Annual report and accounts 2004

feel better BUPA

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President	E F Webb MBE
Vice President	Sir Bryan Nicholson
Board of Directors	B K Sanderson CBE, Chairman R D Brown G A Clarke V F Gooding CBE, Chief Executive Professor the Hon O F W James R King O G Ni-Chionna R P Walther
Secretary	A D Walford

Group highlights

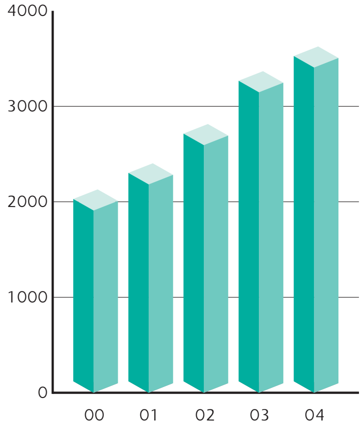
Group income £3,627.2m, up 8%

Operating surplus on ordinary activities before taxation £182.2m up 35%

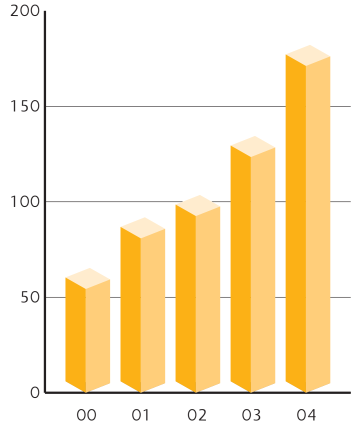
Group reserves of £1,409.2m, up 8%

Served over 7.8 million customers worldwide

Group income (£m)

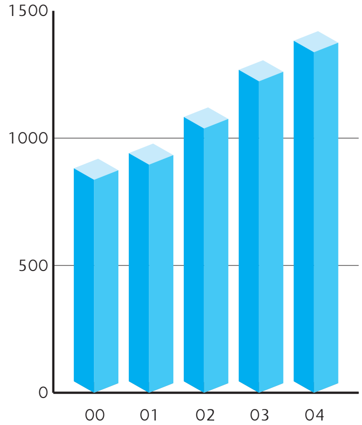


Operating surplus* (£m)



*Operating surplus on ordinary activities before taxation

Total reserves (£m)



Chairman's statement

BUPA had an excellent year in 2004. All our main businesses performed ahead of last year, and ahead of expectations and, most importantly, they continued to achieve strong customer satisfaction results. We have achieved significant growth in profits primarily through organic development. We continue to explore appropriate opportunities to expand the business in both the UK and internationally, where our activities now represent a third of operating surplus before goodwill amortisation, goodwill impairment and investment and financing.

At BUPA, our customers are our top priority. Since its formation in 1947, BUPA has never had shareholders. Our status means we are run with conventional company disciplines whilst all surpluses after taxation are fully reinvested to improve the quality and breadth of facilities and services available for customers. Our strategy and scope of activities are consistent with BUPA's founding purpose - to prevent, relieve and cure sickness and ill health of every kind.

The UK healthcare market is changing. More funds are being invested by the Government in health and this provides increasing opportunity for the independent sector. BUPA endorses co-operation between the independent and public sectors and we will continue to work proactively with the Department of Health and the NHS.

BUPA has an excellent long-term future because there is and will continue to be a strong demand for high quality private medical treatment. The vast majority of private medical insurance customers do not feel that recent improvements in the NHS have made their insurance less valuable.

Consumers are taking greater responsibility for their own healthcare and have higher expectations of the standard of care received and the choices offered to them. They want to choose how, when, and where they are treated and by whom. True customer choice is still limited within the NHS.

The public sector will not be able to meet all these future expectations; good healthcare is expensive whether delivered in the public or independent sector. The public purse has limited funds. In the long-term, the UK needs to consider the development of new healthcare funding models to support the ever growing cost of healthcare, and more private sector funding will be required. BUPA's experience in countries such as Ireland, Australia and Spain is that healthcare delivered in a mixed economy provides benefits which include greater choice and a reduced burden on the state system whilst still being fair for all. Over time we believe that the contribution of the independent sector to the UK healthcare economy is likely to grow.

Organic growth across the Group in 2004 was complemented by the acquisition of 12 care homes in Scotland and one in England, bringing our portfolio to 258 in the UK. In Spain, we opened two new care homes and entered into a new management contract for a further care home. We are also broadening our expertise in building new care homes and regularly review new development opportunities.

During the year we carried out a strategic review of our hospitals portfolio. The actions arising from the review will enable our hospitals business to be more efficient and competitive in responding to the needs of its customers and future developments in the healthcare

sector. We are currently pursuing opportunities to dispose of ten of our smaller hospitals and expect to complete this sale in the first half of 2005. The implementation of the strategy review involves significant investment in the hospitals we are retaining.

BUPA's vision encompasses playing an active role in the communities in which we operate worldwide. As well as cash donations, BUPA provides donations in kind and time as our employees participate in community volunteering and fundraising. BUPA and its employees have raised £0.3m to date for the Tsunami appeal.

The BUPA Foundation is an independent medical research charity that funds medical research to prevent, relieve and cure sickness and ill health. Since 1979, it has contributed approximately £16m to excellence in medical research and healthcare initiatives.

Arthur Walford, our Company Secretary, will be retiring on 1 September 2005 after 17 years of dedicated service to BUPA. Arthur is also currently Group General Counsel and Chairman of the Trustees of the BUPA Pension Scheme. On behalf of the Board, I would like to thank him for his valuable contribution to BUPA.

It was with great sadness that we learned of the deaths of Lord Wigoder QC and Derek Damerell. Lord Wigoder, was BUPA's Senior Vice-President and Chairman between 1981 and 1992. Derek Damerell held the position of Chief Executive for ten years until 1984 and remained on the board as a Non-Executive Director until 1988.

I am delighted to welcome Robert Walther to the Board as a Non-Executive Director. He joined BUPA on 1 May 2004, is an actuary and was formerly Chief Executive of Clerical Medical Investment Group Ltd.

2004 has been a tremendous year for the BUPA Group and we look to the future with confidence. We have won many accolades recognising the success of our products and services, and reflecting the enormous loyalty and efforts of our employees. I would like to express my gratitude to all those involved in our achievements and who have helped to ensure BUPA remains an outstanding healthcare company.

Bryan K Sanderson.

Bryan K Sanderson CBE, ***Chairman***
10 March 2005

Chief Executive's review

2004 has been another very good year for the BUPA Group with all our main businesses performing well. Income increased by 7.7% to £3.6bn and the operating surplus on ordinary activities before taxation increased from £134.5m to £182.2m, an improvement of 35.5%. This reflected strong business profits, reduced charges for goodwill impairments and asset write-downs, and higher cashflows which resulted in reduced underlying net interest charges. The profit improvement in 2004 was achieved through organic growth. Over the past five years, operating surplus on ordinary activities before taxation has nearly trebled.

Our strategy remains to have a balanced portfolio of health and care services with a good geographical spread, ensuring we are not over-dependent on one sector of healthcare or on a single economic cycle. In 2004, 28.4% of income was generated outside the UK (2003: 28.7%). Our customer base grew by over 4% in the year to 7.8 million customers.

Investment in both assets and our people is vital to BUPA. We have continued to make significant investment in improving our hospitals and care homes as well as in ongoing development of our operating systems in the insurance businesses. Our employees play a huge part in our success and with almost 40,000 people around the world, we place immense importance on training and education. For example, we have achieved Investors in People status in all our major UK businesses.

The UK health and care environment is evolving and the independent sector has a very valuable role to play. It currently saves the NHS £700m a year and is capable of much more. BUPA arranges treatment for over one million patients a year, who would otherwise require NHS treatment. Although private patients will continue to represent BUPA's core customer group, we believe that continuing to work with the NHS will benefit both BUPA customers and the health of the nation.

We continue to work closely with the medical and other clinical professions to set and maintain high standards of care for our customers. Our policies and treatment guidelines all seek to ensure consistent, appropriate and effective care. In addition to measuring customer satisfaction on a regular basis, we have also led the work on measuring clinical outcomes in the United Kingdom, surveying patients and feeding back the information gained to their hospitals and consultants to encourage further improvement in quality.

Private medical insurance - UK and Ireland

BUPA is the UK's leading private medical insurer with more than three million customers, offering a variety of products for individual and corporate customers. BUPA Health Assurance offers long-term protection products whilst specialist cover is provided by BUPA Travel and BUPA Dental.

The UK insurance business has grown its individual and corporate registrations in 2004 despite increased competition as existing rivals introduce new products and new companies enter the market. BUPA remains the market leader and is determined to provide unsurpassed quality and value to all its customers. Readers of Personal Finance magazine have voted BUPA the best health insurer in the UK for the third year running and members have increased by over 500,000

since 1997. BUPA understands that the market is changing and we are developing more products and services tailored to customer needs. A recent review of cancer cover by charity Cancer BACUP found BUPA's cover to be the most comprehensive in the industry.

Customer satisfaction continues to be key to the success of our business with 81% of our customers rating our service as very good or excellent; an increase of 4% over 2003. We are constantly looking at ways to improve our customer service and are developing our systems considerably over the next few years to enable us to respond and adapt the business to evolving market and customer needs.

BUPA Ireland had a great year, increasing its membership by 16%. We currently insure more than 400,000 customers in Ireland, in spite of increased competition. We continue, however, to have serious concerns over the Irish Government's proposal to introduce 'risk equalisation'. This is a subsidy system which could potentially equate to BUPA Ireland paying a multi-million Euro subsidy to the state owned health insurer the Voluntary Health Insurance Board (VHI). We believe that this would destroy the benefits that competition has brought to customers in recent years. Currently, the Health Insurance Authority of Ireland has decided that the criteria required for risk equalisation have not yet been fulfilled. We have applied to the European Court of First Instance in Luxembourg to overturn the EU decision to allow this State aid.

Following further investment in the business, BUPA Health Assurance had a very encouraging year, increasing its membership levels significantly.

Hospitals and Medical Services

BUPA runs 34 hospitals in the UK and the NHS-funded diagnosis and treatment centre (DTC) at Redhill in Surrey. In 2004, we provided care for 190,000 private in-patient and day-case episodes and nearly 670,000 out-patient episodes. We are pleased to play a part in reducing hospital waiting lists by treating over 26,000 NHS patients a year with 13,000 people receiving treatment at our hospitals and another 13,000 treated at the DTC. BUPA also operates the Blackrock Clinic in Ireland, which performed very well in 2004.

The hospitals business had a good year despite slower rates of growth and continuing cost pressures in the hospital industry. Although in-patient and day-case volumes were broadly flat, out-patient volumes have shown good growth. We have adapted well to these challenges as we implement the actions arising from a strategy review. This has contributed to a good trading performance. Our customer satisfaction levels remain very high with 88% of our customers rating the service received as very good or excellent.

BUPA is always looking for ways in which it can offer better value healthcare. Greater value for our customers can in part be achieved through working with our consultants and employees to achieve increased standardisation of our clinical and business processes.

BUPA has identified ten hospitals which do not complement our long-term strategy. We are exploring opportunities to sell these hospitals.

Our ongoing investment programme includes new MRI scanners, a major upgrade to our Parkway hospital in Solihull and other facility expansion across the portfolio. Hygiene and cleanliness in our hospitals are of the utmost importance and we have spent several million pounds to date on our sterile services programme, ensuring contamination risks are minimised.

The DTC at Redwood hospital in Surrey had another successful year performing approximately 1,000 procedures per month. This is the second year that Redwood hospital has been running a partnership with the NHS, treating mainly day-case or short-stay patients. All treatment is funded by the NHS. The venture has been successful for a number of reasons; our expertise in providing high quality facilities and efficient business and clinical processes and our ability to work successfully as a team with the NHS. We look forward to increased co-operation with the NHS and believe that we have the right skill set to improve the healthcare of the nation further.

BUPA Wellness provides health assessments and occupational health services. 2004 has been an excellent year, with BUPA Wellness providing over 100,000 health assessments, an increase of 39% over 2003. Wellness has continued to expand its operations, opening eight centres in 2004, bringing the total number to 42. It also won several major corporate contracts in the year.

Teddies Nurseries currently operates 43 nurseries in England. Each nursery is designed around the needs of young children to ensure we provide personal and individualised support for every child in our care.

Care Services

BUPA Care Homes is the UK's largest independent care homes operator, managing 258 homes and providing high quality 24-hour nursing, residential and respite care to over 16,000 residents. 2004 has been a very successful year for the care homes business with continued strong occupancy levels and reasonable average fee growth in certain parts of the country. There continues, however, to be a number of local authorities where the fair cost of care is not recognised in the level of fees paid and this remains an area of concern. Careful management has enabled us to reduce expenditure on agency staff costs significantly.

Our strategy of growing the care homes business through acquisition as well as new build continued into 2004, with the acquisition of 13 care homes, significantly increasing our presence in Scotland. Momentum has accelerated in new build activities and we have a dedicated development team pursuing new opportunities. Two partnership contracts with Southampton City Council and Reading Borough Council to build new care homes commenced work in 2004 with completion expected in 2005. The benefits of these partnerships are extra beds at more affordable rates and tailor-made facilities for our customers.

Investment in our care homes and our people is integral to the success of the business. We are continually upgrading and refurbishing our homes. In 2004, we invested £14m in our existing sites and £5m in new sites. BUPA's largest ever training scheme commenced in 2004 for over 20,000 employees in our care homes. Termed 'Personal Best', it encourages our people to develop action plans to improve continuously the service they give to customers by making it truly individual.

BUPA Healthcare Professionals is our agency business for carers, nurses and doctors. In 2004, we supplied over two million hours of agency staff time to health and care organisations. Improvements in NHS workforce management through the use of NHS Professionals have reduced the overall market demand resulting in challenging trading conditions.

Sanitas

Sanitas is one of Spain's leading private health and care companies. In 2004, it was voted one of the most powerful brand names in Spain by business magazine Actualidad Económica. Medical insurance membership increased by 5% in the year and customer satisfaction levels were at 80%. We now have over one million customers, a network of 20,000 doctors, 17 day care centres and provide dental cover for more than 200,000 people. In addition, Sanitas Residencial operates 21 care homes.

Our two hospitals in Madrid cared for over 500,000 in-patient and out-patient episodes in 2004, with a further 800,000 out-patient episodes attending the 17 day care centres around the country. Work is continuing on our new flagship hospital in north Madrid, La Moraleja, one of the biggest construction projects the BUPA Group has undertaken. The hospital is due to open in late 2005 and is designed to cope with the significant increase in customers in recent years. The hospital will have the latest technology and equipment enabling Sanitas to provide a wide range of treatments for its customers.

Sanitas Residencial was recognised as the best care home operator in Spain, as voted by Jubilo, a group dedicated to improving the quality of life of the elderly in Spain. Sanitas Residencial delivers high quality care to its customers with nearly 2,400 beds. As Spain's fourth largest care homes group, we have established a strong reputation in the market and have increased occupancy levels across the business. We will continue to seek suitable opportunities for growth, through acquisition, organic development and new management contracts.

As well as significant investment in the Sanitas business, we are strongly committed to the health and welfare of our people. We were voted one of

Spain's best employers by business magazine Actualidad Económica and offer excellent training and working conditions in our eco-friendly office building.

International

Our International division extends beyond the UK, Ireland and Spain with BUPA providing private health insurance cover through local operations in Australia, Hong Kong, Thailand and Saudi Arabia. In addition, UK based BUPA International is the largest health insurer for expatriates. We also operate primary care activities in Hong Kong and Singapore.

BUPA Australia Health was acquired in 2002. We are pleased with the financial performance of our Australian business which now has nearly one million customers. We continue to work with the Government to find ways of alleviating the rising cost of medical technology in the market. In 2004, the business won the Australian Human Resources Institute award for Excellence in People Management demonstrating its commitment and dedication to its employees.

During the year, we sold our only hospital in Australia, as we continue to focus on growing the health insurance business in that country.

BUPA International's membership grew by 4% in 2004 and now covers nearly 280,000 expatriates in 190 countries around the world. 2004 also saw growth in two of its new target markets in the US and Latin America.

Our medical insurance businesses in Asia - BUPA Hong Kong and BUPA Thailand - continued to grow and now insure over 300,000 customers.

BUPA Middle East insures nearly 120,000 customers in Saudi Arabia, representing 12% of the Saudi health insurance market. The number of customers is expected to grow significantly as new insurance regulations are enforced requiring employers to arrange medical insurance for all foreign workers in Saudi Arabia. In preparation for this, BUPA Middle East has introduced new computer systems to cope with the expected growth in business as well as to improve customer service.

Conclusion

BUPA is at the forefront of the healthcare market. Our strengths lie in anticipating and meeting our customers' needs, with products tailored to their individual circumstances. The prospects for BUPA's future are strong. We will continue to seek opportunities to improve what we do for all our customers, and to develop the Group and capitalise on our core skills. Our strategy of spreading risk and continually looking for growth opportunities has enabled BUPA to grow consistently year on year over the past five years. This has been achieved due to a strong management team and the loyalty and support of our employees who are all committed to BUPA's vision of 'taking care of the lives in our hands'. I would like to thank them all for their dedication and hard work.

