

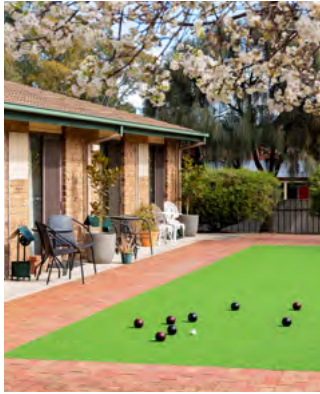
Estia   
Health

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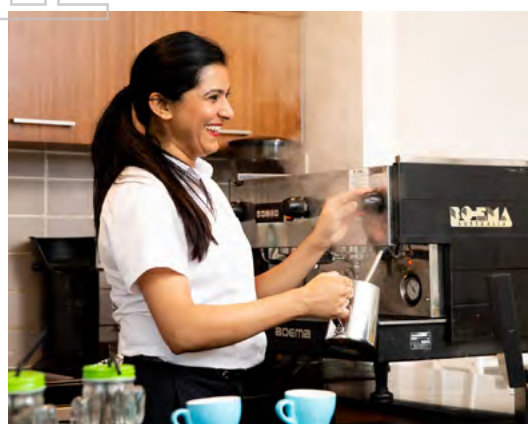
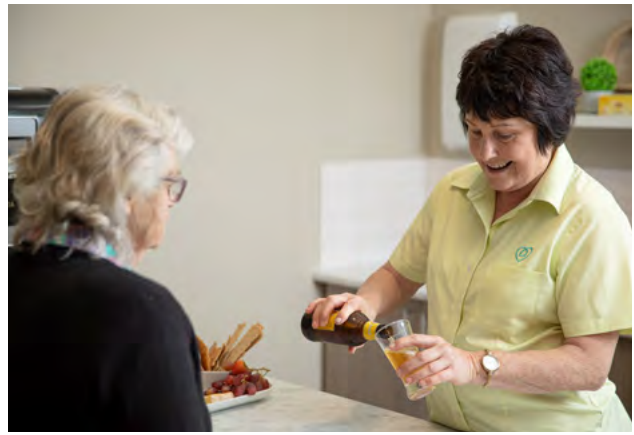


ANNUAL REPORT  
2019-20











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Estia Health Innovation  
Award winners



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Thank you to all the residents and employees who feature in this report. Many of the photographs featured in this report were taken prior to the need for social distancing, wearing of masks and other Personal Protective Equipment (PPE).

# Chairman and CEO's Message

We have invested, built capacity and enhanced our processes to manage COVID-19 into the future so we can welcome new residents, provide safe visits and protect those who already live with us.

The 12 months under review were significantly impacted from February 2020 by the effects of the COVID-19 pandemic on the Australian community generally, and the residential aged care sector in particular. The performance we have delivered reflects our fundamental commitment to our residents and our team members, and the position of your Company as a strong, well-capitalised residential aged care provider.

During the pandemic we have focused on three key areas: frequent communication with our residents, their families and our team members; strengthened mandatory education and training in infection prevention and control under the guidance of infection control experts; and the immediate implementation of our COVID-19 Positive Test Response Plan at those of our homes with a suspected or confirmed positive case of COVID-19.

During this period the Board established a separate COVID-19 Risk Sub-Committee which met at least weekly to provide oversight over the actions being taken by the Company to meet the challenges presented by the pandemic. Notwithstanding our planning and increased vigilance, subsequent to balance date, we experienced substantial numbers of positive COVID-19 cases at our homes at Ardeer and Heidelberg West in Victoria. Smaller outbreaks were

experienced at Keysborough and Keilor Downs in Victoria and a number of other homes.

COVID-19 has created significant anxiety for our residents and their families, being unable to engage with their loved ones on a personal basis due to measures taken to manage outbreaks of COVID-19 and the restrictions on visiting imposed by State Government Directions. We also feel for those families who have lost loved ones during this time and our condolences go out to each and every one. We have spoken with the families of those residents to convey our deeply felt sympathies and our commitment to provide any support they may require.

