



when you need us we're there



PEOPLE ASSOCIATE
Vhi Healthcare WITH
EXCELLENT HOSPITAL
COVER. WE ALSO
OFFER A RANGE OF
INNOVATIVE NEW
PRODUCTS & SERVICES,
WHICH COMPLEMENT
YOUR EXISTING HEALTH
INSURANCE PLAN.

FOR ALMOST FIFTY YEARS VHI HEALTHCARE HAS BEEN PROVIDING HOSPITAL CARE TO OUR MEMBERS. DID YOU KNOW THAT VHI HEALTHCARE NOW ALSO OFFERS A HUGE RANGE OF ADDITIONAL SERVICES AND PRODUCTS, ALL DESIGNED TO MEET OUR MEMBERS NEEDS. WE ARE 100% COMMITTED TO DELIVERING ON OUR PROMISE “WHEN YOU NEED US, WE’RE THERE”.

When you need us, we’re there...

1. For Healthcare Cover

At Vhi Healthcare we know that as you go through life, your health and your health needs naturally change. Because of this, we offer a host of private health insurance plans specifically designed to meet your needs. As your life changes talk to us about the different options available to you and we’ll help you select the Plan that’s right for you. So what are your options when choosing a health insurance plan?

Hospital Plans

Vhi Healthcare Plans A-E and Plans A-E Options are designed to provide you with excellent hospital cover. We offer 11 different hospital Plans that offer differing levels of cover for different types of accommodations i.e. semi-private vs private. All Vhi Healthcare hospital Plans offer excellent benefits including access to over 1,800 Consultants, direct payment arrangements in the majority of hospitals, care when you are abroad in the form of Vhi Assist, excellent maternity benefits and much more!

Day-To-Day Cover

The cost of regular healthcare visits can soon mount up. HealthSteps from Vhi Healthcare gives you cash back on everyday health expenses, including visits to your GP, dentist, and physiotherapist as well as covering eye tests, screening and visits to complementary practitioners. You don’t need an existing Vhi Healthcare Hospital Plan to buy HealthSteps. If you have one, you can purchase HealthSteps in addition to this or you can buy it as a stand alone product to meet your day-to-day expenses.

Cover for Day-to-Day and Hospital Expenses

LifeStage Choices from Vhi Healthcare is a new approach to private health insurance that’s tailored to suit the individual and their families as they progress through life. The Plans work by increasing cover in some areas and reducing it in others; you simply select your Plan as your stage in life demands. There are three Plans to choose from: First Plan, Family Plan and Forward Plan to ensure you can match your healthcare needs to your lifestyle. All LifeStage Choices Plans provide excellent hospital cover as well as generous cover for day-to-day medical expenses.

2. For Cover Abroad

When travelling overseas, one of the most important items you’ll pack is your insurance cover. As well as providing you with the widest range of health insurance plans, Vhi Healthcare offers you a range of travel plans designed to maximise the value of your membership.

Assist from Vhi Healthcare – comes as standard with your Hospital Plan at no extra cost

It includes a 24 hour medical emergency helpline for members on holiday abroad, valuable medical cover and a range of additional services:

- In-patient medical treatment ranging from €65,000 to €100,000.
- Access to an English speaking medical expert.
- Referral to a local doctor.
- Repatriation to Ireland up to the cost of €2m.

Multi Trip from Vhi Healthcare – Enhances Medical Cover and Travel Expenses

If you want extra cover for lost luggage, lost passport, missed departures and much more...then take a look at our Multi Trip travel

insurance. Multi Trip is an annual worldwide travel insurance policy exclusive to Vhi Healthcare members. It eliminates the need to pay each time you travel and does not duplicate the medical cover that you already have with your existing Vhi Healthcare policy. With Multi Trip you’re covered for pre-existing medical conditions with no waiting periods and no medical assessment to complete...and all for as little as €49 per annum.

Group Business Travel – Covers Employees’ Frequent Business Trips

An annual business travel insurance policy designed for companies with employees engaged in frequent business-related travel abroad. Our members can get a discount of up to 40%. There is immediate cover and no waiting periods for pre-existing medical conditions and the policy is open to non-Vhi Healthcare members. Features include:

- Extra cover for medical emergency, personal luggage etc
- Business equipment cover/hire
- Replacement colleague and travel companion cover.

Global – Medical Cover while Living Abroad

Global from Vhi Healthcare is designed for Irish residents who are moving or living abroad for more than 6 months and who intend to return to live in Ireland at a future date. Global has been designed to give you the best care and treatment should you/your family fall ill overseas. If you need to recoup medical costs, transfer to better facilities or just need advice and practical help – wherever you are in the world, Global has you covered.

- 1.
- 2.
- 3.
- 4.
- 5.



3. For Innovation

At Vhi Healthcare we pride ourselves on continuously innovating and finding new ways to meet our members needs. We have consistently introduced a number of innovative products and services including:

Vhi SwiftCare Clinic

Vhi launched Ireland’s first walk-in urgent care centre, Vhi SwiftCare Clinic in partnership with The Well in November 2005. Vhi SwiftCare Clinic provides treatment for unexpected urgent injuries/ illnesses that do not pose a serious danger to a person’s health, such as sprains, bumps and bruises, potential breaks, minor burns or cuts that may need a stitch. The Clinic does not cover serious medical emergencies such as a patient experiencing difficulty breathing, severe chest pain, acute stomach pain, loss of consciousness or severe burns. The Clinic is open from 8am to 10pm, seven days a week, 365 days a year. A second Vhi SwiftCare Clinic has opened on the campus of Dublin City University on Dublin’s northside in June 2006.

Vhi DeCare Dental

Vhi DeCare Dental is Ireland’s only dental insurance plan and offers a host of benefits for your oral care needs. Vhi DeCare Dental is designed to dovetail with existing State benefits for those with PRSI entitlements – offering members even greater savings. It is also designed to provide benefit for those who do not have PRSI entitlements. Discounted rates apply to those who are Vhi members, have PRSI treatment benefit entitlement, or part of a company-paid scheme.

Vhi’s Health Shop

Vhi Healthcare has teamed up with some leading Irish companies to bring you hundreds of quality health-related products and services. This is a unique service in Ireland; bringing together in one place, products to help you stay fit, products for mum and baby, books, contact lenses, products to help you feel safe, and online health management programmes. Above all we offer you privacy and convenience in helping you to take greater control of your health. No heavy parcels, no fighting crowds in shops, all items are delivered free to your door. Just click on to www.vhi.ie/healthshop to access this unique shop.

4. For Health-Related Advice and Information www.vhi.ie

www.vhi.ie is one of Ireland’s most popular and comprehensive healthcare websites. With over 300,000 visits per month, and 112,000 registrants it is also one of the biggest. Your Vhi Healthcare membership gives you free access to a comprehensive online encyclopedia of online information as well as a host of member-only services. These include being able to e-mail your medical queries to medical experts including dieticians, stress experts and fitness specialists. You can also register for personalised e-mail newsletters.

NurseLine 24/7

NurseLine 24/7 is an invaluable service from Vhi Healthcare offering access to a qualified nurse available by phone 24 hours a day, 365 days a year to answer your queries, help and reassure. Experienced nurses are available to provide access to information on medical conditions, details of healthcare providers,

and support or self-help groups. Information can also be provided on medications and their interactions. NurseLine is available to all Vhi Healthcare members, just call Callsave 1850 247 724.

BabyTalk from Vhi Healthcare

BabyTalk from Vhi Healthcare is a new maternity helpline staffed by qualified midwives, providing a personalised service to expectant and new mothers. This innovative new service is exclusively available to Vhi Healthcare Core Plan, LifeStage Choices and HealthSteps members at no extra cost and is available seven days a week, year-round at 1850 247 724. Members can register for the service online or over the phone and a mid-wife will then ring the expectant mum at agreed intervals throughout the pregnancy and up to six months after the child is born. Mothers will be able to get advice on a wide range of areas including breastfeeding, immunisations, weaning and developmental check-ups.

5. For Workplace Solutions Vhi Corporate Solutions

Vhi Corporate Solutions is a specialist team that was established to provide high-quality services on a range of employee health and well-being issues to corporate clients. Vhi Corporate Solutions is one of the leading providers of integrated occupational health and safety services in Ireland with an extensive portfolio of corporate clients across a wide range of industries. The team provide an integrated and comprehensive occupational health and safety service which is tailored to each client’s needs and requirements to ensure quality of service provision.

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when you need us we're there

HOSPITAL CARE
VHI HEALTHCARE'S HOSPITAL PLANS
ALLOW MEMBERS TO CHOOSE THE
COVER MOST SUITED TO THEM

BOARD OF DIRECTORS

1. Bernard Collins Chairman

Bernard Collins is Chief Executive Officer of Lifemed Consulting Limited. Mr. Collins received a BA Honours in Applied Industrial Psychology/Business from University College Cork, Ireland. Mr. Collins maintains positions at board level on many other companies in Ireland and in the USA. He served for 10 years as Vice President of International Operations at Boston Scientific Corporation until 2003. *

2. Pat Farrell MMII

Chief Executive, Irish Bankers Federation, Member, Financial Services Consultative Industry Panel Member, Business Regulation Forum, Former Chairman, European Movement Ireland.

3. Kevin Moynihan FCA

Principal, Kevin G. Moynihan & Co. Chartered Accountants, Chairman, Killarney Technology Innovation Centre 2003/2006, Irish Taxation Institute SW Region - Branch Representative, 2005/2006, Chairman, Chambers of Commerce of Ireland - Taxation Committee 1993/95. Chairman, Southern Region Chambers of Commerce of Ireland 1992/93, President, Killarney Chamber of Commerce 1991/93.

4. Joseph O'Leary FCCA

Partner - Patrick McNamara & Associates (Cork) - Auditors, Accountants and Taxation Consultants. Past Member of the National Council for Education Awards (NCEA), Irish Region President of the Chartered Association of Certified Accountants (ACCA) 1994/95, Past Member of the Irish Region Executive of the Chartered Association of Certified Accountants.

5. Liam Twohig B.Comm, FCA

Managing Partner, Baker Tilly O'Hare, Accountants and Business Advisors. Past President, German - Irish Chamber of Industry and Commerce, Past Member, Institute of Chartered Accountants in Ireland, Disciplinary Appeals Committee. #

6. Humphrey Murphy

Managing Director, Global Stainless Ltd., Member of Governing Body, University College Cork 1997 - to date. Chairman of UCC Audit Committee, Member of Cork Airport Authority, Member of Cork Chamber of Commerce. *



7. Baroness Julia Neuberger DBE

Liberal Democrat member, House of Lords, Trustee Booker Prize Foundation, Honorary Fellow, Royal College of Physicians, Chair of Commission on the Future of Volunteers, Former Chief Executive, King's Fund, Former Rabbi, South London Liberal Synagogue, Consultant, Clore Duffield Foundation, Member, Advisory Committee, trustees of Sainsbury Centre for Mental Health, Member, Central Ethical Compliance Group, Unilever, Former Member, Medical Research Council.

8. Jim Kelly

Director, KBC Asset Management, Chairman Fold Housing Association Ireland, Fellow, Pensions Management Institute, Former Chief Executive, Mercer Human Resource Consulting, Founder Director, Pension & Investment Consultants Ltd., Former Chairman, Retirement Planning Council of Ireland. #

9. Christy Cooney Master of Education

Assistant Director General, FÁS, Director, Pairc an Chrócaigh Teoranta, Member, Chairman GAA National Games Development Committee.

10. Gillian Bowler FMII FMGT

Chairman, Budget Travel Ltd., Chairman, Failte Ireland, Chairman, Irish Life & Permanent, Plc., Non-Executive Director, Grafton Group, Non-Executive Director, Clear Channel Ireland Ltd., Board Member, Michael Smurfit Graduate School of Business, UCD. *

11. Patricia Ennis B.ARCH, F.R.I.A.I

Managing Director, Kildare Architects Ltd. #

12. Cathal Magee BA.MGT. MSC

Managing Director, eircom Retail since January 2002, Member, Board of Directors, eircom Group plc, Director, Employee Share Ownership Trust, ESOT, eircom, Non-Executive Director of EBS Building Society. Prior to joining eircom, Cathal worked for the National Australia Banking Group in the UK and Ireland.

* Member of Remuneration Committee
Member of Audit Committee



when you need us we're there

VHI SWIFTCARE CLINICS
DEALING WITH MINOR
INJURIES WITHIN 1 HOUR

CHAIRMAN'S REVIEW

Introduction

The year 2005/06 was one in which key decisions were made which will affect the future shape and direction of Vhi Healthcare in the years to come. On the 23rd December 2005, the Tánaiste announced that she had decided to accept the recommendation from the Health Insurance Authority (HIA) that Risk Equalisation be commenced from 1st January 2006; that Government had given approval for proposed legislative changes to widen the range of activities available to Vhi Healthcare and; that decisions had been made in relation to the future corporate status of Vhi Healthcare.