Val Gooding

Val Gooding CBE, ***Chief Executive***
10 March 2005

Finance Director's report

Trading activities

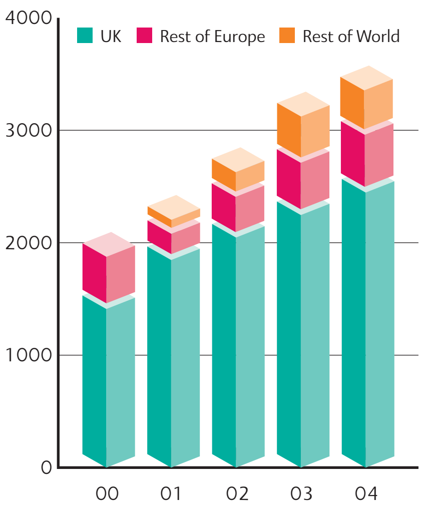
A segmental analysis of BUPA's trading results is shown in note 1 to the financial statements.

In 2004, BUPA recorded another year of strong trading results. Group income grew by 7.7% to £3.6bn and the operating surplus* increased by 15.4% to £274.5m. The surplus on ordinary activities before taxation grew by 35.5% to £182.2m. This performance reflected very good organic growth in most businesses and reduced charges for goodwill impairment and asset write-downs. Underlying financing costs also decreased significantly.

Insurance activities

The Group's insurance activities recorded an 8.0% increase in income over 2003. Income in the UK increased by 8.5%, the Rest of Europe by 8.7% and the Rest of the World increased by 5.9%. Members insured worldwide increased to 6.4m (2003: 6.2m).

Income by origin (£m)



*All references made to operating surplus in the Finance Director's report refer to operating surplus before goodwill amortisation, goodwill impairment and investment and financing.

The operating surplus from insurance activities increased by 8.6% to £158.6m. The operating surplus from private medical insurance in the UK rose by 2.8%. Membership increased again in the UK and rose by 4% in BUPA International while membership in Ireland advanced by an excellent 16%. Sanitas reported another good year with membership levels increasing by 5%, contributing to a higher operating surplus. The operating surplus in Rest of World markets advanced by 26.7% due to another successful year in BUPA Australia and improved profitability in our joint venture, BUPA Middle East. BUPA Health Assurance (BHA), our UK long-term protection business had a very successful year growing membership by 68% and increasing its operating surplus on an embedded value basis however, it continued to report losses on the conservative basis required for financial statement reporting.

Hospital and Medical Services

This segment comprises our hospitals in the UK, Ireland and Spain, BUPA Wellness and Teddies Nurseries. We also operate a range of primary care services overseas. During the year, we sold our only hospital in Australia.

Turnover was £667.3m, an increase of 6.4% on 2003 mainly due to good growth in UK hospital revenues and also in Wellness. While UK in-patient and day-case volumes were slightly higher than last year, out-patient volumes grew by 11% and average revenue per discharge increased due to a beneficial case mix.

Wellness grew the number of health assessments performed by 39% to 112,000 and results also

benefited from the first full year of trading in the Personal Effectiveness Centre Limited which was acquired by BUPA Wellness in March 2003. Teddies turnover grew significantly in the year with three new nurseries opened in 2004.

In Spain, turnover rose by 7.4% due to price increases and higher volumes. Blackrock hospital in Ireland increased turnover by 12.8% due to higher in-patient and day-case volumes as well as stronger out-patient revenues. In the Rest of World, turnover decreased due to the sale of Hurstville hospital in Australia.

Hospitals and Medical Services operating surplus increased by 34.4% in the year, mainly in UK hospitals where results benefited from the beneficial case mix, stronger out-patient revenues and actions to increase operating efficiency. BUPA Wellness and Blackrock hospital in Ireland also saw significant increases in operating surplus.

Care Services

This segment comprises our care homes in the UK and Spain and BUPA Healthcare Professionals, our healthcare agency staffing business in the UK.

Turnover increased by 7.7% to £495.5m. Thirteen care homes were acquired in 2004 in the UK, bringing the total portfolio to 258, with 18,000 registered beds. In Spain, where we operate 21 care homes, we increased occupancy levels to 79%, up from 72% in 2003, and increased the number of beds by 20% to 2,400.

The operating surplus in Care Services increased by 21.1% in 2004, mainly arising in the UK care homes business due to pricing changes, better occupancy levels and good control of agency staff costs.

Investment and financing

Investment and financing activities resulted in a net charge of £54.8m (2003: £49.7m). The increased charge reflected a one-off cost of £27.1m arising on the redemption of 88% of the £100m 10.5% BUPA Finance PLC subordinated bonds originally issued in 1993. This was refinanced using proceeds from the £330m BUPA Finance PLC 6.125% subordinated bond issued in December; further details are given in note 25. This one-off charge will be offset in future years in net present value terms by the much lower interest coupon on the new bonds.

After taking into account this item and other non-recurring items in both 2003 and 2004, the underlying net financing charge fell significantly due to strong cash inflows and higher average interest rates on net deposits.

Goodwill and other charges/income

Total charges for goodwill amounted to £36.1m (2003: £41.4m) and included impairment adjustments of £14.1m (2003: £16.9m). Other charges declined by £10.8m mainly due to a reduced charge arising from property revaluations.

Surplus and movements in reserves

The operating surplus on ordinary activities before taxation was £182.2m (2003: £134.5m) up 35.5%.

The tax charge on surplus on ordinary activities of £71.2m (2003: £64.0m) represented a reduced headline effective tax rate of 39% (2003: 48%) due to the utilisation of tax losses incurred in earlier years. The headline rate of taxation is higher than the current corporation tax rate of 30% mainly due to disallowable goodwill amortisation, depreciation on buildings, asset revaluation adjustments and timing differences not reflected in the deferred tax charge.

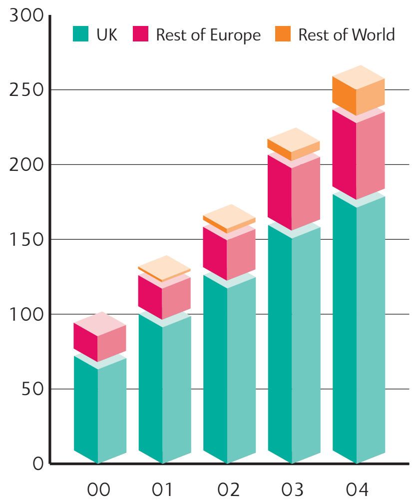
The surplus for the financial year was £109.3m (2003: £70.8m). Group reserves increased by £103.2m to £1,409.2m after allowing for a property revaluation deficit of £2.0m and foreign exchange translation losses of £4.1m arising in respect of the balance sheets of overseas subsidiaries.

Cash flow

Cash available for investment of £196.8m increased by £65.0m and is reflected particularly in the rise in financial investments from £1,421.9m to £1,619.0m.

Cash inflow from operating activities increased by £72.1m to £526.8m reflecting improved trading and higher interest receivable. The one-off charge on redemption of the BUPA Finance PLC 10.5% subordinated bond increased finance servicing costs to £110.8m (2003: £86.8m). Taxation paid was very similar to 2003 at £65.2m. Net capital expenditure was £76.8m (2003: £94.4m). Net acquisitions and disposals of £38.6m (2003: £208.7m) primarily reflected care home purchases in the UK. The issue of the £330m subordinated bond and repayment of other borrowings resulted in net financing repayments of £38.6m (2003: £132.1m increase).

Operating surplus by origin (£m)



Borrowings

Total borrowings were £1,230.0m (including subordinated debt of £324.5m). In 2003, total borrowings were £1,287.9m (including subordinated debt of £99.0m). The new bond issue was used to repay 88.0% of the 10.5% subordinated bond at a premium of £27.1m and also to repay existing debt.

Derivatives

The Group uses futures, options, forwards and swaps on a controlled basis to hedge interest rate movements and foreign exchange exposures which arise within the business.

Foreign exchange

Approximately 30% of the Group's net assets (2003: 30%) are held by overseas subsidiaries. BUPA's main foreign exchange exposures arise on the Euro and the Australian dollar due to its investments in Ireland, Spain and Australia. Part of the exposure is hedged using appropriate foreign currency borrowings.

Foreign exchange movements on the Australian dollar and Euro resulted in a net charge to reserves of £4.1m (2003: £34.4m net credit) on retranslation of the balance sheets at closing rates.

International Financial Reporting Standards (IFRS)

In the future, all listed companies in the EU will be required to prepare their accounts under IFRS. Although not a publicly quoted company, BUPA will adopt IFRS for the first time in the Group accounts for the year ending 31 December 2005. Further details are given on pages 18 and 19.

Pensions

The Group has a shortfall in its main final salary pension scheme. As with many final salary schemes this is due to factors such as declines in investment returns and people living longer. An independent actuary carried out an interim review of the scheme as at 1 July 2004 and this revealed a shortfall of £91.1m on the normal funding basis. The Group has been making special contributions since the end of 2003 to reduce the deficit.

This is the last year that BUPA will account for pension costs under SSAP 24: Accounting for pension costs. We are also required to make additional disclosures under FRS 17: Retirement benefits, and these are given in note 12 to the financial statements. The methodology and assumptions used to calculate the value of pension assets and liabilities under FRS 17 are substantially consistent with the requirements of IAS 19: Employee benefits, which will apply under IFRS from 2005.

Conclusion

2004 has been a year of excellent results. We have grown all our main businesses both in the UK and internationally and have continued to achieve strong cash generation. We are well placed to explore further opportunities in the healthcare market.

R King

Ray King, ***Group Finance Director***
10 March 2005

International Financial Reporting Standards

In 2002, the EU adopted Regulation number 1606/2002 which requires companies listed in the EU to adopt International Financial Reporting Standards (IFRS) for accounting periods starting 1 January 2005. Although not a listed company, BUPA has chosen to comply with this regulation and will be implementing IFRS from that date.

The first financial information to be reported by the Group in accordance with IFRS will be for the year ending 31 December 2005, but the requirement to present comparative information means that an opening balance sheet and primary statements for the year ended 31 December 2004, prepared in accordance with IFRS, will also be required.

BUPA has established a project steering committee to co-ordinate the transition to IFRS. The transition plan has involved three stages: a preliminary assessment, detailed impact study and implementation of IFRS across the Group. The Audit Committee has been given regular updates on the progress of the project.

The following areas that will impact BUPA's net assets and surplus for the financial year as a result of the transition to IFRS have been identified. This summary is not intended to be a complete list of areas. Further significant differences may arise as a result of the Group's continued detailed assessment and interpretations or pronouncements issued by the International Accounting Standards Board (IASB). In addition, the Group may elect to adopt early any further accounting standards issued by the IASB before the publication of its first consolidated IFRS financial statements. In the discussion below, IAS refers to International Accounting Standards which preceded IFRS.

Insurance contracts

A small number of insurance contracts issued by BUPA's insurance business do not meet the definition of insurance contracts under IFRS 4: Insurance contracts. The revenue and expenses relating to these risk insurance contracts will be removed from premiums and claims respectively and replaced by net insurance revenue earned. An adjustment will also be required to remove technical provisions and assets relating to the risk share contracts and replace these with a liability to customers for the cash held by BUPA on their behalf.

Derivative financial instruments

IAS 32: Financial instruments: Disclosure and presentation and IAS 39: Financial instruments: Recognition and measurement, require detailed additional disclosures to be made in the accounts about the terms of financial instruments held and issued by BUPA.

The Group uses derivative financial instruments to hedge its exposure to interest rate and foreign exchange fluctuations. The Group also uses currency forwards and options to manage both foreign currency transaction and translation exposure. Exposure to interest rate fluctuation on the Group's cash deposits are managed using forward rate agreements, futures and options.

Under IAS 39, the Group will designate all these instruments against specific assets, liabilities, income and expenses. All such instruments will be measured at fair value at the balance sheet date and the hedge tested for effectiveness against defined criteria.

Post retirement benefit schemes

Under UK GAAP, the Group currently accounts for defined benefit pension schemes in accordance with SSAP 24. The Group also reports in note 12 to the financial statements the transitional disclosures required in accordance with FRS 17, including the adjustment from the figures reported under SSAP 24 which would be required if FRS 17 was adopted in the financial statements.

The methodology and assumptions used to calculate the value of pension assets and liabilities under FRS 17 are substantially consistent with the requirements of IAS 19: Employee benefits.

Leasehold land

IAS 17: Accounting for leases states that the land and buildings elements of a lease of land and buildings should be considered separately for the purpose of lease classification. Under IAS 17, land is considered to have an infinite life and unless title is expected to pass to the lessee at the end of the lease, leases of land are normally operating leases. This varies from UK GAAP which requires capitalisation of land subject to a finance lease, which can include land where title does not pass at the end of the lease term. An adjustment will be made to remove leasehold land, together with the corresponding lease liability, from the balance sheet.

Intangible assets - goodwill

Under UK GAAP, the Group's policy is to capitalise goodwill in respect of businesses acquired and amortise it on a straight line basis over its estimated useful economic life, which currently does not exceed 20 years for all acquisitions to date.

On transition to IFRS, IFRS 1: First-time adoption of International Financial Reporting Standards requires the Group to review the carrying value of capitalised goodwill at 31 December 2003 for potential impairments.

In accordance with IFRS 3: Business combinations, no amortisation of goodwill will be charged in the Group's consolidated IFRS accounts from 1 January 2004. Instead, annual reviews of the goodwill will be performed to test for potential impairments.

Intangible assets - IT software

Under UK GAAP, IT software and development costs are included within tangible fixed assets, ie hospitals, care homes and equipment or other tangible assets. Under IAS 38: Intangible assets, such assets are classified as intangible; hence BUPA will include its IT software and development costs within intangible assets.

Deferred taxation on revaluations

IAS 12: Income taxes requires that deferred tax is provided in respect of all temporary timing differences; there is no exemption for tax liabilities which are not expected to crystallise as is the case under UK GAAP. Therefore, under IAS 12, BUPA will be required to provide deferred tax in full in respect of rollover relief and revaluation gains, that previously, under UK GAAP, was not provided.

Corporate social responsibility

BUPA employs nearly 40,000 people in 300 locations across the UK and overseas and has over 7.8 million customers worldwide.

BUPA's commitment to its customers is 'taking care of the lives in our hands' and it extends this principle to its social and environmental policy.

BUPA is committed to demonstrating responsibility in its relationships with the communities in which it conducts business. We are a culturally sensitive organisation and are well placed to add value through local community partnerships, particularly in the areas of health and care.

BUPA's commitments are reflected in key policies in the areas of community, the workplace, health and safety and the environment, the marketplace and professional ethics. The policies reflect the core values of the BUPA Group worldwide and govern our approach to all our activities. BUPA is committed to the continuous improvement of its corporate social responsibility programme. The policy for each area and some key activities are summarised here.

Community

BUPA, through its promotion of healthy living and support for medical research, seeks to improve health and care as well as contributing to economic, social and environmental development in the communities in which it operates.

In 2004, BUPA donated £2.6m to the BUPA Foundation. The Foundation donates funds through its medical research grants of which the vast majority of funds go to medical research teams in NHS hospitals. It also supports clinical excellence through its annual Awards scheme.

In 2004, researchers from the University of Bristol were awarded a grant by the BUPA Foundation for a trial to test an innovative computerised treatment for teaching obese teenagers to eat healthily. The Foundation also awarded a grant to researchers from the University of Nottingham to conduct a study that seeks to lower blood pressure in stroke patients using a simple skin patch.

Many of these innovative research projects led by NHS health professionals have made a substantial difference to creating healthier communities.

The Sanitas Foundation was established in 1996 and promotes research and medical education in Spain. The Board of Trustees comprises members of the Sanitas Board and senior medical and healthcare professionals from the Spanish healthcare sector.

In 2004, Sanitas donated £0.3m to the Sanitas Foundation. The charitable activities of the Sanitas Foundation are carried out through donations, subsidies, awards, grants and incentives for research projects, as well as organising seminars, conferences and congresses. It also promotes publications and other materials relating to the objectives of the Foundation.

In the UK, BUPA is a member of Business in the Community (BITC) – a business led organisation promoting responsible business practice and engagement with local communities. More than 75% of the FTSE's top 100 companies are members of BITC and are committed to best practice in corporate social responsibility.


BUPA
BUPA
Community Connections

BUPA Community Connections was launched in 2001 to co-ordinate employee engagement in local communities and develop a network of sustainable local community partnerships. It promotes team-based volunteering projects and connects BUPA people with community partners both in the UK and other BUPA offices across the world.

Since 2001, teams of BUPA people have been involved in more than 60 community projects across the UK in partnership with BITC. These have included renovation and refurbishment of facilities for children with learning disabilities, day centres for older people, hostels for the homeless and vulnerable people, a local community theatre and supporting local charities through an exchange of skills.

The projects programme also provides opportunities for team-building and leadership development for BUPA people. The financial value to community partners of the contribution made by BUPA volunteers taking part in community projects during 2004 is estimated at £0.5m.

BITC's Per Cent Club requires members to commit a minimum of 0.5% of pre-tax profits to community investment. BUPA has exceeded this level for the past six years and intends to continue doing so. In 2004, BUPA was reported as being within the top ten corporate givers as a proportion of profits in the Per Cent Club. BUPA also encourages employees to make regular donations to the charities of their choice and tops up by 10% all contributions made through the payroll giving scheme.

In 2004, BUPA contributed to a book entitled 'Giving Something Back', produced by the Social Market Foundation think tank, which addresses issues about business, volunteering and healthy communities. It considered the role that government and business can play in pushing forward the employee volunteering agenda and included submissions from each of the three main political parties.

