



Southern Cross
Healthcare

Life's good, keep it that way

The Southern Cross Medical Care Society
2008 Annual Report

2008



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Annual Report
For The Year Ended
30 June 2008

highlights

for the year ended 30 June 2008

- Membership grew by 9,242 to 834,967. This was 72% of the total growth in the New Zealand health insurance market.
- Premium income was \$523.3 million, up \$32.4 million or 6.6% on the previous year.
- Claims totalled \$464.2 million, up \$64.7m or 16.2% on the previous year.
- For every dollar of premium income received, the Society paid out 89.6 cents in claims.
- The surplus was \$7.8 million.
- Reserves increased 2.5% to \$329.3 million.
- The Society provided for increases in benefits and new additions to cover, worth an estimated \$12.8 million per annum.
- The Society launched the Southern Cross Plus Programme.



chairman's report

Jeff Todd Chairman of the Board

Membership growth was particularly strong in the corporate sector

The Southern Cross Medical Care Society performed well in the 2007/08 financial year. We achieved further growth in our membership and maintained claims to premium ratios well ahead of those achieved by our competitors.

In the 12 months to 30 June 2008 our membership increased by 9,242 to 834,967, repeating the growth trend we have experienced in the last two years. The Society's gain in membership accounted for 72% of the total increase in New Zealanders covered by health insurance in that

period. We continue to be New Zealand's leading health insurer with 60% of the market by lives covered. We represent 71% of total claims settled by health insurers in the year to 30 June, 2008.

Our membership growth was particularly strong in the corporate sector, with 83% of our new members belonging to employer health insurance schemes. This achievement is all the more pleasing given that employers are required to pay fringe benefit tax when they provide subsidised health insurance

and they are also facing higher financial demands as a result of KiwiSaver contributions and the provision of four weeks annual leave.

In the 2007/08 financial year, the Society earned \$523.3 million in premiums, a \$32.4 million or 6.6% increase on the prior year. The increase relates to our growing membership numbers and to the 5.4% increase in average base rate premiums during the year. Claims totalled \$464.2 million, an increase of \$64.7 million or 16.2% on the prior year.

We have continued to achieve a very good claims to premium ratio with 89.6 cents of every dollar received in premiums paid to members in claims. This compares with our claims to premium ratio of 88.5 cents in the dollar for the 2006/2007 financial year. It also compares very favourably with the performance of our most prominent for-profit competitor whose reported average ratio at September 2007 was below 60 cents in the dollar.

Operating expenses for the year were \$72.1 million, an increase of 5.3% on the prior year. Taking inflation, membership growth, improved service levels for claims settlement, the development of a fast-track claims system for Affiliated Providers and the Plus Programme launch into account, this is a very good performance.

In the last 12 months the Society experienced 300% growth in the take up of corporate wellness programmes - and the Activa product is included as part of this offering.

Aligning Activa to the corporate market has seen its performance improve steadily. At the end of the financial year, 37 corporates were providing Activa accounts for employees. This is growth of 185%, albeit achieved off a modest base. It supports the Society's view that there is a need in the market for a health-linked financial management product for people who do not want traditional health insurance, but still want to provide for their everyday healthcare

spending, as well as funding private treatment. Activa recorded a small loss and we continue to monitor its performance closely. Meanwhile, the partnerships developed through Activa have played a valuable role in the establishment of the Southern Cross Plus Programme which was launched this year to give all of our members access to savings and promotional offers in health-related products and services.

Despite ongoing nervousness about global credit, the Society's investment portfolio remains sound at \$413.5 million. During the financial year interest rates rose rapidly, leaving some of our longer term investments invested at less favourable rates than the current market. The mark-to-market value of the investment portfolio therefore saw an unrealised \$14.7 million write-down. Because we hold these investments to maturity, this write-down is expected to be reversed in future years.

The increase in our claims to premium ratio and the write-down to market value of the investment portfolio were the contributing factors to our achieving a modest surplus of \$7.8 million for the year. This result is slightly under budget, but totally appropriate considering the strength of the Society's reserves.

These reserves increased by 2.5% to \$329.3 million, reflecting the Society's financial stability and our commitment to maintaining a strong solvency position. Our sound financial position is reflected in the A+ rating by Standard & Poor's. The Society has now held this rating for six consecutive years.

89.6 cents in every dollar received in premiums was paid to members in claims

Premiums

In the 2007/08 financial year base rate premiums were increased, on average, by 5.4%. However, because premiums differ according to age groups and policies and reflect relative risk, changes in base rate premiums varied from reductions of up to 9% to increases of up to 18%.

As a not-for-profit Friendly Society, our goal is to provide a premium structure that is fair to all members and sustainable over the long term. In setting premiums for the 2008/09 financial year we have taken advantage of our strong financial position and as a result there will, on average, be no base rate premium increases across our membership. However, premium rates are also adjusted to reflect claiming patterns by age group and plan type. Overall, 36% of our membership will receive no increase or a premium reduction while a further 35% of members will have a small premium increase of 5% or less.

As in the past, the largest increases will be in the older age groups reflecting the claims made by that group. For example, the premiums received from members aged over 60 amounted to \$197.2 million, while claims made by that group amounted to \$199.0 million in the 12 months to 30 June, 2008.

Benefit Review 2008

The review of benefits completed during the year resulted in increases in benefits and new additions to cover, worth an estimated \$12.8 million per annum. This includes \$3.4 million in general benefit increases, \$1.7 million on new benefits, another \$4 million for raising hospital benefit limits on Shared Cover plans like RegularCare and KiwiCare and \$3.7 million in updates to our Schedule of Surgical Maximums paid under those plans.

Annual Meeting Date

This year the Annual General Meeting (AGM) of the Society will move from early October to late November. This is because last year our members

The review resulted in increases in benefits and new additions to cover worth \$12.8m

voted for changes in the Society's Rules so that our AGM is now held approximately two months after the publication of our annual accounts. Although we recognise that the later date, with its proximity to the Christmas build up, may be less convenient for some members it does allow additional time for members to review the annual report and accounts ahead of the meeting.

As in previous years all members will receive a notice of meeting well ahead of the annual meeting which will detail the agenda and any resolutions to be put to the meeting. This pack will also include a proxy form and we would encourage those unable to attend to exercise their vote by appointing a proxy.

Acknowledgements

As my first year as Chairman comes to a close I would like to thank the members of the Board for their good counsel and support and to thank our members for their continued loyalty. Thanks are also due to our Chief Executive Officer, Dr Ian McPherson and his team for another successful year for the Southern Cross Medical Care Society.



Jeff Todd
Chairman



Board of Directors (L to R) Dr Douglas Baird, Dr Harley Gray, Carole Durbin, Phillip Meyer, Jeff Todd (Chairman), David May, Dr Susan Macken.

We continue to focus on premium affordability and providing the best levels of service

Of the 1.4 million New Zealanders now with health insurance, 834,967 are insured with Southern Cross. It is pleasing to see this growth and our ability to retain members through ensuring our plans provide the best value possible. Increasingly, individuals and families are recognising that health insurance is a sensible investment and that it also makes sense to choose Southern Cross, given that health insurance is the Society's main business and priority.

While health insurance has become a "should have" rather than a "nice to have", we recognise that we cannot take member loyalty for granted. We continue to focus on premium affordability and providing our members with the best levels of service in terms of prior approvals and claims settlement. We also work hard to ensure our benefits and cover reflect market conditions, with this year's review providing for benefit and cover increases worth an estimated \$12.8 million per annum. The year also saw good progress on projects

and above the benefits they receive through their insurance. A good example is the Southern Cross Plus Programme, launched in February 2008.

Each of our members aged 16 years and over now has a Southern Cross Plus card. This gives them access to exclusive discounts and offers from Plus Partners (retailers, health providers and businesses throughout New Zealand). Products and services include audiology, gym memberships, health foods, travel insurance, optical, pharmacy, physiotherapy, sportswear and vitamins. Our Partners include many well known chains.

The Southern Cross Plus card can also be used to simplify claiming when a member requires a healthcare service available from an Affiliated Provider. In conjunction with the card's launch we launched our new Alive member magazine, which replaces Jump! The magazine goes out to 400,000 New Zealand households



chief executive officer's report

Dr Ian McPherson Chief Executive Officer

that will take advantage of technology to further streamline our members' dealings with us.

As well as paying for treatment, we promote good health, working with employers in workplace programmes which promote wellbeing and productivity, and provide all of our members with up-to-date health information, both on-line and through our member publications.

We also look for opportunities to create value for our members over

twice a year and provides a wealth of health and lifestyle information.

Member Advocacy

It has been a year in which we have vigorously advocated on behalf of our members as more District Health Boards aim to charge private patients for laboratory testing which, until now, has been covered through the public health system.

This charging of private patients now applies in the Capital and Coast and Hutt Valley DHB regions, as well

as the Tairāwhiti region. The Otago and Southland DHB regions have agreed to adopt the lab test charge proposal and are in the process of implementing it.

DHBs in Canterbury, the West Coast and now the Auckland region have announced that they are considering this move. We have spoken out against this blatant cost shifting and will be actively involved in any consultation process on our members' behalf.

As the Wellington experience has shown, in many cases private patients are being heavily penalised by this Government policy.

There, private patients have paid more than \$1.6 million in the first 10 months of the policy being applied. Included in those figures are sums of \$2,400 and \$1,600 paid for tests associated with cardiac surgery. The Impact Evaluation Report by Capital and Coast DHB and Hutt Valley DHB, showed patients were paying an average cost of \$16.51 per test.

It is important to note, however, that people generally require more than one type of test when ill and each one comes at a cost. We note that the Impact Evaluation Report quotes \$62.20 per private visit. Our own experience is that the average amount claimed by Southern Cross health insurance members for private specialist laboratory tests in Wellington was \$98.36.

What is disturbing about this cost shifting is the prevailing attitude in DHBs that private patients are wealthy individuals who can well afford the additional costs of laboratory testing. We believe it is a nonsense to pretend that the 1.4 million New Zealanders with health insurance are all wealthy people with no financial worries. This is clearly not the case, with many of our members budgeting carefully to maintain their health insurance cover.

