Summerset Group Holdings Limited
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PO Box 5187, Wellington 6140
Phone: 04 894 7320 | **Fax:** 04 894 7319
Website: www.summerset.co.nz

23 FEBRUARY 2018

STOCK EXCHANGE ANNOUNCEMENT

SUMMERSET GROUP HOLDINGS LIMITED (SNZ) 2017 FULL YEAR RESULT AND ANNUAL REPORT

The following are attached in relation to Summerset's 2017 full year results and annual report:

- Media release;
- Results presentation;
- Annual report (including audited financial statements for the year ended 31 December 2017);
- NZX Appendix 1;
- NZX Appendix 7 (ASX Online Appendix 3A.1 is provided as a separate announcement).
- Letter to investors

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

23 FEBRUARY 2018

SUMMERSET ACHIEVES A 54% GROWTH IN PROFIT

- Net profit after tax of NZ$223.4 million, up 54% on FY16
- Underlying profit for FY17 of NZ$81.7 million, up 44% on FY16
- Total assets of NZ$2.2 billion, up 30% on FY16
- 682 total sales of occupation rights, up 4% on FY16
- 450 new retirement units delivered, up 10% on FY16
- Land bank total of 2,841 retirement units and 396 care beds
- Final dividend of NZ 7.1 cents per share
- Development margin of 27.3%, up from 22.2% for FY16

Retirement village operator Summerset Group Holdings Limited has announced net profit after tax for the year ending 31 December 2017 of $223.4 million, an increase of 54% on the same period last year.

Summerset's underlying profit, which excludes unrealised valuation gains on the fair value of investment property, was $81.7 million for the year ending 31 December 2017, up 44% on the previous year. Annual growth in underlying profit has averaged 47% in the six years since listing in November 2011.

Summerset's total asset value increased by 30% to NZ$2.2 billion. The development margin on new retirement units also increased to 27.3%, up from 22.2% for FY16.

Summerset CEO Julian Cook said the company's profit growth has been driven by strong demand for homes, the continued benefits of in-house construction of new villages and the well-run operation of existing villages. "We saw good demand for our homes across the country throughout 2017, including in Auckland. This is despite the slowing Auckland property market, which reflects the demographic we serve."

"An exciting milestone for us in 2017 was celebrating the 20th anniversary of Summerset's first village in Wanganui. We've come a long way since opening that village. Last year we welcomed 500 new residents and 200 staff to the Summerset family. At the end of 2017, we had more than 4,700 residents living at our 23 villages and more than 1,200 staff," he said.

Other key achievements for the company in 2017 were:

- Purchasing two new development sites in Avonhead, Christchurch and Wellington's Kenepuru, bringing the total number of sites to 29
- Opening the main building at Summerset Heritage Park in Ellerslie
- Receiving the New Zealand Aged Care Association's Best Built Environment award for the innovative Levin memory care centre

- Achieving a village resident satisfaction score of 97%, (up from 94% in 2016) and a care resident satisfaction result of 97%, (up from 94% in 2016)
- Improving staff wellbeing with a range of employee benefits, including day to day health insurance and funeral cover
- Achieving employee engagement results in Aon Hewitt's Australia and New Zealand top quartile
- Launching a new brand and website to better reflect Summerset's purpose of bringing the best of life to its residents
- Issuing the first retail bonds in the retirement and aged care sector
- Delivering 58 new care beds, (total number of care beds across villages is 806)

Mr Cook said Summerset was delighted to receive the Aged Care Association Built Environment Award for its Levin memory care centre. "We're particularly proud of this innovative model of dementia care as we are the first in New Zealand to offer one bedroom apartment style living for people with dementia. We'll be incorporating memory care in all our new villages."

The staff benefits package introduced during the year includes the following:

- Health insurance covering everyday health care costs such as GPs, dentist, and physios
- Funeral cover – $10,000 for every permanent employee or their spouse
- Long service leave – after five years' service with Summerset
- Continuation of the share plan for all staff
- Buyers' group trade discounts and Summerset supplier discounts from a range of companies

"Our staff are at the heart of our business and it is important that we value them appropriately," said Mr Cook. "These benefits are a further boost to the 1 July 2017 government funded pay increase for caregivers, diversional and occupational therapists."

Summerset also completed a rebranding in the latter half of 2017. Mr Cook said, "We asked our residents and their families what makes Summerset stand out from its competitors and how we could realign our brand to better reflect our purpose of bringing the best of life, and show that our residents are at the heart of everything we do."

Looking ahead, Mr Cook said Summerset's focus in 2018 will be to continue delivering high quality retirement village living to residents whether they are living independently, needing a little extra assistance in a serviced apartment, or care centre.

Summerset announced a final 2017 dividend of NZ 7.1 cents per share, a total dividend payment of NZ 11 cents per share for the year. This is an increase of NZ 3.3 cents per share on the total dividend paid for the previous year. 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 23 villages completed or in development across the country. In addition, Summerset has six sites for development in Avonhead (Christchurch), Richmond (Nelson), Kenepuru (Wellington), Lower Hutt (Wellington), St Johns (Auckland) and Parnell (Auckland), bringing the total number of sites to 29.
- It provides a range of living options and care services to more than 4,700 residents.
- Four-time winner of Retirement Village of the Year and Silver Award winner in the Reader’s Digest Quality Service Awards 2017.
- The Summerset Group has villages in Aotea, Casebrook, Dunedin, Ellerslie, Hamilton, Hastings, Havelock North, Hobsonville, Karaka, Katikati, Levin, Manukau, Napier, Nelson, New Plymouth, Palmerston North, Paraparaumu, Rototuna, Taupo, Trentham, Wanganui, Warkworth and Wigram.

Full year results presentation

Year ended 31 December 2017

Summerset Group Holdings Limited

23 February 2018

Agenda

1. FY17 result highlights
2. Business overview
3. Financial results
4. Final dividend
5. Appendix

FY17 result highlights

FY17 result highlights

Another record full year profit for Summerset

		FY17	FY16	*YOY change*	FY15
Financial (NZ$m)	Net profit before tax (IFRS)	223.7	145.6	*54%*	82.8
	Net profit after tax (IFRS)	223.4	145.5	*54%*	84.2
	Underlying profit*	81.7	56.6	*44%*	37.8
	Total assets	2,216	1,707	*30%*	1,364
	Net operating cash flow	207.7	192.6	*8%*	140.3
Operational	New sales of occupation rights	382	414	*-8%*	333
	Resales of occupation rights	300	244	*23%*	245
	Total sales of occupation rights	**682**	**658**	***4%***	**578**
	New retirement units delivered	450	409	*10%*	303

** 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*

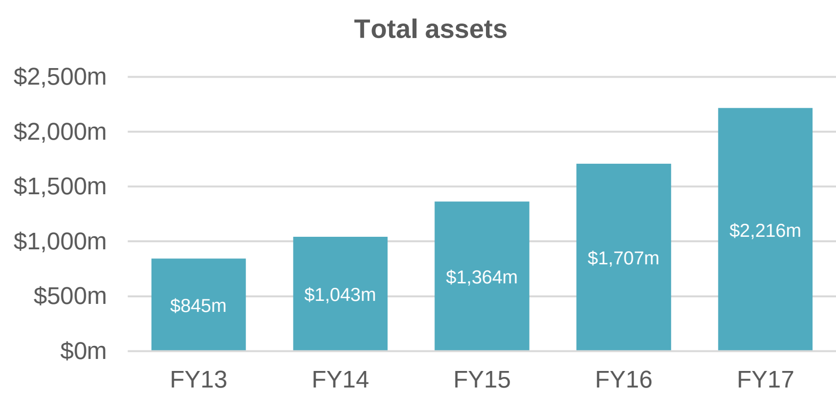
FY17 result highlights

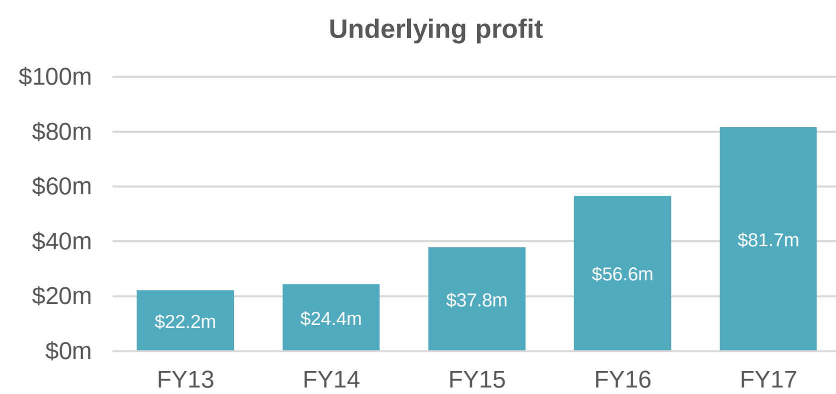
Record full year profit for Summerset

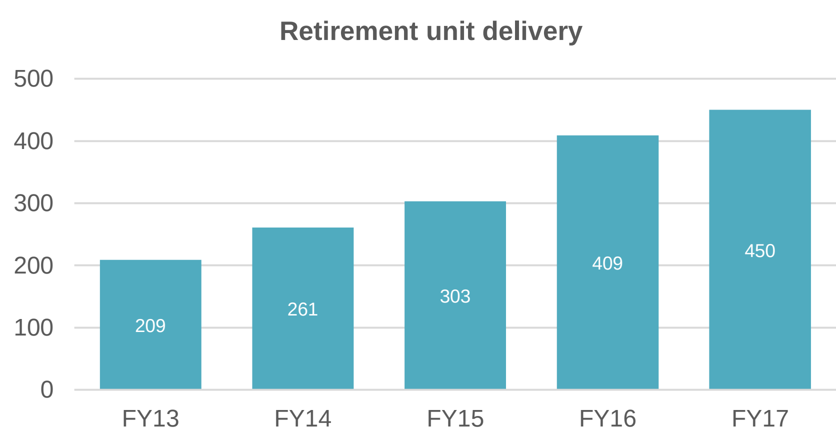
- FY17 net profit after tax (NZ IFRS) of $223.4m, up 54% on FY16
- FY17 underlying profit of $81.7m, up 44% on FY16 – record full year profit
- Tracked ahead of our $77.0m to $79.0m guidance with better than expected resale settlements, stronger than expected margins on both new and resale settlements, and positive year-end valuation impacts relating to retail bonds
- 382 new sales with delivery of 171 retirement units in 1H17 and 279 retirement units in 2H17 for a total of 450 new retirement units in FY17
- Record development margin of 27.3%, up from 22.2% in FY16
- 300 resales, a full year record, up from 244 in FY16
- Resale gain of 21.7%, up from 18.6% in FY16
- Final dividend of 7.1 cents per share declared, amounting to $15.9m
- Total dividends for the 2017 year (interim and final) of 11.0 cents per share, amounting to $24.6m
- Operating cash flow of $207.7m, and gearing ratio down to 30.7%
- Total assets now over $2.2b, up 30% on FY16

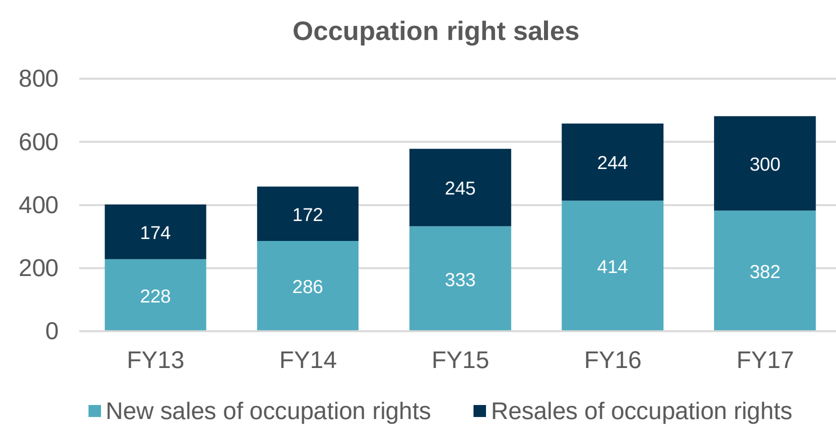
FY17 result highlights

Strong trends continue across the business









Business overview

Summerset snapshot

Second largest retirement village developer in New Zealand

- 20 years of consistent delivery and growth
- Listed on the NZX in 2011, and the ASX in 2013
- Balance sheet growth of 259% since listing
- 3,278 retirement units (villas, apartments, serviced apartments and memory care apartments) and 806 care beds
- More than 4,700 residents
- 23 operating villages completed or under development
- Six greenfield sites at Avonhead, Kenepuru, Lower Hutt, Parnell, Richmond, and St Johns
- Land bank of 2,841 retirement units as at 31 December 2017
- Four-time winner of Best Retirement Village Operator at the Australasian Over 50s Housing Awards
- Received a Highly Commended in the Reader's Digest Trusted Brands Survey three years running, from 2015-2017

FY17 review

450 retirement units delivered, record underlying profit of $81.7m

- Celebrated our 20th anniversary year
- Completed the Ellerslie main building and delivered final retirement units in Hamilton and New Plymouth
- Received the New Zealand Aged Care Association's Best Built Environment award for the innovative Levin memory care centre
- Construction and earthworks underway on Casebrook and Rototuna villages, with first retirement unit delivery expected in FY18
- Successfully raised $100.0m of retail bonds to provide further funding diversification and tenor
- Total debt facilities lifted from $450.0m to $600.0m (inclusive of retail bonds)
- Undrawn bank facility capacity of $252.2m at 31 December 2017
- Announced new land acquisitions in Avonhead (Christchurch), Kenepuru (Wellington), and additional land in Casebrook (Christchurch)
- Summerset finance team awarded Finance Team of the Year award at the 2017 CFO Awards

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 across New Zealand

- 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
- Investigation of expansion into Australia continuing with GM Development transferring to lead this

Operations and staff

Focus on staff initiatives and systems and process improvements

- 97% care customer satisfaction rating and 97% village customer satisfaction rating
- Focused on food offering to residents – introducing new providers in FY18
- New Summerset brand established, quarterly magazine and website completed, positive feedback from residents and prospects
- Strong certification audit results continue with ten care centres achieving three years', and four care centres awarded the maximum four years' certification
- Strengthened staff engagement; results now in top quarter for Australia and New Zealand (AON Hewitt)
- Second year of the all staff share scheme with 83% of our employees signing up. New staff benefits scheme launched, includes health insurance and funeral cover. New staff uniforms to be introduced in FY18
- Pay equity decision, largely funded by Government, is a positive outcome for our caregivers
- Continuing to invest in Health and Safety systems – implemented a risk management framework across the company and achieved ACC accredited employer status
- Successfully implemented new asset management system across all villages
- Rollout of VCare customer management system underway for village operations. Care operations to commence in FY18 - will include iPad interface for all care staff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Life doesn't stop when you move into a Summerset village. It just gets better.
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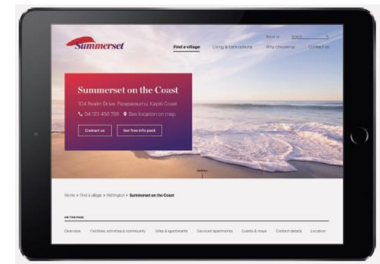
Summerset
Summerset on the Coast


Summerset
HAPPY
BIRTHDAY


Enjoy a coffee
and muffin
or slice on us.
Redeem this voucher at Divine Café to enjoy a complimentary drink and either a muffin or slice. We look forward to seeing you soon.
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An introduction to care at Summerset
Summerset serviced apartments
The best of both worlds
An introduction to the Summerset life
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at Aotea
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Summerset


Casebrook


Ellerslie


Ellerslie


Nelson


Hobsonville


Ellerslie


Hobsonville

FY17 development activity

Delivery of 450 retirement units in FY17 across nine sites

Unit delivery FY17	Villas	Apartments	Serviced apartments	Total retirement units	Total care beds
Ellerslie	22	23	57	102	58
Hamilton	14	-	30	44	-
Hobsonville	8	24	11	43	-
Karaka	33	-	39	72	-
Katikati	41	-	-	41	-
New Plymouth	32	-	20	52	-
Trentham	33	-	-	33	-
Warkworth	25	-	-	25	-
Wigram	38	-	-	38	-
Total	**246**	**47**	**157**	**450**	**58**

- 450 retirement units delivered across nine villages – 171 in 1H17 and 279 in 2H17
- Completed main buildings and serviced apartment modules in Ellerslie, Hamilton, Karaka, and New Plymouth
- Hamilton and New Plymouth villages fully completed
- Construction and earthworks underway on Casebrook and Rototuna villages

FY17 development activity

Delivery of 450 retirement units in FY17 across nine sites

FY17 development activity

Delivery of 450 retirement units in FY17 across nine sites

Summerset

Future development

Land bank of 2,841 retirement units and 396 care beds

Land bank - as at 31 December 2017*

Village	Villas	Apartments	Serviced & memory care apartments	Total retirement units	Total care beds
Avonhead	156	12	98	266	43
Casebrook	260	12	76	348	43
Ellerslie	8	196	-	204	-
Hobsonville	10	36	41	87	52
Karaka	71	-	-	71	-
Katikati	38	-	-	38	-
Kenepuru	100	93	106	299	43
Lower Hutt	42	96	43	181	49
Parnell	-	264	76	340	48
Richmond	234	-	76	310	43
Rototuna	187	-	76	263	43
St Johns	-	236	76	312	32
Trentham	-	-	20	20	-
Warkworth	54	-	-	54	-
Wigram	48	-	-	48	-
Total	**1,208**	**945**	**688**	**2,841**	**396**

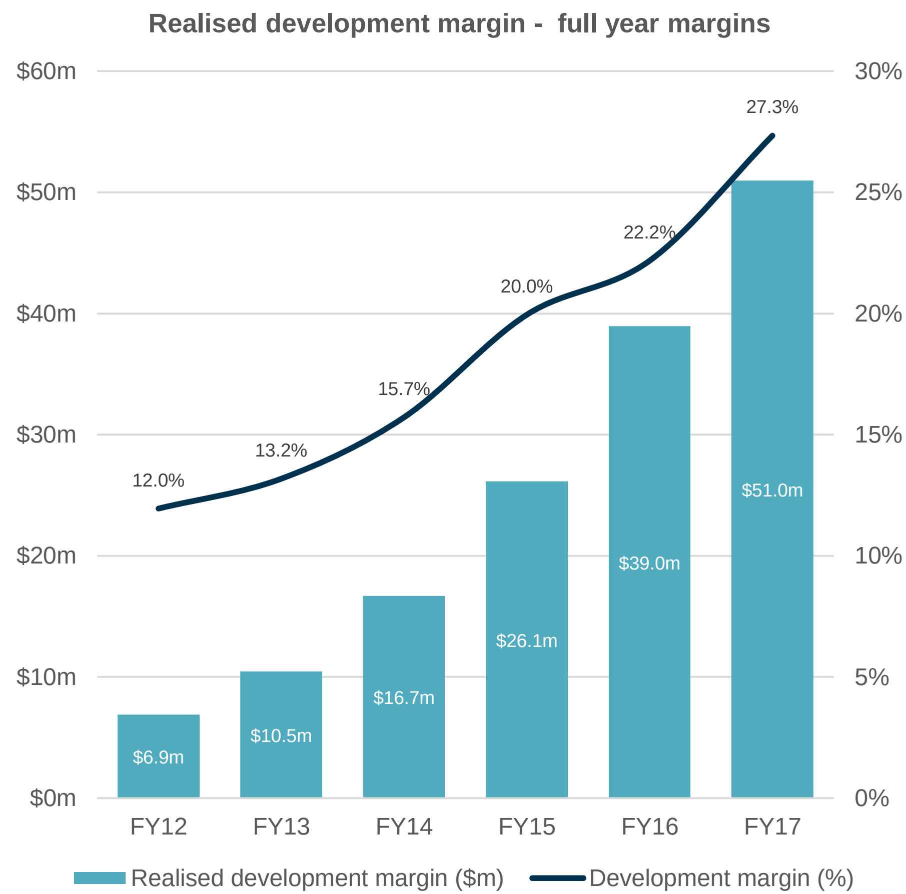
- Land bank of 2,841 retirement units spread across brownfield and greenfield sites
- Targeting delivery of around 450 retirement units in FY18. Land bank provides around six years of supply at FY18 build rate

** Land bank reflects current intentions as at December 2017*

Development margin

Record development margin of 27.3% with a realised margin of $51.0m

- Record development margin achieved in FY17 with strong margins across all villages that settled new retirement units within the year
- Realised development margin of $51.0m, up 31% from $39.0m in FY16
- Development margin of 27.3% in FY17, this is up from 22.2% in FY16
- Benefits of in-house design and construction teams continue to be realised
- Continuing to see good development margins coming out of our regional villages with the average margin across our non-Auckland sites being around 28% for the year
- Sales of new occupation rights were predominately in regional New Zealand with 39% in our Auckland region villages and 61% across the rest of our developing villages