BUPA has become the founding corporate supporter of Life Education Centres providing nationally accredited health education programmes for primary school pupils. This is a community-based programme delivering key personal, social and health education using a network of mobile classrooms. Working with teachers and parents, the classrooms deliver curriculum specific health education to over 850,000 young people across the UK. BUPA also provides volunteers to support Life Education's work at a local level.

Education is at the heart of BUPA's commitment to local communities and many employee volunteering schemes are focused on education. BUPA's national reading scheme 'Book Buddies' helps children with their reading, encouraging children to develop a love of reading as well as increasing confidence and self-esteem. Since 2003, the Book Buddies mentoring and head teacher mentoring schemes have contributed almost 19,000 hours of volunteer work.

The BUPA Great Runs series is the biggest of its kind in the UK and encourages participation from local community organisations to raise money for the benefit of a wide range of charities. Leukaemia Research Fund was BUPA's official charity in 2004. We helped the charity substantially increase funds raised in 2004.

BUPA's community programme extends to its overseas businesses. In 2004, BUPA Ireland raised funds for the charity People in Need. It also supports The Wheel, a unique resource for the community and voluntary sector in Ireland. BUPA Australia raised money for a local children's hospice and a mental health charity. In Thailand, BUPA people took part in an Action Day raising funds and promoting awareness about drugs and alcohol. BUPA Hong Kong also supported an educational foundation increasing opportunities for young people in remote parts of mainland China.

Workplace

The principles of equal opportunity are firmly integrated in BUPA's human resource policies which are set out in the Report of the Board of Directors on pages 26 to 28. BUPA welcomes diversity of all kinds as it brings a competitive advantage to our business.

BUPA monitors its diversity statistics and the findings are reviewed by the Diversity Steering Group which sets the annual priorities. Ethnic minorities currently represent 19% of BUPA's UK workforce. This compares to ethnic minorities comprising only 13% of the UK working population as a whole.

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

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

Health, safety and environment

BUPA promotes a culture of safety, good health and environmental protection within all levels of the organisation.

Essential to BUPA's management of health, safety and environment (HS&E) are the local committees within each BUPA business coordinated by the HS&E Directors' Group. This group takes a strategic view of HS&E across BUPA and monitors the effectiveness of our HS&E systems and policies. It meets regularly to monitor progress, review accident reporting, recognise trends and initiate group-wide improvements to our HS&E system.

Local committees focus on site-specific issues. In 2004, significant time and resources have been used to ensure active representation on these committees and appropriate review programmes are in place. Briefings on water treatment management, disability discrimination, accident investigation and fire prevention have taken place. Each committee operates with the full support of business unit Managing Directors.

Accident and incident data is seen as a key indicator of the effectiveness of our HS&E systems. During 2004, BUPA concentrated on improving the accuracy, capture and analysis of this data for every part of the Group. Data is collected and collated on a regular basis and reviewed in detail. Accident levels have dropped by more than 6% compared with 2003.

As a result of considerable staff training, briefing and risk assessment, there was a 14% reduction in the incidence of manual handling injuries in 2004.

A new software programme has been developed to train our staff in health and safety awareness. This will be rolled out across the Group during 2005.

In anticipation of the new fire legislation planned for 2005, there has been a concentrated focus on fire protection awareness, including the production of an in-house fire video and a significant increase in the use of fire risk assessment.

BUPA is planning the introduction of an Environmental Management System (EMS) across the Group. Following a risk assessment we are creating the framework, policy and system for the EMS. We have identified three target areas; waste management, energy consumption and group-wide purchasing. The initial stage will focus on information gathering, impact assessment and targeting before setting targets for reduction and improvement.

BUPA is committed to understanding and improving the impact of its businesses on the environment. It will continue to develop its systems in partnership with its suppliers to improve and reduce the environmental impact of the goods and energy we consume and the waste products that result from our business activities.

Human rights

BUPA supports and respects the protection of the human rights of those affected by its activities and aims to work with host governments. BUPA also has a Statement of Ethics for all BUPA employees, which clearly sets out standards of conduct and behaviour in delivering best quality care to all BUPA customers.

Marketplace

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

Professional ethics

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

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

Report of the Board of Directors

The Directors of The British United Provident Association Limited ('BUPA') present their report and the financial statements for the year ended 31 December 2004.

Introduction

The Chairman's statement, Chief Executive's review and Finance Director's report on pages 6 to 17, the statement of Corporate social responsibility on pages 20 to 24, the discussion on Corporate governance on pages 32 to 34 and the Remuneration report on pages 36 to 39 form part of this report. The audited financial statements are presented on pages 45 to 84.

Principal activities

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

Financial results

Results of the Group for 2004 are reported on page 45. The retained surplus of £109.3m (2003: £70.8m) has been transferred to reserves. Post balance sheet events are disclosed in note 41 of the financial statements.

Acquisitions and disposals

Details of the acquisitions and disposals during the year are shown in notes 36 and 37 respectively.

Charitable and political donations

During 2004, BUPA made charitable donations totalling £3.3m (2003: £2.9m), of which payments made to The BUPA Foundation totalled £2.6m (2003: £2.5m), and to the Sanitas Foundation £0.3m (2003: £0.2m), both medical charities established by the Group. No political donations were made.

Employment policies

BUPA has a clearly stated set of values based on ethical principles which are reflected in our management practices. The Group is active in promoting equal opportunity at all levels of the organisation so that recruitment, development and training as well as employee appraisal and promotion are conducted free from bias. Group remuneration policies support the business values and strategies. Policies are targeted at offering competitive levels of market related pay and variable performance related bonuses where appropriate. Benefits are provided appropriate to the market and BUPA values.

Measurement of employee's views of management practices is conducted using a survey tool, the Service Organisation Profile (SOP), which was developed through research of high performing companies. Using the same measures for the past ten years, it is possible to track progress and target specific areas based on key business priorities. The result is that we can demonstrate a correlation between customer satisfaction, profitability and employee satisfaction as measured by the SOP. BUPA has shown a significant improvement in its SOP score with improvements in nearly all categories since the survey started in 1994.

This represents an overall increase of 36% over a ten year period across ten factors identified as predictors of high performance in international companies.

All employees are encouraged to take advantage of career development opportunities and a range of appraisal and assessment processes are used to help identify how each individual can realise their full potential at BUPA. There is a wide range of technical, skill and personal effectiveness training activity across the Group to support employee development.

Within each of the business units, a robust training and development framework exists for all critical roles. This ensures compliance with all regulatory requirements and maintains individual competence at a level which retains our people as the key differentiator.

Leadership development is managed through three Group programmes: Inventing Our Future, now in its fourth year, is designed to provide executive management with insights into leading edge business thinking and research; Leading One Life is for all managers and is designed to align leadership behaviour with BUPA's core values; and the Health Care Executive Programme (HEP), for middle and senior managers, explores issues and provides personal development opportunities specific to the global health care market.

The award winning BUPA One Life IDEAS and Awards programme encourages employees to be proactive in identifying, developing and implementing business improvement ideas. The rich diversity of talent and expertise of BUPA employees has resulted in 2,231 suggestions in 2004, of which at least 20% have been implemented. This continues to be one of the highest success rates for a UK company that employs more than 10,000 people.

Also, in 2004, a total of 1,410 employees received a BUPA Ambassador Award in recognition of exceptional service delivered to customers and colleagues. An annual awards event is held at which the Chief Executive presents awards to the most significant achievers. A number of employees have also received external awards for their efforts on behalf of customers, colleagues and the business.

BUPA provides an environment with equality of opportunity to all, regardless of age, gender, race, disability, sexual orientation or religious belief. Our policies, procedures, working practices and physical environments are designed to support this objective. Decisions to employ, promote and develop people are based solely on merit and business need. BUPA also seeks to avoid any harassment or victimisation of its employees or customers. This is not just a case of meeting our legal requirements, rather it is implicit in BUPA's vision that everyone is valued equally and appreciated for the unique contribution they make to the business. This is reinforced in the way the organisation communicates with its employees and encourages feedback at all levels to support this policy stance and organisational aim.

BUPA's aim is to foster and promote a positive and inclusive culture which helps all BUPA employees achieve their full potential. A key part of the Group People Plan human resource strategy is to ensure that

BUPA attracts and retains a suitably skilled and qualified workforce in a way which reflects the diverse needs of the communities in which we operate and the customers we attract. This is to ensure that as an organisation we build on the considerable trust that our employees and customers have in BUPA.

We devote significant resources to, and place a high priority on, internal communications to help achieve a common understanding of activities across the Group. This is intended to inform and educate employees about issues that are of interest and concern across the organisation. A monthly meeting of executives is held and key points arising about organisational development are then communicated via regular team meetings across the business. An annual management conference is held, at which key BUPA employees from around the world learn about the Group's strategic plans. This is replicated by divisional management conferences to ensure that information on the progress and plans for the Group are widely disseminated to all employees.

The BUPA intranet website provides a wide range of information on what is happening within BUPA, its products and services as well as providing health and lifestyle advice for employees. Our internal newspaper, BUPA Today, which has won many external awards, is distributed frequently to all employees across the world. This provides a platform for news stories about BUPA people and their achievements, as well as commercial developments and policy initiatives. This is complemented by BUPA TV which provides a quarterly video update on developments across the business.

Board of Directors

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

Biographical details of the two Executive Directors and six Non-Executive Directors who currently hold office are set out on pages 30 and 31.

Prof O F W James and Mr R King retire by rotation and, being eligible, offer themselves for re-election.

Policy for paying creditors

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

As a holding company, the Company itself has no trade creditors.

Auditors

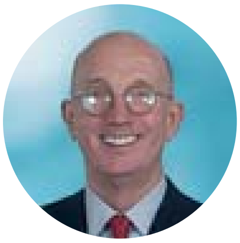
In accordance with Section 384 of the Companies Act 1985, KPMG Audit Plc offers itself for re-appointment as auditors of the Company at the Annual General Meeting.

By order of the Board
A D Walford, ***Company Secretary***
10 March 2005

Val Gooding

Ray King

Bryan Sanderson



Oliver James

Directors and advisers

Executive Directors

Val Gooding CBE[3]

Age 54. Appointed Chief Executive in August 1998. Joined the Board and BUPA in 1996 as Managing Director of the UK health insurance and hospitals businesses. Non-Executive Director of Compass Group Plc and Standard Chartered plc. President of the International Federation of Health Plans and a Trustee of the British Museum. Before joining BUPA had a varied career with British Airways plc, latterly as Director of Business Units and Director Asia-Pacific.

Ray King

Age 51. Appointed Group Finance Director of BUPA in August 2001. Chartered Accountant. Non-Executive Director of Friends Provident plc. Former Deputy Chief Executive and Group Finance Director of Parity Group Plc. Former Director of Group Finance and Control at Diageo plc and former Group Finance Director of Southern Water Plc.

Independent Non-Executive Directors

Bryan Sanderson CBE[2,3]

Age 64. Chairman since 2001. Executive Chairman of Standard Chartered plc, Non-Executive Director of Sunderland Area Regeneration Company, Non-Executive Director of Sunderland PLC and a Governor of the London School of Economics. Formerly Chairman of the Learning and Skills Council, a Managing Director of BP plc and other non-executive directorships.

Oliver James[3]

Age 61. Director since 1999 and appointed as the Senior Independent Non-Executive Director in 2003. Pro Vice Chancellor, Faculty of Medical Sciences, University of Newcastle upon Tyne. Trustee of Help the Aged. Former Senior Censor and Senior Vice-President of the Royal College of Physicians.

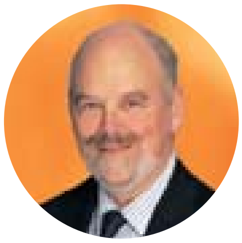
Roy Brown[1]

Age 58. Joined the Board in April 2001 and Chairman of the Audit Committee since 2002. Chairman of GKN plc. Vice-Chairman of HMV Group plc. Non-Executive Director of Brambles Industries Plc and the LLoyd's Franchise Board. A member of the CBI International Advisory Board. Formerly Director of Unilever PLC and Unilever NV and President of its Foods Europe Division.

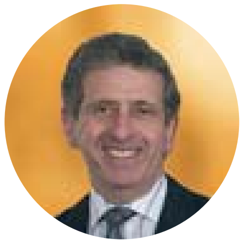
Roy Brown

Greg Clarke

Orna Ni-Chionna



Robert Walther



Arthur Walford

Greg Clarke[1,2]

Age 47. Joined the Board in April 2001. Chief Executive of Lend Lease Corporation Ltd. Non-Executive Director of Leicester City Football Club plc. Former CEO of ICO-Global Communications and Chairman of Eteach UK Ltd, former Chief Executive of Cable and Wireless Communications plc and Vice President of Nortel's Cellular business.

Orna Ni-Chionna[3]

Age 49. Joined the Board in January 2003. Non-Executive Director of Bank of Ireland UK Holdings plc (including Bristol & West plc) and of Northern Foods plc. Trustee of the Soil Association. Former Partner McKinsey & Company.

Robert Walther[1,2]

Age 61. Joined the Board on 1 May 2004. Chairman of Fleming Claverhouse, Fidelity European Values and a Non-Executive Director of Nationwide Building Society. A Fellow of the Institute of Actuaries and an Associate of Investment Management and Research. Formerly Chief Executive of Clerical Medical Investment Group Ltd and a member of the Halifax Executive Committee.

Secretary

Arthur Walford

Age 59. Joined BUPA in 1988 as Company Secretary and Group General Counsel.

Medical Advisory Panel

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

Professor J Malcolm Harrington CBE, MSc, MD, F Med Sci, FRCP, FFOM, MFPH

Professor Jennifer Hunt MPhil, FRCN

Professor Oliver James F Med Sci, FRCP, Chairman

Janet Jenkins BSc, FRCA

Ray King BSc, FCA

Professor Martin McKee MSc, MD, F Med Sci, FRCP, FFPH

Orna Ni-Chionna MEngSc, MBA

Keith Parsons FEBU, FRCS

Andrew Vallance-Owen MBA, FRCS Ed

[1] Member of the Audit Committee
[2] Member of the Remuneration Committee
[3] Member of the Nomination Committee

Corporate governance

The Board continues to support the principles of corporate governance set out in the 2003 Financial Reporting Council (FRC) Code annexed to the Listing Rules issued by the Financial Services Authority. Whilst not itself a listed company, BUPA has been in compliance with the provisions set out in section 1 of the Code throughout the year ended 31 December 2004.

In accordance with Section 372 of the Companies Act 1985, BUPA, as a company with no share capital, is not required to distribute proxy forms with notices calling general meetings and therefore Code provision D.2.1 referring to the counting of proxy votes, has not been applied, and neither has Code provision D.1.2 relating to the views of major shareholders.

Board of Directors

Details of the Directors are set out on pages 30 and 31.

The Board of Directors normally meets nine times a year and ad hoc as required. It has adopted a schedule of matters, such as strategy and policy, approval of business plans and significant acquisitions and disposals, which are required to be brought to it, or its duly authorised committees, for decision or review. Information, in a form and of a quality appropriate to enable them to discharge their duties, is provided to members of the Board, so that they may consider such information and any issues arising therefrom in good time.

The Board currently comprises two Executive Directors, the independent Non-Executive Chairman and five further independent Non-Executive Directors. All Directors are subject to triennial retirement by rotation.

The Executive Directors are encouraged to take up to two Non-Executive Directorships of significant companies to bring value and external perspectives and experiences to BUPA.

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

During 2004, all members of the Board and the Audit Committee completed questionnaires reviewing the effectiveness of their operation. The results were independently collated by the Company Secretary and discussed at both the Board and the Audit Committee. All were considered to work appropriately.

Board Committees

Members of the following committees are disclosed in Directors and advisers on pages 30 and 31. The terms of reference of board committees and the terms and conditions of appointment of Non-Executive Directors can be obtained on application from the Company Secretary. R Brown and G Clarke were each unavailable to attend one meeting of the Board. There was full attendance at all board committee meetings.

Audit Committee

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

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

Remuneration Committee

The Remuneration Committee determines, inter alia, the detailed terms of service of the Executive Directors, the divisional Managing Directors and the Company Secretary, including basic salary, incentives and benefits. The Committee comprises the Chairman and two other Non-Executive Directors. The Chief Executive attends meetings by invitation. No Director attends any meeting relating to his or her remuneration. The Remuneration report can be found on pages 36 to 39.

Nomination Committee

The Nomination Committee meets as required to select and propose to the Board suitable candidates for appointment as Executive and Non-Executive Directors. It also makes recommendations to the Board for re-appointment of Directors and members of the Audit Committee.

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

Internal control statement

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

The Board has established an ongoing process, which is documented in BUPA's Risk Management Policy, for identifying, evaluating and managing the significant risks faced by the Group which accords with the guidance set out in the Internal Control: Guidance for Directors on the Combined Code. This process is regularly reviewed by the Audit Committee on behalf of the Board and has been in place for the year ended 31 December 2004 and up to the date of approval of the Annual report and accounts. The processes used to review the effectiveness of the system of internal control include the following:

- The management teams of each business unit and shared service area undertake an annual risk assessment, which identifies significant risks to achieving business objectives. The effectiveness of relevant systems of internal control is then evaluated, and action plans established where appropriate. The annual risk assessment is reported to the Audit Committee, the minutes of which are received and reviewed by the Board, which also receives oral reports from the Committee Chairman as appropriate.

- Changes to the risk profile in each area, new risks identified and new internal controls implemented to mitigate risks are collated by each business unit and support services area quarterly. The results are reported to and monitored by the Business Review Team, which comprises the Chief Executive, the Group Finance Director and heads of certain central functions. The Chief Executive reports any significant issues to the Board.

