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22 FEBRUARY 2019

STOCK EXCHANGE ANNOUNCEMENT

SUMMERSET GROUP HOLDINGS LIMITED (SNZ) 2018 FULL YEAR RESULT AND ANNUAL REPORT

The following are attached in relation to Summerset's 2018 full year results and annual report:

- Media release;
- Results presentation;
- Annual report (including audited financial statements for the year ended 31 December 2018);
- NZX Appendix 1;
- NZX Appendix 7 (ASX Online Appendix 3A.1 is provided as a separate announcement).

For the purposes of ASX Listing Rule 1.15.3, Summerset confirms that it continues to comply with the NZX Main Board Listing Rules.

ENDS

For enquiries:

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NZX & ASX RELEASE

22 FEBRUARY 2019

21% FY18 UNDERLYING PROFIT GROWTH, TWO SITES ACQUIRED

- Underlying profit for FY18 of NZ$98.6 million, up 21% on FY17
- Net profit after tax of NZ$214.5 million, down 11% on FY17
- Total assets of NZ$2.8 billion, up 24% on FY17
- 640 total sales of occupation rights, down 6% on FY17
- 454 new retirement units delivered, up 1% on FY17
- Land bank total of 3,910 retirement units and 540 care beds
- Final dividend of NZ 7.2 cents per share
- Development margin of 33.2%, up from 27.3% for FY17
- New land acquired in Milldale and Waikanae

Retirement village operator Summerset Group Holdings Limited has announced a net profit after tax for the year ending 31 December 2018 of NZ$214.5 million, down 11% on FY17.

Underlying profit, which excludes the impact of unrealised movements in the fair value of investment property was NZ$98.6 million, up 21% on the same period last year. Annual growth in underlying profit has averaged 43% in the seven years since the company listed on the NZX in November 2011.

Summerset CEO Julian Cook said “Summerset’s performance continues to be sound with the 21% growth in underlying profit achieved in an environment where property price growth in key markets such as Auckland has moderated compared to prior years. This reflects good progress made throughout the business and the consistent demand for what we offer residents.”

Net profit after tax was NZ$214.5 million, down 11% on the previous year, impacted by the fair value movement on investment property. The lower fair value movement versus the corresponding period in 2017 largely reflects the more moderate property market in some areas of the country.

Mr Cook said Summerset was the fastest growing retirement village operator in New Zealand. “In 2018 we built 454 new homes, in line with our guidance of 450 retirement units. This made Summerset the largest builder in New Zealand of retirement units in the 2018 financial year. This has never been a goal of the company but is indicative of the strong growth in the business since listing.”

“In 2018 we completed villages in Wigram, Trentham, Katikati and Karaka. In 2019, we will continue construction work on our Ellerslie, Hobsonville, Rototuna, Casebrook, Richmond, and Avonhead villages, and commence construction in both Kenepuru, Wellington and Te Awa, Napier.”

Summerset now has 25 villages completed or in development, and a land bank of nine properties, including two new land purchases. The new sites are in Milldale, north of Auckland and Waikanae on the Kapiti Coast, north of Wellington.

Mr Cook said the new sites are in areas with strong demographics and he expects the villages to be popular.

	Estimated village size (hectares)	Location	Approximate number of homes	Approximate investment (NZ$ million)
Milldale	6.0	New Milldale sub-division, 7km north-west of Silverdale	292	200
Waikanae	8.0	Park Avenue, bordering on Waikanae Park	290	150

Summerset's care business continued its strong performance over 2018 with occupancy at 96.5% in established care centres. Resident satisfaction was also steady at industry-leading levels of 97% for care residents and 95% for retirement village residents. This satisfaction result was independently reviewed by KPMG.

Mr Cook said Summerset started work this year to become New Zealand's first retirement village operator with Dementia Friendly Accreditation.

Summerset has partnered with Dementia New Zealand and has a three year programme to help educate New Zealanders about dementia, and to reduce the stigma of having the degenerative brain disease.

Mr Cook said he was also pleased with the higher retention rate for staff this year, given traditionally high levels of turnover in the aged care industry.

"We are continuing to invest in our people and in the technology they use," he said.

"All of our village staff are now using VCare, a resident management system on iPads. This allows them to see vital resident information at the touch of a button, and provides much improved data which we analyse for trends and improvements."

Staff engagement increased again to 69% in 2018. This puts Summerset in the top quartile of the Aon Hewitt engagement survey which includes around 700 companies in New Zealand and Australia.

Looking ahead, Mr Cook said Summerset's focus in 2019 will be to continue delivering high quality retirement living around New Zealand, and to further plans to set up across the Tasman.

"We've continued to progress in Australia and are now seeking land opportunities. We are mindful of the property market conditions in the wider Melbourne area, which is our main area of interest. We will apply the appropriate safety buffers to our financial feasibilities on any sites acquired. We believe underlying demand for quality retirement village and aged care is strong. Any site we acquire now would not be selling retirement units until two to three years from now, by which time property market conditions will most likely have improved," Mr Cook said.

The board has declared an unimputed final 2018 dividend of NZ 7.2 cents per share. The record date will be Friday 8 March 2019 and the payment date Thursday 21 March 2019. This brings the total dividend payment for 2018 to NZ 13.2 cents per share, up 20% on 2017. The dividend reinvestment plan will apply to the dividend, with a discount of 2% applicable to those shareholders participating in the plan.

ENDS

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ABOUT SUMMERSET

- Summerset is one of the leading operators and developers of retirement villages in New Zealand, with 25 villages completed or in development across the country. In addition, Summerset has nine sites for development in Parnell (Auckland), St Johns (Auckland), Milldale (Auckland), Waikanae (Kapiti Coast), Te Awa (Napier), Pohutukawa Place (New Plymouth), Papamoa (Tauranga), Kenepuru (Wellington) and Lower Hutt (Wellington), bringing the total number of sites to 34.
- It provides a range of living options and care services to more than 5,000 residents.
- Silver Award winner in the Reader's Digest Quality Service Awards 2019.
- The Summerset Group has villages in Aotea, Avonhead, Casebrook, Dunedin, Ellerslie, Hamilton, Hastings, Havelock North, Hobsonville, Karaka, Katikati, Levin, Manukau, Napier, Nelson, New Plymouth, Palmerston North, Paraparaumu, Richmond, Rototuna, Taupo, Trentham, Wanganui, Warkworth and Wigram.

Full year results presentation

Year ended 31 December 2018

Summerset Group Holdings Limited

22 February 2019

Agenda

1. FY18 result highlights
2. Business overview
3. Financial results
4. Final dividend
5. Appendix

FY18 result highlights

FY18 result highlights

Underlying profit up 21%, driven by strong development and resale margins

		FY18	FY17	*Variance*	FY16
Financial (NZ$m)	Net profit before tax (IFRS)	216.2	240.2	*-10%*	145.6
	Net profit after tax (IFRS)	214.5	239.9	*-11%*	145.5
	Underlying profit*	98.6	81.7	*21%*	56.6
	Total assets	2,766	2,233	*24%*	1,707
	Net operating cash flow	217.8	207.7	*5%*	192.6
Operational	New sales of occupation rights	339	382	*-11%*	414
	Resales of occupation rights	301	300	*0%*	244
	Total sales of occupation rights	**640**	**682**	***-6%***	**658**
	New retirement units delivered	454	450	*1%*	409

** Underlying profit differs from NZ IFRS reported profit after tax. The measure has been audited by Ernst & Young. Refer to the appendix for a reconciliation between the two measures, and note 2 of the financial statements for detail on the components of underlying profit*

FY18 result highlights

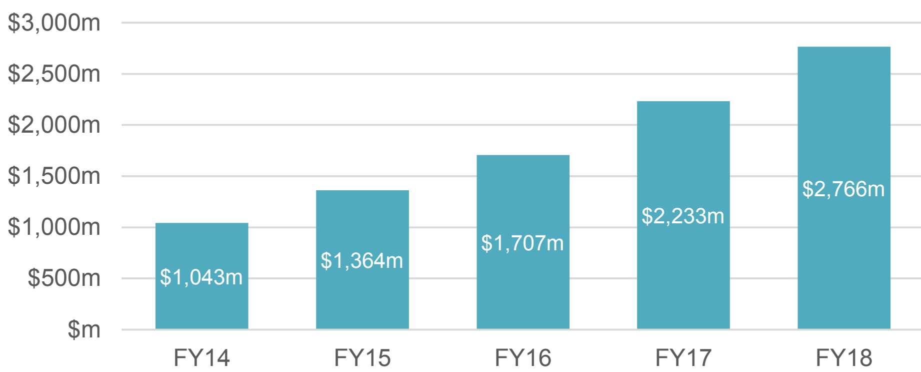
454 retirement units delivered in FY18, underlying profit of $98.6m

- IFRS profit of $214.5m after tax compared to FY17 of $239.9m
- Record underlying profit of $98.6m, up 21% on FY17
- Delivered 454 retirement units in FY18, in line with previous guidance
- Record development margin of 33.2%, up from 27.3% in FY17
- Record resale gain of 23.5%, up from 21.7% in FY17
- Final dividend of 7.2 cents per share declared
- Total dividends for the 2018 year (interim and final) of 13.2 cents per share, amounting to $29.7m, 30% of underlying profit
- Operating cash flow of $217.8m, and gearing ratio of 31.2%
- Total assets now $2.8b, up 24% on FY17 at $2.2b
- Land bank of 3,910 retirement units to support a lift in average build rate to 600 retirement units, over the next two to three years

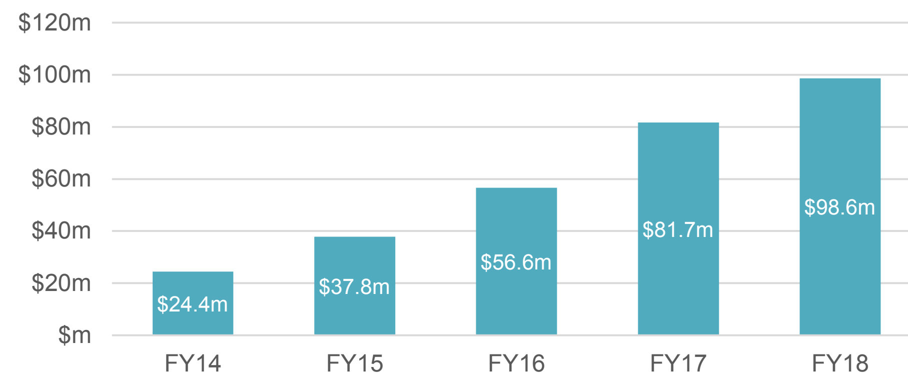
FY18 result highlights

Record full year underlying profit result

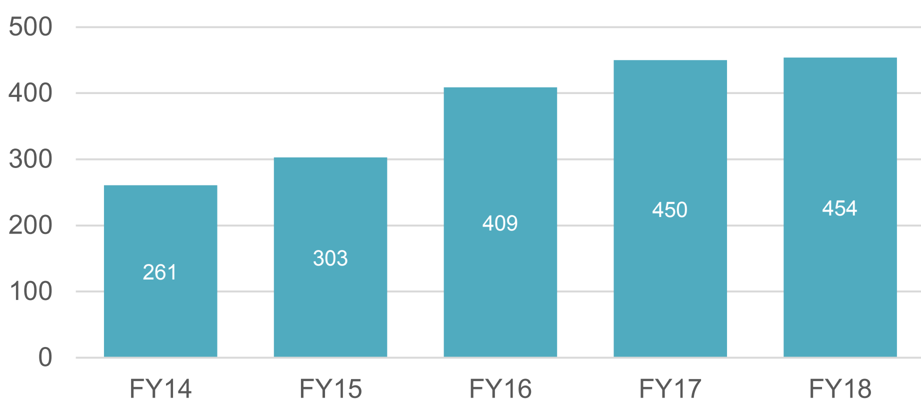
Total assets



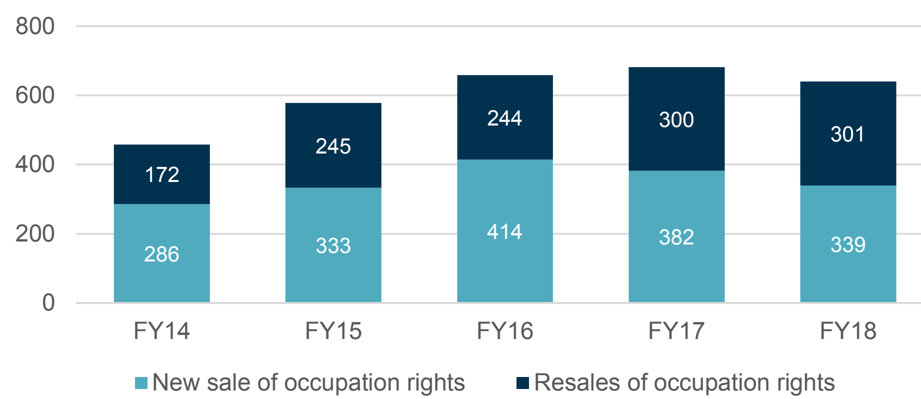
Underlying profit



Retirement unit delivery



Occupation right sales



Business overview

Summerset snapshot

Developed most retirement village units in the New Zealand industry in FY18

- 21 years of consistent delivery and growth
- Balance sheet growth of 348% since listing on the NZX in 2011
- Portfolio of 3,732 retirement units (villas, apartments, serviced apartments and memory care apartments) and 858 care beds
- More than 5,000 residents
- 25 villages completed or under development
- Seven greenfield sites at Kenepuru, Lower Hutt, Parnell, St Johns, and recent acquisitions in Te Awa (Napier), Pohutukawa Place (New Plymouth), and Papamoa (Tauranga)
- In addition two newly acquired sites announced today:
  - Milldale – 6.0 hectare site in a new suburb on the Hibiscus Coast
  - Waikanae – 25.5 hectare site close to Waikanae Beach and golf club (estimated village size of 8.0 hectares)
- Land bank of 3,910 retirement units as at 31 December 2018 or around six to seven years of development at the expected average build rate of 600
- Silver award winner in the Reader's Digest Quality Service Awards 2019

Sub heading - based on deliveries of retirement units within New Zealand. Based on information from full year financial results of Summerset and competitors

FY18 review

454 retirement units delivered, record underlying profit of $98.6m

- Delivered new design standards, which have been used in our Casebrook and Rototuna villages
- Delivery of Ellerslie's first apartment block, adjacent to the main building
- Completed villages in Trentham, Karaka, Katikati, and Wigram
- Obtained resource consents and started civil works on Avonhead and Richmond sites. Also gained resource consent for our Te Awa village (in record time) and our Kenepuru village
- Announced five new land acquisitions in Te Awa (Napier), Pohutukawa Place (New Plymouth), Papamoa (Tauranga), Milldale (Auckland) and Waikanae (Kapiti Coast)
- Delivered 454 retirement units, in line with our FY18 build rate guidance of 450
- St Johns resource consent declined, have appealed and in mediation shortly
- Became the first retirement village operator in New Zealand to achieve CEMARS certification, achieved Lifemark certification throughout all villages and obtained the Group's first Dementia Friendly accreditation at our Levin retirement village
- Following preparation and diligence work during 2018, we are now actively seeking land in the greater Melbourne area, Australia

Underlying profit differs from NZ IFRS reported profit after tax. The measure has been audited by Ernst & Young. Refer to the appendix for a reconciliation between the two measures, and note 2 of the financial statements for detail on the components of underlying profit.

Summerset strategy

Summerset builds, owns and operates retirement villages

- Focus on continuum of care model
- High quality care and facilities across all villages
- Villages designed to integrate into local communities
- Internal development and construction model
- Nationwide brand offering
- Customer centric philosophy – bringing the best of life
- Currently seeking land in the greater Melbourne area, Australia

First NZ retirement group CEMARS certified

Increasing focus on sustainability

- Summerset has become the first retirement village operator to become CEMARS (Certified Emissions Measurement and Reduction Scheme) certified
- Provides third party certification to ensure accurate and consistent carbon measurement, reduction and neutrality claims. This will be independently verified annually to maintain certification
- A range of initiatives to reduce the intensity of our carbon emissions across the business are being introduced

Certified Emissions Measurement And Reduction Scheme
CEMARS®
ISO 14064-1
certified organisation

Energy – reducing our electricity and gas usage

Waste – minimising our waste to landfill

Travel – being more efficient in the way we travel

Paper – reducing our paper consumption through paperless systems

Fertilisers – selecting fertilisers with less greenhouse gases for our village gardens

Lifemark certification

First retirement group to receive full Lifemark village certification

- First New Zealand retirement village group to receive Lifemark Village Certification. This certification signals to potential and current residents that Summerset's products and services meet the needs of any New Zealand occupant, for age, stage and ability – an assurance that Summerset villages will be right for your stage of life
- This certification covers the overall village precinct and access throughout, including communal grounds and wider facilities
- Performance is independently validated through a comprehensive on-site audit process
- Every new village hereafter will be independently audited by Lifemark

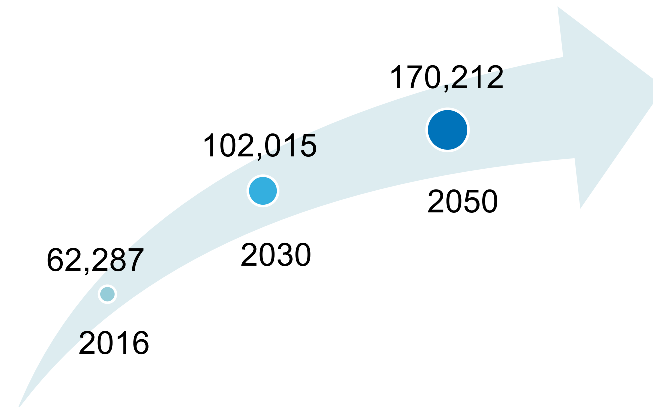
ACCESSIBLE
Lifemark
CERT TM
VILLAGE

Levin village Dementia Friendly accredited

Further focus on continuum of care

- We have increased awareness of dementia throughout Summerset by upskilling staff at our retirement villages and head office to provide further support to our residents
- Summerset's Levin village has achieved Dementia Friendly accreditation from Alzheimers NZ
- Aiming to have all villages certified as Dementia Friendly by 2020
- Levin won the New Zealand Aged Care Association's Best Built Environment award for its innovative memory care centre

Estimated number of people in New Zealand with Dementia from 2016 to 2050 *



Dementia Friends
NGĀ POU WHIRINAKI MATE WAREWARE

Alzheimers New Zealand

** Source: Alzheimers New Zealand data*

Operations and staff

Improvements from introduction of new systems

- 97% care customer satisfaction rating and 95% village customer satisfaction rating for 2018 survey
- Successfully completed the rollout of VCare resident management system across all villages, accompanied with the introduction of iPads to provide staff with up to date resident information. This largely removes paper processes from care centres and provides greatly improved access and visibility of information
- Introduced a new payroll system across Summerset
- Continued focus on staff with the introduction of staff hardship assistance, staff charity fundraising and a day off on employees' birthdays
- Introduction of new uniform design across all Summerset villages throughout the second half of the year
- Refreshed food offering with regionally focused menus in our villages, featuring locally grown food. All food is prepared on site by local chefs

FY18 development activity

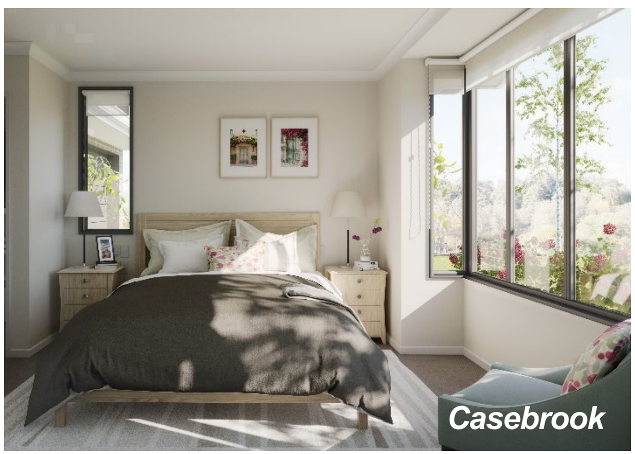
Delivery of 454 retirement units in FY18 across nine sites

Location	Villas	Apartments	Serviced apartments	Total retirement units	Total care beds
Casebrook	69	-	-	69	-
Ellerslie	-	54	-	54	-
Hobsonville	2	28	37	67	52
Karaka	71	-	-	71	-
Katikati	38	-	-	38	-
Rototuna	56	-	-	56	-
Trentham	-	-	20	20	-
Warkworth	31	-	-	31	-
Wigram	48	-	-	48	-
Total	**315**	**82**	**57**	**454**	**52**

- 454 retirement units and 52 care beds delivered across nine villages
- Delivered first apartment block in Ellerslie, adjacent to the main building
- Completion of Trentham, Karaka, Katikati and Wigram villages
- First residents moved into Casebrook and Rototuna villages

FY18 development activity

Delivery of 454 retirement units in FY18 across nine sites



FY18 development activity

Delivery of 454 retirement units in FY18 across nine sites

New land sites acquired

Five new land sites acquired since the beginning of 2018

Summerset

Future development

Land bank of 3,910 retirement units and 540 care beds

Land bank - as at 31 December 2018

Village	Villas	Apartments	Serviced & memory care apartments	Total retirement units	Total care beds
Ellerslie	8	142	-	150	-
Hobsonville	8	8	4	20	-
Milldale	99	117	76	292	43
Parnell	-	264	76	340	48
St Johns	-	236	76	312	32
Warkworth	23	-	-	23	-
Auckland	**138**	**767**	**232**	**1,137**	**123**
Papamoa	211	-	76	287	43
Bay of Plenty	**211**	**-**	**76**	**287**	**43**
Rototuna	132	-	76	208	43
Waikato	**132**	**-**	**76**	**208**	**43**
Pohutukawa Place	222	-	76	298	43
Taranaki	**222**	**-**	**76**	**298**	**43**
Te Awa	241	-	76	317	43
Hawke's Bay	**241**	**-**	**76**	**317**	**43**
Kenepuru	102	93	106	301	43
Lower Hutt	42	109	66	217	30
Waikanae	214	-	76	290	43
Wellington	**144**	**202**	**172**	**808**	**116**
Richmond	234	-	76	310	43
Nelson	**234**	**-**	**76**	**310**	**43**
Avonhead	156	12	98	266	43
Casebrook	191	12	76	279	43
Christchurch	**347**	**24**	**174**	**545**	**86**
Total	**1,669**	**993**	**958**	**3,910**	**540**

Development pipeline

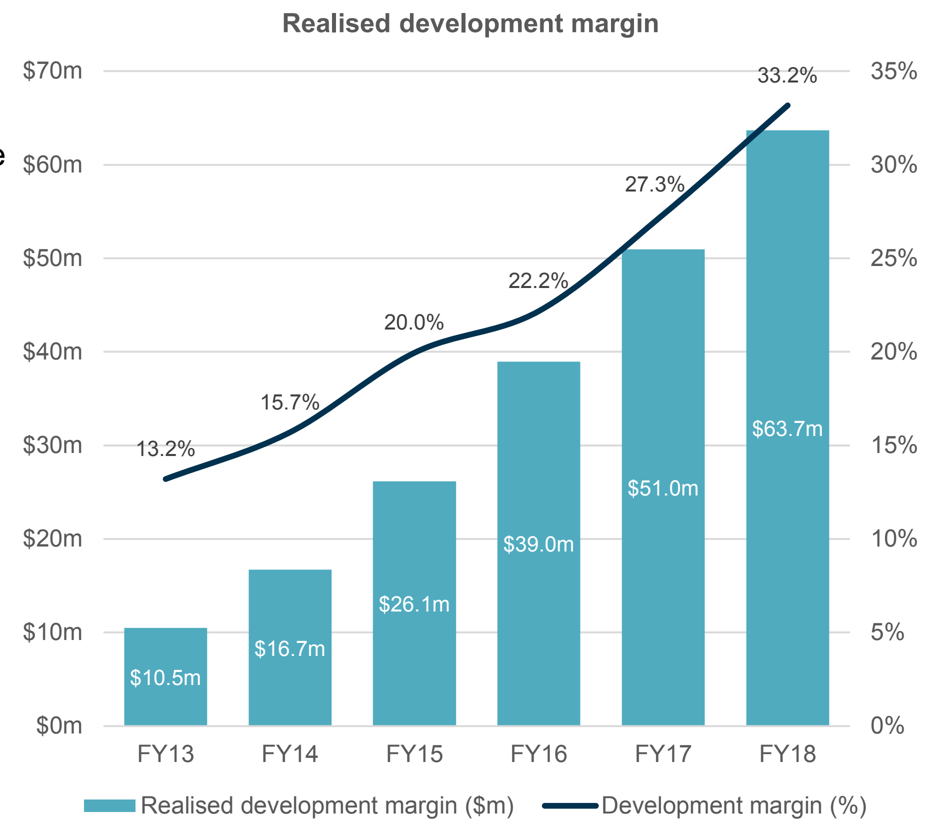
Villages	Design	Consenting	Construction	Village open	Final stages
Warkworth, Auckland	●	●	●	●	●
Hobsonville, Auckland	●	●	●	●	●
Ellerslie, Auckland	●	●	●	●	
Rototuna, Hamilton	●	●	●	●	
Casebrook, Christchurch	●	●	●	●	
Richmond, Tasman	●	●	●		
Avonhead, Christchurch	●	●	●		
Kenepuru, Wellington	●	●			
Te Awa, Napier*	●	●			
St John's, Auckland	●	●			
Lower Hutt, Wellington	●	●			
Parnell, Auckland	●				
Papamoa, Tauranga*	●				
Pohutukawa Place, New Plymouth*	●				
Waikanae, Kapiti*	●				
Milldale, Auckland*	●				

* New sites purchased.

Development margin

Record FY18 development margin of 33.2% with a realised margin of $63.7m

- Record development margin of 33.2% achieved in FY18, with strong margins across all villages that settled new retirement units within the year
- Investment in our design and construction teams to increase in-house experience and quality has attributed to our increased development margin, through careful cost control without reducing quality
- Maintained a consistent development margin between 1H18 and 2H18
- Auckland village new sales are performing well, with a 32.5% development margin across the Auckland portfolio
- Sales of new occupation rights were split 39% in the Auckland region villages and 61% across the rest of our developing villages
- Over the medium to long term we continue to expect development margins to be approximately 20% to 25%

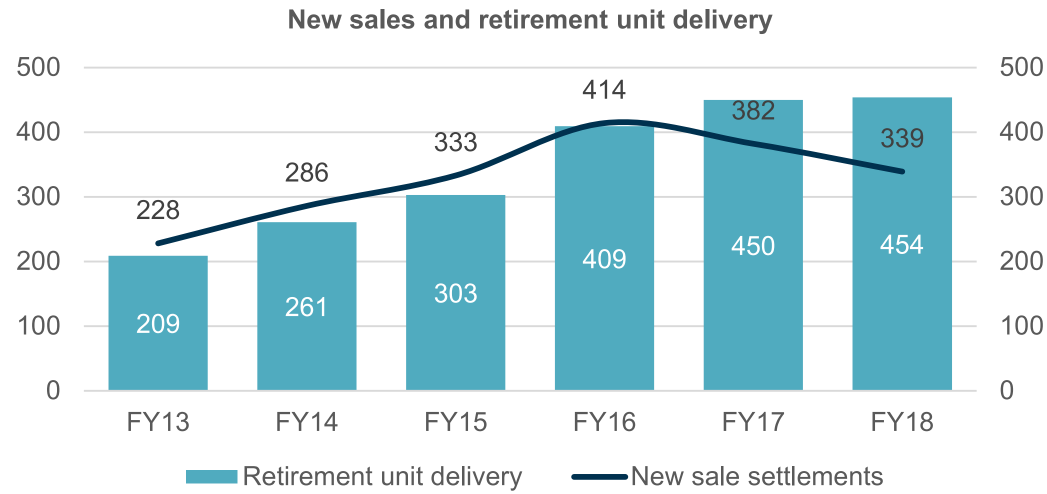


New sales of occupation rights

Record gross proceeds of $192.0m

- New sales of occupation rights of 339 in FY18, down from 382 in FY17
- Despite lower new sales volumes, gross proceeds were up 3% from FY17
- Lower new sales driven by timing differences. 133 retirement units were delivered in December, with very limited ability to settle these prior to year end
- Average gross proceeds per new sale settlement of $566k, up from $488k in FY17

New sales	FY18	FY17	*Variance*	FY16
Gross proceeds ($m)	192.0	186.4	3%	175.6
Villas	235	235	0%	293
Apartments	16	29	-45%	15
Serviced apartments	87	111	-22%	104
Memory care apartments	1	7	-86%	2
Total occupation rights	**339**	**382**	**-11%**	**414**

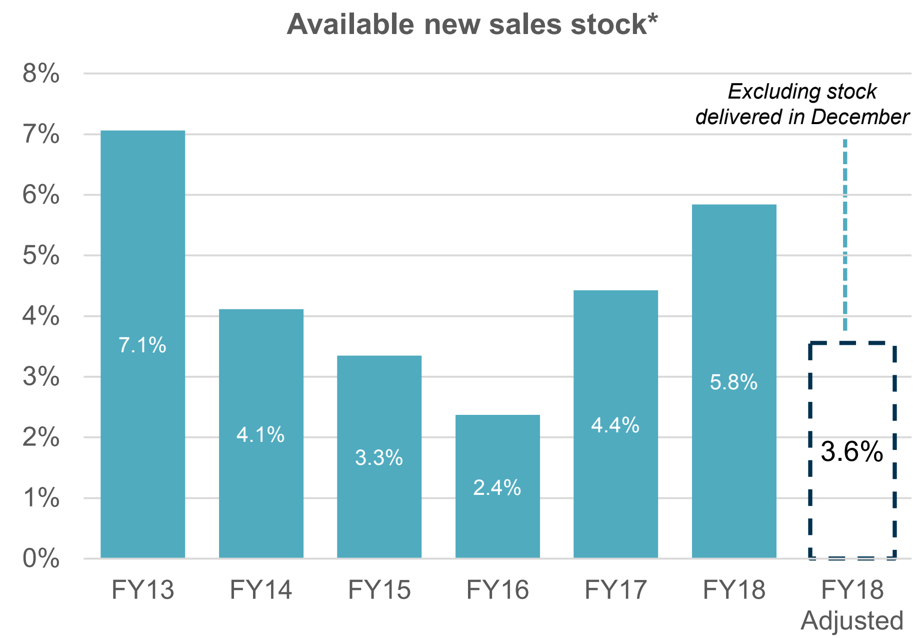


New sales stock

New sales stock remains historically low on a relative basis

- Contracted stock as a proportion of total new sales stock was consistent at 32% in FY18, versus 29% in FY17 with good sales still being seen. 133 retirement unit deliveries in late December reducing the ability to settle prior to year end
- Serviced and memory care apartments are selling down steadily with stock decreasing from 118 at FY17 compared to 87 at FY18. The average days available to settle for uncontracted villa and apartment new sales stock is 3 months and 1 month, respectively

New sales stock	FY18	FY17	FY16
Contracted	101	59	69
Uncontracted	218	145	67
Total new sales stock	**319**	**204**	**136**
Contracted	45	26	44
Uncontracted	102	41	12
Villas	**147**	**67**	**56**
Contracted	38	5	0
Uncontracted	47	14	1
Apartments	**85**	**19**	**1**
Contracted	18	28	25
Uncontracted	69	90	54
Serviced & memory care apartments	**87**	**118**	**79**



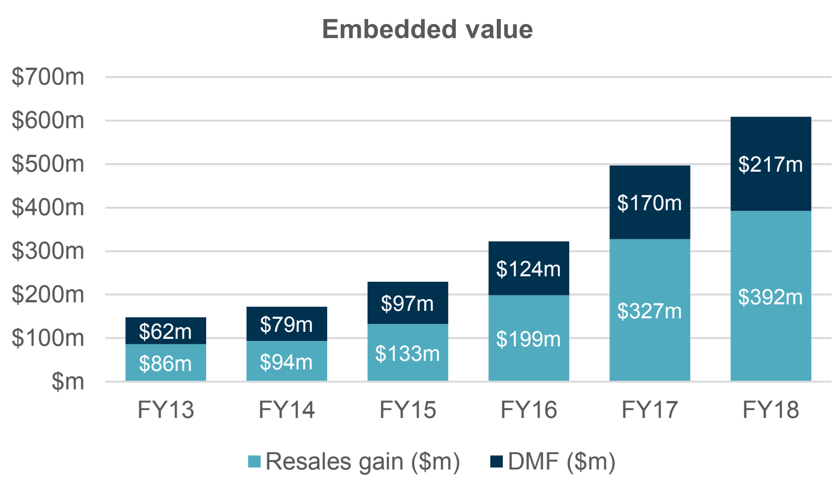
** Uncontracted new sales stock as a proportion of the total retirement unit portfolio at balance date*

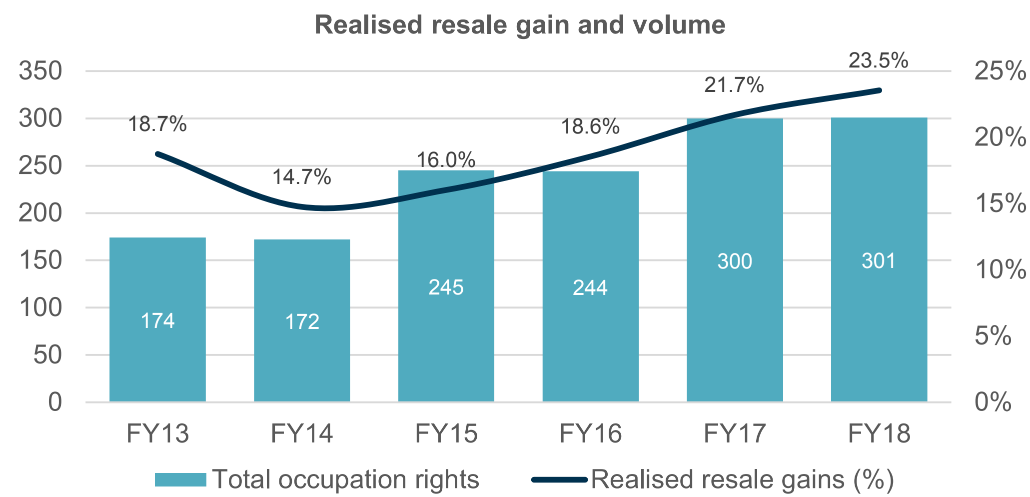
Resales of occupation rights

Record realised gain and embedded value

- Record realised resale gain of 23.5%, up 9% on FY17
- Resales of 301 occupation rights in FY18 (FY17 resales of 300)
- Gross proceeds of $122.2m, up 6% on FY17
- Embedded value of $163k per retirement unit, as at 31 December 2018, up from $152k as at 31 December 2017
- Embedded resale gain of $105k per retirement unit, up from $100k as at 31 December 2017

Resales	FY18	FY17	*Variance*	FY16
Gross proceeds ($m)	122.2	114.9	*6%*	83.1
Realised resale gains ($m)	28.7	24.9	*15%*	15.4
Realised resale gains (%)	23.5%	21.7%	*9%*	18.6%
DMF realisation ($m)	15.0	13.8	*8%*	10.3
Villas	163	172	*-5%*	142
Apartments	48	46	*4%*	44
Serviced apartments	87	82	*6%*	58
Memory care apartments	3	-	*N/A*	-
Total occupation rights	**301**	**300**	***0%***	**244**



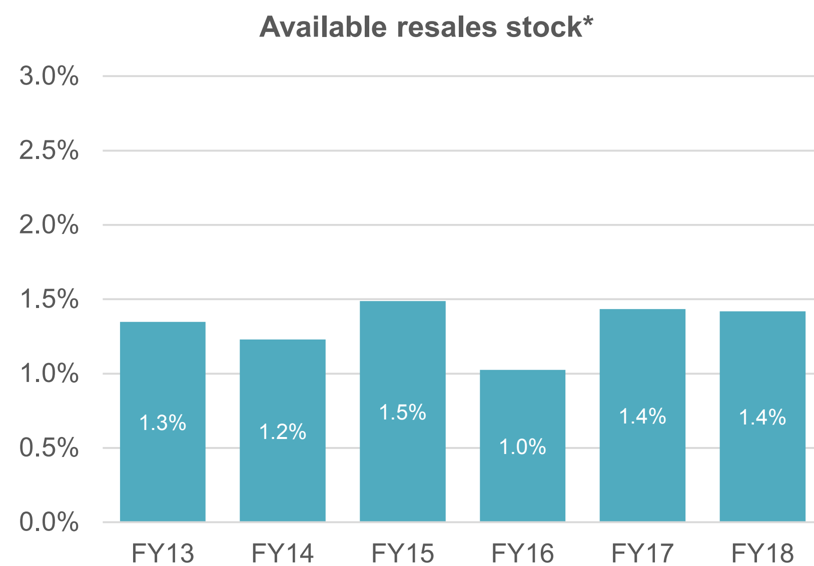


Resales stock

Resales stock levels remain low despite growing portfolio

- Resales stock remains low with 58 retirement units under contract and 53 retirement units uncontracted at FY18, maintaining similar contracted and uncontracted resales stock levels as FY17, despite the portfolio growing
- As a proportion of our total retirement unit stock, uncontracted resales stock makes up only 1.4%
- We continue to see good demand for resale retirement units across all villages. On average only ~2 uncontracted retirement units per village

Resales stock	FY18	FY17	FY16
Contracted	58	63	56
Uncontracted	53	47	29
Total resales stock	**111**	**110**	**85**
Contracted	27	37	29
Uncontracted	33	24	17
Villas	**60**	**61**	**46**
Contracted	6	9	9
Uncontracted	3	5	4
Apartments	**9**	**14**	**13**
Contracted	25	17	18
Uncontracted	17	18	8
Serviced & memory care apartments	**42**	**35**	**26**



** Uncontracted resales stock as a proportion of the total retirement unit portfolio at balance date*

Financial results

FY18 reported profit (IFRS)

FY18 net profit after tax of $214.5m

- IFRS NPAT of $214.5m, down 11% relative to FY17 driven by lower fair value movement in investment property of $209.9m – refer to next slide for further details
- Total revenue of $137.0m, up 24% relative to FY17
- The increase in FY18 expenditure relative to the prior year is driven from a mix of:
    - Growth in new and developing villages as care centres and independent living units recently built fill
    - Costs associated with preparing for a lift in build rate to 600 retirement units per annum over the next two to three years
    - Project-specific costs including investigation into Australia, staff training costs for the new VCare customer management system, lift in quality of food offering and roll out of new uniform design
    - Staff-related costs such as pay-equity and increased staff benefits
- Net finance costs of $11.6m remain consistent with FY17, up 1%

