



Southern Cross
Healthcare Group

Southern Cross Health Trust 2012 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, services and research in New Zealand 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.

WORKING TOGETHER FOR THE BENEFIT OF ALL NEW ZEALANDERS

New Zealand's healthcare system is the envy of many other nations. We have much to be proud of – excellent access to free acute and emergency care, high quality facilities and highly-skilled medical professionals. But it's also a system that is coming under unprecedented financial pressure as demand for healthcare skyrockets.

Simultaneously we are facing the needs of an ageing population; an ever-expanding range of treatment options and medical technology; the rapid rise in chronic conditions; and increasingly high community expectations.

The non-public health sector (and particularly those organisations such as the Southern Cross Health Trust that are New Zealand-owned and have a not-for-profit ethos) has a huge role to play in providing options, maintaining quality, and driving better value in healthcare.

For public funds to continue providing the same level of acute services and provide for society's most vulnerable, significant rebalancing of the public/private mix will be required.

Today, just 17% of all healthcare is funded privately in New Zealand, either through insurance or self-funding. To put this in perspective, the OECD average is 28%. New Zealanders need to be educated and financially prepared for the fact that the range of services on offer in the public health system today may not readily be on offer in 20 or 30 years' time.

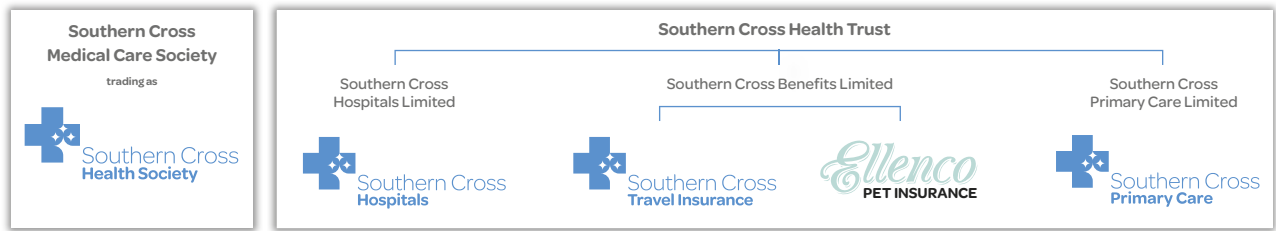
To achieve the best value from healthcare spending, more collaboration between the public and non-public sectors will be needed. The non-public sector includes private healthcare providers that operate on a 'for-profit' basis, as well as organisations with a charitable ethos (such as Trust subsidiary Southern Cross Hospitals).

As a small country with limited resources, it's vital the two sectors further consolidate, share additional resources, avoid duplication, and operate more efficiently as one system. To that end, the Trust is pleased to report that

progress towards greater collaboration has been made over the year, albeit at a slower pace than potentially needed.

- In partnership with Canterbury District Health Board, Southern Cross Hospitals is building a new operating theatre at its Christchurch hospital dedicated to providing elective surgery for publicly-funded patients. The two parties will jointly manage the theatre use. The new theatre will ensure the continuity of health services for Canterbury residents while public facilities are redeveloped over many years.
- In the coming financial year, Trust subsidiaries Southern Cross Hospitals and Southern Cross Primary Care will be working with the Southern District Health Board on its plans to develop a health campus at Lakes District Hospital in Queenstown. This will include feasibility studies on how public and private services might be integrated. The co-location of public and private facilities on a common site provides an opportunity for significant cost benefits. Particularly in some of our smaller regional hospitals, it makes economic and functional sense to share staff, resources and overheads.

We are pleased the Government is beginning to recognise how the capacity, efficiencies and expertise in the non-public sector can work for the benefit of patients and taxpayers. Our hope is that the success of these types of projects will bring about new partnerships and longer-term contracts, providing greater certainty for future facility investment, and ultimately better access and value for local communities.



