Attachment B.11.d

Health Dialog

Response to

LA Material Subcontractor Q&A

Health Dialog Responses

June 2011

Health Dialog

1. **Indicate your organization's legal name, trade name, dba, acronym, and any other name under which you do business; the physical address, mailing address, and telephone number of your headquarters office. Provide the legal name for your organization's ultimate parent (e.g. publicly traded corporation).**

   Health Dialog Services Corporation (Health Dialog)
   60 State Street, 11th Floor
   Boston, MA 02109
   617-406-5200

   Health Dialog is a private, wholly-owned subsidiary of Bupa, a United Kingdom-based global provider of more than USD $10 billion in healthcare services.

2. **Describe your organization's form of business (i.e., individual, sole proprietor, corporation, non-profit corporation, partnership, limited liability company) and detail the names, mailing address, and telephone numbers of its officers and directors and any partners (if applicable).**

   As mentioned, Health Dialog is an indirect wholly-owned subsidiary of Bupa. Bupa is the largest private health insurer in the UK, and, through its subsidiaries, is a global provider of various healthcare services.

   Health Dialog's Chief Executive Officer is James Tugendhat. James is located in our Boston office at the address listed above. James' office phone number is 617-406-5304.

3. **Provide the name and address of any health professional that has at least a five percent (5%) financial interest in your organization, and the type of financial interest.**

   Not applicable.

4. **Provide your federal taxpayer identification number and Louisiana taxpayer identification number.**

   Tax Identification: 04-327-4661
   Louisiana Taxpayer Identification: 1153576001200

5. **Provide the name of the state in which you are incorporated and the state in which you are commercially domiciled. If out-of-state, provide the name and address of the local representative; if none, so state.**

   We do business on both national and international levels. Incorporated in the State of Delaware and domiciled in the State of Massachusetts, we are licensed to do business in North Carolina, Florida, Illinois, Pennsylvania, Texas, Massachusetts, New Hampshire, New York, California, Maine, and Arizona. Our staff of Health Coaches holds licenses to speak with members and provide support to individuals located in all 50 states, including Louisiana.

   CT Corporation is our registered agent for service of process in Louisiana. The address of CT Corporation in Louisiana is 5615 Corporate Blvd., Suite 400B, Baton Rouge, LA 70808

6. **If you have been engaged by DHH within the past twenty-four (24) months, indicate the contract number and/or any other information available to identify the engagement; if not, so state.**

   Not applicable

7. **Provide a statement of whether there have been any mergers, acquisitions, or sales of your organization within the last ten years, and if so, an explanation providing relevant details. If any change of ownership is anticipated during the 12 months following the Proposal Due Date of 6/24/2011, describe the circumstances of such change and indicate when the change is likely to occur. Include your organization's parent organization, affiliates, and subsidiaries.**

   Health Dialog has not been a part of any significant acquisitions, divestitures, or sales in the past ten years.

   That said, in January 2008, Bupa, a long-time shareholder of Health Dialog, acquired all of the company's remaining equity, making Health Dialog an indirect, wholly-owned subsidiary of Bupa.

   No ownership changes are anticipated in the next 12 months.

8. **Provide a statement of whether you or any of your employees, agents, independent contractors, or subcontractors have ever been convicted of, pled guilty to, or pled nolo contendere to any felony and/or any Medicaid or health care related offense or have ever been debarred or suspended by any federal or state governmental body. Include an explanation providing relevant details and the corrective action plan implemented to prevent such future offenses. Include your organization's parent organization, affiliates, and subsidiaries.**

   To the extent of our knowledge, neither Health Dialog nor any of our employees, agents, independent contractors, or subcontractors have ever been convicted of, pled guilty to, or pled nolo contendere to any felony and/or any Medicaid or health care related offense or have ever been debarred or suspended by any federal or state governmental body.

9. **Provide a statement of whether there is any pending or recent (within the past five years) litigation against your organization. This shall include but not be limited to litigation involving failure to provide timely, adequate or quality physical or behavioral health services. You do not need to report workers' compensation cases. If there is pending or recent litigation against you, describe the damages being sought or awarded and the extent to which adverse judgment is/would be covered by insurance or reserves set aside for this purpose. Include a name and contact number of legal counsel to discuss pending litigation or recent litigation. Also include any SEC filings discussing any pending or recent litigation. Include your organization's parent organization, affiliates, and subsidiaries.**

   Health Dialog has not been named a party to any significant litigation in the past five years. In the ordinary course of business, we are occasionally subject to employment-related actions (including workers' compensation claims) filed by former and current employees, a number of which are currently pending. Other than routine workers' compensation claims, all such matters have been dismissed in Health Dialog's favor or are currently pending. Health Dialog is involved in one pending private arbitration with a former client, but is not permitted to disclose any information regarding such matter.

10. **Provide a statement of whether, in the last ten years, you or a predecessor company has filed (or had filed against it) any bankruptcy or insolvency proceeding, whether voluntary or involuntary, or undergone the appointment of a receiver, trustee, or assignee for the benefit of creditors. If so, provide an explanation providing relevant details including the date in which the company emerged from bankruptcy or expects to emerge. If still in bankruptcy, provide a summary of the court-approved reorganization plan. Include your organization's parent organization, affiliates, and subsidiaries.**

    No. In the last ten years, Health Dialog has not filed for or had filed against it any bankruptcy or insolvency proceeding,

11. **If your organization is a publicly-traded (stock-exchange-listed) corporation, submit the most recent United States Securities and Exchange Commission (SEC) Form 10K Annual Report, and the most-recent 10-Q Quarterly report.**

    Not applicable.

12. **Provide a statement whether there have been any Securities Exchange Commission (SEC) investigations, civil or criminal, involving your organization in the last ten (10) years. If there have been any such investigations, provide an explanation with relevant details and outcome. If the outcome is against the organization, provide the corrective action plan implemented to prevent such future offenses. Also provide a statement of whether there are any current or pending Securities Exchange Commission investigations, civil or criminal, involving the Organization, and, if such investigations are pending or in progress, provide an explanation providing relevant details and provide an opinion of counsel as to whether the pending investigation(s) will impair the Organization's performance in a contract/Agreement under this RFP. Include your organization's parent organization, affiliates, and subsidiaries.**

    To the extent of our knowledge, Health Dialog has not been subject to any Securities Exchange Commission (SEC) investigations, civil or criminal, in the last ten (10) years.

13. **If another corporation or entity either substantially or wholly owns your organization, submit the most recent detailed financial reports for the parent organization. If there are one (1) or more intermediate owners between your organization and the ultimate owner, this additional requirement is applicable only to the ultimate owner.**

    a. **Include a statement signed by the authorized representative of the parent organization that the parent organization will unconditionally guarantee**

performance by the proposing organization of each and every obligation, warranty, covenant, term and condition of the Contract.

Please refer to the **Appendix** for the financials of our parent company, the British United Provident Association (Bupa). We have provided a guarantee from a sister company, Bupa Finance PLC, which is a subsidiary of Bupa and is the principal investment holding company in the Bupa Group.

14. Attach a personnel roster and resumes of key people who shall be assigned to perform duties or services under the Contract, highlighting the key people who shall be assigned to accomplish the work required by this RFP and illustrate the lines of authority.

a. Submit current resumes of key personnel documenting their educational and career history up to the current time. Include information on how long the personnel have been in these positions and whether the position included Medicaid managed care experience.

b. If any of your personnel named is a current or former Louisiana state employee, indicate the Agency where employed, position, title, termination date, and last four digits of the Social Security Number.

c. For key positions/employees which are not full time provide justification as to why the position is not full time. Include a description of their other duties and the amount of time allocated to each.

The key Health Dialog team members who are responsible for performing duties or services under the Contract include:

Sharon Holub: Sharon is the Client Performance Director who ensures that the day-to-day operational aspects of the service provided by Health Dialog for WellCare members are delivered, including file transmission, reporting, and issue resolution. She reports up to Ruth Beattie, Senior Vice President of Client Performance at Health Dialog. Sharon has been part of the Health Dialog team serving clients since 1999. She has been responsible for all aspects of managing client relationships with key Health Dialog clients, including several health plans with managed Medicaid populations. She has 25 years of account management, marketing/ communications, and operations experience. Before joining Health Dialog, she served in a number of marketing and operations roles at HealthAmerica, a regional health plan, including working directly with the senior management team to lead strategic communications efforts. She also previously held marketing roles at Coopers & Lybrand (now Pricewaterhouse Coopers). Sharon has a BA in English from Penn State University.

David Barlow: David serves as a Senior Vice President responsible for call center operations. The Pittsburgh coaching center personnel, who handle interactions with WellCare members, report to David. David has 26 years of international client services experience across several industries. Prior to joining Health Dialog in 2008, David was Senior Vice President, Account Services at Iron Mountain, Incorporated where he was responsible for Customer Service, Account Management and Customer On-boarding for North America. From 1999 to 2003 David was the Executive Vice President and CIO for an integrated marketing services company in Rochester NY. After graduating from college in 1982 David joined Eastman Kodak and held various technology and client services roles in Rochester, Detroit and London England. David received a Bachelor of Science in Business Administration degree from Clarion University in Business and Information Systems.

15. Identify (IN THE ATTACHED EXCEL DOCUMENT), all of your organization's publicly-funded managed care contracts for Medicaid/CHIP and/or other low-income individuals within the last five (5) years. In addition, identify, in Excel format your organization's ten largest (as measured by number of enrollees) managed care contracts for populations other than Medicaid/CHIP and/or other low-income individuals within the last five (5) years. For each prior experience identified, provide the trade name, a brief description of the scope of work, the duration of the contract, the contact name and phone number, the number of members and the population types (e.g., TANF, ABD, duals, CHIP), the annual contract payments, whether payment was capitated or other, and the role of subcontractors, if any. If your organization has not had any publicly-funded managed care contracts for Medicaid/SCHIP individuals within the last five (5) years, identify the Organization's ten largest (as measured by number of enrollees) managed care contracts for populations other than Medicaid/CHIP individuals within the last five (5) years and provide the information requested in the previous sentence. Include your organization's parent organization, affiliates, and subsidiaries.

PLEASE COMPLETE THIS QUESTION IN THE ATTACHED EXCEL DOCUMENT.

To respect the contracts and confidentiality of our current clients, at this time we cannot provide the information requested. When discussions reach the appropriate stage, we will be happy to work with you and our existing clients to potentially provide the requested information.

16. Identify whether your organization has had any contract terminated or not renewed within the past five (5) years. If so, describe the reason(s) for the termination/non-renewal, the parties involved, and provide the address and telephone number of the client. Include your organization's parent organization, affiliates, and subsidiaries.

No. We have not had a contract for services similar to those we provide to WellCare terminated.

17. If the contract was terminated/non-renewed, based on your organization's performance, describe any corrective action taken to prevent any future occurrence of the problem leading to the termination/non-renewal. Include your organization's parent organization, affiliates, and subsidiaries.

Not applicable.

18. As applicable, provide (in table format) the Organization's current ratings as well as ratings for each of the past three years from each of the following:

- **a. AM Best Company (financial strengths ratings);**
- **b. TheStreet.com, Inc. (safety ratings); and**
- **c. Standard & Poor's (long-term insurer financial strength.**

Not applicable.

19. For any of your organization's contracts to provide physical health services within the past five years, has the other contracting party notified the Proposer that it has found your organization to be in breach of the contract? If yes:

- **a. Provide a description of the events concerning the breach, specifically addressing the issue of whether or not the breach was due to factors beyond the Proposer's control.**
- **b. Was a corrective action plan (CAP) imposed? If so, describe the steps and timeframes in the CAP and whether the CAP was completed.**
- **c. Was a sanction imposed? If so, describe the sanction, including the amount of any monetary sanction (e.g., penalty or liquidated damage).**
- **d. Was the breach the subject of an administrative proceeding or litigation? If so, what was the result of the proceeding/litigation? Include your organization's parent organization, affiliates, and subsidiaries.**

Other than in connection with the arbitration case described in the response to question 9, Health Dialog has not been notified by any other party that is in breach of a contract. In that case, Health Dialog and a former client disagree as to the proper method of making certain calculations under the applicable contract.

20. Indicate whether your organization has ever sought, or is currently seeking, National Committee for Quality Assurance (NCQA) or American Accreditation HealthCare Commission (URAC) accreditation status. If it has or is, indicate current NCQA or URAC accreditation status and accreditation term effective dates if applicable.

We are fully accredited by the NCQA in Patient and Practitioner Oriented Disease Management for the following disease management programs: coronary heart disease, diabetes, heart failure, chronic obstructive pulmonary disease, and asthma. Full accreditation is awarded for three years to organizations that meet or exceed NCQA's rigorous standards for: Program Content, Patient Service, Practitioner Service, Clinical Systems, Measurement and Quality Improvement, and Program Operation. In early January 2009, our NCQA accreditation was renewed for another three years.

For our 24/7 nurseline services, we have renewed our Health Information Products (HIP) certification from NCQA for HIP 4 "Health Information Line". This certification was renewed in

October 2010 with an expiration date of December 2012. Our certification status was renewed at the highest level achievable.

These certifications indicate compliance with the MEM 1 and MEM 7 standards for NCQA Health Plan accreditation, facilitating our health plan clients' efforts to meet NCQA standards by making them eligible for automatic credit from NCQA for these standards. We are also able to support health plans with MEM 2 (Interactive Consumer Health Tools, with automatic credit available for this standard), relevant aspects of MEM 4 (Pharmacy Benefit), and MEM 6 (Innovations in Member Service), for example, through the use of our personal health record.

21. Have you ever had your accreditation status (e.g., NCQA, URAC,) in any state for any product line adjusted down, suspended, or revoked? If so, identify the state and product line and provide an explanation. Include your organization's parent organization, affiliates, and subsidiaries.

No. Health Dialog has not had our accreditation status (e.g., NCQA, URAC,) in any state for any product line adjusted down, suspended, or revoked.

22. If you are NCQA accredited in any state for any product line, include a copy of the applicable NCQA health plan report cards for your organization. Include your organization's parent organization, affiliates, and subsidiaries.

Not applicable.

23. Provide (as an attachment) a copy of the most recent external quality review report (pursuant to Section 1932(c)(2) of the Social Security Act) for the Medicaid contract identified in response to item #15 above that had the largest number of enrollees as of January 1, 2011. Provide the entire report. In addition, provide a copy of any corrective action plan(s) requested of your organization (including your organization's parent organization, affiliates, and subsidiaries) in response to the report.

Not applicable.

24. Identify and describe any regulatory action, or sanction, including both monetary and non-monetary sanctions imposed by any federal or state regulatory entity against your organization within the last five (5) years. In addition, identify and describe any letter of deficiency issued by as well as any corrective actions requested or required by any federal or state regulatory entity within the last five (5) years that relate to Medicaid or CHIP contracts. Include your organization's parent organization, affiliates, and subsidiaries.

To the extent of our knowledge, Health Dialog has not been subject to any regulatory action, or sanction, including both monetary and non-monetary sanctions imposed by any federal or state regulatory entity against your organization within the last five (5) years.

25. Provide a statement of whether your organization is currently the subject or has recently (within the past five (5) years) been the subject of a criminal or civil investigation by a state or federal agency other than investigations described in response to item #12 above. If your organization has recently been the subject of such an investigation, provide an

explanation with relevant details and the outcome. If the outcome is against your organization, provide the corrective action plan implemented to prevent such future offenses. Include your organization's parent company, affiliates and subsidiaries.

To the extent of our knowledge, Health Dialog is not subject and has not recently (within the past five (5) years) been the subject of a criminal or civil investigation by a state or federal agency.

Bupa

June 9, 2011

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15-19 Bloomsbury Way
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WC1A 2BA

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www.bupa.com

Wade Davenport
Director, Strategic Sourcing
WellCare Health Plans, Inc.
8735 Henderson Road
Renaissance Two
Tampa, FL 33634

Dear Mr. Davenport:

We understand that the Louisiana Department of Health and Hospitals ("DHH") is soliciting competitive proposals for managed care services through Medicaid Coordinated Care Network Request for Proposals (RFP # 305PUR-DHHRFP-CCN-P-MVA) (the "RFP"), and that WellCare Health Plans, Inc., through certain affiliates ("WellCare"), intends to respond to the RFP.

We also understand that, pursuant to the RFP Proposal Submission and Evaluation Requirements, Part II, Item B.7, WellCare is required to submit from the parent organization of each major subcontractor a statement that the parent organization will guarantee performance by the subcontractor.

Please accept this correspondence as the required statement that Bupa Finance PLC, an affiliate under common control with Health Dialog Services Corporation ("Health Dialog"), a proposed subcontractor for WellCare's Medicaid managed care business in the State of Louisiana, will unconditionally guarantee performance by Health Dialog of each and every obligation, warranty, covenant, term and condition of Health Dialog under its contract with WellCare to the extent such obligations relate to WellCare's contract with DHH.

Sincerely,

G M Evans
Director
Bupa Finance Plc

Below please list all of your organization's **publicly funded managed care contracts for Medicaid/CHIP** and/or other low income individuals within the last five (5) years.

Type of Publicly Funded Managed Care Contract (ex; Medicare, Medicaid, CHIP, SCHIP, and/or other low income individuals)	Trade Name	Description of Scope of Work	Duration of Contract	Contact Name	Contact Phone Number	Number of Members	Population Types (ex: TANF, ABD, Duals, CHIP)	Annual Contract Payments	Type of Payment (ex: Capitated or Other)	Role of any additional subcontractor (if any)
Medicare	Medicare Health Support	Chronic care improvement / disease management	3 years (2005 - 2008)	Confidential	Confidential	20,000	Medicare FFS, dual	Confidential	Confidential	Confidential

Below please list all of your organization's 10 largest (as measured by number of enrollees) **managed care contracts for populations <u>othan than</u> Medicaid/CHIP** and/or other low income individuals within the last five (5) years.

Type of Managed Care Contract	Trade Name	Description of Scope of Work	Duration of Contract	Contact Name	Contact Phone Number	Number of Members	Population Types (ex: TANF, ABD, Duals, CHIP)	Annual Contract Payments	Type of Payment (ex: Capitated or Other)	Role of any additional subcontracontractor (if any)
Commercial, Medicare	Confidential	Disease management	12 years	Confidential	Confidential	3,400,000	commercial, Medicare Advantage	Confidential	PMPM	NA
Commercial, Medicare	Confidential	Disease management	8 years	Confidential	Confidential	1,900,000	commercial, Medicare Advantage	Confidential	PMPM	NA
Commercial	Confidential	Disease management	3 years	Confidential	Confidential	1,700,000	commercial	Confidential	PMPM	NA
Commercial, Medicare	Confidential	Disease management	8 years	Confidential	Confidential	1,600,000	commercial, Medicare Advantage	Confidential	PMPM	
Commercial, Medicare	Confidential	Disease management	11 years	Confidential	Confidential	1,600,000	commercial, Medicare Advantage	Confidential	PMPM	NA
Commercial	Confidential	Disease management	11 years	Confidential	Confidential	1,600,000	commercial	Confidential	PMPM	NA
Commercial	Confidential	Disease management, wellness coaching	3 years	Confidential	Confidential	678,000	commercial	Confidential	PMPM	NA
Commercial, Medicare, Medicaid	Confidential	Disease management	8 years	Confidential	Confidential	660,000	commercial, Medicare Advantage, FHP, CHP	Confidential	PMPM	NA
Commercial, Medicare, Medicaid	Confidential	Disease management	6 years	Confidential	Confidential	320,000	commercial, Medicare Advantage, TANF, SSI, CHP	Confidential	PMPM	NA
Commercial, Medicare	Confidential	Disease management	5 years	Confidential	Confidential	245,000	commercial, Medicare Advantage	Confidential	PMPM	NA

Appendix 2

Financials

Prepared for

BlueCross BlueShield of Mississippi

April 2011

Health Dialog

BUPA 2010 ANNUAL RESULTS SNAPSHOT

WORLDWIDE

Bupa is an international healthcare group with significant operations in Europe, North America and Asia Pacific.

Bupa's purpose is to help people lead longer, healthier, happier lives. We do this by providing a broad range of healthcare services, support and advice to people.

A leading international healthcare group, we offer personal and company health insurance, run hospitals and care homes for older people, and provide workplace health services, health assessments and chronic disease management services, including health coaching, and home healthcare.

With no shareholders, we invest our profits to provide more and better healthcare.

We have over 11 million customers in more than 190 countries and employ nearly 52,000 people around the world.

We are a prudently run organisation with a strong balance sheet and a low-risk cash and investments portfolio.

We are committed to making quality, affordable, patient-centred healthcare more accessible in the areas of wellness, chronic disease management and ageing.

OUR DIVISIONS

Europe and North America

Bupa's Europe and North America division incorporates:

- **Bupa Health and Wellbeing UK**, which offers a portfolio of services including health insurance, health assessments and health at work services;
- **Health Dialog**, based in Boston, which provides healthcare analytics and decision support services to around 18 million people in the US and a growing number of customers in Australia, Spain and France;
- **Sanitas**, Spain's leading healthcare brand offers health insurance, hospitals, clinics and health services. Sanitas also works with the public sector and operates the Hospital de Manises in Valencia, providing acute and primary care services to people in the region, through an innovative public-private partnership with the Valencian Regional Government;
- **The Bupa Cromwell Hospital**, a leading 128-bed London hospital caring mainly for health insurance, self-pay and international customers.

International Markets

Bupa's International Markets division incorporates:

- **Bupa Australia**, a leading health insurer in Australia. The business serves customers through the long established MBF, HBA and Mutual Community brands. As well as its core health insurance offering, Bupa Australia provides travel, home and car insurance;
- **Bupa International**, a leading international expatriate health insurer with customers in over 190 countries;
- **Bupa Latin America**, based in Miami, which provides international health insurance for customers in Latin America and the Caribbean;
- Our wholly-owned businesses in **Hong Kong** and **Thailand** and our minority stakes in **Bupa Arabia** and **Max Bupa** in India.

Care Services

Bupa's Care Services division incorporates:

- **Bupa Care Services UK**, providing aged care in 305 care homes across the UK;
- **Bupa Care Services Australia**, providing aged care in 47 care homes;
- **Bupa Care Services New Zealand**, which runs 44 care homes, including 16 retirement villages and provides telecare services via a personal medical alarm network;
- **Sanitas Residencial**, providing aged care in 41 care homes in Spain;
- In addition, **Bupa Home Healthcare** is a leading UK provider of specialist healthcare services to patients in their homes or in local communities.

Bupa

BUPA 2010 ANNUAL RESULTS SNAPSHOT

WORLDWIDE

In 2010, Bupa delivered another year of good underlying growth, despite mixed economic conditions in some of our markets.

£7,576m	£464.9m	11.2m
Group Revenues: Full Year 2010	Group Underlying Surplus Before Tax: Full Year 2010	Group Customers at Full Year 2010

Europe and North America	International Markets	Care Services
£2,999.5m	£3,394.0m	£1,182.9m
Revenue: Full Year 2010	Revenue: Full Year 2010	Revenue: Full Year 2010
39%	45%	16%
Contribution to Group Revenues	Contribution to Group Revenues	Contribution to Group Revenues
£116.7m	£208.9m	£139.7m
Surplus: Full Year 2010	Surplus: Full Year 2010	Surplus: Full Year 2010

Outlook: In 2011, with continued growth in Asia Pacific and Latin America, we anticipate further strong momentum for our businesses in these markets. In Australia, in particular, our newly merged business is in an excellent position to develop an increasingly differentiated proposition for customers.

In Europe and the US, high unemployment levels are likely to continue to impact our health insurance related businesses in the near term. In this environment, we will maintain our focus on operational efficiency and customer retention, while continuing to develop compelling new products and services that respond to our customers' changing healthcare needs and that allow them to exercise choice and control in healthcare.

In Care Services, we anticipate Australia and New Zealand will continue to perform well. In the UK, while demographic trends support good long-term growth, we expect pressure on public spending on aged care to continue to constrain performance in the short-term. We will therefore maintain our focus on occupancy and controlling costs, while continuing to invest in the development of our care homes portfolio, with a focus on dementia care.

Across the Group, the long-term drivers of growth remain strong. The global trends of advances in medical technology, the increasing incidence of chronic disease, the rise of ageing populations and changing consumer expectations about healthcare will drive demand for our products and services. We are well positioned to take advantage of these trends given our international scale, trusted brands, excellent market positions and strong balance sheet.

FIND OUT MORE:

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Bupa

2009 Bupa financials

Prepared for:

BlueCross BlueShield of Mississippi

April 2011

Health Dialog

About Bupa

Bupa is an international healthcare group with significant operations in Europe, Asia Pacific and North America.

Our Group

Founded in 1947, our core purpose is to help our customers lead **longer, healthier, happier lives.**

Customers are at the heart of everything we do. With **no shareholders**, we reinvest our surplus money to provide increasing numbers of people around the world with choice and control over their healthcare.

Bupa has transformed. We have moved from being a UK hospitals operator and health insurance provider to an international healthcare group providing workplace health products, health assessments, chronic disease management services, home and hospital care and care homes, in addition to maintaining our leadership in the health insurance sector.

Today, we have **over 10 million customers** in more than **190 countries** and over half our annual revenues come from outside the UK. We employ nearly **52,000 people** around the world.

Our divisions

UK and North America (UKNA)

Bupa's UKNA division unites a portfolio of strong business with offerings as varied as health insurance, income protection, home healthcare, private hospital care and chronic disease management:

- **Bupa Health and Wellbeing UK**, previously known as UK Membership, offers a portfolio of services including health insurance, health assessments, health at work services and insurance protection products.
- **Health Dialog**, based in Boston, provides healthcare analytics and decision support services to around 19 million people in the US and a growing number of customers in the UK, Spain and France.
- **Bupa Home Healthcare** provides out-of-hospital care in the UK to over 13,600 NHS patients, satisfying patients' desire to be treated in their own homes and helping to relieve stretched NHS resources.
- **The Bupa Cromwell Hospital** is a leading 128-bed London hospital caring mainly for health insurance, self-pay and embassy-sponsored customers.

Europe, Middle East, Africa and Latin America (EMEALA)

Bupa's EMEALA division offers a portfolio of health insurance products and services across a wide range of markets:

- **Sanitas** is Bupa's Spanish business offering health insurance, hospitals, clinics and health services. Sanitas also works with the public sector and in 2009 opened a hospital to provide acute and primary care services to people in the Manises region, through an innovative public private partnership with the Valencian regional government.
- **Bupa International** is a leading international expatriate health insurer with customers in over 190 countries.
- **Bupa Latin America**, based in Miami, provides international health insurance for customers in Latin America and the Caribbean.
- **Bupa Scandinavia** provides domestic health insurance and travel insurance for customers in Scandinavia.
- **Bupa Arabia**, in which Bupa has a 26.25% stake, is Saudi Arabia's largest health insurer.

Asia Pacific

Bupa's Asia Pacific division provides health insurance to more than 3.5 million customers in Australia, Hong Kong and Thailand:

- **Bupa Australia** became the second largest health insurer in Australia, with the acquisition of MBF in May 2008. As well as health insurance, Bupa Australia also provides travel, home, car and life insurance and financial services.
- **Bupa Hong Kong** provides health insurance to over 196,000 customers.
- **Bupa Thailand** is the country's leading private and corporate health insurer, serving over 165,000 customers.
- In **India**, through a joint venture with Max India, Bupa is preparing to launch health insurance products in 2010.

Care Services

Bupa Care Services is a world leader in aged care, providing dementia, nursing and residential care to nearly 29,000 people in the UK, Spain, Australia and New Zealand:

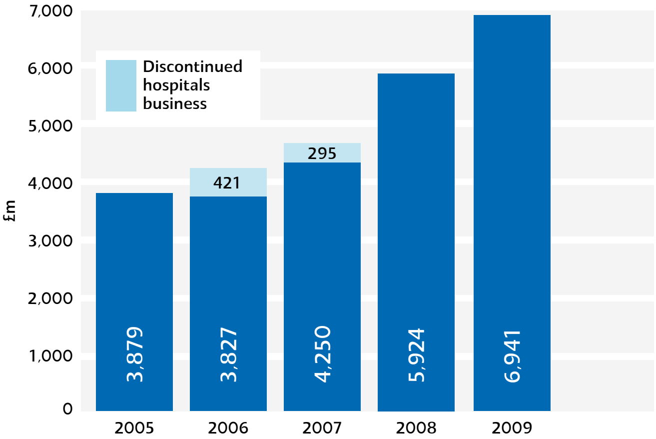
- **Bupa Care Services UK** cares for over 18,000 residents in 303 care homes and is the biggest provider of dementia care in the UK. Over 70% of Bupa's UK residents receive state funding.
- **Bupa Care Services Australia** cares for around 3,700 residents in 48 care homes.
- **Bupa Care Services New Zealand** cares for over 2,700 residents in retirement villages, homes and hospitals. It also supports customers to stay safe in and around their own homes through telecare, a personal alarm network.
- **Sanitas Residencial**, Bupa's Spanish care homes business, has 40 care homes, caring for almost 4,000 residents. It is Spain's second largest provider of long-term care.

Bupa 2009 Annual Results

In the face of a challenging global economy, Bupa's performance in 2009 showed the strength of our trusted brands and excellent market positions in healthcare.

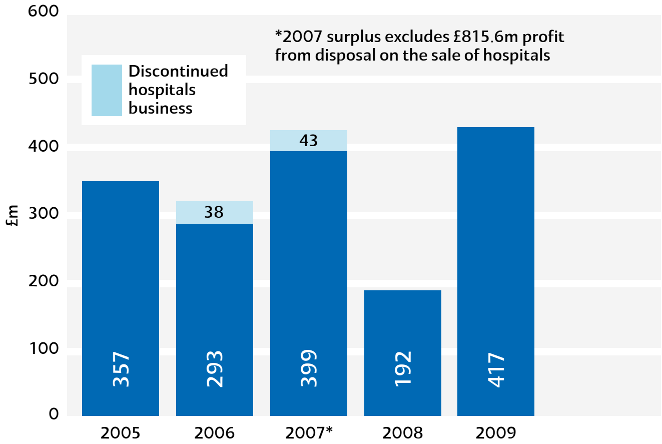
Historical Group Revenues

Fig. 1



Historical Group Surplus Before Tax

Fig. 2



Group performance 2009

Fig. 3

UK and North America	Europe, Middle East, Africa and Latin America	Asia Pacific	Care Services
£2,131m Revenues	£1,760m Revenues	£2,123m Revenues	£926m Revenues
31% Contribution to Group Revenues	25% Contribution to Group Revenues	31% Contribution to Group Revenues	13% Contribution to Group Revenues
£16.8m Surplus	£157.7m Surplus	£99.6m Surplus	£133.7m Surplus

Outlook statement

The markets in which we operate offer excellent opportunities for long-term growth, driven by customers' desire to access better healthcare. The global trends of ageing populations, rising affluence, the increasing incidence of chronic disease and advances in medical technology will drive demand for our products and services. We are well positioned to take advantage of these trends given our geographic breadth, strong balance sheet, trusted brands and excellent market positions.

