



Southern Cross  
Healthcare Group

# Southern Cross Health Trust 2011 Annual Report





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# Chairman and Chief Executive Officer's report

Ian McPherson (left) and Graeme Hawkins

The Southern Cross Health Trust exists to benefit all New Zealanders. It was established in 1977 for the purpose of assisting in the provision of medical facilities and research to supplement those provided by the public health system.

The Trust has three subsidiary businesses which directly or indirectly support the charitable purpose and objects of the Trust. These objects include the provision of medical facilities and services; the employment of medical, nursing and other staff; and the provision of training opportunities.

## A NEW DIRECTION

As a charitable trust, the Southern Cross Health Trust brings a different approach to the health sector than many other private sector organisations.

Through its hospital facilities, the Trust makes a large and important contribution to healthcare in New Zealand. Southern Cross Hospitals is New Zealand's largest network of private medical facilities, providing services to over 65,000 patients annually. By continually reinvesting in its network, Southern Cross Hospitals works to enhance the range of elective options available to New Zealanders. In co-operation with medical specialists our hospitals also undertake charitable surgery for a small number of worthy recipients. However, the Board believes the Trust can, and should, play an even greater part in improving New Zealanders' access to, and value for money from, healthcare spending.

To this end, in late 2010, Trust subsidiary Southern Cross Primary Care (SCPC) was established with the aim of bringing innovation and efficiencies to day-to-day healthcare services.

For many years, New Zealand's response to rising demand for healthcare has been to increase spending. But as the population ages, and the pool of taxpayers becomes relatively smaller, it is evident this approach will become unsustainable. The Trust shares the Government's view that an enhanced role for primary care is essential to improve health outcomes for New Zealanders, and to get the best possible value for money from health spending.

SCPC provides a vehicle through which partnerships can be formed with general practices around the country. The initial aim is to develop a nationwide network of Foundation Partners with whom we can develop new approaches that create added value for patients and general practices alike.

The business model is based on scale, efficiency and (most importantly) collaboration with progressive and innovative general practitioners. Areas of interest include such things as expanded patient services, operational support services, and more sustainable ownership and remuneration options. The SCPC team looks forward to working with like-minded practitioners in the coming years.

Primary care is just one part of the Trust's overarching strategies to make a larger contribution to healthcare in New Zealand.

Our hospitals already deliver elective surgery volumes for ACC and a number of DHBs. The Hospitals business has additional capacity to assist the public sector in achieving value for money through efficient elective surgical service delivery, and we will continue to seek ways to work alongside public health funders.

We will also continue to grow our travel insurance business in order to provide a steady, sustainable stream of funding for the Trust to fulfil its charitable objectives.

The Trust is a significant part of the Southern Cross Healthcare Group (see diagram): The other is the Southern Cross Health Society, New Zealand's largest health insurer and not-for-profit Friendly Society. While these Southern Cross businesses are separate legal entities and operate independently from one another, they are committed to looking for new ways to work together when doing so is consistent with their core objectives. One example is to deliver lower-cost minor surgical procedures through SCPC general practices, providing greater convenience and value for the Society's members who utilise those services.



## FINANCIAL PERFORMANCE

The Trust's performance was satisfactory, considering the challenging environment in which its businesses have been trading.

### Hospitals

The performance of the Southern Cross Hospitals business was resilient in a challenging and highly competitive environment. Like other providers across the sector, patient volumes were down on 2010. This was due primarily to the drop in the number of ACC-funded elective surgical patients, leading to a reduction in the number of private hospital procedures being contracted by ACC to Southern Cross. However, tight cost management resulted in better than anticipated financial results.

### Primary Care

The 2011 financial year saw Southern Cross Primary Care in the early stages of network building. In May the business signed its first partnership agreement, taking a 20% stake in a partnership set up to run Silverdale Medical in Auckland. By year end, the business had appointed a small management team and was in varying stages of partnership discussions with a number of practices around the country.

### Travel Insurance

Southern Cross Travel Insurance achieved excellent growth over the year. Total policy sales were up 19% on 2010, and market share grew in both New Zealand and Australia. After projecting a surplus of \$3m, a number of large claims for medical treatment received in the last half of the year and claims related to a Chile volcano eruption resulted in a small deficit.

## ACKNOWLEDGEMENTS

Our thanks to Trust subsidiary CEOs Terry Moore (Hospitals), Craig Morrison, (Travel Insurance) and Victor Klap (Primary Care), their management teams and staff for their hard work throughout the year.

We are especially proud of the way the team at Southern Cross Hospital in Christchurch has performed over the past year in very adverse circumstances. In the immediate aftermath of February's devastating earthquake the hospital was used by the Canterbury District Health Board as an emergency triage centre. Though many of the medical staff had friends and family unaccounted for at the time, they stayed on to assist with incoming patients, while also caring for those already in the hospital. Throughout the difficulties of ongoing aftershocks, the team ensured high standards of patient care were upheld. The region's recovery will be a long journey. We are committed to doing all we can to assist our team's ongoing and important contribution to health services in Canterbury.

We would also like to acknowledge the valuable contribution of Trustee Mark Verbiest who is stepping down from the Trust in November.