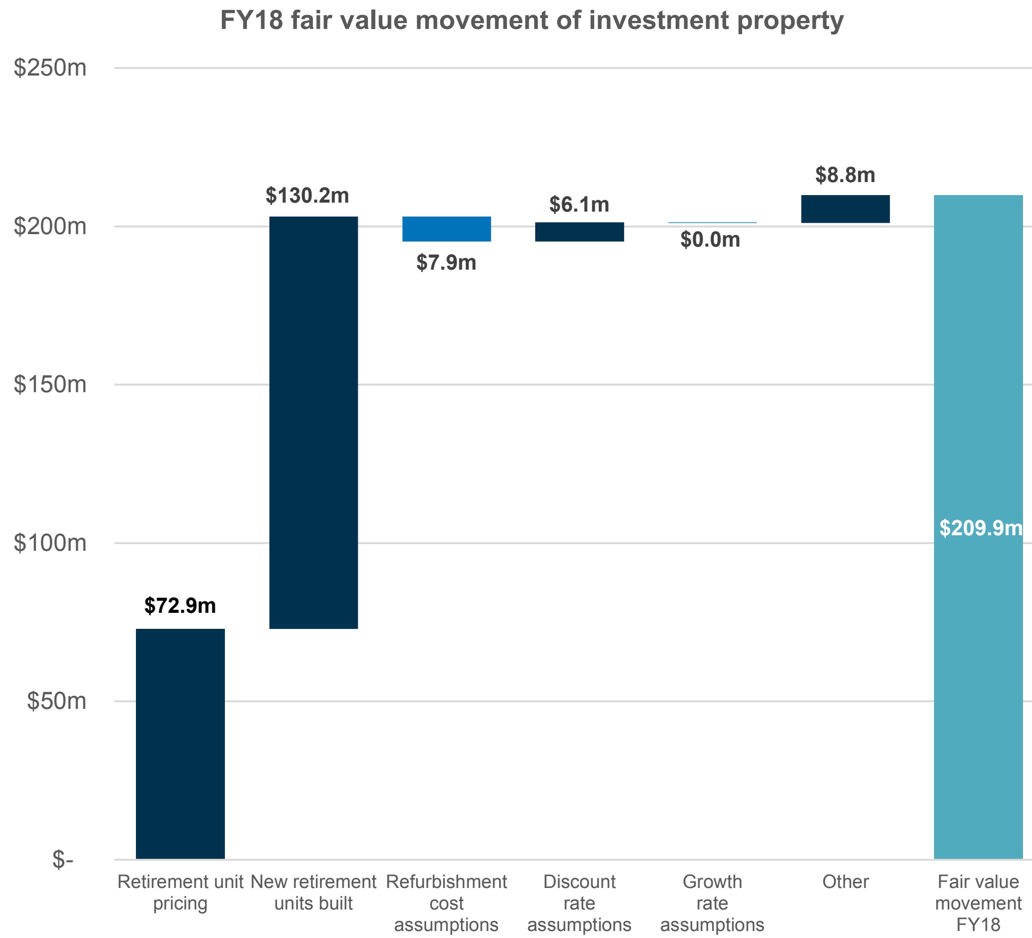
NZ$m	FY18	FY17 *	*Variance*	FY16
Total revenue	137.0	110.5	*24%*	86.1
Fair value movement of investment property	209.9	234.5	*-10%*	143.5
Total income	**346.9**	**345.0**	***1%***	**229.5**
Total expenses	119.1	93.2	*28%*	74.8
Net finance costs	11.6	11.5	*1%*	9.1
Net profit before tax	**216.2**	**240.2**	***-10%***	**145.6**
Tax expense	1.7	0.3	*476%*	0.2
Net profit after tax	**214.5**	**239.9**	***-11%***	**145.5**

** Fair value movement of investment property has been restated for 2017. Refer to note 1 comparative information in the financial statements for further details.*

Fair value movement

$209.9m fair value movement of investment property

- Fair value movement of $209.9m, down 10% on FY17 *
- Reduction on prior year primarily driven by lower level of retirement unit pricing increase $72.9m of uplift FY18 compared to $99.7m uplift FY17
- Fair value movement for FY18 comprised of:
  - Increase in retirement unit pricing ($72.9m): retirement unit price inflation on existing retirement units within the portfolio resulting in uplift in operator's interest
  - New retirement units built ($130.2m): value of new retirement units delivered in FY18
  - Refurbishment cost assumptions (-$7.9m): uplift in refurbishment cost assumption used by valuer
  - Discount rates ($6.1m) and growth rates ($0.0m): change in assumptions used by valuer
  - Other movements ($8.8m): changes in all other valuation assumptions
- Refer to the appendices (slide 46) for key assumptions associated with the investment property valuation



** Fair value movement of investment property has been restated for 2017. Refer to note 1 comparative information in the financial statements for further details.*

FY18 underlying profit

Underlying profit up 21% on FY17, 43% CAGR over last seven years

- FY18 underlying profit of $98.6m, up 21% on FY17
- Uplift in underlying profit principally driven by the maturing nature of our operating business and strong margins on sales
- Realised development margin of $63.7m achieved in FY18, up from $51.0m in FY17, driven by a record development margin of 33.2% on retirement units built during the year
- Realised gain on resales of $28.7m achieved in FY18, increased from $24.9m in FY17, driven by strong sales price growth across our villages on consistent volumes
- Underlying profit has seen a compounded annual growth rate (CAGR) increase of 43% since listing on the NZX in 2011

NZ$m	FY18	FY17	*Variance*	FY16
Care fees and village services	91.2	74.5	*22%*	57.8
Deferred management fees	45.6	35.8	*27%*	28.0
Realised gain on resales	28.7	24.9	*15%*	15.4
Realised development margin	63.7	51.0	*25%*	39.0
Other income & interest received	0.2	0.2	*23%*	0.2
Total income	**229.4**	**186.4**	***23%***	**140.4**
Operating expenses	112.4	88.6	*27%*	71.1
Depreciation and amortisation	6.7	4.6	*44%*	3.7
Net finance costs	11.6	11.5	*1%*	9.1
Total expenses	**130.8**	**104.7**	***25%***	**83.9**
Underlying profit	**98.6**	**81.7**	***21%***	**56.6**

Underlying profit is a non-GAAP measure and differs from NZ IFRS profit for the period. Underlying profit does not have a standardised meaning prescribed by GAAP and therefore may not be comparable to similar financial information presented by other entities. The Directors have provided an underlying profit measure in addition to IFRS profit to assist readers in determining the realised and unrealised components of fair value movement of investment property and tax expense in the Group's income statement. The measure is used internally in conjunction with other measures to monitor performance and make investment decisions and has been audited by Ernst & Young. Underlying profit is a measure which the Group uses consistently across reporting periods. Underlying profit is used to determine the dividend pay-out to shareholders.

FY18 cash flows

Net operating business cash flows up 17%

- Continuing to see benefits of maturing portfolio - net operating cash flows up 5% from $207.7m in FY17 to $217.8m in FY18. Have seen a consistent maturing operating cash flow since listing of 26% CAGR
- Net receipts from resales has increased $13.0m on FY17 with uplift in resale margin on consistent volumes
- Gross receipts from new sales was up $5.7m on FY17 despite lower sales volumes, 382 in FY17 compared to 339 in FY18
- Investing cash flows have increased 13% on FY17 driven by land acquisitions
- Refurbishment cost increase driven by programmed upgrade of a number of older village main centres and care centres

NZ$m	FY18	FY17	*Variance*	FY16
Net operating business cash flow	30.5	26.1	*17%*	15.7
Receipts for residents' loans - new sales	187.3	181.6	*3%*	176.9
Net operating cash flow	**217.8**	**207.7**	***5%***	**192.6**
Purchase of land	(54.7)	(27.8)	*96%*	(18.5)
Construction of new IP & care centres	(213.7)	(213.1)	*0%*	(168.1)
Refurb of existing IP & care centres	(6.4)	(4.7)	*37%*	(3.3)
Other investing cash flows	(6.2)	(6.1)	*1%*	(5.0)
Capitalised interest paid	(9.3)	(5.8)	*61%*	(5.0)
Net investing cash flow	**(290.4)**	**(257.5)**	***13%***	**(199.9)**
Net proceeds from borrowings	103.7	73.9	*40%*	25.8
Net dividends paid	(17.8)	(12.3)	*45%*	(8.9)
Other financing cash flows	(13.4)	(12.9)	*4%*	(7.6)
Net financing cash flow	**72.5**	**48.7**	***49%***	**9.2**

FY18 balance sheet

Total assets of $2.8b, up 24% from $2.2b in FY17

- Total assets of $2.8b, up 24% on FY17
- Retained earnings have increased from $509.1m as at 31 December 2017 to $694.5m as at 31 December 2018. This continues to positively impact balance sheet strength and company gearing ratios
- Investment property valuation of $2.6b, up 25% on FY17
- Other assets include land and buildings (primarily care centres). Care centres were valued as at 31 December 2017 (three yearly cycle), with the new Hobsonville care centre recorded at cost and tested for impairment in FY18
- Intangibles of $6.6m at FY18. Principally made up of the VCare customer management system, new payroll system, and asset management system
- Embedded value of $609.1m, $163k per retirement unit, as at 31 December 2018:
  - $392.5m resale gains
  - $216.6m deferred management fees

NZ$m	FY18	FY17 *	*Variance*	FY16
Investment property	2,585	2,070	*25%*	1,591
Other assets	181.3	163.2	*11%*	115.4
Total assets	**2,766**	**2,233**	***24%***	**1,707**
Residents' loans	1,137	966.6	*18%*	801.3
Face value of bank loans & bonds**	451.5	347.8	*30%*	274.0
Other liabilities	199.3	132.6	*50%*	85.9
Total liabilities	**1,788**	**1,447**	***24%***	**1,161**
Net assets* **	**978.8**	**785.8**	***25%***	**545.6**
Embedded value	**609.1**	**497.1**	***23%***	**322.6**
NTA (cents per share)	**438.4**	**355.1**	***23%***	**249.9**

** Investment property has been restated for 2017. Refer to note 1 comparative information in the financial statements for further details.*

*** Face value of drawn bank debt and retail bonds. Excludes capitalised and amortised bond issue costs, and fair value movement on hedged borrowings.*

**** Net assets includes share capital, reserves, and retained earnings.*

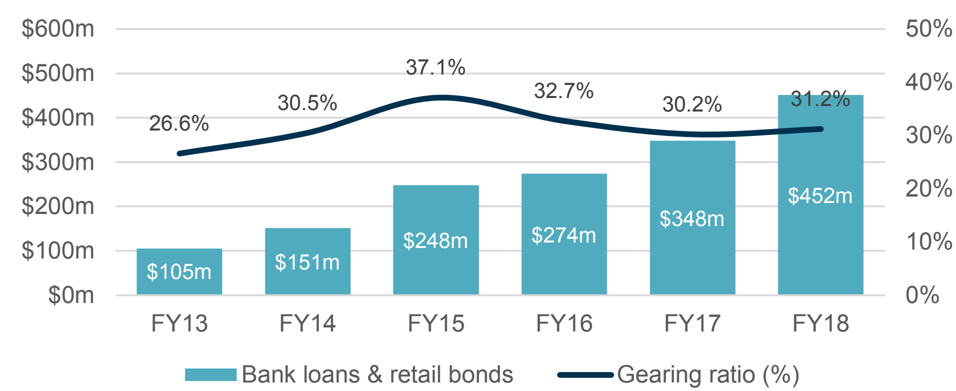
Gearing ratio

Gross debt of $451.5m* and gearing ratio of 31.2%

- Gross debt of $451.5m as at 31 December 2018, up $103.7m from 31 December 2017
- Uplift in gross debt includes construction spend for Ellerslie apartment block, Hobsonville final apartment block, Warkworth villas, first stages of Casebrook and Rototuna and final stages of Trentham, Karaka, Katikati and Wigram
- Land purchases in FY18 include Te Awa (Napier), Pohutukawa Place (New Plymouth), Papamoa (Tauranga), Milldale (Auckland) and Waikanae (Kapiti Coast)
- Bank facility of $500.0m with undrawn capacity of $273.5m at 31 December 2018
- Retail bonds of $125.0m successfully raised in FY18, bringing total bonds to $225.0m

NZ$m	FY18	FY17*	*Change*	FY16
Face value of bank loans & retail bonds **	451.5	347.8	*30%*	274.0
Cash and cash equivalents	(7.5)	(7.6)	*-1%*	(8.7)
Net debt	**444.0**	**340.3**	***30%***	**265.3**
Net assets	**978.8**	**785.8**	***25%***	**545.6**
Gearing ratio (%)* **	**31.2%**	**30.2%**	***3%***	**32.7%**
Bank & bond LVR (%) * **	**32.3%**	**31.4%**	***3%***	**34.0%**

Gross borrowings and gearing ratio



** Net assets (through investment property) have been restated for 2017. Refer to note 1 comparative information in the financial statements for further details.*

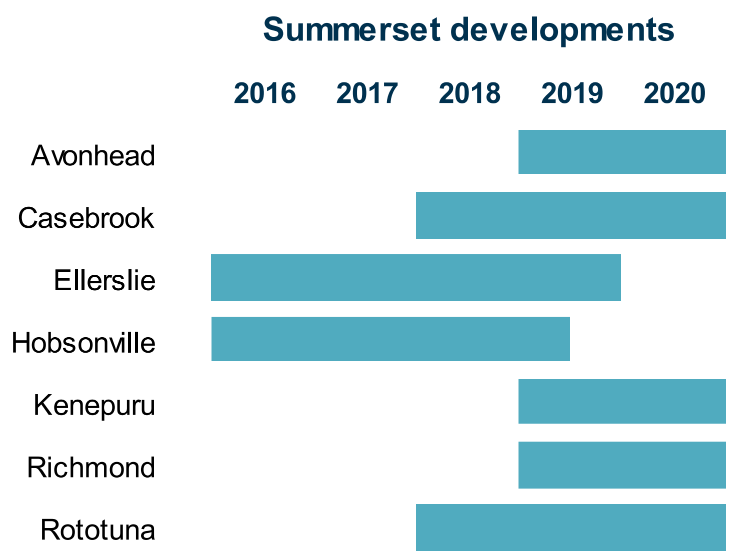
*** Face value of drawn bank debt and retail bonds. Excludes capitalised and amortised bond issue costs, and fair value movement on hedged borrowings*

**** Gearing ratio calculation (net debt / net debt plus book equity) differs from the Summerset Group's bank and bond LVR covenant (Total Debt of the Summerset Group / Property Value of the Summerset Group)*

Project cash profits

Delivering significant positive cash flow across new villages

- High density metropolitan sites require significant investment, but yield significant returns upon sell down of the village
- Positive net cash flows from village development allows us to recycle capital for new projects or repay debt
- An increased land bank allows us to build on multiple sites, spreading and diversifying sales across many regions
- On average it takes between four and six years from the time village construction starts to the last retirement unit being delivered



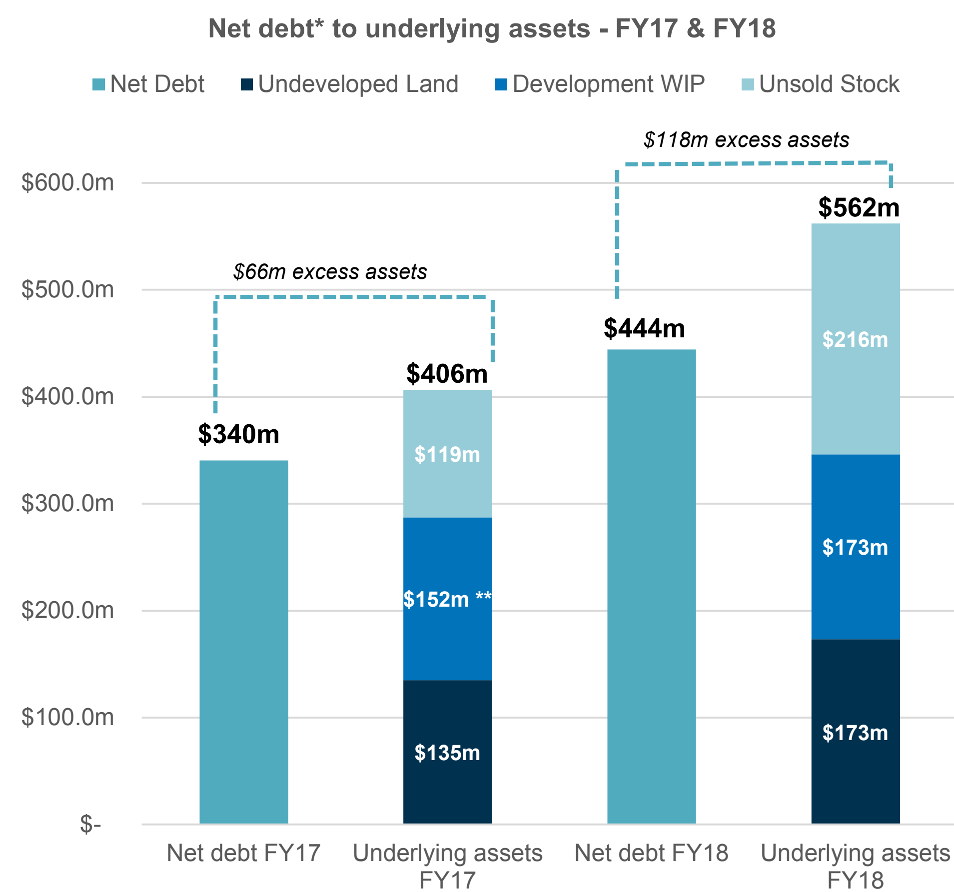
Village	Forecast Capital Investment ($m)	Forecast Net Cash Position* ($m)
Ellerslie	$200m +	$40m +
Casebrook Hobsonville Kenepuru Richmond Rototuna	$100m +	$15m +
Avonhead	$100m +	$5m - $15m

**Forecast net position represents cash profits post land cost, retirement unit development costs, recreation and administration facility costs, care facility costs, management fees and interest costs*

Composition of drawn debt

Strong asset backing to net debt

- Development projects are debt funded. Development assets exceed the value of net debt by $118m and 27%. This has lifted from $66.0m and 19% from December 2017
- All debt is associated with development activities
- Development assets could be realised to reduce debt
- Total underlying assets of $562m are made up of:
  - Undeveloped land of $173m
  - Development WIP of $173m
  - Vacant new sale stock of $216m



* Face value of drawn bank debt and retail bonds

** Development WIP has been restated for 2017. Refer to note 1 comparative information in the financial statements for further details

Final dividend

FY18 final dividend

Summerset board declares FY18 final dividend

- The Summerset Board has declared a final dividend of 7.2 cents per share, unimputed
- This bring total dividends for the 2018 year (interim and final) to 13.2 cents per share, being approximately $29.7m, and representing 30% of underlying profit. This total dividend payment is an increase of 21% on FY17
- The dividend reinvestment plan (DRP) will apply to this dividend enabling shareholders to take shares in lieu of the cash dividend
- A discount of 2% will be applied when determining the price per share of shares issued under the DRP
- Eligible investors wishing to take up the DRP must register by 5pm NZT on Monday 11th March 2019. Any applications received on or after this time will be applied to subsequent dividends
- The final dividend will be paid on Thursday 21st March 2019. The record date for final determination of entitlements to the final dividend is Friday 8th March 2019
- The dividend policy remains 30% to 50% of underlying profit for the full year period. As previously indicated, dividend payments are likely to continue to be at the bottom end of this range given the growth opportunities present for the business at this time

Questions?

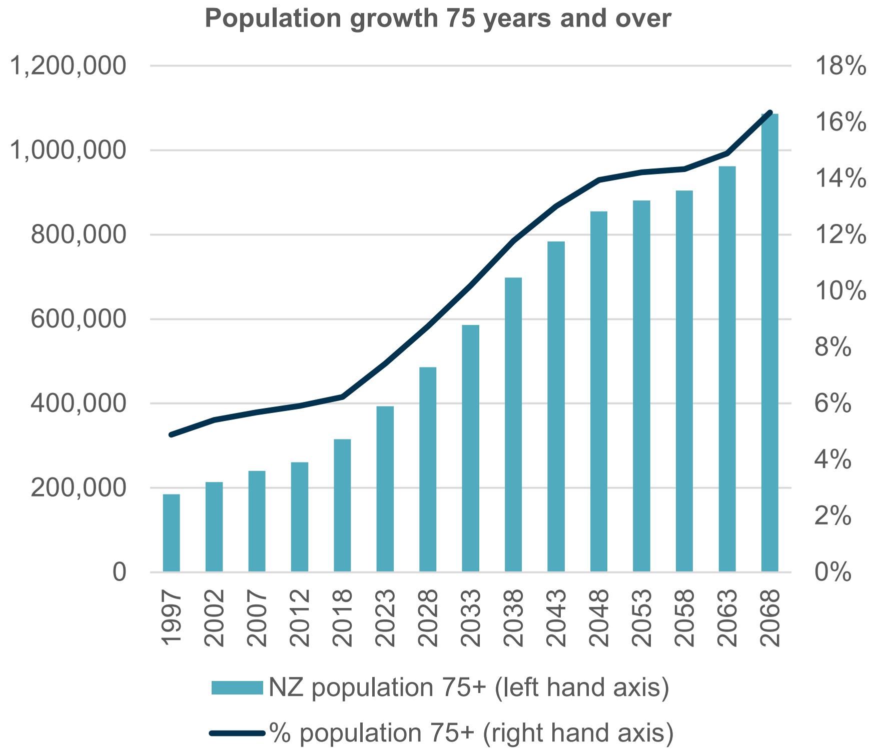
Disclaimer

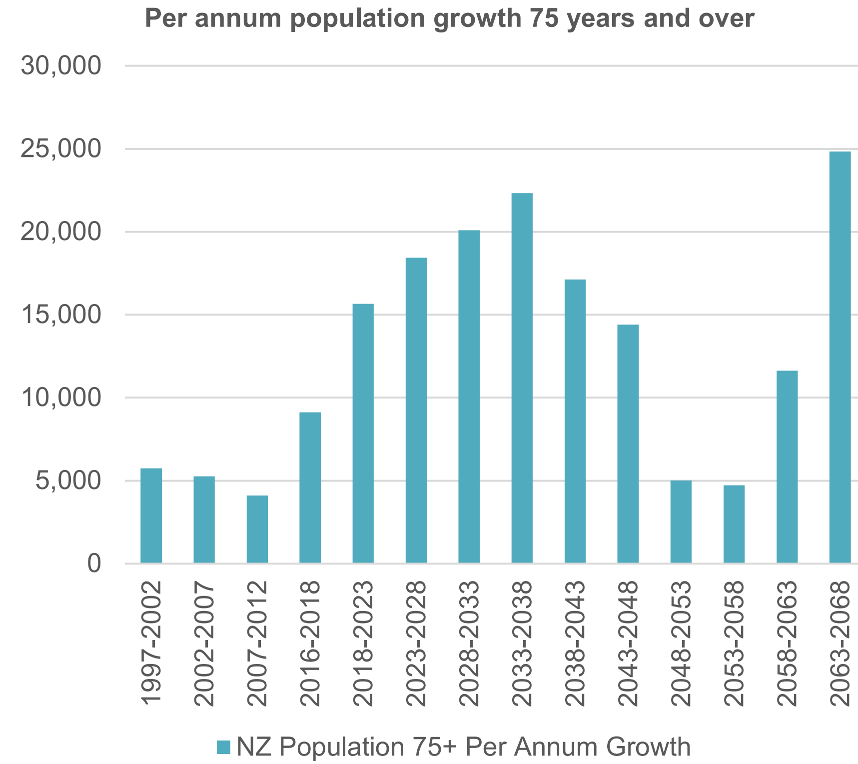
- This presentation may contain projections or forward looking statements regarding a variety of items. Such forward looking statements are based upon current expectations and involve risks and uncertainties
- Actual results may differ materially from those stated in any forward looking statement based on a number of important factors and risks
- Although management may indicate and believe the assumptions underlying the forward looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward looking statements will be realised
- Furthermore, while all reasonable care has been taken in compiling this presentation, Summerset accepts no responsibility for any errors or omissions
- This presentation does not constitute investment advice

Appendix

Demographics

Population over 75 years forecast to grow 245% from 2018 to 2068

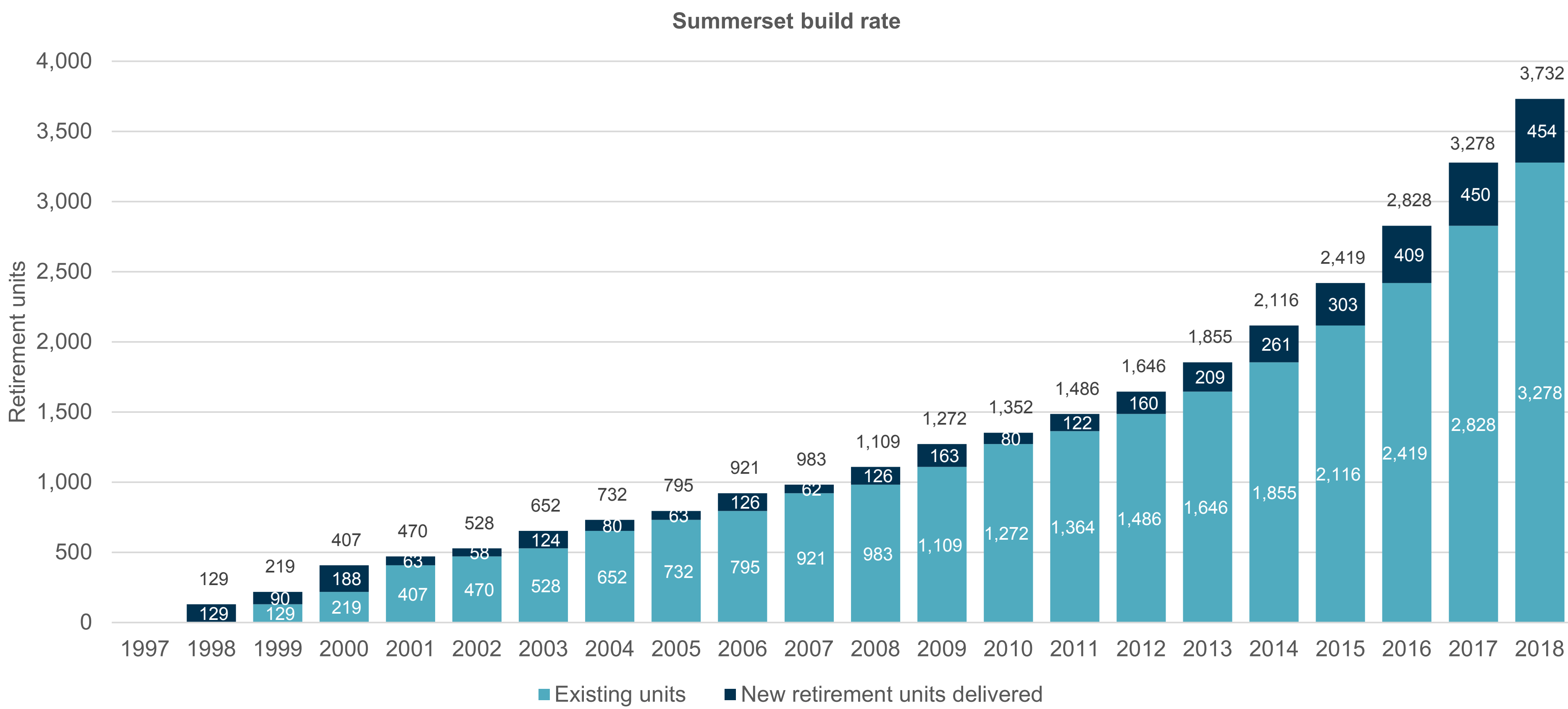




Source: Statistics New Zealand – National Population Projections

Summerset growth

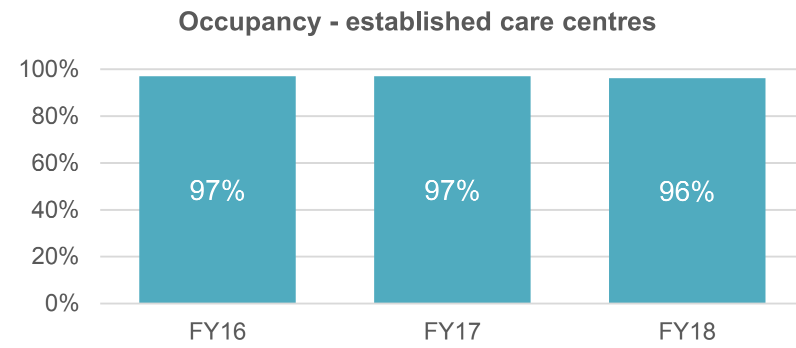
21 years of consistent delivery and growth

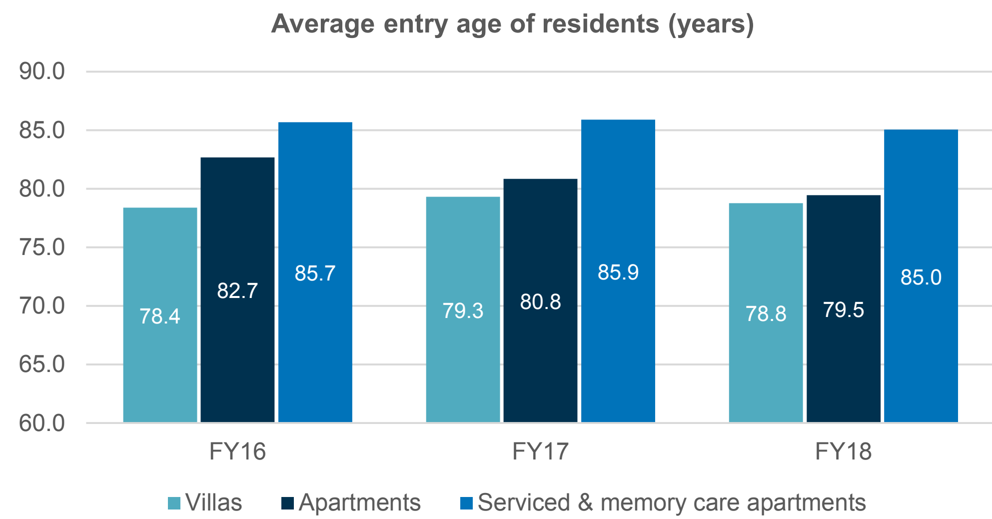


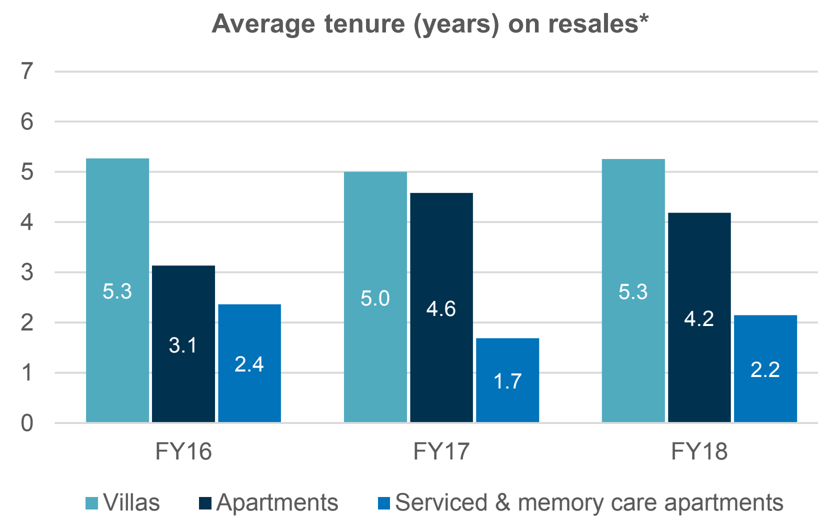
Customer profile & occupancy

Occupancy, tenure and resident demographic statistics

- Occupancy within our established care centres is stable, with an average occupancy of 96% for FY18
- Average tenure on FY18 resale retirement units was 5.3 years for villas, 4.2 years for independent apartments, and 2.2 years for serviced and memory care apartments. This is aligned with previous years resale tenure results
- Average entry age on FY18 new and resale retirement units was 79, 80 and 85 years for villas, independent apartments and serviced and memory care apartments, respectively







** Average tenure has been calculated using the previous resident's occupancy on resales within the reporting period*

Portfolio as at 31 December 2018

3,732 retirement units and 858 care beds

Existing portfolio - as at 31 December 2018

Village	Villas	Apartments	Serviced & memory care apartments	Total retirement units	Total care beds
Ellerslie	34	77	57	168	58
Hobsonville	117	65	48	230	52
Karaka	182	-	59	241	50
Manukau	89	67	27	183	54
Warkworth	179	2	44	225	41
Auckland	**601**	**211**	**235**	**1,047**	**255**
Hamilton	183	-	50	233	49
Rototuna	56	-	-	56	-
Taupo	94	34	18	146	-
Waikato	**333**	**34**	**68**	**435**	**49**
Katikati	156	-	20	176	49
Bay of Plenty	**156**	**-**	**20**	**176**	**49**
Hastings	146	5	-	151	-
Havelock North	94	28	-	122	45
Napier	94	26	20	140	48
Hawke's Bay	**334**	**59**	**20**	**413**	**93**
New Plymouth	108	-	40	148	52
Taranaki	**108**	**-**	**40**	**148**	**52**
Levin	64	22	10	96	41
Palmerston North	90	12	-	102	44
Wanganui	70	18	12	100	37
Manawatu-Wanganui	**224**	**52**	**22**	**298**	**122**
Aotea	96	33	38	167	-
Paraparaumu	92	22	-	114	44
Trentham	231	12	40	283	44
Wellington	**419**	**67**	**78**	**564**	**88**
Nelson	214	-	55	269	59
Nelson-Tasman	**214**	**-**	**55**	**269**	**59**
Casebrook	69	-	-	69	-
Wigram	159	-	53	212	49
Christchurch	**228**	**-**	**53**	**281**	**49**
Dunedin	61	20	20	101	42
Otago	**61**	**20**	**20**	**101**	**42**
Total	**2,678**	**443**	**611**	**3,732**	**858**

Summerset

Land bank as at 31 December 2018

Land bank of 3,910 retirement units and 540 care beds

Land bank - as at 31 December 2018

Village	Villas	Apartments	Serviced & memory care apartments	Total retirement units	Total care beds
Ellerslie	8	142	-	150	-
Hobsonville	8	8	4	20	-
Milldale	99	117	76	292	43
Parnell	-	264	76	340	48
St Johns	-	236	76	312	32
Warkworth	23	-	-	23	-
Auckland	**138**	**767**	**232**	**1,137**	**123**
Papamoa	211	-	76	287	43
Bay of Plenty	**211**	**-**	**76**	**287**	**43**
Rototuna	132	-	76	208	43
Waikato	**132**	**-**	**76**	**208**	**43**
Pohutukawa Place	222	-	76	298	43
Taranaki	**222**	**-**	**76**	**298**	**43**
Te Awa	241	-	76	317	43
Hawke's Bay	**241**	**-**	**76**	**317**	**43**
Kenepuru	102	93	106	301	43
Lower Hutt	42	109	66	217	30
Waikanae	214	-	76	290	43
Wellington	**144**	**202**	**172**	**808**	**116**
Richmond	234	-	76	310	43
Nelson	**234**	**-**	**76**	**310**	**43**
Avonhead	156	12	98	266	43
Casebrook	191	12	76	279	43
Christchurch	**347**	**24**	**174**	**545**	**86**
Total	**1,669**	**993**	**958**	**3,910**	**540**

** Land bank reflects current intentions as at December 2018.*

FY18 underlying profit reconciliation

Reconciliation of underlying profit to reported net profit after tax

NZ$m	FY18	FY17	*Variance*	FY16
Reported net profit after tax	**214.5**	**239.9**	***-11%***	**145.5**
Less fair value movement of investment property	(209.9)	(234.5)	*-10%*	(143.5)
Add realised gain on resales	28.7	24.9	*15%*	15.4
Add realised development margin	63.7	51.0	*25%*	39.0
Add deferred tax expense	1.7	0.3	*476%*	0.2
Underlying profit	**98.6**	**81.7**	***21%***	**56.6**

Underlying profit is a non-GAAP measure and differs from NZ IFRS profit for the period. Underlying profit does not have a standardised meaning prescribed by GAAP and therefore may not be comparable to similar financial information presented by other entities. The Directors have provided an underlying profit measure in addition to IFRS profit to assist readers in determining the realised and unrealised components of fair value movement of investment property and tax expense in the Group's income statement. The measure is used internally in conjunction with other measures to monitor performance and make investment decisions and has been audited by Ernst & Young. Underlying profit is a measure which the Group uses consistently across reporting periods. Underlying profit is used to determine the dividend pay-out to shareholders.