The Trust is a significant part of the Southern Cross Healthcare Group, which also includes the Southern Cross Medical Care Society that operates New Zealand's largest health insurer. While these Southern Cross organisations are separate legal entities and operate independently from one another, they are committed to a common purpose of 'championing better value healthcare' and to look for new ways to work together when doing so is consistent with their core objectives.

THE TRUST'S ROLE

Creating a more sustainable health system is not just up to the Government. As one of New Zealand's largest non-public healthcare providers, the Trust intends to continue and strengthen its focus on providing for New Zealanders with high-quality healthcare that represents value for money.

As a Charitable Trust, any surpluses made by subsidiaries are used by the Trust to support its charitable purpose and objects. This can include purchasing new medical technology at Southern Cross Hospitals, expanding or upgrading facilities, enhancing training of medical staff, or providing services to patients at no or nominal charge.

Our charitable ethos also means Southern Cross Hospitals are generally able to price at a lower rate than similar 'for-profit' hospitals in their regions, providing a dampening effect on inflation in the private surgery market and enhancing affordability for New Zealanders.

FOR THE YEAR ENDING 30 JUNE 2012:

- Operating revenue was \$250.4m, up 7.5% on the 2011 year. The Trust's net surplus was up 74.2% on 2011, at \$21.7m.
- Southern Cross Hospitals' revenue was \$207.9m, up 6.3% on 2011.
- Southern Cross Benefits reported strong growth over the year with premium income at \$44.1m, up 13.4% on 2011. After a small deficit in 2011, the business generated a surplus this year.
- During the year \$19.0m net was invested in the enhancement and expansion of Trust subsidiaries.

PERFORMANCE OF SUBSIDIARIES

In 2012 the Southern Cross Health Trust subsidiaries performed well in spite of a subdued economic climate and increasingly competitive markets.

- Although a reduction in the number of New Zealanders with health insurance dampened demand for private surgery, Southern Cross Hospitals fared better than many competitors primarily due to its elective surgery contracts with District Health Boards and ACC.
- Southern Cross Benefits Ltd (SCBL), incorporating Southern Cross Travel Insurance (SCTI), returned a healthy surplus. Despite high levels of competition in its sector, SCTI achieved good growth in policyholder numbers in both the New Zealand and Australian markets. In February SCBL purchased the policies of pet insurer Ellenco, with the long-term aim of generating further returns for the Trust.
- Southern Cross Primary Care made steady progress on building a national network of partner practices, and began to develop and introduce new service and business initiatives.

Further details of each subsidiary's performance and operations are contained in the following pages.

ACKNOWLEDGEMENTS

Our sincere thanks to Trust subsidiary CEOs Terry Moore (Southern Cross Hospitals), Craig Morrison (Southern Cross Benefits) and Victor Klap (Southern Cross Primary Care), their management teams and staff for their hard work throughout the year. The Trust's businesses are in very good hands.



Graeme Hawkins
Chairman



Ian McPherson
Chief Executive Officer



Operational review



Terry Moore, Chief Executive Officer

Southern Cross Hospitals directly supports the charitable purpose and objects of the Trust through provision of medical facilities and services; the employment of nursing and other staff; and the provision of training opportunities.

A STRONG POSITION FOR THE FUTURE

Southern Cross Hospitals performed well in 2012, in what remains a challenging and competitive environment for non-public healthcare providers, such as private hospitals and medical facilities. And, despite growing interest from specialists in establishing their own day-stay facilities over the past year, the outlook for Southern Cross Hospitals remains positive.

For a number of years Southern Cross Hospitals has focused on providing higher-level care (such as intensive care) and new medical technology for the increasing number of more complex surgeries and patients being catered for in private medical facilities. Demand for these types of services will only grow as the population ages.

The business is also advantaged by its non-profit ethos. Though our hospitals must operate on commercial terms to remain competitive, we focus on investing in our facilities and our staff (supporting the charitable purposes of the Trust) rather than on shareholder returns. Our aim is to provide New Zealanders with affordable, high quality healthcare services - a goal which closely aligns with the needs of the public sector.

