OCEANIA HEALTHCARE

OCEANIA'S PROSPECTIVE FINANCIAL INFORMATION, A RECONCILIATION OF NON-NZ GAAP INFORMATION AND SUPPLEMENTARY FINANCIAL INFORMATION

31 MARCH 2017

OCEANIA
HEALTHCARE

This document gives you important information about this investment to help you decide whether you want to invest. There is other useful information about this offer on www.companiesoffice.govt.nz/disclose. Oceania Healthcare Limited has prepared this document in accordance with the Financial Markets Conduct Act 2013. You can also seek advice from a financial adviser to help you to make an investment decision.

About This Document

The information contained in this document should be read in conjunction with Oceania Healthcare Limited's Product Disclosure Statement dated 31 March 2017 (PDS) and other information presented on the Offer Register. The purpose of this document is to provide additional detail on Oceania's historical financial information and prospective financial information.

Capitalised terms in this document have the same meaning as the terms defined in the PDS.

The financial information in this document is presented in New Zealand dollars and is rounded, which may result in some discrepancies between the sum of the components and totals within tables, and also certain percentage calculations.

1. Introduction to Oceania's financial information

1.1 Introduction to Oceania's historical financial information and prospective financial information

Financial periods included

This document presents financial information and other information on Oceania for the historical financial period comprising the 12 months ended 31 May 2014 (**FY2014**), the 12 months ended 31 May 2015 (**FY2015**), and the 12 months ended 31 May 2016 (**FY2016**) (collectively the **Historical Period**).

This document also includes certain financial information and other information on Oceania for historical financial periods that concluded prior to the commencement of the Historical Period, including the 12 months ended 31 May 2012 (**FY2012**) and the 12 months ended 31 May 2013 (**FY2013**).

This document presents prospective financial information and other information for the prospective financial period comprising the 12 months ended 31 May 2017 (**FY2017PF**) the 12 months ended 31 May 2018 (**FY2018F**) (collectively the **Prospective Period**).

In this document, the inclusion of "F" after a reference to a financial period (e.g. FY2018F) is an indication that it is a "forecast" period. The inclusion of "PF" after a reference to financial period is an indication that it is a period that includes "pro forma" adjustments, which may be either a historical period (e.g. FY2016PF or earlier periods) or a forecast period (e.g. FY2017PF), as the context requires.

Financial content included

This document presents detailed financial information on Oceania including:

- Pro forma historical financial information relating to the Historical Period;
- Pro forma prospective financial information relating to the Prospective Period;
- Historical financial information prepared in accordance with NZ GAAP relating to the Historical Period;
- Prospective financial information prepared in accordance with NZ GAAP relating to the Prospective Period;
- Reconciliations between NZ GAAP measures and non-NZ GAAP measures reported by Oceania; and
- Accounting policies and key assumptions used in preparing the prospective financial information for the Prospective Period.

The historical financial information presented in this document is derived from the statutory historical financial statements included in the Offer Register adjusted for pro forma adjustments as outlined in Section 3.10 (Pro forma and underlying adjustments).

Oceania has two reporting segments, aged care and retirement village, and a corporate/other function which is not allocated to these segments for reporting purposes.

Reporting segment	Description
Aged care	Includes all revenue and facility-level expenses associated with the provision of care and related services to Oceania's aged care and retirement village residents, including the DMF and operating expenses associated with Care Suites.
Retirement village	Includes the DMF on Oceania's retirement village Units, weekly service fees, retirement village-level operating expenses, and (in respect of underlying measures) the realised gains on resales and the development margins from the sale of both Units and Care Suites.
Corporate/other	Includes support office and corporate expenses, operating lease costs relating to Oceania's three leasehold sites[1], and the impacts of any extraordinary or one-off transactions. In addition, income and expenses relating to the Wesley Training Institute are recognised in this segment.

1.2 How Oceania generates revenue

Oceania primarily generates revenue by operating and developing aged care and retirement village facilities. Oceania's key revenue items are described below:

Aged care

— ***Care fees***: Oceania receives regulated care fees for occupied Care Beds which are funded either by the Government (via DHBs) or by resident contributions. Care fees are based on the level of care provided (rest home, hospital or dementia) and are earned per occupied bed per day.

— ***Premium accommodation charges:*** Additional fees are charged by Oceania for Care Beds in some rooms with additional premium features (such as an ensuite bathroom, larger size, and/or a view)[2].

— ***Deferred Management Fees (DMF):*** Oceania earns DMF for Care Suites (premium aged care accommodation) that are occupied under an ORA. (See the description of *Deferred Management Fees* under *Retirement villages* below for further detail on DMF).

— ***Other care income:*** Additional fees are charged by Oceania for care services such as meals or laundry provided to some retirement village residents and in relation to ancillary services provided to aged care residents (for example, hairdressing).

Retirement villages

— ***Deferred Management Fees (DMF):*** Residents incur DMF for the right to occupy a Unit or Care Suite under an ORA. DMF for Oceania are typically 30% of the initial ORA licence payment and accrue on a contractual basis to Oceania over a three-year period. The DMF is deducted from the resale proceeds and realised by Oceania upon resale of the ORA. For financial reporting purposes, DMF are recognised over a number of periods corresponding to the expected average tenure of the resident. Refer to Section 3.4.1.2 for further information on the estimates of tenure used for DMF recognition purposes and the tenure of exiting residents observed over the Historical Period and assumed in relation to the Prospective Period.

[1] During the Historical Period Oceania had four leasehold sites, for which the lease payments are included in the corporate/other function as rental expense, and a lease in relation to the Elderslea facility which was classified as a finance lease. In November 2016, during 1HY2017, Oceania acquired the freehold title to the Palmerston Manor facility, reducing the number of operating leases from four to three. In addition, Oceania has entered into an option to acquire the freehold title to the Elderslea facility on or about 31 May 2017 using part of the proceeds of the Offer. This, along with the reduction in drawn debt arising from the Offer, will reduce net interest expense in FY2018F.
[2] Clause A13 of the Age Related Residential Care Services Agreement sets out the contractual provision of allowing aged care providers to charge PACs.

— ***Weekly service fees:*** Weekly fees are charged to retirement village residents. These contribute to the upkeep of the retirement village.

— ***Changes in fair value of investment properties:*** Fair value movements in the value of investment property (including in relation to development properties as they approach completion) are recognised for statutory reporting purposes under NZ IAS 40. The fair value movements reflect both realised and unrealised movements associated with the fair value of retirement village Units. Oceania obtains semi-annual valuations of its retirement village portfolio from CBRE Limited (CBRE), an independent external valuer, as an input to the investment property valuation. CBRE undertakes valuations for all listed New Zealand aged care / retirement village operators (Ryman Healthcare, Summerset, Metlifecare and Arvida).

— ***Other retirement village revenue:*** Oceania receives rental income for occupied units that are not subject to an ORA. Rental units are typically units that have been bought back from outgoing residents by Oceania on a targeted basis to facilitate future development projects. Other revenue also includes administrative fees generated on the resale of ORAs.

Corporate/other revenue

— Corporate/other revenues include course fees associated with Oceania's Wesley Training Institute.

1.3 Underlying financial measures

Statutory financial measures such as revenue and NPAT prepared under NZ IFRS include the recognition of fair valuation movements (which include unrealised fair valuation movements) in investment properties and property, plant and equipment, which can be volatile year on year.

Consistent with listed market practice in its sector, Oceania also prepares non-NZ GAAP measures including Underlying EBITDA and Underlying NPAT when monitoring financial performance and in determining dividend distributions, and has included these measures in the financial information presented. Historically Oceania's non-NZ GAAP measures have not been audited, but in FY2017 and subsequent periods, these non-NZ GAAP measures will be incorporated in Oceania's financial statements and subject to an audit as part of the usual assurance process for the financial statements[3].

Underlying measures require a methodology and a number of estimations to be approved by Directors in their preparation. Both the methodology and the estimations may differ among companies in the retirement village sector that report underlying financial measures.

Underlying measures such as Pro forma Underlying EBITDA and Pro forma Underlying NPAT are provided as measures of financial performance during a financial period and do not represent measures of business cash flow during a financial period. To understand Oceania's cash flow performance, including its operating, investing, and/or financing cash flows, please refer to the cash flow statements in Section 3.9 (Statement of cash flow).

Underlying EBITDA

Oceania calculates Underlying EBITDA by making the following adjustments to EBITDA:

— Removing the change in fair value of investment properties and property, plant and equipment (from the statement of comprehensive income);

— Adding back the Directors' estimate of realised gain on resales of ORA Units and Care Suites, calculated as the net cash flow received by Oceania on the cash settlement of the resale of pre-existing ORA Units and Care

[3] Please refer to the Investigating Accountant's report available on the offer register for conclusions on the procedures undertaken on the historical financial information and forecast financial information including the underlying measures. Oceania's underlying measures such as Underlying EBITDA and Underlying NPAT will be tested against Oceania's stated methodology as part of the audit of financial statements on an ongoing basis.

Suites (i.e. the difference between the ORA licence payment received from the incoming resident and the ORA licence payment previously received from the outgoing resident); and

- Adding back the Directors' estimate of realised development margin on the cash settlement of the first sale of new ORA Units or Care Suites following development, or conversion of an existing Care Bed to a Care Suite or conversion of a rental unit to an ORA Unit:
  - The development costs include:
    - Construction costs (including non-recoverable GST) directly attributable to the relevant project, or stage, including the cost to build the ORA Units or Care Suite and associated infrastructure to provide access (e.g. roads, resident car parking and corridors) and amenities (e.g. landscaping). The costs are apportioned as between the ORA Units and Care Suites, in aggregate, using estimates provided by the project quantity surveyor; the same approach as is taken for determining the apportionment as between Investment Property and Property Plant and Equipment for the ORA Units and Care Suites respectively for the Statutory accounts;
    - The construction costs for the individual ORA Units or Care Suites sold are determined on a pro-rated basis (apportioned using gross floor areas of the ORA Units and Care Suites);
    - Construction costs also include any necessary demolition and site preparation costs associated with the project;
    - An apportionment of land value based on the average gross floor area of the ORA Units and Care Suites developed. The value for Brownfield[4] Development land is the estimated fair value of land at the time a change of use occurred[5] (from operating as care facility or retirement village to a development site), as assessed by an external independent valuer. Greenfield[6] development land is valued at historical cost; and
    - Capitalised interest costs to the date of completion attributable to the ORA Unit or Care Suite.
  - Development costs do not include the construction costs, land (apportioned on a gross floor area basis) and capitalised interest associated with the retirement village common areas and amenities (e.g. bowling greens, café and cinema), or the operational (including clinical and hospitality) and administrative components of the care facility within which the Care Suites are sold.
  - The Director's estimate of development margin for conversions noted above is calculated based on the difference between the ORA licence payment received on the settlement of sales of newly converted ORA Units or Care Suites during the period and the conversion costs associated with the ORA Units or Care Suites. The conversion costs comprise:
    - In the case of conversions of Care Beds to Care Suites, the actual refurbishment costs; and
    - In the case of conversions of rental units to ORA Units, the actual refurbishment costs and the fair value of the rental unit prior to conversion.

[4] *Brownfield land refers to land previously utilised by, or part of, an operational aged care facility or retirement village.*
[5] *The timing of a change of use is a Directors' estimate. It is based on a range of factors including evidence of steps taken to secure a resource consent and/or building consent for a particular development or stage of a development and the decommissioning of existing operations (either through the buy back of existing village ORA Units or decommissioning of an existing care facility). Note the cost of buybacks is not included in the development cost as an independent fair value of the land on an unencumbered basis is used as the value ascribed to the development land.*
[6] *Greenfield land refers to land not previously utilised by, or as part of, an operational aged care facility or retirement village. Greenfield land is typically bare (undeveloped) land at the time of purchase.*

Underlying NPAT

Oceania calculates Underlying NPAT by making the following adjustments to Underlying EBITDA (described above):

- Deducting depreciation expense and amortisation expense;
- Deducting interest expense and taxation expense; and
- Adding back the deferred taxation component of taxation expense so that only current tax expense is reflected in Underlying NPAT.

Underlying NPAT also excludes impairment of goodwill.

Refer to Section 3.10 (Pro forma and underlying adjustments) of this document for numerical details of Oceania's underlying adjustments.

2. Pro forma Underlying income statement

Table 1: Pro forma Underlying income statement

NZ$m	FY2014PF	FY2015PF	FY2016PF	FY2017PF	FY2018F	1HY2016PF	1HY2017PF
Financial period	**12 months ending 31-May-14**	**12 months ending 31-May-15**	**12 months ending 31-May-16**	**12 months ending 31-May-17**	**12 months ending 31-May-18**	**6 months ending 30-Nov-15**	**6 months ending 30-Nov-16**
Aged care operating revenue	149.1	151.1	155.8	152.4	151.8	78.6	78.0
Retirement village operating revenue	14.8	17.0	19.7	20.1	22.3	8.4	10.5
Corporate/other revenue	1.9	0.4	1.3	1.1	1.2	0.7	0.6
Change in fair value of investment property	1.7	35.4	46.4	37.3	40.4	22.1	32.6
Revenue	**167.5**	**203.9**	**223.2**	**210.9**	**215.7**	**109.9**	**121.7**
Aged care operating expenses	(120.6)	(121.5)	(122.0)	(120.6)	(119.5)	(60.2)	(59.9)
Retirement village operating expenses	(8.5)	(8.0)	(8.7)	(9.5)	(9.9)	(4.4)	(4.7)
Change in fair value of PP&E	0.3	(3.4)	(1.8)	(3.2)	-	-	(3.2)
Other expenses	0.7	(1.1)	(1.7)	(1.7)	(1.4)	(0.9)	(0.7)
Site operating expenses	**(128.2)**	**(134.1)**	**(134.2)**	**(135.0)**	**(130.9)**	**(65.4)**	**(68.5)**
Support office and rent expenses	(16.3)	(16.7)	(14.8)	(14.0)	(14.8)	(7.5)	(7.2)
Listed company costs	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(0.6)	(0.6)
Corporate expenses	**(17.4)**	**(17.8)**	**(15.9)**	**(15.1)**	**(16.0)**	**(8.0)**	**(7.8)**
less: Change in fair value of investment property and PP&E	(2.0)	(32.0)	(44.6)	(34.1)	(40.4)	(22.1)	(29.5)
add: Realised gains on resales	4.8	7.0	14.1	12.8	16.6	6.1	6.4
add: Realised development margin	1.9	2.5	4.5	4.9	17.1	3.1	0.9
Pro Forma Underlying EBITDA	**26.6**	**29.5**	**47.0**	**44.3**	**62.2**	**23.6**	**23.3**
Depreciation and amortisation	(10.1)	(8.1)	(7.7)	(7.8)	(8.7)	(4.0)	(3.8)
Net interest expense				(3.0)	(2.1)		(1.5)
Underlying taxation expense				-	-		-
Pro Forma Underlying NPAT				**33.5**	**51.4**		**18.0**

3. Prospective Financial Information

3.1 Basis of preparation

The Prospective Financial Information (**PFI**) has been prepared in accordance with the requirements of Financial Reporting Standard 42: *Prospective Financial Information*, as required by Clause 53(1)(c) of Schedule 3 to the Financial Markets Conduct Regulations 2014, specifically for the purpose of the Initial Public Offer of Shares in Oceania (the **Offer**) and may not be suitable for any other purpose.

