







Resident Allan enjoys time in the garden.

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Thank you to all the residents and employees who feature in this report.

Industry Trends

Influencing our Strategy



1. SECTOR REFORM

The aged care sector has seen significant change in the past 18 months including the calling of the Royal Commission into Aged Care Quality and Safety. The establishment of the Aged Care Quality and Safety Commission and the new Aged Care Quality and Safety Standards inform how providers design services to meet community expectations and build trust in the sector. Estia Health strongly supports reforms that deliver sustainable, high quality and safe aged care services. We look forward to the Interim Report from the Royal Commission into Aged Care Quality and Safety due in October 2019.



2. AGEING POPULATION

The demographic trends that support the growth in demand for aged care are undeniable. Australia has one of the highest life expectancies in the world and the number of Australians over 85 years of age will double by 2042¹. As people live longer, the need for specialist aged care increases with dementia and Alzheimer's disease now the second leading cause of death in Australia². Residential aged care is a critical aspect of the health system providing specialist aged care services to people that can no longer live at home.



3. GROWTH AND MARKET CONSOLIDATION

The Aged Care Financing Authority (ACFA) has identified the need for structural reform to the residential aged care sector. ACFA has identified the need for regulatory certainty and sustainable funding arrangements including greater contribution by consumers according to capacity to pay. We support reforms that provide greater consumer choice and policy settings that enable aged care providers such as Estia, who have the scale and capacity to respond to regulatory change and invest in their people, portfolio and services.

4. SUSTAINABILITY

As awareness of environmental issues increases, including the impacts of climate change, waste and finite natural resources, residential aged care providers are incorporating sustainability into their broader business strategies. In FY19 Estia completed a formal Materiality Assessment, asking over 2,000 of our stakeholders what they believe our priority areas are for sustainability. This assessment will form the basis of our first formal Sustainability Strategy in FY20.



5. AGED CARE WORKFORCE

The Aged Care Workforce Strategy Taskforce's 2018 report 'A Matter of Care - Australia's Aged Care Workforce Strategy' outlined priority areas for training, developing and retaining employees and providing career pathways to increase the skills required to meet community expectations and the changing requirements of aged care. Estia is implementing strategies to address matters identified by the Taskforce to build the capacity of our employees and shape our workforce to meet emerging trends.



6. CUSTOMER CHOICE

As community expectations of quality care continue to rise, building trust and confidence in the residential aged care sector is essential. The introduction of Consumer Directed Care (CDC) into home care, means customers have more control over the types of care and services they can access, and are remaining at home for as long as possible. At Estia we train and educate our people to understand and deliver true person-centred care, combined with developing services and products that offer choice and flexibility to the residents in our care.



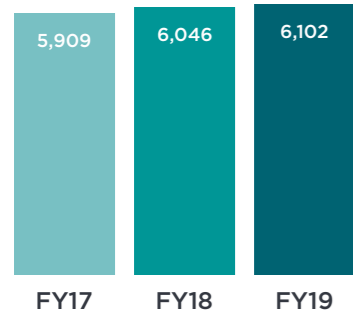
¹ www.abs.gov.au/ausstats/abs@.nsf/mediareleasesbytitle/58FF5A2527DDD70ECA2568A90013634F?OpenDocument

² www.aihw.gov.au/reports/life-expectancy-death/deaths-in-australia/contents/leading-causes-of-death

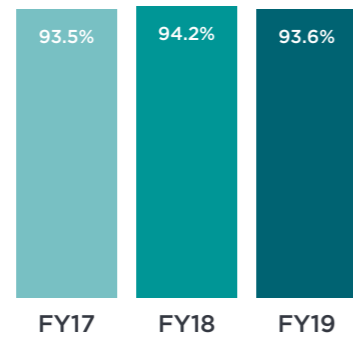
Key Highlights

Financial Performance

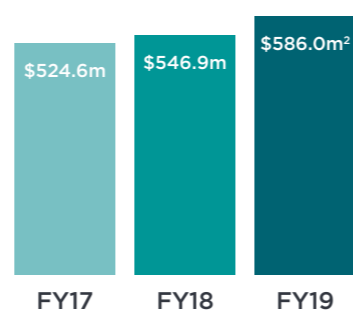
OPERATIONAL BEDS



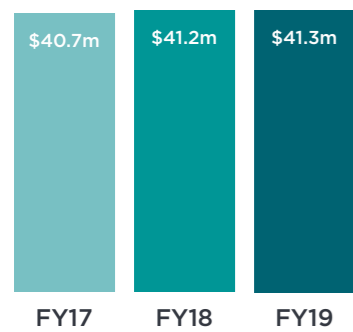
AVERAGE OCCUPANCY¹



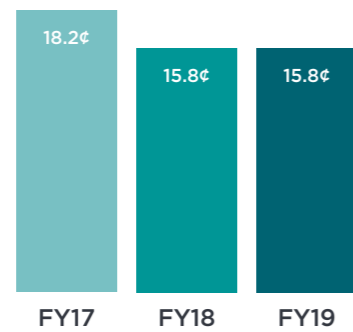
REVENUE



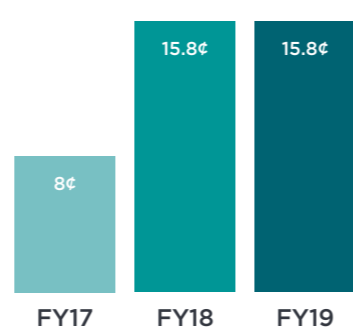
PROFIT AFTER TAX



EARNINGS PER SHARE



DIVIDENDS PER SHARE



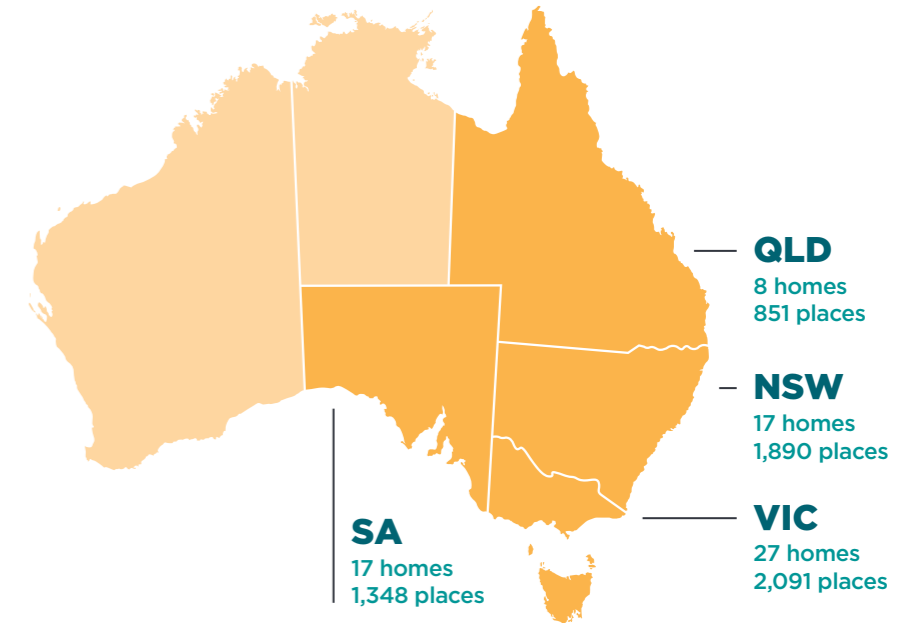
¹ Mature homes only
² Total revenue includes the \$10.3 million temporary funding increase

Key Highlights

Growth and Network of Homes

Statistics are as at 16 August 2019 (except as noted)

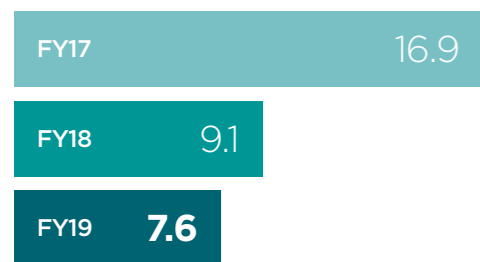
Total number of operational homes	69
– Metro	53
– Regional	16
Freehold sites	62
Total operational places – 30 June 2019	6,102
Total operational places – 16 August 2019 ¹	6,180
Number of single rooms	5,091
Single rooms as percentage of total rooms	91%
Average number of places per home	90
Number of homes receiving significant refurbishment supplement	34



¹ Total operational places reflects the removal of 48 beds on 1 July 2019 from the mature home portfolio and the new Maroochydore home (126 beds) which opened for first residents on 26 August 2019.

Health and Safety

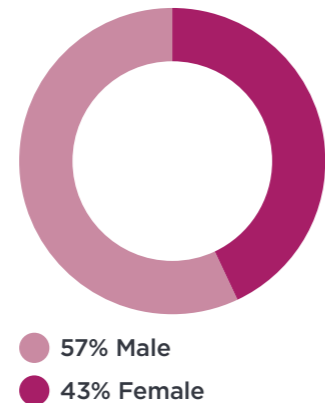
LTIFR¹



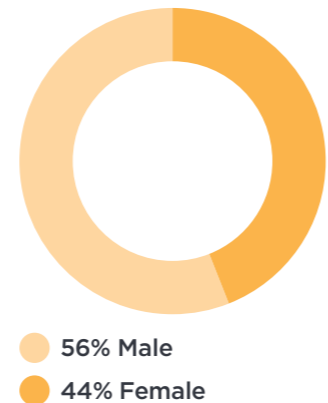
¹ Lost Time to Injury Frequency Rate (LTIFR). 12 month rolling average.

Gender Diversity

BOARD COMPOSITION

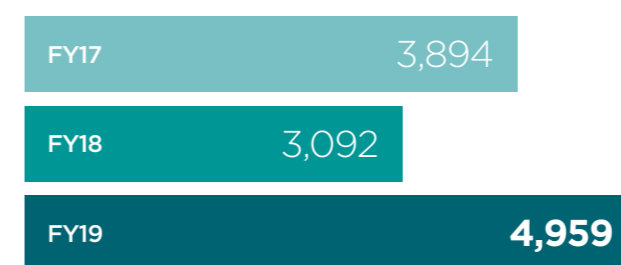


EXECUTIVE POSITIONS



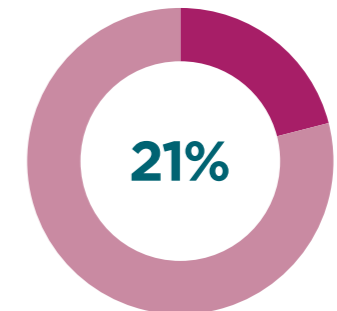
Professional Development

EMPLOYEES TRAINED ACROSS PROFESSIONAL DEVELOPMENT PROGRAMS



Employees

EMPLOYEE TURNOVER



Chairman and CEO's Message

Access to affordable, quality residential aged care is one of the major challenges facing older Australians. Estia Health plays a significant role in meeting this need. As a result, your Company is well placed to capture emerging growth opportunities in residential aged care, while creating value for all our stakeholders.

Estia Health has delivered sound results for the 2019 financial year that reflect our disciplined approach to delivering high quality and safe residential aged care services to everyday Australians.

Our focus is on continually improving the quality of care and amenity for residents while sustainably growing earnings through measured, well-executed investment in new homes and refurbishments across our portfolio.

Total revenue increased 7.1 per cent to \$586.0 million, earnings before interest, tax, depreciation and amortisation are up 4.3 per cent to \$94.0 million and net profit of \$41.3 million is in line with last year.

The Company's performance for the year is testament to the hard work and dedication of our 7,500 people.

Access to affordable, quality residential aged care is one of the major challenges facing older Australians. Estia plays a significant role in meeting this need. As a result, your Company is well placed to capture emerging growth opportunities in residential aged care, while creating value for all our stakeholders.

THE FUTURE OPPORTUNITIES AND CHALLENGES FOR AGED CARE

With the number of Australians over 85 years of age expected to double

by 2042¹, Australians' confidence and trust in our aged care sector is critical.

Estia strongly supports further reform in the aged care sector to ensure delivery of sustainable, high quality and safe aged care services for the future.

We look forward to the Interim Report from the Royal Commission into Aged Care Quality and Safety due in October 2019 that may provide the Government and the sector with further guidance for reform.

Estia supports the recommendations in the Aged Care Financing Authority (ACFA) submission to the Royal Commission for significant structural reform in the way aged care is funded to achieve stable, predictable and equitable arrangements for allocating appropriate funding for the sector.

We support strong prudential and governance oversight systems to ensure protections for residents and transparency on how Government aged care funding is applied by providers.

Future sector funding should be flexible to effectively and efficiently meet Australia's growing need for aged care and increasing community expectations including expanded opportunities for contribution by those with capacity to pay.

INVESTING IN SUSTAINABLE GROWTH

Estia's focus is sustainable growth by continually improving clinical governance, quality management and resident care systems through employee education, technology development and service enhancement. This is supported by disciplined investment in acquisition, construction of new homes and redevelopment of existing properties to grow bed capacity and drive future earnings.

As a result, we were well prepared for the introduction of the new Aged Care Quality Standards from 1 July 2019.

During the period under review we invested \$93.8 million, our highest level of capital investment since listing in 2014, in expanding and refurbishing our portfolio of homes. Including a new 110 bed home at Southport which opened in May and a 126 bed home at Maroochydore which opened in August 2019, both in Queensland. Refurbishments across the portfolio have enhanced resident amenity, improved the marketability of the homes and are generating incremental earnings through Higher Accommodation Supplements. We have 34 of our 69 homes qualifying for the Higher Accommodation Supplement as of 16 August 2019.



Dr Gary Weiss, AM
Chairman

We experienced lower RAD inflows of \$14.6 million throughout the year and anticipate this trend of lower RAD preferences and higher level of concessional residents will continue in the short term ahead of major sector reform.

Our balance sheet remains strong with net bank debt of \$110.4 million at 30 June 2019. With available debt facilities of \$201.0 million we are well capitalised and have flexibility to manage changing resident payment preferences, as well as capacity to execute our growth plans.

Planned investment for FY20 includes between \$120.0-150.0 million for the continuation of the significant refurbishment program and construction and pre-planning for new greenfield and brownfield projects.

COMMUNITY FOCUS

We are committed to delivering the highest quality care to people who choose to trust us at an important time in their lives. We understand that people want to stay at home for as long as possible and when entering residential aged care, have a strong preference to remain in their own community.

We aim to be the provider of choice in the communities in which we operate and ensure that each of our homes and the services they offer are reflective of their location and the preferences of that community.



Ian Thorley
Chief Executive Officer

Our strong local community engagement program is reflected in Estia's average occupancy of 93.6% for the year.

SUSTAINABILITY

With a network of 69 homes across four states, it is vital that we maintain clear visibility on the impact we might have on the communities in which we operate. Recognising the growing significance of non-financial considerations for the long-term sustainability of the organisation, we developed our first Sustainability Charter during the year.

We also conducted a materiality review with over 2,000 of our key stakeholders including residents, families and employees to help determine and prioritise the issues Estia will address to ensure sustainable social value creation throughout our operations.

From this review we are developing a Sustainability Strategy and framework to report to stakeholders and benchmark our progress on the initiatives to support the sustainable social value we create in our communities and against our targets for reduced energy consumption and waste minimisation.

ESTIA IS A PEOPLE BUSINESS

There is no greater priority for Estia than striving for the highest quality of care, safety and wellbeing for the 8,000 residents we care for annually and 7,500 employees.

Estia has outstanding leaders at all levels of the Company who understand both the opportunities and challenges of the aged care sector. We have strong teams in each of our homes, including Registered Nurses rostered in every home 24 hours a day, seven days a week, who work hard to ensure the right level of care is delivered to each resident to address their increasingly complex and varying needs.

To continue to attract, train and retain the highest calibre employees we regularly assess and refine our skills development and leadership pathway programs. We are building our workforce in anticipation of the rising demand for skilled and empathetic employees to care for the increasing number and complexity of care needs of our residents.

We would like to thank our employees and our leadership group for their ongoing commitment, compassion, professionalism and hard work in ensuring our residents receive the best care.

We also thank our shareholders for their continued support.

We believe the future of residential aged care in Australia will be driven by well-governed, quality-focused providers like Estia with capacity to meet the demands for choice in how we care for our elderly as the country's population ages.

As one of Australia's largest residential aged care providers, we look forward to continuing to play a critical role in delivering sustainable, high quality and safe aged care services for all Australians.

Yours sincerely,

Dr Gary Weiss, AM
Chairman

Ian Thorley
Chief Executive Officer

¹ www.abs.gov.au/ausstats/abs@.nsf/mediareleasesbytitle/58FF5A2527DDD70ECA2568A90013634F?OpenDocument



From left to right:
 Standing: Damian Hiser, Rita Sheridan, Ian Thorley, Mark Brandon OAM, Jane Murray.
 Seated: Steve Lemlin, Leanne Laidler, Sean Bilton, Fiona Caldwell

Our Executive Team

Our Executive Team is responsible for ensuring we provide consistently high quality residential aged care to all the communities we serve. Led by Chief Executive Officer Ian Thorley, the team brings extensive expertise across the health care, aged care and corporate sectors. As a team, they are responsible for setting and implementing a strategy for Estia Health to become Australia's most trusted residential aged care provider, providing access to high quality residential aged care to all who need it.

- | | | | | |
|--|--|--|---|--|
| DAMIAN HISER
Chief Customer Officer | RITA SHERIDAN
General Manager Development and Property | IAN THORLEY
Chief Executive Officer and Managing Director | MARK BRANDON, OAM
Chief Policy and Regulatory Officer | JANE MURRAY
Chief People Officer |
| STEVE LEMLIN
Chief Financial Officer | LEANNE LAIDLER
Chief Quality and Risk Officer | SEAN BILTON
Chief Operating Officer and Deputy Chief Executive Officer | FIONA CALDWELL
Chief Information Officer | |

DAMIAN HISER

Chief Customer Officer

Damian is a senior healthcare executive, with nearly 30 years' experience in the private health care sector in Australia and the Middle East, and the last eight years in aged care in Australia. Damian brings a wealth of experience and understanding of the complexities of health care systems, looking at opportunities to improve the customer experience to contribute to business sustainability and growth.

Appointed to the role of Chief Customer Officer in October 2017, Damian is responsible for programs that improve the experience for residents and their families as they navigate the difficult and emotional journey into aged care, to help make the transition as easy as possible.

He leads a team in the areas of hospitality and lifestyle, marketing and communications and client services in building Estia's brand as one of the most respected and preferred aged care providers in the local communities in which it operates.

Damian holds a Bachelor of Optometry (UNSW) and a Master of Business Administration (UTS).

RITA SHERIDAN

General Manager Development and Property

Rita Sheridan's career spans capital development in the aged care and accommodation sectors, residential construction and commercial interior design.

Appointed to the role of General Manager Development and Property in March 2018, Rita leads Estia's capital development and property maintenance programs.

Prior to joining Estia, Rita was General Manager Property for Amana Living and previously Southern Cross Care (WA) Inc where her responsibilities included leadership and management roles in strategic planning and developments, asset and maintenance services, retirement living and affordable community housing.

She has a significant record of successful completion of major capital developments in both aged care and retirement living, bringing together strategic market insight and functional service details that support the key requirements of the business.

Rita holds a Business degree majoring in Accounting and has held committee positions with ACSWA and the Property Council WA.

IAN THORLEY

Chief Executive Officer and Managing Director

Ian has over 30 years' health and aged care experience in both Australia and overseas.

Appointed as Chief Executive Officer in October 2018, Ian was previously Estia's Chief Operating Officer from October 2016, where he was responsible for leading Estia's operations and care teams, embedding key improvements resulting in revenue growth and operational efficiencies, while delivering consistently high standards of quality care to residents across a growing portfolio of homes.

Ian's executive experience includes CEO and COO roles in large aged care groups, acute private hospital groups and diagnostic services. Ian has been at the forefront of major developments that have shaped Australia's healthcare sector, including the privatisation of public hospitals, new reimbursement and funding models, and a broad range of public/private sector service models.

Ian has held the position of Non-executive Director in private equity owned, and ASX listed companies and has consulted to aged care operators, private hospital groups, health insurers, health logistics and specialist health recruitment businesses throughout Australia.

Ian is a Graduate of the Australian Institute of Company Directors (GAICD) and holds a Master of Commerce from the University of NSW.

MARK BRANDON, OAM

Chief Policy and Regulatory Officer

With 40 years' experience in the health and aged care sectors, Mark is an internationally recognised leader on strategy, quality, accreditation and government relations.

He is a member of the panels of experts for the International Society for Quality in Healthcare and the International Federation on Ageing. His experience also includes Vice Chair of the International Accreditation Council and advisor to governments.

As Chief Policy and Regulatory Officer, Mark's remit includes key stakeholder relationship management and oversight of regulatory compliance. Mark was CEO at the Australian Government Aged Care Standards and Accreditation Agency Ltd from 2002 to 2013. He previously held senior executive positions at Medibank Private and Medicare and was a member of the Aged Care Minister's Advisory Council.

He is a member of the Advisory Board in the School of Business at University of Notre Dame Australia and a mentor in the International Society for Quality in Healthcare mentoring program.

JANE MURRAY

Chief People Officer

Appointed to the role of Estia's People and Culture Director in July 2017, Jane has had senior human resources and change leadership roles for top ASX listed companies and government agencies, including AXA Asia Pacific, AMP, Australian Casualty and Life and the Victorian Funds Management Corporation.

Jane leads the delivery of Estia's people strategy, founded on building a strong employee culture and positioning Estia as the employer of choice in the aged care sector. Her role includes delivering strategies for attracting and retaining a high quality skilled workforce and developing career pathways to ensure the sustainability of Estia's workforce. She is also responsible for learning and development programs for all of our employees, as well as specialist role based training around clinical care and leadership. Jane is also responsible for work health and safety programs.

As an internationally accredited Organisational and Executive Coach, Jane has proven capability in unlocking leadership potential within organisations. Jane attained her International Coaching Federation Associate Certified Coach (ACC) credential for organisational coaching in early 2017.

Jane holds qualifications across Human Resources, Project Management and Organisational Change.

STEVE LEMLIN

Chief Financial Officer

Steve holds 30 years' experience in senior financial and operational leadership roles across a range of professional services businesses in Europe and Australasia.

Joining Estia in February 2017 as Chief Financial Officer, Steve is responsible for corporate finance and investor relations and also leads the broader finance team in supporting our homes deliver the best experience for our residents through accurate and timely management information.

Prior to joining Estia, Steve was Finance Director at private equity owned Careers Training Group, which followed his role as CFO and then COO at leading digital advertising and engagement company, the White Agency, part of STW Australia's largest listed communications group. Steve has held senior financial leadership roles at MYOB/Solution 6, Reckon and Ramsay Health Care as well as leading a management buyout, turnaround and subsequent sale of a corporate training business.

Steve is a Fellow of the ICAEW and holds an Honours Degree in Accounting and Finance from the University of Lancaster, UK.

LEANNE LAIDLER

Chief Quality and Risk Officer

Appointed in May 2019 as the Chief Quality and Risk Officer, Leanne is a senior healthcare executive with over 40 years' experience in the hospital sector in Australia and overseas.

Prior to her appointment with Estia, Leanne was National Deputy Clinical Governance Manager for Ramsay Health Care and previously Group Vice President Nursing, Learning and Operational Excellence with Parkway Health based in Singapore.

Leanne is responsible for leading Estia's delivery of high quality care to our residents in safe and supportive environments. This involves the development and implementation of a person-centred care framework that combines quality and risk management strategies. Leanne's role is focused on embedding a continuous improvement culture, using quality indicator measurement and a risk management framework that enables transparent incident reporting, data analysis, trending and benchmarking with validation of compliance via audit.

Leanne is a Registered Nurse with a post registration Bachelor of Nursing awarded from Deakin University and a Master of Business from Monash University. She is currently enrolled in a Master of Gerontology program.

SEAN BILTON

Chief Operating Officer and Deputy CEO

Appointed as Estia's Chief Operating Officer and Deputy CEO in October 2018, Sean brings a breadth of experience from more than a decade as a senior executive in the sector across a diverse range of roles.

Sean is responsible for leading Estia's operations teams, initiating improvements to ensure the highest level of care is delivered to the 8,000 residents in our homes annually. Sean ensures that every one of our 69 homes engage with their local communities and works closely with teams on the ground, supporting and empowering them to deliver exceptional and compassionate care to all residents as they make the journey into aged care.

Prior to joining Estia, Sean was Commercial Director at Opal Aged Care and previous to that was an Investment Manager with AMP Capital Investors, responsible for managing assets in aged care, agriculture and resources sectors.

Sean commenced his career in the Financial Advisory business of PricewaterhouseCoopers.

He holds a Bachelor of Economics from UNSW and is a Fellow of the Financial Services Institute of Australia.

FIONA CALDWELL

Chief Information Officer

With over 25 years' experience in various IT strategic and operational leadership capacities, Fiona brings to Estia a wealth of practised knowledge and a sound background in managing IT solutions and projects. Appointed to the role of Chief Information Officer in October 2017, Fiona leads Estia's IT team in the delivery of modern and innovative technologies and services and seeks to advance the level of assistance and amenities available at Estia.

Fiona is a recognised leader in optimising the IT user experience. She has extensive experience in the Government and Commercial sectors, including Village Roadshow, Cenitex and the Tatts Group.

Fiona holds a Bachelor of Computing and Master of Business Administration from Monash University.

Our Customers

At Estia Health, our priority is to ensure that our residents settle into their new home. This means our experienced clinical, hospitality and lifestyle teams work closely together to provide tailored experiences that best suit each resident's needs.

With the introduction of the new Aged Care Quality and Safety Standards on 1 July 2019, we have been training and educating our people to understand the changes and strive to deliver true person-centred care. Supported by our revised brand purpose of enriching and celebrating life together, we will continue to embed our core values and principles through our family code.

Our teams understand that each resident has their own story to tell; with different experiences, memories, preferences, identity, values, beliefs, hobbies, likes and dislikes. Of the 8,000 residents we care for annually, there are over 95 cultural backgrounds and 22 languages spoken. We have a diverse family of employees and where we see the opportunity, we will utilise their breadth of experience and backgrounds to help our residents settle into the home.

WHAT WE PROVIDE

Access to quality care

- Estia provides short-term respite care for people that may need additional support if they are being cared for at home by a loved one, or following a hospital stay when they are unable to return home immediately.
- We provide permanent care for people that are no longer able to live at home. A number of our homes have Memory Support Units, providing a safe and supportive environment for residents requiring additional specialist dementia care.
- Our homes are managed and led by Executive Directors to ensure every resident has the best experience possible. They work closely with Care Directors, who lead an experienced team of Registered Nurses and carers to provide support and care, tailored to our resident's needs. We have Registered Nurses rostered on in all homes 24/7.
- When new residents are welcomed into an Estia home, our skilled team assess each resident's individual needs to develop tailored clinical care plans. We also include families in the process to learn more about each resident beyond expected care needs, helping us identify meaningful ways to assist them to feel comfortable and supported in their new home.

- The care we deliver is monitored by uniform clinical quality indicators, which are measured and reviewed by our Quality Improvement Committee.
- As part of our culture of continuous improvement and to address feedback from our residents and families on the care and services they receive, we conduct internal benchmarking on customer satisfaction. This benchmarking is against The Aged Care Quality and Safety Commission's (ACQSC) Consumer Experience Report (CER) Surveys conducted at assessment visits at Estia homes. Across our homes, we have received an average satisfaction result of over 90% for CER Surveys conducted by the ACQSC during FY19.
- We have also launched a pilot program of a digital customer pulse survey for our homes to seek continuous feedback across the customer journey, including the CER Survey.

ENGAGING ACTIVITIES

Providing a range of activities for our residents is key to the care we deliver.

All of our homes have a lifestyle team, who program daily activities based on residents' input and feedback. This includes games, cooking and craft, the arts, cultural activities, and spiritual and religious events.

Our lifestyle team also schedule regular outings to help our residents remain connected to their community, family and friends.

FRESH FOOD PHILOSOPHY

Our food philosophy is *'thoughtfully sourced, freshly prepared, served with love'*. Each home's menu is crafted based on residents' preferences. Where possible, we source from Australian producers with a focus on fresh ingredients and from suppliers who are recognised as the best in their field. We are continuing to invest in training our Chefs, running masterclasses to upskill them in delivering nutritious, quality meals for all residents. Our food is prepared fresh on-site every day.