Our team members have demonstrated an extraordinary level of commitment and dedication. They have risen to the challenges presented by the pandemic, making substantial personal sacrifices and adopting new ways of working in very difficult circumstances.

The unpredictable effects of COVID-19 required us to develop new approaches in responding to the complex issues presented. We have invested in new technologies, specialist infection control resources and enhanced our care processes to manage COVID-19 into the future to ensure the safety and wellbeing of our residents and our team.

## REFORM

The aged care sector in Australia continues to undergo significant change, and this was further amplified by the COVID-19 pandemic. Policy settings and funding for the sector are not keeping pace with evolving community expectations and the increased costs of providing high quality and safe residential aged care.

We continue to advocate for and support many of the multiple reforms and recommendations put forward to Government over past years. As the Aged Care Financing Authority and the Royal Commission into Aged Care Quality and Safety have indicated, sector reform is long overdue and is essential for the sector to continue to attract capital, provide secure returns and deliver the highest quality care and services to residents.

Estia Health welcomes the increased scrutiny of the aged care sector and is committed to co-operation with the Government and regulators to ensure the sustainable delivery of high quality, safe and affordable care for older Australians. We look forward to the final report from the Royal Commission due in February 2021.

We support a package of reforms that will enhance the sustainability of aged care including: greater prudential oversight, increased funding, people contributing to their care according to their



**Dr Gary Weiss, AM**  
Chairman

capacity to pay, and the freeing up of restrictive licencing arrangements that limit consumer choice and restrict competition and investment. We also support more transparency on the publication of quality outcomes and other performance indicators to support and facilitate consumers to make informed choices about aged care.

### PERFORMANCE FOR THE YEAR TO JUNE 2020

As a result of ongoing uncertainty regarding sector funding and reform, exacerbated by the required response to the COVID-19 pandemic, the Company recorded a full year loss after tax of \$116.9 million after non-cash impairment charges for the year to 30 June 2020. Profit after tax before the non-cash impairment charge was \$25.2 million.

Operational revenue (excluding the impact of AASB 16) increased by 13% to \$593.5 million, with average occupancy for the year of 93.2 per cent, closing at 92.7 per cent at 30 June 2020.

We experienced net RAD inflows of \$33.2 million, of which \$25.8 million was achieved from our new homes in Southport and Maroochydore.

During the year we continued to invest for the future. We spent \$80.6 million in new homes, refurbishments, sustainability, asset replacement and improvements, including \$15.7 million in completing and



**Ian Thorley**  
Chief Executive Officer

progressing our greenfield sites at Maroochydore in Queensland, Aberglasslyn and St Ives in New South Wales, and Mt Barker in South Australia; \$18.3 million on brownfield sites at Blakehurst in New South Wales and Burton in South Australia; and \$40.7 million in refurbishing and investing in a number of initiatives across our existing homes.

The financial performance of our two new homes at Southport and Maroochydore in Queensland was strong, together delivering a net positive EBITDA contribution of \$0.5 million during first year ramp up.

As a result of the net loss for the year and as a prudent measure during these uncertain times, the Board determined not to declare a final dividend for the year to 30 June 2020. Total dividends for the year were 5.4 cents per share, fully franked.

**While COVID-19 has impacted our financial performance in the 2020 financial year, the Company's underlying fundamentals are sound and provide a strong platform to manage future uncertainty, opportunities and challenges.**

Estia Health's balance sheet is solid with net bank debt of \$99.4 million at 30 June 2020 under our \$330.0 million Syndicated Financing Facility. We are well capitalised and have capacity and flexibility to execute our growth plans and respond to future uncertainties.

### INVESTING IN SUSTAINABLE GROWTH

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

Estia Health's focus is on 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 the construction of new homes and redevelopment of existing properties to grow capacity for new places and grow future earnings.