There is no recognition given to the fact that those with insurance – and those without who pay for private care – are taxpayers too. There is also no recognition that many people with

insurance are in employer subsidised schemes where their companies are hit with fringe benefit tax simply for being responsible employers.

Rather than penalise the insured, we believe the public system should acknowledge that New Zealanders with health insurance effectively save the public system money. Health Funds Association of New Zealand data to 30 June 2008 shows the private system paid some \$600 million towards elective procedures, around 145,000 of which were funded by Southern Cross. We will continue to advocate on behalf of our members.

We also strongly support the recommendation by the Government's Small Business Advisory Group that fringe benefit tax be removed from subsidised health insurance provided by employers.

We have long argued that this tax

is an anomaly, particularly given that ACC premiums do not attract FBT. Our view is that employers should be encouraged, rather than discouraged, when it comes to providing benefits which are not only valued by employees, but also make a proven contribution to workplace productivity. We know from industry data that fringe benefit tax acts as a disincentive for employers who are considering subsidised health insurance for their employees. We will continue to support any proposal to remove FBT from employer-subsidised schemes.

Switch2Well

As a market leader in healthcare, the Society's services include working with our corporate clients to assist them in providing healthy workplaces which encourage greater staff productivity and more loyal employees.

Our credentials in this area were enhanced during the year with Southern Cross Healthcare winning



(L to R) Lindsey Lawton, Chief Operating Officer Management Services; Lee Hohaia, Acting Director Health Partners and Clinical Strategy; Peter Tynan, Chief Operating Officer Marketing and Distribution; Craig Morrison, Chief Operating Officer Members' Services.

the Manaaki Tangata Innovation Award from the National EEO Trust Work & Life Awards for our own in-house health and wellbeing programme, Switch2Well.

We offer this programme to all our corporate clients, and importantly it is offered to all of our permanent staff. It is testament to the benefits offered by the programme that 94% of our staff attended or participated in some form of Switch2Well activity.

Switch2Well includes reward vouchers for various health and wellbeing practitioners such as nutrition consultations and personal trainers, Activa, support for subsidised Weight Watchers meetings, free GP consultations and subsidised smoking cessation meetings all held in the workplace.

The investment in the programme is returning significant dividends for employers, including us. In addition

to personal health improvements, Southern Cross staff are reporting greater job satisfaction and we have recorded an 11% reduction in personal sick leave. This equates to a significant saving for Southern Cross and an increase in productivity.

Switch2Well benefits our members as well as our people, since it enables us to retain the experienced, motivated staff who provide service to our members, while reductions in overheads relating to absenteeism or staff illness mean more affordable premiums in the long term. At the same time we can apply our experience with the programme to assisting our corporate clients to offer meaningful health and wellbeing programmes of their own.

Thanks

We appreciate the support and loyalty of our members, particularly those new to the Society who have chosen us as their health insurer in an increasingly

competitive market. My personal thanks to our management team and to the Board for another year of support.



Dr Ian McPherson
Chief Executive Officer

statement of corporate governance

The Southern Cross Medical Care Society adheres to principles designed to ensure prudent corporate governance of its affairs.

Board of Directors

In accordance with its Rules, The Southern Cross Medical Care Society is governed by a Board of directors, the number and composition of which, is fixed from time-to-time by the Board.

To discharge its responsibilities the Board has established a process for the nomination, selection, and appointment of directors to fill casual vacancies, and for the operation of the Board, to ensure that the Board comprises directors with an appropriate range of qualifications and expertise. The Board reviews its performance and that of all directors on an annual basis.

When a Board vacancy exists, the Board, with the help of external consultants, selects a panel of candidates with appropriate qualifications taking into account the relevance of these qualifications to the Society's operations. The Board appoints the most suitable candidate who then stands for election at the next Annual General Meeting of members.

The Directors in office as at 1 July 2008 are: Jeff Todd CBE (Chairman), Dr Douglas Baird, Carole Durbin, Dr Harley Gray CNZM, Dr Susan Macken, David May, Phillip Meyer.

Trustees

The Rules of the Society provide for the appointment of three Trustees. All property belonging to the Society vests in the Trustees, who hold it in trust for the members.

Consistent with good governance principles, the Trustees are also Directors of the Board.

The Trustees in office as at 1 July 2008 are: Carole Durbin, David May and Jeff Todd.

Board Responsibilities

The Board endorses the principles set out in the Code of Proper Practice for directors, as approved and adopted by the Institute of Directors in New Zealand.

The Board guides and monitors the business affairs of the Society on behalf of the members.

The Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks. In addition, the Board ensures that the Society meets its regulatory obligations and performs to high ethical standards.

All directors register, and formally record, any conflicts of interest. Should a conflict of interest arise during the course of Board business the particular director involved takes no part in that discussion or the resulting decision.

Delegation Framework

Responsibility for the day-to-day operation and administration of the Society is delegated by the Board to the Chief Executive Officer and senior management team. The Board ensures that this group is appropriately qualified and experienced to discharge their responsibilities, and has in place procedures to assess the performance of the Chief Executive Officer and the management team. The Board oversees the implementation by management of operating plans and budgets, and monitors key performance indicators and progress against budget.

Board Meetings

The Board meets formally on a scheduled basis and follows guidelines that ensure all directors have available the necessary information to participate in an informed discussion of all agenda items. Separate strategic and planning meetings are held in conjunction with the senior management team on a scheduled basis.

Committees

The Board has established a number of committees that meet at predetermined intervals to oversee specific business aspects.

Audit Committee

This committee operates under a charter approved by the Board. The committee is accountable to the Board for recommending the appointment of the external and internal auditors, directing and monitoring the audit function, and reviewing the adequacy and quality of an annual audit process.

The Audit Committee is also responsible for ensuring that requirements of the Society's Auditors are met, that the Society has an effective internal control framework, ascertaining that adequate procedures are in place to keep records in a manner which will enable them to be properly audited and that appropriate ethical standards are maintained.

The Audit Committee comprises David May (Chairman), Dr Susan Macken and Jeff Todd.

Remuneration Committee

This committee is responsible for reviewing the remuneration and compensation of senior management of the Society, for overseeing staff remuneration policies in general and making recommendations to the Board. This committee operates under a charter approved by the Board.

This Remuneration Committee comprises Carole Durbin (Chairman), Phillip Meyer and Jeff Todd.

Investment Committee

This committee assists the Board with formulating and monitoring policies for the investment assets of the Society, and establishing guidelines in furtherance of those policies. It operates under a charter approved by the Board.

The Investment Committee comprises Phillip Meyer (Chairman) and the Trustees (Carole Durbin, David May and Jeff Todd).

board of directors

Jeff Todd CBE

BCom, FCA, FInstD

Chairman

Mr Jeff Todd is a Company Director and Chartered Accountant. He has been a member of the Board since July 1998, Deputy Chairman from 2004, and was appointed Chairman in July 2007. He joined the Board of Southern Cross because of his belief in the critical role of the Society in supporting, with the public sector, the delivery of comprehensive, quality and affordable health care to all New Zealanders.

Mr Todd has a longstanding interest in health care and health research. He serves on the Boards of the Auckland Medical Research Foundation, the Goodfellow Foundation, Christian Healthcare Trust, and the National Research Centre for Growth and Development based at the Liggins Institute.

He was invited to join the Board after a career with Chartered Accountants, Price Waterhouse (now PricewaterhouseCoopers) where he was Managing Partner for New Zealand and the Pacific before retiring in 1998.

He is also Chairman of NZ Guardian Trust and the Dynasty Hotel Group, deputy Chairman of Sanfords and a Director of Watercare Services.

Dr Douglas Baird

MBChB, DipObst, FRNZCGP

Dr Douglas Baird was appointed as a Director of Southern Cross in July 2007.

He is the Chairman of Homecare Medical Ltd, a Director of Dr Ponsonby-White Cross Ltd, a Trustee of the Auckland Medical Benevolent Fund and Managing Director of Aotea Health Services.

Dr Baird is a past Chairman of the Independent Practitioners Association Council (IPAC), was a founding Director of ProCARE Health (an organisation which represents more than 500 GPs in Auckland) and of BPACnz, an organisation dedicated to effective use of resources by health providers.

He has served in elected and advisory roles with the Auckland District Health Board, the ACC Medical Misadventure Unit and the Office of the Health and

Disability Commissioner.

Dr Baird has a Diploma of Obstetrics, is a Fellow of the Royal New Zealand College of General Practice and was in general practice from the late 1970s until 2007.

With extensive experience in successful commercial enterprises, Dr Baird brings to the Board an excellent understanding of the health industry, particularly General Practice, population health and the management of restricted resources.

Carole Durbin

BCom, LLB(Hons), FAMINZ, FInstD

Ms Carole Durbin was appointed as a Director of Southern Cross in August 2006.

Ms Durbin is the Chair of electricity generator Mighty River Power and retailer Mercury Energy which supplies over 600,000 people. She is also Chair of the Legal Services Agency. She is a Commissioner for the Earthquake Commission and since 2004 has been a director of Fidelity Life, the largest New Zealand-owned life, personal protection and business assurance operation in the country. She believes that her governance experience is of value to Southern Cross in its endeavours to protect and improve the health of so many New Zealanders.

A consultant to Simpson Grierson, one of New Zealand's leading legal firms, Ms Durbin has also held a number of previous Board appointments including Simpson Grierson, Transpower NZ and software developer Synergy International (now Fronde). Ms Durbin has an LLB (Hons) and a BCom (Accountancy) from Auckland University. She is a Fellow of the Institute of Directors.

Dr Harley Gray CNZM

ChM, MMedSc, FRACS

A member of the Southern Cross Board since July 2004, Dr Harley Gray was an eminent orthopaedic surgeon at Auckland's Middlemore Hospital until 2000.

Dr Gray, who was made a Companion of the New Zealand Order of Merit in 2003, says an important

focus for him as a Director is the engagement of health professionals in quality assurance and cost containment in the private sector. He draws on his extensive medical and surgical experience to engage health professionals in these issues.