- The work of the internal audit function is focused on areas of highest operational risk. These are identified by the annual risk assessment process and by members of the management executive teams, Executive Directors and heads of central functions through facilitated workshops and one-to-one interviews. Internal Audit evaluates the adequacy of controls in operation and, where appropriate, agrees action plans with management to strengthen the control environment. Progress made in implementing agreed action plans is then monitored and challenged on an ongoing basis. The internal audit function reports its findings to management and the Audit Committee.

- In addition to receiving internal audit reports, assurance on the strategic key risks facing the Group is provided to the Audit Committee via management assurance reports, presentations from the Managing Directors and Group Policy Directors.

- In addition to the Audit Committee, other committees, subsidiary boards and advisers to the Board monitor the Group's significant risks on an ongoing basis and report to the Group Board as appropriate. These include the boards of BUPA Insurance Limited and BUPA Health Assurance Limited, their investment and compliance committees, the Medical Advisory Panel and sub-committees established to manage specific projects.

- During the year, significant work has been undertaken to ensure compliance with the new Financial Services Authority (FSA) regulations on Insurance Conduct of Business which took effect on 14 January 2005. The BUPA Insurance Risk and Compliance Committee, which regularly updates the Audit Committee on issues concerning the UK based insurance companies, monitored progress on this project.

- The external auditors are engaged to express an opinion on BUPA's financial statements, which are prepared from the Group's accounting records and comply with generally accepted accounting principles. They review and test the systems of internal financial control and the data contained in the financial statements to the extent necessary to express their opinion.

External auditors independence

The Audit Committee and the external auditors have policies in place to avoid the possibility that the auditors' objectivity and independence could be compromised.

In 2003, the Audit Committee approved a policy on the use of the external auditors for non-audit services. The Group policy states that its external auditors will not normally be awarded material assignments unconnected with their role as auditor without due consideration.

During the year, the Audit Committee reviewed the findings of the external auditors' work including the audit of the Annual report and accounts. The Audit Committee has discussions with the auditors without management being present.

On the basis of its meetings and other information available to the Directors, the Audit Committee is able to assess the ongoing effectiveness of the external audit.


BUPA
your personal health service
for prevention ...
treatment ...
to care.

Remuneration report

Introduction

This report describes the remuneration and benefit policies of BUPA as they relate to the Directors of the Group. It has been prepared in the format of schedule 7A to the Companies Act 1985.

Members of the Remuneration Committee

The Committee is comprised entirely of Non-Executive Directors; Bryan Sanderson CBE is the Chairman. Greg Clarke and Robert Walther are the other members. Orna Ni-Chionna was a co-opted member of the Committee until the appointment of Robert Walther on 1 May 2004. All members attended the relevant meetings in 2004.

Operation of the Remuneration Committee in 2004

The Remuneration Committee decides remuneration policy and practice relating to Executive Directors, divisional Managing Directors and the Company Secretary.

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

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

Remuneration policy

The aim of the remuneration policy, which is not expected to change, is to encourage and reward performance by providing remuneration at a level sufficient to attract and retain key talent. In order to do this, BUPA aligns its remuneration with comparable organisations in the private sector and currently uses a comparator group of 34 companies selected with the assistance of Mercer Human Resource Consulting. As BUPA cannot provide share based incentives, the remuneration policy is to provide base salary at the median of the comparator group and a total cash reward opportunity, subject to excellent performance, aligned to the upper quartile. This is in alignment with BUPA's objectives to continue to achieve stretching performance targets in the medium and long-term.

The remuneration policy is intended to deliver a competitive level and mix of remuneration. Furthermore, the total value of the package delivered to executives is aimed at achieving the growth and development of BUPA's business.

In summary, elements of Executive remuneration are:

Cash elements	Non-cash elements
Base salary	Pension
Annual bonus	Other benefits
Exceptional performance bonus	- permanent health insurance
Long-term incentive plan	- medical insurance
Car or cash allowance	- life insurance

Base salary

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

Annual bonus

The Remuneration Committee decided that with effect from 2004, the Chief Executive would have an annual bonus potential of 75% of base salary. The Group Finance Director continued to have the potential to receive a bonus of up to 50% of base salary. These bonus targets depend on the achievement of the Group's annual profit plan.

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

Exceptional performance bonus

When reviewing the remuneration policy in 2004, the Committee introduced a new bonus opportunity to reward exceptional performance through the delivery of financial results well in excess of budgeted profit.

The new bonus only becomes payable when performance substantially exceeds the budgeted growth in profits for the year and is subject to a demanding financial hurdle. The exceptional bonus is contingent on the achievement of the Group's annual profit plan and achieving over 50% of the following year's planned profit growth as stated in the three year plan.

In setting this target, the Remuneration Committee's aim is to provide the potential for executives to receive a further bonus of up to 100% of the annual bonus entitlement for the delivery of exceptional performance. This is consistent with the stated policy of providing executives with variable cash rewards aligned to the upper quartile of the comparator group, only in years when BUPA performance has been exceptional.

Long-term incentive plan (LTIP)

The LTIP is designed to reward senior BUPA Executives for the part they play in achieving the Group's long-term growth objectives over a number of years. BUPA cannot provide long-term remuneration based on equity plans. The LTIP therefore provides an element of remuneration that is reflective of equity-based plans in other comparable organisations in the private sector.

Introduced in 1996, the LTIP is designed to provide a cash payment subject to the Group achieving pre-determined targets. The LTIP targets are currently based on growth in Group reserves as set out in the three year business plan. The targets are reviewed and approved by the Remuneration Committee at the start of the performance period. The decision to offer the LTIP to an Executive is contingent on expected future contribution to the business.

The LTIP has a two-year rolling performance period. The incentive is calculated on the basis of a notional amount being allocated to the participant's account on an annual basis. This amount is expressed as a percentage of base salary to which notional interest is added each year. The potential incentive fund is the total of the notionally accumulated funds at the end of the two-year performance period.

The amount of the fund payable is defined by a scale relating the payment to the achievement of growth in reserves against target set in the Group's strategic plan. No payment is made if less than 40% of the targeted growth is met. A pro rata amount is paid, up to the plan maximum of 100% of the available fund, for achieving target performance.

When the total amount of fund payable, relating to a completed performance period, is determined, an initial payment of 60% is made in April of the year following the end of the performance period. The remaining 40% is then deferred for a further two years. Payment is normally only made to Executives still in the employment of the Group on the date of payment.

Where an Executive leaves the Group, there are some circumstances, such as normal retirement, where a payment will still be made.

The last completed performance period covered the years 2003 and 2004. Subject to the achievement of targets, any payment will next be made on 1 April 2005 and this will also include payments deferred from the 2001/2002 plan. A new performance period began on 1 January 2005 and will end on 31 December 2006, with the next potential payment date being 1 April 2007.

Contracts and notice periods

Executive Directors have a 12 month rolling employment contract with a 12 month notice period which may be payable in lieu. V F Gooding was appointed as Chief Executive on 1 August 1998 and R King was appointed as Group Finance Director on 1 August 2001.

The Group recognises that its Executive Directors are likely to be invited to become Non-Executive Directors of other companies and to join other organisations. Participation in these duties can be to the benefit of BUPA as they can bring value, external perspectives and new experience to the business. Executive Directors are therefore usually allowed, subject to approval, to accept and retain the fees for up to two Non-Executive Director appointments. This is on the basis that any appointment is not with a competing organisation and does not give rise to a conflict of interest.

V F Gooding, as a Non-Executive Director of BAA plc until 31 July 2004, earned fees amounting to £28,161 and as a Non-Executive Director of Compass Group Plc earned £46,250.

R King as a Non-Executive Director of Friends Provident plc earned fees amounting to £44,406 in 2004.

Pensions

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

Pensions are funded up to the earnings cap through the BUPA Pension Scheme. Additional separate unfunded arrangements are made above the earnings cap to achieve the final salary pension.

Non-Executive Directors

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

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

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

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

Advisers

The Committee appointed and takes advice on specific issues from independent consultants. In 2004, Mercer Human Resource Consulting provided market data on levels of Executive remuneration. Mercer and related companies also provide BUPA with employee benefit consulting, risk and insurance broking services and business strategy advice. In addition, as independent insurance intermediaries, they advise some of their other clients in relation to BUPA's services.

The Group Human Resources Director retains Mercer's services on behalf of the Committee. He also provides advice to the Committee on matters of remuneration policy and interpretation of market data. He is assisted in this by other appropriate external advisers.

Performance graphs

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

Disclosure tables

Further details of each Director's remuneration and numerical information, which has been audited, is disclosed in note 11 to the financial statements.

On behalf of the Board

Bryan K Sanderson CBE, ***Chairman***

Statement of Directors' responsibilities

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

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

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

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

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

We have audited the financial statements on pages 45 to 84. In addition to our audit of the financial statements, the Directors have engaged us to audit the information in the remuneration report that is described as having been audited, which the Directors have decided to prepare (in addition to that required to be prepared) as if the Company were required to comply with the requirements under Schedule 7A to the Companies Act 1985.

This report is made solely to the Company's Members, as a body, in accordance with section 235 of the Companies Act 1985 and our terms of our engagement. Our audit work has been undertaken so that we might state to the Company's Members those matters we are required to state to them in our auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's Members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the annual report and the remuneration report. As described on page 40, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, and by our profession's ethical guidance.

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

In addition to our audit of the financial statements, the Directors have engaged us to review their corporate governance statement as if the Company were required to comply with the Listing Rules of the Financial Services Authority in relation to these matters. We review whether the corporate governance statement on pages 32 to 34 reflects the Company's compliance with the nine provisions of the 2003 FRC Code specified for our review by those rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report, including the corporate governance statement and the unaudited part of the remuneration report, and consider whether it is consistent with the audited financial statements.

We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2004 and of the surplus of the Group for the year then ended; and have been properly prepared in accordance with the Companies Act 1985.

- the part of the Directors' remuneration report which we were engaged to audit has been properly prepared in accordance with the requirements of Schedule 7A to the Companies Act 1985, as if the Company were required to comply with the requirements of that Schedule.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
10 March 2005

Financial statements

Contents

Consolidated income and expenditure account

for the year ended 31 December 2004

Technical account - general business

	Notes	2004 £m	2004 £m	2003 £m	2003 £m
Earned premiums					
Premiums written		**2,474.2**		2,314.1	
Change in provision for unearned premiums		**(42.5)**		(51.4)	
	1,8		**2,431.7**		2,262.7
Claims incurred					
Claims paid		**(1,838.8)**		(1,717.5)	
Change in provision for claims		**(36.0)**		(32.5)	
			(1,874.8)		(1,750.0)
Net operating expenses	2		**(391.5)**		(362.7)
Other technical charges, net of reinsurance	3		**(6.8)**		(3.9)
Balance on the technical account - general business	1,8		**158.6**		146.1

Non-technical account

	Notes	2004 £m	2004 £m	2003 £m	2003 £m
Balance on the technical account - general business			**158.6**		146.1
Health and care provision					
Turnover*	1,8	**1,162.8**		1,087.1	
Expenses		**(1,046.9)**		(995.4)	
	1,8		**115.9**		91.7
Operating surplus before goodwill amortisation, goodwill impairment and investment and financing*	1,8		**274.5**		237.8
Goodwill amortisation	1,8		**(22.0)**		(24.5)
Goodwill impairment	1,8		**(14.1)**		(16.9)
Operating surplus before investment and financing			**238.4**		196.4
Investment and financing					
Investment income	4	**63.5**		47.1	
Unrealised losses on investments	5	**(0.5)**		(10.9)	
Investment expenses and charges	6	**(117.8)**		(85.9)	
			(54.8)		(49.7)
Operating surplus before other (charges)/income			**183.6**		146.7
Other (charges)/income, including loss on disposal/closure of businesses and profit on disposal of fixed assets totalling £1.9m (2003: loss of £1.3m)	7,8		**(1.4)**		(12.2)
Operating surplus on ordinary activities before taxation	1,9		**182.2**		134.5
Tax on surplus on ordinary activities	13		**(71.2)**		(64.0)
Surplus on ordinary activities after taxation			**111.0**		70.5
Minority interest - equity			**(1.7)**		0.3
Surplus for the financial year	24		**109.3**		70.8

* Including acquisitions in the year ended 31 December 2004 with turnover of £5.2m and operating surplus before goodwill amortisation, goodwill impairment and investment and financing of £0.9m.

The notes on pages 51 to 84 form part of these financial statements.

Consolidated balance sheet

at 31 December 2004

Assets

	Notes	2004 £m	2004 £m	2003 £m	2003 £m
Intangible fixed assets	15		204.4		248.3
Hospitals, care homes and equipment	16		1,554.7		1,523.3
Investments					
Land and buildings - own use	17	65.3		69.9	
Financial investments	18	1,619.0		1,421.9	
			1,684.3		1,491.8
			3,443.4		3,263.4
Debtors					
Debtors arising out of direct insurance operations	20	486.7		453.4	
Other debtors: amounts falling due within one year	21	141.0		147.6	
Other debtors: amounts falling due after more than one year	21	19.7		30.9	
		160.7		178.5	
			647.4		631.9
Other assets					
Other tangible assets	22	70.0		75.9	
Stocks		16.2		17.4	
Cash at bank and in hand		73.6		103.4	
			159.8		196.7
Prepayments and accrued income					
Deferred acquisition costs		58.0		40.9	
Other prepayments and accrued income	23	30.4		28.1	
			88.4		69.0
Total assets			4,339.0		4,161.0

The notes on pages 51 to 84 form part of these financial statements.

Liabilities

	Notes	2004 £m	2004 £m	2003 £m	2003 £m
Reserves					
Property revaluation reserve	24	**516.6**		519.1	
Income and expenditure account	24	**892.6**		786.9	
			1,409.2		1,306.0
Minority interests - equity			**13.1**		11.8
	1		**1,422.3**		1,317.8
Subordinated liabilities	25,31		**324.5**		99.0
Technical provisions					
Provision for unearned premiums	26	**773.7**		734.9	
Claims outstanding	26	**435.9**		381.4	
			1,209.6		1,116.3
Provisions for other risks and charges	27		**126.9**		133.6
Creditors					
Secured, debenture and other loans	28,31	**672.6**		697.0	
Amounts owed to credit institutions	29,31	**232.0**		490.4	
Obligations under finance leases	30,31	**0.9**		1.5	
Other creditors including taxation and social security	32	**156.4**		160.8	
			1,061.9		1,349.7
Accruals and deferred income	33		**193.8**		144.6
Total liabilities			**4,339.0**		4,161.0

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

Bryan K Sanderson CBE
Chairman

R King
Group Finance Director

10 March 2005

The notes on pages 51 to 84 form part of these financial statements.

Consolidated cash flow statement
for the year ended 31 December 2004

	Notes	2004 £m	2003 £m
Cash inflow from operating activities	35	**526.8**	454.7
Servicing of finance	35	**(110.8)**	(86.8)
Taxation paid		**(65.2)**	(65.1)
Capital expenditure	35	**(76.8)**	(94.4)
Acquisitions and disposals	35	**(38.6)**	(208.7)
Financing	35	**(38.6)**	132.1
Cash available for investment		**196.8**	131.8

Cash flows were invested as follows:

	2004 £m	2004 £m	2003 £m	2003 £m
Increase in cash holdings		**10.0**		8.4
Net portfolio investments				
Shares and other variable yield securities	**(93.3)**		(81.5)	
Debt securities - government stocks	**22.3**		4.1	
Debt securities - corporate bonds	**(3.1)**		0.1	
Deposits with credit institutions	**260.9**		200.7	
		186.8		123.4
Net investment of cash flows		**196.8**		131.8

Movement in opening and closing portfolio investments net of financing

	2004 £m	2003 £m
Net cash inflow for the year	**10.0**	8.4
Increase in portfolio investments	**186.8**	123.4
Decrease/(increase) in loans	**38.6**	(132.1)
Movement arising from cash flows	**235.4**	(0.3)
Acquired/(divested) in respect of the acquisition/disposal of subsidiary undertakings	**1.3**	(0.3)
Changes in market values and exchange rate effects	**(6.2)**	18.3
Other movements	**(5.3)**	(6.9)
Total movement in portfolio investment net of financing	**225.2**	10.8
Portfolio investments net of financing at beginning of year	**237.4**	226.6
Portfolio investments net of financing at end of year	**462.6**	237.4

The notes on pages 51 to 84 form part of these financial statements.

Consolidated statement of total recognised gains and losses

for the year ended 31 December 2004

	Notes	2004 £m	2003 £m
Surplus for the financial year	24	**109.3**	70.8
Unrealised (decrease)/increase on revaluation of properties	24	**(2.0)**	80.0
Currency translation differences on foreign currency net investments		**(2.7)**	34.4
Tax charge on currency translation difference on foreign currency net investments		**(1.4)**	-
	24	**(4.1)**	34.4
Total recognised gains and losses for the year		**103.2**	185.2

Reconciliation of movements in reserves

for the year ended 31 December 2004

	Notes	2004 £m	2003 £m
Surplus for the financial year	24	**109.3**	70.8
(Decrease)/increase in property revaluation reserve	24	**(2.0)**	80.0
Currency translation differences on foreign currency net investments, net of tax	24	**(4.1)**	34.4
Net addition to reserves		**103.2**	185.2
Opening reserves		**1,306.0**	1,120.8
Closing reserves		**1,409.2**	1,306.0

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

The notes on pages 51 to 84 form part of these financial statements.

