions	**32.0**	19.2	4.8
Deferred acquisition costs	**115.0**	104.2	87.8
Medicare rebate	**73.7**	67.2	67.3
Risk Equalisation Trust Fund recoveries	**20.9**	24.0	20.8
Total current assets arising from insurance business	**1,543.4**	1,369.6	980.5
Total assets arising from insurance business	**1,543.5**	1,370.0	980.7

8 Cash and cash equivalents and restricted assets

	At 30 June 2016 £m	At 30 June 2015 £m	At 31 December 2015 £m
Cash at bank and in hand	**833.2**	666.7	675.7
Short-term deposits	**532.7**	461.0	509.9
Cash and cash equivalents	**1,365.9**	1,127.7	1,185.6
Non-current restricted assets	**45.2**	41.0	45.1
Current restricted assets	**2.5**	12.7	10.8
Total restricted assets	**47.7**	53.7	55.9

9 Intangible assets

	At 30 June 2016 £m	At 30 June 2015 £m	At 31 December 2015 £m
Net book value at beginning of period	**2,832.2**	3,047.5	3,047.5
Assets arising on business combinations	**30.4**	21.1	61.9
Additions	**20.3**	27.7	71.5
Amortisation for the period	**(55.6)**	(53.5)	(105.8)
Impairment loss	**-**	-	(114.1)
Disposals	**(0.3)**	(0.2)	(0.4)
Other	**1.3**	2.2	(0.6)
Foreign exchange	**339.5**	(159.7)	(127.8)
Net book value at end of period	**3,167.8**	2,885.1	2,832.2

The net book value of intangible assets comprises:

	At 30 June 2016 £m	At 30 June 2015 £m	At 31 December 2015 £m
Goodwill	**2,250.2**	2,031.5	1,977.7
Computer software	**186.6**	178.3	186.0
Customer relationships	**299.1**	288.3	284.0
Brands / Trademarks	**252.0**	225.5	252.0
Other	**179.9**	161.5	132.5
Net book value at end of period	**3,167.8**	2,885.1	2,832.2

Intangible assets of £3,167.8m (HY 2015: £2,885.1m; FY 2015: £2,832.2m) includes £731.0m (HY 2015: £675.3m; FY 2015: £668.5m) which is attributable to other intangible assets arising on business combinations (included within customer relationships, brands / trademarks and other) as follows:

	At 30 June 2016 £m	At 30 June 2015 £m	At 31 December 2015 £m
Customer relationships	**299.1**	288.3	284.0
Bed licences (within Bupa Care Services Australia)	**118.1**	98.1	102.7
Brands and trademarks	**252.0**	225.5	220.1
Licences to operate care homes	**34.6**	35.1	34.6
Customer contracts	**5.1**	8.5	6.8
Leases	**11.5**	10.2	10.7
Distribution networks	**9.4**	8.5	8.5
Present value of acquired in-force business	**1.2**	1.1	1.1
Total	**731.0**	675.3	668.5

9 Intangible assets (continued)

Goodwill impairment

Goodwill is tested at least annually for impairment in accordance with IAS 36: Impairment of assets and IAS 38: Intangible assets. As required by IAS 34: Interim financial reporting, a review of goodwill was carried out as at 30 June 2016 which resulted in no impairments.

The following table summarises goodwill by CGU:

	At 30 June 2016 £m	At 30 June 2015 £m	At 31 December 2015 £m
Australia and New Zealand			
Bupa Australia Health Insurance	**891.3**	778.4	785.7
Bupa Aged Care Australia	**272.0**	240.3	239.8
Bupa Health Services Australia	**297.5**	237.6	252.5
Bupa Care Services New Zealand	**36.5**	29.3	31.5
UK			
Bupa Care Services UK	**84.0**	190.8	84.0
Bupa Cromwell Hospital	**16.2**	16.2	16.2
Other [1]	**36.8**	20.4	23.9
Spain and Latin America Domestic			
Bupa Chile	**169.9**	147.8	142.4
Sanitas Seguros	**36.0**	26.1	29.0
Other	**5.8**	5.0	5.2
International Development Markets			
LUX MED	**221.3**	174.6	196.0
Quality HealthCare	**115.1**	97.2	103.8
Bupa Global	**67.8**	67.8	67.8
Total	**2,250.2**	2,031.5	1,977.8