As outlined in the Trust Chairman and CEO's report, the year saw greater collaboration take a further step with the pending commissioning of a new theatre at Southern Cross Hospital Christchurch for publicly funded elective surgery. Although the joint management of a theatre for public patients is a new approach, Canterbury District Health Board has outsourced elective surgery to Southern Cross Hospital Christchurch for many years, and the relationship has expanded since the February 2011 earthquake.

PATIENT VOLUMES TRACK UPWARDS

Patient volumes were up on 2011. This was largely due to an increase in contracts for elective surgery from District Health Boards (DHBs), which must meet targets in order to avoid financial penalties. May and June in particular were very busy months as a number of DHBs

requested large volumes of outsourced surgery in short timeframes.

Contracted surgical volumes from the ACC have also stabilised in the past year. Previously, ACC-funded surgeries at our hospitals had declined as the Crown organisation sought to adhere more tightly to its funding criteria.

Although the total number of electives funded by health insurance is increasing, the core market for privately-funded surgery remains relatively subdued. This is primarily due to a continuing decrease in the number of New Zealanders with health insurance. The number of people insured decreased a further 1.3% over the 2012 year, following a decrease of 1.5% in 2011.

There has been an increasing focus on the cost of healthcare services from both the general public and healthcare funders. In the future we expect a greater emphasis on fixed cost, total procedure pricing. Southern Cross Hospitals already holds agreements for many surgical procedures with Southern Cross Health Society, New Zealand's largest health insurer. These agreements provide the Society's 820,000 members with good value and greater certainty about what their surgery will cost.



OUR FACILITIES

2012 saw two major changes to facility ownership aimed at strengthening the hospitals network.

The merger of Southern Cross Hospital Palmerston North and Aorangi Hospital has now concluded. Long-term, the new 50/50 partnership aims to create a single, stronger facility which will enable greater investment in technology and generate sufficient volumes to attract and retain specialists in the Manawatu area. The merged entity continues to operate over two sites but is looking at a number of ways to create efficiencies.

Late in the financial year, Southern Cross Hospitals purchased an additional 30% shareholding in its joint venture Rotorua hospital, Southern Cross QE. This transaction sees Southern Cross hold 100% ownership of the hospital, enabling the previous shareholder QE Health to focus on its core rehabilitation services. Southern Cross will continue to have an on-going relationship with QE Health through that provider's pre- and post-operative rehabilitation services.

Major developments or additions to the Hospitals network in the 2012 financial year included:

Christchurch - In addition to the new theatre for DHB-funded elective surgery, a second new theatre is under construction to cater for the growing number of private specialists wishing to operate at this hospital. Both theatres will be completed in early 2013.

Brightside (Auckland) - A new 3-bed Intermediate Care Facility (ICF) opened in March 2012. This facility is a specialised post-operative ward for patients with medical conditions or surgical issues that require an enhanced level of monitoring and care.

Hamilton - A major project to build a new plant facility (providing improvements and new capacity for core services such as steam and gases) has been completed. During the year, neighbouring sections were purchased to enable future expansion of the hospital.

Auckland Surgical Centre - Over the 2011-12 New Year period this facility underwent a number of refurbishment projects, including improvements to patient day-stay areas and the main reception, as well as car parking and a patient drop off zone.

Silverdale - Construction of the Silverdale health facility (a partnership between Silverdale Medical's GPs and Southern Cross Hospitals) began in January and will be completed for primary care services in December 2012. Located north of Auckland, this facility will be the region's major integrated family medical centre with a range of co-located primary care services including pharmacy, radiology, physiotherapy and dentistry.

CONTINUOUS IMPROVEMENT

Southern Cross Hospitals has an on-going focus on delivering the highest standards of quality and patient safety. There were many successful continuous improvement initiatives implemented during the year. One example is the Hospitals' online medicine management certification training module for staff, which was awarded the New Zealand Private Surgical Hospital Association's 'Leaders in Quality' Clinical Practice/Innovation Award.