Graeme Hawkins  
Chairman

Ian McPherson  
Chief Executive Officer

## FOR THE YEAR ENDING 30 JUNE 2011:

- Operating revenue was \$233.0m, up 1.7% on the 2010 year. However, The Trust's net surplus was down 19.3% from 2010 to \$12.4m.
- Hospitals' revenue was \$195.6m, down 1.1% on 2010. Its contribution to the Trust's net surplus was \$13.4m, down 11.2% from 2010.
- Travel Insurance reported strong growth over the year with premium income at \$38.9m, up 19.5% on 2010. However, because of significant claims events, Travel Insurance ended the financial year with a small deficit of \$0.24m.
- During the year \$7.6m was invested in the enhancement and expansion of Trust subsidiaries, including the establishment of Southern Cross Primary Care, hospital upgrades and investments, and a major upgrade to IT infrastructure for Travel Insurance.



# Operational review



Terry Moore, Chief Executive Officer

Southern Cross Hospitals has long advocated for greater collaboration between the public and private healthcare sectors. In 2011, this business and the public sector worked together in unexpected and tragic circumstances when Southern Cross’s Christchurch hospital was designated an acute triage centre in the aftermath of the devastating February earthquake.

We are exceptionally proud of the spirit and dedication shown by our Christchurch team throughout this difficult year. This hospital is a flagship of our network, and we remain committed to its development as the Canterbury region recovers.

This subsidiary works to further the Trust's purpose and objects directly through the provision of healthcare services, medical facilities, training programmes and the employment of nursing and other health-related staff.

## THE YEAR IN REVIEW

The performance of the Hospitals business was resilient in a challenging and competitive market. Though patient volumes were down, tight cost management resulted in better than anticipated year-end financial results.

Southern Cross Hospitals aims to deliver high quality healthcare that represents value for money. This includes continually looking for ways to drive better value from every dollar. To this end a significant 2011 initiative saw the consolidation of external suppliers to achieve improved pricing.

### Patient volumes

As was the experience of many private hospitals around the country, the Southern Cross network experienced a small reduction in patient volumes on 2010. The most significant reduction was in ACC-funded patients, as declines for ACC-funded elective surgery increased. Southern Cross management was part of a group in the wider healthcare sector who worked with ACC to establish a more transparent and consistent way of determining eligibility for ACC-funded elective surgery. By year-end there were signs that this situation was improving.

Another factor was the reduction in the volume of publicly-funded elective surgery that was outsourced to the private sector. This was the result of expansion of District Health Boards’ own elective surgery capacity in a number of regions.

### Ongoing development

Despite this year’s drop in patient volume, demand for elective services is projected to increase significantly as

the population ages. Southern Cross, therefore, remains committed to further development of our facilities and staff, particularly in the area of higher level care (such as intensive care) and new medical technology. The hospital business will also continue to engage with public funders to offer cost effective and efficient ways to deliver elective surgical volumes on constrained budgets.



Major developments and additions to the Hospitals network in the 2011 financial year included:

**Christchurch** - The hospital received just minor damage in the earthquakes, and has been able to assist the Canterbury DHB in meeting elective surgery targets throughout the year. Building remediation work will continue over the next twelve months.

**Southern Endoscopy Centre** - This purpose-built joint venture between specialists and Southern Cross Hospitals at the Christchurch Bealey Ave health campus opened to patients on 30th August 2010. Patient volumes have been pleasing and the building experienced only minor damage in the February 4th earthquake.

**Wellington** - In conjunction with vascular specialists, the hospital launched a regional centre of excellence for vascular surgery. This includes the first private "hybrid" operating theatre and catheterisation lab in New Zealand.

**Hamilton** - The purchase of a sophisticated neuro-microscope saw this hospital become the first private facility in the Waikato region to provide for major neuro-surgical procedures, including major spinal cases.

**North Harbour** - A large site neighbouring our North Harbour Hospital has been acquired, enabling further expansion opportunities over the next decade.

**Silverdale** - Detailed design of the planned hospital, primary care and health campus has now been completed. Construction is expected to begin during 2012. The timing of the hospital fit-out and hospital commencement has not yet been determined.

**Palmerston North** - In May, Southern Cross Hospital Palmerston North and Aorangi Hospital applied for Commerce Commission authorisation to merge, which was approved early in the 2012 financial year. We believe a merger will create a single, stronger facility, which will enable greater investment in technology and generate sufficient volumes to retain and attract specialists in the region. The details of the merger are currently being worked through.

**Oxford Hospital** - In November, Southern Cross Hospitals exited its Oxford Hospital joint venture based in Christchurch, after coming to a shared view the hospital would be best served by the existing gynaecologist shareholders purchasing all shares in the business.

CEO Terry Moore and his management team would like to thank all staff in the Hospitals network for their continued hard work and ongoing dedication to providing an excellent patient experience.

## PROFESSIONAL DEVELOPMENT & RECOGNITION PROGRAMME

Southern Cross Hospitals' Professional Development and Recognition Programme (PDRP) provides registered and enrolled nurses with an accredited on-site assessment for their annual practising certificate - a requirement of the Nursing Council of New Zealand (NCNZ).