When Ian Stock came to stay

Initially Ian was apprehensive about coming into aged care, but he had suffered a series of falls in his family home and was struggling to cope, so began to come into Estia for short periods of respite care.

Ian says 'The best thing about coming in for short-term care was that it was so much easier for my wife - when I was falling it was not fair on her. I'm a big guy, and she would struggle to pick me up and help me'.

'She bought me a special chair (which cost a fortune) to try and make me more comfortable and help me get up and out of it - but it was quite low and it was just terrible and it was so hard to get in and out. I've learnt you have to be very careful where you sit!'

'I would come in for a week and we would both feel better after having a period of respite - then I would go home and I'd have another bad fall. I came in about five or six times, but after this, we decided it was best I moved in permanently. Since moving in, I haven't felt like I'm about to have a fall. I think it's the fact that I've always got something to hang on to, either the railing or a seat, and I have people here to help me - these have made me feel much safer and more stable.'

When Ian first moved in, all the staff were very friendly - they all knew his name and took the time to get to know him. Ian quickly started to like Estia and appreciated the daily care he received.

Regular outings are an important part of the care 'I like to go to the Men's Shed on Thursdays and Fridays - in fact I love it. I used to be a mechanic by trade, but I don't do anything like that anymore. I just like to go down and play snooker and have a rest. The thing I enjoy most about the Men's Shed is the company and the friendly banter', says Ian.

'It's nice when my wife comes to visit - we sit in my room and we just get to talk. The most important thing to me living here is the staff, they all respect you and they treat you well.'

"I came in about five or six times, but after this, we decided it was best I moved in permanently. Since moving in, I haven't felt like I'm about to have a fall."

— Ian, Resident at Estia



Estia resident Ian, is cared for by Registered Nurse, Charizza.

Growing and Evolving Our Network

At Estia Health, we are continually looking at ways to provide local communities with access to quality residential aged care. Our approach involves a combination of new homes, redevelopment and refurbishment to enhance and expand our network.

This year we have invested a total of \$93.8 million to increase the number of beds available in our network, as well as continuing our overall refurbishment program focused on enhancing the resident experience and meeting community expectations.

ENHANCING OUR HOMES

Our significant refurbishments program began in 2017 and has prioritised investment on the needs of each home to improve the resident experience.

During FY19, 13 homes with a total 1,105 beds were refurbished through capital investment of \$15.5 million. A further 15 homes with an additional 1,562 beds are scheduled for refurbishment during FY20. This will result in 49 homes with 4,801 beds being eligible for the Higher Accommodation Supplement by 30 June 2020. The remaining homes are being assessed for potential refurbishment or redevelopment opportunities.



Estia Grovedale

Estia Health breaks ground at \$39.2 million Blakehurst site

In June 2019, Estia turned the first sod at an official ground-breaking ceremony to mark the start of construction of Estia Blakehurst. This shows the benefits of redeveloping within the existing portfolio, with the original home demolished in 2018. It is now being developed as a new 108 bed home.

Gamilaroi representatives performed an Acknowledgment to Country and smoking ceremony before construction began.



EXPANDING OUR NETWORK OF HOMES

This year we opened Estia Southport in May and Estia Maroochydore in August. Both are examples of our strategy to grow and expand our network of homes and deliver high quality residential aged care facilities, that meets community needs and expectations.

The homes were each constructed on time and within budget with an integrated approach between the architects, builders and commissioning teams, to ensure a smooth transition from building design, through to commissioning and launch.

Estia Southport is an example of capital recycling where we developed the former 60 bed home into a contemporary 110 bed home.



Estia Southport

Opened May 2019

- 110 single rooms with ensuite.
- Integrated café, hairdresser, cinema.
- Project capital investment - \$28.7 million.
- Dedicated 17 bed Memory Support Unit with courtyard, provides a safe and supportive environment for residents requiring specialist dementia care.
- Private internal garden atrium.

Estia Maroochydore is a greenfield development providing 126 single rooms with a dedicated 18 bed Memory Support Unit. Located within close proximity

to the recently developed Maroochydore town centre, this tranquil location allows residents and their families to continue to be part of their community.



Estia Maroochydore

Opened August 2019

- 126 single rooms with ensuite.
- Integrated café, hairdresser, cinema.
- Project capital investment - \$32.5 million.
- Dedicated 18 bed Memory Support Unit with courtyard.
- Resort style design reflects the local community setting.



Estia Southport – Part of your Community

QUALITY AGED CARE FOR THE SOUTHPORT COMMUNITY

The new home is a \$28.7 million brownfield development replacing the original home built in the 1970s. Bed capacity has increased from 60 to 110 beds.

Estia Southport expanded our network of homes in Queensland to eight homes, including Estia Maroochydore. This is part of Estia's strategy to provide a breadth of choice for the local communities within the South East Queensland region.

Key features

- Spacious single rooms with ensuite offer a comfortable environment for residents.
- A 17 bed Memory Support Unit provides a safe and supportive environment for people needing more specialist care.
- Large café open to the local community.
- Lifestyle activities encouraging ongoing community interactions.

BUILDING FOR THE FUTURE – ENVIRONMENTAL CONSIDERATIONS

Through close consultation with the architects, the home was developed to adapt to changing climate as well as reducing negative environmental impact.

- 1,800 LED lights installed resulting in an estimated reduction of energy consumption of 20-30% compared to traditional fluorescent lights.
- 368 solar panels installed with a solar capacity of 98 kW, reducing CO² emissions by an estimated 107 tonnes per year.
- 110 POD bathrooms, pre-constructed and then installed onsite, streamlining manufacturing process resulting in total wastage of materials during production is less than 1%.
- 10 solar pre-heat warm water systems will save an estimated 203,670 MJ/year and approximately \$5,000 annual gas cost.
- The home is located alongside a sensitive mangrove habitat and the design ensured low impact on the environment, while presenting views and amenity for our residents.

FUTURE DEVELOPMENT AND ACQUISITION PLANS AND OPPORTUNITIES

Estia will continue to grow via development and future acquisition opportunities within existing geographic networks.

DEVELOPMENT	TOTAL NEW PLACES	NET ADDITIONAL PLACES	LAND HELD	DEVELOPMENT APPROVAL	LICENSES SECURED	STATUS	EXPECTED OPENING
COMPLETE							
Twin Waters, QLD	114	114	✓	✓	✓	Open	Sep 2017
Kogarah, NSW	72	22	✓	✓	✓	Open	Mar 2018
Southport, QLD	110	110	✓	✓	✓	Open	May 2019
Maroochydore, QLD	126	126	✓	✓	✓	Open	Aug 2019
UNDERWAY/IN PROGRESS							
Blakehurst, NSW	108	108	✓	✓	✓	Under Development	1HFY21
St Ives, NSW	118	118	✓	✓	Partial	Under Development	2HFY21
Wollongong, NSW	115	115	✓	×	×	Advanced Planning	1HFY22
Burton, SA	28	28	×	×	✓	Advanced Planning	FY22
Aldgate, SA	120	90	×	×	✓	Advanced Planning	FY23
Maitland, NSW*	108	108	✓	×	✓	Contract subject to approvals	FY22
Mona Vale, NSW	54	-	✓	×	✓	Detailed Assessment	TBA

*Contract subject to closing terms and conditions (including the transfer of licences) and is expected to be completed by 31 December 2019.



Architects, builders and commissioning teams work together to ensure a smooth transition from building design, through to commissioning and launch.

Environmental, Social and Governance (ESG)

A snapshot from FY19

GOVERNANCE:

Materiality:

- Completed first formal Materiality Assessment of Environmental, Social and Governance related issues in line with Global Reporting Initiative (GRI) Standards, engaging more than 2,000 internal and external stakeholders.

Estia's Sustainability Committee:

- Implemented Executive Sustainability Committee representing all business units, meeting quarterly formalising integration of ESG issues into wider business strategy.
- Published Sustainability Charter on website.
- Commissioned a formal Sustainability Strategy to guide focus areas and initiatives over the next three years.

Sustainability and Corporate Social Responsibility Memberships:

- Member of the Ethics Alliance.

Estia's Organisation Governance:

- Organisation risk management and risk profiling framework updated and approved by Board Risk Committee.

Data Protection:

- Developed Information Security Policy and security incident response plan.
- Established Information Security Steering Committee reporting to the Audit and Risk Committee.

Privacy Policy:

- Updated Privacy Policy demonstrating commitment to ensuring employee and consumer privacy is respected in accordance with the Australian Privacy Principles.

Whistleblowing Policy:

- Updated Estia's Whistleblowing Policy to comply with the Treasury Laws Amendment (Enhancing Whistleblower Protections) Act 2019 that came into effect on 1 July 2019 providing greater legislative protections for whistleblowers.

Nil Political donations

Tax Governance:

- Tax Transparency report provided in this Annual Report. Estia's tax governance is overseen by the Board's Audit Committee and is guided by its Board Tax Policy and Tax Risk Management Framework.



ENVIRONMENTAL:

Carbon:

- Completed a carbon footprint assessment of Estia's operations and supply chain based on FY18 baseline.

Energy:

- Solar panels installed at an additional 19 homes by the end of 2019, bringing the total number of Estia homes with panels installed to 58 (84% of portfolio).
- LED lighting upgrade program will be completed to additional 28 homes by the end of 2019, bringing the total to 57 homes with upgraded lighting (82% of portfolio).
- This second tranche of energy efficiency initiatives will deliver a further reduction in energy consumption of 3,606MWh across the portfolio, reflecting an approximate cost saving of \$659,000.
- Completed various energy efficiency projects in FY19 that will deliver an additional reduction of 3,361Te of carbon dioxide across the organisation, combined with initiatives from FY18 that targeted a reduction of 6,109Te.

Waste:

- Maintained a 16% diversion rate of waste to landfill.

Water:

- Maintained total water consumption at FY18 levels across the portfolio including the addition of two new homes in FY19.

SOCIAL:

Our People:

- Training and development:** 4,959 employees trained in professional development programs and industry specialisation.
- Gender diversity:** CEW highest ranked gender balanced ASX200 company for second consecutive year.¹
- Employee experience survey:** 66% of all employees surveyed in second bi-annual company-wide Employee Experience Survey, higher than FY17 participation rate of 49%.
- Health and safety:** continued to reduce lost time to injury frequency rate from 9.1 in FY18 to 7.6 in FY19.
- Employee Assistance Program (EAP):** counselling service available to all employees 24/7 and extended to residents and families in FY19.

Our Communities:

- Partnerships:** major corporate sponsor in New South Wales and Queensland of the Centenarian Project for Teenagers; an intergenerational program between 100 young artists and 100 centenarians.
- Registered Training Organisations (RTOs) and Universities:** continued working relationships with RTOs and Universities in local communities to provide vocational education including student nurse placements.

Our Supply Chain:

- Human Rights:** Modern Slavery Supply Chain Risk Assessment undertaken for all major suppliers in compliance with the Modern Slavery Act 2018.

¹ CEW Senior Executives Survey 2019.

Our approach to Environmental, Social, and Governance (ESG)

As one of Australia's largest residential aged care providers, we understand the impact we have on our residents, their families, our employees and the wider community in which we operate.

Recognising the growing significance of these non-financial considerations for the long-term sustainability of the organisation, in FY19 we continued our commitment to understanding ESG risks and opportunities and considering these across all elements of governance and decision making.

This approach aims to identify where our major impacts occur and where we need to focus our efforts to understand our stakeholders, our communities and the environment. We have established the strategic, operational and governance related foundations across the organisation to ensure we deliver to our potential.

This year's focus areas are summarised on the previous page. These will be further refined in a formal Impact Measurement Framework, which will be part of the Sustainability Strategy published next year.



Residents enjoy a catch up over breakfast.

Governance

Our FY19 focus has been maturing our approach to ESG risks and opportunities across the organisation. Driven by Estia Health's Sustainability Committee, Estia has adopted a strategic roadmap to advance the sustainability agenda across the organisation, consisting of four phases to be rolled out over a period of FY19-FY22:

1 RESTRUCTURING ESG GOVERNANCE

A review of the original ESG Committee Terms of Reference, resulted in a revision of membership to include the CEO and Executive team to ensure all aspects of the organisation are involved in the development of Estia Health's Sustainability Strategy within the broader business strategy. The Committee meets four times a year and has refined the Sustainability Charter which is publicly available on our website and outlines the Committee's objectives, authority, responsibilities, composition and operation.

The Committee reviews and approves key deliverables outlined in the future roadmap and Sustainability Strategy.

2 DEFINING KEY MATERIAL TOPICS TO FOCUS ON OVER THE NEXT THREE YEARS

In FY19 the Committee commissioned a formal Materiality Assessment and an Environmental and Social Impact Baseline Review.

The Materiality Assessment is a standard process within international reporting standards. We asked a range of stakeholders, including employees, residents, families, and industry bodies which issues mattered most to them and what should be of most strategic importance to Estia. This was conducted via quantitative and qualitative research, engaging over 2,000 stakeholders through online surveys, phone interviews and focus groups.

The Environmental and Social Impact Baseline Review is in development and will establish a formal baseline to measure the environmental and social impact of Estia's operations and supply chain.

The insights gained through the Materiality Assessment, in combination with the Environmental and Social Impact Baseline Review will inform Estia's Sustainability and broader business strategy.

3 DEVELOPING A FORMAL ROADMAP TO ADDRESS KEY HOTSPOTS

The Committee commissioned the development of a formal Sustainability Strategy in FY20. This will include a formal Impact Measurement Framework, which will outline the focus areas and measures of success, key short and long-term initiatives as well as appropriate targets for a three-year plan.

4 ADVANCED ENGAGEMENT AND REPORTING

The Committee investigated the most appropriate reporting framework. Options are still being considered with the objective of publishing a more integrated Annual Report for FY20.

The Committee is also exploring opportunities to increase knowledge and best practice ESG and sustainability management within the organisation. This includes being active members of ESG/Sustainability working groups, including the Ethics Alliance, which Estia became a member of in FY19.

Environment

BROADER ORGANISATION GOVERNANCE

In addition to the ESG governance in place, Estia has corporate governance practices which are contained within Estia's Corporate Governance Statement. Summarised information is available on page 34 of this Annual Report.

There has been further refinement of the organisation risk management and risk profiling framework, which has been updated and approved by the Board Risk Committee.

WHISTLEBLOWING POLICY

The Whistleblowing Policy has been updated to comply with the Treasury Laws Amendment (Enhancing Whistleblower Protections) Act 2019, that came into effect on 1 July and provides greater legislative protections for whistleblowers.

Employees can make a disclosure under this new legislation, via email, online through the website, by phone or fax as well as via Estia's Say Something Hotline. This hotline is independently administered by Deloitte and was introduced into Estia in 2017.

PRIVACY POLICY

Estia has a Chief Privacy Officer and our Privacy Policy demonstrates our commitment to ensuring employees and consumer privacy is respected in accordance with the Australian Privacy Principles and the relevant State laws. Our Policy describes how Estia protects the privacy of personal and sensitive information that is collected, used, disclosed and accessed. The Policy statement is supported by detailed processes which are available to all employees.

DATA SECURITY

Customer privacy and data security are focus areas for Estia. Internal governance structures include an Information Security Committee that reports into the Executive Risk Committee. Estia has continued to improve data security and fraud prevention with new threat identification and remediation capabilities and ongoing employee training programs. Third-party security risk assessments and audits are conducted to assess and validate security controls and are performed annually with internal self-assessments performed on a monthly basis. To monitor Estia's cyber security maturity, the security program is aligned to a best practice cyber security framework (National Institute of Standards and Technology, NIST) which is updated and reviewed bi-annually.

TAX GOVERNANCE

Estia's tax governance is overseen by the Board Audit Committee and is guided by its Board Tax Policy and Tax Risk Management Framework. These policies set out Estia's approach to conducting its tax affairs and the management of tax risk. The policies include internal escalation processes, including to the Audit Committee, dependent on the nature of the risk and are reviewed on a periodic basis by Estia's tax team with recommendations referred to the Audit Committee for approval.

Estia's philosophy on Tax Risk Management is to ensure that all tax related matters are treated responsibly in line with the relevant tax laws. Estia has a commitment to transparency and providing accurate disclosures and acting with integrity.

The Sustainability Committee recognised that to effectively demonstrate progress on reducing environmental impact, baseline data and measurement was needed.

BASELINE ENVIRONMENTAL AND SOCIAL IMPACT ASSESSMENT

In FY19, Estia Health began a formal Environmental Impact Baseline Review for its portfolio of homes and offices. The collated data from utilities, suppliers and internal systems was used to identify the carbon footprint of Estia's operations and supply chain, as well as establish a baseline for electricity and water consumption and waste diversion. The full results will be published in Estia's first dedicated Sustainability Strategy in FY20.

CONTINUED ENERGY UPGRADES

Estia Health has in progress a continuation of the energy savings projects across the portfolio. This includes installation of solar panels on an additional 19 homes and LED lighting upgrade on an additional 28 homes by the end of 2019. The combined impact of these will deliver a further reduction in energy consumption of 3,606MWh across the portfolio, reflecting a cost saving of \$659,000 and 3,361Te of carbon dioxide per year.



Solar panels at Estia Bannockburn.

Social

OUR PEOPLE

As a residential aged care provider, we exist to enrich and celebrate our resident's lives, through the skills, dedication and compassionate care of our people.

Attracting and retaining skilled clinicians, carers and hospitality employees is a key risk for the aged care industry. Estia Health has focused on strategies that will evolve and grow aged care as an attractive profession to clinicians, carers and those that want to make a real difference to people's lives.

ATTRACTING AND HIRING THE RIGHT PEOPLE

The Aged Care Workforce Strategy¹ identified the need to attract and recruit experienced people and create career pathways to build the skills and sustainability of the aged care workforce.

In FY19 we commissioned Korn Ferry to undertake a review of the competencies of our customer facing roles. We are developing competency-based recruitment, training and development to equip our people with the skills to deliver person-centred care.

TRAINING AND DEVELOPMENT

Training and development remains central to retaining and supporting our employees to ensure they can confidently deliver quality care and the best overall experience to our residents and their families. This year almost 5,000 of our employees have been trained in professional development programs and industry specific initiatives.

CAREER PATHWAYS AND PROGRESSION

In the past year we have designed and implemented a suite of leadership programs aimed at developing and retaining our people. Estia continues to provide role specific development and training, including our Emerging Leaders Program, which provides leadership growth in our future leaders.

CULTURE AND SUPPORT

We understand the importance of listening to our people to understand what matters most to them in working for Estia.

We are currently completing our second biannual Employee Experience Survey with Best Practice Australia (BPA) and results show a completion rate of 66%, which is both above the industry average and the 49% participation rate in 2017. Results will be delivered to every home by Estia's Executive team and will include action plans and culture workshops to embed positive change and develop the organisation's culture.

We have refined Estia's brand strategy including our employee values and principles with the intention to embed the right behaviors to deliver a quality experience to all in our care. This includes building a strong employee culture that becomes recognised within our local communities, supporting our recruitment strategies. In addition to this, in FY19 Estia's People and Culture team undertook culture programs to reinforce the importance of resident-focused care.

Utilisation of our Employee Assistance Program has had a 25% increase in usage from FY18. This is a free and confidential counselling service which can be accessed by all Estia employees and their immediate families. In FY19 it has been made available to residents and their families.

DIVERSITY

Estia is committed to creating a diverse work environment and embraces diversity as a core value and attribute of our organisation. Diversity can increase opportunity for recruitment of high-quality employees from a range of backgrounds, which can help foster closer connections with our diverse cohort of residents, families and employees.

Estia is committed to gender diversity and our Board lead by example with 43% of positions held by women, and 44% of Executive level roles held by women.

This year we have launched a new Diversity Policy. The Policy will be reviewed annually and covers a variety of factors such as gender, work and life balance.

HEALTH AND SAFETY

The safety of our residents, their families and our employees remains paramount to our organisation. In FY19 Estia has continued to build a strong culture of health and safety, which has resulted in Lost Time to Injury Frequency Rate (LTIFR) improving from 16.9 in FY17, 9.1 in FY18 to 7.6 in FY19.

All employees participate in mandatory work ready programs including manual handling, fire and emergency and infection prevention. This training continues with regular toolbox training delivered by Estia's Work Health and Safety teams.

All incidents are captured via a centralised reporting system and there is regular communication and training on how to use the system, with a mobile app also available to record any incidents, which is utilised by the leadership, Work Health and Safety and Quality teams. Each Estia home has a Work Health and Safety Committee, who meet monthly and review reported incidents.

Our independent Dial-a-Doctor service using specialists in occupational medicine has also been readily utilised by our employees. Early intervention using this service, enables employees to return to work following an injury.

HUMAN RIGHTS AND SUPPLY CHAIN RISK

In accordance with the requirements of the Federal Modern Slavery Act 2018 the Sustainability Committee commissioned a review of Estia's supply chain for risk of modern slavery violation (Supply Chain Social Risk Screening). Results show that whilst overall risk is low, the procurement categories of construction and machinery and equipment contain the highest level of risk for Estia. Over FY20 Estia will be working to establish a category management plan to ensure these risks are appropriately mitigated.

OUR COMMUNITIES

As a national residential aged care organisation, it is vital we develop lasting and meaningful relationships with our local communities

All of our homes engage with their communities in a variety of ways. This includes visiting and supporting local clubs, Churches and cultural groups, collaborating with bowls clubs, men's sheds and sports teams, as well as developing intergenerational projects with schools and kindergartens.

Moving forward as part of next year's Sustainability Strategy, we aim to implement a consistent and streamlined approach to increasing community engagement across Estia's network, which will enhance the social value of our homes within their local communities.

¹ Aged Care Workforce Strategy - agedcare.health.gov.au/reform/aged-care-workforce-strategy-taskforce

Case Studies



Recent graduate of the 'Emerging Leaders Program' - Rohit Tiwari.

Emerging Leaders Program

Estia's Emerging Leaders Program supports leadership growth in our potential future leaders. This 12-month program focuses on modules that include communications, financial management, leadership and coaching.

Recent graduate of the inaugural program, Rohit Tiwari, Senior Quality Manager for Estia said of the program 'The Emerging Leaders program has certainly added a lot of value to the way I work and the way I communicate with my colleagues. The various modules that were included in the program have helped build my confidence in these areas and assist me in the journey to becoming an influential leader'.



Estia resident Ilga with student artist.

The Centenarian Portrait Project by Teenagers

Estia is a major corporate sponsor in New South Wales and Queensland of the Centenarian Project for Teenagers, matching 100 teenage artists with 100 centenarians. From storytelling, reminiscing, joy and laughter, comes unique portraits of the centenarians. These portraits which are exhibited at major community centres give the general public the opportunity to see what 100 years of life looks like.

The project often results in unlikely friendships as the students and centenarians build relationships helping them remain connected with their community, while changing some of the perceptions that younger generations may have around ageing.



Residents enjoy a friendly game of pool.



Tax Transparency Report

For the year ended
30 June 2019

ESTIA HEALTH LIMITED

ABN 37 160 986 201

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CHIEF FINANCIAL OFFICER'S INTRODUCTION

Estia Health Limited ("Estia" or the "Company") is one of Australia's largest residential aged care providers caring for over 8,000 residents in the year across 69 homes in New South Wales, Queensland, Victoria and South Australia.

The Company's core focus is on providing high-quality residential aged care which is formally recognised in our Family Code and spreads through the Company in a range of initiatives across operations and corporate governance.

The Company approaches tax risk in a way that minimises risk and aims to maintain appropriate relationships with the Australian Tax Office ("ATO") and other relevant tax authorities.

To minimise tax risk, Estia:

- Maintains a framework to ensure compliance with all statutory tax obligations;
- Maintains a tax risk management framework including undertaking tax assessments before implementing material transactions or arrangements that may lead to an increase in tax risk;
- Manages its tax affairs in a proactive manner in accordance with the "spirit of the law"; and
- Maintains appropriate relationships with the ATO and other relevant tax authorities.

The information provided in this Report is released on a voluntary basis in accordance with the recommendations contained in the Board of Taxation's Voluntary Tax Transparency Code. The Report should be read in conjunction with the financial statements on pages 43 to 128 of this Annual Report.

We are pleased to disclose our taxes paid in Australia and to detail our approach to tax management.

Stephen Lemlin
Chief Financial Officer

PART A: TAX PAYMENTS & RECONCILIATIONS

A1

INCOME TAX EXPENSE RECONCILIATION

The below information is presented in accordance with the relevant Australian Accounting Standards and is an extract from the information disclosed in Note B7 of this Annual Report.

	2019 \$'000	2018 \$'000
Accounting profit before income tax	57,829	57,165
At the Australian statutory income tax rate of 30% (2018: 30%)	17,349	17,150
Adjustments in respect of income tax of previous year	(632)	(1,113)
Permanent differences	4	(115)
Utilisation of unrecognised tax losses	(182)	-
Other	-	89
Income tax expense	16,539	16,011
Effective tax rate	29%	28%

Estia's Effective Tax Rate ("ETR") is calculated as its income tax expense divided by accounting profit before income tax. The ETR deviates from the Australian statutory tax rate of 30% due to differences between accounting standards and tax legislation.

A2

RECONCILIATION OF INCOME TAX EXPENSE TO CURRENT TAX LIABILITY / RECEIVABLE

	2019 \$'000	2018 \$'000
Income tax expense in the consolidated income statement	16,539	16,011
Add/(subtract):		
Net deferred tax liabilities charged to income	(642)	190
Over/(under) provision in prior years	341	966
Current tax expense included in income tax expense	16,238	17,167
Add/(subtract):		
Tax payments to tax authorities	(15,932)	(22,307)
Net opening balance	(913)	4,227
Net current tax receivable	(607)	(913)

A3

IDENTIFICATION OF MATERIAL TEMPORARY AND NON-TEMPORARY DIFFERENCES

A detailed reconciliation of accounting profit to income tax expense and material temporary and non-temporary differences is disclosed in Note B7 of this Annual Report.

The non-temporary difference of \$4,000, as set out above, was driven by a number of small offsetting items including share-based payment expenses. These expenses are considered to be non-temporary differences as they have no cash settlement option and therefore are not deductible for tax purposes.

The temporary differences of \$300,000 were driven by changes in accrued expenses, payroll related liabilities such as annual leave and differences in tax and accounting depreciation rates of buildings. The temporary differences are as a result of different timing rules between tax and accounting, however the differences will eventually align.

PART B: OUR APPROACH TO TAX

B1

TAX GOVERNANCE AND STRATEGY

Estia's tax governance is overseen by the Board's Audit Committee and is guided by its Board Tax Policy and Tax Risk Management Framework. These policies set out Estia's approach to conducting its tax affairs and the management of tax risk. The policies include internal escalation processes, including to the Board's Audit Committee, dependent on the nature of the risk and are reviewed on a periodic basis by Estia's tax team with recommendations referred to the Audit Committee for approval.

Estia's philosophy on Tax Risk Management is to ensure that all tax related matters are treated responsibly in line with the relevant tax laws. Estia has a commitment to transparency and providing accurate disclosures and act with integrity in all our dealings.

Where there is uncertainty around a tax position in relation a transaction or category of transactions, the Company will perform an analysis prior to adopting a tax position. No tax position will be taken unless the position taken is considered to be more likely than not to be correct, as defined in the *Taxation Administration Act 1953*. All tax matters that are considered to be high risk are to be reported to the Board's Audit Committee. Where appropriate, Estia engages with its external advisers to receive tax advice.

Estia seeks to have appropriate relationships with the ATO and other relevant tax authorities.

Estia adopts structures and positions that align to its business outcomes and values and are not driven by tax outcomes.

B2

SUMMARY OF TAX CONTRIBUTIONS

Taxes paid by Estia	2019 \$'000	2018 \$'000
Income Tax	15,932	22,307
Payroll Tax	17,584	16,361
Fringe Benefits Tax	180	205
Council Rates	1,946	2,014
Land Tax	1,065	136
Stamp Duty	325	-
Total	37,032	41,023
Taxes collected by Estia	2019 \$'000	2018 \$'000
Pay As You Go (PAYG) withholding	63,730	58,377
GST (collected and remitted)	246	98
GST (paid but reclaimed)	(17,795)	(13,384)
Total	46,181	45,091
	2019 \$'000	2018 \$'000
Australian Federal Government	62,293	67,603
State Governments	18,974	16,497
Local Governments	1,946	2,014
Total	83,213	86,114

All taxes paid and collected by Estia are to Australian revenue authorities.