Health insurance take-up is related to employment levels and the recovery in jobs is likely to lag behind the pick-up in economic growth in many of our markets. We also expect public spending on aged care, particularly in the UK, to tighten further in 2010. We will, therefore, continue to manage our business carefully - controlling costs and focusing capital expenditure on the strongest parts of the business.

We will continue to pursue organic growth opportunities, including developing Health Dialog's chronic disease management proposition internationally, ensuring the smooth completion of Bupa Australia's integration process with MBF and investing in the continued development of our care services provision. In the UK, we will focus on reinforcing our position as market leader in health insurance through attractive new customer propositions, while increasing operating efficiency.

We are confident that we are fit for growth when the world economy recovers and remain focused on our objective of helping customers live longer, healthier, happier lives.

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2008 Bupa financials

Prepared for:

BlueCross BlueShield
of Mississippi

April 2011

Health Dialog

Financial statements

Contents

Consolidated income statement
for the year ended 31 December 2008

	Note	2008 £m	2007 £m
Continuing operations			
Revenues			
Gross insurance premiums	2	4,536.8	3,378.6
Premiums ceded to reinsurers	2	(87.1)	(62.0)
Net insurance premiums earned		4,449.7	3,316.6
Revenues from life investment contracts		11.3	-
Revenues from service contracts		6.3	5.8
Care, health and other revenues		1,398.0	913.4
Total revenues from continuing operations	1,2	5,865.3	4,235.8
Claims and expenses			
Insurance claims incurred	3	(3,456.3)	(2,511.3)
Reinsurers' share of claims incurred	3	54.4	52.5
Net insurance claims incurred		(3,401.9)	(2,458.8)
Decrease in fair value of life investment contract liabilities	18	93.7	-
Return on financial investments backing life investment contract liabilities	18	(93.7)	-
Share of post-tax results of equity accounted investments	15	(1.0)	0.2
Other operating expenses	4	(2,110.8)	(1,437.7)
Impairment of goodwill	12	(116.5)	-
Impairment of intangible assets arising on acquisition	12	(4.0)	(5.7)
Other (charges) / income	6	(3.4)	20.1
Total claims and expenses from continuing operations		(5,637.6)	(3,881.9)
Surplus before impairment of goodwill, impairment of intangible assets arising on acquisition, other (charges) / income, and financial income and expenses	1	351.6	339.5
Impairment of goodwill	1	(116.5)	-
Impairment of intangible assets arising on acquisition	1	(4.0)	(5.7)
Other (charges) / income	1	(3.4)	20.1
Surplus before financial income and expenses		227.7	353.9
Financial income and expenses			
Financial income	7	65.4	139.3
Financial expenses	8	(106.0)	(95.2)
		(40.6)	44.1
Surplus before taxation expense	1	187.1	398.0
Taxation expense	10	(78.3)	(104.2)
Surplus for the financial year from continuing operations		108.8	293.8
Surplus for the financial year from discontinued operations	9	-	839.7
Surplus for the financial year		108.8	1,133.5
Attributable to:			
Bupa	32	104.7	1,131.3
Minority equity interests	32	4.1	2.2
		108.8	1,133.5

The notes on pages 70 to 127 form part of these financial statements.

Consolidated balance sheet
as at 31 December 2008

	Note	2008 £m	2007 (Restated) £m
Non-current assets			
Intangible assets	12	2,473.2	1,189.3
Property, plant and equipment	13	2,256.9	2,040.8
Investment property	14	87.4	67.2
Equity accounted investments	15	31.4	11.6
Financial investments	17	501.4	548.5
Financial investments backing life investment contract liabilities	18	681.2	-
Assets arising from insurance business	19	87.0	90.9
Deferred tax assets	30	-	6.3
Policyholder tax attributable to life investment contracts	18	7.9	-
Other receivables	20	50.7	9.0
Post employment benefit net assets	28	115.0	64.0
		6,292.1	4,027.6
Current assets			
Financial investments	17	1,223.8	1,489.6
Inventories	21	12.4	10.3
Assets arising from insurance business	19	799.6	682.3
Trade and other receivables	20	272.3	210.0
Assets held for sale	22	143.2	-
Cash and cash equivalents	23	920.6	650.0
		3,371.9	3,042.2
Total assets		9,664.0	7,069.8
Non-current liabilities			
Subordinated liabilities	24	(373.7)	(333.9)
Other interest bearing liabilities	25	(1,431.8)	(667.9)
Provisions under insurance contracts issued	26	(88.0)	(111.3)
Life investment contract liabilities	18	(679.4)	-
Post employment benefit net liabilities	28	(50.9)	(40.0)
Provisions for liabilities and charges	29	(29.0)	(19.4)
Deferred tax liabilities	30	(265.2)	(201.0)
Trade and other payables	31	(291.8)	(165.5)
		(3,209.8)	(1,539.0)
Current liabilities			
Subordinated liabilities	24	(5.9)	(5.9)
Other interest bearing liabilities	25	(46.5)	(6.6)
Provisions under insurance contracts issued	26	(1,908.2)	(1,549.1)
Other liabilities under insurance contracts issued	27	(30.4)	(19.0)
Provisions for liabilities and charges	29	(26.0)	(58.8)
Current tax liabilities		(82.7)	(97.4)
Trade and other payables	31	(626.8)	(431.7)
Liabilities associated with assets held for sale	22	(109.9)	-
		(2,836.4)	(2,168.5)
Total liabilities		(6,046.2)	(3,707.5)
Net assets		3,617.8	3,362.3
Reserves			
Property revaluation reserve	32	636.5	647.5
Income and expenditure reserve	32	2,792.1	2,683.3
Cash flow hedge reserve	32	30.9	(1.4)
Foreign exchange translation reserve	32	124.0	17.0
Equity attributable to Bupa		3,583.5	3,346.4
Equity attributable to minority equity interests	32	34.3	15.9
Total equity		3,617.8	3,362.3

Approved by the Board of Directors and signed on its behalf on 9 March 2009 by

Lord Leitch
Chairman

Thomas Singer
Group Finance Director

The notes on pages 70 to 127 form part of these financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2008

	Note	2008 £m	2007 (Restated) £m
Operating activities			
Surplus before taxation expense			
Continuing operations		187.1	398.0
Discontinued operations	9	-	858.3
		187.1	1,256.3
Adjustments for:			
Financial income	7, 9	(65.4)	(129.9)
Financial expenses	8, 9	106.0	95.6
Decrease in fair value of life investment contract liabilities	18	(93.7)	-
Return on financial investments backing life investment contract liabilities	18	93.7	-
Net gain on foreign exchange transactions	4	(13.7)	-
Depreciation	13	84.8	70.3
Amortisation and impairment	12	196.3	38.1
Net gain on disposal of property, plant and equipment	6	(5.6)	-
Deficit / (surplus) on revaluation of property	6	2.9	(0.5)
Impairment of equity accounted investments	15	6.1	-
Net gain on sale of subsidiary companies	6, 9	-	(835.4)
Operating cash flow before changes in working capital and provisions		498.5	494.5
Changes in working capital and provisions:			
Increase in provisions under insurance contracts issued		61.7	60.6
Increase in other liabilities under insurance contracts issued		7.7	0.7
Increase / decrease in net pension asset / liability		(35.5)	(96.9)
Increase in provisions for liabilities and charges		15.2	7.4
Increase in assets under insurance contracts issued		(91.7)	(19.4)
Decrease / (increase) in trade and other receivables		35.9	(69.7)
Increase in inventories		-	(3.5)
Increase in trade and other payables		46.6	50.6
Net withdrawals from life investment contract liabilities		(52.7)	-
Net proceeds from sale of financial investments backing life investment contract liabilities		46.7	-
Cash generated from operations		532.4	424.3
Income tax paid		(102.5)	(77.5)
(Increase) / decrease in cash held in restricted access deposits	23	(20.3)	59.0
Net cash generated from operating activities		409.6	405.8
Cash flow from investing activities			
Acquisition of subsidiaries, net of cash acquired	36	(1,342.8)	(542.3)
Acquisition of joint ventures and associates	15	(21.7)	(7.5)
Disposal of subsidiary companies, net of cash disposed of	22	-	1,350.2
Purchase of intangible assets		(82.9)	(59.1)
Purchase of property, plant and equipment		(181.1)	(105.9)
Proceeds from sale of property, plant and equipment		6.7	3.5
(Additions to) / proceeds from sale of investment property		(11.1)	1.2
Purchase of financial investments, excluding deposits with credit institutions		(197.2)	(103.4)
Proceeds from sale of financial investments, excluding deposits with credit institutions		258.9	43.7
Net withdrawal from / (investment into) deposits with credit institutions		553.6	(660.6)
Interest received		147.4	97.6
Net cash used in investing activities		(870.2)	17.4
Cash flow from financing activities			
Proceeds from issue of interest bearing liabilities		1,010.1	802.6
Repayment of interest bearing liabilities		(244.9)	(1,287.9)
Interest paid		(96.9)	(73.9)
Proceeds from minority equity interests in subsidiary company share issues		9.6	2.2
Receipts from / (payments for) hedging instruments		5.8	(2.2)
Dividends paid to minority equity interests		(0.1)	(0.1)
Net cash generated from / (used in) financing activities		683.6	(559.3)
Net increase / (decrease) in cash and cash equivalents		223.0	(136.1)
Cash and cash equivalents at beginning of year		626.3	745.8
Effect of exchange rate changes		86.7	16.6
Cash and cash equivalents reclassified as part of assets held for sale		(60.9)	-
Cash and cash equivalents at end of year	23	875.1	626.3

The notes on pages 70 to 127 form part of these financial statements.

Consolidated statement of recognised income and expense

for the year ended 31 December 2008

	Note	2008 £m	2007 (Restated) £m
Recognised during the financial year			
Unrealised (deficit) / surplus on revaluation of property	32	(32.1)	294.3
Fair value uplift on available for sale investments	32	-	2.8
Reversal of fair value uplift on available for sale investments	32	(9.9)	-
Share of retained surplus attributable to previously acquired interest in subsidiary company	32	6.4	-
Actuarial gain on pension schemes	32	10.2	35.0
Foreign exchange translation differences on goodwill	32	161.1	37.9
Other foreign exchange translation differences	32	105.3	32.7
Net loss on hedge of net investment in overseas subsidiary companies	32	(139.3)	(40.2)
Net gain on hedge of acquisition costs of overseas subsidiary companies	32	35.0	(1.4)
Realisation of foreign exchange on disposal of overseas subsidiary companies	32	-	(0.2)
Taxation charge on income and expense recognised directly in equity	32	0.5	(62.4)
Net income recognised directly in equity		137.2	298.5
Surplus for the financial year	32	108.8	1,133.5
Total recognised income for the financial year		246.0	1,432.0
Attributable to:			
Bupa		237.1	1,429.6
Minority equity interests		8.9	2.4
Total recognised income for the financial year		246.0	1,432.0

The notes on pages 70 to 127 form part of these financial statements.

Company balance sheet

as at 31 December 2008

	Note	2008 £m	2007 £m
Non-current assets			
Intangible assets	12	12.9	12.6
Property, plant and equipment	13	9.7	10.5
Investment in subsidiary companies	16	200.1	200.1
Other receivables	20	0.3	0.2
Post employment benefit net assets	28	115.0	59.7
Deferred tax assets	30	11.4	8.2
		349.4	291.3
Current assets			
Trade and other receivables	20	247.3	261.3
Cash and cash equivalents	23	4.0	7.4
		251.3	268.7
Total assets		600.7	560.0
Non-current liabilities			
Post employment benefit net liabilities	28	(41.8)	(38.2)
Provisions for liabilities and charges	29	(15.7)	(13.3)
Deferred tax liabilities	30	(20.6)	(6.1)
Other payables	31	(7.4)	(10.6)
		(85.5)	(68.2)
Current liabilities			
Provisions for liabilities and charges	29	(7.9)	(9.5)
Trade and other payables	31	(463.2)	(424.6)
		(471.1)	(434.1)
Total liabilities		(556.6)	(502.3)
Net assets		44.1	57.7
Equity			
Property revaluation reserve	32	0.2	0.2
Income and expenditure reserve	32	43.0	57.3
Foreign exchange translation reserve	32	0.9	0.2
Total equity		44.1	57.7

Approved by the Board of Directors and signed on its behalf on 9 March 2009 by

Lord Leitch
Chairman

Thomas Singer
Group Finance Director

The notes on pages 70 to 127 form part of these financial statements.

Company statement of cash flows

for the year ended 31 December 2008

	Note	2008 £m	2007 £m
Operating activities			
Deficit before taxation expense		(33.3)	(13.2)
Adjustments for:			
Depreciation	13	4.4	3.0
Amortisation	12	5.3	5.0
Financial income		(21.8)	(16.5)
Financial expenses		33.3	24.2
Operating cash flow before changes in working capital and provisions		(12.1)	2.5
Changes in working capital and provisions:			
Increase / decrease in net pension asset / liability		(36.2)	(106.2)
Increase in provisions for liabilities and charges		0.8	8.5
Decrease in trade and other receivables		25.9	20.6
Increase in trade and other payables		38.9	101.7
Cash generated from operations		17.3	27.1
Cash flows from investing activities			
Purchase of intangible assets		(44.0)	(34.2)
Proceeds from sale of intangible assets		38.4	27.6
Purchase of property, plant and equipment		(3.7)	(5.9)
Proceeds from sale of property, plant and equipment		0.1	-
Interest received		21.8	16.5
Net cash generated from investing activities		12.6	4.0
Cash flows from financing activities			
Interest paid		(33.3)	(24.2)
Net cash used in financing activities		(33.3)	(24.2)
Net (decrease) / increase in cash and cash equivalents		(3.4)	6.9
Cash and cash equivalents at beginning of year		7.4	0.5
Cash and cash equivalents at end of year	23	4.0	7.4

Company statement of recognised income and expense

for the year ended 31 December 2008

	Note	2008 £m	2007 £m
Recognised during the financial year			
Actuarial gain on pension schemes	32	21.5	31.4
Foreign exchange translation differences	32	0.7	0.2
Taxation charge on income and expense recognised directly in equity	32	(5.9)	(11.0)
Net income recognised directly in equity		16.3	20.6
Deficit for the financial year	11	(29.9)	(30.3)
Total recognised expense for the financial year		(13.6)	(9.7)

The notes on pages 70 to 127 form part of these financial statements.

Accounting policies

Basis of consolidation

The British United Provident Association Limited ('Bupa' or the 'Company'), the ultimate parent entity of the Group, is a company incorporated in England and Wales. The Company is limited by guarantee. The consolidated financial statements for the year ended 31 December 2008 are comprised of those of the Company and its subsidiary companies (together referred to as the 'Group').

The Group's consolidated financial statements are prepared under International Financial Reporting Standards as adopted by the EU, adopted IFRS ('IFRS'). The appropriate provisions of the Companies Act have also been complied with.

A summary of IFRS that are relevant for the Group are included on page 130.

The financial statements were approved by the Board of Directors on 9 March 2009. The Directors have reviewed and approved the Group's accounting policies, which are set out below and which have been applied consistently. For the purposes of consolidation, the accounting policies of subsidiary companies have been aligned with those of the parent company.

Statement of compliance

Both the Company financial statements and the Group financial statements have been prepared in accordance with IFRS and approved by the Directors. On publishing the Company financial statements here, together with the Group financial statements, the Company is taking advantage of the exemption in Section 230 of the Companies Act 1985 not to present its individual income statement and related notes that form a part of these approved financial statements.

Basis of preparation

The financial statements are prepared on a going concern basis, as described in note 35, and under the historical cost convention, as modified by the revaluation of property, investment property, financial investments at fair value through profit or loss, available for sale financial investments, derivative instruments, life investment contract liabilities and financial investments backing life investment contract liabilities.

The preparation of financial statements in conformity with IFRS requires the use of certain accounting estimates. It also requires management to exercise its judgement in applying the Group's accounting policies. The estimates and assumptions are based on historical experience and other related variables, updated to reflect current trading performance. The estimates and assumptions are reviewed on an ongoing basis and are considered to be prudent and appropriate but actual results may differ from these estimates. Judgements made by management in applying the Group's accounting policies that have a significant effect on the financial statements, and estimates with a significant risk of material adjustment in subsequent periods are described on page 69.

Restatement of 2007 Balance Sheet

The 2007 balance sheet has been restated to reflect the fair value adjustments made on acquisition of Bupa Aged Care Australasia Pty Limited (BACA) which was purchased in December 2007. In accordance with IFRS 3, the acquisition accounting was finalised during 2008. Further detail is provided in note 36.

New financial reporting requirements

The Group has applied the following financial reporting standards for the first time in preparing its financial statements for the year ended 31 December 2008. The impact on the Group financial statements is quantified below.

IAS 39 (amended 2008) and IFRS 7 (amended 2008) were issued on 13 October 2008 in urgent response to the current global financial crisis with immediate effect. Entities are now permitted to reclassify non-derivative financial assets classified as held for trading and available for sale financial investments in the following situations only:

- where the financial investment meets the definition of a loan or receivable at the date of reclassification and the Company has the intent and ability to hold it for the foreseeable future or to maturity; and
- in certain rare circumstances for other financial investments (ie, those that do not meet the definition of a loan or receivable at the date of reclassification).

The Group has chosen not to reclassify its financial investments for the year ended 31 December 2008, however now has the option to do so in the future.

Financial reporting standards applicable to the Group for future financial periods

IAS 1 (revised 2007) replaces IAS 1 (revised 2005) and is effective for financial periods beginning on or after 1 January 2009. This standard allows the Group to choose between introducing a single statement of comprehensive income or an income statement and a separate statement of comprehensive income (previously named the statement of recognised income and expense). This standard also introduces the statement of financial position (previously named the balance sheet). The effect on the Group accounts will relate to the presentation of the primary statements and disclosure in the corresponding notes.

IAS 23 (amended 2007) supersedes IAS 23 (revised 1993) and is effective for financial periods beginning on or after 1 January 2009, making it mandatory to capitalise borrowing costs that are directly attributable to a qualifying asset as defined by IAS 23. Implementation of IAS 23 (amended 2007) would result in a reduction in Bupa's finance costs and hence an increase in surplus before taxation expense, which would be partially offset by a higher depreciation charge. Over a period of time the cumulative increase in the annual depreciation charge would eventually fully offset the cumulative annual increase in surplus as a result of a reduction in finance costs. It is not anticipated that the adoption of this standard will have a material impact on the Group financial statements in the period of initial application.

IFRS 8 is applicable for financial periods beginning on or after 1 January 2009 and requires comparative data to be restated. The standard requires the Group to report information about its operating segments based on the components of the entity that management uses to make operating decisions. The information to be disclosed comprises factors used to identify the Group's reportable segments, the types of products and services from which each segment derives its revenues, the segment surplus, including revenues and expenses, and segment assets. This will affect the categorisation of the Group's results in the segmental information note and so details of the impact of adoption are not given here.

IFRIC 13 is effective for financial periods beginning on or after 1 July 2008. This interpretation relates to IAS 18 and applies to customer loyalty programmes, ie where a loyalty scheme or incentive allows a customer to redeem 'award credits' in the future. It clarifies the need to treat such programmes as 'multiple arrangements' whereby the consideration received should be allocated between the initial sale and the award credits. The Group expects to adopt the standard with effect from 1 January 2009. The impact of adoption is not expected to be material to the Group financial statements.

IFRIC 14 clarifies the recognition of pension scheme surpluses on the balance sheet under IAS 19 and the interaction with pension scheme funding. It is effective for financial periods beginning after 31 December 2008 and so will apply to Bupa from 1 January 2009.

During 2008, the Trustees of The Bupa Pension Scheme agreed to revise the terms of the trust deed to recognise that Bupa has an unconditional right to a refund of contributions. As a result IFRIC 14 will have no impact on Bupa's financial statements. The pensions regulator is currently considering this amendment to the trust deed.

Subsidiary companies

Subsidiary companies include all entities over which the Group or Company has the power, directly or indirectly, to govern the financial and operating policies so as to obtain benefits from their activities.

Subsidiary companies are included in the consolidated financial statements using the purchase method, from the date that control commences until the date that control ceases. Intra group balances and any gains, losses, income and expenses arising from intra group transactions are eliminated in preparing the consolidated financial statements.

Investments in subsidiary companies are carried at cost in the Company's accounts. Where appropriate, dividends received from pre-acquisition profits of subsidiaries are treated as a recovery of the investment and are recognised as a reduction of the cost.

Equity accounted investments

Equity accounted investments comprise associated companies and joint ventures. Associated companies include those entities in which the Group has significant influence, but no control, over the financial and operating policies of the entity. Joint ventures include those entities over the activities of which the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Associated companies and joint ventures are accounted for using the equity method and are initially recognised at cost. The Group's investment in equity accounted investments includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses, from the date that significant influence or control commences or that the Group gains significant influence, until the date that control ceases.

Associates and joint ventures are carried at cost in the Company's accounts.

Foreign currency

The consolidated financial statements are presented in Sterling, which is the functional and presentational currency of the Company.

Foreign currency transactions

In the Group's subsidiary companies, transactions in foreign currencies are translated into the functional currency at the exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate ruling at the balance sheet date; the resulting foreign exchange gain or loss is recognised in the income statement. Non-monetary assets and liabilities denominated in a foreign currency at historical cost are translated using the exchange rate at the date of the transaction; no exchange differences therefore arise. Non-monetary assets and liabilities denominated in a foreign currency at fair value are translated using the exchange rate ruling at the date that the fair value was determined.

In the consolidated financial statements, where a loan between Group entities results in the recognition of a foreign exchange gain or loss, the exchange difference is recognised in the statement of recognised income and expense to the extent that it relates to the Group's net investment in overseas operations.

Foreign operations

The assets and liabilities of foreign operations, including associated goodwill, held in functional currencies other than Sterling are translated from their functional currency into Sterling at the exchange rate at the balance sheet date. Income and expenses are translated at average rates for the period, as long as the average approximates the rates ruling at the date of the transactions. Foreign exchange differences arising on translation are recognised initially in the statement of recognised income and expense, and only in the income statement in the period in which the entity is eventually disposed of.

Accounting policies – continued

Cumulative translation differences for overseas operations were deemed to be nil at 1 January 2004, the date of the Group's transition to IFRS.

Revenues

Revenues arise from insurance contracts entered into with customers, care and health provision services rendered and contracts relating to the administration of claims funds on behalf of corporate customers. The accounting policies relevant to these revenues are described below.

Insurance activities

Contracts entered into by the Group's insurance entities are classified into those that result in the transfer of significant insurance risk to the Group and those that do not. Contracts that result in exposure to significant insurance risk are accounted for as either general insurance or long-term insurance contracts under IFRS 4. Revenues from contracts that do not result in the transfer of significant insurance risk are included within other revenues.

Under current IFRS requirements, insurance contract liabilities are measured using local Generally Accepted Accounting Principles (GAAP), as permitted by IFRS 4.

Basis of accounting for general insurance activities

Gross insurance premiums

Gross insurance premiums represent the premiums earned relating to risk exposure for the reported financial year. They comprise gross premiums written, adjusted for the change in the gross provision for unearned premiums during the financial year. The unearned premium provision represents the proportion of premiums written in the year but relating to periods of risk in subsequent financial years. It is calculated on a time apportionment basis, which is not materially different from a calculation based on the pattern of incidence of risk.

Premiums are shown gross of commissions payable and net of insurance premium taxes that apply in certain jurisdictions.

Premiums ceded to reinsurers

Premiums ceded to reinsurers represents reinsurance contracts entered into that relate to risk mitigation for the reported financial year. It comprises written premiums ceded to reinsurers, adjusted for the reinsurers' share of the movement in the gross provision for unearned premiums.

In cases where the Group cedes reinsurance for the purpose of limiting its net loss potential, the arrangements do not relieve the Group of its direct obligations under insurance policies written.

Premiums, losses and other amounts relating to reinsurance treaties are recognised over the period from inception of a treaty to expiration of the related business. The actual profit or loss is therefore recognised not at inception but as such profit or loss emerges. In particular, any initial reinsurance commissions received compensate for acquisition costs.

Insurance claims incurred

Insurance claims incurred comprise insurance claims paid during the year together with related handling costs and the movement in the gross provision for claims in the period.

The gross provision for claims represents the estimated liability arising from claims episodes in current and preceding financial years which have not yet given rise to claims paid. The provision includes an allowance for claims management and handling expenses.

The gross provision for claims is estimated based on current information and the ultimate liability may vary as a result of subsequent information and events. Adjustments to the amount of claims provision for prior years are included in the income statement in the financial year in which the change is made.

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, less related deferred acquisition costs.

The methods used and estimates made for claims provisions are reviewed regularly.

Reinsurers' share of claims incurred

Reinsurers' share of claims incurred represents recoveries from reinsurers on claims paid, adjusted for the reinsurers' share of the change in the gross provision for claims. The recoverables due from reinsurers are shown within assets arising from insurance business and are assessed for impairment at each balance sheet date. Impairments are accounted for within the income statement.

Acquisition costs

Acquisition costs, included within other operating expenses, represent commissions payable and other expenses related to the acquisition of insurance contract revenues written during the financial year. Acquisition costs that relate to a subsequent period are deferred and recognised in the income statement in the relevant period.

Basis of accounting for long-term insurance business

Recognition and measurement of contracts

Long-term insurance contracts are measured and accounted for under existing practices at the later of the date of transition to IFRS or the date of the acquisition of the entity. The Group has adopted the modified statutory solvency basis of accounting for long-term insurance business in the UK.

Net insurance premiums earned

Premiums are recognised on a receivable basis excluding any taxes or duties. Outward reinsurance premiums are recognised on a payable basis.

In cases where the Group cedes reinsurance the arrangements do not relieve the Group of its direct obligations under insurance policies written.

Reinsurance contracts relating to the long-term business are accounted for over the life of the underlying policies using assumptions consistent with those for the underlying policies.

Net insurance claims incurred

Insurance claims incurred and reinsurers' share of claims incurred are accounted for as described for the general insurance business. Death claims are accounted for on notification of death. Critical illness and income protection claims are accounted for when admitted. The amounts recoverable under reinsurance contracts are assessed for impairment at each balance sheet date. Impairments are accounted for within the income statement.

Long-term business provisions

In the UK, long-term business provisions are calculated on a gross premium valuation basis. The provision is calculated by subtracting the present value of future premiums from the present value of future benefits payable under the policy. The gross premium method makes explicit allowance for future policy maintenance costs and taxes. The provision is calculated using actuarial methods that include assumptions such as estimates of mortality, morbidity, investment performance, expenses and taxes. These assumptions are based on best estimates of future experience plus margins for the risk of adverse deviation.

In Australia, long-term business provisions are calculated on a margin on services valuation basis. Under this methodology, planned profit margins and an estimate of future liabilities are calculated separately for each related product group, with future cash flows determined using best estimate assumptions and discounted to the reporting date. The provision is calculated using actuarial methods that include assumptions such as estimates of mortality, morbidity, interest rates, voluntary discontinuances and expenses. These assumptions are based on best estimates of future experience.

Acquisition costs

Acquisition costs are included within other operating expenses. In the UK, the costs of acquiring new and renewal long-term business are deferred and amortised in proportion to the margins in respect of the related policies or over the life of the policy. Acquisition costs are not deferred to the extent that available future margins are not expected to cover such future costs.

In Australia, acquisition costs represent the costs of acquiring new and renewal business. The acquisition costs incurred in relation to life insurance contracts are capitalised in the valuation of the policy liabilities.

Liabilities and related assets under liability adequacy test

Insurance contract provisions for long-term insurance are tested for adequacy by discounting current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability net of deferred acquisition costs and any other related intangible assets. Where a shortfall is identified, an additional provision is made and the Group recognises the deficiency in the income statement for the period.

Basis of accounting for life investment contracts

Life investment contracts comprise deposits held on behalf of investment policyholders and include investment-linked contracts where the benefit is directly linked to the market value of the investments held in the particular investment-linked fund. While the underlying investments are registered in the name of the life insurer and the investment-linked policyholder has no direct access to the specific investments, the contractual arrangements are such that the investment-linked policyholder bears the risks and rewards of the fund's investment performance.

Financial investments backing policy liabilities are valued at fair value through profit or loss and consist of investments such as cash, equities, fixed income securities and property trusts.

Surrenders and withdrawals which relate to life investment contracts where the policyholder provides notification of an intention to end the policy are treated as a movement in life investment contract liabilities.

A single management fee is applied for each investment option, which is treated as a reduction in the value of the investment contract liabilities.

Revenues from life investment contracts

Fee income is derived from the administration of life investment contracts. Management fee revenue with respect to life investment contracts is recognised in the income statement on an accruals basis, as services are provided.

Revenues from service contracts

A number of contracts written by the Group's general insurance entities do not result in the transfer of significant insurance risk to the Group. The contracts mainly relate to the administration of claims funds on behalf of corporate customers. Some of these contracts contain financial liabilities representing deposits repayable to the customer. These are measured at amortised cost. Revenues from service contracts represents the surplus receivable on such contracts and are recognised as the services are provided.

The claims fund deposit held on behalf of customers is reported within other payables, accruals and deferred income.

Care, health and other revenues

Care, health and other revenues represents revenues receivable from care and health provision services rendered.

Revenues are stated net of value added tax and other sales taxes, rebates and discounts. Revenues are recognised in the accounting period in which the Group obtains the right to consideration in exchange for its performance.

Accounting policies – continued

Financial income and expenses

Financial income comprises interest receivable, realised gains and losses on investments, dividend income on equity investments, changes in the fair value of items recognised at fair value through profit or loss, change in the fair value of derivatives, changes in the fair value of investment property and foreign exchange gains and losses.

Interest income, except in relation to assets classified at fair value through profit or loss, is recognised in the income statement as it accrues, using the effective interest method.

Changes in the value of financial assets designated as at fair value through profit or loss are recognised within financial income as an unrealised gain or loss while the asset is held. Upon realisation of these assets, the change in fair value since acquisition is recognised within financial income as a realised gain or loss.

Financial expenses includes interest payable on borrowings, calculated using the effective interest method, impairment losses on financial investments not measured at fair value through profit or loss and other financial expenses.

Taxation

Income tax on the surplus or deficit for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised directly in equity.

Current tax is the expected tax payable on the taxable surplus for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is recognised in full using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not recognised: goodwill not deductible for tax purposes and the initial recognition of an asset or liability in a transaction that is not a business combination and which, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised on temporary differences arising on investments in subsidiary companies, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and when the Group can settle its current tax assets and liabilities on a net basis.