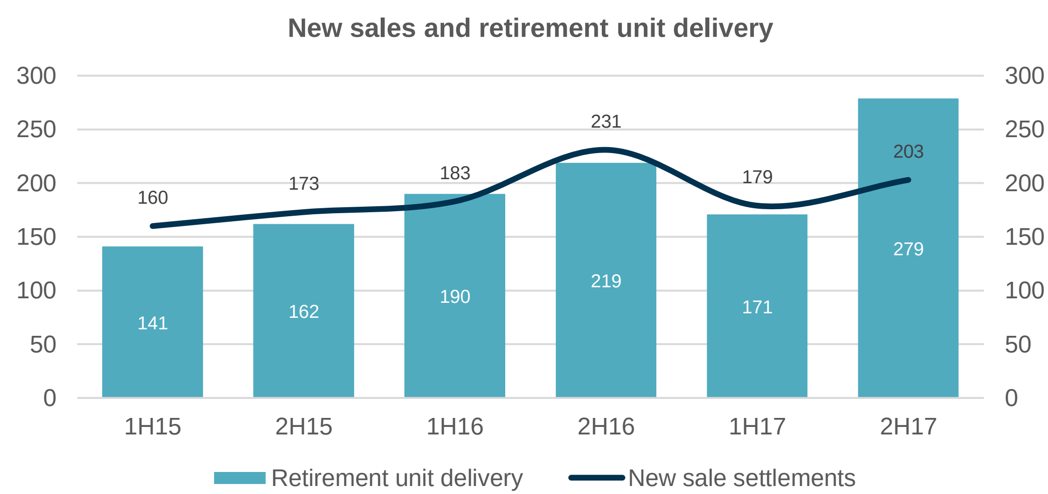


New sales of occupation rights

New sales gross proceeds of $186.4m across 382 settlements

- New sales gross proceeds of $186.4m in FY17
- New sales of occupation rights slightly down versus FY16:
  - Villas: 235, down 20% on FY16
  - Apartments: 29, up 93% on FY16
  - Serviced apartments: 111, up 7% on FY16
  - Memory care apartments: 7, up 250% on FY16
- Lower new sales driven by timing differences. Compared to FY16 we opened with five less units in stock and we delivered 60 more units in the second half leaving less time to settle units
- Comfortable with how sales tracked, continue to see strong demand with good waitlist numbers, presales are tracking well, and days to settle improved through the year
- Although there was a higher proportion of serviced and memory care apartments in FY17, the average gross proceeds per new sale settlement achieved of $488k was up on FY16 ($424k) and FY15 ($393k)

New sales	FY17	FY16	*YOY change*	FY15
Gross proceeds ($m)	186.4	175.6	*6%*	131.0
Villas	235	293	*-20%*	279
Apartments	29	15	*93%*	5
Serviced apartments	111	104	*7%*	49
Memory care apartments	7	2	*250%*	0
Total occupation rights	**382**	**414**	***-8%***	**333**



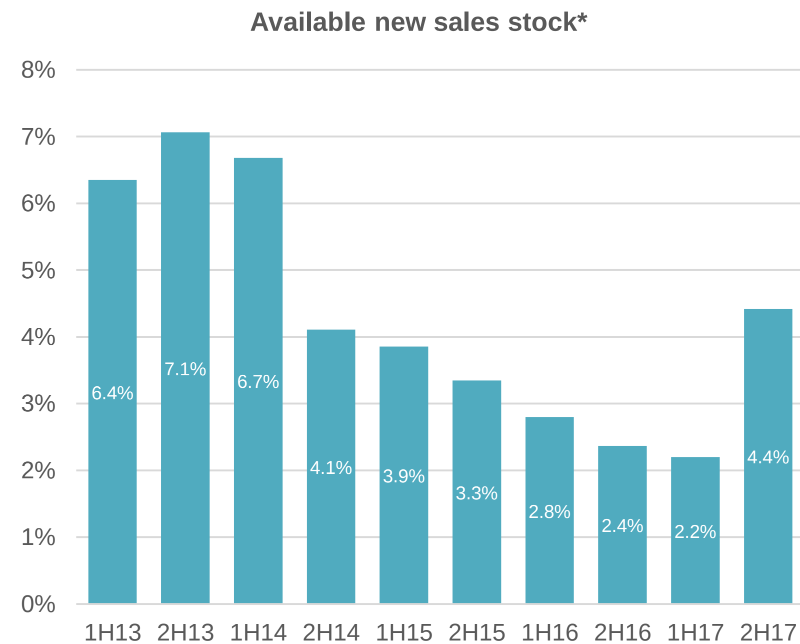
New sales stock

New sales stock up but still historically low on a relative basis

- Uncontracted new sales stock of 145 retirement units at FY17, up from 67 at FY16. Uplift driven by deliveries being weighted to the second half (up 27% on FY16) and a large number of serviced apartment deliveries in the second half. On average, the uncontracted villa and apartment new sales stock have only been available to settle for two months
- Serviced apartments, a needs based product, make up the majority of new sales stock with 95 deliveries in the second half of the year
- Historically still a low level of new sales stock with uncontracted new sales stock making up 4.4% of our total retirement unit portfolio, this compares to over 6% four years ago

New sales stock	FY17	FY16	FY15
Contracted	59	69	60
Uncontracted	145	67	81
Total new sales stock	**204**	**136**	**141**
Contracted	26	44	52
Uncontracted	41	12	62
Villas	**67**	**56**	**114**
Contracted	5	0	0
Uncontracted	14	1	3
Apartments	**19**	**1**	**3**
Contracted	28	25	8
Uncontracted	90	54	16
Serviced & memory care apartments	**118**	**79**	**24**

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



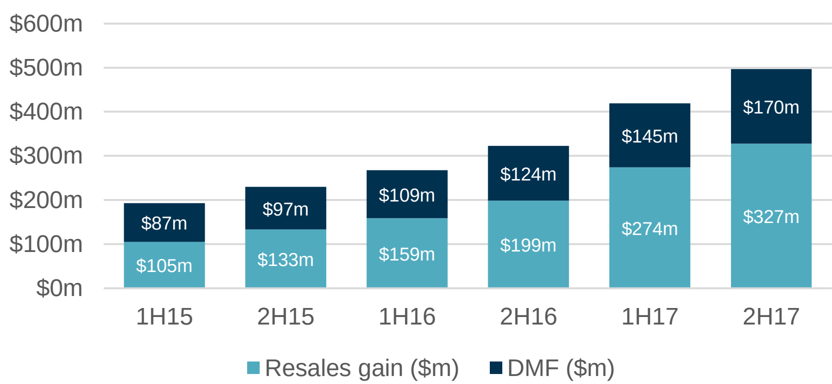
Resales of occupation rights

Resales of 300 occupation rights in FY17

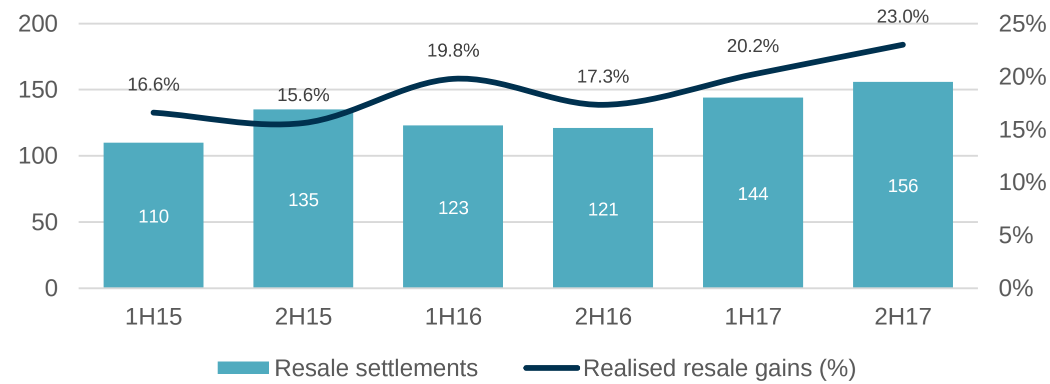
- Resale of 300 occupation rights in FY17, an increase of 23% on FY16
- Gross proceeds of $114.9m, up 38% on FY16
- Realised resale gain of 21.7%
- Embedded value up to $152k per retirement unit, as at 31 December 2017, up from $114k as at 31 December 2016
- Embedded resale gain of $100k per retirement unit, up from $70k as at 31 December 2016

Resales	FY17	FY16	*YOY change*	FY15
Gross proceeds ($m)	114.9	83.1	*38%*	77.0
Realised resale gains ($m)	24.9	15.4	*62%*	12.3
Realised resale gains (%)	21.7%	18.6%	*17%*	16.0%
DMF realisation ($m)	13.8	10.3	35%	9.4
Villas	172	142	*21%*	139
Apartments	46	44	*5%*	63
Serviced apartments	82	58	*41%*	43
Memory care apartments	0	0	*N/A*	0
Total occupation rights	**300**	**244**	***23%***	**245**

Embedded value



Realised resale gain and volume



Resales stock

Resales stock levels continue to sit at record lows

- Resales stock remains low with 63 retirement units under contract and 47 retirement units uncontracted at FY17
- Resales stock is up on FY16, we experienced a historically high number of terminations over the second half of the year – provides good opening inventory levels to sell down in FY18. We continue to see good demand for resale units across all villages
- As a proportion of our total retirement unit stock, uncontracted resales stock makes up 1.4%

Resales stock	FY17	FY16	FY15
Contracted	63	56	47
Uncontracted	47	29	36
Total resales stock	**110**	**85**	**83**
Contracted	37	29	34
Uncontracted	24	17	13
Villas	**61**	**46**	**47**
Contracted	9	9	5
Uncontracted	5	4	7
Apartments	**14**	**13**	**12**
Contracted	17	18	8
Uncontracted	18	8	16
Serviced & memory care apartments	**35**	**26**	**24**

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

Financial results

FY17 reported profit (IFRS)

Net profit after tax up 54% versus FY16

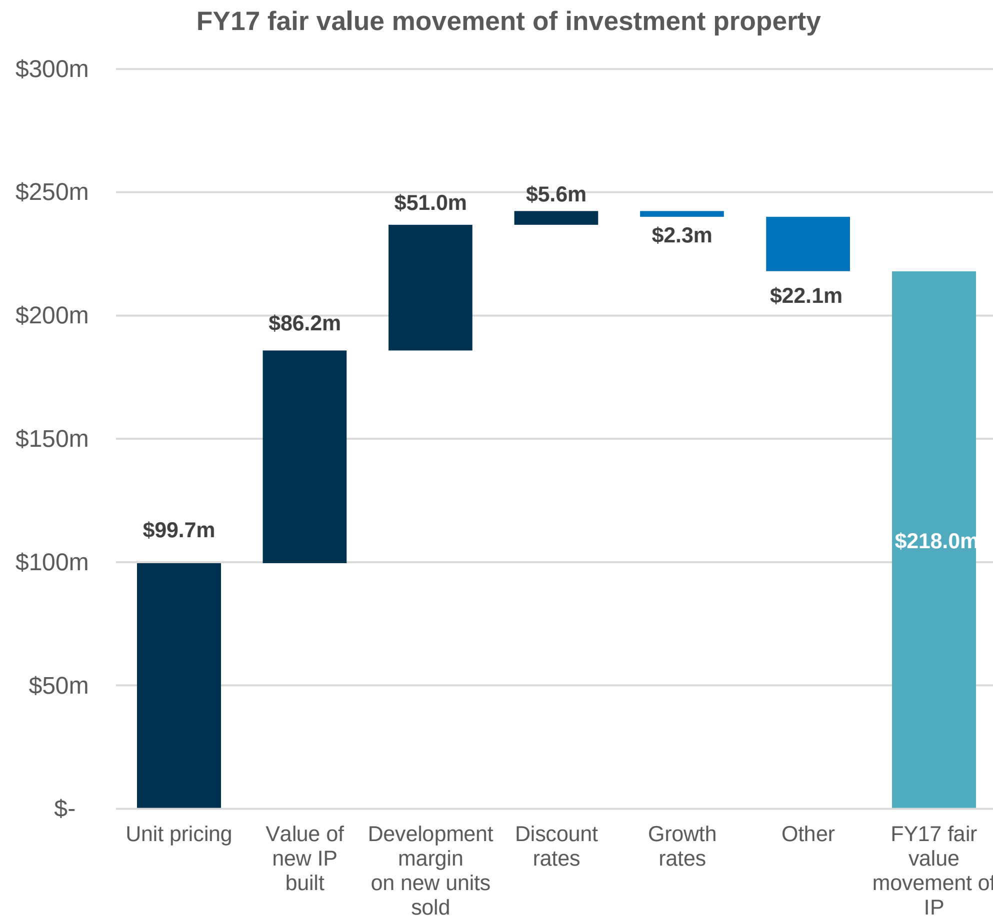
- Record NPAT of $223.4m, up $78.0m or 54% relative to FY16
- NPAT has seen an annual compounded increase of 93% since we listed in 2011
- Strong growth in investment property fair value movements with $218.0m for FY17 – refer to next slide for further details
- FY17 expenses are driven from a mix of growth in developing villages, some additional operating costs in existing villages and project-related costs as we enhance systems and processes
- Net finance costs of $11.5m are up 27% relative to FY16 due to higher gross debt balance, re-financing of banking facilities, and issuance of retail bond facility

NZ$m	FY17	FY16	*YOY change*	FY15
Total revenue	110.5	86.1	*28%*	68.8
Reversal of impairment on land & buildings	0.0	-	*N/A*	-
Fair value movement of investment property	218.0	143.5	*52%*	83.5
Total income	**328.5**	**229.5**	***43%***	**152.2**
Total expenses	93.2	74.8	*25%*	61.1
Net finance costs	11.5	9.1	*27%*	8.4
Net profit before tax	**223.7**	**145.6**	***54%***	**82.8**
Tax expense / (credit)	0.3	0.2	*84%*	(1.5)
Net profit after tax	**223.4**	**145.5**	***54%***	**84.2**

Fair value movement

$218m fair value movement of investment property

- Fair value movement of $218.0m for FY17, up 52% on FY16
- Fair value movement has been driven by:
  - Retirement unit pricing ($99.7m): strong retirement unit price inflation on existing retirement units within the portfolio resulting in uplift in operators interest
  - Value of new investment property built ($86.2m): operator's interest on new retirement units delivered in FY17
  - Development margin ($51.0m): realised development margin on new retirement units sold in FY17
  - Discount rates ($5.6m) and growth rates ($2.3m): change in assumptions used by valuer
  - Other movements ($22.1m): changes in resident recycling profiles, and all other valuation assumptions
- Refer to the appendices (slide 43) for key assumptions associated with the investment property valuation



FY17 underlying profit

Underlying profit up 44% on FY16, 47% CAGR over last six years

- Record full year underlying profit of $81.7m, up 44% on FY16
- Uplift in profit driven by the continued benefits of bringing our design and development team in-house, coupled with the maturing nature of our operating business
- Tracked ahead of our $77.0m to $79.0m guidance with better than expected resale settlements, stronger than expected margins on both new and resale settlements, and positive year-end valuation impacts relating to retail bonds
- Realised development margin of $51.0m achieved in FY17, up from $39.0m in FY16 driven by a record high margin of 27.3%
- Realised gain on resales of $24.9m achieved in FY17, a record full year result, driven by a higher sales volume and strong sales price growth
- Underlying profit has seen an annual compounded increase of 47% since we listed in 2011

NZ$m	FY17	FY16	YoY change	FY15
Care fees and village services	74.5	57.8	*29%*	46.5
Deferred management fees	35.8	28.0	*28%*	21.8
Realised gain on resales	24.9	15.4	*62%*	12.3
Realised development margin	51.0	39.0	*31%*	26.1
Other income & interest received	0.2	0.2	*-26%*	0.5
Total income	**186.4**	**140.4**	***33%***	**107.2**
Operating expenses	88.6	71.1	*25%*	57.3
Depreciation and amortisation	4.6	3.7	*24%*	3.7
Net finance costs	11.5	9.1	*27%*	8.4
Total expenses	**104.7**	**83.9**	***25%***	**69.4**
Underlying profit	**81.7**	**56.6**	***44%***	**37.8**

Underlying profit differs from NZ IFRS reported profit after tax. The Directors have provided an underlying profit measure to assist readers in determining the realised and non-realised 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 an industry wide measure which the Group uses consistently across reporting periods. See note 2 of the financial statements for detail on the components of underlying profit

FY17 cash flows

Continued investment in new village builds

- Continuing to see benefits of maturing portfolio - net operating business cash flows up 67% from $15.7m in FY16 to $26.1m in FY17
- Cash flow from care fees and village services was up $15.2m on FY16
- Net receipts from resales was up $7.3m on FY16 with uplift in resale volume and margin
- Gross receipts from new sales was up on FY16 despite lower sales volume
- Investing cash flows were up $57.6m on FY16 with additional land purchases and continued investment in village developments
- Net proceeds from borrowings includes the $100m retail bond issuance within the year

NZ$m	FY17	FY16	*YOY change*
Net operating business cash flow	26.1	15.7	*67%*
Receipts for residents' loans - new sales	181.6	176.9	*3%*
Net operating cash flow	**207.7**	**192.6**	***8%***
Purchase of land	(27.8)	(18.5)	*51%*
Construction of new IP & care facilities	(213.1)	(168.1)	*27%*
Refurb of existing IP & care facilities	(4.7)	(3.3)	*40%*
Other investing cash flows	(6.1)	(5.0)	*23%*
Capitalised interest paid	(5.8)	(5.0)	*15%*
Net investing cash flow	**(257.5)**	**(199.9)**	***29%***
Net proceeds from borrowings	73.9	25.8	*187%*
Net dividends paid	(12.3)	(8.9)	*38%*
Other financing cash flows	(12.9)	(7.6)	*69%*
Net financing cash flow	**48.7**	**9.2**	***428%***

FY17 balance sheet

Total assets of $2.2b, up 30% from $1.7b in FY16

- Total assets of $2.2b, up 30% on FY16
- Retained earnings have increased from $289.1m as at 31 December 2016 to $492.6m as at 31 December 2017. This will continue to positively impact balance sheet strength and company gearing ratios
- Investment property valuation of $2.1b, up 29% on FY16
- Other assets include land and buildings (primarily care centres)
- Care centres valued as at 31 December 2017 (three yearly cycle)
- Embedded value of $497.1m, $152k per retirement unit, as at 31 December 2017:
  - $327.4m resale gains
  - $169.7m deferred management fees

NZ$m	FY17	FY16	*YOY change*	FY15
Investment property	2,058	1,591	*29%*	1,261
Other assets	158.2	115.4	*37%*	102.4
Total assets	**2,216**	**1,707**	***30%***	**1,364**
Residents' loans	966.6	801.3	*21%*	637.2
Face value of bank loans & bonds*	347.8	274.0	*27%*	248.2
Other liabilities	132.6	85.9	*54%*	68.3
Total liabilities	**1,447**	**1,161**	***25%***	**953.8**
Net assets**	**769.3**	**545.6**	***41%***	**409.8**
Embedded value	**497.1**	**322.6**	***54%***	**229.7**
NTA (cents per share)	**347.6**	**249.9**	***39%***	**188.5**

** 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*

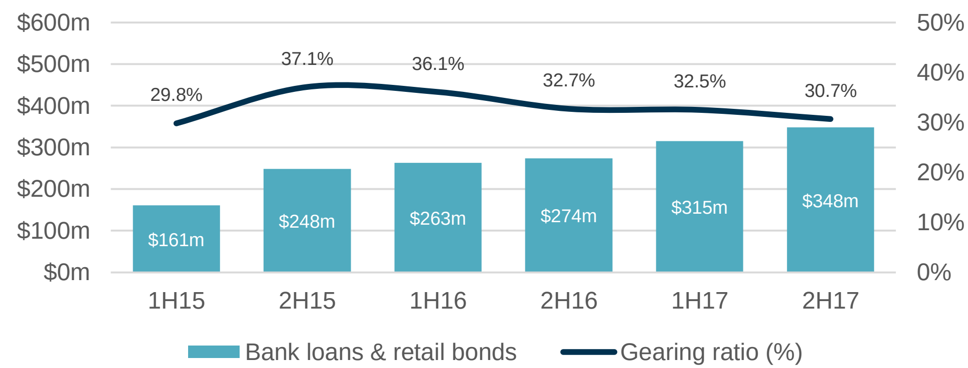
Gearing ratio

Gross debt of $348m* and gearing ratio of 30.7%

- Gross debt of $347.8m as at 31 December 2017, up $32.5m from 30 June 2017
- Uplift in gross debt principally due to settlement of land in Avonhead and Casebrook, and development spend in Ellerslie (main building and apartment block), Hobsonville main building, and civil works in Casebrook, Rototuna and Warkworth
- Successfully raised $100.0m of retail bonds to provide further funding diversification and tenor
- Bank facility of $500.0m with undrawn capacity of $252.2m at 31 December 2017
- Gearing ratio of 30.7% is down from 32.5% as at 30 June 2017
- Our new land purchase in Kenepuru, Wellington was not fully settled in FY17 – as such it is not fully reflected in the net debt figure

NZ$m	FY17	1H17	*Change*	FY16
Face value of bank loans & retail bonds*	347.8	315.3	*10%*	274.0
Cash and cash equivalents	(7.6)	(13.1)	*-42%*	(8.7)
Net debt	**340.3**	**302.2**	***13%***	**265.3**
Net assets	**769.3**	**627.6**	***23%***	**545.6**
Gearing ratio (%)**	**30.7%**	**32.5%**	***-6%***	**32.7%**
Bank & bond LVR (%)**	**31.4%**	**34.3%**	***-8%***	**34.0%**

