

5 November 2014

Annual General Meeting - Chairman's Address
Linda Bardo Nicholls AO

Good afternoon ladies and gentlemen. My name is Linda Nicholls and I am your Chairman at Japara Healthcare. On behalf of the Board of Directors of Japara, I'd like to welcome our shareholders, to the first Annual General Meeting of Japara Healthcare as an ASX-listed company.

Evacuation procedures

At Japara we take safety seriously so, I would like to ensure that everyone here today is familiar with the evacuation procedures that need to be followed in the event of an emergency. The exit is out to my left past the lifts. If the evacuation alarm sounds, please exit through the main doors, turn left and proceed down the main staircase. Hotel staff will direct you to the emergency meeting point, which is located across Flinders Lane in the grounds of St Paul's Cathedral.

Before we start, could you please ensure that your mobile phone is turned off or switched to silent.

Meeting opened

It is 2pm, the appointed time for holding the meeting, and I am advised that a Quorum is present. Therefore, I have pleasure in declaring the 2014 Annual General Meeting of the Members of Japara Healthcare Limited open.

Introductions

I would like to introduce your Board of Directors:

Tim Poole, Non-Executive Director,

Richard England, Non-Executive Director and Chair of the Audit, Risk and Compliance Committee,

David Blight, Non-Executive Director and Chair of the Remuneration Committee,

John McKenna, our Chief Financial Officer,

Andrew Sudholz, our CEO and Managing Director, and

Kathryn Davies, our Company Secretary.

Also present today is Darren Scammell from KPMG, the Company's auditors, and key Japara executives.

I would like to begin by reflecting on what has been a milestone year for the Company. I will then invite Andrew to provide you with a detailed review of 2014. Following Andrew's presentation, we will proceed to the formal business of the Meeting and after that there will be time for questions from shareholders.

Japara Healthcare's ASX listing

At Japara, we are very proud to be the first aged care provider in Australia to have been listed on the Australian Stock Exchange. It was very pleasing to see the attractiveness of our business model, which is underpinned by strong industry fundamentals, reflected in strong demand from investors through the IPO process.

We listed in April, and in July, the S&P included Japara in the ASX 200. As a company listed in the ASX 200, Japara now enjoys numerous broker analysts following the stock and Australian and overseas institutional investors including your company in their portfolios.

There was a tremendous amount of work required from all of our staff for us to reach this milestone, and I would like to thank them all for their diligence, enthusiasm and commitment during this important period for the Company.

Consistent focus on care and safety

While listing was certainly a significant achievement for the Company, what's really important to us every day is the consistent delivery of high quality healthcare to our residents, and ensuring the safety of both our residents and staff across all of our facilities.

Delivering a high quality of care is central to everything we do, from the recruitment, training and development of our staff of professional nurses and personal carers, to the design and refurbishment of our facilities to meet the specialised clinical care and lifestyle needs of our residents.

Our focus on care and safety is reflected in our strong accreditation history, with the Group maintaining a 100% accreditation record over the past five years. This record continued in FY14 with the full re-accreditation of eight facilities. Japara's strong track record comes from the capability and dedication of our care-facing staff, combined with our strong governance framework, which provides the policies and

procedures that create a safe environment for both the residents and staff in our 39 facilities. We take safety seriously and at every Board meeting, resident and staff safety is our first agenda item.

Our focus on care and safety underpins our facility construction program. As we both refurbish existing facilities and build new facilities, we will be endeavouring to implement innovative designs and features which will enhance our residents' experience and cater to the unique needs of dementia and Alzheimer's sufferers.

For example, new designs incorporate strong visual cues to help orientate residents who need visual reminders of where they are and where they're going, and to help moderate the feelings of confusion and disorientation that can overcome residents in facilities of more institutional, traditional designs.

Innovation in facility design is complemented by innovation in our dementia care model, which is evolving in line with global best practice. The care model, known as a "person-centric approach", moves away from rigid, schedule-based care models. The new, more flexible care plans that we are creating are tailored to the individual resident and centred around their personal needs, preferences, privacy, and dignity. Japara commenced rolling out our specialist dementia plan in FY14 with very pleasing outcomes reported by residents, their families and our staff. We look forward to expanding this programme across all of our facilities over the medium term.

Four paths to growth

Japara's investment program focuses on innovative care for our residents, and capacity expansion to service the growing requirements of the community.

Our growth strategy has four parts:

- First, organic growth of both revenue and earnings from our core business. A key component is the rollout of our resident Wellbeing Services programme, which commenced in September. Over and above the high quality clinical healthcare services that are provided to all residents, Wellbeing Services offers enhanced lifestyle options for our residents and a growth opportunity for Japara. We will speak more about this program later.
- The second growth path is Brownfield developments. That is, the redevelopment and extension of existing aged care facilities, to deliver higher quality, higher capacity facilities and operating efficiencies within our current

portfolio. The brownfield projects which were completed in FY14 are performing ahead of expectations to date.

- Our third growth path is greenfield development opportunities, which involve building new aged care facilities on newly acquired sites. The Japara strategy is to pursue green-field developments where we see opportunities to expand our network in underserved geographies.
- An example of this is the acquisition of the green-field development site in Glen Waverley, which we announced last Monday. The site is a prime metropolitan location in Melbourne, on which we expect to add 65 state-of-the-art places. We will be looking to add more high-quality development sites to our network as opportunities arise.

Japara's fourth path to growth is the selective pursuit of acquisitions. That is, the purchase of single or multi-facility portfolios where we see opportunities to deliver value to our shareholders. Across the industry, we are seeing that regulatory changes both implemented like the removal of the Dementia supplement and foreshadowed like the payroll tax supplement removal are having a greater impact on smaller and mid-size operators. We are observing an increase in the quality and quantity of smaller-scale acquisition opportunities in the market. Importantly, we are highly selective, we are maintaining our position as a disciplined buyer, and we will only pursue those opportunities that we expect will deliver value to shareholders.

Attractive demographics underpin investment case

Our investment in both capacity expansion and care innovation reflects the significant role the private sector has to play in meeting the considerable demand coming from the ageing Australian population over the coming decade.

It is estimated that an additional 80,000 residential aged care places will be needed by 2022, requiring up to \$25 billion of investment into the sector. The number of Australians with Alzheimer's or dementia is also expected to double within the next 10 to 12 years.

We are seeing some of these demand dynamics already in the response to the three brownfield projects Japara completed in FY14. We are very pleased with the results we've observed to date which have outperformed our expectations.

Japara is well placed to fund its growth. With the establishment of a \$95 million syndicated debt facility in August, coupled with the capital funding provided by refundable accommodation deposits, (or "RADs" as they are commonly known), our

balance sheet is supported by diverse sources of capital which provide funding flexibility to support our growth agenda.

Regulatory changes provide opportunities

Like many sectors of the Australian economy including banking, insurance, utilities, media etc., the aged care sector is highly regulated. Over the past few months, we have experienced a number of regulatory changes which have provided both opportunities, and some challenges, to the industry.

Some of those changes are changes to regulations which Government can implement quickly such as the Dementia Care Supplement and ACFI funding. Other are legislative and demand Parliamentary approval, like the Payroll Tax supplement which has been announced but has not yet been presented to Parliament.

That may seem complicated, even confusing, but in our industry, regulatory change is normal. Our management team has a strong track record of managing the business as the regulatory environment evolves. Whether the changes are deregulation or re-regulation the Japara executive focus is on ensuring our business is agile, adaptable and nimble.

The most recent regulatory changes have presented a number of attractive opportunities for well-capitalised, larger operators such as Japara.

For example, the Living Longer, Living Better reform has increased our ability to be able to offer enhanced lifestyle and wellbeing services to more of our residents, over and above the clinical healthcare services they already enjoy.

We are currently rolling our resident experience programme, called 'Wellbeing Services', which offers a range of additional options, including in-room flat screen TVs, enhanced menu options (including the choice of alcohol with the evening meal), and hairdressing, massage and other spa services, which both improve the quality of life for our residents, and provide additional revenue opportunities for Japara.

The removal of the distinction between High Care and Low Care places from 1st July 2014 gives us more flexibility in occupancy management. The move to the RAD/DAP regime provides residents with the choice on how they pay for their accommodation, and provides operators with the revenue and capital to support growth and reinvestment in the sector.

Along with the opportunities that regulatory change has provided, the aged care industry has also faced some headwinds in terms of the removal of the Dementia Supplement and the pending Parliamentary decision to remove the Payroll Tax Supplement. We expect that the impact will be mitigated through a combination of increases in Government funding through other channels, such as the increase in the daily basic subsidy and increased supplements relating to residents of refurbished facilities, and through a range of operational initiatives. Andrew will speak to this in more detail in his remarks.

Outlook and conclusion

Your Board is pleased with the platform for growth established in FY14.

We look forward to rewarding our shareholders with dividends as this growth is delivered. As outlined in the Prospectus, it is the Board's current intention to pay out 100% of net profit after tax as dividends to our shareholders in FY15, and we confirm we will be looking to frank any dividends to the maximum extent possible.

Before I introduce Andrew, I would like to say that I am personally excited about the opportunities ahead for Japara Healthcare. The Company is well placed to continue to execute its growth strategy comprising green field and brownfield development, the acquisition of new facilities, and organic opportunities with a view to growing our portfolio to 5,000 places over the medium-term.

In closing, I would like to welcome you once again as shareholders of Japara Healthcare and thank you again for your support in our journey as a listed company.

It is now my pleasure to introduce Japara's Managing Director, Andrew Sudholz for his detailed operating and financial review. There will be time for questions during the formal proceedings of the meeting.

Thank you.