Bupa: Full year statement for the year ended 31 December 2016

REVENUE AND PROFIT GROWTH IN CHALLENGING MARKET CONDITIONS

HIGHLIGHTS

- Revenue £11.0bn up 4% at constant exchange rates (CER)[1] (2015 FY: £10.6bn); up 12% at actual exchange rates (2015 FY: £9.8bn AER)
- Underlying profit[2] before taxation £700.7m up 10% at CER and 20% at AER; up 2% at CER and up 12% at AER when excluding the impact of the IFRIC 12 adjustment relating to our Spanish Public-Private Partnerships (PPPs) in 2015[3]
- Statutory profit before taxation £522.9m, up 40% at AER (2015 FY: £374.3m)
- Net cash generated from operations £891.0m, up 13% at AER (2015 FY: £788.1m)
- Solvency II capital coverage ratio[4] of 204% (2015 FY: 178%)

Evelyn Bourke, Group CEO of Bupa, commented:

"Our businesses performed solidly in challenging market conditions. We achieved good profit growth in our three largest Market Units – Australia and New Zealand, the UK, and Europe and Latin America – and, while performance within International Markets was impacted by a significant decline in profits in Bupa Global, the overall Group grew revenue 4% and underlying profit 10%, albeit up 2% when excluding the impact of the IFRIC 12 adjustment made in 2015.

"Over the year we made progress in reshaping our portfolio in the UK. In July, we exited the home healthcare market, selling our business to Celesio. In November, we announced the purchase of Oasis Dental Care[5], which will make Bupa a major dental provider in the UK and significantly increase our high street presence across the country.

"Looking ahead, we expect conditions to continue to be challenging in our key markets and we are focused on delivering strong and sustainable performance, with an emphasis on providing high quality service for our customers in this digital age."

Market Unit performance

- Australia and New Zealand: revenue up 7%; underlying profit up 9%.
- UK: revenue declined 3% due to disposal of Bupa Home Healthcare (BHH) in July; underlying profit up 7%.
- Europe and Latin America: revenue up 10%; underlying profit up 63%; underlying profit up 10%[6] excluding the impact of the IFRIC 12 adjustment relating to our Spanish PPPs in 2015.
- International Markets: revenue up 1%[7]; underlying profit down 52% driven by Bupa Global.

1 Constant Exchange Rates (CER) are used to aid comparison. All figures presented are CER unless otherwise stated. We use CER to compare trading performance in a consistent manner to the prior year. We have therefore retranslated our 2015 results using 2016 average foreign exchange rates. Due to our geographically diverse portfolio, the impacts of foreign exchange rates fluctuate year on year.

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 Under IFRIC 12, which applies to service concession contracts such as Spanish PPPs, we use the average operating margin for the life of the contract (based on historic performance plus projections) as a means for recognising results. Once there is a change in performance compared to expectations, the operating margin is reassessed and an adjustment made to the current year results to bring the contract performance to date in line with the revised margin. In 2015, this negative non-cash adjustment of £52m included an amount relating to the current year of £8.8m together with a retrospective adjustment for the years preceding 2015 of £43.2m. To compare the result on a 'like for like' basis with 2016, we have excluded £48.6m (being £43.2m retranslated at 2016 exchange rates) from underlying profit in 2015.

4 The 2016 Solvency II capital coverage ratio is an estimated value. The 2015 Solvency II capital coverage ratio has been updated to 178% from the 180% estimate disclosed in the 2015 Annual Report and Accounts

5 Bupa completed the purchase of Oasis Dental Care on 9 February 2017, subject to UK Competition and Markets Authority (CMA) approval, with an enterprise value of £835m

6 See footnote 3. Figures in CER, excluding the impact of the adjustment relating to our Spanish PPPs in 2015.

7 While revenues from our associate and joint venture are excluded from our reported figures, customer numbers and the appropriate share of profit from these businesses are included in our reported numbers.

Operational highlights

- Bupa Australia's health insurance business became the country's largest health insurer for the first time with four million customers[8].
- Bupa UK's portfolio reshaped with disposal of the home healthcare business, and purchase of Oasis Dental Care announced[9], which will make Bupa a major dental provider in the UK with two million customers and around 420 clinics.
- Opened 13 new care homes across Australia, New Zealand, UK and Spain, and three new retirement villages in Australia, New Zealand and the UK.
- Increased ownership of Bupa Chile from 73% to 100% and of Max Bupa in India from 26% to 49%.
- Acquired Care Plus, a leading health insurer in Brazil.
- Reorganised operating structure from five to four Market Units: Europe and Latin America replaced Spain and Latin America, and International Markets replaced International Development Markets and Bupa Global.

Financial position

- Solvency II capital coverage of 204% at year end following £400m subordinated bond issue in December 2016, prior to completion of Oasis Dental Care purchase.
- Statutory profit before taxation up 40% despite one-off charge from securitisation redemption, as noted in 2016 Half Year statement.
- Leverage ratio down to 22.6% (2015 FY: 27.7%) driven by strong cash repatriations and foreign exchange movements due to weakening of sterling.
- Bupa Finance plc's senior debt ratings A- stable (Fitch) and Baa1 stable (Moody's) with a one-notch upgrade by Moody's in September 2016.
- Net cash generated from operating activities reflects the foreign exchange movements which, together with our strong financial discipline, results in an increase of 13% to £891.0m (2015 FY: £788.1m).

Enquiries

Media
Sally Pain, Samantha Lo Blanco (Corporate Affairs): +44 (0)20 7656 2176

Investors
Gareth Evans (Treasury): +44 (0)20 7656 2316

About Bupa

Bupa's purpose is helping people live longer, healthier, happier lives. Our status, as a company limited by guarantee with no shareholders, enables us to make our customers our focus, reinvesting our profits to provide more and better healthcare for current and future customers.

We employ over 86,000 people, principally in the UK, Australia, Spain, Poland, Hong Kong, Chile, Brazil, Saudi Arabia, India, New Zealand, Thailand and the US.

Around 70% of our revenue is from health insurance, with the rest from health and care provision. We fund healthcare around the world and run clinics, dental centres, hospitals, care homes and retirement villages in a number of countries.[10]

For more information, visit www.bupa.com.

8 Number reflects Australian health insurance closing members at the end of the year.

9 See footnote 5.

10 Refer to How We Are Organised on page 14 for further information.

Group CEO's review

We are focused on improving and extending our services for customers. To equip Bupa for the next phase of growth, in 2016 we refreshed our strategy, putting customers front and centre in the context of today's digital age. As a service organisation, it is critical our people love working at Bupa and delivering for customers. Insurance, healthcare and care services are highly sensitive and regulated sectors and we are increasing our focus on management of risk and compliance to ensure we continue to uphold the high standards our customers and regulators expect. Through rigorous capital management, and investing in strength and depth in our existing markets with selective expansion into new growth markets, we will deliver strong and sustainable performance for our customers and for Bupa.

In 2016, our businesses performed solidly in challenging market conditions. We achieved good profit growth in our three largest Market Units – Australia and New Zealand, the UK, and Europe and Latin America. While performance within International Markets was impacted by a significant decline in profit in Bupa Global, the overall Group delivered growth in revenue of 4%, and underlying profit of 10%, albeit up 2% when excluding the impact of the adjustment relating to our Spanish PPPs in 2015[11]. Our performance in 2016 was bolstered by strong and consistent cash flow, a strong balance sheet, robust management and an upgrade in one of our credit ratings.