The Southern Cross Hospitals management team and I would like to thank all staff in the network and those at our joint ventures for their continued hard work and commitment to exceptional service for the 65,000+ patients who passed through our doors during the year.



Operational review



Victor Klap, Chief Executive Officer

Southern Cross Primary Care (SCPC) was established in late 2010 to further the Trust's charitable purpose and objects. As a business, its vision is to help shape the future of general practice in New Zealand by developing new models of quality, cost-effective primary care.

Over the 2012 financial year SCPC made steady progress in establishing a core network of partner practices while also beginning to explore new services, and clinical and business initiatives, in conjunction with these partners.

There are currently a number of companies, both New Zealand and overseas-owned, looking to buy into general practice. SCPC is differentiated in this market by offering GPs a business model based on collaboration, not corporatisation.

SCPC's discussions with the sector have informed our view that GPs value their independence, wish to maintain clinical autonomy and want to actively participate in the management of their business. Our objectives are to work with GPs to create new clinical and business models, to develop flexible practice ownership options, and to broaden the scope of primary care through GP training.

The first phase of this strategy is investment in a national network of progressive partner practices.

During the 2012 financial year, three new partnerships were formed, adding to the partnerships established with Silverdale Medical Centre and Queenstown Medical Centre in 2011. The new partners are:

- CareFirst (New Plymouth): One of Taranaki's largest GP practices with 10 GPs and 12,500 enrolled patients. The practice incorporates the region's only dedicated private skin cancer unit offering screening and surgery, and Accident and Medical services.
- Upper Hutt Health Centre: A large teaching practice with 14 doctors and 17,000 enrolled patients. This practice is also an integrated family health centre, with a number of other primary healthcare providers on site.
- Taradale Medical Centre (Napier): One of the Hawke's Bay's largest practices with nine GPs and 11,000 enrolled patients, also offering Accident and Medical services.

In October 2012, Newlands Medical Centre in Wellington confirmed it would also be joining the network. SCPC is in partnership discussions with several additional practices, and continues to talk with others who share a similar ethos, and have an interest in joining a New Zealand-owned network.

Business and service initiatives over the year included a pilot of Southern Cross Health Society's 'Easy-claim' electronic health insurance claiming service at all partner practices, and customer service training.

The new Easy-claim service enables the Society's members to submit qualifying claims for healthcare services at a GP's payment counter, with the claim payment going directly to the general practice. The service applies for GP consultation charges as well as costs related to a range of minor surgical procedures, where covered by a Society member's policy.

Other projects in progress include GP training support for minor surgery; and the creation of SCPC 'Partner Practice' brand collateral.

2013 will see further evolution of the network and collaborative initiatives. I would like to thank my team and our SCPC partner practices for their commitment to leading positive change in primary care.





Operational review



Craig Morrison, Chief Executive Officer

Southern Cross Benefits Ltd (SCBL) is a wholly owned subsidiary of the Southern Cross Health Trust. The business was established to generate a strong, sustainable stream of funding to aid the Trust in fulfilling its charitable purpose and objects. It operates in both the travel and pet insurance markets, trading respectively as Southern Cross Travel Insurance (SCTI) and Ellenco Pet Insurance.

2012 was another year of good growth for SCBL, particularly in the Australian travel insurance market. The business returned a healthy surplus up from a small 2011 deficit of \$0.24m.

Southern Cross Travel Insurance

The number of Australian travellers covered by SCTI policies grew by 29% in 2012, while the number of New Zealanders travelling with Southern Cross cover grew by 3%.

After launching in Australia in 2009, we now have a good foothold in this highly-competitive market. SCTI's profile had risen strongly on the back of a successful television campaign and targeted online marketing.

During the financial year, SCTI was again recognised for its high quality policies, topping the highly-regarded CANSTAR survey of Australia's best value international travel insurance policies for the third consecutive year. In October 2012, SCTI received this award for the fourth consecutive year – the only brand to achieve this in all four years the survey has been conducted.