Dr Gray is a former President of the New Zealand Orthopaedic Association and the Auckland Medico Legal Society. He has served as Vice President of the Royal Australasian College of Surgeons, as a Director of Capital Coast Health and Chair of the Clinical Board, and as Chief Medical Officer for South Auckland Health. Dr Gray is a member of the Institute of Directors.

Dr Susan Macken

BSc, BCom, PhD

Dr Susan Macken is a company director and business consultant who has served on the Southern Cross Board since May 1997.

A Director of a number of companies including the Bank of New Zealand, Bosco Connect and leading reproductive services company, Fertility Associates, Dr Macken also advises on corporate strategy and governance with a broad range of industries and companies.

She has held senior executive positions in major New Zealand corporates including Fletcher Challenge and the Blue Star Group and her previous directorships include Landcare Research, NZ Racing Industry Board, Hutt Valley Health, and NZ Trade Development Board.

Dr Macken is committed to ensuring the Society is a leader in efficiency and effectiveness so that private health care is accessible and affordable to as many New Zealanders as possible.

David May

BSc (Hons), FIAA

Mr David May joined the Southern Cross Board in June 2002, attracted by the opportunity to contribute his management, insurance and financial experience to the health sector. He believes that a strong, adaptable private health sector will be vital in helping

the public sector meet the enormous growth in demand over the next 20 years.

A qualified actuary, Mr May is Chairman of the Guardians of the New Zealand Superannuation Fund (NZSF), Deputy Chairman of the Government Superannuation Authority and a Director of Annuitas Management. He was the former Managing Director of the Colonial Group (NZ).

He says the most satisfying aspects of his Directorship has been working firstly to rebuild the Society's financial strength and subsequently to focus on ways to mitigate the continuing rise in health costs. He says significant strategic challenges remain; firstly, to continue to manage the costs of welcome but often expensive technological advances and, secondly, to ensure members continue to enjoy affordable options for health cover.

Phillip Meyer

FAIM, FNZIM, AF Inst D

Mr Phillip Meyer joined the Board in June 2002, seeing it as a way to contribute to improving the health of New Zealanders.

He believes Southern Cross plays an important role in health care, reducing anxiety about major health needs and helping to give New Zealanders lasting reassurance about access to quality health care.

Mr Meyer is an experienced company director and investment banker. He is Chairman of Australian Financial Services Group and New Zealand Institute of Management Central Inc.; Deputy Chairman of Wellington Zoo Trust; Director of Kordia Group, Wellington Regional Orchestra Foundation Inc., New Zealand Institute of Management Inc.; Independent Director of the Institute of Financial

Advisers; Trustee of Enterprise New Zealand Trust; member of the Disciplinary Tribunal of the New Zealand Institute of Chartered Accountants, NZX Discipline and the Institute of Directors National Council; and has served on the Development Council of the Heart Research Institute (Australia) and as Chairman of the Executive Business Council of the New South Wales Cancer Council. Mr Meyer is also an Advisor to GPR Dehler (Australia) and was this year appointed as one of two Crown Monitors of the Whanganui District Health Board.

Summary of Meetings for Year Ended 30 June 2008

	Society Board Meetings	AGM	Strategic Workshops	Audit Committee	Remuneration Committee	Investment Committee	Group Strategic Meetings
JG Todd	9	1	3	5	4	4	5
Dr DD Baird	9	1	3				4
Ms CB Durbin	9	1	3		4	2	5
Dr DH Gray	9	1	3				5
Dr SC Macken	9	1	3	5			5
DJ May	8	1	3	4		3	5
PJ Meyer	9	1	3		4	4	5

Ms CB Durbin - appointed to Investment Committee October 2007

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CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2008

	Note	Group		Society	
		2008	2007	2008	2007
		\$000	\$000	\$000	\$000
Premium revenue		523,267	490,898	523,267	490,898
Net claims expense	3	464,209	399,491	464,209	399,491
Underwriting surplus		59,058	91,407	59,058	91,407
Operating expenses	4	72,077	68,437	70,981	68,545
Operating surplus / (deficit)		(13,019)	22,970	(11,923)	22,862
Investment and other income	5	20,846	25,041	19,860	23,837
Surplus before taxation		7,827	48,011	7,937	46,699
Taxation	6	-	-	-	-
Surplus for the year		7,827	48,011	7,937	46,699

CONSOLIDATED STATEMENT OF MOVEMENTS IN RESERVES

For the year ended 30 June 2008

		Group		Society	
		2008	2007	2008	2007
		\$000	\$000	\$000	\$000
Surplus for the year		7,827	48,011	7,937	46,699
Movement in asset revaluation reserve		300	1,400	300	1,400
Total recognised income and expense		8,127	49,411	8,237	48,099
Reserves at the start of the year		321,205	271,794	320,896	272,797
Reserves at the end of the year	7	329,332	321,205	329,133	320,896

The accompanying Notes form part of these Financial Statements

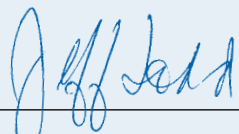


CONSOLIDATED BALANCE SHEET

As at 30 June 2008

	Note	Group		Society	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
Assets					
Cash and cash equivalents		1,092	715	985	561
Premium and other receivables	8	51,701	48,706	55,659	48,807
Investments	9	413,494	411,793	413,494	411,493
Investment in subsidiaries	10	-	-	-	334
Property and equipment	11	14,511	15,167	14,482	15,118
Intangible assets	12	5,149	3,690	5,037	3,072
Total assets		485,947	480,071	489,657	479,385
Liabilities					
Payables	13	15,306	14,416	19,216	14,059
Employee benefits	14	6,785	6,255	6,784	6,235
Insurance contract liabilities	15	134,524	138,195	134,524	138,195
Total liabilities		156,615	158,866	160,524	158,489
Net assets		329,332	321,205	329,133	320,896
Reserves		329,332	321,205	329,133	320,896

For and on behalf of the Board



J G Todd
CHAIRMAN

_____ 02 / 09 / 2008

Date



D J May
DIRECTOR

_____ 02 / 09 / 2008

Date

The accompanying Notes form part of these Financial Statements



CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2008

	Note	Group		Society	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
Cash flows from operating activities					
Premium revenue		520,141	477,007	520,141	477,007
Income from investments		34,216	27,350	34,178	27,305
Other income		1,000	1,219	50	60
Payment of claims		(466,102)	(421,932)	(466,102)	(421,932)
Payments to employees		(34,338)	(31,804)	(32,503)	(29,767)
Payments to suppliers		(32,438)	(30,051)	(33,290)	(30,188)
Net cash flows from operating activities	19	22,479	21,789	22,474	22,485
Cash flows from investing activities					
Net proceeds/(payments) for property and equipment		(869)	(784)	(865)	(1,194)
Payments for intangible assets		(4,798)	(1,862)	(4,450)	(2,099)
Net proceeds/(payments) for investments		(16,435)	(19,507)	(16,735)	(19,307)
Net cash flows from investing activities		(22,102)	(22,153)	(22,050)	(22,600)
Net increase/(decrease) in cash held		377	(364)	424	(115)
Opening cash balance		715	1,079	561	676
Closing cash balance		1,092	715	985	561

The accompanying Notes form part of these Financial Statements



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

1. STATEMENT OF ACCOUNTING POLICIES

Reporting entity

Southern Cross Medical Care Society (the "Society") is a Society domiciled in New Zealand, registered under the Friendly Societies and Credit Unions Act 1982.

The Society's registered office is 181 Grafton Road, Auckland.

Financial statements for the Society and consolidated financial statements are presented. The consolidated financial statements of Southern Cross Medical Care Society as at, and for the year ended, 30 June 2008 comprise the Society and its subsidiaries: Southern Cross Health Services Limited, Southern Cross Healthcare Limited (non-trading) and Activa Health Limited (together referred to as the "Group").

The statutory base for the subsidiaries is the Companies Act 1993 and the Financial Reporting Act 1993.

Southern Cross Medical Care Society's primary activity is the provision of health insurance.

Basis of preparation

The financial statements have been prepared in accordance with New Zealand generally accepted accounting practice ("NZ GAAP"). They comply with New Zealand equivalents to international financial reporting standards ("NZ IFRS"), and other applicable financial reporting standards, as appropriate for public benefit entities. NZ IFRS requires all entities to determine whether they are a public benefit entity or a profit oriented entity for reporting purposes. The Directors consider that the Society is more closely aligned with the characteristics of a public benefit entity than a profit oriented entity. These are the Group's first financial statements prepared in accordance with NZ IFRS and NZ IFRS 1 – *First-time adoption of New Zealand equivalents to international financial reporting standards* has been applied.

The balance sheet has been presented in the order of decreasing liquidity.

The financial statements were approved by the Board of Directors on 2 September 2008.

An explanation of the effect of transition to NZ IFRS on the reported financial position and financial performance of the Group is provided in note 27.

Basis of measurement

The financial statements are prepared on the historical cost basis except that the following are stated at their fair value: investments, land and buildings, and insurance contract liabilities.

Functional and presentation currency

These financial statements are presented in New Zealand dollars (\$), which is the Group's functional and presentation currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand, unless otherwise stated.

Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 9: Valuation of investments
- Note 15: Insurance contract liabilities
- Note 16: Actuarial information

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and in preparing an opening NZ IFRS balance sheet at 1 July 2006 for the purposes of the transition to NZ IFRS.

The accounting policies have been applied consistently by all Group entities.



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

Intangible Assets

Computer software is recognised as an intangible asset when it is not an integral part of the computer hardware. Software development expenditure that meets the criteria for recognition as an intangible asset is capitalised and amortised over its expected useful life, subject to impairment testing. Costs incurred in researching and evaluating a project up to the point of formal commitment to a project are treated as research costs and are expensed as incurred. All capitalised costs are deemed to have an expected useful life of 3-5 years unless it can be clearly demonstrated that the net benefits are to be generated over a longer period. The capitalised costs are amortised on a straight line basis over the period following completion of a project or implementation of part of a project.