Gross borrowings* and gearing ratio**



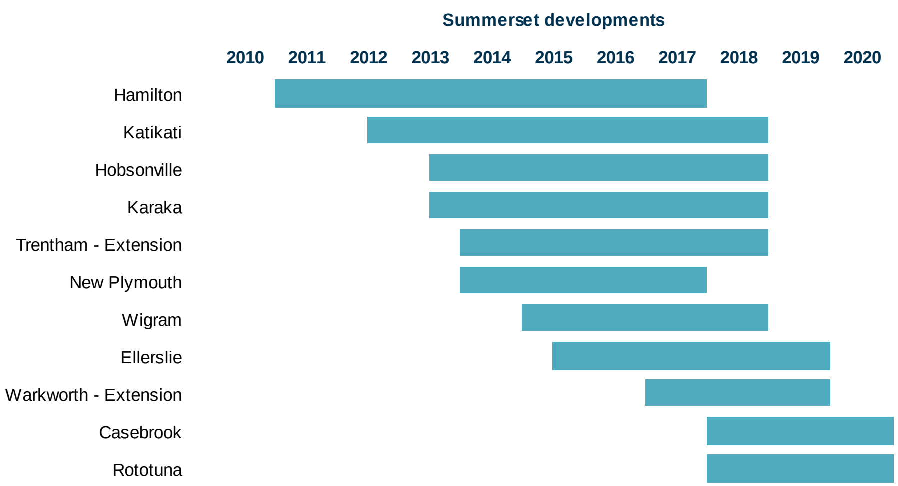
** Face value of drawn bank debt and retail bonds. Excludes capitalised and amortised bond issue costs, and fair value movement on hedged borrowings*

*** 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 villages

- Positive cash flows allow us to recycle our capital into future deliveries
- Our high rise sites require a large amount of capital but are forecast to deliver significant cash profits upon sell down of the village
- Our broad acre sites require a lower amount of capital, while all producing positive cash flows
- From the time construction of a village starts through to the last retirement unit being delivered takes, on average, around four to six years



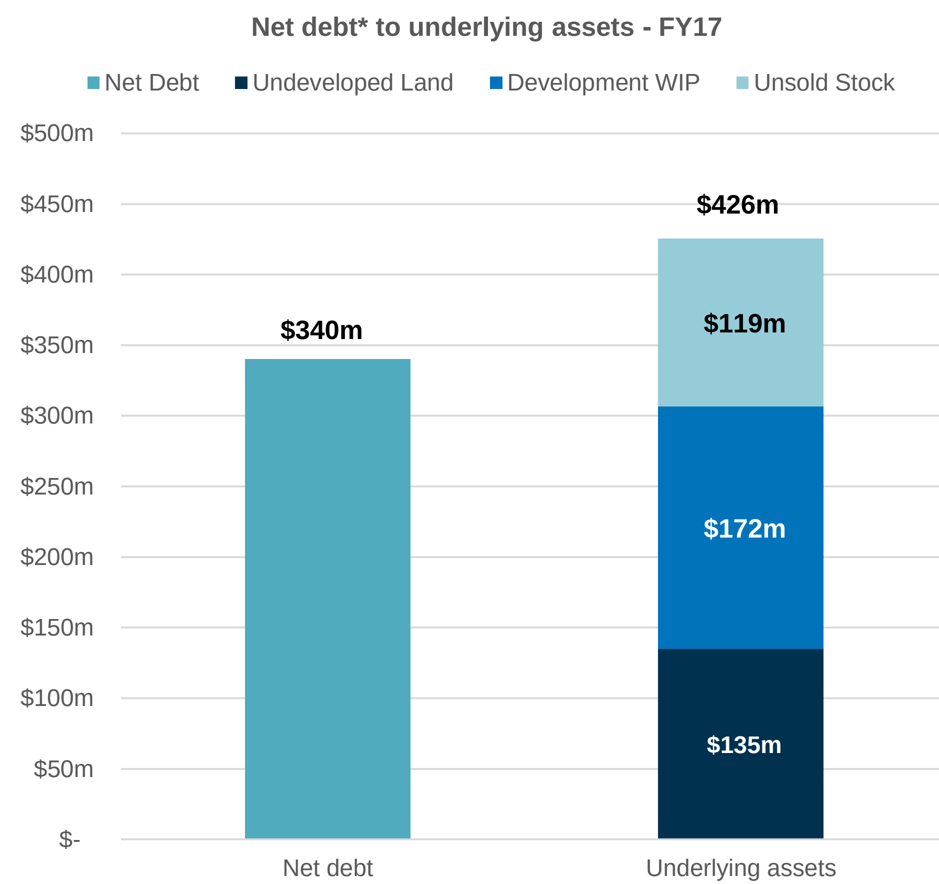
Village	Forecast Capital Investment ($m)	Forecast Net Cash Position* ($m)
Casebrook Ellerslie Hobsonville Karaka Rototuna	$100m +	$20m +
Hamilton Trentham - Extension Warkworth - Extension Wigram	$35m +	$5m - $20m
Katikati New Plymouth		$0m - $5m

**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 $85.3m or 25%
- All debt is associated with development activities
- Development assets could be realised to reduce debt
- Total underlying assets of around $425.5m are made up of:
  - Undeveloped land of $135.0m
  - Development WIP of $171.5m
  - Vacant new sale stock of $119.0m



* *Face value of drawn bank debt and retail bonds*

Final dividend

FY17 final dividend

Summerset board declares FY17 final dividend

- The Summerset Board have declared a final dividend of 7.1 cents per share, unimputed. This compares to a 2016 final dividend of 5.1 cents per share
- This represents a pay-out for the second half of 2017 of approximately $15.9m
- Total dividends for the 2017 year (interim and final) of 11.0 cents per share, being approximately $24.6m, representing 30% of underlying profit and up 45% of FY16
- 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 the 12th of March 2018. Any applications received on or after this time will be applied to subsequent dividends
- The final dividend will be paid on Thursday the 22nd of March 2018. The record date for final determination of entitlements to the final dividend is Friday the 9th of March 2018
- 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

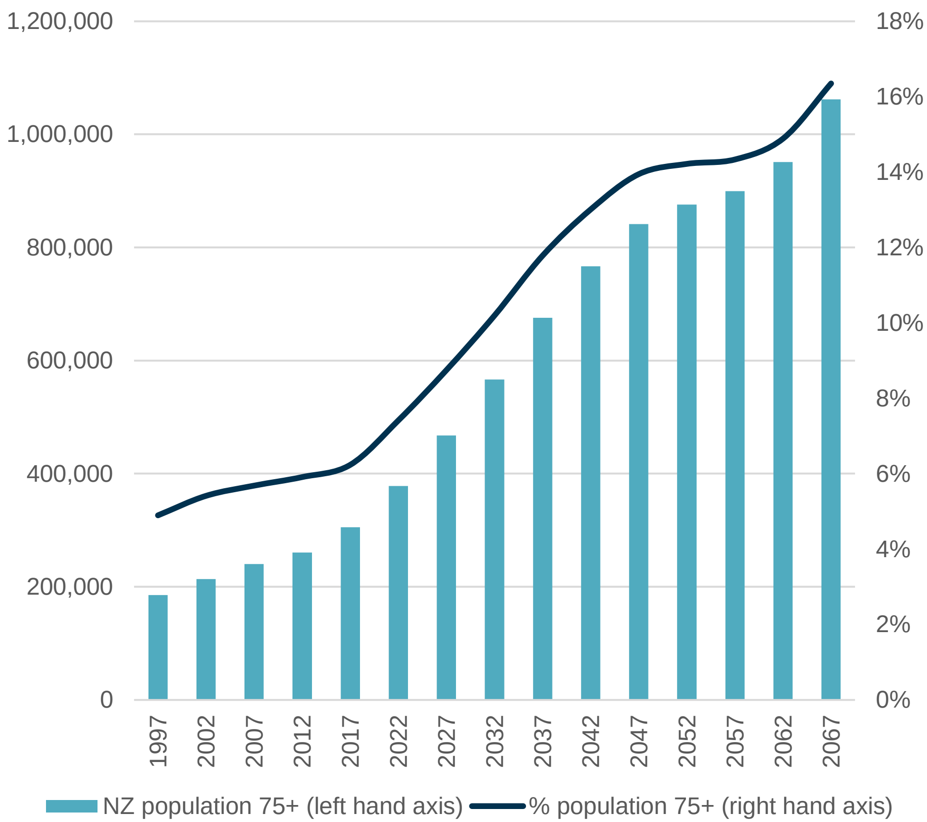
- This presentation may contain projections or forward looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties
- Actual results may differ materially from those stated in any forward looking statement based 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

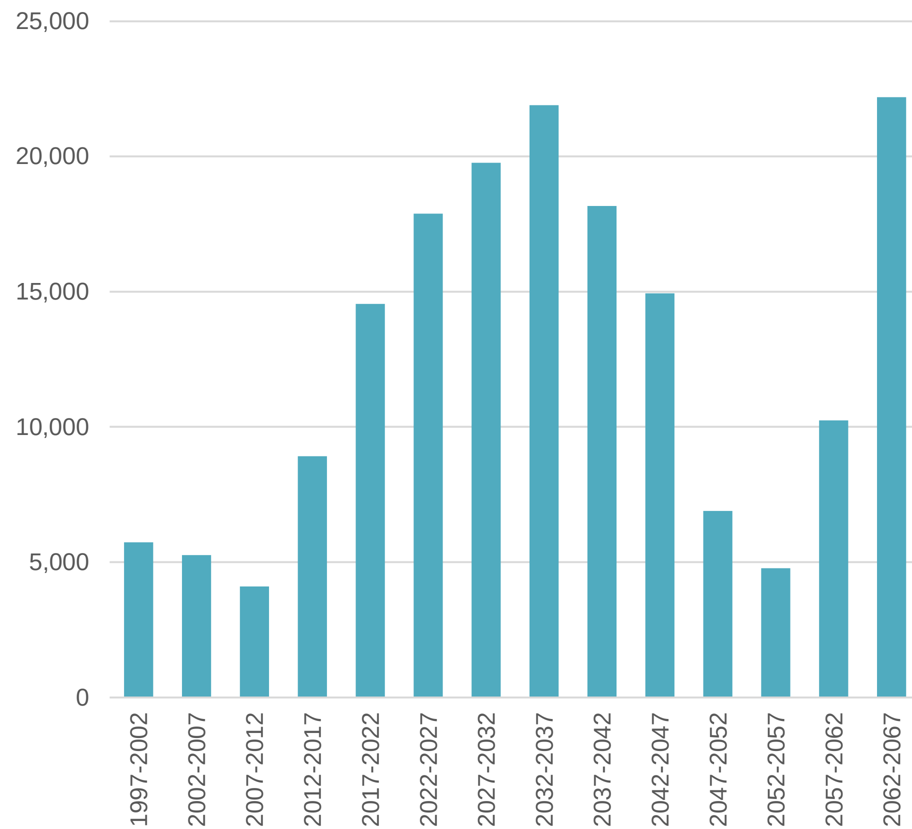
Demographics

Population over 75 years forecast to grow 254% from 2017 to 2068

Population growth 75 years and over



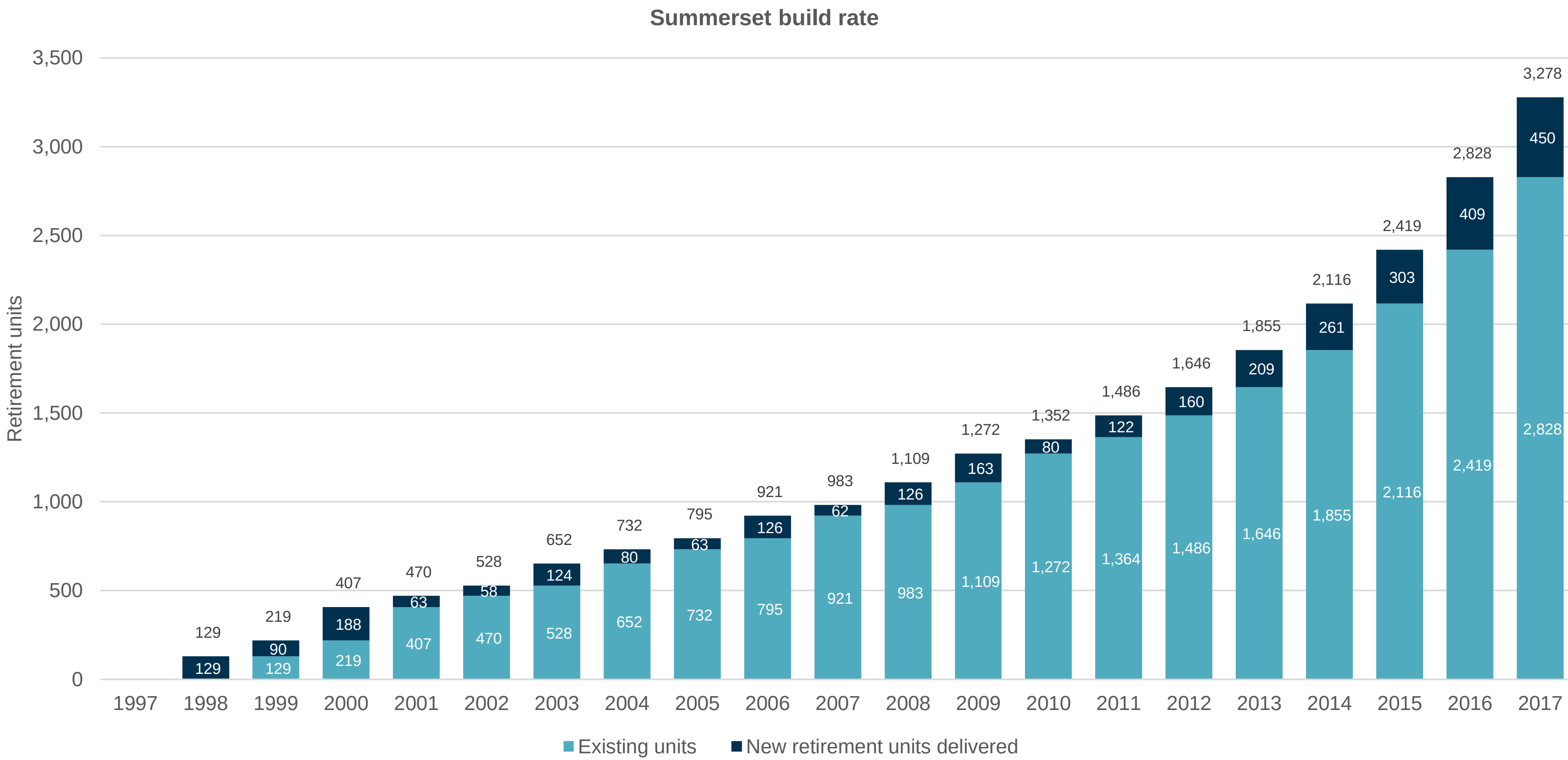
Per annum population growth 75 years and over



Source: Statistics New Zealand – National Population Projections

Summerset growth

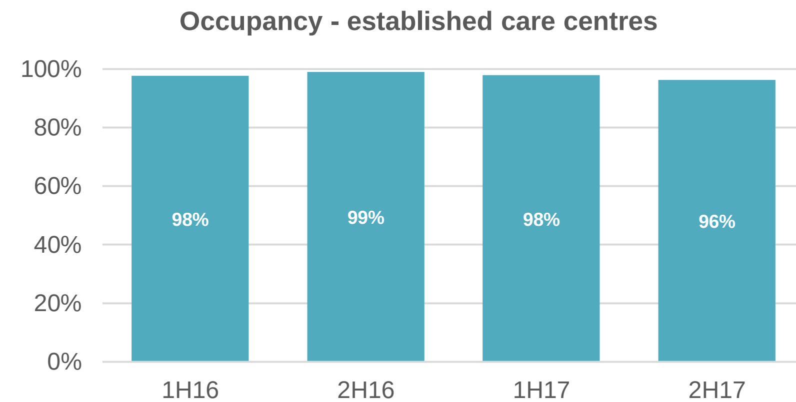
20 years of consistent delivery and growth

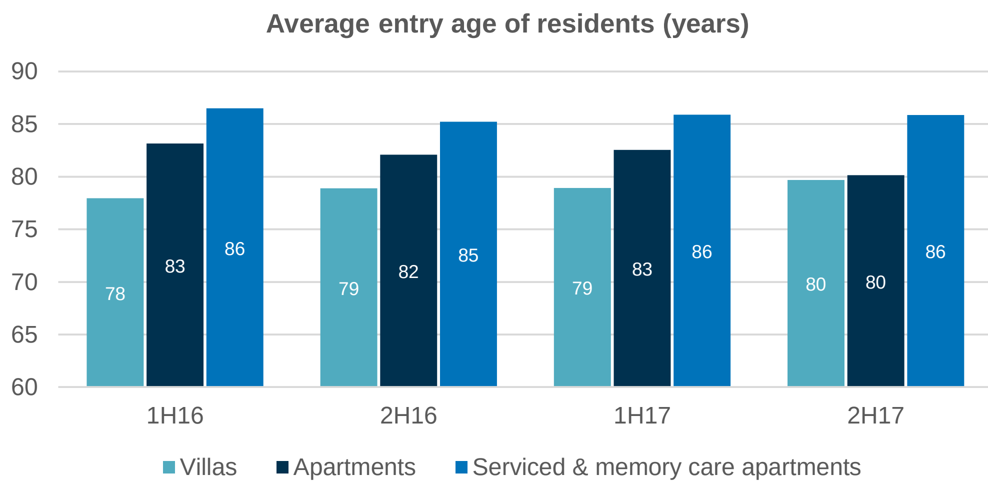


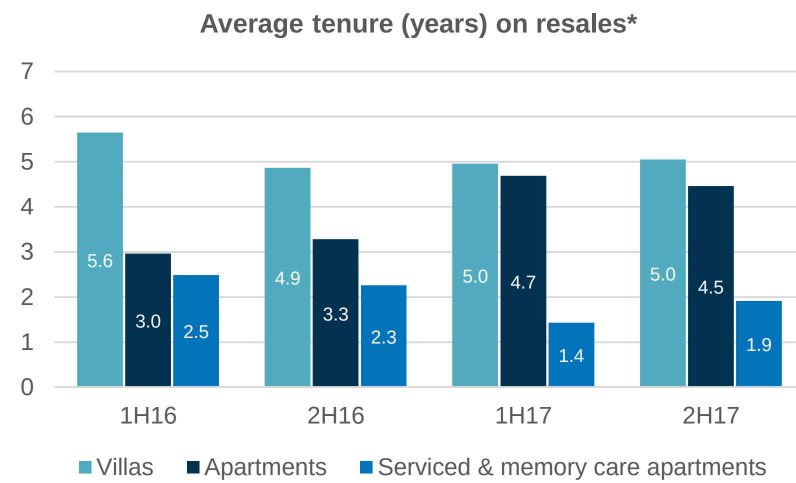
Customer profile & occupancy

Occupancy, tenure and resident demographic statistics

- Occupancy within our established care centres is stable with an average occupancy of 96% for 2H17
- Average tenure on 2H17 resale retirement units was 5.0 years for villas, 4.5 years for independent apartments, and 1.9 years for serviced and memory care apartments
- Average entry age on 2H17 new and resale retirement units was 80 years for villas and independent apartments, and 86 years for serviced and memory care apartments







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

Portfolio as at 31 December 2017

3,278 retirement units and 806 care beds

Existing portfolio - as at 31 December 2017

Village	Villas	Apartments	Serviced apartments	Memory care apartments	Total retirement units	Total care beds
Ellerslie	34	23	57	-	114	58
Hobsonville	115	37	11	-	163	0
Karaka	111	0	59	-	170	50
Manukau	89	67	27	-	183	54
Warkworth	148	2	44	-	194	41
Auckland	**497**	**129**	**198**	**-**	**824**	**203**
Hamilton	183	0	50	-	233	49
Taupo	94	34	18	-	146	0
Waikato	**277**	**34**	**68**	**-**	**379**	**49**
Katikati	118	0	20	-	138	49
Bay of Plenty	**118**	**0**	**20**	**-**	**138**	**49**
Hastings	146	5	0	-	151	0
Havelock North	94	28	0	-	122	45
Napier	94	26	20	-	140	48
Hawke's Bay	**334**	**59**	**20**	**-**	**413**	**93**
New Plymouth	108	0	40	-	148	52
Taranaki	**108**	**0**	**40**	**-**	**148**	**52**
Levin	64	22	0	10	96	41
Palmerston North	90	12	0	-	102	44
Wanganui	70	18	12	-	100	37
Manawatu-Wanganui	**224**	**52**	**12**	**10**	**298**	**122**
Aotea	96	33	38	-	167	0
Paraparaumu	92	22	0	-	114	44
Trentham	231	12	20	-	263	44
Wellington	**419**	**67**	**58**	**-**	**544**	**88**
Nelson	214	0	55	-	269	59
Nelson	**214**	**0**	**55**	**-**	**269**	**59**
Wigram	111	0	53	-	164	49
Christchurch	**111**	**0**	**53**	**-**	**164**	**49**
Dunedin	61	20	20	-	101	42
Otago	**61**	**20**	**20**	**-**	**101**	**42**
Total	**2,363**	**361**	**544**	**10**	**3,278**	**806**