In Australia and New Zealand, we delivered good revenue and underlying profit growth in difficult market conditions, and our Australian health insurance business became the country's biggest health insurer for the first time. The Australian Government is considering reforms of the health insurance sector, and affordability remains a challenge for the whole healthcare industry. Changes to the Australian Aged Care Funding Instrument will reduce aged care sector funding, particularly for residents with complex care needs, and are expected to impact the whole aged care sector[12]. We are urging the government to take a collaborative approach to working with the sector on delivering value through innovation.

In the UK, we achieved good underlying profit growth despite continued market pressures. Revenue was down due to the disposal of Bupa Home Healthcare (BHH) in July. If BHH revenue is removed from 2015 and 2016 performance, UK revenue is up 5%. All our businesses delivered good performance. The UK Government has further increased the Insurance Premium Tax (IPT) which challenges the affordability of health insurance. Together with industry partners, we are championing the role of independent healthcare and campaigning to make it more affordable for customers. Over the year we made progress in reshaping our portfolio. In July, we exited the home healthcare market with the disposal of BHH. In November, we announced our agreement to purchase Oasis Dental Care[13]. Through this purchase Bupa will become a major dental provider in the UK's £7.1bn dental market[14]. We also undertook a portfolio review of our UK care services business.

In Europe and Latin America, we delivered strong growth in revenue and underlying profit. In Spain, we grew our dental and health insurance businesses, while our PPPs are meeting their profit targets and providing high quality medical services in a difficult political environment. LUX MED, our business in Poland, performed well primarily due to good performance in our ambulatory and inpatient businesses. Bupa Chile achieved strong revenue growth, despite challenging conditions affecting the Isapre[15] sector. Our close management of claims and operating cost controls have supported profitability.

In International Markets, performance was impacted by a large profit decline in Bupa Global. As noted in our Half Year results in August, this was driven by the ongoing impact of our decision to exit non-strategic markets which led to high lapses in the period, as well as our investment in capability and infrastructure to improve the customer experience and grow our corporate book, and a lower than anticipated rate of growth in our individual and small medium enterprise (SME) books. While progress is being made, there will continue to be some

11 See footnote 3. Figures in CER, excluding the impact of the adjustment relating to our Spanish PPPs in 2015.

12 Australian Government Budget 2016-17, Aged Care Provider Funding — 'Further revision of the Aged Care Funding Instrument'

13 See footnote 5.

14 Source: 2015/16 figures estimated by L.E.K. Consulting.

15 Isapre is the name used for the Chilean private health insurance sector.

impact on performance in 2017. In December, we acquired Care Plus, a market-leading health insurer in Brazil, which serves more than 400 companies with around 100,000 customers.

In July, we reshaped our operating structure, reducing from five to four Market Units with Europe and Latin America replacing Spain and Latin America, and International Markets replacing International Development Markets and Bupa Global.

We have also made a number of changes to the Bupa Executive Team. As well as my appointment as Group CEO, Joy Linton became Chief Financial Officer and joined the Bupa Board. Richard Bowden is now CEO of Australia and New Zealand, with David Hynam succeeding him as CEO of the UK. Wayne Close was appointed Acting CEO of International Markets. The role of Chief Risk Officer became part of the Executive Team, reflecting our increased focus on risk and compliance, with David Fletcher appointed to the position. Gabriela Pueyo became Chief Strategy Officer.

Outlook

Looking ahead, we expect conditions to remain challenging in our key markets with changing political environments, including the UK preparing to exit the European Union. Demand for quality, value-for-money healthcare will remain strong for years to come, however governments and consumers face funding pressures and medical costs are outpacing inflation. In addition, there are new customer standards of personalisation, ease and choice as well as high expectations of quality, safety, privacy and transparency. We are focused on delivering strong and sustainable performance, with an emphasis on providing high quality service for our customers in this digital age.

MARKET UNIT PERFORMANCE

Australia and New Zealand

	Revenue	Underlying profit
FY 2016	£4,360.6m	£344.4m
FY 2015	£4,078.3m	£314.7m
% growth	7%	9%

Australia and New Zealand performed well in 2016, despite low-growth macroeconomic conditions and regulatory uncertainty, achieving good growth.

Against the backdrop of slower overall growth in the market, our health insurance business grew to become Australia's largest health insurer for the first time. We achieved a 3% growth in customer numbers at year end, which is the result of our focus on providing enhanced customer service and better value. We believe customer affordability will continue to be an issue for the sector in 2017. As a result, we are focused on having a strong say in the national health debate, advocating government policy reform that will deliver a more affordable and efficient health system for all Australians.

We grew our health services business, with our 237 Bupa dental practices making Bupa the country's largest dental provider. We opened three new Bupa Optical stores in Australia, taking the total to 37, with some offering audiology services for the first time.

Bupa Aged Care Australia remains the country's leading private aged care provider, caring for nearly 7,000 residents across an expanding network of 71 homes. Our Australian aged care business is driven by a person-first model of care and a consistent management system. The Australian Government's changes to the Aged Care Funding Instrument have reduced sector funding, particularly for residents with complex care needs. These changes impact revenue and the sustainability of the wider aged care industry. We are urging the government to take a collaborative approach in working with the sector on delivering value through innovation. Our care services occupancy is 93%.

During the year, our aged care business in New Zealand grew, with four new care homes opening at Wattle Downs, Parkstone, St Andrews and Hugh Green. We also opened a retirement village offering at St. Andrews.

We are committed to enhancing the experience of our customers and people through better and more efficient use of technology. We are building new tools and capabilities so our customers have meaningful and personalised interactions with us, whether in store, on the phone or online.

UK

	Revenue	Underlying profit
FY 2016	£2,785.9m	£194.9m
FY 2015	£2,857.8m	£182.6m
% (decline) / growth	(3%)	7%

In the UK, all our businesses delivered good performance, despite ongoing challenges in the market. Revenue is down 3% due to the disposal of Bupa Home Healthcare (BHH) to Celesio in July 2016. If BHH revenue is removed from 2015 and 2016 performance, UK revenue is up 5%.

The UK Government has further increased the Insurance Premium Tax, which challenges the affordability of health insurance for our customers. Together with industry partners, we are championing the role of independent healthcare and campaigning to make it more affordable for customers.

Our health insurance business has performed well, with profit driven by improved corporate and consumer loss ratios. We are committed to our digital transformation and are innovating to give our customers access to the best care, with initiatives such as our pioneering breast and bowel cancer self-referral service providing our customers faster access to diagnosis without the need for a GP referral. In 2016, we launched an expanded cataract network tackling shortfalls in ophthalmology, improving our customers' experience. Our intermediary partners are also seeing the benefits of Bupa Connect, our user-friendly online portal, which allows them to manage their clients more effectively. In our Health Clinics business, revenue growth has been driven by health assessments, dental, primary care and greater capacity in our musculoskeletal services.

Over the year we put considerable focus on managing risk and compliance across all areas of our business. We also made progress in reshaping our portfolio. In July, we exited the home healthcare market with the disposal of Bupa Home Healthcare. In November, we announced our agreement to purchase Oasis Dental Care[16], the UK's leading private dental provider, from European private equity group Bridgepoint. This purchase forms part of our growth strategy, making Bupa a major dental provider in the UK's £7.1bn dental market, with over two million customers and around 420 clinics. Following a review of our care services business, we have identified a number of homes which are now held for sale to enable us to focus our efforts and investment. We remain committed to the growing aged care sector. We refurbished 20 homes, began building four new homes and acquired two homes from Primetower Care. We are expanding our portfolio of six Richmond Care Villages with two new villages under construction in Worcestershire and South Derbyshire. Our care services occupancy is 86%.