The PFI, including the assumptions underpinning it, has been prepared by Oceania and approved by the Directors of Oceania. It is based on the Directors' assessment of events and conditions existing at the date of the PDS, and the accounting policies and best estimate assumptions set out in Section 3.2 (Significant Accounting Policies) and Section 3.3 (General Assumptions), and Section 3.4 (Specific Assumptions).

PFI by its nature involves risks and uncertainties, many of which are beyond the control of Oceania. The Directors believe that the PFI has been prepared with due care and attention, and consider the best estimate assumptions, when taken as a whole, to be reasonable at the time of preparing this PFI. Actual results are likely to vary from the information presented as anticipated events and results may not occur as expected, and the variations may be material. Accordingly, neither the Directors nor any other person can provide any assurance that the PFI will be achieved and investors are cautioned not to place undue reliance on the PFI.

The prospective consolidated statements of comprehensive income, prospective consolidated statements of changes in equity and prospective consolidated statements of cash flows cover the Prospective Period comprising the 12 months ending 31 May 2017 (**FY2017PF**) and 31 May 2018 (**FY2018F**). The prospective consolidated statements of financial position are presented as at 31 May 2017 and 31 May 2018.

The FY2017PF period includes pro forma adjustments which are detailed in Section 3.10 (Pro forma and underlying adjustments).

The Directors are responsible for and have authorised the issue of the PFI on 31 March 2017. There is no present intention to update the PFI or to publish PFI in the future, other than as required by regulations. Oceania will present a comparison of the PFI with actual financial results in its FY2017 and FY2018 annual reports, as required by Regulation 64 of the Financial Markets Conduct Regulations 2014.

3.2 Significant accounting policies

The significant accounting policies applied in preparing the PFI are the same as the accounting policies set out in Oceania's audited financial statements for the year ended 31 May 2016 which are included on the Offer Register.

There are no anticipated changes to accounting standards under NZ GAAP that are expected to materially affect Oceania during the Prospective Period. However, there are changes to standards which will affect future reporting periods, beyond the Prospective Period. Please refer to the Statutory Accounts for details of these changes to standards relating to periods beyond the Prospective Period.

3.3 General assumptions

The following general assumptions have been adopted in preparing the PFI:

— **Economic environment** – there will be no material change in the general economic environment in which Oceania operates.

— **Political, legislative and regulatory environment** – there will be no particular change in the political, legislative or regulatory environments in which Oceania operates.

— **Competitive environment** – there will be no material change to the competitive dynamics of the market in which Oceania operates, including any material change in competitor activity. It is assumed that no new entrants will materially change the competitive environment in which Oceania operates and no existing participant will leave the market.

— **Industry conditions** – In light of litigation associated with the Terranova Court of Appeal decision, the Government entered into negotiations with unions, aged care providers and other industry stakeholders to achieve pay equity for Healthcare Assistants in the aged care sector. Oceania believes there is a reasonable likelihood that wage rates for Healthcare Assistants and, as a flow on effect, wage rates for some other clinical staff and support workers, will increase during the Prospective Period following conclusion of the negotiations. Oceania believes it is appropriate to assume that any increase in staff expenses for Healthcare Assistants will be offset by a corresponding increase in Government/DHB aged care funding and, as a result, the direct financial impacts of the Equal Pay Negotiations are assumed to have a nil impact on EBITDA for Oceania. There is no certainty about the exact form, timing, or net financial impact of any changes to the wage rates for Healthcare Assistants or other staff.

— It is assumed that there will be are no other material changes in the general industry structure, third party relationships, the labour market environment or union relationships.

— **Key suppliers and customers** – there will be no material change of key suppliers or unanticipated loss of key customers.

— **Disruption to operations** – there will be no material disruption to operations.

— **Acquisitions and divestments** – there will be no material business acquisitions or disposals by Oceania.

— **Management of Oceania** – Key personnel will remain employed with Oceania and management resources will be sufficient for Oceania's requirements.

— **Taxation** – there will be no material change to the tax rates or laws (including in relation to corporate income tax and GST). The accumulated tax losses held by Oceania prior to the Offer are assumed to be available to Oceania to offset against taxable income during the Prospective Period.

— **Accounting for the IPO transaction** – Offer costs equating to $3.2 million in FY2017F are expensed in the statement of comprehensive income with the remainder ($7.2 million) capitalised in the statement of financial position in FY2017F.

3.4 Specific assumptions

3.4.1 Pro forma revenue

3.4.1.1 Aged care operating revenue

Aged care operating revenue comprises care fees, premium accommodation changes, DMF on Care Suites, and other care income as outlined in Section 1.2. Table 2 below provides an overview of pro forma aged care operating revenue from FY2014PF through FY2018F.

Table 2: Total aged care operating revenue

NZ$m	FY2014PF	FY2015PF	FY2016PF	FY2017PF	FY2018F
Financial period	**12 months ending 31-May-14**	**12 months ending 31-May-15**	**12 months ending 31-May-16**	**12 months ending 31-May-17**	**12 months ending 31-May-18**
Care fees	145.0	146.0	149.7	145.4	143.9
PAC revenue	1.9	2.3	2.5	2.6	3.2
Care Suite DMF	0.9	1.5	2.3	2.8	3.3
Other revenue	1.4	1.4	1.4	1.5	1.4
Total aged care operating revenue	**149.1**	**151.1**	**155.8**	**152.4**	**151.8**

Drivers of aged care operating revenue

The key drivers of aged care operating revenue are the number of Care Beds available, occupancy levels, and the level of care provided (which determines the value of the daily care fee). Historical data and prospective assumptions for these key drivers are presented in the tables below.

Oceania aged care portfolio

Table 3: Aged care portfolio (average during financial period)

	FY2014PF	FY2015PF	FY2016PF	FY2017PF	FY2018F
Financial period	**12 months ending 31-May-14**	**12 months ending 31-May-15**	**12 months ending 31-May-16**	**12 months ending 31-May-17**	**12 months ending 31-May-18**
Average Care Beds and Care Suite capacity					
Rest home Beds	1,197	1,086	1,073	1,048	999
Hospital Beds	1,415	1,464	1,466	1,459	1,451
Dementia Beds	331	366	375	374	373
Total	**2,943**	**2,917**	**2,914**	**2,881**	**2,823**
Average Care Beds and Care Suite occupancy					
Rest home Beds	1,121	1,159	1,164	1,141	1,138
Hospital Beds	1,241	1,175	1,188	1,137	1,100
Dementia Beds	297	312	321	311	304
Total	**2,659**	**2,646**	**2,672**	**2,589**	**2,542**
Total occupancy	*90.3%*	*90.7%*	*91.7%*	*89.9%*	*90.1%*
Care Suites under ORA contract	124	160	190	201	208

Note:
Any Care Bed that is certified for hospital care is classified as a hospital bed for capacity reporting. However, in some cases, hospital beds may be occupied by a rest home level resident and earn rest home level care fees (i.e. 'swing' beds). For this reason rest home occupancy can exceed 100%.

Table 4: Aged care portfolio (end of financial period)

	FY2014PF	FY2015PF	FY2016PF	FY2017PF	FY2018F
Financial period	**As at 31-May-14**	**As at 31-May-15**	**As at 31-May-16**	**As at 31-May-17**	**As at 31-May-18**
Closing Care Beds and Care Suite capacity					
Rest home Beds	1,192	1,075	1,075	999	999
Hospital Beds	1,418	1,470	1,465	1,438	1,468
Dementia Beds	339	377	375	373	373
Total	**2,949**	**2,922**	**2,915**	**2,810**	**2,840**
Total includes:					
Care Suites (as at year end)	217	229	230	242	282
Closing Care Beds and Care Suite occupancy					
Rest home Beds	1,164	1,147	1,146	1,130	1,155
Hospital Beds	1,201	1,187	1,186	1,090	1,107
Dementia Beds	305	312	320	300	307
Total	**2,670**	**2,646**	**2,653**	**2,520**	**2,569**
Total occupancy	*90.5%*	*90.6%*	*91.0%*	*89.7%*	*90.5%*

Note:
Any Care Bed that is certified for hospital care is classified as a hospital bed for capacity reporting. However, in some cases, hospital beds may be occupied by a rest home level resident and earn rest home level care fees (i.e. 'swing' beds). For this reason rest home occupancy can exceed 100%.

Table 5: Aged care developments and Care Suite new sales/resales assumptions (end of financial period)

	FY2014PF	FY2015PF	FY2016PF	FY2017PF	FY2018F
Financial period	**As at 31-May-14**	**As at 31-May-15**	**As at 31-May-16**	**As at 31-May-17**	**As at 31-May-18**
Number of Care Beds/Care Suites developed					
Care Beds developed	4	-	3	-	-
Care Suites completed/converted[7]	78	12	2	12	40
Care Beds decommissioned for development/ converted to Care Suites[8]	(30)	(60)	(37)	(110)	(10)
Total Care Beds/Care Suites developed/decommissioned for development	**52**	**(48)**	**(32)**	**(98)**	**30**
Other Care Beds/Care Suites decommissioned or recommissioned[9]	(9)	21	25	(7)	-
Net change in care capacity	**43**	**(27)**	**(7)**	**(105)**	**30**
Average sale price of new Care Suite	$198,714	$182,207	$197,565	$161,231	$182,768
Average resale price of new Care Suite	$150,824	$162,714	$171,355	$203,218	$194,633

[7] *Includes newly developed Care Suites at Eden (67 over FY2014 and FY2015) and Meadowbank (30 in FY2018F), and Care Suites that have been converted from Care Beds.*
[8] *Includes Care Beds decommissioned due to closure of facility and Care Beds that have been converted into Care Suites.*
[9] *Reflects changes in effective capacity due to adjustments of capacity in some multi-bed rooms (e.g. where a four Care Bed room becomes a two Care Bed room), reopening or temporary closure of a wing, and temporary reductions in capacity due to conversion of the Care Bed to a different level of care (e.g. rest home-level Care Bed conversion into dementia-level Care Bed).*

Table 6 outlines the decommissioning and developments from FY2014PF through to FY2018F

Table 6: Oceania's aged care decommissioning and developments (comprising year end Care Beds and Care Suites)

	FY2014PF	FY2015PF	FY2016PF	FY2017PF	FY2018F
Financial period	31-May-14	31-May-15	31-May-16	31-May-17	31-May-18
Addington Lifestyle	-	5	-	4	-
Atawhai	-	-	4	6	5
Eden	67	-	-	-	-
Elmwood	-	3	-	-	-
Eversley	4	-	-	-	-
Meadowbank	-	-	-	-	30
Palm Grove	5	2	-	2	5
Redwood	6	-	-	-	-
St Johns Wood	-	2	1	-	-
Total developed	**82**	**12**	**5**	**12**	**40**
Addington Lifestyle	-	(5)	-	(4)	-
Atawhai	-	-	(2)	(6)	(5)
Elmwood	-	(3)	-	-	-
Everil Orr	-	-	(33)	-	-
Green Gables	-	-	(1)	(43)	-
Maureen Plowman	-	-	-	(55)	-
Meadowbank	(19)	(48)	-	-	-
Palm Grove	(5)	(2)	-	(2)	(5)
Redwood	(6)	-	-	-	-
St Johns Wood	-	(2)	(1)	-	-
Total decommissioned	**(30)**	**(60)**	**(37)**	**(110)**	**(10)**
Net developments / decommissioning	**52**	**(48)**	**(32)**	**(98)**	**30**

Aged care occupancy

Oceania's strategy for aged care is to optimise occupancy by maintaining a reputation for excellent care and service, supported by a refurbishment and maintenance programme and the conversion of Care Beds from rest home to hospital or dementia to ensure that Oceania's facilities meet the needs of their local market.

Occupancy levels vary by site and depend on local market factors, including local demand and competing supply and how the relevant DHB procures healthcare services for its elderly constituents (i.e. greater or lesser use of Home Based Care). The development status of a Brownfield Development site may also be a determinant of occupancy over a transitory period, as the facility is consented for re-development, decommissioned, rebuilt, and re-opened. In FY2016PF, 55% of Oceania's aged care facilities had occupancy of greater than 93%, as depicted by Figure 1.

Figure 1: Distribution of aged care occupancy (Care Bed/Suite) FY2016PF – FY2018F[10]

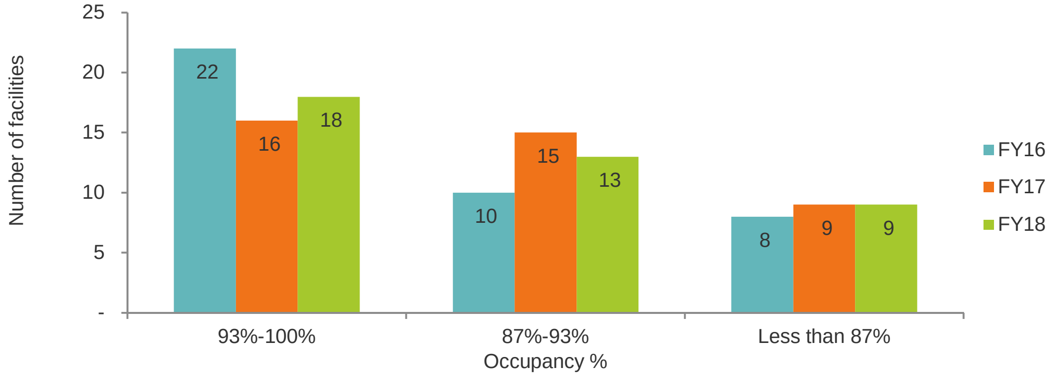
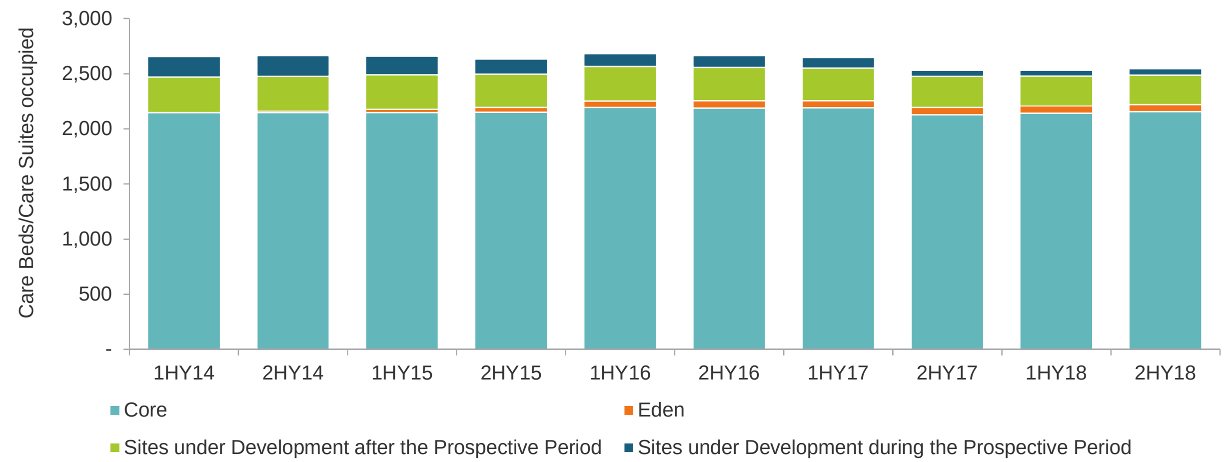


Figure 2: Average aged care occupancy over the Historical and Prospective Period



As illustrated in Figure 2 above, occupancy over the Historical Period has increased by 1.4% from 90.3% (2,659 occupied Care Beds) in FY2014PF to 91.7% occupied Care Beds in FY2016PF (2,672 occupied Care Beds). This occupancy is forecast to soften in FY2017PF (to 89.9%) reflecting competition in some regions and lower hospital occupancy arising from needs assessment practices of selected DHBs, however FY2018F occupancy is forecast to increase (to 90.1%) driven by the completion of the conversion and upgrade projects over FY2017F and FY2018F as well as the full year impact of decommissioning at Maureen Plowman and Green Gables (both with lower occupancy than the group average).

