Annual Report 2018

aveo

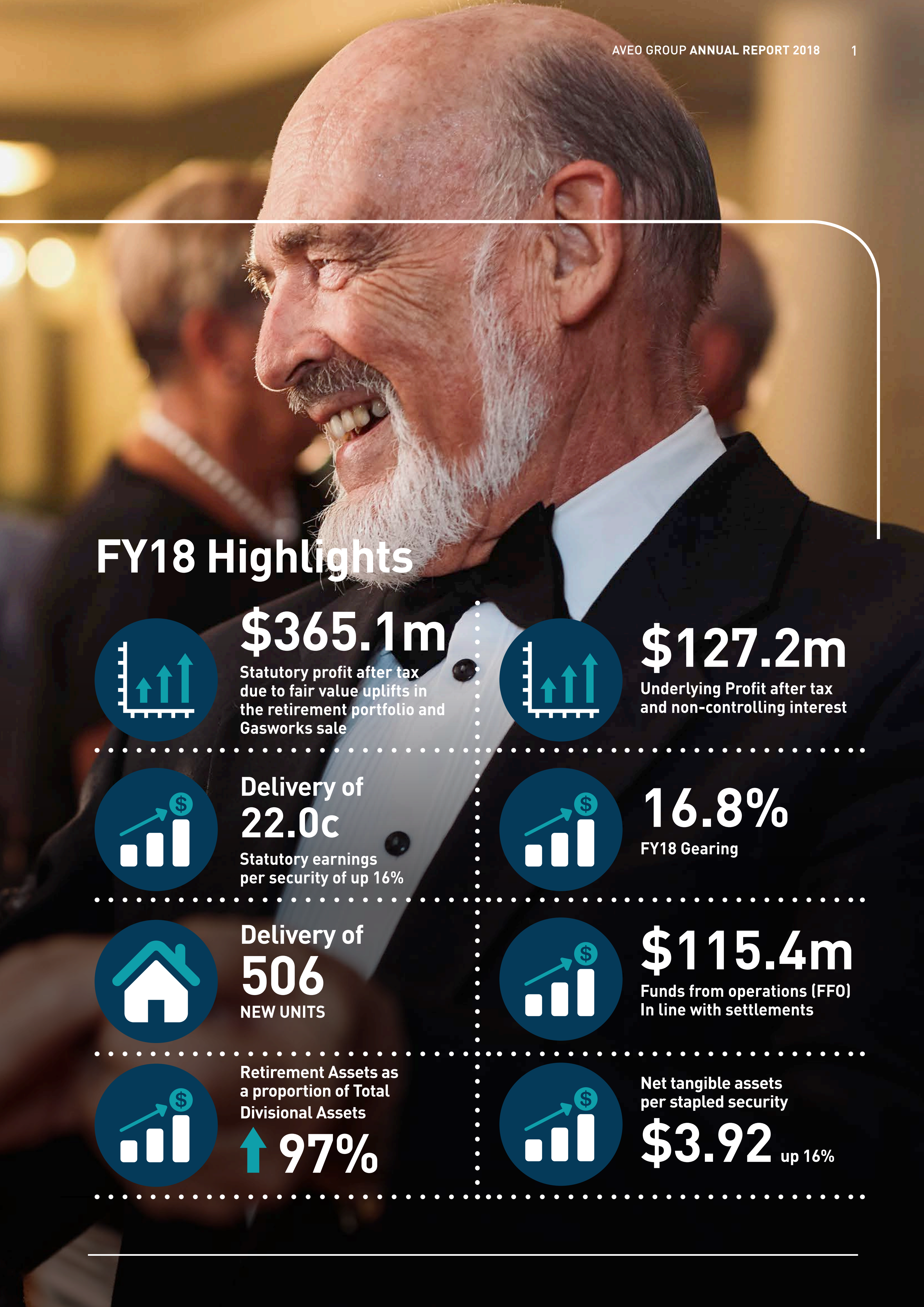
Contents

Corporate calendar

Release of full year results	15 August 2018
Taxation Statements sent to securityholders	27 August 2018
Full year distribution payment	28 September 2018
Annual General Meeting	14 November 2018

AGM

The Aveo Group Annual General Meeting will be held at 10am on Wednesday, 14 November 2018, in the Heritage Room, at the Intercontinental Hotel, located on Level 1, 117 Macquarie Street, Sydney NSW 2000.



FY18 Highlights

$365.1m
Statutory profit after tax due to fair value uplifts in the retirement portfolio and Gasworks sale

$127.2m
Underlying Profit after tax and non-controlling interest

Delivery of **22.0c**
Statutory earnings per security of up 16%

16.8%
FY18 Gearing

Delivery of **506**
NEW UNITS

$115.4m
Funds from operations (FFO) In line with settlements

Retirement Assets as a proportion of Total Divisional Assets
↑ **97%**

Net tangible assets per stapled security
$3.92 up 16%

Letter from the Chairman

"Aveo has achieved or exceeded all financial and non-financial strategic plan objectives in transition to a pure retirement group."

Dear Securityholder,

I am proud to share with you the results achieved by Aveo Group in FY18. It was a year not without challenges but the leading position that we have built in Australia as a pure retirement group ensured we were well equipped to manage these challenges.

Solid financial performance

Aveo Group achieved strong results across its key financial metrics in FY18. For the 12 months to 30 June 2018, we recorded an underlying profit after tax and non-controlling interest of $127.2 million, up 17% on the $108.4 million recorded in FY17. At a statutory level, our FY18 statutory profit after tax was up 44% to $365.1 million.

Our solid financial performance in FY18 was driven by a 40% profit increase from the Group's retirement business and was underpinned by continuing revaluation uplifts in the retirement portfolio and the sale of the Gasworks complex at Newstead, Brisbane at a substantial premium to its book value.

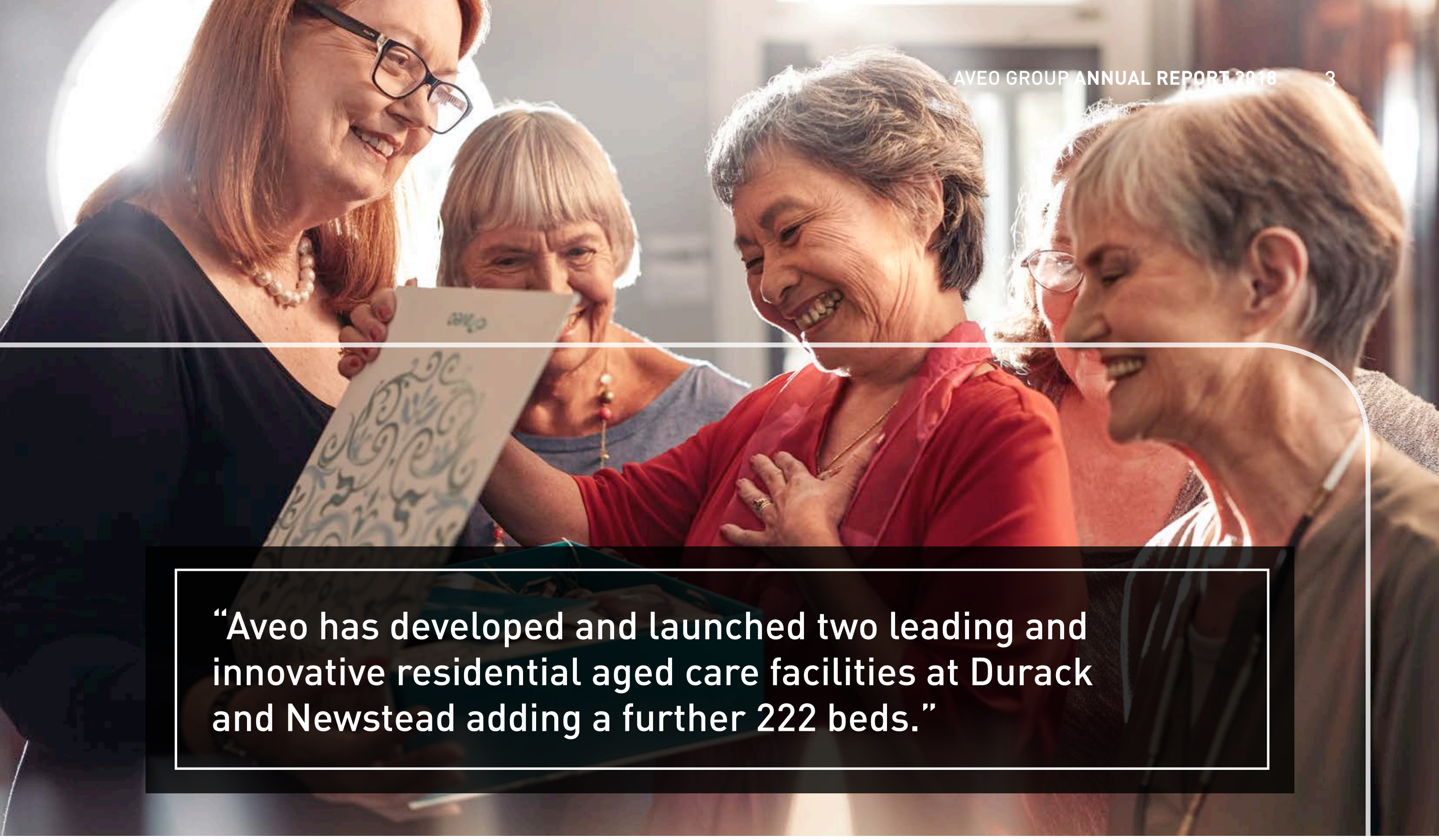
Our underlying earnings per stapled security (EPS) were up 16% to 22.0 cents whilst funds from operations (FFO) settled at $115.4 million in FY18. Our net tangible assets per stapled security was recorded at $3.92, up 16% from that recorded 12 months prior.

During the year, we launched our first vertical retirement community at Newstead, Brisbane. Aveo Newstead is a truly ground-breaking retirement community which provides residents with our entire service offering, in one location. It demonstrates our commitment to innovation and reshaping the future of retirement living in Australia.

Strategic review

FY18 was a milestone year for Aveo Group as it marked the five-year anniversary of the commencement of our strategy to transform from a diversified property group to a pure retirement group. We set a number of targets as part of our vision to become Australia's leading and most innovative senior living provider. These included:

- return on assets targets in FY16 and FY18;
- the delivery of 500-plus new products by FY18;



"Aveo has developed and launched two leading and innovative residential aged care facilities at Durack and Newstead adding a further 222 beds."

- the sell-down of non-retirement assets at or above book value; and
- achieve consistently high resident satisfaction with a rating of 84% in 2018.

While we have achieved all of these targets, and despite achieving record profit levels, our security price continues to trade at a significant discount to NTA. We believe this is due to concerns around sustainable sales levels in a broader property market that has softened, further regulatory risk in the retirement sector and the class action. We believe these concerns are outweighed by the strong medium-to-long-term growth prospects for the retirement sector in Australia and the significant position that Aveo occupies in it.

As such, we have commenced a strategic review of our retirement business. This review will examine the options and various initiatives that may be available to close the value gap between the price of Aveo's listed securities and the underlying value of our retirement properties. The review will include an evaluation of the potential introduction of capital partners into the retirement business.

It is our view that Aveo's current security price does not reflect the underlying value of our market-leading retirement business which has grown strongly and consistently over the past five years. We look forward to working with our advisors on this important project over the next year.

Confidence about the future

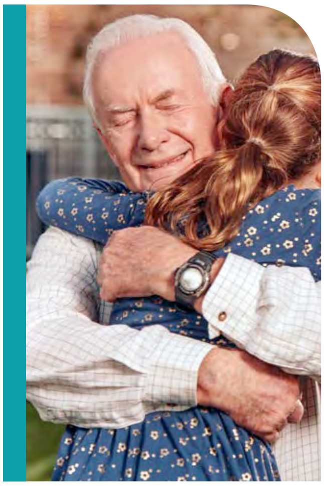
Aveo today occupies a position as a leading and innovative provider of retirement living communities in Australia and is a well established and capitalised company. Our retirement communities continue to evolve by providing residents with increasing levels of care. They have strong consumer appeal and continue to evolve to meet the needs of Australian retirees.

Your Board remains committed and confident about our future. We have a strong, dedicated and energised management team who remain focused on meeting and exceeding the changing needs of our residents and their families.

I would like to thank my Board colleagues for their hard work during the year and extend our appreciation and thanks to all Aveo employees for the devotion and commitment to ensuring the wellbeing of all our residents around Australia.

Yours sincerely,

Seng Huang Lee
Chairman



"Aveo Group recorded an FY18 underlying profit after tax and non-controlling interest of $127.2 million, up 17% on FY17."

$365.1m
Statutory profit after tax

Letter from the Chief Executive Officer

"In 2013, Aveo announced its vision to become Australia's leading and most innovative senior living provider. Since then, this vision has underpinned every major initiative we have taken and has consolidated our position as Australia's leading owner, operator and manager of retirement communities."

Dear Securityholder,

In 2013, Aveo announced its vision to become Australia's leading and most innovative senior living provider. Since then, this vision has underpinned every major initiative we have taken and has consolidated our position as Australia's leading owner, operator and manager of retirement communities.

FY18 was targeted as the year to complete our transition from being a diversified property group to retirement only and to achieve defined strategic plan targets.

Over the last five years, since announcing the retirement only strategy, there has been consistent and strong growth across all financial metrics, including:

- underlying earnings – growing by 23% per year;
- distributions – growing by 22% per year;
- continued focus on growing Earnings Per Share in line with market expectations;
- gearing remaining stable and within the targeted 10% to 20% range; and
- NTA has increased from $2.78 to $3.92 – a CAGR of 9%.

Innovative and substantive healthcare organisation

Our commitment to provide more consistent and comprehensive care into our consumer offering has contributed to this growth.

This has been due to the acquisition of entities with an emphasis on care, namely the acquisition of Freedom Aged Care in 2016 for $215 million, in addition to the acquisition of a 50% interest in the two Allied Health businesses which employ over 200 health professionals within our communities; as well as the launch of Aveo Care at Home in 2017.

Since the acquisition of Freedom Aged Care, we have rolled out the Freedom Aged Care model from the 15 acquired communities to 12 of our existing communities. We now offer high level care services at 32 of our 93 communities.

Furthermore, Aveo has re-developed and re-launched two leading innovative residential aged care facilities – one at Durack, and Newstead, adding a further 222 high quality new aged care rooms to the portfolio.

Aveo Newstead, our new 19-storey retirement community, represents the future of retirement living in Australia – the best-in-market integrated offering combining all Aveo's care and service initiatives, developed over the five-year strategic plan.

To maintain high standards and control risk in all our care delivery services, Aveo has developed a strong care governance framework, including the roll-out of the hospital grade Riskman software now used uniformly across the business.

Strong advances have been made in non-care service lines such as food and communications through the introduction of Select Dining in our 63 restaurants, Nutrition Select home food delivery to residents and Aveo Connect telecommunications services – with the additional highlight of an onsite Tech Angel to assist our Newstead residents.

Financial performance

Key financial highlights for FY18 include:

- statutory profit after tax $365.1 million, up 44%;
- underlying net profit after tax and non-controlling interest of $127.2 million, up 17%;
- earnings per stapled security (EPS) on underlying profit after tax and non-controlling interest up 16% to 22.0 cents;
- funds from operations (FFO) in line with settlements at $115.4 million ($163.9 million in FY17); and
- net tangible assets per security of $3.92, up 16% from 30 June 2017.

Aveo's total retirement assets continued to grow in FY18 through both revaluation increases and the increased amount of capital invested into retirement development projects.

Retirement care and support services

The total Retirement revenue increased by 56% in FY18 to $600.7 million, driven by higher contributions from the Development and Care and Support Services segments. Aveo recorded total retirement sales volumes of 974 units, down 22% from FY17. Development sales increased over the prior comparative period as Freedom minor development units, major development stock delivered in FY17 and new units predominantly delivered at Newcastle and Newstead during the period all continued to sell down.

In the Retirement Established Business, the realised average transaction price point continued to grow, up 12% to $442,000, which resulted in higher average DMG/CG amounts per transaction. The Aveo suite of contracts continues to be adopted throughout the portfolio, which will contribute to margin growth as those residents sell their units. An additional 593 units are now on Aveo Way contracts compared to FY17.

The Established Business profit contribution was impacted by lower resales volumes but these continue to show signs of improvement.

The growth in the Development contribution was due to the delivery of 506 new major development units predominantly across Newcastle, Newstead and Bella Vista retirement communities as well as an increased sales rate of minor development Freedom original and conversion units. Both major and minor development margins exceeded their target ranges.

"Aveo Newstead, our new 19-storey retirement community, represents the future of retirement living in Australia – the best-in-market integrated offering combining all Aveo's care and service initiatives, developed over the five- year strategic plan."

FY19 EPS guidance of **20.4cps**

Delivery of **506** new units

Letter from the Chief Executive Officer (cont)

Revenue growth for Care and Support Services was offset by upfront costs of the new Durack and Newstead aged care facilities.

Non-retirement assets

The sale of Gasworks in the first half of FY18 leaves the residential land estates as the last material Non-Retirement asset class.

Retirement assets now comprise 97% of Aveo's asset base.

Capital management

Aveo's syndicated finance facility limit increased by $77.5 million to $630 million and the facility maturity was extended to July 2021.

Pro forma gearing is 16.8% and remains within Aveo's target gearing range of 10% to 20%.

Looking ahead to FY19

In terms of outlook, Aveo remains focused on furthering its position as the leader in the retirement living market to deliver further medium-to-long-term growth and value to investors.

Aveo expects sales rates to return to normalised levels, i.e. to 10% or more for the year. In addition, we are on track to deliver 418 major development units in FY19 and sell 500 major units during the year.

Our continued focus is to grow the business through the development and sale of new units and to reinvest capital into the development cycle.

Based on current market conditions, Aveo confirms FY19 EPS guidance of 20.4cps and Aveo is targeting a full year distribution based on a payout range of 40% to 60% underlying profit.

I would like to take this opportunity to thank our Board for their guidance over the past year and also to thank all of Aveo Group's employees for their dedication and hard work. My thanks also to you, our securityholders, for your ongoing support during the year.

I look forward to keeping you updated on our progress in FY19 as Aveo consolidates its position as Australia's leading pure retirement group, focused on continuous improvement and innovation to provide better living options for senior Australians.

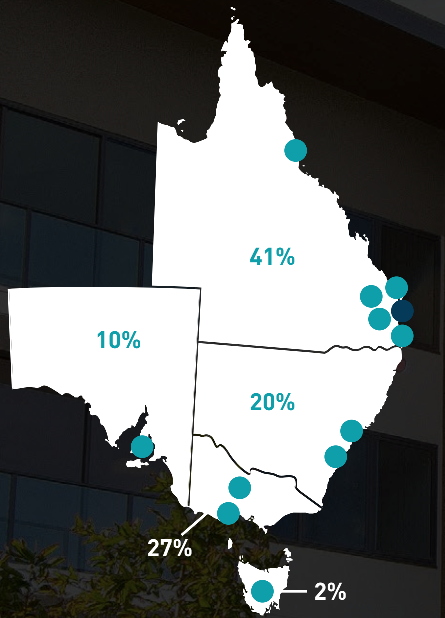
Geoff Grady

Chief Executive Officer

"Increase in statutory profit driven by fair value uplifts in the Retirement portfolio and the sale of Gasworks."

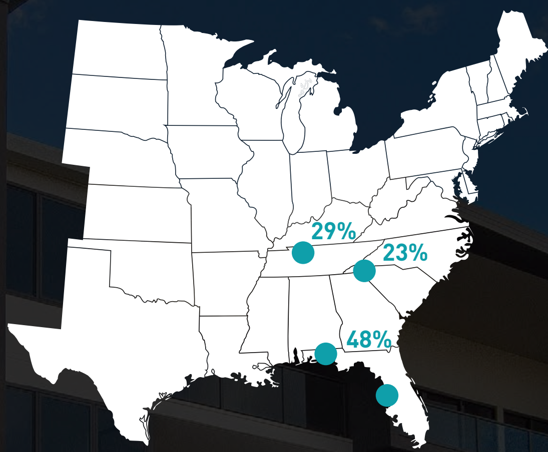
Property Portfolio

Aveo Community Location



Aveo Group communities
Aveo Healthcare communities

US Senior Living Locations



US Senior communities

Portfolio Snapshot

Units	Communities	ILUs	SAs	Freedom SAs	Existing Total	Pipeline[3] – units	Total units	Aged Care – beds	Pipeline beds	Total Units and beds
Aveo[1]	88	7,588	1,429	1,171	10,188	4,604	14,792	283	561	15,636
Aveo Healthcare[2]	5	1,277	169	83	1,529	96	1,625	123	105	1,853
Total Australia	**93**	**8,865**	**1,598**	**1,254**	**11,717**	**4,700**	**16,417**	**406**	**666**	**17,489**
Aveo – US	5	15	260	–	275	–	275	–	–	275
Total Aveo	**98**	**8,880**	**1,858**	**1,254**	**11,992**	**4,700**	**16,692**	**406**	**666**	**17,764**

1 Includes 35 units not offered for accommodation purposes e.g. managers' units.
2 Includes 9 units not offered for accommodation purposes e.g. managers' units; Aveo Healthcare is 86% owned by Aveo.
3 Development pipeline net of 361 units to be redeveloped.

Board of Directors

Geoff Grady
Executive Director and Chief Executive Officer

Seng Huang Lee
Non-Executive Chairman

Eric Lee
Non-Executive Director

Walter McDonald
Non-Executive Director

Diana Saw
Non-Executive Director

Jim Frayne
Non-Executive Director

Kelvin Lo
Non-Executive Director

Further information on our Board of Directors can be found on pages 27–30.

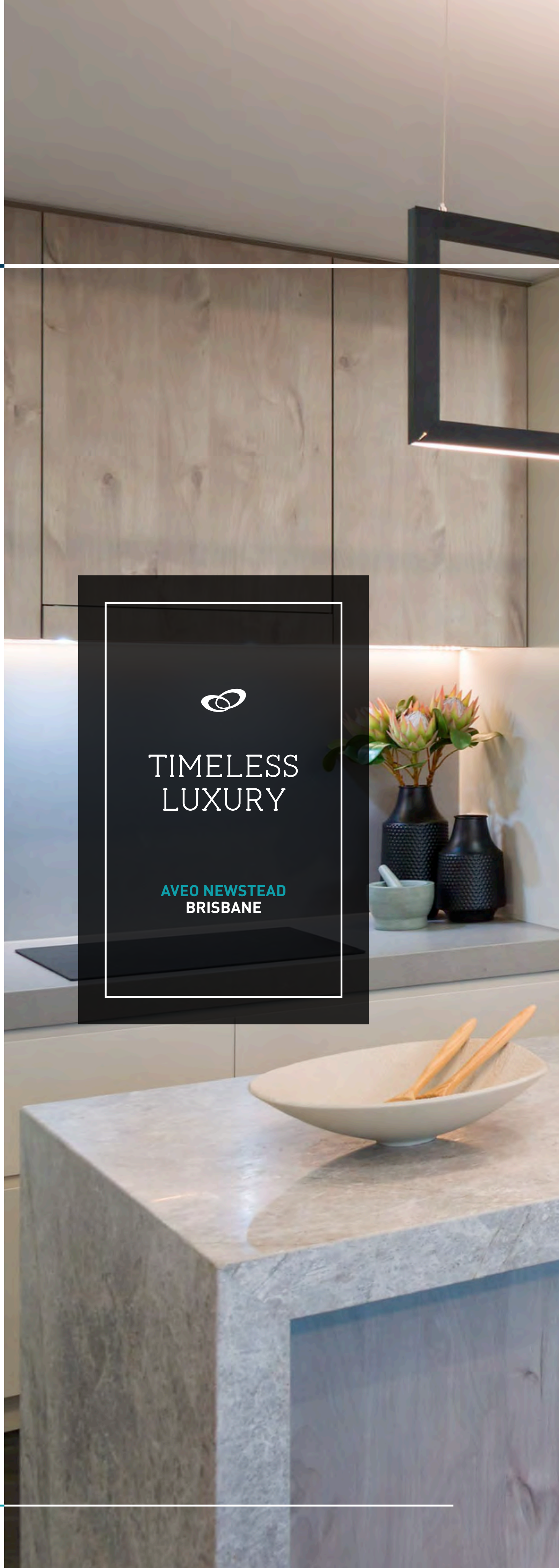
Case Study 1

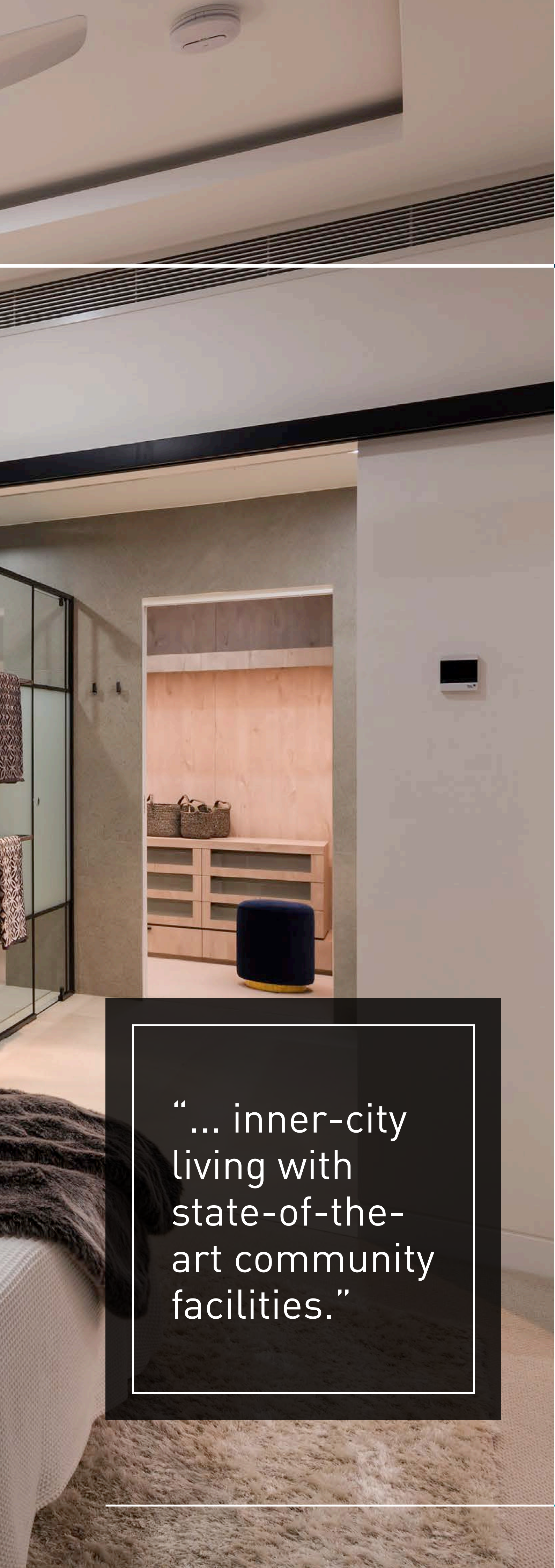
"Newstead provides premium retirement living united with sophisticated residential aged care options above a vibrant urban village."

Aveo Newstead – Leading Edge Integrated Retirement Living

Aveo Newstead is Aveo's response to innovate and meet Australian retiree demand for retirement living with easy access to lifestyle amenities and spacious indoor living areas in desirable inner-city locations. Aveo Newstead is the first integrated vertical 19-storey living retirement community designed to meet the changing requirements of older Australians by providing inner-city living with state-of-the-art community facilities and the comfort and security of living with like-minded residents.

Aveo Newstead includes a selection of independent living apartments, including 8 penthouses, full serviced apartments, and a state-of-the-art residential aged care facility providing the peace of mind for residents knowing they may 'age in place'. The $250 million development sits alongside the upscale retail precinct Gasworks Newstead that includes restaurants, cafes, shops and a public plaza inside the heritage-listed gasometer. Aveo Newstead provides premium retirement living united with sophisticated residential aged care options above a vibrant urban village.





"... inner-city living with state-of-the-art community facilities."

The total community areas span 3,681sqm, a rooftop lounge with panoramic city skyline views on Level 19, floor-to-ceiling glass private dining room and a full floor community recreational and landscaped terrace areas on Level 5.

Aveo Newstead features an exclusive use community recreation area with views over Gasworks, landscaped gardens, an activity lawn and a wellness suite. On-site recreational amenities include a virtual golf simulator, an all-weather multipurpose activity lawn, a gymnasium specially designed for low impact exercise, a luxurious day spa, library, private movie theatre, a-la-carte restaurant, bar, business centre and a beauty salon. The wellness suite offers GP services and a wide range of allied health services. Residents can relax, improve their fitness and access professional services from GPs, podiatrists and massage therapists – all in one place.

Aveo Newstead residents have access to a tech bar complete with a 'Tech Angel', a staff member on-hand to help navigate those in need of support which includes anything from setting up their Google Home to configuring smart TVs and personal devices, and online learning programs.

Newstead enables residents to transition to long-term retirement living with state-of-the-art and sophisticated community living for seniors with long-term care options. Aveo Newstead's leading care and wellbeing services have been incorporated to ensure residents can 'age in place' over time. Aveo Newstead offers unrivalled flexibility with all the care needs necessary in one location, truly creating a community for life. Aveo Newstead offers residents and their families peace of mind as they move into this stage of life so if their health circumstances change, they do not have to relocate.

Case Study 2

"Retirement attitudes and needs are changing and people who are entering this stage of their life want to maintain their lifestyle."

Aveo Bella Vista – Sydney Norwest's Pearl in Retirement Living

Local waterside living and dining, first-rate recreation areas and high quality healthcare services are some of the features of the $400 million Aveo Bella Vista retirement community located within Sydney's Norwest. Aveo's Bella Vista $75 million 'Waratah' building is the first stage of this exciting community at Bella Vista. The new community represents the future of retirement living with modern, five-star facilities, the best in on-site health care and lifestyle living to ensure residents can 'age in place'.

Retirement attitudes and needs are changing and people who are entering this stage of their life want to maintain their lifestyle. Aveo Bella Vista is leading the charge to meet this demand by providing the best retirement living options on the market and providing the services and care for this market.

Aveo's Bella Vista is part of the exciting Norwest precinct and incorporates into the community's design beautiful gardens, a lake and a retail space which play an instrumental role in bringing the local community together.

Aveo Bella Vista's unrivalled location near Norwest Private Hospital, complemented by its on-site care services, offers the necessary services for seniors to 'age in place'.

Included within the integrated retirement community's first phase are a number of amenities comparable to a five-star hotel, ranging from a waterfront-dining restaurant and bar overlooking the newly formed lake to walking circuits that connect to gardens and fitness stations.

Other on-site additions include a snooker lounge, function rooms and a health and wellness suite which includes GP and allied health services such as podiatry, massage, physiotherapy and clinical care.

FIVE-STAR FACILITIES

AVEO BELLA VISTA
SYDNEY

Resident attestation:

Sisters Marilyn Blight and Lee Jones, owners of adjacent apartments within Aveo Bella Vista.

"What attracted me to come into Bella Vista was the difference – it was brand new and central to us ... it was a very easy decision for me to make," Lee Jones said. Marilyn's one-bedroom apartment is "unbelievable, it's so large and my bedroom is enormous. I just love this location, it is so close even from where we were – we can still do everything in our surrounds, it's just wonderful."

Case Study 3

“The additional amenities and holistic approach to retirement allow the communities to cater for all residents in different stages of their lives.”

Tanah Merah – New beginnings for Freedom Aged Care portfolio

The Aveo Freedom Aged Care Tanah Merah (Tanah Merah) retirement community received a $21 million new stage development during FY18, affirming our commitment as a retirement provider to invest in upgrades across the Freedom Aged Care portfolio.