The decision of the Tánaiste to activate Risk Equalisation with effect from 1st January 2006 is most welcome and comes as a great relief to members, management and staff. It is a positive decision for the health insurance market. The potential to generate windfall profits has been removed and we can look forward to fair and equitable competition across all sectors and age profiles in the market.

The fact that the inequality in the regulatory environment for health insurance was not decided on sooner made it inevitable that Vhi Healthcare would become loss making. The absence of Risk Equalisation ie. the requirement that all insurers in the market contribute to the community risk, meant that the entire cost of financing community rating fell on Vhi Healthcare. Rather than pass this cost on to members, which would have deprived them of a community rated price in a community rated market, we have financed the cost out of current and past profits. The regulatory system which resulted in our incurring losses also provided the potential for our competitors to make large windfall profits and ensured that real competition would not extend across the market.

In Business Development terms 2005/06 was a very successful year, but in financial terms very disappointing as we incurred the predicted deficit arising from the delay in implementing Risk Equalisation. On the positive side we released more innovative and unique products and services, achieved further membership growth in our core hospital product areas and drove down our administration expense ratio. The Operations Review provides a full analysis of our achievements in this area.

I would like now to elaborate on the reasons why Vhi Healthcare incurred a €32.3 million loss. I would also like to update members on the sequence of events culminating in the approval by Government of Risk Equalisation, and

the current delay in its implementation. Finally, I would like to comment also on the challenges and opportunities facing Vhi Healthcare as a result of anticipated changes to legislation and to our corporate status.

Financial Deficit

For the year under review Vhi Healthcare incurred an Operating Deficit of €32.3 million after tax. This compared with a small surplus of €3.3 million in the previous year. The previous Chairman and I have repeatedly warned of the consequences of community rated health insurance without a Risk Equalisation mechanism. This is what has existed since competition was introduced in 1996.

In September 2004 the Board of Vhi Healthcare decided that Vhi members were entitled to benefit from true community rated premiums, which meant that community rating would have to be financed out of our reserves until such time as Risk Equalisation was implemented. The Board of Vhi Healthcare advised the Minister for Health and Children that we proposed the introduction of a relatively low premium increase of just three per cent on 1st September 2004. This difficult decision was made in order to protect the viability of the business but in the full knowledge that it would lead to significant losses in the absence of Risk Equalisation transfers. These predicted losses have now been incurred.

Although legislated for since 1994, the delay in introducing Risk Equalisation meant that Vhi Healthcare members, because of their older age profile, were financing the cost of funding Community Rating for a period of 10 years through premiums that were higher than should have been necessary, in order to maintain the financial viability of the business and the stability of the overall market.

The Government has thankfully listened to the advice of the independent experts commissioned to report on this issue and have accepted the second recommendation of the Health Insurance Authority that Risk Equalisation be activated. The scheme takes effect from 1st January 2006. This was too late to prevent a loss-making situation in the year to 28th February 2006 but it will allow us to plan for the future with confidence and return to profitability. The introduction of Risk Equalisation will also remove the potential for our competitors to use our community rated system to generate huge windfall profits. Regrettably, but not unexpectedly, one of our competitors has seen fit to challenge the decision of the Government in the Irish courts. They have also challenged a decision of the European Commission (which facilitated the decision made in Ireland) in the European Court of First Instance. As I write, the judgement in these cases is awaited.

Corporate Structure

On 23 December 2005, the Tánaiste announced that approval had been sought and received from Government for legislation designed to ensure that Vhi Healthcare operate under similar conditions to other insurers in the market. The Government has approved the drafting of a Bill to amend the existing Voluntary Health Insurance Acts.

The main provisions of the proposed Bill involve:

1. providing for more commercial freedom for Vhi Healthcare in terms of its market operations;
2. the incorporation of Vhi Healthcare (as a semi-state body) in 2012, which places an obligation on us to attain the level of financial solvency necessary to receive authorisation as a licensed insurer by that date.

In relation to the first provision above, commercial freedom effectively means:

- a. removal of the requirement to notify the Minister for Health and Children of proposed premium increases;
- b. removal of the requirement to seek prior approval from the Department of Health and Children to introduce new products or to change existing products;
- c. increased authority to provide products and services outside the specific scope of healthcare, and
- d. granting Vhi Healthcare the authority to establish subsidiaries.

Vhi Healthcare has been seeking these changes for some years. Taken together with the introduction of Risk Equalisation, this decision will create a truly level commercial market for health insurance for the first time. The requirement to build financial reserves up to the level of solvency required by the financial regulator over a relatively short period will present a major challenge. It is an objective we have committed to achieving and we are confident of realising the opportunities available in this new marketplace.

It is important to note that the decisions announced by the Tánaiste on 23rd December 2005 made no reference to, nor have they any effect on, the future ownership of Vhi Healthcare. This is a matter for Government and no indication has been received by the Board of any intention to change the status of Vhi Healthcare as a not for profit business operating under public ownership and control.

The Board interprets its mandate as that of working in the interests of members to facilitate access to quality healthcare at affordable prices.

Board and Advisory Groups

The year under review has been a very challenging one for the Board of Vhi Healthcare and I would like to pay tribute to my fellow Board members for their tremendous

commitment and support. I would like to welcome our newest Board member, Mr. Cathal Magee, who commenced his term of office in September 2005 for a five-year period. Mr. Magee's expertise and broad range of experience will be of enormous help to us in the challenges which we face in the years ahead.

The Members Advisory Council and The Medical Advisory Group are two voluntary committees who provide communication and expert advice on matters that impact very positively on our service to members. I would like to thank the members of both committees for their effort and dedication throughout the year.

Our Employees

Throughout all of the challenges faced by Vhi Healthcare in recent years the commitment and resolve of our employees has not wavered. The enthusiasm and determination shown by management and staff to provide our members with innovative products and excellent quality customer service has been very gratifying. I would like to record the appreciation and thanks of the Board of Directors to all employees for their efforts.

Our Members

In 2007 Vhi Healthcare will celebrate 50 years of providing voluntary private health insurance to the people of Ireland. Today, we cover the children and grandchildren of members who joined back in 1957. I am pleased to say that many of our original members also remain on our books. This level of intergenerational support lies at the heart of the concept of community rating and has helped fuel the growth of private health insurance in Ireland. I would like to thank our members for their continued loyalty and affirm that Vhi Healthcare's actions now and in the future will be dictated by their needs.

The Future

In the short term our financial situation is precarious. The longer it takes to activate Risk Equalisation transfer payments, the greater the losses we will incur. We will however uphold our decision to charge a true community rated premium to our members, funded out of reserves.

The implementation of Risk Equalisation is necessary to provide a truly competitive market, which does not encourage "cherry-picking" of younger, healthier members at the expense of the older members. It will enable us to steady our finances and rebuild our reserves to a commercially acceptable level. The long-term viability of Vhi Healthcare is dependent on the outcome of the current legal challenge being waged against the Government by those who oppose the introduction of Risk Equalisation. While we are hopeful that the High Court decision will favour the Government position on Risk Equalisation, the appeals process could delay the final decision on the outcome by many months or possibly years.

A speedy resolution to this vital issue is important as we face the enormous challenges ahead for private healthcare. The cost implications associated with an ageing population, the development of effective but expensive new drugs, accelerated technology innovation and increasing affluence have been experienced on a universal basis and will continue. The single biggest challenge facing private healthcare in Ireland is the unprecedented increase in private bed capacity, which has been encouraged by the generous tax relief available for such investment. Vhi Healthcare has questioned the wisdom of such tax incentives particularly since there does not appear to be any significant demand from the public sector to use these new facilities. The cost of financing the new capacity will place huge pressure on our objective to provide our members with quality healthcare at affordable prices. We are working hard on a strategic response to the new

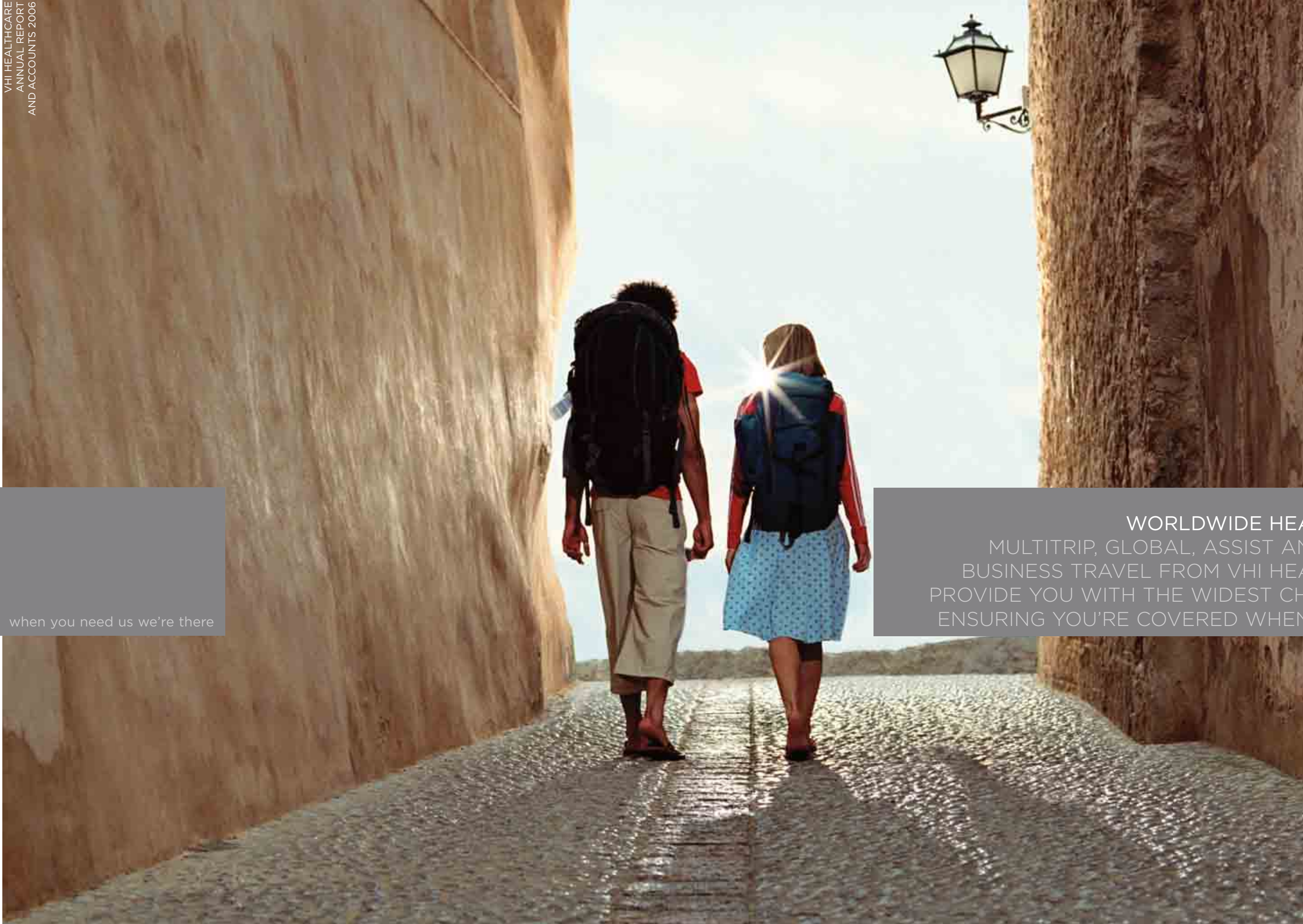
market conditions, guided as always by how best to serve the needs of our members.

We are also determined to play our part in improving the overall healthcare environment in the country. The development of the new Vhi SwiftCare Clinics represents an important initiative in this context. We do not perceive private healthcare to be in competition with public healthcare. On the contrary, a vibrant private healthcare sector makes a huge contribution by diverting demand from the public system. Beyond this we also share the responsibility of all citizens to do what we can to contribute to a better public healthcare system.

I am confident that Vhi Healthcare will continue to innovate, give value for money and provide access to the best and most appropriate modern healthcare available. Our efforts will continue to focus on listening to, and exceeding the demands of our members.