The decline in total occupancy of all sites from 2,659 in FY2014PF to 2,542 in FY2018F primarily reflects Oceania decommissioning and re-developing a number of sites during the Prospective Period.

During the Historical Period the Meadowbank care facility and a wing at the Everil Orr care facility were decommissioned for re-development and 67 Care Suites were developed at Eden. In addition $13.1 million was invested over the period FY2012 – FY2016 in an extensive care refurbishment and care conversion and premium room upgrade programme at Oceania's core sites (excluding sites that will be decommissioned for developments and divested sites). The care refurbishment programme is scheduled to be completed in FY2017PF, with a further $1.0 million invested, and the care conversion and premium room upgrade programme continues during the

[10] *Excludes sites under development during the Prospective Period (Meadowbank and Maureen Plowman) and the decommissioned care facility at Green Gables.*

Prospective Period, with $1.9 million forecast to be invested in FY2017PF and FY2018F. Refer to Section 3.4.10 (Capital expenditure) for further information.

The prospective financial information for FY2017PF reflects the (completed) decommissioning of aged care facilities at Maureen Plowman and Green Gables. No decommissioning of sites is forecast to occur during FY2018F. A further four sites (comprising 311 beds) are planned to be decommissioned after the Prospective Period to facilitate future redevelopment.

Occupancy for FY2017PF and FY2018F has been forecast for each facility based on 1HY2017PF actual occupancy, current "run-rate" occupancy levels and anticipated changes in local supply and/or demand. The forecasts also reflect changes in capacity from the decommissioning of the Maureen Plowman (Auckland) and Green Gables (Nelson) facilities during FY2017PF for re-development and changes in bed mix resulting from the conversion of rest home rooms to dementia at the Elderslea facility and conversion of Care Beds to Care Suites or PAC rooms at other sites.

The key drivers of Oceania's long term occupancy are expected to be the demand for re-developed facilities at Oceania's existing Brownfield locations and medium to long term growth in the number of New Zealanders requiring aged care. The DHBs have estimated that between 1,170 (low demand case) and 1,340 (high demand case) additional beds will be required per annum in New Zealand over the 2016 to 2026 period.

Daily care fees

Oceania earns regulated care fees for occupied beds funded either by the Government (via DHBs) or privately-funded resident contributions. Care fees are based on the level of care provided (rest home, hospital or dementia) and by DHB. While government funded care fees vary slightly by DHB (region), care fees have historically increased over and above CPI inflation. The tables below summarise historical and forecast DHB care fee growth:

Table 7: DHB daily care fee price changes

% on previous period	FY2014	FY2015	FY2015	FY2016	FY2017F	FY2018F
Date applied	1-Jul-13	1-Jul-14	1-Oct-14	1-Jul-15	1-Jul-16	1-Jul-17
Rest home	*0.89%*	*1.00%*	*5.00%*	*0.70%*	*1.00%*	*1.00%*
Hospital	*0.89%*	*1.00%*	*-%*	*0.70%*	*1.00%*	*1.00%*
Dementia	*2.47%*	*1.00%*	*-%*	*0.70%*	*1.00%*	*1.00%*

A 1.0% increase in the daily care fees applicable to FY2017F was confirmed by DHBs and made effective from 1 July 2016. Oceania has assumed a further 1.0% increase in the daily care fees applicable to FY2018F.

Table 8: Average daily care fee (excluding GST)[11]

NZ$ per day, average	FY2014PF	FY2015PF	FY2016PF	FY2017PF	FY2018F
Financial period	12 months ending 31-May-14	12 months ending 31-May-15	12 months ending 31-May-16	12 months ending 31-May-17	12 months ending 31-May-18
Rest home	109.44	112.49	115.39	116.65	118.29
Hospital	184.73	188.25	188.73	190.22	191.73
Dementia	152.44	155.11	157.29	158.11	159.82
PAC charges per Care Bed	7.86	9.39	10.14	10.52	12.61

[11] *Includes DHB daily care fees and privately funded daily care fees.*

PAC revenue

Oceania provides premium Care Beds that attract a privately paid PAC. PACs are daily resident contributions (in addition to any government subsidies or regulated care fees funded by private contributions) that can be received on Care Beds that exceed minimum government specifications[12]. Oceania has increased the number of occupied PAC beds by 5.2% over the Historical Period and increased the average PAC by 29.0% from $7.86 per day to $10.14 per day. The average PAC is forecast to increase to $12.61 per day in FY2018F.

Care Suite DMF

Care Suites were first introduced by Oceania in FY2009 with the progressive conversion of premium Care Beds to Care Suites at Lady Allum and Elmwood. The first major development of Care Suites was at Eden in FY2014, with the development of 67 Care Suites (Eden's aged care facility comprises only Care Suites).

As at FY2017PF Oceania is forecasting to have 242 available certified Care Suites, of which an average of 201 are forecast to be occupied by a resident under an ORA. The balance of Care Suites are available to be occupied by residents paying a higher PAC (without an ORA) or receiving a private care package instead of Government-funded care. The number of Care Suites is forecast to grow over FY2018F due to the conversion of 10 Care Beds at Atawhai and Palm Grove. A further 30 Care Suites are scheduled for completion in FY2018F at Meadowbank.

DMF on Care Suites has increased from $0.9 million in FY2014PF to $2.3 million in FY2016PF. DMF on Care Suites is forecast to increase further to $3.3 million in FY2018F. DMF has been forecast based on the terms of the current individual ORAs (which are substantially on standard terms) for each of Oceania's Care Suites. All Care Suites that are forecast to be resold are assumed to be on Oceania's standard ORA contract terms as shown below.

Table 9: DMF assumptions for Care Suites

	Contractual DMF rate (total)	Contractual DMF period	NZ IFRS DMF period
Care Suites	30%	3 years	3 years

Recognition of resale gains on Care Suites are recognised in the retirement village segment. See Section 3.4.1.2(Retirement village operating revenue) below for further detail.

Other Care Income

Other income, primarily relating to meal and laundry services that are provided to retirement village residents is forecast to increase by 8.7% in absolute terms over the Prospective Period.

3.4.1.2 Retirement village operating revenue

As outlined in Section 1.2 (How Oceania generates revenue) and discussed further below, Oceania's revenue reported under NZ GAAP for the retirement village segment comprises DMF, weekly service fees, changes in fair value of investment property, and other retirement village revenue. As described in Section 1.3 (Underlying financial measures), Oceania and its peers in the retirement village sector generally focus on non-NZ GAAP underlying measures which include adjustments to revenue prepared in accordance with NZ GAAP to exclude changes in fair value of investment property and include realised gains on resales and realised development margin.

[12] Clause A13 of the Age Related Residential Care Services Agreement sets out the contractual provision of allowing aged care providers to charge PACs.

The table below presents a measure of operating revenue for the retirement village segment, which includes DMF, weekly service fees and other retirement village revenue, and excludes fair value of investment property. Also itemised in the table are the changes in fair value of investment property, realised gains on resales, and realised development margin which are utilised in the estimation of underlying measures.

Table 10: Total retirement village operating revenue

NZ$m	FY2014PF	FY2015PF	FY2016PF	FY2017PF	FY2018F
Financial period	**12 months ending 31-May-14**	**12 months ending 31-May-15**	**12 months ending 31-May-16**	**12 months ending 31-May-17**	**12 months ending 31-May-18**
Villa and Apartment DMF	8.2	10.0	12.1	13.0	15.0
Weekly service fees	4.2	4.7	5.1	5.2	5.4
Other retirement village revenue	2.4	2.3	2.5	1.8	1.9
Total retirement village operating revenue	**14.8**	**17.0**	**19.7**	**20.1**	**22.3**
Statutory revenue includes:					
Change in fair value of investment property	1.7	35.4	46.4	37.3	40.4
Underlying measures:					
Realised gains on resales	4.8	7.0	14.1	12.8	16.6
Realised development margin	1.9	2.5	4.5	4.9	17.1

Table 11: Total retirement village portfolio (end of financial period)

	FY2014PF	FY2015PF	FY2016PF	FY2017PF	FY2018F
Financial period	**As at 31-May-14**	**As at 31-May-15**	**As at 31-May-16**	**As at 31-May-17**	**As at 31-May-18**
Units/Care Suites					
Apartments	266	280	280	324	386
Villas	747	753	745	744	776
Total (excluding Care Suites)	**1,013**	**1,033**	**1,025**	**1,068**	**1,162**
Care Suites	217	229	230	242	282
Total	**1,230**	**1,262**	**1,255**	**1,310**	**1,444**

Table 12: Retirement village developments and new sales/resales assumptions[13]

	FY2012PF	FY2013PF	FY2014PF	FY2015PF	FY2016PF	FY2017PF	FY2018F
Financial period	12 months ending 31-May-12	12 months ending 31-May-13	12 months ending 31-May-14	12 months ending 31-May-15	12 months ending 31-May-16	12 months ending 31-May-17	12 months ending 31-May-18
Number of Apartments							
Apartment developments completed	-	42	40	14	-	44	62
Apartments decommissioned	-	-	-	-	-	-	-
Net Apartment developments completed	**-**	**42**	**40**	**14**	**-**	**44**	**62**
New Apartments sold	1	20	39	23	20	17	52
Apartment resales	35	36	31	28	52	28	34
Total Apartments sold/resold	**36**	**56**	**70**	**51**	**72**	**45**	**86**
Average sale price of new Apartments	$200,000	$449,500	$463,449	$447,522	$659,100	$786,176	$919,496
Average resale price of Apartments	$244,914	$323,750	$286,500	$308,679	$370,048	$419,357	$499,114
Number of Villas							
Villa developments completed	23	2	42	24	11	2	35
Villas decommissioned	-	-	-	(18)	(19)	(3)	(3)
Net Villa developments completed	**23**	**2**	**42**	**6**	**(8)**	**(1)**	**32**
New Villas sold	29	16	22	41	17	16	32
Villa resales	72	76	67	56	79	59	79
Total Villas sold/resold	**101**	**92**	**89**	**97**	**96**	**75**	**111**
Average sale price of new Villa	$305,828	$259,938	$242,273	$309,366	$328,529	$288,688	$441,386
Average resale price of Villa	$243,174	$249,766	$256,075	$297,411	$320,880	$384,814	$352,115
Number of Care Suites							
New Care Suites sold	12	9	21	29	23	13	11
Care Suite resales	24	28	17	48	62	55	63
Total Care Suites sold/resold	**36**	**37**	**38**	**77**	**85**	**68**	**74**
Average sale price of new Care Suite	$92,917	$89,444	$198,714	$182,207	$197,565	$161,231	$182,768
Average resale price of Care Suite	$133,167	$152,089	$150,824	$162,714	$171,355	$203,218	$194,633

Oceania has grown its aged care and retirement village operations by developing more than 265 Units and Care Suites from FY2012PF to FY2016PF (including 198 Units and 67 Care Suites).

[13] *Care Suite developments are included above under aged care operating revenue assumptions.*

Villa and Apartment DMF

DMF has increased from $8.2 million in FY2014PF to $12.1 million in FY2016PF. DMF is forecast to increase further to $15.0 million in FY2018F. DMF has been forecast based on the terms of the current individual ORAs and volume and price assumptions as discussed further below. All Units that are forecast to be resold are assumed to be on Oceania's standard ORA contract terms illustrated in the table below.

Table 13: DMF assumptions for Villas and Apartments

	Contractual DMF rate (total)	Contractual DMF period	NZ IFRS DMF period
Villas	30%	3 years	7 years
Apartments	30%	3 years	5 years

In some retirement villages, Oceania has historically had a contractual DMF rate of 20% over three years. The majority of Oceania's contracts were migrated to a 30% DMF rate (over three years) by 2012 as the Units were resold, however 25% of Unit contracts are still under a legacy ORA contract with a DMF rate between 20% and 29%, and 4% of legacy ORA contracts have a DMF rate of less than 20%.

Weekly service fees

Weekly service fees are charged to Oceania's retirement village residents and contribute to the upkeep of the retirement village, including grounds, rates, repairs and maintenance and communal facilities. Oceania offers a 'fixed retirement village service fee' for incoming residents and the fee is reviewed annually for new residents. Weekly service fees are forecast for FY2017PF and FY2018F using weighted average fee revenues for each retirement village for FY2016PF, adjusted for forecast inflation and new resident entries over the Prospective Period. Oceania does not charge weekly service fees on Care Suites.

Other retirement village revenue

Oceania earns rental income from approximately 90 Units owned by Oceania that are rented rather than occupied under an ORA. Rental units are typically units that have been bought back from outgoing residents by Oceania on a targeted basis to facilitate future development projects. Approximately 90% of the 90 rental units are earmarked for re-development. Other income includes administrative fees generated on the resale of ORAs, which vary according to each ORA.

Change in fair value of investment property

The fair value of investment property as at 30 November 2016 (as determined by CBRE) is the valuation base for the forecast changes in fair value of investment property for the six months ending 31 May 2017 and the 12 months ending 31 May 2018.

Changes in fair value of investment property are forecast to be $37.3 million in FY2017PF and $40.4 million in FY2018F. The change in fair value of investment property for the 12 months of FY2017PF is based on the actual fair value movement presented in the interim financial statements for the six months ended 30 November 2016 and Oceania's forecast of the fair value movement for the remainder of FY2017PF.

The gross value of fair value of investment property for existing Units is forecast to remain flat for the remainder of FY2017PF and increase by 3.0% in FY2018F. Upon completion of developed Units, an operator's interest is assumed to be recognised, consistent with CBRE's approach. Any increase in sales price above development WIP is also assumed to be recognised as a fair value movement upon sale.