All nurses in New Zealand, in order to practice, must provide evidence of their current competence. In supporting and honouring our skilful nursing workforce, Southern Cross Hospitals nurses have developed a market-leading solution in the form of our PDRP.

Our approach enables nurses engaged in the Southern Cross Hospitals PDRP to maintain their practising certificates without the requirement of being externally audited by the NCNZ, and also to enjoy remuneration and allowances linked to the PDRP. This initiative is just one example of the professional development and education opportunities that make Southern Cross Hospitals a great place to work.

All of our eligible nurses take part in the programme, which has been designed to ensure it is relevant to each individual nurse's role, interest and area of expertise, whether a newly registered graduate or an experienced practitioner, whether working in day-stay, ward inpatient services, or operating, procedure and recovery room services. It is based on nationally agreed standards and requirements which help to ensure that it is portable and easily transferrable to - and from - other organisations.





## Operational review



Southern Cross  
Primary Care

Victor Klap, Chief Executive Officer

### Southern Cross Primary Care (SCPC) was incorporated in December 2010 and is a wholly owned subsidiary of the Southern Cross Health Trust.

This subsidiary works to further the Trust's purpose and objectives directly (through part ownership in general practices that provide services to New Zealanders) and indirectly (by aiming to provide future surpluses to the Trust for its charitable objectives).

SCPC is part of the Trust's overarching strategy to improve access and value for money in healthcare services for New Zealanders. Primary care was identified as an area where the Trust could use its resources, expertise and the Southern Cross brand to add significant value as a partner.

Before embarking on this new venture, Southern Cross consulted widely within the primary care sector to understand its requirements, and what we could offer. GPs told us they wanted investment in their businesses and opportunities to expand their services. They also wanted to create efficiencies for patients, reduce their administrative workload, and gain access to more flexible ownership options.

These discussions have helped shape SCPC's objectives - to collaborate with GPs to develop new models of high quality, cost-effective patient care. This may include the expansion of patient services, such as more minor surgery procedures and systems to better co-ordinate chronic health conditions in areas like cardiac care. Other initiatives may include developing back-office systems to streamline administration and procurement. SCPC will also look to create remuneration, career development and ownership options that are needed to attract and retain doctors in this vital sector.

To realise these goals, SCPC initially plans to build a national network of around 10 progressive "Foundation Partner" practices which will collaborate in the further development of the network.

The first seven months of operation saw Southern Cross Primary Care in the early stages of network building. In May the business signed its first agreement, taking a 20% stake in a partnership to operate Silverdale Medical in the Rodney District. By year end it was in advanced discussions with Queenstown Medical Centre (with whom it signed a partnership agreement in August) and at varying stages of partnership discussions with a number of other practices around the country.

This is a very pleasing start. Silverdale Medical and Queenstown Medical Centre are both great examples of practices with tremendous ideas and potential to grow. Over the next year SCPC will continue to forge new partnerships, while collaboratively developing ideas and capabilities.





# Operational review



Craig Morrison, Chief Executive Officer

Since its establishment in 1982, Southern Cross Travel Insurance (SCTI) has been successfully providing a strong, sustainable stream of funding for the Southern Cross Health Trust.

In 2011, SCTI achieved excellent growth in what was a relatively flat market. Policy sales were up 19% on 2010 and market share increased in both New Zealand and Australia. The number of people travelling with Southern Cross policies grew by 20% in New Zealand and 90% in Australia. In total the business provided around 225,000 travellers with travel insurance cover.

Despite this growth, the budgeted surplus of \$3m was significantly impacted by a number of very large medical claims (ranging between \$80,000 - \$250,000) in the last half of the year and cancellation claims relating to the eruption of Puyehue volcano in Chile. This resulted in a small deficit of \$0.24m. Total claims paid were up 36.3% on 2010 to \$25.3m, while premium revenue was \$38.9m, up 19.5% on 2010.

Extensive media coverage of travel disruption resulting from serious weather events and natural disasters over the year may have helped to reinforce the need for travel insurance. Daily policy sales reached record highs in June - traditionally the busiest month due to the approaching winter holiday season.

In 2011, SCTI continued to collect recognition for the high quality of its policies. Its flagship leisure travel insurance product TravelCare was awarded a five-star rating for 'outstanding value' in an Australian survey of 42 insurance brands and 221 policies by research house CANSTAR CANNEX. Twenty-nine years of experience in New Zealand has made SCTI a trusted, value-for-money brand in New Zealand. This award was a significant further step in establishing this same reputation in the minds of Australian travellers.

The high quality, low cost policies SCTI is able to offer customers are the direct result of an ongoing investment in its online, direct-to-the-consumer business model which harnesses operational efficiencies. 94% of policy sales are now transacted through the SCTI website.

As an online business, SCTI also aims to provide a timely response to email queries, with a response target time of two hours. In 2011 SCTI invested in an IT infrastructure upgrade to further improve claims processing efficiency.