The revitalisation and extension of the community at Tanah Merah meets the growing demands of Brisbane's ageing population. The upgrade provides new community amenities and services such as media rooms, hairdressing salon, gym, consulting rooms, a memory support unit and a sensory garden.

We invested thought into each aspect of the upgrade such as the 'memory node' space, which is dedicated to helping those with cognitive concerns; and a sensory garden to stimulate senses for those affected by dementia.

The Tanah Merah community covers 2.3 hectares and provides a full range of care and support services such as diversional therapists, highly qualified health professionals, palliative care and 24-hour personal care and nursing staff working around the clock to ensure residents receive the necessary support.

The additional amenities and holistic approach to retirement allow the communities to cater for all residents in different stages of their lives. Couples with different care needs can remain together, offering peace of mind and enabling couples and families to remain together longer. It's our commitment to 'aging in place'.

Sustainability

Aveo Group values

In 2017, the Group undertook a review and refresh of the organisation's values. This involved employee workshops, management sessions and the launch of a revised set of values that focus on innovation, accountability and serving the needs of our residents and communities.

Our Vision: To be Australia's leading and most innovative senior provider

Our Mission: To honour and serve our residents with Kindness, Care and Respect whilst living in our communities

Our Values: Kindness, Care, Respect – KCR

Retirement Living Communities (RLC)
Live well, live in comfort, live together

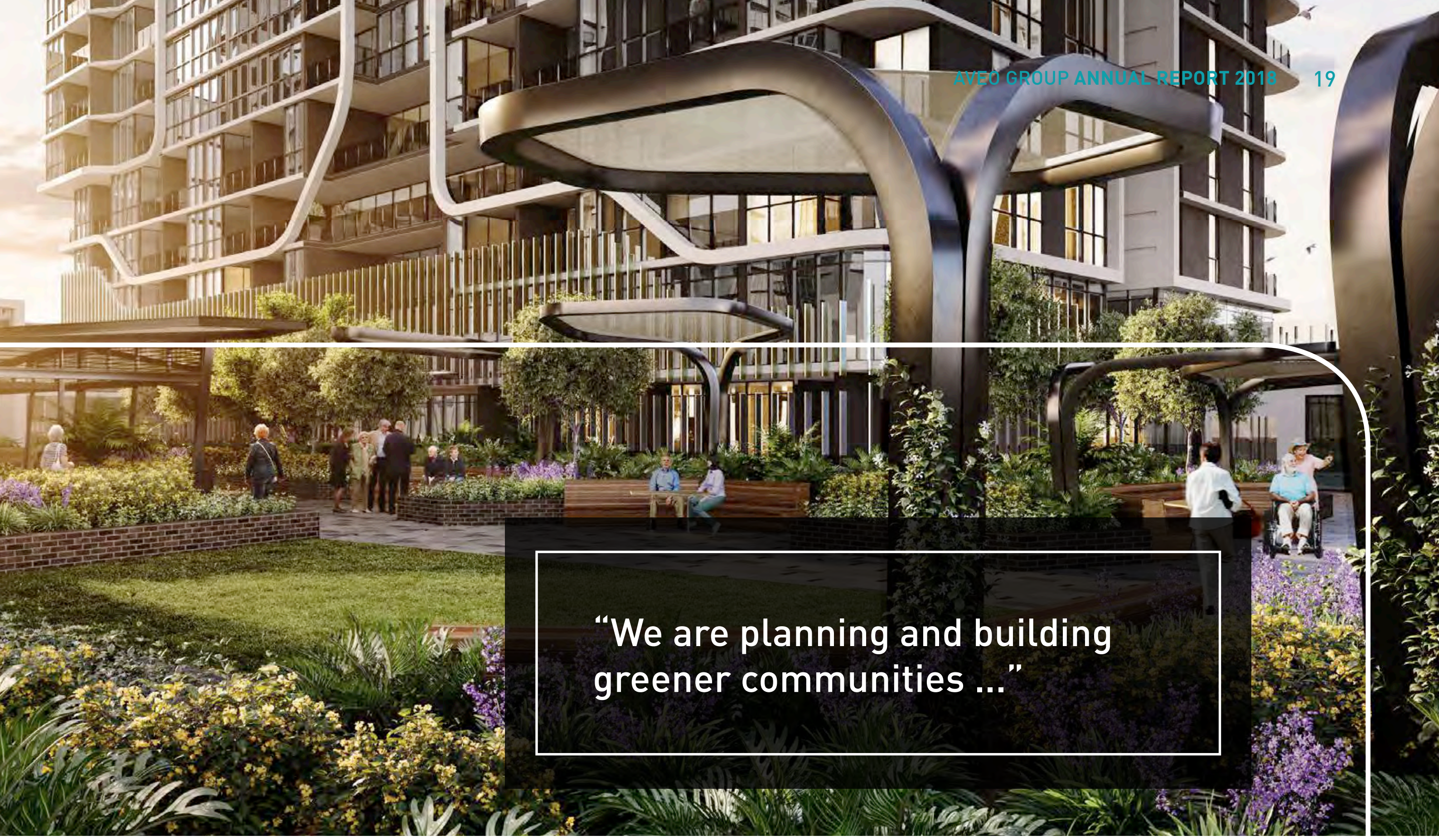
Home Care Communities (HCC)
Genuine alternative to a nursing home

Integrated Retirement Communities (IRC)
A community for life

It is Aveo's vision to be a leading, innovative provider of senior living. Central to this is a commitment to our residents and to the safe and respectful delivery of care. To this end, the Group's defined community offerings provide intending residents with a choice of community types and a platform for integration of comprehensive care and other services delivering on consumer requirements.

Further, the Group exercises leadership through commitment to the Retirement Living Council's eight-point plan and the imminent new Code of Conduct which will lead to a significant improvement in industry standards.

Aveo recognises the importance of operating in an ethical and sustainable manner, and is committed to delivering commercial success while championing the interests and experience of those living in our communities. The Group's commitment and approach to sustainability is outlined overleaf.



Commitment

Commitment to Sustainability

- Sustainability encompasses how Aveo conducts its business, now and in the future.
- We are committed to achieving commercial success in ways that honour our ethical values and treat people and communities with kindness, care and respect.

Approach to Sustainability

Approach to Sustainability

Our sustainability approach is aligned with our strategy to create long-term value for our key stakeholders. At Aveo we are guided by six key sustainability pillars:

- Our Communities
- Our Residents
- Our People
- Environment
- Economic
- Governance

The Group's commitment and approach to Governance is outlined further in the Corporate Governance Section on pages 22–25.

Sustainability Committee

- We have recently established a management Sustainability Committee to oversee our sustainability approach and to assist in monitoring our sustainability objectives.
- The Committee's role is to assist the Board and executive management in formulating the strategy, policy and actions required to achieve the Group's aspirations as a sustainable organisation.
- The Committee will focus on the six key sustainability pillars and our progress towards defining measurable metrics and goals for each pillar.

Key focus for 2019

We are committed to having our first sustainability report completed in compliance with a globally recognised standard for FY19 onwards.

Detailed on the following pages is an overview of the current initiatives underway within the Group with respect to the six key sustainability pillars described above.

Sustainability (cont)

Our Communities

Community Transformations and the development of integrated retirement communities

- During FY18, several of our communities underwent transformations with major refurbishments, including Tanah Merah, Robertson Park, Hunters Green, Bendigo and Coffs Harbour.
- Our new integrated vertical retirement community at Newstead in Brisbane sets a new benchmark in retirement living. See pages 10–13 of the Annual Report.
- We have put significant investment into building residences and care offerings in a holistic approach to cater for seniors at all stages of their lives. This is implemented through the design phase of our residences, so they are adaptable over time to allow residents to 'age in place'.
- Some of the design concepts include:
  - lining bathroom walls with plywood for future grab rails;
  - flush balcony transitions to assist flow in and flow out of residences;
  - simplified internal design, wide doorways and spacious ensuites;
  - use of sensor lighting where possible; and
  - intelligent storage options and soft-close doors and drawers for cabinets and in kitchens.

Project Pink

- Aveo is committed to supporting and raising awareness of diseases that impact the quality of life of our senior residents, the majority of whom are woman.
- This is demonstrated through Aveo's partnership with Project Pink.
- Project Pink is the initiative of the PA Research Foundation to raise much-needed funds for revolutionary breast cancer research.
- In 2017, our generous Aveo communities and partners around the country came together across 110 events to raise a total of $162,182 for Project Pink.
- Aveo Group matched this figure dollar for dollar, bringing the total amount raised to $324,364.
- Aveo will continue to raise awareness of breast cancer and fight against it.

Dementia awareness

- Dementia has debilitating effects on individuals and can be emotionally draining on families coping with the effects of the illness.
- Aveo has supported research being undertaken by an Australian University. This research focuses on healthcare strategies designed to enhance healthy ageing and provide greater knowledge to health professionals into evidence-based care for older people.
- Aveo is also committed to dementia friendly design principles in our new developments.

Good Health and Nutrition

- Our communities are more than just a way of life; we aspire to enhance and enrich people's lives.
- We recognise that maintaining optimal nutrition is essential as we age and good nutrition can ensure optimal health and wellbeing of our residents to maintain muscle strength, minimise the risk of disease and slow down the effects of ageing.
- In 2016, Aveo launched Nutrition Select for cooked to order meals and pre-prepared meals for over 65s.
- Aveo collaborated with Nutrition Professionals Australia for expert guidance on developing our ready meals offering, establishing nutritional guidelines for over 65s and assisting with the launch of the Nutrition Select program.
- Our initiatives in this field have been recognised in our nomination as a finalist in the National Retirement Living Awards 2018, in the award for Retirement Living Innovation.

Our Residents

Continued Improvement in Customer Offering

- Aveo's defined community offerings (IRC, RLC, HCC) provide intending residents with a choice of community types and a platform for integration of comprehensive care and other services delivering on consumer requirements.
- Aveo is continually refining its product offering to provide additional choice to new residents and recently announced a suite of further contract options to be rolled out from 1 September 2018 building on Aveo Way.

Complaint and Incident Handling Procedures

- During FY18, Aveo has improved and strengthened its own complaint and incident management handling procedures.
- Full implementation of a centralised risk and incident management tracking system completed in December 2017.

Industry leader through the Property Council of Australia's Retirement Living Council

- As a member of its Leadership Committee, Aveo has continued to work with the Property Council of Australia's Retirement Living Council on implementing all eight resolutions aimed at raising standards in the industry, including the imminent new Code of Conduct, which will lead to significant improvements in industry standards.

Business Improvement Initiatives

- Aveo has continued to implement measures designed to address the needs of our consumers, including pre-contract disclosure, independent mediation for all outstanding serious complaints and regular Resident Satisfaction surveys.

Our People

Diversity and Inclusion

- Aveo is committed to an inclusive workforce that embraces and promotes diversity and equality in the workplace.
- Aveo seeks to recruit from a rich, diverse pool of qualified candidates at all levels.
- Appointment is non-discriminatory, merit-based; and takes into account a number of factors such as achievements, experience, qualifications and the value an individual could bring to a role.
- All positions are advertised internally, so that all employees are provided with an equal opportunity for advancement.
- Aveo has set a key diversity objective of increasing the number of women employees in senior management roles to 35%.
- As at 30 June 2018, the proportion of women employees in the whole Group who held senior management positions (excluding Directors) was 38%.
- As at 30 June 2018, the number of women employed by Aveo Group was 75%.

Employee Engagement Surveys

- The Group undertakes annual Employee Engagement Surveys of its employees.
- The results of the Surveys are presented to the Nomination and Remuneration Committee.

Economic

Sustainable Securityholder distributions

- To ensure we continue to provide our securityholders with secure, stable and growing distributions from sustainable business practices.
- In 2013, Aveo announced its vision to become Australia's leading and most innovative senior living provider.
- FY18 was targeted as the year to complete the transition from diversified property to retirement and to achieve defined strategic goals.
- Aveo has achieved or exceeded all financial and non-financial strategic plan objectives in its transition to Retirement.
- Retirement assets now comprise 97% of Aveo's asset base.
- Aveo has transformed over the past five years to become a substantive healthcare organisation and continue to be Australia's most innovative retirement operator.
- A strategic review of Aveo Group's retirement portfolio and operations will examine options and various initiatives to close the value gap between the price of Aveo's listed securities and the underlying value of Aveo's retirement properties. The review will include an evaluation of the potential introduction of capital partners into the retirement business.
- Aveo Group will keep securityholders informed of relevant developments in relation to the strategic review.

Environment

Sustainable future for Environment

- During FY18, we undertook 700 residential unit refurbishments and upgraded the number of existing residential units and apartments to more energy efficient lighting and water devices to conserve water.
- We are planning and building greener communities and adopting industry 6-star green rating initiatives, where possible, during the development.
- We are focused on investing in new energy efficient and smart technologies; and new generation lifts that use less energy and have self-diagnostics technology that notifies service centres when a service is required, reducing breakdowns and entrapments.

Future Environment Sustainability goals include:

- Increasing solar polar initiatives to offset power usage in our community centres.
- Improving water irrigation savings through greater use of rainwater storage and grey water recovery.
- Trialling electric shared vehicles for new communities to reduce the need for car use and parking spaces whilst reducing carbon emissions.
- Upgrading to more energy efficient technologies that optimise power consumption, where possible.

Corporate Governance

The Board is responsible for the corporate governance of the Group and leads by example in setting high standards of ethical behaviour and overseeing Aveo's culture and values.

The full Corporate Governance Statement (**Statement**), which outlines key aspects of Aveo Group's corporate governance framework and practices, in addition to the Appendix 4G, was approved by the Board of Directors on 15 August 2018 and is available at **http://www.aveo.com.au/investor-centre/corporate-governance**

This Statement outlines the main corporate governance practices that have been in place for the FY18 financial year, and the extent to which the Group has followed the recommendations of the 3rd Edition of the ASX Corporate Governance Council's (**Council**) Corporate Governance Principles and Recommendations (the **Guidelines**).

The Board is also monitoring emerging developments in corporate governance and, in particular, the proposed 4th Edition of the Guidelines. The Board will continue to review these emerging developments as part of its ongoing assessment of the Group's governance practices.

The Guidelines set out the core principles and practices that the Council believes underlie good corporate governance, and all listed entities are required to disclose the extent to which they depart from the Guidelines. The Board of Directors continually reviews the governance framework and practices of the Group to ensure they meet the interests of securityholders.

The Aveo Group website also contains copies of the Board and Committee Charters, and key policies referred to in the Corporate Governance Statement.

Board of Directors

The Board currently comprises six Non-Executive Directors and the Executive Director (who is the Chief Executive Officer).

The members of the Board of Directors and the relevant business and management experience the Directors bring to the Board are detailed on pages 27 to 30 and available at **https://www.aveo.com.au/investor-centre/corporate-governance/board-of-directors/**

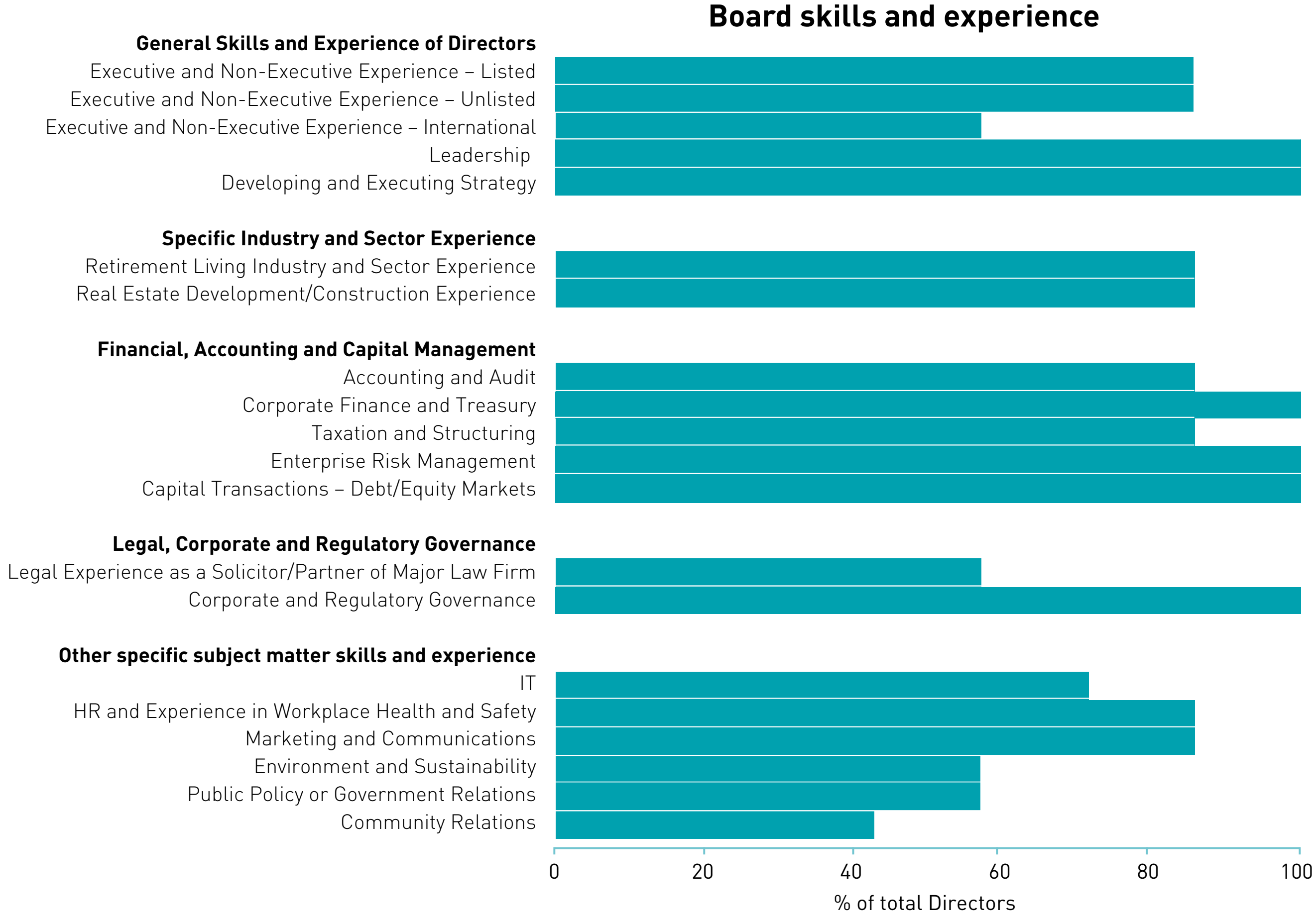
The Board considers the majority of the Directors who held office during the year to be independent.

"To manage risk and protect our securityholders through best practice governance processes and procedures."

Directors' skills and experience

The Board considers that its Directors and senior management have the combined skills and experience to discharge their respective obligations. The Board reviews its composition annually, including the mix of skills, experience, expertise and diversity of Directors and the Board to meet their ongoing obligations.

The current Board skills matrix is set out below.



The executive and professional experiences of the Aveo Directors are varied, with a mix of financial, accounting, risk, healthcare and legal backgrounds. Each of the skills that the Board believes are required are represented in the bar graph and the summary table below.

In preparing the current Board skills matrix, the Board has considered the level of experience of each Director in each category. While each Director has varying levels of skills and every Director does not possess each skill, the Board believes that collectively it possesses the skills required to discharge its duties to the Group. However, as the strategy for the Group evolves, the Board will annually review the skills and experience required. This will be supported through further education and training of Directors.

Corporate Governance (cont)

The following business experience and skills have been identified as being required to enable the Board to discharge its duties effectively and enable Aveo to deliver on its strategy. The Board will endeavour to maintain this mix of skills on the Board and build on them over time.

Skills/experience	Detail	Board Skills
Accounting and Audit	Experience with accounting and audit functions, including understanding the impact of accounting policies on Aveo	Yes
Corporate Finance and Treasury	Experience in managing finance and treasury functions	Yes
Enterprise Risk Management	Experience in identifying, monitoring and managing key risks to the organisation	Yes
Capital Transactions	Experience in managing capital transactions	Yes
Mergers, Acquisitions and Divestments	Experience in identifying and managing the process for mergers, acquisitions and divestments, including integration	Yes
Aged Care and Allied Health Services Provision	Understanding of the sector in which Aveo operates	Yes
Retirement Village Operations	Understanding of retirement village operations	Yes
Corporate and Regulatory Governance	Ability to identify key risks to the Group in a wide range of areas including legal and regulatory compliance, and monitor risk and compliance management frameworks and systems.	Yes
Human Resources and Remuneration	Experience in managing staff and developing remuneration and human resource frameworks	Yes

"The Board is responsible for the corporate governance of the Group and leads by example in setting high standards of ethical behaviour and overseeing Aveo's culture and values."

In addition to skills and experience, the Board also actively seeks to have a diverse Board representation and reviews diversity on a regular basis. The chart below demonstrates the diversity of the Board. While the Board is considering opportunities to improve its gender diversity, it has determined that it otherwise possesses a strong diversity mix to meet the needs of its current business and its strategy.

Aveo Group
2018 Financial Report

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Directors' Report

The Directors of Aveo Group Limited and the Directors of Aveo Funds Management Limited, the Responsible Entity of Aveo Group Trust, present their report together with the financial reports of the Group and of Aveo Group Trust for the year ended 30 June 2018 and the Auditor's Report thereon. The financial report of the Group comprises the consolidated financial report of Aveo Group Limited and its controlled entities including Aveo Group Trust and its controlled entities. The financial report of the Property Trust comprises the consolidated financial report of the Trust Group.

The meaning of defined terms is given in the Dictionary at page 137, which forms part of the Directors' Report.

DIRECTORS

The Directors of Aveo Group Limited and of Aveo Funds Management Limited during the financial year and up until the date of this report are as follows:

Director	Position	Period of Directorship
Current Directors		
S H Lee	Non-Executive Chairman	Full year
J E F Frayne	Non-Executive Director	Full year
E L Lee	Non-Executive Director	Full year
W L McDonald	Non-Executive Director	Full year
D P J Saw	Non-Executive Director	Full year
K W Lo	Non-Executive Director	Full year
G E Grady	Executive Director and Chief Executive Officer	Full year
Alternate Directors		
Current Directors		
G D Shaw	Alternate Director for S H Lee and E L Lee	Full year

Directors' Report (cont)

Information on Directors

S H Lee

Non-Executive Chairman (age 44)

Mr Lee joined the Board in February 2006 and was appointed as Chairman in February 2009. Mr Lee was educated at the University of Sydney in Australia and has wide experience in the financial services and real estate investment industry.

Mr Lee is currently the Group Executive Chairman of Sun Hung Kai & Co. Limited (appointed in January 2007), a company listed on The Stock Exchange of Hong Kong Limited. He is also the Deputy Chairman of Everbright Sun Hung Kai Company Limited, a leading financial services institution in Hong Kong (appointed in July 2015). Mr Lee is also Executive Chairman of Mulpha International Bhd (appointed in December 2003), a company listed on the Bursa Malaysia Securities Berhad.

J E F Frayne, *BCom, FCA, GAICD*

Non-Executive Director (age 71)

Mr Frayne joined the Board in July 2008. He has over 40 years' experience in chartered accountancy in audit and corporate services fields. Mr Frayne was appointed as a partner of PKF Chartered Accountants and Business Advisers (now BDO Chartered Accountants) in 1983 and from that time headed up the Audit and Assurance Division of PKF Brisbane until his retirement in June 2006. He is a Director of Black & White Holdings Limited and effective 1 July 2017, Mr Frayne was appointed as a Director of CFMG Equity and Income Limited, which is an unlisted public company.

Mr Frayne was appointed Chairman of the Audit and Risk Committee effective November 2017 and has been a member of the Nomination and Remuneration Committee since July 2012.

E L Lee, *Registered Accountant (Malaysia), CPA*

Non-Executive Director (age 51)

Mr Lee joined the Board in December 2012. He is currently the Executive Director for Mulpha International Bhd, the holding company of Mulpha Australia Limited, Aveo's largest single securityholder. Prior to joining Mulpha International Bhd, Mr Lee was the Executive Vice President of Alliance Financial Group. Mr Lee has also held various senior management positions, including 12 years at Microsoft as Chief Financial Officer of Greater China Region and Finance Director of Asia Pacific Region. He is a Director of Mudajaya Group Berhad (appointed in October 2012), a Director of Thriven Global Berhad (appointed in March 2016), a Director of Mulpha Australia Limited (appointed in November 2012) and a Director of Mulpha International Berhad (appointed in July 2017).

Mr Lee was appointed as a member of the Audit and Risk Committee in February 2013.

W L McDonald, *BEc, LLB (Hons)*

Non-Executive Director (age 61)

Mr McDonald joined the Board in August 2012. He is recognised as one of Australia's leading legal practitioners, with many years' experience in advising major government and corporate clients. Currently, Mr McDonald is a partner in the Corporate Division at Piper Alderman. Prior to this, Mr McDonald held various business management positions over a number of years as a Managing Partner at Clayton Utz in its National Corporate Division. During this time, Mr McDonald has gained experience across a wide range of areas of law including government, corporate, mergers and acquisitions, energy and resources, corporate finance, intellectual property, workout/recovery, major projects and technology, media and telecommunications.

Mr McDonald was appointed as Chair of the Nomination and Remuneration Committee effective June 2014.

D P J Saw, *B Econ, B.LLB*

Non-Executive Director (age 47)

Mrs Saw joined the Board in November 2016. Mrs Saw has more than 15 years' experience in senior roles in Australia and overseas, primarily in the areas in property and investment. Mrs Saw has worked as a senior executive in Babcock & Brown's infrastructure group in Sydney and London where she gained considerable experience in transaction structuring and execution for local and cross-border transactions, across various infrastructure asset classes. In addition, prior to this Mrs Saw was a member of the structured debt capital markets team at Deutsche Bank and was a solicitor in the banking and finance group at Mallesons Stephen Jacques (now King & Wood Mallesons). Mrs Saw is currently Managing Director – Corporate Services for Qualitas Property Partners where she is responsible for group operational risk management and compliance, as well as fund establishment and monitoring. Mrs Saw holds a Bachelor of Economics (Honours) and Bachelor of Laws (Honours) from the University of Sydney.

K W Lo, *FCCA, CPA, CGA, CFA, LLM*

Non-Executive Director (age 57)

Mr Lo joined the Board in February 2017. He has been engaged in the funds management business and practising law in New South Wales, Australia at Alliance Law Group since 2007. He previously served as Chief Investment Officer of Value Creation Inc from 2002 to 2007, Chief Executive Officer of Mreferral Corporation Ltd from 2000 to 2001, Chief Financial Officer of Midland Realty Ltd from 1999 to 2001, and Financial Controller of Lippo Ltd from 1992 to 1999. Mr Lo was appointed as a non-executive director of Medtech Group Company Ltd, a company listed in Hong Kong, in 2001. Mr Lo is a fellow of the Association of Chartered Certified Accountants of England, an associate of the Hong Kong Institute of Certified Public Accountants, an associate of the Chartered Professional Accountants of Canada, a chartered financial analyst of the CFA Institute of United States, holds a graduate diploma of Institute of Chartered Secretaries & Administrator of Australia. He is an associate member of the Law Society of New South Wales, Australia. Mr Lo obtained a Master's degree of Law from University of Sydney, Australia. Mr Lo was appointed as a Notary Public of New South Wales of Australia in 2012. He is also an independent director of OUE Limited (SGX-ST: "OUE"), a diversified real estate owner, developer and operator with a real estate portfolio located in prime locations in Asia and the United States.

Mr Lo was appointed as a member of the Audit and Risk Committee in February 2017.

G E Grady, *LLB (Hons), BCom, ACA*

Executive Director and Chief Executive Officer (age 59)

Mr Grady joined Aveo Group as Chief Operating Officer in March 2009. He was appointed as Executive Director and Chief Executive Officer of Aveo Group in July 2013. He has also worked as a partner of KPMG. Mr Grady holds degrees in commerce and law with honours from the University of Queensland. He is a chartered accountant and a solicitor of the Supreme Court of Queensland. Mr Grady is also the Chairman of Aveo Healthcare Limited (appointed in March 2014).

G D Shaw

Alternate Director (age 58)

Mr Gregory (Greg) Shaw joined Mulpha Australia Limited as Chief Executive Officer ("CEO") and Executive Director in April 2017 and Mulpha International Berhad (a company listed on the Malaysian stock exchange) as CEO in December 2017. He holds a Bachelor of Commerce and is an Australian Chartered Accountant. Mr Shaw was appointed as Alternate Director for Mr Seng Huang Lee and Mr E Lee in December 2016. His working experience includes CEO of Ardent Leisure Group a publicly listed stapled entity.

Directors' Report (cont)

COMPANY SECRETARY

A A Wyke, *BEc, Dip in Law, FGIA FCIS*

Ms Wyke joined Aveo Group to the position of Company Secretary in June 2017. Ms Wyke is an experienced governance professional with over 15 years of legal, compliance and company secretarial experience obtained through the funds management sector, primarily in property and financial services, as well as not-for-profit sectors.

DIRECTORS' MEETINGS

The number of meetings of Directors (including meetings of committees of Directors) held during the year and the number of meetings attended by each Director was as follows:

	Directors' Meetings		Board Sub Committee[3] Meetings		Audit and Risk Committee Meetings		Nomination and Remuneration Committee Meetings	
	Held[1]	Attended[2]	Held[1]	Attended[2]	Held[1]	Attended[2]	Held[1]	Attended[2]
S H Lee	10	10	–	–	–	–	2	2
J E F Frayne	11	10	2	2	5	5	2	2
E L Lee	10	10	–	–	5	5	–	–
K W Lo	11	10	–	–	5	5	–	–
W L McDonald	11	11	–	–	–	–	2	2
D Saw	11	11	–	–	–	–	–	–
G E Grady	11	11	2	2	–	–	2	2

1. *Reflects both full Board meetings and meetings of independent Directors.*
2. *Reflects the number of meetings attended by the Director or his alternate.*
3. *During the year, the Board established and delegated responsibility to a Board Sub Committee for the purposes of approving the release of the financial results for the Group.*

Committee membership

As at the date of this report, the Group has an Audit and Risk Committee and a Nomination and Remuneration Committee.

Members acting on the Committees of the Board at the date of this report were:

Audit and Risk	Nomination and Remuneration
J E F Frayne (Chairman)	W L McDonald (Chairman)
E L Lee	J E F Frayne
K W Lo	S H Lee

PRINCIPAL ACTIVITIES

The principal activities of the Group during the course of the financial year were:

- investment in, and development and management of, retirement villages;
- development for resale of land and residential and retail property;
- investment in, and management of, income producing retail, commercial and industrial property; and
- funds and asset management.

There have been no significant changes in the nature of these activities during the year.

REVIEW AND RESULTS OF OPERATIONS

FY14 – FY18 in review

In 2013, Aveo announced its vision to become Australia's leading and most innovative senior living provider. The Group targeted FY18 as the year to complete its transition from a diversified property group to a pure retirement group and to achieve defined strategic plan targets.

Aveo has achieved or exceeded all financial and non-financial strategic plan objectives in its transition to retirement:

- return on assets targets in FY16 and FY18;
- delivery of 500 plus new product in FY18;
- sell-down of Non-Retirement assets at or above book value; and
- consistently high resident satisfaction with a resident satisfaction rating of 84% in 2018.

Retirement assets now comprise 97% of Aveo's asset base.

Aveo has transformed over the past five years to not only evolve as a leading, innovative retirement group but also as a substantive healthcare organisation.

The wellbeing of its residents remains the Group's highest priority. The high levels of satisfaction that they express for the retirement communities that Aveo is creating for them – especially with innovative healthcare services enabling them to age in their own homes – means the Group is well positioned to evolve to the next stage of its development.

While achieving all its objectives, and despite achieving record profit levels, Aveo's Securities Price is currently trading well under net tangible assets per Security due to concerns around sustainable sales levels and perceived further industry regulatory risk.

Aveo today announces a strategic review of its retirement business to examine the strategic options (including potential capital partners) to enable it to evolve to the next stage of its development.