The change in the fair value of investment property can be reconciled as follows:

Table 14: Fair value of investment property

NZ$m	FY2017PF	FY2018F
Financial period	**12 months ending 31-May-17**	**12 months ending 31-May-18**
Components of fair value of investment property		
Investment property under development	104.6	121.9
Unsold stock	19.9	43.4
Operator's interest	211.8	244.3
Resident liabilities	282.0	353.4
Total investment property	**618.4**	**763.1**
Underlying drivers of change in fair value of investment property		
Opening investment property under development	48.3	104.6
Transfers from PP&E under development	10.0	4.1
Capital expenditure on developments	56.9	94.3
Revaluations of investment property under development - land	4.4	-
Transfers to completed investment property	(14.9)	(81.1)
Closing investment property under development	**104.6**	**121.9**
Opening completed investment property	447.6	513.7
Transfers from investment property under development	14.9	81.1
Capitalised subsequent expenditure	17.1	2.8
Revaluation of completed investment property	34.1	43.7
Closing completed investment property	**513.7**	**641.2**
Changes in fair value of investment property represented in the Statement of Comprehensive Income		
Change in gross investment property balance	122.5	144.8
less: Transfers from PP&E under development and capital expenditure	(66.9)	(98.3)
less: Subsequent capitalised expenditure	(18.3)	(6.0)
Change in fair value of investment property	**37.3**	**40.4**

To calculate Underlying EBITDA and Underlying NPAT, the change in fair value of investment property is removed from NZ GAAP measures and realised gains are included in its place. Refer to Section 1.3 (Underlying financial measures) for more detail on underlying measures.

Table 15: Average resale gain per Unit/Care Suite

NZ$ per Unit/Care Suite	FY2014PF	FY2015PF	FY2016PF	FY2017PF	FY2018F
Financial period	**12 months ending 31-May-14**	**12 months ending 31-May-15**	**12 months ending 31-May-16**	**12 months ending 31-May-17**	**12 months ending 31-May-18**
Villas	52,989	77,652	107,131	121,153	118,731
Apartments	28,722	61,461	74,852	123,175	157,008
Care Suites	18,235	19,849	27,665	39,367	29,910
Total resales	**41,310**	**53,198**	**72,906**	**89,874**	**94,332**

Figure 3: Pro forma resales volumes and margins for Units and Care Suites FY2012PF-FY2018F

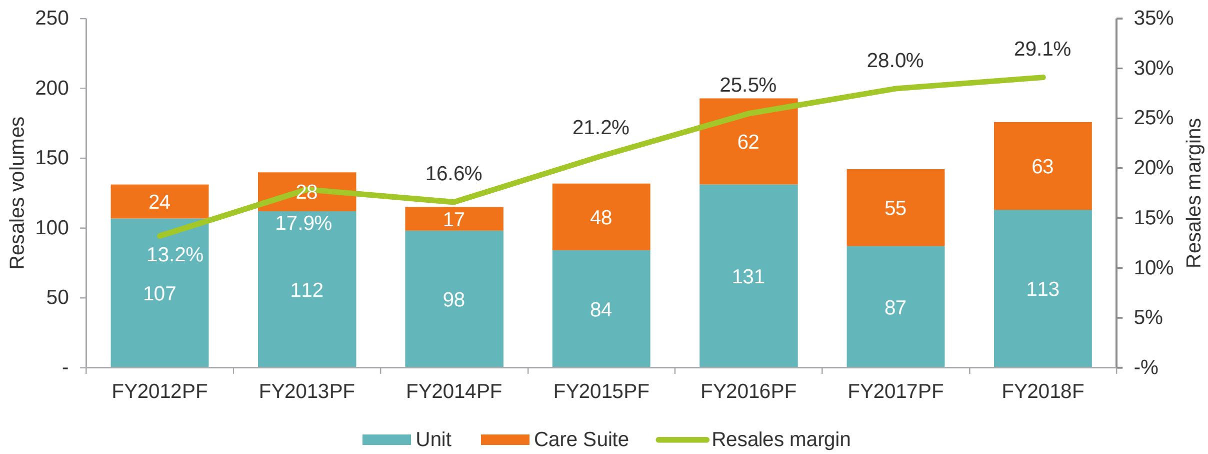


Table 16: Units and Care Suites available for resales (year end)

Years	FY2014PF	FY2015PF	FY2016PF	1HY2017F
Financial period	**As at 31-May-14**	**As at 31-May-15**	**As at 31-May-16**	**As at 30-Nov-16**
Apartments	35	29	21	17
Villas	41	44	26	33
Care Suites	10	20	10	15

Care Suite resales

Care Suite resale volumes

Care Suite resales increased from 17 in FY2014 to 62 in FY2016 predominantly reflecting the maturing of Oceania's Care Suite facilities, particularly those developed at Eden in FY2014. Care Suite resale volumes are forecast to remain similar in FY2017F (55) and FY2018F (63) to the volumes sold in FY2016 (62). As illustrated in

Table 17, the forecast tenure of departing Care Suite residents in FY2017F and FY2018F is assumed to be 2.4 and 3.1 years respectively, broadly consistent with the average tenure of 2.8 years observed over the Historical Period.

Table 17: Care Suite resident tenure profile

Years	FY2014PF	FY2015PF	FY2016PF	FY2017PF	FY2018F
Financial period	**12 months ending 31-May-14**	**12 months ending 31-May-15**	**12 months ending 31-May-16**	**12 months ending 31-May-17**	**12 months ending 31-May-18**
Care Suites	2.3	3.9	2.2	2.4	3.1

Care Suite resale prices

Realised gains on Care Suites are reported in the retirement village segment (whereas care fees and DMF on Care Suites are reported in the aged care segment). The average resale price of Care Suites varies by location within an assumed range of $85,000 to $540,000 per Care Suite in FY2017PF and FY2018F. Larger Care Suites (with a floor area of approximately 28m^2 to 35m^2) are assumed to be priced at the upper end of this range and smaller Care Studios (with a floor area of 20m^2 to 24m^2) are assumed to be priced at the lower end of this range.

The average resale price for Care Suites has increased by 13.6% in absolute terms over the Historical Period and a further 13.6% effective increase is forecast over the Prospective Period. The resales prices over the Prospective Period are based on actual prices achieved in 1HY2017 together with an assessment of the sales prices for each Care Suite with reference to the CBRE valuation as at 30 November 2016. No growth in prices has been assumed in 2HY2017 with 3.0% assumed in FY2018F. Accordingly the 13.6% effective increase over the Prospective Period largely reflects the Care Suite values as at 30 November 2016 and a greater proportion of resales at Eden Village, comprising higher value Care Suites.

Unit resales

Unit resale volumes

Apartment resale volumes increased significantly from 31 in FY2014 to 52 in FY2016 as the first resales occurred at Eden and Meadowbank in FY2016. Villa resales also increased from 67 per annum to 79 per annum over this time. Resale volumes are inherently uncertain, as evidenced by the variance in resale volumes over the periods FY2012 through FY2016.

The forecast resale volumes for Units in FY2017F are based on actual settlements to 1HY2017 and an assessment of stock under contract/application and vacant stock as at 28 February 2017 for each retirement village. No further vacancies and subsequent resales are forecast after this date in relation to FY2017F. The forecast decline in average resident tenure in FY2017PF, compared to the average tenure over the Historical Period for Villas and Apartments, reflects the natural variability of year on year turnover.

Forecast resales volumes for Units in FY2018F (113) are based on a village-by-village assessment of historically-observed resale volumes, observed tenures, and monthly vacancy levels of Units. The resales of individual Units forecast to re-sell at each village are sequenced according to life expectancy of individual residents using the Statistics New Zealand Life Expectancy tables as at 16 April 2013 and as a result of this approach, the average resident tenure is assumed to increase in FY2018F (although the number of resales assumed are higher than FY2017PF).

Oceania has observed and is forecasting the following average tenures of departing residents:

Table 18: Unit resident tenure profile

Years	FY2014PF	FY2015PF	FY2016PF	FY2017PF	FY2018F
Financial period	**12 months ending 31-May-14**	**12 months ending 31-May-15**	**12 months ending 31-May-16**	**12 months ending 31-May-17**	**12 months ending 31-May-18**
Villas	6.0	6.3	7.2	6.1	8.3
Apartments	4.6	5.7	4.2	4.7	4.7

Unit resale prices

From FY2014 to FY2016 the average resale prices of Apartments and Villas increased by 29.2% and 25.3% respectively, in absolute terms, following a restructure of the sales and marketing team (including appointment of a new General Manager of Sales and Marketing), establishment of a call centre to enhance the conversion of enquiries, and introduction of a centralised pricing strategy to optimise the prices achieved on resale. Over this time, residential property prices increased in Auckland by 35.8% and Christchurch by 5.4%[14], the regions in which approximately 45% of Oceania's retirement villages are located.

Average resale prices are forecast to increase over the Prospective Period taking into account broader residential property price growth and realisation of embedded price appreciation based on the assumed product mix for resales, in part reflecting the resale of the Apartments developed over the period FY2013 to FY2016. Units developed over this period were generally sold at prices above the average resale price of the remainder of Oceania's portfolio.

Forecast resales prices for Units in FY2017F are based on actual prices achieved in 1HY2017, a review of sales prices for each retirement village with reference to the CBRE valuation as at 30 November 2016 and the prices for Units under contract/application or the expected sales prices of vacant stock as at 28 February 2017. No nominal property price growth is assumed for the remainder of FY2017F.

Forecast resale prices for Units expected to be re-sold in FY2018F are based on a village-by-village assessment of Unit pricing with reference made to the CBRE valuation dated 30 November 2016. Nominal property price growth of 3.0% per annum is forecast over FY2018F and applied on a monthly basis. Accordingly, the increase in resale prices over the Prospective Period largely reflects the realisation of embedded gains based on the assumed product mix for resales.

[14] Source: Real Estate Institute of New Zealand (REINZ) 31 May 2014 – 31 May 2016.

Table 19: Embedded value per Unit/Care Suite

NZ$m	FY2014	FY2015	FY2016	FY2017F	FY2018F
Financial period	**12 months ending 31-May-14**	**12 months ending 31-May-15**	**12 months ending 31-May-16**	**12 months ending 31-May-17**	**12 months ending 31-May-18**
Estimated resale price of all Units/Care Suites[15]	322.4	350.2	402.7	486.2	582.0
less: Unsold stock[16]	(32.4)	(25.3)	(14.3)	(27.9)	(47.1)
less: Resident liabilities (contractual)	(206.2)	(223.3)	(243.4)	(283.7)	(358.1)
equals: Embedded value	**83.8**	**101.6**	**145.0**	**174.7**	**176.8**
Embedded value per Unit/Care Suite (NZ$)	68,119	80,531	115,545	133,325	122,422
Embedded value comprises:					
DMF	45.7	53.7	61.2	60.9	67.1
Resale gains	38.1	47.9	83.8	113.7	109.7
Embedded value	**83.8**	**101.6**	**145.0**	**174.7**	**176.8**

Development margin

Calculating development margin

Underlying EBITDA and Underlying NPAT include the Directors' estimate of realised development margin which is calculated based on the difference between the licence payments received on initial sales of Units/Care Suites settled during the period and the corresponding development proceeds associated with each Unit/Care Suite. The development margin percentage is then calculated by dividing the margin in dollars by the development proceeds received. Refer to Section 1.3 (Underlying financial measures) for further detail on the calculation of realised development margin.

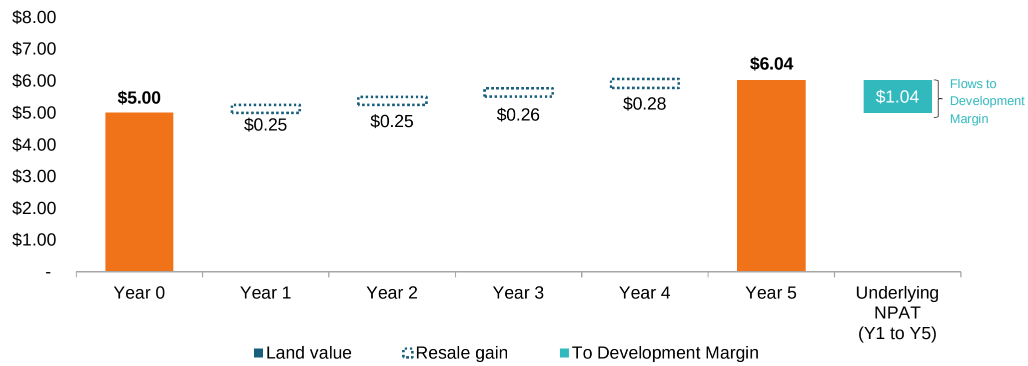
In many cases, Oceania undertakes Brownfield developments at sites that have had existing aged care and retirement village operations. In this type of development, the value of land that is applied in the development margin calculations is the estimated fair value of land at the time of the change of use of the site (i.e. at the time of the change of use from an operating facility to a development site) as assessed by an independent external valuer, rather than the historical cost of the land at the time of the original acquisition of the site or the carrying value of the land. Notably in Oceania's case, any increase in the value of the land prior to the change in use is not reflected in the development margin. However, if a Greenfield Development is undertaken, as is typically the case with Oceania's listed retirement village peers, the value of land applied in the development margin calculations is the historical cost of the land at the time of acquisition. This may result in increases in land value prior to development (if any) being ascribed to Greenfield developments over longer periods of time than Brownfield developments. However, because underlying measures such as Underlying EBITDA and Underlying NPAT include both development margin and operating earnings, Oceania's Underlying measure will include holding / operating earnings (on existing operations prior to development), unlike its peers that focus on Greenfield Development.

[15] Calculated as the current/estimated total licence payments that would apply to the sale or resale of all existing Units/Care Suites. For FY2014 – FY2016 this is based off CBRE's evaluation of Unit/Care Suite sales prices. For FY2017F the estimated resales price is based on actual prices achieved in 1HY2017, a review of sales prices for each retirement village with reference to the CBRE valuation as at 30 November 2016 and the prices for Units under contract/application or the expected sales prices of vacant stock as at 28 February 2017. The FY2018F forecast assumes 3.0% property price growth.

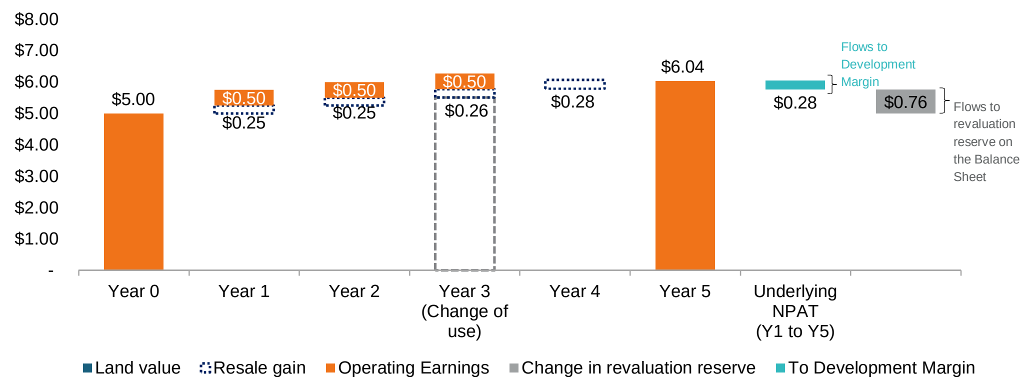
[16] The value of unsold stock represents the sales prices of Units/Care Suites which are not under contract, as they either newly constructed or have been bought-back from the previous outgoing residents.