While growth remains a focus, this is not pursued at the expense of quality. SCTI is committed to delivering excellent customer service at every touch point with its

policyholders. This includes significant focus on being fair, reasonable and prompt in our assessment of claims. On average, accepted claims are paid between 3-10 days of receipt of full information.

SCTI has received a provisional licence from the Reserve Bank of New Zealand to operate as a licensed insurer under the Insurance (Prudential Supervision) Act 2010, and is well on track to achieve full licensing before September 2013. SCTI's operations and governance were already closely aligned with licensing requirements. SCTI supports the aims of the Reserve Bank to promote greater consumer confidence in the insurance sector.



# Statement of corporate governance

The Southern Cross Health Trust is a charitable trust registered with the Charities Commission. Its purpose is to assist in the provision of medical facilities, services and research to supplement those provided by the Government. The Trust also undertakes ancillary activities to provide funding streams to assist it to better achieve its charitable objects.

The Trust adheres to principles designed to further its charitable objects and to ensure good corporate governance of its affairs.

## BOARD ROLE AND CHARTER

The Trust is governed by a Board of Trustees in accordance with the Trust Deed establishing the Southern Cross Health Trust, and the Board Charter. Subsidiary Boards operate in accordance with their own Board Charters. The Trust and its subsidiaries exist to further the Trust's charitable purposes in accordance with the Trust Deed.

The Board Charter describes the Trust's purpose and objects, the Board's role and governance processes, and the Board's relationship with management.

The role of the Board is to govern the Trust to fulfil the Trust's charitable purpose and objects. The Board directs and supervises the management of the Trust and its business, including:

- Ensuring the Trust operates exclusively for charitable purposes
- ensuring the objects and strategies of the Trust are understood and that strategic and business plans are in place to achieve them
- establishing policies for strengthening the performance of the Trust including ensuring management proactively seeks to build the Trust's business through innovation, initiative, technology, new products and development of its business capital
- monitoring the performance of management
- appointing the CEO
- identifying steps necessary to protect the Trust's financial position
- ensuring the Trust's financial statements are true and fair and otherwise conform with legal requirements
- ensuring the Board and management adhere to high ethical standards

- ensuring the Trust has appropriate risk management and regulatory compliance policies and procedures in place.

The Board endorses the principles set out in the Code of Practice for Directors as adopted and approved by the Institute of Directors in New Zealand Inc. The Board has also adopted its own Code of Conduct and Ethics Policy to provide guidance to the Board, management and employees on how it expects them to conduct themselves when undertaking business on behalf of the Trust and its subsidiaries.

The Trustees in office as at 30 June 2011 are:

Graeme S Hawkins (Chairman)

Dr Douglas D Baird

Carole B Durbin

Dr Harley Gray

Elizabeth (Liz) M Hickey

Phillip J Meyer

Keith B Taylor

Mark J Verbiest

All Trustees disclose any actual or potential conflicts of interest. Should a conflict of interest arise during the course of Board business the affected Trustee is expected to excuse him or herself from the discussion and does not vote on those matters.

The Board meets formally on a regular scheduled basis and holds additional meetings as required. At each normal meeting the agenda will include a report from the CEO covering operational and financial performance of the Trust and subsidiaries, capital expenditure proposals, and major issues and opportunities. At intervals of not greater

than one year the Board will review the Trust's goals and strategies, approve budgets and financial statements, and undertake other activities listed in the Board Charter.

The Board reviews its own performance annually.

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## DELEGATION FRAMEWORK

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Responsibility for the day-to-day operation and administration of the Trust is delegated by the Board to the Chief Executive Officer and senior management. The CEO is authorised to make decisions in accordance with the strategy, plans, budgets and the specific delegation framework approved by the Board.

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## COMMITTEES

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The Board forms committees when it is efficient or necessary to facilitate decision making. The Trust Board has, or participates in, standing committees and convenes other committees for specific purposes as required. The standing committees are:

### Audit Committee

The Audit Committee's objectives are to assist the Board in discharging its responsibilities to exercise due care, diligence and skill in relation to oversight of financial functions, audit functions and risk management. Specific responsibilities include reviewing the content and disclosure of the Annual Report's Financial Statements; ensuring the Board makes informed decisions regarding accounting policies, practices and disclosures; recommending the appointment of external and internal auditors; reviewing the annual external and internal audit plans; ensuring that adequate internal control systems are in place; and ensuring management has established a risk management framework to effectively identify, treat, monitor and report key business risks. The Audit Committee comprises Liz Hickey, Harley Gray, Graeme Hawkins, Phillip Meyer (Chair) and Keith Taylor.

### Group Remuneration Committee

The Group Remuneration Committee's objectives include providing advice to the Trust Board in relation to: the remuneration, employment conditions, development and performance management of the Chief Executive Officer and senior executives, and other remuneration related matters including standard terms and conditions of employment. The Group Remuneration Committee comprises Carole Durbin (Chair), Douglas Baird and Graeme Hawkins.

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## EXTERNAL AUDIT INDEPENDENCE

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The Board is committed to auditor independence. The Audit Committee is responsible for making recommendations to the Board concerning the appointment of external auditors and their terms of engagement.

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## LOANS TO TRUSTEES

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The Southern Cross Health Trust does not make loans to Trustees.