[1] Majority relates to UK dental centres

10 Property, plant and equipment

	At 30 June 2016 £m	At 30 June 2015 £m	At 31 December 2015 £m
Net book value at beginning of period	**2,813.6**	2,890.3	2,890.3
Additions through business combinations	**-**	0.8	46.9
Additions	**116.7**	102.9	268.9
Depreciation charge for the period	**(73.9)**	(70.1)	(140.5)
Disposals of subsidiary companies	**(0.1)**	-	-
Disposals	**(11.7)**	(4.0)	(9.5)
Revaluations	**(4.9)**	-	(138.0)
Impairments	**-**	(0.1)	(20.1)
Other	**3.0**	(2.2)	2.2
Foreign exchange	**209.0**	(113.9)	(86.6)
Net book value at end of period	**3,051.7**	2,803.7	2,813.6

11 Provisions under insurance contracts issued

	At 30 June 2016			At 30 June 2015			At 31 December 2015		
	Gross	**Re-insurance**	**Net**	Gross	Re-insurance	Net	Gross	Re-insurance	Net
	£m	**£m**	**£m**	£m	£m	£m	£m	£m	£m
General insurance business									
Provisions for unearned premiums	**2,247.5**	**(26.4)**	**2,221.1**	2,002.9	(18.0)	1,984.9	1,570.4	(3.0)	1,567.4
Provisions for claims	**834.6**	**(4.6)**	**830.0**	705.3	(0.2)	705.1	657.1	(0.9)	656.2
Long term business									
Provisions for life insurance benefits	**31.0**	**(1.0)**	**30.0**	26.4	(1.0)	25.4	27.6	(0.9)	26.7
Total insurance provisions	**3,113.1**	**(32.0)**	**3,081.1**	2,734.6	(19.2)	2,715.4	2,255.1	(4.8)	2,250.3
Non-current	**31.0**	**-**	**31.0**	26.4	-	26.4	27.6	-	27.6
Current	**3,082.1**	**(32.0)**	**3,050.1**	2,708.2	(19.2)	2,689.0	2,227.5	(4.8)	2,222.7
Total insurance provisions	**3,113.1**	**(32.0)**	**3,081.1**	2,734.6	(19.2)	2,715.4	2,255.1	(4.8)	2,250.3

12 Post employment benefits

The defined benefit pension schemes provide benefits based on final pensionable salary. The Group's net obligation in respect of the five small defined benefit pension schemes is calculated separately and represents the present value of the defined benefit obligation less, for funded schemes, the fair value of scheme assets. The discount rate used is the yield at the balance sheet date on high quality corporate bonds denominated in the currency in which the benefit will be paid. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of any future refunds from the scheme or reductions in future contributions to the scheme.

Amounts recognised in the Consolidated Income Statement
The amounts charged / (credited) to other operating expenses for the periods are:

	At 30 June 2016 £m	At 30 June 2015 £m	At 31 December 2015 £m
Current service cost	**0.1**	0.2	1.7
Gains on curtailments	**-**	(0.4)	(0.4)
Net interest on defined benefit liability / asset	**-**	-	0.6
Administrative expenses	**-**	0.3	0.5
Total amount charged to Consolidated Income Statement	**0.1**	0.1	2.4

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

	At 30 June 2016 £m	At 30 June 2015 £m	At 31 December 2015 £m
Present value of funded obligations	**(86.0)**	(98.4)	(94.1)
Fair value of scheme assets	**82.7**	90.2	90.9
Net recognised liabilities	**(3.3)**	(8.2)	(3.2)
Represented on the Statement of Financial Position as:			
Net assets	**4.9**	2.7	5.0
Net liabilities	**(8.2)**	(10.9)	(8.2)
Net recognised liabilities	**(3.3)**	(8.2)	(3.2)

13 Business combinations

a) 2016 acquisitions

The Group acquired 100% ownership of Bupa Chile in 2016 for £93.1m (CLP95.1bn). The transaction occurred in two stages; on 8 January 2016 the Group secured a further 26% interest in Bupa Chile taking its shareholding to 99.7%, with the remaining 0.3% shareholding acquired on 26 February 2016. As a result of the transaction, the Group recognised a decrease in non-controlling interest of £38.6m and an equivalent increase in the income and expenditure reserve.