Segmental reporting

A segment is a distinguishable component of the Group that is engaged in providing services that are subject to risks and rewards that are different from those of other segments. The primary segments have been determined by reference to the Group's management approach to its business activities. The secondary reporting format is the geographical split of operations. An explanation of the segments is included in note 1.

Current / non-current classification

Assets and liabilities are classified as current if they are expected to be realised within twelve months from the balance sheet date, the primary purpose of the asset or liability is to be traded or, for loans and receivables, where they have a maturity of less than twelve months from the balance sheet date. All other assets and liabilities are classified as non-current.

Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of identifiable assets, liabilities and contingent liabilities of the acquired subsidiary company or associated company at the date of acquisition. Where goodwill can only be determined on a provisional basis for a financial year, adjustments may be made to this balance for up to twelve months from the date of acquisition.

Goodwill on acquisition of subsidiary companies is capitalised and presented as part of intangible assets in the consolidated balance sheet. Goodwill is stated at cost less accumulated impairment losses. Impairment reviews are performed annually, or more frequently if there is an indication that the carrying value may be impaired. Impairment reviews are performed at the level of the relevant cash-generating unit.

Any excess of the Group's interest in the net fair value of the acquired identifiable assets, liabilities and contingent liabilities over cost that arises on an acquisition is recognised immediately in the income statement.

Goodwill arising on acquisitions before the date of transition to IFRS and capitalised in the balance sheet has been retained at the amount recorded previously under UK GAAP, subject to impairment testing. Goodwill previously written off to reserves under UK GAAP (on acquisitions prior to 31 December 1997) remains eliminated against reserves and is not included in calculating any subsequent profit or loss on disposal.

Other intangible assets

Intangible assets, other than goodwill, that are acquired separately are stated at cost less accumulated amortisation and impairment. Amortisation is charged to the income statement on a straight-line basis as follows:

• Computer software	2 to 10 years
• Bed licences in care homes	indefinite life

Intangible assets, other than goodwill, acquired as part of a business combination are capitalised at fair value. Amortisation is charged to the income statement on a straight-line basis as follows:

• Trade marks and brand	10 years
• Technology and databases	10 years
• Distribution networks	10 to 11 years
• Customer relationships	10 to 21 years
• Present value of acquired in-force business	13 to 20 years
• Licences	term of licence
• Non-compete agreements	term of agreement
• MBF brand	indefinite life

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement to reduce the carrying amount to the recoverable amount. Intangible assets with an indefinite life are subject to annual impairment reviews.

Property, plant and equipment

Freehold and leasehold properties comprise care homes, hospitals and offices. These properties are shown at fair value based on periodic, but at least triennial, valuations performed by external independent valuers, less subsequent depreciation and impairment losses. The valuations are performed with sufficient regularity to ensure that the carrying value does not differ significantly from fair value at the balance sheet date. Directors valuations are performed in interim years where impairment indicators exist. Fair value for care homes and hospitals is considered to be existing use value. Valuations of office buildings are on a market value basis. Borrowing costs relating to the acquisition or construction of qualifying assets are recognised in the income statement as they arise.

Equipment (including leasehold improvements) is stated at historical cost less subsequent depreciation.

Gains and losses on revaluation are recognised in the revaluation reserve, except where an asset is revalued below historical cost, in which case the deficit is recognised in the income statement. Where a revaluation reverses deficits taken to the income statement in prior years, then it is credited to the income statement.

Depreciation

Freehold land and assets under construction, included within freehold or leasehold properties as appropriate, are not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amount less residual value over estimated useful lives, as follows:

• Freehold buildings	50 years
• Leasehold buildings	shorter of useful life and lease term
• Equipment (leasehold improvements)	shorter of useful life and lease term
• Equipment	3 to 10 years

The assets' residual values and useful lives are reviewed, where significant, at each balance sheet date and adjusted if appropriate.

Impairment reviews are undertaken where there are indications that carrying value may not be recoverable. An impairment loss on assets carried at cost is recognised in the income statement to reduce the carrying value to the recoverable amount. An impairment loss on assets carried at revalued amount is recognised in the revaluation reserve, except where an asset is revalued below historical cost, in which case the deficit is recognised in the income statement.

Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets obtained under finance leases are capitalised within property, plant and equipment at fair value at acquisition or, if lower, at the present value of the minimum lease payments and depreciated over the shorter of their useful economic life and the lease term.

Obligations relating to finance leases, net of finance charges in respect of future periods, are included within other interest bearing liabilities. The interest element of the obligation is allocated over the lease term to reflect a constant rate of interest on the outstanding obligation.

Leasehold land, where no option to obtain title exists, is treated as an operating lease.

Payments made under operating leases are capitalised as appropriate within trade and other receivables and are recognised in the income statement on a straight-line basis over the term of the lease.

Accounting policies – continued

Investment properties
Property leased to third parties or held for capital appreciation is classified within investment properties. Investment properties are stated at fair value.

In the presence of an active market an independent valuer, holding a recognised and relevant professional qualification and with recent experience in the location and category of investment property being valued, values the portfolio annually.

In the absence of current prices in an active market the properties are valued using discounted cash flow projections based on reliable estimates of future cash flows. Discount rates are used to reflect current market assessments of the uncertainty in the amount or timing of the cash flows.

Any gain or loss arising from a change in the fair value is recognised in the income statement.

Financial investments
The Group has classified its financial investments into the following categories: at fair value through profit or loss, available for sale, held to maturity, and loans and receivables. Management determines the classification at initial recognition.

All financial investments are initially recognised at fair value, which includes transaction costs for financial investments not classified as at fair value through profit or loss. Financial investments are derecognised when the rights to receive cash flows from the financial investments have expired or where the Group has transferred substantially all risks and rewards of ownership.

Financial investments at fair value through profit or loss
An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy.

The investments are carried at fair value, with gains and losses arising from changes in this value recognised in the income statement in the period in which they arise. The fair values of quoted investments in active markets are based on current bid prices. The fair values of unlisted securities, and quoted investments for which there is no active market, are established using valuation techniques corroborated by independent third parties. These may include reference to the current fair value of other instruments that are substantially the same and discounted cash flow analysis.

Derivatives are held at fair value through profit or loss unless they are designated as hedges. The accounting policy for hedging instruments is described on page 68.

Held to maturity investments
Held to maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity. Investments are designated as held to maturity where the Group has a positive intention and ability to hold investments to maturity. Held to maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Any discount or premium on purchase is amortised over the life of the investment through the income statement. The intent and ability to hold the asset to maturity is assessed at each reporting date.

Available for sale
Available for sale financial investments are those intended to be held for an undisclosed period of time which may be sold in response to liquidity needs or changes in interest rates, exchange rates or equity prices.

Available for sale financial investments are carried at fair value with the exception of investments whose fair value cannot be reliably determined, which are carried at cost. Fair values are determined in the same manner as for investments at fair value through profit or loss. Changes in fair value are recognised in equity whilst an investment is held and are subsequently transferred to the income statement upon sale or derecognition of the investment.

Loans and receivables
Loans and receivables are non-derivative financial investments with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a borrower or customer with no intention of trading the receivable. Loans are recognised when cash is advanced to the borrowers.

Loans and receivables are carried at amortised cost calculated using the effective interest method, less impairment losses.

Sale and repurchase agreements
Securities purchased under commitments to resell ('reverse repos') are not recognised on the balance sheet; however, the consideration paid is recognised as a loan and receivable in financial investments. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Other financial assets

Trade and other receivables
Trade and other receivables, excluding derivative assets, are carried at amortised cost less impairment losses. Derivative assets are carried at fair value as detailed in the derivative financial instruments note.

Impairment of financial assets
A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered impaired if objective evidence indicates that one or more events have had a negative impact on the estimated future cash flows of that asset.

An impairment loss in respect of a financial investment measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the effective interest rate at the date the investment was made.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognised in the income statement.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in first-out method, or methods that approximate this, and includes costs incurred in acquiring the inventories and in bringing them to their current location and condition.

Non-current assets classified as held for sale and discontinued operations
Non-current assets or disposal groups are classified as held for sale where their carrying amount will be recovered principally through a sale transaction rather than continuing use, where sale is highly probable and where the asset or disposal group is available for immediate sale in its present condition.

Non-current assets and disposal groups held for sale are recognised at the lower of carrying amount and fair value less costs to sell. Impairment losses are recognised in the income statement.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary company acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal, abandonment or when the operation meets the criteria to be classified as held for sale, if earlier.

Cash and cash equivalents
Cash and cash equivalents comprises cash balances, call deposits and other short-term highly liquid investments (including money market funds) with original maturities of three months or less which are subject to an insignificant risk of change in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Callable subordinated perpetual guaranteed bonds
The Group has issued callable subordinated perpetual guaranteed bonds. The terms of the bonds are such that Bupa cannot defer payments of interest in certain limited circumstances. The bonds are therefore classified as financial liabilities. The liability is stated at amortised cost using the effective interest method. The carrying value is adjusted for the gain or loss on hedged risk; changes in the fair value of derivatives that mitigate interest rate risk resulting from the fixed interest rate of the bonds are recognised in the income statement as an effective fair value hedge of this exposure. The coupon payable on the bonds is recognised as a financial expense.

The bonds have no set maturity date but are subject to an increase in the interest payments from 2020 and the Group is therefore likely to refinance the bonds as a result of economic compulsion.

Other subordinated liabilities and other interest bearing liabilities
All interest bearing liabilities are recognised initially as proceeds receivable less attributable transaction costs. Subsequent to initial recognition they are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis. The amortised cost of borrowings with a corresponding fair value hedge is adjusted for the fair value of the risk being hedged.

Offsetting financial instruments
Financial investments and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Provisions for liabilities and charges
A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Accounting policies – continued

Trade and other payables
Trade and other payables, excluding derivative liabilities, are carried at amortised cost. Derivative liabilities are stated at fair value.

Accommodation bond liabilities
Accommodation bonds are non-interest bearing deposits paid by the resident of the care home as payment for a place in the care home facility. These deposits are liabilities which fall due and are payable when the resident leaves the facility. The bonds are recorded at an amount equal to the proceeds received, net of retention and any other amounts deducted from the bond at the election of the bond-holder.

Employee post employment benefits
The Group operates defined contribution and defined benefit pension schemes, as well as a post-retirement medical benefit scheme. The Group maintains funded and unfunded schemes.

Defined contribution pension schemes
Obligations for contributions to defined contribution pension schemes are recognised as an expense in the income statement as incurred.

Defined benefit post employment schemes
The Group's net obligation in respect of defined benefit pension and post retirement medical schemes is calculated separately for each scheme and represents the present value of the defined benefit obligation less, for funded schemes, the fair value of scheme assets. The discount rate used is the yield at the balance sheet date on high quality corporate bonds denominated in the currency in which the benefits will be paid. When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the scheme, or reductions in future contributions to the scheme.

The charge to the income statement for defined benefit schemes represents the following: current service cost calculated on the projected unit credit method; the expected return on scheme assets, less the interest cost on scheme liabilities; and gains and losses on curtailments.

All actuarial gains and losses are recognised in full in the statement of recognised income and expense in the period in which they occur.

Derivative financial instruments
The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risk. Derivatives that have been purchased or issued as part of a hedge that subsequently does not qualify for hedge accounting are accounted for as if they were trading instruments.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, they are re-measured at fair value within trade and other receivables, or within trade and other payables.

Fair values are obtained from exchange quoted prices and, where specific exchange prices are not available, from market observable pricing information including interest rate yield curves. The fair values of futures and options are obtained from the quoted prices on the relevant exchange, including LIFFE. The value of foreign exchange forward contracts is established using listed market prices.

Hedge accounting
The Group applies fair value, net investment and cash flow hedge accounting. The Group formally documents the hedging relationship between a hedging instrument and a hedged item. Documentation includes the risk management objectives and the strategy in undertaking the hedge transaction.

Fair value hedges
Where a derivative financial instrument hedges the change in fair value of a recognised asset or liability or an unrecognised firm commitment, any gain or loss on re-measurement of the hedging instrument at fair value is recognised in the income statement. The hedged item is fair valued for the hedged risk with any adjustment being recognised in the income statement.

Cash flow hedges
Gains and losses on derivative financial instruments designated as a hedge to the exposure in the variability in cash flows that are attributed to a recognised asset or liability, a firm commitment or a highly probable forecast transaction are accounted for as cash flow hedges.

The effectiveness of a cash flow hedge is the degree to which the cash flows attributable to a hedged risk are offset by changes in the cash flows of the hedging instrument. The effective portion of any gain or loss on the hedging instrument is recognised directly in equity until the forecast transaction occurs and results in the recognition of a financial asset or liability which impacts the income statement. The ineffective portion of the gain or loss is recognised in the income statement.

If the hedged cash flow is no longer expected to take place, all deferred gains and losses are released to the income statement immediately. If the hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs.

Foreign currency hedging of net investment

The Group applies hedge accounting to its foreign currency exposure on a net investment basis. The Group uses foreign currency denominated borrowings and foreign currency forward contracts to hedge net investment risk.

If an external foreign currency denominated loan is used as a hedge, the portion of the exchange gains or losses, arising from the retranslation, that is found to be an effective hedge is recognised in equity in accordance with IAS 39. The same treatment is applied to both the realised and unrealised exchange gains and losses arising from foreign currency forward contracts. Any ineffective portion is recognised directly in the income statement. If an entity is subsequently sold or liquidated, any gains or losses that have been previously recognised in equity are recognised in the income statement.

Accounting estimates and judgements

The preparation of accounts requires the use of certain accounting estimates and judgements as described in the accounting policies. Significant sources of estimation and uncertainty are described below:

Insurance accounting: The estimates, uncertainties and judgements arising as a result of the Group's insurance operations are detailed in note 35.

Deferred revenue: In respect of the Group's revenue and deferred revenue for performance based health service contracts, estimates are made by the Group based on the most recent performance evaluation data available at the year end. Where the results of final performance assessment differ from the estimation, the difference is recognised in the period in which such determination is made.

Financial instruments: The Group is exposed to uncertainty as a result of exposure to currency, credit, liquidity and interest rate risks. These risks, together with the Group's procedures to mitigate resulting uncertainty, are discussed in notes 34 and 35.

Pension assumptions: Note 28 details the estimation techniques involved in calculating the Group's net pension asset or liability.

Intangible assets arising on business combinations: All identifiable assets arising as part of a business combination must be recognised at fair value. The calculation of fair value requires the use of estimates and judgements, including modelling techniques. These assets are described in note 12.

Goodwill impairment: Note 12 contains information about the assumptions and estimates used to calculate the impairment of goodwill.

Property valuations: The Group's care home and hospital properties are valued with regard to their trading potential. Valuations are performed by independent, external valuers who incorporate assumptions. The principal assumptions relate to: quantifying a fair, maintainable level of trade and profitability; levels of competition; and assumed ability to renew existing licences, consents, certificates or permits.

Income taxes: The Group is subject to income taxes in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amount that was initially recorded, the difference is recognised in the period in which such determination is made.

The areas of judgement made in the process of applying the Group's accounting policies to categorise how transactions are displayed and that have the most significant effect on the amounts recognised in the financial statements are:

- establishing whether special purpose entities are controlled by the Group;
- determining the nature of intangible assets arising on business combinations;
- determining the presence or absence of insurance risk in contracts entered into by the Group's insurance entities; and
- determining whether a substantial transfer of risks and rewards has occurred in relation to leased assets.

Notes to the financial statements

for the year ended 31 December 2008

1 Segmental information

	Note	UK Insurance 2008 £m	UK Insurance 2007 £m	International Insurance 2008 £m	International Insurance 2007 £m	Care Homes 2008 £m	Care Homes 2007 £m	Other Health Services 2008 £m	Other Health Services 2007 £m	Total 2008 £m	Total 2007 £m
(i) Revenues											
Continuing operations											
Revenues		1,965.2	1,898.6	2,605.3	1,521.5	873.4	652.0	424.1	174.5	5,868.0	4,246.6
Inter company elimination		(0.1)	(1.9)	(2.0)	(1.6)	(0.2)	(3.3)	(0.4)	(4.0)	(2.7)	(10.8)
Total revenues from continuing operations		1,965.1	1,896.7	2,603.3	1,519.9	873.2	648.7	423.7	170.5	5,865.3	4,235.8
Discontinued operations											
Total revenues from discontinued operations										-	295.3
Total revenues										5,865.3	4,531.1
(ii) Segment surplus											
Continuing operations											
Surplus		106.5	115.8	126.6	119.1	123.9	115.9	22.3	4.9	379.3	355.7
Amortisation of intangible assets*		-	-	(13.4)	(4.7)	(3.4)	(3.0)	(8.7)	(2.9)	(25.5)	(10.6)
		106.5	115.8	113.2	114.4	120.5	112.9	13.6	2.0	353.8	345.1
Unallocated central overheads	a									(2.2)	(5.6)
Surplus**										351.6	339.5
Impairment of goodwill		-	-	(34.6)	-	(81.9)	-	-	-	(116.5)	-
Impairment of intangible assets arising on acquisition		-	-	-	(5.7)	(1.8)	-	(2.2)	-	(4.0)	(5.7)
Other (charges) / income										(3.4)	20.1
Surplus before financial income and expenses										227.7	353.9
Financial income and expenses	b									(40.6)	44.1
		106.5	115.8	78.6	108.7	36.8	112.9	11.4	2.0		
Surplus before taxation expense										187.1	398.0
Taxation expense										(78.3)	(104.2)
Surplus for the financial year from continuing operations										108.8	293.8
Discontinued operations											
Surplus**										-	52.3
Other income / (charges)										-	0.2
Surplus before financial income and expenses										-	52.5
Financial income and expenses										-	(9.8)
Surplus before taxation expense										-	42.7
Taxation expense										-	(12.3)
Surplus from operating activities for the financial year from discontinued operations										-	30.4
Profit on sale of business										-	815.6
Taxation on profit on sale of business										-	(6.3)
										-	809.3
Surplus for the financial year from discontinued operations										-	839.7
Surplus for the financial year										108.8	1,133.5

* Amortisation of intangible assets arising as a result of business combinations.

** Surplus before impairment of goodwill, impairment of intangible assets arising on acquisition, other (charges) / income, and financial income and expenses.

1 Segmental information – continued

The primary business segments comprise:
- UK Insurance – provision of health insurance, life assurance and related products sold in the UK.
- International Insurance – provision of health insurance, life assurance, life investment contracts and related products sold outside the UK.
- Care Homes – provision of nursing, residential and respite care within the UK, Spain, Australia and New Zealand.
- Other Health Services comprises the operations of Health Dialog, Bupa Home Healthcare (formerly Clinovia), The Bupa Cromwell Hospital and Teddies Nurseries.

Discontinued operations comprise the 25 UK hospitals sold to the private equity firm Cinven on 31 August 2007 together with the operations of the remaining hospitals' subsidiary companies which relate to the disposed of entities.

Notes

a. Unallocated central overheads represent head office costs which cannot be specifically allocated to the primary business segments.

b. Net financial expense of £40.6m (2007: net financial income of £44.1m) from continuing operations includes £55.7m (2007: £95.5m) of financial income and £2.1m (2007: £nil) of financial expenses which can be allocated to the insurance segments. This allocation would decrease the UK Insurance surplus by £3.2m (2007: increase by £76.1m) and increase the International Insurance surplus by £56.8m (2007: £19.4m).

		UK Insurance		International Insurance		Care Homes		Other Health Services		Total	
		2008	2007	2008	2007	2008	2007 (Restated)	2008	2007	2008	2007 (Restated)
	Note	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
(iii) Assets and liabilities											
Gross assets		2,776.7	2,280.9	3,138.4	1,028.8	3,083.9	2,864.6	710.0	227.8	9,709.0	6,402.1
Inter company elimination		(1,653.4)	(1,238.6)	(72.2)	(47.4)	(401.7)	(292.2)	9.4	(25.0)	(2,117.9)	(1,603.2)
Segment assets		1,123.3	1,042.3	3,066.2	981.4	2,682.2	2,572.4	719.4	202.8	7,591.1	4,798.9
Unallocated assets	a									2,072.9	2,270.9
Consolidated assets										9,664.0	7,069.8
Gross liabilities		(3,356.2)	(2,755.2)	(2,157.6)	(784.3)	(621.3)	(711.7)	(112.3)	(110.7)	(6,247.4)	(4,361.9)
Inter company elimination		2,061.9	1,442.3	147.7	109.7	290.0	362.8	5.6	78.1	2,505.2	1,992.9
Segment liabilities		(1,294.3)	(1,312.9)	(2,009.9)	(674.6)	(331.3)	(348.9)	(106.7)	(32.6)	(3,742.2)	(2,369.0)
Unallocated liabilities	b									(2,304.0)	(1,338.5)
Consolidated liabilities										(6,046.2)	(3,707.5)
Consolidated net assets										3,617.8	3,362.3

Notes

a. Unallocated assets of £2,072.9m (2007: £2,270.9m) consist of financial investments of £1,725.2m (2007: £2,038.1m), £31.4m (2007: £11.6m) of equity accounted investments, pension assets held by the sponsoring employer of £115.0m (2007: £59.7m), a deferred taxation asset of £nil (2007: £6.3m) and unallocated corporate head office assets of £201.3m (2007: £155.2m). Total financial investments include an increase of £1,566.4m (2007: £1,233.3m) of assets which can be allocated to the UK Insurance and International Insurance segments. This allocation would increase the UK Insurance and International Insurance total assets to £2,046.9m (2007: £1,818.0m) and £3,709.0m (2007: £1,439.0m) respectively.

b. Unallocated liabilities of £2,304.0m (2007: £1,338.5m) consist of £1,857.9m (2007: £1,014.3m) of interest bearing liabilities, a deferred tax liability of £256.1m (2007: £180.4m), a current tax liability of £83.9m (2007: £97.2m), pension liabilities held by the sponsoring employer of £41.8m (2007: £38.2m) and unallocated corporate head office liabilities of £64.3m (2007: £8.4m). Total interest bearing liabilities, and current taxation creditors include £35.6m (2007: £92.2m) of liabilities which can be allocated to the UK Insurance and International Insurance segment. This allocation would increase the UK Insurance and International Insurance total liabilities to £1,294.3m (2007: £1,322.2m) and £2,045.5m (2007: £757.5m) respectively.

1 Segmental information – continued

	Note	UK Insurance 2008 £m	UK Insurance 2007 £m	International Insurance 2008 £m	International Insurance 2007 £m	Care Homes 2008 £m	Care Homes 2007 (Restated) £m	Other Health Services 2008 £m	Other Health Services 2007 £m	Total 2008 £m	Total 2007 (Restated) £m
(iv) Other information											
Assets acquired by continuing operations	a	39.7	36.2	767.3	114.8	163.8	715.0	507.2	5.1	1,478.0	871.1
Assets acquired by discontinued operations										-	12.9
Total assets acquired										1,478.0	884.0
Amortisation and depreciation costs incurred by continuing operations		(22.1)	(20.6)	(39.9)	(23.1)	(51.8)	(36.2)	(25.8)	(6.5)	(139.6)	(86.4)
Corporate head office										(0.7)	-
Amortisation costs and depreciation incurred by continuing operations										(140.3)	(86.4)
Amortisation costs and depreciation incurred by discontinued operations										-	(16.3)
Total amortisation and depreciation costs										(140.3)	(102.7)
Non-cash expenses*		43.4	12.3	101.7	(39.2)	(2.9)	(25.0)	(1.8)	11.4	140.4	(40.5)
Corporate head office										(30.0)	(86.5)
Non-cash expenses incurred by continuing operations										110.4	(127.0)
Non-cash expenses incurred by discontinued operations										-	(12.6)
Total non-cash expenses*										110.4	(139.6)

* Other than amortisation and depreciation costs.

Notes

a. Assets acquired includes the cost of those assets brought onto the balance sheet through business combinations and expected to be used during more than one period (property, plant and equipment and intangible assets including goodwill).

Geographic segments

	Note	UK 2008 £m	UK 2007 £m	Spain 2008 £m	Spain 2007 £m	Australasia 2008 £m	Australasia 2007 (Restated) £m	Rest of the World[a] 2008 £m	Rest of the World[a] 2007 £m	Total 2008 £m	Total 2007 (Restated) £m
External revenues											
Continuing operations		2,846.6	2,643.3	879.3	693.2	1,507.2	523.4	632.2	375.9	5,865.3	4,235.8
Discontinued operations		-	295.3	-	-	-	-	-	-	-	295.3
Total external revenues		2,846.6	2,938.6	879.3	693.2	1,507.2	523.4	632.2	375.9	5,865.3	4,531.1
Total assets		4,940.1	5,000.0	752.6	550.8	3,264.4	1,215.5	706.9	303.5	9,664.0	7,069.8
Total assets acquired	b	214.3	138.9	90.9	107.2	762.1	634.6	410.7	3.3	1,478.0	884.0

Notes

a. Included within Rest of the World are operations in the US, Denmark, the Middle East, Hong Kong, Thailand, China, Malta, and Bolivia.

b. Total assets acquired comprise the cost of those assets acquired in 2008 in both ongoing activities and through acquisitions, and which are expected to be used during more than one period (property, plant and equipment and intangible assets including goodwill).

2 Total revenues

	General insurance 2008 £m	General insurance 2007 £m	Long-term business 2008 £m	Long-term business 2007 £m	Total 2008 £m	Total 2007 £m
Gross premiums written	4,461.9	3,292.5	149.9	115.5	4,611.8	3,408.0
Change in gross provision for unearned premiums	(73.4)	(25.5)	(1.6)	(3.9)	(75.0)	(29.4)
Gross insurance premiums	4,388.5	3,267.0	148.3	111.6	4,536.8	3,378.6
Gross premiums written ceded to reinsurers	(24.3)	(12.3)	(63.4)	(51.5)	(87.7)	(63.8)
Reinsurers' share of change in gross provision for unearned premiums	(0.1)	0.3	0.7	1.5	0.6	1.8
Premiums ceded to reinsurers	(24.4)	(12.0)	(62.7)	(50.0)	(87.1)	(62.0)
Net insurance premiums earned	4,364.1	3,255.0	85.6	61.6	4,449.7	3,316.6
Revenues from life investment contracts					11.3	-
Revenues from service contracts					6.3	5.8
Care, health and other revenues					1,398.0	913.4
Total revenues					5,865.3	4,235.8

3 Net insurance claims incurred

	General insurance 2008 £m	General insurance 2007 £m	Long-term business 2008 £m	Long-term business 2007 £m	Total 2008 £m	Total 2007 £m
Insurance claims paid	3,409.1	2,444.2	61.5	39.6	3,470.6	2,483.8
Change in gross provisions for claims	(26.9)	15.7	4.9	11.8	(22.0)	27.5
	3,382.2	2,459.9	66.4	51.4	3,448.6	2,511.3
Risk Equalisation Trust Fund levy	7.7	-	-	-	7.7	-
Insurance claims incurred	3,389.9	2,459.9	66.4	51.4	3,456.3	2,511.3
Recoveries from reinsurers on claims paid	(14.7)	(10.0)	(37.6)	(27.0)	(52.3)	(37.0)
Reinsurers' share of change in gross provisions for claims	0.1	(0.3)	(2.2)	(15.2)	(2.1)	(15.5)
Reinsurers' share of claims incurred	(14.6)	(10.3)	(39.8)	(42.2)	(54.4)	(52.5)
Net insurance claims incurred	3,375.3	2,449.6	26.6	9.2	3,401.9	2,458.8

In Australia, the Risk Equalisation Trust Fund charges a levy to all registered private health insurers and then allocates a proportion of the cost of eligible claims between all fund participants.

Notes to the financial statements – continued
for the year ended 31 December 2008

4 Other operating expenses

	2008 £m	2007 £m
Amortisation of intangible assets arising on business combinations and computer software	55.5	31.7
Impairment of computer software	20.3	-
Depreciation expense	84.8	54.6
Acquisition costs		
Commission for direct insurance	188.0	158.5
Other acquisition costs paid	21.9	19.5
Changes in deferred acquisition costs	(9.4)	(11.2)
Total acquisition costs	200.5	166.8
Cost of sales	161.4	128.7
Property costs	114.1	82.5
Marketing costs	81.0	62.3
Medical supplies and fees	80.6	47.5
Operating lease rentals	26.7	15.1
Staff costs		
Wages and salaries	892.6	603.7
Social security costs	79.6	61.2
Contributions to defined contribution schemes	15.8	9.6
Other pension costs	9.5	13.9
Net gain on foreign exchange transactions	(13.7)	-
Other operating expenses (including auditor's remuneration)	302.1	160.1
Total other operating expenses	**2,110.8**	1,437.7

Auditor's remuneration

	2008	2007
Fees payable to the Company's auditors, KPMG Audit Plc and its associates:		
Statutory audit of the Company's consolidated annual accounts	0.7	0.7
Fees payable to the Company's auditors and its associates for other services:		
Statutory audit of the Company's subsidiaries and pension scheme audits pursuant to legislation	2.5	1.8
Total audit fees payable to the Company's auditors, KPMG Audit Plc and its associates	3.2	2.5
Fees payable to other auditors:		
Audit of overseas subsidiary companies	0.1	0.7
Total audit fees	3.3	3.2
Other services relating to taxation	0.4	0.7
Services relating to corporate finance transactions	0.1	1.4
All other services	0.4	0.3
Total auditor's remuneration	4.2	5.6

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

	2008	2007
Health insurance	10,026	7,080
Care and health provision	31,659	28,598
	41,685	35,678

Company
The average number of full-time equivalent employees, including Executive Directors, employed by the Company during the year was:

	2008	2007
Health insurance	586	644

5 Directors' emoluments

(i) Directors' remuneration

Directors' remuneration for the year ended 31 December 2008 was as follows:

	Note	Salary / fees 2008 £	Benefits 2008 £	Annual bonus 2008 £	Total 2008 £	Total 2007 £
Executive Directors						
R King	a, b	593,250	47,856	582,300	1,223,406	970,597
T D Singer	c	259,666	14,034	205,000	478,700	-
		852,916	61,890	787,300	1,702,106	970,597
Non-Executive Directors						
Lord Leitch (Chairman)		255,000	43,443	-	298,443	270,248
The Rt Hon Baroness Bottomley		51,000	468	-	51,468	30,963
E Byrne	d	39,667	802	-	40,469	-
P E B Cawdron	e	61,917	937	-	62,854	37,925
G E Mitchell	f	55,500	937	-	56,437	31,259
O G Ni-Chionna	g	56,500	1,171	-	57,671	47,610
R P Walther	h	72,250	937	-	73,187	63,388
		591,834	48,695	-	640,529	481,393
Former Directors						
V F Gooding	i	748,051	42,016	684,440	1,474,507	1,811,565
Prof O F W James	j	18,333	295	-	18,628	50,888
R D Brown		-	-	-	-	24,000
G A Clark		-	-	-	-	10,000
		766,384	42,311	684,440	1,493,135	1,896,453
		2,211,134	152,896	1,471,740	3,835,770	3,348,443

Notes

a. R King was appointed as Chief Executive with effect from 16 May 2008.
b. The highest paid Director was R King.
c. T D Singer was appointed as Group Finance Director with effect from 16 May 2008.
d. E Byrne was appointed as a Non-Executive Director and as Chairman of the Medical Advisory Panel with effect from 1 May 2008. The fees receivable by E Byrne include an amount of £4,667 (2007: £nil) as Chairman of the Medical Advisory Panel.
e. P E B Cawdron resigned as Chairman of the Audit Committee with effect from 31 August 2008 and was appointed Chairman of the Remuneration Committee with effect from 1 September 2008. The fees receivable by P E B Cawdron include an amount of £8,250 (2007: £6,667) and £2,667 (2007: £nil) for the respective positions.
f. G E Mitchell was appointed as Chairman of the Audit Committee with effect from 1 September 2008. The fees receivable by G E Mitchell include an amount of £4,500 (2007: £nil) as Chairman of the Audit Committee.
g. The fees receivable by O G Ni-Chionna include an amount of £5,500 (2007: £2,500) as the Senior Independent Director. O G Ni-Chionna resigned as a Non-Executive Director with effect from 31 December 2008.
h. The fees receivable by R P Walther include an amount of £21,250 (2007: £18,500) as a Non-Executive Director of Bupa Insurance Limited.
i. V F Gooding resigned as Chief Executive and from the Board of Directors on 15 May 2008. She continued in employment until her retirement from Bupa on 31 December 2008.
j. Prof O F W James resigned as a Non-Executive Director and as Chairman of the Medical Advisory Panel with effect from 30 April 2008. The fees received by Prof O F W James include an amount of £2,333 (2007: £6,000) as Chairman of the Medical Advisory Panel.