We believe there is room to grow SCTI's market share considerably, and have targeted promotional activity at younger, price-sensitive travellers and those heading overseas for just a short break – both areas where, in the past, travel insurance uptake has been lower.

In both the Australian and New Zealand markets SCTI has launched campaigns advertising policies starting from \$15. This new price point is a result of reducing the minimum number of days our flagship TravelCare leisure travel policy can be issued for, from five days to two.

Our ability to offer this level of value is a result of a long-term commitment to an operationally efficient 'direct to consumer' online business model. In New Zealand, 95% of SCTI policy sales are transacted through our website; in Australia, 100%.

SCTI is also focused on growing its customer base and repeat business by providing a simple and fast online purchase process, and excellent customer service in the event of a claim. In the last financial year we undertook a major revamp of our Australian website to make site

navigation faster and information easier to access. In 2013, the business will be implementing a new claims management application, with claims processing productivity gains of around 50% expected.

Ellenco Pet Insurance

On February 29, SCBL purchased the policies, systems, intellectual property and operating assets of Christchurch-based Ellenco Pet Insurance.

The move into pet insurance is a further growth and diversification opportunity for the Trust. Currently only a small proportion of New Zealanders have pet insurance, meaning the remainder are exposed to what can be very high veterinary bills should unexpected injury or illness strike their pet.



Ellenco has a strong reputation and, as with our travel insurance business, our focus will be on providing a high quality insurance product at an affordable price.

Southern Cross Health Society has been contracted to market and administer the product on an arm's length commercial basis. Transition of operations from Ellenco's Christchurch base to the Society's Hamilton claims centre will continue throughout 2013.

I would like to offer huge thanks to my team for their hard work over the year and their efforts in delivering world class levels of customer satisfaction.



Statement of corporate governance

The Southern Cross Health Trust is a Charitable Trust registered as a charitable entity under the Charities Act 2005. 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 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 2012 are:

Graeme S Hawkins (Chairman)

Dr Douglas D Baird

Carole B Durbin

Gregory W Gent

Dr Harley Gray

Elizabeth (Liz) M Hickey

Phillip J Meyer

Keith B Taylor

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.

DELEGATION FRAMEWORK

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.

COMMITTEES

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), Doug Baird, Greg Gent and Graeme Hawkins.

EXTERNAL AUDIT INDEPENDENCE

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.

LOANS TO TRUSTEES

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

Board of Trustees



Board of Trustees

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

GRAEME HAWKINS

(BSC, BCom, ACA, FInstD)

Chairman

Graeme Hawkins was appointed as a Trustee in 2008 and as Chairman in 2009. He is Chairman of Trust subsidiary Southern Cross Benefits Limited and a Director of Trust subsidiaries Southern Cross Hospitals Limited and Southern Cross Primary Care 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 has been a professional director for 19 years and is currently a Director of Cavalier Corporation Ltd and Ports of Auckland 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.

DR DOUGLAS BAIRD

(MBChB, DipObst, FRNZCGP)

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

CAROLE DURBIN

(BCom, LLB(Hons), FInstD)

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

GREG GENT

Greg Gent was appointed as a Trustee in December 2011. He is a Northland dairy farmer with a wealth of governance experience. From 2001 to 2011 he was a director of New Zealand's largest co-operative business, Fonterra. Prior to Fonterra's formation he was chairman of Northland Dairy and Kiwi Co-op Dairies. He is chairman of Farmers Mutual Group – a mutual rural insurance company - and was appointed to the Northland District Health Board by the Minister of Health in 2010. Mr Gent is also a Director of the Southern Cross Medical Care Society.

DR HARLEY GRAY CNZM

(ChM, MMedSc, FRACS)

Dr Harley Gray was appointed as a Trustee in 2004 and is Chairman of Trust subsidiary Southern Cross Hospitals Limited. 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.