Fair value movement

Fair value movement of investment property – key assumptions

Fair value movement of investment property		Value of investment property*	Fair value gain/(loss)	Key valuation assumptions					
Village	**Location**	**NZ$m**	**NZ$m**	**Discount rate**	**Growth rate Yr 1**	**Growth rate Yr 2**	**Growth rate Yr 3**	**Growth rate Yr 4**	**Growth rate Yr 5+**
Summerset by the Park	Manukau	142.2	3.0	13.50%	0.5%	1.5%	2.5%	3.0%	3.5%
Summerset by the Lake	Taupo	55.6	1.5	15.75%	0.0%	0.5%	1.5%	2.5%	3.5%
Summerset in the Bay	Napier	68.0	4.3	14.00%	0.0%	1.0%	2.0%	2.5%	3.5%
Summerset in the Orchard	Hastings	73.2	9.3	15.00%	0.0%	0.5%	1.0%	2.5%	3.5%
Summerset in the Vines	Havelock North	58.4	5.3	14.75%	0.0%	1.0%	2.0%	2.5%	3.5%
Summerset in the River City	Wanganui	28.3	2.2	16.00%	0.5%	1.0%	1.5%	2.0%	2.5%
Summerset on Summerhill	Palmerston North	45.1	3.2	14.75%	0.5%	1.0%	2.0%	2.5%	3.0%
Summerset by the Ranges	Levin	26.8	2.5	15.75%	0.5%	1.0%	1.5%	2.0%	3.0%
Summerset on the Coast	Paraparaumu	50.9	2.0	14.50%	0.5%	1.0%	2.0%	2.5%	3.5%
Summerset at Aotea	Aotea	94.2	7.1	14.25%	0.5%	1.0%	2.0%	2.5%	3.5%
Summerset in the Sun	Nelson	143.1	9.2	14.00%	0.0%	1.0%	1.0%	2.5%	3.5%
Summerset at Bishopscourt	Dunedin	46.7	3.0	14.75%	0.5%	1.0%	1.5%	2.5%	3.0%
Summerset down the Lane	Hamilton	127.5	8.5	14.00%	0.5%	1.0%	2.0%	2.5%	3.5%
Summerset Mountain View	New Plymouth	69.7	1.1	14.75%	0.0%	0.5%	1.5%	2.5%	3.0%
Summerset Falls	Warkworth	159.6	17.9	14.00%	0.5%	1.5%	2.0%	3.0%	3.5%
Summerset at Karaka	Karaka	180.0	25.1	14.25%	0.5%	1.0%	2.0%	2.5%	3.5%
Summerset at Wigram	Wigram	119.7	20.3	14.50%	0.0%	1.5%	2.0%	3.0%	3.5%
Summerset at the Course	Trentham	153.2	13.7	14.00%	0.5%	1.0%	2.0%	2.5%	3.5%
Total for completed villages		**1,642.4**	**139.2**						
Summerset at Monterey Park	Hobsonville	227.9	15.1	14.00%	1.0%	1.0%	2.0%	2.5%	3.5%
Summerset at Heritage Park	Ellerslie	164.4	15.0	15.00%	1.0%	1.0%	2.0%	2.5%	3.5%
Summerset Rototuna	Rototuna	44.7	13.4	16.50%	0.0%	1.0%	2.0%	2.5%	3.5%
Summerset by the Sea	Katikati	94.8	13.7	15.00%	0.0%	0.5%	1.5%	2.5%	3.5%
Summerset on Cavendish	Casebrook	53.1	13.7	16.50%	0.0%	1.0%	2.0%	3.0%	3.5%
Summerset Richmond	Richmond	9.8	1.8	n/a	n/a	n/a	n/a	n/a	n/a
Summerset Avonhead	Avonhead	12.3	(0.8)	n/a	n/a	n/a	n/a	n/a	n/a
Total for villages in development		**607.1**	**71.9**						
Total for proposed villages		**167.8**	**(1.1)**						
Total for all villages		**2,417.3**	**209.9**						

** Value of non-land capital work in progress not represented in the above table*

Summerset

8 year metrics summary

Underlying profit 7 year CAGR of 43%

	Full Year Results	7 Year CAGR*	FY18	FY17	FY16	FY15	FY14	FY13	FY12	FY11
Operational	New sales of occupation rights	18%	339	382	414	333	286	228	167	108
	Resales of occupation rights	14%	301	300	244	245	172	174	164	123
	Total sales	**16%**	**640**	**682**	**658**	**578**	**458**	**402**	**331**	**231**
	New retirement units delivered	21%	454	450	409	303	261	209	160	122
	Retirement units in portfolio	14%	3,732	3,278	2,828	2,419	2,116	1,855	1,646	1,486
	Care beds in portfolio	15%	858	806	748	616	485	442	327	327
Financial (NZ$m)	Total revenue ($m)	22%	137.0	110.5	86.1	68.8	54.3	45.2	38.1	33.7
	Net profit after tax ($m)	75%	214.5	239.9	145.5	84.2	54.2	34.2	14.8	4.3
	Underlying profit** ($m)	43%	98.6	81.7	56.6	37.8	24.4	22.2	15.2	8.1
	Net operating cash flow ($m)	26%	217.8	207.7	192.6	140.3	110.4	88.6	66.3	43.7
	Total assets ($m)	24%	2,766	2,233	1,707	1,364	1,043	844.9	702.3	616.9
	Total equity ($m)	23%	978.8	785.8	545.6	409.8	332.3	281.9	248.8	233.4
	Interest bearing loans and borrowings ($m)	31%	452.8	347.2	274.0	248.2	150.8	105.3	78.2	69.1
	Cash and cash equivalents ($m)	-3%	7.5	7.6	8.7	6.7	4.9	3.0	2.8	9.0
	Gearing ratio (Net D/ Net D+E)	6%	31.2%	30.2%	32.7%	37.1%	30.5%	26.6%	23.3%	20.5%
	EPS (cents) (IFRS profit)	70%	97.13	109.78	66.93	38.94	25.16	15.99	6.96	2.39
	NTA (cents)	22%	438.44	355.07	249.90	188.52	153.33	131.24	116.49	109.33
	Development margin (%)	27%	33.2%	27.3%	22.2%	20.0%	15.7%	13.2%	12.0%	6.2%

** Compound annual growth rate*

*** Underlying profit differs from NZ IFRS reported profit after tax. The measure has been audited by Ernst & Young. Refer to the appendix for a reconciliation between the two measures, and note 2 of the financial statements for detail on the components of underlying profit*

Summerset

Annual Report 2018

Cover: Trentham resident Gail with Duke the dog.

Inside cover: Three generations of the Holmes family, Summerset on the Course.

This document is printed on environmentally responsible paper produced using Elemental Chlorine Free (ECF) pulp sourced from sustainable and legally harvested farmed trees, and manufactured under the strict ISO14001 Environmental Management System.

Contents

Summerset Snapshot

Largest builder of retirement village units in FY18 in New Zealand[1]

Fastest growing retirement village operator in New Zealand

More than
5,000
residents

More than
1,400
staff members

3,732
Retirement units in portfolio

858
Care beds in portfolio

454
Retirement units built in FY18

52
New care beds delivered in FY18

[1] As per 2018 full-year financial results

Land bank of
3,910
retirement units

Land bank of
540
care beds

Largest land bank of retirement units and care beds in New Zealand[2]

25
Villages completed or under construction

9
Greenfield sites

5
Land purchases

97%
Care resident satisfaction[3]

95%
Village resident satisfaction[3]

[2] As per 2018 full-year financial results
[3] Independently reviewed by KPMG

Chair and CEO Report

Welcome to Summerset's annual report for the financial year ending 31 December 2018. We are pleased to report continued sound financial performance with an underlying profit of $98.6 million, an increase of 21% on 2017, and a net profit after tax of $214.5m. We now have more than 5,000 residents who call Summerset home and over 1,400 staff.

You will see some changes in our annual report this year. Readers of our reports over the last few years will have noted our continuing investment in improving our resident experience, the overall attractiveness of our staff offering, and our desire to play a greater part in our communities. In this year's report we have dedicated sections, so readers can see our progress in each of the business and financial, resident, staff and community realms. We have also amalgamated the Chair and CEO letters into a single letter focused on key themes and issues for the business.

Business and financial performance

Financial performance for the 2018 year has been strong with the 21% growth in underlying profit achieved in an environment where property price growth, in key markets such as Auckland, has moderated compared to prior years. This is a pleasing result and due in a large part to the consistent demand for what we offer. Our customers are, on average, aged around 80 on entry to a village and it is the desire for security, care and community that drives their decision to move into a retirement village.

We note that our net profit after tax of $214.5m was down 11% on the previous year. This was due to the moderating property market which impacted the fair value movement on investment property.

We sold 339 new occupation rights in 2018, down slightly on the previous year, and completed 301 resales. The slight dip in new sales was largely due


A villa from our Ellerslie village, Summerset at Heritage Park.

to timing, some of our larger builds were delivered late in the year. However, we are seeing continued good demand for our retirement units. Offsetting this lower number of new sales were strong development margins, with a 33.2% development margin on new sales for 2018 compared to 27.3% in 2017. In the longer term we expect development margins in the 20%-25% range.

Operating cash flow for 2018 totalled $217.8 million and total assets reached $2.8 billion.

The board has declared a final dividend of 7.2 cents per share. This is a total dividend payment for 2018 of 13.2 cents per share and represents 30% of underlying profit.

In 2018 we built 454 retirement units, in line with our earlier guidance. This result makes Summerset the largest builder of retirement units in New Zealand for 2018. While this is not one of our goals, the achievement clearly demonstrates Summerset's growth since its listing in 2011, when we built 122 retirement units.

We have previously signalled that we see our build rate increasing to an average of 600 retirement units a year. We are on track to achieve this within the next two to three years. We will continue to build only when customer demand and financial return levels are appropriate, but market demand, viable projects, and our ability to deliver make this increase a natural progression.

To support our building programme and meet our target build rates, we announced the acquisition of three sites during 2018. These were Te Awa, Napier and sites in New Plymouth and Papamoa. In February 2019 we announced the acquisition of two further sites; Waikanae (on the Kapiti Coast north of Wellington) and Milldale (near Orewa, north of Auckland).

These sites are described in more detail further in this report. Overall they represent a mix of urban and attractive regional areas with good underlying customer demand. These recent acquisitions bring our total number of greenfield sites to 9, on top of our 25 villages completed or under construction.

White Tie Catering at our Divine Café, Summerset at Heritage Park.

As Summerset continues to grow, so will our land banking programme. We are currently seeing a range of attractive sites around New Zealand. We have held back from acquiring smaller urban sites that would require high rise buildings over the last few years, due to having a good selection of these projects in Auckland already (for example Hobsonville, Ellerslie, St Johns, Parnell). The pressurised construction market, high vendor expectations for land prices, and flattening residential property prices are other factors.

We continue to see good underlying customer demand in these areas and expect this to only pick up over time.

Villages in these urban locations are attractive and, at the right time, we will return to purchasing such sites. Having a diverse portfolio in terms of geography and construction types (ie single-level units and high-rise urban) has been a strength of the business. This has meant having the flexibility to focus our landbanking and growth in the market providing the best risk-adjusted returns.

Pleasingly we received a number of resource consent approvals in 2018 with Te Awa (Napier), Richmond (Nelson), Kenepuru (Wellington) and Avonhead (Christchurch) all getting the official go-ahead. Earthworks and civil works have started on each of these three sites and we have seen good early customer interest. Our consent application for the St Johns village in Auckland was declined. We have appealed this decision and are engaging with parties in mediation, and we remain confident of a positive resolution. The land-use resource consent for our Boulcott village in Lower Hutt has been referred to the Environment Court on our request and this case will be heard in 2019.

Our flagship Parnell project is progressing well. We have appointed renowned architects Warren and Mahoney to the project and will have concepts of the village ready for resource consent lodgement later this year, or early 2020. Our Parnell village will provide all the benefits of retirement village living while taking advantage of the city fringe location and, its proximity to Parnell village, the Auckland Domain, and the adjacent train station.

We are still seeing capacity constraints for construction in many areas of New Zealand with Auckland being the worst affected. We do not expect the pressure in the construction market to reduce in 2019. There were a number of construction-related company failures in 2018 and while we have had very limited exposure to any of these, we believe 2019 may bring more issues and Summerset will continue to be vigilant in this area. We maintain strong relationships with our contractors at all times.

Last year we completed our second bond issue with a seven-year senior bond. The issue attracted strong demand which saw us take $50m in oversubscriptions and a final issue size of $125m and coupon of 4.20%. Our two bonds provide us an attractive form of funding, with long tenors, competitive pricing, and attractive terms. They also diversify the range of funding sources.

The gearing under our banking and bond covenants remains conservative at 32.3%. This is considerably below the maximum level of gearing allowable under our debt agreements of 50%. Unlike many businesses, our debt position is not "core" debt but effectively working capital as it funds only development assets for the business such as land, work in progress, and completed retirement units. As such we are able to reduce our debt levels quickly by altering the pace of our development business. Given the increased degree of uncertainty in property and global markets generally, we plan to maintain a relatively conservative approach to gearing. This is designed to protect us against any unforeseen shocks as well as provide the ability to pursue attractive opportunities should they emerge. We believe we are able to achieve our guidance of building around 600 retirement units per annum whilst maintaining this conservative approach to gearing.

Operations and care

Our operations and care business has continued to perform well with care centre occupancy at 96.3% for 2018.

We finished the rollout of two large IT projects in 2018. VCare, our new resident management system, has been introduced across all our villages and corporate offices. It replaced our previous internally developed system. This has been an important project with a large dedicated project team and significant investment. Using VCare means our nurses and caregivers have up-to-date health information at their fingertips, and can record patient notes quickly and easily for care residents.

We also completed the implementation of a new Human Resources Information System (HRIS), transitioning payroll for all staff onto a modern system; thereby streamlining processes and improving usability.

A government review of care funding is underway currently, and results are expected for release in 2019. Our strategy in the care business is to focus on being a leading provider of quality care, and investing in facilities, equipment and people in order to do this. This position ensures we can charge additional service fees for the superior care and accommodation we provide. The strategy has worked well for us and we will continue to pursue it, given constraints on government funding.

From a sector perspective, hearings for the Australian Royal Commission into Aged Care and Quality and Safety started in January and, as with their inquiry into banking, we expect there will be a number of negative revelations. Everyone has a right to safe, respectful and quality aged care. We will be following the inquiry very closely and will continue to invest time into ensuring we stay ahead of expectations and are providing services we are proud of.

We will continue to do what we've done since we started 21 years ago – consistently lifting the quality of retirement and aged care for older people.

Residents

Bringing the best of life to our residents is our key focus and we measure our success through an annual resident satisfaction survey. 2018 results continued the trend of strong satisfaction levels with village resident satisfaction at 95% (97% in 2017) and care resident satisfaction at 97% (the same as in 2017). Over the last few years we have focused on lifting property standards, resolving issues faster, and having greater presence of head office staff with our residents.

Food and hospitality is an essential part of village life and we introduced new food providers across our villages in 2018, including in-house catering at our Levin and Paraparaumu villages. This has seen resident satisfaction levels rise and we will continue to work on lifting standards further in 2019 and beyond.

Summerset was a silver winner in the Reader's Digest annual 2019 Quality Service Awards.

We also opened our Casebrook village in Christchurch and Rototuna village in Hamilton in 2018 with our first residents now settled in, and main buildings, including our new memory care concept, planned for completion towards the end of this year.

The Summerset brand

In 2017 we rebranded Summerset, introducing a fresh, vibrant look and feel – with a new logo, website, redesigned marketing materials, and an upgraded social media presence on Facebook and LinkedIn. Our new staff uniforms are consistent with this branding. The last step of this rebrand was a new television advertisement which went to air in late 2018.

We have started tracking our brand penetration, that is, who knows about us and what they think about us. Our research shows that people who know us, like us a lot, but we have the opportunity to lift awareness in a number of areas around the country where we are less well known.

We published four editions of our new quarterly magazine, Summerset Scene, in 2018, celebrating the lives of our amazing residents.

The magazine brings the best of our residents' lives into print each quarter, reminding us all of the vibrant life lived in our villages.

Our People

Our people strategy is simple – to be the employer of choice in our sector. Skilled and experienced staff, who are engaged in their work, are absolutely critical to our ability to provide the best of life for our residents. We have invested heavily in improving what we do for staff and how we work together. We measure staff engagement through the Aon survey. In 2015, our first year using the Aon survey, we had a credible staff engagement score of 53%. This year our engagement score was 69%. We are proud of this result and it puts us in the top quartile of Australasian employers, as measured against the 700 Australian and New Zealand companies participating in the survey.

We continued to strengthen our employment offering throughout 2018 and benefits now include free health insurance, funeral cover, travel voucher prizes, discounts at a range of Summerset suppliers, a free staff share scheme, sick leave from the first day of employment, a day of leave on each staff member's birthday, contributions to staff charity fundraising efforts, and various types of special leave, including domestic abuse leave.

Last year we also introduced a brand new uniform for frontline staff from Wellington designer Lucilla Gray. Developed to better suit the work our staff undertake each day, it has been well received by our people. We now have a beautiful, professional, and tailor-made uniform with enough variation to suit most people's tastes. We were delighted to unveil our new look at the 2018 New Zealand Fashion Week with Auckland staff providing willing and able runway models.

Summerset's new uniforms designed by Lucilla Gray.

We signalled in our 2018 half year report a growing shortage of care workers, particularly nurses. The Government is currently considering placing nurses back onto the long-term skills shortage list, which would encourage additional nurses to come to this country. We believe this is a very important step given the demands for nurses from the growth in aged care as well as demand from District Health Boards (DHBs).

In response to the DHB wage settlement for nurses, we lifted wages significantly. It is essential we have a skilled and stable nurse workforce.

We have made good improvements in the staff arena in the last few years but have more to do. Our main focus in 2019 and beyond will be staff training and development programmes. We will be greatly assisted in this with the appointment of a new General Manager Human Resources, Dave Clegg. Dave was previously General Manager of People and Culture at leading steel solutions supplier, Steel & Tube Holdings Limited.

Keeping our people safe is an important aspect of our work. We have continued our good progress in health and safety with reductions in Reportable Injury Frequency Rates (RIFR) and Lost-Time Injury Frequency Rates (LTIFR) for the third year running. We introduced compulsory gloves and glasses on all Summerset construction sites this year, and completed a pilot of improved training on moving residents in our care centres. In 2017 we were accepted into the ACC Accredited Employers Programme. In 2018 we advanced to secondary status in this programme. This allows us to manage our own workplace injury claims and we are now working with specialist WorkAon to manage assistance for our staff injured at work.

Summerset's health and safety plans also incorporate our residents, contractors and visitors. Everyone who lives at or visits a Summerset village can be confident the village meets every health and safety standard.

Summerset's place in the community

Our villages and residents are part of a wider community and we believe in playing a positive role in these communities. Last year we signalled our intention to lift our social and environmental presence. To this end we have announced a number of key partnerships and completed initiatives in 2018, including:

- Taking our first steps toward reducing greenhouse gas emissions through the Certified Emissions Measurement and Reduction Scheme (CEMARS)
- Partnering with Dementia New Zealand, to provide more education on this growing disease while reducing the stigma of having it
- Partnered with Dementia New Zealand and The New Zealand Dementia Coopoertative to commission Nielsen to research dementia perceptions, awareness and understanding in New Zealand
- Sponsoring Bowls New Zealand and New Zealand Indoor Bowls, helping players come together to enjoy these popular sports
- A host of community relationships, including Wellington Free Ambulance, the Orokonui Ecosanctuary in Dunedin, sports tournaments and health conferences around the country, as well as the many local fundraising events involving our residents and staff

Expansion across the Tasman

Taking the Summerset business into Australia has been an active consideration for us over the last year and we are now in the process of identifying potential sites for acquisition. We completed a restructure of our banking facilities in 2018, introducing the Commonwealth Bank of Australia to the banking syndicate (also comprising ANZ and BNZ), and subsequently have the ability to borrow funds in Australian dollars to fund our expansion.

Property prices in the Melbourne residential market are softening and have fallen 8%-9% over the 2018 calendar year. A number of factors appear to be at play, including reduced foreign buyer demand, tightening credit conditions, and fewer investors buying property. However, underlying demand for retirement village and aged care is not property market-related and continues to grow. Nevertheless we are proceeding cautiously given the property market changes and will apply appropriate safety buffers when considering the financial returns of any sites purchased. We believe we are well protected as any land purchase now would see units being sold some two to three years from now, by which time the residential property market should have stabilised. We also note we expect some good land-buying opportunities to emerge in the current market.

Looking ahead

Our business is very well positioned for the coming years. Although we may be entering a period of greater uncertainty, we believe our steady investment in the business will provide stability. These include continual improvements in people capability, our employment offer, systems and processes, enhanced village designs, and a stronger brand and service offering.

We have leading resident satisfaction results, top-quartile staff engagement, solid earnings and cashflow growth, and a strong balance sheet. We are in a very strong position to not only continue our growth but to meet the increasing demand for the quality lifestyle we offer.

We would like to thank our residents for choosing to live at Summerset, our staff for their hard work bringing the best of life to our residents, to our wider stakeholders for their involvement in the business and to you, our shareholders, for your ongoing support.

Rob Campbell
Chair

Julian Cook
Chief Executive Officer

Our residents enjoy performing to each other accross our villages.

From humble beginnings

John wanted to build a retirement village that would be good enough for his Nana.

In the mid 1990s, Summerset's founder John O'Sullivan visited his Nana, who had moved into a geriatric ward in Waikanae.

"She was in what was basically a dormitory with only a plastic curtain between beds," John remembers. "What room she had was so pokey you could stretch out your arms and touch all four walls. And all the facilities were shared – nothing was hers, nothing was private. When I investigated the market I found all aged care was like that."

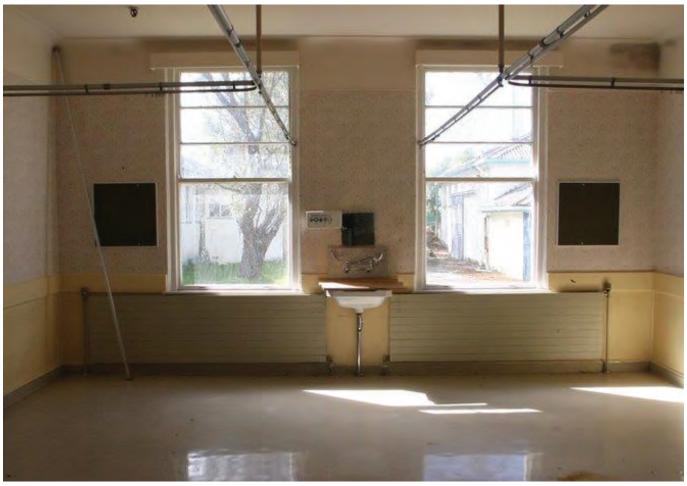
That was the trigger for John to build an aged care facility that he deemed good enough for his Nana.

Twenty-one years later, Summerset is a listed company with 25 villages, 9 sites for development, more than 5,000 residents, more than 1,400 employees and many thousands of shareholders.

Residents can move in with the peace of mind that Summerset will provide them with the continuum of care they need. While we've grown a lot bigger, and are looking to double in size over the next five years, we still put everything to the ultimate test – is it good enough for Nana?

Mary Finnerty, John's Nana, who was the catalyst for Summerset.

John wanted to build a retirement village that would be good enough for his Nana.



Room designed for four people at Jubilee Hospital in Wanganui. Similar to the room John's grandmother was in.

Prime Minister Jenny Shipley opening the Paraparaumu village in 2000 with John and Rose O'Sullivan.

Five Year Historical Summary

Key operational and financial statistics for the five year period up to and including FY18 are as follows:

Operational

	UNIT	FY18	FY17	FY16	FY15	FY14
New sales of occupation rights	No.	339	382	414	333	286
Resales of occupation rights	No.	301	300	244	245	172
Total sales of occupation rights	No.	640	682	658	578	458
Development margin	%	33.2%	27.3%	22.2%	20.0%	15.7%
New retirement units delivered	No.	454	450	409	303	261
Retirement units in portfolio	No.	3,732	3,278	2,828	2,419	2,116
Care beds in portfolio	No.	858	806	748	616	485

Financial

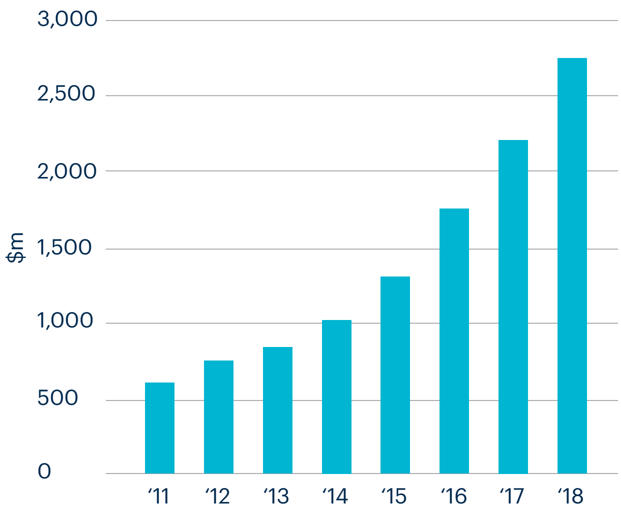
	UNIT	FY18	FY17[1]	FY16	FY15	FY14
Net operating cash flow	$m	217.8	207.7	192.6	140.3	110.4
Total assets	$m	2,766.4	2,232.8	1,706.8	1,363.5	1,043.2
Net assets	$m	978.8	785.8	545.6	409.8	332.3
Underlying profit	$m	98.6	81.7	56.6	37.8	24.4
Profit before income tax (IFRS)	$m	216.2	240.2	145.6	82.8	54.0
Profit for the period (IFRS)	$m	214.5	239.9	145.5	84.2	54.2
Dividend per share	Cents	13.20	11.00	7.70	5.25	3.50
Basic earnings per share	Cents	97.13	109.78	66.93	38.94	25.16

[1] Fair value movement of investment property and the investment property balance have been restated for 2017. Refer to note 1 of the financial statements comparative information for further details.

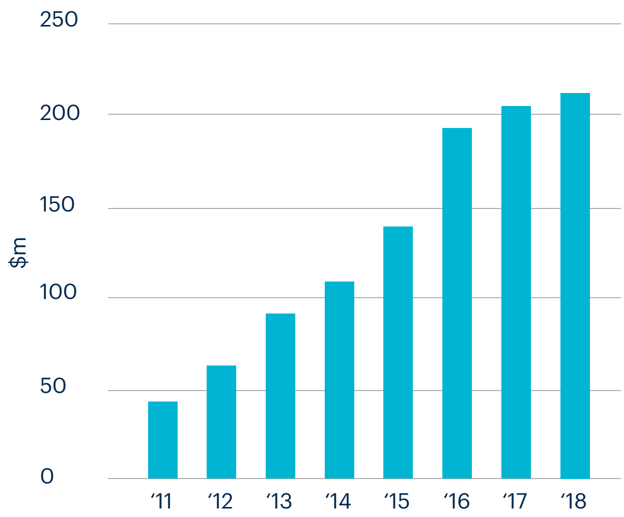
Strong Financial Performance

Financial performance since listing on the NZX in 2011

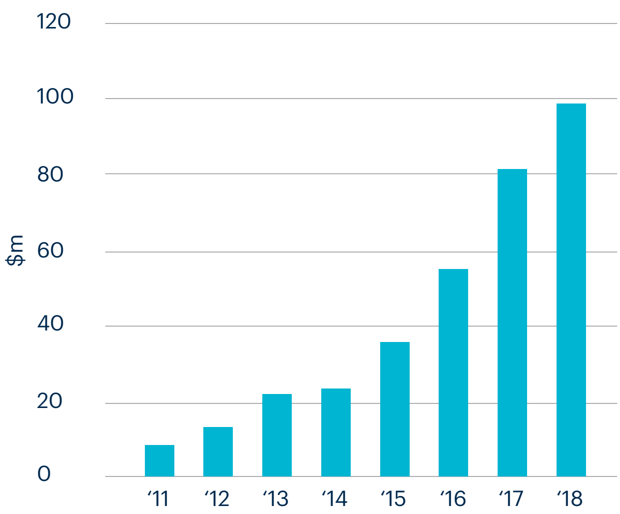
Total assets



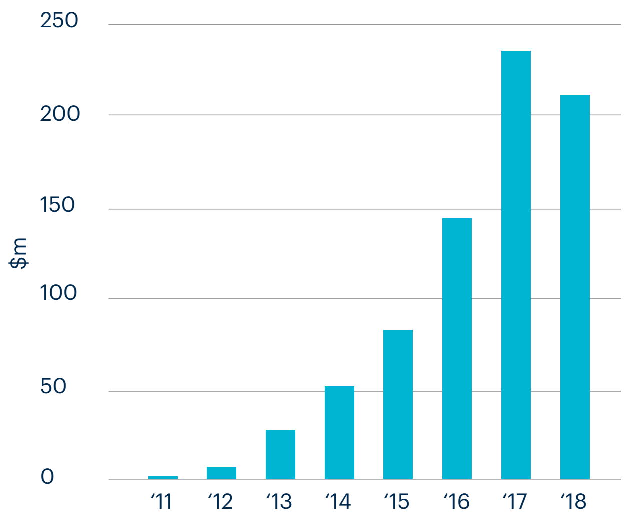
Net operating cash flow



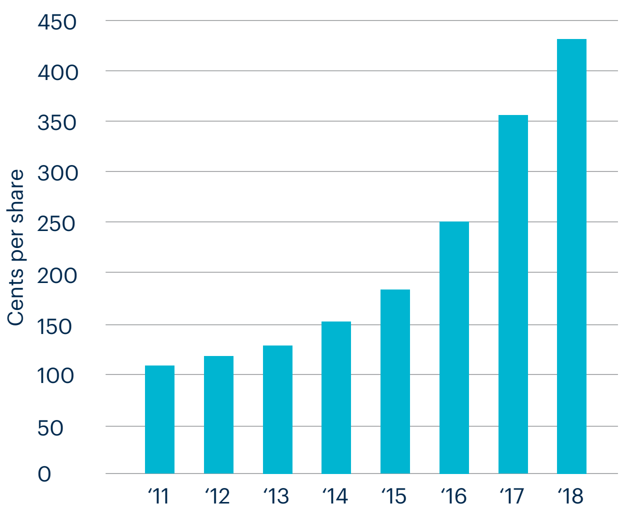
Underlying profit



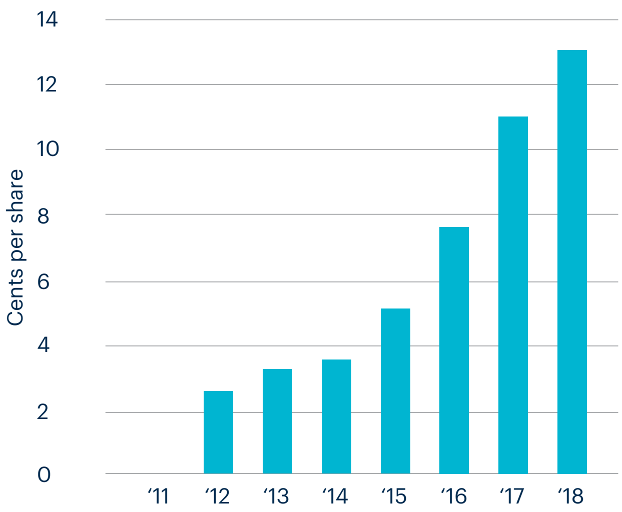
Net profit after tax



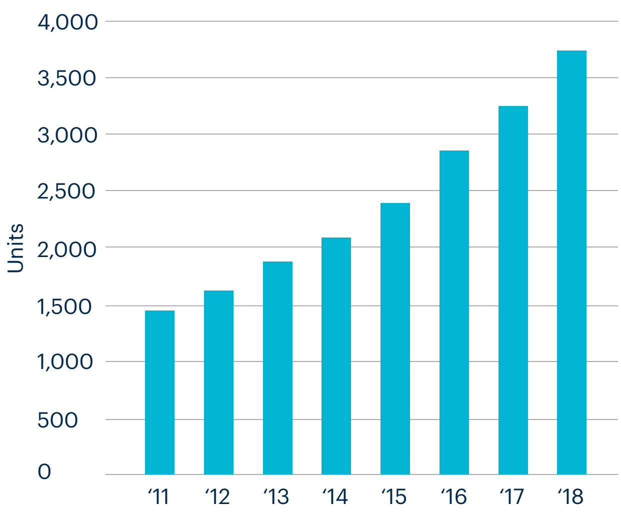
Net tangible assets per share



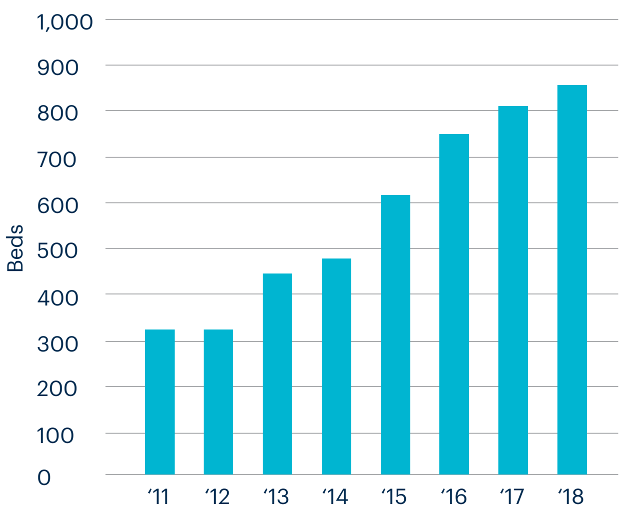
Dividends per share



Retirement units in portfolio



Care beds in portfolio



Year in Review

February

First residents moved into Summerset on Cavendish, Casebrook

March

Summerset announced partnership with Bowls New Zealand

April

Purchased land in Te Awa, Napier

August

Purchased land for second New Plymouth village

Partnership with Dementia New Zealand launched

September

Showcased new staff uniform at New Zealand Fashion Week

$125m retail bond issued with $50m oversubscription, Summerset's second bond issue

May

Additional staff benefits are announced

Implementation of new payroll system for Head Office staff

June

Applications opened for staff to share in Summerset's success with the all staff free share scheme

July

First residents welcomed to Summerset Rototuna, Hamilton

October

Purchased land in Papamoa, Tauranga

New payroll system implemented for Village and Care staff

November

Completed implementation of VCare system for resident data

Construction completed on Karaka, Katikati and Wigram villages

December

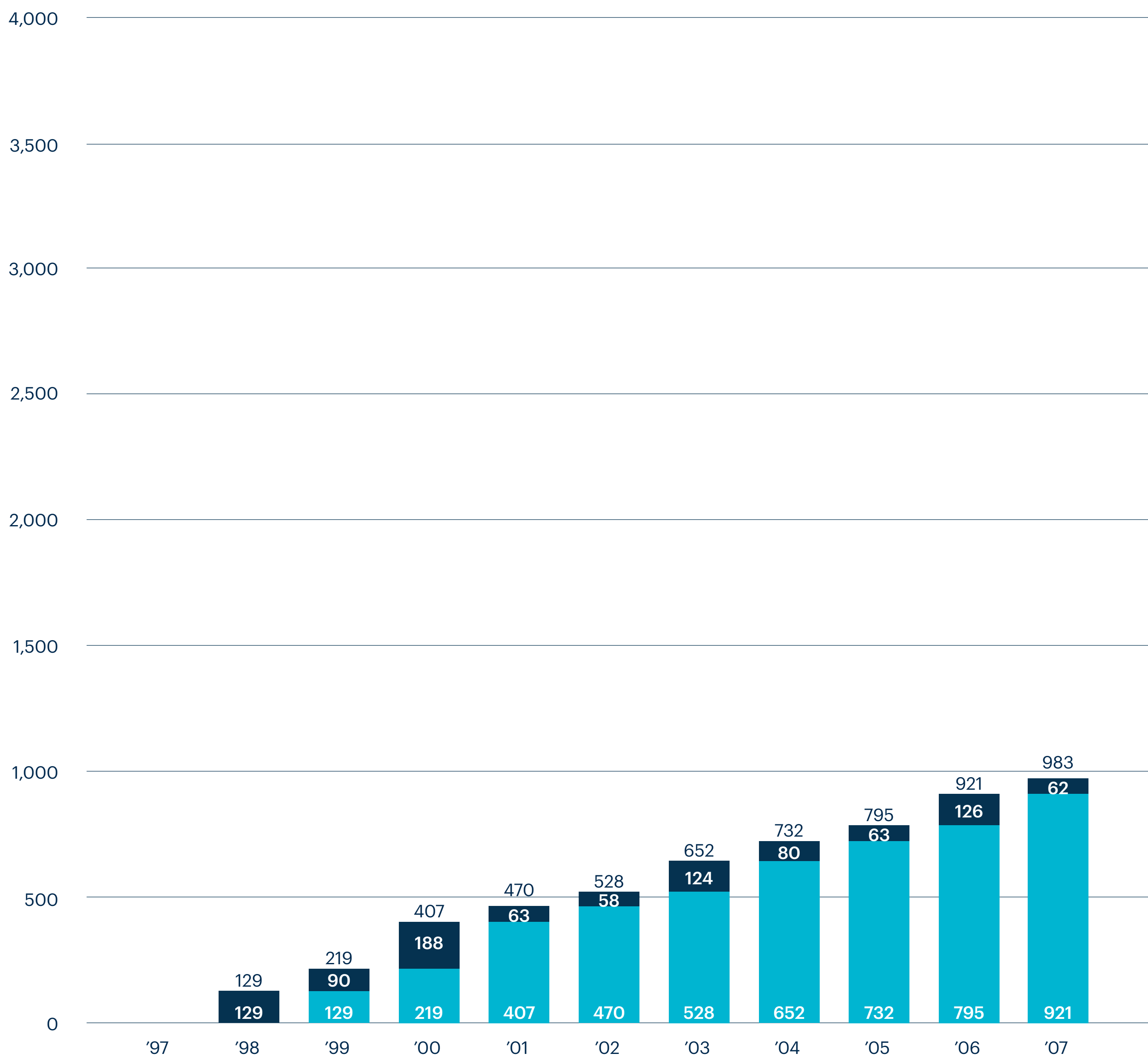
First retirement village operator in New Zealand to obtain CEMARS certification

Purchased land at Waikanae in Kapiti and Milldale in Auckland

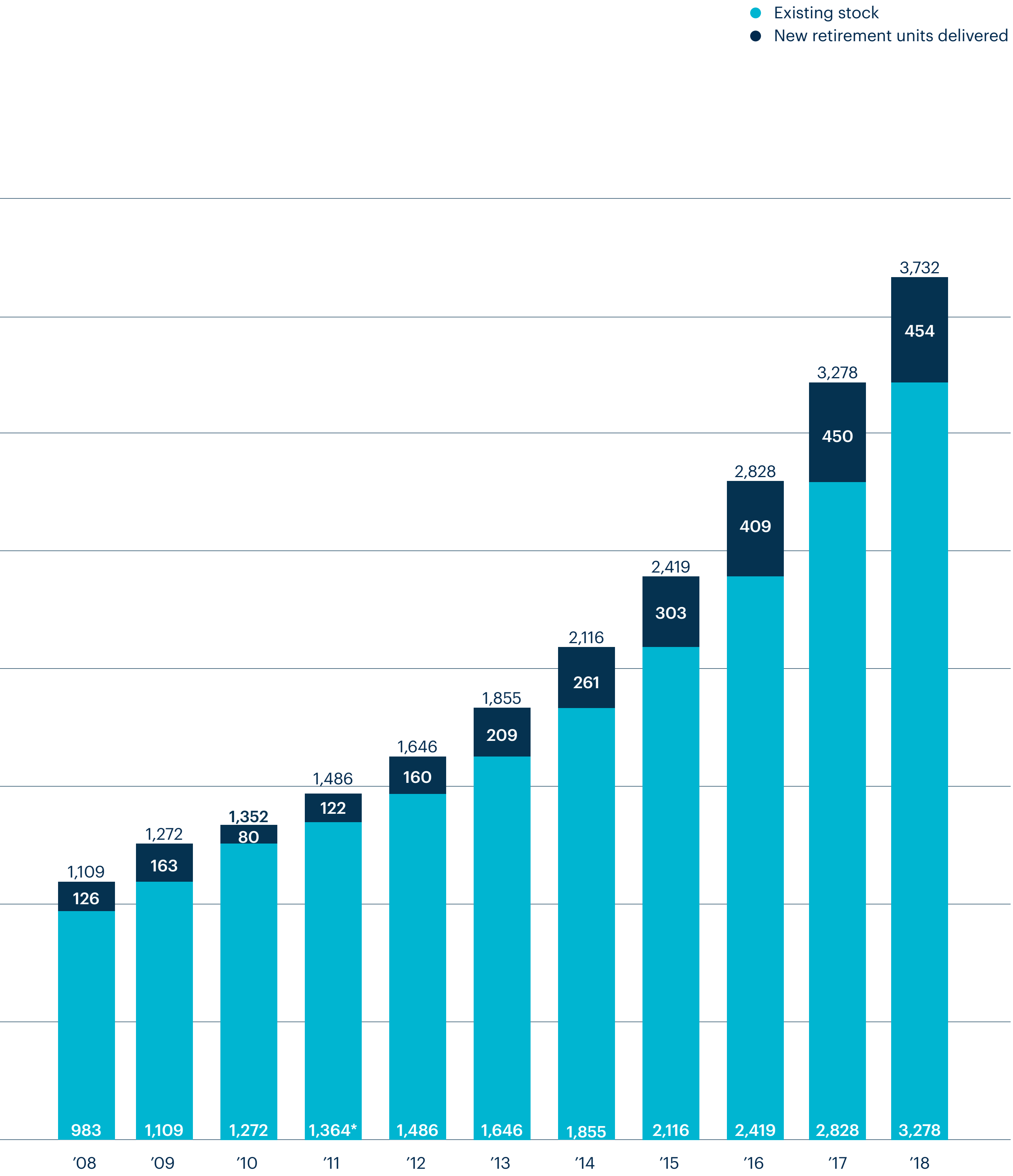
Construction completed on Trentham village

Portfolio Growth

21 years of consistent delivery and growth

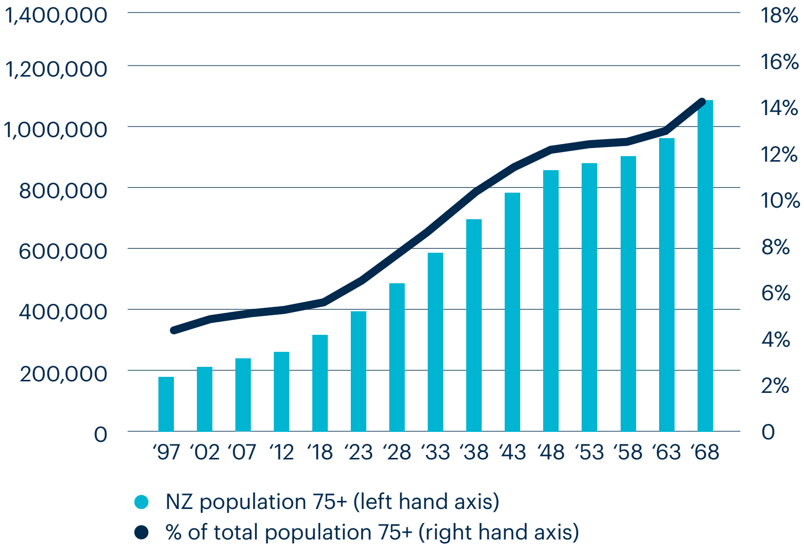


* 2011 existing stock including 12 units acquired as part of the Nelson site acquisition

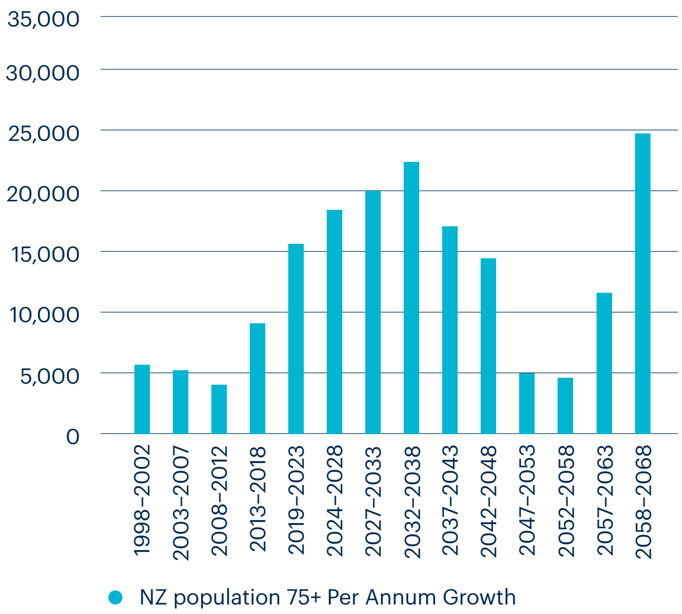

Existing stock
New retirement units delivered
1,109
126
983
'08
1,272
163
1,109
'09
1,352
80
1,272
'10
1,486
122
1,364*
'11
1,646
160
1,486
'12
1,855
209
1,646
'13
2,116
261
1,855
'14
2,419
303
2,116
'15
2,828
409
2,419
'16
3,278
450
2,828
'17
3,732
454
3,278
'18

Strong Wave of Growth

New Zealand population aged 75+



Annual 75+ population growth, 2002 to 2068 (in five yearly intervals)



Source: Statistics New Zealand - National Population Projections

The New Zealand population aged 75 and over is forecast to more than triple in the next 50 years.