Land bank as at 31 December 2017

Land bank of 2,841 retirement units and 396 care beds

Land bank - as at 31 December 2017*

Village	Villas	Apartments	Serviced & memory care apartments	Total retirement units	Total care beds
Ellerslie	8	196	-	204	-
Hobsonville	10	36	41	87	52
Karaka	71	-	-	71	-
Parnell	-	264	76	340	48
St Johns	-	236	76	312	32
Warkworth	54	-	-	54	-
Auckland	**143**	**732**	**193**	**1,068**	**132**
Rototuna	187	-	76	263	43
Waikato	**187**	**-**	**76**	**263**	**43**
Katikati	38	-	-	38	-
Bay of Plenty	**38**	**-**	**-**	**38**	**-**
Kenepuru	100	93	106	299	43
Lower Hutt	42	96	43	181	49
Trentham	-	-	20	20	-
Wellington	**142**	**189**	**169**	**500**	**92**
Richmond	234	-	76	310	43
Nelson	**234**	**-**	**76**	**310**	**43**
Avonhead	156	12	98	266	43
Casebrook	260	12	76	348	43
Wigram	48	-	-	48	-
Christchurch	**464**	**24**	**174**	**662**	**86**
Total	**1,208**	**945**	**688**	**2,841**	**396**

** Land bank reflects current intentions as at December 2017*

FY17 underlying profit reconciliation

Reconciliation of underlying profit to reported net profit after tax

NZ$m	FY17	FY16	*YOY change*	FY15
Reported net profit after tax	**223.4**	**145.5**	***54%***	**84.2**
Less reversal of impairment on land & buildings	(0.0)	-	*N/A*	-
Less fair value movement of investment property	(218.0)	(143.5)	*52%*	(83.5)
Add realised gain on resales	24.9	15.4	*62%*	12.3
Add realised development margin	51.0	39.0	*31%*	26.1
Add/(less) deferred tax expense/credit	0.3	0.2	*84%*	(1.5)
Underlying profit	**81.7**	**56.6**	***44%***	**37.8**

Underlying profit differs from NZ IFRS reported profit after tax. The Directors have provided an underlying profit measure to assist readers in determining the realised and non-realised 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 an industry wide measure which the Group uses consistently across reporting periods. See note 2 of the financial statements for detail on the components of underlying profit

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	137.5	6.8	13.50%	1.5%	2.0%	2.5%	3.0%	3.5%
Summerset by the Lake	Taupo	52.7	1.5	15.75%	0.0%	0.5%	1.5%	2.5%	3.5%
Summerset in the Bay	Napier	62.6	3.4	14.00%	0.0%	1.0%	2.0%	2.5%	3.5%
Summerset in the Orchard	Hastings	62.2	5.0	15.00%	0.0%	0.5%	1.0%	2.5%	3.5%
Summerset in the Vines	Havelock North	52.0	2.8	14.75%	0.0%	1.0%	2.0%	2.5%	3.5%
Summerset in the River City	Wanganui	25.2	0.5	16.00%	0.0%	1.0%	1.5%	2.0%	2.5%
Summerset on Summerhill	Palmerston North	40.7	0.9	14.75%	0.0%	1.0%	2.0%	2.5%	3.0%
Summerset by the Ranges	Levin	23.7	2.2	15.75%	0.0%	1.0%	1.5%	2.0%	2.5%
Summerset on the Coast	Paraparaumu	48.0	4.9	14.50%	0.5%	1.0%	2.0%	2.5%	3.5%
Summerset at Aotea	Aotea	86.2	4.6	14.25%	1.0%	1.0%	2.0%	2.5%	3.5%
Summerset in the Sun	Nelson	130.1	9.3	14.00%	0.5%	1.0%	1.0%	2.5%	3.5%
Summerset at Bishopscourt	Dunedin	42.2	2.7	15.00%	0.0%	1.0%	1.5%	2.5%	3.0%
Summerset Down the Lane	Hamilton	116.4	15.4	14.25%	0.0%	1.0%	2.0%	2.5%	3.5%
Summerset Mountain View	New Plymouth	66.4	11.4	15.00%	0.0%	0.5%	1.5%	2.5%	3.0%
Total for completed villages		945.9	71.5						
Summerset Falls	Warkworth	124.8	22.3	14.50%	0.5%	1.5%	2.0%	3.0%	3.5%
Summerset at Monterey Park	Hobsonville	174.7	30.0	14.00%	1.0%	1.0%	2.0%	2.5%	3.5%
Summerset at Heritage Park	Ellerslie	105.7	26.3	15.00%	1.0%	1.0%	2.0%	2.5%	3.5%
Summerset at Karaka	Karaka	121.8	29.4	14.25%	1.0%	1.0%	2.0%	2.5%	3.5%
Summerset by the Sea	Katikati	69.8	10.1	15.50%	0.0%	0.5%	1.5%	2.5%	3.5%
Summerset at the Course	Trentham	129.9	15.8	14.00%	0.5%	1.0%	2.0%	2.5%	3.5%
Summerset at Wigram	Wigram	85.0	12.9	15.00%	0.5%	1.5%	2.0%	3.0%	3.5%
Total for villages in development		811.7	146.8						
Total for proposed villages		129.0	(0.3)	n/a	n/a	n/a	n/a	n/a	n/a
Total for all villages		**1,886.6**	**218.0**						

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

Care centre valuation

Care centre valuation – key assumptions

Value of care facilities		Total care beds	Value of care facility	Assumed capitalisation rate	Assumed value per equivalent bed**
Village	**Location**	**No.**	**NZ$m**	**%**	**NZ$'000**
Summerset at Bishopscourt	Dunedin	42	6.7	13.50%	133
Summerset Down the Lane	Hamilton	49	7.1	13.50%	118
Summerset in the Vines	Havelock North	45	4.1	14.00%	95
Summerset by the Ranges	Levin	41	4.5	14.50%	87
Summerset by the Park	Manukau	54	10.6	12.00%	173
Summerset in the Bay	Napier	48	6.5	12.00%	113
Summerset in the Sun	Nelson	59	8.6	13.75%	108
Summerset on Summerhill	Palmerston North	44	4.9	14.25%	109
Summerset on the Coast	Paraparaumu	44	4.3	14.00%	97
Summerset at the Course	Trentham	44	5.1	13.00%	95
Summerset in the River City	Wanganui	37	2.9	15.00%	68
Summerset Falls	Warkworth	41	6.9	13.25%	129
Total for existing care facilities		**548**	**72.0**	**-**	**-**
Summerset at Heritage Park	Ellerslie	58	11.0	13.50%	157
Summerset at Karaka	Karaka	50	8.8	13.75%	147
Summerset by the Sea	Katikati	49	6.8	13.75%	126
Summerset Mountain View	New Plymouth	52	7.1	13.75%	109
Summerset at Wigram	Wigram	49	7.8	13.00%	122
Total for new care facilities*		**258**	**41.5**	**-**	**-**
Total for all villages		**806**	**113.4**	**-**	**-**

** Built subsequent to the last care centre valuation as at 31 December 2014*

*** Value includes care beds and associated care profits from serviced and memory care apartments*

7 year metrics summary

Underlying profit 6 year CAGR of 47%

	Full Year Results	6 Year CAGR*	FY17	FY16	FY15	FY14	FY13	FY12	FY11
Operational	New sales of occupation rights	23%	382	414	333	286	228	167	108
	Resales of occupation rights	16%	300	244	245	172	174	164	123
	Total sales	**20%**	**682**	**658**	**578**	**458**	**402**	**331**	**231**
	New retirement units delivered	24%	450	409	303	261	209	160	122
	Retirement units in portfolio	14%	3,278	2,828	2,419	2,116	1,855	1,646	1,486
	Care beds in portfolio	16%	806	748	616	485	442	327	327
Financial (NZ$m)	Total revenue ($m)	22%	110.5	86.1	68.8	54.3	45.2	38.1	33.7
	Net profit after tax ($m)	93%	223.4	145.5	84.2	54.2	34.2	14.8	4.3
	Underlying profit** ($m)	47%	81.7	56.6	37.8	24.4	22.2	15.2	8.1
	Net operating cash flow ($m)	30%	207.7	192.6	140.3	110.4	88.6	66.3	43.7
	Total assets ($m)	24%	2,216.3	1,706.8	1,363.5	1,043.2	844.9	702.3	616.9
	Total equity ($m)	22%	769.3	545.6	409.8	332.3	281.9	248.8	233.4
	Interest bearing loans and borrowings ($m)	31%	347.2	274.0	248.2	150.8	105.3	78.2	69.1
	Cash and cash equivalents ($m)	-3%	7.6	8.7	6.7	4.9	3.0	2.8	9.0
	Gearing ratio (Net D/ Net D+E)	7%	30.7%	32.7%	37.1%	30.5%	26.6%	23.3%	20.5%
	EPS (cents) (IFRS profit)	87%	102.23	66.93	38.94	25.16	15.99	6.96	2.39
	NTA (cents)	21%	347.56	249.90	188.52	153.33	131.24	116.49	109.33
	Development margin (%)	28%	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 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 2017

Cover image: Aotea resident Margaret with his granddaughter

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Contents

Summerset Snapshot

More than
4,700
residents

More than
1,200
staff members

3,278
Retirement units in portfolio

806
Care beds in portfolio

450
Retirement units built in 2017

58
New care beds delivered in 2017

Land bank of
2,841
retirement units

Land bank of
396
care beds

23
Villages completed or under development

6
Greenfield sites

Business Highlights

Sales of
682
occupation rights

Milestone
27.3%
development margin

450
New retirement units delivered

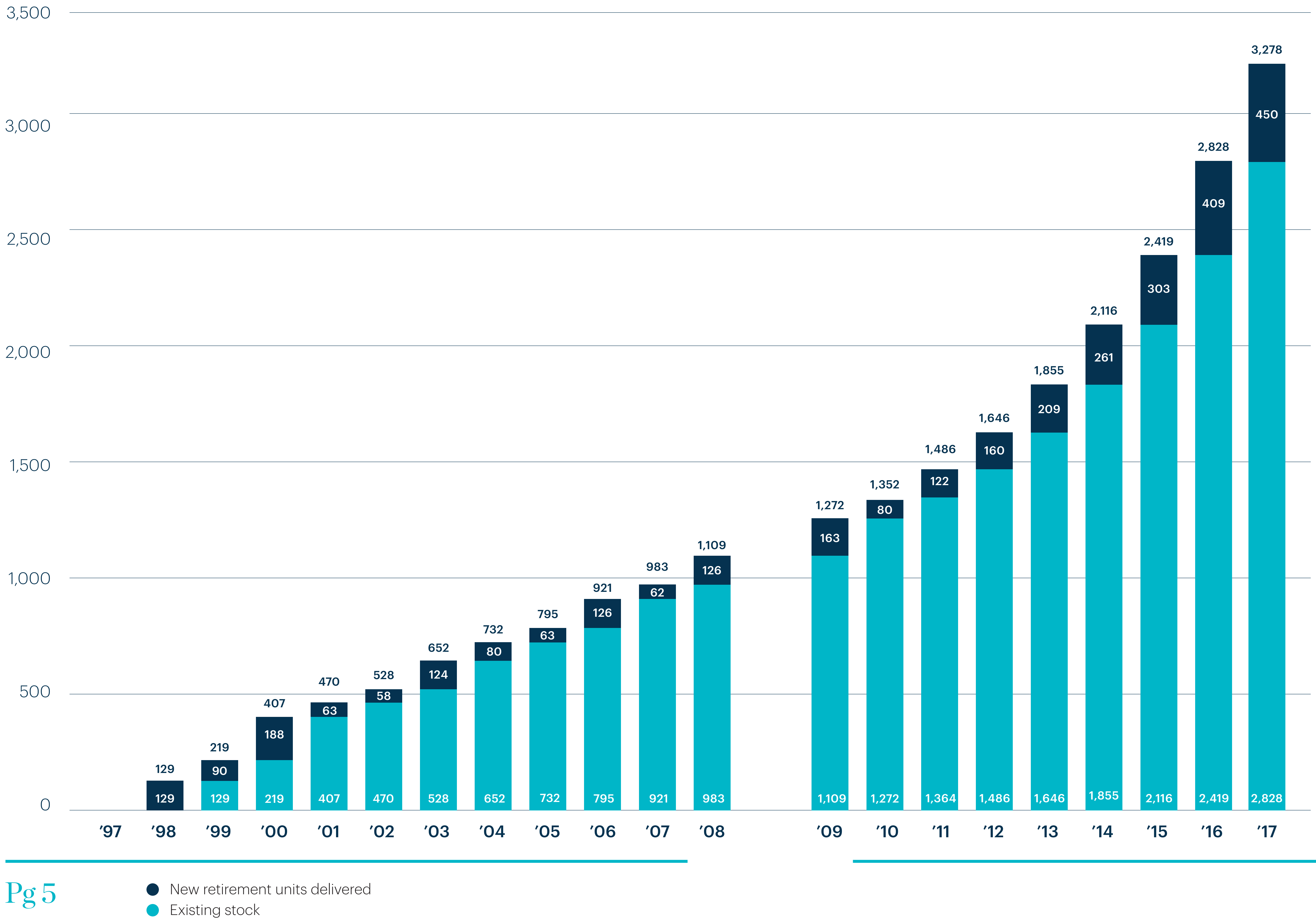
58
New care beds delivered

3
Land acquisitions
Kenepuru in Wellington, Avonhead in Christchurch and additional land at Casebrook in Christchurch

1
Care centre opened
Ellerslie

Portfolio Growth

20 years of consistent delivery and growth



2017 Highlights

450

new retirement units completed

10%

more units built than in 2016

3,278

retirement units in portfolio

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

The number of people aged 75 and over is projected to increase **from 300,000 in 2017 to 1,090,000 by 2068**. This is an increase from 6% of the population to 17%.

The number of people aged 85 and over is projected to increase from **85,000 in 2017 to 400,000 in 2068.** This is an increase from 1.7% of the population to 6.1%.


Clark Coastal Villa, Hobsonville

Financial Highlights

$223m Net profit after tax FY17	54% Increase on FY16
$81.7m Underlying profit FY17	44% Increase on FY16
$2.2b Total assets	30% Increase on FY16
$208m Operating cash flow	8% Increase on FY16

Moira, Paraparaumu

Financial Highlights

Results Highlights – Financial

	FY2017	FY2016	% Change
Net profit before tax (NZ IFRS) ($000)	223,726	145,638	53.6%
Net profit after tax (NZ IFRS) ($000)	223,436	145,480	53.6%
Underlying profit * ($000)	81,663	56,556	44.4%
Total assets ($000)	2,216,328	1,706,773	29.9%
Net tangible assets (cents per share)	347.56	249.90	39.1%
Net operating cash flow ($000)	207,716	192,610	7.8%

**Underlying profit differs from NZ IFRS profit for the period*

Results Highlights – Operational

	FY2017	FY2016	% Change
New sales of occupation rights	382	414	(7.7%)
Resales of occupation rights	300	244	23.0%
New retirement units delivered	450	409	10.0%
Realised development margin ($000)	50,970	38,954	30.8%
Gross proceeds (new sales) ($000)	186,428	175,641	6.1%
Realised gains on resales ($000)	24,936	15,423	61.7%

Underlying profit

$000	FY2017	FY2016	% Change
Profit for the period *	223,436	145,480	53.6%
Less fair value movement of investment property *	(217,954)	(143,459)	51.9%
Less reversal on impairment of land *	(15)	-	N/A
Add realised gain on resales	24,936	15,423	61.7%
Add realised development margin	50,970	38,954	30.8%
Add deferred tax expense *	290	158	83.5%
Underlying profit	**81,663**	**56,556**	**44.4%**

**Figure has been extracted from financial statements*

Underlying profit differs from NZ IFRS profit for the period. The Directors have provided an underlying profit measure to assist readers in determining the realised and non-realised 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 an industry-wide measure which the Group uses consistently across reporting periods.

People Highlights

More than
4,700
residents

More than
1,200
staff members

97%
Village resident satisfaction

More than
200
new roles created

97%
Care resident and family satisfaction

New staff benefits initiative launched

Chair's Report

Welcome to Summerset's Annual Report for the financial year to 31 December 2017. The results reflect continued sound performance from the business in its 20th year of operation. In 2017 Summerset delivered net profit after tax of $223.4 million, a 54% increase on 2016, and an underlying profit of $81.7 million, an increase of 44% on 2016.

These results come from achieving our purpose of bringing the best of life to our residents by ensuring they have the best homes, care and lifestyle and making life at a Summerset village a great experience.

We continue to expand our offering with three land purchases in 2017, being Kenepuru in Wellington, Avonhead in Christchurch and an additional two hectares alongside our Casebrook village. We opened the main building in our new Ellerslie village and won the best built environment award at the New Zealand Aged Care Association annual awards for our purpose-built memory care centre in Levin.

Our memory care concept sees people with dementia living in their own one bedroom apartment, supported by leading technology and within a wider secure memory care centre. This gives them their own home and a sense of independence in a safe and caring environment. Summerset is the first in New Zealand to launch this style of apartment living for people with dementia. We intend to implement it in future villages, starting with Casebrook in Christchurch and Rototuna in Hamilton, both of which are currently under development.

Award-winning Levin memory care centre

With 23 villages and another six for development in New Zealand, Summerset has grown quickly since its first village opened in Wanganui on 21 November 1997. This year we also celebrated our sixth year since listing on the NZX. Since listing we have more than doubled our size and we are likely to double again in the next five years as we continue to grow our footprint and as the ageing population continues to increase. We continue to assess potential entry into the Australian market.

The Board has declared a final dividend of NZ 7.1 cents per share. This is a total dividend payment for 2017 of NZ 11 cents per share and represents 30% of underlying profit.

Looking ahead to 2018, social and environmental sustainability is becoming increasingly important in the way businesses operate. Summerset already undertakes a range of activities that contribute to social and environmental sustainability. However, we recognise we are in the early stages of our sustainability journey, and plan to review our approach to this important area over the coming year to improve our contribution.

Summerset will continue to work hard to deliver high quality retirement living for its residents and subsequent financial results that benefit our investors, residents and staff.

On behalf of the Board, thank you for your continued support.

Rob Campbell
Chair

Chief Executive Officer's Report

In the mid 1990's, Summerset's founder, John O'Sullivan, went to visit his grandmother who had moved into an old fashioned geriatric ward in Waikanae. She was in what amounted to a dormitory for a number of people with plastic curtains between the beds. John remembers stretching his arms out and being able to touch all the "walls".

In John's words: "I started thinking. I knew there had to be an opportunity for proper aged care, where everyone has their own room and facilities. Our nanas and grandads needed somewhere they could live with dignity." This was the start of Summerset.

In November last year we celebrated the 20th birthday of our first village in Wanganui. It was wonderful to share this experience with staff and residents in Wanganui and across the country, and it certainly reinforced the importance of our purpose: bringing the best of life to our residents.

In our 20th anniversary year, we welcomed around 500 new residents and 200 staff to the Summerset family. Summerset now has more than 4,700 residents and more than 1,200 staff. That is a real achievement for a company that started out with a single village in Wanganui in 1997. I think we can fairly say that Summerset has been a real New Zealand success story.

In 2017, Summerset recorded a number of achievements including scoring record levels of resident satisfaction, winning an award for our Levin memory care centre, moving to the top quartile of employers for staff engagement in New Zealand and Australia, releasing a market leading range of staff benefits, issuing the first retail bonds in the retirement and aged care sector, building 450 new homes, completing 682 occupation right sales (new sales and resales), achieving a development margin of 27.3% and recording an $81.7 million underlying profit, up 44% on 2016.

Summerset is New Zealand's fastest growing retirement village and care operator, the second largest builder of retirement units and third largest by number of residents. We are also the youngest of all the large operators. Summerset has come a long way in its 20 years, but we couldn't have accomplished any of these things without the dedication and support of our people, both residents and staff.

Our aim is to provide the highest quality care

Our resident satisfaction results continue to perform very strongly with village resident satisfaction last year of 97%, up from 94% in 2016. Our care resident satisfaction result was 97%, up from 94% in 2016. Over the last two years we have focused on ensuring better communications with residents and their families through the year, faster resolution of issues, lifting property standards and more presence from our head office staff, including the Executive Leadership Team and myself, on sites to ensure our service standards are being met and any issues are resolved quickly.

For 2018 we have further initiatives aimed at continuing to improve the village and care experience for residents. From March 2018 three regionally based food providers, White Tie Health Services, Kerr & Ladbrook and Cater Plus, will provide food for our villages. There will also be an in-house team at our Levin and Paraparaumu villages. Food is an essential part of the offering in the care business, but also in the village as well. Our focus has been on finding local food providers for whom food is a core competency and where the owners have a personal connection, close contact with our residents and really care about what they do. Using a number of local providers also ensures our food will have local variation suited to each region and season as opposed to serving the same meal in all villages at the same time.

As Rob has already mentioned, we received the New Zealand Aged Care Association best built environment award for our first memory care centre in September. We are particularly proud of this innovative model of dementia care as we are the first in New Zealand to offer apartment style living for people living with dementia. The genesis of this was simple: there must be a better way to care for people with dementia. We intend to incorporate memory care centres in our new villages and the next two will be ready towards the end of 2019 in Casebrook, Christchurch and Rototuna, Hamilton.

For the third year in a row, we also received a Highly Commended award in the Aged Care and Retirement Villages category of the annual Reader's Digest Trusted Brand awards.

We have previously flagged investments we are making in systems, and in particular the resident management system VCare. The roll-out of this system is progressing well with the village modules largely in place across the group. Through the course of 2018 we will look to roll out the clinical modules of this system. This will take what is currently a paper based management system onto VCare. In the initial work for this care roll-out, we can already see considerable opportunity in removing duplication of effort, streamlining workflows and increasing the visibility of how our sites are performing to our regional and central operations and clinical teams to ensure we are delivering quality care at all times.