Figure 4: Illustration of Greenfield development margins and Brownfield development margins

Historical land value used in development margin calculation (Greenfield development)



Fair value at the time of change in use used in development margin calculation (Brownfield development)



Oceania's new sales and development margin

Oceania's historical and prospective developments in relation to the Villas and Apartments are outlined below. Please refer to Table 6 for detail on Care Suite developments.

Table 20: Oceania's retirement village decommissioning and developments (Villas and Apartments)

	FY2014PF	FY2015PF	FY2016PF	FY2017PF	FY2018F
Financial period	**As at 31-May-14**	**As at 31-May-15**	**As at 31-May-16**	**As at 31-May-17**	**As at 31-May-18**
Eden	40	-	-	-	-
Elmwood	-	24	-	-	25
Hutt Gables	19	-	-	-	-
Lady Allum	-	(18)	-	44	-
Meadowbank	-	14	-	-	62
Ohinemuri	-	-	-	1	-
Stoke Village	23	-	-	-	10
Trevellyn	-	-	-	1	-
Wharerangi	-	-	(8)	-	-
Other	-	-	-	(3)	(3)
Total	**82**	**20**	**(8)**	**43**	**94**

New Unit sales in the Historical Period correspond to developments completed in Auckland at Eden (40 Apartments completed in FY2014), Elmwood (24 Villas completed in FY2015), Meadowbank (14 Apartments completed in FY2015), Stoke (23 Nikau Villas completed in FY2014), Hutt Gables (19 Villas completed in FY2014) and Wharerangi (23 Villas completed over FY2016 with 31 rental units converted/decommissioned in the process)

New Care Suites sales in the Historical Period correspond to the Eden development completed in FY2014 as well as Care Suite conversions completed progressively at Palm Grove, Addington, Redwood, and Atawhai over this period.

The Prospective Period includes forecast development margins derived from the completion in FY2017F of 44 Apartments at Lady Allum (FY2017F) and the completion in FY2018F of 62 Apartments and 30 Care Suites at Meadowbank, 25 Villas at Elmwood and 10 Nikau Villas at Stoke. Forecast sales are based off experience from previous developments and the selldown rates achieved as well as taking into consideration the Units under contract/application as at 28 February 2017[17]. For forecast sales over the Prospective Period, refer to table 22.

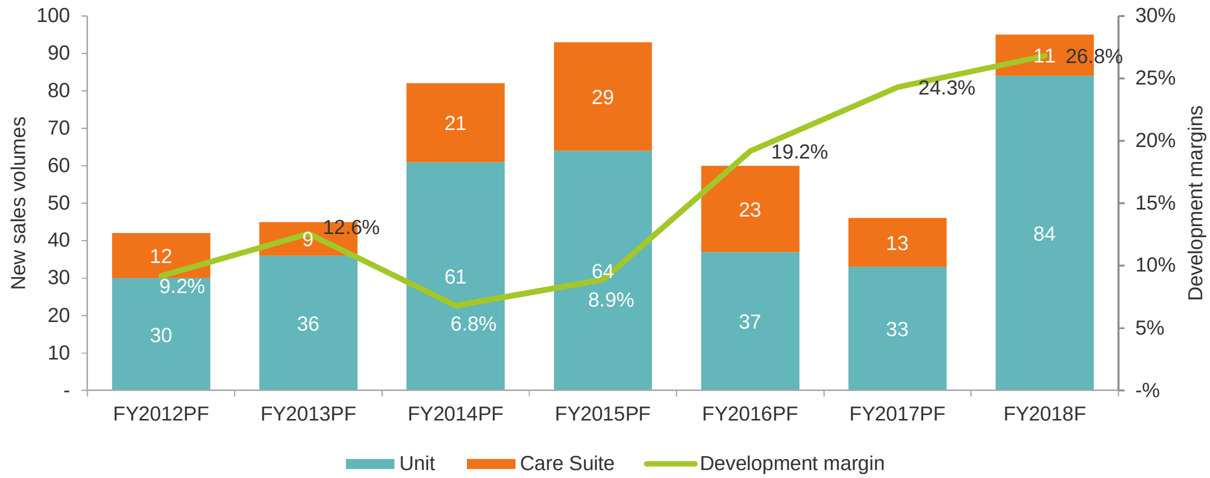
Oceania develops Nikau Villas on a targeted basis to optimise the utilisation of surplus land in regional locations. Although the up-front development returns on Nikau Villas are cash neutral or slightly cash positive, enabling new Nikau Villas to be developed broadly on a self-funded basis, the reported development margins are modest given the inclusion of a notional value of otherwise underutilised, surplus land. Nikau Villas are typically developed to create the potential for future earnings from DMF and realised gains on resale. The creation of future earnings potential from DMF and realised gains on resale is also a key objective of Oceania's broader development program involving Apartments, Villas and Care Suites.

[17] *24 Units are under contract/application at Lady Allum and 14 Units at Meadowbank as at 28 February 2017.*

Oceania has a target to realise development margins of 20% to 30% for urban developments. Historically, Oceania's development margins have fluctuated (as shown in figure 5 below) depending on the type of development:

- In FY2012 and FY2013, the realised development margins reflected a high proportion of Care Suite conversions which typically provide strong development margins offset by the lower margins on early stage developments at Atawhai and Elmwood;
- In FY2014 and FY2015, the realised development margins reflected a high proportion of Nikau Villa sales at Stoke and Hutt Gables (with lower reported margins as discussed above); and
- Realised development margins increased in FY2016 as Oceania settled 60 new Units and Care Suites (compared to 93 Units and Care Suites in FY2015) at a development margin of 19.2%. Central to this outcome was the settlement of all of the Stage 2 Meadowbank Apartments at an average development margin of 28.9%.

Figure 5: Pro forma new sales volumes and development margins for Units and Care Suites FY2012PF-FY2018F



Development margin (in dollar terms) is forecast to increase from $4.5 million in FY2016 to $4.9 million in FY2017F with an average development margin of 24.3% (compared to 19.2% in FY2016) offsetting the lower number of new Units and Care Suites sold (46 new sales in FY2017F compared to 60 new sales in FY2016). The higher forecast margins in FY2017F are driven by the forecast sale of 17 new Apartments at Lady Allum (out of the 44 Apartments completed in 2HY2017F).

The development margin is expected to increase further in FY2018F to $17.1 million driven by further sales of the new Apartments at Lady Allum and initial sales from the Meadowbank Stage 3 development forecast to be completed during FY2018F.

The table below outlines the key development estimates for the significant projects under construction during the Prospective Period. Over the medium term Oceania has a target development rate of approximately 150 Residences per annum net of decommissions.

Table 21: Key development estimates

Development	Construction start	Construction end	Total construction & consenting cost[1]	Value of land	Capitalised interest on completion	Total development cost[2]	Project proceeds	Cost apport. to communal facilities[3]	Develop-ment margin ($)[4]	*Develop-ment margin (%)*[5]	Cost to complete as at 31 May 2017[6]
Sold during PFI period											
Lady Allum	Oct-15	Apr-17	(22.2)	(4.2)	(0.3)	(26.7)	35.1	2.0	10.4	*29.6%*	-
Meadowbank Stage 3	Feb-16	Feb-18	(52.0)	(4.1)	(1.5)	(57.6)	63.3	10.5	16.2	*25.6%*	21.7
Elmwood Stage 3	Oct-16	Oct-17	(9.8)	(2.0)	(0.2)	(11.9)	14.6	-	2.7	*18.4%*	3.9
Stoke Village	May-17	Jan-18	(3.0)	(0.7)	-	(3.8)	3.6	-	(0.2)	*(4.6%)*	2.3
Total			**(87.0)**	**(11.0)**	**(2.0)**	**(100.0)**	**116.6**	**12.5**	**29.1**	***24.9%***	**28.0**
Under construction during PFI period											
Maureen Plowman	Dec-16	Apr-19	(56.3)	(6.1)	(2.4)	(64.8)		9.9			55.6
Meadowbank Stage 4	Sep-17	May-19	(36.4)	(3.4)	(1.2)	(41.0)		1.1			34.4
Melrose	Jun-17	Sep-18	(17.5)	(1.6)	(0.4)	(19.5)		4.3			16.9
Trevellyn	Feb-18	Aug-19	(21.8)	(0.8)	(0.7)	(23.2)		5.4			22.5
Total			**(131.9)**	**(11.8)**	**(4.7)**	**(148.5)**		**20.8**			**129.4**

Note:

1. Net of recoverable GST.
2. Total development costs include total construction costs, the value of land (at the time of change in use) and capitalised interest on completion of the development.
3. Net of recoverable GST. Includes an allocation of land and capitalised interest.
4. Development margin is calculated as the sales proceeds less total development costs excluding costs associated with the development of communal facilities.
5. Development margin (%) is calculated as the development margin in dollars divided by the project proceeds
6. Net of recoverable GST.

Table 22: Development Units and Care Suites

Units	Total Units/Care Suites to be constructed	Forecast sales during FY2017F	Forecast sales during FY2018F	Projected sales beyond the Prospective Period
Lady Allum, Auckland	44 Units	17	24	3
Meadowbank Stage 3, Auckland	62 Units, 30 Care Suites	-	32	60
Elmwood Stage 3, Auckland	25 Units	-	16	9
Stoke Village, Nelson	10 Units	-	9	1
Total	**171**	**17**	**81**	**73**

Developments sold down during the Prospective Period

Forecast sales prices are assumed with reference made to prices achieved for Units under application and prior sales at Lady Allum, Meadowbank, Elmwood and Stoke Village. Construction costs have been estimated with reference made to the construction budgets for each development (incorporating the construction contracts, estimates and contingencies reviewed by the project Quantity Surveyor).

Developments under construction during the Prospective Period but sold down after the Prospective Period

Assumed construction costs for Maureen Plowman are based on Oceania's construction budget (incorporating the construction contract for the earthworks and basement works and an estimate for the remaining stage reviewed by the project Quantity Surveyor based on tenders received as at 28 February 2017). Oceania's estimates for Melrose and Meadowbank Stage 4 are based on unit rates from current and recently completed developments. Assumed initial sale prices are based on Oceania's estimates taking into account independent market research and comparable sales at other Oceania locations.

Table 23: Development Proceeds

NZ$m	Forecast proceeds in FY2017F	Forecast proceeds in FY2018F	Projected proceeds beyond the Prospective Period
Lady Allum, Auckland	13.4	19.8	2.0
Meadowbank Stage 3, Auckland	-	29.1	34.2
Elmwood Stage 3, Auckland	-	9.4	5.3
Stoke Village, Nelson	-	3.2	0.4
Total	**13.4**	**61.4**	**41.8**

3.4.1.3 Corporate/other revenue

Other revenue recognised in the corporate/other function comprises course fees associated with Oceania's Wesley Training Institute.

3.4.2 Pro forma operating expenses

Oceania's key expenses are outlined below by operating segment. The operating expenses for the aged care and retirement village segments have been forecast by individual care facility and/or retirement village.

Operating expenses for FY2017PF are based on actual expenses for 1HY2017PF, adjusted to reflect a full financial year.

Aged care and retirement village segment expenses include:

— ***Staff expenses:*** wages and other employment expenses for clinical, administrative, housekeeping, maintenance and activities staff;

— ***Resident expenses:*** food, medical and entertainment;

— ***Occupancy expenses:*** electricity, rates and repairs and maintenance;

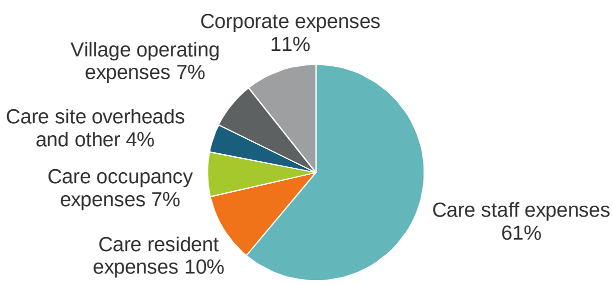
— ***Site overhead expenses:*** an apportionment of group IT, insurance and audit related costs; and

— ***Resident share of resale gains:*** movement in the residents' share of resale gains liability in certain legacy ORA contracts.

Table 24: Total expenses[18]

NZ$m	FY2014PF	FY2015PF	FY2016PF	FY2017PF	FY2018F
Financial period	**12 months ending 31-May-14**	**12 months ending 31-May-15**	**12 months ending 31-May-16**	**12 months ending 31-May-17**	**12 months ending 31-May-18**
Staff and resident expenses	(104.6)	(105.7)	(107.2)	(105.9)	(105.4)
Occupancy and site overhead expenses	(16.0)	(15.8)	(14.8)	(14.7)	(14.1)
Total aged care expenses	**(120.6)**	**(121.5)**	**(122.0)**	**(120.6)**	**(119.5)**
Village site operating expenses	(8.5)	(8.0)	(8.7)	(9.5)	(9.9)
Resident share of resale gains	0.7	(1.1)	(1.7)	(1.7)	(1.4)
Total retirement village expenses	**(7.8)**	**(9.1)**	**(10.5)**	**(11.2)**	**(11.4)**
Support office expenses	(14.7)	(15.1)	(13.3)	(12.7)	(13.7)
Rent expenses	(1.6)	(1.6)	(1.5)	(1.3)	(1.2)
Listed company costs	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)
Total corporate/other expenses	**(17.4)**	**(17.8)**	**(15.9)**	**(15.1)**	**(16.0)**
Total expenses	**(145.8)**	**(148.5)**	**(148.4)**	**(146.9)**	**(146.8)**

Figure 6: FY2016PF breakdown of total expenses



Aged care expenses

Staff Costs

Aged care staff expenses include a fixed component reflecting the core facility management, clinical management, administrative, and maintenance functions required to operate any facility. Variable clinical staff, healthcare assistant, and support worker labour hours are managed with reference to commonly used industry staffing ratio guidelines. Staff and resident expenses included in table 24 also include the costs of uniforms, training, ACC levies, kiwisaver contributions, bureau (temporary staff) costs and recruitment.

[18] Excludes change in fair value of PP&E and assets held for sale in FY2014PF of $0.3 million, FY2015PF of ($3.4) million, FY2016FP of ($1.8) million and FY2017PF of ($3.2) million.

Aged care staff expenses increased over FY2014PF to FY2016PF as Oceania passed on the DHB funding increases, of 1.0% in FY2015 and 0.7% in FY2016, to staff via increased wage rates. Some efficiencies were achieved in FY2016PF due to the increase in occupancy (which effectively allocated the fixed component of staff costs across more occupied beds) and a reduction in external bureau usage.

In FY2017PF staff expenses are forecast to remain broadly in line with FY2016PF and reflect a further reduction in assumed bureau utilisation. During 1HY2017PF, Oceania elected to increase wage rates for staff by an average of 1.4% (versus the prevailing 1.0% annual increase in DHB daily care fees) to ensure Oceania's qualifications-based pay structure maintained its relativity to the legislated minimum wage (which was increased in April 2016).