Our strategic refurbishments focus on delivering contemporary environments aligned with the needs and expectations of the local community.



# Chairman and CEO's Message ...continued

The investment improves the marketability of the homes and generates higher incremental earnings through Higher Accommodation Supplements. Of our 69 homes, 47 now qualify for this supplement, an increase of 14 homes on last year.

The current refurbishment program of our existing homes will continue in FY21 and our new home at Blakehurst in New South Wales is expected to become operational in early 2021.

We are assessing our portfolio for expansion and redevelopment opportunities with early planning having commenced on a number of key proposals. These are not committed projects and tenders will only be activated when sector financing reforms become clearer and longer-term investment conditions are more favourable.

## CLINICAL GOVERNANCE

People are increasingly entering aged care with complex co-morbidities, including dementia and increased frailty. The delivery of progressively complex clinical care supported by emotional and holistic support for wellbeing underpins everything that we do.

Against the background of increasing acuity and later age at entry, the clinical requirements in aged care homes are increasing. Estia Health monitors these requirements through our clinical governance system. The Clinical Governance Committee is independently chaired by a Professor of Primary Care and assesses our practices and the clinical outcomes of our residents.

This clinical governance system has the objective of delivering care outcomes across our 69 homes and is supported by regional based clinical training and quality teams.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE

With a network of 69 homes across four states, it is vital that we maintain clear visibility on the impact we have on the communities and environments we operate in.

The Estia Health Sustainability Strategy and Framework was completed through the year and we will report on the social value we create in our communities against these benchmarks in the future, as well as reporting against our targets for reduced energy consumption and waste minimisation.

Our gender performance relative to other ASX listed companies remains strong.

## ESTIA HEALTH IS A PEOPLE BUSINESS

Estia Health has outstanding leaders at all levels of the Company who demonstrated exceptional capacity to plan and execute new ways of working in response to the complex issues presented by COVID-19. We have strong teams in each of our homes and we would like to thank our team members and our leadership for their extraordinary effort and professionalism in meeting the significant and complex challenges presented by the pandemic.

We also wish to thank our residents and their families for their support

and understanding. This has been a very difficult time for them all, yet families have not only been concerned for their loved ones but also for the other residents, as well as our employees.

We also thank our shareholders for their continued support.

Estia Health has demonstrated a resilient performance measured by occupancy, financial, care and COVID-19 responsiveness driven by the quality of assets, the leadership and our team.

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

Yours sincerely,



**Dr. Gary Weiss, AM**  
Chairman



**Ian Thorley**  
Chief Executive Officer



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# Industry Trends

## Influencing our Strategy



### 1. REGULATION

In July 2019, the Aged Care Quality and Safety Commission commenced assessing and monitoring all aged care services, including residential aged care against eight newly developed Aged Care Quality and Safety Standards.

On 1 January 2020, the aged care regulatory functions of the Secretary of the Department of Health were transferred to the Aged Care Quality and Safety Commission. This ensures that the Commission has the full suite of regulatory functions from entry, quality monitoring and compliance for providers of aged care services.

Estia Health has strengthened clinical governance by participation in a program of benchmarking clinical indicators, enhancing audit programs, and increased specialist quality resources to respond to the new regulatory and compliance approaches of the Commission.

### 2. SECTOR REFORM

The Royal Commission into Aged Care Quality and Safety and increased community attention on the aged care sector has again highlighted the expectations of the Australian community for higher quality aged care. It has been identified by the Royal Commission and other investigations that policy settings and funding for the sector are not keeping pace with evolving community expectations.

In November 2019, the Royal Commission released its Interim Report with three key recommendations relating to: chemical restraint, reducing the homecare waiting list and that by 2022 no younger people should be entering residential aged care. Where relevant, Estia Health has responded to these recommendations.

We continue to advocate for and support many of the multiple reforms and recommendations put forward to Government over the past years.