We are upgrading and improving our facilities at Bupa Cromwell Hospital, where our £2.1m investment in redeveloping our wards has taken customer satisfaction scores for accommodation from 71% to 91% post-completion.

Europe and Latin America

	Revenue	Underlying profit
FY 2016	£2,474.7m	£165.6m
FY 2015	£2,251.8m	£101.8m
% growth	10%	63%

In Europe and Latin America, we delivered strong growth in revenue of 10% with underlying profit up 63%. When excluding the impact of the adjustment relating to our Spanish PPPs in 2015, underlying profit was up 10%[17]. Our businesses delivered solid performance, including significant growth in our Sanitas dental business.

In Spain, we achieved solid revenue growth across a number of business units, with a good increase in our Sanitas Seguros private medical insurance business as a result of successful partnerships with SantaLucia and Banco Bilbao Vizcaya Argentaria.

We are committed to digitising the entire customer journey through a new version of our Sanitas app, so customers can purchase products on our website, find a doctor and make an appointment, undertake video consultations with our doctors and access their medical histories. Products such as Blua, our digital health insurance offering, are enhancing the customer experience through direct video consultations.

In Sanitas Mayores, our aged care business, occupancy is 96%. We opened our 14th home in Madrid and acquired a home in Valencia, and are now operating 40 homes and three day-care centres with a total capacity of over 5,000 residents. Our new Sanitas Mayores app enables our customers to have day-to-day access to information about the care of their relatives in our homes.

In Sanitas Dental, we launched emergency video consultations, offering services outside standard business hours, available nationwide. We opened five new dental centres and acquired nine dental franchises.

16 See footnote 5.

17 See footnote 3. Figures in CER, excluding the impact of the adjustment relating to our Spanish PPPs in 2015.

In Sanitas Hospitales and New Services, we launched an integrated healthcare model in Barcelona connecting our Sanitas CIMA Hospital with a network of multi-specialty medical centres. Despite a difficult political environment, our PPPs are meeting their profit targets and providing high quality medical service in their respective areas.

In Poland, LUX MED has achieved significant growth in revenue, primarily due to good performances in our ambulatory and inpatient businesses. Ambulatory revenues were driven by demand for our core subscription product, supported by a strong fee-for-service revenue stream.

During the year, we increased our ownership of Bupa Chile from 73% to 100%. Bupa Chile achieved strong year-on-year revenue growth, with good performance in our hospital and outpatient services and improved performance in the Isapre[18] sector despite difficult market conditions. While legal uncertainties around premium increases are affecting the whole Isapre industry, our claims programmes and operating cost controls have driven profitability. In September, we strengthened our dental business opening four centres and offering additional services at outpatient care facilities, as well as dental insurance. Construction of Clínica Bupa Santiago hospital is well advanced and expected to be operational from late 2017. We are also expanding our Clínica Bupa Antofagasta hospital.

International Markets

	Revenue	**Underlying Profit**
FY 2016	£1,427.8m	£65.9m
FY 2015	£1,418.9m	£138.1m
% growth / (decline)	1%	(52%)

In International Markets, while revenue grew 1%[19], underlying profit declined 52%, predominantly due to a large profit decline in Bupa Global. As noted in our Half Year statement in August, this was driven by the ongoing impact of our decision to exit non-strategic markets, which led to high lapses in the period, our investment in capability and infrastructure to improve the customer experience and grow our Corporate book, and a lower than anticipated rate of growth in our individual and SME books. While progress is being made, there will continue to be some impact on performance in 2017.

In Hong Kong, we grew our market share in private medical insurance supported by our bancassurance partnership with Hang Seng Bank. Our Quality HealthCare clinics delivered steady growth in patient visits, with five new facilities, including health centres and clinics, opening in residential districts in Hong Kong and new business secured with large regional and multinational companies. We announced our plans to open two medical centres in Guangzhou, China in 2017.

In Thailand, high claims in the first half of 2016 due to influenza led to a difficult year, but customer retention has remained strong with revenue growth in the individual and SME markets.

Our Bupa Arabia associate business continued to deliver strong customer and revenue growth despite less favourable economic conditions, re-launching its health and wellness support service, Tebtom, and introducing a point-of-care service inside hospitals.

In India, we increased our shareholding of Max Bupa from 26% to 49% in June 2016 following the change in the law allowing greater foreign ownership. This business has delivered strong year-on-year growth in both customers and revenue.

In December, we expanded our Bupa Global Latin American business through the acquisition of Care Plus, a market-leading health insurer in Brazil which serves more than 400 companies with around 100,000 customers.

18 See footnote 15 for definition of Isapre.

19 While revenues from our associates and joint venture are excluded from our reported figures, customer numbers and the appropriate share of profit from these businesses are included in our reported numbers.

FINANCIAL REVIEW

In 2016 we have maintained our strong financial position in challenging market conditions through our focus on sustainable profitability, supported by our robust capital base.

Summary of results

Measure	Value	Change	Measure	Value	Change
Revenue	**£11.0bn**	**+ 4%** CER (2015: £10.6bn) **+ 12%** AER (2015: £9.8bn)	**Net cash generated from operating activities**	**£891.0m**	**+ 13%** AER (2015: £788.1m)
Underlying profit[20]	**£700.7m**	**+ 10%** CER (2015: £638.1m) **+ 2%** CER[22] **+ 20%** AER (2015: £582.5m)	**Solvency II coverage ratio**[21]	**204%**	**+ 26 p.p.** (2015: 178%)
Statutory profit before taxation	**£522.9m**	**+ 40%** AER (2015: £374.3m)	**Solvency II capital surplus**[23]	**£2.1bn**	**+ 62%** AER (2015: £1.3bn)

Following the result of the referendum on the UK's membership in the European Union (EU), sterling weakened considerably against our major operational currencies (refer to currency table) which has a positive impact across all reported measures. Net cash generated from operating activities reflects these favourable foreign exchange movements which, together with our strong financial discipline, result in an increase in cash flows from operating activities of 13% to £891.0m (2015: £788.1m).

Currency	**2016**	2015	Change %
AUD average rate	**1.8234**	2.0370	-10%
AUD closing rate	**1.7106**	2.0210	-15%
EUR average rate	**1.2234**	1.3782	-11%
EUR closing rate	**1.1703**	1.3560	-14%
USD average rate	**1.3547**	1.5288	-11%
USD closing rate	**1.2345**	1.4734	-16%

The continued revenue and profit growth across our businesses underpins our cash generation. In 2016 we delivered revenue growth of 4% to £11.0bn (2015: £10.6bn) at constant exchange rates (CER), with our underlying profit before tax increasing by 10% to £700.7m (2015: £638.1m). The result is up 2% at CER in 2016 when excluding the £48.6m impact of the IFRIC 12[24] adjustment relating to our Spanish PPPs in 2015. Underlying profit increased in all our Market Units in 2016, with the exception of International Markets.

20 To derive underlying profit, profit before taxation is adjusted for amortisation and impairment of intangible assets and goodwill arising on business combinations, 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, transactions costs on acquisitions and disposals, and restructuring costs.

21 See footnote 4. The Solvency II number disclosed post Oasis Dental Care acquisition is a pro-forma figure as if the acquisition occurred at the balance sheet date.

22 Underlying profit is up 2% at CER and up 12% at AER when excluding the impact of the IFRIC 12 adjustment relating to our Spanish Public-Private Partnerships (PPPs) in 2015.

23 The 2016 Solvency II capital surplus is an estimate. The 2015 Solvency II capital surplus was updated to £1.3bn from the £1.4bn estimate disclosed in the 2015 Annual Report and Accounts.