The recoverability of the carrying amount of the asset is reviewed each reporting date by determining whether there is an indication that the carrying value may be impaired. If any such indication exists, the item is tested for impairment by comparing the recoverable amount of the asset to its carrying value. An impairment loss is recognised whenever the carrying value exceeds the recoverable amount. Impairment losses are recognised in the income statement and may be reversed where there has been a change in the estimates used to determine the recoverable amount.

Foreign currency transactions

Transactions in foreign currencies that are settled in the accounting period are translated at the settlement rate. Transactions in foreign currency that are not settled in the accounting period, resulting in monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to New Zealand dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on their translation are recognised in the income statement.

Impairment

The carrying amounts of the Group's assets are reviewed at each balance date to determine whether there is any objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The estimated recoverable amount of assets is the greater of: fair value less costs to sell, or value in use.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of the asset and are recognised in the income statement, except for property carried at fair value, which is reversed through the asset revaluation reserve.

Insurance contracts

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during the period.

The Society has determined that all health insurance policies provided to members are insurance contracts.

Income recognition

Premiums

Gross earned premiums from insurance contracts are recognised evenly over the current billing period of the contract. Revenue is recognised on the date from which the policy is effective. Premiums billed but unearned are recorded as unearned premiums.

Fee and other income

Fees and other income are recognised as income evenly over the period in which the related services are performed.

Investment income

Interest income is recognised in the income statement as it accrues and is calculated by using the effective interest rate method. Transaction costs that are an integral part of the effective yield of the investments are recognised as an adjustment to the effective interest rate of the instrument.

Realised and unrealised gains and losses recorded in the income statement on investments include gains and losses on financial assets classified as fair value through income statement. Gains and losses on the sale of investments are classified as the difference between net sales proceeds and the fair value recorded on occurrence of the sale transaction.



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

Leases

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Acquisition costs

The costs incurred in acquiring and recording insurance contracts are deferred in recognition that they represent future benefits. Acquisition costs are initially recorded in the income statement. Any amounts that give rise to premiums in subsequent reporting periods are deferred as an asset and amortised over the period covered by the premium paid.

Trade and other payables

Trade and other payables are stated at cost. Under NZ IFRS definitions, trade and other payables are classified as "other liabilities at amortised cost".

Net claims expense

The net claims expense represents payments made on claims and the movements in the outstanding claims and unexpired risk provisions (as described below).

Provisions

A provision is recognised 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 rates and, where appropriate, the risks specific to the obligation.

Outstanding claims provision

The liability for outstanding claims comprises claims incurred but not settled at the balance sheet date, whether reported or not. A central estimate is made of claims reported but not paid, claims incurred but not reported and claims incurred but not adequately reported. The central estimate includes expected claim payments plus associated claims handling costs. In addition a risk margin is added to reflect the inherent uncertainty in the estimate of claims.

Unexpired risk provision and liability adequacy test

The liability for unearned premiums arises from premiums received for risks that have not yet expired. The provision is released over the period until the next premium due date and is recognised as premium income. A liability adequacy test is performed to assess whether there is any deficiency in the unearned premium liability arising from expected claims and administration costs during the period covered by the unearned premium. The test has been performed by the Society on all its policies as a whole as risks are broadly similar and are managed together as a single portfolio. The central estimate of claims and administration expenses is calculated. In addition, a risk margin is added to reflect the inherent uncertainty in estimating the claims. The total is compared with the unearned premium liability. Any deficiency is recognised in the income statement after first writing down any deferred acquisition costs. The deficiency (if any) in excess of deferred acquisition costs is recognised in the balance sheet as an unexpired risk provision.

Founding members' reward

The provision for founding members' reward represents the value of future premium rebates, committed in 2005 to members qualifying for this reward. This is a discount provided to members who joined the Society prior to 1982 and takes into account duration of membership. Release of the provision is recognised in the income statement to offset rebates given to those members.

Employee benefits

Employee entitlements

Employee entitlements represents the current obligation to employees in respect of outstanding salaries, leave entitlements and other short term benefits.

Employee benefits

The Group's net obligation in respect of long service leave is the amount of future benefits that employees have earned in return for their service in current and prior periods. The financial value of the obligation is calculated based on estimated future cash flows and is discounted to its present value. In determining future cash flows, consideration is given to historical data with respect to employee departures, periods of service and estimated future increases in wage and salary rates. The



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

discount rate is the market yield rate on relevant New Zealand Government stock at the balance sheet date. Actuarial gains or losses arising from these calculations are recorded in the income statement.

Post employment benefits

The Group's obligation for post employment entitlements comprises post retirement health insurance benefits. The financial value of the obligation is calculated as the present value of estimated future cash flows. In determining future cash flows, consideration is given to future increases in health insurance premiums, historical data with respect to employee departures, periods of service, mortality and lapse rates. The discount rate is the market yield rate on relevant New Zealand Government stock at the balance sheet date. Actuarial gains or losses arising from these calculations are recorded in the income statement.

Income tax expense

The Society is exempt from income tax due to its status as a friendly society. However, the subsidiaries are subject to income tax.

For subsidiary companies the income tax expense comprises current and deferred tax and is recognised in the income statement. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Goods and services tax (GST)

The income statement has been prepared so that all components are stated exclusive of GST. All items in the balance sheet are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

2. NEW FINANCIAL REPORTING STANDARDS APPROVED BUT NOT YET EFFECTIVE

The following new or amended financial reporting standards and interpretations have been issued by the Financial Reporting Standards Board but are not yet effective:

NZ IFRS 3 – Business combinations

NZ IFRS 4 – Insurance contracts

NZ IFRS 8 – Operating segments

NZ IAS 1 – Presentation of financial statements

NZ IAS 27 – Consolidated and separate financial statements

NZ IFRIC 12 – Service concession arrangements

NZ IFRIC 13 – Customer loyalty programmes

NZ IFRIC 14 – The limit on a defined benefit asset, minimum funding requirements and their interaction.

NZ IFRS 3 and NZ IAS 27 are effective for annual reporting periods after 1 July 2009 and will be adopted by the Society and Group for the financial year commencing 1 July 2009. As this standard specifies the accounting treatment of certain business combinations from 1 July 2009, it is not possible to determine the possible impact on future financial statements.

NZ IFRS 4 is effective for annual reporting periods after 1 July 2009. The Society and Group are complying with all the requirements of this standard and changes are not expected to have any impact on future financial statements.



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

2. NEW FINANCIAL REPORTING STANDARDS APPROVED BUT NOT YET EFFECTIVE (Continued)

NZ IAS 1 is effective for annual reporting periods after 1 July 2009 and will be adopted by the Society and Group for the financial year commencing 1 July 2009. This standard specifies the presentation of financial statements which will not have any financial impact on future financial statements.

NZ IFRS 8, NZ IFRIC 12, NZ IFRIC 13 and NZ IFRIC 14 are not applicable to the Society or Group.

3. NET CLAIMS EXPENSE

	Group		Society	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Claims paid relating to risks borne in current financial year	401,453	359,999	401,453	359,999
Claims paid relating to risks borne in previous financial years	64,649	61,933	64,649	61,933
Movement in provision for outstanding claims (refer note 15b)	(4,859)	(4,559)	(4,859)	(4,559)
Net claims incurred	461,243	417,373	461,243	417,373
Movement in provision for unexpired risk (refer note 15e)	2,966	(17,882)	2,966	(17,882)
	464,209	399,491	464,209	399,491

4. OPERATING EXPENSES

	Group		Society	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Operating expenses include:				
Auditor's remuneration				
– Audit fees	139	120	139	120
– Other services	20	84	20	84
Depreciation	1,782	1,803	1,758	1,685
Amortisation of intangible assets	1,598	2,312	1,205	1,492
Impairment loss on intangible assets	1,741	1,734	1,280	-
Impairment loss on other fixed assets recognised in income statement	51	-	51	-
Directors' fees	362	362	362	362
Employee benefits expense	34,868	32,011	33,052	30,212
Contributions to defined contribution pension plan	68	58	68	58
Rental of premises	1,785	1,689	1,780	1,636
Acquisition costs	9,045	8,073	9,045	8,073
Impairment loss on investment in subsidiaries	-	-	334	453
Provision for impairment loss on amounts receivable from subsidiaries	-	-	1,931	6,030
Gain on disposal of property and equipment	(8)	(13)	(8)	(13)

Auditor's remuneration for other services consists of accounting advisory services for NZ IFRS transition and reviewing regulatory returns.



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

5. INVESTMENT AND OTHER INCOME

	Group		Society	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Interest income on investments	34,580	29,694	34,544	29,649
Net unrealised market revaluation on investments	(14,734)	(5,872)	(14,734)	(5,872)
Fee and other income	1,000	1,219	50	60
	20,846	25,041	19,860	23,837

The unrealised market valuation is due to an increase in market interest rates which impacts the valuation of fixed term and long term investments.

6. TAXATION

	Group	
	2008	2007
	\$000	\$000
Reconciliation of effective tax rate		
Net surplus before tax	7,827	48,011
Income tax payable at the domestic tax rate of 33%	2,583	15,844
Tax on non-deductible expenses	3	628
Tax on exempt income	(3,367)	(18,807)
Tax effect of change in unrecognised temporary differences	228	179
Tax on current year losses for which no deferred tax asset was recognised	553	2,156
	-	-

The aggregate amount of temporary differences arising in the subsidiaries for which deferred tax assets have not been recognised is \$691,000 at 30 June 2008 (2007: \$542,000)

The Group has unrecognised tax losses carried forward of \$28,748,000 at 30 June 2008 (2007: \$28,105,000).