The number of people aged 75 and over is projected to increase from 315,000 in 2018 to 1,090,000 by 2068.

The number of people aged 85 and over is projected to increase from 87,000 in 2018 to 400,000 in 2068.

Summerset will continue to provide high quality retirement living for this strong wave of demand.











Business Highlights

$214.5m
Net profit after tax

$98.6m
Record underlying profit

$217.8m
Operating cash flow

$2.8b
Total assets

33.2%
Development margin

640
Occupation right sales

Completed our Wigram, Katikati, Karaka and Trentham villages

Opened villages at Casebrook in Christchurch and Rototuna in Hamilton

Our Villages

Mahjong is just one of the many games our residents enjoy playing.






Financial Highlights

$214.5m
Net profit after tax FY18

11%
Decrease on FY17

$98.6m
Underlying profit FY18

21%
Increase on FY17

$2.8b
Total assets

24%
Increase on FY17

$217.8m
Operating cash flow

5%
Increase on FY17

Business Performance

Our land bank

Villages	Design	Consenting	Construction	Village open	Final stages
Warkworth, Auckland	●	●	●	●	●
Hobsonville, Auckland	●	●	●	●	●
Ellerslie, Auckland	●	●	●	●	
Rototuna, Hamilton	●	●	●	●	
Casebrook, Christchurch	●	●	●	●	
Richmond, Tasman	●	●	●		
Avonhead, Christchurch	●	●	●		
Kenepuru, Wellington	●	●			
Te Awa, Napier*	●	●			
St Johns, Auckland	●	●			
Lower Hutt, Wellington	●	●			
Parnell, Auckland	●				
Papamoa, Tauranga*	●				
Pohutukawa Place, New Plymouth*	●				
Waikanae, Kapiti*	●				
Milldale, Auckland*	●				

* New sites purchased

In 2018 we completed construction on four villages in Karaka, Katikati, Wigram and Trentham.

We warmly welcomed our first residents into Hamilton's Rototuna and Christchurch's Casebrook villages. Meanwhile, construction started at our Richmond and Avonhead properties with first residents expected to move in during 2019.

Bevan and Margaret Bradding, our first residents at Rototuna village.

Rita Browne, our first Casebrook resident.

New sites acquired in 2018

The population of people aged over 75 years in New Zealand is forecast to more than triple in the next fifty years. This statistic clearly shows why demand for quality retirement living will continue to grow. Summerset now holds nine sites in its landbank, including the five land purchases made during the year. We have increased the master planning capability in our development team to manage the increasing demands of finding, securing and managing the resource consents for new pieces of land.

Pohutukawa Place, New Plymouth

Summerset's second New Plymouth property is on an 8.1ha property in Waiwhakaiho.

New Plymouth's over 75-year old population is forecast to grow by around 37% over the next decade.

- 298 homes
- Rest home and hospital level care
- Memory care centre

Te Awa, Napier

We bought 9.0ha of land on Eriksen Road, Te Awa for our fourth Hawke's Bay village.

Napier City has a current over 75-year old population of around 5,570 with a forecast 40% increase by 2028. Neighbouring Hastings District's over 75-year old population is also forecast to increase strongly over the next decade.

- 317 homes
- Rest home and hospital level care
- Memory care centre

Papamoa, Tauranga

Summerset's purchase of an 8.0ha property in Papamoa Beach will become the site of Summerset's first Tauranga retirement village.

The village will provide much needed care beds for Tauranga's elderly population.

- 287 homes
- Rest home and hospital level care
- Memory care centre

Waikanae, Kapiti Coast

Summerset purchased 25.5ha (estimated village size of 8.0ha) on Park Avenue, Waikanae, for our second Kapiti retirement village.

Forecasts show Waikanae's over 75-year old population will grow by around 22% over the next decade.

- 290 homes
- Rest home and hospital level care
- Memory care centre

Milldale, Auckland

We purchased 6.0ha in the planned suburb of Milldale on the Hibiscus Coast. Once complete, the subdivision is expected to have 4,500 homes with a town centre, schools and recreational facilities.

Population forecasts show a 50% increase in the number of people aged 75-years and over living in the Hibiscus Coast area by 2028.

- 292 homes
- Rest home and hospital level care
- Memory care centre

Resource consents update

Village	Design	Consent
Richmond, Tasman	✓	Secured FY18
Kenepuru, Wellington	✓	Secured FY18
Avonhead, Christchurch	✓	Secured FY18
Te Awa, Napier	✓	Secured FY18
St Johns, Auckland	✓	Ongoing
Lower Hutt, Wellington	✓	Ongoing

Artist impression of Summerset at Avonhead.

Artist impression of Summerset Richmond Ranges.

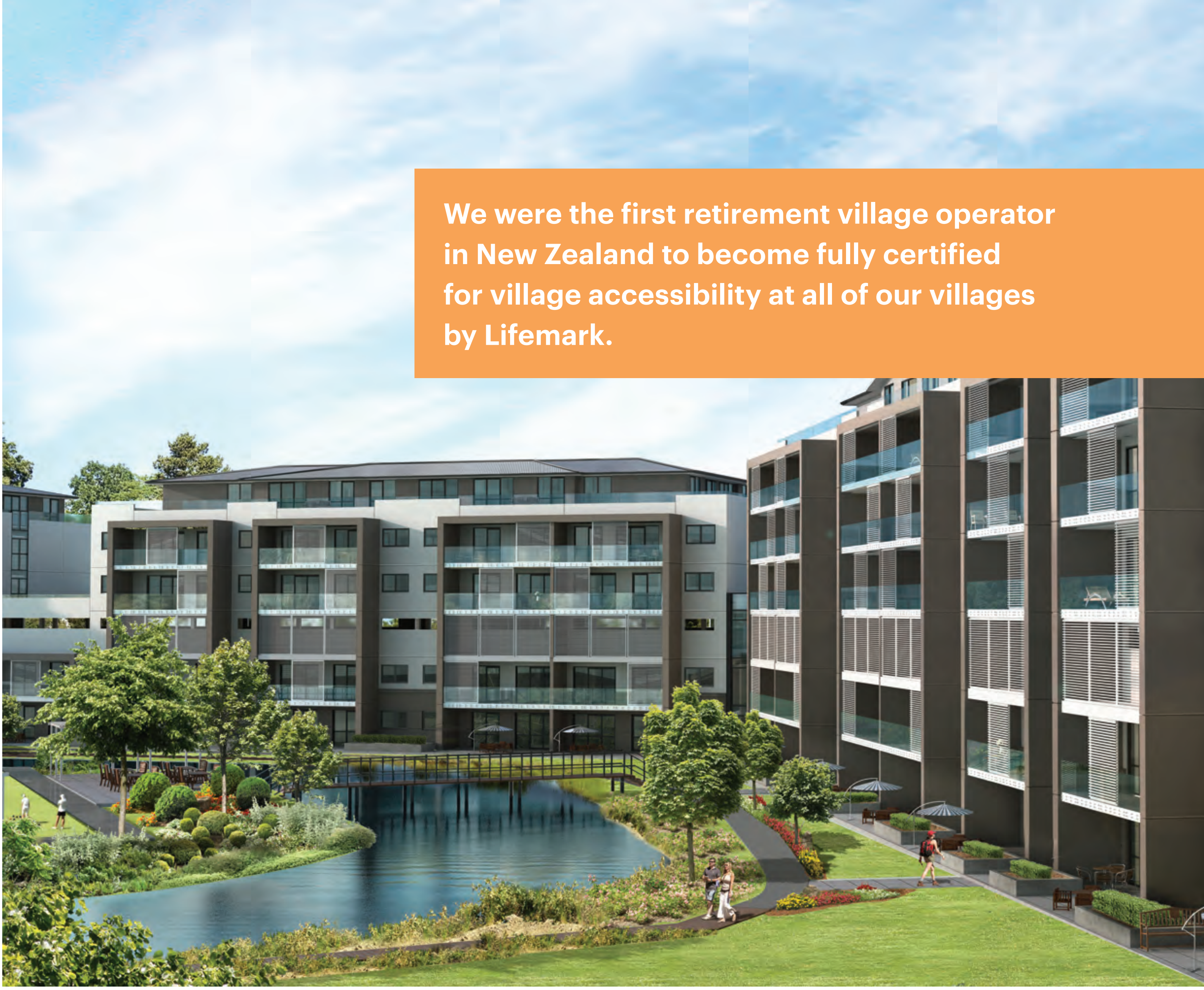
This year we were pleased to receive resource consent for our sites in Richmond in Tasman, Kenepuru in Wellington, Avonhead in Christchurch and Te Awa in Napier.

Our consent application for the St Johns village in Auckland was declined by the application hearing committee. The decision of the hearing panel for the application stated that the site was ideal for a retirement village but ultimately declined the application as it stood. We have appealed this decision to the Environment Court and are currently working through mediation with the affected parties and Auckland City Council.

We hope to reach an agreement with the various parties and are keen to build a high quality village which fits into its surroundings well and is an asset to this community.

If we cannot reach an agreement, the Environment Court will hear our appeal later this year.

Land use resource consent for our Boulcott village in Lower Hutt has, at our request, been referred to the Environment Court. The hearing will take place in 2019.



We were the first retirement village operator in New Zealand to become fully certified for village accessibility at all of our villages by Lifemark.

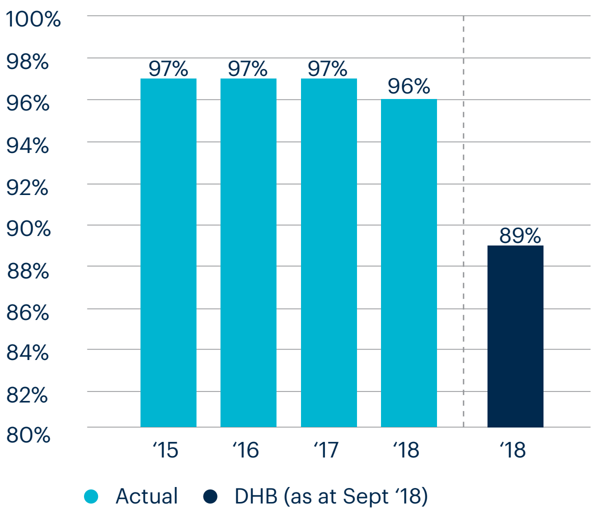
Summerset was a founding member of the Lifemark organisation which aims to ensure houses are built with accessibility and safety in mind.

Designing to Lifemark standards

This year, we were the first retirement operator in New Zealand to become fully certified for village accessibility at all of our villages. This certification covers the overall village precinct and access throughout it including communal grounds and wider facilities. The certification signals that Summerset's products and services meet the needs of any New Zealand occupant, at any age, stage, and ability – an assurance that Summerset villages will be right for your stage of life. This means our villages are easy to navigate for people with mobility issues. The certification process has taken two years and included a robust independent audit and remedial programme to ensure all our facilities meet the standards. We plan to have all future villages certified for village accessibility by Lifemark.

Our service offering

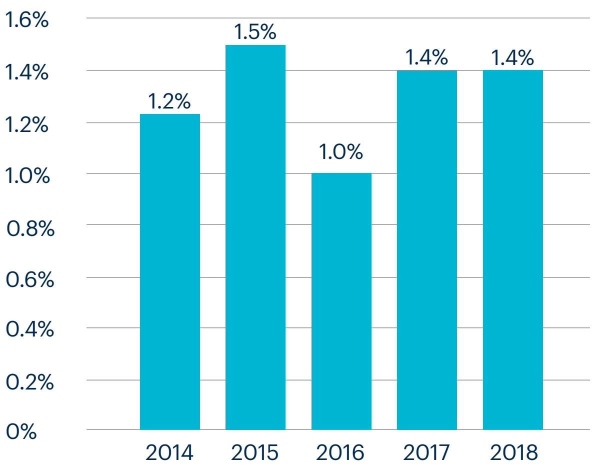
Occupancy – Existing care centres



Overall our care occupancy levels were 96% for established centres with our newly opened centres also filling well. Industry average occupancy stands at 89%*.

Our occupancy rates are consistently above this which demonstrates the quality of the care and facilities that we offer to people.

Uncontracted resales stock as a percentage of total retirement units in portfolio



* According to DHB Quarterly Occupancy Statistics

In addition the demand for our retirement units remains strong with uncontracted resale stock steady at 1.4% of Summerset's total retirement units portfolio. Demand remains strong despite flattening property markets across the country.

This reflects consistent demand for what we offer, with the decision to enter a village driven by the desire for security, care and community.

Care centres opened

In 2018 we opened our Hobsonville care centre. This has filled quickly, reflecting the quality of the facilities and care provided, as well as the strong demand in the Auckland market.

Refurbishments and upgrades

In 2018 we completed a three-year programme to upgrade leisure centres in our older villages. Upgrades to the leisure centres included: improvements to resident kitchen and bars, activity spaces, presentation areas, and upgrading audio visual equipment. As a result all villages can now have a commercial café operation.

We continue to invest in upgrading facilities in our existing villages to maintain resident experience.

Following this we commenced a cycle of refurbishments in our older care centres (Levin, Wanganui, Paraparaumu, Havelock North, Palmerston North and Trentham). In 2018 we completed the second year of a four-year programme of care centre upgrades. We have refreshed the aesthetics of our older care centres and aligned them to our modern building standards. Our sun lounges, dining rooms, lounges, care rooms and ensuites have been given new drapes, refreshed art work, paint and new furniture. We are aiming to have this programme completed in 2019.

Emergency infrastructure improvements

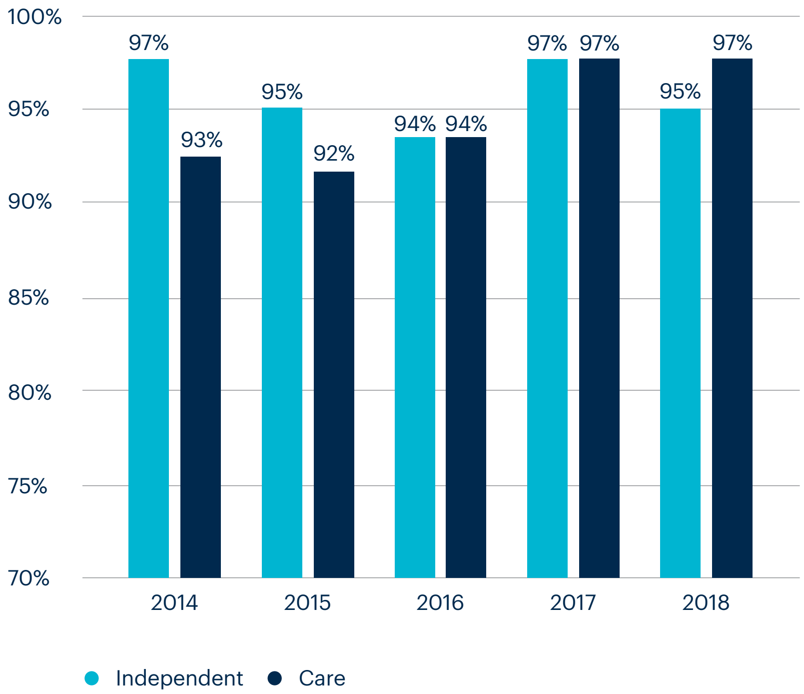
In 2018 we completed an 18 month programme to deploy mobile emergency power back-up to our regional sites to use in the event of a power outage. These have already come in handy during a power outage in Taupo in November. The new generators keep power flowing to the main village building during an outage, maintaining essential services for residents. All generators are subject to a monthly testing regime and annual certificates. From here on, all regional main buildings will have power back-up at hand. For urban villages, the main buildings and apartment blocks will have generator access.

Dunedin resident, Gaynor Haig, teaching piano.

Our Residents

Retirees have an abundance of choices for their retirement, so our mission is to support residents to love the life they choose. We evolve our offering to meet the needs of residents in their retirement years. As their needs, wants, and dreams change, so do we.

Resident Satisfaction Survey 2014-2018



Resident Satisfaction Survey
Each year we run a resident satisfaction survey to see how we are going. This year we were pleased to have maintained our satisfaction levels with care residents at 97% and independent living residents at 95%. Our industry-leading satisfaction levels in 2018 were independently reviewed by KPMG.

"Despite these high levels of satisfaction it is important that we continue to listen to suggestions for improvement from those who are satisfied, as well as understanding the concerns of those who are not." – Julian Cook

Becoming a dementia friendly organisation

Summerset recognises that dementia is a significant and growing health challenge in New Zealand and around the world. In August we launched our dementia strategy, aiming to make Summerset a place where people living with dementia can lead fulfilling and meaningful lives. As part of our strategy we signed up to Alzheimers New Zealand's Dementia Friendly Recognition Programme.

We aim to be the first retirement village provider in New Zealand to be accredited as a dementia friendly organisation.

Summerset by the Ranges in Levin was our first village to achieve the accreditation. A lot of what we already do is dementia friendly, so to achieve our accreditation, we have improved two key aspects:

1. Provided education and training to every employee, including corporate office staff, about dementia. This especially helps our people communicate with people that have dementia and learn about dementia.
2. Reducing the stigma for residents who have dementia. We have created support groups within our villages to help people be more comfortable talking about dementia.

Stimulating speakers for our residents

The Summerset Connect speaker series was a new addition to our activity programme in 2018. Speakers travelled to each of our villages and presented on a range of topics. In 2018 we were pleased to host:

- International speaker, Eva Bennett, on the six ingredients to cook up a good life,
- Gillian Eadie from the Memory Foundation talking about brain health, and
- Sue Dwan for an interactive session on getting your affairs in order

The 2018 series concluded with New Zealand author, entertainer and broadcaster Peta Mathias at Summerset at Heritage Park in Ellerslie. The speaker series has been a success throughout our villages. The 2019 series will feature brand new speakers, talks on understanding dementia, and a concert series from the Dame Malvina Major Foundation.

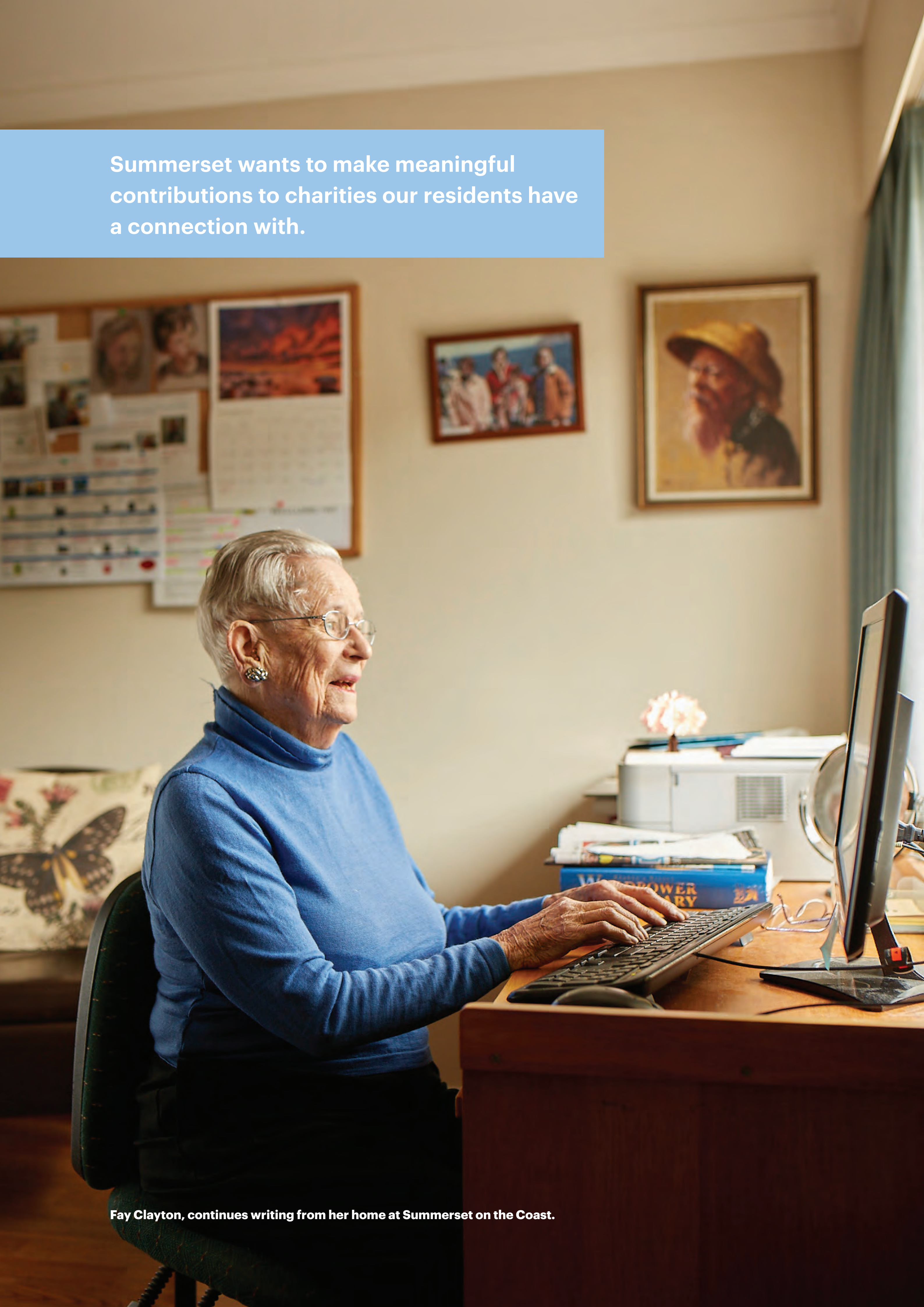
Locally sourced, wholesome food is well received

Food is a very important part of a resident's experience at Summerset. In 2018, we invested in overhauling the food service at our villages. The new food offering is provided by three regionally-based caterers and an in-house team at two sites, and focuses on locally sourced, wholesome food prepared onsite. The kitchen teams are responsible for all the food for our Divine cafés, the 'Divine at Home' meal service and care centre meals.

We've been delighted to see satisfaction levels for food increase from 91% to 93% in the 2018 resident survey.


Voted by New Zealanders · 2019 · 2019
Reader's Digest
Quality Service Award
SILVER
Retirement Villages
Silver award winner in the Retirement Village category in Reader's Digest 2019 Quality Service Awards.

Summerset wants to make meaningful contributions to charities our residents have a connection with.



Fay Clayton, continues writing from her home at Summerset on the Coast.

Our residents give back to their communities

Throughout our villages residents give back to their local communities and charities close to their hearts. To support the amazing work they do, Summerset makes a contribution to the money they raise. Some of the events our residents were involved with in 2018 were:

Jo Seagar cooking demonstration for Mary Potter Hospice

Residents at Summerset at Aotea spent an afternoon with renowned New Zealand chef Jo Seagar. Proceeds from tickets and a raffle sale went to the Mary Potter Hospice, Aotea residents' charity of choice since 2015.

SPCA day

Summerset in the Vines opened their village to the public to fundraise for the SPCA. They had over 120 people attend the event and check out some of the SPCA pets available for adoption.

Hair today, gone tomorrow for cancer research

Summerset at Wigram resident Liz Johnston shaved her hair off, for the third time in support of the Cancer Research Trust New Zealand. Liz was joined by Wigram Village Manager Russell Walters, who shaved his beard off in front of a crowd of 125 people.


JHJ769

Summerset on screen

You may have noticed a new Summerset TV commercial on your screens in 2018.

This is the final touch on our rebranding exercise that will continue to grow Summerset's brand awareness.

Residents at our Karaka village took part in a three-day TV shoot for the commercial that demonstrates the rich and vibrant lives of our residents. We hope you like it as much as we do.

Resident records go digital

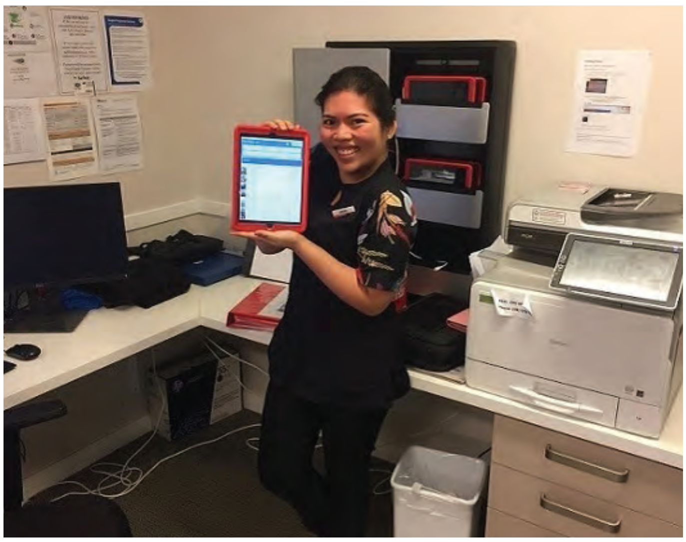
All Summerset villages are now using VCare as their centralised database for resident records and care residents' health information. VCare is a New Zealand-developed technology solution specifically designed for the retirement village and aged care sector. Summerset introduced VCare with a pilot programme in September 2017 and rolled it out in two phases. Summerset is the first to use VCare's mobile solution and the first to have caregivers using iPads. Using VCare means our nurses and caregivers have up-to-date health information at their fingertips, and can record patient notes quickly and easily for our care residents.

Frailan Datic, a registered nurse from Summerset by the Ranges in Levin, says, "At first I was worried about technology taking over the human touch, but since my training I have a lot of positive things to say about VCare."

Caregivers now use iPads to enter their notes into the VCare system. Summerset by the Ranges caregiver Michele Hall says that moving to iPads has helped a lot.

"You don't have to try to understand everyone's handwriting, everything's there at your fingertips and you get notifications," she explains.

Staff training on VCare has been running since August 2017, with more than 1,880 training sessions held between August 2017 and November 2018.



Aotea resident enjoying a game of Bridge.

Hobsonville resident Chrissy, with caregiver Vimlesh Kumar.

Our People

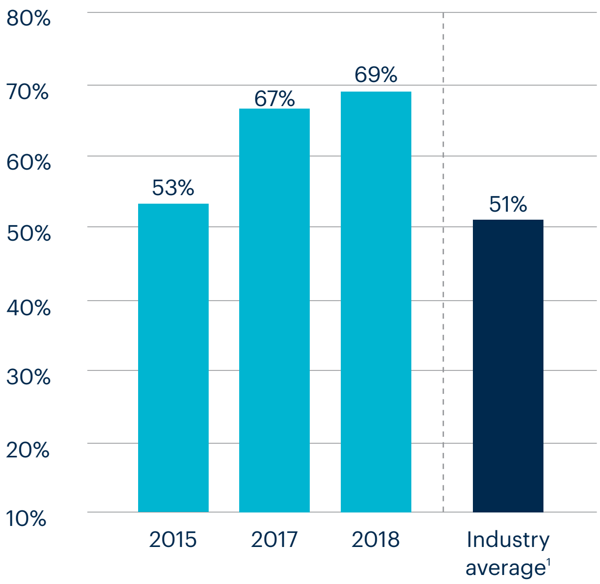
Our purpose is to bring the best of life to residents everyday. To achieve our purpose we need a team of engaged people. This is why we have invested in attracting and retaining the best employees.

We attract and retain the best employees

Our annual staff survey, conducted by external provider Aon, showed our staff engagement score increased by two percentage points from 2017 to 2018. Summerset has been building on the momentum from 2017 when there was a 14 percentage point increase. We remain in the top quartile for employee engagement amongst the 700 Australian and New Zealand organisations conducting the Aon surveys. We are above the industry average engagement rate of 51%. We also measure our staff response rate, at 76% we are pleased that the majority of our staff have responded and are optimistic their feedback will be heard. The feedback helps us assess our progress on improving our staff experience and helps identify key actions for further improvements.

Aon has been measuring staff engagement for over 50 years, working with New Zealand businesses for more than a decade to measure the engagement of their people and provide a complete picture of the work experience and the factors that lead to higher engagement. In New Zealand Aon also works alongside other large employers such as Air New Zealand, Coca-Cola Amatil, Foodstuffs and Auckland Council.

Staff engagement survey



Employee engagement is often confused with satisfaction or happiness. Employee engagement is defined as "the level of an employee's psychological investment in their organisation." Summerset scores in the top quartile of employers when measured on this basis.

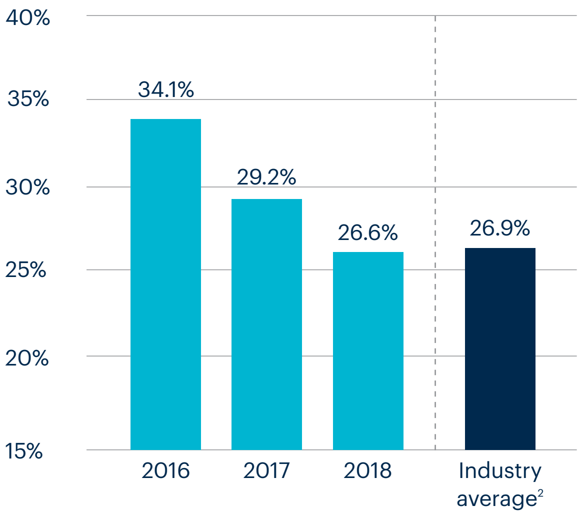
[1] Source for industry average: Australia Aged Care Workforce Strategy Taskforce, 2018

Retaining talent

There has been a drop in attrition across village roles since December 2016.

Stable and engaged staff are key to providing great villages and care for residents and for a successful business.

Staff attrition



Attracting talent

In November we launched our culture-fit assessment, an interactive video assessment to attract and recruit potential employees. The screen shot below is from the filming that took place at our Hobsonville village. The purpose of the assessment is two-fold, to showcase Summerset's culture to candidates to help them determine if Summerset is the right workplace for them, and to provide managers with insights into potential candidates' values.

We refreshed our LinkedIn presence to give potential employees a better sense of what it's like to work for Summerset. You can follow us on LinkedIn to stay up to date with our achievements and career opportunities.

We recognise the hard work of our staff

We continued to strengthen our employment offering throughout 2018 and benefits now include (but are not limited to):

- free health insurance
- funeral cover
- travel voucher prizes
- discounts at a range of Summerset suppliers
- a free staff share scheme
- sick leave from the first day of employment
- an additional day of leave on each staff member's birthday
- contributions to staff charity fundraising efforts

We know that there are times when our staff may come into difficult circumstances and require extra support. From May 2018, Summerset staff were able to access exceptional leave and hardship loans to help support them through difficult times.

Staff turnover is a key measure that we track in the business. The aged care and retirement sector has traditionally had high staff turnover. Over the last three years we have seen turnover drop at Summerset, the result of a number of factors including improved staff benefits, increased engagement, better and more visible leadership throughout the business and the caregiver pay equity settlement. Our turnover is now lower than the industry average but we still want to do much better in this area and will report to shareholders annually on how we progress.

[2] New Zealand Aged Care Association, Aged Residential Industry Profile 2017–18.

Each year Summerset staff are invited to share in the company's success through the staff share scheme. Staff that choose to participate in the scheme receive an allocation of $800 per annum of Summerset shares at no cost. In 2018 87% of eligible staff subscribed to the scheme. The shares are held in trust for three years before they are transferred into the employee's name to keep or trade. The first shares were allocated in 2016 and will be transferred into employees' names in July 2019. This is one of the ways we recognise the part staff play in the company's success.

We invest in our people

We support our people to advance their skills and career opportunities. We continue to partner with CareerForce, an independent training organisation, to help our 600+ care staff gain Level 2 and 3 qualifications in Health and Wellbeing.

We re-launched our programme for Summerset's overseas registered nurses to apply for funding to gain their New Zealand nursing registration. Fees for New Zealand registration can be as high as $10,000. Our first recipient, a caregiver from our Wigram village, was delighted to have the opportunity to register as a New Zealand nurse and use their skills again.

Summerset is offering scholarships to nursing students completing their final year of study at Massey University as a way to support those who are passionate about aged care and primary health.

Three nursing scholarships are offered annually, each with a value of up to $2,000.

Investing in software and systems

Summerset is growing rapidly and we are investing in new technology to support our workforce. In 2018 we introduced new Human Resources Information System (HRIS) software, streamlining our employee payroll and reporting.

The journey continues

Our human resources function is becoming increasingly important as the scope of our business and the number of staff increase. Our main focus in 2019 and beyond will be staff training and development programmes. We will be greatly assisted in this with the appointment of a new General Manager Human Resources, Dave Clegg. Dave was previously General Manager of People and Culture at leading steel solutions supplier, Steel and Tube Limited.


Summerset

A cut above the rest

In 2017 we started the process to design, test, and refine a new uniform for more than 1,000 village staff. We partnered with Wellington-based designer Lucilla Gray (pictured top right) and Arrow Uniforms to deliver the uniforms. Lucilla graduated from Massey University and showed her debut collection at London Fashion Week. She has since set up a small studio in Wellington, where she focuses on high-end fashion and bespoke garments.

We were determined that our new uniforms should feel just right. We tested the uniforms in our villages, with staff providing feedback on design, wear and comfort. We made refinements to the uniform based on this feedback and in 2018 we launched a fit-for-purpose uniform that is uniquely Summerset. Each role has different style options to give staff choices to suit their body shape and personal preferences. The uniforms use a Summerset signature print featuring motifs of the ti kouka (cabbage tree) and the harakeke (flax) flower.

"It represents the journey through life – a fitting theme for the business."
– Lucilla Gray

To celebrate the launch, Summerset showcased the garments at the 2018 New Zealand Fashion Week in a private show. Staff modelled the uniform on the catwalk to an audience of 150 guests, including residents from our villages.

Health and Safety

Summerset's vision is that all of our staff go home safe from harm each day.

As our staff numbers grow, our vision of ensuring staff go home safe each day and our duty to provide a safe workplace remains critically important, and we continue to invest in our processes and procedures to maintain our health and safety ratings and accreditations.

We also want to make our villages a safe place for our residents, their families, contractors and communities around us. We continually take health and safety into consideration, from the design of the village to its daily operations.

Our health and safety committees are the champions and role models of our health and safety culture and we proudly display our health and safety culture statement at every village, office, and construction site, to remind us that it is everyone's responsibility.

Our Vision

We believe...

- Health & Safety is up to every one of us
- We can all go home safe from harm every day
- A safe work place is an efficient work place

Our Commitment

We...

- Lead safe working practices
- Invest in the capability of our people, systems and practices
- Identify and control things that could hurt our people
- Encourage and value our people's input and feedback in finding ways to keep us all safe
- Seek to continually learn and improve our health and safety performance

Our Expectations

Our people...

- Take responsibility for the Health & Safety of themselves and others
- Follow our Health & Safety practices and procedures
- Report work related injuries, near miss situations and/or potential hazards
- Contribute to the continual improvement of our practices

Each year staff contribute to the health and safety plan so we can understand and address the issues highlighted by our people.

2018's themes were: leadership, people and capability, and systems and processes. The themes inform our initiatives and we are very pleased to report our 2018 health and safety achievements.

Over the last three years there have been consistent reductions in our recordable injury frequency rate and our lost time injury frequency rate. We calculate these rates using the industry standard of multiplying the total number recorded in a 12 month period by 200,000 i.e. 100 employee years and then divide by the total number of hours worked. The goal is to continue to see these statistics reduce and there are a range of initiatives in play to achieve this. Improvements will be driven by enhancing our people's safety culture, knowledge and communication. Going forward we will also focus more on the general wellness for our staff.