Investing in our people

In October, we introduced a range of market leading benefits to reward our staff for their contribution, enhance our employee brand and improve staff retention. For me this was an important move to show staff how much we value them, in particular our frontline staff, who are at the heart of our business. These incentives are a further boost to the 1 July 2017 government funded pay increase for caregivers, diversional and occupational therapists and cover all Summerset permanent full or part time staff. The benefits include:

- Health insurance covering everyday health care costs such as GPs, dentists, physios and optometrists
- Funeral cover – $10,000 for every permanent employee or their spouse
- Long service leave – after five years' service with Summerset
- Buyers group trade discounts and Summerset supplier discounts from a range of companies

We also continue to offer staff the opportunity to participate in an all staff share scheme, with 83% of employees signing up, an increase on 81% in 2016. The scheme provides staff with $780 worth of shares that vest after three years if they remain at Summerset. These benefits have been very well received by staff and place us as a leading provider in this area.

In 2017 we have worked to develop a new uniform range for our staff. Our Katikati and Trentham village staff have taken part in user trials and we are now refining the designs before rolling out the range across all villages in 2018.

Staff engagement is an important measure within any business. This year we received an overall company engagement score of 67%. This is 9% above the average engagement score of 58% for New Zealand and Australian companies and places Summerset in the highest quartile of New Zealand and Australian companies for staff engagement. This is a pleasing result although we have ongoing work we want to do in this area.

Health and safety continues to be an important area of focus for Summerset. In the past 12 months, we have moved further towards improving our systems. We implemented a risk management framework across the company; participated in two external health and safety audits, which identified where we are making good progress and how we can further enhance our practices; achieved ACC accredited employer status; employed a health and safety team member dedicated to construction, and advanced relationships with other companies in similar industries to progress industry specific health and safety benchmarks. We continue to achieve positive results with our Site Safe New Zealand audits across our construction sites.

Bringing the Best of Life

In 2017, we also undertook a rebranding exercise. This has resulted in an updated brand appearance, new website and redesigned customer facing collateral across our operations. Residents are at the heart of what we do and we have tried to reflect this in our brand imagery, the stories we tell in our website and collateral and how our website functions, with a number of new features designed to make understanding what we offer and how to get in touch with us easier for residents and their families. We have also been spending time increasing our social media presence and would invite you to visit our page on Facebook which can be found by searching for Summerset. There are some great stories on here about the life in our villages. We can also be found on LinkedIn, which has a more business-focused orientation.

As part of turning 20 years old in 2017, we have written a book (available free by contacting our Wellington office) which tells the story of Summerset, from John O'Sullivan's desire to build a place where he would be proud to have his nana stay, through to where we are today. Summerset was founded on John's vision of putting residents first, doing the right thing for people and ensuring that we would all be proud to have our own family in a Summerset village. As we have grown we have found the ability to be able to articulate these values clearly is important to staff, residents, families and other stakeholders. To this end we have formalised our values with our three overarching values of "strong enough to care", "one team" and "strive to be the best" encapsulating the spirit of what is Summerset.

Growth and development

Auckland and Christchurch continue to be focus areas of growth for Summerset.

In July 2017 we opened the main building of our Ellerslie village, which is part of a $1.3 billion investment programme in the region, including further villages in St Johns and Parnell. The development of our Ellerslie village represents another step forward in our Auckland growth plans, which will strengthen our position as New Zealand's fastest growing retirement village and aged care provider.

Summerset is playing a role in freeing up Auckland property at a time when land supply in the city is under pressure. The higher density nature of our Ellerslie village means it is expected to free up the equivalent of about 18 hectares of residential land in Auckland.

When complete, Summerset at Heritage Park will house 400 residents in a mix of two and three bedroom villas, apartments, and serviced apartments, while 58 care rooms will provide rest home and hospital-level care.

Summerset has also applied to Auckland Council for resource consent to develop over 340 homes on 2.5 hectares on St Johns Road. Homes at the proposed St Johns village will include two and three bedroom villas and apartments, one bedroom serviced apartments and high quality rest-home and hospital care. The village will also include Summerset's award winning memory care centre concept.

OUR FOUNDING PHILOSOPHY

We were founded on a deep respect for people and a strong belief that we will always put our residents at the heart of everything we do.

OUR PURPOSE

BRINGING THE BEST OF LIFE

OUR SUMMERSET VALUES

STRONG ENOUGH TO CARE

- We treat our residents like family
- We do what's right
- We respect people as individuals

ONE TEAM

- We look out for each other
- We take ownership and follow through
- We share and listen to each other's ideas

STRIVE TO BE THE BEST

- We work hard
- We like to win
- We're always learning and improving

Design planning for Summerset's seventh Auckland village in Cheshire Street, Parnell is also underway.

Work on our Casebrook village in Christchurch is progressing well with the first two and three bedroom villas and townhouses available for residents to move into next month. The village will offer our first memory care centre in Christchurch.

Like other large developers in Auckland's tight construction market, Summerset has experienced some delays to its Ellerslie build. However, despite this, we delivered our targeted 2017 build rate of 450 retirement units. This is testament to the dedication of Summerset's in-house construction team. We continue to watch the Auckland market closely given the construction pressures and plateauing residential housing market. We are seeing good interest in sites and good sales rates. Our days to settle metric for new sales in Auckland has not changed despite the changes in the housing market, which is indicative of the needs based demand we see for our villages, with an average age of 80 on entry.

In 2017, we purchased two new sites for development, in the Christchurch suburb of Avonhead and Wellington's Kenepuru. An additional 2.1 hectares in Cavendish Road was also purchased to provide for an additional 71 villas at our Casebrook village.

Plans for our Boulcott, Lower Hutt village continue to progress. During 2017 we received a plan change, which rezoned the land to residential usage. We also submitted our resource consent for the village and will progress this through 2018. For various reasons, consenting for this site is taking longer than desired but are we making slow but sure progress.

These purchases bring the total number of Summerset locations to 29 nationwide.

At the end of 2017, Summerset's total land bank represented approximately 2,841 retirement units and 396 care beds. This is a total of around six years' supply based on our intended build programme for retirement units in 2018 of around 450 retirement units.

Executive Team changes

Last year we announced we had started to look at Australia as a potential market for Summerset. To further this work we have appointed Paul Morris, currently GM Development, as GM Development Australia and he will be relocating to Australia in 2018.

Paul has been with Summerset for 17 years, overseeing the development function integral to Summerset's success. It is very pleasing to have someone of Paul's experience and proven track record leading our Australian activity.

Aaron Smail, Summerset's Senior Development Manager, has been promoted to the GM Development role.

In the sales team we appointed Fay French as GM Sales last year. Fay was previously one of Summerset's Group Sales Managers, responsible for our South Island and developing villages.

Looking ahead

Our focus in the coming year will be to continue to deliver high quality retirement village living by bringing the best of life to our residents whether they are living independently in our villages, need a little extra assistance in our serviced apartments, or are living in our care centres.

Our residents are why we are here and developing further homes for future residents is a key part of our business and its financial success, from which our residents, staff and investors all benefit.

We will continue to look for opportunities to purchase land for more retirement villages in New Zealand and continue to investigate whether to move into the Australian market.

I would like to thank our residents for choosing to live at Summerset and creating our vibrant villages; our staff, in particular our caregivers and nurses, for the hard work they do bringing the best of life to our residents each day; and our investors for supporting our business.

Julian Cook
Chief Executive Officer

Health and Safety

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

Summerset believes that a fundamental part of being able to achieve its purpose of Bringing the Best of Life to our older generations is a safe and healthy workforce. Summerset completed a full review of all Company health and safety practices in 2014 in preparation for the new Health and Safety at Work Act 2015. This led to the creation of the health and safety system now in place at Summerset, the implementation of a health and safety system to report and process health and safety incidents, and the recruitment of a dedicated health and safety team.

Summerset has continued to advance health and safety practices by establishing and evolving a strong National Health and Safety Committee. As a demonstration of the commitment to health and safety by the Executive Team, the majority of the Executive sit as part of the National Health and Safety Committee.

Summerset's approach focuses on doing the right thing, working together and continually raising the bar.

Summerset's commitment and vision for health and safety is confirmed in a one-page policy that can easily be understood by all staff across the Company.

We believe (Summerset's vision):

- It is up to every one of us;
- We can all go home safe from harm each day;
- A safe and healthy operation is an efficient operation.

We will (Summerset's commitment):

- Actively lead safe working practices;
- Invest in the capability of our people, systems and practices;
- Identify, eliminate and/or control things that could hurt our people;
- Encourage and value our people's input into finding ways to keep us all safe;
- Seek to continually improve our health and safety performance.

Our people (Summerset's expectation of all staff):

- Take responsibility for the health and safety of themselves and others;
- Follow our health and safety practices and procedures;
- Report work related injuries, near-miss situations and/or potential hazards;
- Contribute to the continual improvement of our practices;
- Speak out if in doubt.

At a governance level, Summerset manages health and safety as part of the Company's overall risk management plan. In addition, Summerset has a rolling three-year health and safety strategy and an annual plan.

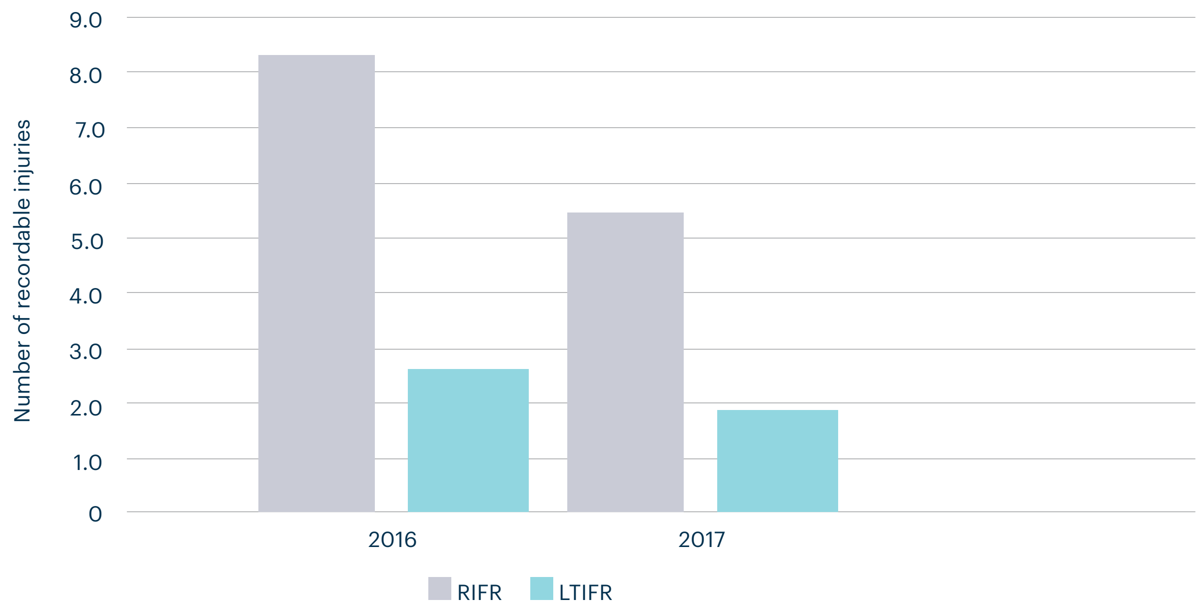
Health and safety achievements in 2017

Specific achievements in 2017 in the ongoing development of the Company's health and safety programme include:

- A refreshed Summerset Health and Safety Policy aimed specifically at sharing the Company's vision for health and safety;
- Confirmation from the 2017 all-staff survey of positive staff perceptions of health and safety practices and efforts to advance;
- Appointment of additional resourcing to specifically provide health and safety expertise to the Company's construction sites;
- Increased reporting against all types of health and safety incidents including near misses, hazard observations and injuries;
- Successful achievement of ACC Accredited Employers Programme status;
- Successful acceptance into third party claims management programme;
- Implementation of internal health and safety audit programmes across the Company's operations and construction business units;
- Increased focus on critical risks and on learnings from incidents;
- Continued active participation in key external networking forums, including the Business Leaders Health & Safety Forum.

The Group's lost time injury frequency rate (LTIFR) and recordable injury frequency rate (RIFR) are showing a downward trend and near miss frequency rate (NMFR) is showing an upward trend. We believe this is a result of the strong focus on good health and safety practices across the business.

RIFR and LTIFR as at 31 December



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.

Paraparaumu resident, Maria, spending time in her garden

Community Support

Summerset supports the wider community through sponsorships of individuals and organisations, as well as a large number of local clubs and groups that have direct relationships with our villages. In addition at a national level we support the following organisations:

New Zealand Dementia Co-operative (NZDC)
An organisation that works to bring together people with expertise in dementia to further how this country deals with the challenge of dementia.

Eureka Trust
Set up in association with Sir Paul Callaghan to encourage and develop young leaders within the science, technology, engineering and mathematics subject areas. Summerset sponsors the Ageing Well category of the Eureka Award, which looks at advances that harness science to sustain health and wellbeing into the later years of life. Palmerston North Girls' High School student Maddison McQueen-Davies received this award in September 2017 with her proposal to fix cartilage and help osteoarthritis sufferers through the use of a gel currently being developed and tested in the United States.

Wellington Free Ambulance
In 2017 we made a donation to support the important services they provide to the Greater Wellington and Wairarapa regions.

Orokonui Ecosanctuary
A wildlife sanctuary whose vision is for a healthy, self-sustaining ecosystem, free of all introduced mammals and comprising indigenous species that are appropriate to the Orokonui forest, where people can enjoy a peaceful encounter with nature, and from which they may take recreation, refreshment, new knowledge, new skills and a new commitment to conservation. In addition to the financial support pledged by Summerset for the next three years to the Orokonui Ecosanctuary in 2017, the residents of Summerset Bishopscourt in Dunedin jumped on board to volunteer their time and energy by giving practical help and resources.

Directors' Profiles

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 investor.

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

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 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 boards 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 Chair of the Investment Committee of Pencarrow Private Equity. In October 2017, James joined MMC Limited as Chair and Foundation Life (NZ) as a director.

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.

James 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 Chair of Summerset's Remuneration Committee. She is a Chartered Member of the Institute of Directors and is also a director of Tourism Holdings Ltd and Evolve Education Group Ltd.

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) Ltd. 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, telecommunications and financial services.

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

Anne is a former Chair of national commercial construction group Naylor Love Enterprises Ltd 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. She is also the Independent Chair of the Ngai Tahu Te Runanga Audit and Risk Committee.

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 MercyAscot 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 Team Profiles

Julian Cook

(FCPA, 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 in 2014, Julian was Summerset's Chief Financial Officer from 2010 onwards. 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 and a Fellow of CPA Australia.

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.

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.

Prior to joining Summerset in 2015, Dean held a number of senior roles at Fletcher Building.

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.

Five Year Historical Summary

Key operational and financial statistics for the five year period up to and including FY2017 are as follows:

Operational

	UNIT	FY2017	FY2016	FY2015	FY2014	FY2013
New sales of occupation rights	No.	382	414	333	286	228
Resales of occupation rights	No.	300	244	245	172	174
Total sales of occupation rights	No.	682	658	578	458	402
Development margin	%	27.3%	22.2%	20.0%	15.7%	13.2%
New retirement units delivered	No.	450	409	303	261	209
Retirement units in portfolio	No.	3,278	2,828	2,419	2,116	1,855
Care beds in portfolio	No.	806	748	616	485	442

Financial

	UNIT	FY2017	FY2016	FY2015	FY2014	FY2013
Net operating cash flow	$000	207,716	192,610	140,268	110,433	88,590
Total assets	$000	2,216,328	1,706,773	1,363,540	1,043,189	844,932
Net assets	$000	769,284	545,615	409,786	332,270	281,912
Underlying profit	$000	81,663	56,556	37,800	24,420	22,154
Profit before income tax (IFRS)	$000	223,726	145,638	82,775	53,994	31,755
Profit for the period (IFRS)	$000	223,436	145,480	84,245	54,173	34,223
Dividend per share	cents	11.00	7.70	5.25	3.50	3.25
Basic earnings per share	cents	102.23	66.93	38.94	25.16	15.99

Hans, Paraparaumu

Financial Statements

INCOME STATEMENT

For the year ended 31 December 2017

	NOTE	2017 $000	2016 $000
Care fees and village services	4	74,505	57,769
Deferred management fees	4	35,804	28,036
Interest received	4	184	249
Total revenue		**110,493**	**86,054**
Reversal of impairment on land	9	15	-
Fair value movement of investment property	11	217,954	143,459
Total income		**328,462**	**229,513**
Operating expenses	5	(88,587)	(71,087)
Depreciation and amortisation expense	9,10	(4,628)	(3,736)
Total expenses		**(93,215)**	**(74,823)**
Operating profit before financing costs		**235,247**	**154,690**
Net finance costs	6	(11,521)	(9,052)
Profit before income tax		**223,726**	**145,638**
Income tax (expense)/credit	7	(290)	(158)
Profit for the period		**223,436**	**145,480**
Basic earnings per share (cents)	19	102.23	66.93
Diluted earnings per share (cents)	19	100.46	66.03
Net tangible assets per share (cents)	19	347.56	249.90

The accompanying notes form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	NOTE	2017 $000	2016 $000
Profit for the period		**223,436**	**145,480**
Fair value movement of interest rate swaps	14	(3,043)	(1,769)
Tax on items of other comprehensive income	7	851	496
Other comprehensive income which will be reclassified subsequently to profit or loss for the period net of tax		**(2,192)**	**(1,273)**
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		**235,142**	**144,207**

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Share capital $000	Hedging reserve $000	Revaluation reserve $000	Retained earnings $000	TOTAL EQUITY $000
As at 1 January 2016	**244,309**	**(2,247)**	**11,043**	**156,681**	**409,786**
Profit for the period	-	-	-	145,480	145,480
Other comprehensive income for the period	-	(1,273)	-	-	(1,273)
Total comprehensive income for the period	-	**(1,273)**	**-**	**145,480**	**144,207**
Dividends paid	-	-	-	(13,099)	(13,099)
Shares issued	4,192	-	-	-	4,192
Employee share plan option cost	529	-	-	-	529
As at 31 December 2016	**249,030**	**(3,520)**	**11,043**	**289,062**	**545,615**
As at 1 January 2017	**249,030**	**(3,520)**	**11,043**	**289,062**	**545,615**
Profit for the period	-	-	-	223,436	223,436
Other comprehensive income for the period	-	(2,192)	13,898	-	11,706
Total comprehensive income for the period	-	**(2,192)**	**13,898**	**223,436**	**235,142**
Dividends paid	-	-	-	(19,857)	(19,857)
Shares issued	7,564	-	-	-	7,564
Employee share plan option cost	820	-	-	-	820
As at 31 December 2017	**257,414**	**(5,712)**	**24,941**	**492,641**	**769,284**

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	NOTE	2017 $000	2016 $000
Assets			
Cash and cash equivalents		7,566	8,654
Trade and other receivables	8	25,416	15,369
Interest rate swaps	14	1,193	-
Property, plant and equipment	9	118,506	89,825
Intangible assets	10	5,562	1,562
Investment property	11	2,058,085	1,591,363
Total assets		**2,216,328**	**1,706,773**
Liabilities			
Trade and other payables	12	51,858	34,687
Employee benefits	13	6,733	5,002
Revenue received in advance	4	50,493	29,519
Interest rate swaps	14	7,934	4,890
Residents' loans	15	966,627	801,327
Interest-bearing loans and borrowings	16	347,170	273,976
Deferred tax liability	7	16,229	11,757
Total liabilities		**1,447,044**	**1,161,158**
Net assets		**769,284**	**545,615**
Equity			
Share capital	18	257,414	249,030
Reserves	18	19,229	7,523
Retained earnings		492,641	289,062
Total equity attributable to shareholders		**769,284**	**545,615**

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 22 February 2018

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 $000	2016 $000
Cash flows from operating activities		
Receipts from residents for care fees and village services	72,424	57,208
Interest received	184	249
Payments to suppliers and employees	(80,565)	(68,563)
Receipts for residents' loans - new occupation right agreements	181,574	176,938
Net receipts for residents' loans - resales of occupation right agreements	34,099	26,778
Net cash flow from operating activities	**207,716**	**192,610**
Cash flows from investing activities		
Payments for investment property:		
land	(27,840)	(18,461)
construction of new villages	(202,744)	(153,042)
refurbishments in established villages	(3,937)	(2,872)
Payments for property, plant and equipment:		
construction of new care centres	(10,319)	(15,036)
refurbishments in established care centres	(752)	(467)
other	(1,643)	(3,938)
Purchase of intangible assets	(4,457)	(1,013)
Capitalised interest paid	(5,802)	(5,028)
Net cash flow from investing activities	**(257,494)**	**(199,857)**
Cash flows from financing activities		
Net (repayments)/proceeds from bank borrowings	(26,136)	25,764
Proceeds from issue of retail bonds	100,000	-
Repayment of limited recourse loans	-	1,520
Proceeds from issue of shares	7,564	4,192
Interest paid on bank loans and retail bonds	(12,881)	(9,158)
Dividends paid	(19,857)	(13,099)
Net cash flow from financing activities	**48,690**	**9,219**
Net increase in cash and cash equivalents	(1,088)	1,972
Cash and cash equivalents at beginning of period	8,654	6,682
Cash and cash equivalents at end of period	**7,566**	**8,654**

The accompanying notes form part of these financial statements.