### 3. AGEING POPULATION AND INCREASING CLINICAL CARE NEEDS

There are clear demographic trends for the Australian population that will continue to drive demand for aged care. Over the next 20 years, the number of Australians aged 85 and over will double to more than one million<sup>1</sup>. At the same time, older Australians want to stay at home for as long as possible and when entering residential aged care are increasingly frail with complex needs. As people live longer, the need for residential aged care will likely increase, including demand for individualised dementia care, which is expected to more than double by 2050<sup>2</sup>.

The need for increasingly complex residential aged care that meets community expectations, will only be met by well-capitalised scale operators with well-qualified, committed management and skilled employees.

<sup>1</sup> <https://www.aihw.gov.au/reports/older-people/older-australia-at-a-glance/contents/summary>

<sup>2</sup> <https://www.dementia.org.au/sites/default/files/NATIONAL/documents/The-economic-cost-of-dementia-in-Australia-2016-to-2056.pdf>





#### 4. INDUSTRY CONSOLIDATION

The growing specialisation and complexity of residential aged care will only increase the requirement for investment.

The residential aged care sector includes a high number of sub-scale operators, many of which will not be able to meet the requirements of a specialised and sophisticated part of Australia's health economy. Aged Care Financing Authority (ACFA) has indicated reforms may need to assist such providers to leave the sector, leading to consolidation.

Providers best placed to succeed in delivering the highest quality of care services to residents, will be able to secure a large, skilled workforce, exhibit strong governance, be well capitalised and possess a demonstrated ability to operate at scale and manage multiple stakeholders. The COVID-19 pandemic has added another layer of complexity and demands on operators.

Estia Health, as a well-governed, quality-focused operator with both scale and capital, has the ability to respond to regulatory change in a post Royal Commission world, to invest in its people, portfolio of homes and services to grow capacity through development and acquisitions and sustain occupancy in a more competitive consumer-directed care environment.



#### 5. CUSTOMER CHOICE

To enable aged care customers, residents and their families, to have a greater degree of choice in what type of aged care services they access and at what cost, the community expects clear and transparent information to assist in making an informed choice and to help potential residents and their families better understand their expectations of care and comfort in aged care.

In 2019 we commissioned customer research, which showed among other matters:

- Increased intergenerational decision-making: it is now more common for grandchildren to be involved in aged care decisions for loved ones
- Higher expectations of quality of services provided
- Stronger focus on rehabilitation and maintaining function and enjoyment of quality of life.



#### 6. AGED CARE WORKFORCE - SKILLS AND DEMAND

The aged care sector in Australia now accounts for 1% of GDP, provides services to over 1.3 million Australians and employs more than 360,000 people<sup>3</sup>. The ability to attract, train and retain a large well-qualified, well-motivated workforce is crucial to delivering high quality and safe care for aged care residents.

It is critical that greater investment is made at a national level to support skills improvement, and boost attractiveness of the sector, through appropriate training and remuneration and by supporting the creation of career pathways to attract and retain the best employees and meet their professional aspirations.

Estia Health has demonstrated strategies to advance aged care as an attractive profession for people who want to make a real difference in people's lives. We support the review by the Aged Care Workforce Taskforce - A Matter of Care: Australia's Aged Care Workforce Strategy<sup>4</sup> - and are part of the Aged Care Workforce Industry Council, the industry-led body leading the implementation of this Workforce Strategy. The Council is tasked with responding to 14 Strategic Actions to ensure the workforce can meet aged care needs now and into the future.

<sup>3</sup> Aged Care Financing Authority and the 2020 Annual Industry Report

<sup>4</sup> a-matter-of-care-australias-aged-care-workforce-strategy

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# Our Response to COVID-19

## Current impact, governance and future impact

Our response to COVID-19 was based around the principles of strong governance and executing the principles of good infection control procedures and outbreak management in those homes where positive COVID-19 cases were confirmed..