B3

INTERNATIONAL RELATED PARTY DEALINGS

Estia has no international related party dealings.

Corporate Governance

CORPORATE GOVERNANCE STATEMENT

Under ASX Listing Rule 4.10.3, Estia Health is required to benchmark its corporate governance practices against the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, 3rd edition.

Estia confirms that it has complied with all the ASX Governance Recommendations for the period 1 July 2018 to 30 June 2019 as outlined in our Corporate Governance Statement and Appendix 4G. The Corporate Governance Statement is current as at 16 August 2019 and has been approved by the Board.

Our Corporate Governance Statement and Appendix 4G are available on the Estia website at estiahealth.com.au

The Board and management are committed to achieving the highest standards of professional conduct across all Estia operations. There is regular review and enhancement of mechanisms to achieve these standards.

Some of the governance activities conducted during the year include:

- Continued Board succession, including the appointment of Ms Karen Penrose, supported by a refresh of the Board skills matrix.
- Regularly scheduled meetings with external auditors.
- Engagement of an independent external internal auditor resource.
- Overseeing the succession of the CEO. Mr Ian Thorley was appointed MD/CEO of Estia, replacing Ms Norah Barlow who moved into a Non-executive Director position.
- Overseeing a review of the Company's risk management framework and practices and endorsing the findings and actions.
- Engaging with key regulators.
- Inviting industry experts to Board meetings.
- Board visits to homes, annual leadership conference and new home openings.
- Undertaking a Board performance review.
- Reviewing the Company's strategy.
- Reviewing key Corporate Governance policies and processes, including a review of the Board and Board Committee charters.
- Formation of an executive ESG Committee with agreed focus areas.

BOARD COMMITTEES

Estia's four standing Board Committees assist the Board in its oversight role. The Audit Committee, Risk Management Committee, Nomination and Remuneration Committee, and Property and Investment Committee comprise members who are independent Directors and each Board Committee has an independent Director as its Chairman.

All Board members are sent Board Committee papers and may attend any Board meeting. Subsequent to each Board Committee meeting, the Chair presents matters discussed and puts forward recommendations to the Board.

The Directors' Report includes the membership of each Board Committee.

In August 2019, an additional Board Committee was formed, Class Action and Regulatory Committee.

RESPONSIBILITIES OF MANAGEMENT

The MD/CEO has been granted authority for matters not reserved for the Board or a Board Committee.

The CEO, COO and CFO report to the Board at each meeting. In addition to regular reporting from management, the Board has unlimited access to senior management and external advisers.

For further information on Corporate Governance at Estia, refer to the Corporate Governance Statement and the following documents, all found on the Company website at estiahealth.com.au/investor-centre/corporate-governance:

- **Board and Committee Charters**
- **Disclosure and Communication Policy**
- **Diversity Policy**
- **Trading Policy**
- **Code of Conduct**
- **WEGA Report**
- **Investment Policy and Liquidity Management Strategy**

Additional information on Environmental, Social and Governance is available on the Company website at estiahealth.com.au



From left to right
Dr Gary Weiss AM, Ian Thorley, Norah Barlow ONZM, Helen Kurincic, Paul Foster, The Hon. Warwick L Smith AO, Karen Penrose

Our Board

DR GARY WEISS, AM

Non-executive Director and Chairman
LL.B (Hons), LL.M (with Dist), JSD

Gary holds the degrees of LL.B (Hons) and LL.M (with dist.) from Victoria University of Wellington, as well as a Doctor of Juridical Science (JSD) from Cornell University, New York.

Gary has extensive international business experience and has been involved in numerous cross-border mergers and acquisitions.

Gary is Chairman of Ridley Corporation Limited and Ardent Leisure Group Limited, Executive Director of Ariadne Australia Limited, and a Director of several other public companies including Thorney Opportunities Limited, Hearts and Minds Investments Limited and The Straits Trading Company Limited. Gary is also a Commissioner of the Australian Rugby League Commission and a Director of the Victor Chang Cardiac Research Institute.

Gary was Chairman of Clearview Wealth Ltd from 2013 to May 2016, Executive Director of Guinness Peat Group plc from 1990 to April 2011 and has held directorships of numerous companies, including Tag Pacific Limited, Pro-Pac Packaging Limited, Coats Group plc (Chairman), Premier Investments Ltd, Westfield Group, Tower Australia Limi, Australian Wealth Management Limited,

Tyndall Australia Limited (Deputy Chairman), Joe White Maltings Limited (Chairman), CIC Limited, Whitlam Turnbull & Co Limited and Industrial Equity Limited.

Gary has authored numerous articles on a variety of legal and commercial topics.

Committees: Nomination and Remuneration Committee, Audit Committee, Property and Investment Committee, Class Action and Regulatory Committee (Chair).

Listed Company Directorships (including those in the last three years): Ridley Corporation Limited, Ariadne Australia Limited, Ardent Leisure Group Limited, Thorney Opportunities Ltd, Hearts and Minds Investments Limited, Tag Pacific Limited (resigned 31 August 2017), Premier Investments Limited (28 July 2018), Pro-Pac Packaging Limited (resigned 27 November 2017).

IAN THORLEY

Chief Executive Officer and Managing Director

Ian has over 30 years' health and aged care experience in both Australia and overseas.

Appointed as Chief Executive Officer in October 2018, Ian was previously Estia Health's Chief Operating Officer from October 2016, where he was responsible for leading Estia's operations and care teams,

embedding key improvements resulting in revenue growth and operational efficiencies, while delivering consistently high standards of quality care to residents across a growing portfolio of homes.

Ian's executive experience includes CEO and COO roles in large aged care groups, acute private hospital groups and diagnostic services. Ian has been at the forefront of major developments that have shaped Australia's healthcare sector, including the privatisation of public hospitals, new reimbursement and funding models, and a broad range of public/private sector service models.

Ian has held the position of Non-executive Director in private equity owned, and ASX listed companies and has consulted to aged care operators, private hospital groups, health insurers, health logistics and specialist health recruitment businesses throughout Australia.

Ian is a Graduate of the Australian Institute of Company Directors (GAICD) and holds a Master of Commerce from the University of NSW.

NORAH BARLOW, ONZM

Non-executive Director
BCA, ACA

Norah holds a Bachelor of Commerce and Administration from Victoria University, and is a Chartered Accountant.

Norah is amongst Australasia's most experienced and respected executives and directors, with an in-depth knowledge of the aged and health care sector. Norah also holds extensive experience as the highly-respected former CEO and former Director of Summerset Group, a NZX and ASX-listed company named Australasia's best retirement village operator four years running.

Norah has a strong background across business leadership and management, strategy, corporate finance, governance, tax and accounting. Norah is a member of the National Advisory Council on the Employment of Women, was President of the Retirement Villages Association (NZ) for seven years and made an Officer of the New Zealand Order of Merit for services to business in 2014.

Norah was also a Non-executive Director of Ingenia Communities Group and chair of the Audit Committee for Methven Limited.

Norah stepped down as CEO of Estia in November 2018 and remains on the board as a Non-executive Director. Norah is currently Chief Executive of Heritage Lifecare.

Listed Company Directorships (including those in the last three years): Evolve Education Group Limited, Ingenia Communities Group (resigned 15 November 2016), Methven Limited (resigned 11 October 2017).

HELEN KURINCIC

Non-executive Director
MBA, Grad Dip Wom Stud, PBC Crit Care, Cert Nsg, FAICD

Helen holds a Master of Business Administration from Victoria University.

Helen has extensive executive and Non-executive experience across the healthcare sector. Helen is Chairman of Integral Diagnostics Limited, and a Non-executive Director of HBF Health Limited and McMillan Shakespeare Limited.

Helen was previously the Chief Operating Officer and Director of Genesis Care for seven years from early inception in 2007, creating Australia's largest radiation oncology and cardiology service business. Previous roles also include Non-executive Director of Sirtex Medical Limited, Non-executive Director of DCA Group Limited which included residential aged care in Australia and New Zealand, Non-executive Director of AMP Capital Investor's aged care business Domain Principal Group, CEO and Executive Director of residential aged care provider Benetas and Board member of Melbourne Health and Orygen Research Centre.

Helen has also been actively involved in healthcare government policy reform across various areas of the healthcare sector.

Committees: Risk Management Committee (Chair), Nomination and Remuneration Committee.

Listed Company Directorships (including those in the last three years): Integral Diagnostics Ltd (Chair), McMillan Shakespeare Limited, Sirtex Medical Limited (resigned 19 September 2018).

PAUL FOSTER

Non-executive Director
B.Comm, MA, MAICD

Paul holds a Bachelor of Commerce from the University of Wollongong and a Master of Arts from UNSW Australia.

Paul is an experienced financial services professional and Company Director, with more than 20 years' investment experience in the infrastructure, private equity and real estate asset classes, including substantial investments in the healthcare sector.

Paul is a Managing Director at Pacific Equity Partners, one of Australia's largest alternative investment management firms.

Paul is also an alternate Director of Intellihub Holdings Pty Ltd.

Until May 2015, he was head of AMP Capital's Infrastructure investment business in Australia and New Zealand, where he was responsible for the management of \$4.5 billion of infrastructure investments on behalf of Australian and global superannuation funds and investors.

In this role, and amongst investments spanning the aged care, transport, timberland and social infrastructure sectors, Paul was responsible for the investment that created the second largest for profit aged care business in Australia. Paul was a Director of the Opal Aged Care Group (formerly Domain Principal Group) between 2010 and 2015 and was Chairman of the Group in 2011. Prior to AMP Capital, Paul was an investment professional at Macquarie Bank Group and Perpetual Investments.

Committees: Nomination and Remuneration Committee (Chair), Risk Management Committee, Property and Investment Committee.

THE HON. WARWICK L. SMITH, AO

Non-executive Director
LLB

Warwick is Chairman of the Advisory Board of Australian Capital Equity, which has significant interests in media, entertainment, research and technology development, as well as property and industrial activities.

He is a Director of Seven Group Holdings, a leading Australian diversified operating and investment group with market leading businesses and investments in industrial services, oil and gas, and media, Chairman of the Australia-China Council and newly announced Chairman-designate of the National Foundation for Australia-China Relations and Chairman of the China Leadership Group of the Business Council of Australia. In addition, he is Global Trustee of the Asia Society and Chairman Emeritus of the Asia Society in Australia.

Formerly, he was Chairman of E*TRADE, Chairman New South Wales & Australian Capital Territory and Senior Managing Director of the Australia New Zealand Banking Group Limited (ANZ), Chairman, ANZ Thailand and Director, ANZ Greater China.

He was an Executive Director with Macquarie Bank for 10 years and an Australian Federal Government Minister, with a parliamentary career spanning 15 years, including Minister for Family Services and Aged Care.

He was also Australia's first Telecommunications Ombudsman and has received a Centenary Medal and has twice been awarded an Order of Australia.

Committees: Property and Investment Committee (Chair), Audit Committee, Class Action and Regulatory Committee.

Listed Company Directorships (including those in the last three years): Seven Group Holdings Limited, Magnis Energy Technologies Limited, Coates Hire Limited (resigned January 2019).

KAREN PENROSE

Non-executive Director
B.Com (UNSW), FAICD and CPA

Karen is an experienced Company Director who has served as a Non-executive Director on the boards of ASX listed companies in financial services, resources, aged care and infrastructure sectors for the past five years.

Karen's executive career was in leadership and CFO roles, mainly in financial services. She is passionate about customer outcomes, financial management and well-versed in operating in a rapidly changing regulatory environment.

Karen is a Director and Chair of the Audit Committee of Bank of Queensland, Spark Infrastructure RE Limited and Vicinity Centres. She is also Deputy Chairman of Marshall Investments.

Karen is a member of Chief Executive Women and Women Corporate Directors.

Committees: Audit Committee (Chair), Risk Management Committee, Class Action and Regulatory Committee.

Listed Company Directorships (including those in the last three years): Bank of Queensland Limited, Vicinity Centres, Spark Infrastructure Group, Future Generation Investment Company Limited (resigned October 2018), AWE Limited (resigned April 2018).

LEANNE RALPH

Company Secretary

Leanne is an experienced Company Secretary with over 15 years in this field, and holds this position for a number of ASX-listed entities. Leanne is a fellow of the Governance Institute of Australia and a Graduate Member of the Australian Institute of Directors.

Shareholder Information

Additional information required under ASX Listing Rule 4.10 and not shown elsewhere in this Annual Report is as follows. This information is current as at 23 August 2019.

DISTRIBUTION OF SHAREHOLDERS

The distribution of issued capital is as follows:

SIZE OF HOLDING	NO. OF SHAREHOLDERS	ORDINARY SHARES	% OF ISSUED CAPITAL
100,001 and Over	75	220,174,413	84.48
10,001 to 100,000	959	22,121,928	8.49
5,001 to 10,000	1,185	8,938,591	3.43
1,001 to 5,000	3,135	8,577,009	3.29
1 to 1,000	1,655	804,501	0.31
Total	7,009	260,616,442	100.00

DISTRIBUTION OF PERFORMANCE RIGHTS HOLDERS

The distribution of unquoted Performance Rights on issue are:

SIZE OF HOLDING	NO. OF HOLDERS	UNLISTED PERFORMANCE RIGHTS	% OF TOTAL PERFORMANCE RIGHTS
100,001 and Over	3	1,219,074	80.06
10,001 to 100,000	6	303,629	19.94
5,001 to 10,000	0	0	0.00
1,001 to 5,000	0	0	0.00
1 to 1,000	0	0	0.00
Total	9	1,522,703	100.00

LESS THAN MARKETABLE PARCELS OF ORDINARY SHARES

There are 357 shareholders with unmarketable parcels totalling 20,059 shares.

UNQUOTED EQUITY SECURITIES

The Company had the following unquoted performance rights on issue as at 23 August 2019:

9 holders of performance rights issued as part of an employee incentive scheme	1,522,703	100.0%
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RESTRICTED SECURITIES

The Company had no restricted securities on issue as at 23 August 2019.

20 LARGEST SHAREHOLDERS

The 20 largest shareholders of quoted equity securities are as follows:

NAME	NO. OF FULLY PAID ORDINARY SHARES	% OF ISSUED CAPITAL
HSBC Custody Nominees (Australia) Limited	57,749,844	22.16
J P Morgan Nominees Australia Pty Limited	40,307,082	15.47
Network Investment Holdings Pty Ltd	24,665,858	9.46
Citicorp Nominees Pty Limited	23,854,361	9.15
Argo Investments Limited	11,809,250	4.53
BNP Paribas Noms Pty Ltd	10,376,833	3.98
National Nominees Limited	8,683,995	3.33
BNP Paribas Nominees Pty Ltd	5,703,835	2.19
Emalyn Holdings Pty Limited	4,102,766	1.57
Custodial Services Limited	3,204,274	1.23
3rd Wave Investors Ltd	3,000,000	1.15
Peter & Lyndy White Foundation Pty Ltd	2,181,568	0.84
Mr Mark Edward Kennedy	1,910,678	0.73
UBS Nominees Pty Ltd	1,822,154	0.70
Mr Vincent Michael O'sullivan	1,485,000	0.57
Jenny Lynn Properties Pty Ltd	1,315,963	0.50
Mark Edward Kennedy	1,277,438	0.49
AMP Life Limited	1,186,593	0.46
Kennbros Pty Limited	1,156,834	0.44
National Nominees Limited	854,684	0.33
Total for top 20 shareholders	206,649,010	79.29
Total Quoted Equity Securities	260,616,442	

SUBSTANTIAL SHAREHOLDERS

The names of the Substantial Shareholders listed as disclosed by notices submitted to the ASX as at 23 August 2019:

NAME	NO. OF ORDINARY FULLY PAID SHARES	% OF ISSUED CAPITAL
Perpetual Limited and Subsidiaries	31,417,247	12.06
Citigroup Global Markets Australia Pty Ltd	18,232,894	7.00
Seven Group Holdings Limited, Network Investment Holdings Pty Ltd & SGHs other subsidiaries	22,262,396	8.54
Vanguard Group	13,551,233	5.20
Dimensional Entities	13,039,266	5.00

VOTING RIGHTS

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

Performance rights have no voting rights.

ON-MARKET BUY-BACKS

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

SHARE TRADING AND PRICE

Estia Health shares are traded on the Australian Stock Exchange (ASX). The stock code under which they are traded is 'EHE' and details of trading activity and share price are available online through the ASX website, asx.com.au. Share price data is also available on the Company website at estiahealth.com.au/investor-centre

WEBSITE ACCESS

You can access Estia's online Investor Centre by visiting estiahealth.com.au/investor-centre.

The Investor Centre provides you with access to important information about Estia's performance, including ASX announcements, Annual Reports, share price graphs and details about Estia's corporate governance framework.

Shareholders are also able to access and update their shareholding information online by visiting the Investor Centre and clicking on 'Your Account'. Shareholders are able to:

- Register and create a portfolio view of their holdings;
- Update or amend details;
- Download forms, and;
- View transaction history and download statements.

SHARE REGISTRY

Shareholders with enquiries about their shares can also contact Estia's Share Registry as follows:

Estia Share Registry C/- Link Market Services Limited

Locked Bag A14, Sydney South, NSW, 1235

Telephone: 1300 554 474

ASX Code: EHE

Email: registrars@linkmarketservices.com.au

Website: linkmarketservices.com.au

When communicating with the Share Registry, please quote your Security Reference Number (SRN) or Holder Identification Number (HIN) as shown on your Issuer Sponsored/CHESS statements together with your current address. For Company related requirements, please email investor@estiahealth.com.au.

CHANGE OF NAME, ADDRESS OR BANKING DETAILS

Issued sponsored shareholders should contact the Share Registry to advise of a change of personal details. CHESS sponsored shareholders should notify their sponsoring broker in writing of a change in their personal details and instruct them to update the Share Registry.

DIVIDEND REINVESTMENT PLAN

On 19 June 2019 Estia announced the reinstatement of its DRP which allows eligible shareholders to reinvest all or part of their dividends into Estia shares. Further information on the DRP can be found at estiahealth.com.au/investor-centre/dividend-reinvestment-plan

TFN/ABN NUMBER

Shareholders are strongly advised to lodge their TFN, ABN or relevant TFN exemption. For shareholders who have not provided these details then Estia is obliged to deduct tax at the highest marginal rate (plus the Medicare levy) from the unfranked portion of any dividend payment. Shareholders can obtain TFN/ABN notification forms by contacting the Share Registry.

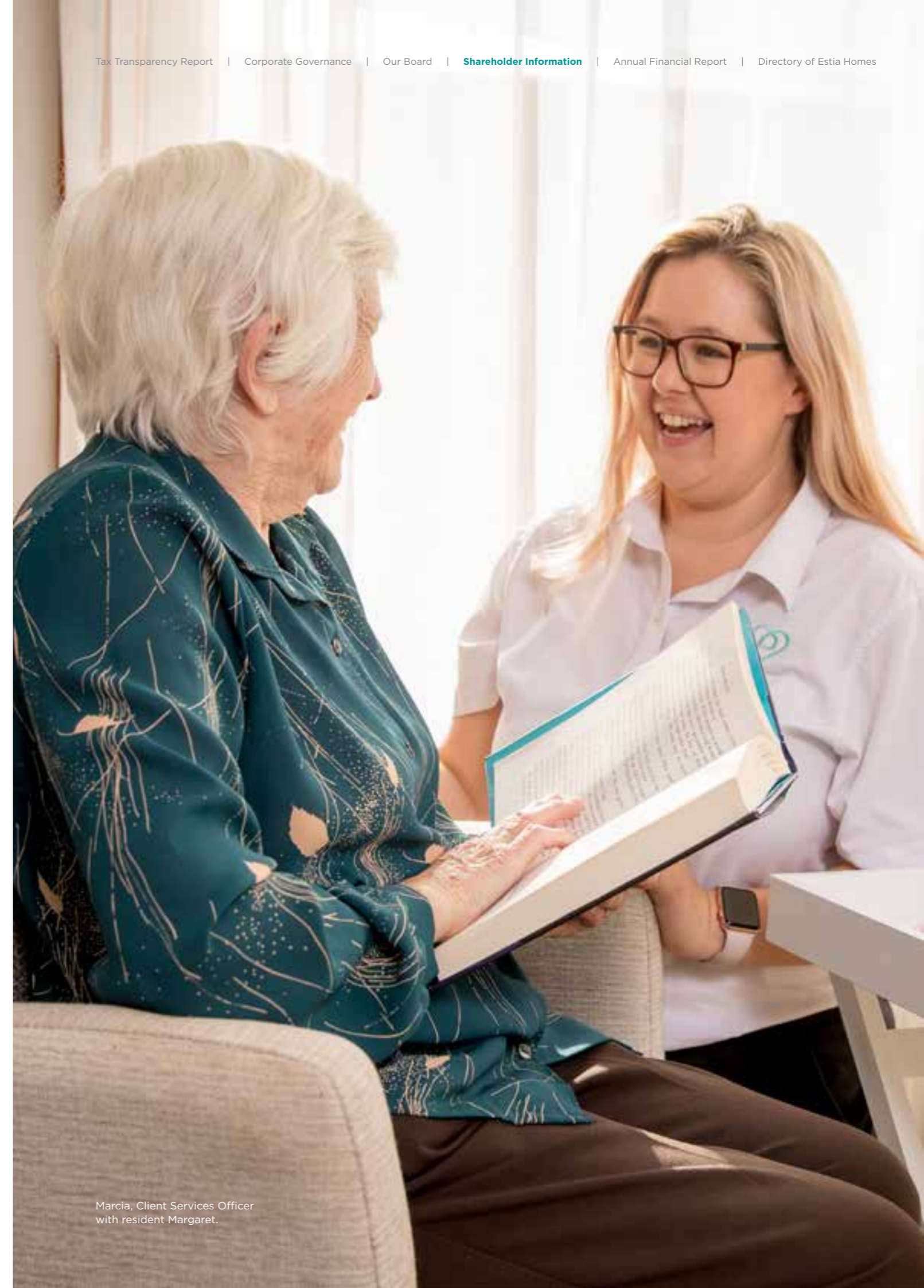
REGISTERED OFFICE

Estia Health Limited

Level 9, 227 Elizabeth Street
Sydney, NSW 2000

Telephone: +61 2 9265 7900

Website: estiahealth.com.au



Marcia, Client Services Officer
with resident Margaret.



Registered Nurses and carers work closely together to deliver care to our residents.



Annual Financial Report

For the year ended
30 June 2019

ESTIA HEALTH LIMITED

ABN 37 160 986 201

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Corporate Information

ABN 37 160 986 201

DIRECTORS

Dr. Gary Weiss AM
Chairman

Ian Thorley
Managing Director and CEO
Appointed 23 November 2018

Norah Barlow ONZM
Non-executive Director
Resigned as Managing Director and CEO on 23 November 2018, resumed as Non-executive Director on that date

Andrew Harrison
Resigned 17 October 2018

Paul Foster
Nomination and Remuneration Committee Chair

Hon. Warwick L Smith AO
Property and Investment Committee Chair

Helen Kurincic
Risk Management Committee Chair

Karen Penrose
Audit Committee Chair
Appointed 17 October 2018

COMPANY SECRETARY

Suzy Watson
Appointed 23 January 2019
Resigned 03 April 2019

Leanne Ralph
Resigned 23 January 2019
Re-appointed 03 April 2019

REGISTERED OFFICE

Level 9, 227 Elizabeth Street
Sydney NSW 2000

PRINCIPAL PLACE OF BUSINESS

Level 9, 227 Elizabeth Street
Sydney NSW 2000

SOLICITORS

King & Wood Mallesons
Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000

BANKERS

Westpac Banking Corporation
275 Kent Street
Sydney NSW 2000

AUDITORS

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000

DIRECTORS' REPORT

Your Directors submit their report for the year ended 30 June 2019.

DIRECTORS

The names and qualifications of the Group's Directors in office during the financial year and until the date of this report are set out below. Directors were in office for the entire period unless otherwise stated. More information relating to the Directors can be found in the investor centre section of the Group's website (<http://www.estiahealth.com.au/investor-centre/corporate-profile>).

DR. GARY H WEISS AM (CHAIRMAN)

Gary was appointed as an Independent Non-executive Director in February 2016 and was appointed as Chairman on 31 December 2016.

Gary holds the degrees of Bachelor of Laws (Hons) and Master of Laws (with distinction) from Victoria University of Wellington, as well as a Doctor of Juridical Science (JSD) from Cornell University, New York.

IAN THORLEY (MANAGING DIRECTOR AND CEO)

Ian was appointed as the Managing Director and CEO on 23 November 2018. Ian previously held the roles of Chief Operating Officer and Deputy CEO prior to the appointment.

Ian holds a Master of Commerce from the University of NSW.

NORAH BARLOW ONZM

Norah was appointed to the Board in November 2014 as an Independent Non-executive Director. Norah was appointed Acting CEO from September 2016, and appointed permanently to the roles of Managing Director and CEO in November 2016. Norah stepped down from the roles of Managing Director and CEO on 23 November 2018 and remains on the Board as a Non-executive Director.

Norah holds a Bachelor of Commerce and Administration from Victoria University of Wellington and is a Chartered Accountant.

PAUL FOSTER (NOMINATION AND REMUNERATION COMMITTEE CHAIR)

Paul was appointed as an Independent Non-executive Director in February 2016.

Paul holds a Bachelor of Commerce from the University of Wollongong and a Master of Arts from the University of NSW.

HON. WARWICK L SMITH AO (PROPERTY AND INVESTMENT COMMITTEE CHAIR)

Warwick was appointed as an Independent Non-executive Director in May 2017.

Warwick holds a Bachelor of Laws from the University of Tasmania.

HELEN KURINCIC (RISK MANAGEMENT COMMITTEE CHAIR)

Helen was appointed as an Independent Non-executive Director in July 2017.

Helen originally qualified as a Registered Nurse specialising in Intensive Care and holds the degrees of Graduate Diploma in Women's Studies and an MBA from Victoria University, Melbourne and has also attended Harvard Business School where she completed programs in Best Practice Leadership and Business Innovations in Global Healthcare.

KAREN PENROSE (AUDIT COMMITTEE CHAIR)

Karen was appointed to the Board on 17 October 2018 as an Independent Non-executive Director.

Karen holds a Bachelor of Commerce from UNSW, CPA and FAICD.

ANDREW HARRISON

Andrew was appointed to the Board in November 2014 as an Independent Non-executive Director. Andrew resigned from the Board on 17 October 2018.

DIRECTORS' REPORT

COMMITTEE MEMBERSHIP

During the financial year, the Group had the following committees:

Membership	Audit Committee	Nomination and Remuneration Committee	Risk Management Committee	Property and Investment Committee
Chair	Karen Penrose	Paul Foster	Helen Kurincic	Hon. Warwick L Smith AO
Member	Dr. Gary H Weiss AM	Dr. Gary H Weiss AM	Paul Foster	Dr. Gary H Weiss AM
Member	Hon. Warwick L Smith AO	Helen Kurincic	Karen Penrose	Paul Foster
Former member	Andrew Harrison		Andrew Harrison	

DIRECTORS' MEETINGS

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

No. of meetings held:	Directors' meetings		Audit Committee		Nomination and Remuneration Committee		Risk Management Committee		Property and Investment Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
	12		5		4		7		2	
Dr. Gary H Weiss AM	12	12	5	5	4	3	-	-	2	2
Ian Thorley	9	9	-	-	-	-	-	-	-	-
Norah Barlow ONZM	12	12	-	-	-	-	-	-	-	-
Paul Foster	12	11	-	-	4	4	7	7	2	2
Hon. Warwick L Smith AO	12	12	5	4	-	-	-	-	2	2
Helen Kurincic	12	12	-	-	4	4	7	7	-	-
Karen Penrose	10	9	4	4	-	-	3	3	-	-
Andrew Harrison	2	2	1	1	-	-	1	1	-	-

DIRECTORS' HOLDINGS

As at the date of this report, the interest of the directors in the ordinary shares of Estia Health Limited were:

Director	Number of ordinary shares
Dr. Gary H Weiss AM	45,312
Ian Thorley	82,534
Norah Barlow ONZM	129,474
Paul Foster	24,000
Hon. Warwick L Smith AO	90,000
Helen Kurincic	25,000
Karen Penrose	18,833

COMPANY SECRETARY

SUZY WATSON

Suzy was appointed as Company Secretary on 23 January 2019 and resigned from the position on 3 April 2019. Suzy remains employed as the General Counsel for the Group.