5 Directors' emoluments – continued

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

	Note	At 31 December 2007 £	Potential award £	Interest on accrued balance £	Awards becoming payable £	Paid in year £	At 31 December 2008 £	Payable April 2009 £	Payable April 2011 £
Payable awards									
Executive Directors									
R King									
2005 / 2006 plan	a	197,456	-	10,900	-	-	208,356	208,356	-
2007 / 2008 plan	b	-	-	-	1,267,536	-	1,267,536	760,522	507,014
T D Singer									
2007 / 2008 plan	c	-	-	-	283,364	-	283,364	-	170,018
Former Director									
V F Gooding									
2005 / 2006 plan	d	367,515	-	18,376	-	(385,891)	-	-	-
2007 / 2008 plan	e	-	-	-	1,537,994	-	1,537,994	1,537,994	-
Potential awards									
Executive Directors									
R King									
2007 / 2008 plan	b	360,128	841,100	66,308	(1,267,536)	-	-	-	-
T D Singer									
2007 / 2008 plan	c	-	273,306	10,058	(283,364)	-	-	-	-
Former Director									
V F Gooding									
2007 / 2008 plan	e	697,049	760,489	80,456	(1,537,994)	-	-	-	-

Notes

a. 60% of the award earned under the 2005 / 2006 plan was paid in April 2007. The remaining 40% of the award will be payable in April 2009 on the condition that the Director is still employed by the Company on the respective payment date.

b. The 2007 / 2008 plan period ends on 31 December 2008. Subject to the performance criteria being satisfied, 60% of the potential awards become eligible for payment in April 2009 and 40% in April 2011. These payments will be made provided the Director is still employed by the Company on the respective payment date.

c. Subject to performance criteria being satisfied, in accordance with the rules of the LTIP regarding joiners during a plan period, potential awards in respect of the 2007 / 2008 plan become eligible for payment in 2011 and 2013. These payments will be made provided the Director is still employed by the Company on the respective payment dates.

d. V F Gooding retired from the Company on 31 December 2008. In accordance with the rules of the LTIP, 40% of the award earned under the 2005 / 2006 plan was payable at the date of her retirement.

e. In accordance with the rules of the LTIP, as V F Gooding retired from the Company on 31 December 2008, 100% of the 2007 / 2008 plan will be payable in April 2009, subject to the normal performance criteria being satisfied.

5 Directors' emoluments – continued

(iii) Directors' pensions

Two 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 two Executive Directors' accrued pension benefits at the end of the year:

	Note	Total accrued pension at 31 December 2008 £	Total accrued pension at 31 December 2007 £	Transfer value at 31 December 2008 £	Transfer value at 31 December 2007 £	Increase in transfer value less Directors' contributions £
Executive Director						
R King	a, b , c	159,951	92,400	3,063,000	1,762,000	1,283,720
Former Director						
V F Gooding	a, b , c	487,980	408,674	11,254,790	8,008,000	3,241,150

Notes

a. 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 £63,368 and £63,948 for V F Gooding and R King respectively. The transfer value of these increases, less Directors' contributions, was £1,455,884 and £1,196,780 for V F Gooding and R King respectively.

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

c. Following changes in legislation, the Trustees of The Bupa Pension Scheme agreed to change the basis for calculating transfer values, with effect from 1 October 2008. Therefore, the transfer values as at 31 December 2008 have been calculated using this new basis.

During the year, the Company paid contributions of £82,000 (2007: £nil) to The Bupa Retirement Savings Plan, a defined contribution scheme, in respect of T D Singer.

6 Other (charges) / income

	2008 £m	2007 £m
Net gain on sale of business	-	19.8
(Deficit) / surplus on revaluation of property	(2.9)	0.5
Net gain / (loss) on disposal of property, plant and equipment	5.6	(0.2)
Impairment of equity accounted investments	(6.1)	-
Total other (charges) / income	(3.4)	20.1

7 Financial income

	2008 £m	2007 £m
Interest income		
Investments designated at fair value through profit or loss	7.8	9.6
Loans and receivables	142.0	114.1
Net realised losses on investments designated at fair value through profit or loss	(13.9)	(0.6)
Net gains on investments held to maturity	3.5	1.5
Net gains on derecognition of available for sale investment	4.7	-
Net (decrease) / increase in fair value		
Investments designated at fair value through profit or loss	(109.9)	13.4
Callable subordinated perpetual guaranteed bonds in respect of hedged risk	(46.0)	0.1
Adjustment to initial valuation recognition on above bonds	6.2	-
Interest rate swap derivatives	46.0	-
Investment property	1.4	0.6
Net foreign exchange gain	23.6	0.6
Total financial income	65.4	139.3

The net amount of foreign exchange differences recognised in financial income for the year, excluding those arising on financial assets and financial liabilities measured at fair value through profit or loss, was a loss of £0.5m (2007: gain of £13.3m).

Included within financial income is a net loss after hedging on the Group's alternative asset portfolio of £97.7m (2007: net gain of £16.9m).

Notes to the financial statements – continued

for the year ended 31 December 2008

8 Financial expenses

	2008 £m	2007 £m
Interest expense on financial liabilities at amortised cost	104.7	90.0
Finance charges in respect of finance leases	0.2	0.1
Other financial expenses	1.1	5.1
Total financial expenses	**106.0**	95.2

9 Surplus for the year from discontinued operations

	2008 £m	2007 £m
Revenues		
Health and other revenues	-	295.3
Total revenues from discontinued operations	-	295.3
Expenses		
Amortisation of computer software	-	(0.7)
Depreciation expense	-	(15.7)
Medical supplies and fees	-	(81.7)
Property costs	-	(16.0)
Operating lease rentals	-	(0.8)
Staff costs		
Wages and salaries	-	(82.4)
Social security costs	-	(7.1)
Contributions to defined contribution schemes	-	(1.8)
Other pension costs	-	8.5
Other operating expenses	-	(45.3)
Other income / (charges)	-	0.2
Total expenses from discontinued operations	-	(242.8)
Surplus from operating activities before other income / (charges), and financial income and expenses from discontinued operations	-	52.3
Other income / (charges)	-	0.2
Surplus from operating activities before financial income and expenses from discontinued operations	-	52.5
Financial income and expenses		
Financial income – net foreign exchange loss	-	(9.4)
Financial expenses	-	(0.4)
	-	(9.8)
Surplus from operating activities before taxation expense from discontinued operations	-	42.7
Taxation expense	-	(12.3)
Surplus from operating activities for the financial year from discontinued operations	-	30.4
Profit on sale of business	-	815.6
Taxation on profit on sale of business	-	(6.3)
Surplus for the financial year from discontinued operations	-	839.7

Total surplus before taxation expense from discontinued operations in 2007 of £858.3m comprises surplus from operating activities before taxation expense from discontinued operations of £42.7m and profit on sale of business of £815.6m.

Net cash flows incurred by discontinued operations

	2008 £m	2007 £m
Operating	-	188.3
Investing	-	(17.2)
Financing	-	(322.1)
Net cash flow	-	(151.0)

10 Taxation expense

(i) Recognised in the income statement

	2008 £m	2007 £m
Current taxation expense / (income)		
UK taxation on income for the year	20.8	42.6
Adjustments in respect of prior periods	(14.5)	3.0
	6.3	45.6
Double taxation relief	(7.7)	(2.1)
Foreign taxation on income for the year	79.7	46.4
Adjustments in respect of prior periods	2.0	(1.1)
	81.7	45.3
Total current taxation – continuing operations	80.3	88.8
Deferred taxation (income) / expense		
Origination and reversal of temporary differences	2.2	29.0
Adjustments in respect of prior periods	(4.9)	(12.5)
Changes in tax rates	0.7	(1.1)
Total deferred taxation – continuing operations	(2.0)	15.4
Taxation – continuing operations	78.3	104.2
Total current taxation – discontinued operations	-	17.0
Total deferred taxation – discontinued operations	-	1.6
Taxation – discontinued operations	-	18.6
Taxation expense	78.3	122.8

(ii) Reconciliation of effective tax rate

	2008 £m	2007 £m
Surplus before taxation expense	187.1	1,256.3
Taxation at the domestic UK corporation tax rate of 28.5% (2007: 30.0%)	53.4	376.9
Effect of:		
Different taxation rates in foreign jurisdictions	(0.8)	0.9
Non-deductible expenses	36.7	-
Non-taxable income	-	(243.8)
Current income taxation adjustments in respect of prior periods	(12.5)	3.3
Deferred taxation adjustments in respect of prior periods	(4.9)	(14.1)
Movement on deferred tax asset not recognised	0.7	0.3
Changes in tax rate	5.7	(0.7)
Taxation expense at the effective tax rate of 41.9% (2007: 9.8%)	78.3	122.8

(iii) Current and deferred taxation recognised directly in equity

	2008 £m	2007 £m
Current taxation charge / (credit) in respect of:		
Currency translation difference on foreign currency net investments	6.1	(0.6)
Pension contributions paid	-	(20.7)
Deferred taxation (credit) / charge in respect of:		
Revaluation of property	(9.2)	52.4
Actuarial gain on pension schemes and pension contributions paid	2.6	31.3
Taxation (credit) / charge reported directly in equity	(0.5)	62.4

11 Deficit for the financial year attributable to the Company

The deficit for the financial year dealt with in the accounts of the Company, The British United Provident Association Limited (Bupa), is £29.9m (2007: £30.3m). In accordance with the exemption granted under Section 230 (4) of the Companies Act 1985, a separate income statement for the Company has not been presented.

12 Intangible assets

	Group					Company
	Goodwill £m	Computer software £m	Customer relationships £m	Other £m	Total £m	Computer software £m
2008						
Cost						
At beginning of year	914.7	209.1	43.3	201.2	1,368.3	44.0
Acquisitions through business combinations	-	29.9	-	1.9	31.8	-
Assets arising on business combinations	812.1	44.2	202.7	74.9	1,133.9	-
Additions	-	82.9	-	-	82.9	44.0
Transfer to property, plant and equipment	-	(0.2)	-	-	(0.2)	-
Transfer to assets held for sale	-	(2.9)	-	-	(2.9)	-
Disposals	-	(2.5)	-	-	(2.5)	(38.4)
Foreign exchange	186.0	28.6	24.5	37.8	276.9	-
At end of year	1,912.8	389.1	270.5	315.8	2,888.2	49.6
Amortisation and impairment loss						
At beginning of year	48.5	105.5	6.3	18.7	179.0	31.4
Amortisation for year	-	34.2	12.7	8.6	55.5	5.3
Impairment loss	116.5	20.3	-	4.0	140.8	-
Transfer to property, plant and equipment	-	(0.3)	-	-	(0.3)	-
Transfer to assets held for sale	-	(1.5)	-	-	(1.5)	-
Disposals	-	(2.3)	-	-	(2.3)	-
Foreign exchange	24.9	9.8	2.7	6.4	43.8	-
At end of year	189.9	165.7	21.7	37.7	415.0	36.7
Net book value at end of year	**1,722.9**	**223.4**	**248.8**	**278.1**	**2,473.2**	**12.9**
Net book value at beginning of year	866.2	103.6	37.0	182.5	1,189.3	12.6
2007 (Restated)						
Cost						
At beginning of year	573.1	180.9	41.9	58.7	854.6	37.4
Acquisitions through business combinations	-	0.2	-	72.8	73.0	-
Assets arising on business combinations	304.9	-	-	54.0	358.9	-
Additions	-	52.4	-	6.7	59.1	34.2
Transfer from property, plant and equipment	-	0.1	-	-	0.1	-
Disposal of subsidiary companies	-	(26.4)	-	-	(26.4)	-
Disposals	(2.4)	(0.1)	-	-	(2.5)	(27.6)
Foreign exchange	39.1	2.0	1.4	9.0	51.5	-
At end of year	914.7	209.1	43.3	201.2	1,368.3	44.0
Amortisation and impairment loss						
At beginning of year	49.1	102.6	2.5	5.1	159.3	26.4
Amortisation for year	-	21.8	3.4	7.2	32.4	5.0
Impairment loss	-	-	-	5.7	5.7	-
Disposal of subsidiary companies	-	(20.1)	-	-	(20.1)	-
Disposals	(1.8)	(0.1)	-	-	(1.9)	-
Foreign exchange	1.2	1.3	0.4	0.7	3.6	-
At end of year	48.5	105.5	6.3	18.7	179.0	31.4
Net book value at end of year	866.2	103.6	37.0	182.5	1,189.3	12.6
Net book value at beginning of year	524.0	78.3	39.4	53.6	695.3	11.0

12 Intangible assets – continued

Intangible assets of £2,473.2m (2007: £1,189.3m) comprises £577.6m (2007: £219.6m) which is attributable to intangible assets arising on acquisitions as follows:

	2008 £m	2007 £m
Customer relationships	248.9	37.1
Bed licences	86.0	77.1
Licences to operate care homes	74.4	68.2
Technology and database	50.6	-
Brand and trademarks	57.3	3.6
Distribution networks	21.0	14.3
Present valuation of acquired in-force business	19.1	1.5
Leases	10.7	10.3
Service concession arrangements	9.3	7.2
Non-compete agreements	0.3	0.3
	577.6	219.6

Goodwill provisionally determined

Goodwill in relation to current year acquisitions has been determined on a provisional basis for the year ended 31 December 2008. Under IFRS 3, the Group has twelve months from the date of acquisition to finalise the acquisition accounting. The fair value adjustments relating to the acquisitions of MBF, Health Dialog and The Bupa Cromwell Hospital are provisional and will be finalised during the 2009 financial year. Further information for acquisitions made in the current year is shown in note 36.

Goodwill impairment

Goodwill is tested at least annually for impairment in accordance with IAS 36 and IAS 38. At 31 December 2008, the carrying values of the following cash generating units (CGU) are determined to be higher than the recoverable amounts, resulting in impairments to goodwill arising on acquisition totalling £116.5m (2007: £nil).

Impairments have been made to the goodwill arising on the acquisition of Amity and Guardian (acquired in 2007), and collectively referred to as Bupa Aged Care Australasia (BACA), for £49.9m and £9.2m, respectively. Whilst these businesses are trading in line with expectations, the need for impairments to goodwill has arisen due to discount rates being adversely affected in the current economic climate. The key valuation assumptions used to test the carrying value of goodwill for Amity and Guardian were pre-tax discount rates of 9.4% (2007: 7.0%) and 12.6% (2007: 7.0%), respectively, combined with a terminal growth rate of 3.0% applied to cash flows arising beyond the explicit forecasting period.

An impairment has been made to the goodwill relating to Amedex (acquired in 2005) of £34.6m. The performance of the Amedex business has been adversely impacted by lower than expected growth in the sale of PMI products. Although cash flows are expected to grow in the medium term, an impairment against goodwill is appropriate based on current business performance and uncertainty concerning future growth prospects. The key valuation assumptions used to test the carrying value of goodwill included a pre-tax discount rate of 14.0% (2007: 11.0%) and a terminal growth rate of 3.0%.

An impairment has been made to the goodwill relating to Sanitas Residencial of £22.8m reflecting trading performance below expectations and a softening of trading conditions in the Spanish care home sector. This goodwill mainly arose on the acquisition of Euroresidencias Gestion SA in 2007. The key valuation assumptions used to test the carrying value of goodwill included a pre-tax discount rate of 11.1% (2007: 8.1%) and a terminal growth rate of 2.0%.

The following CGUs have significant carrying amounts of goodwill:

	2008 £m	2007 £m
MBF PHI	477.3	-
Health Dialog	347.2	-
Amity (BACA)	229.5	259.9
Bupa Australia	219.3	201.1
Bupa Care Homes	178.2	178.2
IHI	70.6	54.3
The Bupa Cromwell Hospital	70.0	-
Bupa Home Healthcare	64.2	64.2
Guardian (BACA)	25.0	34.3
Sanitas PMI	22.0	15.1
MBF Financial Services	11.5	-
Sanitas Residencial	-	24.4
Amedex	-	32.1
Other	8.1	2.6
	1,722.9	866.2

12 Intangible assets – continued

Recoverable amount

The recoverable amount of each CGU was determined on a value in use basis calculated by reference to projected cash flows and using relevant discount rates. In arriving at the value in use for each CGU, assumptions have been made regarding the cash flows, discount rates and terminal growth rates.

Cash flow projections have been based on management operating profits for a four year period in line with projections approved by the Board. Cash flow projections for the Amity and Guardian CGUs have been based on a period greater than four years. A longer period was justified in these cases due to the availability of detailed cash flow projections. Tax has been applied to the pre-tax management operating profits based on the statutory tax rates in the country of operation. Cash flow projections beyond the four year period have been extrapolated by applying a terminal growth rate between 2.0% and 3.5%. This is a conservative estimate which does not exceed the long-term average growth rate for the industry or country in which the CGU operates.

Future post-tax cash flows have been discounted at post-tax discount rates. The relevant pre-tax discount rates range from 9.4% to 14.9% (2007: 7.0% to 12.1%). Market discount rates have been calculated with reference to the Group's weighted average cost of capital and have been adjusted to account for specific business risks in each CGU. The values assigned to the key assumptions represent management's assessment of future trends in the industry and are based on management's past experience.

Impact of changes in key assumptions

A sensitivity analysis has been performed on the assumptions used to determine the value in use for each CGU as at 31 December 2008. Management has concluded that value in use is most sensitive to the discount rate and projected management operating profit. It is possible that changes in these assumptions could cause further impairment of goodwill. An increase of one percentage point in the discount rate would have increased the impairment loss by £74.8m. A 10% decrease in future planned profits would have increased the impairment loss by £37.7m.

13 Property, plant and equipment

	Group				Company		
	Freehold property £m	Leasehold property £m	Equipment £m	Total £m	Leasehold property £m	Equipment £m	Total £m
2008							
Cost or valuation							
At beginning of year	1,762.8	122.5	447.8	2,333.1	2.8	29.4	32.2
Acquisitions through business combinations	5.9	5.6	33.7	45.2	-	-	-
Additions	83.5	12.5	88.2	184.2	-	3.7	3.7
Reclassifications	(2.6)	4.7	(2.1)	-	-	-	-
Transfer to investment properties	(1.8)	-	-	(1.8)	-	-	-
Transfer from intangible assets	-	-	0.2	0.2	-	-	-
Transfer to assets held for sale	-	-	(3.4)	(3.4)	-	-	-
Disposals	(0.4)	(0.5)	(26.5)	(27.4)	-	(0.1)	(0.1)
Revaluations	(23.3)	(2.8)	-	(26.1)	-	-	-
Foreign exchange	83.9	4.6	43.4	131.9	-	-	-
At end of year	1,908.0	146.6	581.3	2,635.9	2.8	33.0	35.8
Depreciation and impairment loss							
At beginning of year	2.6	23.7	266.0	292.3	1.3	20.4	21.7
Depreciation charge for year	24.7	7.3	52.8	84.8	-	4.4	4.4
Transfer to investment properties	(0.1)	-	-	(0.1)	-	-	-
Transfer from intangible assets	-	-	0.3	0.3	-	-	-
Transfer to assets held for sale	-	-	(1.9)	(1.9)	-	-	-
Disposals	-	(0.2)	(26.1)	(26.3)	-	-	-
Revaluations	11.6	(2.7)	-	8.9	-	-	-
Foreign exchange	1.6	0.6	18.8	21.0	-	-	-
At end of year	40.4	28.7	309.9	379.0	1.3	24.8	26.1
Net book value at end of year	**1,867.6**	**117.9**	**271.4**	**2,256.9**	**1.5**	**8.2**	**9.7**
Net book value at beginning of year	1,760.2	98.8	181.8	2,040.8	1.5	9.0	10.5
2007 (Restated)							
Cost or valuation							
At beginning of year	1,700.9	189.2	516.8	2,406.9	2.8	23.5	26.3
Acquisitions through business combinations	263.8	2.8	19.7	286.3	-	-	-
Additions	34.8	8.4	63.5	106.7	-	5.9	5.9
Reclassifications	(7.7)	7.7	-	-	-	-	-
Transfer to intangible assets	-	-	(0.1)	(0.1)	-	-	-
Disposal of subsidiary companies	(503.7)	(94.8)	(158.2)	(756.7)	-	-	-
Disposals	(2.2)	(1.3)	(5.0)	(8.5)	-	-	-
Revaluations	250.7	9.2	-	259.9	-	-	-
Foreign exchange	26.2	1.3	11.1	38.6	-	-	-
At end of year	1,762.8	122.5	447.8	2,333.1	2.8	29.4	32.2
Depreciation and impairment loss							
At beginning of year	28.3	24.1	324.2	376.6	1.2	17.5	18.7
Depreciation charge for year	21.4	6.0	42.9	70.3	0.1	2.9	3.0
Reclassifications	(0.2)	0.2	-	-	-	-	-
Disposal of subsidiary companies	(13.4)	(3.8)	(103.4)	(120.6)	-	-	-
Disposals	(0.9)	(1.2)	(3.1)	(5.2)	-	-	-
Revaluations	(33.0)	(2.0)	-	(35.0)	-	-	-
Foreign exchange	0.4	0.4	5.4	6.2	-	-	-
At end of year	2.6	23.7	266.0	292.3	1.3	20.4	21.7
Net book value at end of year	1,760.2	98.8	181.8	2,040.8	1.5	9.0	10.5
Net book value at beginning of year	1,672.6	165.1	192.6	2,030.3	1.6	6.0	7.6

Certain property, plant and equipment is held as securitised assets under borrowing arrangements described in note 25.

13 Property, plant and equipment – continued

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

	Freehold property £m	Leasehold property £m
Valuation – December 2008	222.3	10.1
Valuation – December 2007	1,239.1	30.8
Valuation – December 2006	55.5	2.2
Assets held at cost	391.1	103.5
	1,908.0	146.6

The valuation of properties was carried out independently by Knight Frank, Chartered Surveyors, in accordance with the Appraisal and Valuation Manual issued by RICS and, where impairment indicators exist, internally using Directors valuations. The revaluations were effective as of 31 December in the year in which they were undertaken. The fair values of corporate use properties were determined mainly by reference to active market prices. Care homes were valued based on value in use valuation techniques. The principal assumptions inherent in such valuations are described on page 69.

A £32.1m revaluation deficit (2007: £294.4m surplus) has been recognised in the property revaluation reserve. In 2008 a deficit of £2.9m below historical cost was debited to the income statement; in 2007 a surplus of £0.5m was credited to the income statement representing increments above historical cost (see note 6). Of the £35.0m revaluation deficit (2007: £294.9m surplus), £11.7m (2007: £294.9m) was valued by Knight Frank and £23.3m (2007: £nil) was valued internally.

Historical cost of the Group's revalued assets

	2008 £m	2007 £m
Historical cost of revalued assets	1,395.4	1,201.6
Accumulated depreciation based on historical cost	(120.5)	(90.7)
Historical cost net book value	1,274.9	1,110.9
Depreciation		
Depreciation charge for the year on historical cost	27.9	24.0

The historical cost of all property, plant and equipment is £1,976.7m (2007: £1,649.7m).

Amounts included in property, plant and equipment in respect of assets held under finance leases

	Freehold property £m	Leasehold property £m	Equipment £m	Total £m
Net book value				
At end of year	-	1.4	5.0	6.4
At beginning of year	-	1.5	2.9	4.4
Depreciation				
Charge for year	-	0.1	1.0	1.1

Company

The net book value of finance leased property held by the Company at 31 December 2008 is £1.4m (2007: £1.5m). The depreciation charge for the year ended 31 December 2008 is £0.1m (2007: £nil).

Property, plant and equipment in the course of construction

Recognised in the carrying amount of freehold property is £82.3m (2007: £28.8m) in relation to freehold property in the course of construction.

14 Investment property

Group

	2008 £m	2007 (Restated) £m
At beginning of year	67.2	12.8
Acquisitions through business combinations	-	50.9
Additions	11.1	-
Increase in fair value	1.4	0.6
Transfer from property, plant and equipment	1.7	-
Disposals	-	(1.2)
Foreign exchange	6.0	4.1
At end of year	87.4	67.2

The historical cost of investment property is £74.8m (2007: £60.3m).

The carrying value of investment properties is the fair value of the properties. Where there is an active market for a property, valuations are carried out annually by an external valuer, Knight Frank, Chartered Surveyors. The most recent independent valuation was effective as of 31 December 2008. Fair values are determined individually, on a basis appropriate to the purpose for which the property is intended and with regard to recent market transactions for similar properties in the same location.

Where there is an absence of current prices in an active market the properties are valued using discounted cash flow projections based on reliable estimates of future cash flows. These cash flows are supported by the terms of any existing lease and other contracts and when possible by external evidence such as current market rents for similar properties in the same location and condition. Discount rates are used to reflect current market assessments of the uncertainty in the amount or timing of the cash flows. The discounted cash flow projections are reviewed by an independent valuer, Deloitte.

Of the £87.4m (2007: £67.2m) of investment properties in the balance sheet as at 31 December 2008, £17.1m (2007: £13.3m) was valued by an external valuer, Knight Frank, Chartered Surveyors and £70.3m (2007: £53.0m) was valued using discounted cash flow projections.

Investment properties include commercial properties which are leased to third parties. The leases contain an initial non-cancellable period of between five and seven years. Subsequent renewals are negotiated with the lessee.

Company

The Company has no investment properties (2007: £nil).

15 Equity accounted investments

Group

	2008 £m	2007 £m
2008		
At beginning of year	11.6	3.6
Additions	21.7	7.5
Acquisitions through business combinations	1.1	-
Impairment of investments	(6.1)	-
Share of (deficit) / surplus after taxation	(1.0)	0.2
Foreign exchange	4.1	0.3
At end of year	31.4	11.6

The Group's principal equity accounted investments are:

	Business activity	Share of issued share capital	Principally operates in	Country of incorporation	Accounting period end date
ADDLeisure plc	Retail	28.9%	UK	England and Wales	31 July
ADD Wellness Holdings Limited	Retail	50.0%	UK	England and Wales	31 July
Core Exercise Clinics Limited	Retail	50.0%	UK	England and Wales	31 December
Bupa Arabia For Cooperative Insurance Company	Insurance	26.25%	Saudi Arabia	Saudi Arabia	31 December
Forsikringsselskaber Nes Data Centre APS	Insurance	33.3%	Denmark	Denmark	31 December
Mutual Community General Insurance Pty Limited	Insurance	49.0%	Australia	Australia	31 December
Health Eyewear Pty Limited	Eyewear	50.0%	Australia	Australia	31 July
IBC Asia Healthcare Limited	Healthcare	26.0%	USA	Cayman Islands	31 December

15 Equity accounted investments – continued

Bupa owns an indirect holding of 64% of ADD Wellness Holdings Ltd arising from Bupa's 28.9% share in ADDLeisure plc and the 50% share held as a joint venture. However, this does not allow Bupa to exert control over the board and therefore Bupa does not, legally or practically, control decisions. As a result ADD Wellness Holdings Ltd is treated as a joint venture in the Group accounts.

The Group's share of the assets, liabilities, revenue and surplus as reported in the most recent accounts of the individual equity accounted investments, are as follows:

	2008 £m	2007 £m
Assets	41.3	18.1
Liabilities	(8.4)	(9.1)
	32.9	9.0
Revenue	11.2	9.9
Surplus before taxation expense	0.1	0.4

16 Investment in subsidiary companies

Company

	£m
At beginning and end of year	200.1

The principal subsidiary companies of the Company as at 31 December 2008 are listed below and, except where stated, are incorporated in Great Britain. Subsidiary companies 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 Asia Pacific Pty Limited	Australia
Bupa (Asia) Limited	Hong Kong
Bupa Insurance Company	USA
International Health Insurance danmark a/s	Denmark
MBF Australia Pty Limited	Australia

Health insurance – long-term

Bupa Health Assurance Limited	
MBF Life Limited	Australia

Investment and financing activities

Bupa Finance plc*	
Bupa Investments Limited	
Bupa Investments Overseas Limited	
Bupa Treasury Limited	
Bupa Financial Securities (1992) Limited	
Grupo Bupa Sanitas SL	Spain
UK Care No 1 Limited	Guernsey

Care and health provision

Bupa Care Homes (CFG) plc	
Bupa Care Homes Group Limited	
Bupa Care Homes (BNH) Limited	
Bupa Care Services Limited	
Bupa Care Homes (CFCHomes) Limited	
Bupa Care Homes (CFHCare) Limited	
Bupa Care Homes (GL) Limited	
Bupa Care Homes (Partnerships) Limited	
ANS 2003 plc	
Bupa Home Healthcare Group Limited	
Bupa Occupational Health Limited	
DCA Agedcare Holdings Pty Limited	Australia
DCA Healthcare New Zealand Limited	New Zealand
Euroresidencias Sologrande SL	Spain
Sanitas Residencial SL	Spain
Sanitas, SA de Hospitales	Spain
Bupa Health Care Asia Pte Limited	Singapore
Health Dialog Services Corporation	USA
Medical Services International Limited	

* Directly owned by the Company

Although the Group holds none of the voting power of UK Care No 1 Limited, it has the right to obtain benefits or is exposed to risks relating to the activities of this company. Until 19 October 2007, the Group bore the right to obtain benefits and was exposed to risks relating to the activities of UK Hospitals No 1 SA. Consequently, the Group has included the results of this entity in its consolidated income statement up until this date, that is the period in which it is exposed to the risks or has the right to obtain benefits.