Oceania is of the view that there is a reasonable likelihood that wage rates for Healthcare Assistants will increase during FY2018F as a result of a settlement of the Equal Pay Negotiations. It is assumed that the absolute increase in DHB funding in FY2018F arising from resolution of the Equal Pay Negotiations will be passed through in full to Healthcare Assistants in FY2018F, resulting in a net nil financial impact EBITDA for Oceania. As such no specific revenue or expenses in relation to the Equal Pay Negotiations has been included in the PFI.

Staff expenses for FY2018F also reflect assumptions relating to the passing on of the 1.0% annual increase in DHB-funded daily care fees (effective from 1 July 2017), an increase in the legislated minimum wage (effective from April 2017), some improvements in pay relativity for roles not covered by the equal pay settlement, and efficiencies driven by an increase in productivity and a reduction in bureau usage.

Other expenses

Resident expenses per occupied bed increased by 5.9% in FY2015PF and remained steady in FY2016PF as efficiencies were achieved in the procurement of external medical services (doctors, physiotherapy, etc). Occupancy and site overhead expenses per occupied bed decreased by 8.1% over the Historical Period as efficiencies were achieved in procurement (including insurance and electricity).

Resident expenses, and occupancy and site overhead expenses have been forecast to decrease by 2.1% and 4.8% respectively over the Prospective Period partly due to a reduction in costs associated with the decommissioning of Green Gables and Maureen Plowman.

Retirement village expenses

Retirement village expenses include site operating expenses and the movement in the resident share of resale gains liability (relating to 99 legacy ORA contracts with resale gains sharing)[19]. The forecast resident share of resale gains liability incorporates the actual expense for 1HY2017PF based on Oceania's CBRE valuation dated 30 November 2016, Oceania's property price growth assumptions, and individual contract terms of ORAs assumed to be resold during the Prospective Period.

3.4.3 Corporate/other

Oceania's corporate/other function includes support office and corporate expenses, income from the Wesley Training Institute, and operating lease costs relating to Oceania's three leasehold aged care facilities[20].

[19] Number of legacy ORA contracts with resale gains sharing as at 30 November 2016.

[20] During the Historical Period Oceania had four leasehold sites, for which the lease payments are included in the corporate/other function as rental expense, and a lease in relation to the Elderslea facility which was classified as a finance lease. In November 2016, Oceania acquired the freehold title to the Palmerston Manor facility, reducing the number of operating leases from four to three. Further, Oceania has entered into an option to acquire the freehold title to the Elderslea facility on or about 31 May 2017 using part of the proceeds of the Offer.

Corporate/other costs increased by 12.8% to $17.5 million in FY2015PF as the Clinical & Quality and Operations Teams were established to improve clinical and financial performance by providing additional support to the Business and Care Managers and other staff at the facilities. This followed a period of significant investment in the business platform over the period FY2012PF to FY2015PF including implementation of a new ERP and upgraded IT systems at sites.

Corporate/other costs reduced by 16.6% to $14.6 million in FY2016PF following a restructure of Oceania's central Support Office function to better align the support provided to sites with the requirements of the business.

Forecast corporate/offer costs for FY2017PF and FY2018F reflect the actual costs incurred for 1HY2017PF and the current Support Office structure with additional roles added following the Offer. The additional costs in FY2018F relate to the implementation of the new Clinical Information System and upgrade of Oceania's IT infrastructure.

Wesley Training Institute expenses are forecast to be $0.4 million in FY2017PF and $0.5 million in FY2018F.

Table 25: Pro forma Underlying EBITDA by segment

NZ$m	FY2014PF	FY2015PF	FY2016PF	FY2017PF	FY2018F	1HY2016	1HY2017
Financial period	**12 months ending 31-May-14**	**12 months ending 31-May-15**	**12 months ending 31-May-16**	**12 months ending 31-May-17**	**12 months ending 31-May-18**	**6 months ending 30-Nov-15**	**6 months ending 30-Nov-16**
Aged care	28.5	29.7	33.9	31.7	32.3	18.4	18.1
Retirement village	13.6	17.4	27.7	26.5	44.7	12.4	12.4
Corporate/other	(15.5)	(17.5)	(14.6)	(14.0)	(14.8)	(7.3)	(7.2)
Pro forma Underlying EBITDA	**26.6**	**29.5**	**47.0**	**44.3**	**62.2**	**23.6**	**23.3**
Aged care Pro forma Underlying EBITDA (excluding decommissioned sites)[1]	27.4	29.5	33.3	32.2	32.3	18.1	18.0
EBITDA per Care Bed/Care Suite[2]	10,719	11,208	12,672	12,256	12,709	13,757	13,655
EBITDA per Care Bed/Care Suite (excluding decommissioned sites)[1,2]	10,873	11,577	12,854	12,614	12,725	13,978	13,976

Notes:

1. Aged care pro forma EBITDA (excluding decommissioned sites) excludes the historical and forecast earnings at the Meadowbank, Maureen Plowman and Green Gables facilities that have been decommissioned for redevelopment purposes prior to the Offer

2. EBITDA per occupied bed. Aged care Pro forma EBITDA (excl. decommissioned sites) excludes the Historical and Prospective Period earnings at the Meadowbank, Maureen Plowman and Green Gables facilities that have been decommissioned for redevelopment purposes prior to the Offer. The decommissioning of these sites for re-development purposes includes full resident offsite relocation and site demolition which Oceania does not view as a common feature of the development of Oceania's Brownfield Development pipeline described on page 30 of the PDS.

3.4.4 Depreciation

Fixed assets are depreciated using depreciation rates based on an assessment of the useful/economic lives of the assets. Land and investment property are not depreciated.

Depreciation is forecast for the Prospective Period in a manner consistent with Oceania's statutory accounts. Buildings are depreciated at an effective depreciation rate of 3.0% (based on a range of 10-50 years for the useful lives of the components of the buildings). A weighted average depreciation rate is applied to Oceania's chattels and motor vehicles based on Oceania's effective depreciation rate in FY2016.

3.4.5 Financing

New share capital to be raised under the Offer totalling $200.0 million (net of associated offer costs) will be applied against existing bank debt.

Oceania has obtained binding financing commitments from ANZ and Westpac (**Facilities Agreement**) to establish new debt facilities for general and development purposes, as described below:

Table 26: Financing structure

NZ$m	Facility limit	Drawn amount[21]	Maturity date
Revolving general corporate facility	$60 million	$20.0 million	31 May 2020
Cash	n/a	($3.6) million	n/a
Finance leases[22]	n/a	$6.8 million	n/a
Revolving development facility	$175 million	$80.0 million	31 May 2020
Total	**$235 million**	**$103.2 million**	

Oceania's revolving development facility is drawn to cover costs associated with current development projects. The development facility is forecast to be drawn against work in progress and development land at Meadowbank, Elmwood, Lady Allum and Maureen Plowman following completion of the Offer. The revolving general corporate facility represents corporate debt supported by the cash flows of the business and additional development land. In aggregate there is forecast to be $128.6 million of work in progress and development land upon listing.

Oceania is required to pay interest on the facilities provided under the Facilities Agreement. Interest is calculated at the BKBM floating rate plus a margin and is typically payable quarterly on the general corporate facility. Interest on the development facility can be capitalised and repaid together with principal, using the ORA licence proceeds received upon settlement of initial sales of newly developed Units and Care Suites. Line fees are payable on the committed general corporate facility and the committed development facility.

Interest rate risk is managed in accordance with hedging parameters set out in Oceania's Treasury Policy.

The Facilities Agreement includes the following financial covenants, tested half yearly:

— ***Interest Cover Ratio:*** the ratio of EBITDA[=] to net interest charges (each as defined in the Facilities Agreement) is not less than 1.75x; and

— ***Loan to Value Ratio:*** the ratio of total bank debt shall not exceed 50% of the current market value of all properties of the Group on a going concern basis as determined by an external valuer.

Oceania's debt metrics over the Prospective period are forecast to be as follows:

Ending 31 May	FY2017PF	FY2018PF
Interest cover ratio (12 month rolling)	n/a[23]	25.6x
Loan to value ratio	17.1%	20.3%

Oceania expects to be in compliance with the financial covenants outlined in the Facilities Agreement over the Prospective Period.

3.4.6 Corporate taxation

The corporate tax rate is assumed to be 28% throughout the Prospective Period for the purposes of calculating income tax expense, deferred tax liability, and future income tax benefit.

[21] *Estimated drawn amount following completion of the Offer and settlement of associated offer costs.*
[22] *Finance leases for vehicles, computer equipment and a nurse call system.*
[23] *Not relevant for FY2017PF as the first review of covenant and compliance will be undertaken in FY2018F.*

Oceania has approximately $37.0 million of accumulated tax losses per the 30 November 2016 financial statements, of which $2.4 million will be recognised in the 31 May 2017 financial statements and will be able to be offset against future profit, provided that there is no breach of shareholder continuity (which requires shareholders maintain at least 49% continuity from when the loss was incurred to when it is used). If, at some point, shareholder continuity is lost, then Oceania would lose the relevant tax losses. Please refer to 3.4.13 (Sensitivity analysis) for sensitivity analysis of the impact of a loss of shareholder continuity.

Separately, OHHL has a material amount of accumulated tax losses. These tax losses will only be available to offset against income derived by Oceania Group companies where 66% commonality of voting interests (shareholding) is maintained between OHHL and the relevant Oceania Group company. However, in the event that OHHL retains 66% of the voting interests in Oceania following the Offer, these tax losses accumulated by OHHL may be available to the Oceania Group following the Offer. The availability of OHHL tax losses has not been assumed in the PFI.

Oceania's tax expense includes both current tax and deferred tax. As illustrated table 27, deferred tax comprises deferred tax recognised on property and plant and equipment and investment property.

For property plant and equipment, deferred tax is recognised based on the difference between the expected taxable income arising from recovering the accounting value of depreciable assets (i.e. not land) through use, compared to the tax depreciation deductions that are expected to be allowed to offset against that income.

As reflected in the interim accounts for the six months ending 30 November 2016, Oceania applies the held-for-use principle to investment property for the purposes of calculating deferred tax. Previously, including in the Historical Period, Oceania applied the held-for-sale presumption. Oceania made this change in accounting estimate to reflect more precisely Oceania's business model of being a long term operator of integrated care and village facilities. Deferred tax is calculated by measuring the future taxable income from the taxable cash flows from the village assets (predominantly the DMF) compared to the tax net book value of Oceania's retirement village assets. Accordingly, as illustrated in table 27, the deferred tax liability for investment property is forecast to increase by $2.6 million in FY2017F.

For the purposes of calculating Underlying taxation expense (and hence Underlying NPAT) the deferred tax expense is excluded (such that current tax alone is recognised in Underlying NPAT).

Table 27: Taxation expense

NZ$m	FY2017F	FY2018F
Financial period	**12 months ending 31-May-17**	**12 months ending 31-May-18**
Profit before tax (per statement of comprehensive income)	28.8	58.1
less: Permanent differences	(15.4)	(40.3)
Tax adjusted profit	**13.4**	**17.7**
less: Temporary differences	(18.9)	(9.1)
Taxable income	**(5.5)**	**8.6**
Prima-facie tax on taxable income 28%	1.6	(2.4)
Tax losses accrued/(utilised)	1.6	(2.4)
Current tax expense	-	-
Opening deferred tax liability	21.2	23.8
Changes due to timing differences (to P&L)	5.9	2.6
Changes due to timing differences (to other comprehensive income)	(0.9)	(0.2)
Change in recognition of tax losses	(2.4)	2.4
Closing deferred tax liability	23.8	28.6
Presented as taxation expense in P&L	(3.5)	(5.0)
Deferred tax adjustment (to P&L)	3.5	5.0
Presented as Underlying taxation expense	-	-

3.4.7 Property, plant and equipment

Owner-occupied freehold land and buildings are classified as property, plant and equipment. This includes land and buildings operated by the group for the provision of care services (including Care Suites).

Land and buildings are stated in property, plant and equipment at fair value based on an annual valuation undertaken by CBRE. The valuation provided by CBRE comprises land, improvements, chattels and goodwill in respect of aged care facilities. However, for financial reporting purposes, no aged care goodwill relating to CBRE's valuation of property, plant and equipment in respect of aged care assets is recognised on Oceania's balance sheet.[24] As at 31 May 2016, the aged care goodwill included in the CBRE valuation, but not reflected on the Oceania Balance sheet, was $46.0 million. Additionally, chattels are based on Directors' estimate of useful life and accumulated depreciation as opposed to the value of chattels provided by CBRE.

There is no explicit revaluation of the fair value of Oceania's property, plant and equipment assumed in the Prospective Period with any change year on year arising due to the difference in capital expenditure and depreciation and effectively being recognised as a fair value movement in that year.

[24] *Oceania has $17.3 million of intangible assets on its balance sheet as at 30 November 2016*

Oceania has entered into an option to acquire the freehold land and buildings at Elderslea for $15.1 million[25]. This site was previously treated as a finance lease for financial reporting purposes. It is assumed that this option is exercised on or about 31 May 2017 using part of the proceeds of the Offer.

Table 28: Property, plant and equipment

Financial period ended, NZ$m	30- Nov-2016
Freehold land	58.9
Freehold buildings	110.4
Care Suite freehold land and buildings	41.8
Freehold land and buildings under development	18.4
Chattels	15.0
Total	**244.5**

3.4.8 Refundable occupation rights agreements

The table below provides a reconciliation from gross refundable ORAs to net refundable ORAs as shown on Oceania's balance sheet.

Table 29: Refundable occupation rights agreements

NZ$m	FY2017F	FY2018F
Financial period	**12 months ending 31-May-17**	**12 months ending 31-May-18**
Refundable occupation right agreements (gross)	344.7	425.2
less: DMF accrued (contractual)	(71.1)	(76.2)
plus: DMF (IFRS)	18.9	15.6
plus: Resident share of capital gains	9.5	8.5
plus: Care Suite rebate liability	0.6	0.5
Refundable occupation right agreements (net)	**302.6**	**373.7**

[25] An additional compensation payment of $1.0 million is payable for early exercise of the option in 31 May 2017.

3.4.9 Occupational rights agreements receipts and payments

The table below shows Oceania's receipts from, and repayments of, residents' loans, segmented by new sales and resales.

Table 30: Payments and receipts from new occupational rights agreements

NZ$m	FY2014	FY2015	FY2016	FY2017F	FY2018F
Financial period	**12 months ending 31-May-14**	**12 months ending 31-May-15**	**12 months ending 31-May-16**	**12 months ending 31-May-17**	**12 months ending 31-May-18**
Cash inflow from new sales	27.6	28.3	23.3	20.1	63.9
Net cash flow from resales	8.6	8.2	18.7	18.3	24.1
Total residents' loan cash flows	**36.2**	**36.5**	**42.0**	**38.4**	**88.0**
Reported as:					
Receipts for residents' loans	57.4	61.8	78.4	66.8	120.7
Repayments of residents' loans	(21.3)	(25.4)	(36.4)	(28.4)	(32.6)
Total residents' loan cash flows	**36.2**	**36.5**	**42.0**	**38.4**	**88.0**

The table below shows ORA liabilities relating to Oceania's Units and Care Suites.