Directors’ Report (cont)

Strategic review

Aveo has achieved all its strategic goals over the FY14 – FY18 period and has a demonstrated track record of innovation and understanding, and addressing, consumer expectations. Aveo has experienced strong positive earnings growth over a five-year period as demonstrated in its FY18 result.

The Board considers that the market is significantly undervaluing Aveo’s market leading retirement business:

- Aveo currently trades at a 44% discount to net asset value[1]; and
- Aveo trades on a FY19 earnings yield of more than 9%[1].

The Board also takes the view that the factors likely impacting the current discount to NTA (risks around sustainable sales levels including the current state of the residential market, further regulatory risk and the class action) are outweighed by the strong medium to long term growth prospects for the sector and the position that Aveo occupies within it.

The strategic review will focus on closing the value gap between the price of Aveo’s listed securities and the underlying value of Aveo’s retirement properties. It will include the possibility of the introduction of capital partners (Australian or overseas) into the retirement business.

The Board is currently finalising mandate arrangements for the advisory role and it is expected an announcement will be made by next Friday, 24 August 2018.

Key results

Key outcomes of the Group’s 30 June 2018 results are:

Outcome	FY18	FY17	Change
Statutory profit after tax[1]	$365.1m	$252.8m	44%
Statutory EPS	63.3 cps	44.2 cps	43%
Underlying profit after tax[2]	$127.2m	$108.4m	17%
Underlying EPS	22.0 cps	18.9 cps	16%
Retirement Established Business settlements	622	1,008	(38%)
Retirement Development settlements	352	234	50%
Total Retirement settlements	974	1,242	(22%)
Non-Retirement settlements	469	745	(37%)
FFO[3]	$115.4m	$163.9m	(30%)
AFFO[3]	$97.4m	$136.2m	(28%)
Distribution	$51.9m	$52.0m	–
DPS	9 cps	9 cps	–
Total assets	$6,715.6m	$5,955.1m	13%
Net assets	$2,298.1m	$1,978.7m	16%
NTA per security	$3.92	$3.37	16%

1. Net profit after tax attributable to stapled security holders of the Group.
2. Reconciliation of statutory profit to underlying profit is given below.
3. FFO and AFFO reflect Property Council of Australia guidelines. They are reconciled to underlying profit after tax below.

1. Based on 14 August 2018 closing Securities Price.

Second half Retirement Established Business and Retirement Development settlements were higher than in the first half of FY18. There was a 50% increase in Development sales as development deliveries increased.

The increase in statutory profit was driven by fair value uplifts in the Retirement portfolio and the sale of the Gasworks complex.

Underlying profit after tax increased by 17%, driven mainly by the delivery of 506 new units and the Newstead development achieving higher than expected margins.

The FFO result was in line with FY18 settlements.

NTA per security increased to $3.92, up 16% from FY17.

Financial results

Profit and Loss	FY18 ($m)	FY17 ($m)	Change
Retirement			
Established Business	61.1	73.8	(17%)
Development[1]	79.0	25.2	213%
Care and Support Services	0.8	1.7	(53%)
Total Retirement	**140.9**	**100.7**	**40%**
Non-Retirement[1]	50.5	62.7	(19%)
Divisional contribution[1]	**191.4**	**163.4**	**17%**
Group marketing costs	(3.6)	–	NM
Group overheads and incentive scheme	(17.9)	(18.7)	(4%)
EBITDA	**169.9**	**144.7**	**17%**
Depreciation and amortisation	(3.0)	(3.4)	(12%)
EBIT	**166.9**	**141.3**	**18%**
Interest and borrowing expense	(4.3)	(1.9)	126%
Profit Before Tax	**162.6**	**139.4**	**17%**
Income tax	(35.1)	(30.7)	14%
Profit After Tax	**127.5**	**108.7**	**17%**
Non-controlling interests	(0.3)	(0.3)	–
Underlying profit after tax[2]	**127.2**	**108.4**	**17%**
Gain on acquisition of RVG	–	52.6	NM
Change in fair value of investment properties	177.0	93.8	89%
Sale of Gasworks	53.7	–	NM
Other	7.2	(2.0)	NM
Statutory profit after tax	**365.1**	**252.8**	**44%**

1. Includes capitalised interest in cost of goods sold.
2. The principles underlying the calculation of underlying profit are discussed below.

Directors' Report (cont)

The Retirement result increased by 40% and amounted to 74% of overall divisional contribution. The Established Business profit contribution was impacted by lower resales, which continue to show signs of improvement. The growth in the Retirement Development contribution was due to an increase in the number of units delivered as well as better than expected margins on the delivery of the Newstead retirement community. Revenue growth for Care and Support Services was offset by upfront costs of the new Durack and Newstead RACFs.

Non-Retirement profit reduced with lower sales volumes in line with the Group's sell down strategy.

Group marketing costs were invested in an extensive corporate brand campaign.

In the opinion of the Directors, the Group's underlying profit reflects the results generated from ongoing operating activities and is calculated in accordance with AICD/Finsia principles. The non-operating adjustments outlined above are considered to be non-cash or non-recurring in nature. These items are included in the Group's consolidated statutory result but excluded from the underlying result.

The variance between statutory and underlying profit was largely driven by revaluations of Retirement investment properties and the sale of the Gasworks complex.

Retirement

Key Performance Indicators	FY18	FY17	Change
Segment review			
Established Business	$164.3m	$204.1m	(20%)
Development	$394.4m	$165.7m	138%
Care and Support Services	$42.0m	$15.7m	168%
Total Retirement revenue	**$600.7m**	**$385.5m**	**56%**
Profit contribution			
Established Business	$61.1m	$73.8m	(17%)
Development[1]	$79.0m	$25.2m	213%
Care and Support Services	$0.8m	$1.7m	(53%)
Total Retirement contribution	**$140.9m**	**$100.7m**	**40%**
EBIT contribution			
Established Business	$60.6m	$71.7m	(15%)
Development	$81.3m	$27.1m	200%
Care and Support Services	($0.9m)	$1.1m	NM
Total Retirement EBIT	**$141.0m**	**$99.9m**	**41%**
Sales Volumes (units)			
Established Business sales	622	1,008	(38%)
Development sales	352	234	50%
Total	**974**	**1,242**	**(22%)**
Total value of units transacted	$457.4m	$487.8m	(6%)

1. Development profit is accounted for in the change in fair value of retirement investment property.

Total Retirement revenue increased by 56% driven by higher revenue contributions in both the Development and Care and Support Services segments. Development sales increased as minor development units, major development units and new units, predominantly delivered at Newcastle and Newstead, continued to sell down.

Development profit was further boosted by higher than expected margins at Newstead. The decrease in the Established Business volumes and revenue was negated by a focus on cost management.

The initial costs associated with opening the new Durack and Newstead RACFs offset the performance across other RACFs.

Established Business

Established Business	FY18	FY17	Change
Revenue			
DMF/CG revenue			
Resales	$55.3m	$85.1m	(35%)
Operating buyback purchases	$25.2m	$25.0m	1%
Freedom conversion	$3.0m	$4.9m	(39%)
Gross DMF/CG	$83.5m	$115.0m	(27%)
Other revenue			
Buyback sales	$60.2m	$69.5m	(13%)
Other[1]	$20.6m	$19.7m	5%
Total other revenue	$80.8m	$89.1m	(9%)
Total revenue	**$164.3m**	**$204.1m**	**(20%)**
Profit contribution			
Net DMF/CG[2]	$75.0m	$105.7m	(29%)
Net buyback sales	$3.4m	$7.3m	(53%)
Other income[1]	$20.6m	$19.7m	5%
Marketing expenses	($9.1m)	($14.0m)	(35%)
Commission expenses	($4.7m)	($5.4m)	(13%)
Other expenses[3]	($24.1m)	($39.5m)	(39%)
Total profit contribution	**$61.1m**	**$73.8m**	**(17%)**
Depreciation and amortisation	($0.5m)	($2.1m)	(76%)
EBIT	**$60.6m**	**$71.7m**	**(15%)**

1. Includes resident commissions, community administration fees and US Seniors.
2. Relates to resales, operating buyback purchases and Freedom conversion.
3. Relates to overhead and other expenses.

DMF/CG revenue and profit contribution was in line with sales volumes.

Lower expenses were partly due to lower commission costs in line with sales volumes.

Management has continued to focus on general cost control leading to lower FY18 costs.

Directors' Report (cont)

Established Business sales

Sales	FY18	FY17	Change
DMF/CG generating transactions			
Resales	436	782	(44%)
Operating buyback purchases	298	309	(4%)
Freedom conversion[1]	65	86	(24%)
Total DMF/CG generating transactions	**799**	**1,177**	**(32%)**
Operating buyback purchases composition			
Discretionary	120	214	(44%)
Internal transfers	24	22	9%
Mandatory	154	73	111%
Total operating buyback purchases composition	**298**	**309**	**(4%)**
Sales settlements			
Resales	436	782	(44%)
Buyback sales	186	226	(18%)
Total sales settlements	**622**	**1,008**	**(38%)**
Net buybacks[2]	**112**	**83**	**35%**
Other metrics			
Deposits on hand	67	107	(37%)
Portfolio sales rate[3]	7.5%	10.9%	(3.4%)
Occupancy	90%	93%	(3%)

1. Sale of Freedom conversion units shown in Minor Developments.
2. Operating buyback purchases less buyback sales.
3. Excludes new units sold within the last five years and includes Freedom minor development sales.

Established Business generates its profits through the resales of existing units to new residents, the buyback and sale of units to new residents and the buyback of Freedom conversion units. Units bought back under the Freedom conversion process undergo major refurbishment and are sold as part of the Minor Development business.

The long-term portfolio sales rate is expected to be 10%–12%. Occupancy dropped marginally in line with FY18 portfolio sales rate.

14 units were bought back under the Aveo Way six-month money back guarantee in FY18 (within six months of settlement). 33 units were bought back under the Aveo Way six-month buyback guarantee.

Established Business sales margins

Sales Margins	FY18	FY17	Change
Resales			
Avg DMF/CG transaction value	$442k	$394k	12%
Avg DMF/CG margin per transaction	$127k	$109k	17%
DMF/CG margin per transaction	29%	28%	1%
Operating buyback purchases and Freedom conversion			
Avg DMF/CG transaction value	$308k	$288k	7%
Avg DMF/CG margin per transaction	$78k	$76k	3%
DMF/CG margin per transaction	25%	26%	(1%)
Overall DMF/CG generating transactions			
Avg DMF/CG transaction value	$381k	$358k	6%
Avg DMF/CG margin per transaction	$104k	$98k	6%
DMF/CG margin per transaction	27%	27%	–
Operating buyback sales			
Avg transaction value	$324k	$307k	5%
Avg margin per transaction	$18k	$31k	(42%)
Avg margin % per transaction	6%	10%	(4%)

The realised average transaction value continued to grow which resulted in a higher average DMG/CG amount per transaction. However, the overall DMF/CG margin across DMF/CG generating transactions remained steady.

The Aveo suite of contracts continues to be adopted throughout the portfolio, which will contribute to margin growth as those residents sell their units.

An additional 593 units are now on Aveo Way contracts compared to FY17.

Development

Development	FY18	FY17	Change
Revenue	$394.4m	$165.7m	138%
COGS	($274.3m)	($126.5m)	117%
Gross profit	**$120.1m**	**$39.2m**	**206%**
Marketing expenses	($16.3m)	($8.4m)	94%
Other expenses[1]	($24.8m)	($5.7m)	335%
Profit contribution	**$79.0m**	**$25.2m**	**213%**
Interest in COGS	$2.4m	$1.9m	26%
Depreciation	($0.1m)	–	NM
EBIT	**$81.3m**	**$27.1m**	**200%**
Development profit on aged care facilities[2]	$17.6m	$5.9m	198%
EBIT for ROA purposes	**$98.9m**	**$33.0m**	**200%**

1. Relates to overhead and other expenses
2. Aged care facilities are carried at cost on the balance sheet; the notional development profit is shown for ROA purposes only

Directors' Report (cont)

The significant lift in gross profit was associated with the delivery of 506 new major development units predominantly across the new Newcastle, Newstead and Bella Vista retirement communities and an increased sales rate of minor development Freedom original and conversion units.

Development EBIT was impacted by an upfront investment in marketing and overhead costs related to future sales. Additional overhead was incurred to facilitate the accelerated rollout of the successful Freedom conversion program.

The development profit on aged care facilities is added to EBIT for return on asset calculation purposes and was based on the market value of the Newstead RACF (prior year Durack RACF).

Major Development sales and margins

Major Development	FY18	FY17	Change
Deliveries and sales			
Units delivered	506	266	90%
Units sold	225	154	46%
Revenue and margin			
Average transaction value	$652k	$520k	25%
Revenue	$329.8m	$138.2m	139%
Average margin (including interest)	28%	19%	9%
Average margin (excluding interest)	29%	20%	9%
Gross profit (including interest)[1]	$92.3m	$26.3m	251%
Gross profit (excluding interest)[1]	$94.7m	$28.2m	236%
Units available for sale			
Closing units	570	289	97%
Average price of units	$608k	$542k	12%
Total value of units	**$346.8m**	**$156.6m**	**121%**
Other metrics			
Deposits on hand	17	29	(41%)
Redevelopment buyback purchases	45	85	(47%)

1. Includes profit adjustments from FY17 deliveries where actual sales prices were higher or lower than expected and actual expenses were higher or lower than expected.

Major Development generates its profits through the recognition of new units that are delivered at values above cost. The Group successfully delivered 506 new major units, with 456 deliveries in the second half, predominantly at the Newstead, Bella Vista and Tanah Merah retirement communities.

Margins (before interest) exceeded the target range of 16%–20%. Average transaction values were driven up by premium product at Newstead and Bella Vista.

Minor Development sales and margins

Minor Development	FY18	FY17	Change
Deliveries and sales			
Units sold	127	80	59%
Revenue and margin			
Average transaction value	$508k	$343k	48%
Revenue	$64.6m	$27.5m	135%
Average margin (including interest)	43%	47%	(4%)
Average margin (excluding interest)	43%	47%	(4%)
Gross profit (including interest)	$27.8m	$12.9m	116%
Gross profit (excluding interest)	$27.8m	$12.9m	116%
Units available for sale			
Closing units	329	392	(16%)
Average carrying value of units[1]	$107k	$79k	35%
Carrying value of units[1]	$76.9m	$66.4m	16%
Other metrics			
Deposits on hand	5	59	(92%)

1. Includes units to be converted which are not yet available.

Minor Development sales consist of Freedom units undergoing substantial refurbishment and units being converted to the Freedom model. The average margin achieved represents the value added through the inclusion of Freedom services and refurbishment works undertaken. Minor development margins (pre-interest) exceeded the target range of 35%–40%.

Sales increased by 59% from 80 in FY17 to 127 in FY18. The significant improvement in transaction price to $508,000 per unit is indicative of the pricing premium attached to units with comprehensive care services.

Directors' Report (cont)

Development update

Construction is on schedule for the 418 major unit deliveries for FY19, with a majority of projects underway or expected to commence shortly:

Community	H1 Target Delivery	H2 Target Delivery	Total FY19 Units	Development Status
Hunters Green	–	49	49	Civil works well underway with completion due early August. Build works have been tendered and currently in the final stages of contract execution.
Island Point	16	–	16	All structural elements have been completed and internal plastering works are well advanced. Waterproofing works are scheduled to be completed shortly and tiling works to living and kitchen areas have commenced.
Newcastle	–	45	45	Civil works largely complete and home builder is on site with slabs poured to 20 units. Framing, roofing and brickworks are well underway.
Robertson Park	–	32	32	Bulk earthworks, shoring and civil hydraulic works are progressing well as is works on the basement slab, concrete columns and basement retaining walls.
Launceston	–	15	15	Contract now executed. Works expected to start once building permit is obtained.
Springfield	48	–	48	Communal areas are largely complete. Unit defects are currently being rectified.
Morayfield	–	40	40	The site has been cleared and the building platform established ready to commence diversions of existing site services. Works will commence once final plumbing approval is received.
Carindale	–	97	97	Building 1 basement slab and ground floor decks poured, ground floor columns being formed up. Building 2 ground floor is poured and level 1 deck being formed up.
Redland Bay	–	38	38	All concrete works have been completed and framing and joinery are underway. Works on the display unit are progressing well.
Palmview	–	38	38	Civil contractor appointed, and on site with work due for completion in September 2018. Building construction has been tendered for Stage 1 (38 ILUs) and the community centre.
Total Major Development	64	354	418	
Total Minor Development	70	110	180	
Total	**134**	**464**	**598**	

The Group's Major Development pipeline stands at 5,061 units. Major sites include Springfield (2,326 units), the Carindale redevelopment (430 units), Bella Vista (400 units), the Newmarket redevelopment (258 units) and Newcastle (250 units). The pipeline for minor development is 721 units.

Care and Support Services

Care and Support Services	FY18	FY17	Change
Revenue			
RACF	$17.8m	$11.0m	62%
Allied Health	$0.7m	$0.2m	250%
Food and Nutrition	$21.0m	$3.5m	500%
Other	$2.5m	$1.0m	150%
Total revenue	**$42.0m**	**$15.7m**	**168%**
Profit contribution			
RACF	$2.2m	$2.6m	(15%)
Allied Health	$0.5m	$0.2m	150%
Food and Nutrition	($0.3m)	$0.9m	NM
Home Care	($0.5m)	$0.2m	NM
Other	($0.2m)	–	NM
Other expenses[1]	($0.9m)	($2.2m)	59%
Total profit contribution	**$0.8m**	**$1.7m**	**(53%)**
Depreciation and amortisation	($1.7m)	($0.6m)	183%
EBIT	**($0.9m)**	**$1.1m**	**NM**

1. Relates to overhead and other expenses.

Aveo's aged care portfolio consists of five facilities with a total of 406 beds. Currently, average occupancy across the mature facilities[2] is 97%.

Durack's 123 bed RACF opened in July 2017 and was fully occupied by 31 March 2018. The Newstead RACF opened in May 2018 and occupancy is increasing in line with expectations. Occupancy is now 100% at Durack and 16% at Newstead, with full occupancy expected by March 2019.

Revenue per occupied bed day achieved across the mature facilities[2] has decreased from $272 to $261 due to lower acuity residents at Durack. Staff costs as a percentage of revenue increased from 60% to 63% due to the ramp up of occupancy at Durack during the year. Upfront costs associated with the ramp up of the new Durack and Newstead facilities impacted on total RACF contribution.

The increase in depreciation and amortisation was due to the new Durack and Newstead facilities.

The allied health and food and nutrition services operate around breakeven levels, while improving the overall resident experience.

The care offering is complemented by the start of the Aveo Care at Home business, which will expand the availability of traditional home care services to all Aveo communities and provide a referral network and sales channel.

The RACF development pipeline stands at 850 beds.

2. Excluding the Newstead RACF that opened May 2018.

Directors' Report (cont)

Non-Retirement

Key Performance Indicators	FY18	FY17	Change
Contracts on hand	183	396	(54%)
Contracts on hand ($m)	$80.3m	$160.0m	(50%)
Residential land lots held	738	1,265	(42%)
Inventories	$95.2m	$170.3m	(44%)
Investment properties	–	$181.5m	NM
Property, plant and equipment	$3.3m	$3.8m	(13%)
Total non-retirement assets	**$98.5m**	**$355.6m**	**(72%)**
Non-retirement assets as percentage of divisional assets	3%	13%	(10%)

Non-Retirement	FY18	FY17	Change
Sales revenue	$177.6m	$255.7m	(31%)
COGS	($128.1m)	($189.7m)	(32%)
Gross profit	**$49.5m**	**$66.0m**	**(25%)**
Marketing expenses	($2.0m)	($3.4m)	(41%)
Other expenses[1]	($5.7m)	($8.7m)	(34%)
Development profit contribution	**$41.8m**	**$53.9m**	**(22%)**
Net rental income	$8.7m	$8.9m	(2%)
Total profit contribution	**$50.5m**	**$62.7m**	**(20%)**
Residential land lot sales	466	729	(36%)
Average margin	28%	26%	2%

1. Relates to overhead and other expenses.

Non-Retirement assets continue to sell down in line with strategy.

The change in profit contribution primarily related to lower numbers of land lot sales.

Presales remain at 47%.

Three non-residential lots were sold during the year.

The sale of Gasworks leaves the residential land estates as the last material Non-Retirement assets.

Capital management

Capital management metrics

Capital Management Metrics	FY18	FY17	Change
Reported gearing[1]	16.8%	16.9%	0.1%
Group ICR (>1.5)	5.8x	7.2x	(1.4x)
Gross interest bearing liabilities	$691.1m	$573.1m	21%
Less: cash	$71.0m	$47.6m	51%
Net debt	$620.1m	$525.5m	18%
Undrawn committed lines and cash at bank[1,2]	$87.0m	$195.9m	(56%)
Proforma undrawn committed lines and cash at bank[1,3,4]	$165.7m	NA	NA
Weighted average AUD borrowing cost	3.8%	3.4%	0.4%
Weighted average total borrowing cost[4]	4.3%	NA	NA
Weighted average debt maturity	2.1 years	2.8 years	(0.7 years)
Proforma weighted average debt maturity[3,4]	3.0 years	NA	NA

1. Adjusted for The Milton 50% cash at bank.
2. Undrawn facilities are dependent on having sufficient security.
3. Adjusted for changes to the Aveo Group syndicated facility and Aveo Healthcare facility post 30 June 2018.
4. Includes all debt, whether funded in Australian or United States dollars.

The sale of Gasworks 3 is on track to settle in September 2018.

After reporting date, the Group's syndicated facility limits were increased by $77.5 million to $630 million and the facility maturity was extended to July 2021, and the Aveo Healthcare facility maturity was extended to March 2020.

The weighted average Australian dollar borrowing cost increase was due to increased market base rates. Australian dollar denominated debt remains unhedged, whilst United States dollar denominated debt comprises fixed rate loans.

Directors' Report (cont)

FFO and AFFO

Contribution to Group AFFO	FY18 ($m)	FY17 ($m)	Change
Underlying profit after tax[1]	**127.2**	**108.4**	**17%**
Major Development			
Profit recognised on delivery	(92.3)	(26.3)	251%
Profit that would be recognised on settlement	33.7	8.6	292%
Profit adjustment on settled basis	**(58.6)**	**(17.7)**	**231%**
Tax impact	16.6	5.3	213%
Adjusted underlying profit after tax	**85.2**	**96.0**	**(11%)**
Profit from equity-accounted investments	(0.6)	0.4	NM
Depreciation	3.0	3.4	(12%)
Capitalised interest and amortisation[3]	9.3	38.6	(76%)
Deferred income tax expense	18.5	25.4	(27%)
Funds from operations (FFO)[2]	**115.4**	**163.9**	**(30%)**
Capex	(18.0)	(27.7)	(35%)
Adjusted FFO (AFFO)[2]	**97.4**	**136.2**	**(28%)**

1. *Underlying profit has been calculated as per the AICD Underlying Profit Guidelines.*
2. *FFO and AFFO reflect Property Council of Australia Guidelines.*
3. *Net adjustment consisting of capitalised interest, capitalised interest in cost of sales and other.*

Underlying profit reflects Retirement Development deliveries, which are adjusted to reflect settlements in calculating FFO and AFFO. $92.3 million (506 units) of profit recognised on delivery is deducted and $33.7 million (225 units sold) of profit on settlement is added to provide a result based on settlements.

The decrease in the capitalised interest and amortisation adjustment was driven mainly by a reduction in Non-Retirement sales (lower capitalised interest in cost of sales) and increased development activity (increase in capitalised interest).

Risk

There are a number of risks that could affect the Group's future performance. These include:

- A downturn in the Australian property market could reduce growth in average transaction price points and consequently average DMF/CGs. This risk is partly mitigated by the Group's introduction of the improved Aveo Way contract terms.
- Such a downturn could also reduce the Groups' ability to sell its retirement and non-retirement developments. This risk could be partly mitigated by the Group reducing the rate of development.
- Development margins could be affected by construction delays and cost increases. Wherever possible, the Group controls this risk through fixed price contracts and by including early completion bonuses and/or late completion penalties in its construction contracts. The Group also carefully monitors development progress through regular management review.
- The Group may experience difficulties in executing its strategy to improve revenue from the Established Business by expanding the Freedom product offering to existing Aveo villages.

Outlook

Aveo's sales performance has improved throughout the year and weekly sales rates are now performing in line with the fourth quarters of FY17 and FY18. Despite a slowdown in the residential property market, Aveo weekly sales rates post the FY18 recovery remain steady. While the state of the residential market is a factor in total sales, other drivers such as the quality of the offer are more important. A further update on FY19 trading will be provided at the Group's annual general meeting in November 2018.

Aveo has successfully delivered on its FY18 retirement strategy targets. It remains focused on furthering its position as the leading and most innovative seniors living provider to deliver further growth and value:

- the sales rate is expected to return to normalised levels i.e. over 10%;
- Aveo is on track to deliver 418 major development units in FY19;
- it is focused on selling new units and reinvesting capital into development and growth; and
- it is also focused on continuous improvement and innovation to provide better living options for senior Australians.

Based on current market conditions, the Directors confirm FY19 EPS guidance of 20.4 cps. The Group is targeting an FY19 full year distribution amount based on a payout range of 40% - 60% of underlying profit.

STATE OF AFFAIRS

There have been no material changes in the state of the Group's affairs since the date of the last report, other than as disclosed in this report and the accompanying financial statements.

DIVIDENDS AND DISTRIBUTIONS

Distributions paid or declared by the Group to securityholders since the end of the previous financial year were:

Distribution	Cents per security	Total amount $m	Date of payment
Final 2017	9.0	52.0	29 September 2017
Final 2018	9.0	51.9	29 September 2018

The FY18 distribution is 41% of underlying profit after tax and 54% of adjusted funds from operations. The distribution is in line with the Group's policy of distributing between 40% and 60% of underlying profit after tax.

ENVIRONMENTAL REGULATION

The Group undertakes property development in various states in Australia. It is subject to legislation regulating development. Consents, approvals and licences are generally required for all developments, and it is usual for them to be granted subject to conditions. The Group complies with these requirements by ensuring that all necessary consents, approvals and licences are obtained prior to any project being commenced, and consents, approvals and licences are implemented in order to ensure compliance with conditions. To the best of the Directors' knowledge, all projects are being, and have been, undertaken in compliance with these requirements.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Commentary on likely developments and expected results of operations of the Group are included in this report under *Review and Results of Operations*.

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this report because the Directors believe it would be likely to result in an unreasonable prejudice to the Group.

Directors' Report (cont)

REMUNERATION REPORT

The Remuneration Report set out on pages 49 to 67 provides details of the remuneration and equity holdings of the Directors and Key Management Personnel, including details of options issued or exercised during the financial year, or outstanding at the date of this report, and forms part of the Directors' Report.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

No matters or circumstances have arisen since the end of the financial year and up until the date of this report, which significantly affect or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent years.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITOR

Indemnification

Pursuant to the Constitutions of the Parent and the Responsible Entity, all Directors and Company Secretaries (*Officers*), past and present, have been indemnified against all liabilities allowed under the law. The Parent and the Responsible Entity have also entered into agreements with each of the Directors and Officers to indemnify them against all liabilities to another person that may arise from their positions as officeholders of the Group to the extent permitted by law. The agreements stipulate that the Parent and the Responsible Entity will meet the full amount of any such liabilities, including reasonable legal costs and expenses.

To the extent permitted by law, the Parent and the Responsible Entity have agreed to indemnify their auditor, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

Insurance premiums

During the financial year, the Group paid premiums in respect of Directors and Officers' liability insurance contracts, for the current and former Directors and Officers, including executive officers and secretaries of the Group.

Under the terms of the insurance contracts, disclosure of the extent of the cover and the amount of the premium is prohibited by a confidentiality clause.

NON-AUDIT SERVICES

The Board has considered the services provided during the year by the external auditor and, in accordance with advice provided by the Audit and Risk Committee, is satisfied that the provision of those services during the year is compatible with, and did not compromise, the auditor independence requirements of the Act for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the Audit and Risk Committee to ensure that they do not impact the integrity and objectivity of the external auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in the Code of Conduct APES 110 *Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board, as they did not involve reviewing or auditing the external auditor's own work, acting in a management capacity for the Group, acting as an advocate for the Group or jointly sharing risks or rewards.

Details of any amounts paid or payable by the Group for non-audit services provided during the year are given in note 28 to the financial statements.

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE ACT

We confirm that we have obtained the Auditor's Independence Declaration, which is set out on page 48.

ROUNDING

The Group is an entity of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and, in accordance amounts in the Financial Report and the Directors' Report are rounded to the nearest hundred thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the Directors:

S H Lee
Chairman

G E Grady
Executive Director and Chief Executive Officer

Sydney
15 August 2018

Auditor's Independence Declaration

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Auditor's Independence Declaration to the Directors of Aveo Group Limited and the Directors of Aveo Funds Management Limited as Responsible Entity for Aveo Group Trust

As lead auditor for the audit of Aveo Group Limited and the entities it controlled for the year ended 30 June 2018 and Aveo Group Trust and the entities it controlled for the year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Aveo Group Limited and the entities it controlled during the financial period and Aveo Group Trust and the entities it controlled during the financial period.

Ernst & Young

Chris J Lawton
Partner
15 August 2018

Remuneration Report

1. INTRODUCTION

The Nomination and Remuneration Committee is pleased to provide the Aveo Group's Remuneration Report for the year ended 30 June 2018, which has been audited in accordance with section 308(3C) of the Act.

The Committee's primary objective is to provide a remuneration structure that attracts, retains and motivates staff, reflects Aveo's strategic goals, is aligned with securityholder interests, and addresses current market and stakeholder views.

The meaning of defined terms is given in the Dictionary at page 118, which forms part of this report.

1.1 Key Management Personnel defined

The table below shows the name, position and period of employment or directorship for each KMP whose remuneration is disclosed in this report.

Name	Position	KMP 2018	KMP 2017
Current Non-Executive Directors			
S H Lee	Non-Executive Chairman	Full year	Full year
J E F Frayne	Non-Executive Director	Full year	Full year
E L Lee	Non-Executive Director	Full year	Full year
W L McDonald	Non-Executive Director	Full year	Full year
D P J Saw	Non-Executive Director	Full year	Appointed 16 November 2016
K W Lo	Non-Executive Director	Full year	Appointed 16 February 2017
G D Shaw	Non-Executive Alternate Director (for S H Lee and E L Lee)	Full year	Appointed 2 December 2016
Executive Director			
G E Grady	Executive Director and Chief Executive Officer	Full year	Full year
Former Non-Executive Directors			
L R McKinnon	Non-Executive Director	–	Resigned 16 November 2016
S B Muggleton	Non-Executive Director	–	Resigned 31 August 2016
W Chow	Non-Executive Alternate Director (for S H Lee and E L Lee)	–	Resigned 2 December 2016
Other Key Management Personnel			
D A Hunt	Chief Financial Officer	Full year	Full year

Remuneration Report (cont)

1.2 Actual remuneration received in FY18

The following table provides a summary of remuneration received by KMP (excluding NEDs), for FY18. The figures below are the amounts that each individual received in cash and not the amounts calculated in accordance with Australian Accounting Standards. They contain no allowance for annual or long service leave accrual, nor the STID and Rights expense required to be recognised by Accounting Standard AASB 2 Share-Based Payment. Consequently, the figures below may not correspond to those in later sections of this report. Specific details of the FY18 remuneration received by these executives, prepared in accordance with the statutory obligations and accounting standards, are provided on page 65.

	Fixed annual remuneration[1] $	STI[2] $	STID[3] $	LTI[4] $	Other[5] $	Total actual 2018 remuneration $
G E Grady	725,000	362,500	259,714	346,690	6,236	1,700,140
D A Hunt	590,000	196,667	147,012	219,941	9,590	1,163,210

1. *Fixed annual remuneration includes superannuation benefits together with salary-packaged benefits calculated on a 'cost to Aveo' basis, grossed up for fringe benefits tax payable.*
2. *Reflects FY17 STI paid in cash during the year.*
3. *Reflects FY16 STID that vested during the year, measured at the Group's closing security price at the date of vesting.*
4. *Reflects FY15 Performance Rights that vested during the year, measured at the Group's closing security price at the date of vesting.*
5. *Includes fringe benefits that are not salary-packaged.*

2. REMUNERATION FRAMEWORK

2.1 Remuneration governance

The Board has established a Nomination and Remuneration Committee, which is responsible for determining and reviewing remuneration arrangements for Directors and other KMP. The members of the Committee during the year and as at 30 June 2018 are:

- W L McDonald (Chairman);
- J E F Frayne; and
- S H Lee

The Committee is responsible for:

- providing recommendations to the Board with respect to the necessary and desirable competencies of the Board, the appointment, election and re-election of Directors and reviewing Board succession plans to ensure that the Board has the necessary guidance to facilitate appointments to the Board without disruption; and
- ensuring that the remuneration levels for the Group are set at appropriate levels to ensure that the Group has access to the skills and capabilities it needs to operate successfully.

2.2 Remuneration policy

The Group's remuneration policy is to ensure that remuneration packages properly reflect the person's duties and responsibilities and that the remuneration is competitive in attracting, retaining and motivating people of the highest quality.

The structure of remuneration, as explained below, is designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of long-term value creation for securityholders. The remuneration structures take into account a range of factors, including the following:

- the capability, skills and experience of the KMP;
- the ability of KMP to impact achievement of the strategic objectives of the Group;
- the performance of the KMP in their roles;
- the Group's overall performance;
- the remuneration levels being paid by competitors for similar positions; and
- the need to ensure continuity of executive talent and smooth succession planning.

In assessing the performance of an executive, regard is given to a mix of quantitative and qualitative factors in addition to the Group's immediate underlying profit performance. The nature of the Group's activities is such that decisions are constantly being taken that may not generate profit for several years. Examples include the acquisition of land for future development, the process of development itself, and the upgrading of systems and procedures. The likelihood of success of such longer-term projects is considered in establishing measures of executive performance for remuneration purposes.

2.3 Voting and comments made at the Group's 2017 Annual General Meeting

The remuneration report for FY17 was approved at the Group's 2017 Annual General Meeting with more than 85% of votes cast in favour. There were no specific comments made on the report at that meeting.

2.4 External advisers

During 2017, the Committee received a report from Godfrey Remuneration Group Pty Limited (GRG) in relation to the market competitiveness of its remuneration practices for the CEO and CFO. Whilst the report did not contain any remuneration recommendations as defined in the Act, GRG nevertheless provided a declaration that, to the best of its knowledge and belief, the recommendations in the report were made free from undue influence by any KMP to whom the recommendations related.

The Committee considered the report in setting the remuneration for the CEO and CFO for FY18.

No similar report was received in 2018, nor any report that contained any remuneration recommendations as defined in the Act.

Remuneration Report (cont)

3. LINK BETWEEN REMUNERATION AND PERFORMANCE

Profit, EPS and other key financial performance measures over the last five years for the Group are set out below.

	2018	2017	2016	2015	2014
Statutory net profit/(loss) ($m)	365.1	252.8	116.0	58.0	26.1
Underlying profit after tax ($m)[1,2]	127.2	108.4	89.0	54.7	42.1
EPS (cents)[3]					
Statutory	63.3	44.2	22.1	11.6	5.9
Underlying	22.0	18.9	17.0	10.9	9.5
Dividends/distributions ($m)	51.9	52.0	43.5	25.8	20.0
DPS – ordinary (cents)	9.0	9.0	8.0	5.0	4.0
Total assets ($m)	6,715.6	5,955.1	4,094.5	3,392.8	3,269.8
Net assets ($m)	2,298.1	1,978.7	1,660.4	1,505.6	1,429.5
NTA per security ($)	3.92	3.37	3.00	2.85	2.78
Securities Price at year end ($)	2.43	2.78	3.17	2.58	2.06
Price/earnings ratio[3]	11.0	14.7	18.6	23.7	21.7
Market capitalisation ($m)	1,402.1	1,604.9	1,715.3	1,326.7	1,030.2

1. Underlying profit reflects statutory profit as adjusted to reflect the Directors' assessment of the result for the ongoing business activities of the Group, in accordance with AICD/Finsia principles of recording underlying profit.

2. A reconciliation of UPT for the Group to statutory profit after tax for the 2018 and 2017 financial years is given in the Directors' Report at page 27.

3. Based on underlying profit after tax.

Remuneration component	Link to Group performance
Fixed remuneration	Fixed remuneration is not linked to Group performance. It is set with reference to the individual's role, responsibilities and performance and remuneration levels for similar positions in the market.
Variable remuneration	The current CEO was appointed on 1 July 2013, as the Group was finalising its strategy to focus on its retirement business. In February 2014, the Group publicly committed to the key financial goal of that strategy, being to lift ROA to 6.0% - 6.5% by FY16 and 7.5% - 8.0% by FY18. In 2016, the Board enunciated a financial target of growth in statutory EPS of 6.5% per annum for the period FY17 – FY21. The targets for variable remuneration, comprising STI and LTI, are chosen to align KMP performance with achievement of these key financial goals.
STI	STIs are awarded to individuals based on achievement of financial and other targets in individual balanced scorecards, subject to the Group's profitability and ability to pay STI awards. The Board maintains the right to adjust downwards the aggregate pool available to fund STIs if the Group's actual UEPS is below target. More information on UEPS is given below.

Remuneration component	Link to Group performance
LTI	Equity-based executive remuneration is provided by the issue of Rights. Vesting of Performance Rights is subject to three-year performance hurdles including aggregate UEPS and RTSR. Both these measures reflect the Group's performance as measured by the key financial performance measures shown above. More information on UEPS is given below. RTSR is deemed appropriate because: ■ it helps to align KMP rewards with securityholder returns; and ■ the effects of market cycles are minimised because it measures the Group's performance relative to its peers, which are presently considered to be the members of the S&P/ASX 300 A-REIT Index. Vesting of Retention Rights is subject to performance hurdles relating to ROA and ROE. Both these measures reflect the Group's long-term retirement strategy noted above and appropriately align the outcomes of this strategy with the financial interests of securityholders. Vesting of Growth Rights is subject to a performance hurdle relating to growth in statutory EPS. This measure reflects the Group's financial goal for FY17 – FY21 noted above and appropriately align the outcomes of this strategy with the financial interests of securityholders. Further details of these Rights are given in sections 5.6, 5.7 and 5.8

UEPS is deemed an appropriate performance measures for the granting of STIs and LTIs to senior executives since it is the key target hurdle referenced by the Board in preparing its annual budgets and measuring Group performance. UEPS reflects the Directors' assessment of the result for the ongoing business activities of the Group by excluding non-cash, one-off market related items that are usually out of management's control. The annual UEPS target is determined by the Board having regard to the Group's annual budget. The target could be higher or lower than budget. If the Board decides it is appropriate to provide profit guidance to the market for the forthcoming financial year at the time of release of the Group's results for the previous financial year, the UEPS target is at least as high as this guidance. Where UPT targets are given, they have been adjusted for the effect of security issues and material buybacks, so that target UEPS is unchanged.

Historical and target UEPS was:

	2018 cents	2017 cents	2016 cents	2015 cents	2014 cents
Actual	22.0	18.9	17.0	10.9	9.5
Target	21.3	18.4	16.4	9.9	8.4

Historical actual and target UPT, after adjusting for the effect of material equity issues and buybacks made after the original target was set, so that UEPS targets were unchanged, was:

	2018 \$m	2017 \$m	2016 \$m	2015 \$m	2014 \$m
Actual	127.2	108.4	89.0	54.7	42.1
Target[1,2]	122.2	105.4	85.9	50.4	37.8

1. *The UPT target for FY17 was increased from the original target of \$99.9 million to \$105.4 million to reflect the issue of securities in connection with the acquisition of RVG.*
2. *The UPT target for FY16 was increased from the original target of \$84.6 million to \$85.9 million to reflect the issue of securities in connection with the acquisition of Freedom.*

Remuneration Report (cont)

4. REMUNERATION OF NON-EXECUTIVE DIRECTORS

4.1 Directors' fees

In 2006, securityholders resolved that the maximum aggregate fee pool available to NEDs be increased to $650,000 per year, excluding retirement benefits.

Mr S H Lee receives a fee of $176,000 as Non-Executive Chairman. All other Directors receive a fee of $85,000 per annum inclusive of superannuation. These fees cover all main Board activities. Additionally, the Chairs of the Nomination and Remuneration Committee and Audit and Risk Committee receive $12,000 per annum and the other members of those Committees receive $2,000 per annum.

4.2 Retirement benefits

The Group does not provide any retirement benefits scheme for the NEDs.

4.3 Performance-based remuneration

NEDs do not receive any performance-based remuneration.

4.4 Equity-based remuneration

The Group's DSP was approved at the 2002 Annual General Meeting (AGM) and amended at the 2003 and 2004 AGMs. Under the DSP, eligible NEDs can elect to receive their Directors' fees by way of securities in the Group, in lieu of cash, after taking into account any fringe benefits tax payable by the Group. Securities allocated under the DSP can either be issued by the Group or purchased on-market. This plan continues to operate; however, no Directors to date have elected to receive their Directors' fees by way of securities in the Group.

5. REMUNERATION OF OTHER KMP

5.1 Fixed remuneration

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes salary packaged benefits grossed up for fringe benefits tax payable including motor vehicles, car parking and other specified benefits), as well as employer contributions to superannuation funds.

The Committee reviews remuneration levels periodically.

The total fixed remuneration of the CEO and the CFO is set annually based on role specifications, responsibilities, performance and remuneration data for 20 comparably sized companies with 10 larger and 10 smaller than the Groups market capitalisation. The comparator group includes comparably sized healthcare and real estate companies under the assumption that they face similar operational challenges to those faced by the Group. However, as there were a small number of comparably sized companies in these sectors, other companies of similar scale have been included from different sectors, including consumer discretionary and industrials.

From 1 July 2017, the TFR for the CEO and the CFO remained unchanged at $725,000 and $590,000 respectively. Mr Grady's target mix from that date was set at 35% for TFR and 65% for at-risk remuneration, whilst Mr Hunt's target mix was set at 48% and 52% respectively. At-risk remuneration is divided equally between its three components. These changes were determined taking into account the GRG report (see section 2.4), comparative remuneration, the Group's, and their individual, strong performance over the last three years and the Growth Rights already awarded to these KMP.

5.2 Termination provisions

The following table provides details of the termination provisions for the KMP (excluding NEDs) identified in this report. Contracts are open-ended in nature rather than being fixed term.

Name	Position	Notice period	Payment in lieu of notice	Treatment of STI on termination	Treatment of LTI on termination
G E Grady	Chief Executive Officer	6 months	6 months	Board discretion[1]	Board discretion[1]
D A Hunt	Chief Financial Officer	6 months	6 months	Board discretion[1]	Board discretion[1]

1. See sections 5.5, 5.6, 5.7 and 5.8.

5.3 Target and FY18 achieved mix of remuneration components

Executive remuneration packages include a mix of fixed remuneration, bonuses and equity-based remuneration. The target and achieved remuneration mix for executives for FY18, expressed as a percentage of total remuneration, was:

		AT RISK REMUNERATION				
	TFR (%)	STI (%)	STID[1] (%)	LTI[1,2] (%)	Total (%)	Total remuneration (%)
Target mix						
G E Grady	35.0	21.7	21.7	21.6	65.0	100.0
D A Hunt	48.0	17.3	17.3	17.4	52.0	100.0
FY18 achieved						
G E Grady	41.5	21.6	21.2	15.7	58.5	100.0
D A Hunt	53.3	16.7	17.2	12.8	46.7	100.0

1. STID and LTI percentages are calculated based on the annual amortised expense required under Accounting Standard AASB 2 Share-Based Payment.

2. LTI excludes the Retention and Growth Rights.

The Committee may exercise its discretion to vary the size of the available performance pool, as well as the target mix of remuneration components, in any given year as appropriate, by reference largely to the financial performance against target earnings and comparative periods.

5.4 Short-term incentives

Under the Group's STIP, the CEO is entitled to receive a short-term incentive of up to 124% of TFR for FY18, and the CFO is entitled to receive a short-term incentive of up to 72% of TFR. These annual bonuses are subject to achieving performance hurdles based on the financial and operational performance of the Group, and other priorities specified each year by the Committee. Half of these short-term incentives will be deferred, with the other half payable in cash on or around 31 August each year. Terms of the STID are given in section 5.5.

Refer to section 3 *Link between remuneration and performance* above for further details on the correlation between the Group's performance and performance-based payments.

Remuneration Report (cont)

CEO and CFO

STIP awards for FY18 were to be determined as follows:

Performance Criterion	% of STI CEO	% of STI CFO
UEPS meets or exceeds target		
Meets or exceeds 7.5% EPS growth on FY17, i.e. meets or exceeds 20.3 cps	5	5
Greater than or equal to 21.3 cps	10	10
Greater than or equal to 21.8 cps	10	10
	25	25
Group EBITDA exceeds target	15	15
Business units EBITDA exceeds targets	10	10
Management expenses growth relative to EBITDA growth below target	10	10
Divisional cash flow exceeds targets	15	15
Continued rollout of Freedom conversion program according to original plan	10	–
Improvement on net promoter score across all relevant segments	10	5
Approvals/commencement of Retirement projects (including aged care) in place by 30 June 2018 for delivery in FY19	5	–
Retirement Existing Business property price growth target exceeded[1]	–	2.5
Other	–	17.5
	100	**100**

1. The Committee has not disclosed this target given its commercial sensitivity.

The Committee revises performance hurdles annually.

Financial targets and actual results for FY18 were:

Measure	Actual	Target	Target Met or Exceeded
UEPS (cps)			
Greater than or equal to 20.3 cps	22.0	20.3	Yes
Greater than or equal to 21.3 cps	22.0	21.3	Yes
Greater than or equal to 21.8 cps	22.0	21.8	Yes
Group EBITDA ($m)	169.9	161.8	Yes
Business units EBITDA ($m):			
Retirement	140.9	143.3	No
Non-Retirement	50.5	41.7	Yes
Non-allocated overhead	14.1	14.1	Yes

The Committee has assessed the performance of these KMP against their various performance hurdles, determined whether performance criteria were satisfied, and awarded STIs, as follows:

	UEPS %	Group EBITDA %	Other Performance Hurdles %	Total STI %	Total STI $	STI Cash $	STID Face Value $	STID Number of Securities[1]
G E Grady	25	15	44	84	754,000	377,000	377,000	155,144
D A Hunt	25	15	46.5	86.5	368,586	184,293	184,293	75,841

1. The number of STID Securities was calculated as the STID face value divided by the Group's Securities Price at 30 June 2018.

5.5 Deferred short-term incentives

The STID is payable in Securities, which may be sourced either by a new issue or by buying on-market. The Securities will vest on 1 September of the following year, providing only that the executive remains in employment until 31 August of the year following the award. The executive is entitled to dividends and distributions declared during the vesting period.

The CEO's STID is subject to approval by securityholders. If the award is not so approved, it is payable in cash on the Vesting Date.

Subject to the Board's discretion, where Special Circumstances apply, or the KMP ceases employment and is a Good Leaver, all unvested STID held by the employee will remain on foot and will vest in the ordinary course.

In broad terms, if a Change of Control Event occurs, STID Securities will vest immediately.

Details of STID Securities provided as remuneration to KMP during FY18 in relation to FY17, or during FY17 in relation to FY16, are:

				Value at grant date	
Name	Date of grant	Vesting Date	Number granted[1]	Per security	Total
G E Grady[2]	12 Aug 16	1 Sep 17	101,056	$3.35	$338,538
G E Grady[2]	14 Aug 17	1 Sep 18	130,396	$2.78	$362,500
D A Hunt	12 Aug 16	1 Sep 17	57,203	$3.35	$191,630
D A Hunt	14 Aug 17	1 Sep 18	70,743	$2.78	$196,666

1. The number granted was determined by dividing the STID face value by the Group's Securities Price at the end of the relevant financial year.

2. The date given for Mr Grady is the date of the Committee meeting that approved the grant. These grants are subject to approval by securityholders in general meeting. If not so approved, Mr Grady will receive, subject to completing the requisite service period, an equivalent cash award.

5.6 Long-term incentives

The LTIP is designed to align remuneration with the creation of securityholder value over the long-term. Participation in the Plan is at the Board's discretion and no individual has a contractual right to participate in the Plan. No amount is payable for a Right granted under the Plan or on the exercise of a Right.

The number of Performance Rights granted is determined by firstly calculating a face value, being the KMP's target total remuneration times the KMP's target LTI remuneration (as a percentage of total remuneration). Face value is divided by the Securities Price on the 30 June preceding the day that the Committee approves the grant.

Remuneration Report (cont)

Performance Rights vest after three years subject to performance conditions. The Board has imposed two performance conditions, relating to RTSR and earnings as measured by UEPS. The link between these measures and performance is discussed at section 3 above.

Up to half of Performance Rights granted will vest depending on the level reached by RTSR at the end of the RTSR three-year testing period as follows:

RTSR	Proportion of Rights that may be exercised
Less than the 50th percentile	Nil
50th percentile or more but less than or equal to 75th percentile	25%
Higher than 75th percentile	50%

For grants made up to 30 June 2015, there was no pro-rata vesting of Rights between the 50th and 75th percentiles. For grants made after that date, pro-rata vesting will apply.

The remaining Performance Rights granted will vest if the aggregate UEPS for the three-year testing period equals or exceeds the aggregate target for that period. Further information on the setting of this target is given in section 3. There is no pro-rata vesting of Performance Rights under this condition. The Committee considers that this 'cliff' vesting is appropriate since the target is cumulative, so that shortfalls against target in one year may be made up in the following year.

Where Special Circumstances apply, or the KMP ceases employment and is a Good Leaver, any Performance Rights issued to the KMP vest pro rata to the elapsed service period, to the extent that the performance conditions, and any other relevant conditions imposed by the Board, are satisfied at the expiry of the testing periods.

In broad terms, if a Change of Control Event occurs, Performance Rights will vest immediately to the extent that the performance conditions attaching to those Rights have been satisfied as determined by the Board.

Securities required on vesting of Performance Rights may be sourced either by a new issue or by buying on-market.

Performance Rights do not carry any entitlement to distributions until they have vested and Securities provided to the holder.

The Plan's rules do not stipulate any limits on the grant of Performance Rights. However, the Board expects to limit Performance Rights awarded under the LTIP in respect of any financial year such that their fair value at grant date is less than or equal to $1.5 million.

Details of Performance Rights provided as remuneration to key management personnel are:

					Value at grant date[1]	
Name	Date of grant	Vesting and exercise date	Expiry date	Number of Rights granted	Per Right	Total
G E Grady	12 Nov 14	30 June 17	30 Sep 17	127,930	$1.26	$161,192
	17 Nov 15	30 June 18	30 Sep 18	124,166	$1.93	$239,640
	12 Aug 16	30 June 19	30 Sep 19	114,353	$2.14	$244,715
	14 Aug 17	30 June 20	30 Sep 20	161,422	$1.31	$211,463
D A Hunt	22 Aug 14	30 June 17	30 Sep 17	81,159	$1.40	$113,623
	21 Jul 15	30 June 18	30 Sep 18	70,284	$1.75	$122,997
	12 Aug 16	30 June 19	30 Sep 19	62,040	$2.14	$132,766
	14 Aug 17	30 June 20	30 Sep 20	76,639	$1.31	$100,397

1. The value at grant date is calculated in accordance with AASB 2 Share-Based Payment.

Rights granted during FY15 vested during FY17 because both performance conditions were met as follows:

Performance condition	Target	Result
50% of Rights – RTSR over three-year period	> 75th percentile[1]	RTSR of 59.8% was the highest of the comparator group and thus exceeded the 75th percentile
50% of Rights – Earnings over three-year period		
UEPS	44.7 cps	46.8 cps
UPT	$241.7 million[2,3]	$252.1 million

1. If RTSR had been at the 50th percentile or more, but less than or equal to 75th percentile, 25% of Rights would have vested.

2. The UPT target for FY16 was increased from the original target of $84.6 million to $85.9 million to reflect the issue of securities in connection with the acquisition of Freedom.

3. The UPT target for FY17 was increased from the original target of $99.9 million to $105.4 million to reflect the issue of securities in connection with the acquisition of RVG.

Half of the Rights granted during FY16 have vested in FY18 because one of the performance conditions was met as follows:

Performance condition	Target	Result
50% of Rights – RTSR over three-year period	≥ 50th percentile[1]	RTSR of -1.2% was the 29th highest of the comparator group and was below the 50th percentile
50% of Rights – Earnings over three-year period		
UEPS	56.1 cps	57.9 cps
UPT	$313.5 million[2,3]	$324.6 million

1. Rights would have vested as follows:

RTSR	Proportion of Rights that may be exercised
Less than the 50th percentile	Nil
50th percentile	25%
Above 50th percentile but less than or equal to 75th percentile	Pro-rata vesting from 25.1% to 49.9%
Higher than 75th percentile	50%

2. The UPT target for FY16 was increased from the original target of $84.6 million to $85.9 million to reflect the issue of securities in connection with the acquisition of Freedom.

3. The UPT target for FY17 was increased from the original target of $99.9 million to $105.4 million to reflect the issue of securities in connection with the acquisition of RVG.

5.7 Long-term retention plan

The current CEO was appointed on 1 July 2013, as the Group was finalising its strategy to focus on its retirement business. In February 2014, the Group publicly committed to the key financial goal of that strategy, being to lift ROA to 6.0% - 6.5% by FY16 and 7.5% - 8.0% by FY18. The Committee considered it essential that there be KMP stability until this strategy is fully delivered and financial targets achieved. Consequently, the Committee deemed it appropriate that there be a retention scheme for KMP, beyond the STI and LTI targets, to align the outcomes of the Group's long-term retirement strategy with the financial interests of its securityholders. The Committee regards the retention scheme as particularly relevant given the low STI and LTI awarded in previous years.

Remuneration Report (cont)

Accordingly, during FY15 the Committee approved a retention bonus based on a one-off grant of Retention Rights to the CEO and the CFO, to a maximum value of $1,950,000 and $1,008,000 respectively (being three and two times respectively their TFR), subject to service and performance conditions. The number of Retention Rights was determined as the award value divided by net tangible assets per security at 30 June 2014 of $2.78. The grant of 701,439 Retention Rights to the CEO was approved by securityholders at the Group's 2014 Annual General Meeting. The grant of Retention Rights to the CFO was 362,590.

Retention Rights vest after four years subject to performance conditions, relating to ROA and ROE.

Up to 75% of Rights granted would have vested depending on the level reached by ROA at the end of the ROA four-year testing period as follows:

Year	ROA	Proportion of Rights that may be exercised
FY16	≥ 6.5%	15%
	≥ 6.25%	11.25%
	≥ 6.0%	7.5%
	< 6.0%	nil
FY18	≥ 8.0%	60%
	≥ 7.75%	45%
	≥ 7.5%	30%
	< 7.5%	nil

If FY18 ROA is greater than or equal to 8.0%, the Board has discretion to award the full 15% for FY16, even if the FY16 ROA target was not met, or only partially met.

Details of the calculation of ROA are given in the Dictionary. The starting point of the calculation is the carrying amount of Retirement investment property (including investment property development) and aged care assets at 30 June 2013, being the date from which the retirement strategy began to be implemented with the appointment of the current CEO.

The remaining rights granted would have vested depending on the level reached by ROE as follows:

Year	ROE	Proportion of Rights that may be exercised
FY16 – FY18	≥ 6.5%	25%
	≥ 6.0%	12.5%

Details of Retention Rights provided as remuneration to KMP are:

Name	Date of grant	Vesting and exercise date	Expiry date	Number of Rights granted[1]	Value at grant date[2]	
					Per Right	Total
G E Grady	12 Nov 14	1 Jul 18	30 Sep 18	701,439	$0.81	$568,166
D A Hunt	19 Aug 14	1 Jul 18	30 Sep 18	362,590	$0.84	$304,576

1. The number of Rights granted was determined by dividing the awarded value of three and two times TFR by net tangible assets per Security at 30 June 2014 of $2.78.

2. The value at grant date is calculated in accordance with AASB 2 Share-Based Payment.

To the extent that the conditions are satisfied, Retention Rights vested on 1 July 2018 (including those resulting from meeting the FY16 ROA targets).

Actual results and the resulting proportion of Rights that vested on 1 July 2018 were:

Item	Result	Proportion of Rights vested
FY16 ROA	6.3%	15%[1]
FY18 ROA	8.01%	60%
FY16 – FY18 ROE	9.1%	25%
		100%

1. The proportion of Rights that vested in respect of FY16 ROA was 15%, even though ROA for that year was only 6.3%, because ROA for FY18 was greater than 8%. This gave the Board the discretion to award the full 15% for FY16; the Board has exercised that discretion.

The number of Rights that vested on 1 July 2018 consequently was:

Name	Number
G E Grady	701,439
D A Hunt	362,590

After vesting, the Securities resulting from exercise of the Retention Rights are subject to a holding lock as follows:

- up to 50% of Securities may be sold immediately;
- the next 25% of Securities must be held for a further 12 months before being able to be sold (i.e. 1 July 2019); and
- the final 25% of Securities must be held for a further two years before being able to be sold (i.e. 1 July 2020).

5.8 Long-term growth plan

In 2016, the Board observed that:

- the market had comfort around the clarity of the existing strategy, which then expired in less than two years' time in FY18, but required further clarity about the Group's strategic and financial targets post FY18, and the ability to meet these targets; and that
- clarity around future targets will assist in creating additional securityholder value.

Consequently, the Board decided to enunciate a financial target of growth in statutory EPS of 6.5% for the period FY17 – FY21.

To complement this decision, and to keep the two executive KMP together (the CEO and CFO have complementary skills), the Committee decided on 2 August 2016 to make a further one-off grant of Growth Rights to key management including the CEO and CFO. The Growth Rights awarded to the CEO and CFO have a value of $2,625,000 and $1,750,000 respectively, subject to service and performance conditions.

The number of Growth Rights was determined as the award value divided by a "stretch pricing" of $3.50 per Security compared to the closing market price as at 30 June 2016 of $3.17 per Security. The grant of 750,000 Growth Rights to the CEO was approved by securityholders at the 2017 annual general meeting. The grant of Growth Rights to the CFO was 500,000.

Remuneration Report (cont)

Growth Rights vest on 30 June 2021 subject to a performance condition relating to statutory EPS. The number of securities to be awarded for each Right depends on growth in statutory EPS over the period FY17 – FY21 as follows:

Growth in statutory EPS per annum	Number of Securities awarded for each Right
< 5.0%	0
5.0%	0.25
5.5%	0.50
6.0%	0.75
6.5%	1.00
7.0%	1.25
7.5%	1.50
8.0%	1.75
8.5%	2.00
> 8.5%	2.00

In calculating statutory EPS to determine if the performance condition has been met, a key input to the valuation of the Group's Retirement investment properties, being future property price growth, will be held constant.

Whilst designed as an extension of the retention plan under which Retention Rights were awarded to selected management, and which rewards for performance over the FY15 – FY18 period, the growth plan reaches back to FY17 to ensure smooth growth trends as an aid to market confidence.

After vesting, the Securities resulting from exercise of the Growth Rights will not be subject to a holding lock.

If a Change of Control Event occurs, the greater of:

- the number of Securities that would be awarded given actual statutory EPS growth to the date of the event, times the elapsed proportion of the FY17 – FY21 performance period; or
- 50% of the number of Securities that would be awarded if statutory EPS growth to the date of the event was 6.5% per annum,

will be awarded, will immediately vest and will not be subject to a holding lock. The Board has the discretion to award a higher number of Securities.

Growth Rights do not carry any entitlement to distributions until they have vested and Securities provided to the holder.

Other conditions of these Growth Rights are the same as those applying to Retention Rights.

Details of Growth Rights provided as remuneration to KMP are:

Name	Date of grant	Vesting and exercise date	Expiry date	Number of Rights granted[1]	Value at grant date[2]	
					Per Right	Total
G E Grady[1]	15 Aug 16	30 Jun 21	30 Sep 21	750,000	$1.13	$847,500
D A Hunt	15 Aug 16	30 Jun 21	30 Sep 21	500,000	$1.13	$565,000

1. The grant of 750,000 Growth Rights to the CEO was approved by securityholders at the 2017 annual general meeting.

2. The value at grant date is calculated in accordance with AASB 2 Share-Based Payment.

5.9 KMP equity instrument disclosures

Equity holdings and transactions

The movement during the reporting period in the number of stapled securities of the Group held directly, indirectly or beneficially, by key management personnel, including their personally related entities and close family members, was:

	Balance at the beginning of the year	Purchased	Received on vesting of STID	Received on vesting of LTI	Held at Resignation Date	Balance at the end of the year
2018						
Directors						
S H Lee	131,799,915	–	–	–	–	131,799,915
J E F Frayne	60,624	–	–	–	–	60,624
Other key management personnel						
G E Grady	630,294	–	101,056	127,930	–	859,280
D A Hunt	284,664	–	57,203	81,159	–	423,026
2017						
Directors						
S H Lee	131,174,775	625,140	–	–	–	131,799,915
J E F Frayne	30,624	30,000	–	–	–	60,624
L R McKinnon	10,000	56,000	–	–	(66,000)	–
Other key management personnel						
G E Grady	182,653	35,000	102,641	310,000	–	630,294
D A Hunt	84,548	15,000	65,116	120,000	–	284,664

1. KMP not mentioned in this table do not or did not hold any stapled securities.

Remuneration Report (cont)

Options and Rights holdings and transactions

The movement during the reporting period in the number of options over ordinary securities of the Group held directly, indirectly or beneficially, by KMP, including their personally related entities and close family members was:

	Balance at the beginning of the year	Granted during the year	Vested during the year	Forfeited/ lapsed during the year	Balance at the end of the year
Performance Rights					
2018					
G E Grady	366,449	161,422	(127,930)	–	399,941
D A Hunt	213,483	76,639	(81,159)	–	208,963
2017					
G E Grady	562,096	114,353	(310,000)	–	366,449
D A Hunt	271,443	62,040	(120,000)	–	213,483
Retention Rights					
2018					
G E Grady	701,439	–	–	–	701,439
D A Hunt	362,590	–	–	–	362,590
2017					
G E Grady	701,439	–	–	–	701,439
D A Hunt	362,590	–	–	–	362,590
Growth Rights					
2018					
G E Grady	750,000	–	–	–	750,000
D A Hunt	500,000	–	–	–	500,000
2017					
G E Grady	–	750,000	–	–	750,000
D A Hunt	–	500,000	–	–	500,000
Total Rights					
2018					
G E Grady	1,817,888	161,422	(127,930)	–	1,851,380
D A Hunt	1,076,073	76,639	(81,159)	–	1,071,553
2017					
G E Grady	1,263,535	864,353	(310,000)	–	1,817,888
D A Hunt	634,033	562,040	(120,000)	–	1,076,073
STID					
2018					
G E Grady	101,056	130,396	(101,056)	–	130,396
D A Hunt	57,203	70,743	(57,203)	–	70,743
2017					
G E Grady	102,641	101,056	(102,641)	–	101,056
D A Hunt	65,116	57,203	(65,116)	–	57,203

1. KMP not mentioned in this table do not hold any options or Rights.

5.10 On-market security acquisitions

Details of Securities purchased by the Group on-market during the year for the purpose of employee incentive schemes as follows:

	2018	2017
Total number of Securities purchased	400,000	3,243,919
Average price per Security	$2.62	$3.28

5.11 Other matters

With effect from 1 July 2016, the Group has implemented a Security retention policy for members of the Aveo Senior Staff Incentive Scheme, including the CEO and CFO. The policy forms part of the conditions of all awards of Securities under the STID and LTI schemes. Under this policy, KMP will be required to hold Securities equivalent to 100% of their total fixed remuneration.

During the first five years of the retention arrangements (i.e. the five years ended 30 June 2021), officers may in any financial year sell 50% of securities vesting in that year. During this period, officers may also sell securities vested under those schemes that are in excess of the 100% target.

After that time, officers may only sell securities vested under those schemes that are in excess of the 100% target.

STI for all employees is limited to 5% of UPT before STI.

The Board retains ultimate discretion over the vesting of awarded but unvested grants. Consequently, awarded but unvested STI or LTI may be reduced or forfeited in the event of material misstatement of the Group's financial reports or other circumstances demonstrating that the performance that resulted in the initial grant was not as assessed at the time of the grant.

The Group's Security Trading Policy and the Committee's policy in relation to the hedging of equity-based remuneration prohibit the use of derivative or hedging arrangements by KMP in relation to unvested Securities or vested Securities that are still subject to an Aveo imposed holding lock. Adherence to this policy is monitored on an annual basis and involves each KMP signing an annual declaration of compliance with the hedging policy.

Remuneration Report (cont)

6. REMUNERATION TABLES

6.1 Non-Executive Directors

		Short-term benefits	Post-employment benefits	
	Year	Salary and fees $	Superannuation $	Total $
S H Lee	**2018**	**162,557**	**15,443**	**178,000**
	2017	162,557	15,443	178,000
J E F Frayne	**2018**	**90,237**	**8,763**	**99,000**
	2017	86,813	8,437	95,250
E L Lee[1]	**2018**	**87,000**	**–**	**87,000**
	2017	87,000	–	87,000
K W Lo	**2018**	**79,452**	**7,548**	**87,000**
	2017	29,463	2,799	32,262
W L McDonald	**2018**	**88,585**	**8,415**	**97,000**
	2017	88,585	8,415	97,000
L R McKinnon	**2018**	**–**	**–**	**–**
	2017	36,495	3,467	39,962
S B Muggleton	**2018**	**–**	**–**	**–**
	2017	19,406	1,844	21,250
D P J Saw	**2018**	**77,626**	**7,374**	**85,000**
	2017	48,516	4,609	53,125
Total	**2018**	**585,457**	**47,543**	**633,000**
	2017	558,835	45,014	603,849

1. *No compensation was received by Mr E L Lee personally. All compensation paid in exchange for Mr Lee's services was paid to a company within MIB.*
2. *NEDs did not receive any other benefits.*

6.2 Other KMP

	Year	Short-term employment benefits: Salary[1] $	Short-term employment benefits: STI $	Short-term employment benefits: Accrued annual leave	Short-term employment benefits: Non-monetary benefits[2] $	Post-employment benefits: Super-annuation $	Other long-term benefits: Accrued long service leave $	Share-based payments: STID $	Share-based payments: LTI[3] $	Share-based payments: Retention and Growth Rights[3] $	Total $
G E Grady	**2018**	**704,951**	**377,000**	**7,930**	**6,236**	**20,049**	**13,322**	**369,750**	**274,156**	**607,899**	**2,381,293**
	2017	705,461	362,500	(2,558)	5,470	19,539	13,340	341,425	215,183	264,194	1,924,554
D A Hunt	**2018**	**565,000**	**184,293**	**17,218**	**9,590**	**25,000**	**5,913**	**190,479**	**141,211**	**348,684**	**1,487,388**
	2017	565,000	196,667	15,774	9,529	25,000	22,159	189,000	123,128	163,763	1,310,020
Total	**2018**	**1,269,951**	**561,293**	**25,148**	**15,826**	**45,049**	**19,235**	**560,229**	**415,367**	**956,583**	**3,868,681**
	2017	1,270,461	559,167	13,216	14,999	44,539	35,499	530,425	338,311	427,957	3,234,574

1. *Includes salary-packaged benefits such as car parking calculated on a 'cost to Aveo' basis, grossed up for fringe benefits tax payable.*
2. *Includes fringe benefits paid to employees that are not salary packaged.*
3. *These are required to be expensed by Accounting Standard AASB 2 Share-Based Payment, but are subject to performance targets.*

Proportion of remuneration

	Year	Performance related %	Non-performance related %	Consisting of Securities and security options %
G E Grady	**2018**	**68.4**	**31.6**	**52.6**
	2017	61.5	38.5	42.6
D A Hunt	**2018**	**58.1**	**41.9**	**45.7**
	2017	51.3	48.7	36.3
Total	**2018**	**64.5**	**35.5**	**49.9**
	2017	57.4	42.6	40.1

Consolidated Income Statements

for the year ended 30 June 2018

		Group		Trust Group	
	Note	2018 $m	2017 $m	2018 $m	2017 $m
Continuing operations					
Sale of goods	1	178.4	255.7	–	–
Revenue from rendering of services	1	241.4	189.6	23.6	5.6
Other revenue	1	5.5	4.2	2.4	11.6
Revenue		**425.3**	**449.5**	**26.0**	**17.2**
Cost of sales		(186.9)	(219.6)	–	–
Gross profit		**238.4**	**229.9**	**26.0**	**17.2**
Change in fair value of investment properties	9	322.0	147.7	–	–
Change in fair value of resident loans	7	(35.5)	(0.1)	–	–
Change in fair value of financial liabilities		11.1	5.4	–	–
Employee expenses		(57.1)	(55.2)	–	–
Marketing expenses		(31.4)	(24.9)	–	–
Occupancy expenses		(3.9)	(1.5)	–	–
Property expenses		(2.3)	(4.1)	–	–
Administration expenses		(19.1)	(18.4)	–	–
Net gain on business combination	17	1.5	52.6	6.7	–
Other expenses		(9.8)	(17.0)	(15.0)	(6.8)
Finance costs	2	(4.3)	(1.9)	(1.3)	–
Share of net gain/(loss) of associates and joint ventures accounted for using the equity method		0.8	(5.5)	0.4	(0.3)
Profit from continuing operations before income tax		**410.4**	**307.0**	**16.8**	**10.1**
Income tax expense	3	(44.2)	(54.8)	(0.2)	–
Profit for the year		**366.2**	**252.2**	**16.6**	**10.1**
Profit for the year is attributable to:					
Owners of Aveo Group Limited		348.5	242.7	–	–
Non-controlling interests – owners of Aveo Group Trust		16.6	10.1	16.6	10.1
Net profit after tax attributable to stapled securityholders of the Group		**365.1**	**252.8**	**16.6**	**10.1**
Other non-controlling interests		1.1	(0.6)	–	–
		366.2	**252.2**	**16.6**	**10.1**
Earnings per Security (cents per Security):					
Basic earnings per stapled security	20	63.3	44.2	2.9	1.8
Diluted earnings per stapled security	20	63.3	44.2	2.9	1.8
Earnings per Security from continuing operations (cents per Security):					
Basic earnings per stapled security	20	63.3	44.2	2.9	1.8
Diluted earnings per stapled security	20	63.3	44.2	2.9	1.8

The above consolidated income statements should be read in conjunction with the accompanying notes.

Consolidated Statements of Comprehensive Income

for the year ended 30 June 2018

	Group		Trust Group	
	2018 $m	2017 $m	2018 $m	2017 $m
Profit for the year	**366.2**	**252.2**	**16.6**	**10.1**
Other comprehensive income				
Items that may be reclassified to profit or loss				
Foreign currency translation differences for foreign operations	4.5	(1.0)	0.1	(0.6)
Other comprehensive income for the year, net of tax	**4.5**	**(1.0)**	**0.1**	**(0.6)**
Total comprehensive income for the year	**370.7**	**251.2**	**16.7**	**9.5**
Total comprehensive income for the year is attributable to:				
Owners of Aveo Group Limited	352.9	242.3	–	–
Non-controlling interest – owners of Aveo Group Trust	16.7	9.5	16.7	9.5
Total comprehensive income for the year attributable to stapled securityholders of the Group	**369.6**	**251.8**	**16.7**	**9.5**
Other non-controlling interests	1.1	(0.6)	–	–
	370.7	**251.2**	**16.7**	**9.5**

The above consolidated statements of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheets

as at 30 June 2018

		Group		Trust Group	
		2018 $m	2017 $m	2018 $m	2017 $m
Assets					
Cash and cash equivalents	21	71.0	47.2	1.5	–
Receivables	4	247.2	114.6	82.2	266.1
Inventories	8	95.2	170.3	–	–
Property, plant and equipment	22	138.5	89.6	86.7	30.9
Investment properties	9	6,158.9	5,505.5	470.7	307.0
Investments	19	–	23.2	39.4	49.8
Intangible assets		4.8	4.7	–	–
Total assets		**6,715.6**	**5,955.1**	**680.5**	**653.8**
Liabilities					
Payables	5	238.0	185.9	52.9	25.9
Provisions	23	65.6	60.6	52.4	52.3
Interest bearing loans and borrowings	6	687.7	573.1	59.5	24.6
Deferred revenue		266.8	204.2	–	–
Resident loans	7	2,960.6	2,797.7	–	–
Deferred tax liabilities	10	198.8	154.9	–	–
Total liabilities		**4,417.5**	**3,976.4**	**164.8**	**102.8**
NET ASSETS		**2,298.1**	**1,978.7**	**515.7**	**551.0**
Equity					
Contributed equity	11	1,262.2	1,262.6	723.1	723.2
Reserves	24	(4.1)	(9.6)	2.4	2.3
Retained profits/(accumulated losses)	24	493.8	145.3	(211.1)	(175.8)
Total equity attributable to securityholders		**1,751.9**	**1,398.3**	**514.4**	**549.7**
Non-controlling interests					
Aveo Group Trust		514.4	549.7	–	–
Other non-controlling interests		31.8	30.7	1.3	1.3
Total equity attributable to non-controlling interests		**546.2**	**580.4**	**1.3**	**1.3**
TOTAL EQUITY		**2,298.1**	**1,978.7**	**515.7**	**551.0**

The Group has adopted the liquidity basis for presenting its balance sheets. See page 72 for more detail.

The above consolidated balance sheets should be read in conjunction with the accompanying notes.

Consolidated Statements of Changes in Equity

for the year ended 30 June 2018

		Attributable to securityholders of Aveo Group Limited						
	Note	Contributed equity $m	Reserves $m	(Accumulated losses)/ retained profits $m	Total $m	Non-controlling interest attributable to Aveo Group Trust $m	Other non-controlling interests $m	Total equity $m
Balance at 1 July 2016		**1,178.1**	**(8.7)**	**(97.4)**	**1,072.0**	**556.0**	**32.4**	**1,660.4**
Comprehensive income:								
Profit/(loss) for the year	24	–	–	242.7	242.7	10.1	(0.6)	252.2
Other comprehensive income		–	(0.4)	–	(0.4)	(0.6)	–	(1.0)
Total comprehensive income for the year		**–**	**(0.4)**	**242.7**	**242.3**	**9.5**	**(0.6)**	**251.2**
Transactions with owners in their capacity as owners:								
Dividends and distributions provided for	12	–	–	–	–	(52.0)	–	(52.0)
Transactions with non-controlling interests		–	0.3	–	0.3	–	(1.1)	(0.8)
Equity-settled employee benefits	11,24	2.7	(0.8)	–	1.9	1.1	–	3.0
Acquisition of treasury securities	11	(7.5)	–	–	(7.5)	(3.2)	–	(10.7)
Issue of securities	11	89.3	–	–	89.3	38.3	–	127.6
Total transactions with owners in their capacity as owners		**84.5**	**(0.5)**	**–**	**84.0**	**(15.8)**	**(1.1)**	**67.1**
Balance at 30 June 2017		**1,262.6**	**(9.6)**	**145.3**	**1,398.3**	**549.7**	**30.7**	**1,978.7**
Comprehensive income:								
Profit for the year	24	–	–	348.5	348.5	16.6	1.1	366.2
Other comprehensive income		–	4.4	–	4.4	0.1	–	4.5
Total comprehensive income for the year		**–**	**4.4**	**348.5**	**352.9**	**16.7**	**1.1**	**370.7**
Transactions with owners in their capacity as owners:								–
Dividends and distributions provided for	12	–	–	–	–	(51.9)	–	(51.9)
Equity-settled employee benefits	11,24	1.2	1.1	–	2.3	0.6	–	2.9
Acquisition of treasury securities	11	(0.7)	–	–	(0.7)	(0.3)	–	(1.0)
Securities bought back and cancelled	11	(0.9)	–	–	(0.9)	(0.4)	–	(1.3)
Total transactions with owners in their capacity as owners		**(0.4)**	**1.1**	**–**	**0.7**	**(52.0)**	**–**	**(51.3)**
Balance at 30 June 2018		**1,262.2**	**(4.1)**	**493.8**	**1,751.9**	**514.4**	**31.8**	**2,298.1**

The above consolidated statements of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statements of Changes in Equity (cont)

for the year ended 30 June 2018

	Note	Contributed equity $m	Reserves $m	Accumulated losses $m	Total $m	Non-controlling interests $m	Total equity $m
		Attributable to securityholders of Aveo Group Trust					
Balance at 1 July 2016		**687.0**	**2.9**	**(133.9)**	**556.0**	**1.3**	**557.3**
Comprehensive income:							
Profit for the year	24	–	–	10.1	10.1	–	10.1
Other comprehensive income		–	(0.6)	–	(0.6)	–	(0.6)
Total comprehensive income for the year		**–**	**(0.6)**	**10.1**	**9.5**	**–**	**9.5**
Transactions with owners in their capacity as owners:							
Dividends and distributions provided for	12	–	–	(52.0)	(52.0)	–	(52.0)
Equity settled employee benefits	11	1.1	–	–	1.1	–	1.1
Acquisition of treasury securities	11	(3.2)	–	–	(3.2)	–	(3.2)
Issue of securities	11	38.3	–	–	38.3	–	38.3
Total transactions with owners in their capacity as owners		**36.2**	**–**	**(52.0)**	**(15.8)**	**–**	**(15.8)**
Balance at 30 June 2017		**723.2**	**2.3**	**(175.8)**	**549.7**	**1.3**	**551.0**
Comprehensive income:							
Profit for the year	24	–	–	16.6	16.6	–	16.6
Other comprehensive income		–	0.1	–	0.1	–	0.1
Total comprehensive income for the year		**–**	**0.1**	**16.6**	**16.7**	**–**	**16.7**
Transactions with owners in their capacity as owners:							
Dividends and distributions provided for	12	–	–	(51.9)	(51.9)	–	(51.9)
Equity settled employee benefits	11	0.6	–	–	0.6	–	0.6
Acquisition of treasury securities	11	(0.3)	–	–	(0.3)	–	(0.3)
Securities bought back and cancelled	11	(0.4)	–	–	(0.4)	–	(0.4)
Total transactions with owners in their capacity as owners		**(0.1)**	**–**	**(51.9)**	**(52.0)**	**–**	**(52.0)**
Balance at 30 June 2018		**723.1**	**2.4**	**(211.1)**	**514.4**	**1.3**	**515.7**

The above consolidated statements of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Cash Flow Statements

for the year ended 30 June 2018

		Group		Trust Group	
		2018 $m	2017 $m	2018 $m	2017 $m
Cash flows from operating activities					
Receipts from customers		360.6	497.8	15.6	6.4
Payments to suppliers and employees		(237.4)	(232.9)	(9.9)	(10.9)
Interest received		1.4	0.6	2.4	–
Finance costs including interest and other costs of finance paid		(22.8)	(11.3)	(1.3)	–
Dividends and distributions received		0.2	0.1	–	–
GST recovered/(paid)		0.8	(11.5)	(0.6)	(0.4)
Net cash flows from/(used in) operating activities	26(a)	**102.8**	**242.8**	**6.2**	**(4.9)**
Cash flows from investing activities					
Payments for property, plant and equipment		(31.2)	(59.1)	(35.9)	–
Payments for intangible assets		(2.3)	(2.1)	–	–
Payments for investment properties		(285.1)	(287.7)	(106.0)	(258.2)
Proceeds from the sale of investment properties		218.5	–	–	–
Proceeds from sale of equity-accounted investments		5.0	–	–	–
Payments for acquisition of non-controlling interests		–	(0.8)	–	–
Payments for acquisition of subsidiaries	17(b)	(2.6)	(61.5)	(3.8)	–
Repayment of loans by related parties		–	–	197.4	270.4
Net cash flows (used in)/from investing activities		**(97.7)**	**(411.2)**	**51.7**	**12.2**
Cash flows from financing activities					
Proceeds from issue of securities		–	126.1	–	38.9
Costs associated with issue of securities		–	(1.9)	–	(0.6)
Payments for acquisition of treasury securities and securities bought back		(2.3)	(10.7)	(0.7)	(2.1)
Dividends and distributions paid		(51.9)	(43.5)	(51.9)	(43.5)
Proceeds from borrowings		539.8	413.6	–	–
Repayment of borrowings		(466.9)	(302.9)	(3.8)	–
Net cash flows from/(used in) financing activities		**18.7**	**180.7**	**(56.4)**	**(7.3)**
Net increase in cash and cash equivalents		23.8	12.3	1.5	–
Cash and cash equivalents at the beginning of the year		47.2	34.9	–	–
Cash and cash equivalents at the end of the year	21	**71.0**	**47.2**	**1.5**	**–**

The above consolidated cash flow statements should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2018

These are the consolidated financial statements of Aveo Group, which is a stapled entity comprising Aveo Group Limited and its subsidiaries, and Aveo Group Trust and its subsidiaries. The consolidated financial statements of Aveo Group Trust comprise Aveo Group Trust and its subsidiaries. A list of major subsidiaries is given in note 18 in section C. Details of the stapling arrangement are given in note 31(a) in Appendix 2.

The Parent and the Property Trust are domiciled and formed in Australia. Their registered office and principal place of business is Level 5, 99 Macquarie Street, Sydney, New South Wales.

The financial statements are presented in the Australian currency.

Liquidity basis of preparation

The Group has adopted the liquidity basis for presenting its balance sheets, under which assets and liabilities are presented in order of their liquidity. The Group expects that the tenure of residents of its retirement investment properties will be ten years for independent living units and four years for serviced apartments. Consequently, the Group does not have a clearly identified operating cycle and the liquidity basis provides more relevant information that is also reliable.

The Group continues to disclose the amounts expected to be recovered or settled not more than, and more than, twelve months from reporting date for each asset and liability line item that combines amounts expected to be recovered or settled in those periods. This information is given in the note for each relevant line item.

Notes to the consolidated financial statements

The notes to the consolidated financial statements are set out in the following main sections. Each section or note explains the accounting policies relevant to that section or note. Other significant accounting policies are given in note 31 in Appendix 2.

The notes include all disclosures that the Group considers material, either quantitatively or qualitatively. In determining materiality, the Group considers whether the inclusion or omission of a disclosure could reasonably be expected to influence the economic decisions that users make based on the financial statements.

SECTION A. HOW THE NUMBERS ARE CALCULATED

This section provides details of those individual items in the financial statements that the directors consider most relevant in the context of the operations of the Group. It also explains the accounting policies that have been applied to determine these items and how their amounts were affected by significant estimates and judgements. The section includes the following notes:

Notes to the Consolidated Financial Statements (cont)

for the year ended 30 June 2018

SECTION A1. PROFIT AND LOSS INFORMATION

1. REVENUE

	Note	Group 2018 $m	Group 2017 $m	Trust Group 2018 $m	Trust Group 2017 $m
From continuing operations					
Sale of goods					
Land	(i)	173.6	247.5	–	–
Built form	(ii)	4.0	8.2	–	–
Commercial		0.8	–	–	–
		178.4	**255.7**	**–**	**–**
Rendering of services	(iii)				
Gross deferred management fees and capital gains	(iv)				
Cash received		83.5	111.6	–	–
Difference between cash and accruals basis		75.2	28.1	–	–
Accruals basis		158.7	139.7	–	–
Rent received for commercial investment property	(v)				
Foreign retirement communities		14.7	–	8.6	–
Other		12.1	15.9	15.0	5.6
Village administration fees		9.3	7.8	–	–
Care services		6.5	4.5	–	–
Food services	(iii)	20.1	0.4	–	–
Government grants	(vi)	13.0	9.8	–	–
Commissions received		4.2	6.7	–	–
Other		2.8	4.8	–	–
		241.4	**189.6**	**23.6**	**5.6**
Other revenue					
Management fee received		–	1.9	–	–
Interest received/receivable	(vii)	1.5	0.8	2.4	11.6
Other		4.0	1.5	–	–
		5.5	**4.2**	**2.4**	**11.6**

a. Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. No revenue is recognised if there is significant uncertainty regarding recoverability of the consideration due or if the costs incurred or to be incurred cannot be measured reliably. The following specific criteria must also be met before revenue is recognised:

Sale of goods

i. Land subdivision

Revenues from land subdivision are recognised upon settlement of the contract of sale.

ii. Residential development properties

Revenues from the sale of residential development properties to retail buyers are recognised when the developments are completed and sales are settled. Revenues from the sale of such property in one line to other developers are recognised on the exchange of unconditional sales contracts provided the Group has no further significant work to perform under the sales contract.

Rendering of services

iii. Rendering of services

Revenue from the rendering of services is recognised when the Group has performed the services concerned and, if only partly performed, by reference to the stage of completion of the transaction at the end of the reporting period.

iv. Gross deferred management fees and capital gain

DMF revenue on retirement village investment property is earned while the resident occupies the independent living unit or serviced apartment and is recognised as income over the resident's expected tenure. The expected tenure is calculated with reference to historical trends of rollovers within the Group and is ten years for independent living units and four years for serviced apartments. DMF revenue is not discounted to present value, as the income is received by offset against repayment of the existing resident loan on its settlement (see note 7).

DMF revenue from each resident is amortised over the expected period of tenure of the resident and is calculated by reference to:

- for 'entry'-based contracts, the entry market value of the underlying unit; and
- for 'exit'-based contracts, the current market value of the underlying unit.

DMF revenue to which the Group is contractually entitled at reporting date is presented in the balance sheet as a deduction from resident loans. The excess of DMF revenue to which the Group is contractually entitled at reporting date, over DMF revenue earned to date by amortisation over the expected period of tenure, is included in deferred revenue in the balance sheet.

Previously, the amount shown in revenue for gross DMF represented the cash received during the year and the difference between cash received and revenue on the accrual basis was included in change in fair value of resident loans line in the profit and loss.

During the current period this presentation has been amended so that total DMF revenue accrued in the period is now disclosed in the revenue line, resulting in a reclassification of $75.2 million (30 June 2017: $28.1 million) to the revenue from rendering of services line from the change in fair value of resident loans line in the Consolidated Income Statement, with a corresponding increase in gross profit.

The amended presentation has no impact on current or previously reported net profit.

Notes to the Consolidated Financial Statements (cont)

for the year ended 30 June 2018

SECTION A1. PROFIT AND LOSS INFORMATION (continued)

1. REVENUE (continued)

v. Gross rental income

Rental income from operating leases over commercial investment property is recognised on a straight-line basis over the lease term. Rent not received at balance date is reflected in the balance sheet as a receivable, or if paid in advance, as deferred revenue. Lease incentives granted are recognised over the lease term, on a straight-line basis, as a reduction of rent.

vi. Government grants

Grants from the government are recognised at their fair value when there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

vii. Interest revenue

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

2. PARTICULAR EXPENSES

	Group		Trust Group	
	2018 $m	2017 $m	2018 $m	2017 $m
Profit from continuing operations before income tax includes the following significant expenses:				
Depreciation	2.6	0.7	–	–
Amortisation	0.4	2.7	–	–
Finance costs at amortised cost				
Interest and amortisation of borrowing costs from bank loans and overdraft	29.9	18.2	1.3	–
Less: capitalised finance costs	(25.6)	(16.3)	–	–
	4.3	1.9	1.3	–
Finance costs have been capitalised during the year as part of the carrying amounts of the following assets:				
Inventories – land and development properties held for resale	8.6	10.4	–	–
Investment properties under construction	17.0	5.9	–	–
	25.6	16.3	–	–

Interest was capitalised at a weighted average rate of 4.0% (2017: 4.0%).

3. INCOME TAX EXPENSE

a. Income tax expense

	Group		Trust Group	
	2018 $m	2017 $m	2018 $m	2017 $m
Current income tax				
Current income tax charge	0.3	–	0.2	–
Deferred income tax				
Current year movement	43.9	54.5	–	–
Under provisions	–	0.3	–	–
Income tax expense reported in the income statement	**44.2**	**54.8**	**0.2**	**–**

b. Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated at the statutory income tax rate

	Group		Trust Group	
	2018 $m	2017 $m	2018 $m	2017 $m
Accounting profit before income tax	410.4	307.0	16.8	10.1
Income tax at the Australian tax rate of 30% (2017: 30%)	123.1	92.1	5.0	3.0
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income				
Non-assessable Trust Group income	(5.0)	(3.0)	(5.0)	(3.0)
Non-assessable gain on business combination	–	(15.8)	–	–
Benefit of previously unrecognised temporal differences utilised during the year	(46.6)	(26.0)	–	–
Benefit of previously unrecognised capital losses utilised during the year	(29.8)	–	–	–
Other	2.5	7.2	0.2	–
	44.2	54.5	0.2	–
Prior years' under provisions	–	0.3	–	–
Income tax expense	**44.2**	**54.8**	**0.2**	**–**

c. Accounting for current income tax

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Property Trust taxation

Under current tax legislation, the Property Trust is not liable for income tax, provided its unitholders are presently entitled to its income. Any tax allowances for building and plant and equipment are distributed to unitholders in the form of a tax-deferred component of distributions.

Tax losses and realised capital losses are not distributed to unitholders but are carried forward in the Property Trust to be offset against future taxable income and capital gains of the Property Trust.

Notes to the Consolidated Financial Statements (cont)

for the year ended 30 June 2018

SECTION A2. FINANCIAL ASSETS AND LIABILITIES

Accounting for financial assets

Financial assets within the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either 'financial assets at fair value through profit or loss', 'held-to-maturity investments', 'loans and receivables' or 'available-for-sale financial assets'. The classification depends on the purpose for which the investments were acquired.

When financial assets are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group does not presently have any financial assets classified as 'financial assets at fair value through profit or loss', 'held-to-maturity investments' or 'available-for-sale financial assets'.

4. RECEIVABLES

	Group		Trust Group	
	2018 $m	2017 $m	2018 $m	2017 $m
Trade receivables	195.3	79.1	1.9	–
Other receivables	32.1	26.8	–	–
Prepayments	23.6	12.7	3.5	–
Allowance for impairment	(3.8)	(4.0)	–	–
	247.2	114.6	5.4	–
Due from Parent – interest bearing[1]	–	–	76.8	266.1
	247.2	**114.6**	**82.2**	**266.1**
Expected to be recovered:				
No more than twelve months after the reporting date	195.4	80.8	4.3	–
More than twelve months after the reporting date	51.8	33.8	77.9	266.1

1. For terms and conditions relating to receivables due from the Parent, refer to note 27(b).

a. Accounting for trade and other receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest rate method, less any allowance for impairment. Gains or losses are recognised in profit or loss when the loans and receivables are derecognised or impaired. These assets are classified as current, except for those with maturities greater than 12 months after balance date, which are classified as non-current.

Individual debts that are known to be uncollectible are written off when identified. An impairment is recognised when there is objective evidence that the Group will not be able to collect the receivable. Indicators of impairment include where there is objective evidence of significant financial difficulties, debtor bankruptcy, financial reorganisation or default in payment. The amount of the impairment loss is the receivable's carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

b. Fair value and credit risk

The maximum exposure to credit risk is the fair value of receivables, except for receivables secured by first registered mortgage. The fair values of trade and other receivables approximate their carrying amount.

5. PAYABLES

	Group		Trust Group	
	2018 $m	2017 $m	2018 $m	2017 $m
Trade accounts payable	34.1	26.3	–	–
Refundable accommodation bonds	37.0	14.2	–	–
Interest payable	0.4	1.6	–	–
Payment for Freedom acquisition	7.1	18.2	–	–
Payment for development land acquired	54.7	62.5	1.9	7.8
Payable to Parent	–	–	25.2	17.7
Other payables	104.7	63.1	25.8	0.4
	238.0	**185.9**	**52.9**	**25.9**
Expected to be settled:				
No more than twelve months after the reporting date	179.8	112.9	51.0	20.1
More than twelve months after the reporting date	58.2	73.0	1.9	5.8

a. Accounting for trade and other payables

Except as follows, trade and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

The Group has acquired land for retirement development on deferred payment terms. The carrying amount of the deferred payment for the land has been calculated as the present value of anticipated future payments.

6. INTEREST BEARING LOANS AND BORROWINGS

	Group		Trust Group	
	2018 $m	2017 $m	2018 $m	2017 $m
Secured				
Bank loans (note 6b)	686.9	572.5	33.1	–
Lease liability	–	–	26.4	24.6
Other loans	0.8	0.6	–	–
	687.7	**573.1**	**59.5**	**24.6**
Expected to be settled:				
No more than twelve months after the reporting date	102.1	17.5	–	–
More than twelve months after the reporting date	585.6	555.6	59.5	24.6

Notes to the Consolidated Financial Statements (cont)

for the year ended 30 June 2018

6. INTEREST BEARING LOANS AND BORROWINGS (continued)

SECTION A2. FINANCIAL ASSETS AND LIABILITIES

a. Accounting for interest bearing loans and borrowings

Interest bearing loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period to get ready for its intended use or sale) are capitalised as part of the cost of that asset. For non-specific borrowings, borrowing costs are capitalised using a weighted average capitalisation rate. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

b. Bank loans

The weighted average interest rate including margin and line fees on all bank loans (including both drawn and undrawn amounts) at 30 June 2018 was 4.3% (2017: 3.4%).

On 6 August 2018, the Aveo syndicated facility limits were increased by $77.5 million to $630 million and the facility maturity was extended to July 2021. The maturity date on the remaining debt facility, which is listed as current at 30 June 2018, has been extended to March 2020.

c. Financing arrangements

The Group has access to the following lines of credit:

	Group		Trust Group	
	2018 $m	2017 $m	2018 $m	2017 $m
Total facilities available				
Bank loans (including bank overdraft)	705.1	721.5	33.1	–
Bank guarantee and insurance bond facilities	60.1	60.1	–	–
	765.2	781.6	33.1	–
Facilities utilised at balance date				
Bank loans (including bank overdraft)	686.9	572.5	33.1	–
Bank guarantee and insurance bond facilities	36.5	40.4	–	–
	723.4	612.9	33.1	–
Facilities not utilised at balance date				
Bank loans (including bank overdraft)	18.2	149.0	–	–
Bank guarantee and insurance bond facilities	23.6	19.7	–	–
	41.8	168.7	–	–

Borrowings not listed in this table are fully drawn. Facility limits exclude the increase obtained after reporting date as described above.

d. Restrictions as to use or withdrawal

The facilities are subject to the Group complying with covenants concerning such matters as minimum interest times cover, maximum loan-to-value ratio and gearing ratio (see note 16).

e. Assets pledged as security

In accordance with the security arrangements of the bank loans, all current and non-current assets of the Group are secured by floating charge. Those assets that are also secured by mortgage are:

	Group		Trust Group	
	2018 $m	2017 $m	2018 $m	2017 $m
Inventories	84.3	158.9	–	–
Investment properties	6,158.9	5,505.5	470.7	307.0
	6,243.2	5,664.4	470.7	307.0

f. Defaults and breaches

During the current and prior year, there were no defaults or breaches on any of the loans.

7. RESIDENT LOANS

Resident loans are classified as financial liabilities at fair value through profit and loss with resulting fair value adjustments recognised in the income statement. Fair value is the amount payable on demand and is measured at the principal amount plus the residents' share of any increases in market value to reporting date less deferred management fees contractually accruing to reporting date.

Resident loans are non-interest bearing and are payable at the end of the resident contract. The rate at which the Group's retirement residents vacate their units, and hence the rate at which the resident loans will fall due for repayment, can be estimated based on statistical tables. The resulting estimates of amounts expected to be settled less than and more than twelve months after reporting date are:

	Group	
	2018 $m	2017 $m
Expected to be settled:		
No more than twelve months after the reporting date	181.5	111.5
More than twelve months after the reporting date	2,779.1	2,686.2
	2,960.6	**2,797.7**

If residents do vacate their units as anticipated in the next twelve months, the Group expects that new loans of $268.0 million (2017: $164.6 million) would be received from residents who would occupy the newly vacated units.

The following table presents the changes in resident loans for the financial year.

	Group	
	2018 $m	2017 $m
Opening balance	2,797.7	1,525.4
Items recognised in profit or loss:		
Deferred management fees	(158.7)	(139.7)
Change in fair value of resident loans	35.5	0.1
Increase on business combination	–	1,150.5
Net cash receipts on resident departures and arrivals	286.1	261.4
Closing balance	2,960.6	2,797.7

Notes to the Consolidated Financial Statements (cont)

for the year ended 30 June 2018

7. RESIDENT LOANS (continued)

SECTION A2. FINANCIAL ASSETS AND LIABILITIES

Resident loans are classified as level 3 in the fair value hierarchy. This means that a key assumption used in their valuation is not directly observable. This key assumption is the aggregate current market value of the occupied retirement units of $4,300.6 million (2017: $3,893.7 million). This was determined on the same basis as the market value of both occupied and unoccupied units used as an input to the fair value of retirement villages – see note 9. If the value used for this input was 5% higher, the fair value of these loans would be $215.0 million higher (2017: $194.7 million higher), and the input was 5% lower, the fair value of these loans would be $215.0 million lower (2017: $194.6 million lower). The effect of changing that current market value on the fair value of the related investment properties would be greater.

An explanation of the fair value hierarchy is given in note 15(e).

A critical accounting judgement affecting resident loans is discussed at note 9(b).

SECTION A3. NON-FINANCIAL ASSETS AND LIABILITIES

8. INVENTORIES

	Group		Trust Group	
	2018 $m	2017 $m	2018 $m	2017 $m
Residential communities				
Cost of land acquisition	89.5	114.6	–	–
Development and other costs	21.5	63.6	–	–
Interest capitalised	45.2	67.9	–	–
Impairment provision	(87.3)	(114.7)	–	–
	68.9	131.4	–	–
Commercial				
Cost of land acquisition	9.9	14.6	–	–
Development and other costs	10.1	20.4	–	–
Interest capitalised	13.3	7.4	–	–
Impairment provision	(7.0)	(3.5)	–	–
	26.3	38.9	–	–
	95.2	**170.3**	**–**	**–**
Expected to be recovered:				
No more than twelve months after the reporting date	95.2	108.5	–	–
More than twelve months after the reporting date	–	61.8	–	–

a. Accounting for inventories

Inventories are carried at the lower of cost and net realisable value.

Cost includes the costs of acquisition, development and holding costs such as borrowing costs, rates and taxes. Borrowing costs are capitalised where the development is regarded as a qualifying asset. Holding costs incurred after completion of development are expensed.

Net realisable value is determined based on sales for each class of inventory in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

The amount of any write-down of inventories to net realisable value is recognised as an expense in the income statement. The amount of any reversal of write-down of inventory arising from a change in the circumstances that gave rise to the original write-down is recognised as a reduction in the impairment of inventories in the balance sheet and recognised as a reduction of expense in the income statement.

b. Inventory pledged as security

Inventory is pledged as first mortgage or floating charge security for bank loans. Details are given in note 6(e).

9. INVESTMENT PROPERTIES

	Group		Trust Group	
	2018 $m	2017 $m	2018 $m	2017 $m
At fair value				
Balance at the beginning of the year	5,505.5	3,330.8	307.0	89.0
Acquisition of subsidiaries	53.2	1,580.6	53.2	88.8
Capitalised subsequent expenditure	497.0	444.8	110.5	129.2
Capitalised tenant incentives	0.7	2.8	–	–
Amortisation of tenant incentives	(1.2)	(1.8)	–	–
Straight-line lease revenue recognition	0.2	0.6	–	–
Change in fair value of investment properties	322.0	147.7	–	–
Disposals	(218.5)	–	–	–
Balance at the end of the year	**6,158.9**	**5,505.5**	**470.7**	**307.0**
Comprising:				
Retirement Investment property	6,158.9	5,324.0	470.7	307.0
Non-Retirement Investment property	–	181.5	–	–
	6,158.9	**5,505.5**	**470.7**	**307.0**
Leasing arrangements				
Minimum lease payments due to the Group under non-cancellable operating leases of investment property not recognised in the financial statements are receivable as follows:				
Within one year	–	11.3	–	–
Later than one year but not later than five years	–	36.4	–	–
Later than five years	–	32.7	–	–
	–	**80.4**	**–**	**–**

a. Accounting for investment properties

Investment properties comprise investment interests in land and buildings (including integral plant and equipment) held to produce rental income and capital appreciation.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost incurred in replacing part of an existing investment property if it is probable that the future economic benefits embodied within that part will flow to the Group and the cost can be measured reliably. All other costs are recognised in the income statement as an expense as incurred. Subsequent to initial recognition, investment properties are measured at fair value, being the estimated price that would be received on sale in an orderly transaction between market participants at the reporting date. Gains or losses arising from changes in the fair values of investment properties are recognised in the income statement in the year in which they arise.

Notes to the Consolidated Financial Statements (cont)

for the year ended 30 June 2018

SECTION A3. NON-FINANCIAL ASSETS AND LIABILITIES (continued)

9. INVESTMENT PROPERTIES (continued)

b. Retirement villages

Retirement villages are investment properties held to earn revenues and capital appreciation over the long-term, comprising independent living units, serviced apartments, common facilities and integral plant and equipment.

Fair value has been determined by Directors' valuation using the discounted cash flow valuation methodology. These valuations are based on projected cash flows using resident contracts and the current market value of individual retirement units. In determining these market values, a rolling program of external valuations is undertaken so that each unit is independently valued every three years. During the intervening period, management separately assesses the value of individual units on a six-monthly basis to incorporate current pricing and market conditions.

Estimates of fair value are prepared by management and presented to the Audit and Risk Committee, which recommends their adoption to the Directors. The Audit and Risk Committee has the benefit of an independent review of management's estimate.

Retirement villages are classified as level 3 in the fair value hierarchy. This means that key assumptions used in their valuation are not directly observable. These key assumptions are:

- the discount rate of 12.5% to 15.25% (2017: 12.5% to 14.5%);
- the aggregate current market value of the individual retirement units of $5,061.3 million (2017: $4,364.0 million);
- property price growth rates of 3.5% to 4.0% in the medium term and 3.5% to 4.25% in the long term (2017: 3.5% to 4.0% in the medium term and 3.5% to 4.25% in the long term); and
- average tenure period after first resident departure of ten years for independent living units (ILU) and four years for serviced apartments (SA) (2017: ILU: ten years, SA: four years).

Increasing the assumptions made about the aggregate market value of the individual retirement units and long-term property price growth rates would increase the fair value of the retirement villages (and vice-versa). Increasing the assumptions made about the discount rate and average tenure periods would reduce the fair value of the retirement villages (and vice-versa).

An explanation of the fair value hierarchy is given in note 15(e).

A critical accounting judgement affecting retirement investment properties is whether the significant risks and rewards of ownership of the underlying retirement unit have been transferred to the occupier. If so, then a sale is recognised on the initial occupation of a retirement unit and a resident loan is not recognised. The Group believes that those risks and rewards have not been transferred in respect of any of its retirement units, regardless of the legal form of title granted to the resident, which may be freehold or leasehold. Consequently, the Group recognises resident loans in respect of those of its retirement units that are occupied by residents. This affects the carrying amount of retirement properties because, although the underlying valuation of the properties is not affected by this accounting judgement, the carrying amount of the properties is grossed up by the recognised resident loans.

c. Valuation reconciliation

Valuations are reconciled to the investment properties carrying amount as follows:

	Group		Trust Group	
	2018 $m	2017 $m	2018 $m	2017 $m
Carrying amount of investment properties	6,158.9	5,505.5	470.7	307.0
Less:				
Resident loans	(2,960.6)	(2,797.7)	–	–
Deferred revenue	(266.8)	(204.2)	–	–
Deferred payment for development land	(54.7)	(62.5)	(1.9)	(7.8)
Valuation	**2,876.8**	**2,441.1**	**468.8**	**299.2**
Comprising:				
Retirement (domestic):				
Net present value of annuity streams – units sold or leased	1,991.9	1,695.3	–	–
Leased to subsidiaries of the parent	–	–	261.0	115.5
New units available for first occupancy	346.8	156.6	–	–
Operating buyback units	118.6	75.3	–	–
Minor developments units	76.9	66.4	–	–
Under construction	285.1	266.0	150.3	183.7
	2,819.3	2,259.6	411.3	299.2
Retirement (foreign)	57.5	–	57.5	–
Commercial and retail properties	–	181.5	–	–
	2,876.8	**2,441.1**	**468.8**	**299.2**

Notes to the Consolidated Financial Statements (cont)

for the year ended 30 June 2018

SECTION A3. NON-FINANCIAL ASSETS AND LIABILITIES (continued)

10. DEFERRED TAX ASSETS AND LIABILITIES

a. Deferred tax assets

	Group		Trust Group	
	2018 $m	2017 $m	2018 $m	2017 $m
The balance comprises temporary differences attributable to:				
Amounts recognised in the income statement				
Difference between tax base and carrying amount of fixed assets and inventories	5.9	8.7	–	–
Tax losses	497.2	433.2	–	–
Deferred revenue	33.1	43.7	–	–
Other	14.5	12.1	–	–
Deferred tax assets	**550.7**	**497.7**	**–**	**–**
Less: amounts set off against deferred tax liabilities	(550.7)	(497.7)	–	–
Net deferred tax assets	**–**	**–**	**–**	**–**
Movements				
Balance at the beginning of the year	497.7	417.2	–	–
Changes in fixed assets and inventories recognised for accounting but not yet deductible for tax	(2.8)	3.4	–	–
Tax losses[1]	64.0	66.4	–	–
Deferred revenue	(10.6)	9.0	–	–
Other	2.4	1.7	–	–
Balance at the end of the year	**550.7**	**497.7**	**–**	**–**
Less: amounts set off against deferred tax liabilities	(550.7)	(497.7)	–	–
Net deferred tax assets	**–**	**–**	**–**	**–**

1. These movements for 2017 include $42.5 million resulting from the acquisition of RVG.

b. Deferred tax liabilities

	Group		Trust Group	
	2018 $m	2017 $m	2018 $m	2017 $m
The balance comprises temporary differences attributable to:				
Amounts recognised in the income statement				
Accrued income	1.1	1.1	–	–
Fair value of investment properties	714.6	664.3	–	–
Fair value of resident loans	29.0	(9.0)	–	–
Other	4.8	(3.8)	–	–
Amounts recognised directly in equity	–	–	–	–
Deferred tax liabilities	**749.5**	**652.6**	**–**	**–**
Less: amounts set off against deferred tax assets	(550.7)	(497.7)	–	–
Net deferred tax liabilities	**198.8**	**154.9**	**–**	**–**
Movements				
Balance at the beginning of the year	652.6	518.1	–	–
Accrued income	–	(11.5)	–	–
Fair value of investment properties	50.3	64.0	–	–
Fair value of resident loans[1]	38.0	76.5	–	–
Other	8.6	5.5	–	–
Balance at the end of the year	**749.5**	**652.6**	**–**	**–**
Less: amounts set off from deferred tax assets	(550.7)	(497.7)	–	–
Net deferred tax liabilities	**198.8**	**154.9**	**–**	**–**

1. These movements for 2017 include $42.5 million resulting from the acquisition of RVG.

c. Tax losses

	Group		Trust Group	
	2018 $m	2017 $m	2018 $m	2017 $m
Unused losses for which no deferred tax asset has been recognised	258.8	328.2	–	–
Potential tax benefit at Australian tax rate of 30% (2017: 30%)	77.6	98.5	–	–

These mainly comprise Australian capital losses.

Notes to the Consolidated Financial Statements (cont)

for the year ended 30 June 2018

SECTION A3. NON-FINANCIAL ASSETS AND LIABILITIES (continued)

10. DEFERRED TAX ASSETS AND LIABILITIES (continued)

d. Accounting for deferred tax

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences. However, such liabilities are not recognised when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward or unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised. However, such liabilities are not recognised when the deductible temporary difference is associated with investments in subsidiaries, associates or joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the financial year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax assets and deferred income tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

SECTION A4. EQUITY

11. CONTRIBUTED EQUITY

	Aveo Group Limited		Aveo Group Trust	
	2018	2017	2018	2017
	Number of stapled securities		Number of stapled securities	
Issued capital				
Ordinary securities fully paid	580,837,672	581,337,672	580,837,672	581,337,672
Treasury securities	(3,846,319)	(4,043,966)	(3,846,319)	(4,043,966)
	576,991,353	**577,293,706**	**576,991,353**	**577,293,706**
Movements in securities on issue				
Ordinary securities fully paid				
Balance at the beginning of the year	581,337,672	543,224,107	581,337,672	543,224,107
Securities issued	–	38,113,565	–	38,113,565
Securities bought back and cancelled	(500,000)	–	(500,000)	–
Ordinary securities fully paid	580,837,672	581,337,672	580,837,672	581,337,672
Treasury securities				
Balance at the beginning of the year	(4,043,966)	(2,130,380)	(4,043,966)	(2,130,380)
Acquisition of treasury securities	(400,000)	(3,243,919)	(400,000)	(3,243,919)
Vesting of employee incentive securities	597,647	1,330,333	597,647	1,330,333
Balance at the end of the year	(3,846,319)	(4,043,966)	(3,846,319)	(4,043,966)

	Attributable to the shareholders of Aveo Group Limited		Attributable to the securityholders of Aveo Group Trust	
	2018 $m	2017 $m	2018 $m	2017 $m
Movements in contributed equity				
Balance at the beginning of the year	1,262.6	1,178.1	723.2	687.0
Securities issued	–	90.6	–	38.9
Transaction costs on issue of securities	–	(1.3)	–	(0.6)
Acquisition of treasury securities	(0.7)	(7.5)	(0.3)	(3.2)
Securities bought back and cancelled	(0.9)	–	(0.4)	–
Vesting of employee incentive securities	1.2	2.7	0.6	1.1
Balance at the end of the year	**1,262.2**	**1,262.6**	**723.1**	**723.2**

a. Accounting for contributed equity

Incremental costs directly attributable to the issue of ordinary securities and security options are shown in equity as a deduction, net of tax, from the proceeds.

b. Terms and conditions

Holders of ordinary securities are entitled to receive dividends and distributions as declared from time to time and are entitled to one vote per security at securityholders' meetings. In the event of winding-up of the Parent, ordinary securityholders rank equally with all other securityholders and unsecured creditors and are fully entitled to any proceeds of liquidation.

12. DIVIDENDS AND DISTRIBUTIONS

Details of dividends and distributions proposed or paid by the Group are:

	Cents per security	Total amount $m	Date of payment	Franked tax rate %	Percentage franked %
2018					
Dividends and distributions recognised in the current year:					
Final 2018 distribution	9.0	51.9	29 September 2018	–	–
	9.0	**51.9**		**–**	**–**
Comprising:					
Aveo Group Limited	–	–		–	–
Aveo Group Trust	9.0	51.9		–	–
	9.0	51.9			

Notes to the Consolidated Financial Statements (cont)

for the year ended 30 June 2018

SECTION A4. EQUITY (continued)

12. DIVIDENDS AND DISTRIBUTIONS (continued)

	Cents per security	Total amount $m	Date of payment	Franked tax rate %	Percentage franked %
2017					
Dividends and distributions recognised in the current year:					
Final 2017 distribution	9.0	52.0	29 September 2017	–	–
	9.0	**52.0**			
Comprising:					
Aveo Group Limited	–	–		–	–
Aveo Group Trust	9.0	52.0		–	–
	9.0	52.0			

	Group		Trust Group	
	2018 $m	2017 $m	2018 $m	2017 $m
Dividend franking account				
Balance of the 30% franking credits at year end	7.9	7.9	–	–

The above available amounts are based on the balance of the dividend franking account at reporting date adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax;
- franking debits that will arise from the payment of dividends recognised as a liability at the year-end;
- franking credits that will arise from the receipt of dividends recognised at the year-end; and
- franking credits that the Parent may be prevented from distributing in subsequent years.

SECTION A5. SEGMENT INFORMATION

13. SEGMENT INFORMATION

An operating segment is a component of the Group:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group);
- whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

The Group also considers other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the Board.

Operating segments are identified based on internal reports that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and assess its performance.

a. Reportable segments

The Group is organised into four segments:

- Retirement Established Business, which operates retirement villages to produce rental and other income;
- Retirement Development, which develops retirement villages to produce development profits represented in the income statement by changes in fair value of investment properties;
- Retirement Care and Support, which operates aged care facilities to produce rental and other income; and
- Non-Retirement, which develops residential, commercial and retail property. Developed residential property is sold, whilst developed commercial and retail property may be sold or held to produce rental income and capital appreciation.

Segment EBITDA, measured on the same basis as UPT, is the primary measure used to assess segment performance.

b. Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable operating segment for the periods under review:

	Retirement							
	Retirement Established Business $m	Retirement Development $m	Care and Support $m	Total Retirement $m	Non-Retirement	Total reportable segments $m	Non-allocated items[1] $m	Group $m
2018								
Segment revenue								
Revenue from outside the Group[2]	192.9	0.2	41.7	234.8	190.5	425.3	–	425.3
Total segment revenue	**192.9**	**0.2**	**41.7**	**234.8**	**190.5**	**425.3**	**–**	**425.3**
Segment result								
Segment EBITDA	61.1	79.0	0.8	140.9	50.5	191.4	(21.5)	169.9
Change in fair value of investment properties[3]	203.5	–	–	203.5	–	203.5	–	203.5
Sale of Gasworks	–	–	–	–	33.6	33.6	–	33.6
Other	12.6	–	–	12.6	(1.9)	10.7	–	10.7
Statutory EBITDA	277.2	79.0	0.8	357.0	82.2	439.2	(21.5)	417.7
Depreciation and amortisation	(0.5)	(0.1)	(1.7)	(2.3)	–	(2.3)	(0.7)	(3.0)
Net interest expense	–	–	–	–	–	–	(4.3)	(4.3)
Net profit from continuing operations before income tax	**276.7**	**78.9**	**(0.9)**	**354.7**	**82.2**	**436.9**	**(26.5)**	**410.4**
Income tax expense								(44.2)
Net profit after income tax								**366.2**

1. *Includes unallocated Corporate Services.*
2. *Segment revenue represents an aggregation of revenue from sales of goods, the rendering of services and other revenue. Each of these is a separate line item in the income statement. It differs to that reported in the Directors' Report because revenue for underlying profit includes receipts from incoming residents that in the financial statements are treated as an increase in residents' loans. Revenue for underlying profit also includes development profits that are reflected in the income statement as changes in fair value.*
3. *Includes resident loans but excludes development gains included in Retirement Development EBITDA.*

Notes to the Consolidated Financial Statements (cont)

for the year ended 30 June 2018

SECTION A5. SEGMENT INFORMATION (continued)

13. SEGMENT INFORMATION (continued)

	Retirement							
	Retirement Established Business $m	Retirement Development $m	Care and Support $m	Total Retirement $m	Non-Retirement	Total reportable segments $m	Non-allocated items[1] $m	Group $m
2017								
Segment revenue								
Revenue from outside the Group[2]	162.2	3.5	12.4	178.1	271.3	449.4	0.1	449.5
Total segment revenue	**162.2**	**3.5**	**12.4**	**178.1**	**271.3**	**449.4**	**0.1**	**449.5**
Segment result								
Segment EBITDA	73.8	25.2	1.7	100.7	62.7	163.4	(18.7)	144.7
Change in fair value of investment properties[3]	111.4	–	–	111.4	16.5	127.9	–	127.9
Share of non-operating loss of equity-accounted investments	(5.1)	–	–	(5.1)	–	(5.1)	–	(5.1)
Gain on acquisition of RVG	52.6	–	–	52.6	–	52.6	–	52.6
Other	(0.5)	–	–	(0.5)	(6.9)	(7.4)	(0.4)	(7.8)
Statutory EBITDA	232.2	25.2	1.7	259.1	72.3	331.4	(19.1)	312.3
Depreciation and amortisation	(2.0)	–	(0.6)	(2.6)	(0.1)	(2.7)	(0.7)	(3.4)
Net interest expense	–	–	–	–	–	–	(1.9)	(1.9)
Net profit from continuing operations before income tax	**230.2**	**25.2**	**1.1**	**256.5**	**72.2**	**328.7**	**(21.7)**	**307.0**
Income tax expense								(54.8)
Net profit after income tax								**252.2**

1. Includes unallocated Corporate Services.

2. Segment revenue represents an aggregation of revenue from sales of goods, the rendering of services and other revenue. Each of these is a separate line item in the income statement. It differs to that reported in the Directors' Report because revenue for underlying profit includes receipts from incoming residents that in the financial statements is treated as an increase in residents' loans. Revenue for underlying profit also includes development profits that are reflected in the income statement as changes in fair value.

3. Includes resident loans but excludes development gains included in Retirement Development EBITDA.

SECTION B. RISK MANAGEMENT

This section discusses the Group's exposure to various financial risks, explains how these affect the Group's financial position and performance and what the Group does to manage these risks. It includes the following notes:

14. CRITICAL ESTIMATES AND JUDGEMENTS

The preparation of these financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience as adjusted for current market conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a. Estimates and assumptions

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

i. Estimates of net realisable value of inventories

Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise and the estimate of costs to complete. Refer to note 8 for further details.

ii. Investment properties

Investment properties are measured at fair value, being the estimated price that would be received on sale in an orderly transaction between market participants at the reporting date. Details of the investment properties and the key assumptions made in estimating fair value are given in note 9.

iii. Resident loans

Resident loans are also measured at fair value, being the amount payable on demand, measured at the principal amount plus the residents' share of any increases in market value to reporting date less deferred management fees contractually accruing to reporting date. Details of the resident loans and the key assumptions made in estimating fair value are given in note 7.

b. Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, the Group makes various judgements, apart from those involving estimations, that can significantly affect the amounts recognised in the consolidated financial statements. These include whether all the significant risks and rewards of ownership of Retirement units have been substantially transferred to the occupier (see note 9).

SECTION B. RISK MANAGEMENT (continued)

15. FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments comprise receivables, payables, bank loans, resident loans, financial assets and liabilities at fair value through profit or loss, finance leases, and cash and short-term deposits.

The Group has in place a Treasury and Risk Management Policy, which focuses on the following main financial risks: interest rate risk, foreign currency risk, liquidity risk and credit risk. The Board has ultimate responsibility for the financial risk management process for the Group. The Board reviews and approves the Policy, the approach to the management of financial risks and where appropriate, variations from these policies. The Board also reviews compliance with the Policy at its monthly meetings as appropriate.

Day-to-day responsibility for the monitoring of financial risk exposure, market movements and the development of an appropriate response, rests with the CFO.

The Group's overall financial risk management focuses on the unpredictability of financial markets and seeks to minimise potentially adverse effects on the Group's financial performance. The Group uses different methods to measure and mitigate the different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessing market forecasts for interest rate and foreign exchange prices. Ageing analysis and monitoring of specific credit exposures are undertaken to manage credit risk.

a. Interest rate risk

Interest rate risk is the risk that the fair value of financial instruments or cash flows associated with instruments will fluctuate due to changes in market interest rates, resulting in an adverse impact on financial performance. The Group's exposure to market interest rates relates primarily to the Group's borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group manages this risk exposure by using a range of financial instruments to hedge against changes in interest rates and maintain a mix of fixed and variable debt. The level of debt is disclosed in note 6.

The Group primarily manages this risk exposure through entering into derivative instruments (primarily interest rate swaps), in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. The level of derivative instruments required to manage interest rate risk is dependent on Group gearing. The Group presently has no interest rate hedges. Consequently, at 30 June 2018, none (2017: none) of the Group's drawn debt denominated in Australian dollars was at a fixed rate of interest. Debt denominated in United States dollars carries a fixed interest rate.

The impact of an increase or decrease in average interest rates of 0.75% (75 basis points) at reporting date, with all other variables held constant, is shown in the table below. This level of sensitivity was considered reasonable given the current level of both short-term and long-term Australian interest rates. The analysis is based on the interest rate risk exposures in existence at reporting date. As the Group has no derivatives that meet the documentation requirements to qualify for hedge accounting, there would be no impact on equity apart from the effect on profit.

	Change in net interest expense higher/(lower)		Change in fair value of derivatives higher/(lower)	
	2018 $m	2017 $m	2018 $m	2017 $m
Consolidated Group				
+0.75% (75 basis points)	4.1	3.9	–	–
-0.75% (75 basis points)	(4.1)	(3.9)	–	–
Consolidated Property Trust				
+0.75% (75 basis points)	(0.6)	(2.0)	–	–
-0.75% (75 basis points)	0.6	2.0	–	–

b. Foreign currency risk

Foreign currency risk arises as a result of having assets denominated in a currency that is not the Group's functional currency (balance sheet risk) or from transactions or cash flows denominated in a foreign currency (cash flow risk).

Balance sheet risk can affect net tangible assets whereas cash flow risk is more likely to affect potential equity distributions or other cash requirements such as the repayment of debt.

The Group has no significant concentrations of foreign exchange risk.

c. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet contractual obligations, with the maximum exposure being equal to the carrying amount of these instruments. Credit risk arises from the financial assets of the Group, which may include cash and cash equivalents, trade and other receivables, available-for-sale financial assets, financial assets at fair value through profit or loss and derivative financial instruments.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures, including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are set for each individual customer in accordance with parameters set by the Board. These risk limits are regularly monitored. For third parties with extended term debt, credit checks are obtained and, in some instances, the receivable is secured by registered mortgage.

In addition, receivable balances are monitored regularly with the intention that the Group's exposure to bad debts is minimised.

The Group's cash management policy is to maintain cash in a highly liquid and low risk portfolio with investments made in high quality, short-term money market instruments to ensure the preservation of capital at all times.

The granting of financial guarantees also exposes the Group to credit risk, being the maximum amount that would have to be paid if the guarantee is called on. As the amounts payable under the guarantees are not significantly greater than the original liabilities, this risk is not material.

The Group manages concentrations of credit risk by limiting the maximum exposure to any one financial institution, which varies according to its credit rating.

d. 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's objective is to achieve continuity of funding and flexibility, due to the dynamic nature of the underlying business, using bank overdrafts, bank loans, finance leases and committed available credit lines, in addition to other sources of funds.

The Group regularly reviews existing funding lines and assesses future requirements based upon known and forecast information provided by each of the business units. This assists flexibility by matching profiles of short-term investments with cash flow requirements and assists in timing the negotiation of credit facilities. Cash forecasts are prepared for review by the CFO and for presentation to the Board as appropriate. In order to ensure that the Group is able to meet short-term commitments (i.e. less than 12 months) and has sufficient time to plan and fund longer term commitments, forward commitment tests must be satisfied unless exemptions are approved by the Board.

Management monitors the maturity and amortisation profile of all debt facilities on a regular basis and reports these to the Board. The CFO presents a refinancing plan for the approval of the Board well in advance of material debt facilities maturity.

The current weighted average debt maturity is 2.1 years (2017: 2.8 years). The refinancing after reporting date discussed at note 6(b) extends the 2018 weighted maturity to 3.0 years.

Notes to the Consolidated Financial Statements (cont)

for the year ended 30 June 2018

SECTION B. RISK MANAGEMENT (continued)

15. FINANCIAL RISK MANAGEMENT (continued)

The table below reflects the contractual maturity of the Group's financial liabilities. It shows the undiscounted cash flows, including interest and fees, required to discharge the liabilities. Cash flows for financial liabilities without fixed amount or timing are based on conditions existing at 30 June 2018.

	≤1 year $m	1-2 years $m	2-5 years $m	≤ 5 years $m	Total $m
2018					
Group					
Payables	179.8	11.7	25.4	34.0	250.9
Resident loans[1]	2,960.6	–	–	–	2,960.6
Bank loans	129.9	54.6	527.6	33.7	745.8
Other loans	2.2	0.2	0.2	–	2.6
	3,272.5	**66.5**	**553.2**	**67.7**	**3,959.9**
Trust Group					
Payables	51.0	1.9	–	–	52.9
	51.0	**1.9**	**–**	**–**	**52.9**
2017					
Group					
Payables	112.9	17.0	33.8	43.7	207.4
Resident loans[1]	2,797.7	–	–	–	2,797.7
Bank loans	37.0	115.9	474.2	–	627.1
Other loans	1.2	0.1	0.1	–	1.4
	2,948.8	**133.0**	**508.1**	**43.7**	**3,633.6**
Trust Group					
Payables	20.1	5.8	–	–	25.9
	20.1	**5.8**	**–**	**–**	**25.9**

1. Resident loans are classified as having a contractual maturity of up to one year because the Group does not have an unconditional right to defer settlement of resident loans for at least 12 months after the reporting period. In practice, the rate at which the Group's retirement residents vacate their units, and hence the rate at which the resident loans will fall due for repayment, can be estimated based on statistical tables. The Group's best estimate is that, of the total resident loans of $2,960.6 million (2017: $2,797.7 million), only $181.5 million (2017: $111.5 million) is expected to become payable within the next 12 months. If residents do vacate their units as anticipated in the next twelve months, the Group expects that new loans of $268.0 million (2017: $164.6 million) would be received from residents who would occupy the newly vacated units.

e. Fair value

All financial instruments carried at fair value may be grouped into three categories, defined as follows:

Level 1 The fair value is calculated using quoted prices in active markets.

Level 2 The fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 The fair value is estimated using inputs for the asset or liability that are not based on observable market data.

As at reporting date, the Group held the following financial instruments measured at fair value:

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
2018				
Group				
Financial assets	–	–	–	–
Financial liabilities				
Resident loan obligations at fair value through profit or loss	–	–	2,960.6	2,960.6
	–	**–**	**2,960.6**	**2,960.6**
2017				
Group				
Financial assets				
Rights to acquire syndicate shares	–	–	–	–
Financial liabilities				
Resident loan obligations at fair value through profit or loss	–	–	2,797.7	2,797.7
	–	**–**	**2,797.7**	**2,797.7**

The Trust Group does not have any financial instruments measured at fair value.

The fair value of all other financial instruments approximates their carrying amount.

Further information on the resident loan obligations is given in note 7.

16. CAPITAL MANAGEMENT

When managing capital, management's objective is to ensure that the Group uses a mix of funding options, while remaining focused on the objective of optimising returns to securityholders. Management aims to maintain a capital structure that ensures the lowest weighted average cost of capital available. The Group aims to maintain reported gearing, measured as net debt divided by cash adjusted assets (net of resident obligations), in the range of 10% to 20%. At 30 June 2018, reported gearing was 16.8% (2017: 16.9%).

Management may adjust the Group's capital structure to take advantage of favourable changes in the cost of capital. This could include changing the amount of dividends to be paid to securityholders, returning capital to securityholders or adjusting debt levels.

Under the terms of the Group's major borrowing facility, it is required to comply with certain main financial covenants. The main covenants, their required and actual values were:

		Group	
	Required	2018	2017
Group Facility			
Gearing	≤ 30%	16.8%	16.9%
Interest cover – Group (times)	≥ 1.5	5.8	7.2
Interest cover – Core (times)	≥ 2.0	2.7	3.5
Loan to value ratio	≤ 30%	21.3%	21.2%

Notes to the Consolidated Financial Statements (cont)

for the year ended 30 June 2018

SECTION C. GROUP STRUCTURE

This section explains significant aspects of the Group's structure and the effect of changes in it on the financial position and performance of the Group. It includes the following notes:

17. BUSINESS COMBINATION

a. Summary of acquisition

The US Seniors business comprises the US Senior Living Property Trust (*Property Trust*) and the US Senior Living Tenant Trust (*Tenant Trust*; collectively the *Trusts*), which own and operate five senior living facilities in the United States. The Group was a founding securityholder in these Trusts on their inception in 2007, with Aveo Group Trust (*AGT*) owning 50% of the Property Trust and Aveo Group Limited (*AOG*) owning 50% of the Tenant Trust.

On 2 August 2017, the Group acquired the remaining 50% of each of these Trusts that it did not already own. AGT now owns 100% of the Property Trust and AOG owns 100% of the Tenant Trust. AOG's consolidated accounts incorporate AGT, so from date of acquisition both Trusts are wholly owned subsidiaries of AOG.

Previously, the Group accounted for the Trusts as equity-accounted associates. On becoming subsidiaries, the Group remeasured the previous equity-accounted carrying amount to fair value as follows:

	Group	Trust Group
	$m	$m
Carrying amount	9.5	9.5
Fair value	9.5	9.5
Gain	–	–

The Group paid $3.8 million in cash (AGT: $3.8 million) for the remaining 50% interest acquired.

The assets and liabilities recognised because of the acquisition, and the resulting discount on acquisition, are as follows:

	Group $m	Trust Group $m
Cash and cash equivalents	1.2	0.1
Trade and other receivables	2.1	1.3
Investment properties	53.2	53.2
Trade and other payables	(2.8)	–
Interest bearing loans	(35.6)	(35.6)
Net identifiable assets	18.1	19.0
Less:		
Previously held equity interest (remeasured to fair value)	(9.5)	(9.5)
Purchase consideration	(3.8)	(3.8)
Discount on acquisition	4.8	5.7

The total net gain recognised in the income statement comprises:

	Group $m	Trust Group $m
Discount on acquisition	4.8	5.7
Loan to Trusts forgiven	–	(0.9)
	4.8	4.8
Transfer from foreign currency translation reserve	(3.3)	1.9
	1.5	6.7

The transfer from foreign currency translation reserve reflects accumulated exchange differences to 2 August 2017. This transfer had no effect on net assets.

The discount on acquisition arose because the Group was the natural buyer of the interest acquired, as it already owned 50% of the Trusts.

The Trusts contributed revenues of $14.8 million (AGT: $9.2 million) and net loss of $5.8 million (AGT: net profit of $3.2 million) to the Group for the period from 2 August 2017 to 30 June 2018.

b. Outflow of cash to acquire subsidiary, net of cash acquired

	Group $m	Trust Group $m
Cash consideration	3.8	3.8
Transaction costs	–	–
Less: Cash balances acquired	(1.2)	–
Net outflow of cash – investing activities	2.6	3.8

Notes to the Consolidated Financial Statements (cont)

for the year ended 30 June 2018

SECTION C. GROUP STRUCTURE (continued)

18. INTERESTS IN OTHER ENTITIES

The consolidated financial statements of the Group include the following material entities:

		Group		Trust Group	
Entity	Activity	2018 %	2017 %	2018 %	2017 %
Material subsidiaries					
Aveo B/P Land Trust	Retirement village owner	100.0	100.0	100.0	100.0
Aveo Cleveland Gardens Pty Limited	Retirement village owner and operator	100.0	100.0	–	–
Aveo Durack Pty Ltd	Retirement village owner and operator	100.0	100.0	–	–
Aveo Group Trust	Property owner	100.0	100.0	–	–
Aveo Healthcare Limited	Retirement village owner and operator	86.6	86.6	–	–
Aveo Leisure Services Pty Ltd	Retirement village owner and operator	100.0	100.0	–	–
Aveo Newstead Trust	Retirement village owner and operator	100.0	100.0	100.0	100.0
Aveo North Shore Retirement Villages Pty Ltd	Retirement village owner and operator	100.0	100.0	–	–
Aveo Retirement Homes (No.2) Pty Ltd	Retirement village owner and operator	100.0	100.0	–	–
Aveo Retirement Homes Limited	Retirement village owner and operator	100.0	100.0	–	–
Aveo Southern Gateway Trust	Retirement village owner	100.0	100.0	100.0	100.0
Aveo Springfield Trust	Retirement village owner	100.0	100.0	100.0	100.0
FKP Commercial Developments Pty Ltd	Property developer	100.0	100.0	–	–
FKP Lifestyle Pty Ltd	Property developer	100.0	100.0	–	–
FKP Residential Developments Pty Ltd	Property developer	100.0	100.0	–	–
Freedom Aged Care Pty Ltd	Retirement village owner and operator	100.0	100.0	–	–
Retirement Villages Australia Pty Ltd	Retirement village owner and operator	100.0	100.0	10.0	10.0
US Senior Living Property Trust	Retirement village owner and operator	100.0	50.0	100.0	50.0
US Senior Living Tenant Trust	Retirement village owner and operator	100.0	50.0	–	–

All these entities are formed or incorporated in Australia.

19. INVESTMENTS

a. Carrying amounts

Details of the carrying amounts of equity-accounted investments are as follows:

	Group		Trust Group	
	2018 $m	2017 $m	2018 $m	2017 $m
Associates				
Other associates	–	12.8	2.3	2.3
Joint ventures	–	10.4	–	10.4
Available for Sale Financial Assets	–	–	37.1	37.1
	–	**23.2**	**39.4**	**49.8**

b. Accounting for equity-accounted investments

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group's investments in its associates and joint ventures are accounted for using the equity method. Under the equity method, investments in these entities are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's or Trust Group's share of net assets of these entities.

The Group and Trust Group's share of these entities' profits or losses is recognised in the income statement, and its share of movements in reserves is recognised in reserves. The cumulative movements are adjusted against the carrying amount of the investment. Dividends receivable are recognised as a reduction in the equity-accounted investment.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its equity-accounted investments. If there is any objective evidence that the investment in the associate is impaired, the Group calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying value and recognises it in the income statement.

c. Accounting for available for sale financial assets

Available for sale (*AFS*) financial assets comprise equity investments that are neither held for trading nor designated at fair value through profit or loss. After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income and credited to the AFS reserve until the investment is derecognised or the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the AFS reserve to the income statement.

Notes to the Consolidated Financial Statements (cont)

for the year ended 30 June 2018

APPENDICES

The appendices set out information that is required under the Standards, the Act or the Regulations, but which, in the Directors' view, is not critical to understanding the financial statements.

APPENDIX 1. HOW THE NUMBERS ARE CALCULATED – OTHER ITEMS

This section provides information about the basis of calculation of line items in the financial statements that the Directors do not consider significant in the context of the Group's operations. It includes the following notes:

20. EARNINGS PER SECURITY

a. Earnings used in calculating earnings per security

	Group		Trust Group	
	2018 $m	2017 $m	2018 $m	2017 $m
Profit from continuing operations after income tax	366.2	252.2	16.6	10.1
Less: non-controlling interest – external	(1.1)	0.6	–	–
Net profit after income tax attributable to equity holders adjusted for the effect of dilution	**365.1**	**252.8**	**16.6**	**10.1**

b. Weighted average number of securities used as the denominator

	Group		Trust Group	
	2018 $m	2017 $m	2018 $m	2017 $m
Weighted average number of ordinary securities used in calculating basic and diluted earnings per security	576,914,768	572,255,635	576,914,768	572,255,635

c. Anti-dilutive instruments

The following securities could potentially dilute basic earnings per security in the future but were not included in the calculation of diluted earnings per security because they are anti-dilutive:

	Group		Trust Group	
	2018 $m	2017 $m	2018 $m	2017 $m
Performance rights	3,835,067	3,695,148	3,835,067	3,695,148
STID	391,730	270,806	391,730	270,806

d. Calculating earnings per security

Basic earnings per security is calculated as net profit attributable to members of the Parent divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per security is calculated as net profit attributable to members of the Parent, adjusted for non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

21. CASH AND CASH EQUIVALENTS

	Group		Trust Group	
	2018 $m	2017 $m	2018 $m	2017 $m
Cash at bank	69.1	45.1	1.5	–
Capital replacement funds[1]	1.9	2.1	–	–
	71.0	**47.2**	**1.5**	**–**

1. *A statutory charge, imposed under the Retirement Villages Act 1999 (Qld), exists over all amounts held in capital replacement funds, which restricts the use for which these funds can be applied.*

22. PROPERTY, PLANT AND EQUIPMENT

	Group		Trust Group	
	2018 $m	2017 $m	2018 $m	2017 $m
Freehold land				
At cost	7.5	7.3	0.2	–
Accumulated impairment	(4.6)	(4.6)	–	–
	2.9	2.7	0.2	–
Residential aged care facilities				
At cost	106.2	80.9	49.6	–
Accumulated depreciation	(5.0)	(3.3)	–	–
	101.2	77.6	49.6	–
Freehold buildings				
At cost	35.2	10.3	28.8	23.5
Accumulated depreciation	(1.6)	(1.5)	–	–
Accumulated impairment	(1.7)	(1.7)	–	
	31.9	7.1	28.8	23.5
Leasehold Land				
At cost	–	–	8.0	7.4
Accumulated amortisation	–	–	–	–
	–	–	8.0	7.4

Notes to the Consolidated Financial Statements (cont)

for the year ended 30 June 2018

APPENDIX 1. HOW THE NUMBERS ARE CALCULATED – OTHER ITEMS (continued)

22. PROPERTY, PLANT AND EQUIPMENT (continued)

	Group		Trust Group	
	2018 $m	2017 $m	2018 $m	2017 $m
Leasehold improvements				
At cost	6.8	6.7	–	–
Accumulated amortisation	(5.7)	(5.5)	–	–
	1.1	1.2	–	–
Plant and equipment				
At cost	8.6	7.9	–	–
Accumulated depreciation	(7.5)	(7.3)	–	–
	1.1	0.6	–	–
Motor Vehicles				
At cost	0.7	0.7	0.1	–
Accumulated depreciation	(0.4)	(0.3)	–	–
	0.3	0.4	0.1	–
Total property, plant and equipment	**138.5**	**89.6**	**86.7**	**30.9**

a. Accounting for property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. All other repairs and maintenance are recognised in the income statement as incurred.

All items of property, plant and equipment, other than freehold and leasehold land, are depreciated using the straight-line method.

Depreciation rates used are as follows:

	Depreciation rate
Residential aged care facilities	2.0% – 2.5%
Freehold buildings	2.0% – 2.5%
Leasehold improvements	2.5% – 20.0%
Plant and equipment	6.0% – 40.0%

These rates are consistent with the prior year.

23. PROVISIONS

	Group		Trust Group	
	2018 $m	2017 $m	2018 $m	2017 $m
Employee benefits	12.0	5.6	–	–
Warranty maintenance	1.7	1.3	0.5	0.3
Distributions payable	51.9	52.0	51.9	52.0
Other provisions	–	1.7	–	–
	65.6	**60.6**	**52.4**	**52.3**
Expected to be settled:				
No more than twelve months after the reporting date	63.2	58.2	52.4	52.3
More than twelve months after the reporting date	2.4	2.4	–	–

a. Accounting for provisions

A provision is recognised where there is a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying the economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

APPENDIX 1. HOW THE NUMBERS ARE CALCULATED – OTHER ITEMS (continued)

24. RESERVES AND RETAINED PROFITS/(ACCUMULATED LOSSES)

	Group[1]		Trust Group[2]	
	2018 $m	2017 $m	2018 $m	2017 $m
Reserves				
Equity-settled employee benefits reserve	16.9	15.8	–	–
Foreign currency translation reserve	(1.3)	(5.7)	2.4	2.3
Fair value reserve	(19.7)	(19.7)	–	–
Total reserves	**(4.1)**	**(9.6)**	**2.4**	**2.3**
Movement in reserves				
Equity-settled employee benefits reserve				
Balance at the beginning of the year	15.8	16.6	–	–
Share-based payment	1.1	(0.8)	–	–
Balance at the end of the year	16.9	15.8	–	–
Foreign currency translation reserve				
Balance at the beginning of the year	(5.7)	(5.3)	2.3	2.9
Translation of foreign operations	4.4	(0.4)	0.1	(0.6)
Balance at the end of the year	(1.3)	(5.7)	2.4	2.3
Fair value reserve				
Balance at the beginning of the year	(19.7)	(20.0)	–	–
Fair value loss on transactions with owners	–	0.3	–	–
Balance at the end of the year	(19.7)	(19.7)	–	–
Retained earnings/(accumulated losses)				
Retained earnings/(accumulated losses) at the beginning of the year	145.3	(97.4)	(175.8)	(133.9)
Net profit from ordinary activities after income tax	348.5	242.7	16.6	10.1
Dividends and distributions recognised during the year	–	–	(51.9)	(52.0)
Retained earnings/(accumulated losses) at the end of the year	**493.8**	**145.3**	**(211.1)**	**(175.8)**

1. Attributable to the shareholders of Aveo Group Limited.
2. Attributable to the securityholders of Aveo Group Trust.

Nature and purpose of reserves

i. *Equity-settled employee benefits reserve*

The equity-settled employee benefits reserve is used to recognise the fair value of options issued to employees, with a corresponding increase in employee expense in the income statement.

ii. *Foreign currency translation reserve*

Exchange differences arising on translation of the foreign jointly controlled entities are recognised in other comprehensive income as described in note 31(e) and accumulated in a separate reserve within equity. The cumulative amount is reclassified to the income statement when the net investment is disposed of.

iii. *Fair value reserve*

Transactions with non-controlling interests that do not result in a loss of control result in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised within the fair value reserve.

25. MATERIAL PARTLY-OWNED SUBSIDIARIES

Financial information of subsidiaries that have material non-controlling interests is:

		Group	
Name	Country of incorporation and operation	2018	2017
Aveo Healthcare Limited	Australia	13.4%	13.4%

	Group	
	2018 $m	2017 $m
Carrying amount of material non-controlling interest:		
Aveo Healthcare Limited	30.4	29.4
Profit/(loss) allocated to material non-controlling interest:		
Aveo Healthcare Limited	0.5	(0.9)

Notes to the Consolidated Financial Statements (cont)

for the year ended 30 June 2018

APPENDIX 1. HOW THE NUMBERS ARE CALCULATED – OTHER ITEMS (continued)

25. MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)

	Aveo Healthcare Limited 2018 $m	Aveo Healthcare Limited 2017 $m
Summarised statement of comprehensive income:		
Revenue	32.0	17.5
Profit/(loss) after tax	22.5	(13.6)
Total comprehensive income	22.5	(13.6)
Attributable to non-controlling interest	0.5	(0.9)
Dividends paid to non-controlling interest	–	–

The Trust Group has no material partly owned subsidiaries.

	Aveo Healthcare Limited 2018 $m	Aveo Healthcare Limited 2017 $m
Summarised statement of financial position as at 30 June:		
Current assets	43.6	21.8
Non-current assets	850.7	815.2
Current liabilities	(525.2)	(407.3)
Non-current liabilities	(129.3)	(212.9)
Total equity	**239.8**	**216.8**
Attributable to:		
Equity holders of Aveo Healthcare Limited	209.4	187.4
Non-controlling interest	30.4	29.4
Summarised cash flow information:		
Operating cash flows	15.6	44.6
Investing cash flows	(6.6)	(74.6)
Financing cash flows	(6.2)	32.1
Net increase in cash and cash equivalents	**2.8**	**2.1**

The Trust Group does not have any non-controlling interest.

26. NOTES TO THE CASH FLOW STATEMENTS

a. Reconciliation of net cash flow from operating activities to profit after income tax

	Group		Trust Group	
	2018 $m	2017 $m	2018 $m	2017 $m
Operating profit after income tax	366.2	252.2	16.6	10.1
Adjustments for non-cash items				
Depreciation and amortisation	3.0	3.4	–	–
Share of (gain)/loss of equity-accounted investments	(0.8)	5.5	(0.4)	0.3
Change in fair value of investment properties	(322.0)	(147.7)	–	–
Change in fair value of resident loans	35.5	0.1	–	–
Gross deferred management fees and capital gains				
Difference between cash and accruals basis	(75.2)	(28.1)	–	–
Gain on acquisition of subsidiary	(1.5)	(52.6)	(7.6)	–
Income tax expense	44.2	54.8	–	–
Other	(27.7)	35.0	4.7	–
Change in operating assets and liabilities net of effects of purchases and disposals of subsidiaries during the year				
Increase in receivables	(142.5)	(25.5)	(8.0)	(11.0)
Decrease in inventories	73.5	89.0	–	–
Increase/(decrease) in payables	14.3	(9.5)	0.7	(4.3)
Increase in deferred revenue and resident loans	130.8	66.9	–	–
Increase/(decrease) in provisions	5.0	(0.7)	0.2	–
Net cash flows from/(used in) operating activities	**102.8**	**242.8**	**6.2**	**(4.9)**

Notes to the Consolidated Financial Statements (cont)

for the year ended 30 June 2018

APPENDIX 2. OTHER INFORMATION

This appendix covers other information that is not directly related to specific line items in the financial statements, as well as information about related party transactions and other statutory information. It includes the following notes:

27. RELATED PARTY TRANSACTIONS

a. Aggregate remuneration of key management personnel

	Group		Trust Group	
	2018 $m	2017 $m	2018 $m	2017 $m
Short-term employee benefits	2,457,675	2,416,678	–	–
Post-employment benefits	92,592	89,553	–	–
Equity compensation	1,932,179	1,296,693	–	–
Other compensation[1]	19,235	35,499	–	–
Key management personnel compensation	**4,501,681**	**3,838,423**	**–**	**–**

1. Other compensation comprises accrued long service leave.

Detailed remuneration disclosures are provided in the Remuneration Report.

b. Loans from the Property Trust to Group entities

Aveo Funds Management Limited, as the Responsible Entity for the Property Trust, has entered into a loan agreement with the Parent to make available a $600.0 million loan facility. Interest is payable quarterly at the rate of the prevailing 90-day bank bill swap reference rate plus a margin of 3.0%. Details of movements in the loan are as follows:

	Group		Trust Group	
	2018 $m	2017 $m	2018 $m	2017 $m
Balance at the beginning of the year	–	–	266,082	524,900
Net borrowings/(repayments) made	–	–	(190,920)	(270,448)
Interest charged	–	–	1,676	11,630
Balance at the end of the year	**–**	**–**	**76,838**	**266,082**

c. Other transactions with related parties

Amounts recognised in respect of other transactions with related parties were:

	Group		Trust Group	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Revenue from rendering of services – associates (note i)	–	3,986	–	–
Management fees received – associates (note ii)	–	1,319	–	–
Administration expenses				
Rent paid – MIB (note iii)	1,182	422	–	–
Asset management fees paid – MIB (note iv)	700	1,047	–	–
Net cost sharing – MIB (note v)	27	(282)	–	–
Commission paid – MIB (note vi)	2,828	–	–	–
Cost recharges (note vii)	176	202	–	–
Other goods and services – MIB (note viii)	375	294	–	–
Other expenses				
Management fees paid – Responsibile Entity (note ix)	–	–	1,292	954
Development fees paid (note x)	–	–	8,823	5,818
Investment properties note (xi)				
Rent received	–	–	15,030	5,624
Acquisitions of investment properties	–	–	–	88,800
Finance lease payable (note xii)				
Acquisition under finance lease:				
Investment property	–	–	–	17,182
Property, plant and equipment	–	–	–	7,416
Interest expense	–	–	1,834	1,152
Finance lease payable	–	–	26,432	24,598

i. Revenue from rendering of services – associates

The Group formerly received sales commissions, administration and marketing fees from its former associate, RVG. Fees were charged at commercial rates.

ii. Management fees received – associates

The Group formerly derived revenue from providing management services to its former associate, RVG. Fees were charged at commercial rates.

iii. Rent paid – MIB

The Group leases office premises at commercial rates from a wholly owned subsidiary of MIB.

APPENDIX 2. OTHER INFORMATION (continued)

27. RELATED PARTY TRANSACTIONS (continued)

iv. Asset management fees – MIB

The Group received asset management services from a wholly owned subsidiary of MIB in relation to the Group's former investment property situated at Skyring Terrace, Newstead (Gasometer 1 and associated facilities). This arrangement terminated on the sale of that property during the 2018 financial year. The services were provided at market rates.

v. Net cost sharing – MIB

The Group has agreed with a wholly owned subsidiary of MIB to share certain administrative functions. Broadly, each party is responsible for nominated functions and provides services for those functions to both itself and the other party. Personnel and other costs for those functions are shared between the parties in agreed proportions.

vi. Commission paid – MIB

The Group engaged a wholly owned subsidiary of MIB and an unrelated party to provide real estate agency services in relation to the sale of the Group's Gasometer complex. The Group paid the MIB subsidiary for these services; this payment was shared between that subsidiary and the unrelated party in accordance with the agreement between them. The Group also engaged the MIB subsidiary as lead transaction manager for the sale.

These appointments were made by the independent directors. The services were provided at market rates. In making the appointments, the independent directors considered external benchmarking obtained to ensure that fees were at arm's length terms.

vii. Cost recharges

The Group provides personnel, administrative and other services to Mulpha Norwest Pty Limited, a former associate and now a wholly owned subsidiary of MIB.

viii. Other goods and services – MIB

The Group has purchased a range of goods and services from wholly owned subsidiaries of MIB at market rates. This does not include any management fees.

ix. Management fees paid – responsible entity

The Property Trust pays management fees as provided for under its constitution to its responsible entity, a wholly owned subsidiary of the Group.

x. Development fees paid

A subsidiary of the Parent is developing investment properties for subsidiaries of the Property Trust. Fees are charged at market rates.

xi. Investment properties

Subsidiaries of the Parent sold certain investment properties to subsidiaries of the Property Trust, which leased them to other subsidiaries of the Parent.

Subsidiaries of the Property Trust develop new retirement communities and other property and lease these to subsidiaries of the Parent.

All transactions are at market rates.

xii. Finance lease payable

A subsidiary of the Property Trust leases by way of finance lease the site on which investment and other property has been developed. The lease rental is at market rates.

28. AUDITOR'S REMUNERATION

	Group		Trust Group	
	2018 $m	2017 $m	2018 $m	2017 $m
Ernst & Young				
Audit and assurance services				
Audit and review of the financial reports of the Group	837,103	545,732	–	–
Other assurance services:				
Group	36,317	13,659	–	–
Non-group[1]	337,264	350,494	–	–
Non-assurance services	–	–	–	–
Total auditor's remuneration	**1,210,684**	**909,885**	**–**	**–**

1. *Non-group other assurance services represent fees payable by entities that are not controlled entities. It includes fees for audits of retirement villages, which are payable by the respective retirement villages.*

29. PARENT ENTITIES

a. Parent financial information

The financial information for the parent entities Aveo Group Limited and Aveo Group Trust has been prepared on the same basis as the Group's financial statements except as set out below.

Controlled entities and equity-accounted investments

Investments in these entities are carried in the Parent's balance sheet at the lower of cost and recoverable amount. Dividends and distributions are brought to account in the income statement when they are declared.

Tax consolidation

Aveo Group Limited and its wholly owned Australian controlled entities have formed a tax-consolidated group. The entities in the tax group have entered into a tax sharing agreement to limit the joint and several liability of the wholly owned entities in the case of a default by the head entity, Aveo Group Limited. A tax funding agreement where the wholly owned entities fully compensate the head entity for any current tax receivable and deferred tax assets related to unused tax losses or unused tax credits that are transferred to the head entity under the tax consolidation legislation has also been entered into. The transfer of such amounts to the head entity is recognised as inter-company receivables or payables.

Each entity in the tax-consolidated group continues to account for its own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, the Parent also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax-consolidated group.

Notes to the Consolidated Financial Statements (cont)

for the year ended 30 June 2018

APPENDIX 2. OTHER INFORMATION (continued)

29. PARENT ENTITIES (continued)

b. Summary financial information

	Aveo Group Limited		Aveo Group Trust	
	2018 $m	2017 $m	2018 $m	2017 $m
Current assets	56.4	*36.2*	–	–
Total assets	2,863.4	2,211.6	646.3	695.8
Current liabilities	1,603.9	677.3	73.5	70.8
Total liabilities	2,076.6	1,401.9	73.5	70.8
Issued capital	1,262.2	1,262.6	723.1	723.2
Reserves:				
Foreign currency translation	(4.9)	(4.9)	–	–
Investment revaluation	(0.3)	(0.3)	–	–
Employee benefits	16.9	15.7	–	–
Retained losses	(487.1)	(463.4)	(150.3)	(98.2)
Total shareholders' equity	786.8	809.7	572.8	625.0
(Loss)/Profit of the parent entity	(25.0)	(95.1)	0.3	10.6
Total comprehensive income of the parent entity	(25.0)	(95.1)	0.3	10.6

c. Guarantees

Aveo Group Limited has provided cross guarantees of the obligations of subsidiaries under the Deed of Cross Guarantee to the subsidiaries listed in note 30.

No deficiencies of assets exist in any of these companies. No liability was recognised by the Parent in relation to these guarantees, as the fair value is immaterial.

30. DEED OF CROSS GUARANTEE

Aveo Group Limited and the wholly owned subsidiaries identified below entered into a Deed of Cross Guarantee on 25 June 2008. The effect of the deed is that Aveo Group Limited has guaranteed to pay any deficiency in the event of the winding-up of any of the Group entities that are party to the Deed or if they do not meet their obligation under the terms of the liabilities subject to the guarantee. The Group entities that are party to the Deed have also given a similar guarantee in the event that Aveo Group Limited is wound up or if it does not meet its obligations under the terms of the liabilities subject to the guarantee.

Albion Flour Mill Pty Ltd	FKP Communities Pty Ltd[1]	FKP Residential Developments Pty Ltd[1]
Aveo Leisure Services Pty Ltd	FKP Constructions Pty Ltd[1]	FKP SJYC Pty Ltd
Aveo Retirement Homes (No. 2) Pty Ltd	FKP Core Plus Two Pty Ltd	Flower Roof Pty Ltd
Aveo Retirement Homes (Sales and Marketing) Pty Ltd	FKP Developments Pty Ltd	FP Investments Pty Ltd[1]
Aveo Retirement Homes Limited[1]	FKP Golden Key Pty Ltd	Home Finance Pty Ltd
Aust-Wide Mini Storage Pty Ltd	FKP Holdings Pty Ltd[1]	Aveo Lindsay Gardens Management Pty Ltd
B/P Asset Pty Ltd	FKP Lifestyle (Australia) Pty Ltd[1]	Aveo North Shore Retirement Villages Pty Ltd
B/P Land Pty Ltd	FKP Lifestyle (Development) Pty Ltd	Ntonio Pty Ltd
B/P Sub Land Pty Ltd	FKP Lifestyle (Real Estate) Pty Ltd	Peregian Springs Shopping Centre Pty Ltd
Carmist Pty Ltd	FKP Lifestyle Pty Ltd[1]	Ridgewood Estates Pty Ltd
Aveo Cleveland Gardens Pty Ltd	FKP Mackay Turf Farm No. 2 Pty Ltd	River Kat Pty Ltd
Data Plan Pty Ltd	FKP Maitland Developments Pty Ltd	Skeyer Developments Pty Ltd
Evo-Con Pty Ltd	FKP Maitland Properties Pty Ltd	SPV Sydney Pty Ltd
Aveo Extra Care Services Pty Ltd	FKP Overseas Holdings Pty Ltd	Starwisp Pty Ltd
FKP American Holdings Pty Ltd	FKP PIP Pty Ltd	Aveo Tasmanian Retirement Living Management Pty Ltd
FKP Ann Street Pty Ltd	FKP Queen Street Pty Ltd	Aveo The Domain Retirement Country Club Pty Ltd
FKP Commercial Developments Pty Ltd	Aveo Real Estate Pty Ltd	Freedom Aged Care Pty Ltd
Freedom Aged Care Banora Point (Operations) Pty Ltd	Freedom Aged Care Banora Point (Properties) Pty Ltd	Freedom Aged Care Bendigo (Operations) Pty Ltd
Freedom Aged Care Bendigo (Properties) Pty Ltd	Freedom Aged Care Coffs Harbour (Operations) Pty Ltd	Freedom Aged Care Coffs Harbour (Properties) Pty Ltd
Freedom Aged Care Dromana (Operations) Pty Ltd	Freedom Aged Care Dromana (Properties) Pty Ltd	Freedom Aged Care Fairways (Operations) Pty Ltd
Freedom Aged Care Fairways (Properties) Pty Ltd	Freedom Aged Care Geelong (Operations) Pty Ltd	Freedom Aged Care Geelong (Properties) Pty Ltd
Freedom Aged Care Intellectual Property Pty Ltd	Freedom Aged Care Kawana (Properties) Pty Ltd	Freedom Aged Care Launceston (Operations) Pty Ltd
Freedom Aged Care Launceston (Properties) Pty Ltd	Freedom Aged Care Morayfield (Operations) Pty Ltd	Freedom Aged Care Morayfield (Properties) Pty Ltd
Freedom Aged Care Redland Bay (Operations) Pty Ltd	Freedom Aged Care Redland Bay (Properties) Pty Ltd	Freedom Aged Care Rochedale (Operations) Pty Ltd
Freedom Aged Care Rochedale (Properties) Pty Ltd	Freedom Aged Care Tamworth (Operations) Pty Ltd	Freedom Aged Care Tamworth (Properties) Pty Ltd
Freedom Aged Care Tanah Merah (Operations) Pty Ltd	Freedom Aged Care Tanah Merah (Properties) Pty Ltd	Freedom Aged Care Toowoomba (Operations) Pty Ltd
Freedom Aged Care Toowoomba (Properties) Pty Ltd	Freedom Aged Care Clayfield (Operations) Pty Ltd	Freedom Aged Care Clayfield (Properties) Pty Ltd
Freedom Home Care Services Pty Ltd	Residence Custodian Pty Ltd	Residence Management Pty Ltd

1. *Pursuant to Instrument 2016/784, relief has been granted from the Act's requirements for preparation, audit and lodgement of financial reports.*

Notes to the Consolidated Financial Statements (cont)

for the year ended 30 June 2018

APPENDIX 2. OTHER INFORMATION (continued)

30. DEED OF CROSS GUARANTEE (continued)

The consolidated income statement and balance sheet of the entities that are parties to the Deed of Cross Guarantee are as follows:

Consolidated Income Statement

	Closed Group	
	2018 $m	2017 $m
Continuing operations		
Sale of goods and construction contract revenue	178.0	253.4
Revenue from rendering of services	89.0	117.5
Other revenue	14.4	13.3
Revenue	**281.4**	**384.2**
Cost of sales	(134.6)	(211.6)
Gross profit	**146.8**	**172.6**
Change in fair value of investment properties	133.0	88.8
Change in fair value of resident loans	81.8	31.6
Employee expenses	(57.1)	(53.3)
Marketing expenses	(29.0)	(21.5)
Occupancy expenses	(17.6)	(7.0)
Administration expenses	(17.6)	(16.2)
Other expense	(3.8)	(14.2)
Finance costs	(1.2)	(17.7)
Profit from continuing operations before income tax	**235.3**	**163.1**
Income tax loss	(38.6)	(54.6)
Profit from continuing operations after income tax	**196.7**	**108.5**

Consolidated Balance Sheet

	Closed Group	
	2018 $m	2017 $m
Current assets		
Cash and cash equivalents	52.0	36.7
Receivables	72.9	70.1
Inventories	95.4	137.4
Other assets	0.3	2.3
Total current assets	**220.6**	**246.5**
Non-current assets		
Receivables	699.8	412.9
Inventories	–	56.7
Investment properties	2,924.5	2,750.6
Investments	10.6	7.9
Property, plant and equipment	16.2	16.4
Intangible assets	5.1	2.9
Other financial assets	336.4	330.8
Other assets	13.1	9.9
Total non-current assets	**4,005.7**	**3,588.1**
TOTAL ASSETS	**4,226.3**	**3,834.6**
Current liabilities		
Payables	509.1	244.0
Interest bearing loans and borrowings	105.4	17.5
Provisions	9.4	5.8
Deferred revenue	141.9	113.5
Total current liabilities (excluding resident loans)	765.8	380.8
Resident loans	1,333.0	1,267.0
Total current liabilities	**2,098.8**	**1,647.8**
Non-current liabilities		
Trade and other payables	56.4	73.0
Interest bearing loans and borrowings	469.0	706.3
Deferred tax liabilities	57.3	54.5
Provisions	2.4	2.3
Total non-current liabilities	**585.1**	**836.1**
TOTAL LIABILITIES	**2,683.9**	**2,483.9**
NET ASSETS	**1,542.4**	**1,350.7**

Notes to the Consolidated Financial Statements (cont)

for the year ended 30 June 2018

APPENDIX 2. OTHER INFORMATION (continued)

30. DEED OF CROSS GUARANTEE (continued)

	Closed Group	
	2018 $m	2017 $m
Equity		
Contributed equity	1,262.2	1,262.6
Reserves	122.6	121.5
Retained profits/(accumulated losses)	157.6	(33.4)
TOTAL EQUITY	**1,542.4**	**1,350.7**

31. OTHER ACCOUNTING POLICIES

Significant accounting policies relating to particular items are set out in the financial report next to the item to which they relate. Other significant accounting policies adopted in the preparation of the financial report are set out below. All these policies have been consistently applied to all years presented, unless otherwise stated.

a. Basis of preparation

This general-purpose financial report has been prepared in accordance with the requirements of the Act, the Standards and other authoritative pronouncements of the AASB. The financial report has been prepared on a historical cost basis except for financial assets and liabilities at fair value through profit or loss, investment property and non-current assets held for sale, which have been measured at fair value.

The financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The financial report has been drawn up in accordance with ASIC Corporations (Stapled Group Reports) Instrument 2015/838 relating to combining accounts under stapling.

Stapling

On 12 November 2004, Aveo Group Trust units were stapled to Aveo Group Limited shares. The Group is a stapled entity that comprises Aveo Group Limited and its subsidiaries and Aveo Group Trust and its subsidiaries. The stapled securities cannot be traded or dealt with separately.

The constitutions of the Parent and the Property Trust ensure that, for as long as the two entities remain jointly quoted on the Australian Securities Exchange, the number of units in the Property Trust and the number of shares in the Parent shall be equal and that unitholders and shareholders will be identical.

Aveo Group Limited has been identified as the acquirer and the parent for the purposes of preparing the Group's financial statements. The Property Trust has been consolidated under the stapling arrangement and is identified as the acquiree.

The net assets of the acquiree have been identified as non-controlling interests and presented in the balance sheet within equity, separately from the Parent's equity. The profit of the acquiree has also been separately disclosed in the income statement.

Although the interests of the equity holders of the acquiree are treated as non-controlling interests, the equity holders of the acquiree are also the equity holders in the acquirer by virtue of the stapling arrangement.

b. New accounting standards and interpretations

The Group has adopted as of 1 July 2017 all of the new and revised Standards and Interpretations issued by the AASB with mandatory effective dates impacting the current period. The adoption of the new and revised Standards and Interpretations had no material impact on the financial position or performance of the Group.

c. Pending accounting standards

The following new Standards, amendments to Standards and Interpretations have been identified as those that may affect the Group on initial application. They have not been applied in preparing these financial statements.

AASB 9 Financial Instruments: Classification and Measurement

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. It also sets out new rules for hedge accounting. The standard is applicable for annual reporting periods beginning on or after 1 January 2018. The Group has performed an assessment of the expected impact of the Standard, and believes it will not have a material effect on the Group's financial statements. It may affect the carrying amount of the Property Trust's available for sale financial asset.

AASB 15 Revenue from Contracts with Customers

AASB 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The core principle of AASB 15 is that an entity recognises 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. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

The standard will be applicable for annual reporting periods beginning on or after 1 July 2018.

The Group has performed an assessment of the expected impact of the Standard, and believes it will not have a material effect on the Group's revenue recognition. In particular:

- most of the Group's Retirement revenue is revenue from leases, which is specifically excluded from the scope of AASB 15 and is dealt under AASB 16 Leases. This does not change the accounting treatment for lessors; and
- most of the Group's Non-Retirement revenue is revenue from the sale of residential land. Under AASB 15, this revenue will be recognised on settlement, as is mostly the case currently.

APPENDIX 2. OTHER INFORMATION (continued)

31. OTHER ACCOUNTING POLICIES (continued)

AASB 16 Leases

AASB 16 imposes revised requirement for recognising, measuring and disclosing the financial effects of leases.

Lessee accounting

Lessees will be required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

- A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities.
- Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.

Lessor accounting

AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The standard is expected to be applicable for annual reporting periods beginning on or after 1 July 2019.

The Group has performed an assessment of the expected impact of the Standard. Because of the Group's limited lease portfolio as lessee, AASB 16 is not expected to have a significant effect on the Group's accounting treatment and disclosure of leases.

d. Basis of consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

Non-controlling interests in the net assets of consolidated entities are allocated their share of net profit after tax in the income statement and statement of comprehensive income, and are presented within equity in the balance sheet, separately from the equity of the owners of the Parent. Losses are attributed to the non-controlling interest even if that results in a deficit balance. A change in ownership interest of a subsidiary that does not result in loss of control is accounted for as an equity transaction.

e. Foreign currency translation

Functional and presentation currency

The Group's financial statements are presented in Australian dollars, which is Aveo Group Limited's functional and presentation currency.

Dictionary
for the year ended 30 June 2018

In the Financial and Directors' Reports, the following terms have the meaning shown:

Term	Meaning
AASB	Australian Accounting Standards Board
Act	Corporations Act 2001
AFFO	Adjusted funds from operations
AICD	Australian Institute of Company Directors
ASIC	Australian Securities and Investments Commission
Aveo	The Group
Bad Leaver	A KMP whose employment is terminated or cancelled because of voluntary resignation, for cause or because of unsatisfactory performance or is otherwise determined by the Board to be a Bad Leaver
Board	The board of directors of Aveo Group Limited
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Change of Control Event	A Change of Control Event occurs if a change in control of the Group occurs or is recommended by the Board, or a resolution is passed or order made for the winding up of the Parent or the vesting of the Property Trust
Committee	Nomination and Remuneration Committee of the Board
cps	Cents per security
Directors	Directors of Aveo Group Limited
DMF	Deferred management fees
DMF/CG	Deferred management fees and capital gains
DPS	Dividend/distribution per Security
DSP	Directors' Security Plan
EBIT	Earnings before interest and income tax
EBITDA	Earnings before interest, income tax, depreciation and amortisation
EPS	Earnings per Security
FFO	Funds from operations
Finsia	Financial Services Institute of Australasia
Freedom	Freedom Aged Care Pty Limited
FY	Financial year
FY14	Financial year ended 30 June 2014
FY15	Financial year ended 30 June 2015

Dictionary (cont)

for the year ended 30 June 2018

Term	Meaning
FY16	Financial year ended 30 June 2016
FY17	Financial year ended 30 June 2017
FY18	Financial year ended 30 June 2018
FY21	Financial year ended 30 June 2021
Good Leaver	A KMP whose employment is terminated or cancelled and is not a Bad Leaver
Group	Aveo Group, which is a stapled entity comprising Aveo Group Limited and its subsidiaries, and Aveo Group Trust and its subsidiaries
KMP	Key Management Personnel: Those persons who, during the course of the year ended 30 June 2018, had the authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise)
LTI	Long-Term Incentive: LTI is equity-based compensation which provides KMP with securities, options or rights, which may vest into Securities dependent upon performance against defined conditions typically over a three to four year performance period
LTIP	The Group's Long-Term Incentive Plan including the Plan
MIB	Mulpha International Berhad; the Group is an associate of MIB
NED	Non-Executive Director
NTA	Net tangible assets
Parent	Aveo Group Limited
Plan	The Aveo Group Performance Rights Plan that was approved at the Group's 2012 Annual General Meeting
Property Trust	Aveo Group Trust
RACF	Residential aged care facility
Regulations	Corporations Regulations 2001
Rights	Performance Rights and Retention Rights: Rights to acquire Securities in the future for nil consideration, subject to achieving performance conditions, granted under the Plan
ROA	Return on Retirement Assets: Retirement earnings before interest and tax, divided by average Retirement assets employed. Capitalised interest in Retirement development cost of goods sold is added back. Retirement assets employed at any date will be the sum of the carrying amounts of Retirement investment properties (including those under development), equity-accounted investments and aged care assets, all at 30 June 2013, together with cash expenditure (including development expenditure) on those assets to the date of calculation, less any cash recoveries of or from those assets (excluding any profit element) to the date of calculation

Term	Meaning
ROE	Return on Equity: The sum of the movement in securityholders' equity (excluding new issues of Securities and any change in fair value of Retirement assets occurring after 30 June 2015, net of income tax) and dividends and distributions declared divided by the opening balance of securityholders' equity. Average RoE for FY16 – FY18 will be calculated as the arithmetic average of RoE for those years.
RTSR	Relative TSR measures the TSR for Aveo Group relative to the TSR of a comparator group of Aveo's peers over the RTSR testing period
RVG	Retirement Villages Group, a stapled entity Comprising Retirement Villages Australia Limited, RVNZ Investments Limited and Retirement Villages Trust
Securities	Stapled securities of the Group
Securities Price	The price at which the last sale of Securities was traded on the ASX on the referenced day
Special Circumstances	The termination of a KMP's employment as a result of total and permanent disablement, death or such other circumstances as the Board may determine
Standards	Australian Accounting Standards
STIP	The Group's Short-Term Incentive Plan: A 12-month incentive plan that provides cash and Securities awards for performance against key financial and non-financial targets during any one financial year
STI	Short-Term Incentive (cash): Cash awards under the STIP
STID	Deferred STI: Awards of Securities under the STIP
TFR	Total Fixed Remuneration: The fixed component of remuneration, which includes base pay and superannuation and excludes movements in accrued annual and long service leave
Trust Group	Aveo Group Trust and its controlled entities
TSR	Total Securityholder Return: Security price growth plus dividends notionally reinvested in securities, over the assessment period
UEPS	Underlying earnings per Security
UPT	Underlying profit after tax and non-controlling interest: Reflects statutory profit after tax, as adjusted to reflect the Directors' assessment of the result for the ongoing business activities of the Group, in accordance with AICD/Finsia principles of recording underlying profit
Vesting Date	The date that STID vest, being 1 September of the year following the award

Directors' Declaration

In the opinion of the Directors of Aveo Group Limited and Aveo Funds Management Limited as Responsible Entity for Aveo Group Trust (collectively referred to as 'the Directors'):

a. the Financial Statements and Notes, and the Remuneration Report in the Directors' Report set out on pages 48 to 65, are in accordance with the Act, including:
   i. giving a true and fair view of the Group's and the Trust Group's financial position as at 30 June 2018 and of their performance, for the financial year ended on that date; and
   ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Regulations;
b. the Financial Report also complies with International Financial Reporting Standards issued by the International Accounting Standards Board, as disclosed in note 31(a); and
c. there are reasonable grounds to believe that the Group and the Trust Group will be able to pay their debts as and when they become due and payable.

At the date of this declaration there are reasonable grounds to believe that Aveo Group Limited and the Group entities named in note 30 will be able to meet any obligations or liabilities to which they are or may have become subject to by virtue of the Deed of Cross Guarantee between Aveo Group Limited and those Group entities pursuant to Instrument 2016/784 (as described in note 30).

The Directors have been given the declarations by the Chief Executive Officer and the Chief Financial Officer for the financial year ended 30 June 2018 required by section 295A of the Act.

Signed in accordance with a resolution of the Board of Directors:

S H Lee
Chairman

G E Grady
Executive Director and Chief Executive Officer

Dated at Sydney this 15th day of August 2018

Independent Auditor's Report

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

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Independent Auditor's Report to the Securityholders of Aveo Group

Aveo Group is a stapled entity comprising Aveo Group Limited and its subsidiaries and Aveo Group Trust and its subsidiaries ("Aveo Group" or "the Group"). Aveo Group Trust comprises Aveo Group Trust and its subsidiaries ("Trust Group").

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Aveo Group, which comprises the consolidated balance sheets as at 30 June 2018, the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements for the year then ended, notes to the financial statements, including a summary of significant accounting policies and the Directors Declaration.

In our opinion, the accompanying financial report is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of Aveo Group's and Aveo Group Trust's consolidated financial position as at 30 June 2018 and of their financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report 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.

Independent Auditor's Report (cont)

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our 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 report. 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 financial report.

Retirement Village Investment Properties and Resident Loans

Why significant	How our audit addressed the key audit matter
The Group has Retirement Village Investment Properties of $6,158.9 million (92% of total assets) and Resident Loans amounting to $2,960.6 million (67% of total liabilities). Both the Retirement Village Investment Properties and Resident Loans are recorded at fair value at each reporting date with gains or losses arising from changes in the fair values recognised in the income statement in the year in which they arise. Valuations of Retirement Village Investment Properties and Resident Loans are based on a number of assumptions including growth and discount rates, pricing and average tenure which require estimation and significant judgment. Changes in certain assumptions can lead to significant changes in these valuations In addition to the estimation and significant judgment involved, the valuations are also determined by a complex retirement asset valuation model. The use of inappropriate assumptions, clerical or methodology errors in the valuation model, or the use of inaccurate underlying resident contract data could lead to an incorrect valuation of the Retirement Village Investment Properties and/or Resident Loan balances. Due to the complex and judgmental nature of the Retirement Village Investment Properties valuation, the Group engages an independent third party expert to value the portfolio. This independent valuation is then used as a benchmark against which the Group assesses their own internal valuation. Notes 7 and 9 to the financial report respectively contain the carrying amounts of Resident Loans and the Retirement Village Investment Properties as well as a description of the applicable accounting policy treatment. Notes 7	We considered the quality and objectivity of the valuation process through assessing the appropriateness of the valuation methodology and assumptions, testing the clerical accuracy of the valuation model and the accuracy of the valuation inputs. Our audit procedures included the following: ▸ Involved our real estate valuation specialists to assess the key valuation assumptions. ▸ Evaluated the independent portfolio valuation used by the Group in their valuation process and assessed the competence, capability and objectivity of the independent valuation expert. ▸ Assessed the market values adopted for individual retirement units against prevailing market conditions and historical sales prices achieved during the year. ▸ Tested the accuracy of the underlying resident data on which the valuation is based by agreeing, on a sample basis, information in the model to resident contracts. ▸ Involved our financial modelling specialists to test the clerical accuracy and logical integrity of the retirement models prepared by the Group. ▸ Evaluated the adequacy of the disclosures relating to Retirement Village Investment Properties and Resident Loans in the financial report, including those made with respect to judgments, estimates and fair value measurement.

and 9 also disclose the key assumptions and the sensitivity of these valuations to changes in key assumptions.

Disclosure of the significant judgments is included in note 14 of the financial report.

Retirement Village Deferred Management Fee (DMF) and capital gains revenue

Why significant	How our audit addressed the key audit matter
Deferred Management fee (DMF) and capital gains revenue of $158.7 on retirement village investment property was recognised during the year. DMF is earned when a resident occupies a unit and is recognised as revenue over the resident's expected tenure. Capital gains are recognised as revenue when the resident exits and the unit is sold. DMF revenue to which the Group is contractually entitled at reporting date is presented in the balance sheet as a deduction from Resident Loans. The excess of DMF revenue to which the Group is contractually entitled to at reporting date, over DMF revenue earned to date based on the expected period of tenure, is included in deferred revenue in the balance sheet. The expected tenure is an assumption which requires estimation and judgment. Changes in this assumption can lead to significant change in DMF revenue recognised. Additionally, the accrued component of DMF revenue recognised is derived based on the retirement asset valuation model. Clerical error in the valuation model, or the use of inaccurate underlying resident contract data could lead to incorrect DMF revenue recognition. In prior periods, the amount shown in revenue as DMF revenue represented the cash received during the year and the difference between the cash received and revenue on the accruals basis was included in the change in fair valuation of Resident Loans in the income statement. During the current period, the Group changed its accounting policy so that the total DMF revenue accrued in the period is now included in revenue. Note 1 to the financial report contains the amount of the DMF revenue and a description of the applicable accounting policy treatment.	Our audit procedures focused on assessing the judgment of the key assumption and the appropriateness of the accounting policy adopted. Our audit procedures included the following: ▸ Assessed the reasonableness of the tenure assumptions by reviewing the historical tenure of the Group's portfolio based on resident data and involving our real estate valuation specialists. ▸ Tested the accuracy of the underlying resident data on which the accrued DMF revenue is based by agreeing, on a sample basis, information in the model to resident contracts. ▸ Tested clerical calculation of accrued DMF derived from the valuation models including assessing, on a sample basis, whether the accounting treatment of contractual DMF and accrued DMF were applied appropriately. ▸ Evaluated the adequacy of the disclosures relating to DMF revenue and the change in accounting policy in the financial report, including those made with respect to judgments, estimates and fair value measurement.

Independent Auditor's Report (cont)

Note 9 also discloses the tenure assumption and the sensitivity of changes in the key assumptions.

Disclosure of the significant judgments is included in note 14 of the financial report.

Information Other than the Financial Report and Auditor's Report Thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's 2018 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report, Remuneration Report and Corporate Governance Statement that are to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon with the exception of the Remuneration report and our related assurance opinion.

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

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, 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.

Responsibilities of the Directors for the Financial Report

The Directors of the Aveo Group Limited and the Directors of Aveo Funds Management Limited as Responsible Entity for Aveo Group Trust (collectively referred to as "the Directors") are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is 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 the Australian Auditing Standards 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent Auditor's Report (cont)

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Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 21 to 37 of the Directors' Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Aveo Group Limited for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Group are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Chris Lawton
Partner
Sydney
15 August 2018

Securityholder Information

The information set out below was prepared as at 24 August 2018 and applies equally to the Aveo Group Trust and Aveo Group Limited, as members are required to hold equal numbers of units in the Group Trust and shares in the Parent Entity under the terms of the joint quotation on the Australian Securities Exchange.

Twenty Largest Securityholders	Number of Securities	Percentage of Issued Securities
HSBC Custody Nominees (Australia) Limited	110,208,400	18.97
Citicorp Nominees Pty Limited	98,414,824	16.94
J P Morgan Nominees Australia Ltd	78,703,288	13.55
Rosetec Investments Ltd <Rosetec Investments Ltd A/C>*	47,841,148	8.24
National Nominees Limited	34,241,749	5.90
UBS Nominees Pty Ltd	20,738,524	3.57
Citicorp Nominees Pty Limited <CB ESW Mulpha Inv&Citic A/C>	13,683,928	2.36
Ilwella Pty Ltd	13,500,000	2.32
BNP Paribas Nominees Pty Ltd <Agency Lending ARP A/C>	9,713,584	1.67
BNP Paribas Noms (NZ) Ltd <DRP>	6,426,180	1.11
Netwealth Investments Limited <WRAP Services A/C>	5,457,121	0.94
AMP Life Limited	3,675,555	0.63
BNP Paribas Noms (NZ) Ltd <DRP>	3,474,182	0.60
Warbont Nominees Pty Ltd <Unpaid Entrepot A/C>	3,354,351	0.58
Brazil Farming Pty Ltd	3,001,000	0.52
Masfen Securities Limited	3,000,000	0.52
Mt Byron Pastoral Company Pty Ltd	3,000,000	0.52
AET Corporate Trust Pty Ltd <AOG Unallocated A/C>	2,791,918	0.48
Mt Byron Pastoral Company Pty Ltd <Super Fund A/C>	1,881,101	0.32
Netwealth Investments Limited <Super Services A/C>	1,637,335	0.28
	464,744,188	**80.01**

* *The changes in Rosetec Investments Ltd <Rosetec Investments Ltd A/C> holdings, reflect an internal transfer within Mulpha International Bhd to consolidate their interests into a single entity.*

The total number of securities on issue as at 24 August 2018 is 580,837,672.

Substantial Securityholders	Effective Date	Number of Securities
Mulpha International Bhd	24 August 2016	131,174,775

Distribution of Securityholders	Number of Securities	Number of Securityholders
Category		
1–1,000	1,786,792	5,019
1,001–5,000	13,526,854	4,713
5,001–10,000	19,749,731	2,581
10,001–100,000	52,351,033	2,224
100,001–999,999,999	493,423,262	114
	580,837,672	**14,651**

There were 2,238 Securityholders holding less than a marketable parcel at $2.280 per security.

Securityholder Information (cont)

VOTING RIGHTS

On a show of hands every securityholder, present in person or by proxy or by attorney or by duly authorised representative, shall have one vote and on a poll, every securityholder so present shall have one vote for every security held by such securityholder.

SECURITIES EXCHANGE

Aveo Group Limited and Aveo Group Trust, are jointly quoted on the Australian Securities Exchange (ASX Code: AOG) with a home exchange in Sydney.

ON MARKET BUY BACK

There was an on market buy-back within the 10/12 limit, which commenced on 17 August 2017 and ended on 16 August 2018. Aveo announced a further on market buy back on 7 September 2018, commencing on 24 September 2018 and ending on 7 September 2019.

SECURITYHOLDERS' ENQUIRIES

Securityholders with enquiries about their holding should contact the Aveo Group Securityholder Registrar as follows:

Computershare Investor Services Pty Limited
Level 4
60 Carrington Street
Sydney NSW 2000

Telephone (within Australia): 1300 658 814
Telephone (outside Australia): +61 (0)3 9415 4316
Facsimile: +61 (0)3 9473 2500
Internet: www.computershare.com.au

Enquiries of a general nature should be directed to the Company Secretary on +61 2 9270 6100 or via email companysecretarial@aveo.com.au

DISTRIBUTION/DIVIDEND

A distribution for the twelve-month period ending 30 June 2018 of 9.0 cents per stapled security was paid to securityholders on 28 September 2018. The record date for determining entitlement to the distribution was 30 June 2018.

REINVESTMENT PLAN

Aveo Group has a Distribution Reinvestment Plan (DRP), which allows security holders to have their payments used to buy more stapled securities in the Group at a discount of up to 10% as determined by the Board with no costs. On 24 September 2012, Aveo Group announced that its DRP would be suspended and would remain suspended until the directors of Aveo Group decide to reapply it to future distributions. On 22 June 2018, Aveo Group confirmed that the DRP remains suspended and therefore would not operate for the distribution for the twelve month period ended 30 June 2018.

Electronic Communications

As an Aveo Group securityholder, every year you are sent a number of securityholder communications via post. Register your email address with the Aveo Group Securityholder Registrar to receive your securityholder communications electronically.

ANNUAL REPORT

Securityholders have a choice as to whether or not they receive the annual report. If you do not wish to receive the annual report please advise the Securityholder Registrar in writing. These securityholders will continue to receive all other securityholder information.

The annual report, together with all significant announcements made by the Group to the ASX, are available from the Investor Centre on the Aveo website (http://www.aveo.com.au/)

TO CONSOLIDATE SECURITYHOLDINGS

Securityholders who want to consolidate their separate securityholdings into one account should write to the Securityholder Registrar or their sponsoring broker, whichever is applicable.

TAX FILE NUMBERS (TFN)

Whilst not compulsory, most Australian resident securityholders prefer to quote their TFN to avoid having withholding tax deducted from dividends which are unfranked or from distributions paid by property trusts. Securityholders should advise in writing their TFN details to the Securityholder Registrar or sponsoring broker, whichever is applicable.

COMPLAINTS

Any securityholder wishing to register a complaint should direct it to the Company Secretary in the first instance, at the Aveo Group's address listed in this report.

Aveo Funds Management Limited is a member of an independent dispute resolution scheme, the Financial Ombudsman Service (FOS), (Australian Financial Complaints Authority from 1 November 2018). If a securityholder feels that a complaint remains unresolved or wishes it to be investigated further, FOS can be contacted as detailed below:

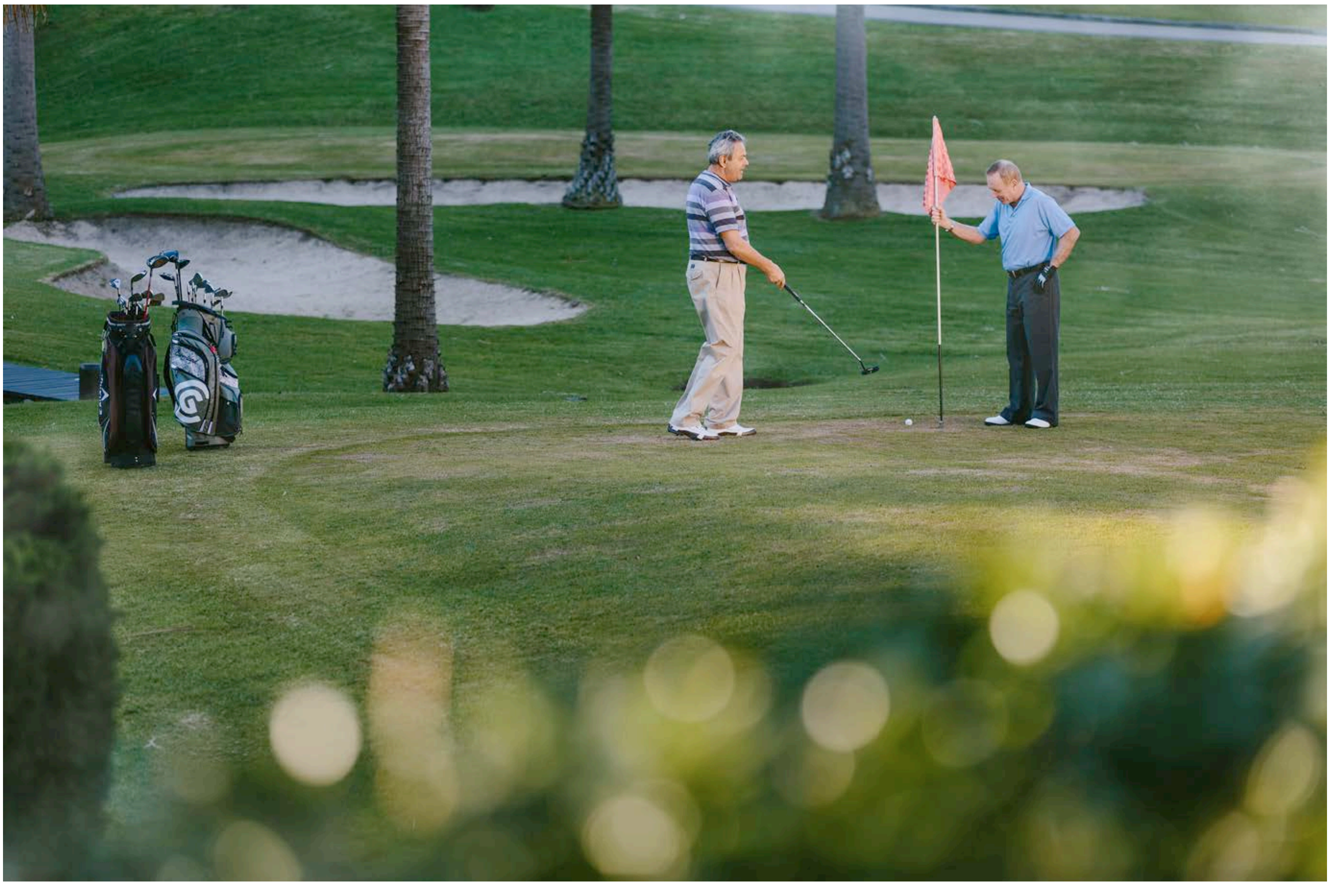
By telephone: 1300 780 808

In writing: Financial Ombudsman Services Limited
GPO Box 3, Melbourne VIC 3001

Website: www.fos.org.au

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on 14 November 2018.



Five Year Financial Summary

		2018	2017	2016	2015	2014	2013
Net profit/(loss) attributable to securityholders	$m	365.1	252.8	116.0	58	26.1	(166.5)
Underlying net profit after tax[1,2]	$m	127.2	108.4	89.0	54.7	42.1	39.2
Total assets	$m	6,716	5,955.10	4,088.90	3,392.80	3,269.8	3,357.9
Total debt	$m	687.7	573	462	359.5	344.6	685.0
Contributed equity	$m	1262.2	1262.6	1865.1	1,785.0	1,744.6	1,516.1
Total equity	$m	2,298.1	1978.7	1660.4	1505.6	1,429.5	1,174.0
Reported gearing[3]	%	16.8	16.9	17.4	13.8	15.8	31.5
Market capitalisation	$m	1,402	1613.3	1722	1326.7	1,030.2	408.4
Security price at year end[4]	$	2.43	2.78	3.17	2.58	2.06	1.27
Reported earnings per security[4]	cents	63.3	18.9	17.0	11.6	5.9	(52.4)
Underlying earnings per security[4]	cents	22	18.9	17	10.9	9.5	13.6
Dividends & distributions paid	$m	51.9	52	43.5	25.8	20.0	3.2
Dividends & distributions per security[4]	cents	9.00	9.00	8.00	5.00	4.00	1.0
Net tangible assets per security[4]	$	3.92	3.37	3.00	2.85	2.78	3.53

1. *Underlying profit reflects statutory profit as adjusted to reflect the Directors' assessment of the result for the ongoing business activities of the Group, in accordance with AICD/Finsia principles of recording underlying profit.*
2. *A reconciliation of UPT for the Group to statutory profit after tax for the 2015 and 2014 financial years is given in the Directors' Report.*
3. *Measured as net debt divided by total assets net of cash and resident loans.*
4 *This data has been adjusted to reflect the seven for one stapled security consolidation made on 13 December 2012.*

Corporate Directory

CORPORATION/RESPONSIBLE ENTITY

Aveo Group Limited
ABN 28 010 729 950

Aveo Funds Management Limited
ABN 17 089 800 082
AFSL 222273

Level 5, 99 Macquarie Street
Sydney NSW 2000

Website: www.aveo.com.au

BOARD OF DIRECTORS

Seng Huang Lee (Chairman)

Jim Frayne

Geoffrey Grady

Eric Lee

Kelvin Lo

Walter McDonald

Diana Saw

Greg Shaw (Alternate to Seng Huang Lee & Eric Lee)

COMPANY SECRETARY

Anna Wyke

CHIEF FINANCIAL OFFICER

David Hunt

AUDIT COMMITTEE

Jim Frayne (Chairman)

Eric Lee

Kelvin Lo

NOMINATION AND REMUNERATION COMMITTEE

Walter McDonald (Chairman)

Jim Frayne

Seng Huang Lee

AUDITOR

Ernst & Young

COMPLAINT RESOLUTION SERVICE (FINANCIAL SERVICES)

Financial Ombudsman Service Limited (Australian Financial Complaints Authority, from 1 November 2018,)
GPO Box 3
Melbourne Vic 3001

Telephone: 1300 565 562

CONTACT

Level 5, 99 Macquarie Street
Sydney NSW 2000

Telephone: +61 2 9270 6100

DISCLAIMER OF LIABILITY

This Report contains forward-looking statements (Forward Statements). Forward Statements can generally be identified by the use of forward looking words such as "guidance", "anticipate", "estimates", "will", "should", "could", "may", "expects", "plans", "forecast", "target" or similar expressions. Forward Statements, including indications, guidance or outlook on future revenues, distributions or financial position and performance or return or growth in underlying investments are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. No independent third party has reviewed the reasonableness of any such statements or assumptions. No member of the Group represents or warrants that such Forward Statements will be achieved or will prove to be correct or gives any warranty, express or implied, as to the accuracy, completeness, likelihood of achievement or reasonableness of any Forward Statement contained in this Report. Except as required by law or regulation, the Group assumes no obligation to release updates or revisions to Forward Statements to reflect any changes.

Please note: All figures are Australian dollars unless otherwise indicated.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