24 See footnote 3.

Our statutory profit before taxation of £522.9m (2015: £374.3m) is up 40% at actual exchange rates (AER). This reflects the good trading performance in our Market Units in 2016, while our 2015 result was negatively impacted by the impairment of goodwill and a write down in the value of property and equipment in UK Care Services. The increase in 2016 is after a loss of £112.3m on the redemption of the secured loan notes as previously reported.

We continued to invest in our core markets. In 2016 we acquired the remaining minority interest shareholding in Bupa Chile, increased our holding in Max Bupa to 49% and, in December, we increased our footprint in Latin America through the acquisition of Care Plus in Brazil. Over the year we have made progress in reshaping our portfolio in the UK. We sold Bupa Home Healthcare in July and completed the purchase of Oasis Dental Care in February 2017, subject to UK CMA clearance, having announced our intention to do so in November 2016. We also undertook a review of our UK care services business and as a result have identified a number of homes for sale as at 31 December 2016.

Our capital base remains strong with an estimated Solvency II surplus of £2.1bn (2015: £1.3bn), representing a coverage ratio of 204%. Our coverage ratio decreased to an estimated 165% following the completion of the Oasis Dental Care purchase in February 2017, comfortably within our capital risk appetite. This capital strength helped to support the Moody's upgrade of our Bupa Finance plc senior debt rating from Baa2 to Baa1 in September. The upgrade by Moody's has reduced our cost of borrowing under the £800m committed bank facility and is expected to underpin lower costs in future debt issuances.

Our leverage ratio is down to 22.6% (2015: 27.7%) driven by strong repatriations and foreign exchange movements. Following the purchase of Oasis Dental Care in February 2017, our leverage is approximately 7 percentage points higher than at the year end.

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 our reported profit to arrive at underlying profit. These items are presented in the table below:

Year ended 31 December (AER)	**2016 £m**	2015 £m
Amortisation and impairments of intangible assets and impairments of goodwill arising on business combinations	**(70.7)**	(160.6)
Net gains/(losses) on disposal of businesses and transaction costs relating to business combinations[25]	**6.5**	(3.8)
Net property revaluation losses[26]	**(23.8)**	(61.7)
Realised and unrealised foreign exchange gains/(losses)	**19.4**	(11.7)
Other Market Unit and central non-underlying items[27]	**(19.8)**	22.6
Early termination of secured loan notes	**(112.3)**	-
Gains on return seeking assets, net of hedging	**22.9**	7.0
Total non-underlying profit items	**(177.8)**	(208.2)

Most notably, and as reported within our Half Year results, in 2016 there was a net loss of £112.3m on the redemption of the secured loan notes (2015: £nil). The redemption reduced the complexity and cost inherent in maintaining this expensive and complex piece of legacy debt funding. It also reduced the ongoing interest cost of our debt.

The gains on return seeking assets were £22.9m (2015: £7m), driven by our corporate bond and emerging market debt exposure. In 2017 we will continue to actively manage the portfolio, consistent with our investment risk appetite and in line with our views of prospective asset class returns.

Following the reclassification of a number of UK care homes as assets held for sale, £10.7m was recognised as the expected costs of sale within net property revaluation losses.

To provide further year-on-year context, in 2015 there was a write down in the carrying amount of goodwill and property and equipment within our UK Care Services business, resulting in a charge of £181.9m to the income statement.

25 Includes £12.3m profit on disposal of Bupa Home Healthcare in 2016.

26 2016 includes a £11.2m write down of property values upon reclassification as held for sale. 2015 includes a £67.0m write down in UK Care Services, of which £8.7m is equipment.

27 Includes £11.0m UK MU restructuring costs and £4.2m net losses on disposal of fixed assets in 2016; £1.1m IM MU restructuring costs and £0.7m impairment of investment in associates in 2015, £25.5m receipt of deferred consideration in relation to the sale of Bupa Ireland Limited in 2015.

Taxation

Our taxation expense of £136.1m (2015: £96.0m) represents an effective tax rate of 26.0%. The effective rate is higher than the UK statutory rate of 20% mainly due to profits arising in higher tax territories.

We operate in a number of markets with different tax rates ranging from 16.5% to 35% and the weighted average tax rate is 26.0%.

Funding

We manage our funding prudently to secure a sustainable platform for our continued growth. A key element of our funding policy is to target an A-/A3 senior debt rating for Bupa Finance plc, the main issuer of Bupa debt.

Our Bupa Finance plc senior debt rating was upgraded by Moody's from Baa2 to Baa1 in September 2016. This follows the change to positive outlook by Moody's in September 2015 where they noted our low product risk, improved financial results and strong track record in generating capital. The Fitch rating was unchanged during the year at A- (stable). The upgrade by Moody's has reduced our cost of borrowing under the £800m committed bank facility and is expected to underpin lower costs in future debt issuances. Our continued focus on cash generation and repatriations from Market Units enabled us to fund growth in the business and end the year undrawn on the £800m committed bank facility.

We focus on managing our leverage in line with our rating target. Leverage reduced during the year, driven by lower borrowings alongside the increase in equity from profits and foreign exchange movements. At year end, leverage stood at 22.6% (2015: 27.7%). Following the completion of Oasis Dental Care in February 2017, leverage is approximately 7 percentage points higher than at the year end. Coverage of financial covenants remains considerably within levels required in Bupa's bank facilities.

On 1 April 2016, we took the opportunity to redeem early both tranches of the £235m secured loan notes, which were due to mature in 2029 and 2031 with coupons of 6.3% and 7.5% respectively. The redemption reduced the complexity and cost inherent in maintaining the debt. It also reduced the ongoing interest cost of our 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. This resulted in a net loss of £112.3m, which comprises the early redemption of the notes (£151.6m) and profit on early termination of the zero coupon bond (£39.3m). An additional committed bank facility of £250m was agreed in June 2016 which was due to mature in December 2017.

In July 2016 we repaid £350m of 7.5% senior unsecured bonds, which were issued by Bupa Finance plc in July 2009.

On 8 December 2016, Bupa Finance plc issued a £400m 10 year tier 2 subordinated bond with a coupon of 5%. Following the bond issuance, a prepayment notice was issued cancelling the commitment under the £250m facility.

On 17 January 2017, Bupa Finance plc entered into a £650m acquisition financing facility to part fund the purchase of Oasis Dental Care. The facility has a 12 month term, with an option to extend for a further six months.

Cash flow

Net cash generated from operating activities remains strong, increasing to £891.0m (2015: £788.1m). This reflects the growth in earnings, strong inflows from refundable accommodation deposits and occupational rights agreements following the opening of new care home and retirement village facilities in Australia and New Zealand, and the favourable impact of foreign exchange.

Cash used in investing activities decreased by £385.3m compared to 2015 primarily due to a change in mix in our investment portfolio from bonds into cash to support the repayment of debt and the funding of business growth and acquisitions. Capital expenditure of £502.7m (2015: £386.4m) was invested in our businesses, including the continued expansion and refurbishment of our care homes. We acquired a further 26.3% share holding in Bupa Chile for £93.1m thereby achieving 100% ownership. We increased our share holding in Max Bupa in India from 26% to 49%, for £21.9m, following the change in law allowing greater foreign ownership. In December 2016 we also acquired 100% of Care Plus. This was 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 and the net cash proceeds from the sale of Bupa Home Healthcare of £20.4m.

Cash outflows from financing activities increased by £458m compared to 2015. The variance to the prior year is due to the repayment of the aforementioned secured loan notes (£381.6m) as well as the repayment of senior unsecured bonds (£350m). Partially offsetting this were proceeds from the £400m subordinated bond issued in December 2016. As part of our effective capital management we settled hedging instruments at a cost of £77.7m to offset the impact of the weakening sterling.