Bernard Collins
Chairman
22 June 2006



when you need us we're there

WORLDWIDE HEALTHCARE
 MULTITRIP, GLOBAL, ASSIST AND GROUP
 BUSINESS TRAVEL FROM VHI HEALTHCARE
 PROVIDE YOU WITH THE WIDEST CHOICE FOR
 ENSURING YOU'RE COVERED WHEN ABROAD

OPERATIONS REVIEW

Introduction

2005 was a very significant year for Vhi Healthcare and health consumers generally. In December 2005, the Tánaiste and Minister for Health and Children triggered the risk equalisation scheme with effect from 1st January 2006. This decision was essential to ensure the continuation of the community rated system of private health insurance in Ireland, which has served Irish people so well over the last 50 years, and to encourage competition right across all age sectors of the market. The Tánaiste also announced changes in relation to the future activities that we can engage in and she announced that Vhi Healthcare will be incorporated in 2012. These changes, which Vhi Healthcare advocated for some time, are welcome and are discussed in some detail in the Chairman's Review.

We have signalled for some time that Vhi Healthcare would incur financial losses if risk equalisation was not introduced into the community rated health insurance market in Ireland. The loss of €32.3 million results from our commitment to members that they are entitled to a community rated premium in a community rated market. The decision of the Tánaiste to activate risk equalisation with effect from 1st January 2006 means that all insurers in the market must contribute proportionately to the community risk. This will facilitate our return to profitability. It will also remove the potential to generate windfall profits from the operation of the regulatory system for private health insurance and it encourages active competition across all sectors of the market.

It is particularly frustrating to incur financial losses in a year when hard work and enormous commitment across the organisation has produced excellent results:

- Another year of growth in membership.
- Further reduction in the operating cost ratio.
- Exciting new products and services introduced to the market.
- Significant benefit and service enhancements for members.
- Enhancement of technology infrastructure.
- 4.5 million individual contacts with members, through various channels.

There was also an increase in the volume and value of claims paid for members. Due to the absence of risk equalisation our share of claim payments in the market is disproportionately high relative to our share of premium income. The inevitable result is financial losses. The activation of risk equalisation will facilitate a return to profitability. No account has been taken of risk equalisation receipts in the financial statements to 28th February 2006 because of the legal action taken by a competitor against the State following the decision of the Tánaiste.

Financial Results

Vhi Healthcare operates as a "not-for profit organisation". In effect this means that any surplus generated at the end of the financial year is placed in free reserves, which go towards providing protection for members and allows for reinvestment in improved benefits and services. During 2005/06 Vhi Healthcare recorded an operating deficit, the reasons for which have been touched on above and described in detail in the Chairman's Review.

The key financial results were:

- After tax, results showed a net deficit of €32.3 million compared with a surplus last year of €3.3 million. A loss of €35.5 million had been budgeted.
- Claims costs, at €890.6 million, increased by more than 18% during the year and results for private hospitals, professional fees, new facilities and diversified products were all better than had been budgeted. The principal drivers of claims costs have been the cost of providing our members with access to new technologies and facilities, together with the 25% increase in the cost of private beds in public hospitals on 1st January 2005.
- Earned premium of €919.6 million was generated during the year, an increase of 5.9% over 2004/05.
- The Unexpired Risk Reserve has increased by €1.3m from €104.2m last year to €105.5m at 28th February 2006. This reserve arises from the decision by the Board to provide for losses anticipated on contracts renewed, or to be renewed up to August 2007. This reserve reflects the fact that the premium increase of 3% from September 2004 was not sufficient to provide a surplus in 2005/06. The Board decided in September 2004 that it was commercially and morally wrong to pass the cost of financing community rating for the entire market on to the members of Vhi Healthcare.
- Operating expenses of €78.5 million rose by just 3.9% on the previous year. In terms of our premium income, the expenses ratio continued to fall and at 8.5% Vhi Healthcare is one of the most efficient insurance companies in the world. Indeed, last year our largest

competitor in Ireland reported an expense ratio which exceeded 13% of premium income. Typically most health insurers around the world report expense ratios of the order of 12% or higher.

Operational Highlights of Y/E 28 February 2006

- Total membership 1.55 million.
- €890 million paid out in claims on behalf of our members or €4 million paid out every working day.
- New member sales of core products averaged more than 5,800 per month.
- New products and services brought to market included: Group Business Travel, an improved suite of Vhi DeCare Dental Plans, and Vhi SwiftCare Clinic – Ireland's first urgent care facility based in Balally, near the new Dundrum Town Centre, Dublin. Further such clinics are planned for the future.
- 125,000 people chose LifeStage Choices from Vhi Healthcare since its launch in October 2004.
- 550,000 claims and 1.3 million doctor invoices were processed.
- 4.5 million customer contacts.
- Significant service and benefit enhancements including: the approval of new facilities for members at Forest Treatment Centre in Wicklow; Advanced Radiology Centre, Dublin; and Limerick Radiotherapy Centre.

Membership and Sales

Health insurance activities

New member sales increased by 4.5% on the previous year with 70,420 people choosing one of Vhi Healthcare's core plans to provide for their hospital-based cover. Total membership of core products (A-E, Options, B with Excess, LifeStage Choices and Plan P) remained more or less stable at just over 1.55 million, with income from hospital products coming in at 2.3% greater than budget. On average during the year 2005/06, more than 5,800 new members joined each month, contributing to an overall premium income of €929 million by the end of February 2006.

Sales of LifeStage Choices Plans continue to go from strength to strength with 100,000 members covered just twelve months after its introduction in late October 2004. By the end of February 2006 this figure had risen to 125,000 and the popularity of these Plans is such that almost 40% of all new sales of Vhi Healthcare Hospital Plans can be attributed to LifeStage customers. Our consumer research shows that more than 65% of sales in this product range have been in the family space with the Family Plan suite of products proving particularly attractive.

Other Products & Services - Driving Innovation

Despite increased competition in the health insurance market, Vhi Healthcare continues to lead the market with an estimated 76% market share. One of the principal reasons why three in every four insured people continue to choose Vhi Healthcare is due to the fact that we are demonstrably the most innovative and efficient health insurer in the market.

Our diversification strategy means that we are continuously identifying new ways to meet our members' needs and bringing innovation to the market place. We are the first Irish health insurer to provide:

- Occupational and employee health programmes (Vhi Corporate Solutions).
- Multi trip travel insurance (MultiTrip from Vhi Healthcare).
- Business related travel insurance (Group Business Travel).
- Ireland's first and only dental insurance plans (Vhi DeCare Dental).
- Day-to-day medical expenses cover (HealthSteps Gold & Silver plans).
- Expatriate health cover (Global from Vhi Healthcare).
- Online health shop (www.vhi.ie/healthshop).
- Ireland's first urgent care facility (Vhi SwiftCare Clinic).

During 2005/06, income from our range of non-core products added €18 million net to revenue, equivalent to almost 2% of our total earned income. This level of revenue is expected to rise significantly over the next five years.

In September 2005 Vhi Healthcare launched BabyTalk, a unique new maternity helpline for expectant mothers. Staffed by midwives, BabyTalk provides a personalised service available seven days a week, to expectant and new mothers with Vhi Healthcare Core Plan, LifeStage Choices or HealthSteps cover, at no extra cost.

In October 2005, Vhi Healthcare re-shaped and re-developed its unique Vhi DeCare Dental product by cutting the price, increasing the benefits and introducing a discounted rate for PRSI eligible individuals.

November 2005 saw the launch of Group Business Travel from Vhi Healthcare, an annual business travel insurance policy specifically designed for companies whose employees are frequently engaged in business-related travel. Group Business Travel looks set to revolutionise the market, offering companies the opportunity to save up to 47% on the current cost of their business travel insurance.

November also saw the opening of Ireland's first walk-in urgent care facility, Vhi SwiftCare Clinic located in Balally, near the Dundrum Town Centre in Dublin. This state-of-the-art clinic has heralded a new era in the provision of fast and efficient healthcare for Irish consumers needing treatment for non-life threatening, unexpected minor injuries or illnesses. The initiative has already proven to be a huge success with over 300 people being treated at the Clinic each week. A second Clinic opened in Dublin City University, on Dublin's Northside, in June. Further facilities are also planned for the future.

At the end of February 2006 some 220,000 members were covered by our MultiTrip travel insurance product, which has now gained an estimated 35% share of the multi-trip travel insurance market in Ireland. The success of this product owes much to its low price and also the extent of its cover offers the unique benefit of protecting against medical emergency and providing cover for illnesses arising out of pre-existing conditions.

Meanwhile new member sales of our expatriate plan, Global, performed better than expected and show a positive variance of more than five per cent over the budgeted sales figure for the year. Our day-to-day product, HealthSteps, also performed strongly and contributed in excess of €8 million to the total earned subscription income.

In the area of Corporate Solutions, strong growth continues with both outsourced occupational health services and employee assistance programmes (EAPs) experiencing significant expansion of their client bases. More than 30,000 client employees are now covered under the EAP service.

The Vhi health shop continues to prove a popular feature on www.vhi.ie and currently averages 1,000 customers per month.

Corporate Business

Most members of Vhi Healthcare are insured through group schemes associated with their place of employment or groups to which they have an affinity. There are in excess of 8,000 such Vhi group schemes.

Recent trends show that the healthcare landscape for employees is changing. Employees are now looking for increased value in their benefits package and employers are also more aware of the need to be flexible in providing for their employees' healthcare needs. Legislative changes have also placed a burden on employers to provide for their employees' occupational health needs.

Vhi Healthcare is committed not only to the provision of customer service excellence to its corporate clients and members, but also to providing an enhanced customer experience. Only Vhi Healthcare has the flexibility and expertise to offer unmatched healthcare solutions which employers and employees can adapt to suit their individual requirements. Our state-of-the-art renewal and billing system enables us to administer multiple products, split

policies and provides simple solutions to assist salary deduction or direct payment mechanisms. Employees can be assured of a complete end-to-end service from Vhi Healthcare. Unlike other insurers we do not outsource our key processes, we administer our own groups, communicate with our own customers, negotiate with providers (hospitals, consultants etc.) to get the best deals for our members and most importantly we process our own claims. We pride ourselves on working in partnership with payroll, HR and finance departments to deliver on our client expectations.

Customer Service

Vhi Healthcare has a longstanding reputation for the quality, efficiency and empathy of its customer service. Our ability to focus on the needs of our customers is a core competency within the organisation and their satisfaction is our key objective. During the past year we had more than 4.5 million contacts with our customers through telephone, email, mail, website, text message or through personal callers to our offices in Dublin, Dun Laoghaire, Cork, Limerick, Galway and Kilkenny.

Contact with our customers is very important to us and through our dedicated call centre in Kilkenny we have invested heavily in systems and personnel to provide our members with the highest level of personal customer service. We have an on-going quality improvement process which continuously evaluates whether we are resolving queries on a member's first call, looks at any issues identified and ensures we are handling complaints quickly and effectively.

Our reputation for customer service excellence has been recognised both nationally and internationally over the years and last year we won both the National Overall Quality and Excellence Award by Excellence Ireland Quality Association (EIQA) and the prestigious Recognition of Excellence Award.

Health Services for Members

Vhi Healthcare relies heavily on the partnership of a wide range of healthcare providers, including public and private hospitals, doctors, ambulance providers, laboratories and many more. We engage in a process of continuous discussion with providers to agree fees for services and during the past year we had agreements with 107 medical facilities of which 37 were private hospitals. We also entered into a new two-year agreement with 99% of all hospital consultants for full coverage of their fees. In addition, we agreed terms with 136 nursing homes; seven private ambulance companies; 28 approved in-patient MRI providers and three PET/CT scanning facilities. These agreements provide peace of mind to our members by protecting them from financial worry and enable us to more accurately predict our payout on fees and accommodation costs.

In addition to the new range of products and services brought to market Vhi Healthcare also included many new benefit enhancements during 2005/06 including:

- Approval of Forest Treatment Centre (Wicklow) for the treatment of alcohol and drug addiction, along with outpatient CT facilities at Advanced Radiology Centre and Charlemont Clinic in Dublin and radiotherapy services at Limerick Radiotherapy Centre.
- PET/CT scans approved for members at Blackrock Clinic and Mater Private, and Galway Clinic facilities. This scanner enables greater precision in locating cancer.
- New taxi benefits for transfer of private patients between public hospitals.
- New cover for sports and exercise medicine specialists.

- Enhanced maternity, neonatal and paediatric benefits for Core and LifeStage Plan holders.
- New cover for baby massage for Family Plan and Company Plan members.
- New cancer support benefit for core plan members incurring additional expenses travelling long distances for treatment.
- Extension of A&E benefit to members of LifeStage Family Plans.

Our on-going patient satisfaction research continues to show high levels of satisfaction among members with key areas of care such as accommodation, medical and nursing care, levels of general comfort and the efficient handling of claims. In particular access for members requiring day surgery in private hospitals continues to improve with more than three-quarters of members being admitted within four weeks of referral.