Company balance sheet
at 31 December 2004

	Notes	2004 £m	2004 £m	2003 £m	2003 £m
Fixed assets					
Land and buildings - own use	17	**1.7**		1.9	
Other tangible assets	22	**16.3**		17.5	
Investments in subsidiary undertakings	19	**1,341.3**		1,424.7	
			1,359.3		1,444.1
Current assets					
Other debtors: amounts falling due within one year	21	**186.2**		508.2	
Other debtors: amounts falling due after more than one year	21	**16.3**		14.9	
		202.5		523.1	
Cash at bank and in hand		**0.5**		0.5	
		203.0		523.6	
Prepayments and accrued income	23	**8.4**		8.6	
Creditors: amounts falling due within one year	32	**(82.7)**		(607.1)	
Net current assets/(liabilities)			**128.7**		(74.9)
Total assets less current liabilities			**1,488.0**		1,369.2
Provisions for liabilities and charges	27		**(45.3)**		(41.6)
Accruals and deferred income	33		**(33.5)**		(21.6)
Net assets			**1,409.2**		1,306.0
Reserves					
Income and expenditure account	24		**1,409.2**		1,306.0

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

Bryan K Sanderson CBE
Chairman

R King
Group Finance Director

10 March 2005

The notes on pages 51 to 84 form part of these financial statements.

Accounting policies

Basis of preparation

The Group accounts have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985. The accounts have also been prepared in accordance with applicable UK accounting standards and under the historical cost convention modified to include the revaluation of investments, including land and buildings, hospitals and care home properties. The accounts also comply with the Statement of Recommended Practice (SORP) issued by the Association of British Insurers (ABI) in November 2003, except for the treatment of the unrealised gains arising on the revaluation of hospitals and care homes, which are treated as non-insurance assets, and therefore any such unrealised gains are taken to the revaluation reserve. Unrealised revaluation gains on land and buildings for own use owned by BUPA Insurance Limited are taken to the income and expenditure account. All accounting standards have been applied consistently.

As the Company is not authorised as an insurance company the balance sheet of the Company has been prepared in accordance with the provisions of Section 226 of, and Schedule 4 to, the Companies Act 1985.

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

Basis of consolidation

The Group accounts consolidate the accounts of the Company and its subsidiary undertakings together with the Group's share of the results of associated undertakings for the financial year to 31 December 2004. The results of subsidiary undertakings sold or acquired during the year are included in the consolidated income and expenditure account up to or from the date control passes using the acquisition method of accounting.

New financial reporting requirements

(i) Adoption of FRS 17

The Accounting Standards Board (ASB) issued Financial Reporting Standard No 17: Retirement Benefits (FRS 17) in November 2000. The full implementation of FRS 17, due to take place in 2003, has been deferred by the ASB. In accordance with the transitional provisions of FRS 17, BUPA has disclosed in note 12 the impact that FRS 17 would have on the consolidated balance sheet of the Group and also the amounts that would have been charged to the consolidated income and expenditure account and consolidated statement of total recognised gains and losses under FRS 17.

(ii) Adoption of ABI SORP

The ABI issued a new SORP, Accounting for Insurance Business, in November 2003. The adoption of the 2003 SORP by the Group has not resulted in any changes to accounting policies.

Basis of accounting for underwriting activities

Underwriting activities are accounted for on an annual basis.

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

Premiums

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

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

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

Claims

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

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

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

Other technical provisions

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

Acquisition costs

Acquisition costs represent commissions payable and other related expenses of acquiring insurance policies written during the financial year. Acquisition costs which relate to a subsequent period are deferred and charged to accounting periods in which the related premiums are earned.

Health and care provision turnover

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

Investment income

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

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

Unrealised investment gains and losses

Unrealised gains and losses on land and buildings (own use) and financial investments are included in the non-technical account. Such gains and losses are calculated as the difference between the valuation of those investments at the balance sheet date and their valuation at the previous balance sheet date or their purchase price if purchased during the year. Unrealised gains and losses also include an adjustment for previously recognised gains and losses on investments disposed of during the year.

Goodwill

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

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

An impairment review of goodwill is undertaken in the year following acquisition and, for other acquisitions if there is evidence that the performance of the underlying business to which the goodwill relates shows indications of impairment. The discount rate used is the pre-tax weighted average cost of capital for the Group, as adjusted for the particular risks associated with the income-generating unit concerned. Any resulting impairment charges are taken to the income and expenditure account.

Hospitals, care homes and equipment

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

Unrealised losses resulting from reductions in valuation below historic cost are taken to the income and expenditure account. All other revaluation gains and losses are taken to reserves.

Impairment reviews are undertaken if there are indications that fixed asset carrying values may not be recoverable. Any resulting impairment charges are taken to the income and expenditure account or the revaluation reserve.

Investments

Land and buildings, which are occupied by the Group for its own use, are stated at either cost or valuation.

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

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

Depreciation

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

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

Taxation including deferred taxation

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

Deferred tax is provided in full on all timing differences that have originated, but not reversed, at the balance sheet date which result in an obligation to pay more, or a right to pay less or to receive more, tax with the following exceptions:

- Provision is made for the tax on gains arising from the revaluation of land and buildings to its market value, the fair value adjustment of fixed assets, or gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned and without it being possible to claim rollover relief. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.
- Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable.
- Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on current tax rates and laws.

Foreign currencies

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

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

Leases

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

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

Pension and other post retirement benefits

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

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

Derivatives

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

Estimation techniques

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

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

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

- claims reported but not paid ('reporteds');
- claims incurred but not reported ('IBNR').

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

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

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

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

Technical provisions are valued at a point estimate in a range of possible outcomes.

Notes to the financial statements

1 Segmental information

(i) Income by origin

	UK 2004 £m	UK 2003 £m	Rest of Europe 2004 £m	Rest of Europe 2003 £m	Rest of the World 2004 £m	Rest of the World 2003 £m	Total 2004 £m	Total 2003 £m
Health insurance premiums earned								
General business	**1,546.1**	1,437.1	**441.8**	406.5	**443.8**	419.1	**2,431.7**	2,262.7
Long-term business	**32.7**	18.2	**-**	-	**-**	-	**32.7**	18.2
	1,578.8	1,455.3	**441.8**	406.5	**443.8**	419.1	**2,464.4**	2,280.9
Health and care provision turnover								
Hospitals and medical services	**544.2**	504.0	**106.1**	96.8	**17.0**	26.3	**667.3**	627.1
Care services	**473.4**	442.9	**22.1**	17.1	**-**	-	**495.5**	460.0
	1,017.6	946.9	**128.2**	113.9	**17.0**	26.3	**1,162.8**	1,087.1
	2,596.4	2,402.2	**570.0**	520.4	**460.8**	445.4	**3,627.2**	3,368.0

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

(ii) Operating surplus on ordinary activities before taxation

	UK 2004 £m	UK 2003 £m	Rest of Europe 2004 £m	Rest of Europe 2003 £m	Rest of the World 2004 £m	Rest of the World 2003 £m	Total 2004 £m	Total 2003 £m
Health insurance								
General business	**80.6**	78.4	**56.8**	49.5	**28.0**	22.1	**165.4**	150.0
Long-term business	**(6.8)**	(3.9)	**-**	-	**-**	-	**(6.8)**	(3.9)
	73.8	74.5	**56.8**	49.5	**28.0**	22.1	**158.6**	146.1
Health and care provision								
Hospitals and medical services	**42.6**	33.2	**5.3**	2.8	**0.9**	0.3	**48.8**	36.3
Care services	**66.4**	54.5	**0.7**	0.9	**-**	-	**67.1**	55.4
	109.0	87.7	**6.0**	3.7	**0.9**	0.3	**115.9**	91.7
Operating surplus before goodwill amortisation, goodwill impairment and investment and financing	**182.8**	162.2	**62.8**	53.2	**28.9**	22.4	**274.5**	237.8
Goodwill amortisation								
Health insurance	**(0.1)**	(0.1)	**(5.2)**	(5.3)	**(9.9)**	(9.8)	**(15.2)**	(15.2)
Health and care provision	**(4.9)**	(5.4)	**(0.9)**	(1.7)	**(1.0)**	(2.2)	**(6.8)**	(9.3)
	(5.0)	(5.5)	**(6.1)**	(7.0)	**(10.9)**	(12.0)	**(22.0)**	(24.5)
Goodwill impairment								
Health and care provision	**(6.7)**	(0.8)	**-**	(6.1)	**(7.4)**	(10.0)	**(14.1)**	(16.9)
	(6.7)	(0.8)	**-**	(6.1)	**(7.4)**	(10.0)	**(14.1)**	(16.9)
Operating surplus before investment and financing	**171.1**	155.9	**56.7**	40.1	**10.6**	0.4	**238.4**	196.4
Investment and financing	**(62.7)**	(39.9)	**6.6**	(2.9)	**1.3**	(6.9)	**(54.8)**	(49.7)
Operating surplus on ordinary activities before other (charges)/income	**108.4**	116.0	**63.3**	37.2	**11.9**	(6.5)	**183.6**	146.7
Other (charges)/income	**(0.7)**	(9.8)	**0.8**	(0.1)	**(1.5)**	(2.3)	**(1.4)**	(12.2)
Operating surplus on ordinary activities before taxation	**107.7**	106.2	**64.1**	37.1	**10.4**	(8.8)	**182.2**	134.5

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

Notes to the financial statements - continued

1 Segmental information - continued

(iii) Net assets

	UK		Rest of Europe		Rest of the World		Total	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m
Health insurance								
General business	**589.4**	504.6	**207.7**	180.4	**265.8**	261.1	**1,062.9**	946.1
Long-term business	**50.5**	28.3	**-**	-	**-**	-	**50.5**	28.3
	639.9	532.9	**207.7**	180.4	**265.8**	261.1	**1,113.4**	974.4
Health and care provision								
Hospitals and medical services	**629.4**	623.6	**43.8**	43.5	**4.9**	9.8	**678.1**	676.9
Care services	**629.3**	600.8	**17.3**	17.1	**-**	-	**646.6**	617.9
	1,258.7	1,224.4	**61.1**	60.6	**4.9**	9.8	**1,324.7**	1,294.8
Investment and financing	**(918.4)**	(853.2)	**18.8**	18.7	**(116.2)**	(116.9)	**(1,015.8)**	(951.4)
Net assets	**980.2**	904.1	**287.6**	259.7	**154.5**	154.0	**1,422.3**	1,317.8

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

2 Net operating expenses

	2004 £m	2003 £m
Acquisition costs	**94.0**	82.6
Increase in deferred acquisition costs on general business	**(4.8)**	(2.3)
	89.2	80.3
Administrative expenses	**302.3**	282.4
	391.5	362.7

Total commissions for direct insurance, excluding payments to employees, amounted to £74.1m (2003: £63.7m).

3 Other technical charges, net of reinsurance

	2004 £m	2003 £m
Long-term business		
Premiums earned, net of reinsurance	**32.7**	18.2
Investment income	**3.5**	1.9
Claims incurred, net of reinsurance	**(5.3)**	(3.0)
Change in other technical provisions, net of reinsurance	**(19.3)**	(8.1)
Net operating expenses	**(18.4)**	(12.9)
	(6.8)	(3.9)

All long-term business is included within continuing operations (see note 8).

4 Investment income

	2004 £m	2003 £m
Income from investments		
Listed investments	**0.2**	1.8
Unlisted investments	**3.0**	3.1
Deposits with credit institutions	**60.3**	42.2
	63.5	47.1

5 Unrealised losses on investments

Unrealised losses on investments of £0.5m (2003: £10.9m) include £nil (2003: £10.3m) in respect of the net deficit on revaluation in respect of land and buildings (own use).

6 Investment expenses and charges

	2004 £m	2003 £m
Interest on bank loans, overdrafts and other loans	**85.8**	87.5
Premium on redemption of subordinated bond	**27.1**	-
Finance charges payable in respect of finance leases	**1.3**	2.2
Realised gains on investments	**(3.8)**	(13.6)
Investment expenses and charges	**7.4**	9.8
	117.8	85.9

Finance charges payable in respect of finance leases of £1.3m (2003: £2.2m) are disclosed net of interest receivable on deposits of £6.6m (2003: £6.2m) relating to collateral deposits (see note 30).

7 Other (charges)/income

	2004 £m	2003 £m
Loss on sale and closure of businesses (note 37)	**(1.5)**	(2.1)
Acquisition costs	**-**	(0.3)
Profit on disposal of fixed assets	**1.9**	1.1
	0.4	(1.3)
Diminution in value of hospitals and care homes below original cost	**(1.8)**	(10.9)
	(1.4)	(12.2)

Notes to the financial statements - continued

8 Operating surplus

	Continuing operations 2004 £m	Acquisitions 2004 £m	Total 2004 £m	Continuing operations 2003 £m
Technical account - general business				
Earned premiums				
Premiums written	2,474.2	-	2,474.2	2,314.1
Change in provision for unearned premiums	(42.5)	-	(42.5)	(51.4)
	2,431.7	-	2,431.7	2,262.7
Claims incurred				
Claims paid	(1,838.8)	-	(1,838.8)	(1,717.5)
Change in provision for claims	(36.0)	-	(36.0)	(32.5)
	(1,874.8)	-	(1,874.8)	(1,750.0)
Net operating expenses	(391.5)	-	(391.5)	(362.7)
Other technical charges, net of reinsurance	(6.8)	-	(6.8)	(3.9)
Balance on the technical account - general business	158.6	-	158.6	146.1
Non-technical account				
Balance on the technical account - general business	158.6	-	158.6	146.1
Health and care provision				
Turnover	1,157.6	5.2	1,162.8	1,087.1
Expenses	(1,042.6)	(4.3)	(1,046.9)	(995.4)
	115.0	0.9	115.9	91.7
Operating surplus before goodwill amortisation, goodwill impairment and investment and financing	273.6	0.9	274.5	237.8
Goodwill amortisation	(22.0)	-	(22.0)	(24.5)
Goodwill impairment	(14.1)	-	(14.1)	(16.9)
	237.5	0.9	238.4	196.4
Investment and financing	(54.8)	-	(54.8)	(49.7)
Operating surplus before other (charges)/income	182.7	0.9	183.6	146.7
Other (charges)/income	(1.4)	-	(1.4)	(12.2)
Operating surplus on ordinary activities before taxation	181.3	0.9	182.2	134.5

9 Operating surplus on ordinary activities before taxation

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

	2004 £m	2003 £m
Depreciation and other amounts written off tangible fixed assets		
Owned	**89.7**	87.6
Leased	**6.8**	6.0
Goodwill amortisation	**22.0**	24.5
Goodwill impairment	**14.1**	16.9
Operating lease rentals		
Hire of plant and machinery	**1.2**	2.7
Other	**9.3**	8.2
Auditors' remuneration		
Fees payable to KPMG Audit Plc and its associates		
Statutory audit of Group accounts	**1.4**	1.2
Statutory audit of Company	**0.1**	0.1
Other transaction work as auditors or reporting accountants	**0.3**	-
Tax advisory	**0.3**	0.2
Mergers and acquisitions		
Due diligence	**0.5**	-
Corporate finance	**0.1**	-
Other	**0.1**	-
	2.8	1.5
Fees payable to other auditors		
Audit of overseas subsidiary undertakings	**0.1**	0.1

10 Employee numbers and costs

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

	2004	2003
Health insurance	**5,196**	4,987
Health and care provision	**28,740**	29,069
	33,936	34,056

The aggregate payroll costs of these employees were:

	2004 £m	2003 £m
Wages and salaries	**583.1**	547.8
Social security costs	**52.1**	45.8
Pension and post retirement costs (note 12)	**37.3**	36.5
	672.5	630.1

Notes to the financial statements - continued

11 Directors' emoluments

(i) Directors' remuneration

Directors' remuneration for the year ended 31 December 2004 was as follows:

	Notes	Salary/ fees £	Benefits £	Annual bonus £	Total excluding exceptional performance bonus 2004 £	Total 2003 £	Exceptional performance bonus 2004 £	Total including exceptional performance bonus 2004 £
Executive Directors								
V F Gooding	1,2	549,980	29,156	419,344	998,480	796,492	419,344	1,417,824
R King	2	343,115	22,336	174,410	539,861	503,714	174,410	714,271
		893,095	51,492	593,754	1,538,341	1,300,206	593,754	2,132,095
Non-Executive Directors								
B K Sanderson (Chairman)		173,333	30,747	-	204,080	178,815	-	204,080
R D Brown		40,000	-	-	40,000	36,750	-	40,000
G A Clarke		34,000	886	-	34,886	32,091	-	34,886
Prof O F W James		37,500	708	-	38,208	35,173	-	38,208
O G Ni-Chionna		34,000	886	-	34,886	32,091	-	34,886
R P Walther	3	31,000	477	-	31,477	-	-	31,477
		349,833	33,704	-	383,537	314,920	-	383,537
Former Directors								
D M Claisse	4	-	-	-	-	34,927	-	-
		-	-	-	-	34,927	-	-
		1,242,928	85,196	593,754	1,921,878	1,650,053	593,754	2,515,632

Notes

1 The highest paid director was V F Gooding.

2 An exceptional performance bonus was introduced in 2004, which is described in more detail in the Remuneration Report.

3 R P Walther was appointed to the Board on 1 May 2004. His fees include amounts of £8,333 receivable as a Non-Executive Director of BUPA Insurance Limited and BUPA Health Assurance Limited.