Overall cash and cash equivalents increased 18% to £1,412.7m. These funds, in addition to our financial investments and longer term deposits, continue to be managed conservatively and in line with a clearly articulated risk appetite. We actively manage our counterparty exposures as part of our ongoing risk management, and cash is only invested with counterparties rated A/A2 or higher, unless approved by the relevant Investment Committee.

Solvency

We continually monitor our solvency capital and we have maintained regulatory capital well in excess of our requirements under Solvency II.

Since 1 January 2016, we have been subject to the requirements of the Solvency II Directive and must hold sufficient capital to cover our Solvency Capital Requirement (SCR) which takes account of all the risks in Bupa, including those related to non-insurance businesses. The Group SCR is calculated in accordance with the Standard Formula specified in the Solvency II legislation. We have obtained approval from the Prudential Regulation Authority (PRA) to substitute the insurance premium risk parameter in the Standard Formula with an Undertaking Specific Parameter (USP) which reflects our own loss experience.

The Solvency II surplus capital as at 31 December 2016 is £2.1bn (2015: £1.8bn). This represents a solvency coverage ratio of 204% (2015: 178%) well in excess of our capital requirement. The purchase of Oasis Dental Care in February 2017 reduced our coverage ratio to an estimated 165%[28], comfortably within our capital risk appetite.

Solvency II capital position	**2016 £bn[28]**	2015 £bn[28]
Own Funds	4.2	3.1
Solvency Capital Requirement	2.1	1.8
Surplus	2.1	1.3
Solvency Coverage Ratio	204%	178%

Own Funds

Reconciliation of IFRS equity to Solvency II Own Funds	**2016 £bn[28]**	2015 £bn[28]
IFRS equity attributable to Bupa	**6.6**	**5.4**
Goodwill and intangibles	(3.4)	(2.9)
Valuation differences	0.1	(0.1)
Pension surplus adjustment	(0.4)	(0.2)
Subordinated debt	1.3	0.9
Solvency II Own Funds	**4.2**	**3.1**

The key items of the reconciliation are:

- Goodwill and intangibles on the IFRS balance sheet are not recognised as available capital under Solvency II.
- Subordinated debt is treated as available capital under Solvency II but as a liability under IFRS.
- Pension surplus in excess of the pension risk contribution to the SCR of £361m is excluded from available Own Funds.

Capital structure	**2016 £bn[28]**	2015 £bn[28]
Unrestricted Tier 1	2.9	2.2
Restricted Tier 1	0.4	0.4
Tier 2	0.9	0.5
Own Funds	**4.2**	**3.1**

28 See footnote 23.

Our capital comprises equity, exclusive of any non-controlling interests, together with eligible subordinated debt. We have £330m of callable subordinated perpetual guaranteed bonds, a £500m dated hybrid bond which matures on 25 April 2023 and a £400m dated hybrid bond which matures on 8 December 2026. These bond issues are accounted for as liabilities in the IFRS based financial statements, but are treated as solvency capital for regulatory and management purposes.

Solvency Capital Requirement[29]

As previously mentioned, we have obtained approval from the PRA to substitute the insurance premium risk parameter in the formula with a USP which reflects our own loss experience. Replacing the standard parameters for insurance premium risk with our own demonstrates the lower risk that our size, experience and geographic diversification brings.

Analysis of the Solvency Capital Requirement	**2016 % of diversified SCR**[29]	2015 % of diversified SCR[29]
Insurance risk	**19%**	**19%**
Market risk	**60%**	**61%**
Spread	2%	3%
Equity	2%	1%
Property	34%	31%
Currency	16%	13%
Pension Scheme	6%	13%
Counterparty risk	**4%**	**3%**
Operational risk	**11%**	**11%**
Participations (Associates)	**6%**	**6%**
	100%	**100%**

The single largest risk component of our SCR is property risk which relates to our care home portfolio in the UK, Australia, New Zealand and Spain. The majority of these care homes are not in regulated insurance entities and therefore our policyholders are largely immunised from the volatility of the property value.

Risk sensitivities[30]

The following analysis shows the relative sensitivity of our estimated solvency coverage ratio as at 31 December 2016 to changes in market conditions and underwriting performance. Each sensitivity is an independent stress of a single risk and does not take into account management actions. The selected scenarios do not represent our expectations for future market and business conditions.

Sensitivity analysis	**2016 SII coverage ratio post stress**[31]
Base Case Solvency coverage ratio	**204%**
Interest rate +/-100bps	204%
Credit spread +100bps (assuming no credit transition)	204%
Equities markets -20%	204%
Property values -10%	193%
Sterling appreciates by 10%	201%
Pension risk +10%	203%
USP + 0.2%	201%
Loss ratio worsening by 2%	196%

29 See footnote 23.

30 The pension scheme surplus in excess of the pension risk contribution to the SCR is sufficient to cover the sensitivity analysis stress such that the Group solvency capital surplus is unchanged.

31 See footnote 21.

Business risks

The principal risks and uncertainties faced by Bupa are set out in the Risks section of the Bupa Annual Report and Accounts 2016.

Bupa maintains a well established process for identifying and managing all business risks, including all aspects of operational risk, covering conduct, information security, and clinical risk. This includes effective oversight of the risks associated with the change programmes underpinning our strategy.

The most significant quantifiable risks facing Bupa are property risk and insurance risk, reflecting the significant property portfolio, mainly care homes, owned by Bupa and the potential volatility of insurance claims. Movements in property markets aside, exposure to investment market fluctuations is relatively low as Bupa's bond portfolio is small in relation to its other financial assets and is of investment grade.

Economic and geo-political conditions are evolving in the markets in which Bupa operates and could impact our business model. These include structural market changes (e.g. political change, medical inflation, minimum wage increases) and economic volatility. We continually review our strategy and processes to ensure that they are flexible enough to take account of changing external conditions.

The immediate impact on Bupa's financial position following the UK's EU referendum result has been a strengthening across all our key financial metrics due to the weakening of sterling. Liquidity remains strong, the investment portfolio is largely cash-based and low risk. Statutory profits and cash flows will be higher if sterling remains weak. The UK Government intends to trigger the process for leaving the EU by the end of March 2017. While there will be commercial, operational and legal effects from the UK's eventual exit from the EU, it is too early to conclude how the result of the referendum will affect Bupa's businesses, customers and employees. There are uncertainties relating to limitations on the movement of people and workers, regulation of financial services (passporting) and the wider impact of the UK's exit from the EU on the UK economy.

Like most organisations, Bupa faces competition in its insurance, provision and care services businesses, which can affect customer acquisition and retention and erode margins. A lack of competition among hospitals and other suppliers can also lead to higher claims costs for insurance businesses. The regulatory focus applied to Bupa and other companies operating within the same markets continues to increase.

In continuing to monitor and manage our risks, we seek to ensure that we are meeting the evolving expectations of our customers, investors and regulators.

How we are organised

Bupa is organised across four Market Units:

Australia and New Zealand

- *Bupa Health Insurance*, the leading health insurance provider in Australia with four million customers[32], 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,* the largest privately-owned residential aged care provider, caring for nearly 7,000[33] residents across 71 homes.
- *New Zealand Care Services*, a leading aged care provider caring for 4,000[34] people in 62 homes, 33 retirement villages, seven rehabilitation sites and a medical alarm network.