Day-care claims now account for almost 67% of all claims paid by Vhi Healthcare and reflect the growing worldwide trend towards providing day-care treatment as the preferred option from the point of view of the patient (in terms of comfort), and the provider/insurer - as the most medically and economically appropriate way to meet healthcare needs.

For the period under review, Vhi Healthcare paid out more than €890 million in claims benefit on behalf of members, equivalent to almost €4 million every working day. This represented an increase of more than 18% on the sum paid out in the previous year and it far and away exceeds the claims payout of any other health insurer in Ireland. It is expected that Vhi Healthcare annual healthcare payments will exceed €1 billion by the end of 2007.

On-going improvements to our method of claims assessment play a key part in the effective management of the fund. The past year saw Vhi Healthcare successfully implement the first phase of a new claims system

designed to support claims processing in a multi-product environment. With 650,000 transactions annually, the automatic workflow phase has provided the following benefits:

- Elimination of paper in the internal claims process - some 3.5 million pieces annually.
- Elimination of manual reporting on service levels and submission patterns.
- Improved customer service due to accountability and traceability of claims.
- Improved service levels to members and providers.
- More efficient audit controls.

In June 2005 a Special Claims Investigations Unit (SIU) was established to investigate any anomalies identified by members in payments made on their behalf. Members are actively encouraged to review their claims statement and to contact the Special Claims Investigation Unit if there is a discrepancy in the benefit paid. Every single query that Vhi Healthcare receives is referred to the Unit, investigated thoroughly and the member is then informed of the outcome. If there has been an incorrect claim made, we will seek the money back from the provider in question. The vigilance of our members is an essential additional check over the payments made on their behalf and is key to ensuring healthcare is kept affordable. Since its inception this new unit has had 922 referrals and a total amount of €177,000 has been recovered.

Technology Development

Vhi Healthcare has continued to invest heavily in the continuous improvement of its information technology systems as a means of increasing efficiency and improving the customer experience. We are currently working on the implementation of a new fully automated workflow system to all hospitals to ensure greater administrative efficiencies. Other projects currently being worked on are a new-look membership card and also the development of a self-service system. The self-service system will allow for

individual members and corporate group administrators to view their health insurance details in real time and allow employees to manage their healthcare needs online from their desktop. It is envisaged that these systems will be ready early next year.

Human Resources and Facilities Development

Vhi Healthcare employs 859 (or 782 whole time equivalent) people spread across six locations throughout Ireland. More than two thirds of our employees are aged between 18 and 40 and we have a staff retention rate in excess of 95%.

One of Vhi Healthcare's core values is that "people are our greatest asset". We believe that investing in the training and development of our people is crucial to our long-term business success and is instrumental in retaining our key quality employees. We currently have 17 employees studying for qualifications in Project Management through the Information Systems Examination Board (ISEB) and we have also developed a unique consultative selling competency development programme with the National College of Ireland (NCI) with the aim of providing our Corporate Account Managers with a better understanding of the strategic needs of our clients.

Brand Development

The proposition "when you need us, we're there" is the driving force behind our business. During 2005/06 our brand awareness and marketing communications activities centered on themes promoting wellness and healthy lifestyles to support this proposition and included:

- New products and services: a large number of innovative products were launched last year to meet needs identified by our members. These included Group Business Travel, and the unique Vhi SwiftCare Clinic.
- Advertising: our advertising campaigns highlighted the benefits of LifeStage Choices and HealthSteps Plans - always reinforcing the message that "when you need us, we're there".

- Direct to member communications: Over 270,000 pre-renewal circulars were issued to members to highlight the benefits of our LifeStage Choices Plans. In addition, all HealthSteps members received a handy wallet to retain their day-to-day medical receipts prior to making a claim. New literature was developed for members providing practical advice on what to expect when going into hospital, preparing for a baby or planning for a child going into hospital.
- Sponsorships: Vhi Healthcare is joining forces with the GAA for the next three years to host the Vhi Cúl Camps, summer camps providing tuition on hurling, camogie and gaelic football for approximately 80,000 children each year. Vhi Healthcare sponsored RTÉ One's hugely popular Health Squad series in September 2005, which looked at topical health issues such as diet, breast cancer, cystic fibrosis and the menopause. Other health and fitness sponsorships included Vhi Dance Blitz 2005, the "Fit for Fun" Munster programme with the IRFU, and finally the Galway Bay 10 and Evening Echo women's mini-marathons.
- Online Activity: December 2005, saw www.vhi.ie named Best On-Line Portal at the prestigious Golden Spider Awards. In January 2006 we launched the "Turn Your Life Around" Initiative on www.vhi.ie, during which four of our online experts developed personalised six week programmes for three of our website visitors, with advice on fitness, diet, stress management and life coaching. This generated widespread interest and will be repeated next year.

Social Responsibility

Ensuring that our business operations help to have a positive impact on our environment is of key importance to Vhi Healthcare and we therefore engage in a number of activities to ensure this. Vhi Healthcare recycles all of its waste paper, glass, drink cans, print cartridges, used batteries, redundant equipment. We have also established a system whereby unwanted mobile phones can be donated

to the Jack & Jill Foundation – a registered charity set up to help young children with neurological disabilities. Each mobile phone is worth €8 to this charity, and after re-conditioning, these phones are distributed to countries where there is low access to communication facilities.

During the year 2005/06 Vhi Healthcare employees raised a total of €15,552 through voluntary salary deduction, for distribution to almost 30 different registered charities based nationally and internationally. In addition, Vhi Healthcare made a corporate charitable donation of €50,000 to the Children's Medical & Research Foundation at Our Lady's Hospital for Sick Children in Crumlin, Dublin. These funds will be used to extend the hospital's Ophthalmology Department.

In June 2005, a team of five Vhi Healthcare employees successfully completed the Focus Ireland Four Peaks Challenge. Supported by two drivers, the team finished 9th out of 67 teams and in the process raised €10,000 for Focus Ireland.

Just one month later four teams of Vhi Healthcare hikers represented Ireland in the 100Km Trailwalker Challenge. Through the generous sponsorship of Vhi employees, corporate clients and business associates, the team raised €22,970 to support the work of Oxfam.

Vhi Healthcare has for a number of years now provided support to communities through its involvement with Junior Achievement/Young Enterprise programmes in which Vhi employees volunteer their free time and expertise to help primary and secondary school students identify their own specific skill sets and to coach young people in a wide variety of areas.

Outlook - The Challenges Ahead

I am confident that Vhi Healthcare will continue to lead the way in the Irish health insurance market in the coming year.

This confidence is based on the commitment and dedication of our employees, the diversity of our product offerings, the excellence of our customer service, and the loyalty of our 1.55 million members.

The outcome of the current court action against the Government decision to introduce risk equalisation is, however, crucial to our on-going financial stability as it is to the future of community rated health insurance in Ireland.

There are a number of major challenges facing us as we continue to strive to make quality healthcare affordable in Ireland. These include:

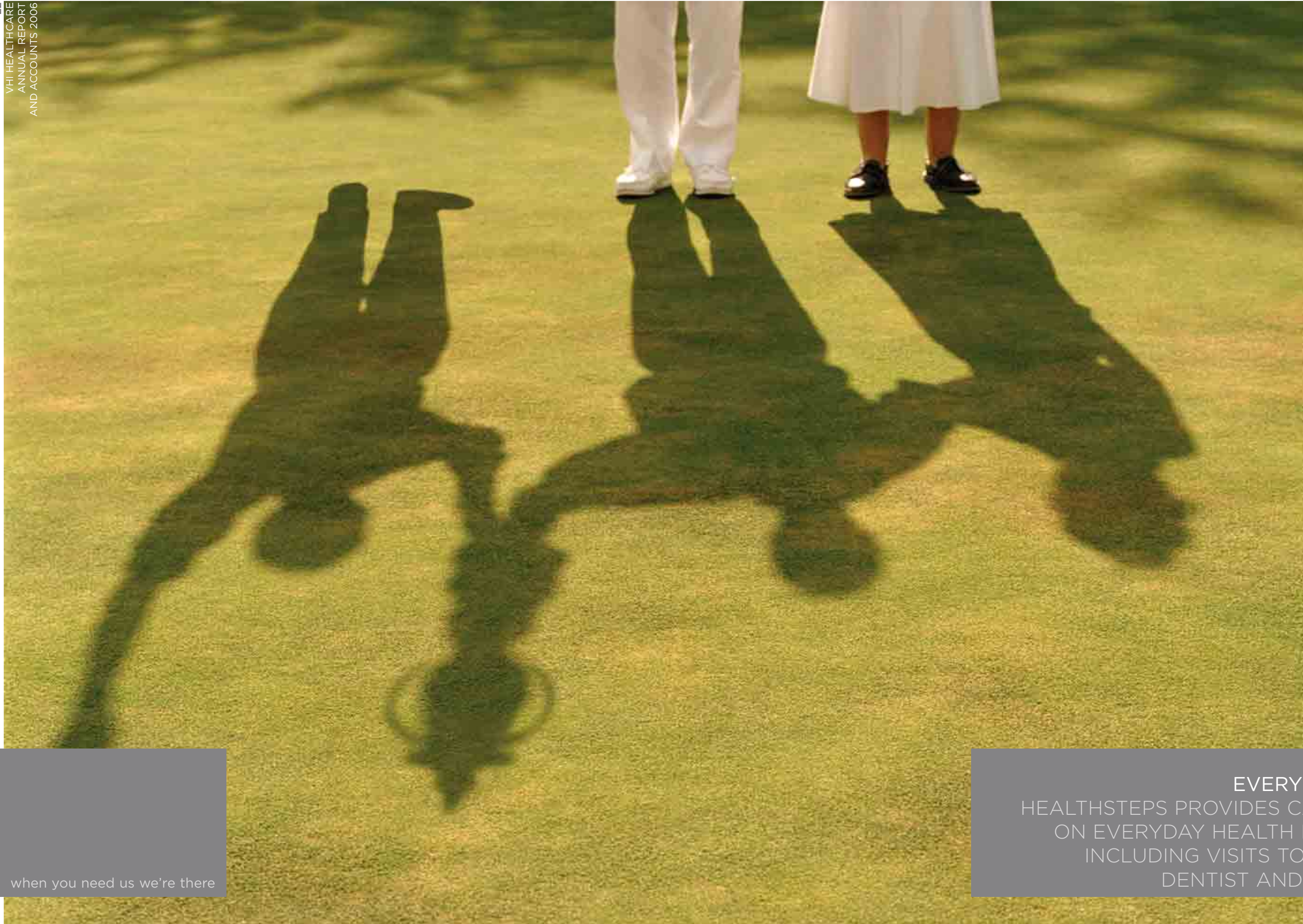
- The worldwide cost pressures impacting on healthcare e.g. the ageing population, expensive new drugs, exciting but costly technology innovation, some of the less welcome results of increasing affluence such as obesity etc.
- The unprecedented increase in private hospital capacity in Ireland encouraged by generous tax reliefs. This new capacity far exceeds what is required on the private side and there is no evidence of any significant transfer of public demand into these facilities. Vhi Healthcare has consistently argued against this tax relief scheme.
- The extension of our powers to widen the base of our operations will present exciting new challenges and opportunities.
- The change to corporate structure in 2012 sets major financial challenges in meeting the required solvency levels by that date. We would have wished to incorporate earlier but the hole in our financial reserves caused by the absence of risk equalisation will take time to repair.

We face these challenges with confidence because we have absolute clarity with regard to our mission. It is quite simply to work together to serve our members. Vhi Healthcare is a not for profit business. We do not need the profit motive to drive efficiency, productivity and innovation. The deeply

ingrained ethos of service to members has provided far greater motivation to staff in Vhi Healthcare over the past 50 years.



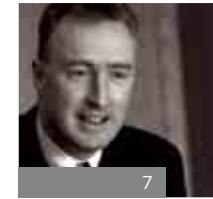
Vincent Sheridan
Chief Executive
22 June 2006



when you need us we're there

EVERYDAY CARE
HEALTHSTEPS PROVIDES CASH BACK
ON EVERYDAY HEALTH EXPENSES
INCLUDING VISITS TO YOUR GP,
DENTIST AND OPTICIAN

EXECUTIVE MANAGEMENT TEAM



1. Vincent Sheridan
BComm. FCA,
Chief Executive

Vincent Sheridan joined Vhi Healthcare in April 2001, with 28 years experience in the insurance industry. He is a Director of FBD Holdings Plc and was formerly a Director of the Irish Stock Exchange for nine years to June 2004. He is currently Deputy-President of the Institute of Chartered Accountants in Ireland and a council member of the International Federation of Health Plans and the Financial Reporting Council in the UK.