LIZ HICKEY

(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 2009. Ms Hickey is Vice-President of the Institute of Chartered Accountants (NZICA), a co-opted member of the ASB Community Trust's Audit and Risk Committee, and a Director of the Southern Cross Medical Care Society. Her past governance experience includes being a Director of Radio New Zealand, Genesis Power and Environmental Science and Research. She has served 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.

PHILLIP MEYER

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

Phillip Meyer was appointed as a Trustee in 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), a Director of Southern Cross Medical Care Society, and a Trustee of Young Enterprise Trust and Crimestoppers Trust. He is a National Councillor and Accredited Fellow of the Institute of Directors in NZ; a member of the Disciplinary Tribunal of the New Zealand Institute of Chartered Accountants and the New Zealand Markets Disciplinary Tribunal; and a Fellow of the Financial Services Institute of Australasia. He is also National Chairman of the Salvation Army Red Shield Appeal Committee and a member of its Investment Committee.

KEITH TAYLOR

(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 and Speirs Group, deputy chair of the Earthquake Commission, and a director of the Reserve Bank of New Zealand, Port Marlborough, Gough Gough & Hamer, Butland Holdings and Southern Cross Medical Care Society. He is a member of the 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.

Financial statements

The following information is an extract from the Southern Cross Health Trust audited 2012 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

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 2012

| | Group | | Parent | |
|---|---------------|---------------|---------------|---------------|
| | 2012 \$000 | 2011 \$000 | 2012 \$000 | 2011 \$000 |
| Revenue | 250,360 | 232,980 | - | - |
| Direct expenses | 195,406 | 187,436 | 939 | 1,041 |
| Gross surplus / (deficit) | 54,954 | 45,544 | (939) | (1,041) |
| Administration expenses | 23,076 | 21,668 | 297 | 197 |
| Other expenses | 18,952 | 16,724 | 1,101 | 659 |
| Impairment of assets | 1,841 | 3,500 | - | - |
| Operating surplus / (deficit) | 11,085 | 3,652 | (2,332) | (1,897) |
| Share of profit on equity accounted investments | 4,491 | 3,038 | - | - |
| Financing income | 2,296 | 2,031 | 1,713 | 1,987 |
| Financing expenses | 859 | 1,133 | (1) | - |
| Net financing income | 1,437 | 898 | 1,712 | 1,987 |
| Insurance compensation | 1,403 | 1,600 | - | - |
| Other income | 3,426 | 2,689 | 1,150 | 3,500 |
| Net surplus / (deficit) before tax | 21,842 | 11,877 | 525 | 3,590 |
| Taxation expense/(benefit) | (74) | 53 | - | - |
| Net surplus / (deficit) from continuing operations after tax | 21,916 | 11,824 | 525 | 3,590 |
| Other comprehensive income: | | | | |
| Movement on foreign currency translation reserve | (252) | 616 | - | - |
| Net comprehensive surplus/(deficit) for the year | 21,664 | 12,440 | 525 | 3,590 |
| Attributable to: | | | | |
| Trustees of the Trust | 21,813 | 12,575 | 525 | 3,590 |
| Non-controlling interest | (149) | (135) | - | - |
| Net comprehensive surplus / (deficit) for the year | 21,664 | 12,440 | 525 | 3,590 |