LEANNE RALPH

Leanne was appointed as Company Secretary on 21 December 2017. Leanne resigned from the position on 23 January 2019 and was re-appointed as Company Secretary on 3 April 2019.

Leanne is an experienced Company Secretary and is a Fellow of the Governance Institute of Australia and a member of the Australian Institute of Company Directors.

DIRECTORS' REPORT

PRINCIPAL ACTIVITIES AND STRATEGY

The principal activities of the Estia Health Group during the year ended 30 June 2019 continued to be the provision of services in residential aged care homes in Australia as an Approved Provider under the *Aged Care Act 1997*.

The Group's strategy remains to:

- Be a market leader in owning and developing high quality residential aged care homes in Australia;
- Provide residents in our homes with the highest standards of aged care services in an innovative, supportive and caring environment; and
- Deliver earnings growth through a development pipeline, enhancement of current homes, and acquisitions.

THE MARKET IN WHICH ESTIA OPERATES

In order to access Government supported residential aged care services, potential residents must be assessed as qualifying for such services by a Government Aged Care Assessment Team (known as 'ACAT'), and may then choose a residential aged care home of their choice. Only Approved Providers, such as Estia, with approved bed licences in accredited homes are eligible to provide services which qualify for Government funding support.

The Aged Care Funding Authority's ('ACFA') 2018 Annual Report identified 200,689 operating beds/places in Australia, and ACFA has further reported that 241,723 people accessed residential aged care services in 2017-18, across 886 providers. The ageing of the Australian population and in particular the ageing of the "baby boomers" will see a marked increase in the number of Australians likely to need aged care, including residential aged care in coming years.

The Group's growth strategy is to expand services to meet this growing demographic demand.

ACFA has also reported in its submission to the Aged Care Royal Commission in April 2019, that there has been a significant overall decline in the financial performance of the sector in the last two years as a result of increases in Government funding not being at a sufficient rate to cover the increase in operating cost, principally staff costs.

THE GROUP'S PORTFOLIO

The Group delivers services across 68 homes in New South Wales, Queensland, South Australia and Victoria, 61 of which are freehold sites. As at 30 June 2019, these homes had 6,102 operational bed licences, and the Group holds a further 356 off-line and provisional licences pending activation through future developments.

During the year, the Group opened a new home at Southport, QLD, with 110 beds, and expects to open a new home at Maroochydore, QLD in August 2019 which has been constructed during FY19. An older home at Mona Vale, NSW was closed in May 2019 to prepare the site for a new more contemporary home. Further information on future developments is referred to later in this report.

The Group employs in excess of 7,500 employees as nurses, care workers, catering staff, support and administration staff and management.

REGULATORY ENVIRONMENT, REFORM AND THE AGED CARE ROYAL COMMISSION

The residential aged care sector in which the Group operates is highly regulated within the provisions of the *Aged Care Act 1997*. The Government approves providers, monitors the quality of care and services delivered, issues bed licences on a strictly controlled basis, and governs the fees and services which are delivered and funded. As such Government policy settings have a major impact on the financial performance of providers.

The Royal Commission into Aged Care was called by the Prime Minister in September 2018 amid growing community concern about the quality of care in the sector. The Terms of Reference are broad, focussing on the quality of care, and also future sustainability of the sector.

Along with all major aged care providers, the Group was requested to make an initial submission to the Royal Commission in January 2019. The costs of this exercise and the ongoing monitoring and preparation for future involvement, if required, by the Royal Commission during the year amounted to \$1.7 million. Other than the initial submission in January 2019, the Group has not been requested to provide further information nor appear before the Royal Commission.

The Royal Commission is expected to hand down an interim report in October 2019 and a final report in April 2020.

DIRECTORS' REPORT

REGULATORY ENVIRONMENT, REFORM AND THE AGED CARE ROYAL COMMISSION (CONTINUED)

Since the publication of the Aged Care Roadmap in 2016 there have been and continue to be a number of significant reviews and reports commissioned by Government into the operation of the sector. The Group has contributed to these reviews, and continues to advocate with industry bodies, Government and review committees for a consumer-focussed sector, where funding and financing arrangements are such as to provide a high quality of care, and to generate the level of investment required to meet existing and prospective demand for services.

OPERATING AND FINANCIAL REVIEW

REVIEW OF FINANCIAL PERFORMANCE

During the year the impact of increases in Government regulated revenue rates were below the increases in staff wage and other costs in the sector which impacted the Group. Declining sector occupancy rates were also seen although the impact on the Group was mitigated by the performance of the Group's occupancy management teams. Average occupancy during the year was 93.6%.

In March 2019 the Government announced a temporary funding increase from the 20th March to the 30th June 2019, to all Approved Providers, including Estia, which contributed an additional \$10.3m of revenue in the year. This additional funding ceased on 30 June 2019.

Costs associated with the closure of the older style non-contemporary home at Mona Vale in May 2019 were \$0.5m. The initial ramp-up costs of opening Southport in May 2019, and preparing for the opening of Maroochydore in August 2019 were \$0.7m in the period.

As a result of these factors, operating profit for the year of \$64.8m was broadly in line with 2018.

	2019 \$'000	2018 \$'000	2017 \$'000
Government funded residential care subsidies & supplements	427,987	404,064	388,099
Temporary funding increase	10,336	-	-
Resident & other revenue	147,662	142,990	136,531
Total operating revenues	585,985	547,054	524,630
Employee benefits expense	386,804	360,216	339,515
Non wage costs	103,493	96,755	98,615
Direct costs associated with the Royal Commission	1,721	-	-
EBITDA*	93,967	90,083	86,500
Depreciation, amortisation & impairment expense	29,184	26,002	18,859
Profit on sale of non-current assets	(36)	(363)	(1,037)
Operating profit for the year	64,819	64,444	68,678
Net finance costs	6,990	7,279	9,623
Profit before income tax	57,829	57,165	59,055
Income tax expense	16,539	16,011	18,356
Profit for the year	41,290	41,154	40,699

*EBITDA is categorised as non-IFRS financial information prepared in accordance with ASIC Regulatory Guide 230 - Disclosing non-IFRS financial information, issued in December 2011. EBITDA is a measure consisting of earnings before interest, tax, depreciation, amortisation and impairment expenses and gain/loss on sale of assets held for sale and has been adjusted from the reported information to assist readers to better understand the financial performance of the business in each financial period. This non-IFRS financial information, while not subject to audit, has been extracted from the financial report, which has been subject to an audit by the external auditors.

REVIEW OF FINANCIAL POSITION AND CASH FLOWS

The Group's capital and funding position is a product of the efficiency of operating profit to cash conversion, net RAD flows, capital investment and dividend distributions. As at 30 June 2019, the Group had net bank debt of \$110.4 million, representing a gearing ratio, excluding RAD liabilities of 1.2X EBITDA, and net assets of \$761.5 million.

Conversion of EBITDA to cash remained strong with a near 100% conversion of EBITDA to cash in the year.

Total capital investment for the year ended 30 June 2019 was \$93.8 million (2018: \$61.3 million).

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW (CONTINUED)

REVIEW OF FINANCIAL POSITION AND CASH FLOWS (CONTINUED)

Overall RAD balances increased from \$791.5 million to \$805.0 million over the course of the year, with Net RAD flows of \$14.6 million, of which \$12.1 million came from new homes which opened in the prior year. This net inflow was lower than seen in prior years as the number of incoming residents able or willing to pay a RAD fell. In the context of the fall in transactional activity in the Australian housing market and lower sector-wide occupancy levels, the maintenance of RAD levels consistent with the prior year was a positive result. The ability to refund RAD balances as and when required by departing residents is managed by maintaining sufficient undrawn debt facilities, in accordance with the Group's Liquidity Management Policy. More information in relation to RADs is included in Note D4.

As at 30 June 2019, the Group had total bank facilities of \$330.0 million with an expiry date of 22 August 2020, of which \$201.0 million remained undrawn. These facilities provide the Group with significant levels of funding for future developments and acquisitions.

DEVELOPMENTS AND ACQUISITIONS

The two homes which opened in FY18 at Twin Waters (Queensland) and Kogarah (New South Wales) reached full capacity during the year ended 30 June 2019, delivering high quality of care in outstanding environments and delivering strong financial performance.

In May 2019 the Group opened one new home at Southport (Queensland) which added a total of 110 new beds. Three new homes are currently under development, with a total of 352 new beds, with the first opening in Maroochydore (Queensland) in August 2019. In the 2-3 months preceding opening and in the early months of operation, new homes will operate at a loss. Net losses associated with the new homes at Southport and Maroochydore were \$0.7 million in the year ended 30 June 2019.

13 homes with 1,105 beds completed a significant refurbishment program during the year, improving the quality of amenity provided to residents, and bringing the total number of homes qualifying for the higher accommodation supplements to 3,113, with a further 1,562 beds currently underway and due to be completed by December 2019.

In May 2019 the Group's old, non-contemporary home at Mona Vale was closed in order to accelerate the re-development of a new home on a well-positioned site. All residents were assisted in finding new homes within the Group or at other local providers. Staff were supported via alternative employment at other Group homes, or redundancy packages, all with appropriate support. Costs associated with the closure were \$0.5 million, mainly redundancy related.

There were no acquisitions completed during the year, though the Group continues to identify and carefully consider single or multiple home acquisition opportunities within existing geographic networks, and/or portfolio acquisition opportunities.

DIVIDENDS

On 20 August 2019, the Directors resolved to pay a final fully franked dividend of 7.8 cents per share (\$20,328,082) bringing dividends per share for the financial year ended 30 June 2019 to 15.8 cents per share. The record date for the final dividend will be 5 September 2019, with payment being made on 2 October 2019. Shares will trade excluding entitlement to the dividend on 4 September 2019.

Dividends paid during the year were as follows:

Dividend	Date paid	Fully franked dividend per share	Total Dividend
Final dividend for the year ended 30 June 2018	28 September 2018	8.0 cents	\$20,848,220
Interim dividend for the year ended 30 June 2019	27 March 2019	8.0 cents	\$20,848,220

DIRECTORS' REPORT

KEY BUSINESS RISKS

The following business risks are considered to be key risks to the Group's performance and growth.

CHANGES TO REGULATORY OR FUNDING FRAMEWORK

Risk The Australian residential aged care industry is highly regulated, with more than 70% of the total revenue comprising funding from the Australian Government. Almost all of the Group's revenues were derived from services provided in accordance with, and legislated by, the *Aged Care Act 1997* and subsequent Amending Acts, and approximately 74% was paid to the Group from the Australian Government directly. Capital flows from Refundable Accommodation Deposits ('RADs') are also governed by the same legislation.

Impact Any regulatory change or changes in Government policies in relation to existing legislation for the industry may have an adverse impact on the way the Group promotes, manages and operates its homes, and its financial performance and the carrying value of its assets, including bed licences. Changes to the regulatory framework could also impact on competition through deregulation or changes to capital requirements. Regulatory restrictions may also become more burdensome in the future, which may require the Group to dedicate more time and expenditure to ensuring that the Group complies with such regulations. The new Aged Care Quality Standards are effective from 1st July 2019 and require additional time and resources to embed the required changes. Additional accreditation and or other requirements may emerge prior to or following the Aged Care Royal Commission report being released.

Mitigant Ageing demographics point to increasing demand for Residential Aged Care places and services in the next decade, notwithstanding an expected increase in funding and take-up of Home Care. The Group monitors demand, services and competitive market dynamics as well as RAD funding levels and preferences and supports the Federal Government's aspiration for the provision of the highest quality residential aged care and value for money to the Government and residents.

ESTIA MAY EXPERIENCE SHORTAGE OF EMPLOYEES AND/OR UPWARD WAGE PRESSURE

Risk The Group's business depends on a specialised health and aged care workforce. There is a risk that the Group may not be able to retain or expand a workforce that is appropriately skilled and trained to meet the existing or future demands of residents at its homes and/or a risk that a shortage of employees leads to upward wage pressure. Competition from other health care providers, such as hospitals and other residential aged care homes, for appropriately skilled staff and a general industry shortage of staff in key areas, such as nurses and other skilled staff may also increase the bargaining power of healthcare professionals and can lead to upward pressure on applicable wages and salaries.

Impact Increasing labour costs may adversely affect the Group's business, financial performance and position and future prospects. This may arise as a result of increases in wages which the Group is unable to pass on to residents or is not recognised in full in the Aged Care Funding Instrument ('ACFI') consumer price index adjustments, and/or increase in the use of agency staff, which typically results in higher staffing costs to the Group.

Mitigant The Group has a program to develop and deliver training for all staff in relation to specialised skills required for quality aged care provision. Importantly the Group's training is provided to, and focused on, both clinical and non-clinical staff.

The Group is also focused on optimising its existing workforce mix to offer secure long-term opportunities to care employees, with extensive planning around leave and roster management to reduce dependence on casual and agency employees.

RAD BALANCES

Risk The Group is exposed to risks associated with a decline in RAD balances due to a range of factors. If a larger than expected number of RAD paying residents were to leave the Group's aged care homes, the Group might be required to repay a large sum of RADs, all of which may not be able to be replaced immediately. The Group is also exposed to risks that may adversely affect the future value of the Group's total accommodation bonds/RADs, including specific issues arising in the Group (such as a non-compliance or loss of certification at a home), a general reduction in the price that can be achieved for new RADs, a shift away from RAD payments due to a preference for other payment models by consumers, or demand for the Group's aged care services changing over time due to general economic factors.

DIRECTORS' REPORT

KEY BUSINESS RISKS (CONTINUED)

RAD BALANCES (CONTINUED)

Impact There may be material impact on the Group's cash flows and debt levels if a high number of departing RAD payers are subsequently replaced by non-RAD paying residents, such as residents who elect to make a daily accommodation payment or are concessional residents.

Mitigant The Group regularly monitors and analyses RAD movements across the portfolio, maintains a formal liquidity policy to ensure sufficient cash reserves are on-hand to refund RADs as and when they fall due, supported by the Group's bank debt facility that is available for use to fund future developments and capital expenditure if RAD inflows reduce.

OCCUPANCY LEVELS MAY FALL

Risk The Group's occupancy levels may fall below expectations as a result of numerous factors, including but not limited to:

- Increased competition
- Changing consumer trends
- Declining referrals from hospitals and other sources
- Growth of home care services

Impact Reduced occupancy levels may adversely affect the Group's financial performance as it will lead directly to reduced revenues, whilst costs may not be able to decrease in line with the negative changes in occupancy. Reduced occupancy levels may also have adverse effects on the cash flow of RADs.

Mitigant The Group proactively manages its relationships with referrers as well as its standing in the communities in which it operates. Due to the network structure of the homes, the Group is also able to provide prospective residents of homes with a number of options if they are on a waiting list for a home that may be at full capacity. The Group monitors demand, services and competitive market dynamics in relation to each home.

FAILURE TO MEET CLINICAL CARE STANDARDS

Risk As an approved aged care provider, the Group maintains an effective system of clinical governance to promote and support the health, safety and quality of care provision to residents, and to ensure compliance with the applicable legislation and departmental policies.

The Group may experience a decline in its clinical outcomes in circumstances where incidents are not identified, assessed or reported, employees do not follow policies and procedures, or external health consultants do not provide the service, or the quality of service expected.

Impact Failures to meet clinical care standards may lead to adverse impacts on the Group's reputation in the industry and community, leading to a reduction in occupancy, notification of serious risk, sanction or in certain circumstances, may lead to a loss of accreditation as an Approved Provider. As a result, there may be an overall decline to profitability due to decreased occupancy and/or additional costs required to ensure clinical care standards are improved. Additionally, there may be an increase in medico-legal risk, regulator action and an increase to medical indemnity and other costs.

Mitigant The Group seeks to ensure that its clinical care standards are of the highest quality and any decline in standards are addressed swiftly. The Risk and Quality Management Frameworks, systems and processes, with diligent oversight provided by the executive leadership team, provides clinical evaluation with corrective actions as need is identified. The Group employs a Chief Quality and Risk Officer, who is primarily responsible for clinical governance strategies and in partnership with People and Culture, the clinical education and development of the Group's employees.

ESTIA'S REPUTATION MAY BE DAMAGED

Risk The Group operates in an industry in which its reputation could be adversely impacted should it, or the aged care sector generally, suffer from any adverse publicity. The Group may also suffer reputational damage in the event of medical indemnity claims, litigation or coronial inquests.

Impact Any such damage to the Group's reputation could result in existing residents moving from Estia's homes to other competitor residential aged care homes or reduce Estia's ability to attract new residents to its homes, both of which could adversely impact the Group's financial performance, position and future prospects.

DIRECTORS' REPORT

KEY BUSINESS RISKS (CONTINUED)

ESTIA'S REPUTATION MAY BE DAMAGED (CONTINUED)

Mitigant The Group has Risk and Quality Management Frameworks that seek to identify and profiles risk and quality outcomes across the business. These Frameworks are driven at Executive level by the Chief Quality and Risk Officer. Trends across the business are also tracked through frequent analysis of the feedback, complaints and other data and are reviewed by the home leadership and also by executive leadership. The focus is to respond rapidly to concerns and to resolve matters in the most efficient and effective manner.

Incidents that may damage the Group's reputation at a home level are escalated to the Executive as part of the quality and risk policy in order to ensure investigation is conducted and actions taken as findings indicate.

INFORMATION TECHNOLOGY (IT) SYSTEM BREACHES OR LOSS

Risk Sensitive information is stored electronically, and there are risks of systems failure, cyber-attack, data theft or other malicious actions that could cause business interruption or leakage of information.

Impact These systems failures or breaches could adversely affect the Group's operations, reputation and financial performance.

Mitigant The Group has implemented a framework of appropriate security and back-up protocols, including training of staff in relation to privacy and data security. The strength and effectiveness of this framework are regularly assessed, tested and improved. The Group also continually reviews and invests in its core IT systems. Reporting and management of IT risk is part of the Board Risk Committee Charter.

GROWTH MAY BE CONSTRAINED BY ABILITY TO SECURE BED LICENCES

Risk Approved Providers may only provide funded places to residents to the extent of bed licenses held. Bed licenses are allocated by the Government under an allocation process known as the Aged Care Approvals Round ('ACAR'). The process identifies geographical areas where it believes increased supply is required, a number of provisional licenses are allocated to an area and providers are able to apply for these. Past ACAR rounds have seen many more applications than has been available, and not all providers receive the number of bed licenses they would like to secure.

Impact Estia may not be able to secure bed licenses to allow it to grow the capacity as quickly as it might do if such a constraint did not exist.

Mitigant The Group applies for licences in ACAR rounds, will consider acquiring licences where they are available for sale/transfer, and will consider applying to move licenses within its portfolio of homes to maximise occupancy and development opportunities. The Company will not commit future significant development funds unless licenses are substantially secured for a development.

INABILITY TO RECRUIT AND RETAIN KEY PERSONNEL

Risk The Group may experience an inability to recruit and retain personnel to identified key positions at home and or executive level. This may be due to approaches by recruitment professionals active in the market or a decision to exit the sector due to the multiple challenges faced and or negative media sentiment in response to the Aged Care Royal Commission. The decision may be triggered by opportunities that have greater financial reward or other benefits.

Impact High levels of turnover at the home and or executive level can affect occupancy, standards of clinical care and operational efficiency and effectiveness. Replacement of key personnel is expensive and can be destabilising to the business.

Mitigant The Group People and Culture team works to develop an internal pipeline of management ready candidates for key roles via bespoke Emerging Leader Programs. Group wide employee engagement surveys are undertaken regularly to evaluate culture and the key personnel experience. Strategies are developed to address issues identified. Communication strategies that celebrate the resident life experience, recognise team initiatives and milestones and achievements are key elements to ensure employees are recognised. The "Be Proud" initiative regularly provides recognition of employees work in caring for residents.

DIRECTORS' REPORT

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Group during the financial year ended 30 June 2019.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

CLASS ACTION

On 16 July 2019, Estia was served with a class action proceeding filed by the law firm Phi Finney McDonald in the Federal Court of Australia. The proceeding alleges breaches of market disclosure obligations in 2015 and 2016 and has been filed on behalf of shareholders who, between 12 August 2015 and 6 October 2016: (i) acquired an interest in Estia shares; or (ii) acquired long exposure to Estia shares by entering into equity swap confirmations in respect of Estia shares.

Estia will vigorously defend the proceeding.

Estia is not in a position to state whether the proceeding is likely to have a material impact on its financial position or performance.

ACQUISITIONS

On 15 August 2019 Estia entered into a contract to purchase a new greenfield development in the Maitland region of NSW with 108 provisional licences attaching. The contract is subject to closing and settlement conditions including the transfer of the licences from the vendor to Estia. Settlement of the transaction is expected to occur before 31 December 2019.

DIVIDENDS

On 20 August 2019, the Directors resolved to pay a final fully franked dividend of 7.8 cents per share (\$20,328,082) bringing dividends per share for the financial year ended 30 June 2019 to 15.8 cents per share. The record date for the final dividend will be 5 September 2019, with payment being made on 2 October 2019. Shares will trade excluding entitlement to the dividend on 4 September 2019.

BANK FACILITIES

On 16 August 2019 the Group elected to extend its existing \$330 million syndicated debt facility with the support of a syndicate of three domestic banks. The new facility expires in November 2022.

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Royal Commission into Aged Care commenced during the year and continues into FY20. The Commission is expected to produce an interim report in October 2019 and a final report in April 2020. The Commission has wide terms of reference including the financial sustainability of the sector and is likely to have recommendations which will impact the sector, and the Group, both operationally and financially.

The Group continues to advocate for sector reform referred to earlier, including the recommendations from the Royal Commission to achieve a sustainable and high-quality aged care sector where funding and financing arrangements support the financial viability of efficient providers and provide investment returns sufficient to attract the capital required to meet the increase in expected demand and quality.

The temporary funding increase which was announced in March 2019 contributed an additional \$10.3 million of revenue during the year ended 30 June 2019. This additional funding ceased on 30 June 2019.

The Group continued to pursue its strategy of growing the business through:

- improving the operational and financial performance of the Group's existing assets through a range of operational initiatives;
- improving the home portfolio through refurbishment and capital recycling programs;
- opening new homes; and
- acquisition of homes.

DIRECTORS' REPORT

LIKELY DEVELOPMENTS AND EXPECTED RESULTS (CONTINUED)

Other than the likely developments disclosed above and elsewhere in this report, no matters or circumstances have arisen which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of the affairs of the Group in future financial years.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group is not subject to significant environmental legislation under either Commonwealth or State legislation.

PERFORMANCE RIGHTS

UNISSUED SHARES

As at the date of this report, there were 1,522,703 unissued ordinary shares under performance rights (2018: 907,684).

SHARES ISSUED AS A RESULT OF THE VESTING OF PERFORMANCE RIGHTS

A total of 13,693 performance rights vested during the year ended 30 June 2019 (2018: nil) and were issued as shares on 18 July 2019. During the year ended 30 June 2019, 628,712 rights were granted (2018: 476,980) and no rights were forfeited (2018: 93,534).

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

In accordance with provisions in its constitution, the Estia Health Limited (the 'Company') has executed deeds of indemnity in favour of former and current directors and officers of the Company in relation to potential liabilities including:

- (a) liabilities incurred by the person in the capacity as an officer where permitted under section 199A(2) of the *Corporations Act 2001*;
- (b) legal costs incurred in relation to civil or criminal proceedings in which the officer becomes involved because of that capacity;
- (c) legal costs incurred in connection with any investigation or inquiry of any nature because of that capacity; and
- (d) legal costs incurred in good faith in obtaining legal advice on issues relevant to the performance of their functions and discharge of their duties as an officer.

The terms of these indemnities require repayment of sums advanced by way of legal costs in the event that the relevant officer is found to have committed wrongs of a nature the Company is prohibited from indemnifying under section 199A(2) of the *Corporations Act 2001*.

In accordance with its Constitution the Company has paid a premium for a contract insuring all directors, secretaries, executive officers, officers and senior managers of the Company against liabilities incurred by those persons in that capacity, on terms and conditions commonly available in the insurance market.

In accordance with usual commercial practice, the insurance contract prohibits disclosure of details of the nature of the liabilities covered and the premium payable.

The contract does not provide cover for the independent auditors.

INDEMNIFICATION OF AUDITORS

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

NON-AUDIT SERVICES

The following non-audit services were provided by the Group's auditor, Ernst & Young Australia. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young Australia received or are due to receive the following amounts for the provision of non-audit services:

	\$
Tax compliance services	157,000
Assurance and other services	50,000
	<u>207,000</u>

DIRECTORS' REPORT

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest thousand dollars (\$'000), under the option available to the Group under *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*. Estia Health Limited is an entity to which the class order applies.

This report is made on 20 August 2019 in accordance with a resolution of Directors.

Dr. Gary H Weiss AM
Chairman

DIRECTORS' REPORT

Remuneration report – audited

Dear shareholders,

The Estia Board is pleased to present the Remuneration Report for the year ended 30 June 2019 (FY19).

Strategic and Operational Developments

Estia Health Limited's (the 'Group' or 'Estia') strategic and operational focus during FY19 was reflected in a number of key priorities that were pursued during the year:

1. Continued provision of leading quality residential care to each of the 8,000+ older Australians that the Group delivers services to each year;
2. Pursuit of organic growth opportunities, illustrated by the completion and opening of the Group's new home at Southport in Queensland, the investment of \$15.5 million in significant refurbishments across 13 of the Group's existing homes, continued progress on further new homes being constructed at Maroochydore in Queensland (due to open in August 2019) and Blakehurst in NSW (due to open in the first half of FY21) and closure of the old Mona Vale home in NSW;
3. Preparation for and provision of information to the Royal Commission into Aged Care announced by the Federal Government in September 2018. This included the creation of a non-standing, non-remunerated Board Royal Commission and Regulatory sub-committee, led by Chairman Dr Gary Weiss alongside Norah Barlow and Warwick Smith.

Executive leadership of the Group transitioned smoothly during FY19, with the Deputy CEO Ian Thorley replacing Norah Barlow as the Group's Managing Director and experienced aged care industry professional Sean Bilton joining the Group as Chief Operating Officer and Deputy CEO. The Group was fortunate to retain Ms Barlow's expertise and knowledge through this transition as a result of her agreement to remain on the Board as a Non-Executive Director, a position she had occupied prior to assuming the role of Managing Director in late 2016. The experience, skills and diversity of the Board were further enhanced with the appointment of Karen Penrose as a Non-Executive Director and Chair of Estia's Audit Committee in October 2018, replacing Andrew Harrison. The Group is proud of the quality and ASX200-leading gender diversity of Estia's Executive leadership team and Board.

Changes to FY19 Remuneration

Following a comprehensive review of the Group's remuneration structures, the Board maintained a remuneration framework for the Group's senior executives in FY19 that included separate short term (STI) and long term (LTI) incentive mechanisms, reflecting the conclusion from this review that this incentive structure provided better shareholder alignment, employee motivation and balance between short and long term performance focus than alternative Single Incentive Plan remuneration frameworks that were considered.

Within the Group's STI and LTI incentive framework, the following changes for FY19 were made:

1. The STI scorecard comprised financial and non-financial performance metrics agreed with the Board that are common across each KMP for 60% of the scorecard evaluation, with the remaining 40% comprised of role-specific measures. Eligibility for STI payment consideration remained subject to a clinical quality "gateway", requiring achievement of compliance and accreditation targets;
2. 70% of LTI vesting entitlement had previously been measured against a Total Shareholder Return (TSR) comparator comprised of the performance of the ASX200 excluding mining and energy companies. Whilst 70% of the LTI vesting entitlement continued to be measured against a TSR comparator for FY19, to make the comparator measure more directly relevant to the Group's performance against ASX-listed industry peers:
 - half of the TSR comparator was comprised of the performance of the ASX200 excluding mining and energy companies; and

DIRECTORS' REPORT

Remuneration report – audited (continued)

- half of the TSR comparator was comprised of the market capitalisation weighted average performance of a peer group of ASX-listed companies operating in the provision of aged care services.

FY19 Remuneration Outcomes

Whilst FY19 performance targets were achieved across a number of STI scorecard areas the clinical quality gateway target was not met, resulting in no payments of STI's for the year, apart from a payment that was agreed with incoming COO Sean Bilton, at the time of him joining the Group, in lieu of a foregone vested incentive payment from his prior employer. 25% of this agreed payment to the incoming COO is subject to deferral into performance rights that will convert into Estia shares after a period of 12 months, subject to continuation of service.