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

7. STATEMENT OF RESERVES

	Group		
	Retained surpluses	Asset revaluation reserve	Total reserves
	\$000	\$000	\$000
Reconciliation of movement in reserves			
At 30 June 2008			
Opening balance	319,805	1,400	321,205
Revaluation recognised in reserves	-	300	300
Surplus for the year	7,827	-	7,827
Closing balance	327,632	1,700	329,332

At 30 June 2007			
Opening balance	271,794	-	271,794
Revaluation recognised in reserves	-	1,400	1,400
Surplus for the year	48,011	-	48,011
Closing balance	319,805	1,400	321,205

	Society		
	Retained surpluses	Asset revaluation reserve	Total reserves
	\$000	\$000	\$000

Reconciliation of movement in reserves

At 30 June 2008			
Opening balance	319,496	1,400	320,896
Revaluation recognised in reserves	-	300	300
Surplus for the year	7,937	-	7,937
Closing balance	327,433	1,700	329,133

At 30 June 2007			
Opening balance	272,797	-	272,797
Revaluation recognised in reserves	-	1,400	1,400
Surplus for the year	46,699	-	46,699
Closing balance	319,496	1,400	320,896

As a friendly society the rules of the Society restrict the distribution of its reserves by way of dividend or other means. Note 22 explains the Society's policy with respect to managing capital.



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

8. PREMIUM AND OTHER RECEIVABLES

	Group		Society	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Premium accounts receivable	39,953	38,605	39,953	38,605
Interest receivable	6,801	6,437	6,801	6,435
Other accounts receivable	4,821	3,619	4,289	2,992
Amounts owed by related parties	126	45	4,616	775
	<u>51,701</u>	<u>48,706</u>	<u>55,659</u>	<u>48,807</u>

Premium and other receivables is a current asset. The fair value of premium and other receivables approximates the carrying amount.

9. INVESTMENTS

At fair value through income statement

	Group		Society	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
At valuation				
New Zealand Government stock	1,557	1,451	1,557	1,451
State owned enterprise bonds	7,739	9,634	7,739	9,634
Local body stock	82,648	34,054	82,648	34,054
Other bonds	195,790	219,387	195,790	219,387
Bank deposits, commercial paper and floating rate notes	125,760	147,267	125,760	146,967
	<u>413,494</u>	<u>411,793</u>	<u>413,494</u>	<u>411,493</u>
Current assets	100,135	218,148	100,135	217,848
Non-current assets	313,359	193,645	313,359	193,645
	<u>413,494</u>	<u>411,793</u>	<u>413,494</u>	<u>411,493</u>

New Zealand Government stock is held by the Public Trustee as a deposit required under the Insurance Company Deposit Act 1953.

10. INVESTMENT IN SUBSIDIARIES

	Group		Society	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Opening balance	-	-	334	787
Impairment	-	-	(334)	(453)
Closing balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>334</u>

Investment in subsidiaries is stated at cost less impairment losses. Impairment losses arise as a result of the investment in subsidiaries being adjusted to the value of the net tangible assets of the subsidiaries.



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

10. INVESTMENT IN SUBSIDIARIES (Continued)

A provision for impairment has been made for loans and advances to subsidiaries to the extent the loans and advances exceed the net tangible assets of the subsidiaries.

The Directors have resolved to provide sufficient financial support as may be necessary to enable the subsidiary companies to trade as going concerns.

Investment in subsidiaries is a non-current asset.

11. PROPERTY AND EQUIPMENT

	Group				Total \$000
	Land and buildings \$000	Computer equipment \$000	Other fixed assets \$000	Work in progress \$000	
At 30 June 2008					
Cost / valuation	10,900	14,775	6,328	332	32,335
Accumulated depreciation	-	(13,543)	(4,281)	-	(17,824)
Closing balance	10,900	1,232	2,047	332	14,511

Reconciliation of movement in property and equipment

Opening balance	10,600	2,046	1,947	574	15,167
Additions / (transfers from work in progress)	-	374	768	(242)	900
Disposals	-	-	(23)	-	(23)
Depreciation for the year	-	(1,188)	(594)	-	(1,782)
Impairment recognised in income statement	-	-	(51)	-	(51)
Revaluation recognised in reserves	300	-	-	-	300
Closing balance	10,900	1,232	2,047	332	14,511

	Group				Total \$000
	Land and buildings \$000	Computer equipment \$000	Other fixed assets \$000	Work in progress \$000	
At 30 June 2007					
Cost / valuation	10,600	14,425	5,792	574	31,391
Accumulated depreciation	-	(12,379)	(3,845)	-	(16,224)
Closing balance	10,600	2,046	1,947	574	15,167

Reconciliation of movement in property and equipment

Opening balance	9,200	2,539	2,232	802	14,773
Additions / (transfers from work in progress)	-	756	307	(228)	835
Disposals	-	-	(38)	-	(38)
Depreciation for the year	-	(1,249)	(554)	-	(1,803)
Revaluation recognised in reserves	1,400	-	-	-	1,400
Closing balance	10,600	2,046	1,947	574	15,167



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

11. PROPERTY AND EQUIPMENT (Continued)

	Society				Total \$000
	Land and buildings \$000	Computer equipment \$000	Other fixed assets \$000	Work in progress \$000	
At 30 June 2008					
Cost / valuation	10,900	14,705	6,305	332	32,242
Accumulated depreciation	-	(13,492)	(4,268)	-	(17,760)
Closing balance	10,900	1,213	2,037	332	14,482

Reconciliation of movement in property and equipment

Opening balance	10,600	2,012	1,932	574	15,118
Additions / (transfers from work in progress)	-	371	767	(242)	896
Disposals	-	-	(23)	-	(23)
Depreciation for the year	-	(1,170)	(588)	-	(1,758)
Impairment recognised in income statement	-	-	(51)	-	(51)
Revaluation recognised in reserves	300	-	-	-	300
Closing balance	10,900	1,213	2,037	332	14,482

	Society				Total \$000
	Land and buildings \$000	Computer equipment \$000	Other fixed assets \$000	Work in progress \$000	
At 30 June 2007					
Cost / valuation	10,600	14,356	5,770	574	31,300
Accumulated depreciation	-	(12,344)	(3,838)	-	(16,182)
Closing balance	10,600	2,012	1,932	574	15,118

Reconciliation of movement in property and equipment

Opening balance	9,200	2,170	2,108	718	14,196
Additions / (transfers from work in progress)	-	991	398	(144)	1,245
Disposals	-	-	(38)	-	(38)
Depreciation for the year	-	(1,149)	(536)	-	(1,685)
Revaluation recognised in reserves	1,400	-	-	-	1,400
Closing balance	10,600	2,012	1,932	574	15,118

Land and buildings were independently valued at \$10,900,000 on 30 June 2008 (2007: \$10,600,000) by Telfer Young (Auckland) Ltd, a qualified, independent registered valuer. The basis used is current investment market valuation based on an estimated market rental and capitalisation rate. A surplus on revaluation of \$300,000 was recorded at 30 June 2008 (2007: \$1,400,000).

Other fixed assets include motor vehicles, office equipment and leasehold improvements.

Property and equipment is a non-current asset.



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

12. INTANGIBLE ASSETS

	Computer software \$000	Group Work in progress \$000	Total \$000
At 30 June 2008			
Cost / valuation	24,002	1,060	25,062
Accumulated amortisation	(19,913)	-	(19,913)
Closing balance	4,089	1,060	5,149

Reconciliation of movement in intangible assets

Opening balance	2,298	1,392	3,690
Additions / (transfers from work in progress)	3,850	948	4,798
Amortisation for the year	(1,598)	-	(1,598)
Impairment loss recognised in income statement	(461)	(1,280)	(1,741)
Closing balance	4,089	1,060	5,149

	Computer software \$000	Group Work in progress \$000	Total \$000
At 30 June 2007			
Cost / valuation	18,796	1,392	20,188
Accumulated amortisation	(16,498)	-	(16,498)
Closing balance	2,298	1,392	3,690

Reconciliation of movement in intangible assets

Opening balance	5,487	387	5,874
Additions / (transfers from work in progress)	857	1,005	1,862
Amortisation for the year	(2,312)	-	(2,312)
Impairment loss recognised in income statement	(1,734)	-	(1,734)
Closing balance	2,298	1,392	3,690



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

12. INTANGIBLE ASSETS (Continued)

	Computer software \$000	Society Work in progress \$000	Total \$000
At 30 June 2008			
Cost / valuation	23,157	1,060	24,217
Accumulated amortisation	(19,180)	-	(19,180)
Closing balance	3,977	1,060	5,037

Reconciliation of movement in intangible assets

Opening balance	1,930	1,142	3,072
Additions / (transfers from work in progress)	3,252	1,198	4,450
Amortisation for the year	(1,205)	-	(1,205)
Impairment loss recognised in income statement	-	(1,280)	(1,280)
Closing balance	3,977	1,060	5,037

	Computer software \$000	Society Work in progress \$000	Total \$000
At 30 June 2007			
Cost / valuation	19,822	1,142	20,964
Accumulated amortisation	(17,892)	-	(17,892)
Closing balance	1,930	1,142	3,072

Reconciliation of movement in intangible assets

Opening balance	2,215	250	2,465
Additions / (transfers from work in progress)	1,207	892	2,099
Amortisation for the year	(1,492)	-	(1,492)
Impairment loss recognised in income statement	-	-	-
Closing balance	1,930	1,142	3,072

Intangible assets is a non-current asset.

Impairment losses arise from software development projects that do not have a positive quantifiable financial benefit. The future financial benefit is calculated using a net present value analysis. Where the net present value is not positive, impairment is recognised.



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

13. PAYABLES

	Group		Society	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Accounts payable	15,306	14,293	15,210	13,897
Amounts owed to related parties	-	123	4,006	162
	15,306	14,416	19,216	14,059

Payables is a current liability.

14. EMPLOYEE BENEFITS

	Group		Society	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Employee entitlements	5,015	4,004	5,014	3,984
Employee benefits	530	427	530	427
Post-employment benefits	1,240	1,824	1,240	1,824
	6,785	6,255	6,784	6,235
Current	5,162	4,254	5,161	4,234
Non-Current	1,623	2,001	1,623	2,001
	6,785	6,255	6,784	6,235

Actuarial gains of \$100,000 at 30 June 2008 (2007 losses: \$73,700) in respect of employee benefits and losses of \$474,000 at 30 June 2008 (2007 losses: \$39,000) in respect of post-employment benefits arise from the actuarial calculation of these liabilities. These actuarial gains or losses arise due to experience adjustments and changes in actuarial assumptions.