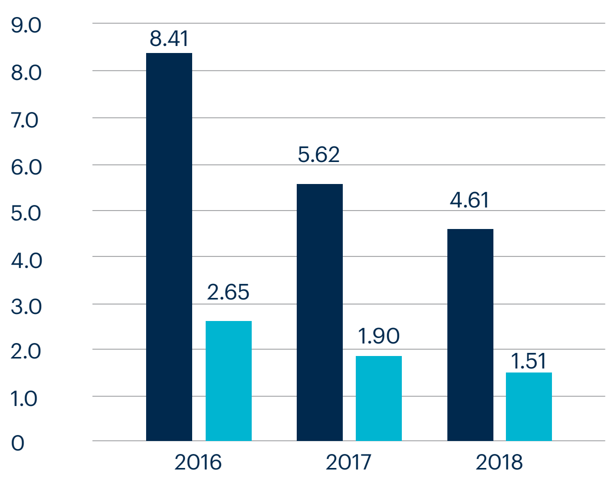
We already offer free health insurance, hardship loans and free flu vaccinations every winter.

We see opportunities to assist in areas such as mental health, health awareness (i.e. diabetes, diet and smoking), and bullying and workplace culture.

Health and safety achievements in 2018

- In our staff survey, 95% of respondents agreed that employee safety is considered important at Summerset – this was one of the top ten most positive responses
- Advanced to secondary status in the ACC Accredited Employers Programme
- Increased our reporting against all types of health and safety incidents including near misses, hazard observations, and injuries
- Introduced mandatory eye and hand protection on all construction sites
- Increased training for health and safety committee members
- Manual handling trial completed for villages
- Became a member of the Construction Industry Council
- Introduced dedicated health and safety personnel on all high rise construction sites
- Partnered with WorkAon to help rehabilitate staff back to work after a workplace injury

LTIFR and RIFR



Key terms:

LTIFR = lost time injury frequency rate, is calculated by multiplying the total number of LTI's (lost time injuries) recorded in a 12 month period by 200,000 and then dividing by the total number of hours worked, i.e. an LTIFR of 4.0 means that there have been four LTI's per 200,000 hours worked on average over a 12-month period.

RIFR = recordable injury frequency rate, is calculated by multiplying the total number of MTI's (medical treatment injuries) and LTI's (lost time injuries) recorded in a 12-month period by 200,000 and then dividing by the total number of hours worked.

Health and safety heroes at work

A good health and safety culture relies on people in the organisation championing and modelling best practice. We recognise these people each year with a health and safety hero category at our staff recognition awards. Recipients are selected for their deep respect for others, team focus, and attitude of continuous improvement.

In 2018, our heroes were Christchurch's Stephanie Meehan, our Casebrook Village Manager, and Steve Trenberth, Site Manager at Wigram and Casebrook villages (both pictured top left with Aaron Smail, General Manager Development).

Steve and Stephanie make health and safety a priority in their busy roles. They operate in an unusual work environment, where some parts of the village are occupied while other areas are under construction.

Stephanie says, "I work closely with the construction project manager as there is still a lot of construction at our village but it is also our residents' home. It's a juggling act but it can be balanced with good communication."

Stephanie says that at Summerset everybody takes responsibility.

"At other organisations, people are happy to leave health and safety to the committees, but our villages know that everyone must actively participate – we are all responsible."

Stephanie identified the placement of hot water urns in the care centre as a risk for staff and residents. Staff were holding up large tea pots that could spill and result in serious burns. This led to a full review by the national health and safety team into the design, placement and controls on hot water urns to reduce the risks.

Steve says he recognises health and safety takes a lot of understanding.

"We're all learning on a daily basis. There is more communication than there has ever been, and that's a really good thing for this organisation."

Steve says, "My advice is always to look out for the small things. Big hazards will announce themselves but picking up the near misses will always result in fewer injuries."


Bringing the best of life


MIZUNO
FINISH


COLLECTOR


COLLECTOR
WELLINGTON
FREE AMBULANCE
We are the ones. 111


SUMMERSET
NATIONALS
2019
BOWLS NEW ZEALAND
Summerset
RETIREMENT VILLAGES

Our Community

Summerset supports the wider community by sponsoring individuals, organisations, local clubs and groups with a direct relationship with our villages.

At a national level, Summerset announced two significant partnerships in 2018: Dementia New Zealand and Bowls New Zealand.

Summerset teams up with Bowls New Zealand

Bowls is extremely popular with our residents, each village has its own bowling green and residents hold several bowling sessions a week, so it was only natural for Summerset to partner with Bowls New Zealand.

Through this collaboration we help bring players together to enjoy a popular sport with over 500 clubs and 35,000 registered players in New Zealand. We are also working with Bowls New Zealand to achieve their vision of New Zealand being the best bowling country in the world.

This year we have supported Bowls New Zealand in the following ways:

- Promoting Bowls3Five, a faster, modernised version of the traditional bowls game, screened on SKY during October to November 2018
- Sponsoring the Bowls New Zealand annual awards dinner
- Sponsoring the purchase of tablets for each bowls club throughout New Zealand to capture membership details and visitor data
- Sponsoring the New Zealand national bowls tournament

Giving back to our communities

Summerset is proud to support a number of other organisations across the country, including:

- Wellington Free Ambulance
- Orokonui Ecosanctuary
- The Sir Paul Callaghan Eureka! Awards
- Age Concern New Zealand
- Alzheimers New Zealand
- New Zealand Indoor Bowls

Recognising our people's fundraising

Our staff often take the initiative to do their own fundraising and we recognised their efforts in 2018 by topping up individual fundraising efforts with an extra donation from Summerset. We've been delighted to see many staff take up this offer, which is part of our staff benefits package.

In 2018, we made donations to:

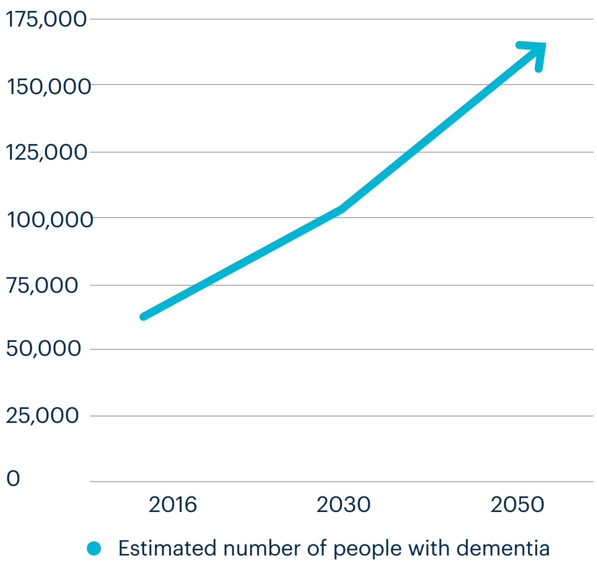
- Alzheimers Manawatu
- Cancer Research Trust New Zealand
- CanTeen
- Cerebral Palsy Society
- Daffodil Day
- The Movember Foundation
- Nelson Tasman Hospice
- Pink Ribbon Breakfasts
- Relay for Life
- Ronald McDonald House in Auckland, Christchurch and Wellington
- St John New Zealand
- Wellington Free Ambulance

Dementia care

More than 60% of the New Zealand adult population have a personal experience with the disease, yet nearly half the population cannot name an organisation that supports people with dementia.

Dementia is a significant and growing health challenge in our communities and villages, with more than 170,000 New Zealanders forecast to have dementia by 2050.

Estimated number of people in New Zealand with dementia from 2016 to 2050



Our aim is to raise awareness of dementia, de-stigmatise the disease and become the leading provider of care for people living with dementia in New Zealand.

To achieve this aim, we launched our dementia strategy in mid-2018, which included:

- Signing a three-year partnership with Dementia New Zealand, a leading provider of community dementia services
- Partnering with Dementia New Zealand and the New Zealand Dementia Cooperative to commission research into New Zealanders' awareness and perceptions of dementia
- Launching the Dementia Friendly Recognition Programme across Summerset with the aim of accreditation by 2020. We celebrated our first village to achieve accreditation in November at Summerset by the Ranges in Levin. Corporate staff are also involved, having started basic dementia awareness training in October
- Sponsoring and presenting at Dementia Knowledge Exchanges for health professionals, community service providers and other aged-care providers
- Signing Dementia New Zealand up as a key presenter in our Summerset Connect speaker series across our villages

Commissioning research into dementia
Summerset is committed to increasing awareness and reducing the stigma of dementia in New Zealand. We partnered with Dementia New Zealand and The New Zealand Dementia Cooperative to commission Nielsen to survey 1,000 New Zealanders about their awareness and perceptions of dementia.

The research shows that little is understood about dementia yet it is deeply feared. More than half the population have a personal experience with the degenerative brain disease.

- More than 60% of New Zealanders have a current personal experience with dementia
- Dementia is second only to cancer as the disease Kiwis most fear being diagnosed with
- Fewer than 20% feel they know a lot or great deal about dementia
- 50% of respondents say they would like to learn more about how to better look after people with dementia and those caring for them
- Most Kiwis say they would be fearful of letting their employers know that they had been diagnosed with the disease. This is particularly significant in the context of our aging population and later retirement age.

Building a life with dementia

Despite being diagnosed with dementia almost 15 years ago, Hamilton resident Neil Timmo still lives an independent and active life: he likes to go to the gym, potter in the garden and build impressive remote-control boats from scratch.

However, while Neil says it's possible to keep his mind active, it doesn't come without its challenges. "I have basic routines I do, and I put everything in certain places. I struggle to get up in the morning because I don't know who I am for a moment. But I don't worry about it now – I make my porridge, and head to the gym. The gym is my saviour," says Neil, adding that he goes every day because working out strengthens his concentration.

"Life doesn't stop because you have dementia. I accept the fact that I have it, and that there are limitations, but then I get on and do what I enjoy."

Neil started building boats as a result of his diagnosis, and says he has become more hands on. "I wanted something to do. I'd never built anything in my life – I worked in the native timber industry but if it couldn't be done with an axe or chainsaw, I couldn't do it," he says, laughing.

His son helps him to select model boats to build, then Neil purchases the materials and sets to work moulding, shaping, and gluing the structure, before wiring the electronics.

"I like making things with my hands. It stimulates me."

He colours the boats using paint and an airbrush, and says every boat is different – and is a replica of a boat still in use today.

Neil is also heavily involved with Dementia Waikato, and attends regular workshops and meetings – which his family drives him to. "Family is a big thing with dementia. I'm really lucky with mine; they look after me." Neil has also helped to start a monthly club at Summerset down the Lane with Dementia Waikato and other residents living with dementia or supporting someone with the disease. "Accepting dementia is a big thing. But once I was diagnosed and got my head around it, I was fine. It's like having a broken leg, only it doesn't mend – but you learn to do other things. I feel like I'd never done anything before I got dementia," says Neil, adding that his days are now filled with various activities and projects.

Reducing our Impact

Environmental responsibility is now fundamental to the success of any modern business. At Summerset we want to actively manage our environmental impact and leave a positive legacy for our descendants.

We took the first step on our sustainability journey by joining CEMARS®, (Certified Emissions Measurement and Reduction Scheme) in early 2018. We were the first retirement village operator to be CEMARS certified through a verification audit by Enviro-Mark Solutions in December 2018. Our carbon emissions are measured under three scopes:

- **Scope 1:** Direct emissions from sources that are owned or controlled by the organisation, for example, air conditioning systems and petrol and diesel to fuel our motor vehicles and lawnmowers
- **Scope 2:** Indirect emissions are those that occur as a consequence of the activities of the organisation but are from sources owned or controlled by another company, for example, emissions generated from purchased electricity
- **Scope 3:** Mandatory emissions from other indirect emissions due to the activities of the organisation, for example, air travel, taxis and waste to landfill
- **Scope 3 additional:** Additional emissions from other indirect emissions such as paper use and residents electricity

Electricity is widely used throughout our villages for heating, cooling and lighting. We have included resident data in our measurements for both electricity and waste. Including them is important to us as we are all part of the community and can all contribute to positive change.

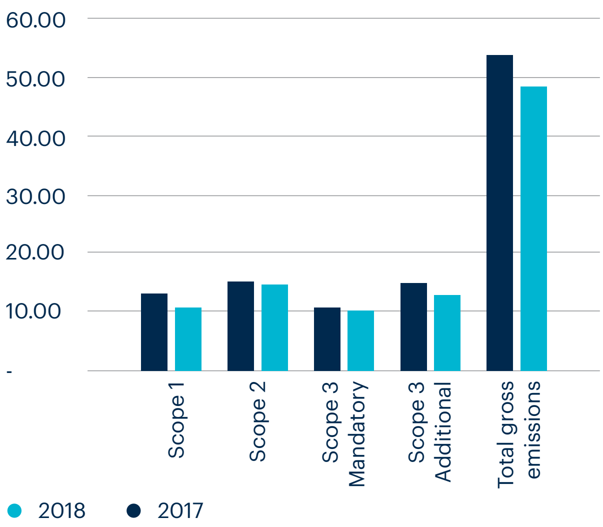
In November 2018, independent auditor Enviro-Mark Solutions completed the CEMARS verification audit of our 2017 base year and we confirmed our targets. As part of the audit we submitted our reduction plan for the next five years and this was approved by Enviro-Mark Solutions.

Our 2018 emissions data has been collected and was audited by Enviro-Mark Solutions in January 2019. This data was certified in February 2019.

Our construction activities have been excluded from our measured 2017 base year and 2018 emissions. In 2019 we will begin to measure the carbon emissions of our construction business unit and make an action plan to reduce our emissions in this area.

As Summerset continues to grow and the number of villages in operation increases, it means we will continue to increase our absolute carbon emissions. To measure the effect of our initiatives, we will measure our reductions on an intensity basis i.e. carbon emissions per dollar of total revenue. This is an acceptable reduction basis under the CEMARS programme.

Emissions by intensity (tCO²e/$m of total revenue)



From the graph, already in 2018 we have seen a decrease in our emissions by intensity. As we introduce initiatives in 2019 we hope to drive down our emissions by intensity further.

An internal Summerset 'Green Team' has been formed to lead this work and they will be announcing new initiatives in 2019, as well as a wider sustainability framework.

Reducing our carbon emissions is an important step toward being socially and environmentally responsible.

As we learn more, we will be able to take action in a number of areas over the coming years. We will introduce initiatives to reduce the carbon emissions created by electricity, waste, travel, paper and fertiliser over the next five years.

- Energy – reducing our electricity and gas usage
- Waste – minimising our waste to landfill
- Travel – being more efficient in the way we travel
- Paper – reducing our paper consumption through paperless systems
- Fertilisers – selecting fertilisers with less greenhouse gases for our village gardens

Board of Directors

Rob Campbell
(BA (Hons. 1st), MPhil (Econ))

Chair, Independent

Rob is the Chair of the Board. He has over 30 years' experience as a director and an investor.

He is currently the Chair of SKYCITY Entertainment Group, WEL Group Limited, Tourism Holdings Limited and a director of Precinct Properties NZ Limited.

Rob is also an investor and director of a number of substantial private companies and is a director of, or an advisor to, a number of private investment funds.

Rob has been Chair of Summerset since 2011, when he was appointed to Summerset to lead its listing on the NZX.

Dr Marie Bismark
(MBChB, LLB, MBHL, MPH, MD, FAICD, FAFPHM)

Independent

Marie is the Chair of Summerset's Clinical Governance Committee. She holds degrees in law, medicine, bioethics and public health, and has completed a Harkness Fellowship in Healthcare Policy at Harvard University.

Marie works as a psychiatry registrar with Melbourne Health, and as an Associate Professor at Melbourne University.

Her research focuses on patients' rights, quality of care, and medical regulation. Marie is an experienced company director, serving on the board of GMHBA Health Insurance and on the Veterans' Health Advisory Panel.

Marie has been a director of Summerset since 2013.

James Ogden
(BCA (Hons), FCA, CFinstD, INFINZ (Cert))

Independent

James is the Chair of Summerset's Audit Committee. He is a director of Vista Group International Limited and Foundation Life (NZ). James is the Chair of the Investment Committee of Pencarrow Private Equity and MMC Limited.

James has had a career as an investment banker, including six years as Country Manager for Macquarie Bank and five years as a director of Credit Suisse First Boston. He also worked in the New Zealand dairy industry for eight years in chief executive and finance roles.

He holds a Bachelor of Commerce and Administration with First Class Honours and is a Chartered Fellow of the Institute of Directors and a Fellow of Chartered Accountants Australia and New Zealand (CAANZ).

James has been a director of Summerset since 2011 when he was appointed to Summerset prior to its listing on the NZX.

Gráinne Troute
(GradDipBusStuds, CMInstD)

Independent

Gráinne is the Chair of Summerset's Nomination and Remuneration Committee. She is a Chartered Member of the Institute of Directors and is also a director of Tourism Holdings Limited, Evolve Education Group Limited and Investore Property Limited.

Gráinne is a professional director with many years' experience in senior executive roles. She was General Manager, Corporate Services at SKYCITY Entertainment Group and Managing Director of McDonald's Restaurants (NZ) Limited. She also held senior management roles with Coopers and Lybrand (now PwC) and HR Consultancy Right Management.

Gráinne has vast expertise in operating customer-focused businesses in highly competitive sectors. She has also spent many years as a trustee and Chair in the not-for-profit sector, including having been the Chair of Ronald McDonald House Charities New Zealand for five years.

Gráinne has been a director of Summerset since 2016.

Anne Urlwin
(BCom, FCA, CFInstD, MAICD, ACIS, FNZIM)

Independent

Anne is the Chair of Summerset's Development and Construction Committee. She is a professional director with experience in a diverse range of sectors including construction, health, infrastructure, financial services and telecommunications.

She is the Deputy Chair of Southern Response Earthquake Services Limited, and a director of Chorus Limited and Steel and Tube Holdings Limited. Her other directorships include City Rail Link Limited, Cigna subsidiary OnePath Life (NZ) Limited and Tilt Renewables Limited.

Anne is a former Chair of national commercial construction group Naylor Love Enterprises Limited and of the New Zealand Blood Service.

Anne is a Chartered Accountant with experience in senior finance management roles in addition to her governance roles.

Anne has been a director of Summerset since 2014.

Dr Andrew Wong
(BHB, MbChB, MPH, FNZCPHM)

Independent

Andrew is registered with the New Zealand Medical Council as a Public Health Medicine specialist. He is the Managing Director of Mercy Ascot Hospitals and HealthCare Holdings, having held these positions since 2009.

He is also a director of a number of medical organisations. These cover a diverse range of areas such as surgical hospitals, day surgeries, diagnostic radiology and cancer care.

Andrew has been a director of Summerset since 2017.

Executive Leadership Team

Julian Cook
(MAF, MSc, BSc, BA)

Chief Executive Officer

Julian has overall responsibility for Summerset and is focused on developing and operating vibrant villages, and ensuring that respect for our customers is always at the core of everything we do.

Prior to becoming Chief Executive Officer in 2014, Julian was Summerset's Chief Financial Officer after joining Summerset in 2010. He oversaw Summerset's transition to become a publicly listed company on the New Zealand Stock Exchange and the Australian Securities Exchange.

Julian is a member of the Executive Committee for the New Zealand Retirement Villages Association.

Scott Scoullar
(CA ANZ, FCPA, BCA)

Deputy Chief Executive Officer and Chief Financial Officer

Scott has overall responsibility for the financial management of the company. He also leads the corporate services functions at Summerset.

Before joining Summerset in 2014, Scott held CFO roles at Housing New Zealand and Inland Revenue, as well as various roles at National Bank.

A Chartered Accountant, Scott was the recipient of NZICA's Public Sector CFO of the Year award for 2011, and received a Special Commendation at the 2012 New Zealand CFO Summit Awards. Scott is also a Fellow of CPA Australia and a CPA New Zealand Council Board Member.

Dave Clegg
(MBA)

General Manager Human Resources

Dave is responsible for leading Summerset's Human Resources and Health and Safety teams to build and grow Summerset's people capability and engagement.

Before joining Summerset in 2018, Dave was the General Manager of People and Culture at Steel & Tube. Dave has over 25 years' experience in human resources leadership roles in New Zealand and overseas.

Dave holds an MBA from Southern Cross University in Australia.

Fay French
(RNZcmpN)

General Manager Sales

Fay leads our national sales team and can be found at Summerset's Wellington office or at one of our many New Zealand villages.

Fay has a breadth of experience across sales, hospitality and the health sector. Prior to joining Summerset in 2015, she held a sales leadership role at a leading New Zealand e-commerce platform where she was responsible for leading a team of business development managers. A registered nurse, Fay has worked in various nursing roles and medical sales for Roche Pharmaceuticals.

Paul Morris
(Dip. BS)

General Manager Development Australia

Paul leads Summerset's investigation of development opportunities in the Australian market.

Paul has been with Summerset since early 2000. He commenced in the GM Development Australia role in 2018 having previously been GM Development New Zealand since 2003.

Aaron Smail
(BE (Civil), BBS)

General Manager Development

Aaron leads Summerset's development team in New Zealand, which covers identifying and purchasing new sites, project feasibilities, consents, design concepts, master planning and design standards for villages.

Previous roles in his 25+ years of property and development experience include senior positions at Todd Property Group and Kiwi Property.

Aaron has been with Summerset since 2015.

Dean Tallentire
(BSc (Hons), HND, RICS)

General Manager Construction

Dean leads our design management, building consents, procurement, cost management, construction management and administration support teams in the construction team.

Dean has extensive construction and development experience and has led teams in public and private sectors within developer and main contractor environments.

Eleanor Young
(BSc (Hons))

General Manager Operations and Customer Experience

Eleanor oversees the operational performance across all Summerset villages. Her focus on service experience and delivery ensures Summerset's residents receive the highest quality facilities and care.

Before joining Summerset in 2016, Eleanor held senior roles at Inland Revenue. This included four years as the Group Manager of Customer Services, managing over 2,000 staff across New Zealand to deliver services to customers.

Eleanor has a background in human resources within both the public and private sector, having worked in managerial roles for the Ministry of Social Development, Mighty River Power and Air New Zealand.

Financial Highlights

Results Highlights - Financial

	FY18	FY17 Restated[1]	% Change
Net profit before tax (NZ IFRS) ($000)	216,173	240,228	-10.0%
Net profit after tax (NZ IFRS) ($000)	214,503	239,938	-10.6%
Underlying profit ($000)	98,611	81,663	20.8%
Total assets ($000)	2,766,367	2,232,830	23.9%
Net tangible assets (cents per share)	438.44	355.07	23.5%
Net operating cash flow ($000)	217,803	207,716	4.9%

1 Fair value movement of investment property and the investment property balance have been restated for 2017. Refer to note 1 of the financial statements for further details.

Results Highlights - Operational

	FY18	FY17	% Change
New sales of occupation rights	339	382	-11.3%
Resales of occupation rights	301	300	0.3%
New retirement units delivered	454	450	0.9%
Realised development margin ($000)	63,683	50,970	24.9%
Gross proceeds (new sales) ($000)	191,963	186,428	3.0%
Realised gains on resales ($000)	28,685	24,936	15.0%

Non-GAAP Underlying Profit

$000	FY18	FY17 Restated[1]	% Change
Profit for the period[2]	214,503	239,938	-10.6%
Less: fair value movement of investment property[2]	(209,930)	(234,456)	-10.5%
Less: reversal of impairment on land[2]	-	(15)	-100.0%
Add: realised gain on resales	28,685	24,936	15.0%
Add: realised development margin	63,683	50,970	24.9%
Add: deferred tax expense[2]	1,670	290	476.1%
Underlying profit	**98,611**	**81,663**	**20.8%**

1 Fair value movement of investment property has been restated for 2017. Refer to note 1 of the financial statements for further details.

2 Figure has been extracted from the financial statements

Underlying profit is a non-GAAP measure and differs from NZ IFRS profit for the period. Underlying profit does not have a standardised meaning prescribed by GAAP and therefore may not be comparable to similar financial information presented by other entities. The Directors have provided an underlying profit measure in addition to IFRS profit to assist readers in determining the realised and unrealised components of fair value movement of investment property and tax expense in the Group's income statement. The measure is used internally in conjunction with other measures to monitor performance and make investment decisions and has been audited by Ernst & Young. Underlying profit is a measure which the Group uses consistently across reporting periods. Underlying profit is used to determine the dividend pay-out to shareholders.

Financial Statements

Income Statement

For the year ended 31 December 2018

	NOTE	2018 $000	2017 Restated $000[1]
Care fees and village services	4	91,154	74,505
Deferred management fees	4	45,637	35,804
Interest received	4	226	184
Total revenue		**137,017**	**110,493**
Reversal of impairment on land	9	-	15
Fair value movement of investment property	11	209,930	234,456
Total income		**346,947**	**344,964**
Operating expenses	5	(112,442)	(88,587)
Depreciation and amortisation expense	9, 10	(6,685)	(4,628)
Total expenses		**(119,127)**	**(93,215)**
Operating profit before financing costs		**227,820**	**251,749**
Net finance costs	6	(11,647)	(11,521)
Profit before income tax		**216,173**	**240,228**
Income tax expense	7	(1,670)	(290)
Profit for the period		**214,503**	**239,938**
Basic earnings per share (cents)	19	97.13	109.78
Diluted earnings per share (cents)	19	95.42	107.88

1 Fair value movement of investment property has been restated for 2017. Refer to note 1 comparative information for further details.

The accompanying notes form part of these financial statements.

Statement of Comprehensive Income

For the year ended 31 December 2018

	NOTE	2018 $000	2017 Restated $000[1]
Profit for the period		**214,503**	**239,938**
Fair value loss on interest rate swaps	14	(6,125)	(3,043)
Tax on items of other comprehensive income	7	1,715	851
Gain on translation of foreign currency operations		5	-
Other comprehensive income which will be reclassified subsequently to profit or loss for the period net of tax		**(4,405)**	**(2,192)**
Revaluation of land and buildings	9	-	18,934
Tax on items of other comprehensive income	7	-	(5,036)
Other comprehensive income which will not be reclassified subsequently to profit or loss for the period net of tax		**-**	**13,898**
Total comprehensive income for the period		**210,098**	**251,644**

1 Fair value movement of investment property has been restated for 2017. Refer to note 1 comparative information for further details.

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2018

	SHARE CAPITAL $000	HEDGING RESERVE $000	REVALUATION RESERVE $000	RETAINED EARNINGS $000	FOREIGN CURRENCY TRANSLATION RESERVE $000	TOTAL EQUITY $000
As at 1 January 2017	**249,030**	**(3,520)**	**11,043**	**289,062**	**-**	**545,615**
Profit for the period restated[1]	-	-	-	239,938	-	239,938
Other comprehensive income for the period	-	(2,192)	13,898	-	-	11,706
Total comprehensive income for the period restated	**-**	**(2,192)**	**13,898**	**239,938**	**-**	**251,644**
Dividends paid	-	-	-	(19,857)	-	(19,857)
Shares issued	7,564	-	-	-	-	7,564
Employee share plan option cost	820	-	-	-	-	820
As at 31 December 2017 restated[1]	**257,414**	**(5,712)**	**24,941**	**509,143**	**-**	**785,786**
As at 1 January 2018 restated[1]	**257,414**	**(5,712)**	**24,941**	**509,143**	**-**	**785,786**
Profit for the period	-	-	-	214,503	-	214,503
Other comprehensive income for the period	-	(4,410)	-	-	5	(4,405)
Total comprehensive income for the period	**-**	**(4,410)**	**-**	**214,503**	**5**	**210,098**
Dividends paid	-	-	-	(29,138)	-	(29,138)
Shares issued	11,339	-	-	-	-	11,339
Employee share plan option cost	714	-	-	-	-	714
As at 31 December 2018	**269,467**	**(10,122)**	**24,941**	**694,508**	**5**	**978,799**

1 *Fair value movement of investment property has been restated for 2017. Refer to note 1 comparative information for further details.*

The accompanying notes form part of these financial statements.

Statement of Financial Position

As at 31 December 2018

	NOTE	2018 $000	2017 Restated $000[1]
Assets			
Cash and cash equivalents		7,482	7,566
Trade and other receivables	8	29,836	25,416
Interest rate swaps	14	4,626	1,193
Property, plant and equipment	9	132,746	123,431
Intangible assets	10	6,628	5,562
Investment property	11	2,585,049	2,069,662
Total assets		**2,766,367**	**2,232,830**
Liabilities			
Trade and other payables	12	87,238	51,858
Employee benefits	13	9,452	6,733
Revenue received in advance	4	71,083	50,493
Interest rate swaps	14	14,059	7,934
Residents' loans	15	1,136,792	966,627
Interest-bearing loans and borrowings	16	452,760	347,170
Deferred tax liability	7	16,184	16,229
Total liabilities		**1,787,568**	**1,447,044**
Net assets		**978,799**	**785,786**
Equity			
Share capital	18	269,467	257,414
Reserves	18	14,824	19,229
Retained earnings		694,508	509,143
Total equity attributable to shareholders		**978,799**	**785,786**

1 Investment property has been restated for 2017. Refer to note 1 comparative information for further details.

The accompanying notes form part of these financial statements.

On behalf of the Board

Rob Campbell
Director and Chair of the Board

James Ogden
Director and Chair of the Audit Committee

Authorised for issue on 21 February 2019

Statement of Cash Flows

For the year ended 31 December 2018

	2018 $000	2017 $000
Cash flows from operating activities		
Receipts from residents for care fees and village services	90,313	72,424
Interest received	226	184
Payments to suppliers and employees	(107,144)	(80,565)
Receipts for residents' loans - new occupation right agreements	187,273	181,574
Net receipts for residents' loans - resales of occupation right agreements	47,135	34,099
Net cash flow from operating activities	**217,803**	**207,716**
Cash flows to investing activities		
Payments for investment property:		
- land	(54,699)	(27,840)
- construction of new villages	(203,781)	(197,819)
- refurbishments in established villages	(5,423)	(3,937)
Payments for property, plant and equipment:		
- construction of new care centres	(9,960)	(15,244)
- refurbishments in established care centres	(1,017)	(752)
- other	(3,702)	(1,643)
Payments for intangible assets	(2,489)	(4,457)
Capitalised interest paid	(9,325)	(5,802)
Net cash flow to investing activities	**(290,396)**	**(257,494)**
Cash flows from financing activities		
Net repayments of bank borrowings	(21,337)	(26,136)
Proceeds from issue of retail bonds	125,000	100,000
Interest paid on bank loans and retail bonds	(13,374)	(12,881)
Net dividends paid	(17,780)	(12,293)
Net cash flow from financing activities	**72,509**	**48,690**
Net decrease in cash and cash equivalents	(84)	(1,088)
Cash and cash equivalents at beginning of period	7,566	8,654
Cash and cash equivalents at end of period	**7,482**	**7,566**

The accompanying notes form part of these financial statements.

Reconciliation of Operating Results and Operating Cash Flows

For the year ended 31 December 2018

	2018 $000	2017 Restated $000[1]
Profit for the period	**214,503**	**239,938**
Adjustments for:		
Depreciation and amortisation expense	6,685	4,628
Reversal of impairment on land	-	(15)
Loss on disposal of property, plant and equipment	113	82
Fair value movement of investment property	(209,930)	(234,456)
Net finance costs paid	11,647	11,521
Deferred tax expense	1,670	290
Deferred management fee amortisation	(45,637)	(35,804)
Employee share plan option cost	714	820
	(234,738)	**(252,934)**
Movements in working capital		
Increase in trade and other receivables	(2,390)	(9,824)
Increase in employee benefits	2,708	1,731
Increase in trade and other payables	2,007	877
Increase in residents' loans net of non-cash amortisation	235,713	227,928
	238,038	**220,712**
Net cash flow from operating activities	**217,803**	**207,716**

1 Fair value movement of investment property has been restated for 2017. Refer to note 1 comparative information for further details.

The accompanying notes form part of these financial statements.

Dunedin resident enjoys a coffee with friends in the village's Divine café.

Notes to the Financial Statements

For the year ended 31 December 2018

1. Summary of accounting policies

Reporting entity
The consolidated financial statements presented for the year ended 31 December 2018 are for Summerset Group Holdings Limited (the 'Company') and its subsidiaries (collectively referred to as the 'Group'). The Group develops, owns and operates integrated retirement villages in New Zealand, including independent living, care centres with rest home and hospital-level care and memory care centres.

Summerset Group Holdings Limited is registered in New Zealand under the Companies Act 1993 and is a FMC Reporting Entity for the purposes of the Financial Markets Conduct Act 2013. The reporting entity is listed on the New Zealand Stock Exchange (NZX), being the Company's primary exchange, and is listed on the Australian Securities Exchange (ASX) as a foreign exempt listing.

Basis of preparation
These consolidated financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP), except for Note 2: Non-GAAP underlying profit, which is presented in addition to NZ GAAP compliant information. NZ GAAP in this instance refers to New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for profit-oriented entities. These financial statements also comply with International Financial Reporting Standards.

These financial statements are expressed in New Zealand dollars, which is the Company's and New Zealand subsidiaries' functional currency. The functional currency of the Company's Australian subsidiaries is Australian dollars. All financial information has been rounded to the nearest thousand, unless otherwise stated.

All amounts are shown exclusive of goods and services tax (GST) except for trade receivables and trade payables, and except where the amount of GST incurred is not recoverable. When this occurs GST is recognised as part of the cost of the asset or as an expense as applicable.

The measurement basis adopted in the preparation of these financial statements is historical cost with the exception of the items noted below.

- Interest rate swaps – Note 14
- Investment property – Note 11
- Land and buildings – Note 9
- Retail bonds – Note 16

Basis of consolidation
Subsidiaries are fully consolidated at the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements are prepared for the same reporting period as the parent company, Summerset Group Holdings Limited, using consistent accounting policies. All intra-group transactions and balances arising within the Group are eliminated in full.

All subsidiary companies are 100% owned and incorporated in New Zealand or Australia with a balance date of 31 December.

Notes to the Financial Statements (continued)

The New Zealand subsidiaries are:

Summerset Care Limited
Summerset Holdings Limited
Summerset LTI Trustee Limited
Summerset Management Group Limited
Summerset Properties Limited
Summerset Retention Trustee Limited
Summerset Villages (Aotea) Limited
Summerset Villages (Avonhead) Limited
Summerset Villages (Bell Block) Limited
Summerset Villages (Casebrook) Limited
Summerset Villages (Dunedin) Limited
Summerset Villages (Ellerslie) Limited
Summerset Villages (Hamilton) Limited
Summerset Villages (Hastings) Limited
Summerset Villages (Havelock North) Limited
Summerset Villages (Hobsonville) Limited
Summerset Villages (Karaka) Limited
Summerset Villages (Katikati) Limited
Summerset Villages (Kenepuru) Limited
Summerset Villages (Levin) Limited
Summerset Villages (Lower Hutt) Limited
Summerset Villages (Manukau) Limited
Summerset Villages (Napier) Limited
Summerset Villages (Nelson) Limited
Summerset Villages (New Plymouth) Limited
Summerset Villages (Number 33) Limited
Summerset Villages (Palmerston North) Limited
Summerset Villages (Papamoa) Limited
Summerset Villages (Paraparaumu) Limited
Summerset Villages (Parnell) Limited
Summerset Villages (Richmond) Limited
Summerset Villages (Rototuna) Limited
Summerset Villages (St Johns) Limited
Summerset Villages (Taupo) Limited
Summerset Villages (Te Awa) Limited
Summerset Villages (Trentham) Limited
Summerset Villages (Wanganui) Limited
Summerset Villages (Warkworth) Limited
Summerset Villages (Wigram) Limited
Welhom Developments Limited

The Australian subsidiaries are:

Summerset Care (Australia) Pty Ltd
Summerset Holdings (Australia) Pty Limited
Summerset Management Group (Australia) Pty Limited
Welhom Developments (Australia) Pty Ltd

Accounting policies

Accounting policies that summarise the measurement basis used and are relevant to the understanding of the financial statements are provided throughout the accompanying notes.

The accounting policies adopted have been applied consistently throughout the periods presented in these financial statements, except as outlined below with the adoption of NZ IFRS 15 - *Revenue from contracts with customers*.

The Group adopted all mandatory new and amended NZ IFRS Standards and Interpretations. These new and amended NZ IFRS Standards and Interpretations had a disclosure impact only on these financial statements.

NZ IFRS 15 - *Revenue from contracts with customers* was effective for the Group from 1 January 2018. There was no material impact for the Group in relation to accounting or disclosures due to the nature of the Group's transactions. Care fees and village services are consumed within the same period as they are invoiced and deferred management fee revenue is not impacted as it is covered currently by NZ IAS 17 - *Leases* and from 1 January 2019 by NZ IFRS 16 - *Leases*.

The Group early adopted NZ IFRS 9 – *Financial Instruments* from 1 July 2017. There was no material impact on transition.

NZ IFRS Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual report period ending 31 December 2018 are outlined below:

NZ IFRS 16 – *Leases*

This standard will replace NZ IAS 17 – *Leases*. NZ IFRS 16 - *Leases* requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The Group has completed its evaluation of the impact of adopting this standard and it is not expected to be significant.

Operating leases will be recognised on the balance sheet as a right-of-use asset and a corresponding lease liability, based on the discounted value of the operating lease commitments of approximately $12.2 million as at 31 December 2018 as disclosed in note 23. The recognition exemption under NZ IFRS 16 - *Leases* for short term or low value assets of less than $5,000 USD or leases terminating within one year will be applied, and these expenses will continue to be recognised on a straight-line basis in the income statement .

Rental and operating lease expenses previously recognised on a straight-line basis within other expenses will be recognised as amortisation for right-of-use assets and finance costs for lease liabilities in the income statement. The impact on the income statement for the year ended 31 December 2019 is expected to be an approximately $0.2 million increase in expenses.

Operating lease payments previously classified as cash flows from operating activities will be reclassified as cash flows from financing activities for principal repayments of the lease liability. There will be no impact on actual cash payments.

Occupation right agreements confer the right to occupancy of a retirement unit and are considered leases under both NZ IAS 17 - *Leases* and NZ IFRS 16 - *Leases*. There is no change to the recognition or measurement of occupation right agreements and the associated deferred management fee revenue. Deferred management fee revenue will continue to be recognised on a straight-line basis in the income statement over the period of service, being the greater of the expected period of tenure or the contractual right to revenue. Refer to Note 4 for further detail on deferred management fee revenue.

The Group will apply NZ IFRS 16 - *Leases* from its effective date of 1 January 2019 using the modified retrospective approach. The modified retrospective approach under NZ IFRS 16 - *Leases* means that on transition the Group is not required to restate comparative information, instead opening equity is adjusted.

There are no new standards, amendments or interpretations that have been issued and are not yet effective, that are expected to have a significant impact on the Group.

Critical accounting estimates and judgements

In preparing the financial statements, management has made estimates and assumptions about the future that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results may differ from those estimates.

Estimates and assumptions are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The principal areas of judgement in preparing these financial statements are described in the following notes:

- Deferred management fees – Note 4
- Deferred taxation – Note 7
- Interest rate swaps – Note 14
- Revenue in advance – Note 4
- Valuation of investment property – Note 11
- Valuation of land and buildings – Note 9
- Valuation of retail bonds – Note 16

Comparative information

Comparative information has been updated to reflect the reclassification of work in progress for care centres under development from investment property to property, plant and equipment.