4 D M Claisse served until 24 September 2003. Fees receivable in 2003 included amounts of £9,078 receivable as a Non-Executive Director of BUPA Insurance Limited and BUPA Health Assurance Limited.

11 Directors' emoluments - continued

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

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

	Notes	At 31 December 2003 £	Earned award £	Paid in year £	Interest on accrued balance £	Earned awards becoming payable £	At 31 December 2004 £	Payable 2005 £	Payable 2007 £
Payable awards									
V F Gooding									
2001/2002 Plan	1	220,060	-	-	10,079	-	230,139	230,139	-
2003/2004 Plan	2	-	-	-	-	736,586	736,586	441,952	294,634
R King									
2001/2002 Plan	1	123,958	-	-	5,677	-	129,635	129,635	-
2003/2004 Plan	2	-	-	-	-	397,351	397,351	238,411	158,940
Earned awards									
V F Gooding									
2003/2004 Plan		338,545	365,783	-	32,258	(736,586)	-		
R King									
2003/2004 Plan		184,349	195,600	-	17,402	(397,351)	-		

Notes

1 In accordance with the rules of the LTIP, 40% of the award earned under the 2001/2002 plan is payable in April 2005 on the condition that the Director is still employed by the Company, 60% of the award having been paid in April 2003.

2 60% of the 2003/2004 plan will be payable in April 2005 and the remaining 40% will be payable in April 2007, on the condition that the Director is still employed by the Company on the respective payment date.

11 Directors' emoluments - continued

(iii) Directors' pensions

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

	Notes	Total accrued pension at 31 December 2003 £	Total accrued pension at 31 December 2004 £	Transfer value at 31 December 2003 £	Transfer value at 31 December 2004 £	Increase in transfer value less Directors' contributions £
V F Gooding	1,2	161,119	209,672	2,701,000	3,910,000	1,193,925
R King	1,2	26,261	39,727	386,000	658,000	256,925

Notes

1 The accrued pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year. The increase in accrued annual pension during the year, excluding any increase for inflation, was £43,558 and £12,652 for V F Gooding and R King respectively. The transfer value of these increases, less directors' contributions, was £796,925 and £194,925 for V F Gooding and R King respectively.

2 The transfer values have been calculated by an independent actuary in accordance with Guidance Note 11 issued by the Institute and Faculty of Actuaries.

12 Pensions and other post retirement benefits

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

(i) SSAP 24

The net liabilities in respect of funded pension schemes, unfunded pension schemes and post retirement medical benefits are as follows:

	2004 £m	2003 £m
Provision for funded pension liabilities	**56.4**	65.9
Provision for unfunded pension liabilities	**11.5**	9.3
Provision for post retirement medical benefits	**12.8**	13.1
Total included within provisions for other risks and charges (note 27)	**80.7**	88.3

The provision of £56.4m (2003: £65.9m) for funded pension scheme liabilities represents the excess of the accumulated pension cost over the contributions made in respect of the Group's defined benefit pension schemes.

The total pension cost reported in the income and expenditure account in respect of funded and unfunded pension arrangements in 2004 amounted to £37.3m (2003: £36.5m).

The charge to the income and expenditure account in respect of post retirement medical benefits was £nil (2003: £2.2m).

12 Pensions and other post retirement benefits - continued

Pensions - funded schemes

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

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

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

At the date of the last triennial valuation the value of the accrued benefits was £302.0m. The aggregate market value of The BUPA Pension Scheme assets, excluding members' additional voluntary contributions, at the valuation date was £265.6m representing 88% of the accrued benefits.

Since the last detailed triennial valuation the funding of The BUPA Pension Scheme has deteriorated. Interim reviews were carried out as at 1 July 2003 and 1 July 2004. The key assumptions were the rate of return on investments before retirement of 7.5%, the rate of return on investments after retirement of 5.3%, the rate of increase in pensionable salaries of 4.5% and the rate of increase in pensions in payment of 2.5%.

At the date of the interim valuation the value of the accrued benefits was £427.0m. The aggregate market value of The BUPA Pension Scheme assets, excluding members' additional voluntary contributions, at 1 July 2004 was £335.9m, representing 78.7% of the accrued benefits and resulting in a net deficit of £91.1m.

As recommended by the independent actuary in the interim valuation dated 1 July 2003, regular employer contributions have been paid at the rate of 19.04% of pensionable salary in respect of those employees of the companies within the hospitals business and at the rate of 17.44% of pensionable salary in respect of other employees with effect from 1 January 2004.

In accordance with the interim valuation dated 1 July 2004, regular employer contributions will be increased to 20.0% of pensionable salary in respect of those employees of the companies within the hospitals business, and to 18.2% of pensionable salary in respect of other employees with effect from 1 April 2005. The interim valuations in 2003 and 2004 used the attained age method, recognising the closure of the scheme to new entrants.

In addition, the Company is making a series of annual payments calculated so as to eliminate the deficit shown in the interim valuation dated 1 July 2003. The first of these payments, amounting to £7.6m, was made in November 2003 and a full year's payment of £15.2m was made during 2004, making a total of £22.8m. A further payment of £15.2m is expected to be made during 2005.

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

There are several other minor schemes operated by UK and overseas subsidiaries. Of these, the defined benefit schemes are assessed triennially by independent actuaries in accordance with UK or local practice.

Pensions - unfunded schemes

Unfunded defined benefit pension arrangements exist for certain employees and ex-employees. The latest valuations of these arrangements were performed as at 31 December 2004 by an independent actuary. The charge to the consolidated income and expenditure account in respect of these arrangements and the assessment of the related pension liability as at 31 December 2004 has been made in accordance with the latest interim valuation which used the same principal assumptions as adopted during 2004 for The BUPA Pension Scheme.

Notes to the financial statements - continued

12 Pensions and other post retirement benefits - continued

Post retirement medical benefits

The Group also provides unfunded post retirement medical benefits for certain ex-employees and a small number of long-serving current employees. These benefits were granted before 1992. The latest valuation of this scheme was carried out as at 31 December 2004 by an actuary employed by the Group using the same key assumptions as adopted during 2004 for The BUPA Pension Scheme.

(ii) FRS 17

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

The BUPA Pension Scheme has been valued under FRS 17 based on the periodic interim valuation as at 1 July 2004. This valuation has been updated to take account of the requirements of FRS 17 in order to assess the assets and liabilities of the scheme as at 31 December 2004. The other funded pension schemes have also been revalued as at 31 December 2004 and the unfunded pension and post retirement liabilities have been re-calculated on an FRS 17 basis. The valuation of the post retirement healthcare liability has been valued by an actuary employed by the Group. All other valuations under FRS 17 were undertaken by independent actuaries. The major financial weighted average assumptions used when valuing the assets and liabilities under FRS 17 are as follows:

	Funded schemes			Unfunded schemes		
	2004 %	2003 %	2002 %	2004 %	2003 %	2002 %
Rate of increase in salaries	4.0	4.0	3.9	4.0	4.0	3.9
Rate of increase to pensions in payment	2.7	2.7	2.3	3.0	2.7	2.3
Discount rate for scheme liabilities	5.4	5.8	5.6	5.4	5.8	5.6
Inflation rate	2.7	2.7	2.3	2.8	2.7	2.3

Funded schemes

There is one main funded defined benefit pension scheme, The BUPA Pension Scheme, and several other smaller defined benefit pension schemes which together have a net deficit of £180.3m (2003: £125.7m) as at 31 December 2004. The deferred tax asset in respect of this deficit would be £54.1m (2003: £37.7m).

The inflation rate and discount rate are set in accordance with the provisions of FRS 17. The other assumptions used by the actuaries when preparing their valuations are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice. The fair value of the schemes' assets, which are not intended to be realised in the short-term and may be subject to significant change before they are realised, and the present value of the schemes' liabilities, which are derived from cash flow projections over long periods, are inherently uncertain. The expected long-term rates of return, the market value of the funded defined benefit schemes' assets and the present value of these schemes' liabilities calculated in accordance with FRS 17 as at 31 December 2004 are as follows:

	Funded schemes					
	Expected long-term rate of return 2004 %	Market value 2004 £m	Expected long-term rate of return 2003 %	Market value 2003 £m	Expected long-term rate of return 2002 %	Market value 2002 £m
Equities	7.5	235.8	7.5	230.9	7.0	166.3
Bonds	5.0	74.5	5.5	73.1	5.0	73.4
Other	4.8	85.6	3.8	27.9	4.0	13.1
Market value of assets		395.9		331.9		252.8
Present value of scheme liabilities		(576.2)		(457.6)		(397.5)
Deficit in the schemes		(180.3)		(125.7)		(144.7)
Related deferred tax asset		54.1		37.7		43.5
Net pension/post-retirement liability		(126.2)		(88.0)		(101.2)

Included in the total net deficit, before deferred tax, of £180.3m (2003: £125.7m) is a deficit of £172.3m (2003: £122.5m) in respect of The BUPA Pension Scheme.

12 Pensions and other post retirement benefits - continued

The amounts that would be (charged)/credited to the consolidated income and expenditure account under FRS 17 in respect of funded schemes for the year ended 31 December 2004 are set out below:

	Funded schemes	
	2004 £m	2003 £m
Amounts charged to operating surplus		
Current service cost	(23.4)	(24.8)
Total operating charge	(23.4)	(24.8)
Amounts credited/(charged) to investment and financing		
Expected return on pension scheme assets	23.0	16.4
Interest on pension scheme liabilities	(26.4)	(22.7)
Net return	(3.4)	(6.3)
Total charged to operating surplus before tax	(26.8)	(31.1)

The Group also incurred a charge in respect of cash contributions of £7.2m (2003: £7.7m) paid to defined contribution pension schemes.

The amounts that would be credited/(charged) to the consolidated statement of total recognised gains and losses under FRS 17 in respect of funded schemes for the year ended 31 December 2004 are set out below:

	Funded schemes	
	2004 £m	2003 £m
Amounts credited/(charged) in statement of total recognised gains and losses		
Actual return less expected return on scheme assets	2.1	27.7
Experience losses arising on scheme liabilities	(8.0)	(0.8)
Changes in assumptions underlying the present value of the scheme liabilities	(60.9)	(9.0)
Actuarial (losses)/gains recognised in statement of total recognised gains and losses	(66.8)	17.9

The movement in the deficit in the funded schemes over the year to 31 December 2004 is analysed below:

	Funded schemes	
	2004 £m	2003 £m
Movement in deficit		
Deficit in schemes at beginning of year	(125.7)	(144.7)
Current service costs	(23.4)	(24.8)
Cash contributions	39.2	32.4
Other finance charges	(3.4)	(6.3)
Actuarial (loss)/gain	(66.8)	17.9
Exchange adjustments	(0.2)	(0.2)
Deficit in schemes at end of year	(180.3)	(125.7)
Related deferred tax asset	54.1	37.7
Net pension and post retirement liability	(126.2)	(88.0)

12 Pensions and other post retirement benefits - continued

Unfunded schemes

The Group also operates a number of unfunded pension and post retirement medical benefit arrangements. Provisions are currently held in the accounts for these liabilities. The present value of unfunded scheme liabilities at 31 December 2004 is as follows:

	Unfunded schemes	
	2004 £m	2003 £m
Present value of liabilities	(25.2)	(21.9)
Related deferred tax asset	7.6	6.5
Net pension/post retirement liability (under FRS 17)	(17.6)	(15.4)

Included in the total net liability, before deferred tax, of £25.2m (2003: £21.9m) is a liability of £12.7m (2003: £10.8m) in respect of unfunded defined benefit pension schemes and a liability of £12.5m (2003: £11.1m) in respect of post retirement medical benefits.

The amounts that would be charged to the consolidated income and expenditure account under FRS 17 in respect of unfunded schemes for the year ended 31 December 2004 are set out below:

	Unfunded schemes	
	2004 £m	2003 £m
Amounts charged to operating surplus		
Current service cost	(0.9)	(0.9)
Total operating charge	(0.9)	(0.9)
Amounts charged to investment and financing		
Interest on pension scheme liabilities	(1.2)	(1.0)
Net return	(1.2)	(1.0)
Total charged to operating surplus before tax	(2.1)	(1.9)

The amounts that would be charged to the consolidated statement of total recognised gains and losses under FRS 17 in respect of unfunded schemes for the year ended 31 December 2004 are set out below:

	Unfunded schemes	
	2004 £m	2003 £m
Amounts charged in statement of total recognised gains and losses		
Experience losses arising on scheme liabilities	(0.9)	(3.0)
Changes in assumptions	(0.9)	-
Actuarial loss recognised in statement of total recognised gains and losses	(1.8)	(3.0)

The movement in the deficit in the unfunded schemes over the year to 31 December 2004 is analysed below:

	Unfunded schemes	
	2004 £m	2003 £m
Movement in deficit		
Deficit in schemes at beginning of year	(21.9)	(17.6)
Current service costs	(0.9)	(0.9)
Cash contributions	0.6	0.6
Other finance charges	(1.2)	(1.0)
Actuarial loss	(1.8)	(3.0)
Deficit in schemes at end of year	(25.2)	(21.9)
Related deferred tax asset	7.6	6.5
Net pension and post retirement liability	(17.6)	(15.4)

12 Pensions and other post retirement benefits - continued

Overall impact of FRS 17

If FRS 17 had been adopted in the Group's financial statements, the Group's net assets and profit and loss reserve at 31 December 2004 would be as follows:

	2004 £m	2003 £m
Reported net assets	1,422.3	1,317.8
SSAP 24 pension/post retirement liabilities	80.7	88.3
Related deferred tax	(24.2)	(26.5)
Net assets excluding SSAP 24 pension/post retirement balances	1,478.8	1,379.6
FRS 17 pension/post retirement liabilities (net of deferred tax)		
Funded	(126.2)	(88.0)
Unfunded	(17.6)	(15.4)
	(143.8)	(103.4)
Net assets under FRS 17	1,335.0	1,276.2
Group profit and loss reserve including pension/post retirement liabilities	892.6	786.9
SSAP 24 pension/post retirement liabilities	80.7	88.3
Related deferred tax	(24.2)	(26.5)
Group profit and loss reserve excluding amounts relating to pension/post retirement liabilities	949.1	848.7
Amounts relating to FRS 17 pension/post retirement liabilities (net of deferred tax)		
Funded	(126.2)	(88.0)
Unfunded	(17.6)	(15.4)
Group profit and loss reserve including amounts relating to FRS 17 pension/post retirement liabilities	805.3	745.3

History of experience gains and losses

	Funded schemes			Unfunded schemes		
	2004	2003	2002	2004	2003	2002
Actual return less expected return on scheme assets (£m)	2.1	27.7	(80.1)	-	-	-
As percentage of scheme assets	0.5%	8.3%	(31.7)%	-	-	-
Experience gains and losses arising on scheme liabilities (£m)	(8.0)	(0.8)	(16.5)	(0.9)	(3.0)	(0.4)
As percentage of scheme liabilities	1.4%	0.2%	4.2%	3.6%	13.7%	2.3%
Total actuarial loss recognised in statement of total recognised gains and losses (£m)	(66.8)	17.9	(121.5)	(1.8)	(3.0)	(0.4)
As percentage of scheme liabilities	11.6%	(3.9)%	30.6%	7.1%	13.7%	2.3%

13 Tax on surplus on ordinary activities

(i) Analysis of tax charge

	2004 £m	2003 £m
Current tax		
UK corporation tax on income for the year	33.3	32.9
Adjustments in respect of prior periods	3.1	18.8
	36.4	51.7
Double taxation relief	(3.7)	(1.4)
Foreign tax on income for the year	29.4	25.8
Adjustments in respect of prior periods	(3.2)	-
	26.2	25.8
Total current tax	58.9	76.1
Deferred tax		
Origination and reversal of timing differences	20.5	10.3
Adjustments in respect of prior periods	(8.2)	(22.4)
Total deferred tax	12.3	(12.1)
Tax on surplus on ordinary activities	71.2	64.0

(ii) Factors affecting the tax charge

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

	2004 £m	2003 £m
Surplus on ordinary activities before tax	182.2	134.5
Tax charge on surplus on ordinary activities at 30%	54.7	40.3
Effects of:		
Expenses not deductible for tax purposes	23.8	27.6
Capital allowances for period (in excess of)/lower than amortisation/depreciation	(5.9)	1.1
Deferred tax on short-term and other timing differences	(13.4)	(11.4)
Higher tax rates on overseas earnings	1.0	0.4
Adjustments to tax charge in respect of prior periods	(0.1)	18.8
Movement on deferred tax asset not recognised	(1.2)	(0.7)
Total current tax	58.9	76.1

(iii) Factors that may affect future tax charges

As at 31 December 2004, the Group had tax losses to carry forward of approximately £28.6m (2003: £68.3m) against which no deferred tax asset has been recognised. A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

No provision has been made for deferred tax on gains recognised on revaluing property to its market value or on the sale of properties where potentially taxable gains have been rolled over into replacement assets. Such tax would become payable only if the property were sold without it being possible to claim rollover relief. The total amount unprovided is £108.7m (2003: £90.6m). At present, it is not envisaged that any tax will become payable in the foreseeable future.

No deferred tax has been recognised in respect of the earnings of overseas subsidiaries as no dividends have been accrued on these earnings. Tax would only become payable in respect of such earnings if and when they were remitted to the UK. This is not expected to occur in the foreseeable future.