UK

- *Bupa UK Insurance,* the leading health insurer with 2.4 million customers[35].
- *Bupa Care Services*, caring for 17,400[36] people in 279 homes and six Richmond Villages and 21 Goldsborough Estates retirement and assisted-living properties.
- *Bupa Health Clinics*, wellness centres, health clinics and dental practices.
- *Bupa Cromwell Hospital,* a complex care hospital in London providing care for insured, self-pay, NHS and international patients.
- *Oasis Dental Care*[37]*,* purchase announced in November.

Europe and Latin America

- *Sanitas Seguros*, the second largest health insurance provider in Spain with 1.5 million customers[38].
- *Sanitas Hospitales and New Services*, four private hospitals, 34 private medical clinics and two public-private partnership hospitals in Spain.
- *Sanitas Dental*, dental insurance and provision through 184 centres and third-party networks in Spain.
- *Sanitas Mayores*, caring for nearly 5,000[39] people in 40 care homes and three day care centres in Spain.
- *LUX MED*, the largest private healthcare business in Poland with seven hospitals and 186 private clinics.
- *Bupa Chile*, a leading health insurer and provider with three hospitals and 37 medical clinics.

International Markets

- *Bupa Global,* international health insurance, travel insurance and medical assistance provided worldwide to individuals, small businesses and global corporate customers.
- *Bupa Arabia*, an associate company, in which Bupa has a 26.25% stake; the largest health insurance business in Saudi Arabia.
- *Max Bupa*, an associate between Bupa and Max India Limited in which Bupa holds a 49% stake; a leading private health insurer.
- *Bupa Hong Kong*, a leading 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*, our representative office in China.

---

32 Number reflects Australian Health Insurance closing members at the end of the year.

33 Number reflects Australian aged care residents at the end of the year.

34 Number reflects New Zealand aged care residents at the end of the year

35 Number reflects UK Health Funding closing members at the end of the year.

36 Number reflects UK aged care residents at the end of the year.

37 See footnote 5.

38 Number reflects Sanitas Seguros Health Insurance closing members at the end of the year.

39 Number reflects Spanish aged care residents at the end of the year.

BUPA GROUP

Preliminary Announcement
Financial Information

Year ended 31 December 2016

Consolidated Income Statement
for the year ended 31 December 2016

	Note	2016 £m	2015 £m
Revenues			
Gross insurance premiums		**8,044.3**	7,059.0
Premiums ceded to reinsurers		**(53.9)**	(48.6)
Net insurance premiums earned		**7,990.4**	7,010.4
Revenues from insurance service contracts		**18.7**	42.6
Care, health and other revenues		**3,038.8**	2,775.4
Total revenues		**11,047.9**	9,828.4
Claims and expenses			
Insurance claims incurred		**(6,332.9)**	(5,505.8)
Reinsurers' share of claims incurred		**42.9**	37.1
Net insurance claims incurred		**(6,290.0)**	(5,468.7)
Share of post-taxation results of equity accounted investments		**30.3**	22.4
Other operating expenses		**(4,197.3)**	(3,803.8)
Impairment of goodwill		**-**	(114.1)
Other income and charges		**(38.9)**	(40.6)
Total claims and expenses		**(10,495.9)**	(9,404.8)
Profit before financial income and expense		**552.0**	423.6
Financial income and expense			
Financial income	3	**212.1**	68.7
Financial expense	4	**(241.2)**	(118.0)
Net financial expense		**(29.1)**	(49.3)
Profit before taxation expense		**522.9**	374.3
Taxation expense		**(136.1)**	(96.0)
Profit for the financial year		**386.8**	278.3
Attributable to:			
Bupa		**381.6**	278.3
Non-controlling interests		**5.2**	-
Profit for the financial year		**386.8**	278.3

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2016

	2016	2015
	£m	£m
Profit for the financial year	**386.8**	278.3
Other Comprehensive income/(expense)		
Items that will not be reclassified to the Income Statement		
Remeasurement (losses)/gains on pension schemes	**(14.6)**	16.9
Unrealised gains/(losses) on revaluation of property	**63.5**	(84.6)
Taxation credit on income and expenses recognised directly in other comprehensive income	**13.3**	19.4
Items that may be reclassified subsequently to the Income Statement		
Foreign exchange translation differences on goodwill	**335.5**	(96.0)
Other foreign exchange translation differences	**453.6**	(89.3)
Net (loss)/gain on hedge of net investment in overseas subsidiary companies	**(86.7)**	8.5
Change in fair value of underlying derivative of cash flow hedge	**2.0**	1.2
Reclassification of foreign exchange translation differences to profit or loss on disposal of subsidiary	**2.0**	(4.1)
Taxation expense on income and expenses recognised directly in other comprehensive income	**(0.2)**	(0.4)
Unrealised losses on available-for-sale assets	**(0.2)**	-
Total other comprehensive income/(expense)	**768.2**	(228.4)
Comprehensive income for the year	**1,155.0**	49.9
Attributable to:		
Bupa	**1,136.0**	55.4
Non-controlling interests	**19.0**	(5.5)
Comprehensive income for the year	**1,155.0**	49.9

Consolidated Statement of Financial Position
as at 31 December 2016

	Note	2016 £m	2015 £m
Non-current assets			
Intangible assets		**3,391.4**	2,862.0
Property, plant and equipment		**2,851.6**	2,838.7
Investment property		**391.3**	270.9
Equity accounted investments		**302.9**	238.0
Financial investments		**1,061.9**	831.9
Derivative assets		**50.9**	51.3
Assets arising from insurance business		**2.2**	0.2
Deferred taxation assets		**7.1**	2.5
Trade and other receivables		**112.5**	96.9
Restricted assets		**55.8**	45.1
Post employment benefit net assets		**481.3**	413.4
		8,708.9	7,650.9
Current assets			
Financial investments		**1,110.7**	1,356.4
Derivative assets		**9.4**	6.0
Inventories		**92.2**	82.9
Assets arising from insurance business		**1,164.7**	980.5
Assets held for sale	6	**505.3**	-
Trade and other receivables		**501.6**	539.0
Restricted assets		**4.2**	10.8
Cash and cash equivalents		**1,412.7**	1,194.1
		4,800.8	4,169.7
Total assets		**13,509.7**	11,820.6
Non-current liabilities			
Subordinated liabilities	5	**(1,302.0)**	(909.5)
Other interest bearing liabilities	5	**(522.8)**	(726.8)
Derivative liabilities		**(10.4)**	(10.3)
Provisions under insurance contracts issued		**(33.9)**	(27.6)
Post employment benefit net liabilities		**(85.1)**	(59.5)
Provisions for liabilities and charges		**(42.0)**	(27.5)
Deferred taxation liabilities		**(229.5)**	(224.1)
Other payables		**(24.3)**	(19.9)
		(2,250.0)	(2,005.2)
Current liabilities			
Subordinated liabilities	5	**(14.7)**	(9.9)
Other interest bearing liabilities	5	**(82.1)**	(427.9)
Derivative liabilities		**(11.6)**	(22.1)
Provisions under insurance contracts issued		**(2,594.8)**	(2,227.5)
Other liabilities under insurance contracts issued		**(143.0)**	(72.1)
Liabilities directly associated with assets held for sale	6	**(45.5)**	-
Provisions for liabilities and charges		**(64.7)**	(69.1)
Current taxation liabilities		**(54.9)**	(43.6)
Trade and other payables		**(1,673.4)**	(1,519.6)
		(4,684.7)	(4,391.8)
Total liabilities		**(6,934.7)**	(6,397.0)
Net assets		**6,575.0**	5,423.6
Equity			
Property revaluation reserve		**706.1**	632.3
Income and expenditure reserve and other reserves		**5,228.2**	4,797.9
Cash flow hedge reserve		**14.7**	20.8
Foreign exchange translation reserve		**595.3**	(96.9)
Equity attributable to Bupa		**6,544.3**	5,354.1
Equity attributable to non-controlling interests		**30.7**	69.5
Total equity		**6,575.0**	5,423.6