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

15. INSURANCE CONTRACT LIABILITIES

	Group		Society	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Provision for outstanding claims (refer note 15a)	67,441	72,300	67,441	72,300
Provision for unearned premium (refer note 15c)	60,306	58,794	60,306	58,794
Provision for unexpired risk (refer note 15d)	6,077	3,111	6,077	3,111
Provision for founding members' reward (refer note 15f)	-	3,280	-	3,280
Other insurance provisions	700	710	700	710
	134,524	138,195	134,524	138,195

a. Provision for outstanding claims

	Group		Society	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Central estimate of outstanding claims liability	61,759	64,370	61,759	64,370
Claims handling costs	2,470	2,575	2,470	2,575
Risk margin	3,212	5,355	3,212	5,355
Closing balance	67,441	72,300	67,441	72,300

Claims are predominantly short-term in nature and are generally settled within twelve months of being incurred. Accordingly amounts are not discounted.

b. Reconciliation of movements in provision for outstanding claims liability

	Group		Society	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Opening balance	72,300	76,859	72,300	76,859
Amounts utilised during the year	(64,649)	(61,933)	(64,649)	(61,933)
Additional provision /(reversal of unused provision)	2,023	(5,076)	2,023	(5,076)
Amounts provided during the year	60,015	62,950	60,015	62,950
Movement in claims handling costs	(105)	(162)	(105)	(162)
Movement in risk margin	(2,143)	(338)	(2,143)	(338)
Closing balance	67,441	72,300	67,441	72,300



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

15. INSURANCE CONTRACT LIABILITIES (Continued)

c. Reconciliation of movements in provision for unearned premium

	Group		Society	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Opening balance	58,794	57,011	58,794	57,011
Premiums written in the year	524,779	492,681	524,779	492,681
Premiums earned during the year	(523,267)	(490,898)	(523,267)	(490,898)
Closing balance	60,306	58,794	60,306	58,794

d. Provision for unexpired risk

	Group		Society	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Present value of expected future cash flows for claims and expenses	64,214	59,790	64,214	59,790
Risk margin	2,568	2,392	2,568	2,392
Unearned premiums	(60,306)	(58,794)	(60,306)	(58,794)
Write-down of deferred acquisition costs	(399)	(277)	(399)	(277)
Closing balance	6,077	3,111	6,077	3,111

e. Reconciliation of movement in provision for unexpired risk

	Group		Society	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Opening balance	3,111	20,993	3,111	20,993
Reversal of opening balance	(3,111)	(20,993)	(3,111)	(20,993)
Net liability for unexpired risk recognised during the year	3,908	996	3,908	996
Risk margin	2,568	2,392	2,568	2,392
Write-down of deferred acquisition costs	(399)	(277)	(399)	(277)
Closing balance	6,077	3,111	6,077	3,111

f. Reconciliation of movements in provision for founding members' reward

	Group		Society	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Opening balance	3,280	16,100	3,280	16,100
Amounts utilised	(3,280)	(12,820)	(3,280)	(12,820)
Closing balance	-	3,280	-	3,280



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

16. ACTUARIAL INFORMATION

Estimates of the outstanding claims and unexpired risk as at 30 June 2008 have been carried out by John Feyter B.Sc, a Fellow of the New Zealand Society of Actuaries and were presented to the Directors of Southern Cross Medical Care Society in a report dated 19 August 2008. There were no qualifications to the report. The calculations of the provisions for outstanding claims and unexpired risk each comply with both NZIFRS 4: Insurance Contracts and Professional Standard No. 4 of the New Zealand Society of Actuaries.

The actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine these provisions.

a. Outstanding claims provision:

Outstanding claims liabilities are measured as the central estimate of the present value of expected future payments for claims incurred but not settled at 30 June 2008, whether reported or not, together with related claims handling costs and an additional risk margin to allow for the inherent uncertainty in the central claims estimate. The central estimate of the outstanding claims has been calculated using historical experience to determine the pattern of claims development.

The methodology adopted for estimating outstanding claims depends on the claim payment system. For the main claim payment system, the projected payment per member method is used. This method is based on recent claims experience and payment per member factors are selected to achieve a sensible progression of past incurred claims. For the secondary claim payment system, outstanding claims are estimated using case estimates.

Estimation of outstanding claims liabilities includes an allowance for claims incurred but not reported, claims incurred but not adequately reported, unpaid reported claims and future claims handling costs associated with paying claims.

A risk margin has been added to reflect the inherent uncertainty in the central estimate. An analysis of the volatility of the historical experience has been used in determining the risk margin. Future volatility is assumed to be consistent with historical volatility. A risk margin of 5% of the central estimate was established at 30 June 2008 (2007: 8%). The risk margin was determined with the objective of achieving at least 75 per cent probability of sufficiency of the outstanding claims provision.

Key assumptions:

1. Future patterns of claims development will be similar to historical patterns depending on the type of policy, type of claim and development month.
2. Monthly seasonality factors used for claims incurred. These were calculated from the 3 years' previous claims experience, and range from 71% to 112% of the monthly average.
3. Historical claims inflation of 0% to 7% p.a. depending on the type of policy and type of claim, based on previous claims experience.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function. Claims handling costs were determined to be 4% of the underlying claims amounts based on an analysis of administration expenses.

The average weighted term from 30 June 2008 to the expected settlement date for claims included in the liability for outstanding claims is 77 days. Accordingly, expected future payments are not discounted due to the short tail nature of the liabilities.



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

16. ACTUARIAL INFORMATION (Continued)

b. Unexpired risk provision and liability adequacy test

A liability adequacy test was performed to determine whether the unearned premium liability is adequate to cover the present value of the expected future cash flows arising from rights and obligations under current insurance coverage, plus an additional risk margin to reflect the inherent uncertainty in the central estimate. The future cashflows are future claims, associated claims handling costs and other administration costs relating to the business.

If the present value of the expected future cash flows plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related intangible assets and related deferred acquisition costs then the unearned premium liability is deemed to be deficient.

The unexpired risk liability has been calculated as the projected premium deficiency for current in-force business until the next policy billing date on or after 1 July 2008.

The calculation of the risk margin has been based on an analysis of the volatility of historical claims experience within the time period covered by the unearned premiums. A risk margin of 4% of the present value of expected future cash flows has been applied at 30 June 2008 (2007: 4%). The risk margin was determined with the objective of achieving at least 75 per cent probability of sufficiency of the unexpired risk liability.

Key assumptions:

1. Monthly seasonality factors used for claims incurred. These were calculated from the 3 years' previous claims experience, and range from 73% to 113% of the monthly average.
2. Projected claims inflation of 6.5% p.a., plus 4% for the effect of ageing, based on current expectations.
3. Expenses based on the business plan for 2008/9, including allowance for amortisation of deferred acquisition costs.

No explicit allowance has been made for cancellations or transfers. These are allowed for implicitly in the inflation assumption.

Expected future payments are not discounted due to the short tail nature of the liabilities.



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

17. RISK MANAGEMENT

The Society and Group are exposed to a number of risks in the normal course of business. Primarily there is the risk of conducting an insurance business (insurance risk). Other risks include financial risks (credit risk and liquidity risk), market risks (interest rate risk and foreign currency risk), and non-financial risks (operational risk and compliance risk). The Directors and management recognise the importance of having an effective risk management policy in place. The risks and any objectives, policies and processes to manage the risks are described below.

a. Insurance risk

The Society assumes insurance risk through its health insurance activities. The key risk arises in respect of claims costs and, in particular, those costs varying from what was assumed in the setting of premium rates.

I. Risk management objectives, policies and processes for mitigating risk

The primary objective in managing risk is, as far as possible, to reduce the magnitude and volatility of claims costs. A secondary objective is to ensure funds are available to pay claims and maintain the solvency of the business if there is adverse deviation in experience. Key policies and methods for mitigating risk include:

- Underwriting policies and processes which evaluate new risks and offer terms that do not endanger the portfolio.
- Strict claims management procedures to ensure the payment of claims in accordance with policy conditions.
- A long-term pricing strategy adopted by the Board which supports pricing based on underlying risk.
- Regular monitoring of financial and operating results and detailed investigations into the morbidity and persistency experience of the portfolio.
- A target solvency margin in excess of the minimum required by the standard established by the Health Funds Association of New Zealand. The solvency margin ensures the Society is able to withstand a period of adverse insurance or investment experience and still maintain a satisfactory financial position.

II. Sensitivity to insurance risk

The financial results of the Society are primarily affected by the level of claims incurred relative to that implicit in the premiums. The assumptions used in the valuation of the outstanding claims provision and the liability adequacy test directly affect the level of estimated claims incurred. The key assumptions used are detailed in note 16.

The scope of insurance risk is managed by the terms and conditions of the policy. The main insurance benefit involves the reimbursement of medical and surgical expenses depending upon the plan option.

The level of benefits specified in the contract is a key determinant of the amount of future claims although the exact level of claims is uncertain.

Other variables affecting the level of claims include the underlying morbidity of the lives insured, the nature of treatment given and the costs of treatment.

III. Concentration of insurance risk

Management defines concentration of risk by type of insurance business and geographic region. The Society transacts health insurance business in New Zealand and, therefore, the concentration of risk by type of insurance and geographic region cannot be avoided. Insurance risks are well diversified within the health insurance portfolio with claims costs spread across many different types of surgery and medical events. There is no significant exposure to individual large claims.



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

17. RISK MANAGEMENT (Continued)

b. Financial risks

I. Credit risk

In the normal course of its business the Group incurs credit risk from its health insurance operations and from investment in financial assets. There are no significant concentrations of credit risk.

The Group maintains a credit policy which is used to manage the exposure to credit risk. Limits on counter-party exposures have been set and are monitored on an ongoing basis.

The maximum exposure to credit risk at balance date is the amount of financial assets stated in the balance sheet.