	2017 Reported $000	Reclass $000	2017 Reclassified $000
Statement of Financial Position			
Property, plant and equipment	118,506	4,925	123,431
Investment property	2,058,085	(4,925)	2,053,160
Statement of Cash Flows			
Construction of new investment property	(202,744)	4,925	(197,819)
Construction of new care centres	(10,319)	(4,925)	(15,244)

Notes to the Financial Statements (continued)

The Group has also amended the comparative value of investment property. The fair value of investment property is determined by an independent registered valuer by undertaking a cash flow analysis to derive a net present value. The fair value of investment property has been amended to adjust for assets and liabilities recognised in the statement of financial position which are also reflected in the cash flow analysis, as required by NZIAS 40 – *Investment Property*. This amendment moves the adjustment to assets and liabilities from being based on the contractual right to deferred management fees to being based on the expected period of tenure the deferred management fees are earned over. This amendment has been made by adjusting the investment property balance for revenue received in advance recognised on the balance sheet. Investment property work in progress has also been amended to adjust for timing differences associated with the recognition of infrastructure costs.

As a result of these amendments there was a requirement to restate the comparative period. There was no impact on underlying profit as a result of this restatement. No adjustment has been made to periods prior to the comparative period on the basis of materiality.

	2017 Reported $000	Amendment $000	2017 Restated $000
Income Statement			
Fair value movement of investment property	217,954	16,502	234,456
Profit for the period	223,436	16,502	239,938
Statement of Financial Position			
Investment property	2,053,160	16,502	2,069,662
Retained earnings	492,641	16,502	509,143

No other comparative information has been restated in the current year.

2. Non-GAAP underlying profit

	Ref	2018 $000	2017 Restated $000[1]
Profit for the period		214,503	239,938
Less fair value movement of investment property	a)	(209,930)	(234,456)
Add/(less) impairment/(reversal of impairment) on land	b)	-	(15)
Add realised gain on resales	c)	28,685	24,936
Add realised development margin	d)	63,683	50,970
Add/(less) deferred tax expense/(credit)	e)	1,670	290
Underlying profit		**98,611**	**81,663**

1 *Fair value movement of investment property has been restated for 2017. Refer to note 1 comparative information for further details.*

Underlying profit is a non-GAAP measure and differs from NZ IFRS profit for the period. Underlying profit does not have a standardised meaning prescribed by GAAP and therefore may not be comparable to similar financial information presented by other entities. The Directors have provided an underlying profit measure in addition to IFRS profit to assist readers in determining the realised and unrealised components of fair value movement of investment property and tax expense in the Group's income statement. The measure is used internally in conjunction with other measures to monitor performance and make investment decisions. Underlying profit is a measure which the Group uses consistently across reporting periods. Underlying profit is used to determine the dividend pay-out to shareholders.

This statement presented is for the Group, prepared in accordance with the Basis of preparation: underlying profit described below.

Basis of preparation: underlying profit

Underlying profit is determined by taking profit for the period determined under NZ IFRS, adjusted for the impact of the following:

a) Less fair value movement of investment property: reversal of investment property valuation changes recorded in NZ IFRS profit for the period, which comprise both realised and non-realised valuation movements. This is reversed and replaced with realised development margin and realised resale gains during the period, effectively removing the unrealised component of the fair value movement of investment property.

b) Add/(less) impairment/(reversal of impairment) of land: remove the impact of non-cash care centre valuation changes recorded in NZ IFRS profit for the period. Care centres are valued at least every three years (last valued as at 31 December 2017), with fair value gains flowing through to the revaluation reserve unless the gain offsets a previous impairment to fair value that was recorded in NZ IFRS profit for the period. Where there is any impairment of a care centre, or reversal of a previous impairment that impacts NZ IFRS profit for the period, this is eliminated for the purposes of determining underlying profit.

c) Add realised gain on resales: add the realised gains across all resales of occupation rights during the period. The realised gain for each resale is determined to be the difference between the licence price for the previous occupation right for a retirement unit and the occupation right resold for that same retirement unit during the period. Realised resale gains are a measure of the cash generated from increases in selling prices of occupation rights to incoming residents, less cash amounts repaid to vacated residents for the repayment of the price of their refundable occupation right purchased in an earlier period. Realised resale gains exclude deferred management fees and refurbishment costs.

d) Add realised development margin: add realised development margin across all new sales of occupation rights during the period, with the recognition point being the cash settlement. Realised development margin is the margin earned on the first time sale of an occupation right following the development of a retirement unit. The margin for each new sale is determined to be the licence price for the occupation right, less the cost of developing that retirement unit.

   Components of the cost of developing retirement units include directly attributable construction costs and a proportionate share of the following costs:

   - infrastructure costs
   - land cost on the basis of the purchase price of the land
   - interest during the build period
   - head office costs directly related to the construction of retirement unit

   All costs above include non-recoverable GST.

   Development margin excludes the costs of developing common areas within the retirement village (including a share of the proportionate costs listed above). This is because these areas are assets that support the sale of occupation rights for not just the new sale, but for all subsequent resales. It also excludes the costs of developing care centres, which are treated as property, plant and equipment for accounting purposes.

   Where costs are apportioned across more than one asset, the apportionment methodology is determined by considering the nature of the cost.

e) Add/(less) deferred tax expense/(credit): reversal of the impact of deferred taxation.

   Underlying profit does not include any adjustments for abnormal items or fair value movements on financial instruments that are included in NZ IFRS profit for the period.

3. Segment reporting

The Group operates in one industry, being the provision of integrated retirement villages in New Zealand. The services provided across all of the Group's villages are similar, as are the type of customer and the regulatory environment. The chief operating decision makers, the Chief Executive Officer and the Board of Directors, review the operating results of the Group as a whole on a regular basis. On this basis, the Group has one reportable segment, and the Group results are the same as the results of the reportable segment. All resource allocation decisions across the Group are made to optimise the consolidated Group's result.

The Group continues to consider expansion into Australia. To date, the expenditure incurred has been immaterial to the Group and relates primarily to consultancy and employment costs associated with considering the expansion.

The Ministry of Health is a significant customer of the Group, as the Group derives care fee revenue in respect of eligible government subsidised aged care residents. Fees earned from the Ministry of Health for the year ended 31 December 2018 amounted to $28.8 million (2017: $25.0 million). No other customers individually contribute a significant proportion of the Group revenue. All revenue is earned in New Zealand.

Notes to the Financial Statements (continued)

4. Revenue

Care fees and villages services income is recognised over the period in which the service is rendered.

Deferred management fees, which entitle residents to accommodation and the use of the community facilities within the village, are recognised over the period of service, being the greater of the expected period of tenure or the contractual right to revenue. The expected periods of tenure, being based on historical Group averages, are estimated to be seven to eight years for villas, five years for apartments and three years for serviced apartments and memory care apartments. Where the deferred management fees over the contractual period exceeds the amortisation of the deferred management fee based on estimated tenure, the amount is recorded as a liability (revenue in advance). At balance date, the majority of the revenue in advance balance is non-current. Deferred management fees are recognised on a gross basis in the receipts for residents' loans section of the statement of cash flows.

Interest income is recognised in the income statement as it accrues, using the effective interest method.

5. Operating expenses

	2018 $000	2017 $000
Employee expenses	65,387	50,487
Property-related expenses	10,967	9,151
Repairs and maintenance expenses	4,488	4,713
Other operating expenses	31,600	24,236
Total operating expenses	**112,442**	**88,587**

Other operating expenses include:

	2018 $000	2017 $000
Remuneration paid to auditors:		
- Audit and review of financial statements	193	185
- Audit of underlying profit disclosures	-	4
- Market analysis advisory services provided to the Group	-	291
Donations	50	25
Rent	1,311	1,029

Employee expenses include post-employment benefits (KiwiSaver/Superannuation) of $1.7 million (2017: $1.4 million) .

6. Net finance costs

	2018 $000	2017 $000
Interest on bank loans, retail bonds and related fees	17,918	14,626
Interest on interest rate swaps	2,688	3,273
Capitalised finance costs	(8,953)	(6,390)
Fair value movement of interest rate swaps designated as fair value through profit or loss	(3,434)	(1,193)
Fair value movement of retail bonds designated as fair value through profit or loss	3,376	1,171
Other	52	34
Net finance costs	**11,647**	**11,521**

Interest expense comprises interest payable on borrowings and is calculated using the effective interest rate method.

Borrowing costs are capitalised for property, plant and equipment (Note 9) and investment property (Note 11) if they are directly attributable to the construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset commence and expenditures and borrowing costs are incurred. Capitalisation of borrowing costs continues until the assets are substantially ready for their intended use.

Borrowing costs of $9.0 million (2017: $6.4 million) have been capitalised during the period of construction in the current year. The weighted average capitalisation rate on funds borrowed representing the borrowing costs of the loans used to finance projects is 4.17% per annum (2017: 4.10% per annum).

The retail bonds are designated in a fair value hedging relationship. Details of fair value hedging are included in note 14.

7. Income tax

Tax expense comprises current and deferred tax, calculated using the tax rate enacted or substantively enacted at balance date and any adjustment to tax payable in respect of prior years. Tax expense is recognised in the income statement except when it relates to items recognised directly in the statement of comprehensive income, in which case the tax expense is recognised in the statement of comprehensive income.

Deferred tax expense is recognised in respect of temporary differences between the carrying amounts of assets and liabilities in the financial statements and the amounts used for taxation purposes. A deferred tax asset is recognised only to the extent it is probable it will be utilised. Temporary differences for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, unless they arise from business combination, are not provided for.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(a) Income tax recognised in the income statement

	2018 $000	2017 $000
Tax expense comprises:		
Current tax expense	-	-
Deferred tax relating to the origination and reversal of temporary differences	1,670	290
Total tax expense reported in income statement	**1,670**	**290**

Notes to the Financial Statements (continued)

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

	2018		2017 Restated[1]	
	$000	%	$000	%
Profit before income tax	**216,173**		**240,228**	
Income tax using the corporate tax rate	60,528	28.0%	67,264	28.0%
Capitalised interest	(2,007)	(0.9%)	(1,789)	(0.7%)
Other non-deductible expenses	271	0.1%	224	0.1%
Non-assessable investment property revaluations	(58,780)	(27.2%)	(65,649)	(27.3%)
Non-assessable reversal of impairment	-	0.0%	(4)	0.0%
Other	1,431	0.7%	-	0.0%
Prior period adjustments	227	0.1%	244	0.1%
Total income tax expense/(credit)	**1,670**	**0.8%**	**290**	**0.1%**

1 Fair value movement of investment property has been restated for 2017. Refer to note 1 comparative information for further details.

Total Group tax losses available in New Zealand amounted to $109.6 million (2017: $5.4 million). There are no unrecognised tax losses in New Zealand (2017: nil).

Australian tax losses have not been recognised in the Group in the current year .

(b) Amounts charged or credited to other comprehensive income

	2018 $000	2017 $000
Tax expense comprises:		
Net gain on revaluation of land and buildings	-	5,036
Fair value movement of interest rate swaps	(1,715)	(851)
Total tax (credit)/expense reported in statement of comprehensive income	**(1,715)**	**4,185**

(c) Imputation credit account

There were no imputation credits received or paid during the year and the balance at 31 December 2018 is nil (2017: nil).

(d) Deferred tax

Movement in the deferred tax balance comprises:

	BALANCE 1 JAN 2018 $000	RECOGNISED IN INCOME $000	RECOGNISED IN OCI* $000	BALANCE 31 DEC 2018 $000
Property, plant and equipment	15,641	1,421	-	17,062
Investment property	19,363	4,748	-	24,111
Revenue in advance	(14,138)	25,788	-	11,650
Interest rate swaps	(2,222)	-	(1,715)	(3,937)
Income tax losses not yet utilised	(1,525)	(30,277)	-	(31,802)
Other items	(890)	(10)	-	(900)
Net deferred tax liability	**16,229**	**1,670**	**(1,715)**	**16,184**

	BALANCE 1 JAN 2017 $000	RECOGNISED IN INCOME $000	RECOGNISED IN OCI* $000	BALANCE 31 DEC 2017 $000
Property, plant and equipment	10,105	500	5,036	15,641
Investment property	16,096	3,267	-	19,363
Revenue in advance	(8,266)	(5,872)	-	(14,138)
Interest rate swaps	(1,371)	-	(851)	(2,222)
Income tax losses not yet utilised	(3,578)	2,053	-	(1,525)
Other items	(1,231)	341	-	(890)
Net deferred tax liability	**11,757**	**290**	**4,185**	**16,229**

* Other comprehensive income

8. Trade and other receivables

Trade and other receivables are stated at amortised cost less impairment losses. Trade receivables are not significant on an individual basis and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate, less an allowance for impairment. The allowance for doubtful debts is made up of expected credit losses based on assessment of trade receivables debt at the individual level for impairment, plus an additional allowance on the remaining balance for potential credit losses not yet identified. The expected credit losses allowance requirement on the remaining balance has been set at 2%. There has been no material change in the allowance for doubtful debts from prior year.

	2018 $000	2017 $000
Trade receivables	2,632	2,059
Allowance for doubtful debts	(117)	(59)
Net trade receivables	**2,515**	**2,000**
Prepayments	4,954	2,028
Accrued income	1,011	777
Sundry debtors	21,356	20,611
Total trade and other receivables	**29,836**	**25,416**

Notes to the Financial Statements (continued)

9. Property, plant and equipment

Property, plant and equipment includes care centres, both complete and under development, and corporate assets held.

All property, plant and equipment is initially recorded at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed care centres includes directly attributable construction costs and other costs necessary to bring the care centres to working condition for their intended use. These other costs include professional fees and consents, interest during the build period and head office costs directly related to the construction of the care centres. Where costs are apportioned across more than one asset, the apportionment methodology is determined by considering the nature of the cost.

Subsequent to initial recognition, completed care centres are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on care centres and accumulated impairment losses, if any, since the assets were last revalued. Other corporate assets are subsequently measured at cost less accumulated depreciation and impairment losses, if any. Where an item of plant and equipment is disposed of, the gain or loss recognised in the income statement is calculated as the difference between the net sales price and the carrying amount of the asset.

Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

Any revaluation surplus is recognised in other comprehensive income unless it reverses a revaluation decrease of the same asset previously recognised in the income statement. Any revaluation deficit is recognised in the income statement unless it directly offsets a previous surplus in the same asset in other comprehensive income. Any accumulated depreciation at revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings. Independent valuations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from the asset's fair value at the balance sheet date.

Note 6 provides details on capitalised borrowing costs.

Depreciation is charged to the income statement on a straight-line (SL) or diminishing value (DV) basis over the estimated useful life of each item of property, plant and equipment, with the exception of land, which is not depreciated. Depreciation methods, useful lives and residual values are reassessed at the reporting date. Major depreciation rates are as follows:

- Buildings (2% DV or SL)
- Motor vehicles (10% to 36% DV or SL)
- Furniture and fittings (2% to 80% DV or SL)
- Plant and equipment (2% to 80% DV or SL)

Also included in the buildings category is building fit-out with depreciation rates ranging between 3% to 48% DV or SL.

	LAND $000	BUILDINGS $000	MOTOR VEHICLES $000	PLANT AND EQUIPMENT $000	FURNITURE AND FITTINGS $000	TOTAL $000
Cost						
Balance at 1 January 2017	3,080	81,305	1,284	7,694	4,782	98,145
Additions	-	15,452	222	2,530	2,077	20,281
Disposals	-	(35)	(211)	(784)	(664)	(1,694)
Reclassification	(250)	(650)	-	-	-	(900)
Reversal of impairment through profit or loss	15	-	-	-	-	15
Revaluations through other comprehensive income	950	13,544	-	-	-	14,494
Balance at 31 December 2017	**3,795**	**109,616**	**1,295**	**9,440**	**6,195**	**130,341**
Additions	-	9,701	250	3,608	1,122	14,681
Disposals	-	(8)	-	(445)	(14)	(467)
Balance at 31 December 2018	**3,795**	**119,309**	**1,545**	**12,603**	**7,303**	**144,555**
Accumulated depreciation						
Balance at 1 January 2017	-	2,742	631	3,275	1,672	8,320
Depreciation charge for the year	-	1,717	219	1,511	661	4,108
Disposals	-	(18)	(208)	(698)	(153)	(1,077)
Revaluations through other comprehensive income	-	(4,441)	-	-	-	(4,441)
Balance at 31 December 2017	**-**	**-**	**642**	**4,088**	**2,180**	**6,910**
Depreciation charge for the year	-	2,309	215	1,968	813	5,305
Disposals	-	(2)	-	(395)	(9)	(406)
Balance at 31 December 2018	**-**	**2,307**	**857**	**5,661**	**2,984**	**11,809**
Carrying amounts						
As at 31 December 2017	3,795	109,616	653	5,352	4,015	123,431
As at 31 December 2018	**3,795**	**117,002**	**688**	**6,942**	**4,319**	**132,746**

Buildings includes $5.0 million of care centres under development carried at cost at 31 December 2018 (2017: $4.9 million).

Revaluations

An independent valuation to determine the fair value of all completed care centres which are classified as land and buildings was carried out as at 31 December 2017 by CBRE Limited, an independent registered valuer. Valuations are carried out every three years unless there are indicators of a significant change in fair value. CBRE determine the fair value of all care centre assets using an earnings-based multiple approach. Significant assumptions used in the most recent valuation include market value per care bed of between $68,000 and $173,000 and individual unit earning capitalisation rate of between 12.0% and 15.0%.

As the fair value of land and buildings is determined using inputs that are unobservable, the Group has categorised property, plant and equipment as Level 3 under the fair value hierarchy in accordance with NZ IFRS 13 – *Fair Value Measurement*.

Notes to the Financial Statements (continued)

Sensitivity analysis to significant changes in unobservable inputs within Level 3 of the hierarchy

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy of the entity's portfolios of land and buildings are the capitalisation rates applied to individual unit earnings and the market value per care bed. A significant decrease (increase) in the capitalisation rate would result in a significantly higher (lower) fair value measurement and a significant increase (decrease) in the market value per care bed would result in a significantly higher (lower) fair value measurement.

Cost model

If land and buildings were measured using the cost model, the carrying amounts would be as follows:

	2018			2017		
	LAND $000	BUILDINGS $000	TOTAL $000	LAND $000	BUILDINGS $000	TOTAL $000
Cost	2,865	93,340	96,205	2,865	83,648	86,513
Accumulated depreciation and impairment losses	-	(14,245)	(14,245)	-	(11,936)	(11,936)
Net carrying amount	**2,865**	**79,095**	**81,960**	**2,865**	**71,712**	**74,577**

Security

At 31 December 2018, all care centres held by retirement villages registered under the Retirement Villages Act 2003 are subject to a registered first mortgage in favour of the Statutory Supervisor.

10. Intangible assets

Intangible assets acquired by the Group are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised in the income statement on a diminishing value or straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The intangible assets are software. The major amortisation rate at 31 December 2018 is 20% straight-line basis.

	TOTAL $000
Cost	
Balance at 1 January 2017	3,815
Additions	4,522
Disposals	(65)
As at 31 December 2017	**8,272**
Additions	2,489
Disposals	(957)
As at 31 December 2018	**9,804**
Accumulated amortisation	
Balance at 1 January 2017	2,253
Amortisation charge for the year	520
Disposals	(63)
As at 31 December 2017	**2,710**
Amortisation charge for the year	1,380
Disposals	(914)
As at 31 December 2018	**3,176**
Carrying amounts	
As at 31 December 2017	5,562
As at 31 December 2018	**6,628**

11. Investment property

Investment property is held to earn current and future rental income (deferred management fees). It comprises land and buildings and associated equipment and furnishings relating to retirement villages and common facilities in the retirement village. Investment property includes buildings under development, excluding care centres under development which are included in property, plant and equipment. Initial recognition of investment property is at cost and it is subsequently measured at fair value with any change in fair value recognised in the income statement.

The cost of retirement villages includes directly attributable construction costs and other costs necessary to bring the retirement villages to working condition for their intended use. These other costs include professional fees and consents, interest during the build period and head office costs directly related to the construction of the retirement villages. Where costs are apportioned across more than one asset, the apportionment methodology is determined by considering the nature of the cost.

Land acquired with the intention of constructing investment property on it is classified as investment property from the date of acquisition.

Rental income from investment property, being deferred management fees, is accounted for as described in Note 4.

Depreciation is not charged on investment property.

Note 6 provides details on capitalised borrowing costs.

Notes to the Financial Statements (continued)

	2018 $000	2017 Restated $000[1]
Balance at beginning of period	2,069,662	1,591,363
Additions	305,492	243,931
Disposals	(35)	(88)
Fair value movement	209,930	234,456
Total investment property	**2,585,049**	**2,069,662**

1 Fair value movement of investment property has been restated for 2017. Refer to note 1 comparative information for further details.

	2018 $000	2017 Restated $000[1]
Development land measured at fair value[2]	212,923	152,750
Retirement villages measured at fair value	2,204,354	1,769,560
Retirement villages under development measured at cost	167,772	147,352
Total investment property	**2,585,049**	**2,069,662**

1 Investment property has been restated for 2017. Refer to note 1 comparative information for further details.

2 Included in development land is land acquired close to balance date and as such were excluded from the CBRE valuation of investment property. These pieces of land have been accounted for at cost, which has been determined to be fair value due to the proximity of the transaction to balance date. At 31 December 2018 the land at cost was $36.9 million (2017:$17.8 million).

	2018 $000	2017 Restated $000[1]
Manager's net interest	1,377,174	1,052,542
Plus: revenue received in advance	71,083	50,493
Plus: liability for residents' loans	1,136,792	966,627
Total investment property	**2,585,049**	**2,069,662**

1 Investment property has been restated for 2017. Refer to note 1 comparative information for further details.

The Group is unable to reliably determine the fair value of non-land retirement villages under development at 31 December 2018 and therefore these are carried at cost. This equates to $167.8million of investment property (2017: $147.4 million).

The fair value of investment property as at 31 December 2018 was determined by CBRE Limited, an independent registered valuer. The fair value of the Group's investment property is determined on a semi-annual basis, based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. To assess the fair value of the Group's interest in the village, CBRE has undertaken a cash flow analysis to derive a net present value. There has been no change in valuation technique since the previous period.

As required by NZ IAS 40 - *Investment Property*, the fair value as determined by the independent registered valuer is adjusted for assets and liabilities already recognised on the balance sheet which are also reflected in the cash flow analysis.

Significant assumptions used by the valuer include a discount rate of between 13.5% and 16.5% (2017: 13.5% to 16.0%) and a long term nominal house price inflation rate (growth rate) of between 0% and 3.5% (2017: 0% to 3.5%). Other assumptions used by the valuer include the average entry age of residents of between 72 years and 90 years (2017: 72 years and 96 years) and the stabilised departing occupancy periods of retirement units of between 3.7 years and 9.0 years (2017: 3.7 years and 9.1 years).

As the fair value of investment property is determined using inputs that are unobservable, the Group has categorised investment property as Level 3 under the fair value hierarchy in accordance with NZ IFRS 13 – *Fair Value Measurement*.

Sensitivity analysis to significant changes in unobservable inputs within Level 3 of the hierarchy

To assess the market value of the Group's interest in a retirement village, CBRE has undertaken a cash flow analysis to derive a net present value. As the fair value of investment property is determined using inputs that are significant and unobservable, the Group has categorised investment property as Level 3 under the fair value hierarchy in accordance with NZ IFRS 13 - *Fair Value Measurement*.

The sensitivities of the significant assumptions are shown in the table below:

	Fair value	Discount rate +50 bp	Discount rate -50 bp	Growth rates +50bp	Growth rates -50bp
31 December 2018					
Valuation ($000)	2,204,354				
Difference ($000)		(29,680)	31,590	130,057	(116,831)
Difference (%)		(1.3%)	1.4%	5.9%	(5.3%)
31 December 2017					
Valuation ($000)	1,769,560				
Difference ($000)		(23,880)	25,410	111,482	(90,248)
Difference (%)		(1.3%)	1.4%	6.3%	(5.1%)

Other key components in determining the fair value of investment property are the average entry age of residents and the average occupancy of retirement units. A significant decrease (increase) in the occupancy period of retirement units would result in a significantly higher (lower) fair value measurement and a significant increase (decrease) in the average entry age of residents would result in a significantly higher (lower) fair value measurement.

Operating expenses

Direct operating expenses arising from investment property that generated rental income during the period amounted to $29.3 million (2017: $26.1 million). There were 75 retirement units excluding work in progress (2017: nine) in investment property that did not generate rental income during the period.

Security

At 31 December 2018, all investment property relating to registered retirement villages under the Retirement Villages Act 2003 are subject to a registered first mortgage in favour of the Statutory Supervisor to secure the Group's obligations to the occupation right agreement holders.

12. Trade and other payables

Trade and other payables are carried at amortised cost. Due to their short-term nature they are not discounted.

	2018 $000	2017 $000
Trade payables	1,723	1,752
Accruals - development of retirement units and care centres	70,144	37,520
Accruals - other	11,379	9,062
Sundry payables	3,992	3,524
Total trade and other payables	**87,238**	**51,858**

Notes to the Financial Statements (continued)

13. Employee benefits

A provision is made for benefits accruing to employees in respect of wages, salaries, annual leave and short-term incentives when it is probable that settlement will be required and the amount can be estimated reliably.

	2018 $000	2017 $000
Leave liabilities	5,037	3,899
Other employee benefits	4,415	2,834
Total employee benefits	**9,452**	**6,733**

14. Interest rate swaps

The Group uses interest rate swaps to manage its risk associated with interest rate fluctuations. Interest rate swaps are initially recognised at fair value on the date a contract is entered into and are subsequently measured at fair value on each reporting date. The fair values of the interest rate swaps are determined based on cash flows discounted to present value using current market interest rates.

Cash flow hedges

The Group has entered into interest rate swaps to manage its interest rate risk in relation to its floating rate debt. These interest rate swaps qualify for cash flow hedge accounting. When interest rate swaps meet the criteria for cash flow hedge accounting, the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income, while the ineffective portion is recognised in the income statement. Amounts taken to reserves are transferred out of reserves and included in the measurement of the hedged transaction when the forecast transaction occurs. When interest rate swaps do not meet the criteria for cash flow hedge accounting, all movements in fair value of the hedging instrument are recognised in the income statement.

Under the interest rate swap agreements that qualify for cash flow hedge accounting, the Group has a right to receive interest at variable rates and to pay interest at fixed rates. At 31 December 2018, the Group had interest rate swap agreements in place with a total notional principal amount of $354 million (2017: $319 million). Of the swaps in place, at 31 December 2018 $267 million (2017: $219 million) are being used to cover approximately 59% (2017: 63%) of the floating rate debt principal outstanding. These agreements effectively change the Group's interest exposure on the principal covered by the interest rate swaps from a floating rate to fixed rates, which range between 2.78% and 4.43% (2017: 2.78% and 4.47%).

The fair value of these agreements at 31 December 2018 is a $14.1 million liability, comprised of $14.1 million of swap liabilities and $0.0 million of swap assets (2017: liability of $7.9 million, comprised of $7.9 million of swap liabilities and $0.0 million of swap assets). Of this, a liability of $360,000 (2017: $333,000) is estimated to be current. The agreements cover notional amounts for terms of between one and ten years.

The notional principal amounts and the period of expiry of the cash flow hedge interest rate swap contracts are as follows:

	2018 $000	2017 $000
Less than 1 year	37,000	27,000
Between 1 and 2 years	40,000	37,000
Between 2 and 3 years	25,000	40,000
Between 3 and 4 years	70,000	25,000
Between 4 and 5 years	25,000	50,000
Between 5 and 6 years	20,000	10,000
Between 6 and 7 years	25,000	20,000
Between 7 and 8 years	52,000	25,000
Between 8 and 9 years	50,000	45,000
Between 9 and 10 years	10,000	40,000
Total	**354,000**	**319,000**
Current	267,000	219,000
Forward starting	87,000	100,000
Total	**354,000**	**319,000**

Fair value hedges

The Group has entered into interest rate swaps to manage its interest rate risk in relation to its fixed rate debt arising from the retail bonds. The hedge is for the future fair value movements in the retail bonds as a result of market interest rate movements. The Group has designated all of its $225.0 million retail bonds in fair value hedge relationships.

Both the hedging instrument (interest rate swap) and the hedged risk are recognised at fair value. The change in the fair value of both items offset in the statement of comprehensive income to the extent the hedging relationship is effective. The increase in fair value of the interest rate swaps of $3.4 million (2017: $1.2 million) has been recognised in finance costs and has been offset with a similar fair value loss on the retail bonds to leave an ineffective amount in finance costs of $57,000 (2017: $22,000).

Under the interest rate swap agreements that qualify for fair value hedge accounting, the Group has a right to receive interest at fixed rates and to pay interest at floating rates. At 31 December 2018, the Group had interest rate swap agreements in place with a total notional principal amount of $225.0 million (2017: $100.0 million). Of the interest rate swaps in place, at 31 December 2018 $225.0 million (2017: $100.0 million) are being used to cover 100% (2017: 100%) of the fixed interest rate retail bonds outstanding.

The notional principal amounts and the period of expiry of the fair value hedge interest rate swap contracts are as follows:

	2018 $000	2017 $000
Between 4 and 5 years	100,000	-
Between 5 and 6 years	-	100,000
Between 6 and 7 years	125,000	-
Total	**225,000**	**100,000**
Current	225,000	100,000
Forward starting	-	-
Total	**225,000**	**100,000**

Notes to the Financial Statements (continued)

15. Residents' loans

Residents' loans are amounts payable under occupation right agreements. An occupation right agreement confers a right of occupancy to a villa, apartment, serviced apartment or memory care apartment. The consideration received on the grant of an occupation right agreement is allocated to the resident's loan in full. These loans are non-interest-bearing and are payable when both an occupation right agreement is terminated and there has been settlement of a new occupation right agreement for the same retirement unit and the proceeds from the new settlement have been received by the Group. Residents' loans are initially recognised at fair value and subsequently measured at amortised cost.

The Group holds a contractual right to set-off the deferred management fee receivable on termination of an agreement against the resident's loan to be repaid. Residents' loans are therefore recognised net of the deferred management fee receivable on the balance sheet. Deferred management fees are payable by residents in consideration for the supply of accommodation and the right to share in the use of community facilities. Deferred management fees are paid in arrears with the amount payable calculated as a percentage of the resident's loan amount as per the resident's occupation right agreement. Deferred management fee receivable is calculated and recorded based on the current tenure of the resident and the contractual right to deferred management fee earned at balance date. Refer to Note 4 for further detail on recognition of deferred management fee revenue.

	2018 $000	2017 $000
Balance at beginning of period	1,134,069	924,848
Net receipts for residents' loans - resales of occupation right agreements	34,193	27,647
Receipts for residents' loans - new occupation right agreements	187,273	181,574
Total gross residents' loans	**1,355,535**	**1,134,069**
Deferred management fees receivable	(218,743)	(167,442)
Total residents' loans	**1,136,792**	**966,627**

Note 17 provides a split between current and non-current residents' loans.

16. Interest-bearing loans and borrowings

Interest-bearing loans and borrowings include secured bank loans and unsubordinated fixed rate retail bonds.

Interest-bearing loans and borrowings are recognised initially at fair value net of directly attributable transaction costs. Subsequent to initial recognition, the borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit or loss over the period of the borrowing using the effective interest rate. The retail bonds are designated in fair value hedge relationships, which means that any change in market interest rates result in a change in the fair value adjustment on that debt. Retail bond issue expenses, fees and other costs incurred in arranging retail bond finance are capitalised and amortised over the term of the relevant debt instrument.

	Coupon	2018 $000	2017 $000
Repayable after 12 months			
Secured bank loans	Floating	226,503	247,839
Retail bond - SUM010	4.78%	100,000	100,000
Retail bond - SUM020	4.20%	125,000	-
Total loans and borrowings at face value		**451,503**	**347,839**
Issue costs for retail bonds capitalised:			
Opening balance		(1,840)	-
Capitalised during the period		(1,874)	(2,007)
Amortised during the period		424	167
Total loans and borrowings at amortised cost		**448,213**	**345,999**
Fair value adjustment on hedged borrowings		4,547	1,171
Carrying value of interest-bearing loans and borrowings		**452,760**	**347,170**

The non-cash movements included in the table above are the issue costs for retail bonds amortised during the period and the fair value adjustment on hedged borrowings.

A summary of the changes in the Group's borrowings is provided below:

	2018 $000	2017 $000
Borrowings at the start of the year	347,170	273,976
Net cash borrowed/(repaid)	103,664	73,863
Non-cash change in deferred financing costs	(1,450)	(1,840)
Non-cash change in fair value adjustment	3,376	1,171
Borrowings at the end of the year	**452,760**	**347,170**

The weighted average interest rate for the year to 31 December 2018 was 4.17% (2017: 4.10%). This includes the impact of interest rate swaps (see Note 14).

The secured bank loan facility at 31 December 2018 has a limit of NZD$500.0 million (2017: $500.0 million). Lending of $185.0 million expires in August 2020 and $315.0 million of lending expires in March 2022.

The Group has issued two retail bonds. The first retail bond was issued for $100.0 million in July 2017 and has a maturity date of 11 July 2023. This retail bond is listed on the NZX Debt Market (NZDX) with the ID SUM010. The second retail bond was issued for $125.0 million in September 2018 and has a maturity date of 24 September 2025. This retail bond is listed on the NZX Debt Market (NZDX) with the ID SUM020.

Notes to the Financial Statements (continued)

Security

The banks loans and retail bonds rank equally with the Group's other unsubordinated obligations and are secured by the following securities held by a security trustee:

- a first ranking registered mortgage over all land and permanent buildings owned (or leased under a registered lease) by each New Zealand-incorporated guaranteeing Group member that is not a registered retirement village under the Retirement Villages Act 2003;
- a second ranking registered mortgage over the land and permanent buildings owned (or leased under a registered lease) by each New Zealand-incorporated guaranteeing Group member that is a registered retirement village under the Retirement Villages Act 2003 (behind a first ranking registered mortgage in favour of the Statutory Supervisor);
- a first ranking registered mortgage over all land and permanent buildings owned (or leased under a registered lease) by each Australian-incorporated guaranteeing Group member;
- a General Security Deed, which secures all assets of the New Zealand- incorporated guaranteeing Group members, but in respect of which the Statutory Supervisor has first rights to the proceeds of security enforcement against all assets of the registered retirement villages to which the security trustee is entitled;
- a General Security Deed, which secures all assets of the Australian-incorporated guaranteeing Group members; and
- a Specific Security Deed in respect of each marketable security of Summerset Holdings (Australia) Pty Limited, held by Summerset Holdings Limied.

17. Financial instruments

Exposure to credit, market and liquidity risk arises in the normal course of the Group's business. The Board reviews and agrees on policies for managing each of these risks as summarised below.

Categories of financial instruments

Financial assets

All financial assets of the Group are classified at amortised cost except for interest rate swaps which are classified as fair value through profit and loss and those assets that are designated in a hedge relationship.

Financial liabilities

All financial liabilities except interest rate swaps and retail bonds are classified as liabilities at amortised cost. Refer to note 16 for detail on the retail bonds.

Credit risk

Credit risk is the risk of financial loss to the Group if a resident or counterparty to a financial instrument fails to meet their contractual obligations. The Group's exposure to credit risk relates to receivables from residents and bank balances. The Group manages its exposure to credit risk. The Group's cash is held with its principal banker, with the level of exposure to credit risk considered minimal with low levels of cash generally held. Receivables balances are monitored on an ongoing basis and funds are placed with high-credit quality financial institutions. The level of risk associated with sundry debtors is considered minimal due to the recoverability of this balance being assessed as high. The Group does not require collateral from its debtors and the Directors consider the Group's exposure to any concentration of credit risk to be minimal.

The carrying amount of financial assets represents the Group's maximum credit exposure. The status of trade receivables is as follows:

	2018		2017	
	GROSS RECEIVABLE $000	IMPAIRMENT $000	GROSS RECEIVABLE $000	IMPAIRMENT $000
Not past due	2,460	(34)	1,931	(29)
Past due 31 to 60 days	105	(21)	72	(2)
Past due 61 to 90 days	33	(21)	27	(3)
Past due more than 90 days	34	(41)	29	(25)
Total	**2,632**	**(117)**	**2,059**	**(59)**

In summary, trade receivables are determined to be impaired as follows:

	2018 $000	2017 $000
Gross trade receivables	2,632	2,059
Impairment	(117)	(59)
Net trade receivables	**2,515**	**2,000**

Market risk

Market risk is the risk that changes in market prices such as interest rates will affect the Group's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Interest rate risk

The Group's exposure to interest rate risk is managed by seeking to obtain the most competitive rate of interest at all times. The Group has entered into interest rate swap agreements in order to provide an effective cash flow hedge against the variability in floating interest rates. The Group has also entered into other interest swap agreements to reduce interest rate repricing risk in relation to retail bonds. See Note 14 for details of interest rate swap agreements.

To comply with the Group's risk management policy, the hedge ratio is based on the interest rate swap notional amount to hedge the same notional amount of bank loans or retail bonds. This results in a hedge ratio of 1:1. This is the same as used for actual risk management purposes, and such a ratio is appropriate for purposes of hedge accounting as it does not result in an imbalance that would create hedge ineffectiveness.

In these hedge relationships the main sources of ineffectiveness are:

- a significant change in the credit risk of either party to the hedging relationship;
- where the hedge instrument has been transacted on a date different to the rate set date of the bank loan or retail bonds, interest rates could differ; and
- differences in repricing dates between the swaps and the borrowings.

Other than these sources, due to the alignment of the hedged risk in the hedged item and hedged instrument, hedge ineffectiveness is not expected to arise.

At 31 December 2018 it is estimated that a general increase of one percentage point in interest rates would decrease the Group's profit by $1.3 million (2017: decrease by $0.9 million) and increase total comprehensive income by approximately $8.7 million (2017: increase by $8.7 million).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity by maintaining adequate reserves and undrawn banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Group manages liquidity risk on residents' loans and related sundry debtors through the contractual requirements of occupation rights agreements, whereby a resident's loan is only repaid on receipt of the loan monies from the incoming resident.

The following table sets out the contractual cash flows for all financial liabilities for the Group (including contractual interest obligations on bank loans):

	2018		2017	
	LESS THAN 1 YEAR $000	GREATER THAN 1 YEAR $000	LESS THAN 1 YEAR $000	GREATER THAN 1 YEAR $000
Financial liabilities				
Trade and other payables	87,238	-	51,858	-
Residents' loans	90,213	1,046,579	69,229	897,398
Interest-bearing loans and borrowings	16,667	507,480	11,968	384,914
Interest rate swaps	4,072	16,054	4,856	19,400
Total	**198,190**	**1,570,113**	**137,911**	**1,301,712**

Notes to the Financial Statements (continued)

Residents' loans are non-interest bearing and are not required to be repaid following termination of an occupation right agreement until receipt of cash for the new resident loan from the incoming resident. The figures above have been calculated using best estimates of resident loan repayments based on historical information. To date, cash for new residents' loans received has always exceeded cash to repay residents' loans, net of deferred management fees.

Foreign currency risk

Foreign currency risk is the risk that the value of the Group's assets, liabilities and financial performance will fluctuate due to changes in foreign currency rates.

The Group is primarily exposed to currency risk through its subsidiaries in Australia.

The risk to the Group is that the value of the overseas subsidiaries' financial position and financial performance will fluctuate in economic terms and as recorded in the Group financial statements due to changes in the foreign exchange rates. Due to limited activity in the Australian subsidiaries in 2018, the Group did not have a material exposure to foreign exchange risk.

