
Report of

Pharmaceutical Management Agency Limited

for the year ended
30 June 2000

*Presented to the House of Representatives Pursuant to Section 44A of the Public
Finance Act 1989*

MINISTER OF HEALTH

I present to you the report of Pharmaceutical Management Agency Limited for the year ended 30 June 2000.

A handwritten signature in black ink, appearing to read 'Richard A Waddel', written in a cursive style.

Richard A Waddel
Chairman
Pharmaceutical Management Agency Limited

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DIRECTORS REPORT

For the year ended 30 June 2000

Principal Activity

The principal activity of the company is to manage the National Pharmaceutical Schedule which is the list of community medicines and related products subsidised by the Health Funding Authority.

The nature of this activity has not changed during the year under review.

Results	<i>\$000</i>
Net surplus for the year	684
Retained earnings brought forward at 1 July 1999	48
	<hr/>
Retained earnings carried forward 30 June 2000	732
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Financial Position

	<i>\$000</i>
Current Assets	2,917
Less Current Liabilities	2,310
	<hr/>
	607
Plus Fixed Assets	125
	<hr/>
Equity at 30 June 2000	732
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Operations

Operating expenditure was within budget.

	<i>\$000</i>
Purchase of Fixed Assets	85
	<hr/>

Remuneration and Other Benefits

Remuneration paid to the Chairman was	\$26,058
Remuneration paid to Directors was	
- Richard Waddel	\$1,500
- Peter Wilson	\$18,000
- Michael Sewell (Alternate)	\$18,000
Employees over \$100,000	1
\$120,000 - 130,000	2

DIRECTORS REPORT

For the year ended 30 June 2000

Directors

Three of the Directors are employed by the Health Funding Authority.

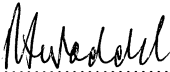
The Board received no notice during the year from Directors that they had an interest in any transactions or proposed transactions by the company.

Indemnity insurance is in place for all Directors.

Auditor

The Audit Office is appointed under Section 41 of the Health and Disability Services Act 1993. Audit New Zealand has been appointed to provide these services on behalf of the Controller and Auditor-General.

For and on behalf of the Board



.....
Richard A Waddel
Chairman

STATEMENT OF RESPONSIBILITY

For the year ended 30 June 2000

The Board and Management were responsible for:

- the preparation of the annual Financial Statements and the judgements used therein;
- establishing and maintaining a system of internal control designed to provide reasonable assurance on the integrity and reliability of financial reporting.

In the opinion of the Management and the Board of Pharmaceutical Management Agency Limited the annual financial statements for the year ended 30 June 2000 fairly reflect the financial position, operations and cash flows of the Company.



.....
Richard A Waddel
Chairman



.....
Wayne McNee
General Manager



Audit New Zealand

REPORT OF THE AUDIT OFFICE

TO THE READERS OF THE FINANCIAL STATEMENTS OF PHARMACEUTICAL MANAGEMENT AGENCY LIMITED FOR THE YEAR ENDED 30 JUNE 2000

We have audited the financial statements on pages 9 to 26. The financial statements provide information about the past financial and service performance of the Pharmaceutical Management Agency Limited and its financial position as at 30 June 2000. This information is stated in accordance with the accounting policies set out on pages 17 and 18.

Responsibilities of the Board

The Health and Disability Services Act 1993, the Public Finance Act 1989, the Financial Reporting Act 1993, and the Companies Act 1993 require the Board of Directors (the Board) to prepare financial statements in accordance with generally accepted accounting practice which fairly reflect the financial position of the Pharmaceutical Management Agency Limited as at 30 June 2000, the results of its operations and cash flows and the service performance achievements for the year ended 30 June 2000.

Auditor's responsibilities

Section 43(1) of the Public Finance Act 1989 requires the Audit Office to audit the financial statements presented by the Board. It is the responsibility of the Audit Office to express an independent opinion on the financial statements and report its opinion to you.

The Controller and Auditor-General has appointed Chris Fabling of Audit New Zealand, to undertake the audit.

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 Board in the preparation of the financial statements *and*
- ▲ whether the accounting policies are appropriate to the Pharmaceutical Management Agency Limited's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards, including the Auditing Standards issued by the Institute of Chartered Accountants of New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements 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.

Financial Statements Prepared on the Disestablishment Basis

In forming our opinion, attention is drawn to the Statement of Accounting Policies, Going Concern Assumption note on page.... This note states that the financial statements have been prepared on a disestablishment basis. The note explains that there has been no change to the measurement system used for assets and liabilities. Assets and liabilities are to be transferred to the Pharmaceutical Management Agency, a statutory corporation, at net book value on enactment of the New Zealand Public Health and Disability Bill. We consider the disestablishment basis of preparation to be appropriate for the Pharmaceutical Management Agency Limited as the New Zealand Public Health and Disability Bill was introduced into Parliament on 2 August 2000.

Other than in our capacity as auditor acting on behalf of the Controller and Auditor-General, we have no relationship with or interests in the Pharmaceutical Management Agency Limited.

Unqualified opinion

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

In our opinion

- ▲ proper accounting records have been kept by Pharmaceutical Management Agency Limited as far as appears from our examinations of those records; and
- ▲ the financial statements of Pharmaceutical Management Agency Limited on pages 9 to 26:
 - comply with generally accepted accounting practice; and
 - give a true and fair view of:
 - the financial position as at 30 June 2000; and
 - the results of its operations and cash flows for the year ended on that date; and
 - the service performance achievements in relation to the performance targets and other measures adopted for the year ended on that date.

Our audit was completed on 29 September 2000 and our unqualified opinion is expressed as at that date.



Chris Fabling
Audit New Zealand
On behalf of the Controller and Auditor-General
Wellington, New Zealand



PERFORMANCE INFORMATION

1. PHARMAC's performance as a purchasing agent 1999/00.

Direct performance measures

Performance against target

- Target: HFA expenditure in pharmaceuticals of \$657.35 million (GST exclusive) \pm 2% including Anti-psychotics.

Outcome: Expenditure for the 1999/00 financial year was \$657 million. Rebates of \$5.88 million and a further \$5.6 million of expected rebates will bring the overall expenditure down to \$645.5 million.

It should be noted that the funding agreement was increased from \$637.35 million to \$657.35 million to reflect PHARMAC taking over the management of new antipsychotic drugs from Mental Health. The expected cost of new antipsychotics is shown below.

	99/00	00/01	01/02	02/03
<i>New Antipsychotic expenditure</i>	\$25.08	\$32.32	\$37.08	\$36.47
<i>Savings from older anti-psychotics</i>	\$2.60	\$4.00	\$4.20	\$4.40
<i>Additional Cost</i>	\$22.48	\$28.32	\$32.88	\$32.07

In reaching the funding agreement target PHARMAC made a number of decisions that either resulted in savings, investments, or widened access, to pharmaceuticals.

Decisions that reduced the subsidy of pharmaceuticals are estimated to have saved \$26.6 million in the 1999/00 year. The full year impact (since some decisions are not implemented until late in the year) is estimated to be \$42 million.

11 new medicines were listed in the Pharmaceutical Schedule in 1999/00. A number of explicit new investments providing increased health benefit were made in the following areas:

Investment decision	Cost in 1999/00	Estimated Full year cost
Alendronate for Osteoporosis	\$99,000	\$240,000
Beta-interferon (Betaferon / Avonex) for multiple sclerosis	\$250,000	\$3,000,000
Calciferol	\$6,250	\$46,000
Candesarten for raised blood pressure	\$350,000	\$1,400,000
Fluoride	\$400	\$3,400
Glucobay	-\$145,000	\$240,000
Konakion - Vitamin K phytomenadione for new born babies	\$2,200	\$30,000
Lamivudine for Hepatitis B	\$74,000	\$1,900,000
Losartan for congestive heart failure	\$550,000	\$840,000
Olanzapine for schizophrenia	\$4,700,000	\$14,000,000
Latanoprost (Xalatan) for glaucoma	\$700,000	\$1,300,000
TOTAL	\$6,586,850	\$22,999,400

- Target: Undertake at least two evaluations to assess the impact of PHARMAC decisions including reference pricing of Ace Inhibitors and Calcium Channel Blockers.

Evaluation of the ACE Inhibitor Implementation Programme

Results of evaluation of ACE inhibitors to be submitted for publication by 30 September 1999.

Evaluation of the DHP CCB Implementation Programme

Evaluation of reference pricing for Calcium Channel Blockers completed by 31 December 1999. Results of evaluation to be submitted for publication by 31 March 2000.

Outcome:

Evaluation of the ACE Inhibitor Implementation Programme

PHARMAC contracted for two evaluation reports:

- The Dunedin RNZCGP Research Unit evaluated the implementation process and the findings relating to the subsidised visits.
 - A final draft was provided to PHARMAC in April 2000.
 - The report concluded that most patients being treated for hypertension with ACE Inhibitors used the subsidised visits to discuss therapy options with their general practitioner.
 - Most changed therapy to a fully subsidised medicine.
 - Control of blood pressure was not adversely affected by the change in funding policy for ACE Inhibitors and the new regime reduced public expenditure by an estimated \$150 million over five years.
 - The paper has since been presented at the WONCA (World Organisation of National Colleges, Academies and Academic Associations of General Practitioners/Family Physicians) conference and is being prepared for submission for publication.
- The Wellington Drug Utilisation Research Unit, Department of Medicine, Wellington School of Medicine evaluated the implementation and sustainability of the ACE Inhibitor reference pricing initiative focusing on the perception of the changes by prescribers and patients.
 - A draft of the Wellington Drug Utilisation Research Unit report “Evaluation of the Implementation and Sustainability of the “Quinapril” Reference Pricing Initiative” was provided to PHARMAC in May 2000. The draft is undergoing further review prior to publication.

Evaluation of the DHP CCB Implementation Programme

- PHARMAC contracted the RNZCGP Research Unit, University of Auckland, to undertake an independent evaluation of the DHP CCB implementation programme.
 - The evaluation was completed in December 1999.
 - The overall conclusion was that there was no clinically significant change in the blood pressures recorded on claim forms submitted by general practitioners for patients changing to fully subsidised DHP CCBs.
 - The findings are being submitted for publication.

- **Target:** Produce medium term (1-3 years) expenditure forecasts by 31st December 1999. These are then to be used as a basis for agreeing with the Ministry of Health, parameters for out-year growth in pharmaceutical expenditure.

Outcome: Medium term forecasts were produced and sent to the Ministry in December 1999. After initial comment from the Ministry the forecasts were adjusted and re-sent in May 2000. Subsequently formal agreement was reached on out year growth and expected expenditure.

Indirect performance indicators

Numbers of patients benefiting from specific PHARMAC investment decisions

Investment decision	Estimated Number of new patients
Alendronate for Osteoporosis	341
Beta-interferon (Betaferon / Avonex) for multiple sclerosis	156
Calciferol	Not available
Candesarten for raised blood pressure	1,700
Fluoride	Not available
Glucobay	2,180
Konakion - Vitamin K phytomenadione for new born babies	57,000
Lamivudine for Hepatitis B	468
Losartan for congestive heart failure	1,200
Olanzapine for schizophrenia	2,370
Latanoprost (Xalatan) for glaucoma	3,837

Health benefits delivered from PHARMAC decisions

Health benefit can be defined as improvements in life expectancy and/or improvements in health related quality of life. A common measure of health benefit is the quality adjusted life year (QALY).

Measuring the health impact of PHARMAC actions, in terms of QALYs gained by patients using newly-listed or extended-access pharmaceuticals, is beyond our current monitoring capability. However, PHARMAC does consider value-for-money as part of its investment decisions. Value for money measures can indicate the impact of pharmaceutical expenditure, for instance discounted net costs to the HFA per QALY gained (\$/QALY).

Estimates of QALY gains by patient groups are available for some of PHARMAC's investments in 1999/2000, including alendronate for severe osteoporosis, beta-interferon for multiple sclerosis, lamivudine for hepatitis B, and olanzapine for schizophrenia. Investing in these pharmaceuticals cost the Pharmaceutical Schedule \$5.0 million in the 1999/2000 financial year for 2,900 patients, but saved perhaps 86 (quality-adjusted) years of life:

These particular new investment decisions will eventually cost \$18.3 million each year for 6,640 patients. This level of spending from just these key decisions this year will eventually save, by this measure, perhaps 590 (quality-adjusted) years of life.

In addition, we can derive a broader, if less precise, measure of health benefit gained by the total population through overall pharmaceuticals investments by looking at the overall growth in the level of subsidised pharmaceutical treatments. In essence, more people are getting access to more, arguably better quality, pharmaceutical treatments. Second, we can look at the numbers of patients benefiting from specific PHARMAC investment decisions.

Pharmaceutical expenditure outcomes vs forecasts

- Outcomes – Actual and Forecast

Initial forecasts suggested expenditure to be \$637 million. Half way through the year PHARMAC took over the management of the Mental Health budget for pharmaceuticals thus increasing the overall budget to \$657.35 million.

	Forecast (Jul 99)	Forecast (including Mental Health)	Outcome 99/00
TOTAL	\$637 million	\$657.35 million	\$646-\$648 million

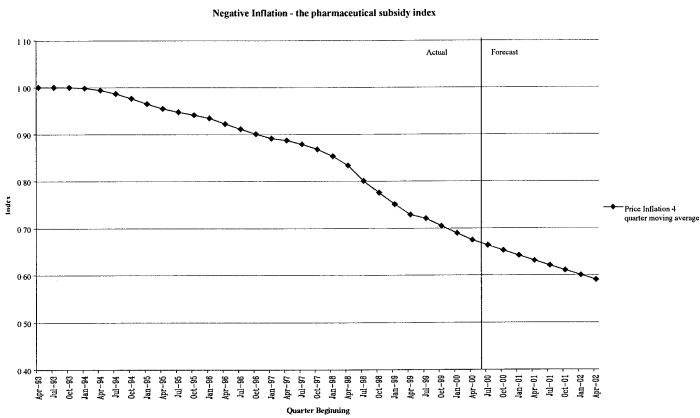
Pharmaceutical indexes

Expenditure trends can be broken into three components:

- price inflation;
- volume changes; and
- mix (usually a shift from older, cheaper drugs to newer, more expensive ones).

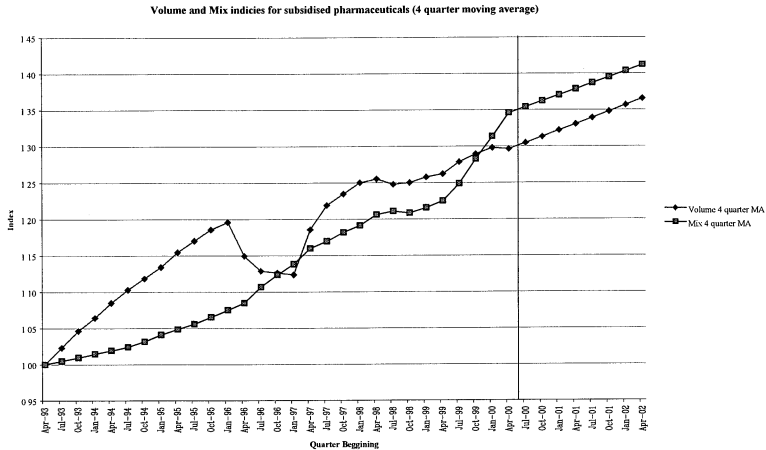
Subsidy Inflation Index

PHARMAC is continuing to lower subsidies across subsidised pharmaceuticals and the forecast is for this to continue.



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Volume and Mix Index



Volumes are expected to continue to grow at historical rates. Major growth is found in the areas of Alimentary Tract and Metabolism, Cardiovascular System, Dermatologicals, Nervous System, and Oncology Agents and Immunosuppressants.

Mix had an upward burst that reflected the impact of the new antipsychotic drugs and is expected to continue growing but at a much lesser rate. Other areas where mix is a strong factor include Infections – Agents for Systemic use, and Blood and Blood Forming Organs. Mix has now returned to normal growth patterns and this is forecast to continue.

Continued price reductions will be needed to continue to maintain expenditure at sustainable levels.

Number of decisions made

PHARMAC made 466 decisions that affected the Pharmaceutical Schedule in 1999/00 compared to 249 in the previous year. The major changes were:

- new product listings arising from price competition initiatives that are designed to stimulate increased generic competition;
- The large amount of delistings was due to a review of Extemporaneously Compounded Preparations (ECP). This review assessed the ECP's listed on the schedule against the philosophy that ECPs should be subsidised where there is a genuine health need fulfilled by an ECP in situations where:
 - there is no subsidised, suitable alternative proprietary product available; or
 - the cost effectiveness of subsidising an extemporaneously compounded product outweighs the cost of subsidising a proprietary alternative. (This excludes those products that could be funded through Exceptional Circumstances).

Assessment against this criteria resulted in delisting 362 ECP's.

Listing changes to the Pharmaceutical Schedule

Decision type	1996/97	1997/98	1998/99	1999/00
New Chemical entity listed	11	14	32	18
New Presentation listed	24	33	40	21
New Product listed	20	53	56	39
Total new listings	55	100	138	78
Derestriction or expanded access	10	14	34	17
Changes that restrict or limit access	6	7	3	6
Delistings	14	106	51	362

Applications declined by the PHARMAC Board

Decision type	1996/97	1997/98	1998/99	1999/00
New Chemical entity	14	2	20	1
New Presentation	3	10		2
New Product	11	2		
Derestriction or expanded access	1	1	3	
Total	29	15	23	3

Note: The higher than normal new chemicals listed in 1998/99 was the result of a review of the Special Foods Therapeutic Group where 13 new chemicals were listed.

Demand Side Activities

Through proactive demand-side management PHARMAC aims to impact on the volumes of drugs inappropriately prescribed and the unnecessary shift to more expensive agents. Demand-side activities include:

- Information for prescribers

PHARMAC has contracted with the Medical Lobby for Appropriate Marketing (MaLAM), to provide four issues of Healthy Scepticism in 2000. Healthy Scepticism aims to improve prescribers' awareness of marketing techniques and enhance critical appraisal of evidence. It is distributed to over 5,000 health professionals.

- Promotion of generic medicines

A consultation document on generic prescribing was circulated to key stakeholders in August 1999. A project plan based on the consultation document and feedback was approved in November 1999. PHARMAC staff identified a number of projects designed to educate and to encourage generic prescribing. PHARMAC staff are working with key groups including Medsafe and IPAs to implement these projects.

- PHARMAC/IPA best-practice initiatives

Presentations to IPA pharmacist facilitators, various interest groups and conference audiences were held to provide an understanding of PHARMAC and its activities and to encourage communication and collaboration.

PHARMAC has managed the Best Practice Advocacy Centre (BPAC) and the National Preferred Medicines Centre (PreMeC) contracts for the past year, since the responsibility to manage these contracts was transferred from the HFA in May 1999. These agencies deliver individual feedback to over 700 general practitioners about their prescribing behaviour. They also deliver information about appropriate prescribing and best practice initiatives to the wider general practice population.

- Management of patient expectations

In May 2000, PHARMAC co-ordinated a national campaign called the “Wise Use of Antibiotics”. This followed the successful “Colds and Flu” campaign held in May 1999. The campaign focused on reducing the unnecessary prescribing of antibiotics for viral conditions. It included participation by 25 IPAs (comprising over 2,500 general practitioners). Alison Holst, a well-respected national cooking expert, fronted the campaign. The success of the campaign is reflected in the reduction of national figures for antibiotic prescribing, and a shift in prescribing of broad spectrum to narrow spectrum antibiotics.

This project and the “Asthma Management” project include a patient education component. PHARMAC works proactively with consumer group organisations such as the Asthma and Respiratory Foundation of NZ to manage patient expectations. PHARMAC also manages patient expectations through work undertaken supporting supply side initiatives. Patients are also encouraged to contact PHARMAC through an 0800-line and the PHARMAC website.

PHARMAC also outlined its concerns regarding the negative aspects of Direct to Consumer advertising during the year.

- Support for supply side initiatives

PHARMAC demand-side management develops implementation programmes for supply side changes that either affect large numbers of patients or are complicated to implement. An example of supporting supply side transactions is the Dihydropyridine Calcium Channel Blockers (DHP CCBs) implementation programme. This programme included two subsidised visits to general practitioners for patients who may have wanted to switch their medication. These visits were available from 1 April 1999 – 1 October 1999.

- Management of high health risk areas such as antibiotic resistance

PHARMAC has undertaken two projects in high-risk areas. In December 1999, PHARMAC launched the “Asthma Management Project” which aimed to educate both health professionals and patients about asthma management and the appropriate use of asthma medication. Carl Hoefft, an international rugby player with asthma, fronted the campaign. The national campaign was run in conjunction with Independent Practitioners Associations (IPAs), the Best Practice Advocacy Centre (BPAC), the National Preferred Medicines Centre (PreMeC), the Asthma and Respiratory Foundation of New Zealand and Asthma New Zealand. Resources were distributed to doctors, practice nurses, pharmacists, Maori Health providers, asthma educators, hospitals and schools.

2. PHARMAC's performance in managing statutory roles

Promulgation of information from the Pharmaceutical Schedule

PHARMAC aims to maintain, and where possible improve, the information regularly sent to pharmacists, prescribers and other interested parties. Proactive, timely and accurate information will be promulgated through the media and other sources about significant changes.

PHARMAC reprinted and distributed the Pharmaceutical Schedule to all prescribers and pharmacists on its mailing list every four months.

PHARMAC's electronic schedule was delivered to subscribers monthly, and is the basis for the pharmacy electronic claiming.

PHARMAC printed and distributed monthly updates to the Pharmaceutical Schedule to all pharmacists and prescribers on its mailing list.

PHARMAC produced a Dispatch every month with a brief summary of subsidy changes. This was sent to the pharmacies earlier than the update.

STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

Pharmaceutical Management Agency Limited is registered under the Companies Act 1993 and is a Crown Entity. The Health Funding Authority (HFA) has a 100% shareholding in Pharmaceutical Management Agency Limited (PHARMAC). PHARMAC acts as the Health Funding Authority's agent for the purpose of meeting its obligations in relation to the operation and development of a national Pharmaceutical Schedule.

The financial statements have been prepared in accordance with the Companies Act 1993, the Financial Reporting Act 1993 and the Public Finance Act 1989.

Measurement System

The general accounting principles recognised as appropriate for the measurement and reporting of results and financial position on an historical cost basis have been followed.

Due to the Company's expected disestablishment during November/December 2000, PHARMAC is not a going concern. However, as its assets and liabilities are expected to be transferred to a new Crown entity, expected to be established to continue the current operations of PHARMAC, at net book value at the date of disestablishment, no change in the measurement base of assets and liabilities is necessary.

Accounting Policies

The following particular accounting policies which materially affect the measurement of results and financial position have been applied.

(a) *Valuation of Assets*

(i) *Fixed Assets*

Fixed Assets are valued at cost less accumulated depreciation.

(ii) *Accounts Receivable*

Accounts Receivable are valued at net realisable value.

(b) *Depreciation*

Depreciation of fixed assets is calculated using the straight line method to allocate the historical cost over the estimated useful life of each asset.

Major depreciation periods are:

Office Equipment	5 years
EDP Equipment	2.5 years
Furniture and Fittings	5 years

STATEMENT OF ACCOUNTING POLICIES (Continued)

(c) **Revenue Recognition**

Revenue contributed by HFA to cover operating costs is recognised as the revenue falls due.

(d) **Goods and Services Tax**

All amounts shown are exclusive of goods and services tax, with the exception of debtors and creditors, which are shown GST inclusive.

(e) **Taxation**

Income Tax

The Inland Revenue Department has confirmed that PHARMAC is exempt from Income Tax as it is a “Public Authority”. This exemption is applicable retrospectively from the company’s date of incorporation.

(f) **Financial Instruments**

There are no financial instruments that expose the Company to foreign exchange risk or off balance sheet risks, although PHARMAC has entered into contracts with pharmaceutical suppliers that provide for limited variations in price according to exchange rate fluctuations.

All financial instruments, including bank accounts, accounts receivable and accounts payable are disclosed at their fair value. Revenue and expenses in relation to the financial instruments are recognised in the Statement of Financial Performance.

(g) **Employment Entitlements**

Provision is made in respect of PHARMAC’s liability for annual leave and has been calculated on an entitlement basis at current rates of pay.

(h) **Budgeted Figures**

The 2000 budget figures have been adjusted to those agreed with the HFA subsequent to the presentation of the Statement of Intent.

(i) **Leases**

The Company leases office premises and office equipment. As all the risks of ownership are retained by the lessor, these leases are classified as operating leases. Operating leases are expensed in the period in which they are incurred.

Changes in Accounting Policies

There are no changes in accounting policy. Accounting policies have been applied on a consistent basis.

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 30 June 2000

<i>Actual 1999 \$000</i>		<i>Notes</i>	<i>Actual 2000 \$000</i>	<i>Budget 2000 \$000</i>
REVENUE				
5,655	Health Funding Authority	8	5,814	5,523
36	Other Income		30	-
11	Interest		77	-
<u>5,702</u>	Total Operating Revenue		<u>5,921</u>	<u>5,523</u>
EXPENDITURE				
3,921	Operating Costs		3,358	3,692
1,386	Salaries and Related Costs		1,540	1,528
10	Audit Fees		16	15
58	Directors Fees		64	65
192	Depreciation		122	193
1	Loss on Disposal of Fixed Assets		51	-
131	Rentals and Leases		86	30
<u>5,699</u>	Total Expenditure		<u>5,237</u>	<u>5,523</u>
<u>\$3</u>	Net Operating Surplus		<u>\$684</u>	<u>\$-</u>

The accompanying accounting policies and notes form part of these financial statements.