There has been continued expansion of the dental business across the Group. In Australia, a total of nine centres have been acquired in the six month period to 30 June 2016 for a total consideration of £10.7m (AU$21.0m) of which £1.2m is deferred, giving rise to £10.2m of goodwill. In Spain, the Group has acquired further dental centres for a consideration of £3.5m (€4.5m) for which goodwill of £3.0m has been recognised. Additional UK dental centres were acquired in the period, for a total consideration of £12.8m, net of cash acquired of £0.3m, of which £3.8m is deferred and resulting in goodwill of £13.0m. Finally, in Poland, the Group acquired Euro Dental, a dental centre for a total consideration of £1.1m (PLN6.5m), for which £1.1m of goodwill has been recognised.

Fair value adjustments relating to current year acquisitions are provisional and will be finalised during 2016.

In February the Group acquired the shareholding of UK Care No.1 Limited for £0.9m, recognising a reduction in non-controlling interest of £9.1m and an equivalent increase in the income and expenditure reserve.

During the year the Group also acquired the remaining 18% interest in Sport Medica for £1.1m (PLN6.0m), which has been recorded within the income and expenditure reserve.

	Date of acquisition	Percentage of holding
Australia and New Zealand		
Dental Centres - various	Various	
Spain and Latin America Domestic		
Bupa Chile [1]	8 January and 26 February 2016	26.3%
Dental Centres - various	Various	
International Development Markets		
Sport Medica S.A. [2]	29 February 2016	18%
Euro Dental	29 February 2016	
UK		
UK Care No. 1 Limited [3]	18 February 2016	100%
Dental Centres - various	Various	

[1] Increased shareholding of 73.7% to full ownership

[2] Increased shareholding of 82% to full ownership

[3] UK Care No.1 Limited was previously fully consolidated as 100% non-controlling interest

b) 2015 acquisitions

A number of acquisitions were made during the year ended 31 December 2015, the details are as follows:

	Date of acquisition	Percentage of holding
Australia and New Zealand		
Dental Centres - various	Various	
Spain and Latin America Domestic		
Bupa Chile	05 December 2015	17.3%
Dental Centres - various	Various	
International Development Markets		
Medicor Sp. z.o.o.	1 April 2015	100%
Medicor Centrum Medyczne Sp. z.o.o.	1 April 2015	100%
TK-Medyk Sp. z.o.o.	30 April 2015	100%
Euro-Clinic Sp. z.o.o. Sp. K	30 April 2015	100%
Magodent - Magodent Sp. z.o.o.	23 July 2015	80%
SGB Fortune MA Sp. z.o.o.	21 October 2015	100%
SGB Fortune MA Sp. z.o.o. Sp. K	21 October 2015	100%
Euro-Clinic Sp. z.o.o.	21 October 2015	100%
UK		
Smiles Centre Limited	28 January 2015	100%
Aqua Dental Spa Limited	23 July 2015	100%
Hadrian Healthcare Limited	2 December 2015	100%
Dental Centres - various	Various	

13 Business combinations (continued)

	Other		
	Carrying value at acquisition	Fair value adjustments	Fair value
	£m	£m	£m
Intangible assets	2.2	-	2.2
Property, plant and equipment	38.8	8.1	46.9
Inventories	0.3	-	0.3
Trade and other receivables	3.3	-	3.3
Cash and cash equivalents	0.3	-	0.3
Other interest bearing liabilities	(1.5)	-	(1.5)
Deferred tax liabilities	(0.7)	-	(0.7)
Deferred income	(1.7)	-	(1.7)
Trade and other payables	(7.2)	-	(7.2)
Provisions for liabilities and charges	(0.2)	-	(0.2)
	33.6	**8.1**	**41.7**
Net assets acquired			41.7
Goodwill			59.7
Consideration			**101.4**
Consideration satisfied by:			
Cash			97.4
Deferred consideration			4.0
Total consideration paid			**101.4**
Purchase consideration settled in cash			97.4
Additional 17.3% acquisition of Bupa Chile			59.2
Cash acquired on acquisition			(0.3)
Net cash outflow on acquisition			**156.3**