Table 31: Liabilities relating to occupational rights agreements

NZ$m	FY2014	FY2015	FY2016	FY2017F	FY2018F
Financial period	**12 months ending 31-May-14**	**12 months ending 31-May-15**	**12 months ending 31-May-16**	**12 months ending 31-May-17**	**12 months ending 31-May-18**
Villas and Apartments	216.4	231.7	258.9	274.7	341.6
Care Suites	8.7	14.8	19.6	27.9	32.1
Total residents' loans	**225.1**	**246.5**	**278.5**	**302.6**	**373.7**

3.4.10 Capital expenditure

Capital expenditure in relation to investment properties and property, plant and equipment (excluding capitalised interest) is assumed to be incurred during the Prospective Period as shown in the table below. A summary of the capital expenditure for Oceania's major projects during the Prospective Period is provided in Table 33 with further detail on development project construction costs provided in Table 21.

Table 32: Capital expenditure

NZ$m	FY2014	FY2015	FY2016	FY2017F	FY2018F
Financial period	**12 months ending 31-May-14**	**12 months ending 31-May-15**	**12 months ending 31-May-16**	**12 months ending 31-May-17**	**12 months ending 31-May-18**
Development capital expenditure	(23.1)	(13.4)	(15.0)	(63.6)	(90.0)
Care refurbishment	(4.9)	(2.8)	(2.2)	(1.0)	-
Nurse call upgrade program	-	(1.8)	(1.2)	(2.7)	-
Care conversion and premium room upgrades	(1.5)	(0.1)	(0.1)	(1.1)	(0.8)
Remediation expenditure	-	(0.6)	(2.4)	(1.7)	(7.4)
Maintenance capital expenditure – aged care	(2.6)	(2.1)	(2.2)	(2.8)	(4.7)
Maintenance capital expenditure – retirement village	(3.1)	(3.1)	(3.0)	(2.6)	(3.5)
Platform capital expenditure – IT	-	-	-	-	(1.2)
Maintenance capital expenditure – other	(1.3)	(0.9)	(0.4)	(0.6)	(0.4)
Total capital expenditure	**(36.6)**	**(24.7)**	**(26.5)**	**(76.1)**	**(108.1)**

Table 33: Prospective Period development capital expenditure

NZ$m	FY2017F	FY2018F
Financial period	**12 months ending 31-May-17**	**12 months ending 31-May-18**
Lady Allum, Auckland	(14.7)	-
Meadowbank Stage 3, Auckland	(27.9)	(20.1)
Elmwood Stage 3, Auckland	(5.5)	(3.7)
Stoke Village, Nelson	(0.7)	(2.3)
Maureen Plowman, Auckland	(2.9)	(28.8)
Meadowbank Stage 4, Auckland	(1.6)	(14.0)
Melrose, Tauranga	(1.4)	(14.6)
Trevellyn[26]	(0.6)	(4.6)
Green Gables	(0.3)	(1.8)
Other	(8.0)	(0.1)
Total development capital expenditure	**(63.6)**	**(90.0)**

Oceania has invested $9.9 million in refurbishment of selected care facilities (non-structural refurbishment such as painting, carpeting and furniture) over the Historical Period (care refurbishment). Further, Oceania has invested $1.7 million from FY2014 to FY2017 in the conversion of rooms (from rest home to hospital or dementia) and

[26] *Trevellyn development capital expenditure relates to consenting and very early stage development over the Prospective Period.*

upgrade of rooms to premium Care Suites or PAC rooms over the Historical Period (care conversion and premium room upgrades). The care refurbishment programme is scheduled to be completed in FY2017PF, with a further $1.0 million invested, and the care conversion and premium room upgrade programme continues during the Prospective Period, with $1.9 million forecast to be invested in FY2017PF and FY2018F.

Over FY2015 through to FY2017PF Oceania invested $5.7 million in a nurse call upgrade system in its care facilities. This upgrade involves the installation of a wireless nurse call system and a reporting tool so that staff can be more responsive to resident requirements and monitor resident alerts.

During FY2015 and FY2016, remediation work was undertaken at Marina Cove to correct watertightness defects. In FY2017F, Oceania is forecasting to continue remediation work (primarily at Heretaunga) amounting to $1.7 million. Based on physical inspections and testing completed by Cove Kinloch at Oceania facilities, Oceania has committed to spend $9.5 million at selected facilities to address remediation needs. In FY2018F $7.4 million of this remediation work is forecast to be undertaken at the Heretaunga, Victoria Place, St Johns Wood, Gracelands, Lady Allum and Atawhai facilities.

Capital expenditure over the Prospective Period includes a platform investment to implement a clinical information system and upgrade Oceania's existing ERP system that was implemented in 2012. This investment has been purposed to support the growth of the business and maintain Oceania's excellent reputation for clinical care.

3.4.11 Cash DMF

Cash DMF is crystallised upon resale of Units or Care Suites. The cash DMF received by Oceania over the Historical Period, and forecast to be received over the Prospective Period, is as follows:

Table 34: Cash DMF

	FY2014	FY2015	FY2016	FY2017F	FY2018F
Financial period	**12 months ending 31-May-14**	**12 months ending 31-May-15**	**12 months ending 31-May-16**	**12 months ending 31-May-17**	**12 months ending 31-May-18**
DMF realised upon resale ($m)	4.8	5.1	8.1	7.0	9.5
Previous purchase price of resold ORA ($m)	23.9	26.1	41.1	32.9	40.4
Number of resales (Units/Care Suites)	115	132	193	142	176
DMF realised on buybacks ($m)	0.7	1.3	1.5	1.1	0.6
Previous purchase of buyback ($m)	2.6	5.5	6.2	4.9	2.5
DMF realised upon resale (%)[27]	20.1%	19.6%	19.7%	21.2%	23.4%
DMF realised on buybacks (%)[28]	25.7%	23.7%	23.5%	23.2%	25.0%
Total DMF realised (%)	20.7%	20.3%	20.2%	21.5%	23.5%

[27] *DMF realised upon resale divided by the previous purchase price of the applicable ORA.*
[28] *DMF realised upon buybacks divided by the previous purchase price of the buyback.*

3.4.12 Dividends declared

Subject to the PFI being achieved, Oceania intends to declare an annual dividend of $28.3 million in relation to FY2018F, which represents a forecast dividend pay-out ratio of 55% of Underlying NPAT for the financial year. It is expected that the annual dividend declared in relation to FY2018F will comprise:

— an interim dividend (for the six month period ending 30 November 2017) of approximately $12.7 million, targeted to be paid in February 2018; and

— a final dividend (for the six month period ending 31 May 2018) of approximately $15.6 million, targeted to be paid in August 2018.

Oceania expects that any dividends declared in relation to the Prospective Period will not be imputed given that Oceania is not forecasting to pay corporate tax during the Prospective Period due to the availability of accumulated tax losses. Refer to the dividend policy in Section 6 (Key features of ordinary shares in Oceania) in the PDS.

3.4.13 Sensitivity analysis

PFI is inherently subject to uncertainty and accordingly actual results are likely to vary from PFI and this variation could be material. The PFI is sensitive to a number of variations in certain assumptions used in its preparation. A summary of the likely effect that variations to certain assumptions may have on the PFI is detailed below. The sensitivities for each assumption are not intended to be indicative or predictive of the possible range of outcomes but are for information purposes to allow potential investors to gain an understanding of potential sensitivities of financial outcomes arising from changes in key assumptions.

Care should be taken in interpreting the sensitivity information set out below. Each movement in assumption is treated in isolation from possible movements in other assumptions, which is not likely to be the case. Movements in one assumption may have offsetting effects or corresponding effects on other variables, the impact of which is not reflected in the PFI. In addition, it is possible that more than one assumption may move at any point in time, giving rise to cumulative effects, which are not reflected in the PFI.

Key assumptions that are considered to have a significant potential impact on Oceania's forecast financial performance are:

— ***Property price growth****:* The potential impact of an increase or decrease in property prices in the regions in which Oceania operates.

— ***Lady Allum development completion and sell-down:*** The potential impact of a delay in construction completion for new Apartments at Lady Allum, resulting in no sales (i.e. licencing under ORAs) of new Apartments at Lady Allum during FY2017, and the potential impact of selling (i.e. licensing) more new Apartments than forecast at Lady Allum in FY2018.

— ***Meadowbank Stage 3 development completion and sell-down:*** The potential impact of a delay in construction completion for new Apartments and new Care Suites in the Meadowbank Stage 3 development, resulting in fewer new Apartments and new Care Suites being sold (i.e. licencing under ORAs) at Meadowbank during FY2018.

— ***Meadowbank Stage 3 development capital expenditure:*** The potential impact of an increase in development capital expenditure in the Meadowbank Stage 3 development, resulting in lower development margins.

— ***New Unit and Care Suite sale prices:*** The potential impact of an increase or decrease in selling prices (ORA licence payments) for new Units and Care Suites assumed to be sold in FY2018 (together with the corresponding impact on the fair value of completed Units and Care Suites that are yet to be sold).

— ***Resales (Units):*** The potential impact of resales of existing Units occurring at a higher or lower rate than estimated.

— ***Aged care occupancy:*** The potential impact of aged care occupancy being higher or lower than estimated.

— ***Aged care staff and resident expenses****:* The potential impact of aged care staff and resident expenses being higher or lower than estimated, including the potential impacts of the settlement of the Equal Pay Negotiations arising from Government negotiations with unions and providers being more or less favourable than estimated.

— ***Tax losses:*** The potential impact of Oceania not being able to access accumulated tax losses due to a change in shareholder continuity. This sensitivity is illustrative only, as OHHL has entered into an Escrow Deed (as described in the document entitled "*Other material information relating to the Offer of ordinary shares in Oceania Healthcare Limited*" on the Offer Register), which is intended to preclude a change in shareholder continuity during the Prospective Period.

The table below illustrates the impacts on Pro forma Underlying NPAT and Statutory NPAT of various movements in these assumptions used in the Prospective Period. The below sensitivities do not take into account any mitigating measures that Oceania may take should a change in the PFI assumptions arise during the Prospective Period.

Table 35: Sensitivities

	PFI assumption	Sensitivity range	Impact on Pro forma Underlying NPAT (NZ$m)	Impact on statutory NPAT (NZ$m)
Property price growth				
FY2017PF	Nil growth from price levels as at 30 November 2016	Absolute incremental price growth of +/-2.0% p.a. during 2HFY2017	0.2 / (0.2)	5.4 / (5.5)
FY2018F	3.0% p.a. nominal property price growth	Absolute incremental price growth +/-2.0% p.a. during 2HFY2017 and FY2018	2.3 / (2.3)	14.4 / (14.2)
Lady Allum development completion and sell-down (via ORA)				
FY2017PF	Completion in March 2017, and sale of 17 new Apartments in FY2017	Completion delayed by two months until May 2017, and no sales of new Apartments in	(3.8)	(4.4)
FY2018F	Sale of 24 new Apartments in FY2018	Sale of 41 new Apartments in FY2018	3.6	4.4
Meadowbank Stage 3 development completion and sell-down (via ORA)				
FY2018F	Completion in February 2018, and sale of 28 new Apartments and 4 new Care Suites in FY2018	Completion accelerated by two months and sale of 34 new Apartments and 6 new Care Suites / delayed by two months and sale of 8 new Apartments and two new Care Suites in FY2018	1.9 / (5.6)	0.7 / (0.7)
Meadowbank Stage 3 development capital expenditure				
FY2018F	Development capital expenditure of $38.0 million in 2HFY2017 and FY2018	Absolute incremental change in development capital expenditure during 2HFY2017 and FY2018 of +10.0%	(1.3)	(3.9)

	PFI assumption	Sensitivity range	Impact on Pro forma Underlying NPAT (NZ$m)	Impact on statutory NPAT (NZ$m)
New Unit and Care Suites sale prices (ORA licence payments)				
FY2018F	Total sales proceeds from new Units and Care Suites of $64.0m, being an average of $673,000 per Residence	Absolute incremental change in the prices of new Units and Care Suites sold of +/-5% (also leading to fair value impact on unsold new Units and Care Suites)	3.3 / (3.3)	6.0 / (6.0)
Resales (Units, via ORA)				
FY2017PF	Resales of 87 Apartments and Villas	Absolute incremental change of +/- 5 Apartment and Villa resales	0.5 / (0.5)	0.1 / (0.1)
FY2018F	Resales of 113 Apartments and Villas	Absolute incremental change of +/- 10 Apartment and Villa resales	1.1 / (1.1)	0.2 / (0.2)
Aged care occupancy				
FY2017PF	89.9%	Absolute incremental occupancy change of +/-1.0% in 2HFY2017	0.8 / (0.8)	0.8 / (0.8)
FY2018F	90.1%	Absolute incremental occupancy change of +/-1.0% in FY2018	1.6 / (1.6)	1.6 / (1.6)
Aged care staff and resident expenses				
FY2017PF	$105.9 million aged care staff and resident expenses	Absolute incremental change in staff and resident expenses of +/- $0.5 million	(0.5) / 0.5	(0.5) / 0.5
FY2018F	$105.4 million aged care staff and resident expenses	Absolute incremental change in staff and resident expenses of +/- $1.0 million	(1.0) / 1.0	(1.0) / 1.0
Tax losses[29]				
FY2017PF	Tax losses available to offset current taxation	Tax losses not available to offset current taxation	Nil	(2.4)
FY2018F	Tax losses available to offset current taxation	Tax losses not available to offset current taxation	(2.4)	Nil

[29] This tax losses sensitivity is illustrative only, as OHHL has entered into an Escrow Deed, which is intended to preclude a change in shareholder continuity during the Prospective Period, such that Oceania expects accumulated tax losses to be available to offset current taxation during the Prospective Period.