RECONCILIATION OF OPERATING RESULTS AND OPERATING CASH FLOWS

	2017 $000	2016 $000
Net profit for the period	**223,436**	**145,480**
Adjustments for:		
Depreciation and amortisation expense	4,628	3,736
Reversal of impairment on land	(15)	-
Loss/(gain) on disposal of property, plant and equipment	82	(37)
Fair value movement of investment property	(217,954)	(143,459)
Net finance costs paid	11,521	9,052
Deferred tax expense	290	158
Deferred management fee amortisation	(35,804)	(28,036)
Employee share plan option cost	820	529
	(236,432)	**(158,057)**
Movements in working capital		
(Decrease)/increase in trade and other receivables	(9,824)	906
Increase in employee benefits	1,731	688
Increase in trade and other payables	877	1,456
Increase in residents' loans net of non-cash amortisation	227,928	202,137
	220,712	**205,187**
Net cash flows from operating activities	**207,716**	**192,610**

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2017

1. Summary of accounting policies

Reporting entity

The consolidated financial statements presented for the year ended 31 December 2017 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 resthome 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 Group's functional currency. 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.

Notes to the Financial Statements (continued)

Summary of accounting policies (continued)

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

The subsidiaries are:

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

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.

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. The Group chose to early adopt NZ IFRS 9 – *Financial Instruments* from 1 July 2017 prior to the issue of retail bonds by the Company in July 2017 and related hedging transactions being entered into. Certain note disclosures in the financial statements have been updated as a result of the early adoption. There was no material impact on transition.

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.

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 2017 are outlined below:

NZ IFRS 15 – *Revenue from contracts with customers*

This standard will replace the current revenue recognition guidance in NZ IAS 18 – *Revenue* and NZ IAS 11 – *Construction contracts*. This standard requires an entity to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard has been assessed as having no material impact for the Group due to the nature of our 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 by NZ IFRS 16 – *Leases*. NZ IFRS 15 is effective 1 January 2018.

NZ IFRS 16 – *Leases*

This standard will replace NZ IAS 17 – *Leases*. NZ IFRS 16 requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The impact of this standard is not expected to be significant for the Group as operating lease commitments are not a material amount for the Group ($12.8 million of operating lease commitments relative to $769.3 million net assets as at 31 December 2017). The operating lease commitments disclosed will be discounted and recorded as right-of-use assets with corresponding lease liabilities and will be adjusted for the Group's assessment at the inception of each lease of the likelihood of exercising any renewal options. NZ IFRS 16 is effective 1 January 2019.

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 fee – 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

Comparatives have been updated to reflect revised classifications in cash flow activities. No other comparatives have been restated in the current year.

Notes to the Financial Statements (continued)

2. Non-GAAP underlying profit

	REF	2017 $000	2016 $000
Profit for the period		**223,436**	**145,480**
Less fair value movement of investment property	a)	(217,954)	(143,459)
Add/(less) impairment/(reversal of impairment) on land	b)	(15)	-
Add realised gain on resales	c)	24,936	15,423
Add realised development margin	d)	50,970	38,954
Add/(less) deferred tax expense/(credit)	e)	290	158
Underlying profit		**81,663**	**56,556**

Underlying profit differs from NZ IFRS profit for the period. The Directors have provided an underlying profit measure to assist readers in determining the realised and non-realised 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 an industry wide measure which the Group uses consistently across reporting periods.

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 and buildings: remove the impact of non-cash care centre valuation changes recorded in NZ IFRS reported profit after tax. Care centres are valued at least every three years (most recently 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 units

All costs above include non-recoverable GST.

Development margin excludes the costs of developing common areas of the main building within the retirement village (including a share of the proportionate costs listed above). This is because they 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. These costs are both excluded in line with industry standard.

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. 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 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 2017 amounted to $25.0 million (2016: $20.4 million). No other customers individually contribute a significant proportion of the Group revenue. All revenue is earned in New Zealand.

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). 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

	2017 $000	2016 $000
Employee expenses	50,487	40,455
Property-related expenses	13,864	11,607
Other operating expenses	24,236	19,025
Total operating expenses	**88,587**	**71,087**
Other operating expenses include:		
Remuneration paid to auditors:		
Audit and review of financial statements	185	193
Audit of the underlying profit disclosures	4	-
Market analysis advisory services provided to the Group	291	-
Donations	25	-
Rent	1,029	647

6. Net finance costs

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

	2017 $000	2016 $000
Interest on bank loans, retail bonds and related fees	14,626	11,491
Interest on interest rate swaps	3,273	2,312
Capitalised finance costs	(6,390)	(4,782)
Fair value movement of interest rate swaps designated as fair value through profit or loss	(1,193)	-
Fair value movement of retail bonds designated as fair value through profit or loss	1,171	-
Finance charges on finance leases	34	31
Net finance costs	**11,521**	**9,052**

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 $6.4 million (2016: $4.8 million) have been capitalised during the period of construction in the current year. The weighted average capitalisation rate on funds borrowed is 3.57% per annum (2016: 3.58% 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

	2017 $000	2016 $000
Tax expense comprises:		
Deferred tax relating to the origination and reversal of temporary differences	290	158
Total tax expense/(credit) reported in income statement	**290**	**158**

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:

	2017 $000	%	2016 $000	%
Profit before tax	**223,726**		**145,638**	
Income tax using the corporate tax rate	62,643	28.0%	40,779	28.0%
Capitalised interest	(1,789)	(0.8%)	(1,339)	(0.9%)
Other non-deductible expenses	224	0.1%	148	0.1%
Non-assessable investment property revaluations	(61,027)	(27.3%)	(40,168)	(27.6%)
Non-assessable reversal of impairment	(4)	0.0%	-	0.0%
Other	-	0.0%	415	0.3%
Prior period adjustments	244	0.1%	323	0.2%
Total income tax expense/(credit)	**290**	**0.1%**	**158**	**0.1%**

(b) Amounts charged or credited to other comprehensive income

	2017 $000	2016 $000
Tax expense comprises:		
Net gain on revaluation of land and buildings	5,036	-
Fair value movement of interest rate swaps	(851)	(496)
Total tax credit reported in statement of comprehensive income	**4,185**	**(496)**

Notes to the Financial Statements (continued)

Income tax (continued)

(c) Imputation credit account

There were no imputation credits received or paid during the year and the balance at 31 December 2017 is nil (2016: nil).

(d) Deferred tax

Movement in the deferred tax balance comprises:

	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	16,097	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	(1,230)	341	-	(890)
Net deferred tax liability	**11,757**	**290**	**4,184**	**16,229**

	Balance 1 Jan 2016 $000	Recognised in income $000	Recognised in OCI* $000	Balance 31 Dec 2016 $000
Property, plant and equipment	10,080	25	-	10,105
Investment property	12,896	3,201	-	16,097
Revenue in advance	(5,681)	(2,585)	-	(8,266)
Interest rate swaps	(875)	-	(496)	(1,371)
Income tax losses not yet utilised	(3,620)	42	-	(3,578)
Other items	(705)	(525)	-	(1,230)
Net deferred tax liability	**12,095**	**158**	**(496)**	**11,757**

** 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.

Sundry debtors include amounts owing for occupation right agreements settled but not yet paid in full at balance date.

	2017 $000	2016 $000
Trade receivables	2,059	2,100
Allowance for doubtful debts	(59)	(96)
	2,000	**2,004**
Prepayments	2,028	1,564
Accrued income	777	617
Sundry debtors	20,611	11,184
Total trade and other receivables	**25,416**	**15,369**

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 assets includes material and direct labour, and any other costs directly attributable to bringing the asset to its working condition for its intended use.

Subsequent to initial recognition, land and buildings related to 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 buildings and accumulated impairment losses, if any, since the assets were last revalued. Other plant and equipment is 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.

Property, plant and equipment (continued)

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)	Furniture and fittings (8% to 40% DV or SL)
Motor vehicles (20% to 31% DV or SL)	Plant and equipment (8% to 67% 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 2016	**3,080**	**64,316**	**2,791**	**9,340**	**5,046**	**84,573**
Additions	-	12,089	321	2,434	1,269	16,113
Disposals	-	-	(356)	-	-	(356)
Reclassification	-	4,900	(1,472)	(4,080)	(1,533)	(2,185)
Balance at 31 December 2016	**3,080**	**81,305**	**1,284**	**7,694**	**4,782**	**98,145**
Additions	-	10,527	222	2,530	2,077	15,356
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**	**104,691**	**1,295**	**9,440**	**6,195**	**125,416**
Accumulated depreciation						
Balance at 1 January 2016	**-**	**1,228**	**1,672**	**3,129**	**1,503**	**7,532**
Depreciation charge for the year	-	1,522	239	1,000	471	3,232
Disposals	-	-	(346)	-	-	(346)
Reclassification	-	(8)	(934)	(854)	(302)	(2,098)
Balance at 31 December 2016	**-**	**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)
Reclassification	-	(4,441)	-	-	-	(4,441)
Balance at 31 December 2017	**-**	**-**	**642**	**4,088**	**2,180**	**6,910**
Carrying amounts						
As at 31 December 2016	3,080	78,563	653	4,419	3,110	89,825
As at 31 December 2017	**3,795**	**104,691**	**653**	**5,352**	**4,015**	**118,506**

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*.

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:

	2017			2016		
	Land $000	Buildings $000	TOTAL $000	Land $000	Buildings $000	TOTAL $000
Cost	2,865	83,648	86,513	3,115	73,155	76,270
Accumulated depreciation and impairment losses	-	(11,936)	(11,936)	-	(10,218)	(10,218)
Net carrying amount	**2,865**	**71,712**	**74,577**	**3,115**	**62,937**	**66,052**

Security

At 31 December 2017, 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 2017 is 20% straight-line.

	TOTAL $000
Cost	
Balance at 1 January 2016	**2,801**
Additions	1,014
As at 31 December 2016	**3,815**
Additions	4,522
Disposals	(65)
As at 31 December 2017	**8,272**
Accumulated amortisation	
Balance at 1 January 2016	**1,749**
Amortisation charge for the year	504
As at 31 December 2016	**2,253**
Amortisation charge for the year	520
Disposals	(63)
Balance at 31 December 2017	**2,710**
Carrying amounts	
As at 31 December 2016	**1,562**
As at 31 December 2017	**5,562**

11. Investment property

Investment property is held to earn current and future rental income. It comprises land and buildings and associated equipment and furnishings relating to independent living units, serviced and memory care apartments and common facilities in the retirement village. Investment property includes buildings under development. 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.

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

	2017 $000	2016 $000
Balance at beginning of period	1,591,363	1,261,170
Additions	248,856	186,747
Disposals	(88)	(13)
Fair value movement:		
Realised	75,906	54,377
Unrealised	142,048	89,082
Total investment property	**2,058,085**	**1,591,363**
Development land measured at fair value	152,750	140,900
Retirement villages measured at fair value	1,733,828	1,328,126
Retirement villages under development measured at cost	171,507	122,337
Total investment property	**2,058,085**	**1,591,363**
Manager's net interest	1,091,458	790,036
Liability for residents' loans	966,627	801,327
Total investment property	**2,058,085**	**1,591,363**

The Group has deemed it is unable to reliably determine the fair value of non-land retirement villages under development at 31 December 2017 and therefore these are carried at cost. This equates to $171.5 million of investment property (2016: $122.3 million).

The fair value of investment property as at 31 December 2017 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.

Significant assumptions used by the valuer include a discount rate of between 13.5% and 16.0% (2016: 13.75% to 16.0%) and a long term nominal house price inflation rate of between 0% and 3.5% (2016: 0% to 3.5%). Other assumptions used by the valuer include the average entry age of residents and occupancy periods of retirement units.

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

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 investment property are the discount rate, the long-term nominal house price inflation rate, the average entry age of residents and the occupancy period of retirement units. A significant decrease (increase) in the discount rate or 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 or the long-term nominal house price inflation rate would result in a significantly higher (lower) fair value measurement.

Investment property (continued)

Operating expenses

Direct operating expenses arising from investment property that generated rental income during the period amounted to $26.1 million (2016: $21.9 million). There were nine retirement units excluding work in progress (2016: eight) in investment property that did not generate rental income during the period.

Security

At 31 December 2017, 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.

	2017 $000	2016 $000
Trade payables	1,752	2,966
Accruals	39,626	23,458
Other payables	10,480	8,263
Total trade and other payables	**51,858**	**34,687**

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.

	2017 $000	2016 $000
Holiday pay accrual	3,899	2,781
Other employee benefits	2,834	2,221
Total employee benefits	**6,733**	**5,002**

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 the secured bank loans. 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 2017, the Group had interest rate swap agreements in place with a total notional principal amount of $319 million (2016: $251 million). Of the swaps in place, at 31 December 2017 $219 million (2016: $179 million) are being used to cover approximately 89% (2016: 65%) of the bank loans and retail bonds 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 4.47% (2016: 3.54% and 4.47%).

The fair value of these agreements at 31 December 2017 is a $7.9 million liability, comprised of $7.9 million of swap liabilities and $0.0 million of swap assets (2016: liability of $4.9 million, comprised of $5.8 million of swap liabilities and $0.9 million of swap assets). Of this, a liability of $333,000 (2016: $264,000) is estimated to be current. The agreements cover notional amounts for a term of between one and ten years.

Fair value hedges

The Group has entered into interest rate swaps to manage its interest rate risk in relation to $100 million of retail bonds issued by the Group in July 2017. 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 $100 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 $1.2 million (2016: nil) 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 $22,000 (2016: nil).

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 2017, the Group had interest rate swap agreements in place with a total notional principal amount of $100 million (2016: nil). Of the interest rate swaps in place, at 31 December 2017 $100 million (2016: nil) are being used to cover 100% of the fixed interest rate retail bonds outstanding.

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

	2017 $000	2016 $000
Less than 1 year	27,000	22,000
Between 1 and 2 years	37,000	27,000
Between 2 and 3 years	40,000	37,000
Between 3 and 4 years	25,000	40,000
Between 4 and 5 years	50,000	25,000
Between 5 and 6 years*	110,000	30,000
Between 6 and 7 years	20,000	10,000
Between 7 and 8 years	25,000	20,000
Between 8 and 9 years	45,000	25,000
Between 9 and 10 years	40,000	15,000
Total	**419,000**	**251,000**

**includes $100 million of receive fixed pay floating interest rate swaps*

15. Residents' loans

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. Residents' loans are amounts payable under occupation right agreements. 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.

	2017 $000	2016 $000
Balance at beginning of period	924,848	732,578
Net receipts for residents' loans - resales of occupation right agreements	27,647	15,332
Receipts for residents' loans - new occupation right agreements	181,574	176,938
Total gross residents' loans	**1,134,069**	**924,848**
Deferred management fees receivable	(167,442)	(123,521)
Total residents' loans	**966,627**	**801,327**

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 bonds and bank issue expenses, fees and other costs incurred in arranging finance are capitalised and amortised over the term of the relevant debt instrument or debt facility.

	Coupon	2017 $000	2016 $000
Repayable after 12 months			
Secured bank loans	Floating	247,839	273,976
Retail bonds	4.78%	100,000	-
Total loans and borrowings at face value		**347,839**	**273,976**
Issue costs for retail bonds capitalised during the period		(2,007)	-
Issue costs for retail bonds amortised during the period		167	-
Total loans and borrowings at amortised cost		**345,999**	**273,976**
Issue costs for retail bonds capitalised during the period		1,171	-
Carrying value of interest-bearing loans and borrowings		**347,170**	**273,976**

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.

The weighted average interest rate for the year to 31 December 2017 was 3.57% (2016: 3.58%). This includes the impact of interest rate swaps (see Note 14).

The secured bank loan facility at 31 December 2017 has a maximum of $500.0 million (2016: $450.0 million). Lending of $285.0 million expires in August 2020 and $215.0 million of lending expires in March 2022.

The retail bonds were issued for $100.0 million and have a maturity date of 11 July 2023. The retail bonds are listed on the NZX Debt Market (NZDX) with the ID SUM010.

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 guaranteeing Group members that are not registered retirement villages;
- a second ranking registered mortgage over the land and permanent buildings owned (or leased under a registered lease) by each registered retirement village that is a guaranteeing Group member (behind a first ranking registered mortgage in favour of the Statutory Supervisor); and
- the General Security Deed, which secures all assets of the 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.

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. The Group has no exposure to foreign currency or any other substantial market price risk.

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.

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. 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:

	2017		2016	
	Gross receivable $000	Impairment $000	Gross receivable $000	Impairment $000
Not past due	1,931	(29)	1,797	-
Past due 31 to 60 days	72	(2)	162	-
Past due 61 to 90 days	27	(3)	47	(2)
Past due more than 90 days	29	(25)	94	(94)
Total	**2,059**	**(59)**	**2,100**	**(96)**

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

	2017 $000	2016 $000
Gross trade receivables	2,059	2,100
Impairment	(59)	(96)
Net trade receivables	**2,000**	**2,004**

All amounts past due but not impaired have been reviewed and are considered recoverable.

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 2017 it is estimated that a general increase of one percentage point in interest rates would decrease the Group's profit before income tax by $3.4 million (2016: decrease by $2.6 million) and decrease total comprehensive income by approximately $0.2 million (2016: decrease by $0.9 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):

	2017		2016	
	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	51,858	-	34,687	-
Residents' loans	69,229	897,398	53,339	747,988
Interest-bearing loans and borrowings	13,629	388,510	9,809	313,209
Interest rate swaps	4,856	19,400	3,465	10,478
Total	**139,572**	**1,305,308**	**101,300**	**1,071,675**

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.

Financial instruments (continued)

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:

	2017		2016	
	Carrying amount $000	Fair value $000	Carrying amount $000	Fair value $000
Residents' loans	(966,627)	(648,195)	(801,327)	(510,959)
Retail bonds	(99,331)	(104,600)	-	-
Total	**(1,065,958)**	**(752,795)**	**(801,327)**	**(510,959)**

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% (2016: 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 market as at 31 December 2017. 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 2017 (2016: 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 2017 (2016: none).

18. Share capital and reserves

At 31 December 2017, there were 223,968,019 ordinary shares on issue (2016: 221,337,808). All ordinary shares are fully paid and have no par value. All shares carry one vote per share and carry the right to dividends.

	2017 $000	2016 $000
Share capital		
On issue at beginning of year	249,030	244,309
Shares issued under the dividend reinvestment plan	6,512	4,159
Shares paid under employee share plans	1,050	-
Shares vested under employee share plans	2	-
Employee share plan option cost	820	529
Other	-	33
On issue at end of year	**257,414**	**249,030**
Share capital (in thousands of shares)		
On issue at beginning of year	217,709	216,817
Shares issued under the dividend reinvestment plan	1,281	892
Shares issued under employee share plans	750	-
On issue at end of year	**219,740**	**217,709**

The total shares on issue at 31 December 2017 of 223,968,019 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 2017, 4,227,907 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.

Dividends

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. (2016: on 24 March 2016 a dividend of 3.4 cents per ordinary share was paid to shareholders and on 9 September 2016 a dividend of 2.6 cents per ordinary share was paid to shareholders).

A dividend reinvestment plan applied to the dividends paid. 687,184 ordinary shares were issued in relation to the plan for the March 2017 dividend and 593,876 ordinary shares were issued in relation to the plan for the September 2017 dividend. (2016: 557,924 ordinary shares were issued in March 2016 and 333,618 ordinary shares were issued in September 2016).

19. Earnings per share and net tangible assets

	2017	2016
Basic earnings per share		
Earnings ($000)	223,436	145,480
Weighted average number of ordinary shares for the purpose of earnings per share (in thousands)	218,555	217,352
Basic earnings per share (cents per share)	**102.23**	**66.93**
Diluted earnings per share		
Earnings ($000)	223,436	145,480
Weighted average number of ordinary shares for the purpose of earnings per share (in thousands)	222,407	220,322
Diluted earnings per share (cents per share)	**100.46**	**66.03**
Number of shares (in thousands)		
Weighted average number of ordinary shares for the purpose of earnings per share (basic)	218,555	217,352
Weighted average number of ordinary shares issued under employee share plans	3,852	2,970
Weighted average number of ordinary shares for the purpose of earnings per share (diluted)	**222,407**	**220,322**

At 31 December 2017, there were a total of 4,227,907 shares issued under employee share plans (Dec 2016: 3,629,248 shares).

Net tangible assets per share		
Net tangible assets ($000)	763,722	544,053
Shares on issue at end of period (basic and in thousands)	219,740	217,709
Net tangible assets per share (cents per share)	**347.56**	**249.90**

Net tangible assets is calculated as the total assets of the Group minus intangible assets and minus total liabilities. This measure is provided as it is a commonly calculated figure and is useful for comparison with other entities.

20. Employee share plans

Senior employee share plan

The Group operates employee share plans for selected senior employees ("Participants") to purchase shares in the Company. 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 (2013 issues)	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	16 Dec 2013
Issue price	$3.20 & $3.47	$2.68	$3.91	$4.76	$5.19 & $5.24
Expiry date of interest-free limited recourse loans	30 Jun 2018	30 Jun 2019	30 Jun 2020	30 Jun 2021	30 Jun 2022
Years that the performance goals relate to	2014 to 2016	2015 to 2017	2016 to 2018	2017 to 2019	2018 to 2020
% of shares vested	25%	76%[1]	35%[1]	0%	0%
Vesting date of final tranche	31 Dec 2016	31 Dec 2017	31 Dec 2018	31 Dec 2019	31 Dec 2020

[1] *Vesting date 31 December 2017, release date 26 February 2018*

The performance hurdles for each grant of shares under the 2013 share plan between 2013 and 2015 to Executive Team members (CEO and direct reports) 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 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 Team whose performance hurdles are described above.