STATEMENT OF MOVEMENTS IN EQUITY

for the year ended 30 June 2000

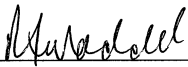
<i>Actual</i> <i>1999</i> <i>\$000</i>		<i>Actual</i> <i>2000</i> <i>\$000</i>	<i>Budget</i> <i>2000</i> <i>\$000</i>
45	Equity Brought Forward as at 1 July 1999	48	48
3	Net Operating Surplus (Total Recognised Revenues and Expenses for the Year)	684	-
<u>\$48</u>	Equity as at 30 June 2000	<u>\$732</u>	<u>\$48</u>

The accompanying accounting policies and notes form part of these financial statements.

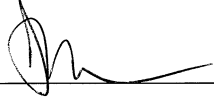
STATEMENT OF FINANCIAL POSITION

as at 30 June 2000

<i>Actual 1999 \$000</i>		<i>Notes</i>	<i>Actual 2000 \$000</i>	<i>Budget 2000 \$000</i>
	Equity			
-	Share Capital	1	-	-
48	Reserves	2	732	48
<u>\$48</u>	Total Equity		<u>\$732</u>	<u>\$48</u>
	Represented By:			
	Current Assets			
754	Cash and Bank		2,212	250
24	Accounts Receivable		705	280
<u>778</u>	Total Current Assets		<u>2,917</u>	<u>530</u>
	Less Current Liabilities			
747	Accounts Payable		1,685	652
28	Annual Leave Accruals		74	30
168	HFA Creditors	8	551	-
<u>943</u>	Total Current Liabilities		<u>2,310</u>	<u>682</u>
<u>(165)</u>	Working Capital		<u>607</u>	<u>(152)</u>
	Non Current Assets			
<u>213</u>	Fixed Assets	3	<u>125</u>	<u>200</u>
<u>\$48</u>	Net Assets		<u>\$732</u>	<u>\$48</u>

Signed this 29th day of September 2000


Chairman



Director

The accompanying accounting policies and notes form part of these financial statements.



STATEMENT OF CASH FLOWS

for the year ended 30 June 2000

<i>Actual</i> <i>1999</i> <i>\$000</i>	<i>Notes</i>	<i>Actual</i> <i>2000</i> <i>\$000</i>	<i>Budget</i> <i>2000</i> <i>\$000</i>
Cash Flows from Operating Activities			
Cash was provided from:			
5,181	- Health Funding Authority	5,949	5,276
31	- Interest	77	-
241	- Other	208	-
115	- Net GST	-	-
Cash was disbursed to:			
(5,348)	- Payments to suppliers and employees	(4,066)	(5,600)
-	- Taxation	-	-
-	- Net GST	(625)	-
<u>220</u>	<i>Net Cash Flows from Operating Activities</i>	<u>1,543</u>	<u>(324)</u>
Cash Flows from Investing Activities			
Cash was disbursed to:			
(124)	- Purchase of Fixed Assets	(85)	(180)
<u>(124)</u>	<i>Net Cash Flows from Investing Activities</i>	<u>(85)</u>	<u>(180)</u>
96	Net Increase in Cash Held	1,458	(504)
658	Add Opening Cash Brought Forward	754	754
<u>\$754</u>	<i>Closing Cash Balance</i>	<u>\$2,212</u>	<u>\$250</u>

The accompanying accounting policies and notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Capital

The Issued and Paid Up Capital is \$100 contributed by the Health Funding Authority.

Note 2: Reserves

	<i>Actual</i> 2000 \$000	<i>Actual</i> 1999 \$000
Opening Balance	48	45
Net Operating Surplus	684	3
Closing Balance	<u>\$732</u>	<u>\$48</u>
Made up of:		
Opening Equity	169	169
Retained Earnings (Accumulated Deficit) Carried Forward	<u>563</u>	<u>(121)</u>
	<u>\$732</u>	<u>\$48</u>

Note 3: Fixed Asset Schedule

	<i>Cost</i> 30/06/00 \$000	<i>Accumm.</i> <i>Depr.</i> 30/06/00 \$000	<i>Net Book</i> <i>Value</i> 30/06/00 \$000
Office Equipment	27	15	12
EDP Equipment	568	468	100
Furniture & Fittings	50	37	13
	<u>\$645</u>	<u>\$520</u>	<u>\$125</u>
	<i>Cost</i> 30/06/99 \$000	<i>Accumm.</i> <i>Depr.</i> 30/06/99 \$000	<i>Net Book</i> <i>Value</i> 30/06/99 \$000
Office Equipment	23	11	12
EDP Equipment	493	353	140
Furniture & Fittings	235	174	61
	<u>\$751</u>	<u>\$538</u>	<u>\$213</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)**Note 4: Commitments**