14 Surplus/(deficit) attributable to the Company

The surplus dealt with in the accounts of the Company, The British United Provident Association Limited, is £184.7m (2003: deficit of £0.1m). The surplus in 2004 relates primarily to dividends receivable from subsidiary undertakings. In accordance with the exemption granted under Section 230 (4) of the Companies Act 1985, a separate income and expenditure account for the Company has not been presented.

15 Intangible fixed assets

Group

	Goodwill £m
Cost	
At beginning of year	331.2
Additions (note 36)	0.2
Disposals	(3.3)
Exchange adjustment	(7.0)
At end of year	**321.1**
Amortisation	
At beginning of year	82.9
Charge for the year	22.0
Impairment	14.1
Disposals	(2.2)
Exchange adjustment	(0.1)
At end of year	**116.7**
Net book value	
At end of year	**204.4**
At beginning of year	248.3

16 Hospitals, care homes and equipment

Group

	Freehold properties £m	Long leasehold properties £m	Equipment £m	Total £m
Cost or valuation				
At beginning of year	1,180.1	191.3	412.4	1,783.8
New subsidiary undertakings (note 36)	37.7	-	3.9	41.6
Additions	22.1	7.3	35.9	65.3
Transfers from land and buildings - own use	0.2	-	-	0.2
Transfer from other tangible assets	-	-	1.3	1.3
Reclassifications	1.6	(1.6)	-	-
Disposal of subsidiary undertakings	(2.7)	-	(2.4)	(5.1)
Disposals	(3.1)	(1.4)	(1.8)	(6.3)
Revaluations	(3.8)	-	-	(3.8)
Exchange adjustment	(0.2)	-	(0.1)	(0.3)
At end of year	**1,231.9**	**195.6**	**449.2**	**1,876.7**
Depreciation				
At beginning of year	0.8	12.6	247.1	260.5
Charge for the year	19.2	5.3	41.0	65.5
Reclassifications	0.3	(0.3)	-	-
Disposal of subsidiary undertakings	(0.2)	-	(1.4)	(1.6)
Disposals	(0.7)	(0.3)	(1.8)	(2.8)
Exchange adjustment	-	-	0.4	0.4
At end of year	**19.4**	**17.3**	**285.3**	**322.0**
Net book value				
At end of year	**1,212.5**	**178.3**	**163.9**	**1,554.7**
At beginning of year	1,179.3	178.7	165.3	1,523.3

16 Hospitals, care homes and equipment - continued

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

	Freehold properties £m	Long leasehold properties £m
Valuation 2004	22.8	-
Valuation 2003	399.5	9.8
Valuation 2002	710.3	126.2
Assets held at cost	99.3	59.6
	1,231.9	195.6

Except for the valuation of certain hospitals and care homes in the UK, the valuations were carried out by Knight Frank, Chartered Surveyors, in accordance with the Appraisal and Valuation Manual issued by RICS. One hospital and one care home property in the UK were the subject of a directors' review of the carrying values of these assets.

Historical cost of the Group's revalued assets

	2004 £m	2003 £m
Historical cost of revalued assets	**1,002.3**	942.4
Accumulated depreciation based on historical cost	**(136.7)**	(117.9)
Historical cost net book value	**865.6**	824.5
Depreciation		
Depreciation charge for the year on historical cost	**20.0**	26.1

The total historical cost of all assets is £1,451.5m (2003: £1,354.8m).

Amounts included in respect of assets held under finance leases

	Freehold properties £m	Long leasehold properties £m	Total £m
Net book value			
At end of year	**303.4**	**40.7**	**344.1**
At beginning of year	306.1	41.2	347.3
Depreciation			
Charge for the year	5.3	0.6	5.9

Company

The Company has no hospitals, care homes and equipment (2003: £nil).

17 Land and buildings - own use

	Group			Company
	Freehold properties £m	Long leasehold properties £m	Total £m	Long leasehold properties £m
Cost or valuation				
At beginning of year	65.7	7.5	73.2	2.1
Additions	1.0	0.3	1.3	0.3
Transfer to hospitals, care homes and equipment	(0.2)	-	(0.2)	-
Disposals	(2.5)	(0.1)	(2.6)	-
Exchange adjustment	(0.1)	-	(0.1)	-
At end of year	**63.9**	**7.7**	**71.6**	**2.4**
Depreciation				
At beginning of year	0.8	2.5	3.3	0.2
Charge for the year	2.2	0.8	3.0	0.5
Disposals	-	(0.1)	(0.1)	-
Exchange adjustment	0.1	-	0.1	-
At end of year	**3.1**	**3.2**	**6.3**	**0.7**
Net book value				
At end of year	**60.8**	**4.5**	**65.3**	**1.7**
At beginning of year	64.9	5.0	69.9	1.9

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

	Freehold properties £m	Long leasehold properties £m
Valuation 2003	60.4	2.0
Assets held at cost	3.5	5.7
	63.9	7.7

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

Historical cost of the Group's revalued assets

	2004 £m	2003 £m
Historical cost of revalued assets	**30.1**	31.7
Aggregate depreciation based on historical cost	**(2.3)**	(1.7)
Historical cost net book value	**27.8**	30.0
Depreciation		
Depreciation charge for year on historical cost	**0.6**	0.6

The total historical cost of all assets is £30.1m (2003: £31.7m).

18 Financial investments

Group

	Market value 2004 £m	Cost 2004 £m	Market value 2003 £m	Cost 2003 £m
Debt securities - government stock	**49.8**	**48.5**	26.8	27.4
Debt securities - corporate bonds and loans	**-**	**-**	3.3	3.2
	49.8	**48.5**	30.1	30.6
Shares and other variable yield securities	**15.5**	**15.5**	113.3	114.4
Deposits with credit institutions	**1,547.8**	**1,547.8**	1,272.6	1,272.6
Investment property	**5.9**	**4.9**	5.9	4.9
	1,619.0	**1,616.7**	1,421.9	1,422.5

Deposits with credit institutions include £67.7m (2003: £61.0m) over which the Group has restricted access. These deposits are held in respect of specific obligations and potential liabilities and may only be used to discharge those obligations and potential liabilities if and when they crystallise. Included within these deposits is £9.6m (2003: £10.7m) arising from the offset of £128.6m (2003: £130.7m) of finance lease obligations against £138.2m (2003: £141.4m) of deposits with credit institutions (see note 30).

Included within shares and other variable yield securities are investments in associated undertakings of £3.7m (2003: £3.4m).

Investments comprise:

	Market value 2004 £m	Cost 2004 £m	Market value 2003 £m	Cost 2003 £m
Listed investments	**47.2**	**46.1**	114.2	114.4
Unlisted investments	**18.0**	**17.9**	29.2	30.6
Other	**1,553.8**	**1,553.7**	1,278.5	1,277.5
	1,619.0	**1,617.7**	1,421.9	1,422.5

Company

The Company has no financial investments (2003: £nil).

19 Investments in subsidiary undertakings

Company

	Cost of shares £m	Revaluations £m	Total £m
At beginning of year	202.4	1,222.3	1,424.7
Disposal of subsidiary undertakings	(2.2)	-	(2.2)
Adjustment to reflect underlying net asset value	-	(81.2)	(81.2)
At end of year	**200.2**	**1,141.1**	**1,341.3**

The principal subsidiary undertakings of the Company as at 31 December 2004 are listed below and, except where stated, are incorporated in Great Britain. These subsidiary undertakings are 100% owned unless otherwise stated. Full details of all Group undertakings will be annexed to the Company's next annual return in compliance with the Companies Act, 1985.

Health insurance - general business

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

Health insurance - long-term

BUPA Health Assurance Limited

Investment and financing activities

BUPA Finance PLC*
BUPA Hospitals (Holdings) Limited
BUPA Investments Limited
BUPA Investments Overseas Limited
BUPA Treasury Limited

* Directly owned by the Company.

Health and care provision

BUPA Hospitals Limited	
BUPA Redwood Hospital Limited	
Blackrock Hospital Limited (56% holding)	Republic of Ireland
Sanitas, SA de Hospitales	Spain
BUPA Health Care Asia Pte Limited	Singapore
BUPA Care Homes (CFG) PLC (formerly Care First Group plc)	
BUPA Care Homes Group Limited	
BUPA Care Homes (BNH) Limited	
BUPA Care Services Limited	
BUPA Care Homes (CFC Homes) Limited	
BUPA Care Homes (CFH Care) Limited	
BUPA Care Homes (GL) Limited	
BUPA Care Homes (Partnerships) Limited	
Sanitas Residencial SL	Spain
BUPA Wellness Group Limited	

20 Debtors arising out of direct insurance operations

	Group	
	2004 £m	2003 £m
Amounts owed by policyholders	486.7	453.4
	486.7	453.4

21 Other debtors

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Amounts falling due within one year				
Trade debtors	100.7	97.5	-	-
Investment debtors and accrued investment income	-	1.9	-	-
Amounts owed by subsidiary undertakings	-	-	184.3	506.6
Corporation tax receivable	-	-	0.1	-
Other debtors	40.3	48.2	1.8	1.6
	141.0	147.6	186.2	508.2
Amounts falling due after more than one year				
Deferred taxation (note 34)	17.2	30.3	16.3	14.9
Investment debtors and accrued investment income	0.6	-	-	-
Other debtors	1.9	0.6	-	-
	19.7	30.9	16.3	14.9
	160.7	178.5	202.5	523.1

Other debtors include unamortised direct costs of £6.6m (2003: £7.1m) associated with finance lease obligations. Normally, these costs would be set against the gross finance lease obligations. However, as explained in note 30, gross finance lease obligations have been offset against deposits with credit institutions. Accordingly, the unamortised balance of direct costs has been included within other debtors.

22 Other tangible assets

	Group £m	Company £m
Equipment		
Cost		
At beginning of year	194.0	41.1
Additions	24.2	13.6
Transfer to hospitals, care homes and equipment	(1.3)	-
Disposals	(2.0)	(8.1)
Exchange adjustment	(0.4)	-
At end of year	214.5	46.6
Depreciation		
At beginning of year	118.1	23.6
Charge for the year	28.0	6.7
Disposals	(1.6)	-
At end of year	144.5	30.3
Net book value		
At end of year	70.0	16.3
At beginning of year	75.9	17.5

The net book value of equipment of the Group includes £0.6m (2003: £0.9m) in respect of assets held under finance leases. The depreciation charge for the year on these assets was £0.3m (2003: £0.4m). The Company has no assets held under finance leases.

23 Other prepayments and accrued income

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Prepayments	21.1	18.7	8.4	8.6
Accrued income	9.3	9.4	-	-
	30.4	28.1	8.4	8.6

24 Reserves

Group

	Property revaluation reserve £m	Income and expenditure account £m	Total £m
At beginning of year	519.1	786.9	1,306.0
Retained surplus for the financial year	-	109.3	109.3
Realised revaluation surplus on disposals	(0.5)	0.5	-
Unrealised decrease on revaluation of properties	(2.0)	-	(2.0)
Exchange adjustments	-	(4.1)	(4.1)
At end of year	516.6	892.6	1,409.2

The property revaluation reserve relates to property included within hospitals, care homes and equipment.

Unrealised investment losses amounting to £0.2m (2003: gains of £0.6m) are included in the balance of the income and expenditure account at 31 December 2004.

The cumulative amount of goodwill resulting from acquisitions previously written off to reserves prior to 31 December 1997, and which remains in reserves, is £269.2m (2003: £269.2m).

Company

	Income and expenditure account £m
At beginning of year	1,306.0
Retained profit for the year	184.7
Decrease in underlying net asset value of Group undertakings	(81.2)
Exchange adjustments	(0.3)
At end of year	1,409.2

25 Subordinated liabilities

Subordinated liabilities comprise:

	2004 £m	2003 £m
Callable subordinated perpetual guaranteed bonds	312.6	-
10.5% subordinated guaranteed bonds due 2018	11.9	99.0
	324.5	99.0

In December 2004 the Group raised £330.0m through the issue of £330.0m callable subordinated perpetual guaranteed bonds, issued by BUPA Finance PLC and guaranteed by BUPA Insurance Limited. Interest is payable on the bonds at 6.125% per annum. A call option is exercisible by BUPA Finance PLC to redeem the bonds on 16 September 2020. In the event of a winding up of BUPA Finance PLC or BUPA Insurance Limited the claims of the bondholders are subordinated in right of payment to the claims of other creditors of BUPA Finance PLC or BUPA Insurance Limited. The balance of £312.6m is shown net of issue costs of £18.2m.

At the same time BUPA Finance PLC repurchased 88.0% of the 10.5% subordinated guaranteed bonds due in 2018 for £114.0m incurring a premium on redemption of £27.1m which has been taken to the income and expenditure account in the year. The £11.9m of outstanding bonds are repayable on 3 December 2018 and are guaranteed by the Company. A call option is exercisible by the Company to redeem the bonds on 3 December 2013. In the event of the winding up of BUPA Finance PLC or the Company, the claims of the bondholders are subordinated in right of payment to the claims of other creditors of the Company. Interest is payable at 10.5% per annum.

The Company had no subordinated liabilities (2003: £nil).

26 Technical provisions

Group

	Provision for unearned premiums £m	Claims outstanding £m	Total £m
At beginning of year	734.9	381.4	1,116.3
Movement in the provision	42.5	55.3	97.8
Exchange adjustment	(3.7)	(0.8)	(4.5)
At end of year	**773.7**	**435.9**	**1,209.6**

Over provisions on health insurance for claims at the beginning of the year compared with payments and provisions at the end of the year in respect of prior year's claims are £70.7m (2003: £54.1m).

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

Company

The Company had no technical provisions (2003: £nil).

27 Provisions for other risks and charges

Group

	Pensions and post retirement benefits £m	Other £m	Total £m
At beginning of year	88.3	45.3	133.6
Charge for the year	8.1	20.6	28.7
Released in year	-	(8.9)	(8.9)
Utilised in year - cash	(15.7)	(8.7)	(24.4)
Utilised in year - non cash	-	(1.5)	(1.5)
Exchange adjustment	-	(0.6)	(0.6)
At end of year	**80.7**	**46.2**	**126.9**

Pensions and post retirement benefits largely represent unfunded liabilities in respect of defined benefit pension arrangements and post retirement medical benefits for certain employees and ex-employees. The Group's main pension schemes are based in the UK and are held in separately administered funds and are described in note 12.

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

Company

	Pensions and post retirement benefits £m	Other £m	Total £m
Provisions for liabilities and charges			
At beginning of year	28.7	12.9	41.6
Charge for the year	3.4	4.9	8.3
Utilised in year - cash	(3.3)	(0.1)	(3.4)
Utilised in year - non cash	-	(0.9)	(0.9)
Exchange adjustment	-	(0.3)	(0.3)
At end of year	**28.8**	**16.5**	**45.3**

Other provisions include provisions in respect of insurance.

28 Secured, debenture and other loans

Group

Secured, debenture and other loans are analysed as follows:

	2004 £m	2003 £m
Secured loans	**607.0**	623.5
Debenture stock	**65.5**	66.6
Loan notes	**0.1**	6.9
	672.6	697.0

(i) Secured loans

In July 2002 the Group borrowed £450.0m from UK Hospitals No1 SA, a company registered in Luxembourg, which has been secured by first fixed and first floating ranking security over all the property, undertaking and assets of BUPA Hospitals Limited and its subsidiaries. In accordance with the terms of this facility, in September 2003 the Group borrowed a further £12.3m which is subject to the same security.

The total amount borrowed of £462.3m is denominated in five tranches. The rates of interest and final repayment dates of each are set out in the table below. 'A' advances are to be paid in full before repayments of 'B' advances commence.

	Fixed interest rate %	Final maturity date	£m
Term A1 advance	6.531	19 July 2022	80.0
Term A2 advance	6.264	19 July 2022	200.0
Term B1 advance	7.681	19 July 2029	50.0
Term B2 advance	6.882	19 July 2029	120.0
Term C advances*			12.3
			462.3

* The C advances bear interest, on a weighted average basis, at 9.6%. The advances are repayable between 19 October 2007 and 19 July 2008.

In raising the £462.3m, the Group incurred facility fees and issue expenses of £19.8m. The facility fees and issue expenses have been capitalised and are being amortised over the loan terms. As at 31 December 2004, the balance of this loan was £428.6m (2003: £440.0m) net of issue costs not yet amortised.

£178.4m (2003: £183.5m) of the balance of secured loans is due to UK Care No 1 Limited, a company incorporated in Guernsey, which is being repaid by instalments until 1 October 2029. In 1999, BUPA granted 99 year overriding leases over 116 care home properties to UK Care No 1 Limited for a premium of £206.0m. The terms of the agreement entitle UK Care No 1 Limited to receive initially rents for a period of 35 years. The granting of the overriding leases has been characterised as a loan liability in accordance with the provisions of Financial Reporting Standard No 5: Reporting the Substance of Transactions. The loan bears interest at 5.96%.

(ii) Debenture stock

The 11.8% debenture stock is repayable at par in 2014. The stock is secured by a fixed charge over certain of the Group's assets and a first floating charge over the businesses attached thereto and a general floating charge over certain assets.

(iii) Loan notes

The loan notes balance of £0.1m (2003: £6.9m) relates to acquisitions made in previous years when part of the consideration was given in the form of loan notes which are guaranteed by the Company. During 2004 £6.8m of loan notes were repaid.

Company

The Company had no secured, debenture or other loans (2003: £nil).