590,831 shares were vested and eligible for exercise at 31 December 2017 (2016: 750,000). The exercise prices range from $2.68 to $3.47 (2016: $1.40). An additional 657,661 shares were vested on 31 December 2017 but are not eligible for exercise until 23 February 2018.

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 2017 of $711,000 has been recognised in the income statement of the Company and the Group for that period (2016: $490,000).

	2017				
	Share plan (2013 issues)	Share plan (2014 issue)	Share plan (2015 issue)	Share plan (2016 issue)	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%
Volatility	21-22%	21%	22%	23%	23%

Employee share plans (continued)

	2016				
	2011 Share plan	2013 Share plan (2013 issues)	2013 Share plan (2014 issue)	2013 Share plan (2015 issue)	2013 Share plan (2016 issue)
Shares held at year end (in thousands)	750	283	723	900	868
Share plan shares held at year end as a percentage of shares on issue	0.3%	0.1%	0.3%	0.4%	0.4%
Valuation assumptions					
Discount to reflect shares may not meet vesting criteria	20%	30%	30%	0-30%	0-15%
Volatility	20%	21-22%	21%	22%	23%

The range of exercise prices at 31 December 2017 is $2.68 to $5.24 (2016: $1.40 to $4.76).

	2017		2016	
	Weighted average exercise price	Number of shares 000's	Weighted average exercise price	Number of shares 000's
Balance at beginning of period	$3.30	3,518	$2.89	3,142
Issued during the year	$5.23	1,232	$4.76	868
Exercised during the year	$1.40	(750)	-	-
Forfeited during the year	$3.99	(231)	$3.26	(492)
Total	**$4.27**	**3,769**	**$3.30**	**3,518**

All staff employee share plan

The Group operates an all staff employee share plan. A total of 742 employees participated in the share issue under the plan for the year ending 31 December 2017 (2016: 626 employees). The Group contributed $779 per participating employee. A total of 117,236 Company shares were issued under the scheme at $4.9183 per share (2016: 104,252 shares at $4.6603 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 2017 of $109,000 has been recognised in the income statement of the Company and the Group for that period (2016: $39,000).

21. Related party transactions

Refer to Note 20 for employee share plan details.

Certain Group Directors have relevant interests in a number of companies that we have transactions with in the normal course of business. A number of Directors are also non-executive Directors of other companies. Any transactions undertaken with these entities are in the ordinary course of business.

22. Key management personnel compensation

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

	2017 $000	2016 $000
Directors' fees	616	508
Short-term employee benefits	2,733	2,548
Share-based payments	568	429
Termination payments	-	-
Total	**3,917**	**3,485**

An additional Director was appointed to the Board in March 2017. 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:

	2017 $000	2016 $000
Less than 1 year	1,290	1,074
Between 1 and 5 years	4,838	6,151
More than 5 years	6,674	7,183
Total operating lease commitments	**12,802**	**14,408**

During the year ended 31 December 2017 $1.0 million was recognised in the income statement in respect of operating leases (2016: $0.6 million).

Guarantees

At 31 December 2017, NZX Limited held a guarantee in respect of the Group, as required by the NZX Listing Rules, for $75,000 (2016: $75,000).

Capital commitments

At 31 December 2017, the Group had $63.9 million of capital commitments in relation to construction contracts (2016: $73.8 million).

Contingent liabilities

There were no known material contingent liabilities at 31 December 2017 (2016: nil).

24. Subsequent events

On 22 February 2018, the Directors approved a final dividend of $15.9 million, being 7.1 cents per share. The dividend record date is 9 March 2018 with a payment date of 22 March 2018.

There have been no other events subsequent to 31 December 2017 that materially impact on the results reported .

Building a better working world

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 consolidated financial statements of Summerset Group Holdings Limited ("the company") and its subsidiaries (together "the Group") on pages 30 to 60, which comprise the statement of financial position of the Group as at 31 December 2017, and the income statement, statement of comprehensive income, statement of changes in equity and 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 consolidated financial statements on pages 30 to 60 present fairly, in all material respects, the financial position of the Group as at 31 December 2017 and its 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 aged care market analysis services to the Group and 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.

Valuation of Investment Properties

Why significant

Summerset's retirement village assets (excluding care facilities, but including development land) are recorded as Investment Property and account for 93% of total assets.

Investment Properties are carried at fair value. The Group engages an independent registered valuer to determine the fair value of investment properties at balance date.

The valuation requires the use of judgement specific to each of the properties. Significant input assumptions used in the valuation are subjective and are not observable through available market information. These assumptions are the discount rate and the forecast long-term nominal house price inflation. The valuation approach and significant assumptions are described in Note 11 *Investment Property* to the consolidated financial statements.

Investment properties are recorded at the value determined by the valuer, adjusted for gross residents' loans and deferred management fees receivable which are recognised separately on the statement of financial position but reflected in the cash flow model to determine each village's valuation.

How our audit addressed the key audit matter

Our work focused on understanding the overall valuation methodology for compliance with NZ IFRS 13 *Fair Value Measurement* and evaluating significant inputs. In obtaining sufficient audit evidence, we:

- evaluated Summerset's investment property revaluation process including the provision of information to the valuer and Summerset's own internal review of the valuation, the resulting changes in the valuation compared to prior periods and the recognition of the changes within the financial statements;
- 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;
- reviewed and discussed the valuation reports with the independent valuer;
- 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 for reasonableness compared to previous periods assumptions, the changing state of the village sites and other market changes;
- assessed the valuation outcomes for each property to the rest of the portfolio and the market information made available by the independent valuer;
- assessed the judgements made in relation to the timing of recognition of investment property acquisitions; and
- assessed the adequacy of the related financial statement disclosures.

Recognition and Measurement of Capital Work in Progress

Why significant

Summerset has a significant village development programme. Additions to investment property during the 2017 year totalled $249 million comprising land, materials, labour and other directly attributable costs.

Capitalised costs are allocated to individual building units from a cost pool. Incurred costs generally relate to a number of units and therefore the allocation requires judgement based on number and relative size of units. The allocation of costs impact the future gain on sale of the units and therefore the underlying profit measurement. Alternative judgements could also lead to different work in progress balances being reported in the financial statements.

Summerset records work in progress at cost, as it has determined it is unable to measure the fair value of construction whilst in progress. Work in progress does not include land, which is classified as investment property from the time of acquisition. Work in progress representing 8% of total assets, was included in the balance of Investment Property as described in Note 11 *Investment Property* to the consolidated financial statements.

How our audit addressed the key audit matter

Our work on capitalised development costs focused on the Group's process for identifying and recording directly attributable costs, including allocations of head office costs and capitalised interest to individual stages of village related projects. In obtaining sufficient audit evidence for each component we:

- evaluated Summerset's capital development processes including the management of work in progress and capitalisation of costs to completed property assets;
- tested, on a sample basis, capital costs incurred including design, physical works and capitalised interest;
- evaluated the Group's estimate of head office costs directly attributable to development activities;
- examined the allocation of costs from work in progress to completed village units, care facilities and other assets; and
- evaluated the Group's review of work in progress at balance date for impairment indicators.

Care Facility Valuation

Why significant

The land and buildings associated with Summerset's care facilities are classified as Property, Plant & Equipment and recorded at fair value. They make up 4.9% of total assets.

Management engages an independent registered valuer, CBRE Limited, to determine the fair value of care facilities every three years, or more frequently to ensure that their carrying amount does not materially differ from fair value.

Assumptions that have a significant impact on fair value include market value per care bed and capitalisation rates. These assumptions are subjective.

How our audit addressed the key audit matter

Our work focused on understanding the overall valuation methodology and challenging significant inputs. In obtaining sufficient audit evidence, we:

- evaluated Summerset's care facility revaluation process including the provision of information to the valuer and Summerset's own internal review of the valuation, the resulting changes in the valuation from the carrying value and the recognition of the changes within the financial statements;
- 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 care facilities and evaluating the underlying assumptions across the portfolio of valuations against the market based evidence available;
- reviewed and discussed the valuation reports with the independent valuer;
- assessed the valuation outcomes for each property as compared to the rest of the portfolio and the market information made available by the independent valuer;
- assessed the reasonableness of key assumptions including capitalisation rates and market value per care bed; and
- evaluated the related financial statement disclosures.

Deferred Management Fee Revenue Recognition

Why significant

Deferred management fee revenue is 32% 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.

How our audit addressed the key audit matter

Our work 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:

- assessed the accuracy of the inputs to, and calculation of, deferred management fee revenue recognised during 2017;

Why significant	How our audit addressed the key audit matter
The amount of revenue recognised in each year is subject to the Group's judgement of each residents' expected tenure in the village, the terms of the occupational right agreement and the type of unit occupied. 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.	• agreed the contractual terms of a sample of residents used in the revenue recognition calculation to the occupational right agreement; • compared the movements year on year in revenue recognised by village based on an expectation derived from the nature of the population of occupational right agreements; and • considered 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 consolidated financial statements and auditor's report.

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 consolidated 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 consolidated 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-assurance-practitioners/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 Stuart Mutch.

Ernst + Young

Chartered Accountants
Wellington
22 February 2018

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 (NZX Code) issued in May 2017. Each principle of the NZX Code is provided below with explanation on how Summerset meets each principle.

As at 31 December 2017, Summerset was in full compliance with the NZX Code, with the exception of recommendations 3.6 and 4.3.

The Board has adopted formal takeover protocols that address the matters recommended in recommendation 3.6 and as at the date of this report is in full compliance with this recommendation. As the formal adoption of takeover protocols occurred after the Company's balance date, it is noted the Company did not comply with recommendation 3.6 during the year ended 31 December 2017. However, the Board has experience in these matters and its Code of Ethics addresses conflicts of interest, and the adoption of takeover protocols formalises practices that were in place during the year ended 31 December 2017.

The Company has partially complied with recommendation 4.3, as it believes its financial reporting is balanced, clear and objective and it has also included additional non-financial reporting in its Annual Report this year. However, the Company has not provided all of the non-financial reporting disclosures recommended in recommendation 4.3, in part because the NZX Code was issued part way through the year ended 31 December 2017. The Company notes it is in the early stages of developing its reporting on non-financial matters, and intends to work towards full compliance in this area over the coming financial year.

Summerset's Board and Committee Charters, and a number of the policies and guidelines referred to in this section, are available to view at 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 Delegation and Powers Reserved to the Board Policy.

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. 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.

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.

As at 31 December 2017, the non-executive Independent Directors were Rob Campbell (Chair), Dr Andrew Wong, Anne Urlwin, Gráinne Troute, James Ogden and Dr Marie Bismark.

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.

All Directors have access to the Executive 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.

Each year the Board reviews performance against agreed annual objectives.

The objectives of the policy in place during 2017 were to report on female representation at the Board, Executive and senior leadership level, and to increase Summerset's ability to report on a wider set of diversity metrics. The Board considers that for the year ended 31 December 2017, the objectives of the policy have been met.

The Board reviewed the Diversity and Inclusion Policy in December 2017, and the Objectives of the current policy are to:

- 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.

As at 31 December 2017 (and 31 December 2016 for the prior comparative period), the mix of gender of those employed by the Company is set out below:

	Gender	2017	2016
Directors	Male	3	2
	Female	3	3
Total		**6**	**5**
Officers	Male	2	2
	Female	-	-
Total		**2**	**2**
Executive Team	Male	4	5
	Female	2	1
Total		**6**	**6**
All staff	Male	311	250
	Female	924	792
Total staff		**1,235**	**1,042**

Officers of the Company are the Chief Executive Officer and the Deputy Chief Executive Officer and Chief Financial Officer. The Executive 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 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 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 2017, a Due Diligence Committee of the Board was established to oversee the issue of retail bonds by the Company.

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

Attendance at Board and committee meetings

A total of eight Board meetings, seven Audit Committee meetings, four Nomination and Remuneration Committee meetings, three Clinical Governance Committee meetings and two Development and Construction Committee meetings were held in 2017. Director attendance at Board meetings and committee member attendance at committee meetings is shown below. Directors that were not members of committees also attended some committee meetings as invited attendees. Their attendance is not recorded below.

	Board	Audit Committee	Nomination and Remuneration Committee	Clinical Governance Committee	Develop-ment and Construction Committee
Total number of meetings held	**8**	**7**	**4**	**3**	**2***
Rob Campbell	8 (Chair)	7	-	-	2
Anne Urlwin	8	7	4** (Chair)	3	2 (Chair)
Dr Andrew Wong	7***	-	-	3	-
Gráinne Troute	8	7	4** (Chair)	3	-
James Ogden	8	7 (Chair)	4	-	2
Dr Marie Bismark	8	-	4	3 (Chair)	-

** The Development and Construction Committee commenced 27 April 2017. A minimum of three meetings will be held per annum per the Committee Charter.*
*** Gráinne Troute was appointed as the Chair of the Nomination and Remuneration Committee, effective 1 July 2017 (prior to this Anne Urlwin was the Chair of this Committee).*
**** Dr Andrew Wong was appointed to the Board on 1 March 2017.*

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 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 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 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."

Recognising and managing risk

The Company has a risk management framework for identifying, overseeing, managing and controlling risk. The processes involved require the maintenance of a risk register that identifies key business risks and initiatives deployed to manage and mitigate those risks.

The Board has responsibility for the oversight of Summerset's risk management programme. Its responsibilities in this regard are set out in the Board Charter.

The Company's senior management maintain a risk register and this is updated regularly.

Information on the Company's approach to health and safety is included within 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 shareholders' 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 meeting of Shareholders. The annual and half-year reports are available in electronic and hard-copy format.

Shareholders have the right to vote on major decisions as required by the NZX Listing Rules.

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

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 2017 are provided below.

Director	Board fees	Audit Committee	Clinical Governance Committee	Nomination and Remuneration Committee	Development and Construction Committee	Other committee****	Total remuneration
Rob Campbell	$165,000 (Chair)					$4,425	$169,425
Anne Urlwin	$80,000			$3,750 (Chair)*	$3,750 (Chair)**	$4,425	$91,925
Dr Andrew Wong	$66,667***						$66,667
Gráinne Troute	$80,000			$3,750 (Chair)*			$83,750
James Ogden	$80,000	$15,000 (Chair)				$4,425 (Chair)	$99,425
Dr Marie Bismark	$80,000		$7,500 (Chair)				$87,500
TOTAL	**$551,667**	**$15,000**	**$7,500**	**$7,500**	**$3,750**	**$13,275**	**$598,692**

** Gráinne Troute was appointed as the Chair of the Nomination and Remuneration Committee, effective 1 July 2017 (prior to this Anne Urlwin was the Chair of this Committee).*

*** The Development and Construction Committee was formed on 27 April 2017, with fees for the Chair of this Committee effective 1 July 2017.*

**** Dr Andrew Wong was appointed as a Director on 1 March 2017.*

***** Fees for being on the Due Diligence Committee in relation to the issue of retail bonds in July 2017.*

Directors' fees are reviewed from time to time. The maximum aggregate amount of remuneration payable by Summerset to Directors (in their capacity as Directors) was set at $650,000 per annum in April 2017 for the non-executive Directors. This was an increase of $50,000 from the previous amount of remuneration payable, which was set in April 2014, and follows an increase in the number of Directors to six. Current annualised Directors' fees are $602,500, inclusive of additional remuneration for committee Chairs.

As at 31 December 2017, 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 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 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 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, usually as a percentage of the executive's base salary. For 2017, the relevant percentages were 25% to 50%.

A proportion (80% for the Chief Executive Officer, 70% for other Executive 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 2017 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 Team member is 112% of the STI on-target amount for that Executive 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 Team members with the enhancement of shareholder value over a multi-year period.

Under the LTI, Executive Team members are able to purchase shares in Summerset Group Holdings Limited. The shares for the plans are held by a nominee on behalf of the Executive Team members until such time after the vesting of shares that the nominee is directed by the Executive 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 Team members participating in the LTI 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.

An LTI plan commenced on 1 November 2011, upon the Company listing on the NZX Main Board, under which grants were made to Executive Team members. Vesting of shares was contingent on achievement of certain profitability levels in the business. The vesting criteria were achieved and all shares vested. This plan has now closed, with final vesting occurring in December 2013. Loans for vested shares under this plan were repaid on 31 October 2017.

An updated plan commenced on 16 December 2013. Under this plan, grants are made annually, with performance measured over two and three-year periods. The value of each grant is set at the date of the grant and currently represents 15% to 40% of an Executive Team member's fixed remuneration. The Nomination and Remuneration Committee takes independent advice in determining the number of shares to issue for each grant. 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 plan in place for Executive Team members, Summerset also operates an un-hurdled LTI plan for other senior managers.

A total of 3,173,144 shares are held by Summerset LTI Trustee Limited under the LTI Plan on behalf of the Executive Team as at 31 December 2017. 1,889,130 of these shares are unvested. The Executive 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 2015 to 2017

	Fixed remuneration			Pay for performance			Total remuneration
	Salary	Other benefits[1]	Subtotal	STI	LTI	Subtotal	
FY2017	$545,400	$4,600	$550,000	$233,558[2]	$220,000[3]	$453,558	$1,003,558
FY2016	$445,485	$4,515	$450,000	$235,620[4]	$180,000[5]	$415,620	$865,620
FY2015	$445,485	$4,515	$450,000	$188,266[6]	$180,000[7]	$368,266	$818,266

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

[2] *STI for FY2016 performance period (paid FY2017)*

[3] *LTI value granted in FY2017 period (which will vest based on performance in FY2018 to FY2020)*

[4] *STI for FY2015 performance period (paid FY2016)*

[5] *LTI value granted in FY2016 period (which will vest based on performance in FY2017 to FY2019)*

[6] *STI for FY2014 performance period (paid FY2015)*

[7] *LTI value granted in FY2015 period (which will vest based on performance in FY2016 to FY2018)*

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
FY2017	$1,003,558	103.8%	FY2016	90.0%[8]	FY2014 – FY2016
FY2016	$865,620	104.7%	FY2015	0%[9]	FY2014 – FY2015
FY2015	$818,266	84.5%	FY2014	N/A[10]	N/A

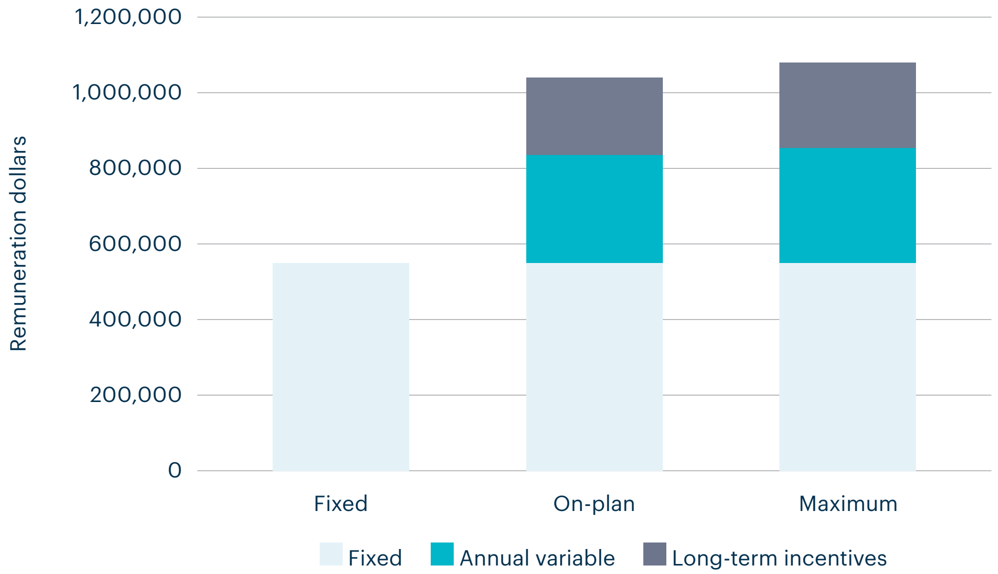
[8] *Vesting date 31 December 2016, release date 24 February 2017*

[9] *Vesting date 31 December 2015, release date 25 February 2016*

[10] *No shares available for vesting*

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.

Components of Chief Executive Officer remuneration



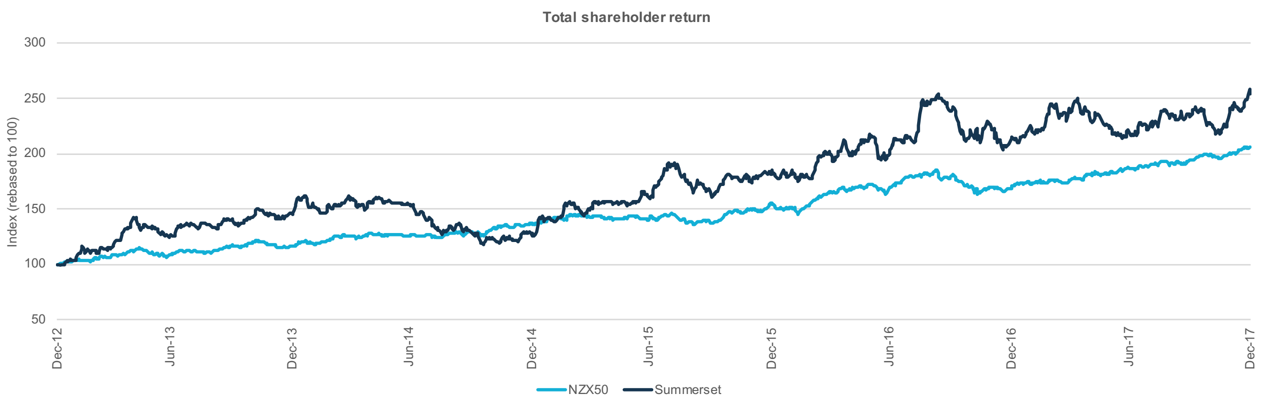
As at 31 December 2017, the Chief Executive Officer's fixed remuneration comprised salary and taxable benefits set at $550,000 per annum. The annual variable element pays out at 50% of fixed remuneration for on-plan performance or 56% for maximum performance. The LTI element is based on the value granted in the FY2017, being 40% of fixed remuneration, and will be based on performance in FY2018 to FY2020.