Fair values

The carrying amounts shown in the balance sheet approximate the fair value of the financial instruments, with the exception of residents' loans and retail bonds, shown below:

	2018		2017	
	CARRYING AMOUNT $000	FAIR VALUE $000	CARRYING AMOUNT $000	FAIR VALUE $000
Residents' loans	(1,136,792)	(781,659)	(966,627)	(648,195)
Retail bonds	(226,257)	(230,208)	(99,331)	(104,600)
Total	**(1,363,049)**	**(1,011,867)**	**(1,065,958)**	**(752,795)**

The fair value of residents' loans is based on the present value of projected cash flows. Future cash flows are based on the assumption that the average tenure periods are those disclosed above and have been discounted at 14% (2017: 14%). The fair value of residents' loans is categorised as Level 3 under the fair value hierarchy in accordance with NZ IFRS 13 – *Fair Value Measurement*.

The fair value of retail bonds is based on the price traded at on the NZX market as at 31 December 2018. The fair value of the retail bonds is categorised as Level 1 under the fair value hierarchy in accordance with NZ IFRS 13 – *Fair Value Measurement*.

The fair value of interest rate swaps are determined using inputs from third parties that are observable, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Based on this, the Company and Group has categorised these financial instruments as Level 2 under the fair value hierarchy in accordance with NZ IFRS 13 – *Fair Value Measurement*.

Capital management

The Group's capital includes share capital, reserves and retained earnings. The objective of the Group's capital management is to ensure a strong credit position to support business growth and maximise shareholder value. The Group is subject to capital requirements imposed by the bank lenders (through covenants in the Syndicated Facility Agreement) and bond holders (through covenants in the Master Trust Deed). The Group has met all of these externally imposed capital requirements for the year ended 31 December 2018 (2017: all requirements met). The Group capital structure is managed, and adjustments are made, with Board approval. There were no changes to objectives, policies or processes during the year ended 31 December 2018 (2017: none).

18. Share capital and reserves

At 31 December 2018, there were 225,415,662 ordinary shares on issue (2017: 223,968,019). All ordinary shares are fully paid and have no par value. All shares carry one vote per share and carry the right to dividends.

	2018 $000	2017 $000
Share capital		
On issue at beginning of year	257,414	249,030
Shares issued under the dividend reinvestment plan	9,460	6,512
Shares paid under employee share plans	1,879	1,052
Employee share plan option cost	714	820
On issue at end of year	**269,467**	**257,414**

	2018	2017
Share capital (in thousands of shares)		
On issue at beginning of year	219,740	217,709
Shares issued under the dividend reinvestment plan	1,352	1,281
Shares issued under employee share plans	642	750
On issue at end of year	**221,734**	**219,740**

The total shares on issue at 31 December 2018 of 225,415,662 for the Company differs from the share capital for the Group due to shares held in 100% owned subsidiary, Summerset LTI Trustee Limited. As at 31 December 2018, 3,681,569 shares are held by Summerset LTI Trustee Limited for employee share plans which are eliminated on consolidation. Refer to Note 20 for further details on employee share plans.

Revaluation reserve

The revaluation reserve is used to record the revaluation of care centre land and buildings.

Hedging reserve

The hedging reserve is used to record gains or losses on instruments used as cash flow hedges. The amounts are recognised in profit and loss when the hedged transaction affects profit and loss.

Foreign currency translation reserve

The foreign currency translation reserve is used to record the gain on translation of foreign currency subsidiaries to the Group's reporting currency.

Dividends

On 22 March 2018 a dividend of 7.1 cents per ordinary share was paid to shareholders and on 10 September 2018 a dividend of 6.0 cents per ordinary share was paid to shareholders. (2017: on 22 March 2017 a dividend of 5.1 cents per ordinary share was paid to shareholders and on 11 September 2017 a dividend of 3.9 cents per ordinary share was paid to shareholders).

A dividend reinvestment plan applied to the dividends paid. 810,284 ordinary shares were issued in relation to the plan for the March 2018 dividend and 541,363 ordinary shares were issued in relation to the plan for the September 2018 dividend. (2017: 687,184 ordinary shares were issued in March 2017 and 593,876 ordinary shares were issued in September 2017).

Notes to the Financial Statements (continued)

19. Earnings per share and net tangible assets

Basic earnings per share

	2018	2017 Restated[1]
Earnings ($000)	214,503	239,938
Weighted average number of ordinary shares for the purpose of earnings per share (in thousands)	220,835	218,555
Basic earnings per share (cents per share)	**97.13**	**109.78**

1 *Fair value movement of investment property has been restated for 2017. Refer to note 1 comparative information for further details.*

Diluted earnings per share

	2018	2017 Restated[1]
Earnings ($000)	214,503	239,938
Weighted average number of ordinary shares for the purpose of earnings per share (in thousands)	224,810	222,407
Diluted earnings per share (cents per share)	**95.42**	**107.88**

1 *Fair value movement of investment property has been restated for 2017. Refer to note 1 comparative information for further details.*

Number of shares (in thousands)

	2018	2017
Weighted average number of ordinary shares for the purpose of earnings per share (basic)	220,835	218,555
Weighted average number of ordinary shares issued under employee share plans	3,975	3,852
Weighted average number of ordinary shares for the purpose of earnings per share (diluted)	**224,810**	**222,407**

At 31 December 2018, there were a total of 3,681,569 shares issued under employee share plans held by Summerset LTI Trustee Limited (Dec 2017: 4,227,907 shares).

Net tangible assets per share

	2018	2017 Restated[1]
Net tangible assets ($000)	972,171	780,224
Shares on issue at end of period (basic and in thousands)	221,734	219,740
Net tangible assets per share (cents per share)	**438.44**	**355.07**

1 *Investment property has been restated for 2017. Refer to note 1 comparative information for further details.*

Net tangible assets are calculated as the total assets of the Group minus intangible assets and minus total liabilities. This measure is provided as it is commonly used for comparison between entities.

20. Employee share plans

Senior employee share plan - share option scheme

Effective from 2018 , the Group operates an employee share plan granting share options to selected senior employees ("Participants"). The exercise price of the granted share options is determined from the volume weighted average price on the NZX during the ten trading days prior to the grant date.

	SHARE OPTION PLAN (2018 issue)
Commencement date	10 Dec 2018
Issue price	$6.34
Years that the performance goals relate to	2019 to 2021
% of options vested	0%
Vesting date of final tranche	31 Dec 2021
Final exercise date of final tranche	30 Jun 2023

The performance hurdles for the vesting of share options to Executive Leadership Team members are based on:

- 50% absolute earnings (cumulative actual underlying net profit after tax for the Group against budget)
- 25% relative earnings (earnings per share growth of the Group compared to a defined peer group)
- 10% employee initiatives
- 10% customer initiatives
- 5% clinical strategy initiatives

While there is a requirement to remain employed by Summerset up to vesting date, there are no performance hurdles for vesting of share options to senior management team members, other than the members of the Executive Leadership Team whose performance hurdles are described above.

There are no share options exercisable as at 31 December 2018. (2017: nil).

The share option scheme is an equity-settled scheme and measured at fair value at the date of the grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period, based on the Group's estimate that the share options that will vest. These share options were valued using the Black Scholes valuation model and the share option cost will be recognised over the vesting period starting on 1 January 2019. The Group has no legal or constructive obligation to repurchase or settle the share options in cash.

	2018 SHARE OPTION PLAN (2018 issue)
Options held at year end (in thousands)	1,154
Valuation assumptions	
Discount to reflect options may not meet vesting criteria	15%
Risk free rate of return	2%
Volatility	23%

Notes to the Financial Statements (continued)

	2018	
	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS 000's
Balance at beginning of period	$0.00	-
Granted during the year	$6.34	1,154
Balance at end of period	**$6.34**	**1,154**

There has only been one grant of share options to date, therefore the exercise price of all options granted as at 31 December 2018 is $6.34. (2017: nil).

Senior employee share plan - share and loan scheme

Up to and including 2017, the Group operated employee share plans for selected senior employees ("Participants") to purchase shares in the Company (the "2013 share plan"). The shares for the plans are held by a nominee as share options on behalf of Participants, until such time after the vesting of shares that the nominee is directed by the Participant they wish to exercise the share option, or the shares are sold or cancelled by the nominee if vesting criteria are not met. The shares carry the same rights as all other ordinary shares.

The Group has provided Participants with interest-free limited recourse loans to fund the acquisition of the shares for these plans. These loans are held by Summerset LTI Trustee Limited and eliminate on consolidation.

The issue price of shares under the 2013 share plan is determined from the volume weighted average price on the NZX during the ten trading days prior to issue.

	2013 SHARE PLAN (2014 issue)	2013 SHARE PLAN (2015 issue)	2013 SHARE PLAN (2016 issue)	2013 SHARE PLAN (2017 issues)
Commencement date	16 Dec 2013	16 Dec 2013	16 Dec 2013	16 Dec 2013
Issue price	$2.68	$3.91	$4.76	$5.19 & $5.24
Expiry date of interest-free limited recourse loans	30 Jun 2019	30 Jun 2020	30 Jun 2021	30 Jun 2022
Years that the performance goals relate to	2015 to 2017	2016 to 2018	2017 to 2019	2018 to 2020
% of shares vested	76%	73%[1]	47%[1]	0%
Vesting date of final tranche	31 Dec 2017	31 Dec 2018	31 Dec 2019	31 Dec 2020

1 The final tranche of the 2015 issue and the first tranche of the 2016 issue had a vesting date of 31 December 2018, and a first release date of 26 February 2019

The performance hurdles for each grant of shares under the 2013 share plan between 2013 and 2015 to Executive Leadership Team members are based on the Group's total shareholder return relative to the performance of relevant peers and the NZX 50.

The performance hurdles for the grant of shares under the 2013 share plan between 2016 and 2017 to Executive Leadership Team members are based on:

- 50% absolute earnings (cumulative actual underlying net profit after tax for the Group against budget)
- 25% relative earnings (earnings per share growth of the Group compared to a defined peer group)
- 10% employee initiatives
- 10% customer initiatives
- 5% clinical strategy initiatives

While there is a requirement to remain employed by Summerset up to vesting date, there are no performance hurdles for grants of shares to senior management team members, other than the members of the Executive Leadership Team whose performance hurdles are described above.

610,346 shares were vested and eligible for exercise at 31 December 2018 (2017: 590,831). The exercise prices range from $2.68 to $3.91 (2017: $2.68 to $3.47). An additional 768,981 shares were vested on 31 December 2018 but are not eligible for exercise until 26 February 2019.

The share plans are equity-settled schemes and are measured at fair value at the date of the grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period, based on the Group's estimate that the shares will vest. These options were valued using the Black Scholes valuation model and the option cost for the year ending 31 December 2018 of $480,000 has been recognised in the income statement of the Company and the Group for that period (2017: $711,000).

	2018				
	2013 SHARE PLAN (2013 issues)	2013 SHARE PLAN (2014 issues)	2013 SHARE PLAN (2015 issues)	2013 SHARE PLAN (2016 issues)	2013 SHARE PLAN (2017 issues)
Shares held at year end (in thousands)	86	329	853	868	1,232
Share plan shares held at year end as a percentage of shares on issue	0.0%	0.1%	0.4%	0.4%	0.5%
Valuation assumptions					
Discount to reflect shares may not meet vesting criteria	30%	30%	0-30%	0-15%	0-15%
Risk free rate of return	3.8-4.1%	3.5-3.6%	2.8%	2.5%	2-2.5%
Volatility	21-22%	21%	22%	23%	23%

	2017				
	2013 SHARE PLAN (2013 issues)	2013 SHARE PLAN (2014 issues)	2013 SHARE PLAN (2015 issues)	2013 SHARE PLAN (2016 issues)	2013 SHARE PLAN (2017 issues)
Shares held at year end (in thousands)	283	723	900	868	1,232
Share plan shares held at year end as a percentage of shares on issue	0.1%	0.3%	0.4%	0.4%	0.6%
Valuation assumptions					
Discount to reflect shares may not meet vesting criteria	30%	30%	0-30%	0-15%	0-15%
Risk free rate of return	3.8-4.1%	3.5-3.6%	3%	3%	2-2.5%
Volatility	21-22%	21%	22%	23%	23%

The range of exercise prices at 31 December 2018 is $2.68 to $5.24 (2017: $2.68 to $5.24).

	2018		2017	
	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES 000's	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES 000's
Balance at beginning of period	$4.27	3,769	$3.30	3,518
Issued during the year	$0.00	-	$5.23	1,232
Exercised during the year	$3.02	(638)	$1.40	(750)
Forfeited during the year	$4.26	(195)	$3.99	(231)
Balance at end of period	**$4.54**	**2,936**	**$4.27**	**3,769**

All staff employee share plan

The Group operates an all staff employee share plan. A total of 932 employees participated in the share issue under the plan for the year ending 31 December 2018 (2017: 742 employees). In 2018, the Group contributed $800 per participating employee (being the total value of the shares issued). A total of 95,996 Company shares were issued under the scheme at $7.7435 per share (2017:

Notes to the Financial Statements (continued)

117,236 shares at $4.9183 per share). The shares are held by Summerset LTI Trustee Limited and vest to participating employees after a three-year period.

The cost for the year ending 31 December 2018 of $234,000 has been recognised in the income statement of the Company and the Group for that period (2017: $109,000).

21. Related party transactions

Refer to Note 20 for employee share plan details.

There were no related party transactions for the year ended 31 December 2018 (2017: nil).

22. Key management personnel compensation

The compensation of the key management personnel of the Group is set out below:

	2018 $000	2017 $000
Directors' fees	651	616
Short-term employee benefits	3,163	2,733
Share-based payments	660	568
Termination payments	-	-
Total	**4,474**	**3,917**

Refer to Note 20 for employee share plan details for key management personnel and for loans advanced to key management personnel under the terms of employee share plans.

23. Commitments and contingencies

Operating lease commitments

Non–cancellable operating lease rentals are payable as follows:

	2018 $000	2017 $000
Less than 1 year	1,268	1,290
Between 1 and 5 years	4,898	4,838
More than 5 years	6,081	6,674
Total operating lease commitments	**12,247**	**12,802**

During the year ended 31 December 2018 $1.2 million was recognised in the income statement in respect of operating leases (2017: $1.0 million).

Guarantees

At 31 December 2018, NZX Limited held a guarantee in respect of the Group, as required by the NZX Listing Rules, for $75,000 (2017: $75,000).

Summerset Retention Trustee Limited holds guarantees in relation to retentions on construction contracts on behalf of the Group. At 31 December 2018 $7.5 million was held for the benefit of the retentions beneficiaries.

Capital commitments

At 31 December 2018, the Group had $83.0 million of capital commitments in relation to construction contracts (2017: $63.9 million).

Contingent liabilities

There were no known material contingent liabilities at 31 December 2018 (2017: nil).

24. Subsequent events

On 21 February 2019, the Directors approved a final dividend of $16.2 million, being 7.2 cents per share. The dividend record date is 8 March 2019 with a payment date of 21 March 2019.

There have been no other events subsequent to 31 December 2018 that materially impact on the results reported .

Building a better working world

Chartered Accountants

Independent auditor's report to the Shareholders of Summerset Group Holdings Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Summerset Group Holdings Limited ("the company") and its subsidiaries (together "the Group") on pages 72 to 107, which comprise the consolidated statement of financial position of the Group as at 31 December 2018, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended of the Group, and the notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the financial statements on pages 72 to 107 present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

This report is made solely to the company's shareholders, as a body. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders, as a body, for our audit work, for this report, or for the opinions we have formed.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Ernst & Young provided assurance services in relation to the audit of underlying profit disclosures. We have no other relationship with, or interests in, the Group. Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Property Valuation

Why significant	How our audit addressed the key audit matter

Summerset's retirement villages and care centres have a combined value of $2.7 billion and together make up 98% of total assets. Management engages an independent registered valuer, CBRE Limited, to determine the fair value of these assets.
 	
These valuations require the exercise of judgment on behalf of the valuer. Key amongst these judgements are:
• for retirement village assets:
  • discount rate and
  • forecast long-term nominal house price inflation.
• for care centres:
  • earnings per care bed and
  • capitalisation rates.
 	
The highly judgemental and subjective nature of the valuation coupled with the significance to the financial statements results in this being an area of audit focus.
 	
Retirement village valuations are performed every 6 months and care centres are valued at least once every 3 years. Care centres were last valued in December 2017.
 	
Retirement village and care centre assets are addressed in Note 11 Investment property and Note 9 Property plant and equipment to the consolidated financial statements respectively.
	To address the key audit matter, we:
	• evaluated Summerset's internal review of the external valuation report;
	• assessed the competence, qualifications, independence and objectivity of the external valuer;
	• involved our real estate valuation specialists to assist us in analysing and challenging the valuations for a sample of villages and evaluating the underlying assumptions across the portfolio of valuations against the market based evidence available;
	• tested, on a sample basis, village specific information relating to core data including sales, unsold stock and occupancy data supplied to the external valuer by Summerset to the underlying records held by the Group;
	• assessed the significant input assumptions applied by the valuer for reasonableness compared to previous periods assumptions, the changing state of the village sites and other market changes;
	• examined the allocation of costs from work in progress to completed village units, care centres and other assets;
	• evaluated the Group's review of work in progress for impairment indicators
	• reviewed management's assessment of care centre fair value movement since prior year; and
	• assessed the adequacy of the related financial statement disclosures, including the impact of the restatement referred to in Note 1 of the consolidated financial statements.

Deferred Management Fee Revenue Recognition

Why significant	How our audit addressed the key audit matter
Deferred management fee (DMF) revenue is 33% of Summerset's total revenue. Summerset recognises deferred management fee revenue from residents over the longer of the expected period of tenure or the contractual right to revenue in accordance with the terms of the resident's occupational right agreement. The amount of revenue recognised in each year is subject to the Group's judgement of each resident's expected tenure in the village as well as the terms of the occupational right agreement and the type of unit occupied. A change in the assumed tenure may have a material impact on revenue recognised in the year. Deferred management fee revenue and the associated deferred management fee receivable and revenue in advance balances are discussed in Note 4 Revenue to the consolidated financial statements.	In addressing the key audit matter we focused on understanding the overall calculation methodology and testing the integrity of inputs and key assumptions to revenue recognition throughout the period. In doing so, we: • for a sample of residents, assessed the accuracy of a sample of the inputs to, and calculation of, the deferred management fee revenue recognised during 2018; • agreed the contractual terms used in the revenue recognition calculation for a sample of residents to the occupational right agreement; • compared the movements year on year in revenue recognised by each village based on an expectation derived from underlying village data; and • compared the Group's assessment of assumed tenure against actual observed tenure.

Information other than the financial statements and auditor's report

The directors of the company are responsible for the Annual Report, which includes information other than the financial statements and auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

If, based upon the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the financial statements

The directors are responsible, on behalf of the entity, for the preparation and fair presentation of the financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing on behalf of the entity the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located at the External Reporting Board's website: https://www.xrb.govt.nz/standards-for-assurancepractitioners/ auditors-responsibilities/audit-report-1/. This description forms part of our auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Grant Taylor.

Ernst + Young

Ernst & Young
Chartered Accountants
Wellington
21 February 2019


Hans, a Paraparaumu resident, takes to his bike .

Governance

Summerset is committed to following best-practice governance structures and principles and to having good governance of the way in which the Company operates. It also takes account of the Company's listings on both the NZX and ASX.

Summerset has adopted the principles below as an appropriate way to demonstrate its commitment to these fundamental principles and to illustrate the transparency of the Company's approach to corporate governance for the benefit of its Shareholders and other stakeholders. These principles are from the NZX Corporate Governance Code issued in May 2017 ("NZX Code"). Each principle of the NZX Code is provided below with explanation on how Summerset meets each principle.

As at 31 December 2018, Summerset was in full compliance with the NZX Code.

On 1 January 2019, amended versions of the NZX Listing Rules (attaching an amended version of the NZX Code) ("2019 Listing Rules") took effect with a six month transition period. Issuers have until 1 July 2019 to adopt the 2019 Listing Rules. As the Company has not yet adopted the 2019 Listing Rules, this Annual Report has been prepared on the basis of the requirements and principles set out in the NZX Listing Rules dated 1 October 2017 ("NZX Listing Rules") and NZX Code.

Summerset's Board and Committee Charters, and a number of the policies and guidelines referred to in this section, are available to view at https://www.summerset.co.nz/investor-centre/governance-documents/

Principle 1: Code of Ethical Behaviour

"Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation."

Ethical standards

The Board maintains high standards of ethical conduct and expects the Company's employees to act legally and with integrity in a manner consistent with the policies, guiding principles and values that are in place. These include the following:

- **Code of Ethics** – This guide sets out the basic principles of legal and ethical conduct expected of all employees and Directors. The Company encourages open and honest communication by staff about any current or potential problem, complaint, suggestion, concern or question.
- **Securities trading** – In accordance with the Company's Securities Trading Policy, the NZX Listing Rules, and the Financial Markets Conduct Act 2013, Directors and employees of the Company are subject to limitations on their ability to buy or sell Company shares.
- **Diversity and inclusion** – This policy outlines the Company's guiding principles for diversity and inclusion. Refer to Principle 2 for further details.
- **Code of Conduct** – This policy sets out the expected behaviours while in employment with the Company. Company employees are expected to act honestly, conscientiously, reasonably and in good faith while at all times having regard to their responsibilities, the interests of Summerset and the welfare of our residents and employees' colleagues.
- **Whistle blowing** – This policy encourages employees to come forward if they have concerns regarding serious wrongdoing, and ensures that employees have access to a confidential process in which they can report any issues in relation to serious wrongdoing without fear of reprisal or victimisation.
- **Conflicts of interest** – This policy outlines the standards of integrity, professionalism and confidentiality to which all employees and Directors of the Company must adhere with respect to their work and behaviour. To maintain integrity in decision-making, each Director must advise the Board of any potential conflict of interest if such arises. If a significant conflict of interest exists, the Director concerned will have no involvement in the decision-making process relating to the matter.
- **Gifts, entertainment and inducements** – This policy governs the acceptance and reporting of benefits given to staff by third parties.

- **Interests Register** – In accordance with the Companies Act 1993 and the Financial Markets Conduct Act 2013, the Company maintains an Interests Register in which all relevant transactions and matters involving the Directors are recorded.

The Code of Ethics Policy can be found on the Company's website and internal intranet, and a copy is provided to all new staff (including contractors).

Principle 2: Board Composition and Performance

"To ensure an effective board, there should be a balance of independence, skills, knowledge, experience and perspectives."

Role of the Board of Directors

The Board of Directors is elected by Shareholders, and has responsibility for taking appropriate steps to protect and enhance the value of the assets of the Company in the best interests of its Shareholders. The Board has adopted a formal Board Charter detailing its authority, responsibilities, membership and operation.

The key responsibilities of the Board include setting the overall direction and strategy of the Company, establishing appropriate policies and monitoring performance of management. The Board appoints the Chief Executive Officer and delegates the day-to-day operating of the business to the Chief Executive Officer. The Chief Executive Officer implements policies and strategies set by the Board and is accountable to it. The Board also has responsibility for ensuring the Company's financial position is sound, financial statements comply with generally accepted accounting practice and that the Company adheres to high standards of ethical and corporate behaviour.

A summary of the Board mandate is as follows:

- At least two, or, if there are eight or more Directors, three or one-third of the total number of Directors should be Independent as defined in the NZX Listing Rules;
- The Chair of the Board should be a non-executive Director;
- The Chair and the Chief Executive Officer should be different people;
- Directors should possess a broad range of skills, qualifications and experience, and remain current on how best to perform their duties as Directors;
- Information of sufficient content, quality and timeliness as the Board considers necessary shall be provided by management to allow the Board to discharge its duties effectively;
- The effectiveness and performance of the Board and its individual members should be re-evaluated on an annual basis.

Directors receive an induction upon appointment to the Board to ensure their full knowledge of the Company and the industry in which it operates. The Directors are expected to keep themselves abreast of changes and trends in the business and to keep themselves up to date to ensure they best perform their duties as Directors of the Company.

All Directors have been issued letters setting out the terms and conditions of their appointment.

Delegation of authority

The Board delegates to the Chief Executive Officer responsibility for implementing the Board's strategy and for managing the Company's operations. The Chief Executive Officer has Board-approved levels of authority and, in turn, sub-delegates authority in some cases to direct reports, and has established a formal process for direct reports to sub-delegate certain authorities as appropriate. This is documented in the Delegated Authority Policy.

Before approving the Company and Groups' financial statements a management representation letter is obtained from the Chief Executive Officer and the Deputy Chief Executive Officer and Chief Financial Officer declaring that, in their opinion, the financial records of the Company and Group have been properly maintained and the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company and Group.

Retirement and re-election

In accordance with the Company's Constitution and the NZX Listing Rules, one third of the Directors are required to retire by rotation and may offer themselves for re-election by Shareholders each year at the Annual Shareholders' Meeting. Procedures for the appointment and removal of Directors are also governed by the Constitution. The Nomination and Remuneration Committee identifies and nominates candidates to fill Director vacancies for Board approval. Information about candidates for election or re-election is included in the Notice of Meeting to assist Shareholders in deciding whether or not to elect or re-elect the candidate.

Board composition

The Company's Constitution prescribes that the Board shall be comprised of a minimum of three Directors, with at least two Directors ordinarily resident in New Zealand. The Board currently comprises six non-executive Independent Directors. In determining whether a Director is Independent, the Board has regard to the NZX Listing Rules.

The Board considers all of the current Directors to be Independent in that they are not executives of the Company and do not have a direct or indirect interest or relationship that could reasonably influence, in a material way, their decisions in relation to the Company.

As at 31 December 2018, the non-executive Independent Directors were Rob Campbell (Chair), Dr Andrew Wong, Anne Urlwin, Gráinne Troute, James Ogden and Dr Marie Bismark.

The Board is comprised of Directors who have a mix of skills, knowledge, experience and diversity to adequately meet and discharge its responsibilities and to add value to the company through efficient and effective governance leadership. The current Directors have a varied and balanced mix of skills relevant to the Group's operations. A summary of the key skills and expertise held across the Board, which are considered most relevant to the Group, are:

- Health and clinical industry expertise (both in New Zealand and Australian environments) and a deep understanding of the operational aspects of the Group;
- A high degree of property, construction and development management experience;
- Legal and regulatory oversight in various sectors;
- High degree of finance and capital markets experience;
- New Zealand and international business leadership and CEO experience;
- Expertise in the development and execution of growth strategies;
- Experience operating and governing trans-Tasman businesses;
- Financial governance and audit oversight;
- Expertise in the management of capital in high growth industries;
- Expertise in global and national economics;
- High degree of listed company governance experience;
- Expertise in sales, customer service and a strong focus on the rights of consumers;
- Sustainability in business;
- Community and iwi engagement;
- Oversight of IT and digital innovation;
- People and performance strategy and management expertise;
- Highly experienced in championing diversity in the workplace;
- Exceptional leadership and management experience.

More information on the Directors, including their interests, qualifications and security holdings, is provided in the Directors' Profiles and Disclosures sections of this report.

The Board holds regular scheduled meetings. The Directors generally receive material for Board meetings five working days in advance, except in the case of special meetings for which the time period may be shorter owing to the urgency of the matter to be considered.

The Company Secretary attends all Board meetings, and in this capacity is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board.

All Directors have access to the Executive Leadership Team to discuss issues or obtain information on specific areas in relation to items to be considered at Board meetings or other areas as considered appropriate. Key Executives and managers are invited to attend and participate in appropriate sessions at Board meetings. Directors have unrestricted access to Company records and information.

Directors are entitled to obtain independent professional advice relating to the affairs of the Company or other responsibilities. Prior approval of the Chair is required before seeking such advice and Directors are expected to ensure that the cost of such advice is reasonable.

Diversity and inclusion

The Company and its Board are committed to a workplace culture that promotes and values diversity and inclusiveness. This is outlined in the Company's Diversity and Inclusion Policy which is available on the Company's website.

Diversity is defined as the characteristics that make one individual different from another. Diversity encompasses gender, race, ethnicity, disability, age, sexual orientation, physical capability, family responsibilities, education, cultural background and more.

Inclusion is defined as a sense of belonging, respecting and valuing all individuals, providing fair access to opportunity, and removing discrimination and other barriers to involvement. The Board recognises that inclusion leads to a better experience of work for Summerset's employees, makes teams stronger, leads to greater creativity and performance, contributes to a more meaningful relationship with residents, their families and stakeholders, and ultimately increases value to Shareholders.

The Board believes that diversity across the workforce makes Summerset stronger and better able to connect with, and bring the best of life to, residents on a day-to-day basis. When there is a variety of thinking styles, backgrounds, experiences, perspectives and abilities, employees are more able to understand residents' needs and to respond effectively to them.

The Diversity and Inclusion Policy establishes the following measurable objectives for achieving diversity:

- Facilitate and promote equal employment opportunities at all levels, and identify and remove any barriers to equal opportunity;
- Facilitate and promote a merit-based environment in which all employees have the opportunity to develop and perform to their full potential;
- Reward excellence and ensure all employees are treated fairly, evaluated objectively, and have equal access to opportunities for progression and promotion on the basis of performance.

Each year the Board reviews and assesses performance against these objectives. The Board considers that for the year ended 31 December 2018, the objectives for achieving diversity have been met.

As at 31 December 2018 (and 31 December 2017 for the prior comparative period), the mix of gender of those employed by the Company is set out below:

	GENDER	2018	2017
Directors	Male	3	3
	Female	3	3
Total		**6**	**6**
Officers	Male	2	2
	Female	-	-
Total		**2**	**2**
Executive Leadership Team	Male	6	4
	Female	2	2
Total		**8**	**6**
All staff	Male	338	311
	Female	1,100	924
Total Staff		**1,438**	**1,235**

Officers of the Company are the Chief Executive Officer and the Deputy Chief Executive Officer and Chief Financial Officer. The Executive Leadership Team is defined as the Executive management team (including the Chief Executive Officer and the Deputy Chief Executive Officer and Chief Financial Officer).

These figures include permanent full-time, permanent part-time, fixed-term and casual employees, but not independent contractors.

Board performance
The Board undertakes an annual self-assessment of its performance, and its processes and procedures.

Executive Leadership Team performance
The Board evaluates annually the performance of the Chief Executive Officer. The Chief Executive Officer reviews the performance of direct reports and reports to the Board on those reviews. The evaluation is based on criteria that include the performance of the business and the accomplishment of longer-term strategic objectives. It may include quantitative and qualitative measures. During the most recent financial year, performance evaluations were conducted in accordance with this process.

Principle 3: Board Committees

"The board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility."

Board committees
The Board has four standing committees: the Audit Committee, the Nomination and Remuneration Committee, the Clinical Governance Committee and the Development and Construction Committee. Each committee operates under a charter approved by the Board, and any recommendations they make are recommendations to the Board. The charter for each committee is reviewed annually. All Directors are entitled to attend committee meetings.

Audit Committee
While the ultimate responsibility to ensure the integrity of the Company's financial reporting rests with the Board, the Company has in place processes to ensure the accurate presentation of its financial position. These include:

- An appropriately resourced Audit Committee operating under a written charter with specific responsibilities for financial reporting and risk management;
- Review and consideration by the Audit Committee of the financial information and preliminary releases of results to the market, which then makes recommendations to the Board;
- A process to ensure the independence and competence of the Company's external auditors and a process to ensure their compliance with the Company's Audit Independence Policy;
- Responsibility for appointment of the external auditors residing with the Audit Committee;
- The Audit Committee monitors the strength of the internal control environment by considering the effectiveness and adequacy of Summerset's internal controls, reviewing the findings of the external auditors' review of internal control over financial reporting, and being involved in setting the scope for the internal audit programme.

One of the main purposes of the Audit Committee is to ensure the quality and independence of the external audit process. The Audit Committee make enquiries of management and the external auditors so that it is satisfied as to the validity and accuracy of all aspects of the Company's financial reporting. All aspects of the external audit are reported back to the Audit Committee and the external auditors are given the opportunity at Audit Committee meetings to meet with Directors.

The Audit Committee must be comprised of a minimum of three Directors, the majority of whom must be Independent. The committee is chaired by an Independent chair who is not the Chair of the Board. The Committee currently comprises of James Ogden (Chair), Anne Urlwin, Rob Campbell and Gráinne Troute.

The Audit Committee generally invites the Chief Executive Officer, Deputy Chief Executive Officer and Chief Financial Officer, Deputy Chief Financial Officer and external auditors to attend meetings. The Committee also meets and receives regular reports from the external auditors without management present, concerning any matters that arise in connection with the performance of their role.

Nomination and Remuneration Committee
The role of the Nomination and Remuneration Committee is to assist the Board in establishing and reviewing remuneration policies and practices for the Company and in reviewing Board composition. Specific objectives include:

- Assisting the Board in planning the Board's composition;
- Evaluating the competencies required of prospective Directors (both non-executive and executive);
- Identifying those prospective Directors and establishing their degree of independence;

- Developing the succession plans for the Board, and making recommendations to the Board accordingly;
- Overseeing the process of the Board's annual performance self-assessment and the performance of the Directors;
- Establishing remuneration policies and practices, and setting and reviewing the remuneration of the Company's Chief Executive Officer, Executive Leadership Team and Directors.

The Nomination and Remuneration Committee must be comprised of a minimum of three Directors, the majority of whom must be Independent. The Committee currently comprises of Gráinne Troute (Chair), Dr Marie Bismark, James Ogden and Anne Urlwin.

The Board's policy is that the Board needs to have an appropriate mix of skills, experience and diversity to ensure that it is well equipped. The Board reviews and evaluates on a regular basis the skill mix required, and identifies any existing gaps.

Clinical Governance Committee

The role of the Clinical Governance Committee is to assist the Board in ensuring a systematic approach to maintaining and improving the quality of care provided by the Company. Specific objectives include:

- Providing assurance that appropriate clinical governance mechanisms are in place and are effective throughout the organisation;
- Supporting the leadership role of the Chief Executive Officer in relation to issues of quality, safety and clinical risk;
- Working with management to identify priorities for improvement;
- Ensuring that the principles and standards of clinical governance are applied to the health improvement and health protection activities of the Board;
- Ensuring that appropriate mechanisms are in place for the effective engagement of representatives of residents and clinical staff.

The Clinical Governance Committee must be comprised of a minimum of three Directors. The Committee currently comprises of Dr Marie Bismark (Chair), Anne Urlwin, Gráinne Troute and Dr Andrew Wong.

Development and Construction Committee

The role of the Development and Construction Committee is to assist the Board in:

- Supporting management to establish and achieve development and construction objectives within the Company's long-term plan;
- Supporting management to develop and implement strategies to achieve the Company's development and construction objectives in line with best practice;
- Helping the Company maintain appropriate risk management strategies to identify, mitigate and manage development and construction risks;
- Maintaining a good understanding of, and confidence in, the Company's frameworks, systems, processes and personnel required to manage the Company's development and construction activities effectively, including the assessment and realisation of opportunities and the application of appropriate risk management;
- Working with management to identify areas for improvement and innovation in construction and development practices.

The Development and Construction Committee must be comprised of a minimum of three Directors. The Committee currently comprises of Anne Urlwin (Chair), James Ogden and Rob Campbell.

Other committees

During 2018, a Due Diligence Committee of the Board was established to oversee the issue of the SUM020 retail bond by the Company.

The Due Diligence Committee comprised of Rob Campbell (Chair), Anne Urlwin and James Ogden. On completion of the retail bond issue, the Due Diligence Committee was disbanded.

Attendance at Board and committee meetings

A total of seven Board meetings, six Audit Committee meetings, five Nomination and Remuneration Committee meetings, three Clinical Governance Committee meetings and three Development and Construction Committee meetings were held in 2018. Director attendance at Board meetings and committee member attendance at committee meetings is shown below.

	Board	Audit Committee	Nomination and Remuneration Committee	Clinical Governance Committee	Development and Construction Committee
Total number of meetings held	**7**	**6**	**6**	**3**	**3**
Rob Campbell	7 (Chair)	6	6*	2*	2
Anne Urlwin	7	6	6	3	3 (Chair)
Dr Andrew Wong	7	4*	5*	3	3*
Gráinne Troute	7	6	6 (Chair)	3	2*
James Ogden	7	6 (Chair)	6	2	3
Dr Marie Bismark	7	6*	6	3 (Chair)	2*

* *attended the meeting as a non-committee member*

Principle 4: Reporting and Disclosure

"The board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures."

Making timely and balanced disclosure

The Company is committed to promoting Shareholder confidence through open, timely and accurate market communication. The Company has in place procedures designed to ensure compliance with its disclosure obligations under the NZX and ASX Listing Rules. The Company's Market Disclosure and Communications Policy sets out the responsibilities of the Board and management in disclosure and communication, and procedures for managing this obligation.

Copies of key governance documents, including the Code of Ethics, Securities Trading Policy and Guidelines, Board and Committee Charters, Diversity and Inclusion Policy, Director and Executive Remuneration Policy, and Market Disclosure and Communications Policy are all available on the Company's website at https://www.summerset.co.nz/investor-centre/governance-documents/.

Some non-financial disclosures, such as the Company's approach to health and safety, are included within this Annual Report. The Company recognises it is in the early stages of reporting on non-financial information, and intends to increase future disclosure in this area.

Principle 5: Remuneration

"The remuneration of directors and executives should be transparent, fair and reasonable."

Remuneration of Directors and the Executive Leadership Team is reviewed by the Board's Nomination and Remuneration Committee. Its membership and role are set out under Principle 3 above. The Committee makes recommendations to the Board on remuneration packages, keeping in mind the requirements of the Board and Executive Remuneration Policy.

The level of remuneration paid to the Directors and the Executive Leadership Team will be determined by the Board. However, Directors' fees must be within the limits approved by the Shareholders of the Company.

Further details on remuneration are provided in the Remuneration section of this Annual Report.

Principle 6: Risk Management

"Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks."

Summerset has a Risk Management Policy which encompasses the governance and management of material business risks. This policy is supplemented by a risk management framework whereby the risks faced are regularly identified, monitored and managed. Examples of these risks include regulation, property market exposure, construction and development activity, reputation and industry competition (including new entrants).

Summerset's senior management are required to regularly identify the major risks affecting the business, record them in the risk register and develop structures, practices and processes to manage and monitor these risks.

Summerset engages KPMG to carry out internal audit work on various parts of the Group's operations and all major risk and internal control issues are reported on at each Board meeting.

Health and safety is discussed regularly at Board meetings and specific reviews are sought as required. Monthly reporting is prepared and used to assist in risk management, covering areas such as health and safety incidents, injury and near miss frequency rates and actions undertaken. Further information on health and safety is covered in the Health and Safety section of this Annual Report.

Principle 7: Auditors

"The board should ensure the quality and independence of the external audit process."

The Board's relationship with its auditors, both external and internal, is governed by the Audit Committee Charter, Audit Independence Policy and the Internal Audit Charter. These charters and policies set out the types of engagements that can be performed by the external and internal auditors.

The external auditor (Ernst & Young) attends the Company's Annual Shareholder Meeting, and is available to answer questions from Shareholders in relation to the external audit.

External audit work for the Group was tendered during 2017, with Ernst & Young remaining in this role.

KPMG was appointed in the role of internal auditor of the Company in December 2016, and its role is governed by the Internal Audit Charter.