No vesting occurred under previous year's Long Term Incentive Plan grants in FY19.

Looking Forward – Changes to FY20 Remuneration

Whilst key principles remain unchanged in terms of the FY20 remuneration structure applying to the Group's executive KMP's, a number of mechanical changes to the operation of these principals have been made to reflect the evolving nature and challenges evident across the aged care industry.

A clinical quality "gateway" to any STI entitlement remains in place, along with an expanded range of quality conditions that must be met for KMP's to achieve this gateway and be eligible for consideration to receive STI payments. STI performance measures continue to comprise a mix of common and role-specific measures, with common measures comprising 50% of the scorecard evaluation (compared with 60% in FY19) and role specific measures comprising the other 50% (compared with 40% in FY19), to create enhanced role-specific performance accountability. Finally, the Group's senior executive accountable for overseeing clinical quality and risk frameworks and processes has no financial performance metrics included in their STI scorecard, to eliminate the perceived or actual risk of conflict between financial and clinical quality performance objectives and outcomes.

It is the Board's policy that the remuneration of Non-Executive Directors should accord with market rates and the level of responsibilities involved with each Board position. The existing Non-Executive Director ('NED') fee pool of \$900,000 per annum was established in 2014 upon the Group's listing on the ASX. Fees paid to NEDs in FY19 totalled \$852,159, making the Group unable to consider the appointment of an additional NED to the Board possessing relevant skills or to allow payment of NEDs currently serving on Board committees who are not being paid, in particular the non-standing, non-remunerated Royal Commission and Regulatory sub-committee, which was established in 2018 to address the requirements of the Group's participation in the Aged Care Royal Commission and the increased regulatory environment of the sector.

It is proposed, subject to shareholder approval, to increase the maximum aggregate remuneration that may be paid to NEDs by \$200,000, from \$900,000 per annum to \$1,100,000 per annum. The proposed increase in the maximum aggregate amount payable to NEDs will provide sufficient headroom to attract an additional director should the board decide to. In addition, it will provide capacity to pay NEDs currently serving on Board committees who are not being paid. For clarity, there is no intention to increase the current level of individual fees paid annually to NEDs (Board Chair \$250,000 per annum, Board Member \$100,000 per annum, Board Committee Chair \$15,000 per annum, Board Committee Member \$10,000 per annum).

On behalf of the Board, I am pleased to present to you the FY19 Remuneration Report for Estia and we look forward to welcoming you at the 2019 AGM.

Yours sincerely



Paul Foster

Chair of the Nomination and Remuneration Committee

DIRECTORS' REPORT

Remuneration report – audited (continued)

This report for the year ended 30 June 2019 (FY19) outlines the remuneration arrangements of the Group in accordance with the requirements of the *Corporations Act 2001(Cth), as amended* (the Act) and its regulations. This information has been audited as required by section 308(3C) of the Act.

This report is presented under the following sections:

1. Introduction
2. Remuneration governance
3. Group performance
4. Remuneration principles and strategy
5. Executive remuneration
6. Executive remuneration outcomes (including link to performance)
7. Executive employment contracts
8. Non-executive director fee arrangements
9. Additional disclosures relating to performance rights and shares
10. Other transactions and balances with KMP and their related parties

1. Introduction

This report details the remuneration arrangements for Key Management Personnel (KMP) who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly including any director (whether executive or otherwise) of the parent.

The table below outlines the KMP of the Group during FY19.

Key Management Personnel		
Dr. Gary H Weiss AM	Non-Executive Chairman	Full year
Paul Foster	Non-Executive Director	Full year
Hon. Warwick L Smith AO	Non-Executive Director	Full year
Helen Kurincic	Non-Executive Director	Full year
Karen Penrose	Non-Executive Director	From 17 October 2018
Andrew Harrison	Non-Executive Director	Until 17 October 2018
Norah Barlow ONZM	Non-Executive Director Chief Executive Officer (MD and CEO)	From 23 November 2018 Until 23 November 2018
Ian Thorley	MD and CEO Deputy CEO and COO	From 23 October 2018 ¹ Until 22 October 2018
Sean Bilton	Deputy Chief Executive Officer and Chief Operating Officer (Deputy CEO and COO)	From 23 October 2018
Steve Lemlin	Chief Financial Officer (CFO)	Full year

¹ Ian commenced the role of MD and CEO on 23 October 2018, undertaking a one-month hand-over with Norah Barlow. Ian was formally appointed as MD and CEO on 23 November 2018.

DIRECTORS' REPORT

Remuneration report – audited (continued)

2. Remuneration governance

2.1 Nomination and Remuneration Committee

The Nomination and Remuneration Committee (the Committee) was established to assist and advise the Board on a range of matters including remuneration arrangements for KMP and ensuring the Board is of a size and composition conducive to making appropriate decisions, with the benefit of a variety of perspectives and skills in the best interests of the Group as a whole.

The Committee comprises three independent Non-Executive Directors (NEDs): Paul Foster (Committee Chair), Dr. Gary H Weiss AM and Helen Kurincic. Further information on the Committee's role, responsibilities and membership, which is reviewed annually by the Board, can be viewed at <http://www.estiahealth.com.au/investor-centre/corporate-governance>.

The Committee met four times in FY19. The MD and CEO attends certain Committee meetings by invitation, where management input is required. The MD and CEO is not present during any discussions related to their own remuneration arrangements.

2.2 Use of Independent Remuneration Consultants

The Committee seeks external remuneration advice to ensure it is fully informed when making remuneration decisions. Remuneration advisors are engaged by, and report directly to, the Committee.

During the year ended 30 June 2019, the Nomination and Remuneration Committee engaged KPMG to provide remuneration benchmarking data, advice regarding market practice and trends, and assistance with other ad hoc matters.

The services provided by KPMG do not constitute a 'remuneration recommendation' as defined in section 9B of the *Corporations Act 2001*. The engagement with KPMG was based on an agreed set of protocols governing the manner in which the engagement would be carried out. These protocols ensure that the remuneration advice received from KPMG is free from undue influence from management.

3. Group performance

The table below illustrates Estia's historic performance (since listing) against the key metrics upon which the Group performance is measured.

	30 June 2019	30 June 2018	30 June 2017	30 June 2016	30 June 2015
Revenue - \$'000	\$585,985	\$547,054	\$524,630	\$442,821	\$284,798
Net profit after tax - \$'000	\$41,290	\$41,154	\$40,698	\$27,640	(\$22,523)
EBITDA - \$'000	\$93,967	\$90,083	\$86,500	\$89,059	\$30,900
Share price at start of the year	\$3.29	\$3.05	\$4.37	\$5.70	\$5.75*
Share price at the end of the year	\$2.64	\$3.29	\$3.05	\$4.36	\$5.68
Dividends paid per share – cents	16.0	15.8	8.0	25.6	13.6
Basic earnings per share – cents	15.8	15.8	18.2	15.1	(16.3)
Diluted earnings per share – cents	15.8	15.7	18.0	15.1	(16.3)

*share price at date of listing

4. Remuneration principles and strategy

The remuneration strategy and framework set by the Nomination and Remuneration Committee is designed to support and drive the achievement of Estia's business strategy, including effective governance and management of the Group's risks. It aims to ensure that remuneration outcomes are linked to the Group's performance and aligned with shareholder outcomes.

DIRECTORS' REPORT

Remuneration report – audited (continued)

Estia is committed to creating and ensuring a diverse work environment in which everyone is treated fairly and with respect and where everyone feels responsible for the reputation and performance of the Group. The Board believes that Estia's commitment to this policy contributes to achieving the Group's corporate objectives and embeds the importance and value of diversity within the culture of the Group. Diversity can broaden the pool for recruitment of high quality employees, enhance employee retention, improve the Group's corporate image and reputation and foster a closer connection with and better understanding of customers.

The Board regularly reviews the remuneration framework against the evolving business strategy and in the context of the commercial environment to ensure that it remains relevant.

5. Executive remuneration

5.1 Remuneration Framework and link to strategy

In FY19, the executive remuneration framework comprised a mix of fixed annual remuneration, and short and long-term performance-linked incentive plans. The Group aims to reward executives with a level and mix of remuneration appropriate to their position and responsibilities, while being market competitive and delivering outcomes that are aligned to the experience of Estia's shareholders.

Component	Approach	Link to business and remuneration strategy
Fixed Annual Remuneration (FAR)	FAR is set with reference to role, market and experience of the employee with reference to external benchmarking data, particularly looking at competition in the same sector, both public and private. Group and individual performance are considered during the annual remuneration review.	Competitive remuneration packages that attract and retain high calibre employees from a diverse pool of talent.
Short-Term Incentive Plan (STI)	In FY19, the STI was measured against shared EBITDA, NPAT and Culture targets, as well as other role specific measures over a 12-month period. A resident quality gateway hurdle was also used which required ongoing compliance and accreditation targets to be met in order for any of the STI to be eligible to vest. For executive KMP's the STI award is delivered in a mix of cash and equity. 75% of the award is delivered in cash, with the remaining 25% delivered in performance rights, which require participants to remain employed for an additional 12 months for the performance rights to vest.	Short term incentives align the interests of executives with achievement of business strategic objectives over the short to medium term. The STI scorecard highlights Estia's focus on achieving key financial and operational targets, while also continuing to deliver quality care. Deferral of 25% of any STI award into equity increases alignment with shareholder interests.
Long-Term Incentive Plan (LTI)	The LTI is delivered in the form of performance rights subject to the following performance conditions, measured over a three-year period:	The LTI is designed to drive sustainable value creation for shareholders; encourage retention and encourage a multi-year performance focus.

DIRECTORS' REPORT

Remuneration report – audited (continued)

Component	Approach	Link to business and remuneration strategy
	<ul style="list-style-type: none"> Total shareholder return (TSR) (70%) performance: <ul style="list-style-type: none"> 35% relative to the ASX200 excluding mining and energy companies; and 35% relative to the weighted average performance of a group of ASX-listed (including dual-listed NZX/ASX entities) companies involved in the provision of aged care services. Earnings Per Share (EPS) (30%). 	<p>Relative TSR focuses executives on generating returns for shareholders, while EPS challenges management to increase profitability by growing earnings over a long-term horizon.</p> <p>A TSR comparator group of companies providing aged care services was introduced in order to assess performance against peers with which Estia competes for shareholder capital.</p> <p>The LTI is delivered in equity which aligns the interests of executive with achievement of increased shareholder wealth over the long-term.</p>
Total remuneration	<p>The overall remuneration framework is designed to support and drive the achievement of Estia's business strategy:</p> <ul style="list-style-type: none"> be the leader in providing high quality residential aged care homes in Australia providing our residents with the highest standards of aged care services in an innovative, supportive and caring environment deliver profitable growth through our robust development pipeline, significant refurbishment opportunities and through maximising the performance of our core assets. 	

5.2 FY19 Remuneration Opportunity Mix



DIRECTORS' REPORT

Remuneration report – audited (continued)

5.3 Fixed Annual Remuneration

FAR includes base salary, non-cash benefits such as travelling allowances (including any fringe benefits tax), as well as leave entitlements and superannuation contributions.

Remuneration levels are reviewed annually by the Committee and the Board.

As part of the review, the Committee engages KPMG to benchmark the remuneration of the current KMP against relevant roles from a comparator group of ASX-listed companies².

While having regard for the results of the benchmarking, the Committee considers the skills and experience of each individual, as well as the complexity and accountabilities associated with the role, in setting FAR.

5.4 Short-Term Incentive Plan

The Group provides an annual STI to executives and awards a cash and deferred equity incentive subject to the attainment of clearly defined Group measures.

Participation	Ian Thorley, Sean Bilton and Steve Lemlin all participated in the FY19 STI plan. Norah Barlow did not participate.
STI value	In FY19, Ian Thorley and Sean Bilton had a maximum STI opportunity of 50% of FAR and other executive KMP had a maximum STI opportunity of 30% of FAR.
Performance conditions	The FY19 performance measures were EBITDA, NPAT and Culture targets, as well as other role specific measures. The STI is subject to a resident quality gateway hurdle which requires ongoing compliance and accreditation targets to be met in order for any of the STI to be eligible to vest.
Delivery of STI	Performance against the measures is tested annually after the end of the financial year. All payments under the STI plan are determined and approved by the Committee and the Board. Once STI payments have been approved, they are delivered in cash and equity. For senior executives 25% of any payment is deferred for a period of 12 months in the form of performance rights. The quantity of instruments granted in performance rights is determined using face value allocation methodology, using the VWAP for the 10 trading days immediately following the release of results (i.e. deferred STI amount divided by share price).
Cessation of employment	For "Bad Leavers" (defined by the Group as resignation or termination for cause), any unpaid or deferred STI is forfeited, unless otherwise determined by the Board. For any other reason, the Board has discretion to award STI on a pro-rata basis taking into account time and the current level of performance against performance hurdles.
Clawback policy	The Board has discretion to reduce, cancel or clawback any unvested performance-based remuneration in the event of serious misconduct or a material misstatement in the Group's financial statements.
Changes in FY20	The weighting of role specific performance measures in each KMP's STI scorecard has been increased from 40% to 50% to enhance individual, role specific performance accountability. The range of clinical quality "gateway" performance measures that must be met for KMP's to be eligible for consideration to receive STI payments has been expanded to further elevate the primacy of resident clinical quality and care.

² The comparator group is comprised of ASX-listed companies within the Health Care, Real Estate and Consumer Discretionary sectors, with a market capitalization of 50% - 200% of Estia's.

DIRECTORS' REPORT

Remuneration report – audited (continued)

5.4.1 STI remuneration outcomes

Whilst FY19 performance targets were achieved across a number of STI scorecard areas the clinical quality gateway target was not met, resulting in no payments of STI's for the year, apart from a payment that was agreed with incoming COO Sean Bilton, at the time of him joining the Group, in lieu of a foregone vested incentive payment from his prior employer. 25% of this agreed payment to the incoming COO is subject to deferral into performance rights that will convert into Estia shares after a period of 12 months, subject to continuation of service.

The table below sets out each Executive KMP's STI awarded and foregone in FY19.

Senior Executive	STI opportunity (\$)	STI awarded (\$)	STI awarded (%)	STI foregone (%)
Ian Thorley	360,000	Nil	0%	100%
Sean Bilton	250,000	250,000	100%	0%
Steve Lemlin	135,000	Nil	0%	100%

DIRECTORS' REPORT

Remuneration report – audited (continued)

5.5 Long-Term Incentive Plan

A longer-term incentive is offered to senior executives to assist in the reward, motivation and retention of personnel over the long-term and to improve alignment between executive and shareholder wealth. The LTI is also designed to recognise the abilities, efforts and contributions of participants to Estia's performance and success and provide the participants with an opportunity to acquire or increase their ownership interest in the Group.

Participation	LTI performance rights were offered to all members of executive KMP in FY19.																										
Delivery of LTI	LTI are delivered in the form of performance rights. On exercise, performance rights entitle the holders to ordinary shares.																										
LTI value	In FY19, Ian Thorley had a LTI opportunity of 100% of FAR, both Sean Bilton and Steve Lemlin had a LTI opportunity of 70% of FAR.																										
Allocation methodology	The quantity of instruments granted under the LTI is determined using face value allocation methodology, using the VWAP for the 10 trading days immediately following the release of results (i.e. LTI opportunity divided by share price).																										
Performance conditions	<p>The performance conditions for FY19 performance rights are as follows. 70% of award will be subject to a relative TSR performance measure:</p> <ul style="list-style-type: none"> 35% relative to the ASX200 excluding mining and energy companies; and 35% relative to the weighted average performance of a group of ASX-listed (including dual-listed NZX/ASX entities) companies involved in the provision of aged care services comprised of Regis Healthcare Limited (25%), Japara Healthcare Limited 25%, Aveo Healthcare Limited (25%), Oceania (12.5%) and Summerset Group Holdings Limited (12.5%). <p>TSR vesting schedules are provided below.</p> <table border="1"> <thead> <tr> <th>Estia's TSR relative to the ASX200 (excluding mining and energy companies)</th> <th>Percentage of performance rights that vest</th> </tr> </thead> <tbody> <tr> <td>Less than median of comparator group</td> <td>Nil</td> </tr> <tr> <td>At median of comparator group</td> <td>50%</td> </tr> <tr> <td>Between median and 75th percentile of comparator group</td> <td>Straight line pro rata vesting between 50% and 100%</td> </tr> <tr> <td>Greater than 75th percentile of comparator group</td> <td>100%</td> </tr> </tbody> </table> <table border="1"> <thead> <tr> <th>Estia's TSR relative to the weighted average performance of aged care services peer group</th> <th>Percentage of performance rights that vest</th> </tr> </thead> <tbody> <tr> <td>Below weighted average performance</td> <td>0%</td> </tr> <tr> <td>At weighted average performance</td> <td>50%</td> </tr> <tr> <td>Straight line vesting</td> <td>50% - 100%</td> </tr> <tr> <td>15 percentage points above weighted average performance</td> <td>100%</td> </tr> </tbody> </table> <p>30% of award subject to EPS performance measure, with the below vesting schedule.</p> <table border="1"> <thead> <tr> <th>Group's compound annual growth of EPS from FY18 base year</th> <th>Percentage of performance rights that vest</th> </tr> </thead> <tbody> <tr> <td>Below threshold rate (<6%)</td> <td>Nil</td> </tr> <tr> <td>At threshold rate (6%)</td> <td>25%</td> </tr> </tbody> </table>	Estia's TSR relative to the ASX200 (excluding mining and energy companies)	Percentage of performance rights that vest	Less than median of comparator group	Nil	At median of comparator group	50%	Between median and 75th percentile of comparator group	Straight line pro rata vesting between 50% and 100%	Greater than 75th percentile of comparator group	100%	Estia's TSR relative to the weighted average performance of aged care services peer group	Percentage of performance rights that vest	Below weighted average performance	0%	At weighted average performance	50%	Straight line vesting	50% - 100%	15 percentage points above weighted average performance	100%	Group's compound annual growth of EPS from FY18 base year	Percentage of performance rights that vest	Below threshold rate (<6%)	Nil	At threshold rate (6%)	25%
Estia's TSR relative to the ASX200 (excluding mining and energy companies)	Percentage of performance rights that vest																										
Less than median of comparator group	Nil																										
At median of comparator group	50%																										
Between median and 75th percentile of comparator group	Straight line pro rata vesting between 50% and 100%																										
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Estia's TSR relative to the weighted average performance of aged care services peer group	Percentage of performance rights that vest																										
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At weighted average performance	50%																										
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15 percentage points above weighted average performance	100%																										
Group's compound annual growth of EPS from FY18 base year	Percentage of performance rights that vest																										
Below threshold rate (<6%)	Nil																										
At threshold rate (6%)	25%																										

DIRECTORS' REPORT

Remuneration report – audited (continued)

	Between threshold and target rate (6% to 10.3%)	Straight line pro rata vesting between 25% and 50%
	At target rate or above (10.3% to 11%)	Straight line pro rata vesting between 50% and 100%
Performance period	When assessing performance against targets, EPS will be adjusted to account for acquisitions made during the performance period.	
Lapse of performance rights	The performance rights granted in FY19 have a performance period of three years.	
Total shares issued	Any performance rights that remain unvested at the end of the performance period will lapse immediately.	
Cessation of employment	The number of shares allocated on the vesting of all outstanding rights may not exceed 5% of the total number of shares on issue at the time of the offer.	
Change of control	For "bad leavers" (defined by the Group as resignation or termination for cause), all of the performance rights held by that employee upon cessation will automatically lapse.	
Clawback policy	Cessation of employment for any other reason, a portion of the performance rights held by that employee upon cessation will lapse according to a formula which takes into account the length of time the participant has held the performance right and the performance period for the performance right, unless otherwise determined by the Board.	
Changes in FY20	The Board may exercise its discretion to allow all or some unvested rights to vest if a change of control event occurs, having regard for the performance of the Group during the vesting period up to the date of a change of control event.	
	The Board has discretion to reduce, cancel or clawback any unvested performance-based remuneration in the event of serious misconduct or a material misstatement in the Group's financial statements.	
	There will be no change to the plan in FY20.	

5.5.1 LTI Vesting Outcomes

The FY17 LTI performance rights will be tested for vesting in FY20. As a result, no portion of the FY17 LTI have vested or have been forfeited at the date of this report.

DIRECTORS' REPORT

Remuneration report – audited (continued)

6. Executive remuneration outcomes

6.1 Executive remuneration for the year from 1 July 2018 to 30 June 2019

		Short-term benefits			Post-employment benefits		Long-term benefits		Fixed annual remuneration	Share based expenses		Total fixed and "at risk" remuneration	Termination payments	Performance related remuneration
		Salary and fees	STI bonus	Non-monetary benefits	Superannuation benefits	Long service leave entitlements	Deferred STI ³	LTI ⁴						
										\$	\$			
Executive director														
Ian Thorley ⁵	2019	620,719	-	-	20,531	-	641,250	-	136,869	-	778,119	-	18%	
	2018	429,951	35,723	-	20,049	-	450,000	11,908	99,644	-	597,275	-	25%	
Senior executive														
Sean Bilton	2019	330,888	187,500	-	14,169	-	345,057	62,500	15,106	-	610,163	-	43%	
	2018	-	-	-	-	-	-	-	-	-	-	-	-	
Steve Lemlin	2019	429,469	-	-	20,531	-	450,000	-	90,127	-	540,127	-	17%	
	2018	412,476	29,378	-	20,049	-	432,525	9,793	70,531	-	542,227	-	20%	
Former executives														
Norah Barlow ⁶	2019	316,026	-	-	10,421	-	326,447	-	297,979	-	624,426	-	48%	
	2018	679,951	56,700	-	20,049	-	700,000	18,900	259,389	-	1,034,989	-	32%	
Steve Boggiano	2019	-	-	-	-	-	-	-	-	-	-	-	-	
	2018	15,656	-	-	1,487	-	17,143	-	(37,197)	-	(20,054)	-	N/A	
Total	2019	1,697,102	187,500	-	65,652	-	1,762,754	62,500	540,081	-	2,552,835	-		
	2018	1,538,034	121,801	-	61,634	-	1,599,668	40,601	392,367	-	2,154,437	155,111		

³ The deferred STI is equity settled. The fair value of the deferred share component is amortised over the vesting period, being twelve months after the reporting period.

⁴ The LTI share based expenses represents the fair value of the expense recognised in the year.

⁵ Ian was remunerated as the MD and CEO at the commencement of the one-month hand over with Norah Barlow on 23 October 2018. Ian was formally appointed as MD and CEO on 23 November 2018.

⁶ Remuneration received in respect of Norah Barlow's role as a non-executive director is included in table 8.4

DIRECTORS' REPORT

Remuneration report – audited (continued)

7. Executive employment contracts

Remuneration arrangements for executives are formalised in employment agreements. Key conditions for executives are outlined below:

Name	FAR	Agreement commence	Agreement expire	Notice of termination by Group	Employee notice
Ian Thorley	\$720,000	23 October 2018	No expiry, continuous agreement	6 months (or payment in lieu of notice)	6 months
Sean Bilton	\$500,000	23 October 2018	No expiry, continuous agreement	3 months (or payment in lieu of notice)	3 months
Steve Lemlin	\$450,000	1 February 2017	No expiry, continuous agreement	3 months (or payment in lieu of notice)	3 months

7.1 Norah Barlow

Norah Barlow stepped down from the role of MD & CEO effective 23 November 2018, and has reassumed her role as non-executive Director.

Unvested equity based incentives granted to Norah in connection with her role as MD & CEO will remain on foot and be subject to performance testing in line with the ordinary terms of the plan. Details of such awards can be found in section 9 of this report. Norah is not a member of the Nomination and Remuneration Committee, and will not be involved in assessment of vesting levels of any of these plans.

8. Non-executive director fee arrangements

The Board seeks to set NED fees at a level which provides the Group with the ability to attract and retain NEDs of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

In FY19, there were no increases to NED fees.

8.1 Fee Pool

The NED fee pool at Estia is currently \$900,000 (including superannuation contributions as required by law).

DIRECTORS' REPORT

Remuneration report – audited (continued)

8.2 Director's 2019 Fee Structure

The table below summarises the annual Base NED fees, inclusive of superannuation:

	Description	Fees
Board	Chair	\$250,000
	Director	\$100,000
Audit Committee	Chair	\$15,000
	Member	\$10,000
Nominations & Remuneration Committee	Chair	\$15,000
	Member	\$10,000
Risk Management Committee	Chair	\$15,000
	Member	\$10,000
Property & Investment Committee	Chair	\$15,000
	Member	\$10,000

A Board Royal Commission and Regulatory Committee was established in FY19. No fees were paid to the members of this committee due to lack of payment capacity under the current NED fee pool cap of \$900,000 per annum. NEDs may be reimbursed for expenses reasonably incurred in attending to the Group's affairs. NEDs do not receive retirement benefits, nor do they participate in any incentive programs.

8.3 Changes for FY20

It is proposed, subject to shareholder approval, to increase the maximum aggregate remuneration that may be paid to NEDs by \$200,000, from \$900,000 per annum to \$1,100,000 per annum. The proposed increase in the maximum aggregate amount payable to NEDs will provide sufficient headroom to attract an additional director should the board decide to. In addition, it will provide capacity to pay NEDs currently serving on Board committees who are not being paid. For clarity, there is no intention to increase the current level of individual fees paid annually to NEDs (Board Chair \$250,000 per annum, Board Member \$100,000 per annum, Board Committee Chair \$15,000 per annum, Board Committee Member \$10,000 per annum).

DIRECTORS' REPORT

Remuneration report – audited (continued)

8.4 Non-Executive director remuneration

The table below outlines NED remuneration for FY19 in accordance with statutory rules and applicable accounting standards.

	Year	Board fees \$	Superannuation \$	Total fees \$
Non-Executive Director				
Gary Weiss	2019	259,469	20,531	280,000
	2018	250,992	20,049	271,041
Paul Foster	2019	123,288	11,712	135,000
	2018	123,288	11,712	135,000
Warwick Smith	2019	114,155	10,845	125,000
	2018	114,155	10,845	125,000
Helen Kurincic	2019	114,155	10,845	125,000
	2018	114,155	10,845	125,000
Karen Penrose ⁷	2019	79,597	7,562	87,159
	2018	-	-	-
Norah Barlow ⁸	2019	58,333	-	58,333
	2018	-	-	-
Former Non-Executive Director				
Andrew Harrison ⁹	2019	38,052	3,615	41,667
	2018	114,155	10,845	125,000
Patrick Grier ¹⁰	2019	-	-	-
	2018	41,133	3,908	45,041
Total	2019	787,049	65,110	852,159
	2018	757,878	68,204	826,082

⁷ Karen Penrose was appointed on 17 October 2018.

⁸ Remuneration received in respect of Norah Barlow's role as executive is included in table 6.1, including the expense recognised for the year relating to the LTI performance rights issued during her time as MD and CEO.

⁹ Andrew Harrison resigned on 17 October 2018.

¹⁰ Patrick Grier retired on 14 November 2017.

DIRECTORS' REPORT

Remuneration report – audited (continued)

9. Additional disclosures relating to performance rights and shares

9.1 Performance rights granted, vested and lapsed during the year

The table below discloses the number of performance rights granted, vested or lapsed during the year. Performance rights do not carry any voting or dividend rights and can only be exercised once the vesting conditions have been met, until their expiry date. No options were granted to members of KMP during FY19.

	Number of rights granted during the year	Grant date	Fair value per right at grant date	Vesting date	Exercise price per right	Expiry date	Number of rights vested during the year	Number of rights lapsed during the year
Executive director								
Ian Thorley ¹¹	70,463	29/11/18	0.47	30/06/21	Nil	30/06/21	-	-
	70,463	29/11/18	0.46	30/06/21	Nil	30/06/21	-	-
	60,396	29/11/18	1.92	30/06/21	Nil	30/06/21	-	-
	4,016	29/11/18	2.96	30/06/19	Nil	30/06/19	4,016	-
Senior executive								
Sean Bilton	28,509	29/11/18	0.47	30/06/21	Nil	30/06/21	-	-
	28,509	29/11/18	0.46	30/06/21	Nil	30/06/21	-	-
	24,436	29/11/18	1.92	30/06/21	Nil	30/06/21	-	-
Steve Lemlin	37,185	29/11/18	0.47	30/06/21	Nil	30/06/21	-	-
	37,185	29/11/18	0.46	30/06/21	Nil	30/06/21	-	-
	31,874	29/11/18	1.92	30/06/21	Nil	30/06/21	-	-
	3,303	29/11/18	2.96	30/06/19	Nil	30/06/19	3,303	-
Former executive								
Norah Barlow ¹²	36,359	29/11/18	0.47	30/06/21	Nil	30/06/21	-	-
	36,359	29/11/18	0.46	30/06/21	Nil	30/06/21	-	-
	31,165	29/11/18	1.92	30/06/21	Nil	30/06/21	-	-
	6,374	29/11/18	2.96	30/06/19	Nil	30/06/19	6,374	-
Total	506,596						13,693	-

¹¹ Shareholders approved the grant of 201,322 performance rights to Ian Thorley in respect of the FY19 LTI, at the Group's FY18 AGM held on 29 November 2018.