# Board of Trustees



## Board of Trustees

(L to R) Dr Harley Gray, Liz Hickey, Keith Taylor, Graeme Hawkins, Mark Verbiest, Carole Durbin, Phillip Meyer, Dr Doug Baird.

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## GRAEME HAWKINS

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(BSC, BCom, ACA, FlnstD)  
Chairman

Graeme Hawkins has been a professional director for 18 years. He was appointed as a Trustee in October 2008, and appointed Chairman on 1 July 2009. He is Chairman of Trust subsidiary Southern Cross Benefits Limited, and a director of Trust subsidiary Southern Cross Hospitals Limited. Mr Hawkins is also Chairman of the Southern Cross Medical Care Society, which is an independent and separate legal entity within the Southern Cross Healthcare Group. Mr Hawkins is a Director of Cavalier Corporation Ltd and Ports of Auckland Ltd, and a Director and shareholder of Biomed Ltd. From 2001 to 2007 he was an appointed Director of Fonterra Co-operative Group and is a former Chairman of Auckland Healthcare (now Auckland District Health Board). Earlier in his career he held a number of strategic and financial roles at Fletcher Challenge and is a former CEO of Dominion Breweries.

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## DR DOUGLAS BAIRD

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(MBChB, DipObst, FRNZCGP)

Dr Douglas Baird was appointed as a Trustee in July 2007 and is also a Director of Trust subsidiary Southern Cross Hospitals Limited. He is a Director of the Southern Cross Medical Care Society and Dr Ponsonby-White Cross, Managing Director of Aotea Health Services, and a Trustee of the Auckland Medical Benevolent Fund. Dr Baird is a past

Chairman of the Independent Practitioners Association Council (IPAC), was a founding Director of ProCARE Health (which represents more than 500 GPs in Auckland) and of BPACnz (an organisation dedicated to effective use of resources by health providers). He has served in elected and advisory roles with the Auckland District Health Board, the ACC Medical Misadventure Unit and the Office of the Health and Disability Commissioner. Dr Baird has a Diploma of Obstetrics, is a Fellow of the Royal New Zealand College of General Practice and currently works as a primary care doctor in accident and medical clinics.

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## CAROLE DURBIN

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(BCom, LLB(Hons), FlnstD)

Carole Durbin was appointed as a Trustee in August 2006 and is also a Director of Trust subsidiaries Southern Cross Benefits Limited and Southern Cross Hospitals Limited. She is Chair of Damwatch Services Limited (a Wellington-based dam engineering consultancy) and a Director of Southern Cross Medical Care Society and New Zealand-owned Fidelity Life. Until October 2009 she was Chair of electricity generator Mighty River Power, having been on that board since 1998. A consultant to Simpson Grierson, one of New Zealand's leading legal firms, Ms Durbin has also held a number of previous Board appointments including Simpson Grierson, Transpower NZ, software developer Synergy International (now Fronde), and was an Earthquake Commissioner. She is a Fellow of the Institute of Directors.

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## DR HARLEY GRAY CNZM

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(ChM, MMedSc, FRACS)

Dr Harley Gray was appointed as a Trustee in July 2004 and is Chairman of Trust subsidiary Southern Cross Hospitals Limited. He was formerly a Director of the Southern Cross Medical Care Society, retiring from that role in 2008. Dr Gray was an eminent orthopaedic surgeon at Auckland's Middlemore Hospital until 2000 and is a former President of the NZ Orthopaedic Association and the Auckland Medico Legal Society. He was made a Companion of the New Zealand Order of Merit in 2003.

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## LIZ HICKEY

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(MCom(Hons), FCA, MInstD, MNZM)

Liz Hickey is a chartered accountant and member of the Institute of Directors who was appointed as a Trustee in October 2009. Ms Hickey is a Director of the Southern Cross Medical Care Society, Institute of Chartered Accountants (NZICA) and the Institute of Environmental Science & Research (a Crown Research Institute); a co-opted member of the ASB Community Trust's Audit and Risk Committee; and a Trustee of Sight Loss Services Charitable Trust Board. Her past governance experience includes being a Director of Radio New Zealand and Genesis Power, and serving on both the New Zealand and international boards of the World Association of Girl Guides and Girl Scouts. She is a Fellow of the NZICA.

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## PHILLIP MEYER

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(FAIM, FNZIM, AF Inst D, F Fin)

Phillip Meyer was appointed as a Trustee in June 2002 and is also a Director of Trust subsidiaries Southern Cross Benefits Limited and Southern Cross Hospitals Limited. An experienced company director and investment banker, Mr Meyer is Chairman of Australian Financial Services Group and the Institute of Directors (Wellington Branch), and a Director of the Southern Cross Medical Care Society. He is a Trustee of Young Enterprise Trust and Crimestoppers Trust, a National Councillor for Institute of Directors in NZ, and a member of the Disciplinary Tribunal of the New Zealand Institute of Chartered Accountants, the New Zealand Markets Disciplinary Tribunal and the Financial Services Institute of Australia. He is also National Chairman of the Salvation Army Red Shield Appeal Committee.