These exposures are net of any recognised provisions for impairment losses. The Group does not require any collateral or security to support financial assets due to the quality of the counter-party organisations.

II. Liquidity risk

The Society and Group are exposed to daily calls on its available cash resources from the claims and administration expenses. Liquidity risk is the risk that payment of obligations may not be met in a timely manner at a reasonable cost. The Directors set limits on the minimum proportion of maturing funds available to meet such calls to cover claims and expenses at unexpected levels of demand.

The contractual maturities of financial assets are as follows:

	Group		Society	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
On call	650	2,300	650	2,000
0-6 months	61,857	173,098	61,857	173,098
7-12 months	37,628	42,750	37,628	42,750
1-2 years	66,818	41,137	66,818	41,137
2-5 years	204,822	107,455	204,822	107,455
Beyond 5 years	41,719	45,053	41,719	45,053
	413,494	411,793	413,494	411,493

The cash and cash equivalents are available on call. All premium and other receivables are due within one month of balance date.

Liabilities are all short term or payable on demand. Investments could be liquidated at any time to settle liabilities.

c. Market risks

I. Foreign currency risk

At 30 June 2008, the Group had assets of \$106,000 and no liabilities denominated in foreign currencies (2007: assets of \$53,000 and no liabilities). Given that the foreign currency risk exposure is minimal, the Group does not enter into any derivative contracts to manage this risk.

II. Interest rate risk

The Group invests in both fixed and variable rate financial instruments such as bonds, commercial paper and floating rate notes. There is a risk that any movement in interest rates can have an effect on the profitability and cash flows of the Society and Group. The Group maintains a spread of types and maturities of investments to mitigate this risk.



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

17. RISK MANAGEMENT (Continued)

c. Market risks continued

Fair value risk

The fair value of investments can fluctuate depending on changes in interest rates. The Group's policy is to hold all investments until maturity. This eliminates any effects of fair value changes to the investments upon realisation, however unrealised fair value changes are recognised in the income statement for each period. The following analysis shows the impact of any changes in interest rates on the profitability:

	Group and Society	
	2008	2007
	\$000	\$000
Impact of increase by 100 basis points on income statement	1,286	1,453
Impact of decrease by 100 basis points on income statement	(1,286)	(1,453)

Cash flow interest rate risk

The cash flows from investments of the Group and Society in the short term are susceptible to changes in interest rates. However, as the majority of investments are fixed rate, and these investments are held until maturity, this exposure is mitigated. The following analysis shows the impact of any changes in interest rates on the cash flows:

	Group and Society	
	2008	2007
	\$000	\$000
Impact of increase by 100 basis points on cash flows	1,459	1,543
Impact of decrease by 100 basis points on cash flows	(1,459)	(1,543)

d. Fair values of financial assets and financial liabilities

All financial assets and financial liabilities included in the balance sheet are carried at amounts that approximate fair value.



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

18. RELATED PARTIES

a. Identity and relationship of related parties

- Southern Cross Medical Care Society (“Society”) Parent
- Southern Cross Health Services Limited (“Health Services”) 100% subsidiary of Society
- Activa Health Limited (“Activa”) 100% subsidiary of Society
- Southern Cross Healthcare Limited (non-trading) 100% subsidiary of Society
- Directors of Southern Cross Medical Care Society Are Trustees of Southern Cross Health Trust
- Southern Cross Health Trust (“Trust”) Related Party of Society
- Southern Cross Benefits Limited (“Benefits”) 100% Subsidiary of Trust

All these related entities have 30 June balance dates.

The Society and the Trust are separate legal entities operating at “arm’s length”.

The Society contracts healthcare services on behalf of its members from all providers, including the Trust, on a contestable and contractual basis.

The Society charges Benefits a fee for enabling marketing opportunities to the membership.

All Group entities provide their normal services to the other Group entities on normal commercial terms.

The amount of transactions within the Group entities are:

	Purchases		Sales	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Society	476	40	34	26
Health Services	4	13	53	19
Activa	30	13	423	21



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

18. RELATED PARTIES (continued)

The outstanding balances within the Group entities are:

	Payables		Receivables	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Society	4,006	39	4,498	738
Health Services	551	608	7	7
Activa	3,947	130	3,999	32

Some goods and services are purchased by the Group and other related parties on a combined basis. These costs are on charged to the other related parties at cost.

The amount of transactions with other related parties are:

	Group		Society	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Sale of services	3,953	3,264	3,922	3,264
Purchase of services	116	227	116	227

The outstanding balances with other related parties are:

	Group		Society	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Balance outstanding on sales	126	45	118	37
Balance outstanding on purchases	-	123	-	123

All related party balances are repayable on normal trading terms. No related party transactions have taken place at nil or nominal value. No related party balances have been written off or forgiven during the year.

Included within related party receivables of the Society are amounts receivable from subsidiary companies which are repayable on demand. However, these are not currently intended to be called for payment. Provision has been made for any receivables considered to be impaired.



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

18. RELATED PARTIES (continued)

b. Remuneration of Directors

Directors' fees paid by the Society for the year ended 30 June 2008 were as follows:

	Amount (\$)	
	2008	2007
Director		
Dr D D Baird – appointed 1 July 2007	46,700	-
B N Davidson – retired 1 August 2006	-	3,892
C B Durbin – appointed 1 August 2006	46,700	42,808
Dr D H Gray	46,700	46,700
Dr S C Macken	46,700	46,700
Dr J R D Matthews – retired 30 June 2007	-	81,700
D J May	46,700	46,700
P J Meyer	46,700	46,700
J G Todd (Chairman)	81,700	46,700
Trustee		
C B Durbin - appointed 11 October 2007	-	-
D J May	-	-
J G Todd	-	-

The Society provides Trustees and Directors with Directors' and Officers' liability insurance cover for liabilities to other parties that may arise from their positions as Trustees and Directors.

The Directors received health insurance benefits of \$17,000 at 30 June 2008 (2007: \$16,000). Retired Directors received health insurance benefits of \$26,000 at 30 June 2008 (2007: \$22,000).

**c. Remuneration of key management personnel
(Excluding Directors' remuneration disclosed separately)**

	Group		Society	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Salaries and other short-term benefits	2,312	2,240	2,312	2,240
Termination benefits	-	53	-	53
Post-employment benefits	3	2	3	2
	2,315	2,295	2,315	2,295

Key management personnel include the chief executive officer, chief operating officers and senior executives.



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

19. RECONCILIATION OF NET SURPLUS WITH NET CASH FLOWS FROM OPERATING ACTIVITIES

	Group		Society	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Net surplus	7,827	48,011	7,937	46,699
Add/(less) non-cash items:				
Depreciation	1,782	1,803	1,758	1,685
Amortisation of computer software	1,598	2,312	1,205	1,492
Impairment loss on computer software	1,741	1,734	1,280	-
Impairment loss on other fixed assets	51	-	51	-
Impairment loss on investment in subsidiaries	-	-	334	453
Provision for impairment loss on amounts receivable from subsidiaries	-	-	1,931	6,030
Add items classified as investing activities:				
(Gain)/loss on disposal of property and equipment	(8)	(13)	(8)	(13)
Movement in valuation of investments	14,734	5,872	14,734	5,872
Add/(less) movements in working capital items:				
Receivables	(2,995)	(6,793)	(8,783)	(8,384)
Payables	890	1,774	5,157	1,324
Other insurance provisions	(10)	360	(10)	360
Provision for outstanding claims	(4,859)	(4,559)	(4,859)	(4,559)
Provision for unearned premium	1,512	1,783	1,512	1,783
Provision for founding members' reward	(3,280)	(12,820)	(3,280)	(12,820)
Provision for unexpired risk	2,966	(17,882)	2,966	(17,882)
Provision for employee benefits	530	207	549	445
Net cash flows from operating activities	22,479	21,789	22,474	22,485



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

20. CREDIT RATING

On 21 February 2008 Standard & Poor's reaffirmed the Society's Insurer Financial Strength Rating of A+. This signifies the insurer "has strong financial security characteristics".

21. ACTUARIAL REPORT

The five yearly actuarial report as required under section 74 of the Friendly Societies and Credit Unions Act 1982 was filed with the Registrar on 13 July 2006.

22. SOLVENCY AND CAPITAL ADEQUACY

Southern Cross Medical Care Society is a not-for-profit organisation. As a consequence of its legal structure the Society has no recourse to external capital and therefore internally generated capital is of paramount importance. The Society's capital of \$329.1 million at 30 June 2008 (2007: \$320.9 million) is equal to the reserves as disclosed in the financial statements.

The Society is required to deposit \$500,000 with the Public Trust in accordance with the Insurance Companies' Deposits Act 1953. The Society is not subject to any other externally imposed capital requirements.

The Board of Directors' policy for managing capital is to have a strong capital base to establish security for members and enable the Society to conduct its business whilst maintaining financial soundness. The policy in respect of capital management is regularly reviewed by the Board of Directors.

The Society calculates its capital adequacy requirements using the Capital Adequacy Standard issued by Australia's Private Health Insurance Administration Council (PHIAC). The PHIAC Capital Adequacy Standard has been constructed for the purpose of determining a minimum amount of capital required to support business plans and maintain financial soundness.

The Directors consider the current level of capital is sufficient for the requirement of maintaining financial soundness. There have been no material changes to the Society's policy for the management of capital during the financial year.

23. SEGMENTAL REPORTING

The Society and the Group operate in one industry and geographic segment, that is the provision of health insurance in New Zealand.

24. LEASE COMMITMENTS

At 30 June 2008 commitments under operating leases in respect of payments due to be made in the following years were:

	Group		Society	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Within 1 year	1,100	1,706	1,100	1,706
Between 1 and 2 years	360	840	360	840
Between 2 and 5 years	787	425	787	425
Greater than 5 years	128	-	128	-
	2,375	2,971	2,375	2,971

25. CAPITAL COMMITMENTS

The Society had capital commitments of \$740,000 at 30 June 2008 (2007: \$870,000) and the Group had capital commitments of \$740,000 at 30 June 2008 (2007: \$1,020,000).