Consolidated Statement of Cash Flows

for the year ended 31 December 2016

	Note	2016 £m	2015 £m
Operating activities			
Profit before taxation expense		**522.9**	374.3
Adjustments for:			
Net financial expense	3,4	**29.1**	49.3
Depreciation, amortisation and impairment		**345.7**	454.7
Deferred consideration on disposal of Bupa Ireland Limited		**-**	(25.5)
Other non-cash items		**28.4**	13.0
Changes in working capital and provisions:			
Increase in provisions and other liabilities under insurance contracts issued		**123.7**	99.4
Increase in assets under insurance business		**(50.0)**	(64.9)
Change in net pension asset/liability		**(56.2)**	(51.7)
Increase in trade and other receivables, and other assets		**(26.6)**	(37.4)
Increase in trade and other payables, and other liabilities		**119.8**	82.3
Cash generated from operations		**1,036.8**	893.5
Income taxation paid		**(142.0)**	(102.7)
Increase in cash held in restricted assets		**(3.8)**	(2.7)
Net cash generated from operating activities		**891.0**	788.1
Cash flow from investing activities			
Acquisition of subsidiary companies, net of cash acquired		**(127.5)**	(156.3)
Increase in equity accounted investments		**(31.8)**	(7.5)
Acquisition of non-controlling interests in subsidiary company		**(95.1)**	-
Disposal of subsidiary companies, net of cash disposed of		**21.9**	-
Deferred consideration on disposal of Bupa Ireland Limited		**-**	25.5
Purchase of intangible assets		**(103.1)**	(88.8)
Purchase of property, plant and equipment		**(361.9)**	(262.6)
Proceeds from sale of property, plant and equipment		**19.1**	9.2
Purchase of investment property		**(37.7)**	(35.0)
Disposal of investment property		**0.6**	0.4
Net (purchase of)/proceeds from financial investments, excluding deposits with credit institutions		**(142.7)**	108.8
Net withdrawal from/(investment into) deposits with credit institutions		**509.9**	(334.8)
Interest received		**38.3**	45.8
Net cash used in investing activities		**(310.0)**	(695.3)
Cash flow from financing activities			
Proceeds from issue of interest bearing liabilities and drawdowns on other borrowings		**556.0**	102.0
Repayment of interest bearing liabilities and other borrowings		**(903.8)**	(90.4)
Interest paid		**(101.3)**	(112.3)
(Payments for)/receipts from hedging instruments		**(77.7)**	33.4
Dividends paid to non-controlling interests		**(2.1)**	(3.6)
Net cash used in financing activities		**(528.9)**	(70.9)
Net increase in cash and cash equivalents		**52.1**	21.9
Cash and cash equivalents at beginning of year		**1,194.1**	1,187.6
Effect of exchange rate changes		**166.5**	(15.4)
Cash and cash equivalents at end of year		**1,412.7**	1,194.1

Consolidated Statement of Changes in Equity

for the year ended 31 December 2016

	Property revaluation reserve £m	Income and expenditure reserve and other reserves £m	Cash flow hedge reserve £m	Foreign exchange translation reserve £m	**Total attributable to Bupa £m**	Non-controlling interests £m	**Total equity £m**
2016							
At beginning of year	632.3	4,797.9	20.8	(96.9)	**5,354.1**	69.5	**5,423.6**
Retained profit for the financial year	-	381.6	-	-	**381.6**	5.2	**386.8**
Other comprehensive income/(expense)							
Unrealised profit on revaluation of property	63.5	-	-	-	**63.5**	-	**63.5**
Realised revaluation profit on disposal of property	(6.6)	6.6	-	-	**-**	-	**-**
Remeasurement loss on pension schemes	-	(14.6)	-	-	**(14.6)**	-	**(14.6)**
Unrealised losses on available-for-sale assets	-	(0.2)	-	-	**(0.2)**	-	**(0.2)**
Foreign exchange translation differences on goodwill	-	-	-	335.5	**335.5**	-	**335.5**
Other foreign exchange translation differences	21.9	0.3	(7.9)	425.3	**439.6**	14.0	**453.6**
Net loss on hedge of net investment in overseas subsidiary companies	-	-	-	(86.7)	**(86.7)**	-	**(86.7)**
Change in fair value of underlying derivative of cash flow hedge	-	-	2.0	-	**2.0**	-	**2.0**
Foreign exchange reserve on disposal of subsidiary	-	-	-	2.2	**2.2**	(0.2)	**2.0**
Taxation (expense)/credit on income and expense							**-**
recognised directly in other comprehensive income	(5.0)	2.4	(0.2)	15.9	**13.1**	-	**13.1**
Other comprehensive income/(expense) for the year, net of taxation	**73.8**	**(5.5)**	**(6.1)**	**692.2**	**754.4**	**13.8**	**768.2**
Total comprehensive income/(expense) for the year	**73.8**	**376.1**	**(6.1)**	**692.2**	**1,136.0**	**19.0**	**1,155.0**
Acquisition of subsidiary companies attributable to non-controlling interest	-	54.2	-	-	**54.2**	(55.7)	**(1.5)**
Dividends paid to non-controlling interests	-	-	-	-	**-**	(2.1)	**(2.1)**
At end of year	**706.1**	**5,228.2**	**14.7**	**595.3**	**6,544.3**	**30.7**	**6,575.0**
2015							
At beginning of year	707.9	4,590.7	20.0	71.4	**5,390.0**	78.4	**5,468.4**
Retained profit for the financial year	-	278.3	-	-	**278.3**	-	**278.3**
Other comprehensive income/(expense)							
Unrealised loss 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	-	16.9	-	-	**16.9**	-	**16.9**
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 in other comprehensive income	16.0	3.4	(0.4)	-	**19.0**	-	**19.0**
Other comprehensive income/(expense) for the year, net of taxation	**(75.6)**	**20.2**	**0.8**	**(168.3)**	**(222.9)**	**(5.5)**	**(228.4)**
Total comprehensive income/(expense) for the year	**(75.6)**	**298.5**	**0.8**	**(168.3)**	**55.4**	**(5.5)**	**49.9**
Liability for future acquisition of minority 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**	**4,797.9**	**20.8**	**(96.9)**	**5,354.1**	**69.5**	**5,423.6**

BUPA
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2016

1 Basis of preparation

(a) Financial information and basis of preparation

This preliminary results statement was approved by a duly appointed and authorised committee of the Board of Directors of The British United Provident Association Limited (Bupa) on 1 March 2017.

The financial information for the year ended 31 December 2016 and 31 December 2015 have been prepared under International Financial Reporting Standards (IFRS) as adopted by the EU.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2016 or 2015 but is derived from those accounts. Statutory accounts for the year ended 31 December 2015 have been delivered to the Registrar of Companies, and those for the year ended 31 December 2016 will be delivered in due course. The auditor, KPMG LLP, has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

b) Events occurring after the reporting period

On 9 February 2017, Bupa completed the purchase of 100% of the issued share capital of Oasis Dental Care, with an enterprise value of £835.0m, following regulatory referral from the European Commission to the UK Competition and Markets Authority (CMA).

2 Operating segments

Reorganisation during the year led to four Market Units being reported from the previous five; the newly formed Market Units being Europe and Latin America (resulting from the transfer of LUX MED into the previous Spain and Latin America Market Unit) and International Markets (resulting from the merger of International Development Markets and Bupa Global). Comparatives have been restated to reflect this change. The new structure enhances collaboration and synergies across the business.