Southern Cross Health Trust

STATEMENTS OF CHANGES IN TRUST FUNDS for the year ended 30 June 2012

| Group 2011 | Attributable to the Trustees of the Trust | | | | | |
|--|---|-----------------------------|--|----------------|--|----------------------------|
| | Retained surpluses \$000 | Capital reserve \$000 | Foreign currency translation reserve \$000 | Total \$000 | Non- controlling interest \$000 | Total reserves \$000 |
| Balance as at 1 July 2010 | 212,613 | 250 | 614 | 213,477 | 717 | 214,194 |
| Total comprehensive income: | | | | | | |
| Surplus after taxation | 11,959 | - | - | 11,959 | (135) | 11,824 |
| Other comprehensive income: | | | | | | |
| Transfer to foreign currency translation reserve | - | - | 616 | 616 | - | 616 |
| Total comprehensive income for the period | 11,959 | - | 616 | 12,575 | (135) | 12,440 |
| Balance as at 30 June 2011 | 224,572 | 250 | 1,230 | 226,052 | 582 | 226,634 |
| | | | | | | |
| Group 2012 | Attributable to the Trustees of the Trust | | | | | |
| | Retained surpluses \$000 | Capital reserve \$000 | Foreign currency translation reserve \$000 | Total \$000 | Non- controlling interest \$000 | Total reserves \$000 |
| Balance as at 1 July 2011 | 224,572 | 250 | 1,230 | 226,052 | 582 | 226,634 |
| Total comprehensive income: | | | | | | |
| Surplus after taxation | 22,065 | - | - | 22,065 | (149) | 21,916 |
| Other comprehensive income: | | | | | | |
| Transfer to foreign currency translation reserve | - | - | (252) | (252) | - | (252) |
| Total comprehensive income for the period | 22,065 | - | (252) | 21,813 | (149) | 21,664 |
| Acquisition of non-controlling interest | - | - | - | - | (433) | (433) |
| Balance as at 30 June 2012 | 246,637 | 250 | 978 | 247,865 | - | 247,865 |

Southern Cross Health Trust

STATEMENTS OF CHANGES IN TRUST FUNDS for the year ended 30 June 2012 (continued)

| Parent 2011 | Attributable to the Trustees of the Trust | | |
|---|---|--------------------------|-------------------------|
| | Retained surpluses \$000 | Capital Reserve \$000 | Total Reserves \$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 |
| | | | |
| Parent 2012 | Attributable to the Trustees of the Trust | | |
| | Retained surpluses \$000 | Capital Reserve \$000 | Total Reserves \$000 |
| Balance as at 1 July 2011 | 180,454 | 250 | 180,704 |
| Total comprehensive income: | | | |
| Surplus after taxation | 525 | - | 525 |
| Other comprehensive income: | - | - | - |
| Total comprehensive income for the period | 525 | - | 525 |
| Balance as at 30 June 2012 | 180,979 | 250 | 181,229 |

Southern Cross Health Trust

STATEMENTS OF FINANCIAL POSITION as at 30 June 2012

| | Group | | Parent | |
|---------------------------------------|----------------|----------------|----------------|----------------|
| | 2012 \$000 | 2011 \$000 | 2012 \$000 | 2011 \$000 |
| Current assets | | | | |
| Cash and cash equivalents | 31,149 | 27,283 | 1,721 | 2,622 |
| Trade and other receivables | 23,781 | 21,499 | 434 | 52 |
| Financial assets | 23,136 | 23,522 | - | - |
| Inventories | 3,528 | 3,523 | - | - |
| Insurance recovery receivable | 2,253 | 1,600 | - | - |
| Assets classified as held for sale | - | - | - | - |
| Advance to subsidiary | - | - | 1,500 | - |
| Total current assets | 83,847 | 77,427 | 3,655 | 2,674 |
| Non-current assets | | | | |
| Financial assets | 5,002 | 5,169 | - | - |
| Investments | 26,812 | 24,279 | 150,600 | 149,100 |
| Derivative financial instruments | 39 | - | - | - |
| Property, plant and equipment | 163,702 | 161,404 | 39 | 46 |
| Intangible assets | 3,207 | 1,920 | - | - |
| Leasehold improvements | 951 | 1,032 | 362 | 385 |
| Goodwill | 9,472 | 9,304 | - | - |
| Advance to subsidiary | - | - | 26,683 | 28,683 |
| Total non-current assets | 209,185 | 203,108 | 177,684 | 178,214 |
| Total assets | 293,032 | 280,535 | 181,339 | 180,888 |
| Liabilities | | | | |
| Trade and other payables | 17,778 | 19,700 | 110 | 183 |
| Provisions | 113 | - | - | - |
| Employee entitlements | 6,025 | 5,130 | - | 1 |
| Insurance contract liabilities | 20,875 | 20,942 | - | - |
| Interest bearing loans and borrowings | - | 7,300 | - | - |
| Total current liabilities | 44,791 | 53,072 | 110 | 184 |
| Non-current liabilities | | | | |
| Finance lease | 60 | 104 | - | - |
| Derivative financial instruments | 316 | 545 | - | - |
| Subordinated shareholder loans | - | 180 | - | - |
| Total non-current liabilities | 376 | 829 | - | - |
| Net assets | 247,865 | 226,634 | 181,229 | 180,704 |
| Trust funds | | | | |
| Retained earnings | 246,637 | 224,572 | 180,979 | 180,454 |
| Capital reserve | 250 | 250 | 250 | 250 |
| Foreign currency translation reserve | 978 | 1,230 | - | - |
| Parent interest | 247,865 | 226,052 | 181,229 | 180,704 |
| Non-controlling interest | - | 582 | - | - |
| Trust funds | 247,865 | 226,634 | 181,229 | 180,704 |