29 Amounts owed to credit institutions

Group

Amounts owed to credit institutions comprise:

	2004 £m	2003 £m
Bank overdrafts	**16.7**	38.4
Bank loans	**215.3**	452.0
	232.0	490.4

Of the £232.0m (2003: £490.4m) owed to credit institutions, certain bank loans and overdrafts are secured by fixed and floating charges over certain assets of the Group, and bear interest at commercial rates linked to LIBOR.

The Company owed £nil (2003: £nil) to credit institutions.

30 Obligations under finance leases

Group

Future minimum payments under finance leases are as follows:

	2004 £m	2003 £m
Payable within one year	**11.7**	11.7
Payable after one year but within five years	**45.0**	34.5
Payable after five years	**161.8**	184.1
Total gross payments	**218.5**	230.3
Less finance charges included above	**(89.0)**	(98.1)
Total payments net of finance charges	**129.5**	132.2
Less offset with financial investments	**(128.6)**	(130.7)
	0.9	1.5

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

The agreement also required BUPA Hospitals (Holdings) Limited to place £148.0m in long-term deposits. These deposits have been ring-fenced allowing the Group to withdraw periodically from the deposits an amount equivalent to that paid under the finance lease obligations. The agreement provides for net settlement between the deposits and the finance lease obligations in all situations of default. As net settlement is assured beyond doubt the deposits and finance lease obligations have been offset in the financial statements, as required by FRS 5, as follows:

	2004 £m	2003 £m
Amounts on deposit	**138.2**	141.4
Amounts due under finance leases	**(128.6)**	(130.7)
Net amount included within deposits with credit institutions (note 18)	**9.6**	10.7

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

The balance of £0.9m (2003: £1.5m) due under finance leases relates to leases of equipment.

Company

The Company had no obligations under finance leases (2003: £nil).

31 Borrowings

Group

Borrowings comprise the following:

	2004 £m	2003 £m
Subordinated liabilities	**324.5**	99.0
Secured, debenture and other loans	**672.6**	697.0
Amounts owed to credit institutions	**232.0**	490.4
	1,229.1	1,286.4
Obligations under finance leases (note 30)	**0.9**	1.5
	1,230.0	1,287.9

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

	2004 £m	2003 £m
Repayable other than by instalments		
Repayable wholly within five years	**69.7**	312.5
Repayable wholly beyond five years	**373.7**	172.2
	443.4	484.7
Repayable by instalments		
Repayable within five years	**175.4**	104.7
Repayable beyond five years	**516.9**	640.3
	692.3	745.0
Repayments falling due within one year	**93.4**	56.7
	1,229.1	1,286.4
Repayable over one but not more than two years	**106.4**	310.8
Repayable over two but not more than five years	**138.7**	106.3
Repayable beyond five years	**890.6**	812.6
Amounts falling due after more than one year	**1,135.7**	1,229.7
Repayments falling due within one year	**93.4**	56.7
	1,229.1	1,286.4

Company

The Company had no borrowings (2003: £nil).

32 Other creditors including taxation and social security

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Creditors: amounts falling due within one year				
Trade creditors	**50.2**	50.5	**-**	-
Amounts owed to subsidiary undertakings	**-**	-	**79.8**	597.9
Corporation tax payable	**25.9**	31.8	**-**	4.8
Social security and payroll taxes	**12.7**	10.9	**-**	-
Other creditors	**67.6**	67.6	**2.9**	4.4
	156.4	160.8	**82.7**	607.1

33 Accruals and deferred income

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Other accruals and deferred income	**193.8**	144.6	**33.5**	21.6
	193.8	144.6	**33.5**	21.6

34 Deferred taxation

The movement for the year in the net deferred tax asset is as follows:

	Group £m	Company £m
At beginning of year	30.3	14.9
New subsidiary undertakings	(0.6)	-
Disposal of subsidiary undertakings	(0.2)	-
Deferred tax (charge)/credit for year	(12.3)	1.4
At end of year	**17.2**	**16.3**

The net deferred tax asset is included within other debtors (note 21).

Deferred tax assets and liabilities are analysed as follows:

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Accelerated capital allowances	**(25.9)**	(22.3)	**(0.7)**	(1.0)
Pension provision	**20.3**	22.9	**4.8**	4.7
Other employee benefits	**7.9**	6.9	**6.8**	6.2
Other UK timing differences	**5.9**	13.6	**5.4**	5.0
Overseas timing differences	**9.0**	9.2	**-**	-
	17.2	30.3	**16.3**	14.9

35 Cash flow statement

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

	2004 £m	2003 £m
Operating surplus before taxation	**182.2**	134.5
Depreciation	**96.5**	93.6
Amortisation and impairment of goodwill	**36.1**	41.4
Diminution in value of hospitals and care homes	**1.8**	10.9
Deficit on revaluation of land and buildings - own use	**-**	10.3
Loss on disposal/closure of businesses	**1.5**	2.1
Acquisition costs	**-**	0.3
Premium on repurchase of subordinated bond	**27.1**	-
Interest payable	**87.1**	89.7
Unrealised/realised losses on investments	**0.5**	0.6
Profit on sale of fixed assets	**(1.9)**	(1.1)
Increase in current assets	**(44.7)**	(16.2)
Increase in unearned premiums	**42.5**	51.4
Increase in outstanding claims	**55.3**	46.4
Increase/(decrease) in other creditors	**42.8**	(9.2)
Net cash inflow from operating activities	**526.8**	454.7

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

	2004 £m	2003 £m
Servicing of finance		
Premium on repurchase of subordinated bond	**(27.1)**	-
Interest paid	**(79.2)**	(78.4)
Interest element of finance lease rental payments	**(7.5)**	(7.6)
Net cash inflow from hedging activities	**3.9**	-
Dividends paid to minority shareholders in subsidiary undertakings	**(0.9)**	(0.8)
	(110.8)	(86.8)
Capital expenditure		
Purchase of tangible fixed assets	**(85.1)**	(98.4)
Sale of tangible fixed assets	**8.3**	4.0
	(76.8)	(94.4)
Acquisitions and disposals		
Acquisition of subsidiary undertakings	**(41.0)**	(209.0)
Acquisition of businesses	**-**	(0.3)
Net cash acquired with subsidiary undertakings	**0.4**	1.3
Acquisition of minority interests in subsidiary undertakings	**(0.2)**	(0.6)
Disposal of subsidiary undertakings	**2.2**	(0.1)
	(38.6)	(208.7)
Financing		
New borrowings	**311.9**	519.5
Repayment of borrowings	**(349.9)**	(387.6)
Capital element of finance leases	**(0.6)**	0.2
	(38.6)	132.1

Notes to the financial statements - continued

35 Cash flow statement - continued

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

	At 1 January 2004 £m	Cash flow £m	Acquisitions/ disposals (excluding cash and overdrafts) £m	Changes to market value and currencies £m	Other changes £m	At 31 December 2004 £m
Cash						
Cash at bank and in hand	103.4	(25.2)	-	(4.6)	-	**73.6**
Overdrafts	(38.4)	20.9	-	0.8	-	**(16.7)**
Overnight deposits	22.7	14.3	-	0.7	-	**37.7**
		10.0				
Portfolio investments						
Shares	113.3	(93.3)	-	(4.9)	0.4	**15.5**
Debt securities - government stock	26.8	22.3	-	0.7	-	**49.8**
Debt securities - corporate bonds	3.3	(3.1)	-	(0.2)	-	**-**
Short-term deposits	1,249.9	260.9	-	(0.7)	-	**1,510.1**
Investment property	5.9	-	-	-	-	**5.9**
		186.8				
Financing						
Debt due within one year	(18.3)	155.6	-	1.9	(215.9)	**(76.7)**
Debt due after one year	(1,229.7)	(117.6)	1.3	0.1	210.2	**(1,135.7)**
Finance leases	(1.5)	0.6	-	-	-	**(0.9)**
		38.6				
	237.4	235.4	1.3	(6.2)	(5.3)	**462.6**
Borrowings						
Overdrafts	(38.4)					**(16.7)**
Debt due within one year	(18.3)					**(76.7)**
Debt due after one year	(1,229.7)					**(1,135.7)**
Finance leases	(1.5)					**(0.9)**
	(1,287.9)					**(1,230.0)**
Financial investments						
Overnight deposits	22.7					**37.7**
Shares	113.3					**15.5**
Debt securities - government stock	26.8					**49.8**
Debt securities - corporate bonds	3.3					**-**
Short-term deposits	1,249.9					**1,510.1**
Investment property	5.9					**5.9**
	1,421.9					**1,619.0**

Portfolio investments

	2004 £m	2003 £m
Purchase of ordinary shares and other variable yield securities	**(27.2)**	(65.9)
Purchase of debt securities - government stock	**(36.8)**	(162.5)
Purchase of debt securities - corporate bonds	**(2.6)**	(5.3)
Sale of ordinary shares and other variable yield securities	**120.5**	147.4
Sale of debt securities - government stock	**14.5**	158.4
Sale of debt securities - corporate bonds	**5.7**	5.2
Deposits with credit institutions	**(260.9)**	(200.7)
Net cash outflow on portfolio investments	**(186.8)**	(123.4)

36 Acquisitions

BUPA acquired 100% of the share capital of Carrick Care Homes Limited (Carrick) on 31 August 2004 for a total cash consideration of £40.0m. The following table analyses the preliminary fair value of the net assets acquired.

	Book value £m	Fair value adjustments £m	Fair value of net assets £m
Hospitals, care homes and equipment	18.6	23.0	41.6
Other debtors: amounts falling due within one year	0.8	(0.1)	0.7
Cash at bank and in hand	0.6	-	0.6
Amounts owed to credit institutions	(0.2)	-	(0.2)
Other creditors including taxation and social security	(1.4)	-	(1.4)
Accruals and deferred income	(0.7)	-	(0.7)
Deferred taxation	(0.6)	-	(0.6)
Net assets acquired	17.1	22.9	40.0
Consideration - paid in cash			39.7
Consideration - costs of acquisition			0.3
Goodwill			-

Goodwill of £nil relates to the acquisition of Carrick. The fair value adjustments of £23.0m in respect of hospitals, care homes and equipment represent revaluations of the care homes acquired and have been based upon a professional valuation on the basis of their existing use value. The fair value adjustment of £0.1m in respect of other debtors falling due within one year relates to an additional provision against debtor balances.

The Group also paid £0.2m in cash relating to minority interests acquired in the year giving rise to goodwill of £0.2m.

In addition, on 31 March 2004 the Group paid £1.0m of contingent consideration in respect of the acquisition of Personal Effectiveness Centre Limited which was acquired in 2003.

Notes to the financial statements - continued

37 Disposals and closures

The loss on sale and closure of businesses in 2004 of £1.5m represents the loss on disposal of Hurstville Hospital in Australia and two clinics in Hong Kong.

38 Commitments

(i) Capital commitments

Capital expenditure for the Group contracted at the balance sheet date, but for which no provision has been made in the financial statements amounted to £35.2m (2003: £18.4m).

The Company had no capital commitments as at 31 December 2004 (2003: £nil).

(ii) Operating leases

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

Group

	2004 Land and buildings £m	2004 Other £m	2004 Total £m	2003 Land and buildings £m	2003 Other £m	2003 Total £m
Operating leases which expire:						
Within one year	2.1	0.5	2.6	2.3	0.2	2.5
Between one and five years	0.7	-	0.7	1.5	1.8	3.3
After five years	6.7	-	6.7	6.1	0.4	6.5
	9.5	0.5	10.0	9.9	2.4	12.3

The Company had no operating lease obligations (2003: £nil).

39 Contingent liabilities

Group

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

Company

The Company has guaranteed the borrowings of certain subsidiary undertakings which at 31 December 2004 amounted to £221.5m (2003: £500.3m).

In accordance with the provisions of Section 17 of the Companies (Amendment) Act 1986 of the Republic of Ireland, the Company has irrevocably guaranteed all liabilities and losses of its subsidiary companies, BUPA Ireland Limited, BUPA Ireland Services Limited and BUPA Ireland Health Services Limited, in respect of the financial years to 31 December 2004, 2005 and 2006 as referred to in Section 5(c) of that Act, for the purposes of enabling those subsidiaries to claim exemption from the requirement to file their own financial statements.

40 Related party transactions

No Director had any material interest in any contracts with Group companies at the end of 2004 or at any time during the year. There were no material transactions during the year with any other related parties, as defined by Financial Reporting Standard No 8: Related Party Disclosures (FRS 8).

41 Post balance sheet events

On 10 March 2005 the Group disposed of the BUPA Healthcare Professionals business, a UK staffing provider within Care Services, for a consideration of £9.0m.

Five year financial summary

	2004 £m	2003 £m	2002 £m	2001 (Restated) £m	2000 (Restated) £m
Income and expenditure account					
Health insurance premiums earned					
General business	**2,431.7**	2,262.7	1,814.7	1,511.2	1,295.7
Long-term business	**32.7**	18.2	12.1	11.2	10.2
	2,464.4	2,280.9	1,826.8	1,522.4	1,305.9
Health and care provision turnover					
Hospitals and medical services	**667.3**	627.1	569.7	496.1	438.8
Care services	**495.5**	460.0	418.0	384.8	385.2
	1,162.8	1,087.1	987.7	880.9	824.0
Total income	**3,627.2**	3,368.0	2,814.5	2,403.3	2,129.9
Operating surplus before goodwill and investment and financing	**274.5**	237.8	176.7	137.5	110.7
Goodwill amortisation					
Health insurance	**(15.2)**	(15.2)	(7.6)	(2.1)	(1.9)
Health and care provision	**(6.8)**	(9.3)	(9.1)	(7.5)	(5.3)
	(22.0)	(24.5)	(16.7)	(9.6)	(7.2)
Goodwill impairment					
Health and care provision	**(14.1)**	(16.9)	-	-	-
	(14.1)	(16.9)	-	-	-
Operating surplus before investment and financing	**238.4**	196.4	160.0	127.9	103.5
Investment and financing	**(54.8)**	(49.7)	(52.1)	(37.5)	(17.1)
Operating surplus before other (charges)/income	**183.6**	146.7	107.9	90.4	86.4
Other (charges)/income	**(1.4)**	(12.2)	(4.3)	1.5	(21.0)
Operating surplus on ordinary activities before taxation	**182.2**	134.5	103.6	91.9	65.4
Tax on surplus on ordinary activities	**(71.2)**	(64.0)	(48.7)	(38.5)	(26.4)
Surplus on ordinary activities after taxation	**111.0**	70.5	54.9	53.4	39.0
Minority interest	**(1.7)**	0.3	0.5	(0.5)	(0.3)
Surplus for the financial year	**109.3**	70.8	55.4	52.9	38.7
Statement of total recognised gains and losses					
Surplus for the financial year	**109.3**	70.8	55.4	52.9	38.7
Property revaluation	**(2.0)**	80.0	80.0	-	150.1
Exchange adjustments	**(4.1)**	34.4	5.1	(3.6)	3.9
	103.2	185.2	140.5	49.3	192.7
Reserves					
Gross reserves	**1,678.4**	1,575.2	1,390.0	1,249.5	1,200.2
Cumulative goodwill written off	**(269.2)**	(269.2)	(269.2)	(270.8)	(280.4)
	1,409.2	1,306.0	1,120.8	978.7	919.8

Comparative amounts for 2000 and 2001 have been restated to reflect accounting policy changes adopted in 2002 in respect of FRS 19.

Notes

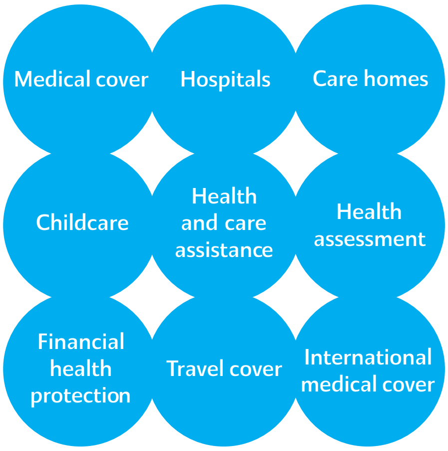
Awards

BUPA won the following awards in 2004:

- BUPA selected as one of the strongest brands in the UK, being the only health and care company on the list - *Superbrands Council*
- Best health insurer in the UK for the third year running - *Personal Finance Magazine*
- UK Membership company medical insurance - Best on offer - *Cover Excellence awards*
- Top 100 marketing employer in the UK - *Marketing Employer of the Year survey*
- Sanitas - Top 10 most powerful brand name in Spain - *business magazine Actualidad Económica*
- La Zarzuela hospital – one of Spain's leading independent hospitals - *Iasist group*
- Sanitas Residencial - Best care home operator in Spain - *Jubilo group*
- BUPA Ireland - Top 10 best companies to work for in Ireland - *Great Place to Work Institute Europe*
- BUPA Australia - Best company of its size for supporting and developing its people - *Australian Human Resources Institute*
- BUPA Hong Kong - Insurance website of the year - *Asia Insurance Review*
- Back surgery booklet produced by health information team - *Highly commended by British Medical Association*
- BUPA Retirement Savings Plan - Best medium sized pension in the UK - *Professional Pensions Newspaper*

Employees of BUPA also won the following individual awards through their work:

- Rick Holden, Service Team Manager, UK Membership - Customer Service Contact Professional of the Year - *National Customer Service Awards*
- Janet Price - Top Care Home Manager - *Welsh Care Awards*
- Doreen Bourne and Tracey Kenyon from BUPA Care Homes - both won categories at the *Ideas UK, Idea of the Year Award*



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