¹² Shareholders approved the grant of 103,883 performance rights to Norah Barlow in her role as MD and CEO in respect of the FY19 LTI, at the Group's FY18 AGM held on 29 November 2018.

DIRECTORS' REPORT

Remuneration report – audited (continued)

9.2 Performance rights holdings of KMP and related parties

KMP, or their related parties directly, indirectly or beneficially held a number of performance rights in the Estia Group as detailed in the table below.

	Number of rights at 1 July 2018	Granted as remuneration	Rights exercised	Net change other	Number of rights at 30 June 2019	Vested at 30 June 2019	
						Exercisable	Not exercisable
Executive director							
Ian Thorley	181,748	205,338	-	-	387,086	4,016	-
Senior executive							
Sean Bilton	-	81,454	-	-	81,454	-	-
Steve Lemlin	141,644	109,547	-	-	251,191	3,303	-
Former executive							
Norah Barlow	484,233	110,257	-	-	594,490	6,374	-
Total	807,625	506,596	-	-	1,314,221	13,693	-

DIRECTORS' REPORT

Remuneration report – audited (continued)

9.3 Value of performance rights awarded, exercised and lapsed during the year

The table below discloses the value of performance rights granted, exercised or lapsed during the year.

	Value of rights granted during the year ^a	Value of rights exercised during the year ^b	Value of rights lapsed during the year ^c	Remuneration consisting of rights for the year
	\$	\$	\$	%
Executive director				
Ian Thorley	124,020	-	-	18%
Senior executive				
Sean Bilton	45,360	-	-	43%
Steve Lemlin	68,957	-	-	17%
Former executive				
Norah Barlow	76,750	-	-	48%
Total	315,087	-	-	

^a Determined at the time of grant per the AASB 2.

^b Determined at the time of exercise.

^c Determined at the time of lapse.

There were no alterations to the terms and conditions of options awarded as remuneration since their award date.

DIRECTORS' REPORT

Remuneration report – audited (continued)

9.4 Shareholdings of KMP and related parties

KMP or their related parties directly, indirectly or beneficially held a number of shares in Estia Group as detailed in the table below.

	Number of shares at 1 July 2018 ^{13,14}	Granted as remuneration	Exercise of rights	Net change other	Number of shares at 30 June 2019 ¹⁵	Held nominally
Non-Executive Director						
Gary Weiss	45,312	-	-	-	45,312	45,312
Paul Foster	14,000	-	-	10,000	24,000	24,000
Warwick Smith	45,000	-	-	45,000	90,000	90,000
Helen Kurincic	25,000	-	-	-	25,000	25,000
Norah Barlow	123,100	-	-	-	123,100	123,100
Karen Penrose	4,500	-	-	14,333	18,833	18,833
Andrew Harrison	54,208	-	-	-	54,208	54,208
Senior executive						
Ian Thorley	28,518	-	-	50,000	78,518	78,518
Sean Bilton	-	-	-	-	-	-
Steve Lemlin	8,000	-	-	8,500	16,500	16,500
Total	347,638	-	-	127,833	475,471	475,471

All equity transactions with KMP have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

10. Other transactions and balances with KMP and their related parties

There were no other transactions with KMP or their related parties during the year.

¹³ The number of shares held for KMP who were appointed during the year are as at the date of their respective appointments.

¹⁴ The number of shares held for KMP at 1 July 2018 includes a restatement of prior period holdings for Andrew Harrison (previously reported as 25,542).

¹⁵ The number of shares held for KMP who have resigned during the year are as at the date of their respective resignations.



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**Building a better
working world**

Auditor's Independence Declaration to the Directors of Estia Health Limited

As lead auditor for the audit of Estia Health Limited for the financial year ended 30 June 2019, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Estia Health Limited and the entities it controlled during the financial year.

Ernst & Young

Paul Gower
Partner
20 August 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 \$'000	2018 \$'000*
Revenues	B1	585,985	546,934
Other income	B1	36	483
Expenses			
Employee benefits expense	B4	386,804	360,216
Administrative expenses	B2	19,782	15,064
Occupancy expenses	B5	31,297	29,598
Resident expenses		51,613	51,093
Depreciation and amortisation expense	B3	28,719	25,547
Impairment expense	B3	465	455
Impairment losses on trade receivables	B1	801	1,000
Direct costs associated with the Royal Commission		1,721	-
Operating profit for the year		64,819	64,444
Net finance costs	B6	6,990	7,279
Profit before income tax		57,829	57,165
Income tax expense	B7	16,539	16,011
Profit for the year		41,290	41,154
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax		-	-
Other comprehensive income not to be reclassified to profit or loss in subsequent periods, net of tax		-	-
Total comprehensive income for the year, net of tax		41,290	41,154
		cents	cents
Earnings per share			
Basic, profit for the year attributable to ordinary equity holders of the Parent	B8	15.84	15.79
Diluted, profit for the year attributable to ordinary equity holders of the Parent	B8	15.77	15.75

*The comparative information above has been restated for classification purposes only. Amounts relating to impairment expenses as reported in the prior year of \$3,384,000 have been reclassified to depreciation and amortisation expense. Refer to Note B3 for further information.

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	Notes	2019 \$'000	2018 \$'000*
Current assets			
Cash and cash equivalents	C3	14,631	11,198
Trade and other receivables	C4	9,046	11,433
Income tax receivable	B7	607	913
Prepayments and other assets		6,540	6,884
Assets held for sale	C5	-	902
Total current assets		30,824	31,330
Non-current assets			
Property, plant and equipment	C1	822,696	757,110
Investment properties	C6	1,620	1,620
Goodwill	C2	817,074	817,074
Other intangible assets	C2	222,575	218,714
Total non-current assets		1,863,965	1,794,518
Total assets		1,894,789	1,825,848
Current liabilities			
Trade and other payables	C7	44,046	42,647
Income received in advance		-	25
Refundable accommodation deposits and bonds	D4	805,033	791,508
Other financial liabilities	C9	1,304	1,371
Provisions	C8	45,616	41,793
Total current liabilities		895,999	877,344
Non-current liabilities			
Deferred tax liabilities	B7	107,775	107,610
Loans and borrowings	D3	125,000	75,000
Provisions	C8	4,496	4,269
Other payables	C7	12	61
Total non-current liabilities		237,283	186,940
Total liabilities		1,133,282	1,064,284
Net assets		761,507	761,564
Equity			
Issued capital	D1	801,843	801,836
Share-based payments reserve		1,794	1,136
Accumulated losses		(42,130)	(41,408)
Total equity		761,507	761,564

*The comparative information above has been restated for classification purposes only. Refer to Notes C4 and C7 for further information.

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2019

	Notes	Issued capital \$'000	Share-based payments reserve \$'000	Accumulated losses \$'000	Total equity \$'000
As at 1 July 2017		801,830	673	(41,387)	761,116
Profit for the year		-	-	41,154	41,154
Other comprehensive income		-	-	-	-
Total comprehensive income		-	-	41,154	41,154
Transactions with owners in their capacity as owners:					
Repayment of management equity plan	D1	6	-	-	6
Dividends	D1	-	-	(41,175)	(41,175)
Share-based payments	D2	-	463	-	463
As at 30 June 2018		801,836	1,136	(41,408)	761,564
Adjustment on adoption of AASB 9 (net of tax)	E9	-	-	(316)	(316)
Restated total equity at the beginning of the financial year		801,836	1,136	(41,724)	761,248
Profit for the year		-	-	41,290	41,290
Other comprehensive income		-	-	-	-
Total comprehensive income		-	-	41,290	41,290
Transactions with owners in their capacity as owners:					
Repayment of management equity plan	D1	7	-	-	7
Dividends	D1	-	-	(41,696)	(41,696)
Share-based payments	D2	-	658	-	658
As at 30 June 2019		801,843	1,794	(42,130)	761,507

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 \$'000	2018 \$'000
Cash flows from operating activities			
Receipts from residents		148,427	141,732
Receipts from government		437,556	403,746
Payments to suppliers and employees		(489,880)	(442,438)
Net operating cash flows before interest, income tax and RAD, accommodation bond and ILU entry contributions		96,103	103,040
Interest received		70	186
Finance costs paid		(6,878)	(6,940)
Income taxes paid		(15,932)	(22,307)
Net cash flows from operating activities excluding RAD, accommodation bond and ILU entry contributions		73,363	73,979
RAD, accommodation bond and ILU entry contribution received		246,454	269,566
RAD, accommodation bond and ILU entry contribution refunded		(231,888)	(206,781)
Net cash flows from operating activities	B9	87,929	136,764
Cash flows from investing activities			
Payments for intangible assets	C2	(4,850)	(942)
Proceeds from sale of property, plant and equipment		19	-
Proceeds from sale of assets held for sale	C5	956	4,167
Purchase of property, plant and equipment	C1	(88,932)	(60,323)
Net cash flows used in investing activities		(92,807)	(57,098)
Cash flows from financing activities			
Proceeds from repayment of MEP loans	D1	7	6
Proceeds from borrowings		225,000	65,000
Repayment of borrowings		(175,000)	(111,514)
Dividends paid	D1	(41,696)	(41,175)
Net cash flows from/(used in) financing activities		8,311	(87,683)
Net increase (decrease) in cash and cash equivalents		3,433	(8,017)
Cash and cash equivalents at the beginning of the year		11,198	19,215
Cash and cash equivalents at the end of the year	C3	14,631	11,198

The accompanying notes form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION A: ABOUT THIS REPORT

A1 CORPORATE INFORMATION

The consolidated financial statements of Estia Health Limited and its subsidiaries (collectively, the "Group") for the year ended 30 June 2019 were authorised for issue in accordance with a resolution of the directors on 20 August 2019.

Estia Health Limited (the "Company" or the "parent") is a for-profit company limited by shares incorporated in Australia, whose shares are publicly traded on the Australian Securities Exchange (ASX) under the code 'EHE'.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

A2 BASIS OF PREPARATION

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on a historical cost basis, except for investment properties and derivative financial instruments which have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand (\$'000) unless otherwise stated.

A3 STATEMENT OF COMPLIANCE

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

A4 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Group and its controlled subsidiaries as at 30 June 2019 (refer to Note E6 for the group structure). Control is achieved when the Group is exposed, or has rights, to the variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of profit or loss and other comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

All intercompany balances and transactions, and any unrealised gains and losses arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements.

A5 CURRENT/NON-CURRENT CLASSIFICATION

Assets are disclosed as current when they are expected to be converted to cash or receivable within 12 months of 30 June 2019. Liabilities are disclosed as current when they are due within 12 months of 30 June 2019 or when there is no unconditional right to defer settlement for at least 12 months after 30 June 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION A: ABOUT THIS REPORT (CONTINUED)

A6 GOING CONCERN

The financial report has been prepared on a going concern basis which assumes that the Group will be able to meet its obligations as and when they fall due. The Group's current liabilities exceed current assets by \$865,175,000 as at 30 June 2019 (2018: \$846,014,000) resulting in a net deficiency of current assets. This mainly arises because of the requirement to classify Refundable Accommodation Deposits ("RAD") and Independent Living Unit (ILU) entry contributions of \$806,337,000 (2018: \$792,879,000) as current liabilities.

RADs and Bonds are classified as a current liability as the Group does not have an unconditional right to defer settlement of any specific RAD or Bond for at least twelve months after the reporting date. The total RAD and Bond liability represents the sum of separate payments from individual residents in different locations with differing circumstances, and frequently a departing RAD and Bond paying resident is replaced shortly afterwards with a new RAD paying resident. The repayment of individual balances that make up the total current balance will be dependent upon the actual tenure of individual residents, which can be more than ten years but averages approximately 2 - 2.5 years (refer Notes D4 and C9 for further details).

The Group has a debt facility of \$330,000,000 of which \$201,000,000 remains undrawn as at 30 June 2019, which excludes \$4,000,000 of bank guarantees disclosed in Note E2. This debt facility can be drawn down to re-pay RAD and Bond refunds should the Group experience significant RAD and Bond net outflows.

A7 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts and are reviewed on an ongoing basis.

Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Information about critical judgements, estimates and assumptions that affect the application of the Group's accounting policies within the year ended 30 June 2019 are included in the following notes:

|- Significant accounting judgements, estimates and assumptions

Note B7	Recognition of deferred tax assets
Note C2	Recoverability of Intangible assets
Note C4	Recoverability of trade receivables and future credit risks
Note D2	Measurement of equity-settled share-based payment transactions

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION B: OUR PERFORMANCE

B1 REVENUE AND OTHER INCOME

	2019 \$'000	2018 \$'000
Revenues		
Government funded residential care subsidies & supplements	438,323	404,064
Resident daily care fees	104,253	101,065
Other resident fees	43,409	41,805
Total revenues	585,985	546,934
Other income		
Net gain on disposals of assets held for sale	17	363
Increase in fair value of investment property	-	120
Net gain on disposals of property, plant and equipment	19	-
Total other income	36	483

The Group is in the business of providing residential aged care services to residents. The terms and conditions for discretionary and non-discretionary services are agreed within a single customer contract with the resident, which are enforceable primarily on a daily basis. Contracts with customers contain provision for accommodation, use of common areas/facilities, provision of care and other services.

Total revenue includes the provision of accommodation, that is accounted for in accordance with AASB 117 *Leases*. Operating lease revenue is recognised on a straight line basis over the length of stay. For residents that have chosen to pay a RAD or Bond, the adoption of AASB 16 as of 1 July 2019, would regard there being a reduction in, or no, cash charge for accommodation. The accounting treatment for the non-cash consideration component of this arrangement is expected to change and result in the recognition of an increase in revenue for accommodation and an increase in financing costs relating to the outstanding RAD liability, with no net impact on the Operating Profit for periods affected. Refer to Note E9 for further analysis of the impact on the new standard.

Disaggregation of Revenue

The Group has disaggregated revenue based on the source of the funding for the provision of residential aged care.

(a) Government Funded Residential Care Subsidies & Supplements

The Australian Government determines the amount of subsidies and supplements in accordance with the provisions of the Aged Care Act. In accordance with the Act the level of subsidy or supplement is dependent on a range of factors, including a resident's care needs, supported resident ratios in a particular home and whether a home has been newly built or significantly refurbished on or after 20 April 2012. The subsidies and supplements are calculated as a daily rate and is payable for each day that a resident is in a home.

The Government may require a resident to pay a proportion of that subsidy or supplement dependent on their own financial circumstances, referred to as a Means Tested Care Fee ('MTCF'). The MTCF reduces the amount the Government pays directly to the provider as a result. The total MTCF included within the total Government Funded Residential Care Subsidies and Supplements was \$16,782,000 in the period (2018: \$17,367,000).

(b) Resident Daily Care Fees

The Group receives Daily Care Fees in accordance with the Aged Care Act which are funded directly by the resident as a Daily Care Fee which is set by the Government. The Daily Care Fee is calculated as a daily rate and is payable by a resident for each day that a resident is in a home.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION B: OUR PERFORMANCE (CONTINUED)

B1 REVENUE AND OTHER INCOME (CONTINUED)

(c) Other Resident Fees

The Group provides additional services and accommodation to residents that are funded directly by the resident, under mutually agreed terms and conditions.

The services provided are determined on a standalone price, typically as a daily rate and the resident simultaneously receives and consumes the benefits provided by the Group.

Impairment Losses on Receivables

The Group recognised impairment losses on receivables arising from contracts with customers, included under Impairment losses on trade receivables in the statement of profit or loss of \$801,000 for the year ended 30 June 2019 (2018: \$1,000,000).

Contract Assets and Liabilities

AASB 15 requires presentation of the following items separately in the statement of financial position:

- (i) 'contract asset' for the right to consideration in exchange for services that have transferred to a customer;
- (ii) 'contract liability' for the obligation to transfer services to a customer for which the entity has received consideration (or an amount of consideration is due) from the customer; and
- (iii) 'receivable' for the right to consideration that is unconditional (only the passage of time is required before payment of that consideration is due).

The Group presents these separately in the statement of financial position. The Standard allows an entity to use alternative descriptions and therefore the Group has used the description 'Income received in advance' to refer to contract liabilities.

Other Income

During the year, the Group sold two properties for a total of \$956,000 (2018: five properties sold for a total of \$4,167,000) and recognised a net gain on sale of \$17,000 (2018: net gain on sale \$363,000).

The Group recognises gains and losses from the sale of assets held for sale at the point in time that control transfers to the purchaser, which is when the legal title is transferred between the parties, typically upon settlement.

SIGNIFICANT ACCOUNTING POLICY

The Group recognises revenue under AASB 15 *Revenue from Contracts with Customers* which supersedes AASB 118 *Revenue* and related interpretations and applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The Group uses the five-step model as set out in AASB 15 to account for revenue arising from contracts with customers.

The transaction price is allocated to performance obligations on the basis of their relative standalone selling prices and recognised as revenue accordingly as those performance obligations are satisfied over time each day as the customer simultaneously receives and consumes the benefits provided by the Group.

The provision of care to a resident is a single performance obligation. Other services, such as Additional Services (including services such as in-room foxtel and additional menu choices) and Accommodation charges contain a number of different performance obligations.

The Group has applied the practical expedient not to disclose the transaction price allocation to unperformed performance obligations.

All performance obligations are considered to be met on a daily basis and therefore the Group does not have any outstanding performance obligations that have not been met at the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION B: OUR PERFORMANCE (CONTINUED)

B2 ADMINISTRATIVE EXPENSES

	2019 \$'000	2018 \$'000
Advertising and marketing expenses	924	672
Telephone and communication expenses	2,108	1,797
Travel expenses	2,152	1,605
Printing and stationery expenses	2,369	2,625
Professional services expenses	5,476	3,065
Other administrative expenses	6,753	5,300
Total administrative expenses	19,782	15,064

B3 DEPRECIATION, AMORTISATION AND IMPAIRMENT EXPENSES

	Notes	2019 \$'000	2018 \$'000*
Depreciation expense	C1	26,432	21,019
Accelerated depreciation due to home closures	C1	1,298	3,384
Amortisation expense	C2	989	1,144
Impairment expense	C1	465	455
Total depreciation, amortisation and impairment expenses		29,184	26,002

The accelerated depreciation due to home closures above relates to the closing of the home at Mona Vale. In the prior year, the amounts relate to the closure of the home at Southport and Blakehurst.

*The comparative information above has been restated for classification purposes only. Amounts relating to impairment expenses as reported in the prior year of \$3,384,000 have been reclassified to accelerated depreciation due to home closures. The homes were depreciated at an accelerated rate due to changes in their useful life estimates based on decisions to redevelop the sites at an earlier date than previously anticipated.

B4 EMPLOYEE BENEFITS EXPENSES

	2019 \$'000	2018 \$'000
Salaries and wages expense	322,290	303,027
Superannuation expense	29,462	27,837
Other employee expenses	35,052	29,352
Total employee benefits expenses	386,804	360,216

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION B: OUR PERFORMANCE (CONTINUED)

B5 OCCUPANCY EXPENSES

	2019 \$'000	2018 \$'000
Rent expense	5,849	5,703
Repairs and maintenance expense	9,578	8,509
Other occupancy expenses	15,870	15,386
Total occupancy expenses	31,297	29,598

B6 NET FINANCE COSTS

	2019 \$'000	2018 \$'000
Interest income from cash at banks	70	186
Total finance income	70	186
Interest expense on bank loans	2,549	2,298
Interest capitalised ¹	(960)	(338)
Interest expense on accommodation bonds for departed residents	3,402	3,257
Other finance costs	2,069	2,248
Total finance costs	7,060	7,465
Net finance costs	6,990	7,279

¹ Interest directly attributable to the construction of homes has been capitalised to construction in progress at a weighted average rate of 3.04% (2018: 2.99%). Assets have been funded through general borrowings and the capitalisation rate represents the average cost of interest on such borrowings.

• SIGNIFICANT ACCOUNTING POLICY

Interest income

Interest income is recognised based on the effective interest method.

Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Refer to Note D3 for information relating to loans and borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION B: OUR PERFORMANCE (CONTINUED)

B7 INCOME TAX

	2019 \$'000	2018 \$'000
<i>Current income tax</i>		
Current income tax expense	16,529	17,314
Adjustments in respect of income tax of previous year	(290)	(788)
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	642	(190)
Adjustments in respect of income tax of previous year	(342)	(325)
Income tax expense reported in the consolidated statement of profit or loss and other comprehensive income	16,539	16,011

Reconciliation of income tax expense and the accounting profit:

	2019 \$'000	2018 \$'000
Accounting profit before income tax	57,829	57,165
At the Australian statutory income tax rate of 30% (2018: 30%)	17,349	17,150
Adjustments in respect of income tax of previous year	(632)	(1,113)
Non-taxable income	-	(143)
Utilisation of previously unrecognised tax losses	(182)	-
Recognition of tax on bed licences	-	89
Expenditure not allowable for income tax purposes		
- Other expenditure	4	28
Income tax expense	16,539	16,011

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION B: OUR PERFORMANCE (CONTINUED)

B7 INCOME TAX (CONTINUED)

	Consolidated statement of profit or loss and other comprehensive income		Consolidated statement of financial position	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Accelerated depreciation	1,003	1,223	(59,848)	(60,851)
IPO transaction fees	(2,059)	(2,059)	16	2,075
Other	(184)	(496)	(825)	(641)
Assets held for sale	(17)	(119)	-	17
Bed licences	-	(89)	(64,571)	(64,571)
Share-based payments	(341)	139	-	341
Provisions and accruals	1,298	1,627	17,489	16,056
Investment properties	-	(36)	(36)	(36)
Deferred tax expense	(300)	190		
Deferred tax assets/(liabilities), net			(107,775)	(107,610)
Reflected in the statement of financial position as follows				
Deferred tax assets			17,672	18,665
Deferred tax liabilities			(125,447)	(126,275)
Deferred tax assets/(liabilities), net			(107,775)	(107,610)

Reconciliation of deferred tax liabilities, net:

	\$'000
Balance at 1 July 2017	(108,765)
Tax income during the year recognised in profit or loss	190
Adjustments in respect of income tax of previous year	965
Balance at 30 June 2018	(107,610)
Adjustment due to AASB9 adoption	135
Adjusted balance as at 1 July 2018	(107,475)
Tax expense during the year recognised in profit or loss	(300)
As at 30 June 2019	(107,775)

The Group has tax losses which arose as part of the acquisition of the Hutchinson component entities. These are subject to an available fraction which determines the annual rate at which the losses may be recouped. A deferred tax benefit has not been recognised in these financial statements in relation to these losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION B: OUR PERFORMANCE (CONTINUED)

B7 INCOME TAX (CONTINUED)

* SIGNIFICANT ACCOUNTING POLICY

Current income tax

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

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Positions taken in the tax returns are evaluated with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

Tax consolidation legislation

Estia Health Limited and its wholly-owned controlled entities implemented the tax consolidation legislation as of 19 June 2013.

The head entity, Estia Health Limited and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the Group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

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

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION B: OUR PERFORMANCE (CONTINUED)

B7 INCOME TAX (CONTINUED)

.* SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

B8 EARNINGS PER SHARE

Basic Earnings Per Share (EPS) amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the year. Diluted EPS amounts are calculated by dividing the profit attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive employee Performance Rights into ordinary shares.

	2019 \$'000	2018 \$'000
Profit attributable to ordinary equity holders of the Parent for basic and diluted earnings	41,290	41,154
	2019	2018
Weighted average number of ordinary shares for basic EPS	260,602,749	260,580,283
Effect of dilution	1,270,857	791,893
Weighted average number of ordinary shares for the effect of dilution	261,873,606	261,372,176
	2019 cents	2018 cents
Basic earnings per share	15.84	15.79
Diluted earnings per share	15.77	15.75

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION B: OUR PERFORMANCE (CONTINUED)

B9 CASH FLOW RECONCILIATION

	2019 \$'000	2018 \$'000
(a) Reconciliation of net profit after income tax to net cash flows from operations		
Profit for the year	41,290	41,154
Adjustments to reconcile profit after income tax to net cash flows:		
Depreciation of property, plant and equipment	27,730	24,403
Amortisation of intangibles	989	1,144
Impairment of property, plant and equipment	465	455
Net gain on disposal of property, plant and equipment	(19)	-
Net gain on sale of assets held for sale	(17)	(363)
Bond retention revenue	(1,041)	(1,499)
Movement in allowance for expected credit losses	(387)	74
Share-based payments	658	463
Stepped lease costs	209	134
Net gain on fair value of investment properties	-	(120)
Changes in assets and liabilities		
Decrease in trade and other receivables	2,000	809
Decrease/(Increase) in prepayments and other assets	344	(1,541)
Decrease in deferred tax assets	1,129	638
Decrease in deferred tax liabilities	(828)	(1,793)
Increase/(Decrease) in current tax payable	306	(5,141)
(Decrease)/Increase in trade and other payables	(3,306)	11,631
Increase in provisions	3,841	3,531
Increase in refundable accommodation deposits and bonds	14,566	62,785
Net cash flows from operating activities	87,929	136,764

.* SIGNIFICANT ACCOUNTING POLICY

Operating cash flow

Daily inflows and outflows of refundable accommodation deposits are considered by the Group to be a normal part of the operations of the business and are utilised at the discretion of the Group within the guidelines set out by the Prudential Compliance Standards and are therefore classified as an operating activity for the purposes of cash flow reporting.

	2018 \$'000	Net cash flows \$'000	2019 \$'000
(b) Reconciliation of liabilities arising from financing activities			
Non-current loans and borrowings	75,000	50,000	125,000
Total liabilities from financing activities	75,000	50,000	125,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION C: ASSETS & LIABILITIES

C1 PROPERTY, PLANT AND EQUIPMENT

Reconciliation of property, plant and equipment

Note	Property, plant and equipment						Total \$'000
	Land \$'000	Buildings \$'000	Property Improvements \$'000	Furniture, fixtures & equipment \$'000	Motor vehicles \$'000	Construction in progress \$'000	
Cost							
Balance at 1 July 2017	193,441	446,487	36,199	49,230	900	34,998	761,255
Additions	2,187	-	2,259	11,212	45	44,620	60,323
Transfers	-	38,247	11,091	8,588	-	(57,926)	-
Disposals	-	(3,000)	(195)	(720)	-	(397)	(4,312)
Transfers to assets held for sale	(2,415)	-	-	-	-	-	(2,415)
Balance at 30 June 2018	193,213	481,734	49,354	68,310	945	21,295	814,851
Additions	99	-	2,521	13,140	87	78,624	94,471
Transfers	-	23,868	14,215	13,574	-	(51,657)	-
Disposals	(435)	(786)	(1,267)	(2,979)	(43)	(669)	(6,179)
Transfers to assets held for sale	(37)	-	-	-	-	-	(37)
Balance at 30 June 2019	192,840	504,816	64,823	92,045	989	47,593	903,106

Accumulated depreciation

Balance at 1 July 2017		455	19,256	1,019	16,422	554	-	37,706
Depreciation expense	B3	-	12,576	1,349	10,244	234	-	24,403
Impairment expense	B3	58	-	-	-	-	397	455
Disposals		(513)	(3,000)	(194)	(719)	-	(397)	(4,823)
Balance at 30 June 2018		-	28,832	2,174	25,947	788	-	57,741
Depreciation expense	B3	-	11,884	3,306	12,438	102	-	27,730
Impairment expense	B3	-	-	-	-	-	465	465
Disposals		-	(786)	(1,267)	(2,965)	(43)	(465)	(5,526)
Balance at 30 June 2019		-	39,929	4,213	35,421	847	-	80,410

Net book value

As at 30 June 2018	193,213	452,902	47,180	42,363	157	21,295	757,110
As at 30 June 2019	192,840	464,887	60,610	56,624	142	47,593	822,696

*The comparative information above has been restated for classification purposes only. Amounts relating to impairment expenses as reported in the prior year of \$3,384,000 have been reclassified to depreciation due to home closures. The homes were depreciated at an accelerated rate due to changes in their useful life estimates based on decisions to redevelop the sites at an earlier date than previously anticipated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C1 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

* SIGNIFICANT ACCOUNTING POLICY

Construction in Progress, Plant and Equipment and Land and Buildings are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Land is not depreciated. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria is met. When significant parts of plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. All other repair and maintenance costs are recognised in profit or loss as incurred.