Southern Cross Health Trust

STATEMENTS OF CASH FLOWS for the year ended 30 June 2012

| | Group | | Parent | |
|--|-----------------|----------------|----------------|----------------|
| | 2012 \$000 | 2011 \$000 | 2012 \$000 | 2011 \$000 |
| Cash flows from operating activities | | | | |
| Receipts from customers | 251,708 | 233,639 | 13 | 122 |
| Payments to suppliers and employees | (201,635) | (182,919) | (2,742) | (1,903) |
| Payments of direct claims | (24,681) | (21,960) | - | - |
| Interest received | 2,525 | 2,371 | 1,713 | 1,987 |
| Interest paid | (879) | (1,133) | (1) | - |
| Dividends received | - | 1 | 1,150 | 3,500 |
| Payment/(refund) of income tax | 26 | - | - | - |
| Other income | 3,452 | 2,648 | - | - |
| Net cash flows from operating activities | 30,516 | 32,647 | 133 | 3,706 |
| Cash flows from investing activities | | | | |
| Proceeds from sale of property, plant and equipment | - | 17 | - | - |
| Proceeds from sale of Oxford Clinic | - | 2,484 | - | - |
| Transactions with hospital partnerships and associates | 3,973 | 3,289 | - | - |
| Net proceeds from / (purchase of) investments | (1,077) | 1,543 | - | - |
| Purchase of property, plant and equipment | (19,124) | (11,713) | (34) | (437) |
| Purchase of intangible assets | (1,572) | (1,058) | - | - |
| Investment in hospital partnerships and associates | (674) | (2,119) | - | - |
| Receipt of inter-company advance | - | - | 500 | - |
| Investment in subsidiary | - | - | (1,500) | (1,500) |
| Acquisition of non-controlling interest | (320) | - | - | - |
| Acquisition of business (net of cash required) | (176) | - | - | - |
| Net cash flows from investing activities | (18,970) | (7,557) | (1,034) | (1,937) |
| Cash flows from financing activities | | | | |
| Proceeds from finance lease | (44) | 104 | - | - |
| Proceeds from/(repayment of) borrowings | (7,300) | (10,000) | - | - |
| Receipt/(repayment) of subordinated shareholder loan | (180) | - | - | - |
| Close out of financial derivative | (156) | - | - | - |
| Net cash flows from financing activities | (7,680) | (9,896) | - | - |
| Net increase / (decrease) in cash and cash equivalents | 3,866 | 15,194 | (901) | 1,769 |
| Cash and cash equivalents at beginning of period | 27,283 | 12,089 | 2,622 | 853 |
| Cash and cash equivalents at end of period | 31,149 | 27,283 | 1,721 | 2,622 |

Southern Cross Health Trust

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Southern Cross
Healthcare Group