2. Michael Owens
Director - Human Resources

Michael Owens has a BA in industrial relations and is a Chartered Fellow of CIPD. He joined Vhi in August 1999 and has over 27 years experience in human resources management in light engineering, paper and print, commercial retailing and insurance.

3. Dr Bernadette Carr
MD, FRCPI, MPH, LFOM:
Medical Director

Bernadette Carr is a physician and epidemiologist with extensive clinical and research experience. A graduate of UCC, her qualifications include: Fellowship in UCLA 1989, Doctorate in Medicine TCD 1992, Licentiate of Faculty of Occupational Medicine 1991, and Masters Public Health 1994. She was elected to Fellowship of the Royal College of Physicians in Ireland 1996. Bernadette joined Vhi Healthcare in 1994 as Medical Director and her responsibilities include: provider relations, contract negotiations and claims.

4. John Creedon
Director - Information Technology

John Creedon has a BSc in Computer Applications from Dublin City University and a Diploma in Systems Analysis from Trinity College, Dublin. He held a number of senior positions in Vhi Healthcare prior to his current appointment in 1996 and is responsible for all Information Technology services.

5. Tony McSweeney
Director - Individual & Corporate
Business

Tony McSweeney, a member of the Marketing Institute of Ireland and a Fellow of the Sales Institute of Ireland, joined Vhi Healthcare from the life and pensions industry in 1996. He is responsible for Customer Services, Customer Administration and Sales.

6. Willie Shannon
BBS, FCA,
Director of Finance

Willie Shannon is a graduate of TCD, having obtained the BBS in 1974. He qualified as a chartered accountant in 1977. He joined Vhi Healthcare as Director of Finance in 2002. He serves on several committees in the Institute of Chartered Accountants. He is also a past Chairman of the Finance Committee of the Insurance Institute of Ireland and Past President of the Financial Executives Association.

7. Declan Moran
Director - Marketing & Business
Development

Declan Moran has a BSc in Computer Science and is a Fellow of the Institute of Actuaries since 1994. He joined Vhi Healthcare in 1997 from the life and pensions industry and is responsible for the expansion of Vhi's product line, development of new markets and the provision of actuarial expertise within the organisation.



when you need us we're there

FLEXIBLE CARE
LIFESTAGE CHOICES FROM VHI
HEALTHCARE ARE TAILORED TO
MEET THE CHANGING NEEDS OF
MEMBERS AND THEIR FAMILIES

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their 49th Annual Report in accordance with Section 20 (1) of the Voluntary Health Insurance Act 1957. The Accounts of the Board and the related notes which form part of the Accounts are included in this report, and have been prepared in accordance with accounting standards generally accepted in Ireland and comply with the European Communities (Insurance Undertakings: Accounts) Regulations, 1996.

1. Principal Activities

The Voluntary Health Insurance Board is a statutory corporation established by the Voluntary Health Insurance Act 1957 and has as its objective the provision of a financing system for private healthcare, carried out on a mutual assistance basis.

2. Results

The results for the year are set out in the Income and Expenditure Account.

3. Business Review and Future Developments

A review of business transacted during the year, together with the Board's view of likely future developments is contained in the Chairman's Statement.

4. Directors' Responsibilities

The Directors are required to prepare accounts for each financial period, which give a true and fair view of the state of affairs of the Board and of the surplus or deficit of the Board for that period.

In preparing those accounts, the Directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- Prepare the accounts on the going concern basis unless it is inappropriate to presume that the Board will continue in business.

The Directors are responsible for keeping proper books of account, which disclose with reasonable accuracy at any time the financial position of the organisation and to enable them to ensure that the accounts are prepared in accordance with accounting standards generally accepted in Ireland and comply with the European Communities (Insurance Undertakings: Accounts) Regulations 1996. They are also responsible for safeguarding the assets of the organisation and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

5. Corporate Governance

The Directors support the principles of Corporate Governance outlined in the Combined Code of Corporate Governance. The Financial Reporting Council revised the Combined Code on Corporate Governance in July 2003. While not itself a listed company, the Board has sought to comply with the provisions of the Code that are applicable having regard to the Constitution of Voluntary Health Insurance Board, and hence reports below on compliance throughout the year with the Code.

The Directors consider that the Board has in place the procedures to comply with the provisions laid out in section 1 of the Combined Code: Principles of Good Governance and Code of Best Practice, except in respect of the appointment and terms of office of Directors, which are the responsibility of the Minister for Health and Children. For this reason, the Board does not have a Nomination Committee or a Senior Independent Director.

Board of Directors

The roles of Chairman and Chief Executive are separate and the Board is entirely comprised of non-Executive Directors. All Directors are appointed by the Minister for Health and Children for 5 year terms of office.

The Board meets eight times annually and has a formal schedule of matters specifically reserved to it for decision which includes approval of the overall strategic plan, annual budgets, annual report and accounts and major corporate activities. Board papers are sent to each member in sufficient time before meetings. Appropriate training and briefing is available to all Directors on appointment to the Board, with further training available subsequently, as required. The Board has also drawn up procedures for Directors to take independent professional advice. All Directors have access to the advice and services of the Secretary. The Board has Directors Liability Insurance cover in place. The Board has put in place a process for appraisal of its performance.

The Board reviews the arrangements in place that allow employees to raise any concerns about possible wrongdoings in financial reporting or other matters. If required, it will ensure that appropriate investigation and follow-up action is taken.

The Board has appointed an Audit Committee which is comprised of three non-Executive Directors. The Audit Committee meets at least four times a year and reviews the annual accounts, internal control and compliance matters and the effectiveness of internal and external audit. The members of the Audit Committee also address the issue of risk, the purpose of which is to ensure that appropriate risk management procedures and reporting protocols are in place. The Audit Committee makes recommendations to the Board in relation to the appointment of the external auditors and assess their objectivity and independence. The external audit plan and findings from the audit of the financial statements are also reviewed. The main roles and responsibilities of the Audit Committee are set out in written terms of reference and are available on request.

The Audit Committee has a process in place to ensure the independence of the audit is not compromised, which includes monitoring the nature and extent of services provided by external auditors through its annual review of fees paid to the external auditors for audit and non-audit services.

The Board has also appointed a Remuneration Committee comprising of three non-Executive Directors. This committee is responsible for recommending candidates for senior management appointments and remuneration policies.

Internal Control

The Board has given effect to the recommendations of Internal Control: Guidance for Directors on the Combined Code (The Turnbull Guidance) which was published in September 1999.

The Directors are responsible for the Board's system of internal control and for reviewing its effectiveness. They

have assigned responsibility for the implementation of this system to Executive Management.

The system of internal control provides reasonable, but not absolute, assurance of:

the safeguarding of assets against unauthorised use or disposition; and the maintenance of proper accounting records and the reliability of the information they produce, for both internal use and publication.

The key elements of the system are:

- formal policies, procedures and organisational structures are in place which support the maintenance of a strong control environment.
- the business strategy, planning and budgetary process includes analysis of the major business risks which affect the organisation. Risk assessment is a continuous process on which the Board places significant emphasis.
- a comprehensive set of management information and performance indicators are produced promptly on a monthly basis. This enables progress against longer term objectives and annual budgets to be monitored, trends to be evaluated and variances to be acted upon. Detailed budgets are prepared annually in the context of longer term strategic plans and are updated regularly.
- accounting procedures are documented, transaction cycles are defined, accounting timetables are detailed, automated interfaces are controlled, review and reconciliation processes are carried out, duties are segregated and authorisation limits are checked. Experienced and qualified staff have been allocated responsibility for all major business functions.

Going Concern

The accounts have been prepared on the going concern basis and, in accordance with the requirements of the Combined Code, the Directors report that they have satisfied themselves that the Board is a going concern, having adequate resources to continue in operational

existence for the foreseeable future. In forming this view, the Directors have reviewed the Board's budget for 2006/2007 and the medium term plans as set out in the corporate strategy of the Board. In this regard, attention is directed to Note 10 of the Accounts.

6. Directors' Remuneration

Annual remuneration levels for the Chairman and each Director have been set by Government at €15,237 and €10,158 respectively. The Directors do not receive any other remuneration nor do they have any service agreements or contracts with the Board.

7. Principal Risks and Uncertainties

Irish company law now requires companies to give a description of the principal risks and uncertainties which it faces. Notwithstanding that the Board is not subject to company law provisions the Directors consider it sound corporate governance to provide such a description.

The principal risks facing the business are:

- the continuing uncertainty over the activation of the risk equalisation Scheme (see Note 10 to the Accounts and the Report of the Auditors) represents a major threat to the business. The Tánaiste accepted the recommendations of the Health Insurance Authority and declared that the risk equalisation Scheme be activated with effect from 1st January 2006. This represents a major reduction in the level of risk but uncertainty continues because of a number of legal challenges initiated by a competitor against this decision. In the event of risk equalisation not being activated there is a very high likelihood of Vhi Healthcare incurring significant losses in future years. The Tánaiste has also indicated that Vhi Healthcare will be incorporated in 2012 and must be in a position to satisfy the financial regulator with regard to required solvency levels by that date. Clearly, without any alternative source of funding this will not prove possible in the absence of risk equalisation.

- a related risk to (i) above is the dependency for profitability on a relatively small number of key group schemes which have very young age profiles. The introduction of risk equalisation will significantly reduce this risk.
- new competitors to the market are not subject to the risk equalisation Scheme for an effective period of 3.5 years after entering the market. This exposes the market and Vhi Healthcare in particular to the risk that short term competitors could enter the market to exploit the regulatory gap created by this concession.
- there are serious limitations currently imposed on the commercial freedom of Vhi Healthcare which puts it at a significant disadvantage to its competitors e.g.
 - all product changes/new products are subject to approval by the Minister.
 - proposed price increases must be advised to the Minister one month in advance of application.
 - the types of products and services that can be brought to market by Vhi Healthcare are limited by statute. The Tánaiste has announced that legislation will shortly be introduced to remove these commercial restrictions. This should remove this risk factor.
- there are enormous pressures on the cost of healthcare which could, by driving up insurance premiums, seriously reduce the take-up of private health insurance in the market. These cost drivers include:
 - a very significant increase in the availability of private bed capacity, because a characteristic of the healthcare market is that demand will expand to match supply.
 - an ageing population.
 - the development of expensive new drugs and technologies both for treatment and diagnostic procedures.
 - higher expectations with regard to quality and access deriving from increased affluence and medical information.
 - medical inflation running ahead of normal inflation.

Vhi Healthcare uses a number of KPI's throughout its various activities and the most significant appear throughout the Annual Report.

8. Prompt Payment of Accounts Act, 1997

Voluntary Health Insurance Board is included as a listed purchaser of goods and services in the schedule to the Prompt Payments of Accounts Act, 1997. The Directors acknowledge their responsibility for ensuring compliance, in all material respects, with the provisions of the Act. The Board's payment practice is one of ensuring that properly completed and agreed invoices for goods and services supplied to the Board will be discharged within the prescribed payment period. Procedures have been implemented which provide reasonable assurance against material non-compliance with the Act.

9. Books of Account

The Directors are responsible for ensuring that proper books of account are maintained by the Board and this has been achieved by the employment of appropriately qualified accounting personnel and by maintaining appropriate accounting systems. The books of account are located at the head office of the Board at VHI House, Lower Abbey Street, Dublin 1.

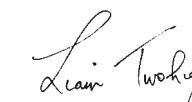
10. Auditors

The auditors Deloitte & Touche, Chartered Accountants, continue in office in accordance with Section 19 (2) of the Voluntary Health Insurance Act 1957.

On behalf of the Board:



Bernard Collins
Chairman
22 June 2006



Liam Twohig
Director



when you need us we're there

NURSING CARE
NURSELINE 24/7 OFFERS DIRECT
ACCESS TO A QUALIFIED NURSE
EVERY HOUR OF EVERY DAY

REPORT OF THE AUDITORS

Independent Auditors' Report to the Directors of the Board of the Voluntary Health Insurance Board.

We have audited the accounts of Voluntary Health Insurance Board for the year ended 28 February 2006 which comprise of the Income and Expenditure Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the statement of accounting policies and the related notes 1 to 19. These accounts have been prepared under the accounting policies set out therein.

This report is made solely to the Directors of the Board of Voluntary Health Insurance Board in accordance with Section 19 of the Voluntary Health Insurance Act 1957. Our audit work has been undertaken so that we might state to the Directors those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board and the Directors as a body for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Board and Auditors

The Directors are responsible for preparing the Annual Report including, as set out in the Statement of Directors' Responsibilities, the preparation of the accounts in accordance with applicable Irish law and accounting standards issued by the Accounting Standards Board and published by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland).