Description of Chief Executive Officer remuneration for performance for the year ended 31 December 2017

Plan	Description	Performance measures	Percentage awarded against on-plan performance
STI	Set at 50% of fixed remuneration for FY2017 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 76 for weightings)	98.4%
		20% based on individual measures	100.0%
LTI	In February 2017, vesting for 157,407 shares issued under the LTI Scheme at $3.20 on 16 December 2013 was assessed per the Plan Rules. The assessment period was 1 January 2014 to 31 December 2016. The vesting criteria were partially met and 119,629 shares vested.	50% measured against comparable peer group TSR hurdle 50% measured against NZX 50 group TSR hurdle	76.0%
	In February 2017, vesting for 219,512 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 2016. 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%

The above STI payment will be paid in FY2018.

Five year summary – total shareholder return (TSR) performance



The TSR summary above shows the performance of Summerset's shares against the NZX50 between 31 December 2012 and 31 December 2017.

Chief Executive Officer LTI share movements for the year ended 31 December 2017

	Dec 2011 issue	Dec 2013 issue	Dec 2014 issue	Dec 2015 issue	Dec 2016 issue	Dec 2017 issue	TOTAL
Balance 1 January 2017	464,286	157,407	403,185	314,972	237,005	-	1,576,855
Forfeited	-	(37,778)	-	-	-	-	(37,778)
Granted	-	-	-	-	-	263,736	263,736
Loan repaid and shares transferred to Chief Executive Officer	(464,286)	-	-	-	-	-	(464,286)
Balance 31 December 2017	-	119,629	403,185	314,972	237,005	263,736	1,338,527
Vesting status	Vested	Vested	Vested	Partially vested	Unvested	Unvested	
Issue price	$1.40	$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).

295,748 shares were vested on 31 December 2017 (out of a potential 353,484 shares eligible to vest on that date). These vested shares are not eligible for exercise until 26 February 2018.

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 2017 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 2017. 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 2017 that relate to the year ended 31 December 2017.

The method of calculating remuneration is consistent with the method applied for the previous year.

Remuneration	No. of employees	Remuneration	No. of employees
$100,000 to $109,999	26	$220,000 to $229,000	1
$110,000 to $119,999	20	$230,000 to $239,999	1
$120,000 to $129,999	12	$250,000 to $259,999	1
$140,000 to $149,999	11	$330,000 to $339,999	1
$150,000 to $159,999	4	$390,000 to $399,999	1
$160,000 to $169,999	5	$400,000 to $409,999	1
$170,000 to $179,999	1	$420,000 to $429,999	1
$180,000 to $189,999	3	$440,000 to $449,999	1
$190,000 to $199,999	3	$520,000 to $529,999	1
$200,000 to $209,999	2	$600,000 to $609,999	1
$210,000 to $219,999	1	$1,000,000 to $1,009,999	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 2017, the Chief Executive Officer's base salary of $545,400 was 12.5 times (2016: 11.6 times) that of the median employee at $43,680 per annum. The Chief Executive Officer's total remuneration, including STI and LTI, was $1,003,558, 21.5 times (2016: 21.7 times) the total remuneration of the median employee at $46,640.

Residents enjoying high tea together in Aotea

Disclosures

Director changes during the year ended 31 December 2017

Dr Andrew Wong was appointed to the Board on 1 March 2017.

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 2017:

Rob Campbell: Disclosed the following positions in respect of the following entities: SKYCITY Entertainment Group Limited (Director), WEL Networks Limited (Chair). Disclosed he ceased to hold the following positions in respect of the following entities: T&G Global Limited (NZ) (Director), G3 Group Limited (Chair).

Anne Urlwin: Disclosed the following positions in respect of the following entities: Chorus New Zealand Limited (Director), City Rail Link Limited (Director). Disclosed she ceased to hold the following positions in respect of the following entities: Naylor Love Enterprises Limited (Chair), Naylor Love Construction Limited (Director), Naylor Love Properties Limited (Director), Naylor Love Limited (Director), Naylor Love Share Repurchase Trust (Trustee).

James Ogden: Disclosed the following positions in respect of the following entities: MMC Group Holdings Limited and subsidiaries (Chair), Foundation Life (NZ) Limited (Director). Disclosed he ceased to hold the following positions in respect of the following entities: Tegel Group Holdings Limited (Chair), The Warehouse Financial Services Limited (Director), The Warehouse Group Limited (Director), Alliance Group Limited (Director).

Dr Marie Bismark: No changes disclosed.

Gráinne Troute: Disclosed the following position in respect of the following entity: Evolve Education Group Limited (Director).

Dr Andrew Wong: Appointed as a Director in March 2017 and disclosed the following positions in respect of the following entities: HealthCare Holdings Limited (Managing Director), Ascot Hospital and Clinics Limited (Managing Director), Integrated Hospitals Limited (Director), Auckland Radiation Oncology Limited (Chair), Ninety Nine Investments Limited (Director), Mercy Angiography Limited (Director), Kensington Hospital Limited (Director), QCS (Quipt Clinical Supplies) Limited (Director), New Zealand Radiology Group Limited (Director), Laparoscopy Auckland Limited (Chair), Endoscopy Auckland Limited (Chair), Palm Capital Limited (Director), The Mountain Road Property Company Limited (Director), MercyAscot Orthopaedics Limited (Chair), New Zealand Medical Council (Public Health Medicine Specialist), Endoscopy Governance Group New Zealand (Member).

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 2017 are specified in the table below:

Director	Ordinary shares	Retail bonds
Rob Campbell	57,693	-
Anne Urlwin	20,384	30,000
James Ogden	409,504	15,000*
Dr Marie Bismark	15,525	-
Gráinne Troute	25,000	-
Dr Andrew Wong	10,500	-
Total	**538,606**	**45,000**

** James Ogden has a non-beneficial interest in 15,000 retail bonds of which he is the registered holder in his capacity as trustee of the Wakapua Trust.*

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	16 March 2017	10,000	On-market purchase of ordinary shares at average price of $5.14 per share
	22 March 2017	312	Issue of shares under dividend reinvestment plan at $5.16 per share
	11 September 2017	300	Issue of shares under dividend reinvestment plan at $5.00 per share
Anne Urlwin	11 March 2017	5,000	On-market purchase of ordinary shares at average price of $5.38
	22 March 2017	100	Issue of shares under dividend reinvestment plan at $5.16 per share
	11 July 2017	30,000	Issue of 30,000 retail bonds during initial offer period at $1.00 per bond
	11 September 2017	106	Issue of shares under dividend reinvestment plan at $5.00 per share
James Ogden	11 July 2017	15,000	Issue of 15,000 retail bonds during initial offer period at $1.00 per bond
Dr Marie Bismark	22 March 2017	128	Issue of shares under dividend reinvestment plan at $5.16 per share
	11 September 2017	102	Issue of shares under dividend reinvestment plan at $5.00 per share
Gráinne Troute	14 March 2017	25,000	On-market acquisition of shares at average price of $5.30 per share
Dr Andrew Wong	1 March 2017	6,400	Initial disclosure of beneficial interest in 6,400 ordinary shares
	2 November 2017	4,100	On-market purchase of ordinary shares at average price of $4.89 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 2017, with the exception of Summerset LTI Trustee Limited (the Directors of which are Rob Campbell and Dr Marie Bismark). No extra remuneration is payable to any Director of the Company for any Directorship of a subsidiary.

Top 20 Shareholders as at 31 December 2017

Rank	Registered Shareholder	Number of shares	% of shares
1	New Zealand Central Securities Depository Limited	107,831,976	48.15%
2	Custodial Services Limited	8,998,921	4.02%
3	FNZ Custodians Limited	8,057,801	3.60%
4	Forsyth Barr Custodians Ltd	6,142,249	2.74%
5	Custodial Services Limited	6,047,736	2.70%
6	Summerset LTI Trustee Limited	4,227,907	1.89%
7	Custodial Services Limited	3,695,070	1.65%
8	Custodial Services Limited	2,715,999	1.21%
9	Investment Custodial Services Limited	2,636,604	1.18%
10	Custodial Services Limited	2,024,994	0.90%
11	Paul Stanley Morris & Clive Stephen Morris	1,714,952	0.77%
12	Custodial Services Limited	1,484,379	0.66%
13	BNP Paribas Nominees Pty Ltd	1,389,424	0.62%
14	New Zealand Depository Nominee Limited	1,383,077	0.62%
15	Motutapu Investments Limited	1,339,296	0.60%
16	PT Booster Investments Nominees Limited	1,230,339	0.55%
17	ASB Nominees	1,049,913	0.47%
18	Custodial Services Limited	877,658	0.39%
19	National Nominees Limited	777,364	0.35%
20	FNZ Custodians Limited	635,434	0.28%
	Total	**164,261,093**	**73.34%**

Shareholders held through the NZCSD as at 31 December 2017

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 2017, the ten largest shareholdings in the Company held through NZCSD were:

Rank	Registered Shareholder	Number of shares	% of shares
1	Tea Custodians Limited	17,670,928	7.89%
2	HSBC Nominees (New Zealand) Limited	15,333,736	6.85%
3	Citibank Nominees (NZ) Limited	14,476,887	6.46%
4	JPMorgan Chase Bank	12,030,493	5.37%
5	New Zealand Superannuation Fund Nominees Limited	11,604,140	5.18%
6	HSBC Nominees (New Zealand) Limited	11,431,655	5.10%
7	Cogent Nominees Limited	5,720,989	2.55%
8	National Nominees New Zealand Limited	5,524,439	2.47%
9	Accident Compensation Corporation	5,134,069	2.29%
10	New Zealand Permanent Trustees Limited	1,978,305	0.88%

Spread of Shareholders as at 31 December 2017

Size of shareholding	Shareholders		Shares	
	Number	%	Number	%
1 to 1,000	1,732	19.43%	973,005	0.43%
1,001 to 5,000	4,352	48.83%	11,540,114	5.15%
5,001 to 10,000	1,590	17.84%	11,612,142	5.18%
10,001 to 50,000	1,093	12.26%	20,670,588	9.23%
50,001 to 100,000	78	0.88%	5,511,872	2.46%
100,001 and over	68	0.76%	173,660,298	77.54%
Total	**8,913**	**100.00%**	**223,968,019**	**100.00%**

Substantial product holder notices received as at 31 December 2017

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 2017. The total number of voting products on issue at 31 December 2017 was 223,968,019 ordinary shares.

Shareholder	Relevant interest	% held at date of notice	Date of notice
First NZ Capital Group Limited	16,110,518	7.25%	29 June 2017
Harbour Asset Management Limited	13,506,575	6.14%	16 August 2016
Fisher Funds Management Limited	11,476,807	5.15%	15 November 2017
New Zealand Superannuation Fund Nominees Limited	11,235,840	5.04%	26 October 2017

Spread of bondholders as at 31 December 2017

Size of bondholding	Bondholders		Bonds	
	Number	%	Number	%
1 to 5,000	85	8.80%	425,000	0.43%
5,001 to 10,000	236	24.43%	2,293,000	2.29%
10,001 to 50,000	527	54.55%	14,544,000	14.54%
50,001 to 100,000	68	7.04%	5,867,000	5.87%
100,001 and over	50	5.18%	76,871,000	76.87%
Total	**966**	**100.00%**	**100,000,000**	**100.00%**

Waivers from the NZX Listing Rules

During the year ended 31 December 2017, the Company relied on NZX's class waiver and ruling on NZX Debt Market Listing Rules 3.2.1(d) and 3.2.1(e), issued on 7 April 2017.

No other waivers from the application of NZX Listing Rules have been utilised by the Company during the year ended 31 December 2017.

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 FY17 audit fees was $185,000 and $4,000 for the audit of the underlying profit statement. Ernst & Young provided market analysis advisory services to the Group during the year, amounting to $291,000. No other 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 $25,117 in FY17.

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 12 March 2018.

This Annual Report is authorised for and on behalf of the Board by:

Rob Campbell
Director and Chair
Authorised for issue on 22 February 2018

James Ogden
Director and Chair of the Audit Committee


Aotea residents taking part in an afternoon of games

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
ASB Bank Limited
Bank of New Zealand 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


Aotea residents working out in the village gym

Directory

Auckland

Summerset Falls
31 Mansel Drive, Warkworth 0910
Phone (09) 425 1200

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 1052
Phone (09) 950 8212

Summerset St Johns*
188 St Johns Road, St Johns 1072
Phone (09) 950 7982

Waikato

Summerset down the Lane
206 Dixon Road, Hamilton 3206
Phone (07) 843 0157

Summerset Rototuna
Kimbrae Drive, Hamilton 3281
Phone (07) 981 7822

Summerset by the Lake
2 Wharewaka Road, Wharewaka, Taupo 3330
Phone (07) 376 9470

Bay of Plenty

Summerset by the Sea
181 Park Road, Katikati 3129
Phone (07) 985 6890

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 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

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 on the Coast
104 Realm Drive, Paraparaumu 5032
Phone (04) 298 3540

Summerset Kenepuru*
Bluff Road, Kenepuru, Porirua 5022
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

Summerset in the Sun
16 Sargeson Street, Stoke, Nelson 7011
Phone (03) 538 0000

Summerset Richmond*
1 Hill Street North, Richmond, Nelson 7020
Phone (03) 744 3432

Canterbury

Summerset at Wigram
135 Awatea Road, Wigram, Christchurch 8025
Phone (03) 741 0870

Summerset 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*

Summerset

Summerset Group Holdings Limited **Results for announcement to the market**	
Reporting Period	12 months to 31 December 2017
Previous Reporting Period	12 months to 31 December 2016

	Amount (000s)	Percentage change
Revenue from ordinary activities	NZ$110,493	+28.4%
Total income from ordinary activities	NZ$328,462	+43.1%
Profit from ordinary activities after tax attributable to security holder	NZ$223,436	+53.6%
Net profit attributable to security holders	NZ$223,436	+53.6%
Underlying profit	NZ$81,663	+44.4%

Final Dividend	Amount per security	Imputed amount per security
	NZ 7.1 cents per share	Not imputed

Record Date	9 March 2018
Dividend Payment Date	22 March 2018
Dividend Reinvestment Plan	Applies at 2% discount

Comments:	See also other attached documents (audited financial statements and annual report, media release, results presentation and Appendix 7). Underlying profit differs from NZ IFRS net profit after tax. The directors have provided an audited underlying profit measure to assist readers in determining the realised and non-realised 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 an industry wide measure which the group uses consistently across reporting periods.

APPENDIX 7 – NZSX Listing Rules

EMAIL: announce@nzx.com

Number of pages including this one (Please provide any other relevant details on additional pages)

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.

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	22 / 02 / 2018

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)	7.1 cents per share
Source of Payment	Revenue Reserves
Excluded income per security (only applicable to listed PIEs)	Nil
Currency	New Zealand Dollars
Total monies	$15,901,729

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	2.343 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 -	9 March, 2018
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.	22 March, 2018
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.	22 March, 2018

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:

23 February 2018

Dear Investor

Summerset Group Holdings Limited ("Summerset") Financial Results for the Year Ended 31 December 2017

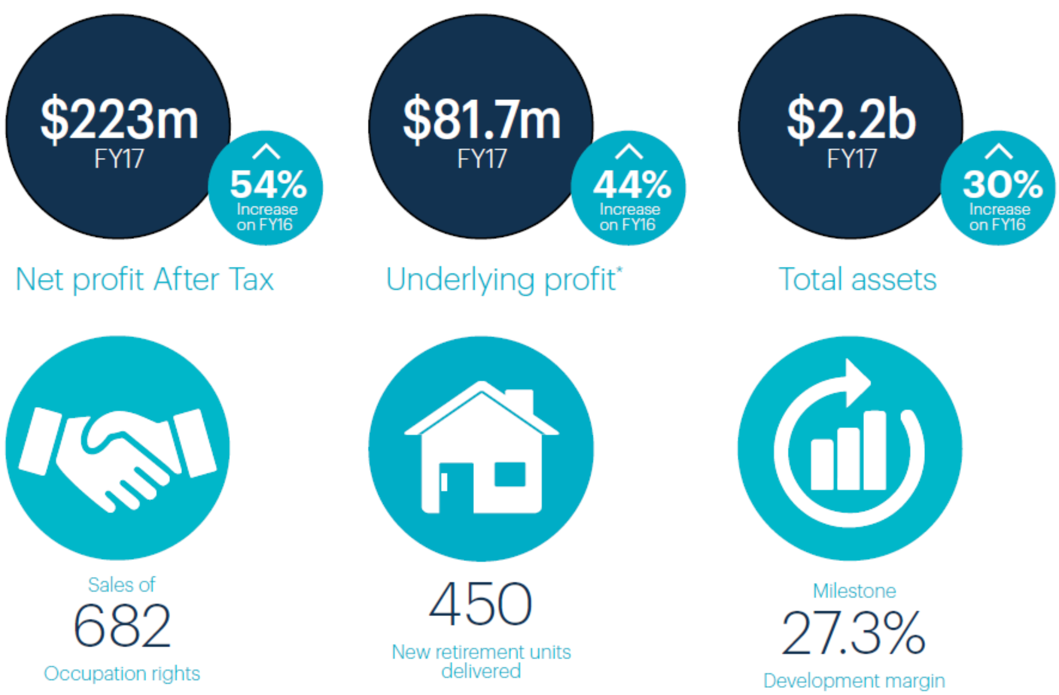
We have recently announced our financial results for the year ended 31 December 2017.

We declared a net profit after tax of $223.4 million, an increase of 54% on the same period last year. Our underlying profit was $81.7 million, an increase of 44% on the prior year. We will pay a final dividend of 7.1 cents per share on 22 March 2018, bringing the total dividend for 2017 to 11 cents per share. This is an increase of 3.3 cents per share on the total dividend paid for 2016.

Summerset's profit growth has been driven by strong demand for homes, the benefits of in-house construction of new villages and the well-run operation of existing villages. A really exciting company milestone in 2017 was celebrating the 20th anniversary of Summerset's first village in Wanganui. It was also great to welcome 500 new residents and 200 staff to the Summerset family.

Other key achievements included:

- Receiving the New Zealand Aged Care Association's Best Built Environment award for the innovative Levin memory care centre
- Achieving a village resident and care resident satisfaction result of 97%, (both up from 94% in 2016)
- Improving staff wellbeing with a raft of employee benefits, including day to day health insurance and funeral cover
- Achieving employee engagement results in Aon Hewitt's Australia and New Zealand top quartile
- Launching a new brand and website to better reflect Summerset's purpose of bringing the best of life to its residents
- Issuing the first retail bonds in the retirement and aged care sector



* Underlying profit differs from NZ IFRS net profit after tax. For a reconciliation between the two, see our 2017 Annual Report at https://www.summerset.co.nz/investor-centre/

Dividend Reinvestment Plan for Shareholders

Summerset's dividend reinvestment plan will apply to the 22 March 2018 dividend payment, with a discount rate of 2% applied when determining the price per share of shares issued under this plan. If you haven't previously registered to participate and wish to do so, you'll need to have registered your participation by 5:00pm NZT on 12 March 2018.

Annual Report 2017

Our Annual Report for the year ended 31 December 2017 is now available on the Summerset website at http://www.summerset.co.nz/investor-centre.

New regulations that came into effect have changed the way we communicate with you about our Annual and Half Year Reports. As a result, any previous instructions you have given us in respect of sending printed copies no longer apply.

Copies of our future Annual and Half Year Reports will still be publicly available from the same website. Copies of our past reports are also available from the same website.

If you still wish to receive a printed or electronic copy of the most recent or future Annual and Half Year Reports, you can request this through the Link Market Services Investor Centre at https://investorcentre.linkmarketservices.co.nz by updating your communication preferences.

Alternatively please complete and return this form at any time to our registry, Link Market Services, either by mail to PO Box 91976, Auckland, by fax to (09) 375 5990, or by scanning and emailing to operations@linkmarketservices.com (please use "*SUM Annual Report*" as the subject of the email for easy identification).

I would like to receive a printed copy of the Annual Report for 2017 and Half Year and Annual Reports for future periods

☐ Please mark this box with a "✓" if you wish to receive a printed copy

Email Communications

We would like to take this opportunity to encourage you to elect to receive your Summerset investor communications electronically. You can do so by providing your email address details online or by completing the section below. Electronic communications are quick, cost effective and environmentally friendly.

I wish to receive all my Summerset investor communications via email where possible

☐ Please mark this box with a "✓ " and provide an email address below if you wish to receive communications electronically

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If you have any further questions, or would like to request free electronic copies of our most recent Annual and Half Year Reports at any time, please do not hesitate to contact Link Market Services on (09) 375 5998 or operations@linkmarketservices.com.

Yours sincerely,

Julian Cook
Chief Executive Officer