	<i>Actual</i>	<i>Actual</i>
	<i>2000</i>	<i>1999</i>
	<i>1-3 Years</i>	<i>1-3 Years</i>
	<i>\$000</i>	<i>\$000</i>
<hr/>		
Future Commitments in respect of Office Rentals and Service Contracts		
<i>Not later than one year</i>	37	96
<i>Later than one year and not later than two years</i>	5	36
<i>Later than two years but not later than five years</i>	-	6
	<hr/>	<hr/>
	\$42	\$138
	<hr/>	<hr/>
Capital Commitments	\$-	\$-

Note 5: Contingent Liabilities

A number of pharmaceutical companies have taken legal action against PHARMAC. PHARMAC has successfully defended those actions that have been to trial and continues to defend the others.

Future costs of defending the actions or damages arising from the legal actions have not been recognised in the Statement of Financial Performance for the year ended 30 June 2000.

The extent of any indemnity from the Crown is still to be confirmed.

Note 6: Financial Instruments**(i) Credit Risk**

Financial instruments which potentially expose the Company to credit risk consist of bank balances and accounts receivable.

Bank balances are held with New Zealand registered banks in accordance with Company policy.

The values disclosed in the Financial Statements represent the maximum exposures on these financial instruments. No collateral is held for any of these financial instruments.

NOTES TO THE FINANCIAL STATEMENTS (Continued)**(ii) Concentration of Credit Risk**

The Company receives almost all of its revenue from the HFA.

The HFA is Crown funded.

(iii) Credit Facilities

The Company does not have a bank overdraft facility.

(iv) Fair Values

There were no differences between the fair value and carrying amounts of the financial instruments at 30 June 2000.

Note 7: Reconciliation of the Net Operating Surplus with Net Cash Flows from Operating Activities

<i>Actual</i> 1999 \$000		<i>Actual</i> 2000 \$000	<i>Budget</i> 2000 \$000
3	Net Operating Surplus	684	-
	Add Non Cash Items:		
192	Depreciation	122	193
1	Loss on Disposal of Fixed Assets	51	-
	Working Capital Movements:		
99	Decrease (increase) in Receivables	(681)	(256)
(268)	Increase (decrease) in HFA Creditors	383	(168)
	Increase (decrease) in Creditors and		
212	Payables	938	(95)
1	Decrease (increase) in tax receivable	-	-
	Increase (decrease) in Annual Leave		
(20)	Accruals	46	2
\$220	Net Cash Flows from Operating Activities	\$1,543	\$(324)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 8: Related Parties

PHARMAC transacts business with HFA in the ordinary course of business and receives revenue for this. This is summarised below:

	Revenue			Health Funding Authority Creditor		
	<i>Actual</i> <i>2000</i> <i>\$000</i>	<i>Budget</i> <i>2000</i> <i>\$000</i>	<i>Actual</i> <i>1999</i> <i>\$000</i>	<i>Actual</i> <i>2000</i> <i>\$000</i>	<i>Budget</i> <i>2000</i> <i>\$000</i>	<i>Actual</i> <i>1999</i> <i>\$000</i>
Health Funding Authority	<u>\$5,814</u>	<u>\$5,523</u>	<u>\$5,655</u>	<u>\$551</u>	<u>\$-</u>	<u>\$168</u>

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DIRECTORY

Directors to 30 June 2000

Denis Tait	Chairman
Gabrielle Collison	Director
Kath Fox	Director
David Moore	Director
Richard Waddel	Director
Peter Wilson	Director
Win Bennett	Alternate
Michael Sewell	Alternate

Directors from 1 July 2000

Richard Waddel	Chairman
Ross Black	Director
Dr Gregor Coster	Director
Elizabeth Coutts	Director
Karen Guilliland	Director
David Moore	Director
Peter Hughes	Alternate

PTAC Chairman

John Hedley	PTAC Chairman
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General Manager

Wayne McNee

Advisors

Solicitors:	Bell Gully Buddle Weir
Auditors:	Audit New Zealand on behalf of the Controller and Auditor-General
Bankers:	ASB Bank Limited and Bank of New Zealand Limited

Shareholders

Health Funding Authority	100%
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Registered Office

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