17 Financial investments

Group

	Carrying value 2008 £m	Cost 2008 £m	Carrying value 2007 (Restated) £m	Cost 2007 (Restated) £m
Non-current				
Designated at fair value through profit or loss				
Debt securities – government gilt	28.8	28.2	21.7	20.5
Debt securities – corporate bonds	77.1	121.8	88.0	79.7
Shares and other variable yield securities	86.7	106.0	254.3	234.4
Held to maturity				
Floating rate notes	115.7	114.7	17.9	17.9
Available for sale				
Shares and other variable yield securities	-	-	35.9	30.7
Loans and receivables				
Debt securities – corporate bonds	62.4	40.4	59.4	40.1
Deposits with credit institutions	130.7	130.7	71.3	71.3
	501.4	541.8	548.5	494.6
Current				
Designated at fair value through profit or loss				
Debt securities – government gilt	7.8	5.7	2.1	2.1
Debt securities – corporate bonds	5.2	5.9	3.9	4.2
Shares and other variable yield securities	213.8	224.4	0.2	0.1
Held to maturity				
Floating rate notes	63.6	63.1	-	-
Loans and receivables				
Reverse repo securities	196.7	196.7	134.6	134.6
Deposits with credit institutions	736.7	736.6	1,348.8	1,348.8
	1,223.8	1,232.4	1,489.6	1,489.8
Total financial investments	1,725.2	1,774.2	2,038.1	1,984.4

As at 31 December 2008, the Group holds a portion of its financial investments in a balanced alternative asset portfolio, of which an immaterial amount is exposed to sub-prime securities and £3.1m (2007: £9.9m) is exposed to AAA rated residential mortgage backed securities.

Financial investments comprise:

	Fair value 2008 £m	Cost 2008 £m	Fair value 2007 (Restated) £m	Cost 2007 (Restated) £m
Listed investments	332.7	386.0	115.9	106.6
Unlisted investments	525.1	520.8	502.1	457.7
Deposits with credit institutions	867.4	867.4	1,420.1	1,420.1
	1,725.2	1,774.2	2,038.1	1,984.4

The movement in fair value attributable to credit risk on loans and receivables designated at fair value is immaterial.

Company

The Company has no financial investments (2007: £nil).

18 Life investment contracts

Life investment contracts have been recognised for the first time for the year ended 31 December 2008 and relate to the life business in MBF which was acquired during 2008. The return on assets backing the life investment contract liabilities is equal to the movement in the life investment contract liabilities together with the tax credit / charge, all of which are attributable to the contract holders.

Financial investments backing life investment contract liabilities

	Carrying value 2008 £m	Cost 2008 £m	Carrying value 2007 £m	Cost 2007 £m
Non-current				
Designated at fair value through profit or loss				
Shares and other variable yield securities	97.8	118.8	-	-
Debt securities	265.9	323.1	-	-
Property – Indirect via unit trusts	317.5	385.8	-	-
Total financial investments backing life investment contract liabilities	681.2	827.7	-	-

Return on financial investments backing investment contract liabilities

	2008 £m	2007 £m
Interest income		
Designated at fair value through profit or loss	0.1	-
Distribution income	52.7	-
Net decrease in fair value		
Investments designated at fair value through profit or loss	(146.5)	-
Total return on financial investments backing life investment contract liabilities	(93.7)	-

Life investment contract liabilities

	2008 £m	2007 £m
At beginning of year	-	-
Acquisitions through business combinations	(807.3)	-
Decrease in fair value	93.7	-
Management fees	11.3	-
Deposits received from life investment contract holders	(589.2)	-
Withdrawals paid to life investment contract holders	641.9	-
Foreign exchange	(29.8)	-
At end of year	(679.4)	-

Policyholder tax attributable to life investment contracts

	2008 £m	2007 £m
At beginning of year	-	-
Acquisitions through business combinations	3.6	-
Recognised in income statement	3.8	-
Foreign exchange	0.5	-
At end of year	7.9	-

19 Assets arising from insurance business

	Group 2008 £m	Group 2007 (Restated) £m
Non-current		
Insurance debtors – net	2.7	-
Reinsurers' share of insurance provisions	50.9	50.1
Deferred acquisition costs	33.4	40.8
	87.0	90.9
Current		
Insurance debtors – net	613.7	572.5
Reinsurers' share of insurance provisions	22.4	19.8
Deferred acquisition costs	96.5	72.2
Medicare rebate	50.8	13.2
Risk Equalisation Trust Fund recoveries	16.2	4.6
	799.6	682.3
Total assets arising from insurance business	886.6	773.2

Reinsurers' share of insurance provisions are further analysed in note 26.

Impairment losses in respect of insurance debtors amounting to £9.4m (2007: £2.3m) have been charged to other operating expenses in the income statement.

Deferred acquisition costs

As part of the Group's insurance business, direct costs in relation to the acquisition of insurance contract revenues are deferred. The movement in these deferred costs is set out below:

	Group 2008 £m	Group 2007 £m
At beginning of year	113.0	99.7
Acquisition costs deferred	230.3	201.8
Acquisition costs released to income statement	(220.9)	(190.6)
Transferred to assets held for sale	(1.9)	-
Foreign exchange	9.4	2.1
At end of year	129.9	113.0

In compliance with IFRS 4, local GAAP applies for insurance accounting. Under Australian IFRS, acquisition costs incurred in Australia in relation to life insurance contracts are capitalised in the valuation of the policy liabilities and are included within provisions under insurance contracts issued.

Company

The Company has no assets arising from insurance business (2007: £nil).

20 Trade and other receivables

	Group 2008 £m	Group 2007 (Restated) £m	Company 2008 £m	Company 2007 £m
Non-current				
Investment receivables and accrued investment income	2.1	2.4	-	-
Other receivables	0.2	0.4	-	-
Fair value of derivative assets	39.8	-	-	-
Prepayments	8.6	6.2	0.3	0.2
	50.7	9.0	0.3	0.2
Current				
Trade receivables – net of impairment losses	136.4	102.2	-	-
Investment receivables and accrued investment income	27.3	16.4	-	-
Amounts owed by subsidiary companies	-	-	239.3	248.9
Other receivables	54.4	54.5	1.7	6.9
Prepayments	38.8	24.8	6.3	5.5
Accrued income	15.4	12.1	-	-
	272.3	210.0	247.3	261.3
Total trade and other receivables	323.0	219.0	247.6	261.5

Impairment losses on trade receivables amounting to £2.6m (2007: £3.3m) have been charged to other operating expenses in the income statement.

Notes to the financial statements – continued

for the year ended 31 December 2008

21 Inventories

Group

	2008 £m	2007 £m
Drugs, prostheses and consumables	12.4	10.3

Inventory write downs of £0.2m (2007: £0.5m) were made during the year.

The Group consumed £174.2m (2007: £126.2m) of inventories, which was recognised within other operating expenses in the income statement. Certain inventories form part of a floating charge in respect of certain interest bearing liabilities (see note 25).

Company

The Company has no inventories (2007: £nil).

22 Disposals and assets and associated liabilities classified as held for sale

(i) Disposals

During the year to 31 December 2008, the Group made no disposals of subsidiary companies.

On 31 August 2007, the Group sold its 100% shareholding in BHS (Holdings) Ltd and all of its subsidiary companies (which were included in the Hospitals segment) for a cash consideration of £1.42bn. The primary assets held by these companies were 25 UK hospitals. The operations of these 25 hospitals, together with the operations of the remaining hospitals subsidiary companies which relate to the disposed of entities were classified as discontinued operations for the year ended 31 December 2007.

In April 2007, Bupa sold its 100% shareholding in Bupa Ireland Limited (included within the UK Insurance segment) for cash proceeds of £35.3m together with deferred proceeds of £13.0m. The Group also disposed of its 100% shareholding in two Spanish subsidiaries, Previlabor SA and Laborservis SA (included within International Insurance segment) for cash proceeds of £2.9m, Bupa Childcare Services Ltd (included within the UK Insurance segment) for cash proceeds of £1.0m and Euroresidencia Sociedad Promotora de Centros Residenciales (included within the International Insurance segment) for £1.1m.

Total disposals are analysed below:

	Group	
	2008 £m	2007 £m
Intangible assets	-	6.3
Property, plant and equipment	-	634.0
Current tax asset	-	21.8
Financial investments	-	13.9
Inventories	-	16.4
Trade and other receivables	-	267.2
Cash and cash equivalents	-	55.3
Other interest bearing liabilities, including overdrafts of £nil (2007: £16.5m)	-	(16.6)
Post employment benefit liability	-	(1.8)
Provisions for liabilities and charges	-	(0.3)
Deferred tax liabilities	-	(121.6)
Current tax liabilities	-	-
Trade and other payables	-	(310.8)
Minority equity interests	-	-
Net assets divested	-	563.8
Foreign exchange	-	(0.2)
Goodwill written off	-	0.6
Directly related costs of disposal	-	70.9
Net gain on the sale of businesses	-	835.4
Sale proceeds	-	1,470.5

The proceeds from sale of subsidiaries, net of disposal costs and cash and cash equivalents disposed of were £1,350.2m.

Upon the repayment in October 2007 of the debt previously secured on the hospitals properties, the Group ceased to obtain benefits or be exposed to risks incidental to the activities of UK Hospitals No 1 SA. As a result this company was deconsolidated from the Group together with the related minority interest of £0.1m.

Company

The Company made no disposals during the year (2007: £nil).

22 Disposals and assets and associated liabilities classified as held for sale – continued

(ii) Assets and associated liabilities classified as held for sale

The assets and associated liabilities of the Group's subsidiary Bupa Middle East Limited Company EC, part of the International Insurance segment, are presented as held for sale at 31 December 2008 following the arrangement to transfer all of its business to Bupa Arabia For Cooperative Insurance Company (Bupa Arabia). The transfer of business took place on 1 January 2009, however the due diligence work to determine the transfer price is not due to be completed until later in 2009. Bupa owns a 26.25% share in Bupa Arabia and accounts for the investment as an associated company. The assets and associated liabilities classified as held for sale at 31 December 2008 are as follows:

	Group	
	2008 £m	2007 £m
Assets held for sale		
Intangible assets	1.7	-
Property, plant and equipment	1.9	-
Financial investments	(0.1)	-
Assets arising from insurance business	60.6	-
Trade and other receivables	1.9	-
Cash and cash equivalents	77.2	-
Total assets classified as held for sale	143.2	-
Liabilities associated with assets held for sale		
Provisions under insurance contracts issued	(104.6)	-
Provisions for liabilities and charges	(2.6)	-
Trade and other payables	(2.7)	-
Total liabilities classified as held for sale	(109.9)	-
Net assets classified as held for sale	33.3	-

Company

The Company has no assets or liabilities classified as held for sale for the year ended 31 December 2008 (2007: £nil).

23 Cash and cash equivalents

	Group		Company	
	2008 £m	2007 (Restated) £m	2008 £m	2007 £m
Cash at bank and in hand	416.0	207.0	4.0	7.4
Short-term bank deposits	504.6	443.0	-	-
Cash and cash equivalents	920.6	650.0	4.0	7.4
Bank overdrafts	(2.0)	(0.5)	-	-
Restricted access deposits	(43.5)	(23.2)	-	-
Cash and cash equivalents in the statement of cash flows	875.1	626.3	4.0	7.4

Short-term deposits include £43.5m (2007: £23.2m) over which the Group has restricted access. These deposits are held in respect of specific obligations and potential liabilities and may be used only to discharge those obligations and potential liabilities if and when they crystallise. Included in these deposits is £25.7m (2007: £17.3m) to secure a liability for unapproved pension arrangements.

24 Subordinated liabilities

Group

	2008 £m	2007 £m
Non-current		
Callable subordinated perpetual guaranteed bonds	330.0	330.0
Value adjustment in respect of hedged interest rate risk	39.8	-
Callable subordinated perpetual guaranteed bonds at fair value	369.8	330.0
10.5% subordinated guaranteed bonds due 2018	3.9	3.9
	373.7	333.9
Current		
Callable subordinated perpetual guaranteed bonds	5.9	5.9
Total subordinated liabilities	379.6	339.8

Total subordinated liabilities are classified as loans and receivables under IAS 39.

Callable subordinated perpetual guaranteed bonds

In December 2004, Bupa Finance plc issued £330.0m of callable subordinated perpetual guaranteed bonds, which are guaranteed by Bupa Insurance Limited. Interest is payable on the bonds at 6.125% per annum. The bonds have no fixed maturity date but a call option is exercisable by Bupa Finance plc to redeem the bonds on 16 September 2020. This call option coincides with an increase in the interest rate applicable on the bonds, which makes redemption at this point highly likely. In the event of the winding up of Bupa Finance plc or Bupa Insurance Limited the claims of the bondholders are subordinated to the claims of other creditors of these companies.

The total value of the callable subordinated perpetual guarantee bonds, net of accrued interest, is £375.7m (2007: £335.9m).

The valuation adjustment is the change in value arising from interest rate risk which is matched by the fair value of swap contracts in place to hedge this risk.

10.5% subordinated guaranteed bonds

At 31 December 2008, £3.9m (2007: £3.9m) was outstanding in respect of 10.5% subordinated guaranteed bonds, which are repayable on 3 December 2018. The bonds were issued by Bupa Finance plc and are guaranteed by the Company. A call option is exercisable by Bupa Finance plc 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.

Company

The Company has no subordinated liabilities (2007: £nil).

25 Other interest bearing liabilities

Group

This note provides information about the contractual terms of the Group's interest bearing liabilities. Further information about the Group's exposure to interest rate and foreign currency risk is included in note 35.

	Note	Non-current £m	Current £m	Total £m
2008				
Secured loans	(i)	234.2	4.1	238.3
Debenture stock	(ii)	58.6	1.5	60.1
Bank loans	(iii)	1,133.6	38.0	1,171.6
Bank overdrafts	(iii)	-	2.0	2.0
Finance lease liabilities	(iv)	5.4	0.9	6.3
Total interest bearing liabilities		1,431.8	46.5	1,478.3
2007				
Secured loans	(i)	234.4	4.1	238.5
Debenture stock	(ii)	60.2	1.5	61.7
Loan notes		0.1	-	0.1
Bank loans	(iii)	370.2	0.3	370.5
Bank overdrafts	(iii)	-	0.5	0.5
Finance lease liabilities	(iv)	3.0	0.2	3.2
Total interest bearing liabilities		667.9	6.6	674.5

Total subordinated liabilities are classified as loans and receivables under IAS 39.

(i) Secured loans

The secured loans balance of £238.3m (2007: £238.5m) relates to a loan issue by UK Care No 1 Limited. On 17 February 2000, UK Care No 1 Limited issued two classes of secured notes. A £175.0m Class A1 note is due to mature in 2029 and a £60.0m Class A2 note is due to mature in 2031. The £238.3m balance is shown net of initial issue costs and discount on issue not yet fully amortised of £5.1m. The A1 and A2 loan notes bear a fixed interest rate of 6.3% and 7.5% respectively. The loan notes are secured by fixed and floating charges over the assets and undertakings of UK Care No 1 Limited. The security includes UK Care No 1 Limited's overriding lease interest, and the rental income receivable thereunder, held in a number of the Group's care homes which eliminates on consolidation. The carrying value of the property, plant and equipment of these homes is £470.1m (2007: £479.4m).

(ii) Debenture stock

The 11.8% debenture stock of £60.1m (2007: £61.7m) 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. The assets pledged as security include £90.5m (2007: £92.5m) of property, plant and equipment and £0.3m (2007: £0.3m) of inventories.

25 Other interest bearing liabilities – continued

(iii) Bank loans and bank overdrafts

Of the £1,171.6m (2007: £370.5m) of bank loans, £1,138.1m (2007: £369.9m) is guaranteed by the Company and other Group subsidiary companies. The overdraft facilities are subject to cross guarantees within the Group. The bank loans and overdrafts bear interest at commercial rates linked to LIBOR.

(iv) Obligations under finance leases

Future minimum payments under finance leases are as follows:

	Future minimum lease payments 2008 £m	Present value of minimum lease payments 2008 £m	Future minimum lease payments 2007 £m	Present value of minimum lease payments 2007 £m
Payable within one year	1.0	0.9	0.3	0.2
Payable after one year but within five years	2.7	2.3	1.0	0.7
Payable after five years	4.4	3.1	3.2	2.3
Total gross payments	8.1		4.5	
Less: finance charges included above	(1.8)		(1.3)	
Total payments net of finance charges	6.3	6.3	3.2	3.2

The balance of £6.3m (2007: £3.2m) due under finance leases relates to leases of equipment.

Company

The Company has no interest bearing liabilities (2007: £nil).

26 Provisions under insurance contracts issued

Group

	Note	2008 Gross £m	2008 Reinsurance £m	2008 Net £m	2007 Gross £m	2007 Reinsurance £m	2007 Net £m
General insurance business							
Provisions for unearned premiums	(i)	1,165.0	(1.4)	1,163.6	979.9	(1.2)	978.7
Provisions for claims	(ii)	709.6	(0.9)	708.7	542.1	(1.1)	541.0
Long-term business							
Provisions for life insurance benefits	(iii)	121.6	(71.0)	50.6	138.4	(67.6)	70.8
Total insurance provisions		1,996.2	(73.3)	1,922.9	1,660.4	(69.9)	1,590.5
Non-current		88.0	(50.9)	37.1	111.3	(50.1)	61.2
Current		1,908.2	(22.4)	1,885.8	1,549.1	(19.8)	1,529.3
		1,996.2	(73.3)	1,922.9	1,660.4	(69.9)	1,590.5

26 Provisions under insurance contracts issued – continued

	2008			2007		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
General insurance						
(i) Analysis of movements in provisions for unearned premiums						
At beginning of year	979.9	(1.2)	978.7	947.3	(0.9)	946.4
Acquisitions through business combinations	106.8	-	106.8	-	-	-
Premiums deferred	4,461.9	(24.3)	4,437.6	3,292.5	(12.3)	3,280.2
Deferred premiums released to income	(4,388.5)	24.4	(4,364.1)	(3,267.0)	12.0	(3,255.0)
Transfer to assets held for sale	(53.7)	-	(53.7)	-	-	-
Foreign exchange	58.6	(0.3)	58.3	7.1	-	7.1
At end of year	1,165.0	(1.4)	1,163.6	979.9	(1.2)	978.7
(ii) Analysis of movements in provisions for claims						
At beginning of year	542.1	(1.1)	541.0	505.3	(0.8)	504.5
Acquisitions through business combinations	126.6	-	126.6	-	-	-
Cash paid to settle claims	(3,409.1)	14.7	(3,394.4)	(2,444.2)	10.0	(2,434.2)
Decrease for prior years' claims	(82.5)	-	(82.5)	(84.6)	-	(84.6)
Increase for current year claims	3,480.8	(14.6)	3,466.2	2,544.5	(10.3)	2,534.2
Increase in Risk Equalisation Trust Fund levy	(7.7)	-	(7.7)	-	-	-
Transfer to assets held for sale	(28.8)	-	(28.8)	-	-	-
Foreign exchange	88.2	0.1	88.3	21.1	-	21.1
At end of year	709.6	(0.9)	708.7	542.1	(1.1)	541.0
Long-term business						
(iii) Analysis of movements in provisions for life insurance benefits						
At beginning of year	138.4	(67.6)	70.8	117.9	(50.8)	67.1
Acquisitions through business combinations	(30.6)	-	(30.6)	-	-	-
Movement in opening in force	(6.2)	2.6	(3.6)	(14.9)	8.0	(6.9)
New business written	36.9	(21.2)	15.7	49.1	(24.8)	24.3
Assumption changes	(15.5)	15.8	0.3	(13.5)	-	(13.5)
Deferred acquisition costs in Bupa Australia	(7.3)	-	(7.3)	-	-	-
Foreign exchange	5.9	(0.6)	5.3	(0.2)	-	(0.2)
At end of year	121.6	(71.0)	50.6	138.4	(67.6)	70.8

In Australia, the Risk Equalisation Trust Fund charges a levy to all registered private health insurers and then allocates a proportion of the cost of eligible claims between all fund participants.

In compliance with IFRS 4, local GAAP applies for insurance accounting. Under Australian IFRS, acquisition costs incurred in Australia in relation to life insurance contracts are capitalised within the valuation of the policy liabilities. The Group's other deferred acquisition costs are included within assets arising from insurance business (see note 19).

The movement in the long-term business provision includes £1.4m (2007: £4.9m) in respect of the movements in policyholder deposits relating to certain policies that include savings features. The receipts associated with these deposits are accounted for directly in provisions under insurance contracts.

At 31 December 2008, the increase in the long-term business provision in respect of net assumption changes of £0.3m (2007: decrease of £13.5m) comprises an increase of £1.0m (2007: decrease of £14.0m) in relation to the implementation of the FSA's policy statement PS06 / 14: Prudential Changes for Insurers, and a net decrease of £0.7m (2007: increase of £0.5m) relating to model changes, demographic and economic changes.

Company
The Company has no provisions under insurance contracts issued (2007: £nil).

26 Provisions under insurance contracts issued – continued

Assumptions for general insurance business

The process of recognising liabilities arising from general insurance contracts requires the exercise of judgement in relation to estimating future claims payments, claims handling expenses and unexpired risk provisions. The principal assumption affecting the measurement of liabilities is the recent claims development profile of the Group's insurance entities and that current claims experience will be consistent with recent trends. Other assumptions are also applied in measuring the Group's insurance liabilities but have a less material effect. The aim of these assumptions is to arrive at the best estimate of future obligations and cash outflows of the Group. A margin for adverse deviation is reflected within the estimates.

Claims development patterns are analysed in each of the Group's general insurance entities and, in some cases, are further sub-analysed where an entity has distinct portfolios of general insurance with different characteristics. The characteristics may differ by product line, geographic sector or market sector. The analysis is used to determine a claims settlement pattern using recent experience, adjusted where appropriate by observed trends over time. Claims are assessed on a case by case basis. Extrapolation methods based on the claims settlement pattern are used: these are recognised methods described in the Institute and Faculty of Actuaries Claims Reserving Manual (1997). Typically, large homogeneous sections of insurance business (eg corporate business in a specific region) are analysed by several methods, such as chain ladder, link ratio, Bornheutter-Ferguson and paid claim loss ratio methods.

While there is some diversity in the claims development profile across the Group, the Group's general insurance contracts principally relate to healthcare benefits that occur with stable frequencies and exhibit very short development patterns that can be characterised in months rather than years. Less automated medical insurance portfolios may have development patterns of twelve to 18 months, whereas pre-authorisation electronic claims settlement and network provider arrangements may produce development patterns of four to six months.

Assumptions for long-term insurance business

The Group makes estimates of future policyholder deaths, illnesses and recoveries for the period that it is exposed to risk. The principal assumptions underlying the calculation of the long-term business provision include mortality and morbidity, discount rate and renewal expenses, lapse rates and inflation. These estimates are based on industry mortality and morbidity tables, adjusted to reflect anticipated changes in market conditions, experience, price inflation and the Group's own experience. There is a considerable level of uncertainty in these estimates in relation to changing lifestyles, future advances in medical prevention and detection, epidemics and catastrophes. The estimates are reviewed at least annually to reflect changes in the Group's and industry experience. The assumptions derived represent best estimates of future experience as required under INSPRU 1.2 in the UK, plus a margin for adverse deviation, and in Australia under Prudential Standards that support the Life Insurance Act 1995 without the additional margin.

Mortality and morbidity

The incidences of death and disability are derived from studies, performed by independent actuarial bodies, on the experience of assured lives published by the Continuous Mortality Investigation (CMI) and the Institute and Faculty of Actuaries. These estimates are adjusted, where appropriate, to reflect the Group's own experience and expected improvement or deterioration in industry experience, including more recent CMI data and reinsurers' data.

Discount rate

The interest rate risk is managed through asset / liability matching that seeks to match the interest rate sensitivity of the assets to that of the underlying liabilities. The valuation rate of interest is the risk adjusted gross redemption yield for gilts, corporate bonds and cash. This rate implicitly includes an allowance for risk over and above the best estimate.

Renewal expenses, lapse rates and inflation

The current level of renewal expenses is assumed to be an appropriate expense base. In the UK and Australia, lapse rates are set by policy and are based on actual experience. Expense inflation is derived from the Consumer Price Index and the National Average Earnings Index.

The Group runs its valuation models on various bases. An analysis of sensitivity around various scenarios provides an indication of the adequacy of the Group's estimation process in respect of its life assurance contracts. In the UK an additional margin is applied. The table below shows the sensitivity of insured liability estimates to particular movements in assumptions used in the estimation process. Certain variables can be expected to impact on life assurance liabilities more than others, and consequently a greater degree of sensitivity to these variables may be expected.

	2008		2007	
	Change in variable %	Reduction in surplus net of reinsurance before taxation £m	Change in variable %	Reduction in surplus net of reinsurance before taxation £m
Base run				
Increase in mortality / morbidity	5.0	0.4	5.0	0.5
Increase in renewal expenses	10.0	0.1	10.0	0.2
Increase in inflation	1.0	0.4	1.0	0.6
Decrease in interest rates	1.0	1.4	1.0	1.6
Decrease in lapses	10.0	0.1	10.0	0.1

The analysis above has been prepared for a change in variable with all other assumptions remaining constant and ignores changes in values of related assets. Performing the sensitivity analysis gross or net of reinsurance will result in a similar effect with the difference being immaterial.

27 Other liabilities under insurance contracts issued

Group

	2008 £m	2007 £m
Current		
Reinsurers' deposits	2.7	1.7
Reinsurance payables	9.3	7.5
Commission payable	8.8	4.7
Risk Equalisation Trust Fund	2.8	-
Other insurance payables	6.8	5.1
Total other liabilities under insurance contracts issued	30.4	19.0

Company

The Company has no other liabilities under insurance contracts issued (2007: £nil).

28 Post employment benefits

The assets and liabilities in respect of defined benefit funded pension schemes, unfunded pension and post retirement medical benefit schemes are as follows:

Group

	Note	Pension schemes		Post retirement medical benefit schemes		Total	
		2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Present value of funded obligations	(ii)	(693.8)	(751.2)	-	-	(693.8)	(751.2)
Fair value of scheme assets	(iii)	799.7	813.4	-	-	799.7	813.4
Net assets / (liabilities) of funded schemes		105.9	62.2	-	-	105.9	62.2
Present value of unfunded obligations	(ii)	(24.8)	(21.4)	(17.0)	(16.8)	(41.8)	(38.2)
Net recognised assets / (liabilities)		81.1	40.8	(17.0)	(16.8)	64.1	24.0

Individual pension schemes showing a net deficit are classified on the balance sheet within post employment benefit liabilities and those schemes showing a net asset are classified within post employment benefit assets as follows:

	2008	2007
Net liabilities	(50.9)	(40.0)
Net assets	115.0	64.0
Net recognised assets / (liabilities)	64.1	24.0

Company

	Note	Pension schemes		Post retirement medical benefit schemes		Total	
		2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Present value of funded obligations	(ii)	(638.2)	(718.6)	-	-	(638.2)	(718.6)
Fair value of scheme assets	(iii)	753.2	778.3	-	-	753.2	778.3
Net assets / (liabilities) of funded schemes		115.0	59.7	-	-	115.0	59.7
Present value of unfunded obligations	(ii)	(24.8)	(21.4)	(17.0)	(16.8)	(41.8)	(38.2)
Net recognised assets / (liabilities)		90.2	38.3	(17.0)	(16.8)	73.2	21.5

	2008	2007
Represented on the balance sheet as:		
Net liabilities	(41.8)	(38.2)
Net assets	115.0	59.7
Net recognised assets / (liabilities)	73.2	21.5

28 Post employment 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 scheme in the UK is The Bupa Pension Scheme. Contributions by employees and by Bupa Group companies are administered by the 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. Both triennial and interim valuations use the attained age method recognising the closure of the scheme to new entrants. The previous triennial valuation of The Bupa Pension Scheme was carried out as at 1 July 2005. The key assumptions were the pre-retirement discount rate of 7.5%, the post-retirement discount rate 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 that triennial valuation the value of accrued benefits was £464.6m. The aggregate market value of the scheme assets, excluding members' additional voluntary contributions, at the valuation date was £418.9m, representing 90.2% of the accrued benefits.

The actuarial valuation as at 1 July 2008 is The Bupa Pension Scheme's first valuation under the new scheme specific funding legislation introduced by the Pensions Act 2004. The trustees and the Group are currently in discussions regarding the results of the 1 July 2008 actuarial valuation. Under legislation, the valuation must be finalised by 30 September 2009.

The Bupa Pension Scheme has been valued as at 31 December 2008 under IAS 19 using the projected unit method based on data used for the triennial valuation dated 1 July 2008. Details of the assumptions used are set out in note (i) below.

As recommended by the scheme's independent actuary in the triennial valuation dated 1 July 2005, regular employer contributions were paid during 2008 at the rate of 26.34% (2007: 27.84%). The Group has a salary sacrifice arrangement, People Choice Pensions, whereby 7.0% of the employer's contributions represents the pension contributions paid as part of this arrangement. There is a corresponding reduction in wages and salaries as a result. The expected contributions payable in 2009 are £13.0m in respect of The Bupa Pension Scheme and £3.5m in respect of People Choice Pensions.

The Company has made a series of additional payments in order to reduce the deficit in the scheme. During 2008 the total of additional payments made was £24.5m (2007: £77.9m), bringing the total of additional payments made since November 2003 to £254.6m (2007: £230.1m). Following the disposal of its UK hospitals business in 2007, Bupa agreed to pay, or procure, the payment of a number of further contributions to the trustees of the scheme. Certain of these contributions remain payable on the following terms:

- on or before 31 December 2009, a payment of £24.5m;
- on or before 31 December 2010, a payment of £24.5m;
- on or before 31 December 2011, a payment of £24.5m; and
- on or before 31 December 2012, a further payment intended to equate to the investment return that the scheme would have achieved had £98.0m been paid into the scheme at the time of the sale of the UK hospitals business, assuming that the scheme would have achieved investment returns of 7.0% per annum compound during that period. The payments may be reduced if in the view of the scheme's independent actuary the liability to take the entire scheme to a closed scheme funding level is secured by a lesser payment.

In addition, Bupa Finance plc (which is not an employer in respect of the scheme) entered into a legally binding and irrevocable guarantee for the benefit of the trustees in respect of the payments due from Bupa as set out above.