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

26. CONTINGENT LIABILITIES

The Society and the Group had no contingent liabilities at 30 June 2008 (2007: Nil).

27. IMPACT OF THE ADOPTION OF NEW ZEALAND INTERNATIONAL FINANCIAL REPORTING STANDARDS

I. Reconciliation of financial statements

As stated in note 1, these are the Society and Group's first financial statements prepared in accordance with NZ IFRS.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 30 June 2008, the comparative information presented in these financial statements for the year ended 30 June 2007 and in the preparation of an opening NZ IFRS balance sheet at 1 July 2006 (the Society and Group's date of transition).

In preparing its opening NZ IFRS balance sheet, the Society and Group have adjusted amounts reported in previous financial statements prepared in accordance with its old basis of accounting (previous NZ GAAP). Some items have been reclassified to align with classifications adopted under NZ IFRS reporting. An explanation of the effects of the transition to NZ IFRS on the Society and Group's financial positions and financial performances is set out in the following tables and the notes that accompany the tables. Transition to NZ IFRS did not result in any changes to the statement of cashflows.

a. Reconciliation of the Group's balance sheet at date of transition to NZ IFRS - 1 July 2006

	Note	Previous NZ GAAP \$000	Reclass- ification \$000	Effect of transition \$000	NZ IFRS \$000
Assets					
Cash and cash equivalents		1,079	-	-	1,079
Premium and other receivables	27.II.a	41,037	-	877	41,914
Investments	27.II.b	396,588	-	1,570	398,158
Investment in subsidiaries		-	-	-	-
Property and equipment	27.II.f	20,647	-	(5,874)	14,773
Intangible assets	27.II.f	-	-	5,874	5,874
Total assets		459,351	-	2,447	461,798
Liabilities					
Payables		12,643	-	-	12,643
Employee benefits	27.II.c	3,556	-	2,492	6,048
Insurance contract liabilities	27.II.d	162,925	-	8,388	171,313
Total liabilities		179,124	-	10,880	190,004
Net assets		280,227	-	(8,433)	271,794
Reserves	27.II.e	280,227	-	(8,433)	271,794


NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

**27. IMPACT OF THE ADOPTION OF NEW ZEALAND INTERNATIONAL FINANCIAL REPORTING STANDARDS
(continued)**
b. Reconciliation of the Society's balance sheet at date of transition to NZ IFRS - 1 July 2006

		Previous NZ GAAP	Reclass- ification	Effect of transition	NZ IFRS
	Note	\$000	\$000	\$000	\$000
Assets					
Cash and cash equivalents		676	-	-	676
Premium and other receivables	27.II.a	45,577	-	877	46,454
Investments	27.II.b	396,488	-	1,570	398,058
Investment in subsidiaries		787	-	-	787
Property and equipment	27.II.f	16,661	-	(2,465)	14,196
Intangible assets	27.II.f	-	-	2,465	2,465
Total assets		460,189	-	2,447	462,636
Liabilities					
Payables		12,736	-	-	12,736
Employee benefits	27.II.c	3,298	-	2,492	5,790
Insurance contract liabilities	27.II.d	162,925	-	8,388	171,313
Total liabilities		178,959	-	10,880	189,839
Net assets		281,230	-	(8,433)	272,797
Reserves	27.II.e	281,230	-	(8,433)	272,797

c. Reconciliation of the Group's balance sheet as at 30 June 2007

		Previous NZ GAAP	Reclass- ification	Effect of transition	NZ IFRS
	Note	\$000	\$000	\$000	\$000
Assets					
Cash and cash equivalents		715	-	-	715
Premium and other receivables	27.II.a	47,871	-	835	48,706
Investments	27.II.b	410,910	-	883	411,793
Investment in subsidiaries		-	-	-	-
Property and equipment	27.II.f	18,857	-	(3,690)	15,167
Intangible assets	27.II.f	-	-	3,690	3,690
Total assets		478,353	-	1,718	480,071
Liabilities					
Payables		14,416	-	-	14,416
Employee benefits	27.II.c	4,004	-	2,251	6,255
Insurance contract liabilities	27.II.d	135,803	-	2,392	138,195
Total liabilities		154,223	-	4,643	158,866
Net assets		324,130	-	(2,925)	321,205
Reserves	27.II.e	324,130	-	(2,925)	321,205


NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

**27. IMPACT OF THE ADOPTION OF NEW ZEALAND INTERNATIONAL FINANCIAL REPORTING STANDARDS
(Continued)**
d. Reconciliation of the Society's balance sheet as at 30 June 2007

		Previous NZ GAAP	Reclass- ification	Effect of transition	NZ IFRS
	Note	\$000	\$000	\$000	\$000
Assets					
Cash and cash equivalents		561	-	-	561
Premium and other receivables	27.II.a	47,972	-	835	48,807
Investments	27.II.b	410,610	-	883	411,493
Investment in subsidiaries		334	-	-	334
Property and equipment	27.II.f	18,190	-	(3,072)	15,118
Intangible assets	27.II.f	-	-	3,072	3,072
Total assets		477,667	-	1,718	479,385
Liabilities					
Payables		14,059	-	-	14,059
Employee benefits	27.II.c	3,984	-	2,251	6,235
Insurance contract liabilities	27.II.d	135,803	-	2,392	138,195
Total liabilities		153,846	-	4,643	158,489
Net assets		323,821	-	(2,925)	320,896
Reserves	27.II.e	323,821	-	(2,925)	320,896

e. Reconciliation of the Group's surplus for the year ended 30 June 2007

		Previous NZ GAAP	Reclass- ification*	Effect of transition	NZ IFRS
	Note	\$000	\$000	\$000	\$000
Premium revenue	27.II.a	492,099	(1,159)	(42)	490,898
Net claims expense	27.II.d	406,279	(792)	(5,996)	399,491
Underwriting surplus		85,820	(367)	5,954	91,407
Operating expenses	27.II.c, 27.II.e	66,486	792	1,159	68,437
Operating surplus		19,334	(1,159)	4,795	22,970
Investment and other income	27.II.b	24,569	1,159	(687)	25,041
Surplus before taxation		43,903	-	4,108	48,011
Taxation		-	-	-	-
Surplus for the year		43,903	-	4,108	48,011

* Refer Note 27.III



NOTES TO THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2008

27. IMPACT OF THE ADOPTION OF NEW ZEALAND INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

f. Reconciliation of the Society's surplus for the year ended 30 June 2007

	Note	Previous NZ GAAP \$000	Reclass- ification* \$000	Effect of transition \$000	NZ IFRS \$000
Premium revenue	27.II.a	490,940	-	(42)	490,898
Net claims expense	27.II.d	405,487	-	(5,996)	399,491
Underwriting surplus		85,453	-	5,954	91,407
Operating expenses	27.II.c, 27.II.e	67,386	-	1,159	68,545
Operating surplus		18,067	-	4,795	22,862
Investment and other income	27.II.b	24,524	-	(687)	23,837
Surplus before taxation		42,591	-	4,108	46,699
Taxation		-	-	-	-
Surplus for the year		42,591	-	4,108	46,699

* Refer Note 27.III

II. Explanation of adjustments between previous NZ GAAP and NZ IFRS

a. Adjustments to premium receivables and premium revenue

A general provision for doubtful debts has been written back. Under NZ IFRS provisions can only be recognised when there is a present obligation as a result of a past event and the obligation is reliably measurable.

b. Adjustments to financial assets and other income

Under previous NZ GAAP the discount or premium on purchase of investments was capitalised and then amortised over the term of the investment. Under NZ IFRS, when financial assets are designated as fair value through the income statement, the discount or premium has to be recognised immediately in the income statement. Therefore the discount or premium previously recognised in the balance sheet and amortisation in the income statement under previous NZ GAAP have been adjusted.

c. Adjustments to employee benefits and operating expenses

Under previous NZ GAAP long service leave was recognised in the period in which it vested. Under NZ IFRS calculations have to be made for any future employee benefits arising from present obligations. The calculations have been performed for long service leave obligations and post employment benefits. Refer to note 1, statement of accounting policies – employee benefits, for details.

d. Adjustments to insurance contract liabilities and net claims expense

Under NZ IFRS an additional risk margin is included in the calculation of the unexpired risk provision. Refer to note 16, actuarial information, for details.

e. Adjustments to asset revaluation reserve and operating expenses

Under previous NZ GAAP revaluation of property was recognised in the income statement after deducting disposal costs. Under NZ IFRS the revaluation has to be recognised in the asset revaluation reserve without the deduction of any disposal costs.

f. Adjustments to intangible assets and property and equipment

Computer software that is not an integral part of the hardware has been reclassified from property and equipment to intangible assets under NZ IFRS.

III. Explanation of reclassifications

Some income and expense items have been reclassified to align with current year classifications under NZ IFRS. This has no effect on the reported net surplus.



Audit Report to the Members of The Southern Cross Medical Care Society

We have audited the financial statements on pages 11 to 43. The financial statements provide information about the past financial performance and financial position of the Society and Group as at 30 June 2008. This information is stated in accordance with the accounting policies set out on page 14 to 18.

Directors' responsibilities

The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the Society and Group as at 30 June 2008 and the results of their operations and cash flows for the year ended on that date.

Auditors' responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report our opinion to you.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Directors in the preparation of the financial statements;
- whether the accounting policies are appropriate to the Society and Group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Our firm has also provided other services to the Society and Group in relation to accounting advisory services. Partners and employees of our firm may be members of the Society and deal with the Society and Group on normal terms within the ordinary course of trading activities of the business of the Society and Group. These matters have not impaired our independence as auditors of the Society and Group. The firm has no other relationship with, or interest in, the Society or Group.

Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the Society as far as appears from our examination of those records;
- the financial statements on pages 11 to 43:
 - comply with New Zealand generally accepted accounting practice;
 - give a true and fair view of the financial position of the Society and Group as at 30 June 2008 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 2 September 2008 and our unqualified opinion is expressed as at that date.

KPMG
AUCKLAND

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