Our responsibilities, as independent auditors, is to audit the accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounts give a true and fair view.

We review whether the corporate governance statement reflects the Board's compliance with the nine provisions of the 2003 FRC Code specified for our review and we report if it does not. We are not required to form an opinion on the effectiveness of the Board's corporate governance procedures or its internal controls.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the accounts. The other information comprises only the Directors' Report, which includes the corporate governance statement, the Chairman's Statement, the Review of Operations and the Comparative Results table.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practice Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Board in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the Board, consistently applied and adequately disclosed.

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

Other Technical Provisions - Unexpired Risk Reserve

In forming our opinion, we have considered the disclosures in Note 10 to the accounts which set out the assumptions on which the provision for unexpired risk of €105.5m is based and the nature of the contingency in respect of new hospital facilities. We have also considered the disclosures made regarding the financial viability of the Board in the event that risk equalisation is not activated. In view of the significance of the uncertainties inherent in both the provision and the likelihood of further significant deficits being incurred in future years should a risk equalisation Scheme not be activated, and the potential impact of these uncertainties on the Board, we consider that these matters should be drawn to your attention. Our opinion is not qualified in this respect.

Opinion

In our opinion the accounts give a true and fair view, in accordance with generally accepted accounting practice in Ireland, of the state of the affairs of the Board as at 28 February 2006 and of the deficit of the Board for the year then ended.

Deloitte & Touche

Chartered Accountants and Registered Auditors
Dublin
22 June 2006



when you need us we're there

EMPLOYEE CARE
 VHI CORPORATE SOLUTIONS
 PROVIDES EMPLOYEE HEALTH
 AND WELL-BEING SERVICES TO
 CORPORATE CLIENTS

ACCOUNTS:

ACCOUNTING POLICIES

Basis of Preparation

The accounts are prepared in accordance with accounting standards generally accepted in Ireland, the European Communities (Insurance Undertakings: Accounts) Regulations, 1996 and the Statement of Recommended Practice on Accounting for Insurance Business (SORP) as adopted by the Association of British Insurers.

The following are the principal accounting policies adopted:

Basis of Accounting

The accounts are prepared under the historical cost convention modified by the revaluation of investments.

The Board has implemented the full provisions of FRS 17: 'Retirement Benefits' in the current year with restatement of the comparative amounts.

The preparation of accounts in accordance with generally accepted accounting principles requires the exercise of judgement in the process of applying the Board's accounting policies. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the accounts, relate primarily to provisions for claims outstanding and unexpired risks, and are documented in the accounting policies below. The provisions for outstanding claims and unexpired risks are based on actuarial methods of calculation approved by the Board's consulting actuaries, Watson Wyatt LLP.

Premiums Written

Gross premiums written consist of the premium income receivable from members in respect of policies commencing in the financial year.

Unearned premiums represent the proportion of premiums written in the year that relate to the un-expired term of policies in force at the balance sheet date, calculated on a time apportionment basis.

Claims Incurred

Claims incurred comprise claims and related expenses paid in the year and changes in provisions for outstanding claims, including provisions for the estimated cost of claims reported but not yet paid, claims incurred but not reported and related handling expenses.

Unexpired Risks

Provision is made, based on information available at the balance sheet date, for any estimated underwriting deficits related to unexpired risks after taking into account relevant investment return. Prudent assumptions are made so that the provision should be sufficient in reasonably foreseeable adverse circumstances, refer note 10.

Deferred Taxation

Deferred taxation is provided on timing differences between the taxable surplus/deficit of the Board and its surplus/deficit as stated in the accounts. The provisions are made at the taxation rates which are expected to apply in the periods in which the timing differences are expected to reverse. Deferred tax assets are recognised to the extent that it is probable that they will be recovered.

Tangible Assets

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated so as to write off the cost of the assets over their estimated useful lives on a straight line basis as follows:

Motor vehicles	4 years
Computer equipment and software	4 years
Furniture, fittings and office equipment	5 years

Expenditure incurred on the development of computer systems which is substantial in amount and is considered to have an economic benefit to the Board lasting more than one year into the future is capitalised and depreciated over the period in which the economic benefits are expected to arise. This period is subject to a maximum of four years. In the event of uncertainty regarding its future economic benefit, the expenditure is charged to Income and Expenditure account.

Investments

Investments in listed securities, including investments in government and government guaranteed stocks, are stated at market value. Market value represents the middle market price less accrued interest at the balance sheet date. Realised gains/losses on investment transactions are determined on an average cost basis and recorded in the Income and Expenditure account.

Land and buildings are valued annually on an open market value basis. Valuations are made by independent professionally qualified valuers. All properties occupied by the Board are maintained in a continual state of sound repair. As a result, the directors consider that the economic lives and residual values of these properties are such that any depreciation is insignificant and is therefore not provided.

Investment Income

Interest on fixed interest stocks and bank deposits is taken to include income as earned on a day-to-day basis. Income from equities is included on the basis of dividends received during the financial year.

Investment Return

Operating results are reported on the basis of longer term investment return. The longer term investment return is calculated based on rates which are reviewed annually and reflect both historical experience and the Directors' current expectations for investment returns. The short term fluctuation in investment return, representing the difference between the longer term return and the actual return, is incorporated in arriving at surplus/deficit before taxation.

The allocation of investment return from the non-technical account to the technical account is based on the longer term return on investments attributable to the insurance business.

Retirement Benefits

The cost of providing benefits and the liabilities of defined benefit plans are determined, using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date.

Current service cost, interest cost and return on scheme assets are recognised in the income and expenditure account. Actuarial gains and losses are recognised in the statement of total recognised gains and losses. Past service cost is recognised immediately. The net surplus or deficit on the defined benefit pension scheme is recognised, net of deferred taxation, on the balance sheet.

In addition, the Board also provides benefits to certain retirees in respect of health insurance cover, which are unfunded. The Board's obligation in respect of these benefits is measured using the projected unit credit method and is

discounted to present value, with actuarial valuations carried out at each balance sheet date. The full amount of the Board's obligation is recognised on the balance sheet and the charge for the year is included in the income and expenditure account.

INCOME AND EXPENDITURE ACCOUNT

	Notes	Year to end of February	
		2006 €'000s	As re-stated 2005 €'000s
TECHNICAL ACCOUNT: HEALTH INSURANCE			
Continuing Activities			
Earned Premium:	1		
Gross premiums written		961,499	896,731
Change in the provision for unearned premiums		(41,935)	(28,052)
		919,564	868,679
Allocated investment return transferred from the non-technical account		22,901	23,910
		942,465	892,589
Claims incurred:			
Claims paid		843,426	715,282
Change in the provision for claims		47,136	37,167
		890,562	752,449
Other technical provisions:			
Unexpired risk reserve	10	1,317	53,424
Net operating expenses	2	78,520	75,569
Balance on the health insurance technical account		(27,934)	11,147

INCOME AND EXPENDITURE ACCOUNT

	Notes	Year to end of February	
		2006 €'000s	As re-stated 2005 €'000s
NON-TECHNICAL ACCOUNT: HEALTH INSURANCE			
Continuing Activities			
Balance on the health insurance technical account		(27,934)	11,147
Longer term investment return	3	22,901	23,910
Allocated investment return transferred to the health insurance technical account		(22,901)	(23,910)
Operating (deficit)/surplus		(27,934)	11,147
Short term fluctuations in investment return	3	(4,252)	(7,351)
(Deficit)/surplus on ordinary activities before taxation		(32,186)	3,796
Taxation on ordinary activities	4	(144)	(510)
(Deficit)/surplus on ordinary activities after taxation carried to reserves	5	(32,330)	3,286

The accounts were approved by the Board on 22 June 2006, and signed on its behalf by:



Bernard Collins
Chairman

Liam Twohig
Director

BALANCE SHEET

As at 28th February

ASSETS

	Notes	2006 €'000s	As re-stated 2005 €'000s
Investments			
Land and buildings	6	40,909	36,700
Other financial investments	7	699,965	664,287
Debtors			
Debtors from members arising out of insurance operations		409,372	374,674
Other debtors		1,296	6,573
Other Assets			
Tangible assets	8	18,272	16,863
Cash at bank and in hand		221	7,405
Prepayments and accrued income			
Accrued interest		5,455	6,385
Total Assets		1,175,490	1,112,887

BALANCE SHEET

As at 28th February

LIABILITIES

	Notes	2006 €'000s	As re-stated 2005 €'000s
Reserves			
General reserve	9	220,220	255,819
Technical provisions			
Provision for unearned premiums		465,401	423,466
Claims outstanding		332,498	285,363
Other technical provisions	10	105,533	104,215
Deferred taxation	11	1,528	881
Creditors			
Bank overdraft		4,149	5,490
Creditors and accruals	12	15,183	11,547
Retirement Benefits Liability	19	30,978	26,106
Total Liabilities		1,175,490	1,112,887

The accounts were approved by the Board on 22 June 2006, and signed on its behalf by:



Bernard Collins
Chairman



Liam Twohig
Director

CASH FLOW STATEMENT

	Notes	Year to end of February	
		2006 €'000s	As re-stated 2005 €'000s
Net cash inflow from operating activities	13	32,573	85,055
Taxation refund/(payment)		5,720	(8,241)
Capital expenditure		(9,144)	(10,916)
		29,149	65,898
Cash flows were invested as follows:			
(Decrease)/increase in cash holdings		(5,843)	5,179
Net portfolio investment	14 & 16	34,992	60,719
Net investment of cash flows	15	29,149	65,898

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	Year to end of February	
		2006 €'000s	As re-stated 2005 €'000s
(Deficit)/surplus for the financial year		(32,330)	3,286
Actuarial loss on pension fund	19	(3,269)	(2,467)
Total (deficit)/surplus relating to the year		(35,599)	819
Prior year adjustment	9	(26,106)	
Total deficit recognised since last annual report	9	(61,705)	

NOTES TO THE ACCOUNTS

1. Earned premium

The insurance business of the Board is substantially health insurance and earned premium relates mainly to this class of business. Amounts from ancillary products are minimal. All business written is in the Republic of Ireland.

2. Net operating expenses

	2006	As re-stated 2005
	€'000s	€'000s
Administrative expenses	60,229	59,165
Acquisition costs	18,291	16,404
	78,520	75,569
	2006	2005
The average number of persons, including part time employees, employed by the Board was:	784	796
Staff costs were:	2006	2005
	€'000s	€'000s
Wages and salaries	37,408	36,885
Social security costs	3,862	3,891
Retirement benefits	5,585	4,221

The Chief Executive is retained on a consultancy basis. The initial five year period dating from April 2001 has been extended for a further three years to April 2009. Total fees paid to the Chief Executive and included in operating expenses in the year to February 2006 amounted to €395,000. (February 2005: €378,200)

3. Investment return

a. Longer term investment return

The rates of investment return underlying the calculation of the longer term investment return are set out below.

	2006	2005
	%	%
Land and buildings	6.1	5.2
Shares in listed securities	7.2	7.2
Debt securities/fixed interest securities	3.3	3.7
Deposits with credit institutions	2.0	3.0

b. Comparison of longer term investment return with actual return

	2006	2005
	€'000s	€'000s
Actual return:		
Income from land and buildings	105	154
Income from other investments	20,547	18,423
Losses on realisation of investments	(6,081)	(2,098)
Unrealised gains on investments	4,914	887
Investment management expenses	(836)	(807)
	18,649	16,559
Longer term investment return	(22,901)	(23,910)
Short term fluctuations	(4,252)	(7,351)

A transfer of the full amount of the longer term investment return has been made from the non-technical account to the technical account on the basis that the reserves of the Board are lower than the solvency margin level considered desirable within the health insurance industry and therefore all reserves are deemed to be in support of the technical provisions.

4. Taxation	2006 €'000s	2005 €'000s
The taxation charge in the income and expenditure account comprises:		
Corporation taxation - (credit)/charge	(504)	670
Deferred taxation - charge/(credit)	648	(160)
	144	510

Factors affecting the current taxation (credit)/charge for the period

The current tax for the period is calculated at a rate different to the standard rate of corporation tax in Ireland of 12.5% (2005: 12.5%).

The differences are explained below:

	2006 €'000s	As re-stated 2005 €'000s
(Deficit)/surplus on ordinary activities before tax	(32,186)	3,796
(Deficit)/surplus on ordinary activities multiplied by standard rate of corporation tax of 12.5% (2005, 12.5%)	(4,023)	474
<i>Effects of</i>		
Expenses deductible for tax purposes	(296)	(185)
Losses carried forward	3,722	-
Depreciation in excess of capital allowances for period	106	221
Adjustments to tax charge in respect of previous periods	(13)	160
Current tax (credit)/charge for period	(504)	670

A deferred tax asset has not been recognised in respect of tax losses forward amounting to approximately €30m due to unpredictability of future profit streams. The losses may be carried forward indefinitely.