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## KEITH TAYLOR

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(BSC, BCA, FIA, FInstD)

Keith Taylor was appointed as a Trustee in November 2010. He has over 30 years experience in the insurance and financial services industries as a Chief Executive, Chief Financial Officer and Actuary. He is chair of the Government Superannuation Fund, deputy chair of the Earthquake Commission, and a director of Southern Cross Medical Care Society, the Reserve Bank of New Zealand, Port Marlborough, Gough Gough & Hamer and Butland Holdings. He is a member of the NZ Qualifications Authority, Takeovers Panel and Carey Baptist College Board. He has previously been a director of property, insurance, trustee and investment companies in both New Zealand and Australia. He is also a Trustee of the NZ Fire Services Superannuation Scheme.

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## MARK VERBIEST

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(LLB)

Mark Verbiest, a lawyer and professional director, was appointed as a Trustee in January 2009. He is Chairman of Transpower New Zealand Limited and Willis Bond Capital Partners Limited, and a Director of Southern Cross Medical Care Society, AMP New Zealand Office Ltd and Freightways Ltd. He is also a Trustee of the Government Superannuation Fund Authority, a member of the Financial Markets Authority, and a consultant to law firm Simpson Grierson. Between 2000 and mid-2008 Mr Verbiest was a senior executive of Telecom Corporation of New Zealand Limited where he was responsible for a number of corporate units and two business units. Prior to this he was a senior corporate partner in Simpson Grierson for many years.

# Financial statements

The information on the following pages is an extract from the Southern Cross Health Trust audited financial statements.

- 13 Statements of Comprehensive Income
- 14 Statements of Changes in Trust Funds
- 16 Statements of Financial Position
- 17 Statements of Cash Flows

The complete audited financial statements are available on request:

Email:  
[communications@southerncross.co.nz](mailto:communications@southerncross.co.nz)

Or write to:  
**Southern Cross Health Trust**  
**PO Box 6772 Wellesley Street**  
**Auckland 1141**

# Southern Cross Health Trust

## STATEMENTS OF COMPREHENSIVE INCOME for the year ended 30 June 2011

|   | Group         |               | Parent        |               |
|---|---------------|---------------|---------------|---------------|
|   | 2011<br>\$000 | 2010<br>\$000 | 2011<br>\$000 | 2010<br>\$000 |
| Revenue   | 232,980       | 229,172       | -             | -             |
| Direct expenses   | 187,436       | 183,549       | 1,041         | 977           |
| <b>Gross surplus / (deficit)</b>                                    | 45,544        | 45,623        | (1,041)       | (977)         |
| Administration expenses   | 21,668        | 18,403        | 197           | 201           |
| Other expenses  | 16,724        | 18,624        | 659           | 1,138         |
| Impairment of assets  | 3,500         | -             | -             | -             |
| <b>Operating surplus / (deficit)</b>                                | 3,652         | 8,596         | (1,897)       | (2,316)       |
| Share of profit on equity accounted investments                     | 3,038         | 3,406         | -             | -             |
| Financing income  | 2,031         | 2,059         | 1,987         | 1,748         |
| Financing expenses  | 1,133         | 901           | -             | -             |
| <b>Net financing income</b>   | 898           | 1,158         | 1,987         | 1,748         |
| Insurance compensation  | 1,600         | -             | -             | -             |
| Other income  | 2,689         | 2,392         | 3,500         | -             |
| <b>Net surplus / (deficit) before tax</b>                           | 11,877        | 15,552        | 3,590         | (568)         |
| Taxation  | 53            | 39            | -             | -             |
| <b>Net surplus / (deficit) from continuing operations after tax</b> | 11,824        | 15,513        | 3,590         | (568)         |
| <b>Other comprehensive income:</b>                                  |               |               |               |               |
| Movement on foreign currency translation reserve                    | 616           | (101)         | -             | -             |
| <b>Net comprehensive surplus/(deficit) for the year</b>             | 12,440        | 15,412        | 3,590         | (568)         |
| <b>Attributable to:</b>   |               |               |               |               |
| Trustees of the Trust   | 12,575        | 15,075        | 3,590         | (568)         |
| Non-controlling interest  | (135)         | 337           | -             | -             |
| <b>Net comprehensive surplus / (deficit) for the year</b>           | 12,440        | 15,412        | 3,590         | (568)         |