The primary objective of internal audit is to increase the strength of the Company's control environment. This is guided by a philosophy of adding value to improve the operations of the Company. It assists the Company in accomplishing its objectives by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of its governance, risk management and internal controls.

The scope of the internal audit programme is set by the Audit Committee.

Principle 8: Shareholder Rights and Relations

"The board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer."

Respecting the rights of Shareholders

The Company seeks to ensure that its Shareholders understand its activities by communicating effectively with them and giving them ready access to clear and balanced information about the Company.

To assist with this, the Company's website is maintained with relevant information, including copies of presentations and reports. The Company's key corporate governance policies are also included on the website.

The Company's major communications with Shareholders during the financial year include its annual and half-year reports and the Annual Shareholder Meeting. The annual and half-year reports are available in electronic and hard-copy format.

Communicating with Shareholders

The Company's investor centre (on its website) sets out the Company's Deputy Chief Executive Officer and Chief Financial Officer's and Company Secretary's contact details for communications from Shareholders. The Company responds to all Shareholder communications within a reasonable timeframe.

The Company provides options for Shareholders to receive and send communications electronically, to and from both the Company and its share and bond registrar.

Shareholder voting rights

Shareholders have the right to vote on major decisions as required by the NZX Listing Rules. Further information on Shareholder voting rights is set out in the Company's Constitution.

Notice of Annual Shareholder Meeting

The Notice of Meeting is sent to Shareholders and published on the Company's website at least 28 days prior to the Annual Shareholder Meeting each year.

Manukau residents piece together a jigsaw in their village library.

Remuneration

Director remuneration

The Company distinguishes the structure of non-executive Directors' remuneration from that of executive Directors.

The total amount of remuneration and other benefits received by each Director during the year ended 31 December 2018 is provided below.

Director	Board Fees[1]	Audit Committee	Clinical Governance Committee	Nomination and Remuneration Committee	Development and Construction Committee	Other committee[2]	Total remuneration
Rob Campbell	$166,500 (Chair)					$5,250	$171,750
Anne Urlwin	$81,500				$7,500 (Chair)	$5,250	$94,250
Dr Andrew Wong	$81,500						$81,500
Gráinne Troute	$81,500			$7,500 (Chair)			$89,000
James Ogden	$81,500	$15,000 (Chair)				$5,250 (Chair)	$101,750
Dr Marie Bismark	$81,500		$7,500 (Chair)				$89,000
Total	**$574,000**	**$15,000**	**$7,500**	**$7,500**	**$7,500**	**$15,750**	**$627,250**

1 Inclusive of additional fees of $1,500 per Director for additional duties relating to potential expansion of operations into Australia

2 Fees for being on the Due Diligence Committee in relation to the issue of retail bonds in September 2018

Directors' fees are reviewed from time to time. The maximum aggregate amount of remuneration payable by Summerset to Directors (in their capacity as Directors) is $650,000 per annum for the non-executive Directors. Current annualised standard Directors' fees are $602,500, inclusive of additional remuneration for committee Chairs.

As at 31 December 2018, the standard Director fees per annum are as follows:

	Position	Fees (per annum)
Board of Directors	Chair	$165,000
	Member	$80,000
Audit Committee	Chair	$15,000
Clinical Governance Committee	Chair	$7,500
Nomination and Remuneration Committee	Chair	$7,500
Development and Construction Committee	Chair	$7,500

No additional fees are paid to committee members.

Directors' fees exclude GST, where appropriate. Directors are entitled to be reimbursed for costs directly associated with carrying out their duties, including travel costs.

Directors and Officers also have the benefit of Directors' and Officers' liability insurance. Cover is for damages, judgements, fines, penalties, legal costs awarded and defence costs arising from wrongful acts committed while acting for Summerset. There are some exclusions within the policy. The insurance cover is supplemented by the provision of Director and Officer indemnities from the Company, but this does not extend to criminal acts.

Executive remuneration

The remuneration of members of the Executive Leadership Team (Chief Executive Officer and direct reports) is designed to promote a high-performance culture and to align Executive reward to the development and achievement of strategies and business objectives to create sustainable value for Shareholders.

The Board is assisted in delivering its responsibilities and objectives for Executive remuneration by the Nomination and Remuneration Committee. The role and membership of this Committee is set out in the Statement of Corporate Governance.

Summerset's remuneration policy for members of the Executive Leadership Team provides the opportunity for them to receive, where performance merits, a total remuneration package in the upper quartile for equivalent market-matched roles. The Nomination and Remuneration Committee reviews the annual performance appraisal outcomes for all Executive Leadership Team members, including the Chief Executive Officer. The review takes into account external benchmarking to ensure competitiveness with comparable market peers, along with consideration of an individual's performance, skills, expertise and experience.

Total remuneration is made up of three components: fixed remuneration, short-term performance-based cash remuneration and long-term performance-based equity remuneration.

Fixed remuneration

Fixed remuneration consists of base salary and benefits. Summerset's policy is to pay fixed remuneration with reference to the fixed pay market median.

Short-term incentives

Short-term incentives (STIs) are at-risk payments designed to motivate and reward for performance, typically in that financial year. The target value of an STI payment is set annually, as a percentage of the Executive Leadership Team member's fixed remuneration. For 2018, the relevant percentages were 25% to 50%.

A proportion (80% for the Chief Executive Officer, 30% to 60% for other Executive Leadership Team members) of the STI is related to achievement of annual performance metrics which aim to align executives to a shared set of key performance indicators (KPIs) based on business priorities for the next 12 months. Target areas for the shared KPIs for 2018 are outlined below:

Target	Weighting
Financial: underlying EBITDA performance against budget	40%
Occupation right agreement sales results against budget	20%
Retirement unit delivery against budget	20%
Clinical and customer satisfaction	10%
Employee and health and safety initiatives	10%

There are three performance levels within each target area - gate-opener, on-target and maximum performance - with 100% of the amount allocated to that target area being payable when the on-target level is achieved. The maximum performance levels allow employees to be rewarded for performance above target levels. The maximum amount of an STI payment for an Executive Leadership Team member is 112% of the STI on-target amount for that Executive Leadership Team member.

The balance of the STI is related to individual performance measures.

In the event that gate-opener underlying EBITDA performance against budget is not achieved, no STI payment will be made.

Long-term incentives

Long-term incentives (LTIs) are at-risk payments through a share plan, designed to align the reward of Executive Leadership Team members with the enhancement of shareholder value over a multi-year period.

2018 LTI Plan

An LTI share option plan commenced in November 2018, of which the Executive Leadership Team members are participants. Under this plan, Executive Leadership Team members are granted share options. These share options are exercisable in relation to shares in Summerset Group Holdings Limited.

Option grants are made annually, with the value of each grant being set at the date of each grant and determined as a percentage of the Executive Leadership Team member's fixed remuneration. For 2018, the relevant percentages were 15% to 40%. Vesting of the share options is subject to achievement of performance hurdles, which are assessed over two and three-year periods.

The performance hurdles for the option grant made in 2018 are based on:

- 50% absolute earnings (cumulative actual underlying net profit after tax for the Group against budget);
- 25% relative earnings (earnings per share growth of the Group compared to a defined peer group);
- 10% employee and health and safety initiatives;
- 10% customer initiatives;
- 5% clinical strategy initiatives.

Performance hurdles are set by the Board with the objective of aligning Executive reward to the development and achievement of strategies and business objectives to create sustainable value for Shareholders. The Board considers that the performance hurdles reflect the drivers of sustainable value for Shareholders.

In addition to the LTI share option plan in place for Executive Leadership Team members, Summerset also operates an un-hurdled LTI share option plan for other senior managers.

A total of 708,635 share options were granted to Executive Leadership Team members in 2018. None of these share options are currently exercisable. The Executive Leadership Team includes the Chief Executive Officer. The section below provides further details of share option movements under the LTI Plan for the Chief Executive Officer.

LTI Plan prior to 2018

Prior to 2018, Executive Leadership Team members were able to purchase shares in Summerset Group Holdings Limited under an LTI share purchase plan. The shares under this plan are held by a nominee on behalf of the Executive Leadership Team members until such time after the vesting of shares that the nominee is directed by the Executive Leadership Team member to transfer or sell the shares, or the shares are sold or cancelled by the nominee if vesting criteria are not met. The shares carry the same rights as all other ordinary shares.

The Group has provided Executive Leadership Team members participating in the LTI share purchase plans with interest-free limited recourse loans to fund the acquisition of the shares for these plans. These loans must be repaid in full before shares are transferred to Executives from the nominee.

Grants under this plan were made annually, with performance measured over two and three-year periods. The value of each grant was set at the date of the grant and determined as a percentage of the Executive Leadership Team member's fixed remuneration, ranging from 15% to 40%. Vesting of shares is subject to achievement of performance hurdles, which are assessed over two and three-year periods.

The performance hurdles for each grant under the LTI plan made between 2013 and 2015 are based on Summerset's total shareholder return (TSR) relative to the performance of relevant peers and the NZX 50.

The performance hurdles for the grants made in 2016 and 2017 are based on:

- 50% absolute earnings (cumulative actual underlying net profit after tax for the Group against budget);
- 25% relative earnings (earnings per share growth of the Group compared to a defined peer group);
- 10% employee initiatives;
- 10% customer initiatives;
- 5% clinical strategy initiatives.

Performance hurdles are set by the Board with the objective of aligning Executive reward to the development and achievement of strategies and business objectives to create sustainable value for Shareholders. The Board considers that the performance hurdles reflect the drivers of sustainable value for Shareholders.

In addition to the LTI share purchase plan in place for Executive Leadership Team members, Summerset also operated an un-hurdled LTI share purchase plan for other senior managers.

A total of 2,529,715 shares are held by Summerset LTI Trustee Limited under the LTI share purchase plan on behalf of the Executive Leadership Team as at 31 December 2018. 1,314,413 of these shares are unvested. The Executive Leadership Team includes the Chief Executive Officer. The following section provides further details of share movements under the LTI Plan for the Chief Executive Officer

Chief Executive Officer remuneration

Remuneration for years ended 31 December 2016 to 2018

	Fixed remuneration			Pay for performance			
	Salary	Other benefits [1]	Subtotal	STI	LTI	Subtotal	Total remuneration
FY2018	$547,720	$2,280	$550,000	$271,400[2]	$220,000[3]	$491,400	$1,041,400
FY2017	$545,400	$4,600	$550,000	$233,558[4]	$220,000[5]	$453,558	$1,003,558
FY2016	$445,485	$4,515	$450,000	$235,620[6]	$180,000[7]	$415,620	$865,620

1 Other benefits include medical insurance and income protection insurance. The Chief Executive Officer chooses not to participate in KiwiSaver.

2 STI for FY2017 performance period (paid FY2018)

3 LTI value granted in FY2018 period (which will vest based on performance in FY2019 to FY2021)

4 STI for FY2016 performance period (paid FY2017)

5 LTI value granted in FY2017 period (which will vest based on performance in FY2018 to FY2020)

6 STI for FY2015 performance period (paid FY2016)

7 LTI value granted in FY2016 period (which will vest based on performance in FY2017 to FY2019)

Three-year summary

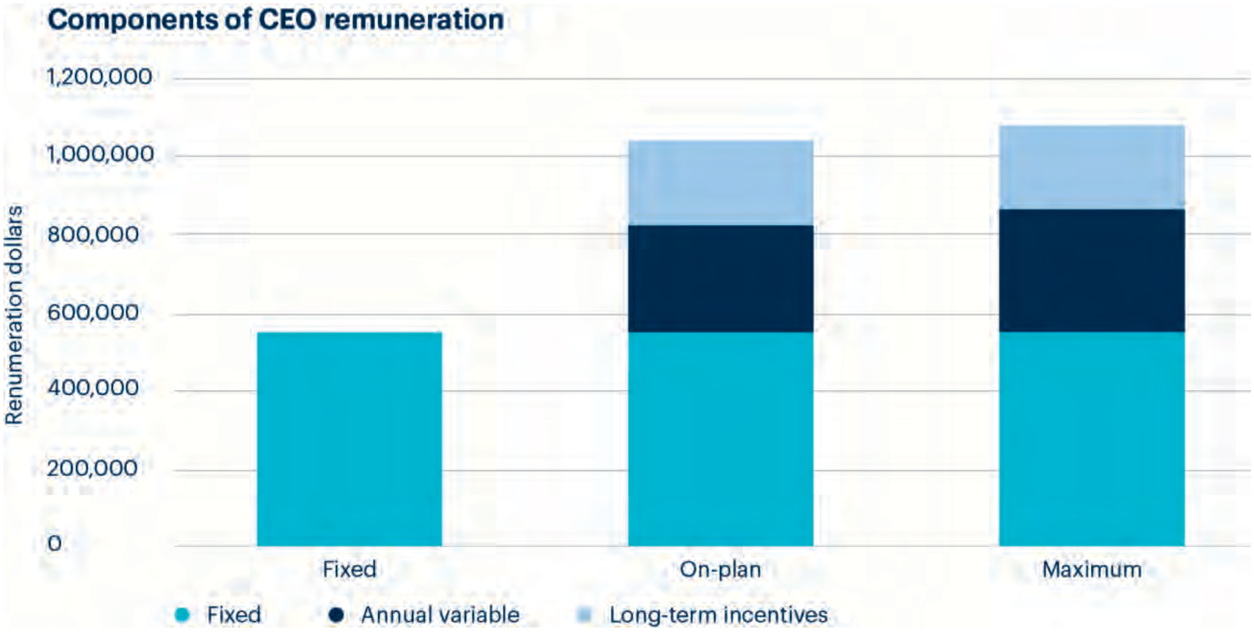
	Total remuneration	% STI awarded against on-plan performance	STI performance period	% LTI vested against on-plan performance	Span of LTI performance periods
FY2018	$1,041,400	98.7%	FY2017	83.7%[1]	FY2015 – FY2017
FY2017	$1,003,558	103.8%	FY2016	90.0%[2]	FY2014 – FY2016
FY2016	$865,620	104.7%	FY2015	0%[3]	FY2014 – FY2015

1 Vesting date 31 December 2017, release date 26 February 2018

2 Vesting date 31 December 2016, release date 24 February 2017

3 Vesting date 31 December 2015, release date 25 February 2016

The STI in the table above is based on amounts paid in the financial period. The LTI awarded in the table above refers to shares eligible for vesting during the financial period.



As at 31 December 2018, the Chief Executive Officer's fixed remuneration comprised salary and taxable benefits set at $550,000 per annum. The annual variable element pays out at 50% of fixed remuneration for on-plan performance or 56% for maximum performance. The LTI element is based on the value granted in the FY2018, being 40% of fixed remuneration, and will be based on performance in FY2019 to FY2021.

Description of Chief Executive Officer remuneration for performance for the year ended 31 December 2018

Plan	Description	Performance measures	Percentage awarded against on-plan performance
STI	Set at 50% of fixed remuneration for FY2018 on-plan performance, up to a maximum of 1.12 times (equal to 56% of fixed remuneration), where the highest levels of both company and individual performance measures are achieved.	80% based on the company target areas (see table on page 123 for weightings)	103.5%
		20% based on individual measures	100.0%
LTI	In February 2018, vesting for 183,673 shares issued under the LTI Scheme at $2.68 on 15 December 2014 was assessed per the Plan Rules. The assessment period was 1 January 2015 to 31 December 2017. The vesting criteria were met and all shares vested	50% measured against comparable peer group TSR hurdle 50% measured against NZX 50 group TSR hurdle	100.0%
	In February 2018, vesting for 169,811 shares issued under the LTI Scheme at $3.91 on 14 December 2015 was assessed per the Plan Rules. The assessment period was 1 January 2016 to 31 December 2017. The vesting criteria were partially met and 112,075 shares vested.	50% measured against comparable peer group TSR hurdle 50% measured against NZX 50 group TSR hurdle	66.0%

The above STI payment will be paid in FY2019.

Five year summary – total shareholder return (TSR) performance

The TSR summary above shows the performance of Summerset's shares against the NZX 50 between 31 December 2013 and 31 December 2018.

Chief Executive Officer LTI share movements for the year ended 31 December 2018

	Dec 2013 issue	Dec 2014 issue	Dec 2015 issue	Dec 2016 issue	Dec 2017 issue	Total
Balance 1 January 2018	119,629	403,185	314,972	237,005	263,736	1,338,527
Forfeited	-	-	(57,736)	-	-	(57,736)
Loan repaid and shares transferred to CEO	(119,629)	(219,512)	-	-	-	(339,141)
Balance 31 December 2018	-	**183,673**	**257,236**	**237,005**	**263,736**	**941,650**
Vesting status	Vested	Vested	Vested	Partially vested	Vested	
Issue price	$3.20	$2.68	$3.91	$4.76	$5.24	

The table above includes shares issued under the LTI plan prior to 1 April 2014, when the Chief Executive Officer took up this role (previously Chief Financial Officer).

267,926 shares were vested on 31 December 2018 (out of a potential 273,732 shares eligible to vest on that date). These vested shares are not eligible for exercise until 26 February 2019.

Chief Executive Officer LTI share option movements for the year ended 31 December 2018

	Dec 2018 grant
Balance 1 January 2018	-
Forfeited	-
Granted	224,074
Exercised	-
Balance 31 December 2018	**224,074**
Vesting status	Unvested
Exercise price	$6.34

Employee remuneration

The number of employees or former employees (including employees holding office as Directors of subsidiaries), who received remuneration and other benefits valued at or exceeding $100,000 during the financial year ended 31 December 2018 is specified in the table below.

The remuneration figures shown in the "Remuneration" column includes all monetary payments actually paid during the course of the year ended 31 December 2018. The table also includes the grant value of shares issued to individual employees under Summerset's LTI Plan during the same period. The table does not include amounts paid after 31 December 2018 that relate to the year ended 31 December 2018.

The method of calculating remuneration is consistent with the method applied for the previous year.

Remuneration	No. of employees
$100,000 to $109,999	25
$110,000 to $119,999	32
$120,000 to $129,999	12
$130,000 to $139,999	10
$140,000 to $149,999	14
$150,000 to $159,999	8
$160,000 to $169,999	1
$170,000 to $179,999	6
$180,000 to $189,999	3
$190,000 to $199,999	1
$200,000 to $209,999	5
$210,000 to $219,999	2
$230,000 to $239,999	4
$260,000 to $269,999	1
$270,000 to $279,999	1
$280,000 to $289,999	1
$290,000 to $299,999	1
$300,000 to $309,999	1
$430,000 to $439,999	1
$440,000 to $449,999	1
$490,000 to $499,999	1
$510,000 to $519,999	1
$670,000 to $679,999	1
$1,040,000 to $1,049,999	1

Pay gap

The pay gap represents the number of times greater the Chief Executive Officer remuneration is to the remuneration of an employee paid at the median of all Summerset employees. For the purposes of determining the median paid to all Summerset employees, all permanent full-time, permanent part-time and fixed-term employees are included, with part-time employee remuneration adjusted to a full-time equivalent amount.

At 31 December 2018, the Chief Executive Officer's base salary of $547,720 was 11.7 times (2017:12.5 times) that of the median employee at $46,800 per annum. The Chief Executive Officer's total remuneration, including STI and LTI, was $1,041,400, 21.0 times (2017: 21.5 times) the total remuneration of the median employee at $49,604.

Disclosures

Director changes during the year ended 31 December 2018

There were no director changes during the year ended 31 December 2018.

Directors' interests

Directors made the following entries in the Interests Register pursuant to Section 140 of the Companies Act 1993 during the year ended 31 December 2018:

Rob Campbell: Disclosed the following positions in respect of the following entities: SKYCITY Entertainment Group Limited (remained a Director, appointed Chair). Disclosed he ceased to hold the following positions in respect of the following entities: Trafalgar Copley Multi-Strategy Fund (Advisory Board Member), Nyima Tashi Charitable Trust (Trustee).

Anne Urlwin: Disclosed the following position in respect of the following entity: Tilt Renewables Limited (Director). Disclosed she ceased to hold the following position in respect of the following entity: New Zealand Hockey Federation (Inc) (Board Member).

James Ogden: Disclosed the following position in respect of the following entity: Pencarrow V Investment Fund Investment Committee (Member).

Dr Marie Bismark: Disclosed she ceased to hold the following position in respect of the following entity: Buddle Findlay (Consultant).

Gráinne Troute: Disclosed the following position in respect of the following entity: Investore Property Limited (Independent Director).

Dr Andrew Wong: Disclosed he ceased to hold the following position in respect of the following entity: Laparoscopy Auckland Limited (Chair).

Information used by Directors

There were no notices from Directors of the Company requesting to disclose or use Company information received in their capacity as Directors that would not otherwise have been available to them.

Directors' security holdings

Securities in the Company in which each Director has a relevant interest as at 31 December 2018 are specified in the table below:

Director	Ordinary shares	SUM010 retail bonds	SUM020 retail bonds
Rob Campbell	58,417	-	-
Anne Urlwin	25,638	30,000	-
James Ogden	409,504	15,000*	100,000*
Dr Marie Bismark	22,971	-	-
Gráinne Troute	25,000	-	-
Dr Andrew Wong	10,500	-	-
Total	**552,030**	**45,000**	**100,000**

**James Ogden has a non-beneficial interest in 15,000 SUM010 retail bonds of which he is the registered holder in his capacity as trustee of the Wakapua Trust. Clara Ogden has a legal and beneficial interest in 100,000 SUM020 retail bonds of which James Ogden has the power to acquire or dispose.*

Securities dealings of Directors

During the year, Directors disclosed the following transactions in respect of Section 148(2) of the Companies Act 1993. These transactions took place in accordance with the Company's Securities Trading Policy.

Director	Date of transaction	Number of securities acquired/(disposed)	Consideration
Rob Campbell	22 March 2018	415	Issue of shares under dividend reinvestment plan at $6.62 per share
	10 September 2018	309	Issue of shares under dividend reinvestment plan at $7.57 per share
Anne Urlwin	22 March 2018	146	Issue of shares under dividend reinvestment plan at $6.62 per share
	10 September 2018	108	Issue of shares under dividend reinvestment plan at $7.57 per share
	30 November 2018	5,000	On-market acquisition of ordinary shares at average price of $6.39 per share
James Ogden	24 September 2018	100,000	Issue of 100,000 SUM020 retail bonds during initial offer period at $1.00 per bond
Dr Marie Bismark	22 March 2018	141	Issue of shares under dividend reinvestment plan at $6.62 per share
	10 September 2018	105	Issue of shares under dividend reinvestment plan at $7.57 per share
	5 November 2018	7,200	On-market acquisition of shares at average price of $6.83 per share

Director appointment dates

The date of each Director's first appointment to the position of Director is provided below. Since the date of appointment, Directors have been re-appointed at Annual Meetings when retiring by rotation as required.

Director	Appointment date
Rob Campbell	2 September 2011
Anne Urlwin	1 March 2014
James Ogden*	2 September 2011
Dr Marie Bismark	1 September 2013
Gráinne Troute	1 September 2016
Dr Andrew Wong	1 March 2017

**James Ogden was also a Director from 1 October 2007 to 26 March 2009.*

Indemnity and insurance

In accordance with Section 162 of the Companies Act 1993 and the constitution of the Company, the Company has arranged insurance for, and indemnities to, Directors and Officers of the Company, including Directors of subsidiary companies, for losses from actions undertaken in the course of their legitimate duties or costs incurred in any proceeding.

Directors of subsidiary companies

The remuneration of employees acting as Directors of subsidiaries is disclosed in the relevant banding of remuneration set out under the heading 'Employee remuneration' in the Remuneration section of the Report. Employees did not receive additional remuneration or benefits for acting as Directors during the year.

Julian Cook, Scott Scoullar, Paul Morris and Leanne Walker are Directors of all the Company's subsidiaries as at 31 December 2018, with the exception of Summerset LTI Trustee Limited (the Directors of which are Rob Campbell and Dr Marie Bismark). Dr Marie Bismark is also a Director of Summerset Holdings (Australia) Pty Limited and Summerset Management Group (Australia) Pty Limited. No extra remuneration is payable to any Director of the Company for any Directorship of a subsidiary.

Top 20 Shareholders as at 31 December 2018

Rank	Registered Shareholder	Number of shares	% of shares
1	New Zealand Central Securities Depository Limited	116,577,279	51.72%
2	Custodial Services Limited	8,559,559	3.80%
3	Custodial Services Limited	6,907,728	3.06%
4	FNZ Custodians Limited	5,344,755	2.37%
5	Forsyth Barr Custodians Limited	5,188,924	2.30%
6	Custodial Services Limited	3,988,961	1.77%
7	Summerset LTI Trustee Limited	3,681,569	1.63%
8	Custodial Services Limited	2,895,364	1.28%
9	Investment Custodial Services Limited	2,553,822	1.13%
10	New Zealand Depository Nominee Limited	2,089,293	0.93%
11	Custodial Services Limited	1,811,314	0.80%
12	Paul Stanley Morris & Clive Stephen Morris	1,715,973	0.76%
13	Motutapu Investments Limited	1,678,437	0.74%
14	Custodial Services Limited	1,467,946	0.65%
15	BNP Paribas Nominees Pty Limited	1,284,380	0.57%
16	PT Booster Investments Nominees Limited	1,211,939	0.54%
17	ASB Nominees Limited	1,049,913	0.47%
18	Custodial Services Limited	815,841	0.36%
19	Citicorp Nominees Pty Limited	686,145	0.30%
20	David Calogero Loggia	514,011	0.23%
	Total	**170,023,153**	**75.41%**

Shareholders held through the NZCSD as at 31 December 2018

New Zealand Central Securities Depository Limited (NZCSD) provides a custodian depository service that allows electronic trading of securities to its members and does not have a beneficial interest in these shares. As at 31 December 2018, the ten largest shareholdings in the Company held through NZCSD were:

Rank	Registered Shareholder	Number of shares	% of shares
1	Citibank Nominees (NZ) Limited	17,914,958	7.95%
2	HSBC Nominees (New Zealand) Limited	16,765,103	7.44%
3	Tea Custodians Limited	15,957,503	7.08%
4	HSBC Nominees (New Zealand) Limited	13,782,220	6.11%
5	JPMorgan Chase Bank	12,067,006	5.35%
6	New Zealand Superannuation Fund Nominees Limited	9,630,288	4.27%
7	National Nominees New Zealand Limited	8,373,280	3.71%
8	Cogent Nominees Limited	6,864,678	3.05%
9	Accident Compensation Corporation	4,972,614	2.21%
10	New Zealand Permanent Trustees Limited	2,166,732	0.96%

Spread of Shareholders as at 31 December 2018

Size of shareholding	Shareholders Number	Shareholders %	Shares Number	Shares %
1 to 1,000	2,185	23.67%	1,146,072	0.51%
1,001 to 5,000	4,379	47.43%	11,435,807	5.07%
5,001 to 10,000	1,527	16.54%	11,069,835	4.91%
10,001 to 50,000	1,007	10.91%	18,902,975	8.39%
50,001 to 100,000	71	0.77%	4,929,197	2.19%
100,001 and over	63	0.68%	177,931,776	78.93%
Total	**9,232**	**100.00%**	**225,415,662**	**100.00%**

Substantial product holder notices received as at 31 December 2018

According to the records kept by the Company under the Financial Market Conducts Act 2013 the following were substantial holders in the Company as at 31 December 2018. The total number of voting products on issue at 31 December 2018 was 225,415,662 ordinary shares.

Shareholder	Relevant interest	% held at date of notice	Date of notice
First NZ Capital Group Limited[1]	16,110,518	7.25%	29 June 2017
Harbour Asset Management Limited	13,506,575	6.14%	16 August 2016

1 *This notice includes the relevant interest of First NZ Capital Securities Limited and Harbour Asset Management Limited*

Spread of bondholders as at 31 December 2018

SUM010

Size of bondholding	Bondholders Number	Bondholders %	Bonds Number	Bonds %
1 to 5,000	84	8.87%	420,000	0.42%
5,001 to 10,000	236	24.92%	2,289,000	2.29%
10,001 to 50,000	515	54.38%	14,177,000	14.18%
50,001 to 100,000	66	6.97%	5,636,000	5.64%
100,001 and over	46	4.86%	77,478,000	77.48%
Total	**947**	**100.00%**	**100,000,000**	**100.00%**

SUM020

Size of bondholding	Bondholders Number	Bondholders %	Bonds Number	Bonds %
1 to 5,000	44	5.20%	220,000	0.18%
5,001 to 10,000	133	15.72%	1,269,000	1.02%
10,001 to 50,000	513	60.64%	14,760,000	11.81%
50,001 to 100,000	80	9.46%	6,795,000	5.44%
100,001 and over	76	8.98%	101,956,000	81.56%
Total	**846**	**100.00%**	**125,000,000**	**100.00%**

Waivers from the NZX Listing Rules

During the year ended 31 December 2018, the Company relied on a waiver from NZX Debt Market Listing Rules 7.11.1 in respect of SUM020, issued on 31 August 2018.

No other waivers from the application of NZX Listing Rules have been utilised by the Company during the year ended 31 December 2018.

Credit rating

The Company has no credit rating.

Auditor fees

Ernst & Young Wellington has continued to act as auditors of the company. The amount payable by Summerset and its subsidiaries to Ernst & Young Wellington in respect of FY18 audit fees was $192,500. No non-audit work was undertaken by Ernst & Young during the year.

Donations

In accordance with section 211(1)(h) of the Companies Act 1993, Summerset records that it donated $50,000 in FY18.

Dividend reinvestment plan

The last date of receipt for a participation election from a shareholder who wishes to participate in the dividend reinvestment plan is 11 March 2019.

This Annual Report is authorised for and on behalf of the Board by:

Rob Campbell
Director and Chair of
the Board

James Ogden
Director and Chair of the
Audit Committee

Authorised for issue on 21 February 2019

Directory

Auckland

Summerset Falls
31 Mansel Drive,
Warkworth 0910
Phone (09) 425 1200

Summerset Milldale*
Argent Lane, Milldale,
Wainui 0992
Phone 0800 786 637

Summerset at Monterey Park
1 Squadron Drive, Hobsonville,
Auckland 0618
Phone (09) 951 8920

Summerset at Heritage Park
8 Harrison Road, Ellerslie,
Auckland 1060
Phone (09) 950 7960

Summerset by the Park
7 Flat Bush School Road,
Flat Bush 2019
Phone (09) 272 3950

Summerset at Karaka
49 Pararekau Road,
Karaka 2580
Phone (09) 951 8900

Summerset Parnell
23 Cheshire Street, Parnell,
Auckland 1052
Phone (09) 950 8212

Summerset St Johns
188 St Johns Road, St Johns,
Auckland 1072
Phone (09) 950 7982

Waikato

Summerset down the Lane
206 Dixon Road,
Hamilton 3206
Phone (07) 843 0157

Summerset Rototuna
39 Kimbrae Drive,
Rototuna North 3281
Phone (07) 981 7822

Summerset by the Lake
2 Wharewaka Road,
Wharewaka, Taupo 3330
Phone (07) 985 6890

Bay of Plenty

Summerset by the Sea
181 Park Road,
Katikati 3129
Phone (07) 985 6890

Summerset Papamoa*
Manawa Road
Papamoa, Tauranga
Phone (07) 542 9082

Hawke's Bay

Summerset in the Bay
79 Merlot Drive,
Greenmeadows, Napier 4112
Phone (06) 845 2840

Summerset in the Orchard
1228 Ada Street, Parkvale,
Hastings 4122
Phone (06) 974 1310

Summerset Te Awa*
Corner Eriksen Road and
Kenny Road,
Te Awa, Napier 4110
Phone: 06 833 5852

Summerset in the Vines
249 Te Mata Road,
Havelock North 4130
Phone (06) 877 1185

Taranaki

Summerset Mountain View
35 Fernbrook Drive, Vogeltown,
New Plymouth 4310
Phone (06) 824 8900

Summerset at Pohutukawa Place*
Pohutukawa Place
New Plymouth, 4312
Phone (06) 824 8532

Manawatu – Wanganui

Summerset in the River City
40 Burton Avenue, Wanganui
East, Wanganui 4500
Phone (06) 343 3133

Summerset on Summerhill
180 Ruapehu Drive, Fitzherbert,
Palmerston North 4410
Phone (06) 354 4964

Summerset by the Ranges
102 Liverpool Street,
Levin 5510
Phone (06) 367 0337

Wellington

Summerset Waikanae*
Park Avenue
Waikanae 5036
Phone (04) 293 0002

Summerset on the Coast
104 Realm Drive,
Paraparaumu 5032
Phone (04) 298 3540

Summerset on the Landing
Bluff Road, Kenepuru,
Porirua 5024
Phone (04) 230 6722

Summerset at Aotea
15 Aotea Drive, Aotea,
Porirua 5024
Phone (04) 235 0011

Summerset at the Course
20 Racecourse Road, Trentham,
Upper Hutt 5018
Phone (04) 527 2980

Summerset Lower Hutt
Boulcott's Farm, Military Road,
Lower Hutt 5010
Phone (04) 894 7374

Nelson – Tasman

Summerset in the Sun
16 Sargeson Street, Stoke,
Nelson 7011
Phone (03) 538 0000

Summerset Richmond Ranges
1 Hill Street North, Richmond,
Tasman 7020
Phone (03) 744 3432

Canterbury

Summerset at Wigram
135 Awatea Road, Wigram,
Christchurch 8025
Phone (03) 741 0870

Summerset at Avonhead
120 Hawthornden Road,
Avonhead, Christchurch 8042
Phone (03) 357 3202

Summerset on Cavendish
147 Cavendish Road,
Casebrook, Christchurch 8051
Phone (03) 741 3340

Otago

Summerset at Bishopscourt
36 Shetland Street, Wakari,
Dunedin 9010
Phone (03) 950 3110

* Proposed villages

Company Information

Registered offices

New Zealand
Level 27, Majestic Centre,
100 Willis Street, Wellington 6011,
New Zealand

PO Box 5187,
Wellington 6140

Phone: +64 4 894 7320
Email: reception@summerset.co.nz
www.summerset.co.nz

Australia
Deutsche Bank Place,
Level 4, 126 Phillip Street,
Sydney, NSW, 2000
Australia

Auditor
Ernst & Young

Bankers
ANZ Bank New Zealand Limited
Australia and New Zealand Banking Group Limited
Bank of New Zealand Limited
Commonwealth Bank of Australia
National Australia Bank Limited

Statutory Supervisor
Public Trust

Bond Supervisor
The New Zealand Guardian Trust
Company Limited

Share Registrar
Link Market Services,
PO Box 91976, Auckland 1142,
New Zealand

Phone: +64 9 375 5998
Email: enquiries@linkmarketservices.co.nz

Directors
Rob Campbell
Dr Marie Bismark
James Ogden
Gráinne Troute
Anne Urlwin
Dr Andrew Wong

Company Secretary
Leanne Walker

Summerset

Summerset Group Holdings Limited	
Results for announcement to the market	
Reporting Period	12 months to 31 December 2018
Previous Reporting Period	12 months to 31 December 2017

	Amount (000s)	Percentage change
Revenue from ordinary activities	NZ$137,017	+24.0%
Total income from ordinary activities	NZ$346,947	+0.6%
Profit from ordinary activities after tax attributable to security holder	NZ$214,503	-10.6%
Net profit attributable to security holders	NZ$214,503	-10.6%
Underlying profit	NZ$98,611	+20.8%

Final Dividend	Amount per security	Imputed amount per security
	NZ 7.2 cents per share	Not imputed

Record Date	8 March 2019
Dividend Payment Date	21 March 2019
Dividend Reinvestment Plan	Applies at 2% discount

Comments:	See also other attached documents (annual report, media release, results presentation and Appendix 7). Underlying profit is a non-GAAP measure and differs from NZ IFRS profit for the period. Underlying profit does not have a standardised meaning prescribed by GAAP and therefore may not be comparable to similar financial information presented by other entities. The Directors have provided an underlying profit measure in addition to IFRS profit to assist readers in determining the realised and unrealised components of fair value movement of investment property and tax expense in the Group's income statement. The measure is used internally in conjunction with other measures to monitor performance and make investment decisions. Underlying profit is a measure which the Group uses consistently across reporting periods. Underlying profit is used to determine the dividend pay-out to shareholders.

APPENDIX 7 – NZSX Listing Rules

EMAIL: announce@nzx.com

Notice of event affecting securities

NZSX Listing Rule 7.12.2. For rights, NZSX Listing Rules 7.10.9 and 7.10.10.
For change to allotment, NZSX Listing Rule 7.12.1, a separate advice is required.

Number of pages including this one (Please provide any other relevant details on additional pages)

Full name of Issuer	Summerset Group Holdings Limited
Name of officer authorised to make this notice	Leanne Walker
Authority for event, e.g. Directors' resolution	Directors' Resolution
Contact phone number	(04) 894 7361
Contact fax number	
Date	21 / 02 / 2019

Nature of event
Tick as appropriate

Bonus Issue	[ ]
If ticked, state whether: Taxable	[ ]
/ Non Taxable	[ ]
Conversion	[ ]
Interest	[ ]
Rights Issue Renouncable	[ ]
Rights Issue non-renouncable	[ ]
Capital change	[ ]
Call	[ ]
Dividend	[x]
If ticked, state whether: Interim	[ ]
Full Year	[X]
Special	[ ]
DRP Applies	[x]

EXISTING securities affected by this

If more than one security is affected by the event, use a separate form.

Description of the class of securities	Ordinary Shares
ISIN	NZSUME0001S0

If unknown, contact NZX

Details of securities issued pursuant to this event

If more than one class of security is to be issued, use a separate form for each class.

Description of the class of securities	
ISIN	

If unknown, contact NZX

Number of Securities to be issued following event	
Minimum Entitlement	
Ratio, e.g (1) for (2)	for
Conversion, Maturity, Call Payable or Exercise Date	
Treatment of Fractions	
Tick if pari passu	[ ]
OR provide an explanation of the ranking	
Strike price per security for any issue in lieu or date Strike Price available.	

Enter N/A if not applicable

Monies Associated with Event

Dividend payable, Call payable, Exercise price, Conversion price, Redemption price, Application money.

In dollars and cents

Amount per security (does not include any excluded income)	7.2 cents per share
Excluded income per security (only applicable to listed PIEs)	Nil
Currency	New Zealand Dollars
Total monies	$16,229,928
Source of Payment	Revenue Reserves

Supplementary dividend details - NZSX Listing Rule 7.12.7

Amount per security in dollars and cents	Nil
Date Payable	

Taxation

Amount per Security in Dollars and cents to six decimal places

In the case of a taxable bonus issue state strike price	$
Resident Withholding Tax	2.38 cents per share
Imputation Credits (Give details)	Nil
Foreign Withholding Tax	$
FDP Credits (Give details)	

Timing (Refer Appendix 8 in the NZSX Listing Rules)

Record Date 5pm *For calculation of entitlements -*	8 March, 2019
Application Date *Also, Call Payable, Dividend / Interest Payable, Exercise Date, Conversion Date. In the case of applications this must be the last business day of the week.*	21 March, 2019
Notice Date *Entitlement letters, call notices, conversion notices mailed*	
Allotment Date *For the issue of new securities. Must be within 5 business days of application closing date.*	21 March, 2019

OFFICE USE ONLY
Ex Date:
Commence Quoting Rights:
Cease Quoting Rights 5pm:
Commence Quoting New Securities:
Cease Quoting Old Security 5pm:

Security Code:

Security Code: