JAPARA
HEALTHCARE

Annual Report 2017

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Sustainable growth underpinned by a focus on high quality resident care.

FY2017 Highlights

Total Revenue $362.2m
up 10.7%

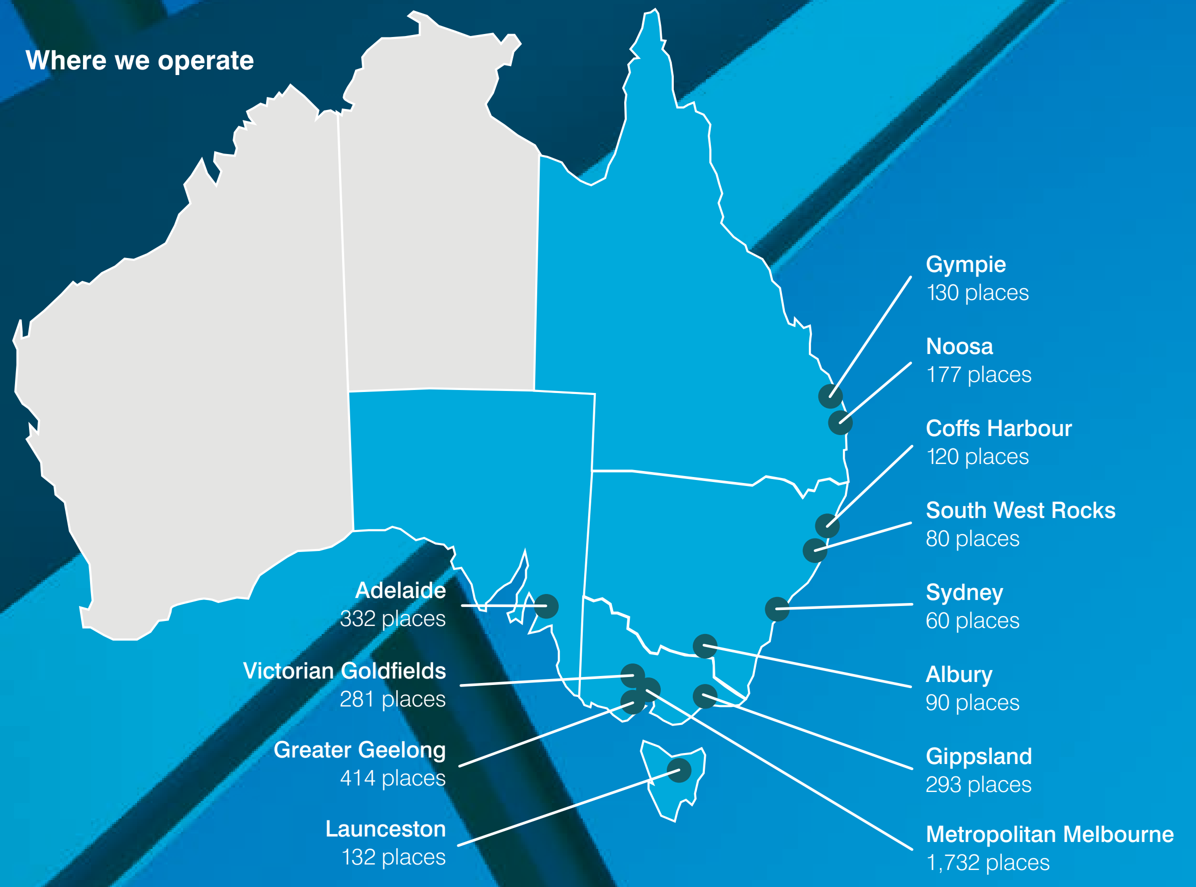
Full Year Dividend of 11.25¢
per share

NPAT $29.7m
resulting in earnings per share of 11.2 cents

EBITDA $60.2m
up 7.3%

3,841 operational places
up 3.3%

Company Overview



Japara Healthcare is one of Australia's largest residential aged care providers, with a growing national footprint.

We care for over 3,500 residents across 43 facilities located throughout Victoria, New South Wales, Queensland, South Australia and Tasmania. We also operate 180 independent living units across five retirement villages located adjacent to our aged care facilities.

Our core objective is to provide a high quality of life for ageing Australians.

Our high-care focused model facilitates 'ageing-in-place' by servicing the full spectrum of resident care needs. We specialise in providing high acuity care including to residents with dementia.

Beyond our clinical healthcare services, we strive to develop and deliver new ways to meet our residents' lifestyle, wellbeing and social needs.

We have a diversified growth strategy, which includes a greenfield and brownfield developments program. This program is on track to deliver over 1,100 new places by the end of FY2020, with a plan to deliver over 2,500 new places by the end of FY2026 to meet the growing community need for residential aged care. We also continually invest in our existing facilities through a significant refurbishment program to improve the quality of accommodation and extend the life of our assets.

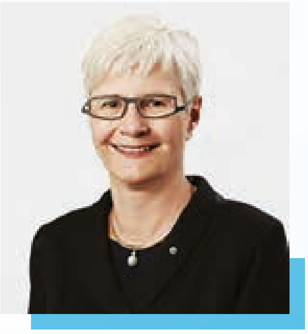
Japara Healthcare was listed on the Australian Securities Exchange in April 2014 and is ranked an ASX200 company.

Our core objective is to provide a high quality of life for ageing Australians.

Key statistics as at 30 June 2017

Number of facilities	43 across five states
Approved and provisional places	4,950
Operational places	3,841
Independent living units	180
Number of staff	5,255

Chairman's Review



An internal management reorganisation was undertaken during the year to strengthen the Group's operations and underpin future growth. This included the appointment of additional management talent in key areas including home management, quality, safety, hospitality, infrastructure, marketing and dementia support.

Dear Shareholders,

On behalf of the Directors, I am pleased to present the 2017 Annual Report for Japara Healthcare Limited.

Excellent care and services for our residents

Japara Healthcare continued to provide excellent care and services to its residents throughout the Group's 43 homes during the year. The trend of people entering residential aged care at a later age, with more complex care needs continues, with Japara Healthcare being well placed to service this market and provide a high quality of life for ageing Australians. Our approach of having registered nurses rostered to work on every shift in every home, supported by a dedicated team of enrolled nurses and carers, is highly regarded and a point of difference from others in our industry.

The prevalence of dementia amongst our residents and the elderly in general is increasing. Japara Healthcare is committed to improving the lifestyle and health of people with dementia and has developed a specialist dementia care model for roll-out across our homes. We have also employed an experienced, highly regarded dementia care expert to lead the Group's initiatives in this area, which include the construction of innovative and dedicated memory support areas within our new developments.

Ongoing industry review and reforms

The aged care sector, including the residential aged care industry, has faced a significant level of public scrutiny during the year resulting in numerous reviews being undertaken by Governments at State and Federal levels examining standards of care, regulatory processes and operating practices. A comprehensive review of the aged care system has recently been completed for the Federal Government (Tune Review) with the findings expected to result in changes in the medium term funding of the industry, de-regulation of supply and a focus on a continuum of care regime. Japara Healthcare is well placed to respond to this challenging environment, with a diversified growth strategy and an agile and experienced senior management team.

Delivering on development growth

We continued to make excellent progress on our developments program during the year with four extensive brownfield projects delivered and 16 other brownfield and greenfield projects underway. Pleasingly, our greenfield home, Riverside Views in Launceston, Tasmania, was completed and is due to open in late September 2017. Importantly, we also secured sufficient additional land and most of the licences required to deliver and operate our current pipeline of projects. We remain on track to deliver in excess of 1,100 new places by the end of FY2020. A significant refurbishment program across 14 of our homes also commenced this year. This will deliver upgraded facilities over the next two years and assist with maintaining the life of our assets and quality of accommodation.

Changes and other initiatives

An internal management reorganisation was undertaken during the year to strengthen the Group's operations and underpin future growth. This included the appointment of additional management talent in key areas including home management, quality, safety, hospitality, infrastructure, marketing and dementia support. Investment continued to be made in our staff through training and development programs, and in innovation of our service delivery. We also commenced implementation of our new technology strategy. This will enable the Group to make greater and more efficient use of technology at operational and support levels and includes the roll-out of Wi-Fi and associated infrastructure across all homes over the next two years providing the capability to use more advanced technology in the delivery of care and other services for our residents' benefit.

Solid financial performance continues, 100% dividend payout ratio maintained

Japara Healthcare has delivered another solid financial result in FY2017. Revenue of $362.2 million was up 10.7% on last year and EBITDA of $60.2 million was up 7.3%. Net profit after tax was $29.7 million, a slight decrease of $0.7 million.

Total dividends of 11.25 cents per share were determined for the year (11.50 cents per share last year), which includes a 5.75 cents per share final dividend franked to 70% and payable on 30 October 2017. Dividends are in line with our stated policy of distributing up to 100% of net profit after tax to shareholders, reflecting the Board's ongoing confidence in the business and opportunities ahead. Dividends are franked to the maximum extent possible having regard to available franking credits.

Japara remains a highly cash generative business with a strong and conservative balance sheet. It is therefore well placed to fund its growth strategy and provide attractive and sustainable returns to shareholders.

Our opportunities

Australia's ageing population continues to provide great opportunities for Japara Healthcare. In addition to our current focus on residential aged care, we are considering other ways of participating in the broader continuum of care through natural adjacencies with our existing business. This is explored further in the Managing Director and CEO's Review.

I would like to acknowledge the ongoing dedication and commitment of our over 5,000 strong team of nurses, carers and other support staff who have tirelessly

assisted our residents to live more fulfilled lives over the course of the year. I would also like to thank our management team for their effort and contribution.

Finally, I would like to thank you, our shareholders, for your support of Japara Healthcare, and I look forward to meeting with you at the Company's Annual General Meeting if you have the opportunity to attend.

Linda Bardo Nicholls AO
Chairman

28 August 2017

Managing Director and CEO's Review

Japara Healthcare's strategy is focused on growing and enhancing our existing portfolio of residential aged care facilities, together with the continuous improvement of the products and services that provide real choices for ageing Australians.

Dear Shareholders,

In FY2017, Japara Healthcare has again delivered solid revenue and EBITDA growth in a sector currently experiencing significant public scrutiny and ongoing regulatory reform. We have continued to provide excellent care and services to our many residents and execute and deliver against our growth strategy to provide new and improved homes for Australia's ageing population.

Revenue and EBITDA growth delivered, 100% dividend payout ratio maintained

Total revenue of $362.2 million was up 10.7%, benefiting from new brownfield developments coming online and a full period contribution from an aged care portfolio we acquired in December 2015. Active management of the Group's real estate portfolio also contributed to the revenue uplift.

Average underlying occupancy remained steady at 94.6% excluding facilities under development. EBITDA increased by 7.3% to $60.2 million. Staff costs as a percentage of revenue increased marginally to 68% (FY2016: 67%), reflecting our high care-focus and a slowdown in the growth rate in government funding and ACFI. Staff costs continued to be actively managed having regard to increasing resident needs, facility ramp-ups and acquisition integration.

Group net profit after tax was $29.7 million, a slight decrease of $0.7 million due to an increase in depreciation and financing costs and a one-off tax benefit received in the prior period. The Board maintained a dividend payout ratio of 100% in FY2017, with total dividends of 11.25 cents per share (FY2016: 11.50 cents per share).

Financial summary:

	FY2017 $m	FY2016 $m	Change %
Total revenue	**362.2**	327.3	10.7
Total expenses	**302.0**	271.2	11.4
EBITDA	**60.2**	56.1	7.3
NPAT	**29.7**	30.4	(2.3)

Favourable industry fundamentals

The fundamentals of the residential aged care industry remain favourable given Australia's ageing population and increasing prevalence of entering residential care at a later age, with more chronic and complex health conditions, including dementia.

This strong demand profile, along with high barriers to entry associated with ongoing capital investment, licensing and stringent regulatory requirements, provides great opportunity for Japara Healthcare to maintain its position as one of the leading providers within the industry.

A comprehensive review of the aged care system has recently been completed for the Federal Government (Tune Review) with the findings expected to result in changes in the medium term funding of the industry, de-regulation of supply and a focus on a continuum of care regime.

Implementing and delivering on growth

Japara Healthcare's strategy is focused on growing and enhancing our existing portfolio of residential aged care facilities, together with the continuous improvement of the products and services that provide real choices for ageing Australians.

Our business will continue to expand on the continuum of care model and provide:

- high quality care and options to residents living in our aged care homes;
- specialised dementia care;
- assisted living to residents with lower care needs;
- senior living services and accommodation for ageing Australians; and
- home help and personal care services into our independent living sector.

This year, we established a full cycle real estate team within the central support office to underpin future developments and real estate portfolio management. We continued to make excellent progress on our developments program with four extensive brownfield projects being completed in Victoria, delivering 124 new places. A further 10 projects were commenced during the year, with six brownfield and 10 greenfield projects now underway at various development stages. I am pleased to report that our greenfield project, Riverside Views near Launceston, Tasmania, is now completed and on track to open in late September 2017. This will be our 44th facility and will provide an additional 88 places to the Group's portfolio.

During the year, we also secured five additional land sites in optimal metropolitan locations across Victoria and Queensland, with land now secured for all of our greenfield projects. We have now invested more than $50 million in site acquisitions since listing. We are on track to deliver over 1,100 new greenfield places by the end of FY2020 for which we hold most of the operating licences, having received an additional 266 licences during the year.

A significant refurbishment program commenced during the year across 14 of our facilities. This two-year program is designed to improve the quality of accommodation and extend the life of our assets. It should generate additional profit and improved returns to shareholders through higher accommodation supplement income.

We also expect to continue to benefit from the ongoing management and value extraction from our real estate portfolio, which has a current book value of circa $550 million.

Well positioned for future growth

Japara Healthcare continues to significantly invest to position our Company for future growth. This includes significant investment in human capital, ICT systems and our specialist dementia care model.

With the backdrop of a freeze on indexation of Government funding for FY2018, a business enhancement program was undertaken during the year to optimise revenue and costs without compromising on care and quality. We expect to see the benefits of this program moving forward.

Japara Healthcare continued its good record of strong cash generation during the year, delivering net operating cash flows of $31.8 million plus net cash inflows from RADs of $55.7 million. The Company's balance sheet is strong and well positioned to support future growth, with modest net bank debt of $19.6 million at 30 June 2017 and available liquidity of circa $190 million.

We also continue to strive to be best in care, hospitality, lifestyle, customer and dementia services. In particular, we expect to provide improved life benefits to our residents through adoption of our specialist dementia care model across all facilities and in the design and functionality of new memory support areas and homes.

Value accretive acquisition opportunities

Unlike previous years, no acquisitions were made during FY2017 as opportunities we considered did not meet our investment fundamentals. Japara Healthcare continues to assess acquisition opportunities that meet our strict acquisition criteria, including being value accretive for our shareholders and we are confident that future acquisitions will be made to enhance the Group's growth platform.

Outlook

Looking ahead, Japara Healthcare expects FY2018 EBITDA to be in line with or slightly above FY2017.

EBITDA is expected to increase from FY2019 as more greenfield developments complete and ACFI indexation increases recommence.

Japara Healthcare has a sound, diversified growth strategy underpinned by a focus on high quality resident care and services. Its extensive developments program is supported by a strong balance sheet allowing capital management flexibility. These provide an excellent foundation for the Company's medium-term growth.

Thank you

The dedication and commitment of our team of facility and other support staff across Australia is core to our ability to provide high quality support and services to our residents. I would like to thank all staff and the Board for their contributions during the year.

Andrew Sudholz
Managing Director and CEO

28 August 2017

Environmental, Social and Governance Statement

As a major provider of residential aged care services in Australia, Japara Healthcare (the Company) recognises the importance of its contribution to the sustainability of the environment and the communities in which it operates. We have dedicated policies and practices in place which are underpinned by a robust governance system and corporate and socially responsible values that we strive to live by. We recognise the importance of continuing to develop sustainable practices within our business. We also recognise the need to be accountable to our various stakeholders and provide informative reporting. We continue to work to improve on this reporting.

Our commitment in 2017 and beyond is to continue to build tailored measures to understand and manage the material impacts of our business in four key areas: **Our Residents, Our People, The Environment and Our Communities**. These are reflected in our short to medium term goals and their related initiatives which we will focus on to build our commitment in these key areas. These goals and initiatives (which follow) will continue to be monitored, measured and reviewed progressively over time.

In addition, we will continue to enhance the Company's governance framework as it specifically relates to the four key areas. As reported in 2016, we have established a Zero Harm Committee of the Board which specifically focuses on clinical governance, occupational health and safety and sustainability. During 2016 and early 2017 the Committee has focussed on risk assessments, improved internal reporting and incident monitoring. The Committee's focus in 2017/18 has shifted to the implementation of improvement plans and measurement of progress against targets in key areas.

We look forward to reporting on our progress against the following goals and initiatives in our 2018 Statement.

Our Residents

The aged care industry provides important care and lifestyle services to support ageing Australians. With over 3,500 residents across 43 accredited facilities in five States, we are one of Australia's largest residential aged care providers. Our residents' care and wellbeing is our number one priority. With people entering residential aged care at a later age and with more complex care needs, including dementia, we continue to pursue innovation and improvement within our business to provide a high quality of life for our residents.

Goals	Initiatives
Maintain our 100% accreditation record	• Continue to meet or exceed all expected outcomes required under the Federal aged care accreditation standards.
Continuous improvement in our clinical risk management	• Continue to develop improvement initiatives targeting resident fall rates. • Continue to roll-out our specialist dementia care model across all facilities.
Continuous improvement in quality and wellbeing	• Reduce supplement use and Introduce more natural fortified foods by 31 December 2017. • Enhance our resident satisfaction reporting framework by 30 June 2018.

Our People

We are staffed by a team of over 5,000 dedicated nurses, carers and other support personnel, each performing an important role in providing high quality services to our residents. We recognise the importance of providing a safe and positive workplace environment and the mutual benefits received from developing, investing in and retaining our people.

Goals	Initiatives
Maintain a safe environment	• Achieve a 15% reduction in LTIFR for FY2018. • Reduce manual handling workplace injuries through a pilot program utilising wearable technology to identify key risk activities and then manage and reduce these risks and incidents. • Continue our focus on reducing workplace violence and aggression through detailed incident analysis and follow through including retraining.
Develop our people	• Continue to develop training programs and initiatives for the support and growth of our people.
Improve workforce diversity	• Continue to focus on the diversity of Senior Executives through recruitment and development practices.

The Environment

We understand that human activity has a profound impact on the environment and recognise the social responsibility we have to conduct our business in an environmentally sustainable manner having regard to our residents' needs and the nature of services we provide.

Goals	Initiatives
Define our climate change principles and approach	• Develop a climate change position statement and policy by 30 June 2018.
Consume less water and electricity	• Develop a water management plan for each facility by 30 June 2018 with three facilities to pilot a reduction program. • Develop electricity consumption reduction plans for each facility by 30 June 2018 with three facilities to pilot a reduction program.
Divert more waste from landfill	• Commence measuring the amount of waste diverted from landfill for FY2018 with an initial target of 10% diversion. • Achieve a minimum 5% annual improvement in recycling. • Introduce organic recycling initiatives by 30 June 2018.
Build and promote healthier and more sustainable residential environments	• Pursue five Green Star builds for greenfield developments. • Undertake three pilot Indoor Environment Quality (IEQ) assessments for development of an IEQ strategy by 31 March 2018. • Develop a sustainable materials procurement policy for implementation by 31 March 2018.

Our Communities

We provide important services to the community in supplying and operating high quality residential aged care facilities and services accessibly to all. As the aged care industry receives significant Federal Government funding and is a large and growing sector for employment, we recognise the need to act in a socially responsible manner for betterment of the care and opportunity we provide to the community. We seek to support and stay connected with our local communities through promoting active engagement by our residents and ourselves.

Goals	Initiatives
Develop community support and connection	• Improve the amenity and ambiance of our facilities to promote greater connection with the community. • Investigate new ways to add value through social media and technological solutions for our residents.
Advocate for residential aged care	• Continue to contribute to various industry committees and working groups to positively influence the development of future policy for residential care in Australia.

Directors' Report

The Directors present their report together with the consolidated financial statements of Japara Healthcare Limited (the Company) and its controlled entities (the Group) for the financial year ended 30 June 2017 and the Independent Auditor's Report thereon.

1. Directors

The Directors of the Company at any time during the financial year and up to the date of this report were:

Linda Bardo Nicholls AO
BA (Econ), MBA, FAICD (Life)

Non-Executive Chairman
Director since 19 March 2014

Linda is a senior executive and company director with more than 30 years' experience across Australia, New Zealand and the United States. Presently, Linda has directorships with Fairfax Media, Medibank Private, Inghams Group and the Olivia Newton John Cancer Research Institute. She is also a member of the Museums Board of Victoria.

Previously, Linda has held the position of chairman at some of Australia's most well-regarded companies, including Healthscope, Australia Post and Yarra Trams, and was a director of Pacific Brands Group, St George Bank and Sigma Pharmaceuticals Group.

She has also been a director of Low Carbon Australia Limited and the Walter and Eliza Hall Institute of Medical Research.

Linda holds a Masters of Business Administration from Harvard Business School, a Bachelor of Arts in Economics from Cornell University and is a Life Fellow of the Australian Institute of Company Directors.

Other current Australian listed company directorships:

Fairfax Media (appointed 26 February 2010), Medibank Private (appointed 31 March 2014), Inghams Group (appointed 7 October 2016).

Former Australian listed company directorships in last three years:

Pacific Brands Group (resigned 15 July 2016), Sigma Pharmaceuticals Group (resigned 9 December 2015).

Andrew Sudholz
FPI, MAICD

Managing Director and
Chief Executive Officer (CEO)
Director since 19 March 2014

Andrew is a founding shareholder and Executive Director of the Company. Andrew has more than 30 years' experience in the real estate, healthcare and professional services industries.

Prior to the establishment of the Group, Andrew was a global partner of the Arthur Andersen Group, a national partner of Ernst & Young's Real Estate Advisory Services Group and the state general manager of the Triden Corporation.

He is also a Fellow of the Australian Property Institute, a former president of the Victorian division and national board member of the Property Council of Australia and is currently a member of the Australian Institute of Company Directors.

Andrew holds an Associate Diploma of Valuations from the Royal Melbourne Institution of Technology.

Andrew has not held any other directorships of listed companies in the last three years.

1. Directors continued

Richard England
FCA, MAICD

Non-Executive Director
Director since 19 March 2014

Chairman of the Audit, Risk and Compliance Committee and member of the Remuneration and Nomination Committee and the Zero Harm Committee.

Richard has more than 20 years' experience as a non-executive director and chairman of multiple ASX listed and unlisted companies across the financial services, banking, healthcare and insurance industries.

Richard is currently the chairman of Qantm Intellectual Property Limited and is a non-executive director of Nanosonics Limited, Macquarie Atlas Roads Limited and Bingo Industries Limited.

Prior to embarking on his career as a director, Richard was a Chartered Accountant in public practice and a partner at Ernst & Young, where he was the national director of Corporate Recovery and Insolvency.

He is chairman of Indigenous Art Code Limited, the company administering the Indigenous Australian Art Commercial Code of Conduct.

Richard is a Fellow of Chartered Accountants Australia and New Zealand and a member of the Australian Institute of Company Directors.

Other current Australian listed company directorships:

Nanosonics (appointed 5 February 2010), Macquarie Atlas Roads (appointed 1 June 2010), Qantm Intellectual Property (appointed 17 May 2016), Bingo Industries (appointed 22 March 2017).

Former Australian listed company directorships in last three years:

Ruralco Holdings (resigned 5 September 2016), Chandler Macleod Group (resigned 16 April 2015).

David Blight
BAppSc

Non-Executive Director
Director since 19 March 2014

Chairman of the Remuneration and Nomination Committee and member of the Audit, Risk and Compliance Committee and the Zero Harm Committee.

David is the co-founder and CEO of ARA Australia, the Australian business of the Singapore based ARA Group. ARA is an Asia Pacific real estate investment management firm with over $36 billion in funds under management.

His previous roles include vice chairman of ING Real Estate and global chairman and CEO of ING Real Estate Investment Management based in The Netherlands. He has also held senior executive positions with Armstrong Jones, Mirvac Group and APN Property Group. David has more than 30 years' experience in the real estate industry across all major global markets and property sectors.

David holds a Bachelor of Applied Science in Property Resource Management (Valuation) from the University of South Australia and is a board member of APREA (Australian Chapter).

David has not held any other directorships of listed companies in the last three years.

JoAnne Stephenson
BComm, LLB, CA, MAICD

Non-Executive Director
Director since 1 September 2015

Chairman of the Zero Harm Committee and member of the Audit, Risk and Compliance Committee and the Remuneration and Nomination Committee.

JoAnne holds a Bachelor of Commerce and Bachelor of Laws (Honours) from the University of Queensland and is a member of Chartered Accountants Australia and New Zealand and the Australian Institute of Company Directors.

She has over 25 years of extensive experience in financial services having been a partner with KPMG and has key strengths in finance, accounting, risk management and governance.

JoAnne is currently a non-executive director of Challenger Limited, Asaleo Care Limited and Myer Holdings Limited.

She is also chair of the Audit and Risk Committee of the Department of Health and Human Services (Victoria), chair of the Victorian Major Transport Infrastructure Board and chairman of the Melbourne Chamber Orchestra.

JoAnne was previously a non-executive director of the Peter MacCallum Cancer Institute and the independent chair of two Latitude Insurance entities in Australia.

Other current Australian listed company directorships:

Challenger (appointed 8 October 2012), Asaleo Care (appointed 30 May 2014), Myer Holdings (appointed 28 November 2016).

Former Australian listed company directorships in last three years:

None.

2. Company Secretaries

Bruce Paterson

Bruce has over 25 years' corporate experience in senior roles with listed and unlisted companies. Prior to joining Japara Healthcare, he was company secretary of a top 200 ASX listed professional services company, Crowe Horwath Australasia Limited, for 14 years.

Bruce was appointed as lead Company Secretary of the Company in December 2015.

He has a Bachelor of Business in Accounting and a Graduate Diploma in Company Secretarial Practices. Bruce is a Fellow of the Governance Institute of Australia, the Institute of Chartered Secretaries & Administrators and CPA Australia.

Chris Price

Chris was appointed as Chief Financial Officer of the Company in June 2015 and as a Company Secretary in July 2015.

Chris has over 25 years' experience in the financial services, professional services and manufacturing sectors. Most recently he was managing director of ASX listed professional services firm Crowe Horwath Australasia Limited, having previously served as the company's chief financial officer for seven years.

He is a member of Chartered Accountants Australia and New Zealand and has a Bachelor of Business from RMIT University.

3. Directors' meetings

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors during the financial year are:

Director	Board meetings		Audit, Risk and Compliance Committee meetings		Remuneration and Nomination Committee meetings		Zero Harm Committee meetings	
	A	B	A	B	A	B	A	B
Linda Bardo Nicholls AO[1,2]	10	12	4	6	5	5	3	4
Andrew Sudholz[1]	12	12	6	6	5	5	4	4
Richard England	12	12	6	6	5	5	4	4
David Blight	12	12	6	6	5	5	4	4
JoAnne Stephenson	11	12	5	6	4	5	4	4

A – Number of meetings attended.
B – Number of meetings held.
1 – Attended committee meetings by invitation.
2 – Ms Nicholls was absent from Board and Committee meetings through illness, with Mr Blight chairing Board meetings in her absence.

4. Principal activities

The principal activities of the Group during the financial year was that of owner, operator and developer of residential aged care facilities. No significant change in the nature of these activities occurred during the financial year.

5. Operating and financial review

Overview of the Group

The Group is one of the largest private sector residential aged care operators in Australia with over 4,900 resident places and approvals for places nationally currently across 43 facilities located in Victoria, New South Wales, Queensland, South Australia and Tasmania.

In conjunction with the business of providing residential aged care services, the Group also operates 180 independent living units (ILUs) across five retirement villages, located adjacent to its aged care facilities. Retirement village revenue accounts for less than 1% of the Group's operations by revenue.

Since inception in 2005, the Group has successfully expanded its business and achieved significant growth in earnings by:

- development and expansion of facilities;
- selective acquisition of facilities; and
- implementation of the Group's care and operating model.

In 2014 the Group was restructured resulting in an Initial Public Offering of ordinary shares. Japara Healthcare Limited was admitted to the official list of ASX Limited on 17 April 2014.

The Group's provision of care is underpinned by an operating model that is designed to facilitate ageing-in-place by servicing the full spectrum of resident care needs. It specialises in high acuity care including dementia. This operating model is aimed at achieving:

- above industry average occupancy levels through providing a high standard of resident care and wellbeing;
- eligible Government care funding matched to resident acuity; and
- cash flow generation to meet working capital requirements, facilitate future growth and provide returns to shareholders.

Funding sources

The Group derives funding from two main sources, being operating funding (Government funding, resident contributions and accommodation charges) and capital funding (Refundable Accommodation Deposits (RADs)).

5. Operating and financial review continued

Funding sources continued

Government and resident contributions

As a provider of residential aged care services, approved by the Department of Health (Department), each of the Group's facilities is eligible to receive funding contributions from the Government. Funding is in the form of subsidies and supplements for approved residents in funded places, on a per resident per day basis. It includes care and accommodation components. The Group derived circa 72% (2016: 72%) of its revenue from Government care funding during the financial year.

The Group also receives contributions from residents for the provision of a full spectrum of aged care services, optional additional services and Daily Accommodation Payments (DAPs). Resident fees made up approximately 28% (2016: 28%) of the Group's revenue for the 2017 financial year.

Refundable Accommodation Deposits (RADs)/accommodation bonds

RADs (which replaced accommodation bonds from 1 July 2014) account for a significant component of the Group's capital funding. The Group maintains a conservative RAD management regime with the average value of incoming RADs set with reference to the median house price in the relevant Local Government Authority (LGA).

During the 2017 financial year, the Group used capital funding received from RADs for the following purposes:

- financing capital works at aged care facilities including brownfield and greenfield developments and significant refurbishments;
- financing the deferred settlement payment for the acquisition of the Profke Aged Care Group; and
- repaying bank debt used to finance capital works for aged care facilities.

The Group maintains a disciplined approach to capital expenditure, with all key capital projects subject to strict approval protocols. Capital expenditure comprises expenditure on asset enhancement and replacement programs and general maintenance projects. It also includes growth capital expenditure comprising brownfield and greenfield development projects and acquisition of aged care facilities.

Residents have the option to either pay a RAD, a DAP, or a combination of both. The DAP is calculated on a daily basis and charged monthly and recognised in revenue as a resident contribution. The value of a DAP is calculated with reference to the room value using an interest rate set by the Government.

Bank debt

The Group may borrow money from time to time in order to finance its activities. The Group has banking facilities with a syndicate of lenders which are principally used to finance the Group's brownfield and greenfield developments on a short to medium-term basis.

Key costs

The Group's key cost relates to labour, which is approximately 68% (2016: 67%) of total revenue for the financial year. Other costs include medical supplies, catering, cleaning, consumables, repairs and maintenance, energy, utilities and corporate costs.

As one of the largest operators of residential aged care services in Australia, the Group seeks to leverage its ability to achieve cost advantages through internalisation and centralisation of certain functions, economies of scale and Group buying power.

Review of operations

	2017 $'000	**2016 $'000**	**Change %**
Revenue and other income	**362,193**	327,266	10.7
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	**60,160**	56,102	7.2
Net Profit After Tax (NPAT)	**29,712**	30,375	(2.2)

Net profit amounts have been calculated in accordance with Australian Accounting Standards (AASs).

Operational highlights

The Group delivered a solid financial result.

Increases in revenue and EBITDA in the year were achieved through:

- a moderate year-on-year uplift in income from care and accommodation;
- a full year's contribution from the Profke Aged Care Group, which was acquired in December 2015; and
- steady underlying occupancy averaging 94.6% (excluding facilities under development), which was generally in line with expectations.

NPAT was slightly lower due to an increase in depreciation and financing costs and a one-off tax benefit received in 2016.

The Group operates a care-centric business model as described earlier above. The majority of the Group's employees are facility based being nurses and other care and support staff whose employment are covered under various state-based Enterprise Bargaining Agreements (EBAs). Their staff costs increase in accordance with the terms of the relevant EBAs. Total staff costs as a percentage of the Group's revenue for the financial year were 68% (2016: 67%).

A summary of the audited Statement of Financial Position is set out below:

	2017 $'000	2016 $'000	Change %
Total assets	**1,115,568**	1,069,994	4.3
Total liabilities	**579,854**	537,689	7.8
Net assets	**535,714**	532,305	0.6

Review of financial position

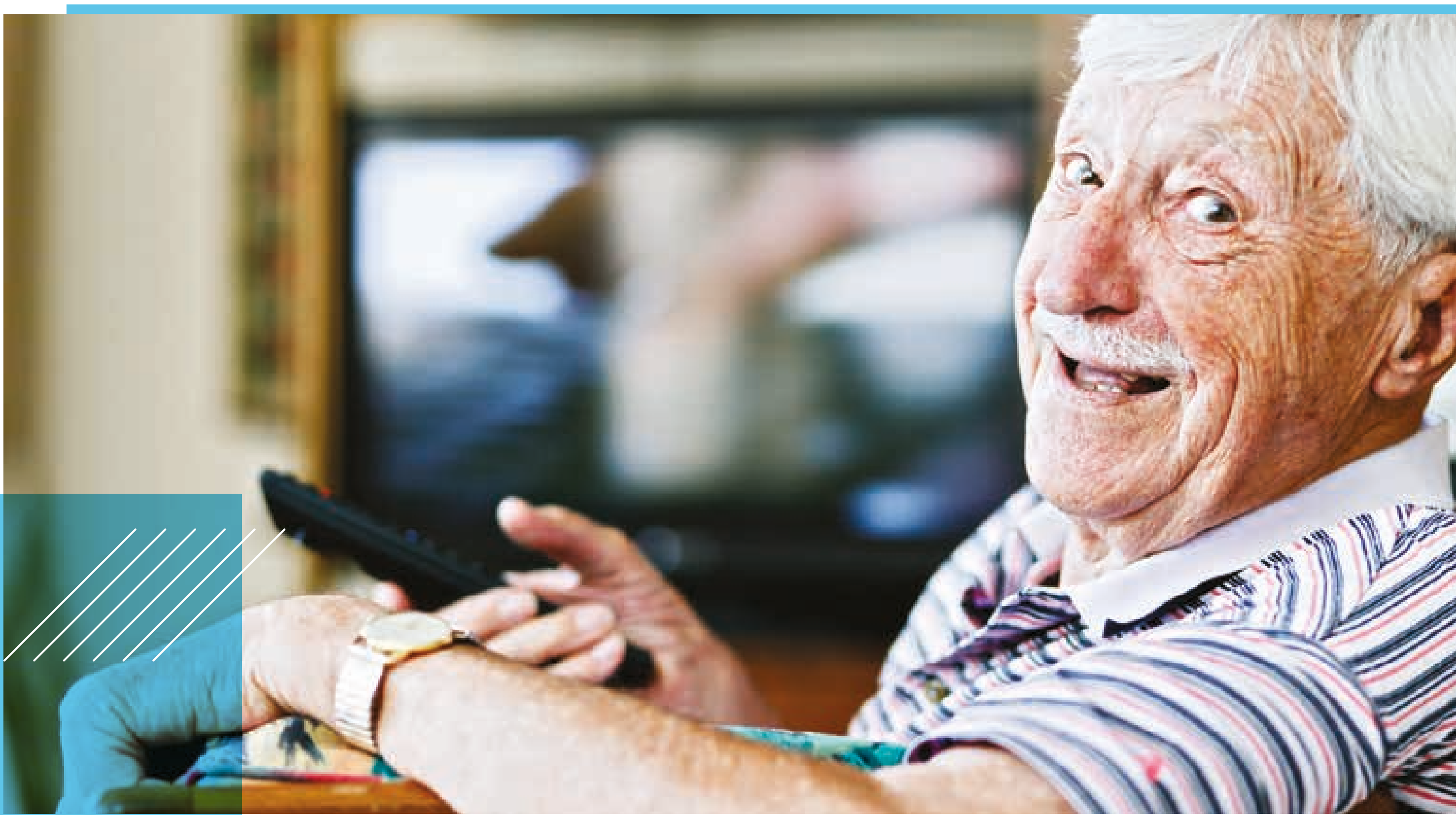
The Group's total assets increased by 4.3% during the financial year mainly due to increases in cash on hand and trade receivables, and capital expenditure on the Group's brownfield and greenfield development projects in line with its growth strategy.

Total liabilities increased by 7.8%, mainly due to an increase in the RAD/accommodation bond liability being monies refundable to our residents.

Net RAD cash inflows for the financial year were $55.7 million, which represents an increase in both number of RAD payers and average RAD value, and includes RADs received from 77 new places opened across three sites.

During the financial year $22.9 million of the Group's banking facilities was drawn down primarily to fund brownfield and greenfield developments with $21.4 million being repaid from net RAD cash inflows. A total of $61.0 million was drawn down as at the reporting date.

The Group's current liabilities exceed current assets by $455.0 million (2016: $431.0 million) as at 30 June 2017. This mainly arises because of the requirement to classify the Group's obligations to residents for RADs/accommodation bonds and ILU resident loans as current liabilities, whereas, the property, plant and equipment, investment properties and intangible assets to which such funds relate are required to be classified as non-current assets.



5. Operating and financial review continued

Review of financial position continued

The Group maintains a minimum level of liquidity to ensure RADs/accommodation bonds are able to be refunded as required and its working capital requirements are generally consistent throughout the course of a financial year with no significant variations. The Group's cash position is expected to provide sufficient liquidity to meet the Group's current anticipated cash requirements.

Over time, the Group may seek additional funding from a range of sources to diversify its funding base to reduce reliance on the bank finance market and to manage its exposure to interest rate risk.

Business strategies and prospects for future financial years

The Group is committed to maximising the value in its current portfolio of facilities through organic growth while maintaining a high level of resident care and support in line with its ageing-in-place care model as described earlier in this report.

In addition to organic growth, the Group has an expansion strategy which centres on increasing the size of its aged care facility portfolio through brownfield and greenfield developments and through acquisition of existing aged care facilities.

The Group is a supporter of reform that appropriately balances the community need for high-quality residential aged care and the sector's financial sustainability. The Federal Government has identified the importance of the continuum of care model and the goal of enabling a seamless transition between home and residential care for ageing residents. The Group seeks to build on current relationships with complementary businesses and will look to develop relationships and opportunities across the care continuum in the medium term.

Organic growth

(i) Additional services

The Group has a suite of additional services that are available to its residents. Revenue from additional services continues to grow as take-up levels improve and is expected to generate further revenue growth from resident contributions as they access these services. These services include hairdressing, pay TV, superior room furnishings, concierge services and various non-clinical therapy services. The majority of the Group's brownfield and greenfield developments are being designed to enhance the level and availability of additional service offerings.

(ii) Cost reduction initiatives

The Group constantly reviews its supply and service contracts seeking improvements including efficiencies and cost savings without compromising quality or service standards. It also continually refines its operations to identify improved and more efficient methods of operating.

(iii) Occupancy levels

The Group has historically maintained high occupancy levels and continues to target incremental improvement in occupancy across its portfolio of facilities. A dedicated client services team supports the facility managers to maintain a close relationship with the Group's resident consumer base and referral network. Benchmarked occupancy levels across the Group and its competitors are used for strategic direction and improvements initiatives.

The Group continues to provide care and services that are closely aligned with consumer demands and is proactive in strategic marketing and refurbishment activities to ensure high occupancy levels are maintained. In addition, the Group's development growth strategy is targeted towards undersupplied areas, as identified by its internal research team, which helps support high occupancy levels across the Group.

(iv) RAD/DAP funding

The Group received strong net RAD inflows during the year totalling $55.7 million. Further new capital is anticipated to be received from RADs linked to newly delivered operational places from brownfield and greenfield developments, as well as some RAD uplift emanating from the existing portfolio.

Brownfield and greenfield developments

The Group's current development program is to deliver over 1,100 new places to the market by the end of FY2020. In FY2017, 124 new places were delivered following the successful completion of four extensive brownfield projects in Victoria. Greenfield project Riverside Views, located near Launceston, Tasmania, has recently been completed and will deliver 88 new places when commissioned in September 2017. The Group has four projects currently under construction and another 12 projects within its pipeline at various stages of development. The Group owns or has secured land sites for all its projects, with five land acquisitions made in FY2017 in optimal metropolitan locations across Victoria and Queensland.

The Group has to date been allocated a total of 1,050 licences by the Department, including 266 in FY2017 under the 2016/17 Aged Care Approvals Round. These provisional allocations support the places being built under the Group's current development program. Any shortfall in bed licences is expected to be obtained either through transfer from current facilities with non-operational places and from future Aged Care Approvals Rounds or by acquisition.

It is expected that the costs of the Group's brownfield and greenfield projects will, to a large extent, be initially funded from the Group's banking facilities. This debt is expected to be repaid by the RAD inflows received from residents entering the new or redeveloped facilities post completion.

At the date of this report the following development projects are in the construction or planning phases:

- Launceston, Tasmania – 88 place new build completed and scheduled for handover in September 2017;
- Springvale South, Victoria – 68 place extension (56 net new places) and significant refurbishment, expected to be completed in FY2018;
- Glen Waverley, Victoria – 60 place new build expected to be completed in FY2018;
- Rye, Victoria – 99 place new build expected to be completed in FY2018;
- Noosa, Queensland – 12 place extension and significant refurbishment, expected to be completed in FY2018;
- Bendigo, Victoria – 16 place dementia specific extension expected to be completed in FY2018;
- Newport, Victoria – 120 place new build expected to be completed in FY2019;
- Mt Waverley, Victoria – 120 place new build (95 net new places) expected to be completed in FY2019;
- Belrose, New South Wales – 120 place new build (50 net new places) expected to be completed in FY2019;
- Mirboo North, Victoria – 26 place extension (17 net new places) and significant refurbishment, expected to be completed in FY2019;
- Albury, New South Wales – 27 place dementia specific extension expected to be completed in FY2019;
- Brighton, South Australia – 30 place extension (23 net new places) and significant refurbishment, expected to be completed in FY2019;
- Highton, Victoria – 135 place new build expected to be completed in FY2019;
- Reservoir, Victoria – 120 place new build expected to be completed in FY2020;
- Robina, Queensland – 106 place new build expected to be completed in FY2020;
- Mitchelton, Queensland – 106 place new build expected to be completed in FY2020; and
- Lysterfield, Victoria – 92 place new build expected to be completed in FY2020.

The Group commenced a significant refurbishment program across 14 of its current facilities during FY2017. As development projects are completed over a two-year period, the Group is entitled to receive additional funding from the significant refurbishment accommodation supplement which provides up to a potential additional $19 per day for each concessional resident in newly built or significantly refurbished facilities.

The Group remains on track to deliver new places in line with its brownfield and greenfield developments program.

Acquisitions of existing aged care facilities

Although the Group did not make any acquisitions during FY2017, it continues to review opportunities to acquire existing aged care facilities. The Group targets individual or groups of facilities where shareholder value can be enhanced through operational improvements and efficiencies. This may occur through the implementation of the Group's model, its buying power and removal of duplicated administration costs.

A disciplined and selective approach

The Group has established policies and procedures for the acquisition of additional aged care facilities. As part of the due diligence process, pricing is confirmed by independent valuations undertaken by the Group's panel of valuers for both the business and real estate components. The Group undertakes formal legal, financial, property, operational and compliance due diligence on each target facility before committing to any acquisition.

Typically, management targets facilities where expertise can be applied in the to improve the performance of the facility. The Group utilises its existing infrastructure and compliance platform to execute acquisition transactions including the application of strict investment criteria to identify and filter acquisition opportunities, subject to market conditions and availability of capital.

5. Operating and financial review continued

Business strategies and prospects for future financial years continued

Acquisitions of existing aged care facilities continued

A disciplined and selective approach continued

The Group's key acquisition investment criteria include:

- **demand:** facilities in locations that have unmet demand;
- **network enhancement:** facilities in locations that enhance the Group's national or local presence;
- **strong care fundamentals:** facilities that have strong care fundamentals and accreditation histories, as well as strong governance around care delivery and ACFI funding;
- **growth:** operational facilities that provide potential for long-term growth from income and RADs;
- **cash flow:** facilities that have a substantial income flow; and
- **value creation:** facilities that provide an opportunity for strategic value enhancement and asset management strategies to enhance returns to investors through:
  - purchasing undervalued assets which may be mispriced due to complexities of ownership, capital structure, planning controls or ineffective management processes;
  - asset management through asset repositioning, refurbishment, extension and redevelopment of existing assets; and
  - effective deal sourcing including opportunities that are off-market or subject to capital constraints, utilising the Group's network of contacts and market intelligence.

The Group will consider the acquisition of single aged care facilities or multi-facility portfolios where the investment criteria are met.

Material business risks

Change of regulatory framework

The Australian aged care industry is highly regulated and significantly funded by the Federal Government. Regulatory and funding changes may have an adverse impact on the way the Group promotes, manages and operates its facilities, and its financial performance.

In addition, there is a risk that participants in the industry may, through their actions, omissions and business practices, cause future regulatory changes that will have an adverse impact on the Group's financial performance and future prospects.

The Group has limited control over this area of risk but seeks to influence regulatory decision-making through submissions and consultation at senior Government levels including within Treasury, Health and Aged Care departments. The CEO has direct responsibility for managing regulatory risk and is the Company's delegate on the Aged Care Guild, which seeks to support ongoing investment in the industry to meet future demand. The CEO develops strategies, with the support of the Board, in anticipation of and to mitigate risk in regulatory change.

Reduction in occupancy levels

In the ordinary course of its business, the Group faces the risk that occupancy levels may fall below expectations. Reduced occupancy levels may adversely affect the Group's financial performance as it would reduce the amount of Government care funding to which the Group is entitled, resident contributions, accommodation payments and RADs. A decrease in occupancy levels may also result in an increase in financing costs. Either of these occurrences would be likely to lead to a decline in the Group's profitability.

Occupancy levels are monitored daily at a facility level and reported to line management weekly. Facility managers are responsible for their facilities' occupancy levels, which is a key performance indicator (KPI) for performance assessment purposes. Facilities are supported by line management and a dedicated client services team who have access to referrer networks and direct marketing resources. The Group Executive – Care and Commercial has overall responsibility for occupancy levels and reports directly to the CEO. The Board is provided with occupancy data on a monthly basis including trend analysis and action plans to address declines in occupancy. As a further strategy to counter potential reductions in occupancy levels, the Group develops its greenfield projects in undersupplied geographic markets as supported by independent research at the time of planning.

Health and safety

The wellbeing, health and safety of residents, facility staff and visitors are critical to the Group for its ongoing business operations. A poor or unsafe workplace can lead to injuries and discontentment amongst residents, relatives and staff, resulting in adverse financial performance, potential litigation and reputation issues for the Group.

The Group delivers care and services to its residents through a comprehensive and robust process which is supported by policies and procedures which comply with the *Aged Care Act 1997.* Facility staff are under the control and supervision of qualified facility managers and receive regular ongoing training to safeguard and promote the wellbeing, health and safety of both residents and themselves. Audits and post incident investigations are conducted to identify and address risks of injury or illness. Facilities are assisted by a centralised team which provides OHS, human resources and operational support. The Group Executive – Care and Commercial has overall responsibility for resident care services while the Group Executive – People and Infrastructure has overall responsibility for staff wellbeing. Both executives report directly to the CEO and provide monthly reports to the Board on the wellbeing, health and safety of residents and staff. The Board has established a Zero Harm Committee with the objective to ensure that the Company's commitment to zero harm is embedded across the Group and policies, procedures and practices for resident safety, clinical care and workplace health and safety are in place and overseen. Statistical reports showing injury frequency rates, near misses and other care and wellbeing indicators are provided to the Committee quarterly.

Loss of key personnel

The Group relies on a high-quality management team with significant aged care industry experience. The loss of key members of the Group's management team could adversely affect the Group's ability to operate its facilities and its business to the current standard.

This could undermine the Group's ability to effectively comply with regulations and may also result in a reduction in demand for the Group's aged care services from new and existing residents. Either of these occurrences may adversely impact on the Group's financial performance and position.

The Group has processes in place to manage the potential loss of key personnel. The Board has responsibility for CEO succession planning whilst the CEO has responsibility for succession planning of other key personnel with the support of the executive leadership team. The Board is required to be immediately advised of any resignation or termination of a key person via the Company Secretary or CEO. The Company's remuneration incentive arrangements for key personnel are overseen by the Remuneration and Nomination Committee. These arrangements can assist with retention through their design, including deferral and forfeiture elements. Key personnel also have extended termination of employment notice periods in their employment contracts to allow for an orderly transition of the role.

Loss of approvals or accreditation

Aged care facilities are required at law to be operated by Approved Providers and accredited in various ways. These approvals are generally subject to regular review and may be revoked in certain circumstances. Aged care facilities must be accredited to attract Government care and accommodation funding. If the Group does not comply with regulation and is unable to secure accreditation for the operation of its aged care facilities and resident places in the future, or if any of its existing accreditation or approvals are adversely amended or revoked, this is likely to affect Government funding, result in the breach of bank financing lending covenants and therefore adversely impact the financial performance and position and future prospects of the Group.

The Group has robust policies and procedures in place covering all 44 accreditation standards each facility must meet. Facility staff are educated and regularly trained to ensure these standards are upheld and are supported by a centralised quality control team. When the Group acquires a new facility, it undertakes a review of accreditation standards within three months using a gap analysis process to identify risks. New facilities are transitioned to Group standards with the support of the quality control team. The Group Executive – Care and Commercial has overall responsibility for ensuring accreditation standards are maintained and reports directly to the CEO. The Board is provided with regular reports on the outcomes of periodic Government accreditation audits with learning communicated across the Group. Remuneration incentive arrangements for the executive leadership team, which includes the Group Executive – Care and Commercial and the CEO, have a gateway hurdle that the Group must maintain ongoing accreditation and compliance standards.

Reputational damage

The Group operates in a commercially sensitive industry in which its reputation could be adversely impacted should it, or the aged care industry generally, suffer from any adverse publicity. Such publicity may lead to a reduction in the number of existing residents at the Group's facilities or the Group's ability to attract new residents to its facilities, both of which occurrences may adversely impact the Group's financial performance and position and future prospects.

Robust controls and processes are in place around resident care, health and safety issues. The Group seeks to avoid reputational incidents through a strong operating and control environment. When potential incidents are identified or become known they are promptly reported through the Group Executive – Care and Commercial to the other executive leadership team members and to the Board (when applicable) in accordance with standing policy. The executive leadership team, under the CEO's direction, is responsible for developing appropriate strategies and responses. The CEO and Chief Financial Officer have authority under the Group's Communication Strategy for commenting externally on reputational related matters. The Group engages external public relations advisers and other experts as required to assist with strategy, response and handling. From an industry perspective, the Company supports and is also supported by the Aged Care Guild of which it is an active member. The Aged Care Guild is proactive in raising concerns and providing positions and responses to industry related matters.

6. Dividends

Dividends paid or determined for payment on ordinary shares are as follows:

Final dividend of 5.75 cents per share (2016: 5.75 cents)	$15,269,000
Interim dividend of 5.50 cents per share (2016: 5.75 cents)	$14,583,000

The interim dividend paid during FY2017 was fully franked (FY2016: fully franked). The final dividend for FY2017 payable on 30 October 2017 will be franked to 70% (FY2016: fully franked).

7. Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the year other than as disclosed elsewhere in this report.

8. Events subsequent to reporting date

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of the affairs of the Group in future financial years.

9. Likely developments

Information relating to the likely developments in the operations of the Group and the expected results of those operations in future financial years is set out in Section 5 and elsewhere in this report.

10. Indemnification and insurance of officers

Indemnification

The Company has agreed to indemnify the current Directors and officers of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Directors and officers of the Company and its controlled entities, to the full extent permitted by law. The Company has also agreed to meet the full amount of any such liabilities, including costs and expenses.

The Company has agreed to indemnify the current Directors of its controlled entities for all liabilities to another person (other than the Company or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The Company has also agreed to meet the full amount of any such liabilities, including costs and expenses.

Insurance premiums

During the financial year, the Group paid a premium in respect of a contract insuring current and former Directors and officers of the Group against certain liabilities that may be incurred by such Directors and officers in the discharge of their duties to the extent permitted by the *Corporations Act 2001*.

Details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors' and officers' contract of insurance have not been disclosed as this is prohibited under its terms.

The Company has not provided any indemnity or insurance for the auditor of the Company.

11. Non-audit services

During the year, KPMG, the Group's auditor, has performed certain other services in addition to its statutory duties. Other services are performed by KPMG where the Group considers that KPMG is best qualified or positioned to perform those services and that the performance of those services would not compromise auditor independence requirements.

The Directors have considered the other services provided during the year by the auditor and, in accordance with written advice provided by the Audit, Risk and Compliance Committee, are satisfied that the provision of those other services during the year is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* due to the following:

- the other services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

Details of the amounts paid to the Group auditor for audit and non-audit services provided during the year are set out below:

	2017 $'000	2016 $'000
Audit and review of financial statements	335	380
Acquisition and due diligence fees	-	595
Taxation compliance fees	125	134
Other advisory services	41	53
	501	1,162

12. Environmental regulation

The Group's operations have a modest environmental impact and accordingly, are not subject to any particular and significant environmental regulation under either Commonwealth or State legislation.

13. Proceedings on behalf of the Group

No proceedings have been brought or intervened in on behalf of the Company with leave of Court under Section 237 of the *Corporations Act 2001*.

14. Lead Auditor's Independence Declaration

The Lead Auditor's Independence Declaration is set out on page 24 and forms part of this Directors' Report for the financial year ended 30 June 2017.

15. Rounding off

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 and in accordance with that legislative instrument, amounts in the Financial Report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Remuneration Report

The Remuneration Report is set out in Section 16 and forms part of this Directors' Report.

Signed in accordance with a resolution of the Directors:

Signed and dated at Melbourne on 28 August 2017

Linda Bardo Nicholls AO
Chairman

Andrew Sudholz
Managing Director and CEO

Lead Auditor's Independence Declaration

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Japara Healthcare Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Japara Healthcare Limited for the financial year ended 30 June 2017 there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

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

KPMG

KPMG

Darren Scammell

Partner

Melbourne

28 August 2017

JAPARA HEALTHCARE

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Letter from the Chairman of the Remuneration and Nomination Committee

Dear Shareholders,

On behalf of the Board, I am pleased to present the Japara Healthcare Limited audited Remuneration Report for the year ended 30 June 2017.

As the Directors' Report outlines, the Group delivered a post-tax profit of $29.7 million, reflecting a 2.3% decrease on the prior year. Underlying profit (before interest, tax, depreciation and amortisation) grew by 7.3% but was more than offset by an increase in growth-related depreciation and financing costs and a one-off tax benefit received in the prior year.

The Group continued to provide outstanding care and services to residents across its portfolio of homes. It also made excellent progress on its development program with four extensive brownfield projects completed and a further five projects in the construction phase. With additional land and licences secured during the year, the Group is on track to deliver over 1,100 new places by the end of FY2020. Pleasingly, the Group maintained its strong balance sheet and has an experienced and agile senior management team. The business is well placed to respond to the current challenging environment.

In September 2016, the Group undertook an internal management reorganisation, including the reallocation of certain responsibilities, in order to strengthen its operations and help position the business for future growth initiatives. This resulted in a change to key management personnel (KMP) for remuneration reporting purposes whereby the CEO/Managing Director and the Chief Financial Officer remained as the only executive KMP members (Executives).

FY2017 remuneration performance outcomes

- The Group's profit result was not sufficient for a short term incentive (STI) pool to form, so an STI was not awarded to executives. The maximum STI forgone totalled $758,000.
- The earnings gateway for the long term incentive (LTI) granted to executives in FY2017 was not met, resulting in the LTI being forfeited. The maximum LTI forgone totalled $1,515,000.
- Performance conditions for prior period LTIs were re-tested and continue to be met, with no LTI vesting during FY2017.
- In light of the strong underlying performance of the business, particularly in the context of ongoing regulatory change, together with the individual executive performance, the Board considered and awarded a once only ex-gratia payment to the CEO/Managing Director of $100,000, and to the CFO of $50,000, in recognition of their excellent individual performances through FY2017.

FY2018 remuneration settings

The Board is committed to ensuring that Group employees are compensated fairly and competitively for their contributions and performance-based remuneration arrangements are directly linked to the results and objectives of the business.

The Board recently reviewed the remuneration framework for executives having regard to its suitability for the business, a benchmarked comparator group comprising ASX 200 companies with similar characteristics to Japara Healthcare, historical remuneration outcomes and emerging market trends in performance-based incentive arrangements.

As a result, commencing in FY2018, the Board has enhanced the performance-based incentive framework as follows:

- the existing STI and LTI arrangements have been folded into a single incentive plan;
- target and stretch performance measures will be measured over a 12-month performance period;
- part payment in cash and part in equity;
- equity component has deferral and vesting periods; and
- unvested equity subject to forfeiture for termination of employment.

The revised remuneration framework provides a more focused and structured incentive arrangement, which is more appropriate to the business and the executives, as well as enhancing alignment with the key objectives of the business.

JAPARA HEALTHCARE

Letter from the Chairman of the Remuneration and Nomination Committee continued

FY2018 remuneration settings continued

Other relevant changes to remuneration settings for FY2018 are:

- no increase in fixed remuneration for executives;
- a market-based adjustment of 11% to the Chairman's fees, with no change to other Non-Executive Directors' fees; and
- no change in the total fee pool from which Non-Executive Directors are remunerated.

The majority of the Group's employees (being nurses and other facility staff) are covered under separately negotiated state based Enterprise Bargaining Agreements.

The Board looks forward to your continuing support of our remuneration policies and practices and recommends this Remuneration Report to you.

David Blight
Chairman, Remuneration and Nomination Committee

28 August 2017

16. Remuneration Report – Audited

16.1 Key management personnel

This Remuneration Report sets out the remuneration arrangements of key management personnel (KMP) in accordance with the *Corporations Act 2001* and Australian Accounting Standards for the year ended 30 June 2017 (FY2017).

For the purposes of this report, KMP is defined as those people who have the authority and responsibility for planning, directing and controlling the Group's activities, either directly or indirectly.

The following Non-Executive Directors of the Company and Group executives were classified as KMP for the entire FY2017 period:

Non-Executive Directors	Position
Linda Bardo Nicholls AO	Chairman
David Blight	Chairman of the Remuneration and Nomination Committee
JoAnne Stephenson	Chairman of the Zero Harm Committee
Richard England	Chairman of the Audit, Risk and Compliance Committee

Executives	
Andrew Sudholz	CEO/Managing Director (CEO)
Chris Price	Chief Financial Officer (CFO)

In September 2016, the Group undertook an internal management reorganisation, including the reallocation of certain responsibilities, in order to strengthen the Group's operations and help position the business for future growth initiatives. As a result, the CEO and CFO remained as KMP, and the following executives were no longer classified as KMP:

Executives (for the period 1 July 2016 to 21 September 2016)	Position
Jerome Jordan	Group Executive – Operations
Julie Reed	Group Executive – Aged Care Services
Ashley van Winkel	Group Executive – People

During the period in which these executives were classified as KMP, they did not receive any Short-Term Incentive (STI) or grant of Long-Term Incentive (LTI).

16.2 Remuneration framework and governance

Remuneration policy

KMP remuneration is determined in accordance with a documented remuneration policy which has been approved by the Board of Directors (Board). The policy provides a framework governing the Group remuneration arrangements and is underpinned by the principles of fair and responsible compensation.

Remuneration arrangements

(i) Executives

The remuneration structure for executives is designed to attract and retain high-calibre, exceptionally skilled and experienced candidates, reward them fairly and competitively for their roles and for the achievement of performance targets. In addition, it is designed to further align the objectives of shareholders with those of management, together with the creation of long-term sustainable value for the Group.

The remuneration structure takes into account:

- the scope and responsibilities of the executive's role;
- the capability and experience of the executive;
- the executive's ability to influence Group performance including profitability and earnings growth;
- compliance with required governance standards; and
- the remuneration of a comparator group comprising ASX 200 companies with similar characteristics to the Group, including industry sector, scale and business complexity.

16.2 Remuneration framework and governance continued

Remuneration arrangements continued

(i) Executives continued

Executive remuneration comprises:

- fixed remuneration:
  - including base remuneration and employee benefits (on a total cost basis including any related FBT charges), leave entitlements and employer contributions to superannuation.
- performance-related ('at risk') remuneration:
  - including a mixture of cash and deferred equity issued under an equity incentive plan (EIP) to reward executives for exceeding targets set by the Board.

Executives are required to own equity in the Company equivalent to at least one year's base salary. This can be acquired over a five-year period and it is intended that the EIP provides the main conduit for this purpose.

Executives are employed under continuous service agreements which outline remuneration, employment and termination arrangements. Details of termination notice periods applying to the executives of the Group are set out below:

Executive	Notice period
CEO	12 months
CFO	6 months
Other	3 months

The Group may also terminate an executive's employment by payment in lieu of notice or without notice and payment in lieu for serious misconduct. On termination, executives are entitled to receive their statutory leave entitlements, together with any superannuation benefits.

(ii) Non-Executive Directors

Non-Executive Directors are remunerated for their services to the Group. The maximum aggregate amount of remuneration (the pool) payable to Non-Executive Directors is approved by the Company's shareholders. The Board annually determines the fees each Non-Executive Director is entitled to receive from the pool having regard to remuneration benchmarking. The same comparator group used for executive remuneration benchmarking purposes is used for this purpose.

The Board Chairman and the Chair of each standing committee of the Board typically receive fees commensurate with the additional duties and responsibilities of these roles. Non-Executive Directors do not receive performance-related remuneration and have no retirement benefit schemes other than receiving statutory superannuation contributions.

Non-Executive Directors are entitled to be reimbursed for reasonable travel and other expenses incurred in discharging their duties including attending Board, committee and general meetings.

The Board has adopted a policy requiring Non-Executive Directors to hold shares in the Company equivalent to at least one year's Director's fees which can be acquired over a five-year period following appointment. This policy seeks to further align the interests of Non-Executive Directors with shareholders more generally. The Company operates a voluntary share purchase plan to assist Non-Executive Directors in building their shareholdings in the Company.

Board and Remuneration and Nomination Committee

The Board determines KMP remuneration with assistance from the Remuneration and Nomination Committee (Remuneration Committee). The Remuneration Committee comprises Non-Executive Directors of the Company who are independent of management and act in accordance with a Board-approved charter.

The Remuneration Committee annually reviews and recommends to the Board:

- arrangements for executives including fixed and performance-based, at risk remuneration, performance criteria and associated payments and awards; and
- arrangements for Non-Executive Directors including remuneration, travel and other reimbursements.

Award of performance-based remuneration is subject to the Board's final discretion. The Board may seek to exercise such discretion during circumstances where shareholder and other stakeholder expectations have not been met.

Remuneration consultants

The Remuneration Committee considers comparator advice and data from independent remuneration consultants and other external providers as required. Such information is used for informed decision-making purposes and is not a substitute for detailed consideration and debate of remuneration matters by the Remuneration Committee.

During FY2017, KPMG was engaged by the Remuneration Committee to provide KMP and other remuneration benchmarking data. No remuneration recommendations were provided to the Group by KPMG or any other provider.

16.3 FY2017 remuneration outcomes

Below is a summary of KMP remuneration outcomes for FY2017:

	Fixed	At risk					
Executives	Total fixed remuneration paid $'000	STI awarded[1] $'000	LTI awarded $'000	Total fixed and at risk remuneration received[2] $'000	Percentage of maximum potential STI awarded %	Value of LTI granted[2,3] $'000	Value of LTI forfeited[4] $'000
Andrew Sudholz (CEO)							
FY2017	**1,005**	**100**	**-**	**1,105**	**-**	**990**	**990**
FY2016	971	457	-	1,428	95	962	-
Chris Price (CFO)							
FY2017	**540**	**50**	**-**	**590**	**-**	**525**	**525**
FY2016	475	225	-	700	90	500	-
Jerome Jordan							
FY2017[5]	**108**	**-**	**-**	**108**	**n/a**	**-**	**-**
FY2016	452	123	-	575	70	132	-
Julie Reed							
FY2017[5]	**101**	**-**	**-**	**101**	**n/a**	**-**	**-**
FY2016	467	123	-	590	70	132	-
Ashley van Winkel							
FY2017[5]	**66**	**-**	**-**	**66**	**n/a**	**-**	**-**
FY2016[6]	164	88	-	252	90	73	-

1. Includes once only ex-gratia payments for FY2017.
2. Reflects fixed remuneration paid, STI awarded and LTI granted or awarded while a KMP.
3. Reflects the dollar value of performance rights granted during a financial year using the grant price. The grant price is the 10-day volume weighted average price of the Company's shares up to 30 June for the previous financial year.
4. Relates to LTI forfeited in the same year it was granted.
5. KMP from 1 July 2016 to 21 September 2016.
6. KMP from 28 October 2015 to 30 June 2016.

16.3 FY2017 remuneration outcomes continued

Non-Executive Directors	Board fees earned $'000	Committee Chairman fees earned $'000	Total fees earned $'000
Linda Bardo Nicholls AO			
FY2017	**225**	**-**	**225**
FY2016	200	-	200
David Blight			
FY2017	**105**	**20**	**125**
FY2016	100	20	120
JoAnne Stephenson			
FY2017	**105**	**20**	**125**
FY2016[1]	83	10	93
Richard England			
FY2017	**105**	**20**	**125**
FY2016	100	20	120

1. KMP from 1 September 2015 to 30 June 2016.

16.4 Executive remuneration

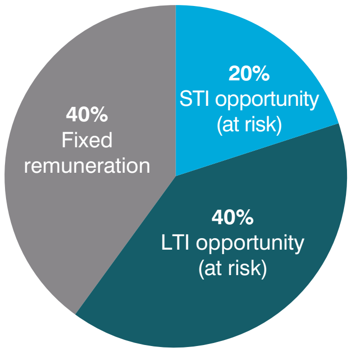
16.4.1 Principles of executive remuneration

Executive remuneration comprises fixed remuneration and at risk remuneration. At risk remuneration is made up of STI and LTI components which are aligned with the overall business strategy.

Fixed remuneration	At risk remuneration – STI	At risk remuneration – LTI
Amount	**Amount**	**Amount**
• Upper quartile of a comparator group	• Maximum potential STI of 50% of fixed remuneration (pre employee benefits)	• Maximum potential LTI of 100% of fixed remuneration (pre employee benefits)
Delivery	**Delivery**	**Delivery**
• 100% cash payment comprising base salary and statutory superannuation contributions • Parking and IT/communication related employee benefits are also provided (calculated on a total cost basis including FBT)	• 100% cash payment payable over two periods: 50% following the end of the performance year and 50% deferred for a further 12 months (subject to continued employment unless otherwise determined by the Board) • Provision for claw back	• 100% equity in the Company (or cash at the Board's discretion) via the EIP • Performance rights granted under the EIP are issued at nil consideration and can be converted to the same number of shares in the Company for nil consideration • Subject to forfeiture
Considerations	**Performance measures**	**Performance measures**
• Capability and experience • Role scope and responsibilities • Comparator group benchmarking	• Common gateway hurdles requiring achievement of threshold financial performance measures and compliance standards • Individual financial and non-financial performance hurdles reflecting the executives' position to influence outcomes • Award of STI subject to final Board discretion • Structured to be at least cost neutral to the Group, requiring to be funded from earnings in excess of an agreed budget	• Common gateways requiring achievement of threshold financial performance measures and compliance standards • Common performance hurdle requiring minimum compound annual growth in Group earnings per share over a three-year performance period • Award of LTI subject to adjustment for abnormal or unusual items at the Board's discretion • Structured to be earnings per share positive for shareholders

Fixed remuneration	At risk remuneration – STI	At risk remuneration – LTI
Objectives	**Objectives**	**Objectives**
• Attract and retain high-calibre executives with exceptional skills and experience	• Annual performance-based incentive to align executives with short-term business objectives • Encourages short-term performance above and beyond 'come-to-work' requirements subject to first achieving minimum 'gateway' standards • Incentivises achievement of prioritised and targeted outcomes in key areas including organisation, growth and finance • Assists with executive retention through deferred payment	• Three-year performance-based incentive with minimum and stretch targets to align executives with creation of shareholder value • Encourages longer-term performance by focusing executives on achieving superior earnings growth subject to first achieving minimum 'gateway' standards • Issuance of Company shares and a minimum shareholding requirement provides alignment with shareholder interests • Assist with executive retention through forfeiture arrangements

Below is the maximum potential remuneration mix for executive KMP in FY2017:



Note: The LTI opportunity depicted left was determined using the face value of granted performance rights at the beginning of FY2017. However, the fair value of the performance rights is used for statutory reporting purposes as shown in the Executive Remuneration Table in Section 16.7.1 of this report, based on the Black-Scholes valuation methodology.

16.4.2 FY2017 fixed remuneration

The fixed remuneration paid to each executive during the period in which they were KMP is set out below:

	Cash salary[1] $'000	Super-annuation $'000	Other[2] $'000	Total fixed remuneration paid $'000
Andrew Sudholz (CEO)				
FY2017	**955**	**36**	**14**	**1,005**
FY2016	919	38	14	971
Chris Price (CFO)				
FY2017	**480**	**46**	**14**	**540**
FY2016	434	41	-	475
Jerome Jordan				
FY2017[3]	**93**	**5**	**10**	**108**
FY2016	405	30	17	452
Julie Reed				
FY2017[3]	**94**	**4**	**3**	**101**
FY2016	413	33	21	467
Ashley van Winkel				
FY2017[3]	**59**	**4**	**3**	**66**
FY2016[4]	150	14	-	164

1. Cash salary includes salary and leave entitlements paid during the year.

2. Other includes employee benefits received.

3. KMP from 1 July 2016 to 21 September 2016.

4. KMP from 28 October 2015 to 30 June 2016.

16.4 Executive remuneration continued

16.4.2 FY2017 fixed remuneration continued

Executives' fixed remuneration was reviewed for FY2017 taking into account individual performance, changes in responsibilities and comparator group benchmarking. The Board determined to award a 3.5% increase to the CEO and a 5% increase to the CFO for FY2017. Increases of up to 3.25% were provided to the majority of the Group's employees (i.e. nurses and facility staff) in FY2017 under various enterprise bargaining agreements.

16.4.3 FY2017 STI performance outcomes

Details of STI offered and awarded to the CEO and CFO for FY2017 follow:

Summary of outcomes

	STI awarded $'000	Maximum potential STI $'000	Percentage of maximum potential STI awarded %	Ex-gratia payment $'000
Andrew Sudholz (CEO)	-	495	-	100
Chris Price (CFO)	-	263	-	50

Performance criteria

The STI award is subject to the achievement of set performance criteria comprising common gateways and individual hurdles as determined and assessed by the Remuneration Committee and approved by the Board.

Financial hurdles reflecting profitability and effectiveness of capital management together with non-financial hurdles that are aligned to key business objectives and which, in turn, lead to improved business and shareholder outcomes, are used to assess performance.

The following performance criteria applied to the FY2017 STI:

Gateways

- The Group maintaining ongoing aged care accreditation and compliance.
- No material breach of regulatory guidelines across the Group's business.
- The Group's EBITDA for FY2017 meeting or exceeding a threshold target (subject to any appropriate adjustments at the Board's discretion).

Hurdles

Andrew Sudholz (CEO)

Target area	Performance requirement	Maximum potential STI
Finance	• Deliver a return on invested capital exceeding targeted rate *Rationale: Stretch incentive to increase shareholder returns*	40%
Growth	• Increase operational beds by an agreed target *Rationale: Incentive to responsibly grow the business through profitable developments and acquisitions to increase shareholder returns*	40%
Organisation	• Implement organisational restructure *Rationale: Incentive to deliver organisational changes to support current operations and underpin future growth and improve efficiencies*	20%
		100%

Chris Price (CFO)		
Target area	**Performance requirement**	**Maximum potential STI**
Finance	• Deliver a return on invested capital exceeding targeted rate *Rationale: Stretch incentive to increase shareholder returns*	40%
	• Manage Group costs to deliver improvements *Rationale: Incentive to identify and responsibly deliver additional cost improvements to increase shareholder returns*	30%
Organisation	• Develop an Information and Communication Technology (ICT) strategy and implement a workforce management system *Rationale: Incentive to develop ICT systems and their application across the business for efficiency, to support growth and increase shareholder returns*	30%
		100%

Performance assessment

The Board determined that while the gateways relating to accreditation, compliance and regulatory guidelines were met, the Group's EBITDA result was not sufficient for the STI pool to form. Accordingly, the FY2017 STI performance hurdles were not assessed and no STI was awarded.

However, in light of the relatively strong underlying performance of the business, particularly in the context of ongoing regulatory change, together with the individual executive performance, the Board considered and awarded a once only ex-gratia payment to the CEO of $100,000, and to the CFO of $50,000 in recognition of their excellent individual performances through FY2017.

16.4.4 FY2017 LTI performance outcomes

Details of LTI offered and awarded to the CEO and CFO for FY2017 follow:

Summary of outcomes

	LTI granted Number of performance rights	Value of LTI granted[1] $'000	LTI awarded $'000	LTI forfeited Number of performance rights
Andrew Sudholz (CEO)	392,784	990	-	392,784
Chris Price (CFO)	208,333	525	-	208,333

1. Reflects the dollar value of performance rights granted during FY2017 using the grant price. The grant price was $2.52 per right based on the 10-day volume weighted average price of the Company's shares up to 30 June 2016.

Performance criteria

The LTI award is subject to the achievement of set performance criteria comprising common gateways and hurdles over a three-year performance period as assessed by the Remuneration Committee and approved by the Board.

If the gateways are not met or the minimum performance hurdles not satisfied, no LTI is awarded. The LTI is awarded through the vesting of granted performance rights into shares in the Company. Any unvested performance rights automatically lapse.

The following performance criteria applied to the FY2017 LTI:

Performance period

Three years from 1 July 2016 to 30 June 2019 (Performance Period).

Gateways

The same gateways for the STI (as set out earlier above) also apply to the LTI.

16.4 Executive remuneration continued

16.4.4 FY2017 LTI performance outcomes continued

Performance criteria continued

Hurdle

The following earnings per share (EPS) based performance hurdle is used to determine the proportion of LTI to be awarded at the end of the Performance Period should the gateways be met:

Compound annual growth rate of Group EPS over the Performance Period	% of performance rights eligible to vest
Below 5%	Nil
At 5%	40%
Between 5% and 10%	Between 40% and 100% increasing on a straight-line basis
At or in excess of 10%	100%

A minimum 5% compound annual growth in Group EPS over the Performance Period is required for the LTI to be eligible for award.

An EPS based hurdle was chosen as it is a commonly used measure of the creation of shareholder value which can be objectively and consistently determined over a period of time.

EPS is calculated using the Group's Net Profit After Tax in accordance with Australian Accounting Standards and the weighted average number of Company shares on issue during the relevant financial year. The hurdle is measured by comparing Group EPS in the base year (in this case FY2016) to Group EPS in the final year of the Performance Period (FY2019).

As outlined in the Letter from the Chairman of the Remuneration Committee accompanying last year's Remuneration Report, the hurdle for FY2017 was adjusted compared with prior years in light of the changing funding dynamics and regulatory changes in the residential aged care sector. The minimum hurdle of 5% compound annual growth in Group EPS was maintained with full award of LTI now occurring when Group EPS compound growth of 10% per annum is reached over the three-year Performance Period (previously 20% per annum).

Performance assessment

The Board determined that the EBITDA gateway for the LTI granted in FY2017 was not met. Accordingly the associated performance rights are no longer eligible to vest and have been forfeited.

The Board also re-tested the performance criteria for on-foot LTI granted in FY2016 which continue to be satisfied. This LTI is subject to award at the end of its three-year performance period.

Accordingly, no LTI was awarded during FY2017.

Details of on-foot LTI granted to the CEO and CFO are included in Section 16.7.4 of this report.

16.5 Non-Executive Director remuneration

16.5.1 Principles of Non-Executive Director remuneration

Non-Executive Director remuneration comprises only fixed remuneration (including statutory superannuation contributions), with the maximum aggregate amount payable capped at $1,000,000 as determined by the Company's shareholders on 4 April 2014.

16.5.2 FY2017 remuneration

Total Non-Executive Director fees for FY2017 were $600,000 as follows:

- $225,000 to the Non-Executive Chairman (FY2016 $200,000);
- $105,000 to each other Non-Executive Director (FY2016 $100,000); and
- an additional $20,000 to the Chair of each standing committee of the Board (FY2016 $20,000).

The increase in Non-Executive Directors' fees in FY2017 reflected an adjustment toward market levels.

A breakdown of Non-Executive Director remuneration for FY2017 follows:

	Cash fees $'000	Superannuation $'000	Total fees $'000
Linda Bardo Nicholls AO (Chairman)	206	19	225
David Blight	114	11	125
JoAnne Stephenson	114	11	125
Richard England	114	11	125
	548	**52**	**600**

16.6 Linking remuneration and performance

16.6.1 Executives

Executive remuneration arrangements are in part designed to incentivise senior management to deliver improved earnings and shareholder return outcomes. The Board considers a range of financial and non-financial performance metrics when setting and assessing executive remuneration incentives, which take into consideration such outcomes. The following table summarises the earnings and shareholder return metrics for the Group since its listing on the Australian Securities Exchange in April 2014:

Financial measure	2017	2016	2015
EBITDA ($'000)	**60,160**	56,102	50,590
NPAT ($'000)	**29,712**	30,375	28,839
EPS (cents)	**11.22**	11.54	10.97
Dividends per share (cents)	**11.25**	11.50	11.00
Year end share price ($)	**2.10**	2.55	2.57

Group earnings have generally improved over the three full financial years since listing. The Board has also sought to maximise the return to shareholders through a consistently high dividend payout policy.

The Board believes that the remuneration policy for executives has positively contributed to the Group's performance and growth as outlined above. The Board has recently reviewed the policy and made some modifications to the 'at risk' remuneration components for the next financial period, which further aligns the remuneration framework with the Group's strategy and operating environment.

The policy has also aligned executive remuneration with business and shareholder outcomes under a balanced approach, avoiding under and over rewarding executives for their contributions on an individual and collective basis.

Following is a table of historical STI outcomes for the CEO and CFO over the three full financial years since listing:

	FY2017			FY2016			FY2015		
	STI forfeited[1] %	STI awarded %	STI awarded $'000	STI forfeited %	STI awarded %	STI awarded $'000	STI forfeited[1] %	STI awarded %	STI awarded $'000
CEO	**100**	-	-	5	95	457	100	-	-
CFO[2]	**100**	-	-	10	90	225	n/a	n/a	n/a

1. Fully forfeited due to insufficient excess earnings to fund STI payments.

2. CFO was appointed on 22 June 2015.

Details of on-foot LTI granted to the CEO and CFO since listing are shown in Section 16.7.4 of this report. LTIs granted in FY2015 and FY2017 have been forfeited due to gateway conditions not being met.

16.6.2 Non-Executive Directors

In addition to comparator group benchmarking, the Board has regard for the Group's historical earnings and shareholder outcomes when determining Non-Executive Director remuneration levels. Such factors are balanced against the need to remain competitive on remuneration to attract and retain suitably skilled and experienced directors.

16.7 Other statutory disclosures

16.7.1 Total executive remuneration

The remuneration of executives calculated in accordance with applicable accounting standards for FY2017 follows:

	Short-term benefits		Post-employment benefits	
	Salary paid $'000	**Non-monetary benefits paid $'000**	**Superannuation benefits paid $'000**	**Annual leave entitlements accrued $'000**
Andrew Sudholz (CEO)				
FY2017	**777**	**14**	**36**	**68**
FY2016	864	14	38	67
Chris Price (CFO)				
FY2017	**470**	**14**	**46**	**36**
FY2016	406	-	41	33
Jerome Jordan				
FY2017[3]	**78**	**10**	**5**	**7**
FY2016	342	17	30	30
Julie Reed				
FY2017[3]	**95**	**3**	**4**	**7**
FY2016	349	21	33	30
Ashley van Winkel				
FY2017[3]	**59**	**3**	**4**	**4**
FY2016[4]	133	-	14	11
FY2017	**1,479**	**44**	**95**	**122**
FY2016	**2,094**	**52**	**156**	**171**

1. Includes once only ex-gratia payments for FY2017.
2. Calculated using the Black-Scholes valuation methodology in accordance with AASB 2 Share-based payments (see Note C3 to the Company's 2017 Financial Statements).
3. KMP from 1 July 2016 to 21 September 2016.
4. KMP from 28 October 2015 to 30 June 2016.

			At risk			
	Long service leave entitlements accrued $'000	Total fixed remuneration $'000	STI – payable in cash[1] $'000	STI – deferred for 12 months $'000	LTI – share-based payments accrued[2] $'000	Total fixed and at risk remuneration $'000
	20	915	100	-	(83)	932
	15	998	228	229	83	1,538
	-	566	50	-	(43)	573
	-	480	112	113	43	748
	1	101	-	-	-	101
	7	426	61	62	12	561
	1	110	-	-	-	110
	7	440	61	62	12	575
	-	70	-	-	-	70
	2	160	44	44	6	254
	22	1,762	150	-	(126)	1,786
	31	**2,504**	**506**	**510**	**156**	**3,676**

16.7 Other statutory disclosures continued

16.7.1 Total executive remuneration continued

Details of the remuneration of executives, prepared in accordance with statutory obligations and accounting standards, are set out in the preceding table (Executive Remuneration Table).

The key difference between executive remuneration amounts presented in Section 16.3 of this report and the Executive Remuneration Table is that the former shows actual entitlements received during a year and the latter requires that the movement in leave provisions and any LTI amounts accrued be recognised in the financial statements as part of the executives' employee benefit expense. A reconciliation between the two tables is set out below:

		Reconciliation to statutory total fixed and at risk remuneration for executives		
	Total fixed and at risk remuneration received by executives[1] $'000	Movement in leave provisions $'000	Accrued LTI amounts[1] $'000	Total fixed and at risk remuneration statutory $'000
Andrew Sudholz (CEO)				
FY2017	**1,105**	**(90)**	**(83)**	**932**
FY2016	1,428	27	83	1,538
Chris Price (CFO)				
FY2017	**590**	**26**	**(43)**	**573**
FY2016	700	5	43	748
Jerome Jordan				
FY2017	**108**	**(7)**	**-**	**101**
FY2016	575	(26)	12	561
Julie Reed				
FY2017	**101**	**9**	**-**	**110**
FY2016	590	(27)	12	575
Ashley van Winkel				
FY2017	**66**	**4**	**-**	**70**
FY2016	252	(4)	6	254

1. Reflects fixed remuneration paid, STI awarded and LTI granted during the period of being a KMP.

16.7.2 Total Non-Executive Director remuneration

Non-Executive Director remuneration included within employee benefits expense in the Statement of Profit or Loss and Other Comprehensive Income for FY2017 follows:

	Short-term benefits		Post-employment benefits	
	Fees paid $'000	Non-monetary benefits paid $'000	Superannuation benefits paid $'000	Total fees $'000
Linda Bardo Nicholls AO (Chairman)				
FY2017	**206**	**-**	**19**	**225**
FY2016	183	-	17	200
David Blight				
FY2017	**114**	**-**	**11**	**125**
FY2016	110	-	10	120
JoAnne Stephenson (appointed 1 September 2015)				
FY2017	**114**	**-**	**11**	**125**
FY2016	85	-	8	93
Richard England				
FY2017	**114**	**-**	**11**	**125**
FY2016	110	-	10	120

16.7.3 KMP shareholdings in the Company

The movement during the year in the number of ordinary shares in the Company held directly, indirectly or beneficially by each KMP, including their related parties, follows:

	Held at 1 July 2016 Number of shares	Acquired during FY2017 Number of shares[1]	Sold during FY2017 Number of shares	Held at 30 June 2017 Number of shares	Nominally held at 30 June 2017 Number of shares
Executives					
Andrew Sudholz (CEO)	15,753,905	**3,104**	**-**	**15,757,009**	**15,757,009**
Chris Price (CFO)	-	**-**	**-**	**-**	**-**
Jerome Jordan[2]	50,000	**-**	**-**	**n/a**	**n/a**
Julie Reed[2]	110,000	**-**	**-**	**n/a**	**n/a**
Ashley van Winkel[2]	26,000	**-**	**-**	**n/a**	**n/a**
Non-Executive Directors			**-**		
Linda Bardo Nicholls AO	80,848	**41,939**	**-**	**122,787**	**106,783**
David Blight	50,000	**40,000**	**-**	**90,000**	**90,000**
JoAnne Stephenson	593	**11,335**	**-**	**11,928**	**-**
Richard England	45,494	**8,515**	**-**	**54,009**	**25,000**

1. Includes shares issued under the Company's Dividend Reinvestment Plan.

2. Not a KMP at 30 June 2017.

16.7 Other statutory disclosures continued

16.7.4 Analysis of movements in equity instruments held by KMP

The movement during the year in the number of rights over ordinary shares in the Company held directly, indirectly or beneficially by each KMP, including their related parties, follows:

	Grant date	Vesting date	Held at 1 July 2016 Number of rights[1]	Granted Number of rights[1]
Andrew Sudholz (CEO)	14/11/16	30/06/19	-	392,784
	29/02/16	30/06/18	365,779	-
Chris Price (CFO)	14/11/16	30/06/19	-	208,333
	29/02/16	30/06/18	190,114	-
Jerome Jordan[4]	29/02/16	30/06/18	50,190	-
Julie Reed[4]	29/02/16	30/06/18	50,190	-
Ashley van Winkel[4]	29/02/16	30/06/18	27,802	-

1. Rights granted or held while a KMP.
2. Rights granted in FY2017 were forfeited due to the earnings performance gateway not being met.
3. All rights are for ordinary shares of the Company, which are exercisable on a one-for-one basis. They are performance rights granted under the Company's EIP.
4. KMP during FY2017 from 1 July 2016 to 21 September 2016.

Non-Executive Directors are not entitled to rights over ordinary shares in the Company and therefore have not been included in the above table.

Exercised Number of rights	Forfeited Number of rights[2]	Held at 30 June 2017 Number of rights[1,3]	Vested during FY2017 Number of rights	Vested and exercisable at 30 June 2017 Number of rights
-	(392,784)	-	-	-
-	-	365,779	-	-
-	(208,333)	-	-	-
-	-	190,114	-	-
-	-	n/a	-	-
-	-	n/a	-	-
-	-	n/a	-	-

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2017

	Note	2017 $'000	2016 $'000
Revenue	B2	**353,998**	325,276
Other income	B2	**8,195**	1,990
Total revenue and other income		**362,193**	327,266
Employee benefits expense	C1	**(246,734)**	(219,696)
Resident costs		**(27,775)**	(25,776)
Occupancy costs		**(16,791)**	(15,767)
Depreciation and amortisation expense	D1	**(14,255)**	(11,959)
Administrative expenses		**(10,733)**	(8,887)
Other expenses	B3	**-**	(1,038)
Earnings before interest and tax		**45,905**	44,143
Finance income		**629**	844
Finance costs	B3	**(3,933)**	(3,199)
Profit before income tax		**42,601**	41,788
Income tax expense	B5	**(12,889)**	(11,413)
Profit for the year		**29,712**	30,375
Other comprehensive income, net of income tax		**-**	-
Total comprehensive income for the year		**29,712**	30,375
Profit attributable to members of the Group		**29,712**	30,375
Total comprehensive income attributable to members of the Group		**29,712**	30,375
Earnings Per Share			
Basic earnings per share (cents)	B4	**11.22**	11.54
Diluted earnings per share (cents)	B4	**11.18**	11.51

The accompanying notes form part of these financial statements.

Statement of Financial Position

As at 30 June 2017

	Note	2017 $'000	2016 $'000
ASSETS			
Current assets			
Cash	E4	41,376	24,568
Trade and other receivables		15,838	13,744
Current tax receivable	B5	1,162	787
Other assets		6,081	5,645
Total current assets		64,457	44,744
Non-current assets			
Trade and other receivables		2,222	2,804
Inventories		3,045	-
Non-current assets held for sale		1,477	1,697
Property, plant and equipment	D1	541,776	513,059
Investment property	D3	32,972	31,669
Deferred tax assets	B5	6,161	10,469
Intangible assets	D2	463,458	465,552
Total non-current assets		1,051,111	1,025,250
Total assets		1,115,568	1,069,994
LIABILITIES			
Current liabilities			
Trade and other payables		18,876	19,855
Other liabilities		11,541	10,879
Borrowings	E5	4,600	1,350
Other financial liabilities	E6	453,103	413,582
Employee provisions	C2	31,338	30,101
Total current liabilities		519,458	475,767
Non-current liabilities			
Borrowings	E5	56,400	58,150
Employee provisions	C2	3,996	3,772
Total non-current liabilities		60,396	61,922
Total liabilities		579,854	537,689
Net assets		535,714	532,305
EQUITY			
Issued capital		522,328	518,732
Retained earnings		13,386	13,573
Total equity		535,714	532,305

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

For the year ended 30 June 2017

2017	**Issued capital $'000**	**Retained earnings $'000**	**Total $'000**
Balance at 1 July 2016	**518,732**	**13,573**	**532,305**
Comprehensive income			
Profit attributable to members of the Group	**-**	**29,712**	**29,712**
Other comprehensive income	**-**	**-**	**-**
Total comprehensive income	**-**	**29,712**	**29,712**
Transactions with owners of the Company			
Shares issued during the year	**3,596**	**-**	**3,596**
Dividends	**-**	**(29,743)**	**(29,743)**
Equity settled share-based payment	**-**	**(156)**	**(156)**
Total transactions with owners of the Company	**3,596**	**(29,899)**	**(26,303)**
Balance at 30 June 2017	**522,328**	**13,386**	**535,714**

2016	**Issued capital $'000**	**Retained earnings $'000**	**Total $'000**
Balance at 1 July 2015	517,848	12,191	530,039
Comprehensive income			
Profit attributable to members of the Group	-	30,375	30,375
Other comprehensive income	-	-	-
Total comprehensive income	-	30,375	30,375
Transactions with owners of the Company			
Shares issued during the year	1,852	-	1,852
Dividends	-	(29,592)	(29,592)
Shares bought back during the year, net of tax	(968)	-	(968)
Equity settled share-based payment	-	599	599
Total transactions with owners of the Company	884	(28,993)	(28,109)
Balance at 30 June 2016	518,732	13,573	532,305

The accompanying notes form part of these financial statements.

Statement of Cash Flows

For the year ended 30 June 2017

	Note	2017 $'000	2016 $'000
Cash flows from operating activities			
Receipts from customers		**350,544**	318,019
Payments to suppliers and employees		**(306,726)**	(265,786)
Income taxes paid		**(8,952)**	(13,688)
Interest received		**644**	864
Finance costs paid		**(3,710)**	(2,750)
Net cash provided by operating activities	G5	**31,800**	36,659
Cash flows from investing activities			
Purchase of land and buildings		**(7,785)**	(34,259)
Proceeds from sale of land and buildings		**9,770**	1,089
Purchase of plant and equipment		**(6,386)**	(5,387)
Capital works in progress		**(36,250)**	(40,719)
Sale/(purchase) of resident places		**3,586**	(2,313)
Acquisition of aged care business, net of cash		**-**	(64,158)
Other acquisitions and acquisition-related costs		**-**	(6,598)
Deferred settlement payment for aged care business		**(9,000)**	-
Net cash used by investing activities		**(46,065)**	(152,345)
Cash flows from financing activities			
Proceeds from issue of share capital		**3,596**	1,852
Shares bought back during the year		**-**	(1,383)
Dividends paid	E7(b)	**(29,743)**	(29,592)
Net proceeds/(repayments) of bank borrowings	E5(a)	**1,500**	59,500
Proceeds from RADs and ILU resident loans		**187,664**	162,347
Repayment of RADs/accommodation bonds and ILU resident loans		**(131,944)**	(107,420)
Proceeds from other financial assets		**-**	1,072
Net cash provided by financing activities		**31,073**	86,376
Net increase/(decrease) in cash and cash equivalents held		**16,808**	(29,310)
Cash and cash equivalents at beginning of the year		**24,568**	53,878
Cash and cash equivalents at end of the year	E4	**41,376**	24,568

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

For the year ended 30 June 2017

A. About this report

A1. Reporting entity

Japara Healthcare Limited (the Company) is a company domiciled in Australia. The Company was incorporated on 19 March 2014. The consolidated financial statements comprise the Company and its subsidiaries (collectively 'the Group' and individually 'Group companies').

The Company's registered office is at Q1 Building, Level 4, 1 Southbank Boulevard, Southbank, Victoria, 3006, Australia.

The Group is a for profit entity and is primarily involved in the provision of residential aged care services throughout Australia (see Note B1).

A2. Basis of accounting

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASs) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The consolidated financial statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The financial statements have been prepared on a going concern basis, which assumes that the Group will be able to meet its obligations associated with all financial liabilities.

The Group's current liabilities exceed current assets by $455,001,000 as at 30 June 2017 (2016: $431,023,000). This mainly arises because of the requirement to classify obligations relating to refundable accommodation deposits (RADs), accommodation bonds and independent living unit (ILU) resident loans of $453,103,000 (2016: $404,582,000) as current liabilities (refer Note E6 for further details) whereas, the investment properties, property, plant and equipment, and intangible assets to which they relate are required to be classified as non-current assets.

Note E3(b) explains that liquidity risk is controlled through monitoring forecast cash flows and ensuring adequate access to financial instruments that are readily convertible to cash. This is also achieved by maintaining a liquidity management strategy to ensure that the Group has sufficient liquidity to enable it to refund RADs and accommodation bonds that are expected to fall due within the next 12 months.

The financial statements were authorised for issue by the Board of Directors on 28 August 2017. Details of the Group's accounting policies are included in their respective notes.

A3. Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Group's functional currency.

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 26 March 2016 and in accordance with that Instrument, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

A4. Use of estimates and judgements

In preparing these financial statements, management has made estimates, judgements and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. The Chief Financial Officer has overall responsibility for overseeing all significant fair value measurements, including Level 3 measurements (refer to page 47).

The finance team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the finance team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Group's Audit, Risk and Compliance Committee.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability are categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Information about estimates, judgements and assumptions that affects the application of the Group's accounting policies within the year ended 30 June 2017 is included in the following notes:

- Note C3 – Share-based payment arrangements: Measurement of fair value;
- Note D2 – Impairment review: Calculation of value in use;
- Note D3 – Investment property: Measurement of fair values; and
- Note E2 – Financial instruments: Measurement of fair values.

B. Business performance

B1. Segment reporting

The consolidated Group operates predominantly in one business and geographical segment being the provision of residential aged care services throughout Australia. Segment information reported to key management personnel is substantially similar to information provided in this Financial Report.

B2. Revenue and other income

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Revenue comprises daily Federal Government care and accommodation funding and resident fees, the majority of which are determined in accordance with Federal Government authorised rates. These fees are regulated by the Federal Government and are accrued by the Group during the resident's period of occupancy. Revenue from the rendering of a service or supply of a good is recognised upon the delivery of the service or good to the resident.

Finance income is accrued daily, based on the principal amount and prevailing interest rate.

All revenue is stated net of the amount of GST.

(a) Reconciliation of revenue and other income

	Note	2017 $'000	2016 $'000
Revenue			
Government care and accommodation funding		**253,796**	235,682
Resident fees		**100,202**	89,594
Total revenue		**353,998**	325,276
Other income			
Increase in fair value of investment property	D3(a)	**1,200**	91
Discount on acquisition		**-**	920
Gain on disposal of non-current assets		**6,680**	132
Other income		**315**	847
Total other income		**8,195**	1,990

B. Business performance continued

B3. Expenses

Expenses are recognised in accordance with the basis of accounting outlined in Note A2.

Finance costs and staff costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other financing costs and staff costs are recognised in the Statement of Profit or Loss and Other Comprehensive Income in the period in which they are incurred.

(a) Reconciliation of other expenses and finance costs

	2017 $'000	2016 $'000
Other expenses		
Acquisition and due diligence costs	-	809
Loss on disposal of non-current assets	-	229
Total other expenses	-	1,038
Finance costs		
Loan establishment fees	258	386
Loan interest expense	1,796	1,336
RAD/accommodation bond settlement interest expense	1,712	1,444
Increase in fair value of independent living unit liability	167	33
Total finance costs	3,933	3,199

B4. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares on issue during the period after eliminating treasury shares.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares on issue for the effect of dilutive ordinary shares.

(a) Calculation of earnings per share

(i) Profit attributable to ordinary shareholders

	2017 $'000	2016 $'000
Profit for the year attributable to ordinary shareholders	29,712	30,375

(ii) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS

	2017 No.	2016 No.
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	264,726,342	263,127,389
Weighted average number of dilutive rights outstanding	1,124,143	684,075
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	265,850,485	263,811,464

B5. Income tax expense

The charge for current income tax expense is based on the profit or loss for the year adjusted for any non-assessable items. It is calculated using tax rates that have been enacted or are substantively enacted by the reporting date.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also arise where amounts have been fully expensed for accounting purposes but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled based on tax rates that have been enacted or substantially enacted by the end of the reporting period. Deferred tax expense/(income) is charged/(credited) in profit or loss except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation and the anticipation that the Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

The Group and its wholly owned Australian subsidiaries have formed an income tax consolidated group under the Tax Consolidation Regime. Each entity in the Group recognises its own current and deferred tax liabilities, except for any deferred tax assets resulting from unused tax losses and tax credits, which are immediately assumed by the head of the tax consolidated group.

(a) The major components of tax expense comprise:

	Note	2017 $'000	2016 $'000
Current tax expense	B5(f)	8,547	9,244
Deferred tax expense	B5(b)	4,313	1,690
Under provision in respect of prior years		29	479
Income tax expense		12,889	11,413

(b) Deferred tax expense included in income tax expense comprise:

	Note	2017 $'000	2016 $'000
Deferred tax expense for the year	B5(a)	4,313	1,690
Deferred tax under provision in respect of prior years		-	891
Total deferred tax expense for the year		4,313	2,581

(c) The prima facie taxable profit from ordinary activities before income tax is reconciled to the income tax expense in the financial statements as follows:

	2017 $'000	2016 $'000
Profit before income tax	42,601	41,788
Prima facie tax on profit at the statutory tax rate of 30% (2016: 30%)	12,780	12,536
Add/(less) tax effect of:		
– non-deductible tax expenses	80	1,153
– under provision of income tax in prior year	29	479
– gain on acquisition of business non-taxable	-	(2,173)
– other non-taxable income	-	(178)
– other deductions	-	(404)
Income tax expense	12,889	11,413
Weighted average effective tax rate	30%	27%

(d) Income tax rate

The tax rate used in the above reconciliations is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under the Australian tax law.

B. Business performance continued

(e) Tax consolidation

Relevance of tax consolidation to the consolidated group

The Group formed a tax consolidated group which commenced on 16 April 2014.

Relevance of tax consolidation to the Company

The Company commenced operations in April 2014. It is the head entity of the tax consolidated group.

Nature of tax funding arrangements and tax sharing agreements

The tax consolidated group has entered into income tax sharing and funding agreements effective from 16 April 2014 whereby each company in the Group contributes to the income tax payable in proportion to their contribution to profit before tax of the consolidated group. The income tax liability/receivable of the subsidiary is recorded in the books of account of the Company as an intercompany payable or receivable with the subsidiary.

(f) Gross movements in current tax

	Note	2017 $'000	2016 $'000
The overall movement in current tax is as follows:			
Opening balance		787	(4,432)
Balance acquired through a business combination		-	(52)
Income tax payable charged to profit or loss	B5(a)	(8,547)	(9,244)
Income tax receivable credited to equity		-	415
Income tax amounts paid during the year		10,720	13,714
Income tax amounts received during the year		(1,769)	(26)
Over/(under) provision of income tax paid in prior year		(29)	412
Closing balance		1,162	787

(g) Deferred tax assets/(liabilities)

2017	Opening balance $'000	Charged to income $'000	Charged directly to equity $'000	Business combinations $'000	Closing balance $'000
Provisions	10,600	169	-	-	10,769
Deferred borrowing costs	112	(112)	-	-	-
Deferred legal costs	281	(126)	-	-	155
Sundry creditors and accruals	605	280	-	-	885
ILU resident loans	452	-	-	-	452
Deferred equity raising costs	3,097	(2,084)	5	-	1,018
Property, plant and equipment	(3,541)	(2,332)	-	-	(5,873)
Capital works in progress (interest expense)	(140)	140	-	-	-
Deferred management fee receivable	(997)	(248)	-	-	(1,245)
	10,469	(4,313)	5	-	6,161

2016					
Provisions	9,657	195	-	748	10,600
Deferred borrowing costs	223	(111)	-	-	112
Deferred legal costs	132	149	-	-	281
Sundry creditors and accruals	615	(10)	-	-	605
ILU resident loans	452	-	-	-	452
Deferred equity raising costs	4,733	(1,638)	2	-	3,097
Property, plant and equipment	(2,391)	(1,150)	-	-	(3,541)
Capital works in progress (interest expense)	(140)	-	-	-	(140)
Deferred management fee receivable	(981)	(16)	-	-	(997)
	12,300	(2,581)	2	748	10,469

C. Employee remuneration

C1. Employee benefits expense

	2017 $'000	2016 $'000
Wages and leave expenses	**204,013**	181,881
Superannuation contributions	**19,013**	16,926
Payroll tax expense	**11,106**	9,758
Agency staff costs	**4,798**	4,176
WorkCover expense	**6,580**	5,381
Share-based payment expense	**(156)**	156
Other staff costs	**1,380**	1,418
Total employee benefits expense	**246,734**	219,696

C2. Employee provisions

Provisions are recognised when the Group has a legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions are measured using the best estimate of the amounts required to settle the obligation at reporting date.

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to reporting date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may not satisfy any vesting requirements. Those cash flows are discounted using corporate bond yields with terms to maturity that match the expected timing of cash flows.

(a) Reconciliation of employee provisions

	2017 $'000	2016 $'000
Current		
Provision for annual leave	**20,136**	20,386
Provision for long service leave	**11,202**	9,715
	31,338	30,101
Non-current		
Provision for long service leave	**3,996**	3,772

C3. Share-based payment arrangements

The grant date fair value of equity-settled share-based payment awards granted to employees of the Group is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

(a) Description of equity-settled share option arrangements

During the year ended 30 June 2017, the Group had the following share-based payment arrangements:

(i) Rights Plan

The Company's Rights Plan is a long term incentive (LTI) plan under which eligible employees of the Group that are invited by the Board to participate in the Rights Plan are provided with performance rights. There were 684,075 performance rights on issue at the beginning of the year under the Rights Plan. During the year, 747,344 performance rights were granted to senior executives under the Rights Plan. These and a further 50,190 performance rights were forfeited and cancelled during the year under their grant terms.

C. Employee remuneration continued

C3. Share-based payment arrangements continued

(b) Reconciliation of outstanding rights

	Rights Plan		Offer bonus		Total	
	Number of rights 2017 '000	**Number of rights 2016 '000**	**Number of rights 2017 '000**	**Number of rights 2016 '000**	**Number of rights 2017 '000**	**Number of rights 2016 '000**
Outstanding at the beginning of the year	**684**	-	**-**	682	**684**	682
Granted during the year	**747**	684	**-**	-	**747**	684
Forfeited during the year	**(797)**	-	**-**	(11)	**(797)**	(11)
Exercised during the year	**-**	-	**-**	(671)	**-**	(671)
Total	**634**	684	**-**	-	**634**	684

No outstanding rights were exercisable at the reporting date (2016: Nil). The weighted average exercise price for rights outstanding at 30 June 2017 was $Nil (2016: $Nil). All rights outstanding as at 30 June 2017 were granted to senior executives.

Use of estimates and judgements

Share-based payment arrangements: Measurement of fair value

Rights Plan

During the year, 747,344 performance rights were granted to senior executives under the Rights Plan. The fair value of the performance rights was calculated by an independent expert, Mercer Consulting, using a discounted cash flow methodology. The following inputs were used to estimate the fair value of the share-based payment arrangements for the year:

Grant date	14 November 2016
Share price at grant date	$1.95
Exercise price	$nil
Dividend yield	4.1%

The fair value of the performance rights granted under the Rights Plan on 14 November 2016 is $1.74 each.

C4. Key management personnel

Key management personnel remuneration included within the financial statements for the year is shown below:

	2017 $'000	**2016 $'000**
Short-term employee benefits	**2,178**	3,103
Post-employment benefits	**146**	204
Other short-term benefits	**166**	223
Other long-term benefits	**22**	541
Share-based payments	**(126)**	156
Total	**2,386**	4,227

D. Asset management

D1. Property, plant and equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment of losses.

The carrying amount of property, plant and equipment is reviewed annually by the Company's Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance costs are charged to the Statement of Profit or Loss and Other Comprehensive Income during the financial year in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, is depreciated on a straight-line basis over their useful lives to the Group commencing from the time the asset is held ready for use. Leased plant and equipment and leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the equipment and improvements.

The depreciation rates used for each class of depreciable asset are shown below:

Fixed asset class	Depreciation rate
Freehold land	0.0%
Buildings	2.0%
Plant and equipment	4.0% to 25.0%
Motor vehicles	20.0%
Property improvements	2.0% to 25.0%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the Statement of Profit or Loss and Other Comprehensive Income.

(a) Movements in carrying amounts of property, plant and equipment

Consolidated	Land and buildings $'000	Property improvements $'000	Plant and equipment $'000	Motor vehicles $'000	Capital works in progress $'000	Total $'000
Year ended 30 June 2017						
Balance at the beginning of the year	**441,791**	**6,261**	**21,048**	**92**	**43,867**	**513,059**
Additions	**6,855**	**294**	**6,053**	**42**	**37,293**	**50,537**
Disposals – written down value	**(4,516)**	**(4)**	**-**	**-**	**-**	**(4,520)**
Transfers from capital works in progress	**41,273**	**-**	**6,605**	**-**	**(47,878)**	**-**
Transfers to inventories	**(2,028)**	**-**	**-**	**-**	**(1,017)**	**(3,045)**
Depreciation expense	**(8,713)**	**(412)**	**(5,088)**	**(42)**	**-**	**(14,255)**
Balance at the end of the year	**474,662**	**6,139**	**28,618**	**92**	**32,265**	**541,776**
Year ended 30 June 2016						
Balance at the beginning of the year	348,262	5,773	16,988	192	12,582	383,797
Additions	34,217	173	5,387	-	40,678	80,455
Additions through business combinations	58,650	-	3,001	-	-	61,651
Disposals – written down value	(650)	(30)	(188)	(17)	-	(885)
Transfers from capital works in progress	8,677	716	-	-	(9,393)	-
Depreciation expense	(7,365)	(371)	(4,140)	(83)	-	(11,959)
Balance at the end of the year	441,791	6,261	21,048	92	43,867	513,059

D. Asset management continued

D1. Property, plant and equipment continued

Depreciation continued

(b) Property, plant and equipment under construction

Capital expenditure incurred in the course of development activities are carried at cost, less any recognised impairment loss. Cost includes construction costs, professional fees, internal wage expenses directly attributable to the development activities and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Upon completion the asset is reclassified as land and buildings or property improvements.

During the year, the Group completed construction of extensions and significant refurbishment at four of its aged care facilities. Costs totalling $41,273,000 were reclassified from capital works in progress to land and buildings upon completion of construction.

D2. Intangible assets

Goodwill

Goodwill and goodwill on consolidation are initially recorded at the amount by which the fair value of the purchase price for a business combination exceeds the fair value attributed to the interest in the net fair value of identifiable assets, liabilities and contingent liabilities at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Resident places

Resident places are issued by the Federal Government to Approved Providers and can also be purchased from third parties. Resident places are stated at cost or fair value at acquisition less any accumulated impairment losses. The resident places are not amortised as the Company's Directors believe that they have a long indeterminate life and are not expected to diminish in value over time. Accordingly, no depreciable amount exists that requires amortisation.

The carrying amounts of the resident places are reviewed at the end of each reporting period to ensure that they are not valued in excess of their recoverable amounts.

Impairment review of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Impairment testing is performed annually for goodwill and other intangible assets with indefinite useful lives including resident places.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or Cash Generating Units (CGUs). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(a) Movements in carrying amounts of intangible assets

	Goodwill $'000	Resident places $'000	Total $'000
Year ended 30 June 2017			
Balance at the beginning of the year	**260,746**	**204,806**	**465,552**
Additions at cost	**-**	**216**	**216**
Disposals	**-**	**(2,310)**	**(2,310)**
Closing value at 30 June 2017	**260,746**	**202,712**	**463,458**
Year ended 30 June 2016			
Balance at the beginning of the year	260,746	154,442	415,188
Additions at cost	-	2,381	2,381
Additions through business combinations	-	47,983	47,983
Closing value at 30 June 2016	260,746	204,806	465,552

Use of estimates and judgements

Impairment review: Calculation of value in use

For the purpose of impairment testing of intangible assets with an indefinite useful life the Group has identified one CGU. This is consistent with the operating segment identified in Note B1.

The recoverable amount of the CGU was based upon its value in use, determined by discounting the future cash flows to be generated from the continuing use of the CGU. The recoverable amount was determined to be higher than the carrying amount and therefore no impairment loss was recognised.

The post-tax discount rate of 8.48% (2016: 8.85%) was determined based on the cash rate target adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systemic risk of the CGU.

Five years of cash flows were included in the discounted cash flow model. A long-term growth rate into perpetuity has been determined at 2.5% (2016: 2.5%), consistent with an assumption a market participant would make.

Budgeted earnings before Interest, tax, depreciation and amortisation (EBITDA) was based upon expectation of future outcomes taking into account past experience, adjusted for anticipated revenue growth and occupancy rates.

The estimated recoverable amount of the CGU exceeded its carrying amount. Management has identified that a reasonable possible change in two key assumptions could cause the carrying amount to exceed the recoverable amount. The following table shows the amount by which these two assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount.

	2017 %	2016 %
Change in discount rate	**1.92**	1.28
Change in long-term growth rate	**(2.52)**	(1.66)

D. Asset management continued

D3. Investment property

Investment property is held to generate long-term rental yields and capital growth. Investment property is carried at fair value. Changes to fair value are recorded in the Statement of Profit or Loss and Other Comprehensive Income as other income/expenses.

(a) Reconciliation of carrying amount

Investment property comprises independent living units (ILUs) located across five retirement villages. Four retirement villages are subject to loan licence agreements which confer the right to occupancy of the unit until such time as the resident's occupancy terminates and the occupancy rights are transferred to another resident. Upon entry a resident will loan the Group an amount equal to the fair value of the unit. On termination the resident is entitled to repayment of the loan inclusive of any uplift in fair value since the agreement date less the deferred management fee. The remaining retirement village is subject to 49 year lease agreements. With no loan agreement it is carried at fair value with reference to external valuations.

	Note	2017 $'000	2016 $'000
Balance at beginning of year		**31,669**	31,549
Additions resulting from capitalised expenditure		**103**	29
Fair value adjustments	B2(a)	**1,200**	91
Balance at end of year		**32,972**	31,669

Use of estimates and judgements

Investment property: Measurement of fair value

The fair value of investment property of $32,972,000 (2016: $31,669,000) has been categorised as Level 3 based on the inputs to the valuation technique used (see Note A4).

Due to the frequency of residents entering and departing from a unit, the fair value of each unit within a retirement village under a loan licence agreement is based upon the most recent loan received for a similar unit.

E. Capital structure and financing

E1. Capital management

The Group's principal sources of funds are cash flows from operations and RADs. The Group may finance its ongoing operations with operating cash flows or bank borrowings or a combination of both.

Over time, the Group may seek debt funding from a range of sources to diversify its funding base to reduce reliance on the bank finance market and to manage its exposure to interest rate risk on long-term borrowings. Quantitative and qualitative disclosures about market risk sensitive instruments are included in Note E3.

The Group's working capital requirements are generally consistent throughout the course of the year and there are no significant variations.

The Group maintains a disciplined approach to capital expenditure, with all key capital projects subject to strict approval protocols. Capital expenditure comprises expenditure on asset enhancement and replacement programs and general maintenance projects (maintenance expenditure funded from operational cash flows) as well as growth capital expenditure comprising brownfields and greenfields development projects and acquisition of aged care facilities (funded via equity, borrowings, RAD inflows, operating cash flows or any combination of these, as appropriate).

The Group may borrow money from time to time in order to finance its activities.

E2. Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Group commits itself to either purchase or sell the asset (e.g. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss' in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Financial instruments are subsequently measured either at fair value, amortised cost using the effective interest rate method or at cost. Fair value represents the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense item in the Statement of Profit or Loss and Other Comprehensive Income.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income through the amortisation process and when the financial asset is derecognised.

Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

Impairment of financial assets

At the end of the reporting period the Group assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets at amortised cost

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

Impairment on loans and receivables is reduced through the use of a provision account; all other impairment losses on financial assets at amortised cost are taken directly to the asset.

Subsequent recoveries of amounts previously written off are credited against the relevant expense in profit or loss.

E. Capital structure and financing continued

E2. Financial instruments continued

Classification and subsequent measurement continued

Available-for-sale financial assets

A significant or prolonged decline in value of an available-for-sale asset below its cost is objective evidence of impairment, in this case, the cumulative loss that has been recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. Any subsequent increase in the value of the asset is taken directly to other comprehensive income.

Use of estimates and judgements

Financial instruments: Measurement of fair value

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial asset has been impaired. A financial asset (or a group of financial assets) is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a 'loss event') having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of financial assets carried at amortised cost, loss events may include indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate provision account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the provision account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the provision account.

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Company recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

Derecognition of financial assets

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the Group no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Financial instruments material to the financial statements

The following financial instruments are material to the financial statements:

- Note E4 Cash and cash equivalents;
- Note E5 Borrowings; and
- Note E6 Other financial liabilities.

The carrying amounts of financial assets and financial liabilities are a reasonable approximation of fair value.

E3. Financial risk management

Inherent within the Group's activities are the risks that arise from holding financial instruments. These are managed through a process of ongoing identification, measuring and monitoring. The Group's financial instruments consist mainly of deposits with banks, bank loans, accounts receivable and payable, and RADs/accommodation bonds, which all arise directly from its operations. The main purpose of non-derivative financial instruments is to raise finance for the Group's operations. The Group does not have any material derivative financial instruments at balance date.

The Directors of the Group are responsible for identifying and controlling risks that arise from these financial instruments. As such the Group has identified that the key areas of risk are credit risk, liquidity risk and market risk (which can be analysed further into interest rate risk, currency risk and price risk), with further information on each risk category disclosed below. The Directors of the Company, amongst other responsibilities, are tasked to identify, monitor, control and hence mitigate risk within the framework of the Group's operational mandate and compliance with legislation and industry-specific regulations. Information is reported to all relevant parties within the Group on a regular basis including key management personnel, the Company's Directors, the Audit, Risk and Compliance Committee and the Zero Harm Committee. Risk management policies are reviewed and approved by the Audit, Risk and Compliance Committee on a regular basis.

The Group's exposure to financial risk at the reporting date is as follows:

2017	Weighted average effective interest rate %	Floating interest rate $'000	Maturing within one year $'000	Maturing after one year $'000	Non-interest bearing $'000	Total $'000
Financial assets						
Cash and cash equivalents	1.68	41,376	-	-	-	41,376
Receivables	-	-	-	-	18,060	18,060
Total financial assets		41,376	-	-	18,060	59,436
Financial liabilities						
Accruals	-	-	-	-	(11,221)	(11,221)
Trade and other payables	-	-	-	-	(10,993)	(10,993)
RADs/bonds and ILU loans	-	-	-	-	(407,436)	(407,436)
RADs/bonds (departed residents)	3.75	-	(45,667)	-	-	(45,667)
Bank loans	3.18	-	(4,600)	(56,400)	-	(61,000)
Total financial liabilities		-	(50,267)	(56,400)	(429,650)	(536,317)
2016						
Financial assets						
Cash and cash equivalents	1.87	24,568	-	-	-	24,568
Receivables	-	-	-	-	16,548	16,548
Total financial assets		24,568	-	-	16,548	41,116
Financial liabilities						
Accruals	-	-	-	-	(11,091)	(11,091)
Trade and other payables	-	-	-	-	(11,895)	(11,895)
RADs/bonds and ILU loans	-	-	-	-	(363,657)	(363,657)
RADs/bonds (departed residents)	3.75	-	(40,925)	-	-	(40,925)
Bank loans	3.42	-	(1,350)	(58,150)	-	(59,500)
Other financial liabilities	-	-	-	-	(9,000)	(9,000)
Total financial liabilities		-	(42,275)	(58,150)	(395,643)	(496,068)

E. Capital structure and financing continued

E3. Financial risk management continued

(a) Credit risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Group to incur a financial loss.

With respect to credit risk arising from the financial assets of the Group, the Group's exposure to credit risk arises from default of the counterparty, with the current exposure equal to the fair value of these instruments as disclosed in the Statement of Financial Position and notes to the financial statements. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

The Group has identified that it does not have any material credit risk exposure to any single non-related party receivable or group of non-related party receivables under financial instruments entered into by the Group. The Group has identified that its single largest customer is the Commonwealth Department of Health in respect of funding received. Such funding is received on a monthly basis, in advance at the start of each month, and any funding receivable at balance date is accrued based upon Department of Health calculations of balancing funding amounts. The Group has determined that any credit risk associated with the Department of Health is insignificant. In respect of other customers, mainly being aged care facility residents, the Group monitors the level of receivables balances on an ongoing basis and any associated credit risk is mitigated by their independence of each other and individual immateriality to the Group. As a result of the 1 July 2014 Federal Government reforms relating to funding of the aged care industry, more residents are now contributing greater amounts towards their aged care costs. This is primarily as a result of increases in the levels of means and assets testing of residents. The figures below take into account the fact that approximately $1,948,000 (2016: $1,800,000) of the aged debtors greater than 61+ days can be offset against RADs or accommodation bonds paid by a resident prior to it being refunded to the relevant resident upon discharge. The Group's overall exposure to bad debts is therefore largely mitigated because of the ability to offset any outstanding receivable against the RAD/accommodation bond balance; however a provision for doubtful debts has been raised in the financial statements which at reporting date is $406,000 (2016: $357,000).

At 30 June 2017, the ageing analysis of resident debtors is as follows:

Year	Not yet due	Current	31–60 days	61+ days	Impaired	Total
2017 ($'000)	**6,036**	**1,320**	**709**	**2,959**	**(406)**	**10,618**
2017 (%)	**57**	**12**	**7**	**28**	**(4)**	**100**
2016 ($'000)	5,857	639	635	2,336	(357)	9,110
2016 (%)	64	7	7	26	(4)	100

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. This risk is controlled through monitoring forecast cash flows and ensuring adequate access to financial instruments that are readily convertible to cash. In addition, the Group maintains sufficient cash and cash equivalents to meet normal operating requirements. Also, as part of the Group's compliance with the Fees and Payments Principles 2014 (No. 2) as required under the *Aged Care Act 1997*, the Group maintains a liquidity management strategy to ensure that the Group has sufficient liquidity to enable it to refund RAD and accommodation bond balances that are expected as and when they fall due.

Financial liabilities of the Group comprise trade and other payables, dividends payable, RADs, accommodation bonds and ILU resident loan liabilities. Trade and other payables have no contractual maturities and are typically settled within 30 days or within the terms negotiated. RADs and accommodation bonds are potentially repayable within 14 days of a resident leaving an aged care facility and therefore classified under 'current liabilities' in the Statement of Financial Position. However, on average, each resident occupies a place for approximately 24 months (2016: 26 months), resulting in approximately 50.0% (2016: 46.2%) of RADs and accommodation bonds being replaced in any 12-month period. In addition, any RAD or accommodation bond repayable is typically replaced by an equivalent or higher RAD receivable from a new incoming resident. ILU resident loan liabilities are subject to loan agreements and whilst repayable within the earlier of 14 days after a new ILU resident replaces the departing ILU resident or six months after ILU resident departure, and therefore classified under 'current liabilities' in the Statement of Financial Position, are typically replaced by an equivalent or higher ILU resident loan receivable from a new incoming ILU resident. It is also unlikely in practice that all ILU resident loan liabilities would be refundable within a 12-month period.

(c) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and prices. Financial instruments affected by market risk include cash, loans and borrowings and RADs and accommodation bonds. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all operational activities are undertaken in accordance with established internal and external guidelines, financing and investment strategies of the Group.

Interest rate risk

The Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial assets and financial liabilities, primarily relates to the Group's bank debt. Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Group reviews its bank borrowings on a monthly basis and monitors its position in respect of fixing interest rates or leaving them as floating rates in accordance with its interest rate hedging policy. As at 30 June 2017, the Group has bank borrowings of $61,000,000 (2016: $59,500,000).

During the year, the Group entered into a hedging arrangement to further mitigate interest rate risk. The hedging instrument enforces a cap on the interest rate payable on $40,000,000 of the Group's bank debt. The cap was set at 2.89% and matures in three years.

Interest rate risk sensitivity analysis

The Group has performed a sensitivity analysis on its Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position based upon a reasonably possible change in interest rates, with all other variables held constant. The sensitivity of the Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position is the effect of the assumed changes in interest rates on the interest income and interest expense for the year, based on the floating rate financial assets held at 30 June 2017. The sensitivity has been calculated using a change in interest rates of 100 basis points (1.00%) increase and decrease.

At reporting date, the effect on profit or loss after tax and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	2017		2016	
	+1.00% $'000	1.00% $'000	+1.00% $'000	1.00% $'000
Profit/(loss) after tax	**(457)**	**457**	(531)	531
Equity	**(457)**	**457**	(531)	531

Price risk

The Group has assessed that it is materially exposed to the risk that the Federal Government, through the Department of Health, may alter the rate of funding provided to Approved Providers of residential aged care services. As Government funding represents approximately 72% (2016: 72%) of the Group's revenue, a fluctuation in the rate of Government funding may have a direct impact on the revenue of the Group. Whilst the Group is not able to influence Government policy directly, it and members of its senior management team participate in aged care industry public awareness discussions and in aged care industry dialogue with the Government about its proposals for changes to funding for the aged care industry.

Price risk sensitivity analysis

The Group has performed a sensitivity analysis on its Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position based upon reasonably possible changes in levels of Government funding, with all other variables held constant. The sensitivity of the Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position is the effect of the assumed changes in levels of Government funding on the revenue of the Group, based on the amount of Government funding received for the year ended 30 June 2017. The sensitivity has been calculated using a change in the level of Government funding of 1.00% increase and decrease.

At reporting date, the effect on profit or loss after tax and equity as a result of changes in the level of Government funding, with all other variables remaining constant would be as follows:

	2017		2016	
	+1.00% $'000	1.00% $'000	+1.00% $'000	1.00% $'000
Profit/(loss) after tax	**1,777**	**(1,777)**	1,650	(1,650)
Equity	**1,777**	**(1,777)**	1,650	(1,650)

E. Capital structure and financing continued

E4. Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities in the Statement of Financial Position.

Included within cash at bank and on hand is an amount that is reserved for the refund of RAD/accommodation bond liabilities in accordance with the *Aged Care Act 1997*. For more information on RAD/accommodation bond liabilities see Note E6.

E5. Borrowings

	2017 $'000	2016 $'000
Current		
Bank loans	**4,600**	1,350
Total current borrowings	**4,600**	1,350
Non-current borrowings		
Bank loans	**56,400**	58,150
Total non-current borrowings	**56,400**	58,150
Total borrowings	**61,000**	59,500

(a) Syndicated facility agreement

The Group has a Syndicated Facility Agreement and Multi-Option Facility Agreement (the 'Bank Facilities'). These Bank Facilities allow for the planned short and medium-term brownfield and greenfield developments strategy of the Group together with access to bank funding for acquisitions, working capital, bank guarantees and credit facilities. The key features of the Bank Facilities are:

- an expiry date of 30 September 2020;
- a total available facility amount of $220,000,000; and
- an accordion feature allowing the flexibility to increase the total available facility amounts during the term of the Bank Facilities.

The Bank Facilities are secured by mortgages over the freehold properties owned by the Group and charges over the businesses operated by the Group.

During the year, $22,850,000 (2016: $34,500,000) was drawn down to fund brownfield and greenfield developments and $Nil (2016: $37,500,000) was drawn down to fund acquisitions of aged care businesses; $21,350,000 (2016: $12,500,000) was repaid during the year. A total of $61,000,000 (2016: $59,500,000) was drawn down against the Bank Facilities as at the reporting date. Subsequent to this date, a further $16,000,000 (2016: $6,000,000) has been drawn down to fund purchases of land and brownfield and greenfield developments.

E6. Other financial liabilities

Refundable accommodation deposit (RAD)/accommodation bond liabilities

RADs/accommodation bonds are non-interest bearing deposits made by some aged care facility residents to the Group upon admission. These deposits are liabilities which fall due and payable when the resident leaves the facility. As there is no unconditional right to defer payment for 12 months, these liabilities are recorded as current liabilities.

RAD/accommodation bond liabilities are recorded at an amount equal to the proceeds received, net of retention and any other amounts deducted from the RAD/accommodation bond in accordance with the *Aged Care Act 1997*.

Independent living unit (ILU) resident loan liabilities

ILU resident loans are non-interest bearing payments made by retirement village residents to the Group upon signing of a licence agreement to occupy an ILU. These payments are liabilities which fall due and payable upon termination of the licence less a deferred management fee calculated in accordance with the licence. As there is no unconditional right to defer payment for 12 months, these liabilities are recorded as current liabilities.

ILU resident loan liabilities are recorded at fair value.

	2017 $'000	2016 $'000
CURRENT		
RADs/accommodation bonds	**430,712**	383,521
ILU resident loans	**22,391**	21,061
Other financial liabilities	**-**	9,000
Total	**453,103**	413,582

RADs/accommodation bonds

The Group has provided each resident that has entered into a RAD/accommodation bond agreement with the Group and/or paid a RAD/accommodation bond to the Group with a written guarantee of future refund of the RAD/accommodation bond balance in accordance with the RAD/accommodation bond agreement and in compliance with the prudential requirements set out under the *Aged Care Act 1997*.

E7. Issued capital

(a) Ordinary shares

	2017 No.	2016 No.
At the beginning of the reporting period	**263,689,457**	263,046,592
Issued during the period	**1,856,535**	642,865
At the end of the reporting period	**265,545,992**	263,689,457

Ordinary shares

Holders of these shares are entitled to dividends as determined from time to time and are entitled to one vote per share at general meetings of the Company.

The Company does not have authorised capital or par value in respect of its shares.

During the year, the Group issued 1,856,535 (2016: 642,865) ordinary shares under its dividend reinvestment plan.

(b) Dividends

	2017 $'000	2016 $'000
The following dividends were determined and paid:		
Final 2016 fully franked ordinary dividend of 5.75 (2015: 5.50) cents per share	**15,161**	14,468
Interim 2017 fully franked ordinary dividend of 5.50 (2016: 5.75) cents per share	**14,582**	15,124
Total	**29,743**	29,592
Proposed final 2017 70% franked ordinary dividend of 5.75 (2016: 5.75) cents per share to be paid 30 October 2017	**15,269**	15,162

The proposed final dividend for 2017 was determined after the end of the reporting period and therefore has not been provided for in the financial statements. There are no income tax consequences arising from this dividend at 30 June 2017.

Franking account

	2017 $'000	2016 $'000
The franking credits available for subsequent financial years at a tax rate of 30%	**1,261**	3,341

The ability to use the franking credits is dependent upon the ability to determine and pay dividends. In accordance with the tax consolidation legislation, the Company as the head entity of the tax consolidated Group has also assumed the benefit of $1,261,000 (2016: $3,341,000) franking credits.

Notes to the Financial Statements continued

For the year ended 30 June 2017

F. Group structure

F1. Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it 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 over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

(a) List of active subsidiaries

Name of entity	Ownership	Equity holding 2017
Japara Holdings Pty Ltd	Direct	100%
Japara Property Holdings Pty Ltd	Direct	100%
Japara Aged Care Property Trust	Direct	100%
Aged Care Services Australia Group Pty Ltd	Indirect	100%
Aged Care Services One (Central Park) Pty Ltd	Indirect	100%
Aged Care Services Two (Roccoco) Pty Ltd	Indirect	100%
Aged Care Services Three (Balmoral Grove) Pty Ltd	Indirect	100%
Japara Aged Care Services Pty Ltd	Indirect	100%
Aged Care Services Five (Narracan Gardens) Pty Ltd	Indirect	100%
Aged Care Services Six (Mirridong) Pty Ltd	Indirect	100%
Aged Care Services Seven (Kelaston) Pty Ltd	Indirect	100%
Aged Care Services Eight (Elanora) Pty Ltd	Indirect	100%
Aged Care Services Nine (George Vowell) Pty Ltd	Indirect	100%
Aged Care Services 10 (Kingston Gardens) Pty Ltd	Indirect	100%
Aged Care Services 11 (View Hills) Pty Ltd	Indirect	100%
Aged Care Services 12 (Albury & District) Pty Ltd	Indirect	100%
Aged Care Services 13 (Lakes Entrance) Pty Ltd	Indirect	100%
Aged Care Services 14 (Lower Plenty Garden Views) Pty Ltd	Indirect	100%
Aged Care Services 15 (Rosanna Views) Pty Ltd	Indirect	100%
Aged Care Services 16 (Millward) Pty Ltd	Indirect	100%
Aged Care Services 17 (Bonbeach) Pty Ltd	Indirect	100%
Aged Care Services 18 (Hallam) Pty Ltd	Indirect	100%
Aged Care Services 19 (Goonawarra) Pty Ltd	Indirect	100%
Aged Care Services 20 (Bayview Gardens) Pty Ltd	Indirect	100%
Aged Care Services 21 (Barongarook Gardens) Pty Ltd	Indirect	100%
Aged Care Services 22 (Sandhurst) Pty Ltd	Indirect	100%
Aged Care Services 23 (Capel Sands) Pty Ltd	Indirect	100%
Aged Care Services 24 (St Judes) Pty Ltd	Indirect	100%
Aged Care Services 25 (Springvale) Pty Ltd	Indirect	100%
Aged Care Services 26 (Bayview) Pty Ltd	Indirect	100%
Aged Care Services 27 (Kirralee) Pty Ltd	Indirect	100%
Aged Care Services 28 (Elouera) Pty Ltd	Indirect	100%
Aged Care Services 29 (Mirboo North) Pty Ltd	Indirect	100%
Aged Care Services 30 (Brighton) Pty Ltd	Indirect	100%
Aged Care Services 31 (Vonlea Manor) Pty Ltd	Indirect	100%
Aged Care Services 32 (Scottvale) Pty Ltd	Indirect	100%
Aged Care Services 33 (Anglesea) Pty Ltd	Indirect	100%
Aged Care Services 34 (Yarra West) Pty Ltd	Indirect	100%
Aged Care Services 35 (The Homestead) Pty Ltd	Indirect	100%
Aged Care Services 36 (Trevu) Pty Ltd	Indirect	100%
Aged Care Services 37 (Oaklands) Pty Ltd	Indirect	100%
Aged Care Services 38 (Mitcham) Pty Ltd	Indirect	100%

Name of entity	Ownership	Equity holding 2017
Aged Care Services 39 (Noosa) Pty Ltd	Indirect	100%
Aged Care Services 40 (Coffs Harbour) Pty Ltd	Indirect	100%
Aged Care Services 41 (South West Rocks) Pty Ltd	Indirect	100%
Aged Care Services 42 (Gympie) Pty Ltd	Indirect	100%
Japara Developments Pty Ltd	Indirect	100%
Japara Retirement Living Pty Ltd	Indirect	100%
Japara Retirement Living 2 (Balmoral Mews) Pty Ltd	Indirect	100%
Japara Retirement Living 4 (Cosgrove Cottages) Pty Ltd	Indirect	100%
Japara Retirement Living 5 (Sydney Williams) Pty Ltd	Indirect	100%
Japara Retirement Living 6 (Barongarook) Pty Ltd	Indirect	100%
Japara Retirement Living 7 (The Homestead) Pty Ltd	Indirect	100%
JD No. 1 (Bundaberg) Pty Ltd	Indirect	100%
JD No. 2 (Balmoral Mews) Pty Ltd	Indirect	100%
JD No. 3 (Lakes Entrance) Pty Ltd	Indirect	100%
JD No. 5 (Albury & District) Pty Ltd	Indirect	100%
JD No. 8 (Yarra West) Pty Ltd	Indirect	100%

F2. Deed of Cross Guarantee

Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 dated 28 September 2016, the wholly owned subsidiaries listed in Note F1 are entitled to relief from the *Corporations Act 2001* requirements for preparation, audit and lodgement of Financial Reports, Directors' Reports and auditor's reports as they are part of a Closed Group as defined by the *Corporations Act 2001*.

Pursuant to the above-mentioned legislative instrument, the Company and each of the subsidiaries entered into a Deed of Cross Guarantee on 12 June 2014 or have been added as parties to the Deed of Cross Guarantee by way of Assumption Deeds dated 23 June 2015 or 24 June 2016. The effect of the Deed of Cross Guarantee is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The Consolidated Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position for the Closed Group are the same as the financial statements for Japara Healthcare Limited and its controlled entities.

F3. Parent entity

As at, and throughout, the year ended 30 June 2017 the parent entity of the Group was Japara Healthcare Limited.

	2017 $'000	2016 $'000
Statement of Financial Position		
Assets		
Current assets	**3,435**	2,617
Non-current assets	**615,446**	614,178
Total assets	**618,881**	616,795
Liabilities		
Current liabilities	**5,863**	2,920
Non-current liabilities	**56,400**	58,150
Total liabilities	**62,263**	61,070
Equity		
Issued capital	**522,328**	518,732
Retained earnings	**34,290**	36,993
Total equity	**556,618**	555,725
Statement of Profit or Loss and Other Comprehensive Income		
Total profit or loss for the year	**27,588**	86,104
Total comprehensive income	**27,588**	86,104

F. Group structure continued

F3. Parent entity continued

Guarantees

The parent entity has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of its subsidiaries.

Further details of the Deed of Cross Guarantee and the entity subject to the deed are disclosed in Note F2.

G. Other information

G1. Commitments

As at the reporting date, the Group had entered into contracts relating to capital expenditure and is committed to incur:

- $53,746,000 (2016: $19,204,000) in relation to various construction contracts expected to be completed over the course of the next two years; and
- $22,324,000 (2016: $3,719,000) in relation to six land purchases expected to complete in FY2018. Two of these land purchase contracts have settled since the reporting date.

G2. Operating leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are amortised on a straight-line basis over the life of the lease term.

(a) Operating lease commitments

	2017 $'000	2016 $'000
Minimum lease payments under non-cancellable operating leases:		
– not later than one year	**1,877**	1,390
– between one year and five years	**3,652**	3,833
– later than five years	**119**	821
	5,648	6,044

The above amounts relate primarily to property leases for the business premises of the Group which are non-cancellable leases with terms between four and 10 years, with rent payable monthly in advance.

G3. Contingencies

Capital Refurbishment Deduction

The Group receives Capital Refurbishment Deductions (CRDs) from aged care residents in accordance with the terms of their written resident agreements. CRDs, with the residents' written permission, are deducted from their RADs.

In September 2016 the Commonwealth Department of Health (the Department) issued guidance in relation to fees and charges that may be charged to residents under the *Aged Care Act 1997* (the Act). The Department indicated that CRDs and similar fees may not be supported by the Act under certain circumstances and that residential aged care providers should seek their own independent advice. The Group has received external legal advice on its CRDs and in accordance with this advice, maintains that its CRDs are supported by the Act.

In April 2017, another residential aged care provider advised that it had applied to the Federal Court for a declaration as to the interpretation of the Act regarding its capital refurbishment type fee. Whilst the Group understands that its CRDs are determined on a different basis, it acknowledges that should the Federal Court declare that these types of fees are not supported by the Act, the Group may need to review its position on CRDs. This may include ceasing to deduct CRDs and refunding CRDs previously deducted. Any Federal Court declaration is uncertain, including as to timing, the interpretation of the Act and its applicability to the Group. While the Group may have a possible future requirement to refund CRDs previously deducted, significant uncertainty exists. The Directors have therefore made no provision at 30 June 2017 for refunding CRDs but have disclosed the matter as a contingent liability. As at 30 June 2017, the cumulative amount of CRDs recorded as revenue is $2,820,000 (2017: $1,982,000 and 2016: $838,000).

Security deposit guarantees

The Group has entered into a number of security deposit guarantees with its bankers for security for the performance of the Group totalling $854,000 (2016: $892,000). This is secured against the Multi-Option Facility Agreement (see Note E5(a)). At the date of signing this Financial Report, the Company's Directors are not aware of any situations that have arisen that would require these security deposit guarantees to be presented to the banks.

G4. Subsequent events

Other than mentioned elsewhere in the financial statements, no matters or circumstances have arisen since the end of the reporting period which significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of the affairs of the Group in future financial years.

G5. Cash flow information

Reconciliation of result for the year to cash flows from operating activities:

	Note	2017 $'000	2016 $'000
Profit for the year		29,712	30,375
Cash flows excluded from profit attributable to operating activities:			
– acquisition-related costs		-	7,131
– equity raising costs		(16)	(533)
Non-cash flows in profit:			
– depreciation	D1	14,255	11,959
– discount on acquisition		-	(7,242)
– straight lining of rental expense		8	20
– net (profit)/loss on disposal of non-current assets		(6,680)	97
– non-cash movement in RADs/accommodation bonds		(3,224)	(1,858)
– deferred management fee income		(1,542)	(872)
– increase in fair value of investment property		(1,200)	(91)
– ILU loan finance charge		167	145
– equity-settled share-based payment transactions		(156)	156
Changes in assets and liabilities:			
– (increase)/decrease in trade and other receivables		(4,458)	(3,752)
– (increase)/decrease in other assets		2,592	(1,412)
– (increase)/decrease in deferred tax receivable		4,558	2,580
– increase/(decrease) in trade and other payables		(3,054)	3,300
– increase/(decrease) in current tax liabilities		(622)	(4,855)
– increase/(decrease) in provisions		1,460	1,511
Net cash provided from operating activities		**31,800**	36,659

G. Other information continued

G6. Remuneration of auditors

	2017 $	2016 $
Audit and review services:		
– auditing or reviewing the financial statements	**335,000**	379,800
Other services:		
– other services	**165,750**	781,551
Total	**500,750**	1,161,351

Audit and review services fees have reduced in 2017 due to a change in the Group's operating structure resulting in fewer audits of controlled entities. The majority of other services fees incurred in 2016 related to financial due diligence for business acquisitions.

G7. New accounting standards adopted during the year

During the year there were no new standards adopted by the Group that represent a material impact on the consolidated financial statements.

G8. New accounting standards for application in future periods

A number of new standards and amendments to the standards are effective for annual periods beginning after 1 July 2017 (unless otherwise stated). The Group has considered the impact of these changes and their application in the preparation of these consolidated financial statements.

New/amended standard	Summary of requirements	Possible impact in consolidated financial statements
AASB 15 Revenue from contracts with customers	AASB 15 (effective on or after 1 January 2018) introduces a five-step process for revenue recognition with the core principle of the new standard being for entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services. Accounting policy changes will arise in timing of revenue recognition, treatment of contracts costs and contracts which contain a financing element. AASB 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple element arrangements. The changes in revenue recognition requirements in AASB 15 may cause changes to the timing and amount of revenue recorded in the financial statements as well as additional disclosures.	The Group has considered the impact of AASB 15 on the consolidated financial statements and determined that it will not have a material impact on the results. The Group has not chosen to early adopt.
AASB 16 Leases	AASB 16 (effective on or after 1 January 2019) reforms are to be implemented around the change in accounting for leases where by operating leases will be recorded on the balance sheet, where historically the expense relating to them have only been recognised in the Statement of Profit or Loss and Other Comprehensive Income. There is an opportunity to early adopt on the proviso that the entity has also early adopted the changes associated with AASB 15.	The Group is in the process of considering the impact on the consolidated financial statements and is not expecting to early adopt.
AASB 9 Financial instruments	In AASB 9 (December 2010), the AASB added requirements for the classification and measurement of financial liabilities that are generally consistent with the equivalent requirements in AASB 139 except in respect of the fair value option, and certain derivatives linked to unquoted equity instruments. The AASB also added the requirements in AASB 139 in relation to the derecognition of financial assets and financial liabilities to AASB 9. AASB 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance on hedge accounting in AASB 139 on impairment of financial assets continues to apply as long as hedge accounting provisions in AASB 2013-9 are not applied.	The Group has considered the impact of AASB 9 on the consolidated financial statements and determined that it will not have a material impact on the results. The Group has not chosen to early adopt.

Directors' Declaration

1. In the opinion of the Directors of Japara Healthcare Limited ('the Company'):
   (a) the consolidated financial statements and notes to the consolidated financial statements, set out on pages 42 to 68 and the Remuneration Report contained in Section 16 in the Directors' Report, are in accordance with the *Corporations Act 2001*, including:
      (i) giving a true and fair view of the Company's financial position as at 30 June 2017 and of its performance for the year ended on that date; and
      (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
   (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. There are reasonable grounds to believe that the Company and the Company entities identified in Note F2 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those Company entities pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785.

3. The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the period ended 30 June 2017.

4. The Directors draw attention to Note A2 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:

Signed and dated at Melbourne on 28 August 2017

Linda Bardo Nicholls AO
Chairman

Andrew Sudholz
Managing Director and CEO

Independent Auditor's Report

To the Shareholders of Japara Healthcare Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Japara Healthcare Limited (the Company).

The ***Group*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group***'s financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises the:

- Consolidated statement of financial position as at 30 June 2017;
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended;
- Notes, including a summary of significant accounting policies; and
- Directors' Declaration.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 *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 fulfilled our other ethical responsibilities in accordance with the Code.

KPMG

Key Audit Matter

The ***Key Audit Matter*** we identified is:

- Recoverable amount of goodwill and resident places

A ***Key Audit Matter*** is a matter that, in our professional judgment, was of most significance in our audit of the Financial Report of the current period.

This matter was addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Carrying amount of goodwill and resident places ($463 million)

Refer to Note D2 to the Financial Report

The key audit matter	How the matter was addressed in our audit
The carrying amount of goodwill and resident places is a Key Audit Matter due to: • the size of the balance (being 41% of total assets); and • the level of judgment required by us in evaluating the Group's assessment of recoverability as contained in their value in use model. The Federal Government is actively contemplating the next wave of Aged Care industry reforms which may include some de-regulation. The specific terms and the impact of any potential reform on the Group are still uncertain. We used a high degree of judgement to assess the Group's impairment testing, including the impact of the Federal Government's potential Aged Care industry reforms. Specifically we considered: • the forecast cash flows, in particular assumptions regarding occupancy and mix of resident care; • the key assumptions in the Group's value in use model, including discount rates and growth rates; and • the treatment of resident places intangible asset as an indefinite life intangible asset based on the potential Aged Care industry reforms. In addressing this key audit matter, we involved	Our procedures included: • Assessing the historical accuracy of forecasting by the Group to consider the accuracy of the forecasting process and to identify areas to focus on in the current year audit. • Challenging the Group's assumptions and forecast cash flows used in their value in use model, including occupancy, mix of resident care, discount rates and growth rates by comparing to known market comparators and analysing industry trends. This also included assessing the potential implications of future government reforms on these assumptions. • Involving our Corporate Finance valuation specialists and compare the discount rates and growth rates with available market data of comparable entities. • Assessing the Group's determination of resident places as indefinite life intangible assets against criteria contained in the relevant accounting standards. We did this by considering the characteristics of the resident places intangible asset including the accreditation requirements and the impact of potential Aged Care industry reforms. • Performing sensitivity analysis on key assumptions including occupancy rates, discount rates and growth rates, to assess the impact on the level of headroom, and to focus our procedures.

senior audit team members and valuation specialists, who collectively understand the Group's business, the Aged Care industry and the economic environment it operates in.	

Other Information

Other Information is financial and non-financial information in Japara Healthcare Limited's annual reporting, which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Company Overview, Chairman's Review, Managing Director and CEO's Review, Directors' Report, Remuneration Report, Additional Information and 4 Year Summary. The Environmental, Social and Governance Statement is expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or 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. In doing so, we 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.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Group's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they 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 objective is to:

- obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- 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 *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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.

A further description of our responsibilities for the Audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Japara Healthcare Limited for the year ended 30 June 2017, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included on pages 27 to 41 of the Directors' report for the year ended 30 June 2017.

Our responsibility is to express an opinion on the Remuneration Report, based on our Audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

Darren Scammell

Partner

Melbourne

28 August 2017

Additional Information

Additional information required under ASX Listing Rule 4.10 and not shown elsewhere in this Annual Report follows. This information is current as at 16 August 2017.

(a) Distribution of shareholders – ordinary shares

Range	Ordinary shares	%	Number of holders	%
100,001 and over	199,058,336	74.96	103	1.15
10,001 to 100,000	40,407,794	15.22	1,740	19.44
5,001 to 10,000	14,411,450	5.43	1,862	20.81
1,001 to 5,000	10,823,590	4.07	3,729	41.67
1 to 1,000	844,822	0.32	1,515	16.93
Total	**265,545,992**	**100.00**	**8,949**	**100.00**

(b) Less than marketable parcels of ordinary shares

There are 332 shareholders holding less than a marketable parcel of ordinary shares (i.e. less than $500 per parcel of shares).

(c) 20 largest shareholders – ordinary shares

	Name	Number of fully paid ordinary shares	% of issued capital
1	HSBC Custody Nominees (Australia) Limited	49,367,769	18.59
2	J P Morgan Nominees Australia Limited	23,942,219	9.02
3	Citicorp Nominees Pty Limited	18,273,594	6.88
4	National Nominees Limited	17,788,353	6.70
5	Ashens Properties Pty Ltd (Sudholz Family Discretionary Trust A/C)	15,127,179	5.70
6	Australian Foundation Investment Company Limited	14,007,499	5.27
7	Australian Shareholder Nominees Pty Ltd	6,776,392	2.55
8	BNP Paribas Noms (NZ) Ltd (DRP)	5,137,766	1.93
9	UBS Nominees Pty Ltd	3,839,662	1.45
10	Samraj Pty Ltd (Reid Family No 2 A/C)	3,200,000	1.21
11	CS Third Nominees Pty Limited (HSBC Cust Nom AU Ltd 13 A/C)	2,929,597	1.10
12	Mirrabooka Investments Limited	2,927,105	1.10
13	RBC Investor Services Australia Nominees Pty Limited (BKCUST A/C)	2,869,769	1.08
14	BNP Paribas Nominees Pty Ltd (Agency Lending DRP A/C)	2,484,285	0.94
15	Djerriwarrh Investments Limited	2,482,690	0.93
16	BNP Paribas Nominees Pty Ltd (DRP A/C)	1,996,164	0.75
17	Wanganui Pty Ltd (Peck Von Hartel S/F A/C)	1,737,868	0.65
18	Naze Nominees Pty Ltd (The Klempfner Family A/C)	1,489,195	0.56
19	Colman Foundation Limited (Colman Foundation A/C)	1,108,711	0.42
20	Amcil Limited	1,050,000	0.40
	Total	**178,535,817**	**67.23**

(d) Substantial shareholders

A substantial shareholder is one who has a relevant interest in 5% or more of the total issued shares in the Company. Following are the substantial shareholders in the Company based on notifications provided to the Company under the *Corporations Act 2001*:

Shareholder	Number of fully paid ordinary shares	% of issued capital
BT Investment Management Limited	18,740,708	7.06%
Ashens Properties Pty Ltd (Sudholz Family Discretionary Trust A/C)	15,700,000	5.91%
Credit Suisse Holdings (Australia) Limited (on behalf of Credit Suisse Group AG and its affiliates)	14,979,717	5.64%
L1 Capital Pty Ltd	14,592,282	5.50%
Australian Foundation Investment Company Limited	13,534,092	5.10%

(e) Distribution of unquoted securities – performance rights

Range	Performance rights	%	Number of holders of performance rights	%
100,001 and over	555,893	87.70	2	50.00
10,001 to 100,000	77,992	12.30	2	50.00
5,001 to 10,000	-	-	-	-
1,001 to 5,000	-	-	-	-
1 to 1,000	-	-	-	-
Total	**633,885**	**100.00**	**4**	**100.00**

(f) Securities subject to voluntary escrow

There are no securities on issue subject to voluntary escrow.

(g) Voting rights

In accordance with the Company's Constitution, each member present at a meeting, whether in person, by proxy, by power of attorney or by a duly authorised representative in the case of a corporate member, shall have one vote on a show of hands and one vote for each fully paid ordinary share on a poll.

Holders of unquoted performance rights do not have voting rights.

(h) On-market buy-backs

There is no current on-market buy-back in relation to the Company's securities.

(i) On-market share acquisitions

The Company operates an Equity Incentive Plan (Plan) for Group employees. No ordinary shares were acquired during the financial year ended 30 June 2017 by the Plan trustee for allocation under the Plan.

4 Year Summary

	2016/17	2015/16	2014/15	2013/14
Financial results				
Operating revenue ($million)	**362.2**	327.3	281.2	48.9[4]
Earnings before Interest, tax, depreciation and amortisation ($million)	**60.2**	56.1	50.6	(1.3)[4]
Net profit/(loss) after tax ($million)	**29.7**	30.4	28.8	(2.9)[4]
Operating cash flow ($million)	**31.8**	36.7	40.2	1.4[4]
Net RADs and bonds[1] inflow ($million)	**55.7**	54.9	77.3	14.4[4]
Earnings per share (cents)	**11.2**	11.5	11.0	(0.01)[4]
Dividend per share (cents)	**11.25**	11.5	11.0	0.0
Dividend payout rate (%)	**100**	100	100	0
Dividend yield (%)	**5.4**	4.5	4.3	0.0
Other statistics – at financial year end				
Total assets ($million)	**1,115.6**	1,070.0	915.8	807.3
Real estate portfolio[2] ($million)	**550.6**	525.3	400.2	348.5
RADs and bonds[1] ($million)	**453.1**	404.6	325.3	220.9
Shares on issue (million)	**265.5**	263.7	263.0	263.0
Share price ($)	**2.10**	2.55	2.57	2.35
Share market capitalisation ($million)	**557.6**	672.4	676.0	618.2
Shareholders	**8,949**	7,021	3,553	2,427
Staff	**5,255**	5,081	4,419	4,199
Average underlying occupancy[3] (%)	**94.6**	94.4	94.8	95.2
Operational places	**3,841**	3,717	3,207	2,899
Approved and provisional places	**4,950**	4,761	3,854	3,131
Residential facilities	**43**	43	39	35
Independent living units	**180**	180	180	139

1. Refundable accommodation deposits, accommodation bonds and independent living unit resident loans.

2. At book value.

3. Excludes facilities under development.

4. For the period 22 April 2014 to 30 June 2014.

Corporate Information

Registered and head office

Japara Healthcare Limited
Q1 Building, Level 4
1 Southbank Boulevard
Southbank Victoria 3006
Australia

Postal address

PO Box 16082
Collins Street West
Victoria 8007
Australia

Telephone: +61 3 9649 2100
Facsimile: +61 3 9649 2129
Email: info@japara.com.au

Company website

japarahealthcare.com.au

Company numbers

ACN 168 631 052
ABN 54 168 631 052

Board of Directors

Linda Bardo Nicholls AO
Non-Executive Chairman

Andrew Sudholz
Managing Director and CEO

Richard England
Non-Executive Director

David Blight
Non-Executive Director

JoAnne Stephenson
Non-Executive Director

Chief Financial Officer and Company Secretary

Chris Price

Company Secretary

Bruce Paterson

Auditor

KPMG
Tower Two
Collins Square
727 Collins Street
Melbourne Victoria 3008
Australia

Securities Exchange Listing

The Company's shares are listed on the Australian Securities Exchange (ASX). The Home Exchange is Melbourne.

ASX code: JHC

Share/security registers

Link Market Services Limited
Tower 4
727 Collins Street
Melbourne Victoria 3008
Australia

Postal address

Locked Bag A14
Sydney South
New South Wales 1235
Australia

Shareholder enquiries

Telephone: +61 1300 554 474
Facsimile: +61 2 9287 0303
+61 2 9287 0309 (for proxy voting)
Email: registrar@linkmarketservices.com.au

Investor centre

investorcentre.linkmarketservices.com.au

Corporate Governance Statement

The Company's Corporate Governance Statement can be found on its website: japarahealthcare.com.au under the Investor section.