# Southern Cross Health Trust

## STATEMENTS OF CHANGES IN TRUST FUNDS for the year ended 30 June 2011

| Group 2010                                       | Attributable to the Trustees of the Trust |                             |  |                |  |                            |
|--|---|-----------------------------|--|----------------|--|----------------------------|
|  | Retained<br>surpluses<br>\$000            | Capital<br>reserve<br>\$000 | Foreign<br>currency<br>translation<br>reserve<br>\$000 | Total<br>\$000 | Non-<br>controlling<br>interest<br>\$000 | Total<br>reserves<br>\$000 |
| Balance as at 1 July 2009                        | 197,437                                   | 250                         | 715  | 198,402        | 380                                      | 198,782                    |
| <b>Total comprehensive income:</b>               |   |                             |  |                |  |                            |
| Surplus after taxation                           | 15,176                                    | -                           | -  | 15,176         | 337                                      | 15,513                     |
| <b>Other comprehensive income:</b>               |   |                             |  |                |  |                            |
| Transfer to foreign currency translation reserve | -   | -                           | (101)  | (101)          | -  | (101)                      |
| <b>Total comprehensive income for the period</b> | <b>15,176</b>                             | <b>-</b>                    | <b>(101)</b>   | <b>15,075</b>  | <b>337</b>                               | <b>15,412</b>              |
| Balance as at 30 June 2010                       | 212,613                                   | 250                         | 614  | 213,477        | 717                                      | 214,194                    |
| <br>   |   |                             |  |                |  |                            |
| Group 2011                                       | Attributable to the Trustees of the Trust |                             |  |                |  |                            |
|  | Retained<br>surpluses<br>\$000            | Capital<br>reserve<br>\$000 | Foreign<br>currency<br>translation<br>reserve<br>\$000 | Total<br>\$000 | Non-<br>controlling<br>interest<br>\$000 | Total<br>reserves<br>\$000 |
| Balance as at 1 July 2010                        | 212,613                                   | 250                         | 614  | 213,477        | 717                                      | 214,194                    |
| <b>Total comprehensive income:</b>               |   |                             |  |                |  |                            |
| Surplus after taxation                           | 11,959                                    | -                           | -  | 11,959         | (135)                                    | 11,824                     |
| <b>Other comprehensive income:</b>               |   |                             |  |                |  |                            |
| Transfer to foreign currency translation reserve | -   | -                           | 616  | 616            | -  | 616                        |
| <b>Total comprehensive income for the period</b> | <b>11,959</b>                             | <b>-</b>                    | <b>616</b>   | <b>12,575</b>  | <b>(135)</b>                             | <b>12,440</b>              |
| Balance as at 30 June 2011                       | 224,572                                   | 250                         | 1,230  | 226,052        | 582                                      | 226,634                    |

# Southern Cross Health Trust

## STATEMENTS OF CHANGES IN TRUST FUNDS for the year ended 30 June 2011 (continued)

| Parent 2010                               | Attributable to the Trustees of the Trust |                          |                         |
|---|---|--------------------------|-------------------------|
|   | Retained surpluses<br>\$000               | Capital Reserve<br>\$000 | Total Reserves<br>\$000 |
| Balance as at 1 July 2009                 | 177,432                                   | 250                      | 177,682                 |
| Total comprehensive income:               |   |                          |                         |
| Surplus after taxation                    | (568)                                     | -                        | (568)                   |
| Other comprehensive income:               | -   | -                        | -                       |
| Total comprehensive income for the period | (568)                                     | -                        | (568)                   |
| Balance as at 30 June 2010                | 176,864                                   | 250                      | 177,114                 |
| <br>                                      |   |                          |                         |
| Parent 2011                               | Attributable to the Trustees of the Trust |                          |                         |
|   | Retained surpluses<br>\$000               | Capital Reserve<br>\$000 | Total Reserves<br>\$000 |
| Balance as at 1 July 2010                 | 176,864                                   | 250                      | 177,114                 |
| Total comprehensive income:               |   |                          |                         |
| Surplus after taxation                    | 3,590                                     | -                        | 3,590                   |
| Other comprehensive income:               | -   | -                        | -                       |
| Total comprehensive income for the period | 3,590                                     | -                        | 3,590                   |
| Balance as at 30 June 2011                | 180,454                                   | 250                      | 180,704                 |