Property, plant and equipment transferred from vendors are initially measured at fair value at the date on which control is obtained.

Depreciation is calculated on a straight-line or written down value basis over the estimated useful life of the asset as follows:

Buildings and property improvements	4 - 50 years
Furniture, fittings and equipment	3 - 20 years
Motor vehicles	4 - 8 years

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

Property, plant and equipment forms part of one cash-generating unit (CGU) and has been tested for impairment in accordance with Note C2.

The Group also assesses the indicators for impairment at each financial year end. If impairment indicators are present, the Group assesses the residual values, useful lives and methods of depreciation of property, plant and equipment and adjust prospectively, if appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C2 GOODWILL AND OTHER INTANGIBLE ASSETS

	Note	Goodwill \$'000	Bed licences \$'000	Software costs \$'000	Total \$'000
Balance at 1 July 2017		817,074	214,940	6,383	1,038,397
Additions		-	296	646	942
Balance at 30 June 2018		817,074	215,236	7,029	1,039,339
Additions		-	2,695	2,155	4,850
Disposals		-	-	(89)	(89)
Balance at 30 June 2019		817,074	217,931	9,095	1,044,100
Accumulated amortisation					
Balance at 1 July 2017		-	-	2,407	2,407
Amortisation expense	B3	-	-	1,144	1,144
Balance at 30 June 2018		-	-	3,551	3,551
Amortisation expense	B3	-	-	989	989
Disposals		-	-	(89)	(89)
Balance at 30 June 2019		-	-	4,451	4,451
Net book value					
As at 30 June 2018		817,074	215,236	3,478	1,035,788
As at 30 June 2019		817,074	217,931	4,644	1,039,649

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C2 GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

.* SIGNIFICANT ACCOUNTING POLICY

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, other than capitalised development and software costs, are not capitalised and the related expenditure is reflected as a profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates and adjusted on a prospective basis.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, at the Cash Generating Unit (CGU) level. The CGU is consistent with the operating segment identified in Note E5. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Software costs are amortised over the estimated useful life of 5 years.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

Bed licences

Bed licences for the Group's aged care homes are initially carried at cost or if acquired in a business combination, at fair value at the date of acquisition in accordance with *AASB 3 Business Combinations*. Following initial recognition, the licenses are not amortised but are measured at cost less any accumulated impairment losses. Bed licences are tested for impairment annually as at 30 June and when circumstances indicate that the carrying value may be impaired. Testing is performed in line with the procedures noted below in Goodwill.

Bed Licenses are assessed as having an indefinite useful life as they are issued for an unlimited period and therefore are not amortised. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable.

Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

Goodwill is tested for impairment annually as at 30 June and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the CGU to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C2 GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

.* SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Goodwill and bed licenses acquired through business combinations were tested for impairment at the reporting date. The recoverable amount of the CGU was assessed by reference to the CGU's value in use based on financial forecasts covering a five year period (2020 to 2024) and a terminal value.

A post-tax discount rate was applied in the value in use model, which was determined based on the specific circumstances of the Group and is derived from its weighted average cost of capital (WACC). Market-specific risk is incorporated by applying individual beta factors which are evaluated annually based on publicly available market data.

Adjustments to the discount rate are made to factor in the specific amount of the future tax flows in order to reflect a pre-tax discount rate. The recoverable amount was determined to be higher than the carrying amount and therefore the Directors determined that the intangible assets with an indefinite useful life were not impaired.

As impairment testing is based on assumptions and judgements, the Directors have considered changes in key assumptions that they believe to be reasonably possible. The recoverable amount exceeds the carrying amount when testing for reasonably possible changes in key assumptions.

	2019 %	2018 %
Post-tax discount rate	9.5	9.5
Pre-tax discount rate	11.8	11.8
Terminal growth rate	2.1	2.1

C3 CASH AND CASH EQUIVALENTS

	2019 \$'000	2018 \$'000
Cash at bank	14,555	11,123
Cash on hand	76	75
Total cash and cash equivalents	14,631	11,198

Cash at bank earns interest at floating rates based on daily bank deposit rates.

At 30 June 2019, the Group had available \$201,000,000 (2018: \$251,200,000) of undrawn committed borrowing facilities, which excludes \$4,000,000 (2018: \$3,800,000) of bank guarantees disclosed in Note E2. Refer to Note D3 for further details.

.* SIGNIFICANT ACCOUNTING POLICY

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the consolidated statement of cash flows, "cash and cash equivalents" are as defined above, net of outstanding bank overdrafts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C4 TRADE AND OTHER RECEIVABLES

	2019 \$'000	2018 \$'000*
Trade receivables	8,045	10,487
Other receivables	2,574	2,455
Allowance for expected credit losses	(1,573)	(1,509)
Total trade and other receivables	9,046	11,433

*The comparative information above has been restated for classification purposes only. Credit balances of \$1,948,000 included in Trade receivables in 2018 have been reclassified to Trade and other payables.

Allowance for expected credit loss

Set out below is the movement in the allowance for expected credit losses of trade receivables for the year ended 30 June 2019. The comparative information for the year ended 30 June 2018 is based on the incurred loss model under AASB 139.

	Note	2019 \$'000	2018 \$'000
As at 1 July		1,509	1,435
AASB 9 Adjustment	E9	451	-
Provision for expected credit loss		801	1,000
Utilised		(1,188)	(926)
At 30 June		1,573	1,509

See Note D5 on credit risk which discusses how the Group manages and measures credit quality of trade receivables.

.* SIGNIFICANT ACCOUNTING POLICY

Trade receivables and other receivables are recognised and carried at original invoice amount less an allowance for lifetime expected credit losses.

The Group uses a provision matrix based on days past due for groupings of customers with similar credit risk characteristics, adjusted for any material expected changes to the future credit risk of that group to determine the lifetime expected credit losses at the reporting date.

Refer to Note E9 for further information relating to the change in accounting policy following the adoption of AASB 9.

.* SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In calculating the allowance for expected credit loss, the Group applies judgements when identifying debtors with similar risk characteristics to group together in the provision matrix. The Group is also required to estimate the rate of allowance of expected credit loss for each group of debtor, which requires the use of historical rates of default and assumptions based on future economic conditions, for instance a downturn in the Australian economy or adverse changes to the aged pension, that may materially impact on the ability to collect outstanding debtor balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C5 ASSETS HELD FOR SALE

	2019 \$'000	2018 \$'000
Assets held for sale	-	902
Total assets held for sale	-	902

During the year, the Group sold two properties for a total of \$956,000, including a parcel of land that was transferred to assets held for sale during the year of \$37,000. The sales resulted in a profit of \$17,000 and has been included in other income (see Note B1).

• SIGNIFICANT ACCOUNTING POLICY

Non-current assets are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets are generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held-for-sale or held-for-distribution and subsequent gains and losses on re-measurement are recognised in profit or loss.

C6 INVESTMENT PROPERTIES

	2019 \$'000	2018 \$'000
Balance at beginning of period	1,620	1,500
Fair value adjustments	-	120
Total investment properties	1,620	1,620

Investment properties comprise Independent Living Units (ILUs) located in one retirement village located in Bendigo. The retirement village is subject to a loan licence agreement which confers the right to occupancy of the unit, until such time as the resident's occupancy terminates and the occupancy rights are transferred to another resident. Upon entry, a resident will loan the Group an amount equal to the fair value of the unit. On termination the resident is entitled to repayment of the loan inclusive of any uplift in fair value since the agreement date less the deferred management fee.

• SIGNIFICANT ACCOUNTING POLICY

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an annual evaluation performed by an accredited external independent valuer applying a valuation model recommended by the International Valuation Standards Committee.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C7 TRADE AND OTHER PAYABLES

	2019 \$'000	2018 \$'000
Current trade and other payables		
Trade creditors	12,865	16,682
Payroll liabilities	14,832	13,290
Sundry creditors and accruals	16,349	12,675
Total current trade and other payables	44,046	42,647
Non-current other payables		
Sundry creditors and accruals	12	61
Total non-current other payables	12	61
Total trade and other payables	44,058	42,708

*The comparative information above has been restated for classification purposes only. Credit balances of \$1,948,000 included in Trade receivables in 2018 have been reclassified to Trade creditors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C8 PROVISIONS

	2019 \$'000	2018 \$'000
Current provisions		
Employee benefits	44,558	40,944
Stepped lease provision	1,058	849
Total current provisions	45,616	41,793
Non-current provisions		
Employee benefits	4,496	4,269
Total non-current provisions	4,496	4,269
Total provisions	50,112	46,062

• SIGNIFICANT ACCOUNTING POLICY

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Long service leave and annual leave

The Group does not expect its long service leave or annual leave benefits to be settled wholly within 12 months of each reporting date but is recognised as a current liability when the Group does not have an unconditional right to defer settlement. The liability for long service leave and annual leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method.

Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

C9 OTHER FINANCIAL LIABILITIES

	2019 \$'000	2018 \$'000
Independent living unit (ILU) entry contributions	1,304	1,371
Total other financial liabilities	1,304	1,371

Terms and conditions relating to independent living units (ILUs)

ILU entry contributions are non-interest bearing loans made by ILU residents to the Group upon entering into an agreement to occupy the ILU and are settled after a resident vacates the property based on the applicable State-based Retirement Village Acts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION D: CAPITAL, FINANCING, RADS AND RISK

D1 SHARE CAPITAL AND RESERVES

	2019 \$'000	2018 \$'000
Issued and fully paid		
Ordinary shares	801,843	801,836
Total share capital	801,843	801,836

(a) Movements in ordinary shares on issue

	2019		2018	
	Number of shares	\$'000	Number of shares	\$'000
Beginning of the financial year	260,602,749	801,836	260,602,749	801,830
Movement in management equity plan	-	7	-	6
End of the financial year	260,602,749	801,843	260,602,749	801,836

(b) Share-based payments reserve

The share-based payments reserve is used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration. Refer to Note D2 for further details of these plans.

(c) Franking credits

The franking credit balance of Estia Health Limited for the year ended 30 June 2019 is \$23,917,303 (2018: \$25,855,432).

(d) Dividends paid and proposed

The final dividend for the year ended 30 June 2018 of \$20,848,220 (8.0 cents per share) was paid on 28 September 2018. The interim dividend for the year ended 30 June 2019 of \$20,848,220 (8.0 cents per share) (2018: \$20,327,014) was paid on 27 March 2019.

The Directors propose a fully franked final cash dividend for the year ended 30 June 2019 of 7.8 cents per share totalling \$23,328,082. Proposed dividends on ordinary shares are not recognised as a liability at 30 June 2019.

(e) Dividend reinvestment plan

The Dividend Reinvestment Plan (DRP) was not applicable for the final dividend paid on 28 September 2018 or the interim dividend paid on 27 March 2019.

The DRP has been reinstated which will allow eligible shareholders to reinvest all or part of their distribution into shares for the final dividend.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION D: CAPITAL, FINANCING, RADS AND RISK (CONTINUED)

D2 SHARE-BASED PAYMENTS

At 30 June 2019, the Group had the following share-based payments arrangements:

(a) Long-Term Incentive Plan (LTIP)

Under the LTIP, awards are made to executives who have a significant impact on the Group's performance. LTIP awards are delivered in the form of performance rights entitling the holder to shares which vest following a period of three years subject to meeting performance measures.

For rights granted prior to 1 July 2018, the Group uses Total shareholder return (TSR) performance relative to the ASX200 excluding mining and energy companies (70%) and Earnings Per Share (EPS) (30%) as performance measures for the LTIP.

For rights granted post 1 July 2018, the TSR component is split into two components, half against the ASX200 excluding mining and energy companies and half against the market capitalisation weighted average performance of a peer group of ASX-listed companies operating in the provision of aged care services. The TSR component remains at 70% with EPS remaining at 30% of the performance measures of the LTIP.

During the year, the Group granted a total of 615,019 rights to executives. Further details can be found in section 9 of the Remuneration Report.

(b) Short-Term Incentive Plan (STIP)

Under the STIP, awards are made to executives who have an impact on the Group's performance. STIP awards are delivered in a mix of cash and equity. 75% of the award is delivered in cash, with the remaining 25% delivered in performance rights, which require participants to remain employed for an additional 12 months for the rights to vest.

The STIP is measured against Earnings Before Interest, Tax and Depreciation and Amortisation, Net Profit After Tax and Lost Time Injury Frequency targets, as well as other role specific measures over a 12-month period. A resident quality gateway hurdle is also used, which requires ongoing compliance and accreditation targets to be met in order for any of the STIP to be eligible to vest.

For awards made under the STIP from 1 July 2018, the Lost Time Injury Frequency target has been replaced with a Culture target.

The number of performance rights granted and deferred under the STIP during the year ended 30 June 2019 relating to the incentive payments earned in the year ended 30 June 2018 was 13,693 (2018: nil).

(c) Management Equity Plan (MEP)

The MEP is a legacy plan which was approved by the Board and implemented prior to listing and other than for existing holders, it is no longer offered.

Under the plan, the former Managing Director and a number of senior employees of the Group were invited to subscribe for shares on the terms specified in the MEP rules. Most MEP participants were also offered a 10 year limited recourse loan to subscribe for MEP shares.

The following table details the MEP loans outstanding at 30 June 2019:

	Number of MEP shares	Total amount subscribed (\$'000)	% of MEP Shares funded through MEP loans	Interest rate on MEP loan
Total	50,000	100	100%	5.95%

All MEP shares listed above were released from escrow on 11 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION D: CAPITAL, FINANCING, RADS AND RISK (CONTINUED)

D2 SHARE-BASED PAYMENTS (CONTINUED)

(d) Movements during the year

The following tables illustrate the number and weighted-average exercise prices (WAEP) of, and movements in, MEP shares and performance rights during the year:

MEP shares only	2019		2018	
	Number	WAEP	Number	WAEP
Outstanding at 1 July	50,000	2.00	50,000	2.00
Outstanding at 30 June	50,000	2.00	50,000	2.00
Exercisable at 30 June	50,000	2.00	50,000	2.00

Performance rights only	2019		2018	
	Number	WAEP	Number	WAEP
Outstanding at 1 July	907,684	-	524,238	-
Granted during the year	628,712	-	476,980	-
Forfeited during the year	-	-	(93,534)	-
Outstanding at 30 June	1,536,396	-	907,684	-
Exercisable at 30 June	13,693	-	-	-

The weighted average remaining contractual life for the MEP shares and performance rights outstanding as at 30 June 2019 was approximately 1.31 years.

The exercise price for MEPs outstanding at the end of the year was \$2.00. There is no exercise price for performance rights.

The weighted average fair value of performance rights granted during the year was \$0.61.

(e) Expense recognised in profit or loss

The share-based payments expense recognised in profit or loss as an employee benefit for each of the share arrangements were as follows:

	2019 \$'000	2018 \$'000
Long-term incentive plan	605	451
Short-term incentive plan	41	-
Management equity plan	12	12
Share-based payments expense recognised in profit or loss	658	463

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION D: CAPITAL, FINANCING, RADS AND RISK (CONTINUED)

D2 SHARE-BASED PAYMENTS (CONTINUED)

.* SIGNIFICANT ACCOUNTING POLICY

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

That cost is recognised in employee benefits expense, together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions. No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the expense had the terms not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

.* SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

LTIP-Recognition and measurement of fair value

As the exercise price is zero upon vesting, the fair value of the performance rights issued under the LTIP are determined by the fair value at grant date by utilising methodologies allowable under AASB 2 *Share-Based Payments*, including the use of a Monte Carlo simulation (TSR component) and the Binomial Model (EPS component). The contractual term of the performance rights is three years and there are no cash settlement alternatives for the employees. The Group does not have a past practice of cash settlement for these awards.

Assumption	FY19 Plan	FY18 Plan	FY17 Plan
Share price at grant date	\$2.19	\$3.02 - \$3.51	\$3.05 - \$3.51
Dividend yield	5.0%	3.5%	6.5%
Volatility	38%	40%	40%
Risk free rate	2.0%	2.0%	1.7% - 2.0%
Probability of achieving EPS	40%	50%	50%
Fair value of right - TSR	\$0.46 - \$0.47	\$1.16 - \$1.58	\$0.76 - \$1.82
Fair value of right - EPS	\$1.92	\$2.73 - \$3.21	\$2.67 - \$3.33

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION D: CAPITAL, FINANCING, RADS AND RISK (CONTINUED)

D2 SHARE-BASED PAYMENTS (CONTINUED)

.* SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

STIP-Recognition and measurement of fair value

The fair value of the performance rights issued under the STIP are determined by the volume weight average share price of the Group in the 10 trading days prior to the release of the Group's annual results. The performance rights issued under the STIP during the year had a fair value of \$2.96 per right and related to the prior year's performance. The performance rights are deferred for a 12 month period and are settled in the Group's equity if the participants remains employed by the Group at the end of the 12 month period.

MEP-Recognition and measurement of fair value

In accordance with AASB 2 *Share-Based Payments*, the granting of shares in exchange for a limited recourse loan is effectively the same as granting a share option as it gives the MEP participant the right, but not the obligation, to subscribe to Estia's shares at a fixed price for a specified period of time. Even though Estia records the MEP shares as issued for legal purposes, they are not considered to be issued for accounting purposes. When MEP shares are granted, limited recourse loans to assist in the purchase of the shares are recognised in equity. As the MEP holder repays the loan through the application of dividends and/or instalments, those payments are accounted for as partly paid capital. Effectively, the grant of MEP shares and limited recourse loan are set off against each other in equity.

The grants of MEP loans were accounted for as an option and the fair value at grant date is independently determined using the binomial options pricing model that takes into account the discount to market price at grant date, the expected life/term of the loan and its limited recourse nature, the vesting terms, the expected price volatility, the expected dividend yield and the risk-free interest rate for the term.

The fair value of the shares granted is recognised to profit or loss on a straight-line basis over the expected vesting period (i.e. 10 years) with a credit to the share-based payments reserve in equity. Loan payments received are credited to issued capital.

In the case where MEP loans are not granted to assist in the purchase of MEP shares, the MEP shares are fully self-funded and are therefore treated as issued for accounting purposes, which is no different to legal purposes.

The following table lists the inputs to the model used in the measurement of the fair value at grant date of the MEP loans:

	2015
Share price at grant date	\$1.00 - \$5.75
Exercise price	\$1.80 - \$5.75
Volatility	30%
Risk free rate	3.04% - 3.26%
Expected life of options	10 years

The expected life of the MEP shares are based on the assumption that these are exercised at the end of the MEP loan term and is not necessarily indicative of exercise patterns that may occur. The expected volatility is based on the historical volatility of the Group's share since listing on 5 December 2014 and reflects the assumption that this volatility is indicative of future trends, which may not necessarily be the actual outcome.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION D: CAPITAL, FINANCING, RADS AND RISK (CONTINUED)

D3 LOANS AND BORROWINGS

	2019 \$'000	2018 \$'000
Non-current loans and borrowings		
Bank loans, secured	125,000	75,000
Total non-current loans and borrowings	125,000	75,000

Terms and conditions of loans

The Facility may be used for general corporate purposes including funding acquisitions, capital expenditure, working capital requirements and providing sufficient liquidity to ensure repayment of RADs and Bonds as they fall due.

The Facility is secured by real property mortgages over all freehold property, security over material leases, cross guarantees and indemnities from the Group and first ranking fixed and floating charges over the assets and undertakings of the Group.

The total debt facility available to Estia at 30 June 2019 was \$330,000,000. The maturity date of the Facility is 22 August 2020.

•* SIGNIFICANT ACCOUNTING POLICY

Borrowings are recognised initially at fair value. Directly attributable transaction costs are amortised over the life of the facility agreement.

Subsequently, interest-bearing loans and borrowings are measured at amortised cost using the Effective Interest Rate (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION D: CAPITAL, FINANCING, RADS AND RISK (CONTINUED)

D4 REFUNDABLE ACCOMMODATION DEPOSITS AND BONDS

	2019 \$'000	2018 \$'000
Current residents	698,242	697,227
Departed residents	106,791	94,281
Total refundable accommodation deposits and bonds - amounts received	805,033	791,508

Terms and conditions relating to refundable accommodation deposits (RADs) and accommodation bonds (Bonds)

The RADs and Bonds are paid by residents upon their admission to homes and are refunded after a resident departs a home in accordance with the Aged Care Act 1997. Providers must pay a base interest rate on all refunds of RADs and Bonds within legislated time frames and must pay a higher rate on refunds that are not made within legislated time frames. Accommodation bond balances held prior to 1 July 2014 may be reduced by annual retention fees charged in accordance with the Aged Care Act 1997.

RAD and Bond refunds are guaranteed by the Government under the Accommodation Payment Guarantee Scheme, in the event that a provider is unable to refund the amounts. Providers are required to maintain sufficient liquidity to ensure that they can refund all amounts as they fall due. As required under legislation, the Group maintains a Liquidity Management Policy, which is monitored on regular basis and a full review is undertaken on an annual basis as a minimum, to ensure it has sufficient liquidity to meet its RAD and Bond refund and other financial obligations.

To ensure that funds are readily available when required, the minimum level of funds chosen by the Group are to be held in cash (placed on deposit but readily available) or met by undrawn lines of credit from a bank or financial institution.

RADs and Bonds are classified as a current liability as the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting date. The total RAD and Bond liability represents the sum of separate payments from a significant number of individual residents in different locations with differing circumstances, and frequently a departing RAD- or Bond-paying resident is replaced shortly afterwards with a new RAD-paying resident. The repayment of individual balances that make up the total current balance will be dependent upon the actual tenure of individual residents, which can be more than ten years but averages approximately 2 - 2.5 years.

D5 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities consist of interest-bearing loans and borrowings, trade and other payables and Refundable Accommodation Deposits. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include trade and other receivables, and cash and short-term deposits that derive directly from its operations.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. It is the Group's policy that no trading in derivatives for speculative purposes may be undertaken. Policies for managing each of these risks are summarised below.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include loans and borrowings and deposits.

The sensitivity analyses in the following sections relate to the position as at 30 June 2019 and 30 June 2018.

The Group is not exposed to commodity risk and equity risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION D: CAPITAL, FINANCING, RADS AND RISK (CONTINUED)

D5 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk (continued)

The sensitivity analyses have been prepared on the basis that the amount of net debt and the ratio of fixed to floating interest rates of the debt are all constant at 30 June 2019 and 30 June 2018.

The following assumption has been made in calculating the sensitivity analyses:

- The sensitivity of the relevant statement of profit or loss item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 30 June 2019 and 30 June 2018.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash and cash equivalents and long-term debt obligations with floating interest rates.

The Group's exposure to interest rate risk and the effective interest rate of financial assets and liabilities both recognised and unrecognised at the reporting date are as follows:

All other financial assets and liabilities are non-interest bearing.

	Weighted average effective interest rates		Fixed or Floating
	2019 %	2018 %	
Cash and liquid assets	0.9	1.4	Floating
Bank loans	2.7	3.1	Floating
Refundable accommodation deposits – departed residents	3.8	3.8	Floating

The details of debt are disclosed in Note D3 to the financial statements.

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of cash and cash equivalents and loans and borrowings affected. With all other variables held constant, the Group's profit before tax and equity are affected through the impact on floating rate financial instruments existing at the end of the respective period, as follows:

	Effect on profit before tax Higher/(lower)		Effect on equity Higher/(lower)	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
+ 0.25% (25 basis points)	(193)	(112)	(135)	(78)
- 0.25% (25 basis points)	193	112	135	78

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group does not carry out any transactions or business that would give rise to foreign currency risk.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions and other financial instruments.

The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of the assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION D: CAPITAL, FINANCING, RADS AND RISK (CONTINUED)

D5 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

Approximately 74% of the revenue of the Group is obtained from Commonwealth Government funding by way of payments for residential aged care residents. This funding is maintained for providers as long as they continue to comply with Accreditation standards and other requirements per the Aged Care Act 1997 and are paid in advance at the beginning of each month.

Trade and other receivables

Customer credit risk is managed subject to the Group's established policy, procedures and controls relating to customer credit risk management. Outstanding customer receivables are regularly monitored and any outstanding balances regularly followed up.

The Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period of 30 days, and where possible, setting customers up to settle accounts on direct debits.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of customers with similar credit risk characteristics, adjusted for any material expected changes to the future credit risk of that group. The Group applies the simplified approach for measuring expected credit losses, using the lifetime expected loss allowance for all trade and other receivables.

The Group's other receivables are due from the Australian Government and other state based revenue offices. The Group does not believe that there is a material credit risk for amounts owing from the Australian Government or other state based revenue offices.

The Group considers a financial asset in default when contractual payments are past due. Generally, financial assets are written-off when the Group have exhausted all reasonable avenues to recover the balances.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial asset. The Commonwealth Government accounts for approximately 23% (2018: 26%) of the trade receivables balance. There is no concentration of credit risk with respect to remaining trade receivables.

In addition, receivables balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

The following table provides information about the expected credit losses for trade receivables, excluding the Commonwealth Government balance of \$1,813,000 at 30 June 2019:

	Expected credit loss rate %	Gross carrying amount \$'000	Allowance for expected credit loss \$'000
As at 30 June 2019			
Current (not past due)	1%	756	8
<30 days past due	8%	1,792	135
30-60 days past due	11%	838	95
61-90 days past due	17%	491	83
>90 days past due	53%	2,355	1,252
		6,232	1,573

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION D: CAPITAL, FINANCING, RADS AND RISK (CONTINUED)

D5 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

Comparative information under AASB 139

An analysis of the ageing of trade receivables at 30 June 2018 allowance for impairment under AASB 139 are tabled below:

	2018 \$'000
Neither past due nor impaired	3,565
Past due but not impaired	
<30 days	1,646
30-60 days	948
61-90 days	768
>90 days	2,051
Past due and impaired	1,509
Total	10,487

Liquidity risk

The Group monitors its risk to a shortage of funds on a regular basis. The Group maintains a balance between continuity of funding and flexibility through the use of bank loans that are available for potential business acquisitions and working capital requirements. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

	On demand \$'000	Less than 12 months \$'000	1 to 5 years \$'000	More than 5 years \$'000	Total \$'000
Year ended 30 June 2019					
Trade and other payables	1,382	42,664	12	-	44,058
Loans and borrowings	-	3,375	125,499	-	128,874
Refundable accommodation deposits and bonds	805,033	-	-	-	805,033
Other financial liabilities	1,304	-	-	-	1,304
	807,719	46,039	125,511	-	979,269
Year ended 30 June 2018					
Trade and other payables	1,195	41,452	61	-	42,708
Loans and borrowings	-	2,325	77,669	-	79,994
Refundable accommodation deposits and bonds	791,508	-	-	-	791,508
Other financial liabilities	1,371	-	-	-	1,371
	794,074	43,777	77,730	-	915,581

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION D: CAPITAL, FINANCING, RADS AND RISK (CONTINUED)

D5 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

For the purpose of the Group's capital management, capital includes issued capital and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximise the shareholder value.

The Group manages its capital structure and considers adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches of the financial covenants of any interest-bearing loans and borrowings in the current period.

No changes were made in the objectives, policies or processes for managing capital during the year ended 30 June 2019.

D6 FAIR VALUE MEASUREMENT

The Group uses various methods in estimating the fair value of its financial assets and liabilities which are categorised within the fair value hierarchy. The Group only uses fair value for Investment Properties, which are valued using Level 3 inputs.

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

	Date of Valuation	Fair value measurement using			
		Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Investment properties	30 June 2019	1,620	-	-	1,620
		1,620	-	-	1,620

Fair values of Investment Properties are determined based on an annual valuation performed by an accredited external independent valuer applying a valuation model recommended by the International Valuation Standards Committee.