3.5 Prospective statement of comprehensive income

NZ$m	FY2017F	FY2018F
Financial period	**12 months ending 31-May-17**	**12 months ending 31-May-18**
Operating revenue	173.6	175.3
Change in fair value of investment property	37.3	40.4
Change in fair value of PP&E and assets held for sale	-	-
Change in fair value of interest rate swaps	-	-
Forgiveness of interest	-	-
Other income	-	-
Total income	**210.9**	**215.7**
Wages and salaries	(103.1)	(103.3)
Depreciation and amortisation	(7.8)	(8.7)
Finance costs	(20.0)	(2.1)
Change in fair value of PP&E and assets held for sale	(2.8)	-
Other expenses	(48.4)	(43.6)
Total expenses	**(182.1)**	**(157.7)**
Profit before tax	28.8	58.1
Income tax (expense)	(3.5)	(5.0)
Profit for the period	**25.3**	**53.1**
Other comprehensive income/(expense)	0.7	(0.4)
Total comprehensive income for the period	**25.9**	**52.7**

3.6 Underlying NPAT

NZ$m	FY2017F	FY2018F
Financial period	**12 months ending 31-May-17**	**12 months ending 31-May-18**
Statutory net profit after tax	**25.3**	**53.1**
Adjusted for underlying profit items:		
less: Change in fair value of investment property and PP&E	(34.1)	(40.4)
add: impairment of goodwill	0.7	-
add: Realised gain on resales	12.8	16.6
add: Realised development margin	4.9	17.1
less: Deferred tax	3.5	5.0
Underlying net profit after tax	**13.0**	**51.4**

3.7 Prospective statement of movements in equity

NZ$m	Contributed equity	Retained deficit	Asset revaluation reserve	Total equity
Balance at 1 June 2016	**372.6**	**(241.0)**	**68.4**	**200.0**
Comprehensive income for the period		25.3	0.7	25.9
Subscription for shares	214.4	-	-	214.4
Costs capitalised to equity	-	(7.1)	-	(7.1)
Balance at 31 May 2017	**587.0**	**(222.8)**	**69.1**	**433.2**
Comprehensive income for the period	-	53.1	(0.4)	52.7
Distributions	-	(12.7)	-	(12.7)
Balance at 31 May 2018	**587.0**	**(182.5)**	**68.6**	**473.2**

3.8 Prospective balance sheet

NZ$m	FY2017F	FY2018F
Financial period	**As at 31-May-17**	**As at 31-May-18**
Assets		
Cash and cash equivalents	4.4	3.8
Trade and other receivables	11.6	11.8
Assets held for sale	-	-
Property, plant and equipment	234.8	234.4
Investment properties	618.4	763.1
Intangible assets	17.0	17.1
Total assets	**886.2**	**1,030.2**
Liabilities		
Trade and other payables	23.6	23.9
Refundable occupation right agreements	302.6	373.7
Borrowings	103.0	130.8
Derivative financial investments	-	-
Deferred tax liability	23.8	28.6
Total liabilities	**452.9**	**557.1**
Net assets	**433.2**	**473.2**
Equity		
Share capital	587.0	587.0
Retained deficit	(222.8)	(182.5)
Asset revaluation reserve	69.1	68.6
Total equity	**433.2**	**473.2**

3.9 Prospective statement of cash flow

NZ$m	FY2017F	FY2018F
Financial period	**12 months ending 31-May-17**	**12 months ending 31-May-18**
Receipts from customers	158.3	156.8
Payments to suppliers and employees	(158.2)	(146.2)
Receipts from new Occupational Rights Agreements	66.8	120.7
Payments for outgoing Occupational Rights Agreements	(28.4)	(32.6)
Proceeds from insurance	-	-
Interest received	0.1	-
Interest paid	(18.2)	(6.1)
Tax paid	-	-
Net cash inflow from operating activities	**20.4**	**92.6**
Proceeds from sale of property, plant and equipment	-	-
Proceeds from sale of business	-	-
Payments for investment property and investment property under development	(51.8)	(107.6)
Payments for property, plant and equipment and intangible assets	(21.0)	-
Net cash outflow from investing activities	**(72.9)**	**(107.6)**
Proceeds from borrowings	68.3	92.3
Repayment of borrowings	(230.0)	(65.2)
Proceeds from issue of shares	214.4	-
Dividend paid	-	(12.7)
Net cash inflow from financing activities	**52.7**	**14.4**
Net increase in cash and cash equivalents	**0.3**	**(0.6)**
Cash and cash equivalents at beginning of the period	**4.1**	**4.4**
Cash and cash equivalents at end of the period	**4.4**	**3.8**

3.10 Pro forma and underlying adjustments

3.10.1 Pro forma adjustments

Non-recurring or infrequent items

Adjustments related to excluded sites

Oceania divested facilities in FY2014 (six facilities divested), FY2015 (two facilities divested), and FY2016 (one facility divested). Two facilities were also closed in FY2012 following the Christchurch earthquake in 2011. Because the divested and closed facilities are no longer part of Oceania, they not included in the PFI. To improve the comparability of financial information across financial periods, a pro forma adjustment has been made to remove the financial performance of those facilities in the historical periods. This adjustment also removes any gains on divestment and depreciation associated with divested facilities.

Insurance and settlement income

Following the Christchurch earthquakes, Oceania received income from a successful insurance claim and the Earthquake Commission. Over FY2014 and FY2015 these receipts amounted to approximately $2.6 million in aggregate. Oceania also received a sum from the local Council in relation to the weather-tightness remediation of Hutt Gables in FY2014. This income has been excluded from historical periods in the pro forma financial information as it is one-off revenue.

Aligning bad debts to accounting period incurred

Oceania recognised a credit of $2.3 million in FY2016 primarily due to the recovery of bad debts that were previously provided for in FY2014 and FY2015 during the implementation of the new resident management system. The credit of $2.3 million in FY2016 and debits of $1.3 million and $1.0 million in FY2014 and FY2015 respectively have been normalised by applying the credits subsequently recognised to the period in which the resident actually departed, more accurately reflecting the bad debts expense incurred in each period.

Transaction costs

Oceania has previously considered, but not undertaken, capital raising initiatives. A pro forma adjustment has been made to remove expenses incurred in preparing for these initiatives in FY2015, FY2016 and FY2017F, reflecting the extraordinary nature of this activity.

Offer costs

Joint lead manager fees, due diligence expenses, travel expenses, advertising, printing costs, and other costs associated with the Offer are estimated to be approximately $10.5 million. Approximately $3.2 million of this amount is expected to expensed by Oceania in FY2017F. A pro forma adjustment has been made to remove these one-off expenses to illustrate Oceania's financial performance in FY2017F on a normalised basis.

Structural changes

Listed company costs

Once listed, Oceania will incur additional costs associated with the listed environment including Directors' fees, additional audit and tax costs, listing fees, share registry fees, investor relations costs, company secretarial costs, and annual general meeting costs. An estimate of these costs is included in the PFI. To ensure that the selected financial information is presented on a comparable basis in each period, a pro forma adjustment is made to include estimated listed company costs in each of the historical periods, representing Oceania as if it was a listed company in each of those periods.

In FY2016 a number of these costs were incurred as Independent Directors were appointed and interim accounts and valuations prepared for the first time. Accordingly, the pro forma adjustment for FY2016 is less than that required for each of FY2014 and FY2015.

Listed company capital structure

The proceeds of the Offer will be used substantially to repay a portion of Oceania's existing debt facilities. It is expected that the repayment of debt will occur less than one month before the end of the current financial year (FY2017F). This means that Oceania's reported NPAT and Underlying NPAT measures for FY2017F will not reflect Oceania's financial performance on a normalised, annual basis, because the structural reduction in debt (and interest expense) that arises from the Offer will not be in effect for all 12 months of FY2017F. Accordingly, a pro forma adjustment has been made to present the interest expense and Underlying NPAT that would have arisen had a listed capital structure been in place from the start of the financial year. This enables the prospective financial performance for FY2017F to be more effectively assessed and compared to the prospective financial performance for FY2018F.

This pro forma adjustment includes an adjustment for the write-off of prepaid facility fees on Oceania's historical debt facility. The prepaid facility fees relating to the historical debt facility are required to be written off in accordance with accounting standards as the Offer is occurring prior to the maturity date of the historical debt facility.

This pro forma adjustment includes an adjustment for the acquisition of the freehold land and building at the Elderslea aged care facility which has previously been recognised as a finance lease in Oceania's historical financial statements.

Interest costs on shareholder loan instruments

Convertible notes in Oceania held by certain Oceania Shareholders in FY2015 and earlier periods were restructured during FY2015. The result of the restructure was that the convertible notes were novated from Oceania to the immediate holding company of Oceania in consideration for equity in Oceania. Following the restructure, Oceania has no obligation to service the convertible notes. A pro forma adjustment has been made to remove the interest charges incurred on the convertible notes in the historical financial periods, to aid comparability with the prospective financial information.

A shareholder loan of $13.4 million was advanced to Oceania from its immediate holding company in June 2016 to facilitate the construction of the Stage 3 development at Meadowbank. The shareholder loan was settled by way of a subscription for equity in Oceania in January 2017. A pro forma adjustment has been made to remove the interest charges incurred on the shareholder loan in FY2017F.

Recognition of tax losses

$2.4 of losses are forecast to be re-recognised in FY2017F and will be available to be offset against future taxable income as shareholder continuity is forecast to remain until at least the expiry of the escrow period.

Other

Pro forma tax adjustments

An adjustment has been made in FY2017PF to back out the tax expense relating to a one off increase in deferred tax liability for Investment Property as a result of a change of accounting estimate from "held for sale" to "held for use". Oceania adopted the "held for use" estimate in the 30 November 2016 interim financial statements to better reflect Oceania's business model of being a long term operator of integrated care and village facilities.

3.10.2 Underlying adjustments

As discussed in Section 1.3, Oceania focuses on non-NZ GAAP measures including Underlying EBITDA and Underlying NPAT when monitoring financial performance and in determining dividend distributions. The adjustment items pertaining to underlying measures, including (in the case of Pro forma Underlying EBITDA) change in fair value of investment property and plant, property and equipment, realised gains on resales, realised development margins, and (additionally, in the case of Pro forma Underlying NPAT), deferred tax, are quantified in the tables below.

3.11 Reconciliation of non-NZ GAAP to NZ GAAP information

Reconciliation of NPAT

NZ$m	FY2014	FY2015	FY2016	FY2017F	FY2018F	1HY2016	1HY2017
Financial period	**12 months ending 31-May-14**	**12 months ending 31-May-15**	**12 months ending 31-May-16**	**12 months ending 31-May-17**	**12 months ending 31-May-18**	**6 months ending 30-Nov-15**	**6 months ending 30-Nov-16**
Statutory net profit after tax				**25.3**	**53.1**		**26.3**
Pro forma adjustments:							
Non-recurring or infrequent items							
Aligning bad debts to accounting period incurred				-	-		-
Transaction costs expensed				0.9	-		0.9
Offer costs				3.2	-		-
Structural changes							
Listed company costs				(0.7)	-		(0.4)
Listed company capital structure				15.9	-		7.8
Interest costs on shareholder loan instruments				1.0	-		0.7
Recognition of tax losses				(2.4)	2.4		(0.8)
Total pro forma adjustments				**18.0**	**2.4**		**8.2**
Pro forma tax adjustments				9.4	**-**		9.4
Pro forma net profit after tax				**52.7**	**55.5**		**44.0**
Underlying adjustments:							
less: Pro forma change in fair value of investment property and PP&E				(34.1)	(40.4)		(29.5)
add: Impairment of goodwill				0.7	-		0.2
add: Pro forma realised gains on resales				12.8	16.6		6.4
add: Pro forma realised development margin				4.9	17.1		0.9
add: Deferred tax				(3.5)	2.6		(4.0)
Pro forma Underlying NPAT				**33.5**	**51.4**		**18.0**

Reconciliation of EBITDA

NZ$m	FY2014	FY2015	FY2016	FY2017F	FY2018F	1HY2016	1HY2017
Financial period	**12 months ending 31-May-14**	**12 months ending 31-May-15**	**12 months ending 31-May-16**	**12 months ending 31-May-17**	**12 months ending 31-May-18**	**6 months ending 30-Nov-15**	**6 months ending 30-Nov-16**
Statutory net profit / (loss) after tax	**(31.4)**	**19.4**	**48.7**	**25.3**	**53.1**	**27.1**	**26.3**
add: Taxation expense	21.9	(1.9)	(2.2)	3.5	5.0	(4.4)	4.6
add: Net interest expense	26.9	24.1	20.3	20.0	2.1	10.6	10.0
add: Depreciation, amortisation and impairment of goodwill[30]	10.7	8.9	8.6	8.5	8.7	4.0	4.0
EBITDA	**28.1**	**50.4**	**75.3**	**57.3**	**68.9**	**37.3**	**44.9**
Pro forma adjustments:							
Non-recurring or infrequent items							
EBITDA relating to excluded sites	(3.8)	0.6	-	-	-	0.2	-
Insurance and Earthquake Commission income and remediation settlements	(2.5)	(0.1)	-	-	-	-	-
Aligning bad debts to accounting period incurred	1.3	1.0	(2.3)	-	-	(1.5)	-
Transaction costs	-	1.1	1.0	0.9	-	0.8	0.9
Offer costs	-	-	-	3.2	-	-	-
Structural changes							
Listed company costs	(1.1)	(1.1)	(0.9)	(0.7)	-	(0.4)	(0.4)
Total pro forma adjustments	**(6.1)**	**1.6**	**(2.2)**	**3.5**	**-**	**(0.8)**	**0.6**
Pro forma EBITDA	**22.0**	**52.0**	**73.1**	**60.8**	**68.9**	**36.5**	**45.5**
Underlying adjustments:							
less: Pro forma change in fair value of investment property and PP&E	(2.0)	(32.0)	(44.6)	(34.1)	(40.4)	(22.1)	(29.5)
add: Pro forma realised gains on resales	4.8	7.0	14.1	12.8	16.6	6.1	6.4
add: Pro forma realised development margin	1.9	2.5	4.5	4.9	17.1	3.1	0.9
Pro forma Underlying EBITDA	**26.6**	**29.5**	**47.0**	**44.3**	**62.2**	**23.6**	**23.3**

[30] *Depreciation and Amortisation from the Consolidated Statement of Comprehensive Income and impairment of goodwill from note 11 in the FY2015 and FY2016 financial statements.*

Reconciliation of Revenue

NZ$m	FY2014	FY2015	FY2016	FY2017F	FY2018F	1HY2016	1HY2017
Financial period	**12 months ending 31-May-14**	**12 months ending 31-May-15**	**12 months ending 31-May-16**	**12 months ending 31-May-17**	**12 months ending 31-May-18**	**6 months ending 30-Nov-15**	**6 months ending 30-Nov-16**
Statutory Revenue	181.1	206.3	223.8	210.9	215.7	110.2	121.9
Pro forma adjustments:							
Deduct interest income (recognised in pro forma net interest expense in PDS)	(0.3)	(0.3)	(0.2)	-	-	(0.1)	(0.1)
Add accommodation rebate on legacy Care Suite ORAs (netted off against DMF revenue in PDS)	(0.1)	(0.5)	(0.3)	-	-	(0.2)	(0.1)
Deduct gain on sale of fixed assets	(2.8)	-	-	-	-	-	-
Deduct fair value movement in interest rate swaps	-	(0.8)	-	-	-	-	-
Deduct valuation gain on PP&E	(0.3)	-	-	-	-	-	-
Deduct fair value movement in resident capital gains	(0.7)	-	-	-	-	-	-
Remove revenue relating to excluded sites	(6.8)	(0.7)	-	-	-	-	-
Remove insurance and Earthquake Commission income and remediation settlements	(2.5)	(0.1)	-	-	-	-	-
Pro forma revenue:	**167.5**	**203.9**	**223.2**	**210.9**	**215.7**	**109.9**	**121.7**

Reconciliation of operating cash flow

NZ$m	FY2014	FY2015	FY2016	FY2017F	FY2018F	1HY2016	1HY2017
Financial period	**12 months ending 31-May-14**	**12 months ending 31-May-15**	**12 months ending 31-May-16**	**12 months ending 31-May-17**	**12 months ending 31-May-18**	**6 months ending 30-Nov-15**	**6 months ending 30-Nov-16**
Net cash flows from operating activities				20.4	92.6		
Pro forma adjustments:							
Listed company capital structure				17.0	-		
Transaction costs				0.9	-		
Offer costs				10.5	-		
Pro forma net cash flows from operating activities				**48.8**	**92.6**		