On 5 December 2015, the Group exercised its option to acquire an additional 17.3% of the shares of Bupa Chile, for a total consideration of £59.2m (CLP 62.8bn), bringing the total ownership to 73.7% at 31 December 2015.

The exercise of the option triggered a mandatory offer to market for the remaining 26.3% shareholding, as required by local legislation in Chile. As a result, a liability of £91.1m (CLP 95.1bn) in other payables, with the corresponding entry in other reserves, has been recorded at 31 December 2015. The tender offer expired on 8 January 2016, at which point the Group had secured a 99.7% holding. The remaining 0.3% shareholdings of the company was acquired in February 2016, making the Group the sole shareholder of Bupa Chile.

During 2015 the Group continued to expand its dental businesses in Australia, Spain and the UK. In Australia, a total of 18 clinics were acquired in the year for a total consideration of £21.9m, of which £4.0m is deferred, giving rise to £21.7m of goodwill. In Spain, the Group acquired further dental clinics for a consideration of £1.7m for which goodwill of £1.7m has been realised. In addition, the Group acquired five UK dental centres in the year, for a total consideration of £5.3m, net of cash acquired, resulting in goodwill of £6.0m. The goodwill represents the premium paid to acquire established dental practices including the value of dentists (assembled workforce) and other intangibles that do not meet the recognition criteria of IAS 38.

Further investment of £31.7m was made in Poland during 2015 with the acquisition of Medicor, a health clinic, diagnostics and pharmacy business; TK Medyk, a diagnostic imaging company; Magodent, an oncology provider and associated properties. In total, goodwill amounting to £21.9m has been recognised for these acquisitions. The goodwill recognised primarily represents a premium paid to acquire a leading oncology provider in Poland to enable delivery of coordinated oncology care as well as further expansion of our geographical reach across Poland.

On 2 December 2015 the Group acquired 100% of Hadrian Healthcare Limited, a care services business comprising five homes and two development sites in the north of England for £34.7m, exclusive of acquisition costs, with net assets (debt free) of £27.5m and resulting in goodwill of £7.2m. The goodwill represents a portfolio premium for acquiring a care home business.

c) 2016 disposals

On 23 March 2016, Bupa Middle East Holdings W.L.L., a holding company in Bahrain which was part of International Development Markets was liquidated. A net loss of £1.5m was recognised and is included within other income and charges in the Consolidated Income Statement.

d) 2015 disposals

On 8 July 2015, Bupa Health Care Asia Pte Ltd, a holding company in Singapore, which was part of International Development Markets, was liquidated. A net gain of £0.3m was recognised and is included within other income and charges in the Consolidated Income Statement.

During 2015, £25.5m deferred consideration was received in relation to the disposal of Bupa Ireland Limited in 2007 and is included within other income and charges in the Consolidated Income Statement.