In February, a Board COVID-19 Risk Sub-Committee was established to provide oversight of the Company's response to the pandemic. The operational planning and pandemic management was undertaken by the Critical Incident Management Team (CIMT) also set up in February 2020. The CIMT has the objective of ensuring Estia Health's response is aligned with the Australian Health Protection Principal Committee guidelines, State Directions and other expert guidance, to ensure the appropriate preventative measures are in place. The first quarter of 2020 saw the CIMT review our emergency response and business continuity plans to ensure they reflected the expected challenges to be posed by COVID-19.

Early in the pandemic, when it was evident that the national supply chain may not cope with the anticipated demand, Estia Health responded by securing alternate suppliers ensuring our homes had personal protective equipment (PPE) and other inventory, should an outbreak occur.

We developed a COVID-19 Response Plan, in preparation for an outbreak in one of our homes. This plan was reviewed by independent infection control experts. Our infection prevention control policies and procedures are regularly reviewed and improved in line with COVID-19 recommendations from Government agencies and our own experience including refining our mandatory infection prevention and control training.

Through transformational change, Estia Health has met the various challenges raised during this pandemic and highlights the depth and capability of both our people and our systems.

## One Family values in action



Estia Health Taree demonstrate the One Family values in action



During the pandemic our focus is on three key areas:

**1. Residents and their families:**

- We provide frequent, open communication with our residents and their families
- We appointed Resident Liaison Officers who are the first point of contact for families seeking to communicate with their loved ones. This role is an integral addition to our homes and exists to focus on maintaining resident and family connection and supporting resident well being
- We introduced additional technology enabling families to stay in touch particularly through times where our homes are closed to visitors
- We provide regular updates on COVID-19 on our website
- We introduced specific infection control screening processes for new admissions, visitors and contractors
- We provide a free and confidential counselling service for residents and families.

**2. Our employees:**

- Our Central Services team transitioned to remote working in March
- We upgraded our information technology systems
- All employees were vaccinated for the 2020 influenza season
- We strengthened mandatory education and training in infection surveillance, prevention and control, in line with the growing understanding of how COVID-19 is spread
- We stepped up frequent communication with our team of more than 7,500 employees to ensure they had confidence in responding to any COVID-19 emergency
- In March 2020, we introduced paid quarantine leave in addition to the regular sick leave allowance for employees who were required to self-isolate. Over 8,500

hours of quarantine leave was granted in the period March – June 2020

- Introduced an allowance for employees working in homes with COVID-19
- We secured strong supply chains for personal protective equipment (PPE) to ensure that employees would be confident in working should any outbreak occur
- We enhanced our Employee Assistance Program.

**3. At each home with a suspected or confirmed positive case of COVID-19, we immediately activated our COVID-19 Response Plan.**

This includes:

- Closing the home to all visitors and non-essential external contractors
- Requesting all residents to remain in their rooms
- Establishing counselling services for all residents and their families
- Full single use, personal protective equipment (PPE)
- Quarantining employees with a positive test result and other employees who had close contact with that employee
- Regular communications with families to provide information and answer their questions
- Providing hotel accommodation for those employees who prefer not to go home after their shifts
- Frequent deep cleaning of the home
- Working closely with State and Federal health authorities, including the program for regular rapid testing of all residents and employees until no further positive cases are detected.



Estia Health Bendigo

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# Our Response to COVID-19 ...continued

## How Resident Liaison Officers keep residents connected

Resident Liaison Officers were introduced into Estia Health homes during the escalation of the COVID-19 pandemic, to help residents and their families and friends keep in contact. These new roles also provided an opportunity for people who had lost their jobs to join the Estia Health team and apply their customer service expertise and experience in residential aged care.

### RESIDENT LIAISON OFFICERS

Resident Liaison Officers are the link between residents and their families and friends.

This role was introduced in each home to help residents connect with family members through video and phone calls, with their faith through live-streamed church services and with loved ones through our safe visit program.