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 consolidated income statement in respect of this plan, and all other defined contribution schemes, is the amount of employer 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 by independent actuaries in accordance with UK or local practice and under IAS 19 as at 31 December 2008 for the purposes of inclusion in the Group's consolidated financial statements.

Pensions – unfunded schemes

Unfunded defined benefit pension arrangements exist for certain employees and former employees in excess of the funded pension arrangements provided by the Group. 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 latest valuation of these arrangements was performed as at 31 December 2008 under IAS 19 by the Group's independent actuary. The charge to the consolidated income statement in respect of these arrangements and the assessment of the related pension liability as at 31 December 2008 have been made in accordance with this latest valuation, which used the same principal assumptions as adopted at 31 December 2008 under IAS 19 for The Bupa Pension Scheme.

Post retirement medical benefit schemes

The Group also provides unfunded post retirement medical benefits for certain former employees. These benefits were granted under an agreement which closed to new entrants in 1992. The latest valuation of this scheme was carried out as at 31 December 2008 by an actuary employed by the Group using the same key assumptions as adopted at 31 December 2008 under IAS 19 for The Bupa Pension Scheme.

Company

The Company is the sponsoring employer for The Bupa Pension Scheme, the unfunded pension scheme and post retirement medical benefit scheme described above.

28 Post employment benefits – continued

(i) Actuarial assumptions

The responsibility for setting the assumptions underlying the IAS 19 valuations rests with the Directors, having first taken advice from the Group's independent actuary. The key weighted average financial assumptions used when valuing the obligations of the post employment benefit schemes under IAS 19 are as follows:

	Group				Company			
	Funded schemes		Unfunded schemes		Funded schemes		Unfunded schemes	
	2008 %	2007 %	2008 %	2007 %	2008 %	2007 %	2008 %	2007 %
Inflation rate	2.9	3.4	2.9	3.4	2.9	3.4	2.9	3.4
Rate of increase in salaries	4.8	4.7	4.9	4.7	4.9	4.7	4.9	4.7
Rate of increase to pensions in payment	2.8	3.4	3.0	3.4	2.9	3.4	3.0	3.4
Discount rate for scheme obligations	6.0	5.7	6.0	5.7	6.0	5.7	6.0	5.7
Overall expected return on scheme assets	5.3	7.1	-	-	5.3	7.1	-	-
Medical cost trend rate	-	-	3.6	3.0	-	-	3.6	3.0

Asset performance for the disclosures for the year ended 31 December 2008 have been measured against the expected return on assets disclosed as at 31 December 2007.

Actuarial assumptions underlying the valuation of obligations

The inflation assumption is set by reference to the difference between the yield on long-term fixed interest gilts and the real yield on index-linked gilts. The rate of increase of pensions in payment is the same as the inflation rate with the exception of benefits which receive fixed increases in payment as defined under the respective scheme rules.

The rate of increase in salaries is equal to the long-term expected annual average salary pay increase for the employees who are members of the scheme. This assumption is set relative to the inflation rate assumption.

The discount rate used to value scheme liabilities is the yield at the balance sheet date on high quality corporate bonds of appropriate term.

Expected rate of return on assets

The overall expected return on scheme assets has been derived by calculating the weighted average expected return applied to each of the major asset classes, equities, bonds and 'other'.

The expected return on equities and other return seeking assets has been taken as the yield on fixed interest gilts at the balance sheet date plus a margin of 3.5% representing the additional return on top of the risk-free return available on the asset class. The expected return on bonds has been taken as an average of the yield available on fixed interest gilts and high quality corporate bonds at the balance sheet date. The expected return on 'other' has been taken as 3.0% p.a. representing the long-term expected return on cash and short dated securities.

Medical cost trend rate

The medical cost trend rate is the assumed additional escalation of medical costs over and above the assumed inflation rate. It is assumed that such an effect will continue during the remaining run-off of the liability. Assumed medical cost trend rates have a significant effect on the amounts recognised in the consolidated income statement. A one percentage point change in assumed medical cost trend rates would result in the following increase and decrease in the post retirement medical benefit obligation:

Group and Company

	One % point increase 2008 £m	One % point decrease 2008 £m	One % point increase 2007 £m	One % point decrease 2007 £m
Effect on post retirement medical benefit obligation	2.3	(1.9)	2.2	(1.8)
Effect on the aggregate of current service cost and interest cost	0.1	(0.1)	0.1	(0.1)

Mortality assumptions

The trustees of The Bupa Pension Scheme have undertaken a scheme specific mortality investigation as part of the 1 July 2008 actuarial valuation. The trustees shared the conclusion drawn from this analysis with the Directors who have adopted assumptions in line with this analysis for the purposes of the IAS 19 valuation as at 31 December 2008. The mortality tables adopted at 31 December 2008 are the PA92 year of birth mortality tables with the 'medium cohort' improvements, a plus one year age rating and a minimum level of future improvements of 1.0% p.a. The average life expectancies at age 60 based on these tables for a male currently aged 60 (45) is 26.6 years (28.1 years), and for a female is 29.8 years (31.4 years).

28 Post employment benefits – continued

(ii) Present value of the scheme obligations

The movement in the present value of the schemes' obligations is:

Group

	Pension schemes		Post retirement medical benefit schemes		Total	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
At beginning of year	772.6	787.6	16.8	17.2	789.4	804.8
Acquisitions through business combinations	20.9	-	-	-	20.9	-
Current service cost	23.1	30.3	-	-	23.1	30.3
Interest on obligations	44.5	40.7	0.9	0.9	45.4	41.6
Contributions by employees	1.0	0.8	-	-	1.0	0.8
Actuarial (gains) / losses	(124.4)	(40.7)	0.1	(0.6)	(124.3)	(41.3)
Benefits paid	(20.2)	(21.4)	(0.8)	(0.7)	(21.0)	(22.1)
Gains on curtailments	-	(15.6)	-	-	-	(15.6)
Disposal of subsidiaries	-	(10.3)	-	-	-	(10.3)
Foreign exchange	1.1	1.2	-	-	1.1	1.2
At end of year	718.6	772.6	17.0	16.8	735.6	789.4

Company

	Pension schemes		Post retirement medical benefit schemes		Total	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
At beginning of year	740.0	740.9	16.8	17.2	756.8	758.1
Current service cost	20.9	29.4	-	-	20.9	29.4
Interest on obligations	41.7	38.9	0.9	0.9	42.6	39.8
Contributions by employees	0.2	0.2	-	-	0.2	0.2
Actuarial (gains) / losses	(123.4)	(34.6)	0.1	(0.6)	(123.3)	(35.2)
Benefits paid	(16.4)	(19.2)	(0.8)	(0.7)	(17.2)	(19.9)
Gains on curtailments	-	(15.6)	-	-	-	(15.6)
At end of year	663.0	740.0	17.0	16.8	680.0	756.8

(iii) Fair value of funded schemes' assets

The movement in the fair value of the funded schemes' assets is:

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
At beginning of year	813.4	695.2	778.3	653.0
Acquisitions through business combinations	18.0	-	-	-
Expected return on scheme assets	59.1	50.9	55.2	48.4
Actuarial losses	(115.5)	(6.7)	(102.9)	(3.9)
Contributions by employer	42.3	101.2	38.4	99.4
Contributions by employees	1.0	0.8	0.2	0.2
Benefits paid	(19.7)	(20.9)	(16.0)	(18.8)
Disposal of subsidiaries	-	(8.5)	-	-
Foreign exchange	1.1	1.4	-	-
At end of year	799.7	813.4	753.2	778.3

The market value of the assets of the funded schemes is as follows:

Equity	365.4	485.2	334.8	461.0
Bonds	400.4	311.0	391.3	303.9
Other assets	33.9	17.2	27.1	13.4
	799.7	813.4	753.2	778.3

Equity assets comprise index-tracker funds as well as specialist equity managers and other absolute return managers who seek a return above pre-set benchmarks.

28 Post employment benefits – continued

(iv) Amounts recognised in the consolidated income statement

The amounts charged / (credited) to other operating expenses for the year are:

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Current service cost	23.1	30.3	20.9	29.4
Interest on obligations	45.4	41.6	42.6	39.8
Expected return on scheme assets	(59.1)	(50.9)	(55.2)	(48.4)
Gains on curtailments	-	(15.6)	-	(15.6)
Total amount charged to consolidated income statement	9.4	5.4	8.3	5.2
Actual return on scheme assets	(56.4)	44.2	(47.7)	44.5

The charge to other operating expenses in respect of cash contributions to defined contribution schemes is £15.8m (2007: £11.4m).

(v) Amounts recognised directly in equity

The amounts credited / (charged) directly to equity are:

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Actual return less expected return on assets	(115.5)	(6.7)	(102.9)	(3.9)
Experience gains / (losses) arising on obligations	27.1	3.9	28.3	(1.7)
Changes in assumptions	98.6	37.8	96.1	37.0
Total actuarial gains credited directly to equity	10.2	35.0	21.5	31.4

Group

The cumulative amount of actuarial losses recognised directly in equity is £47.7m (2007: £57.9m).

Company

The cumulative amount of actuarial losses recognised directly in equity is £37.8m (2007: £59.3m).

28 Post employment benefits – continued

(vi) History of experience gains and losses

Group

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Pension schemes					
Present value of scheme obligations	**718.6**	772.6	787.6	715.3	603.7
Fair value of scheme assets	**(799.7)**	(813.4)	(695.2)	(554.8)	(409.5)
Net (surplus) / deficit	**(81.1)**	(40.8)	92.4	160.5	194.2
Experience credit / (charge) arising on:					
Scheme obligations	**25.7**	3.3	(5.2)	(1.0)	(7.9)
Scheme assets	**(115.5)**	(6.7)	5.2	56.0	3.1
Post retirement medical benefit schemes					
Present value of scheme obligations	**17.0**	16.8	17.2	21.2	12.5
Experience credit / (charge) arising on:					
Scheme obligations	**-**	0.2	0.4	(0.2)	(0.4)

Company

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Pension schemes					
Present value of scheme obligations	**663.0**	740.0	740.9	676.1	559.8
Fair value of scheme assets	**(753.2)**	(778.3)	(653.0)	(522.2)	(374.7)
Net deficit	**(90.2)**	(38.3)	87.9	153.9	185.1
Experience (charge) / credit arising on:					
Scheme obligations	**27.3**	(1.8)	(5.0)	(1.3)	(6.9)
Scheme assets	**(102.9)**	(3.9)	2.6	53.0	1.6
Post retirement medical benefit schemes					
Present value of defined benefit obligations	**17.0**	16.8	17.2	21.2	12.5
Experience credit / (charge) arising on:					
Scheme obligations	**-**	0.2	0.4	(0.2)	(0.4)

29 Provisions for liabilities and charges

Group

	Insurance £m	Unoccupied property £m	Regulatory provisions £m	Other £m	Total £m
At beginning of year (Restated)	16.4	5.0	-	56.8	78.2
Acquisitions through business combinations	-	-	-	3.0	3.0
Transfer to assets held for sale	-	-	-	(2.1)	(2.1)
Charge for year	11.4	1.7	5.4	15.6	34.1
Released in year	-	(0.5)	-	(44.4)	(44.9)
Utilised in year – cash	(9.9)	(1.0)	-	(7.3)	(18.2)
Foreign exchange	-	-	-	4.9	4.9
At end of year	**17.9**	**5.2**	**5.4**	**26.5**	**55.0**
Non-current	15.1	4.7	-	9.2	29.0
Current	2.8	0.5	5.4	17.3	26.0
	17.9	5.2	5.4	26.5	55.0

Insurance

The insurance provision is in respect of the Group's self insurance and covers the excess that arises on claims made in relation to losses arising from damage to property, business interruption and medical, employee or public liability. Any outflows relating to this provision are dependent on the frequency and value of claims submitted as well as the excess amount specified within individual policies with insurers. The fund is actuarially assessed twice a year to ensure that the provision is adequate.

29 Provisions for liabilities and charges – continued

Unoccupied property
In prior years the Group entered into non-cancellable leases for property which it no longer fully occupies. The Group has provided for lease obligations, net of sub-lease receivables. The lease obligations are payable monthly, quarterly or annually, within a range of one to 17 years, the average being twelve years. The future net outflows are uncertain and are affected by the Group's ability to sub-let unoccupied property.

Regulatory provisions
Regulatory provisions relate to levies payable to customer protection bodies by the Group's various regulated entities. Such levies are generally determined on a capped percentage of revenues basis. Payments are normally made annually, although the frequency may be increased or decreased at the discretion of the customer protection bodies.

Other
Other provisions include amounts relating to long service leave, other employee benefits, legal claims, payments under legislation and the risk equalisation scheme in Ireland. The long service leave relates to territories where employees are legally entitled to substantial paid leave after completing a certain length of qualifying service. Uncertainty around both the amount and timing of future outflows arises as a result of variations in employee retention rates, which may vary from historical experience.

At 31 December 2007 the Group held a provision of £34.3m (€46.7m) for payments due to the risk equalisation scheme, which impacted the Group's disposed of Irish operations. Under the scheme each returning health insurer must submit returns in a prescribed format to the Irish Health Insurance Authority who subsequently notifies each undertaking as to the amount it should contribute to, or receive from, the risk equalisation scheme. During 2008 the Supreme Court ruled in favour of the Group's claim that the risk equalisation scheme in Ireland was unlawful and should be set aside. As a result of this ruling the Group has no liability under the scheme and has released the entire provision relating to the risk equalisation scheme of £37.1m (€46.7m) during 2008.

Company

	Insurance £m	Other £m	Total £m
At beginning of year	15.6	7.2	22.8
Charge for year	12.2	4.8	17.0
Released in year	-	(4.7)	(4.7)
Utilised in year	(10.0)	(1.5)	(11.5)
At end of year	**17.8**	**5.8**	**23.6**
Non-current	15.0	0.7	15.7
Current	2.8	5.1	7.9
	17.8	5.8	23.6

30 Deferred tax assets and liabilities

Group
Recognised deferred tax assets and liabilities
Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2008 £m	2007 £m	2008 £m	2007 (Restated) £m	2008 £m	2007 (Restated) £m
Accelerated capital allowances	-	-	17.3	30.2	17.3	30.2
Post employment liability	-	-	17.7	5.6	17.7	5.6
Revaluation of properties to fair value	-	-	140.1	152.5	140.1	152.5
Employee benefits (other than post employment)	(4.8)	(3.6)	-	-	(4.8)	(3.6)
Provisions	(6.5)	(20.1)	-	-	(6.5)	(20.1)
Tax value of recognised loss carry forward	(24.4)	(1.4)	-	-	(24.4)	(1.4)
Goodwill and intangible assets	-	-	138.1	29.0	138.1	29.0
Other	(24.3)	(22.2)	12.0	24.7	(12.3)	2.5
Deferred tax (assets) / liabilities	(60.0)	(47.3)	325.2	242.0	265.2	194.7
Allowable netting of deferred tax assets and liabilities	60.0	41.0	(60.0)	(41.0)	-	-
Net deferred tax (asset) / liability	-	(6.3)	265.2	201.0	265.2	194.7

30 Deferred tax assets and liabilities – continued

Deferred tax assets relating to the carry forward of employee benefits, other provisions, unused tax losses and other deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deferred tax assets can be utilised.

Unrecognised deferred tax assets

As at 31 December 2008 the Group had deductible temporary differences relating to intangible assets of £6.2m (2007: £6.6m), trading losses of £6.7m (2007: £1.2m) and capital losses of £14.7m (2007: £24.3m) for which no deferred tax asset was recognised due to uncertainty of utilisation of those temporary differences.

Movement in net deferred tax liabilities

	At beginning of year £m	Recognised in income statement £m	Recognised in equity £m	Acquisitions through business combinations £m	Arising on business combinations £m	Disposal of subsidiary companies £m	Foreign exchange £m	At end of year £m
2008								
Accelerated capital allowances	30.2	(12.9)	-	-	-	-	-	17.3
Post employment liability	5.6	9.5	2.6	-	-	-	-	17.7
Revaluation of properties to fair value	152.5	(10.4)	(9.2)	-	-	-	7.2	140.1
Employee benefits (other than post employment)	(3.6)	(1.2)	-	-	-	-	-	(4.8)
Provisions	(20.1)	13.6	-	-	-	-	-	(6.5)
Tax value of recognised loss carry forward	(1.4)	3.4	-	(21.5)	-	-	(4.9)	(24.4)
Goodwill and intangible assets	29.0	(4.8)	-	-	94.5	-	19.4	138.1
Other	2.5	0.8	-	(10.6)	-	-	(5.0)	(12.3)
	194.7	(2.0)	(6.6)	(32.1)	94.5	-	16.7	265.2
2007 (Restated)								
Accelerated capital allowances	26.7	17.5	-	-	-	(14.0)	-	30.2
Post employment liability	(33.2)	7.5	31.3	-	-	-	-	5.6
Revaluation of properties to fair value	206.8	(12.2)	52.4	19.6	-	(115.1)	1.0	152.5
Employee benefits (other than post employment)	(3.8)	0.1	-	-	-	0.1	-	(3.6)
Provisions	(9.6)	(11.3)	-	-	-	0.8	-	(20.1)
Tax value of recognised loss carry forward	(7.3)	5.9	-	-	-	-	-	(1.4)
Goodwill and intangible assets	18.6	(3.3)	-	-	11.5	-	2.2	29.0
Other	(12.3)	12.8	-	(4.7)	-	7.3	(0.6)	2.5
	185.9	17.0	83.7	14.9	11.5	(120.9)	2.6	194.7

Company

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2008 £m	Assets 2007 £m	Liabilities 2008 £m	Liabilities 2007 £m	Net 2008 £m	Net 2007 £m
Accelerated capital allowances	**(0.9)**	(0.1)	**-**	-	**(0.9)**	(0.1)
Post employment liability	**-**	-	**20.4**	6.0	**20.4**	6.0
Employee benefits (other than post employment)	**(4.4)**	(3.2)	**-**	-	**(4.4)**	(3.2)
Provisions	**(5.5)**	(4.8)	**-**	-	**(5.5)**	(4.8)
Other	**(0.6)**	(0.1)	**0.2**	0.1	**(0.4)**	-
Deferred tax (assets) / liabilities	**(11.4)**	(8.2)	**20.6**	6.1	**9.2**	(2.1)
Allowable netting of deferred tax assets and liabilities	**-**	-	**-**	-	**-**	-
Net deferred tax (asset) / liability	**(11.4)**	(8.2)	**20.6**	6.1	**9.2**	(2.1)

Deferred tax assets relating to the carry forward of post employment liabilities, employee benefits, other provisions and other deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deferred tax assets can be utilised.

30 Deferred tax assets and liabilities – continued

Movement in temporary differences during the year

	At beginning of year £m	Recognised in income statement £m	Recognised in equity £m	At end of year £m
2008				
Accelerated capital allowances	(0.1)	(0.8)	-	(0.9)
Post employment liability	6.0	8.5	5.9	20.4
Employee benefits (other than post employment)	(3.2)	(1.2)	-	(4.4)
Provisions	(4.8)	(0.7)	-	(5.5)
Other	-	(0.4)	-	(0.4)
	(2.1)	5.4	5.9	9.2
2007				
Accelerated capital allowances	(0.6)	0.5	-	(0.1)
Post employment liability	(31.5)	26.5	11.0	6.0
Employee benefits (other than post employment)	(2.9)	(0.3)	-	(3.2)
Provisions	(4.4)	(0.4)	-	(4.8)
	(39.4)	26.3	11.0	(2.1)

31 Trade and other payables

	Group		Company	
	2008 £m	2007 (Restated) £m	2008 £m	2007 £m
Non-current				
Trade payables	-	0.5	-	-
Liability to external unit trust holders	124.0	-	-	-
Deferred income	2.1	1.5	-	-
Other payables	156.6	145.3	-	-
Accruals	9.1	12.0	7.4	10.6
Fair value of derivative liabilities	-	6.2	-	-
	291.8	165.5	7.4	10.6
Current				
Trade payables	106.2	52.0	-	-
Amounts owed to subsidiary companies	-	-	413.9	372.4
Social security and other taxes	22.8	14.0	-	-
Deferred income	84.3	36.2	-	3.9
Other payables	102.1	82.1	5.5	12.7
Accruals	311.4	212.7	43.8	35.6
Deferred consideration	-	34.7	-	-
	626.8	431.7	463.2	424.6
Total trade and other payables	918.6	597.2	470.6	435.2

Non-current other payables of £156.6m (2007: £145.3m) includes £139.6m (2007: £134.1m) relating to accommodation bonds in the balance sheet of BACA. Accommodation bonds are non-interest bearing deposits paid by the resident to BACA as payment for a place in the care home facility. When the resident leaves the care home facility the bond is repaid by BACA, net of retention and any other amounts deducted from the bond at the election of the bond-holder.

Deferred consideration in 2007 of £34.7m (AU$79.1m) in respect of the acquisition of BACA was paid during 2008 (see note 36).

32 Equity

Group

	Property revaluation reserve £m	Income and expenditure* reserve £m	Cash flow hedge reserve £m	Foreign exchange translation reserve £m	Total attributable to Bupa £m	Minority equity interest £m	Total equity £m
2008							
At beginning of year (Restated)	647.5	2,683.3	(1.4)	17.0	3,346.4	15.9	3,362.3
Retained surplus for the financial year	-	104.7	-	-	104.7	4.1	108.8
Unrealised deficit on revaluation of property	(32.1)	-	-	-	(32.1)	-	(32.1)
Reversal of fair value uplift on derecognition of available for sale investments	-	(9.9)	-	-	(9.9)	-	(9.9)
Share of retained surplus attributable to previously acquired interest in subsidiary company	-	6.4	-	-	6.4	-	6.4
Actuarial gain on pension schemes	-	10.2	-	-	10.2	-	10.2
Foreign exchange translation differences on goodwill	-	-	-	161.1	161.1	-	161.1
Other foreign exchange translation differences	11.9	-	-	88.6	100.5	4.8	105.3
Net loss on hedge of net investment in overseas subsidiary companies	-	-	-	(139.3)	(139.3)	-	(139.3)
Net gain on hedge of acquisition costs of overseas subsidiary companies	-	-	35.0	-	35.0	-	35.0
Dividends paid to minority equity interests	-	-	-	-	-	(0.1)	(0.1)
Issue of shares to minority equity interests	-	-	-	-	-	9.6	9.6
Taxation charge on income and expense recognised directly in equity	9.2	(2.6)	(2.7)	(3.4)	0.5	-	0.5
At end of year	**636.5**	**2,792.1**	**30.9**	**124.0**	**3,583.5**	**34.3**	**3,617.8**

	Property revaluation reserve £m	Income and expenditure* reserve £m	Cash flow hedge reserve £m	Foreign exchange translation reserve £m	Total attributable to Bupa £m	Minority equity interest £m	Total equity £m
2007 (Restated)							
At beginning of year	641.9	1,286.7	-	(11.8)	1,916.8	11.5	1,928.3
Retained surplus for the financial year	-	1,131.3	-	-	1,131.3	2.2	1,133.5
Realised revaluation surplus on disposals	(238.1)	238.1	-	-	-	-	-
Unrealised surplus on revaluation of property	294.3	-	-	-	294.3	-	294.3
Fair value uplift on available for sale investments	-	2.8	-	-	2.8	-	2.8
Actuarial gain on pension schemes	-	35.0	-	-	35.0	-	35.0
Foreign exchange translation differences on goodwill	-	-	-	37.9	37.9	-	37.9
Other foreign exchange translation differences	1.8	-	-	30.7	32.5	0.2	32.7
Net loss on hedge of net investment in overseas subsidiary companies	-	-	-	(40.2)	(40.2)	-	(40.2)
Net loss on hedge of acquisition costs of overseas subsidiary companies	-	-	(1.4)	-	(1.4)	-	(1.4)
Realisation of foreign exchange on disposal of overseas subsidiary companies	-	-	-	(0.2)	(0.2)	-	(0.2)
Dividends paid to minority equity interests	-	-	-	-	-	(0.1)	(0.1)
Other movements in minority equity interests	-	-	-	-	-	2.2	2.2
Disposal of subsidiary companies	-	-	-	-	-	(0.1)	(0.1)
Taxation charge on income and expense recognised directly in equity	(52.4)	(10.6)	-	0.6	(62.4)	-	(62.4)
At end of year	647.5	2,683.3	(1.4)	17.0	3,346.4	15.9	3,362.3

* Included in the income and expenditure reserve is £nil (2007: £9.9m) available for sale reserve.

32 Equity – continued

Company

	Property revaluation reserve £m	Income and expenditure reserve £m	Foreign exchange translation reserve £m	Total equity £m
2008				
At beginning of year	0.2	57.3	0.2	57.7
Retained deficit for the financial year	-	(29.9)	-	(29.9)
Actuarial gain on pension schemes	-	21.5	-	21.5
Foreign exchange translation differences	-	-	0.7	0.7
Taxation charge on income and expenses recognised directly in equity	-	(5.9)	-	(5.9)
At end of year	**0.2**	**43.0**	**0.9**	**44.1**
2007				
At beginning of year	0.2	67.2	-	67.4
Retained deficit for the financial year	-	(30.3)	-	(30.3)
Actuarial gain on pension schemes	-	31.4	-	31.4
Foreign exchange translation differences	-	-	0.2	0.2
Taxation charge on income and expenses recognised directly in equity	-	(11.0)	-	(11.0)
At end of year	0.2	57.3	0.2	57.7

Capital management

The Group manages as capital the cumulative individual value of the equity of all Group subsidiaries, exclusive of any minority interests, and other inadmissible assets as discussed below. The Group has a £330.0m perpetual bond accounted for as debt in these financial statements. However, this is managed as though it were capital for regulatory purposes, as discussed below.

As a company limited by guarantee, Bupa has no shareholders or owners. All profits are therefore used to develop the Group's businesses for the benefit of customers. Except for equity attributable to minority interests, any equity in the Group is considered 'equity attributable to Bupa'.

The Group's capital management objective is to maintain sufficient capital to protect the interests of all of its customers, investors, regulators and trading partners while also efficiently deploying capital and managing risk to sustain ongoing business development.

The Group aims to operate within a targeted range for solvency, leverage and interest cover ratios designed to support an investment grade rating. The Bupa Group as a whole is not rated by any rating agency although individual debt issues and various regulated subsidiaries within the Group do have a public rating.

The UK's Financial Services Authority (FSA) classifies the whole of the Group as an insurance group. As such the Group must maintain regulatory capital resources in excess of a collective Minimum Capital Requirement (MCR), imposed by the FSA through its Prudential Sourcebook (PSB). When assessing the Group's compliance with its MCR, the PSB requires that the Group values and credits towards its net asset position only those assets that meet certain criteria on admissibility, concentration limits and counterparty exposure limits. Group companies that are regulated are subject to similar regulatory restrictions within the jurisdictions in which they operate. The Group and its regulated subsidiaries complied with all externally imposed capital requirements during the prior year. Although they are not insurance businesses, the Group can and does recognise the book value of its care provision businesses as capital resources.

It is the Board's policy that the Group maintains capital resources significantly in excess of its capital requirements and furthermore that all regulated entities within the Group's corporate structure meet any local minimum capital requirement imposed by local regulators at all times.

The Group has a number of internal processes to ensure compliance with the Group's capital requirements. These include requiring that significant future capital expenditure and growth initiatives be approved by the Board, either as stand-alone projects or as part of the budgeting and forecasting exercises. The Investment Committee must approve any change to financial investment strategy. Strategic developments and acquisitions affecting the Group's capital require Board authorisation.

The Group Finance Department routinely reports to the Board the Group's capital position and leverage and interest cover ratios as well as any constraints, risks or uncertainties about this position. The Group reports on any regulatory capital resources to local regulators and the FSA each year end.

In addition, the Group's management reporting process to the Board includes the regular calculation of the return on capital employed. This allows the Group to promote capital usage in product pricing and operational budgeting exercises while also identifying any capital deterioration at an early stage.

The Group has in place internal debt and investment management arrangements that allow the assets supporting technical liabilities or any solvency capital to be efficiently managed in a centralised manner. The Group's Treasury Department also maintains large external credit lines with several leading banks to ensure the liquidity of the Group as needed.

Finally, the Group has developed economic capital models of Bupa Insurance Limited and Bupa Health Assurance Limited to enable it to dynamically and holistically characterise the sensitivities and inter-dependencies of its capital assets. This aids the Group in more thoroughly understanding the risk profile and diversification of its investments and business portfolio in a manner that enhances risk management. The Group submits these capital models to the FSA for its UK domiciled life and health insurance subsidiaries.

There have been no changes to the Group's capital management objectives, policies or procedures over the prior year.

Notes to the financial statements – continued

for the year ended 31 December 2008

33 Movement in net funds

The movement in the Group's net funds during the financial year is explained as follows:

	At 1 January 2008 £m	Cash flow £m	Acquisitions / disposals (excluding cash and overdrafts) £m	Changes to market value and currencies £m	Other non-cash changes £m	At 31 December 2008 £m
Cash and cash equivalents						
Cash at bank and in hand	207.0	167.2	-	43.5	(1.7)	416.0
Overdrafts	(0.5)	(1.5)	-	-	-	(2.0)
Short-term bank deposits	419.8	57.3	-	43.2	(59.2)	461.1
		223.0				
Financial investments – non-current						
Debt securities – government gilts	21.7	7.5	-	1.3	(1.7)	28.8
Debt securities – corporate bonds	147.4	3.9	-	(14.3)	2.5	139.5
Shares and other variable yield securities	290.2	(26.6)	-	(70.7)	(106.2)	86.7
Floating rate notes	17.9	158.5	-	-	(60.7)	115.7
Deposits with credit institutions	71.3	(592.9)	-	0.9	651.4	130.7
		(449.6)				
Financial investments – current						
Debt securities – government gilts	2.1	1.3	-	1.1	3.3	7.8
Debt securities – corporate bonds	3.9	(0.6)	-	0.4	1.5	5.2
Shares and other variable yield securities	0.2	(225.3)	529.2	(66.1)	(24.2)	213.8
Floating rate notes	-	1.8	-	-	61.8	63.6
Reverse repo securities	134.6	17.8	-	44.0	0.3	196.7
Deposits with credit institutions	1,348.8	39.3	-	51.6	(703.0)	736.7
		(165.7)				
Life investment contracts						
Financial investments backing the life investment contract liabilities	-	(46.7)	785.0	(57.1)	-	681.2
Life investment contract liabilities	-	52.7	(807.3)	75.2	-	(679.4)
		6.0				
Investment properties	67.2	11.1	-	7.4	1.7	87.4
		11.1				
Other interest bearing liabilities – non-current						
Secured loans	(234.4)	-	-	0.1	0.1	(234.2)
Debenture stock	(60.2)	-	-	-	1.6	(58.6)
Bank loans	(370.2)	(729.5)	(6.5)	(27.1)	(0.3)	(1,133.6)
Loan notes	(0.1)	0.1	-	-	-	-
Finance lease liabilities	(3.0)	0.2	(1.6)	(1.0)	-	(5.4)
		(729.2)				
Other interest bearing liabilities – current						
Secured loans	(4.1)	-	-	-	-	(4.1)
Debenture stock	(1.5)	-	-	-	-	(1.5)
Bank loans	(0.3)	(36.1)	(2.5)	-	0.9	(38.0)
Finance lease liabilities	(0.2)	0.1	(0.7)	(0.1)	-	(0.9)
		(36.0)				
Subordinated liabilities – non-current						
Callable subordinated perpetual guaranteed bonds	(330.0)	-	-	(39.8)	-	(369.8)
10.5% subordinated guaranteed bonds due 2018	(3.9)	-	-	-	-	(3.9)
		-				
Subordinated liabilities – current						
Callable subordinated perpetual guaranteed bonds	(5.9)	-	-	-	-	(5.9)
		-				
Net funds per balance sheet	1,717.8	(1,140.4)	495.6	(7.5)	(231.9)	833.6

34 Financial instruments

Description of hedging transactions

Net investment hedges

Net investment risk is managed using both foreign currency forward contracts and foreign currency denominated borrowings. These hedging relationships are documented and tested as required by IAS 39 as net investment hedges and were effective in hedging the designated portion of net investment exposures during the year. All foreign currency forward contracts are accounted for on a fair value basis.