At the reporting date, the key unobservable inputs used by the Group in determining the fair value of its investment properties are summarised below:

Unobservable inputs	30 June 2019	30 June 2018
Discount rate	15.00%	15.00%
Growth rate	2.85%	2.84%
Cash flow term (years)	50	50

The carrying amounts of all financial assets and financial liabilities not measured at fair value are considered to be a reasonable approximation of their fair values.

There were no transfers between levels during the financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION D: CAPITAL, FINANCING, RADS AND RISK (CONTINUED)

D6 FAIR VALUE MEASUREMENT (CONTINUED)

• SIGNIFICANT ACCOUNTING POLICY

Construction in progress, plant and equipment and land and buildings are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Land is not depreciated. The Group measures other non-financial assets including investment properties, at fair value at each balance sheet date.

Fair value is the price that would be received upon selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION E: OTHER INFORMATION

E1 RELATED PARTY DISCLOSURES

Note E6 provides the information about the Group's structure including the details of the subsidiaries and the holding company. Note D2 provides the information about the loans to related parties. There were no other transactions and outstanding balances that have been entered into with related parties for the relevant financial year.

The table below discloses the compensation recognised as an expense during the reporting period related to Key Management Personnel.

	2019 \$'000	2018 \$'000
Short-term employee benefits	1,697	1,538
Post-employment benefits	66	62
Short-term incentive payments	188	122
Share-based payments	581	392
Termination payments	-	155
Total compensation of key management personnel	2,532	2,269

E2 COMMITMENTS AND CONTINGENCIES

Operating lease commitments – Group as lessee

During the year, the Group had commercial property leases for two corporate offices in New South Wales and Victoria, and seven aged care homes.

The remaining non-cancellable leases have remaining terms of between 1 and 17 years.

Future estimated minimum rentals payable under non-cancellable operating leases, excluding future optional periods, as at 30 June are as follows:

	2019 \$'000	2018 \$'000
Within one year	5,308	5,368
After one year but not more than five years	12,464	14,986
More than five years	6,710	7,111
Total operating lease commitments	24,482	27,465

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION E: OTHER INFORMATION (CONTINUED)

E2 COMMITMENTS AND CONTINGENCIES (CONTINUED)

• SIGNIFICANT ACCOUNTING POLICY

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. An operating lease is a lease other than a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date at fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

Refer to Note E9 for further information to the changes resulting from the implementation of AASB 16.

Capital commitments

During the year, the Group entered into contracts relating to the development of aged care homes. As at 30 June 2019, the remaining capital commitments amounted to \$41,700,000 (2018: \$54,300,000).

Bank guarantees

The Group has entered into a number of bank guarantees with its bankers in relation to the Group's rental agreements for leased properties, totalling \$4,000,000 (2018: \$3,800,000). These are secured against the borrowing facilities disclosed in Note D3. As at the date of signing this report, the Directors are not aware of any situations that have arisen that would require these bank guarantees to be presented.

E3 AUDITOR REMUNERATION

	2019 \$'000	2018 \$'000
Audit of the financial report	688	560
Tax compliance services	157	170
Other assurance services	14	10
Other services	36	13
Total auditor remuneration	895	753

The auditor of Estia Health Limited and its subsidiaries is Ernst & Young.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION E: OTHER INFORMATION (CONTINUED)

E4 SUBSEQUENT EVENTS

CLASS ACTION

On 16 July 2019, Estia was served with a class action proceeding filed by the law firm Phi Finney McDonald in the Federal Court of Australia. The proceeding alleges breaches of market disclosure obligations in 2015 and 2016 and has been filed on behalf of shareholders who, between 12 August 2015 and 6 October 2016: (i) acquired an interest in Estia shares; or (ii) acquired long exposure to Estia shares by entering into equity swap confirmations in respect of Estia shares.

Estia will vigorously defend the proceeding.

Estia is not in a position to state whether the proceeding is likely to have a material impact on its financial position or performance.

ACQUISITIONS

On 15 August 2019 Estia entered into a contract to purchase a new greenfield development in the Maitland region of NSW with 108 provisional licences attaching. The contract is subject to closing and settlement conditions including the transfer of the licences from the vendor to Estia. Settlement of the transaction is expected to occur before 31 December 2019.

DIVIDENDS

On 20 August 2019, the Directors resolved to pay a final fully franked dividend of 7.8 cents per share (\$20,328,082) bringing dividends per share for the financial year ended 30 June 2019 to 15.8 cents per share. The record date for the final dividend will be 5 September 2019, with payment being made on 2 October 2019. Shares will trade excluding entitlement to the dividend on 4 September 2019.

BANK FACILITIES

On 16 August 2019 the Group elected to extend its existing \$330 million syndicated debt facility with the support of a syndicate of three domestic banks. The new facility expires in November 2022.

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

E5 SEGMENT REPORTING

For management reporting purposes, the Group has identified one reportable segment. Estia operates predominantly in one business and geographical segment being the provision of residential aged care services in Australia. The Group's operating performance is evaluated across the portfolio as a whole by the Chief Executive Officer on a monthly basis and is measured consistently with the information provided in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION E: OTHER INFORMATION (CONTINUED)

E6 INFORMATION RELATING TO SUBSIDIARIES

The consolidated financial statements of the Group include:

Name	Country of Incorporation	% Equity Interest	
		2019	2018
Estia Finance Pty Ltd ²	Australia	100%	100%
Estia Investments Pty Ltd ^{3, 5}	Australia	100%	100%
Estia Mezzco Pty Ltd ⁶	Australia	100%	100%
Estia Midco Pty Ltd ⁶	Australia	100%	100%
Spirytus Pty Ltd ^{4, 6}	Australia	100%	100%
Jaid Residential Services Pty Ltd ^{4, 6}	Australia	100%	100%
TGM Care Pty Ltd ATF the TGM Care Unit Trust ^{1, 6}	Australia	100%	100%
East Coast Senior Care Pty Ltd ^{4, 6}	Australia	100%	100%
William Kennedy Holdings Pty Ltd ^{1, 5}	Australia	100%	100%
Wollongong Nursing Home Pty Ltd ^{4, 6}	Australia	100%	100%
Kenna Investments Pty Ltd ^{4, 5}	Australia	100%	100%
Ranesta Holdings Pty Ltd ⁶	Australia	100%	100%
Hayville Pty Ltd ⁶	Australia	100%	100%
Eddystone Nursing Home Pty Ltd ⁶	Australia	100%	100%
Merrylands Nursing Home Pty Ltd ⁶	Australia	100%	100%
Kennedy Health Care Group Pty Ltd ⁶	Australia	100%	100%
Camden Village Pty Ltd ⁵	Australia	100%	100%
Camden Nursing Home Pty Ltd ⁶	Australia	100%	100%
Camden House Pty Ltd ⁶	Australia	100%	100%
Kilbride Village Pty Ltd ⁵	Australia	100%	100%
Bankstown Aged Care Facility Pty Ltd ⁶	Australia	100%	100%

Principal activities

1. Holding company
2. Holder of financing facilities
3. Current accredited provider of aged care home
4. Accredited provider status transferred to Estia Investments Pty Ltd
5. Holder of assets
6. Dormant entity

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION E: OTHER INFORMATION (CONTINUED)

E7 PARENT ENTITY INFORMATION

	2019 \$'000	2018 \$'000
<i>Information relating to Estia Health Limited</i>		
Current assets	565,622	675,197
Non-current assets	476,207	174,802
Total assets	1,041,829	849,999
Current liabilities	-	-
Non-current liabilities	228,297	22,841
Total liabilities	228,297	22,841
Net assets	813,532	827,158
Issued capital	801,843	801,836
Reserves	1,794	1,136
Retained earnings	9,895	24,186
Total shareholders' equity	813,532	827,158
Profit of the parent company	27,405	36,316
Total comprehensive income of the parent entity	27,405	36,316

The information presented above relating to the Parent is prepared using the same accounting policies that apply to the Group, except for the recognition and measurement of investments in subsidiaries.

The Parent has issued the following guarantees in relation to the debts of its subsidiaries:

Pursuant to Class Order 98/1418, Estia Health Limited entered into a deed of cross guarantee on 13 May 2016 with the following entities:

- Estia Finance Pty Ltd
- Estia Investments Pty Ltd
- Estia Midco Pty Ltd
- Estia Mezzco Pty Ltd
- William Kennedy Holdings Pty Ltd
- Wollongong Nursing Home Pty Ltd
- Kenna Investments Pty Ltd
- Camden House Pty Ltd

The effect of the deed is that Estia Health Limited has guaranteed to pay any deficiency in the event of winding up of any controlled entity or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The controlled entities have also given a similar guarantee in the event that Estia Health Limited is wound up or if it does not meet its obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee.

Pursuant to Class Order 98/1418, relief has been granted to these entities from the *Corporations Act 2001* requirements for the preparation, audit and lodgement of their financial reports.

The Closed Group includes all entities listed in Note E6. The Statement of Financial Position and the Statement of Profit or Loss and Other Comprehensive Income of the Closed Group are the same as the Estia consolidated group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION E: OTHER INFORMATION (CONTINUED)

E8 TREATMENT OF GST

Revenues, expenses and assets are recognised net of the amount of GST, except:

- When the GST incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and
- When receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. Commitments and contingencies are disclosed net of the amount of GST, where the GST is expected to be recoverable.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, are classified as part of operating cash flows.

E9 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

Changes in accounting policy, disclosures, standards and interpretations New and amended standards and interpretations

The Group has adopted the following new or amended Australian Accounting Standards and AASB Interpretations as of 1 July 2018:

AASB 15 Revenue from Contracts with Customers

AASB 15 supersedes AASB 111 *Construction Contracts*, AASB 118 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new Standard establishes a five-step model to account for revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

The Group has adopted this Standard from 1 July 2018, using the full retrospective method of adoption, thereby restating the 2018 comparatives. The introduction of this Standard did not have a material impact on the Group's financial statements, accordingly there were no adjustments made to previously reported information.

Refer to Note B1 for further details and disclosures relating to Revenue from Contracts with Customers.

AASB 9 Financial Instruments

AASB 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The adoption of AASB 9 did not result in any material changes to the Group's classification of financial assets and liabilities.

Upon adoption, trade receivables were reclassified from 'loans and receivables' to 'financial assets at amortised cost', resulting in a change in balance from \$9,845,000 to \$9,394,000. The difference being due to the increase in allowance for expected credit losses, as shown below.

AASB 9 replaces the 'Incurred Loss' model in AASB 139 with an 'Expected Credit Loss' model. The new impairment model applies to financial assets measured at amortised cost. Under AASB 9, credit losses are recognised earlier than under AASB 139. There were no changes in classification due to the nature of the Group's financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION E: OTHER INFORMATION (CONTINUED)

E9 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (CONTINUED)

Changes in accounting policy, disclosures, standards and interpretations (continued) *AASB 9 Financial Instruments (continued)*

The Group applies the simplified approach for measuring expected credit losses, using the lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. A provision matrix is then determined based on historic credit loss rates for each group, adjusted for any material expected changes to the future credit risk of that group.

The Group has adopted this Standard retrospectively and has recognised the following adjustments to the opening balances:

	30 June 2018 \$'000	AASB 9 Adjustment \$'000	1 July 2018 \$'000
Provision for doubtful debts	1,509	451	1,960
Deferred tax liabilities	107,610	(135)	107,475
Accumulated losses	(41,408)	(316)	(41,724)

The change in the Standard has had an immaterial impact on the Group's profit for the year ended 30 June 2019.

AASB 2016-5 Amendments to Australian Accounting Standards - Classification and Measurement of Share-based Payment Transactions

The adoption of this amending Standard did not have any impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

AASB 2017-1 Amendments to Australian Accounting Standards - Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments

The adoption of this amending Standard did not have any impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

Accounting Standards and Interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 30 June 2019, are outlined below:

AASB 2018-1: Annual Improvements to IFRS Standards 2015-2017 Cycle

Effective for the Group from 1 July 2019.

The amendments clarify certain requirements in:

- AASB 3 Business Combinations
- AASB 112 Income Taxes - income tax consequences of payments on financial instruments classified as equity
- AASB 123 Borrowing Costs - borrowing costs eligible for capitalisation.

The Group is in the process of evaluating the impact of the new standard with no material impact expected.

The Group has not early adopted the amendments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION E: OTHER INFORMATION (CONTINUED)

E9 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (CONTINUED)

Accounting Standards and Interpretations issued but not yet effective (continued)

AASB Interpretation 23, and relevant standards: Uncertainty over Income Tax Treatments

Effective for the Group from 1 July 2019.

The interpretation clarifies the application of the recognition and measurement criteria in AASB 112 Income Taxes when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Group is in the process of evaluating the impact of the new standard with no material impact expected.

The Group has not early adopted the interpretation.

AASB 16: Leases

Effective for the Group from 1 July 2019.

AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117 Leases. AASB 16 addresses the classification, recognition, measurement and disclosure requirements for both lessees and lessors.

The Group has evaluated the full impact from the application of AASB 16 in relation to the following:

- leasehold properties under which it is a lessee; and
- arrangements that provide a resident with rights to occupy a room.

As a lessee, the Group currently has seven aged care homes, two offices and various minor leases that are subject to operating leases. Adopting AASB 16 will result in the recognition of these leasehold properties on the balance sheet with adjustments to the recognition of rent expense and depreciation and interest.

The Group has elected to adopt AASB 16 under the modified retrospective approach, and measured the right-to-use asset as if the standard has been applied since the commencement date of respective lease agreements.

Based on Management's preliminary analysis, the adoption of AASB 16 is expected to result in the recognition of lease liabilities in the range of \$75.0 million to \$85.0 million, and right of use assets in the range of \$70.0 million to \$78.0 million onto the Statement of Financial Position at 1 July 2019. The difference of amount of lease liability and right of use asset will be recognised in retained earnings and net of deferred taxes on adoption.

Expenses in respect of leases will include depreciation of the right-of-use asset and interest expense in respect of the lease liability and will replace the 'rent expenses' charged in the superseded standard. As per preliminary analysis by Management, using FY19 as a base, the rent expenses of existing lease arrangements of \$5.9 million will be replaced by depreciation and interest expenses of approximately \$4.4 million to \$5.0 million and \$2.2 million to \$2.6 million, respectively.

The exact impact is subject to the finalisation of the work surrounding the reasonably certainty of extension options, determination of the discount rate and assessment of potential leases embedded in other contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION E: OTHER INFORMATION (CONTINUED)

E9 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (CONTINUED)

Accounting Standards and Interpretations issued but not yet effective (continued)

AASB 16: Leases (continued)

For arrangements that provide a resident with the right to occupy a room, the Group has performed a detailed assessment of the contractual arrangements and has provisionally determined that adopting AASB 16 will result in the conclusion that the arrangements will generally be defined as a lease for accounting purposes.

Where residents have opted to pay a Daily Accommodation Payment, adopting AASB 16 is not expected to result in a material change in the accounting treatment. However, for residents that have chosen to pay a Refundable Accommodation Deposit (RAD) or Bond, the application of AASB 16 would regard there being a non-cash charge for accommodation. The accounting treatment for the non-cash consideration component of this arrangement is expected to result in the recognition of an increase in revenue for accommodation and an increase in interest expense on the outstanding RAD liability, with no net impact on the result for the period.

Below is an illustration of the potential impact on the Statement of profit or loss and other comprehensive income had AASB 16 been applied to the current year, for RADs and Bonds only. Overall, there would be a net nil impact to profit for the year.

Potential impact of AASB 16 for Estia as a lessor on the Statement of profit or loss and other comprehensive income for the year ended 30 June 2019 (for changes to RADs and Bonds only)	Increase \$'000
Revenue	43,820
Net finance costs	43,820

The Group has not early adopted the standard.

AASB 2018-6 Amendments to Australian Accounting Standards: Definition of a Business

Effective for the Group from 1 July 2020.

Clarifies the definition of a business to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendment specifically addresses:

- The new business definition is narrower;
- There is a new optional asset concentration test; and
- New considerations have been incorporated to help identify when an acquired process is substantive.

The Group is in the process of evaluating the impact of the new standard with no material impact expected.

The Group does not plan to early adopt the amendment.

AASB 2018-7 Amendments to Australian Accounting Standards: Definition of Material

Effective for the Group from 1 July 2020.

Clarifies the definition of 'material' and its application across AASB Standards and other pronouncements. The principal amendments are to AASB 101 Presentation of Financial Statements.

The Group is in the process of evaluating the impact of the new standard with no material impact expected.

The Group does not plan to early adopt the amendment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

SECTION E: OTHER INFORMATION (CONTINUED)

E9 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (CONTINUED)

Accounting Standards and Interpretations issued but not yet effective (continued)

The Conceptual Framework for Financial Reporting

Effective for the Group from 1 July 2020.

The revised Conceptual Framework for Financial Reporting is not standard, and none of the concepts override those in any standard or any requirements in a standard. The purpose is to assist the International Accounting Standards Board in developing standards, to help preparers develop consistent accounting policies if there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The changes in the Framework may affect the application of AASB in situations where no standard applies to a particular transaction or event.

The Group is in the process of evaluating the impact of the new standard with no material impact expected.

The Group does not plan to early adopt the Conceptual Framework for Financial Reporting.

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Estia Health Limited, I state that:

1. in the opinion of the directors:
 - (a) the financial statements and notes of the consolidated entity for the financial year ended 30 June 2019 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
 - (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note A3; and
 - (c) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and
 - (d) there are reasonable grounds to believe that the Company and the controlled entities identified in Note E6 of the financial statements will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant to ASIC Class Order 98/1418.
2. This declaration has been made after receiving the declarations required to be made to the directors by the Chief Executive Officer and Chief Financial Officer in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2019.

On behalf of the Board



Dr. Gary H Weiss AM
Chairman

20 August 2019



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Independent Auditor's Report to the Members of Estia Health Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Estia Health Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2019 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

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Carrying value of goodwill and intangible assets

Why significant

At 30 June 2019 the Group's goodwill, bed licences and other intangible assets balance was \$1,040 million which represents 55% of total assets.

The Group reviews the carrying amount of these non-current assets annually, or more frequently, if impairment indicators are present. Before estimating the recoverable amount of the assets, the Group first identifies cash generating units ('CGU') and then allocates the goodwill and intangible assets to the identified CGUs.

The Group has used a discounted cash flow model to estimate the recoverable amount of the assets. The impairment test was significant to our audit because the process to estimate recoverable amount is complex and requires significant judgment.

The Group has disclosed in note C2 to the consolidated financial report the assessment method, including the main underlying assumptions, the results of the assessment as well as the impact of applying sensitivities.

How our audit addressed the key audit matter

We assessed the appropriateness of the identification of CGUs and the allocation of assets to the CGUs.

Involving our valuation specialists, we assessed the key assumptions underlying the discounted cash flow valuation. In doing so, we:

- ▶ Tested the mathematical accuracy of the discounted cash flow model;
- ▶ Assessed key assumptions such as Board approved forecast cash flows, including working capital levels and cash flows related to refundable accommodation deposits;
- ▶ Assessed the Group's current year actual results in comparison to prior year forecasts to assess forecast accuracy;
- ▶ Assessed the Group's assumptions for terminal growth rates in the discounted cash flow model in comparison to economic and industry forecasts;
- ▶ Assessed estimates of capital expenditure;
- ▶ Assessed the discount rates through comparing the weighted average cost of capital for the Group with comparable businesses; and
- ▶ Considered earnings multiples of comparable businesses as a valuation cross check to the Group's determination of recoverable amount.

We performed sensitivity analysis in respect of the assumptions noted above to ascertain the extent of changes in those assumptions which either individually or collectively would materially impact the fair value of the CGUs and we assessed the likelihood of these changes in assumptions arising.

We assessed the adequacy of the Group's disclosures of the key assumptions to which the outcome of the impairment test is most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of goodwill, bed licences and other intangible assets.

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Construction in Progress

Why significant	How our audit addressed the key audit matter
<p>Costs incurred during the year that were capitalised to Construction in Progress amounted to \$78.6 million. This represents costs of development projects and significant refurbishments of existing aged care facilities.</p> <p>The specific criteria to be met for capitalisation of development costs in accordance with Australian Accounting Standards involves judgment, including the feasibility of the project, intention and ability to complete the construction, ability to use or sell the assets, generation of future economic benefits and the ability to measure the costs reliably.</p> <p>In addition, determining whether there is any indication of impairment of the carrying value of assets requires judgment and the use of assumptions which are affected by future market conditions or economic developments.</p> <p>Costs are transferred to asset categories based on management's assessment of whether an asset is ready for use. Depreciation rates are applied based on the asset category.</p> <p>This was considered a key audit matter given the quantum of the balance and judgement required in applying the capitalisation criteria and assessing indicators of impairment.</p> <p>The Group has disclosed in Note C1 to the consolidated financial report the capitalisation policy.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> ▶ Agreed a sample of additions to supporting evidence and assessed whether the amounts capitalised were appropriate. ▶ Evaluated key assumptions used and estimates made for amounts capitalised, including the feasibility of the project, the stage of the projects in the development phase and the measurement and completeness of costs included. ▶ Assessed whether costs were transferred to appropriate asset categories when ready for use on a timely basis and that appropriate depreciation or amortisation rates were applied. <p>We considered whether there were any indicators of impairment present after examining the business case documentation of development projects, enquiries of executives responsible for management of the projects and comparing the cost of development to forecasts.</p> <p>We assessed the adequacy of the Group's disclosures regarding the timing that costs are recognised as asset, as well as the depreciation rates applied to each asset category.</p>

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Revenue

Why significant	How our audit addressed the key audit matter
<p>Australian Accounting Standard AASB 15 Revenue from Contracts with Customers (AASB 15) applied to the Group from 1 July 2018.</p> <p>Revenue is generated through two sources, being Government Subsidies and Resident Billings. Both sources are subject to strict legislation, detailing the rates and charges that the Group receives for each resident.</p> <p>Income derived from resident billings is recognised as billed within the relevant month. Subsidies received from the Department of Health vary depending on a number of factors, including the resident's financial means and level of care.</p> <p>The Group raises a government revenue accrual at year-end to recognise any differences between the monies received by Medicare at the start of the month (June) and additional monies the Group is entitled to arising from variations in resident occupancy levels or associated rates during June.</p> <p>The Group has disclosed in note B1 to the consolidated financial report their revenue recognition policies.</p>	<p>We evaluated the effectiveness of key controls over the capture and measurement of revenue transactions across all material revenue streams. In particular, we undertook the following procedures:</p> <ul style="list-style-type: none"> ▶ We assessed whether ACFI assessments were prepared by an authorised person, and were calculated based on resident care assessments ▶ We compared the government revenue recognised to payments received ▶ We tested whether resident revenue agreed to agreements, legislated billing rates, and payments received ▶ We tested whether the application of the Daily Care Fee incorporated rate increases ▶ We assessed whether resident additional service fees changes were approved and whether billing rates were correct ▶ We compared the revenue accrual to actual occupancy rates ▶ We tested whether the revenue recognised related to performance obligations satisfied within the period

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

The directors are responsible for the other information. The other information comprises the information included in the Company's 2019 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

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

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

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

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

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

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

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

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

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Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 56 to 73 of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Estia Health Limited for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

Ernst & Young

Paul Gower
Partner
Melbourne
20 August 2019

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Directory of Estia Homes

For all new resident enquiries call 1300 682 833

NEW SOUTH WALES

Albury	289 Elizabeth Mitchell Drive, Thurgoona, 2640	02 6057 4100
Bankstown	74 Chiswick Road, Greenacre, 2190	02 8709 9200
Bexley	3-5 Eddystone Road, 2207	02 8318 1100
Camden	82 Old Hume Highway, 2570	02 4655 2531
Dalmeny	25-29 Noble Parade, 2546	02 4476 8744
Epping	64-66 Norfolk Road, 2121	02 9877 4300
Figtree	12 Suttor Place, 2525	02 4271 6855
Forster	105 Southern Parkway, 2428	02 6555 5699
Kilbride	70 Glendower Street, Rosemeadow, 2560	02 4633 1100
Kogarah	74-76 Rocky Point Road, 2217	02 9053 1800
Manly Vale	5-13 King Street, 2093	02 9951 0400
Merrylands	42 Cumberland Road, Greystanes, 2145	02 9631 1837
Ryde	94 Bowden Street, 2112	02 9809 3068
Taree	424 Wingham Road, 2430	02 6539 3700
Tea Gardens	42 Spinifex Avenue, 2324	02 4919 7000
Tuncurry	4 Bonventi Close, 2428	02 6554 7522
Willoughby	202 Mowbray Road, 2068	02 9958 8290

SOUTH AUSTRALIA

Aberfoyle Park	39 Campus Drive, 5159	08 8370 5766
Aldgate	4 Gibb Road, 5154	08 8370 9311
Burton	367-379 Waterloo Corner Road, 5110	08 8280 2800
Craigmore	150 Adams Road, 5114	08 8256 8800
Daw Park	7 Lancelot Drive, 5041	08 8397 2100
Encounter Bay	150 Bay Road, 5211	08 8552 5100
Flagstaff Hill	40 Skyline Drive, 5159	08 8296 3456
Golden Grove	27-31 Capt Robertson Avenue, 5125	08 8251 9600
Hope Valley	1099 Grand Junction Road, 5090	08 8396 3167
Kadina	8 Mine Street, 5554	08 8821 2233
Kensington Gardens	421 The Parade, 5068	08 8331 8098
Lockleys	8 Mellor Avenue, 5032	08 8128 8888
Parkside	17 Robsart Street, 5063	08 8271 5679
Salisbury	7 Salisbury Highway, 5108	08 8182 6477
Salisbury East	8 Oakmont Court, 5109	08 8285 4600
Strathalbyn	7 Langhorne Creek, 5255	08 8536 3422
Toorak Gardens	401 Portrush Road, 5065	08 8431 5399

QUEENSLAND

Albany Creek	55 Faheys Road West, 4035	07 3264 4850
Gold Coast	34 Scarborough Street, Southport, 4215	07 5551 0307
Maroochydore	2-6 Amity Ave, Maroochydore, 4558	07 5391 4800
Mount Coolum	15 Suncoast Beach Drive, 4573	07 5343 0200
Mudgeeraba	21-25 Old Coach Road, 4213	07 5565 0900
Nambour	27 Glenbrook Drive, 4560	07 5459 3600
Southport	40 William Street, Southport, 4215	07 5646 4170
Twin Waters	190 Ocean Drive, 4564	07 5646 4120

VICTORIA

Altona Meadows	297 Queen Street, 3028	03 9369 4568
Ardeer	30 North Street, 3022	03 9360 4552
Bannockburn	71 McPhillips Road, 3331	03 5281 1991
Benalla	73 Samaria Road, 3672	03 5762 6933
Bendigo	9 Brown Street, Long Gully, 3550	03 5449 2400
Bentleigh	34-36 Clairmont Avenue, 3204	03 9557 2888
Coolaroo	15 Mladen Court, 3048	03 9309 0011
Dandenong	151 David Street, 3175	03 9792 4322
Epping	30 Epping Road, 3076	03 9408 8564
Glen Waverley	2B Grace Street, 3150	03 9562 5814
Grovedale	6A Perrett Street, 3216	03 5247 2000
Heidelberg West	413-415 Waterdale Road, 3081	03 9455 0000
Keilor	2-6 Copernicus Way, Keilor Downs, 3038	03 9367 1011
Keysborough	15 Stanley Road, 3173	03 8788 2700
Knoxfield	428 Scoresby Road, 3180	03 9763 1421
Leopold	52-60 Ash Road, 3224	03 5250 2156
Melton South	34-42 Brooklyn Road, 3338	03 9747 5600
Oakleigh East	23A Elizabeth Street, 3166	03 9544 8167
Plenty Valley	806 Plenty Road, South Morang, 3752	03 9404 8000
Prahran	241 Dandenong Road, Windsor, 3181	03 9533 7855
Ringwood	211-217 Wantirna Road, 3134	03 9879 5155
South Morang	879 Plenty Road, 3752	03 9404 8600
Victoria Heights	41-47 Victoria Street, Ironbark, 3550	03 5443 2731
Wattle Glen	45 Silvan Road, 3096	03 9718 2267
Werribee	8-10 Russell Street, 3030	03 9749 8000
Wodonga	240 Felltimber Creek Road, 3690	02 6043 5000
Yarra Valley	21 Hoddle Street, Yarra Junction, 3797	03 5967 5500



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