14 Financial investments

	Carrying Value			Fair Value		
	At 30 June 2016 £m	At 30 June 2015 £m	At 31 December 2015 £m	**At 30 June 2016 £m**	At 30 June 2015 £m	At 31 December 2015 £m
Non-current						
Available-for-sale						
Corporate debt securities	**90.0**	-	-	**90.0**	-	-
Designated at fair value through profit or loss						
Government debt securities	**59.0**	94.5	49.8	**59.0**	94.5	49.8
Corporate debt securities and secured loans	**223.2**	192.6	242.2	**223.2**	192.6	242.2
Pooled investment funds	**151.8**	109.8	110.9	**151.8**	109.8	110.9
Deposits with credit institutions	**-**	-	0.1	**-**	-	0.1
Held to maturity						
Corporate debt securities and secured loans	**109.6**	31.1	98.7	**110.4**	31.6	99.2
Government debt securities	**42.1**	-	0.6	**42.3**	-	0.6
Loans and receivables						
Deposits with credit institutions	**239.4**	236.8	241.0	**246.4**	241.7	246.0
Corporate debt securities and secured loans	**-**	86.0	88.2	**-**	125.7	130.0
Other loans	**0.5**	-	0.4	**0.5**	-	0.4
Total non-current financial investments	**915.6**	750.8	831.9	**923.6**	795.9	879.2
Current						
Designated at fair value through profit or loss						
Government debt securities	**24.8**	20.8	19.3	**24.8**	20.8	19.3
Corporate debt securities and secured loans	**3.2**	3.6	3.1	**3.2**	3.6	3.1
Pooled investment funds	**49.6**	34.8	35.0	**49.6**	34.8	35.0
Deposits with credit institutions	**1.0**	-	1.0	**1.0**	-	1.0
Held to maturity						
Corporate debt securities and secured loans	**173.7**	215.8	103.0	**173.8**	216.2	103.2
Government debt securities	**0.6**	3.9	-	**0.6**	3.8	-
Loans and receivables						
Deposits with credit institutions	**1,048.3**	1,200.2	1,195.0	**1,050.0**	1,201.9	1,196.0
Other loans	**-**	1.9	-	**-**	1.9	-
Total current financial investments	**1,301.2**	1,481.0	1,356.4	**1,303.0**	1,483.0	1,357.6
Total financial investments	**2,216.8**	2,231.8	2,188.3	**2,226.6**	2,278.9	2,236.8

Classification	**Criteria and treatment**
Available-for-sale	Available-for-sale assets are non-derivative financial assets designated on initial recognition as available for sale or any other instruments that are not classified in the below categories. Available-for-sale assets are measured at fair value in the balance sheet. Fair value changes on available-for-sale assets are recognised directly in equity, through the Statement of Changes in Equity, except for interest and foreign exchange gains or losses which go through the Income Statement. The cumulative gain or loss that was recognised in equity is recognised in the Income Statement when an available-for-sale financial asset is derecognised.
Fair value through profit or loss	Financial investments designated at fair value through profit or loss consist of investments or instruments where management make decisions based upon their fair value. The investments are carried at fair value, with gains and losses arising from changes in this value recognised in the Income Statement in the period in which they arise.
Held to maturity	Held to maturity investments are non-derivative financial assets which are quoted on an active market, with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. This is assessed at each reporting date. Held to maturity investments are measured at amortised cost using the effective interest method, less any impairment losses. Any discount or premium on purchase is amortised over the life of the investment through the Income Statement.
Loans and receivables	Loans and receivables are carried at amortised cost calculated using the effective interest method, less impairment losses.

Fair value of financial investments

Fair value is a market-based measurement for assets for observable market transactions where market information might be available. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the asset would take place between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset).

Fair values disclosed in the table above have been calculated as follows:

- debt securities, pooled investment funds, deposits with credit institutions, other loans – quoted price if available or discounted expected future principal and interest cash flows; and
- listed securities – quoted price.

14 Financial investments (continued)

The fair values of quoted investments in active markets are based on current bid prices. The fair values of unlisted securities and quoted investments for which there is no active market, are established by using valuation techniques corroborated by independent third parties. These may include reference to the current fair value of other investments that are substantially the same and discounted cash flow analysis. Financial investments carried at fair value are measured using different valuation inputs categorised into a three level hierarchy. The different levels have been defined by reference to the lowest level input that is significant to the fair value measurement, as follows:

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

An analysis of financial investments by valuation method is as follows:

	Total Non-current			Total Current		
	Level 1	Level 2	**Total**	Level 1	Level 2	**Total**
	£m	£m	**£m**	£m	£m	**£m**
At 30 June 2016						
Available-for-sale						
Corporate debt securities	90.0	-	**90.0**	-	-	**-**
Designated at fair value through profit or loss						
Government debt securities	24.7	34.3	**59.0**	24.8	-	**24.8**
Corporate debt securities and secured loans	48.4	174.8	**223.2**	3.2	-	**3.2**
Pooled investment funds	81.8	70.0	**151.8**	49.6	-	**49.6**
Deposits with credit institutions	-	-	**-**	-	1.0	**1.0**
Held to Maturity						
Corporate debt securities and secured loans	110.4	-	**110.4**	143.5	30.3	**173.8**
Government debt securities	42.2	0.1	**42.3**	0.6	-	**0.6**
Loans and receivables						
Deposits with credit institutions	-	246.4	**246.4**	-	1,050.0	**1,050.0**
Other loans	-	0.5	**0.5**	-	-	**-**
Total	397.5	526.1	**923.6**	221.7	1,081.3	**1,303.0**
At 30 June 2015						
Designated at fair value through profit or loss						
Government debt securities	37.9	56.6	**94.5**	20.7	0.1	**20.8**
Corporate debt securities and secured loans	-	192.6	**192.6**	2.1	1.5	**3.6**
Pooled investment funds	35.0	74.8	**109.8**	34.8	-	**34.8**
Held to Maturity						
Corporate debt securities and secured loans	1.1	30.5	**31.6**	19.8	196.4	**216.2**
Government debt securities	-	-	**-**	3.8	-	**3.8**
Loans and receivables						
Deposits with credit institutions	-	241.7	**241.7**	-	1,201.9	**1,201.9**
Corporate debt securities and secured loans	-	125.7	**125.7**	-	-	**-**
Other loans	-	-	**-**	0.6	1.3	**1.9**
Total	74.0	721.9	**795.9**	81.8	1,401.2	**1,483.0**
At 31 December 2015						
Designated at fair value through profit and loss						
Government debt securities	22.7	27.1	**49.8**	19.3	-	**19.3**
Corporate debt securities and secured loans	42.6	199.6	**242.2**	3.1	-	**3.1**
Pooled investment funds	35.2	75.7	**110.9**	35.0	-	**35.0**
Deposits with credit institutions	0.1	-	**0.1**	-	-	**-**
Other loans	-	-	**-**	1.0	-	**1.0**
Held to Maturity			**-**			
Corporate debt securities and secured loans	68.8	30.4	**99.2**	94.4	8.8	**103.2**
Government debt securities	0.5	0.1	**0.6**	-	-	**-**
Loans and receivables						
Deposits with credit institutions	-	246.0	**246.0**	-	1,196.0	**1,196.0**
Corporate debt securities and secured loans	-	130.0	**130.0**	-	-	**-**
Other loans	-	0.4	**0.4**	-	-	**-**
Total	169.9	709.3	**879.2**	152.8	1,204.8	**1,357.6**
Derivatives						
At 30 June 2016						
Derivative assets	-	61.1	**61.1**	-	23.0	**23.0**
Derivative liabilities	-	(17.2)	**(17.2)**	-	(59.5)	**(59.5)**
At 30 June 2015						
Derivative assets	-	54.4	**54.4**	-	8.7	**8.7**
Derivative liabilities	-	(69.9)	**(69.9)**	-	(2.2)	**(2.2)**
At 31 December 2015						
Derivative assets	-	51.3	**51.3**	-	6.0	**6.0**
Derivative liabilities	-	(10.3)	**(10.3)**	-	(22.1)	**(22.1)**

There have been no significant transfers between the valuation methods.

15 Subordinated liabilities

	At 30 June 2016 £m	At 30 June 2015 £m	At 31 December 2015 £m
Non-current			
Callable subordinated perpetual guaranteed bonds	**330.0**	330.0	330.0
Fair value adjustment in respect of hedged interest rate risk	**61.1**	53.6	51.3
Callable subordinated perpetual guaranteed bonds at carrying value	**391.1**	383.6	381.3
5.0% subordinated unguaranteed bonds due 2023	**496.2**	495.6	495.9
Other subordinated debt due 2022	**29.2**	30.3	32.3
	916.5	909.5	909.5
Current			
Callable subordinated perpetual guaranteed bonds	**15.9**	15.9	5.9
5.0% subordinated unguaranteed bonds due 2023	**4.0**	4.0	4.0
	19.9	19.9	9.9
Total subordinated liabilities	**936.4**	929.4	919.4
Total fair value of subordinated liabilities	**916.6**	888.9	902.9