The Group's Australian Dollar translation exposure of £1,594.3m (AU$3,332.4m) (2007: £792.4m (AU$1,805.5m)) arises from the net assets of MBF, Bupa Australia Pty Limited, BACA and their subsidiary companies. Foreign exchange gains and losses on the Australian Dollar inter company loans that are permitted to be taken to equity on consolidation under IAS 21 total a loss of £43.9m (2007: loss of £5.7m).

Euro translation exposure of £300.1m (€314.4m) (2007: £242.4m (€330.2m)) arises from the net assets of the Grupo Bupa Sanitas SL and its subsidiary companies. Foreign exchange gains and losses on the Euro inter company loans that are permitted to be taken to equity on consolidation under IAS 21 total a loss of £64.9m (2007: loss of £6.1m). At 31 December the Group held the following financial instruments to hedge a portion of these net assets, all of which have been designated as hedges under IAS 39: Euro borrowings of £110.7m (€116.0m) (2007: £176.9m (€241.0m)) which have an interest rate reset and maturity profile monthly.

US Dollar translation exposure of £615.1m (US$873.2m, HK$194.6m) (2007: £227.1m (US$433.2m, HK$157.2m)) arises from the net assets of Health Dialog, AMEDEX Insurance Company and their subsidiary companies, and from exposure through the Hong Kong Dollar (which is pegged to the US Dollar), which arises from the net assets of Bupa International (Hong Kong), Bupa Asia Limited and Bupa Limited (HK). Foreign exchange gains and losses on the US Dollar inter company loans that are permitted to be taken to equity on consolidation under IAS 21 total a gain of £91.7m (2007: gain of £0.1m). At 31 December the Group held the following financial instruments to hedge a portion of these net assets, all of which have been designated as hedges under IAS39: US Dollar borrowings of £nil (US$nil) (2007:£80.7m (US$161.1m)), which had an interest rate reset and maturity profile quarterly in 2007; forward foreign exchange contracts totalling £290.5m (US$424.3m) (2007: £nil (US$nil)). All forward contracts mature within three months from the balance sheet date and are rolled forward on monthly or quarterly contracts.

Danish Krone translation exposure of £119.4m (DKK932.5m) (2007: £111.1m (DKK1,128.4m)) arises from the net assets of International Health Insurance danmark a / s and its subsidiary companies. Foreign exchange gains and losses on the Danish Krone inter company loans that are permitted to be taken to equity on consolidation under IAS 21 total a loss of £8.7m (2007: loss of £1.9m). At 31 December the Group held the following financial instruments to hedge a portion of these net assets, all of which have been designated as hedges under IAS 39: Danish Krone borrowings of £39.7m (DKK309.8m) (2007: £112.7m (DKK1,144.7m)), which have an interest rate reset and maturity profile monthly.

Foreign currency hedging transactions

Exposure to the US Dollar arises from cash holdings within Bupa Insurance Limited, derivative transactions totalling £nil (US$nil) (2007: £2.5m (US$5.0m)) provide an economic hedge against the retranslation risk from US Dollar denominated cash and investments. These hedges are not subject to testing under IAS 39 as hedging is not required due to gains and losses on retranslation netting in the income statement. These transactions matured within three months of the balance sheet date and were rolled forward monthly or quarterly.

34 Financial instruments – continued

Fair value hedges

The following derivative contracts were in place as at 31 December to hedge the Group's interest rate exposure:

	Maturity, expiry or execution date	Initial value of contracts sold £m	Notional value of assets £m	Carrying value £m
2008				
Interest rate swaps – fair value	September 2020	330.0	330.0	39.8
2007				
Interest rate swaps – fair value	September 2020	330.0	330.0	(6.2)

Interest rate swaps totalling £330.0m have been entered into to swap the fixed rate coupon on the £330.0m callable subordinated perpetual guaranteed bond to a floating rate. These interest rate swaps are designated as fair value hedges of the underlying interest rate risk on the debt. The fixed receipt occurs annually on the payment of the bond coupon in September. The variable payment is settled quarterly and the rate is reset on the floating element at this time. As at 31 December 2008, the fair value movement in the bond attributable to the hedged risk amounted to £46.0m (2007: £0.1m).

As at 31 December, the following derivative contracts were in place to hedge the Group's currency exposure:

	Maturity, expiry or execution date	Initial value of contracts sold £m	Notional value of assets / (liabilities) £m	Carrying value £m
2008				
Currency forward contracts held in the following currencies:				
US Dollar (US$30.2m)	30 January 2009	(20.2)	(20.7)	(0.5)
2007				
Currency forward contracts held in the following currencies:				
US Dollar (US$160.9m)	9 February 2008	(79.0)	(80.6)	(1.6)

The currency forward contracts hedge the Group's currency exposure which arises from holding US Dollar denominated financial investments classed as shares and other variable yield securities. These hedged items have resulted in an income statement gain of £20.1m (2007: loss of £0.8m).

Cash flow hedges

During 2008 forward foreign exchange contracts were entered into to hedge cash outflows for the acquisition of MBF amounting to AU$2,001.1m which led to a cash flow hedge reserve gain of £36.4m, and the acquisition of Health Dialog amounting to US$653.2m resulting in a cash flow hedge reserve loss of £1.4m.

	Maturity, expiry or execution date	Initial value of contracts sold £m	Notional value of asset / (liabilities) £m	Carrying value £m
2008				
Currency forward contracts held in the following currencies:				
US Dollar (US$nil)		-	-	-
2007				
Currency forward contracts held in the following currencies:				
US Dollar (US$639.0m)	15 January 2008	(321.5)	(320.1)	(1.4)

34 Financial instruments – continued

Effect of hedging transactions

The tables below detail the impact of all external foreign currency hedging activity. The ineffective portion of all hedges recognised in the income statement was £nil (2007: £nil).

(Losses) / gains included in income statement:

	Currency forward Contracts £m	External Borrowing £m	Total £m
2008			
Australian Dollar	10.5	-	10.5
Euro	0.5	-	0.5
US Dollar	(31.3)	-	(31.3)
Total	(20.3)	-	(20.3)
2007			
Australian Dollar	-	-	-
Euro	-	-	-
US Dollar	0.2	-	0.2
Total	0.2	-	0.2

(Losses) / gains included in equity:

	Currency forward Contracts £m	External Borrowing £m	Total £m
2008			
Australian Dollar	36.4	38.1	74.5
Euro	-	(40.0)	(40.0)
US Dollar	(92.5)	(19.3)	(111.8)
Danish Krone	-	(27.0)	(27.0)
Total	(56.1)	(48.2)	(104.3)
2007			
Australian Dollar	(3.1)	(9.1)	(12.2)
Euro	(4.1)	(17.0)	(21.1)
US Dollar	1.4	1.5	2.9
Danish Krone	-	(9.8)	(9.8)
Total	(5.8)	(34.4)	(40.2)

At 31 December 2008 and 2007, there were no material exposures to foreign currency transaction risk.

34 Financial instruments – continued

Fair value of financial instruments

The fair value of a financial instrument is defined as the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties. Fair values have been calculated as follows:

- debt securities, and shares, and other variable yield securities – discounted expected future principal and interest cash flows or quoted price if available;
- listed securities – quoted price;
- interest bearing loans and borrowings – discounted expected future principal and interest cash flows or quoted price if available;
- other receivables and other payables (current) – carrying value;
- other receivables and other payables (non-current) – discounted cash flows;
- derivatives (currency forward contracts) – quoted prices at balance sheet date; and
- derivatives (interest rate swaps) – bank and broker quotes.

The carrying values of short-term receivables and payables are a reasonable approximation of the fair value.

The Group uses the zero coupon curve as at the balance sheet date to discount financial instruments where the fair value cannot otherwise be found from quoted market values. The range of interest rates used is as follows:

	2008 %	2007 %
Sterling assets and liabilities	2.6 - 3.7	4.5 - 5.6
Australian Dollar assets and liabilities	2.7 - 4.3	6.3 - 7.6
Euro assets and liabilities	2.7 - 4.0	4.5 - 5.0
US Dollar assets and liabilities	1.5 - 2.9	3.8 - 5.2

The fair values of financial instruments are as follows:

	2008		2007 (Restated)	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Debt securities – government gilts	36.6	36.6	23.8	23.8
Debt securities – corporate bonds	144.7	144.7	151.3	151.3
Shares and other variable yield securities	300.5	300.5	290.4	290.4
Financial investments backing life investment policy liabilities	681.2	681.2	-	-
Floating rate notes	179.3	152.6	17.9	17.9
Reverse repo securities	196.7	196.7	134.6	134.6
Deposits with credit institutions	867.4	867.4	1,420.1	1,420.1
Investment receivables and accrued investment income	29.4	28.9	18.8	18.2
Other receivables	54.6	54.5	54.9	53.6
Accrued income	15.4	15.4	12.1	12.1
Derivative assets	39.8	39.8	-	-
Cash and cash equivalents	920.6	920.6	650.0	650.0
Subordinated liabilities	(379.6)	(236.6)	(339.8)	(333.6)
Other interest bearing liabilities	(1,478.3)	(1,470.5)	(674.5)	(712.1)
Life investment policy liabilities	(679.4)	(679.4)	-	-
Other payables	(258.7)	(240.3)	(227.4)	(158.8)
Other accruals	(320.5)	(319.9)	(224.7)	(223.6)
Deferred consideration	-	-	(34.7)	(34.7)
Derivative liabilities	-	-	(6.2)	(6.2)

35 Risk management

Risk management policy

The Board is responsible for ensuring that there is a continuous process for identifying, evaluating and managing any material risks faced by the Group and for ensuring that it is effective. As such, the Board is responsible for the nature and extent of the risks facing the Group. This includes:

- the extent and categories of risk the Board regards as acceptable for the Group to bear;
- the likelihood of these risks materialising;
- the Group's ability to reduce the incidence or impact on the business of any risks that do crystallise; and
- the costs of operating particular controls relative to the benefit from managing the related risks.

The Group is exposed to a number of risks that arise from financial instruments. The Group has adopted a risk management strategy that endeavours to mitigate these risks, which is approved by the Board.

In managing these exposures, the Investment Committee reviews and monitors any significant investment and market risks.

35 Risk management – continued

Risk and future cash flows from general insurance contracts

Insurance risk from the general insurance activities of the Group may be subdivided into claims risk, rates-setting risk, and reserving risk.

Claims risk and rates-setting risk are the two principal risks which affect future cash flows of the general insurer entities in the Group. They respectively represent the risk of adverse variances in claims outflows and premium inflows.

Claims risk

Claims risk is controlled by means of pre-authorisation of claims, outpatient benefit limits, the use of consultant networks and agreed networks of hospitals and charges. Specific processes vary across the Group depending on local conditions and practice.

Future adverse claims experience, for example, caused by external factors such as medical inflation, will affect cash flows after the date of the financial statements. Recent adverse claims risks are reflected in these financial statements in claims paid and movement in provisions.

Generally, the Group's health insurance contracts contain terms and conditions that provide for the reimbursement of incurred medical expenses for treatment related to acute medical conditions. The contracts do not provide for capital sums or indemnified amounts. Therefore claims experience is necessarily underpinned by prevailing rates of illness. Additionally, claims risk is generally mitigated by the insurers running control processes to ensure that both the treatments and the consequent reimbursements are appropriate.

The short-tail nature of the Group's general insurance contracts means that movements in claims development assumptions are generally not significant. The development patterns are kept under constant review to maintain the validity of the assumptions and, hence, the validity of the estimation of recognised general insurance liabilities. The Group does not discount claims provisions due to the short-tail nature of claims settlements.

Rates-setting risk

Rates-setting risk arises from routine revisions to premium tariffs and from the processes, in certain businesses, to set bespoke premiums for large corporate health insurance customers. The adequacy of rates-setting rests on thorough actuarial analyses of past and most recent claims levels, combined with forward projections of the most recent observed trends. Rates-setting risk affects only future cash flows since new tariffs impact on levels of premium earned when health insurance contracts renew.

In every general insurer in the Group the dominant product style is of an annually renewable health insurance contract. This permits tariff revisions to respond reasonably quickly to adverse claims experience. This is a significant mitigant to rates-setting risk. The Group underwrites no material general insurance business that commits it to cover risks at premiums fixed beyond a twelve month period from inception or renewal.

Reserving risk

Reserving risk is the risk of technical provisions for claims incurred proving inadequate in light of later events or information. Reserving risk is not significant to the Group as a result of the shortness of claims development patterns, coupled with the efficacy of the processes used to derive the assumptions used in setting provisions. As claims provisions are not discounted, their short-tail nature means that changes in market interest rates have no impact on reserving risk.

The amount of claims provision at any given time that relates to potential claims payments that have not been resolved within one year is not material. Also, of the small provisions that do relate to longer than one year, it is possible to predict with reasonable confidence the outstanding amounts. Comparisons of actual claims against previous estimates are therefore not provided.

All of the Group's general insurance activities are single-line health portfolios. Even though only a single line of business is managed, the Group does not have severe concentrations of insurance risk for the following reasons:

– geographical diversity, with major activities in UK, Spain, Australia, Denmark, the US and Hong Kong;
– product diversity between domestic individual, domestic corporate and expatriate health insurance; and
– a variety of claims exposures across diverse medical providers – consultants, nursing staff, clinics, individual hospitals and hospital groups.

None of the Group's general insurance contracts contain embedded derivatives so the contracts do not, in that respect, give rise to market risk. In addition, the future premium income and claims outflows of general insurance contracts are unaffected by changes in interest rates.

The Group's general insurance entities cede only a very small portion of risk through reinsurance and this aggregate does not represent a material credit risk to the Group.

35 Risk management – continued

Long-term insurance risk
The products currently sold within the long-term business are income protection, critical illness and life assurance to both corporate and individual customers, for terms up to 40 years. These products are distributed primarily through intermediary channels in the UK and direct to individual customers in Australia. A closed book is operated in both the UK and Australia, for some products following withdrawal from these markets, in particular immediate needs and pre-funded long-term care products.

Critical illness and life assurance products provide for a payment of a lump sum to the policyholder or beneficiary upon the diagnosis of a specified illness or death. Income protection provides for a monthly payment to the policyholder following a period of time being unable to work through illness, which is payable until retirement age or when the individual returns to work. None of the Group's long-term insurance contracts contain embedded derivatives.

The Group is exposed to uncertainty around the timing, frequency and severity of morbidity and mortality claims under these insurance contracts through inadequate pricing and random and catastrophic events. It is also exposed to worse than anticipated operating experience on factors such as persistency levels and management and administrative expenses.

Morbidity risk
The Group is exposed to the risk of paying higher claim costs than expected. This can arise from higher claim incidence rates and longer claim durations than expected. If claim costs are higher than estimated, there is a risk that the insurance liabilities are not sufficient to cover future claims. A significant proportion of this risk is mitigated by the use of quota share reinsurance arrangements.

Mortality risk
For contracts which offer a lump sum benefit payable on death, the Group is exposed to the risk that mortality rates are higher than expected and lead to increased claim costs. For long-term care contracts the risk is that mortality rates are lower than expected and hence benefits are payable for longer than expected. A significant proportion of this risk is mitigated by the use of quota share reinsurance arrangements.

Persistency
The Group is at risk of higher than expected lapse rates at early durations. This could result in a loss should insufficient premiums be collected to cover the costs of acquiring the policy. At longer durations there is a risk of lower than expected lapses leading to higher claims frequency and costs. Persistency risk does not affect the Group's single premium contracts or annuities.

Expense variability
If expense levels or expense inflation are higher than expected, insurance liabilities may not be sufficient to cover costs.

Geographical concentrations of risk
The Group is exposed to the risk that a single event occurs in a location which would result in a large number of claims arising under a Group risk policy. This is mitigated by reinsurance which caps the overall liability arising from a single event.

Catastrophe risk
Either a natural disaster, such as the spread of an epidemic, or a man-made disaster could lead to a large number of claims and thus higher than expected claims costs. Such risks are reduced by quota share, surplus and catastrophe reinsurance cover.

To manage all of the above risks presented by long-term business the Group operates a risk management framework of approval procedures, underwriting limits, pricing guidelines, premium loadings, policy exclusions and close monitoring of actual performance and market developments. A significant proportion of the risk that is underwritten is ceded through proportionate and non-proportionate reinsurance treaties. Catastrophe reinsurance is also purchased to protect against concentration of risk within the Group Life portfolio. The Risk and Compliance Committee approves any changes to reinsurance arrangements.

Market risk
Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments from fluctuations in interest rates, foreign exchange rates, commodity prices, credit spreads and equity prices. The focus of the Group's long-term financial strategy is to facilitate growth without undue balance sheet risk. The Investment Committee is responsible for the management of the Group's cash and short-term borrowings. Under the guidance of the Committee the role of the Group Treasury Department is to manage the Group's liquidity position and short-term borrowings, together with the risks arising on interest rates and foreign currencies and to protect the security of the Group's financial assets.

Market risk in relation to the long-term insurance business arises from fluctuations in values or income from current invested assets or projected yields for future investments. In order to reduce the risk of assets being insufficient to meet future policyholder obligations, the Group matches investments to liabilities. In addition, the Group actively manages assets using an approach that balances quality, diversification, liquidity and investment return.

In respect of its life assurance contracts, a sensitivity analysis is performed on renewal expenses and inflation based around various scenarios, to provide an indication of the adequacy of the Group's estimation of these. Further details of this are set out in note 26.

Where the Group has moved away from straight money market investments and invested in absolute return assets (which include bonds, currencies and hedge funds), the Group uses a value at risk (VaR) analysis to quantify risk, taking account of asset volatility and correlation between asset classes.

The Group is not materially exposed to price risk as it does not hold any material amounts in any single asset class.

35 Risk management – continued

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to interest rate risk arising from fluctuations in market rates. This affects both the return on floating rate assets, the cost of floating rate liabilities and the balance sheet value of its investment in fixed rate bonds. Floating rate assets represent a natural hedge for floating rate liabilities. The net balance on which the Group is exposed as at 31 December 2008 was £661.0m (2007: £1.5bn). The rate at which maturing deposits are reinvested represents a significant potential risk to the Group, in currencies such as the Australian Dollar where the Group has a significant net floating cash or debt position.

The Group has also used interest rate swaps to manage interest rate exposure whereby the requirement to settle interest at fixed rates has been swapped for floating rates. This increases the ability to match floating rate assets with floating rate liabilities.

The Group manages investment liquidity against a target benchmark of four months and takes actions around this target based on future market expectations. The maturity profile of financial assets at 31 December 2008 and 2007 is as follows:

	Cash and cash equivalents £m	Deposits with credit institutions £m	Reverse repo securities £m	UK government gilts £m	Overseas government gilts £m	UK corporate bonds £m	Overseas corporate bonds £m	Floating rate notes £m	Shares and other variable yield securities £m	Total £m
2008										
2009	920.6	736.7	196.7	2.6	5.2	3.5	1.7	63.6	213.8	2,144.4
2010	-	114.5	-	0.3	1.9	-	2.2	115.7	-	234.6
2011	-	16.2	-	-	-	-	-	-	86.7	102.9
2012	-	-	-	-	0.8	2.0	-	-	-	2.8
2013	-	-	-	4.7	0.8	1.9	-	-	-	7.4
2014-2018	-	-	-	5.3	2.0	70.1	-	-	-	77.4
After 2018	-	-	-	12.9	0.1	1.2	62.1	-	-	76.3
Total	920.6	867.4	196.7	25.8	10.8	78.7	66.0	179.3	300.5	2,645.8
2007 (Restated)										
2008	650.0	1,348.8	134.6	-	2.1	2.6	1.3	-	0.2	2,139.6
2009	-	71.3	-	2.5	0.2	1.5	0.2	17.9	-	93.6
2010	-	-	-	-	-	-	0.1	-	-	0.1
2011	-	-	-	-	-	-	0.3	-	-	0.3
2012	-	-	-	-	0.6	1.9	0.5	-	-	3.0
2013-2017	-	-	-	4.8	-	82.0	0.3	-	254.3	341.4
After 2017	-	-	-	13.6	-	1.2	59.4	-	35.9	110.1
Total	650.0	1,420.1	134.6	20.9	2.9	89.2	62.1	17.9	290.4	2,688.1

Information regarding the ageing of financial and insurance assets, including those above, and the value of any impairment made against these assets is included on page 119.

35 Risk management – continued

Interest rate risk – continued

Variable loans are re-priced at intervals of between one and six months. Interest is settled on all loans in line with agreements and is settled at least annually.

The contractual and anticipated repayment profile of interest bearing financial liabilities is as follows:

	Variable £m	Fixed £m	Total £m	Undrawn facility £m
2008				
2009	(44.0)	(8.4)	(52.4)	(170.0)
2010	(0.3)	(4.4)	(4.7)	-
2011	(1,105.0)	(4.8)	(1,109.8)	-
2012	(4.2)	(3.5)	(7.7)	-
2013	(5.3)	(2.6)	(7.9)	-
2014-2018	(13.3)	(53.6)	(66.9)	-
After 2018	(330.9)	(277.6)	(608.5)	-
Total	(1,503.0)	(354.9)	(1,857.9)	(170.0)
2007 (Restated)				
2008	(6.9)	(5.6)	(12.5)	-
2009	(0.8)	-	(0.8)	-
2010	-	-	-	-
2011	(372.5)	-	(372.5)	(729.2)
2012	-	-	-	-
2013-2017	-	(60.2)	(60.2)	-
After 2017	(330.0)	(238.3)	(568.3)	-
Total	(710.2)	(304.1)	(1,014.3)	(729.2)

The impact of a rise of 100 bps (2007: 100 bps) in interest rates at the reporting date, on an annualised basis, would have increased / (decreased) equity and surplus by the amounts shown below. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant. This analysis is performed on the same basis for 2007.

	Gains / (losses) included in income statement £m	Gains / (losses) included in equity £m
2008		
Debt securities – government gilts	-	-
Debt securities – corporate bonds	-	-
Floating rate notes	1.8	1.8
Reverse repo securities	2.0	2.0
Deposits with credit institutions	8.3	8.3
Cash and cash equivalents	9.2	9.2
Subordinated liabilities	(3.3)	(3.3)
Other interest bearing financial liabilities	(11.6)	(11.6)
Total	6.4	6.4
2007 (Restated)		
Debt securities – government gilts	0.2	0.2
Debt securities – corporate bonds	0.9	0.9
Floating rate notes	0.2	0.2
Reverse repo securities	1.3	1.3
Deposits with credit institutions	13.8	13.8
Cash and cash equivalents	6.5	6.5
Subordinated liabilities	(3.3)	(3.3)
Other interest bearing financial liabilities	(3.8)	(3.8)
Total	15.8	15.8

35 Risk management – continued

Company
The Company is not materially exposed to interest rate risk.

Foreign exchange risk
The Group is exposed to foreign exchange risks arising from commercial transactions and from recognising assets, liabilities and investments in overseas operations.

The Group is exposed to both transaction and translation of risk. The former is the risk that a company's cash flows and realised profits may be impacted by movements in foreign exchange rates. The latter arises from translating the financial statements of a foreign operation into the Group's functional currency.

Bupa has exposure to foreign exchange risk arising from its overseas operations. Key exposures are to the Australian Dollar, US Dollar, Euro, New Zealand Dollar, Danish Krone, Bahraini Dinar, Hong Kong Dollar, Thai Baht and Singapore Dollar.

Where appropriate, the Group uses foreign currency forward contracts and foreign currency borrowings to hedge balance sheet translation exposure.

The following table summarises the carrying value of total assets and total liabilities categorised by currency:

	Net currency exposure £m	Currency forward contracts £m	Borrowing transactions £m	Net currency exposure including hedges £m
2008				
Australian Dollar	1,594.3	-	-	1,594.3
US Dollar	597.9	(311.2)	-	286.7
Euro	300.1	-	(110.7)	189.4
New Zealand Dollar	155.2	-	-	155.2
Danish Krone	119.4	-	(39.7)	79.7
Bahraini Dinar	49.7	-	-	49.7
Hong Kong Dollar	17.2	-	-	17.2
Thai Baht	8.6	-	-	8.6
Other	2.6	-	-	2.6
Total foreign currency denominated net assets	2,845.0	(311.2)	(150.4)	2,383.4
Percentage of Group net assets	78.4%			65.7%
2007				
Australian Dollar	792.4	-	-	792.4
US Dollar	217.0	(39.5)	(80.7)	96.8
Euro	242.4	-	(176.9)	65.5
New Zealand Dollar	30.4	-	-	30.4
Danish Krone	111.1	-	(112.7)	(1.6)
Hong Kong Dollar	10.1	-	-	10.1
Thai Baht	7.2	-	-	7.2
Singapore Dollar	1.9	-	-	1.9
Total foreign currency denominated net assets	1,412.5	(39.5)	(370.3)	1,002.7
Percentage of Group net assets	42.2%			28.7%

The following significant exchange rates applied during the year:

	Average Rate		Closing Rate	
	2008	2007	2008	2007
Australian Dollar	2.1864	2.3924	2.0902	2.2786
US Dollar	1.8519	2.0031	1.4604	1.9961
Euro	1.2574	1.4629	1.0477	1.3622

35 Risk management – continued

Foreign exchange risk – continued
The impact of 5% strengthening of Sterling (2007: 5%) against the currencies below, with all variables constant, would have (decreased) / increased equity and surplus by the amounts shown below:

	Gains / (losses) included in income statement £m	Gains / (losses) included in equity £m
2008		
Australian Dollar	(3.9)	(75.9)
US Dollar	5.3	(14.9)
Euro	(4.8)	(9.0)
Other	(0.2)	(14.9)
Total sensitivity	(3.6)	(114.7)
2007		
Australian Dollar	(0.4)	(25.3)
US Dollar	0.2	6.9
Euro	(5.2)	(32.4)
Other	(0.8)	(4.9)
Total sensitivity	(6.2)	(55.7)

Company
The Company is not materially exposed to foreign exchange risk.

Credit risk
Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their contractual obligations. The Group manages its credit risk exposures under the guidance of the Investment Committee.

Investment exposure with external counterparties is managed by ensuring there is a sufficient spread of investments and that all counter parties are rated at least AA- by key rating agencies (unless specifically approved by the Investment Committee). The investment profile at 31 December is as follows:

	2008 £m	2007 £m
UK government gilts	25.8	20.9
Overseas government gilts	10.8	2.9
Investment grade counterparties	2,508.8	2,630.8
Non-investment grade counterparties	100.4	33.5
	2,645.8	2,688.1

The investments which are held with non-investment grade counterparties are classed as shares and other variable yield securities and include commodity funds. Non-investment grade counterparties are those rated below AA-.

Investment grade counterparties include cash and cash equivalents of £920.6m (2007: £650.0m).

In aggregate across the Group, reinsurance credit risk is not material; however, what does exist is concentrated in the UK Life insurance business. Reinsurance credit risk is mitigated by using reinsurers which have been approved by the Risk and Compliance Committee of Bupa Health Assurance Limited (BHA). The Group monitors the exposure and financial status of reinsurers on an ongoing basis. The Bupa Insurance Ltd and BHA Risk and Compliance Committee is responsible for approving all new reinsurance arrangements.

35 Risk management – continued

Credit risk – continued

The following table provides information regarding the ageing of financial and insurance assets and the value of the impairment made against these assets.

	Neither past due or impaired £m	0-3 months £m	3-6 months £m	6 months-1 year £m	Greater than 1 year £m	Impairment £m	Total carrying value in the balance sheet £m
2008							
Debt securities	181.3	-	-	-	-	-	181.3
Shares and other variable yield securities	300.5	-	-	-	-	-	300.5
Floating rate notes	179.3	-	-	-	-	-	179.3
Reverse repo securities	196.7	-	-	-	-	-	196.7
Deposits with credit institutions	867.4	-	-	-	-	-	867.4
Reinsurers' share of insurance provisions	73.3	-	-	-	-	-	73.3
Insurance debtors	542.3	136.7	15.7	10.0	6.3	(27.6)	683.4
Investment receivables and accrued investment income	2.7	26.2	-	-	0.5	-	29.4
Trade and other receivables	123.5	94.9	11.4	11.2	3.3	(13.5)	230.8
Total financial and insurance assets	2,467.0	257.8	27.1	21.2	10.1	(41.1)	2,742.1
2007 (Restated)							
Debt securities	175.1	-	-	-	-	-	175.1
Shares and other variable yield securities	290.4	-	-	-	-	-	290.4
Floating rate notes	17.9	-	-	-	-	-	17.9
Reverse repo securities	134.6	-	-	-	-	-	134.6
Deposits with credit institutions	1,420.1	-	-	-	-	-	1,420.1
Reinsurers' share of insurance provisions	69.9	-	-	-	-	-	69.9
Insurance debtors	483.8	98.8	19.1	2.8	0.2	(14.4)	590.3
Investment receivables and accrued investment income	18.0	-	-	0.1	0.7	-	18.8
Trade and other receivables	84.0	63.5	7.9	6.5	7.9	(12.7)	157.1
Total financial and insurance assets	2,693.8	162.3	27.0	9.4	8.8	(27.1)	2,874.2

The carrying amount of financial and insurance assets of £2,742.1m (2007: £2,874.2m) included on the Group balance sheet represents the maximum credit exposure.