5. Deficit for year	2006 €'000s	2005 €'000s
The deficit for the year is stated after charging:		
Depreciation of tangible fixed assets	7,755	8,896
Board remuneration	122	107

Auditors remuneration

Audit fee	128	124
Audit related fees	23	17
Non audit fees	118	105

6. Investments: land and buildings	2006 €'000s	2005 €'000s
Valuation:		
At 1 March	36,700	31,850
Additions	-	3,329
Disposals	(20)	-
Gain on revaluation	4,229	1,521
At end of year	40,909	36,700

Land and buildings included above are occupied by the Board for its own activities and are mainly freehold.

Land and buildings were valued at 28th February 2006 at open market value. These valuations were made by Thornton & Partners, Hamilton Osborne King, DTZ Sherry Fitzgerald and O'Keeffe Auctioneers.

If the land and buildings had not been revalued they would have been included at the following amounts which represent the lower of cost or net realisable value:

	2006 €'000s	2005 €'000s
Opening cost	19,565	16,237
Closing cost	19,545	19,565

7. Other financial investments	2006 Market Value €'000s	2006 Cost €'000s	2005 Market Value €'000s	2005 Cost €'000s
Shares in listed securities	8,591	6,500	7,139	6,500
Debt securities/fixed interest securities	549,929	551,516	641,773	642,930
Other investments	806	1,142	-	-
Loans secured by mortgages	81	81	122	122
Deposits with credit institutions	140,558	140,558	15,253	15,253
	699,965	699,797	664,287	664,805

8. Tangible Assets	Motor vehicles	Fixtures, furnishings & fittings	Computer equip/software & office equipment	Total
Cost	€'000s	€'000s	€'000s	€'000s
At 1 March 2005	2,076	5,387	46,723	54,186
Additions	399	2,781	6,094	9,274
Disposals	(372)	(1,090)	(278)	(1,740)
At 28 February 2006	2,103	7,078	52,539	61,720

Depreciation				
At 1 March 2005	(1,207)	(4,323)	(31,793)	(37,323)
Charge for the year	(494)	(907)	(6,354)	(7,755)
Eliminated in respect of disposals	262	1,089	279	1,630
At 28 February 2006	(1,439)	(4,141)	(37,868)	(43,448)
Net book value at 28 February 2006	664	2,937	14,671	18,272
Net book value at 28 February 2005	869	1,064	14,930	16,863

9. General Reserve	2006 €'000s
At beginning of year - as previously reported	281,925
Prior year adjustment (note 19)	(26,106)
At beginning of year - as restated	255,819
Total deficit recognised in the year	(35,599)
At end of year	220,220

The prior year adjustment arises from implementation of the requirements of FRS 17: 'Retirement Benefits' including recognition of the deficit on the defined benefit pension scheme and the unfunded obligations to provide benefits to certain retirees in respect of health insurance cover.

10. Other technical provisions

The amount of €105,533,000 provided for at 28th February 2006 is in respect of losses anticipated on contracts that the Board will be obliged to incept or renew arising from the commitment of the Board to a certain level of price increase effective from 1st September 2006 and anticipated increases in the cost of providing healthcare benefits. These losses are expected to be incurred in the period between March 2006 and August 2008. The charge of €1,317,000 represents the increase in the provision over the amount of €104,215,000 which was included in the Balance Sheet at 28th February 2005.

The decision with regard to the price increase reflects the current healthcare insurance environment.

The Board's consulting actuaries Watson Wyatt have confirmed that the amount of the provision is a reasonable estimate of these expected losses.

In December 2005, the Tánaiste and Minister for Health & Children activated the Risk Equalisation Scheme with effect from 1st January 2006. The scheme and its activation are the subject of legal proceedings and because the scheme is contingent on the outcome of these proceedings no account has been taken of any benefit which might arise on the activation of this scheme in calculating the provision, and an amount receivable has not been recognised in the balance sheet.

The Board is aware that several new hospital facilities are being developed and are close to completion. To date no agreements have been made with these facilities and any agreement will be dependent on the negotiation of appropriate terms and conditions.

In the event of new hospital facilities commencing operations and being approved by the Board during the period covered by the provision, it is estimated that additional net outgoings of up to approximately €25m could arise depending on terms and conditions of approval and the timing of commencement of operations. Provision has not been made for this amount in view of the significant uncertainties involved.

In the event of a Risk Equalisation Scheme not being activated there is a very high likelihood of Vhi Healthcare incurring continuing significant losses in future years. In such circumstances, and if the absence of Risk Equalisation continued to be financed out of the reserves of Vhi Healthcare, then a situation would arise where the business could no longer be considered viable.

11. Deferred Taxation

Provision has been made in respect of deferred taxation for the following timing differences:	2006 €'000s	2005 €'000s
Unrealised (gain)/loss on investment valuation	(21)	65
Unrealised gain on land and buildings	(1,507)	(946)
Total provision	(1,528)	(881)

12. Creditors and accruals

	2006 €'000s	2005 €'000s
PAYE and PRSI	-	885
Other creditors	3,361	1,175
Accruals	11,822	9,487
	15,183	11,547

13. Reconciliation of operating (deficit)/surplus to net cash flow from operating activities

	2006 €'000s	As re-stated 2005 €'000s
(Deficit)/surplus on ordinary activities before taxation	(32,186)	3,796
Depreciation charges	7,755	8,896
Retirement benefits	1,606	601
Unrealised gains on investments	(4,914)	(887)
Increase in health insurance technical provisions	90,388	118,643
Increase in debtors from members arising out of insurance operations	(34,698)	(42,405)
Decrease/(increase) in debtors and prepayments	986	(1,050)
Increase/(decrease) in creditors and accruals	3,636	(2,539)
Net cash inflow from operating activities	32,573	85,055

14. Movement in opening and closing portfolio investments

	2006 €'000s	2005 €'000s
Net cash (outflow)/inflow for the period	(5,843)	5,179
Portfolio investments	34,992	60,719
Movement arising from cash flows	29,149	65,898
Changes in market values	686	(635)
Total movement in portfolio	29,835	65,263
Portfolio investments and cash in hand at 1 March	666,202	600,939
Portfolio investments and cash in hand at 28 February	696,037	666,202

15. Movement in cash and portfolio investments

	At 1 March 2005 €'000s	Cash flow €'000s	Changes to market value €'000s	At 28 February 2006 €'000s
Cash at bank and in hand	1,915	(5,843)	-	(3,928)
Shares in listed securities	7,139	-	1,452	8,591
Debt securities and other fixed interest securities	641,773	(91,414)	(430)	549,929
Other investments	-	1,142	(336)	806
Loans secured by mortgages	122	(41)	-	81
Deposits with credit institutions	15,253	125,305	-	140,558
	666,202	29,149	686	696,037

16. Analysis of cash flows for headings netted in the cash flow statement

	2006 €'000s	2005 €'000s
Portfolio investments		
Purchase of shares in listed securities	-	3,500
Purchase of fixed interest securities	1,954,275	1,091,452
Purchase other investments	1,142	-
Purchase of deposits with credit institutions	767,516	716,522
Sale of shares in listed securities	-	-
Sale of fixed interest securities	(2,045,690)	(1,039,761)
Sale of deposits with credit institutions	(642,210)	(710,950)
	35,033	60,763
Repayment of mortgage loans	(41)	(44)
Net cash outflow on portfolio investments	34,992	60,719

17. Capital Commitments

	2006 €'000s	2005 €'000s
Capital expenditure contracted for	-	-
Capital expenditure approved but not contracted for	10,024	-

18. Related Party Disclosures

There have been no transactions with related parties which require disclosure under Financial Reporting Standard 8.

19. Retirement benefits

The Board operates a defined benefit pension scheme. The assets of the scheme are held in a separate trustee administered fund. In addition to pension entitlements, the Board also provides benefits to certain retirees in respect of health insurance cover. Retirement benefit costs and liabilities are determined by an independent qualified actuary, using the projected unit credit method of funding. The contributions to the scheme amounted to €3,982,000 (2005: €3,594,000) and are based on 12.2% of pensionable pay.

The values used in this disclosure are based on the most recent actuarial valuations, carried out at 28th February 2006, and the amounts have been fully implemented in the accounts in accordance with the requirements of FRS 17: 'Retirement Benefits'.

The actuarial reports are available for inspection by members of the scheme but not for public inspection.

The major assumptions used in respect of the pension scheme are:

	2006	2005
	%	%
Rate of increase in salaries	4.0	4.0
Rate of increase in pensions in payment	3.25	3.25
Discount rate	4.50	4.90
Inflation assumption	2.25	2.25

Long-term expected rates of return at 28 February were:

	2006	2005
	%	%
Equities	7.2	7.2
Fixed interest	3.3	3.7
Property	6.1	5.2
Other	2.0	3.0

19. Retirement benefits (continued)

The assets in the pension scheme at market value were:

	2006	2005
	€'000s	€'000s
Equities	80,687	59,197
Fixed interest	11,440	11,309
Property	5,467	4,641
Other	3,645	2,847

Total market value of assets	101,239	77,994
Present value of scheme liabilities	(127,872)	(101,273)

Deficit in the scheme	(26,633)	(23,279)
Unfunded health insurance premium provision	(8,770)	(6,557)

Net retirement benefits deficit	(35,403)	(29,836)
Related deferred tax asset	4,425	3,730
Net retirement benefit liability	(30,978)	(26,106)

	2006	2005
	€'000s	€'000s

Reserves

Reserves excluding retirement benefits liability	251,198	281,925
Retirement benefits liability	(30,978)	(26,106)
Reserves after including retirement benefits liability	220,220	255,819

19. Retirement benefits (continued)	2006 €'000s	2005 €'000s
Income and Expenditure account		
Charged to net operating expenses		
Current service cost	(4,484)	(3,233)
Death in service cost	(172)	(130)
Other retirement benefits	(653)	(530)
	(5,309)	(3,893)
Interest in scheme liabilities	(5,420)	(4,969)
Expected return on scheme assets	5,144	4,641
Net change in operating result	(5,585)	(4,221)
Statement of total recognised gains and losses		
Actual return less expected return on scheme assets	13,854	3,110
Experience gains and losses on scheme liabilities	(11,560)	2,119
Changes in demographic and financial assumptions	(6,259)	(8,138)
Actuarial loss	(3,965)	(2,909)
Deferred tax credit	696	442
Total actuarial loss	(3,269)	(2,467)
Movement in net deficit during the year		
Net deficit in scheme at start of year	(26,106)	(23,012)
Current service cost	(4,484)	(3,233)
Death in service cost	(172)	(130)
Contributions	3,982	3,594
Interest on scheme liabilities	(5,420)	(4,969)
Expected return on scheme assets	5,144	4,641
Actuarial loss	(3,965)	(2,909)
Other retirement benefits	(653)	(530)
Deferred tax credit	696	442
Net deficit at end of year	(30,978)	(26,106)

19. Retirement benefits (continued)	2006	2005	2004	2003
History of experience gains and losses				
Difference between expected and actual return on assets	13,854	3,110	8,800	(19,900)
% of scheme assets	14%	4%	13%	(40%)
Experience gains and losses on scheme liabilities	(11,560)	2,119	(6,900)	4,500
% of scheme liabilities	(9%)	2%	(8%)	7%
Total actuarial loss	(3,269)	(2,909)	(8,900)	(22,000)
% of scheme liabilities	(3%)	(3%)	(10%)	(35%)

COMPARATIVE RESULTS AND GRAPHS

	2002	2003	2004	As re-stated 2005	2006
	€'000s	€'000s	€'000s	€'000s	€'000s
Earned premium	596,594	687,583	802,992	868,679	919,564
Claims incurred	520,502	595,169	663,324	752,449	890,562
Unexpired risks reserve	15,279	19,871	15,641	53,424	1,317
Operating expenses	57,782	58,095	66,322	75,569	78,520
Investment return	15,864	24,684	13,980	16,559	18,649
Taxation charge	4,189	5,308	9,379	510	144
(Deficit)/surplus for the year	14,706	33,824	62,306	3,286	(32,330)
(Deficit)/surplus/Income Ratio	2.5%	4.9%	7.8%	0.4%	(3.5%)
Reserves	181,907	215,732	255,026	255,819	220,220
Minimum solvency	107,240	120,860	135,053	152,677	175,939
Financial Ratios	%	%	%	%	%
*Solvency margin level	28.0	29.3	30.5	28.7	23.2
Claims (including URR) as a % of earned premium	89.8	89.4	84.6	92.8	97.0
Operating expenses as % of earned premium	9.7	8.4	8.3	8.7	8.5

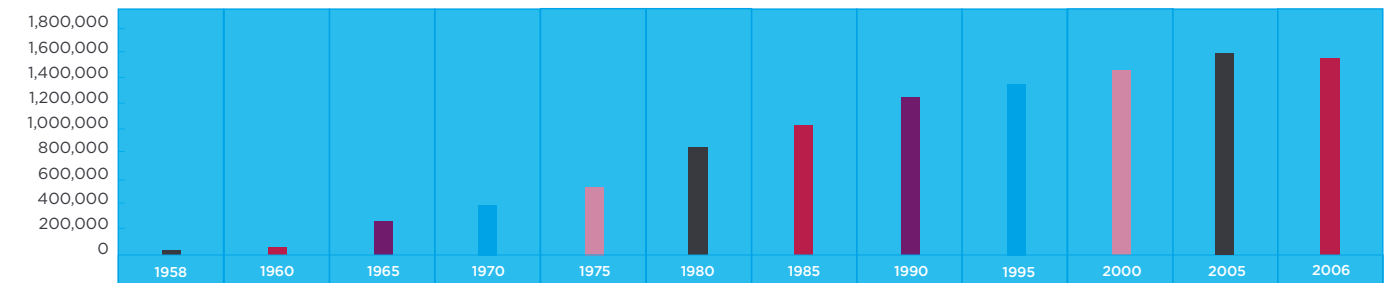
Minimum solvency as shown above is calculated in accordance with the provisions of the 1976 EU Non-Life Regulations, (as amended), with which Vhi Healthcare is not currently required to comply.