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, care villages and respite care Management and operation of a private hospital providing medical and ancillary services to patients Home healthcare products and services[1]
Europe and Latin America	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 Medical subscription, health insurance, diagnostics and operation of clinics and hospitals in Poland Health insurance and operation of outpatient clinics and hospitals in Chile
International Markets	International health insurance to individuals, small businesses and corporate customers in over 190 countries Domestic health insurance and related products within Hong Kong, Thailand, China, Saudi Arabia and India Diagnostics, primary healthcare and day care clinics in Hong Kong

[1] Bupa Home Healthcare was sold to Celesio on 1 July 2016.

Segmental information

	Australia and New Zealand		UK		Europe and Latin America		International Markets		Total	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 (restated) £m	**2016 £m**	2015 (restated) £m	**2016 £m**	2015 £m
(i) Revenues										
Total revenues for reportable segments	**4,360.6**	3,648.4	**2,786.1**	2,858.1	**2,474.7**	2,027.4	**1,427.9**	1,296.2	**11,049.3**	9,830.1
Inter segment income	**-**	-	**(0.2)**	(0.3)	**-**	-	**(0.1)**	(0.5)	**(0.3)**	(0.8)
External revenues for reportable segments	**4,360.6**	3,648.4	**2,785.9**	2,857.8	**2,474.7**	2,027.4	**1,427.8**	1,295.7	**11,049.0**	9,829.3
Net reclassifications to other expenses or financial income and expense									**(1.1)**	(0.9)
Consolidated total revenues									**11,047.9**	9,828.4
(ii) Segment result										
Underlying profit for reportable segments[1]	**344.4**	279.5	**194.9**	182.6	**165.6**	90.0	**65.9**	127.1	**770.8**	679.2
Central expenses and net interest margin									**(70.1)**	(96.7)
Consolidated underlying profit before taxation									**700.7**	582.5
Non-underlying items:										
Amortisation and impairments of intangible assets and goodwill arising on business combinations	**(14.4)**	(13.0)	**(14.7)**	(118.7)	**(28.3)**	(14.8)	**(13.3)**	(14.1)	**(70.7)**	(160.6)
Net (losses)/gains on disposal of businesses and transaction costs on business combinations[2]	**(0.3)**	(0.6)	**9.7**	(1.6)	**(0.1)**	(1.7)	**(2.8)**	0.1	**6.5**	(3.8)
Net property revaluation gains/(losses) [3]	**17.8**	2.3	**(35.3)**	(67.7)	**(6.3)**	3.7	**-**	-	**(23.8)**	(61.7)
Realised and unrealised foreign exchange (losses)/gains	**(0.3)**	0.2	**(0.3)**	(0.1)	**(2.5)**	(2.0)	**22.5**	(9.8)	**19.4**	(11.7)
Other Market Unit non-underlying items [4]	**(1.0)**	(1.1)	**(12.7)**	(0.4)	**(0.7)**	1.4	**(0.9)**	(2.3)	**(15.3)**	(2.4)
Early termination of secured loans									**(112.3)**	-
Gains on return-seeking assets, net of hedging									**22.9**	7.0
Central non-underlying items [5]									**(4.5)**	25.0
Total non-underlying items									**(177.8)**	(208.2)
Consolidated profit before taxation expense									**522.9**	374.3

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

[2] Includes £12.3m profit on disposal of Bupa Home Healthcare in 2016.

[3] 2016 includes £11.2m write down on reclassification as held for sale in the UK. 2015 includes a property and equipment write down in UK Care Services of £67.8m, of which £8.7m is equipment.

[4] Includes £11.0m UK Market Unit restructuring costs and £4.2m net loss on disposal of fixed assets in 2016; includes £1.1m Market Unit restructuring costs, £0.7m impairment of investment in associate and £0.6m net loss on disposal of fixed assets in 2015.

[5] Includes £25.5m receipt of deferred consideration in relation to the sale of Bupa Ireland Limited in 2015

3. Financial income

	2016 £m	2015 £m
Interest income:		
Loans and receivables	**41.2**	40.8
Investments designated as available for sale	**1.3**	-
Investments held to maturity	**2.8**	2.6
Investments designated at fair value through profit or loss	**3.3**	1.7
Net realised gains on financial investments designated at fair value through profit or loss	**5.4**	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	**19.7**	(4.4)
Investment property	**21.2**	11.6
Net foreign exchange translation gains	**77.9**	2.8
Total financial income	**212.1**	68.7

Included within 'net realised gains on financial investments designated at fair value through profit or loss' and 'investments designated at fair value through profit or loss' is a net gain, after hedging, on the Group's return seeking asset portfolio of £22.9m (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.

2016 net foreign exchange gain includes a £63.5m gain on the retranslation of US dollar and sterling investments held in Bupa Egypt as a result of a devaluation of the Egyptian pound in November 2016.

4. Financial expense

	2016 £m	2015 £m
Interest expense on financial liabilities at amortised cost	**86.3**	114.3
Finance charges in respect of finance leases	**0.8**	1.2
Loss on early repayment of debt	**151.6**	-
Other financial expenses	**2.5**	2.5
Total financial expense	**241.2**	118.0

A loss of £151.6m was recognised following the early redemption of the secured loans issued by UK Care No.1 Limited in April 2016. 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.

BUPA

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

5 Borrowings

	2016			2015		
	Non-current £m	**Current £m**	**Total £m**	Non-current £m	Current £m	Total £m
Subordinated liabilities						
Callable subordinated perpetual guaranteed bonds	**330.0**	**5.9**	**335.9**	330.0	5.9	335.9
Fair value adjustment in respect of hedged interest rate risk	**50.9**	**-**	**50.9**	51.3	-	51.3
Callable subordinated perpetual guaranteed bonds at fair value	**380.9**	**5.9**	**386.8**	381.3	5.9	387.2
Other subordinated debt	**921.1**	**8.8**	**929.9**	528.2	4.0	532.2
Total subordinated liabilities	**1,302.0**	**14.7**	**1,316.7**	909.5	9.9	919.4
Other interest bearing liabilities						
Senior unsecured bonds	**399.3**	**1.1**	**400.4**	387.1	366.8	753.9
Secured loans	**-**	**-**	**-**	233.5	4.3	237.8
Bank loans	**117.1**	**75.6**	**192.7**	97.0	50.2	147.2
Finance lease liabilities	**6.4**	**5.4**	**11.8**	9.2	6.6	15.8
Total interest bearing liabilities	**522.8**	**82.1**	**604.9**	726.8	427.9	1,154.7
Total borrowings	**1,824.8**	**96.8**	**1,921.6**	1,636.3	437.8	2,074.1

6 Assets and associated liabilities held for sale

	2016 £m	2015 £m
Assets held for sale		
Property, plant and equipment	479.0	-
Trade and other receivables	26.3	-
Total assets classified held for sale	**505.3**	-
Liabilities associated with assets held for sale		
Trade and other payables	(45.5)	-
Total liabilities classified as held for sale	**(45.5)**	-
Net assets classified as held for sale	**459.8**	-

An office building in the UK is presented as held for sale at 31 December 2016 following the decision to sell the property.

As the result of a review of the UK care services business, a number of homes are also held for sale at 31 December 2016, comprising the assets and liabilities of Bupa Care Homes Limited (one of the Group companies in which some UK care homes are held) and certain assets and liabilities of other Group companies.

On classification as held for sale a write down of £11.2m has been recognised in other income and charges in the Income Statement with regards to expected costs to sell.