The movement in the allowance for impairment in respect of financial and insurance assets during the year was as follows:

	2008 £m	2007 £m
At beginning of year	27.1	37.9
Impairment loss recognised	12.0	5.6
Acquisitions through business combinations	4.9	0.4
Disposal of subsidiary companies	-	(4.8)
Released in year	(6.3)	(13.0)
Transferred to assets held for sale	(1.2)	-
Foreign exchange	4.6	1.0
At end of year	41.1	27.1

Based on past experience, the Group believes no impairment allowance is necessary in respect of financial assets not past due date.

The Group considers notified disputes, significant changes in the counterparty's financial position and collection experience in determining which assets should be impaired. The credit quality of receivables is managed at a local business unit level with uncollectable amounts being impaired when necessary.

Assets pledged as security include £43.5m (2007: £23.2m) of cash held in restricted access deposits, £90.5m (2007: £92.5m) of property, plant and equipment and £0.3m (2007: £0.3m) of inventories.

Company

The maximum credit risk exposure of the Company is £1.7m (2007: £6.9m). The Company believes amounts owed to it by subsidiary companies carry no credit risk.

35 Risk management – continued

Liquidity risk

Liquidity risk is the risk that the Group will not have available funds to meet its liabilities.

The Group's main source of funding is via a £1.1bn committed bank facility. This facility does not expire until February 2011 and therefore there is little refinancing risk in the short-term. However, the Group would expect to put in place new funding arrangements prior to expiry of the current facility and will be working towards that objective during 2009. The Group has taken on increased bank borrowings in 2008 as a result of its recent acquisitions but expects reliance on these borrowings to reduce following regular repatriation of operating cash flows and refinancing in the capital markets. The Group Treasury department monitors funding risk as well as compliance with existing financial covenants within banking arrangements. There were no concerns regarding bank covenant coverage in 2008 and that position is not expected to change in the foreseeable future.

The Group enjoys a strong liquidity position and adheres to strict liquidity management policies as set by the Investment Committee as well as adhering to certain liquidity parameters, as defined by the FSA for the Group's regulated entities in the UK and local equivalent authorities for the Group's foreign operations.

Liquidity is managed by currency, and by considering the segregation of accounts required for regulatory purposes, short-term operational working capital requirements are met by cash in hand and committed bank facilities.

Liquidity risk for the long-term insurance business is managed by matching assets to liabilities and by maintaining a portion of the long-term investment portfolio in liquid, short-term deposits.

The contractual maturities of financial liabilities and the expected maturities of insurance liabilities including estimated interest payments of the Group as at 31 December are as follows:

	Subordinated liabilities £m	Other interest bearing liabilities £m	Provisions under insurance contracts issued £m	Other liabilities under insurance contracts issued £m	Trade and other payables £m	Total £m
2008						
2009	(20.6)	(52.4)	(1,908.2)	(30.4)	(519.7)	(2,531.3)
2010	(20.6)	(10.6)	(2.3)	-	(10.5)	(44.0)
2011	(20.6)	(1,115.7)	(1.9)	-	(44.9)	(1,183.1)
2012	(20.6)	(13.6)	(3.9)	-	(34.3)	(72.4)
2013-2018	(123.6)	(83.7)	(2.2)	-	(75.5)	(285.0)
After 2018	(374.3)	(234.8)	(77.7)	-	(0.5)	(687.3)
Total	(580.3)	(1,510.8)	(1,996.2)	(30.4)	(685.4)	(4,803.1)
Carrying value in the balance sheet	(379.6)	(1,478.3)	(1,996.2)	(30.4)	(685.4)	(4,569.9)
2007 (Restated)						
2008	(20.6)	(12.5)	(1,549.1)	(19.0)	(381.5)	(1,982.7)
2009	(20.6)	(6.7)	(1.2)	-	(14.3)	(42.8)
2010	(20.6)	(5.9)	(1.1)	-	(0.9)	(28.5)
2011	(20.6)	(378.4)	(1.2)	-	(2.7)	(402.9)
2012-2017	(123.6)	(75.0)	(6.8)	-	(0.2)	(205.6)
After 2017	(394.9)	(234.4)	(101.0)	-	(145.9)	(876.2)
Total	(600.9)	(712.9)	(1,660.4)	(19.0)	(545.5)	(3,538.7)
Carrying value in the balance sheet	(339.8)	(674.5)	(1,660.4)	(19.0)	(545.5)	(3,239.2)

It is deemed that the provisions under insurance contracts issued relating to general insurance liabilities fall due within one year.

The total liability is split by remaining duration in proportion to the cash flows expected to arise during that period. Interest payments are included in the cash flows for subordinated liabilities and other interest bearing liabilities.

Company

The contractual maturity of financial liabilities fall due within one year.

35 Risk management – continued

Going concern

Details of the Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 2 to 40. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Director's report on pages 28 to 31, together with further information disclosed in notes 23 to 25 and 33. In addition, notes 34 and 35 summarise the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The Group maintains significant cash balances to meet its day to day working capital requirements (see note 23). These balances, together with the Group's medium-term financing requirements are funded by bank loans which mature in 2011.

IAS 1 requires the Group to make an assessment of its ability to continue as a going concern when preparing its financial statements. In making this assessment, management have considered forecasts based on the Group's Four Year Plan for the period 2009 to 2012, which take account of reasonable possible changes in trading performance. These projections show that the Group should be able to continue to operate comfortably within the level of its current facility.

After making enquiries, the Directors have reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

36 Acquisitions

2008 acquisitions

A number of acquisitions were made during the year ended 31 December 2008, the more significant of which were MBF Australia Limited (MBF), Australia's second largest health fund, and Health Dialog, the US based health information and disease management company.

Further details of the acquisitions made during the year ended 31 December 2008 are as follows:

	Date of acquisition	Percentage holding acquired
Bupa Aged Care Australasia Pty Limited (BACA)	4 February 2008	7%*
MBF Australia Limited (MBF)	14 May 2008	100%
Health Dialog	16 January 2008	84.3%**
The Bupa Cromwell Hospital (formerly The Cromwell Health Group Limited)	14 March 2008	100%
Terapia Y Pilates, S.L.	18 February 2008	100%
Secledin S.L.	3 August 2008	100%
Emily Lenny	1 February 2008	Trade and assets

*Bupa acquired a 93% shareholding in BACA on 12 December 2007 thereby gaining immediate effective management control. There was a contractual obligation to purchase shares from the minority shareholders through a written put option on 4 February 2008. As a result, BACA was treated as 100% owned subsidiary for the year ended 31 December 2007. The minority interest at that stage was properly accounted for as a liability, reflecting Bupa's commitment.

** Bupa acquired a 84.3% shareholding in Health Dialog during 2008 such that it now owns 100%.

36 Acquisitions – continued

	MBF			Health Dialog		
	Carrying value at acquisition £m	Fair value adjustments £m	Fair value £m	Carrying value at acquisition £m	Fair value adjustments £m	Fair value £m
Intangible assets	71.8	168.8	240.6	17.3	93.6	110.9
Property, plant and equipment	13.0	(1.9)	11.1	8.8	0.1	8.9
Equity accounted investments	1.1	-	1.1	-	-	-
Financial investments	529.2	-	529.2	-	-	-
Financial investments backing life investment contract liabilities	785.0	-	785.0	-	-	-
Inventories	0.2	-	0.2	-	-	-
Assets arising from insurance business	33.6	-	33.6	-	-	-
Deferred tax asset	0.7	(0.7)	-	23.9	(23.9)	-
Policyholder tax attributable to life investment contracts	3.6	-	3.6	-	-	-
Current tax asset	7.5	-	7.5	1.3	-	1.3
Trade and other receivables	22.9	-	22.9	23.3	-	23.3
Cash and cash equivalents	219.2	-	219.2	37.3	-	37.3
Other interest bearing liabilities	-	-	-	(0.2)	0.2	-
Provisions under insurance contracts issued	(201.5)	(1.3)	(202.8)	-	-	-
Life investment contract liabilities	(807.3)	-	(807.3)	-	-	-
Provisions for liabilities and charges	(2.9)	-	(2.9)	-	-	-
Deferred tax liabilities	-	(47.0)	(47.0)	-	(15.8)	(15.8)
Trade and other payables	(144.4)	(0.6)	(145.0)	(52.4)	-	(52.4)
	531.7	117.3		59.3	54.2	
Net assets acquired			649.0			113.5
Change in value of previously acquired interest			-			(5.1)
Goodwill			467.3			273.8
Consideration			1,116.3			382.2
Consideration satisfied by:						
Cash			1,102.3			352.7
Original investment			-			28.7
Directly attributable costs – cash			13.7			0.8
Directly attributable costs – accrued			0.3			-
			1,116.3			382.2
Purchase consideration settled in cash			1,102.3			352.7
Directly attributable costs			13.7			0.8
Cash and cash equivalents in subsidiary companies acquired			(219.2)			(37.3)
Net cash outflow on acquisition			896.8			316.2

The above tables are translated at average exchange rates for the year ended 31 December 2008. Set out below is the calculation of goodwill using the spot rates as at the respective dates of acquisition.

	MBF	Health Dialog
Net assets acquired	681.9	106.9
Change in value of previously acquired interest	-	4.8
Goodwill	491.0	257.5
Consideration	1,172.9	369.2

36 Acquisitions – continued

	The Bupa Cromwell Hospital			Other		
	Carrying value at acquisition £m	Fair value adjustments £m	Fair value £m	Carrying value at acquisition £m	Fair value adjustments £m	Fair value £m
Intangible assets	0.2	-	0.2	1.9	-	1.9
Property, plant and equipment	20.1	(1.2)	18.9	6.3	-	6.3
Inventories	1.2	-	1.2	-	-	-
Deferred tax asset	-	0.2	0.2	0.2	-	0.2
Trade and other receivables	17.0	1.2	18.2	0.1	-	0.1
Cash and cash equivalents	7.5	-	7.5	0.2	-	0.2
Other interest bearing liabilities	(10.6)	-	(10.6)	(0.7)	-	(0.7)
Post employment benefit liabilities	(0.8)	(2.1)	(2.9)	-	-	-
Provisions for liabilities and charges	-	-	-	(0.1)	-	(0.1)
Deferred tax liabilities	(0.6)	0.6	-	-	-	-
Current tax liabilities	-	(0.3)	(0.3)	-	-	-
Trade and other payables	(8.3)	0.1	(8.2)	(5.4)	-	(5.4)
	25.7	(1.5)		2.5	-	
Net assets acquired			24.2			2.5
Goodwill			70.0			3.6
Consideration			94.2			6.1
Consideration satisfied by:						
Cash			93.2			5.5
Deferred consideration			1.0			0.5
Directly attributable costs – cash			-			0.1
			94.2			6.1
Purchase consideration settled in cash			93.2			5.5
Directly attributable costs			1.0			0.5
Cash and cash equivalents in subsidiary companies acquired			(7.5)			(0.2)
Net cash outflow on acquisition			86.7			5.8

In 2008, a dividend of £2.6m was paid by BACA out of pre-acquisition reserves which reduces the goodwill arising on acquisition from £280.0m to £277.4m.

The fair value adjustments relating to the acquisition of MBF, Health Dialog and The Bupa Cromwell Hospital are provisional and will be finalised during the 2009 financial year but within the twelve month anniversary date of each respective acquisition.

The total fair value of intangible assets acquired through business combinations during 2008 was £353.6m, of which £31.8m was acquired within the net assets of the acquired businesses and £321.8m arose on acquisition and is analysed below:

	MBF £m	Health Dialog £m	Total Group £m
Customer-related assets	163.3	39.5	202.8
Technology and database	-	44.1	44.1
Brand	42.2	10.7	52.9
In-force Life business	17.4	-	17.4
Distribution networks	4.6	-	4.6
	227.5	94.3	321.8

In most business acquisitions, there is a part of the cost that is not capable of being attributed in accounting terms to identifiable assets and liabilities acquired and is therefore recognised as goodwill.

In MBF, goodwill of £467.3m represents a premium for the ability to identify and market new products, as well as the expectation of gaining new customers, the fair value of the going concern element of MBF's existing business, the assembled workforce and other intangibles that do not meet the criteria of IAS 38 and the synergistic benefits through merging the business with Bupa Australia.

In Health Dialog, the value attributed to goodwill of £273.8m includes a premium for obtaining a foothold in the US health care industry with an experienced workforce and established reputation. Other elements include synergies to be gained from operating Health Dialog alongside Bupa's existing insurance business and continuing relationships with key industry organisations.

Goodwill attributable to The Bupa Cromwell Hospital of £70.0m represents a premium paid for the assembled workforce, the affluent locality of the hospital and the synergies expected to be gained by incorporating The Bupa Cromwell Hospital into Bupa's existing business.

In the period from the respective dates of acquisition to 31 December 2008, the total amount contributed to the Group's surplus for the financial year ended 31 December 2008 from the acquisitions made in the year was £44.2m, of which £28.5m was contributed by MBF, £13.2m by Health Dialog and £2.5m by The Bupa Cromwell Hospital. These results include adjustments to give effect to amortisation of intangible assets arising on acquisition together with the related tax effect.

36 Acquisitions – continued

If the acquisitions had occurred on 1 January 2008, the Group's revenue and surplus for the financial year would have been £6,299.5m and £126.4m respectively. These results include adjustments to give effect to amortisation of intangible assets arising on acquisition, together with the related tax effect. The results are not necessarily indicative of the results that would have occurred had the purchases been made at the beginning of the year or of the future results of the combined activities of the Group.

2007 acquisitions

A number of acquisitions were made during the year ended 31 December 2007, the more significant of which were Bupa Aged Care Australasia Pty Limited (BACA), formerly DCA Agedcare Holding Pty Limited, which operates care homes and retirement villages in Australia and New Zealand, and Euroresidencias Gestion SA, which operates care homes in Spain.

During 2008, the fair value acquisition accounting for BACA was finalised and, as such, the reported Group balance sheet as at 31 December 2007 has been adjusted to reflect the fair value adjustments on acquisition. As a result of the valuation exercise performed by Knight Frank, intangible assets arising on the acquisition of BACA have been identified of £23.7m and property, plant and equipment has increased by £47.9m. A decrease of £21.3m has arisen through a fair value valuation exercise on other net assets. These adjustments have resulted in a net decrease to goodwill of £52.7m since reported at 31 December 2007. The impact on the 2007 income statement is considered to be immaterial and therefore has not been restated.

Further details of the acquisitions made during year ended 31 December 2007 are as follow:

	Date of acquisition	Percentage holding acquired
Bupa Aged Care Australasia Pty Limited (BACA)	12 December 2007	93%*
Euroresidencias Gestion SA (EURS)	26 March 2007	100%
Belmont Care Limited	3 December 2007	100%
Avalon Care Homes Limited	12 August 2007	Trade and assets
Guardian Homecare (Surrey & Mid Sussex) Ltd	16 August 2007	100%

* Bupa gained immediate effective management control of BACA on 12 December 2007 as there was a contractual obligation to purchase shares from the minority shareholders through a written put option. As a result, BACA has been treated as a 100% owned subsidiary for the year ended 31 December 2007.

	BACA (Restated)			EURS			Other		
	Carrying value at acquisition £m	Fair value adjustments £m	Fair value £m	Carrying value at acquisition £m	Fair value adjustments £m	Fair value £m	Carrying value at acquisition £m	Fair value adjustments £m	Fair value £m
Intangible assets	59.7	23.7	83.4	0.1	38.5	38.6	-	5.0	5.0
Property, plant and equipment	220.5	47.9	268.4	7.2	-	7.2	10.7	-	10.7
Investment properties	50.5	0.4	50.9	-	-	-	-	-	-
Financial investments	1.7	(1.7)	-	-	-	-	-	-	-
Trade and other receivables	10.5	1.3	11.8	3.6	-	3.6	1.1	-	1.1
Deferred tax asset	4.5	(4.5)	-	-	-	-	0.3	-	0.3
Current tax asset	0.4	(0.2)	0.2	-	-	-	-	-	-
Cash and cash equivalents	7.7	-	7.7	4.6	-	4.6	0.2	-	0.2
Other interest bearing liabilities	-	-	-	(5.4)	-	(5.4)	(1.6)	-	(1.6)
Provisions for liabilities and charges	(9.3)	-	(9.3)	-	-	-	-	-	-
Deferred tax liabilities	-	(15.1)	(15.1)	-	(11.6)	(11.6)	-	-	-
Current tax (liabilities) / assets	-	-	-	-	-	-	(0.1)	-	(0.1)
Trade and other payables	(154.8)	(1.5)	(156.3)	(3.3)	-	(3.3)	(0.9)	-	(0.9)
	191.4	50.3		6.8	26.9		9.7	5.0	
Net assets acquired			241.7			33.7			14.7
Goodwill			280.0			21.9			3.0
Consideration			521.7			55.6			17.7
Consideration satisfied by:									
Cash			481.5			55.5			17.1
Deferred consideration			33.0			-			-
Directly attributable costs – cash			-			0.1			0.6
Directly attributable costs – accrued			7.2			-			-
			521.7			55.6			17.7
Purchase consideration settled in cash			481.5			55.5			17.1
Directly attributable costs			-			0.1			0.6
Cash and cash equivalents in subsidiary companies acquired			(7.7)			(4.6)			(0.2)
Net cash outflow on acquisition			473.8			51.0			17.5

36 Acquisitions – continued

Deferred consideration of £34.7m, which was paid on 4 February 2008 in respect of BACA, comprises AU$79.1m which has been translated at the average exchange rate for 2008 (2007: £33.0m). It was included within trade and other payables at 31 December 2007 (see note 31).

The total fair value of intangible assets acquired through business combinations during 2007 was £127.0m, of which £73.0m was acquired within the net assets of the acquired business and £54.0m arose on acquisition and is analysed below:

	BACA (restated) £m	EURS £m	Other £m	Total £m
Licences	-	38.5	5.0	43.5
Leases	10.5	-	-	10.5
	10.5	38.5	5.0	54.0

In most business acquisitions, there is a part of the cost that is not capable of being attributed in accounting terms to identifiable assets and liabilities acquired and is therefore recognised as goodwill. In the case of the acquisitions of the care home businesses, this goodwill is underpinned by a number of elements, which individually cannot be quantified. Most significant amongst these is the premium attributable to pre-existing, well positioned care home businesses with an experienced workforce and established reputation. Other important elements include buyer specific synergies, potential for future expansion and continuing relationships with the growing customer base.

In the period from the respective dates of acquisition to 31 December 2007, the total amount contributed to the Group's surplus for the financial year ended 31 December 2007 from the acquisitions in the year was £0.8m, of which £0.7m was contributed by BACA, and £0.3m from other acquisitions, offset by a £0.2m loss in EURS.

If the acquisitions had occurred on 1 January 2007, the Group's revenue and surplus for the financial year would have been £4,694.0m and £1,144.3m respectively. These results include adjustments to give effect to amortisation of acquired intangible assets, other than goodwill, together with the related tax effect. The results are not necessarily indicative of the results that would have occurred had the purchases been made at the beginning of the year or of the future results of the combined activities of the Group.

37 Commitments and contingencies

(i) Capital commitments
Capital expenditure for the Group contracted at 31 December 2008, but for which no provision has been made in the financial statements, amounted to £22.0m (2007: £9.3m), all of which related to property, plant and equipment.

The Company has no capital commitments as at 31 December 2008 (2007: £nil).

(ii) Operating leases
The total value of future non-cancellable operating lease rentals is payable as follows:

	2008 £m	2007 £m
Less than one year	29.9	15.7
Between one and five years	114.5	62.8
More than five years	336.0	258.1
	480.4	336.6

The Group leases a number of properties under operating leases. The leases typically run for a period of 25 years, with an option to renew the lease after that date. Lease payments are reviewed regularly in accordance with the terms and conditions of the individual lease agreements. None of these leases include contingent rentals.

Some of the leased properties have been sub-let by the Group. These leases expire between 2009 and 2013 and the sub-leases between 2009 and 2010. Sub-lease receipts of £0.1m (2007: £nil) are expected to be received during the following financial year. The Group has recognised an unoccupied property provision of £5.2m (2007: £5.0m) in respect of these leases (see note 29).

Leases as lessor
The Group leases out its investment properties under operating leases (see note 14). The future lease receipts under non-cancellable leases are as follows:

	2008 £m	2007 £m
Less than one year	1.0	0.8
Between one and five years	4.1	3.4
More than five years	1.7	2.4
	6.8	6.6

During the year ended 31 December 2008 £1.0m (2007: £0.8m) was recognised as rental income in the income statement.

Notes to the financial statements – continued
for the year ended 31 December 2008

37 Commitments and contingencies – continued

Company
The Company had no operating lease obligations (2007: £nil).

(iii) Pension contributions
The Company has an obligation to make a series of special contributions to The Bupa Pension Scheme between now and 31 December 2012, details of which are set out in note 28. In addition, Bupa Finance plc has entered into a legally binding and irrevocable guarantee for the benefit of the trustees of The Bupa Pension Scheme in respect of these payments.

(iv) Contingent assets and 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 2008 amounted to £1,138.0m (2007: £369.9m).

The Company is party to a £1.1bn revolving credit facility, together with various other companies within the Group of which £1,138.0m (2007: £369.9m) had been drawn down as at 31 December 2008. The Company has joint and several liability for all obligations under the agreement.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

38 Related party transactions

Group
The ultimate parent company of the Group is The British United Provident Association Limited.

Intra group related party transactions and outstanding balances are eliminated in the preparation of the consolidated financial statements of the Group.

Transactions with key management personnel
The key management personnel are the Group's Executive and Non-Executive Directors and the Managing Directors of the Group's business segments. The remuneration of the Group's Executive and Non-Executive Directors is disclosed in note 5. The remuneration of the business segment Managing Directors is as follows:

	Note	2008 £m	2007 £m
Short-term employee benefits	a	3.3	4.1
Long-term incentive plan	b	-	1.7
Post employment benefits	c	2.6	1.2
Total remuneration paid to key management personnel		**5.9**	7.0

Notes

a. Included in 2007 is a payment to the Managing Director of the hospitals business on successful completion of the disposal of that business segment.

b. Amounts paid in respect of the long-term incentive plan are earned during a two year period with 60% of the total fund value paid in April of year three and 40% paid in April of year five.

c. Certain members of key management personnel are members of The Bupa Pension Scheme, a defined benefit scheme. Following changes in legislation, the trustees of The Bupa Pension Scheme agreed to change the basis for calculating transfer values, with effect from 1 October 2008. Therefore, the transfer values as at 31 December 2008 have been calculated using this new basis.

The total remuneration of key management personnel is included in staff costs (see note 4).

No Director had any material interest in any contracts with Group companies at 31 December 2008 (2007: £nil) or at any time during the year.

Transactions with the Trustees of The Bupa Pension Scheme
The Company has made pension promises to Executive Directors and key management personnel through an unapproved pension arrangement which mirrors the terms of The Bupa Pension Scheme. From 17 December 2007 these unfunded benefits have been secured by a charge between Bupa Finance plc and Law Debenture Pension Trust Corporation plc over £25.7m (2007: £17.3m) of cash deposits.

There were no material transactions during the year with any other related parties, as defined by IAS 24.

38 Related party transactions – continued

Company
The Company has a related party relationship with its key management personnel and with its subsidiary companies (see note 16).

Transactions with key management personnel
The key management personnel are the Group's Executive and Non-Executive Directors and the Managing Directors of the Group's business segments. The remuneration of the Group's Executive and Non-Executive Directors is disclosed in note 5. The total remuneration of the business segment Managing Directors is as disclosed above.

The total remuneration of key management personnel is included in staff costs (see note 4).

Transactions and balances with subsidiary companies

	Transactions during the year		Balance at 31 December	
	2008 £m	2007 £m	2008 £m	2007 £m
Income statement				
Management charges received	140.5	133.7		
Interest income	21.8	16.5		
Interest expense	(33.2)	(24.2)		
Income received (including rental income of £0.2m (2007: £0.2m))	1.9	2.0		
Expenses paid (including rental expense of £6.5m (2007: £6.5m))	(7.0)	(7.0)		
Balance sheet				
Amounts owed by subsidiary companies	(8.9)	28.6	240.0	248.9
Amounts owed to subsidiary companies	(41.9)	(99.8)	(409.0)	(367.1)
Loans to subsidiary companies	-	(7.3)	-	-
Loans from subsidiary companies	0.7	(0.3)	(4.6)	(5.3)

The above outstanding balances arose during the ordinary course of business and are on substantially the same terms, including interest rates, as for comparable transactions with third parties.

Five year financial summary

	Note	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Revenues – segmental analysis						
UK Insurance		1,965.1	1,896.7	1,843.8	1,725.4	1,634.8
International Insurance		2,603.3	1,519.9	1,352.2	1,081.7	920.9
Care Homes		873.2	648.7	590.5	540.4	495.6
Hospitals		-	-	-	531.2	529.1
Other Health Services		423.7	170.5	38.5	-	-
Revenue from continuing operations		5,865.3	4,235.8	3,825.0	3,878.7	3,580.4
Revenue from discontinued operations		-	295.3	420.6	-	-
Total revenues	a	5,865.3	4,531.1	4,245.6	3,878.7	3,580.4
Operating expenses (including claims)		(5,513.7)	(3,896.3)	(3,524.0)	(3,564.7)	(3,313.7)
Impairment of goodwill		(116.5)	-	(14.3)	(6.0)	(17.0)
Impairment of intangible assets arising on acquisition		(4.0)	(5.7)	-	-	-
Other (charges) / income		(3.4)	20.1	10.2	28.9	(1.4)
Claims and expenses from continuing operations		(5,637.6)	(3,881.9)	(3,528.1)	(3,541.8)	(3,332.1)
Claims and expenses from discontinued operations		-	(242.8)	(380.9)	-	-
Total claims and expenses		(5,637.6)	(4,124.7)	(3,909.0)	(3,541.8)	(3,332.1)
Surplus before goodwill impairment, impairment of intangible assets, other (charges) / income, and financial income and expenses from continuing operations		351.6	339.5	301.0	314.0	266.7
Goodwill impairment and amortisation		(116.5)	-	(14.3)	(6.0)	(17.0)
Impairment of intangible assets		(4.0)	(5.7)	-	-	-
Other (charges) / income		(3.4)	20.1	10.2	28.9	(1.4)
Surplus before financial income and expenses from continuing operations		227.7	353.9	296.9	336.9	248.3
Financial income and expenses		(40.6)	44.1	(4.7)	20.5	(39.8)
Surplus before taxation expense		187.1	398.0	292.2	357.4	208.5
Taxation expense		(78.3)	(104.2)	(91.0)	(103.7)	(64.8)
Surplus for the year from continuing operations		108.8	293.8	201.2	253.7	143.7

Five year financial summary – continued

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Discontinued operations					
Surplus from operating activities before financial income and expenses	-	52.5	39.7	-	-
Financial income and expenses	-	(9.8)	(1.2)	-	-
Surplus from operating activities before taxation expense	-	42.7	38.5	-	-
Taxation expense	-	(12.3)	(2.5)	-	-
Surplus from operating activities for the financial year	-	30.4	36.0	-	-
Profit on sale of business	-	815.6	-	-	-
Taxation on profit on sale of business	-	(6.3)	-	-	-
	-	809.3	-	-	-
Surplus for the financial year from discontinued operations	-	839.7	36.0	-	-
Surplus for the financial year	108.8	1,133.5	237.2	253.7	143.7

	2008 £m	2007* (Restated) £m	2006 £m	2005 (Restated) £m	2004 £m
Attributable to:					
Bupa	104.7	1,131.3	220.5	236.1	139.9
Minority equity interests					
Callable subordinated perpetual guarantee bonds	-	-	14.3	14.3	-
Other	4.1	2.2	2.4	3.3	3.8
	108.8	1,133.5	237.2	253.7	143.7
Reserves					
Property revaluation reserve	636.5	647.5	641.9	645.8	399.2
Income and expense reserve	2,792.1	2,683.3	1,286.7	1,056.1	812.6
Cash flow hedge reserve	30.9	(1.4)	-	-	-
Foreign exchange translation reserve	124.0	17.0	(11.8)	1.0	(3.2)
Equity attributable to Bupa	3,583.5	3,346.4	1,916.8	1,702.9	1,208.6
Equity attributable to minority equity interests					
Callable subordinated perpetual guarantee bonds	-	-	-	317.7	-
Other	34.3	15.9	11.5	23.3	14.5
	34.3	15.9	11.5	341.0	14.5
Total equity	3,617.8	3,362.3	1,928.3	2,043.9	1,223.1

Notes

a. Included in revenue from continuing operations and surplus before impairment of goodwill, impairment of intangible assets arising on acquisition, other (charges) / income, and financial income and expenses from continuing operations for the years ended 31 December 2005 and 2004 are the results of Bupa Hospitals sold in August 2007, one hospital sold in March 2006 and nine hospitals sold in July 2005. The trading of these entities has not been disclosed as discontinued for the years ended 31 December 2005 and 2004, as at the time of these disposals, the decision had not been made to exit the hospitals market.

International Financial Reporting Standards relevant to Bupa

International Financial Reporting Standards (IFRS)

IFRS 1	First-time adoption of International Financial Reporting Standards
IFRS 3	Business combinations
IFRS 4	Insurance contracts
IFRS 5	Non-current assets held for sale and discontinued operations
IFRS 7	Financial instruments: Disclosures
IFRS 8	Operating segments

International Accounting Standards (IAS)

IAS 1	Presentation of financial statements
IAS 2	Inventories
IAS 7	Cash flow statements
IAS 8	Accounting policies, changes in accounting estimates and errors
IAS 10	Events after the balance sheet date
IAS 12	Income taxes
IAS 14	Segment reporting
IAS 16	Property, plant and equipment
IAS 17	Leases
IAS 18	Revenue
IAS 19	Employee benefits
IAS 21	The effects of changes in foreign exchange rates
IAS 23	Borrowing costs
IAS 24	Related party disclosures
IAS 27	Consolidated and separate financial statements
IAS 28	Investments in associates
IAS 31	Interests in joint ventures
IAS 32	Financial instruments: presentation
IAS 36	Impairment of assets
IAS 37	Provisions, contingent liabilities and contingent assets
IAS 38	Intangible assets
IAS 39	Financial instruments: recognition and measurement
IAS 40	Investment property

Interpretations

IFRIC 4	Determining whether an arrangement contains a lease
IFRIC 10	Interim financial reporting and impairment
IFRIC 13	Customer loyalty programmes
IFRIC 14	The limit on a defined benefit asset, minimum funding requirements and their interaction
SIC 12	Consolidation – special purpose entities
SIC 15	Operating leases – incentives
SIC 21	Income taxes – recovery of revalued non-depreciable assets
SIC 27	Evaluating the substance of transactions involving the legal form of a lease
SIC 32	Intangible assets – website costs