# Southern Cross Health Trust

## STATEMENTS OF FINANCIAL POSITION as at 30 June 2011

|                                       | Group          |                | Parent         |                |
|---------------------------------------|----------------|----------------|----------------|----------------|
|                                       | 2011<br>\$000  | 2010<br>\$000  | 2011<br>\$000  | 2010<br>\$000  |
| <b>Current assets</b>                 |                |                |                |                |
| Cash and cash equivalents             | 27,283         | 12,089         | 2,622          | 853            |
| Trade and other receivables           | 21,499         | 19,983         | 52             | 174            |
| Financial assets                      | 23,522         | 19,058         | -              | -              |
| Inventories                           | 3,523          | 3,242          | -              | -              |
| Insurance recovery receivable         | 1,600          | -              | -              | -              |
| Assets classified as held for sale    | -              | 2,734          | -              | -              |
| Advance to subsidiary                 | -              | -              | 28,683         | 28,683         |
| <b>Total current assets</b>           | <b>77,427</b>  | <b>57,106</b>  | <b>31,357</b>  | <b>29,710</b>  |
| <b>Non-current assets</b>             |                |                |                |                |
| Financial assets                      | 5,169          | 11,425         | -              | -              |
| Investments                           | 24,279         | 22,320         | 149,100        | 147,600        |
| Property, plant and equipment         | 161,404        | 169,837        | 46             | -              |
| Intangible assets                     | 1,920          | 1,510          | -              | -              |
| Leasehold improvements                | 1,032          | -              | 385            | -              |
| Goodwill                              | 9,304          | 9,304          | -              | -              |
| <b>Total non-current assets</b>       | <b>203,108</b> | <b>214,396</b> | <b>149,531</b> | <b>147,600</b> |
| <b>Total assets</b>                   | <b>280,535</b> | <b>271,502</b> | <b>180,888</b> | <b>177,310</b> |
| <b>Current liabilities</b>            |                |                |                |                |
| Trade and other payables              | 19,700         | 18,147         | 183            | 196            |
| Provisions                            | -              | -              | -              | -              |
| Employee entitlements                 | 5,130          | 5,280          | 1              | -              |
| Insurance contract liabilities        | 20,942         | 16,078         | -              | -              |
| Interest bearing loans and borrowings | 7,300          | 500            | -              | -              |
| <b>Total current liabilities</b>      | <b>53,072</b>  | <b>40,005</b>  | <b>184</b>     | <b>196</b>     |
| <b>Non-current liabilities</b>        |                |                |                |                |
| Interest bearing loans and borrowings | -              | 16,800         | -              | -              |
| Finance lease                         | 104            | -              | -              | -              |
| Derivative financial instruments      | 545            | 323            | -              | -              |
| Subordinated shareholder loans        | 180            | 180            | -              | -              |
| <b>Total non-current liabilities</b>  | <b>829</b>     | <b>17,303</b>  | <b>-</b>       | <b>-</b>       |
| <b>Net assets</b>                     | <b>226,634</b> | <b>214,194</b> | <b>180,704</b> | <b>177,114</b> |
| <b>Trust funds</b>                    |                |                |                |                |
| Retained earnings                     | 224,572        | 212,613        | 180,454        | 176,864        |
| Capital reserve                       | 250            | 250            | 250            | 250            |
| Foreign currency translation reserve  | 1,230          | 614            | -              | -              |
| <b>Parent interest</b>                | <b>226,052</b> | <b>213,477</b> | <b>180,704</b> | <b>177,114</b> |
| <b>Minority interest</b>              | <b>582</b>     | <b>717</b>     | <b>-</b>       | <b>-</b>       |
| <b>Trust funds</b>                    | <b>226,634</b> | <b>214,194</b> | <b>180,704</b> | <b>177,114</b> |

# Southern Cross Health Trust

## STATEMENTS OF CASH FLOWS for the year ended 30 June 2011

|  | Group          |                 | Parent         |               |
|--|----------------|-----------------|----------------|---------------|
|  | 2011<br>\$000  | 2010<br>\$000   | 2011<br>\$000  | 2010<br>\$000 |
| <b>Cash flows from operating activities</b>            |                |                 |                |               |
| Receipts from customers                                | 233,639        | 233,210         | 122            | 50            |
| Payments to suppliers and employees                    | (182,919)      | (187,011)       | (1,903)        | (2,260)       |
| Payments of direct claims                              | (21,960)       | (17,098)        | -              | -             |
| Interest received                                      | 2,371          | 1,958           | 1,987          | 1,748         |
| Interest paid  | (1,133)        | (901)           | -              | -             |
| Dividends received                                     | 1              | 1               | 3,500          | -             |
| Other income   | 2,648          | 2,434           | -              | -             |
| <b>Net cash flows from operating activities</b>        | <b>32,647</b>  | <b>32,593</b>   | <b>3,706</b>   | <b>(462)</b>  |
| <b>Cash flows from investing activities</b>            |                |                 |                |               |
| Proceeds from sale of property, plant and equipment    | 17             | 712             | -              | -             |
| Proceeds from sale of Oxford Clinic                    | 2,484          | -               | -              | -             |
| Transactions with hospital partnerships and associates | 3,289          | 2,184           | -              | -             |
| Net proceeds from / (purchase of) investments          | 1,543          | (5,399)         | -              | -             |
| Purchase of property, plant and equipment              | (11,713)       | (34,053)        | (437)          | -             |
| Purchase of intangible assets                          | (1,058)        | (713)           | -              | -             |
| Investment in hospital partnerships and associates     | (2,119)        | (2,623)         | -              | -             |
| Investment in subsidiaries                             | -              | -               | (1,500)        | -             |
| <b>Net cash flows from investing activities</b>        | <b>(7,557)</b> | <b>(39,892)</b> | <b>(1,937)</b> | <b>-</b>      |
| <b>Cash flows from financing activities</b>            |                |                 |                |               |
| Proceeds from finance lease                            | 104            | -               | -              | -             |
| Proceeds from / (repayment of) borrowings              | (10,000)       | 1,916           | -              | -             |
| <b>Net cash flows from financing activities</b>        | <b>(9,896)</b> | <b>1,916</b>    | <b>-</b>       | <b>-</b>      |
| Net increase / (decrease) in cash and cash equivalents | 15,194         | (5,383)         | 1,769          | (462)         |
| Cash and cash equivalents at beginning of period       | 12,089         | 17,472          | 853            | 1,315         |
| <b>Cash and cash equivalents at end of period</b>      | <b>27,283</b>  | <b>12,089</b>   | <b>2,622</b>   | <b>853</b>    |

**Southern Cross Health Trust**

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Southern Cross  
Healthcare Group