Callable subordinated perpetual guaranteed bonds
In December 2004, Bupa Finance plc issued £330.0m of callable subordinated perpetual guaranteed bonds, which are guaranteed by Bupa Insurance Limited. Interest is payable on the bonds at 6.125% per annum. The bonds have no fixed maturity date but a call option is exercisable by Bupa Finance plc to redeem the bonds on 16 September 2020. In the event of the winding up of Bupa Finance plc or Bupa Insurance Limited, the claims of the bondholders are subordinated to the claims of other creditors of these companies.

5.0% subordinated unguaranteed bonds due 2023
On 25 April 2013, Bupa Finance plc issued £500.0m of unguaranteed subordinated bonds which mature on 25 April 2023. Interest payable on the bonds is 5.0% per annum. In the event of winding up of Bupa Finance plc the claims of the bondholders are subordinated to the claims of other creditors of that company.

16 Other interest bearing liabilities

	At 30 June 2016 £m	At 30 June 2015 £m	At 31 December 2015 £m
Non-current			
Senior unsecured bonds	**395.6**	737.1	387.1
Bank loans	**198.7**	98.9	97.0
Secured loans	**-**	234.2	233.5
Finance lease liabilities	**8.4**	11.6	9.2
	602.7	1,081.8	726.8
Current			
Senior unsecured bonds	**366.6**	15.8	366.8
Bank loans	**75.2**	38.4	50.2
Secured loans	**-**	4.1	4.3
Finance lease liabilities	**6.7**	7.1	6.6
	448.5	65.4	427.9
Total interest bearing liabilities	**1,051.2**	1,147.2	1,154.7

Fair value of other interest bearing liabilities

	At 30 June 2016 £m	At 30 June 2015 £m	At 31 December 2015 £m
Senior unsecured bonds	**792.5**	774.0	758.1
Bank loans	**273.9**	137.3	147.2
Secured loans	**-**	315.4	314.8
Finance lease liabilities	**15.1**	18.7	15.8
Total fair value of other interest bearing liabilities	**1,081.5**	1,245.4	1,235.9

17 Commitments and Contingencies

Capital commitments

Capital expenditure for the Group contracted at 30 June 2016 but for which no provision has been made in the financial statements amounted to £170.3m (HY 2015: £163.4m; FY 2015: £141.4m). The increase since year end of £28.9m is primarily due to aged care facility and retirement village project commitments in the Australia and New Zealand and UK Market Units.

Contingent assets and contingent liabilities

The Group currently has no contingent assets.

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.

BUPA FINANCE PLC
Statement of Directors' responsibilities
for the six months ended 30 June 2016

We confirm that to the best of our knowledge:

• the condensed set of financial statements have been prepared in accordance with IAS 34: Interim Financial Reporting as adopted by the EU;
• the interim management report includes a fair review of the information provided in accordance with the requirements of:

(a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

The Directors of Bupa Finance plc are listed in the Annual Report and Accounts for the year ended 31 December 2015. Changes in Directors since 31 December 2015 are set out below:

Ms E Bourke (resigned on 13/06/2016)
Ms J Linton (appointed on 13/06/2016)
Mr K Jennings (appointed on 30/06/2016)
Ms F Harris (resigned on 30/06/2016)

By order of the Board

Martin Potkins
Director

Joy Linton
Director

3 August 2016

Independent review report to Bupa Finance plc from KPMG LLP
for the six months ended 30 June 2016

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2016 which comprises the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Cash Flows, the Condensed Consolidated Statement of Changes in Equity and the related explanatory notes. We have read the other information contained in the half year financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules ('the DTR') of the UK's Financial Conduct Authority ('the UK FCA'). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with *IAS 34 Interim Financial Reporting* as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with *International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated set of financial statements in the half-yearly financial report for the six months ended 30 June 2016 is not prepared, in all material respects, in accordance with:

— *IAS 34* as adopted by the EU;
— and the DTR of the UK FCA.

Daniel Cazeaux
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London, E14 5GL
3 August 2016