*The Board strives to achieve a solvency margin level equivalent to 40% of written premium, which is considered by commercial insurance companies to be the appropriate level.

COMPARATIVE RESULTS AND GRAPHS

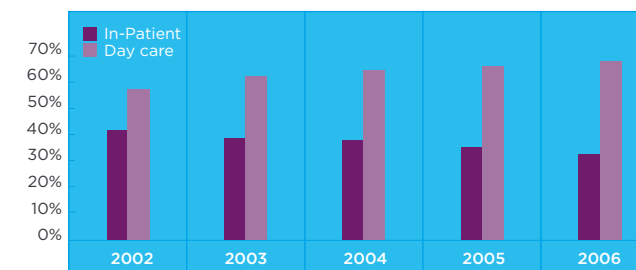
Membership Growth: 49 Years History

Despite increasing competition more Irish people chose Vhi Healthcare as their health insurer. Membership stands at over 1.56 million people.



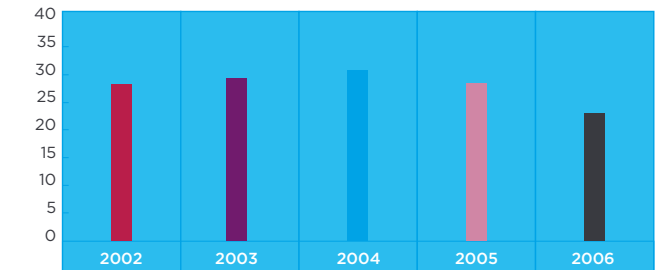
Claims Mix

The average cost of treatment in a day care setting can be between 10% and 20% of the cost of an inpatient setting. Thus the drive to day care settings ensures better value for members premiums.



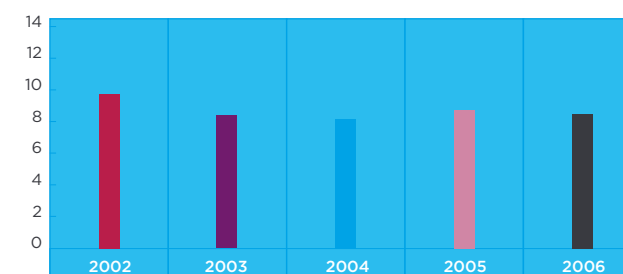
Solvency Margin Level

IFSRA have indicated that they would normally require a 40% solvency ratio i.e. the ratio of reserves to premium income. Currently Vhi Healthcare is at 23.2%, below the minimum recommended by IFSRA.



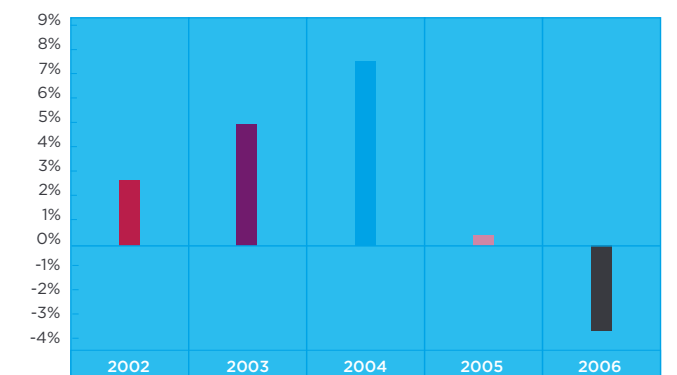
Operating Expenses as % of Earned Income

Vhi Healthcare prides itself on having one of the lowest administration costs to revenue ratios of any insurer in the world. Currently the ratio stands at 8.5% compared to a worldwide norm of 12% and over 13% for some of our competitors.



Surplus/Deficit as % of Earned Premium

Based on the premium figures for 2005 and 2006, a profit after tax of €17m would be required to maintain the 2005 solvency percentage.



GALLERY OF EVENTS



1. Ireland's National rugby team coach, Eddie O'Sullivan, was the keynote speaker at an evening hosted by the '05 North West Branch of the Chartered Institute for Personnel and Development (Ireland), CIPD Ireland, sponsored by Vhi Healthcare. Pictured at the event are Eddie O'Sullivan, Coach, Irish National rugby team, Vincent Sheridan, Chief Executive, Vhi Healthcare, and Ann Gallagher, Corporate Account Manager, Vhi Healthcare.



2. Vhi Healthcare sponsored the CIPD Western Region Residential Weekend for HR Specialists which took place in February 2005 in the Hotel Westport. The weekend consisted of 3 seminars designed to give insights into cutting edge HR topics. Pictured at the event were Barry Hill, Regional Development Officer CIPD, Judith Holland, Vhi Healthcare, Michelle Murphy, CIPD West Region Chairperson, Tom Brennan, Regional Manager, Connaught, Vhi Healthcare, and Tom Devaney, Careerwise Recruitment.



3. Dance fever swept Ireland once again as Vhi Dance Blitz 2005 took place in June, July and November 2005. This was the third year of the event, hosted by Ireland's celebrity choreographer, Jane Shortall, and was bigger and better than ever with classes taking place in Cork, Kilkenny, Carlow, Dublin, Limerick and Galway.



4. Vhi Healthcare were presented with the prestigious "National Overall Quality and Excellence" Award at the National Quality and Excellence Awards 2005. Vhi Healthcare have been winners of the "Recognition of Excellence" Award for the past three years but this year scooped the overall prize in recognition of the organisation's ongoing commitment to continuous improvement and business excellence practices. Pictured at the Awards are Paul O'Grady, Managing Director, EIQA; Tánaiste and Minister for Health and Children, Mary Harney T.D. and Vincent Sheridan, Chief Executive, Vhi Healthcare.



5. Ireland and Munster rugby stars Alan Quinlan and Anthony Foley brought their sporting skills to Limerick in July to host an IRFU/Vhi Healthcare "Fit for Fun" session for primary school teachers attending the INTO "Music and Movement" summer course in Scoil Mhuire agus Ide, Newcastlewest, Limerick. The IRFU/ Vhi Healthcare "Fit for Fun" programme has been running since September 2003, and has visited over 100 primary schools throughout the country, involving over 5,000 school children in total.



6. A team of Vhi Healthcare employees participated in the Focus Ireland Four Peaks Challenge in June 2005 and successfully raised over €10,000. The challenge involved climbing the highest peak in each of the four provinces and the Vhi Healthcare team completed this challenge in 11 hours. Pictured on the summit of Carrauntoohil, Co. Kerry, are Jonathan Sellers, Brendan Quinn, Deirdre Byrne, Brian Collins and



Brendan O'Brien. The team of climbers were also ably supported and assisted by drivers Tim Danagher and Brendan O'Connell.

7. Over 1,000 athletes participated in the 2005 Galway Bay 10 mile run and walk which took place in September in aid of Cancer Care West. The event aimed to raise €500,000 for Cancer Care West and companies were asked to raise €2,000 to enter teams in the Vhi Corporate Challenge. The race was supported by athletes of all standards including members of the Galway Senior Hurling team, the Lord Mayor of Galway, over 70 Bank of Ireland staff, 100 trainee guards from Templemore and a team from the Galway City Fire Service (pictured) who ran the course kitted out in their breathing apparatus.



8. Vhi Healthcare looks set to shake up the travel market with the launch of Group Business Travel in November 2005. Group Business Travel from Vhi Healthcare, is an annual business travel insurance policy specifically designed for companies whose employees are frequently engaged in business-related travel. The product will raise market standards and lower prices, offering companies the opportunity to potentially make savings of up to 47% on the prices they are currently paying for business travel insurance. Pictured at the launch are Tim McKeown, Head of Diversified Business, Vhi Healthcare, and mini businessman, Jamie Slattery.



9. Vhi Healthcare's Kilkenny-based contact centre celebrated its fifth anniversary in June 2005 and held a special lunch to mark this momentous occasion. The contact centre initially opened in June 2000 and was staffed by 24 team members. Vhi Healthcare is the third largest employer in Kilkenny, with the centre now staffed by 260 employees, consisting of 5 departments: Claims, IT, Finance, Services and Sales. The Contact Centre receives on average 1,000 emails a week and manages almost 4.3 million customer contacts (via email, phone, and letters) each year.

10. The Irish Heart Foundation & Vhi Healthcare urged Medtronic employees to take the path to health in August 2005 with the launch of Slí 2 in the company which saw the development of a walking route around the business campus, and the erection of signs detailing the benefits of using the stairs instead of the lifts. Medtronic was the first company in Galway to implement Slí 2.



11. The South Dublin Chamber of Commerce celebrated its 21st Anniversary in June 2005 with a very special President's Lunch sponsored by Vhi Healthcare. The lunch was attended by An Taoiseach, Bertie Ahern T.D. Pictured at the event are Vincent Sheridan, Chief Executive, Vhi Healthcare; Deirdre Mooney, President, South Dublin Chamber of Commerce; An Taoiseach, Bertie Ahern T.D. Kevin Molloy, Managing Director, The Molloy Group (and first President of the Chamber, 1984) and Neil Murphy, Deputy President, South Dublin Chamber of Commerce.



12. The 2005 Vhi Healthcare Streets of Galway 8K Road Race took place on August 6th. The Streets of Galway race is one of the most popular in Ireland and this was the 20th anniversary of the event, which is hosted and managed by volunteer athletes. It was one of the most successful years with over 1,400 athletes completing the race in aid of a host of well-deserving charities.



13. www.vhi.ie offered visitors to the site the opportunity to "Turn their Life Around" in January 2006. The offer attracted over 400 entries, from which three finalists were chosen. The finalists received a personalised six-week programme designed by the Vhi.ie fitness, diet, nutrition and life-coach experts to specifically address the area that the candidates most wanted to change. The candidates kept a weekly online diary on www.vhi.ie and also featured in the Irish Times Health Supplement over the course of their six week programme. Pictured at the final event are Declan Moran, Director, Marketing and Business Development, Vhi Healthcare, Karen Belshaw, Vhi.ie's Stress Expert, Phillip Phelan, Vhi.ie's Fitness Expert; Nuala Collins, Vhi.ie's Nutrition Expert and Dermot O'Sullivan, overall winner of the www.vhi.ie Turn Your Life Around Challenge.

14. Vhi Healthcare are partnering with the GAA to run a new summer camp initiative which will see an estimated 80,000 children receive hurling,



Camogie and Gaelic football coaching at GAA run camps every summer. The camps, which will be known as the "Vhi Cúl Camps", will run throughout the summer from Monday to Friday, 9.30am to 2.30pm, and in addition to learning the skills of Gaelic games under the tutelage of qualified GAA coaches, participating children will receive a full set of playing gear (jersey, togs and socks) and a knapsack.

15. Vhi Healthcare opened Ireland's first walk-in urgent care facility, Vhi SwiftCare Clinic, in Ballaly, Dublin 14, in November 2005. The Clinic is a joint initiative between Vhi Healthcare and The Well and a second Vhi SwiftCare Clinic opened in Dublin City University in June 2006. The Clinic was officially opened by Tánaiste and Minister for Health and Children, Mary Harney T.D. who is pictured with Dr Alan Forrester, Medical Director, Vhi SwiftCare Clinic.

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