When the travel, events and hospitality sectors stood down a large portion of their employees, Estia Health saw an opportunity to apply their customer service skills to care for our residents. Resident Liaison Officers included pilots and flight attendants from Qantas and Tigerair, who stepped up to help — residents had a chance to interact with new people, hear some new stories and share their own.

### SUPPORTING RESIDENTS DURING COVID-19

The hospitality and lifestyle teams have worked together to ensure residents receive high quality, nutritious food together with the emotional and physical support they need during the pandemic.

### MENTAL HEALTH AND WELLBEING

At some of our homes where families were temporarily unable to visit, mental health and social wellbeing of residents was a priority. Teams in our homes focused on helping residents maintain social connections and ease fears during the pandemic. These connections included:

- Establishing safe visiting rooms on-site for families — rooms near home entrances to minimise foot traffic
- Creating a new role for each home; Resident Liaison Officers, to help residents with video and phone calls, live streaming of church services and in-house prayer groups — their key focus was resident connectivity
- Enabling window visits so residents could still experience connection and joy with their loved ones
- Arranging bus trips so residents could have a change of scenery without risk.

### TECHNOLOGY AT WORK - ACCESS TO TELEHEALTH

Since April residents have accessed telehealth appointments to review medications and clinical conditions, including appointments with specialists they were previously unable to access.

## Interstate employee transfer initiative – Our Family Code in action

The impact of the COVID-19 pandemic in our Victorian homes was significant, with several homes affected as both residents and employees tested positive for the virus and homes were put into lockdown to prevent the transmission of the virus. During this, many, or all of the home's employees were placed on paid leave and quarantined and while external agency staff offered support, it was important to look at how we could continue to provide high quality and consistent care to our residents. A call was put out to the Estia Health

network, asking if any of our experienced carers and nurses would go to the outbreak homes and support during lockdown. We were overwhelmed by the response, with more than 170 expressions of interest received from across the network, offering to go and support their colleagues and care for our residents in incredibly challenging conditions. The first wave of interstate team members arrived within a week, providing much needed stability and support to our residents and we're proud to have seen our Family Code and values in action.



## Aged care all-rounder

Before COVID-19, Ethan was a Corporate Services Assistant with Cricket Australia. From facilities and contractor management to events, Ethan loved his all-rounder role.

As a Resident Liaison Officer, Ethan applied himself to the new task of keeping residents involved in their daily activities and connected with their loved ones through the safe visit program: helping residents with virtual visits, phone calls or a window visit. It's no surprise that residents loved to stop him for a cricket chat.



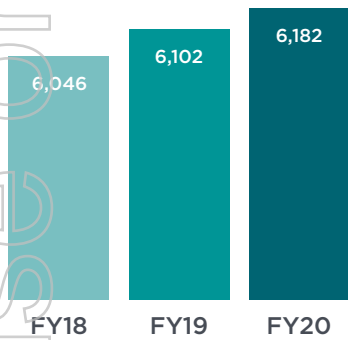
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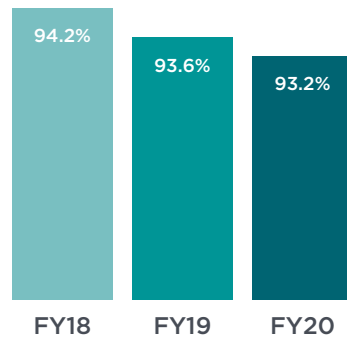
# Key Highlights

## Financial performance

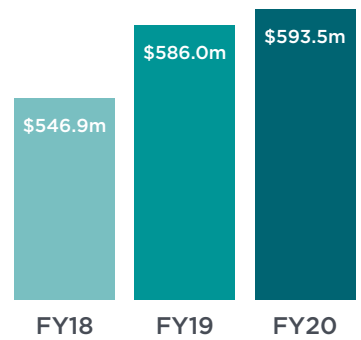
### OPERATIONAL PLACES



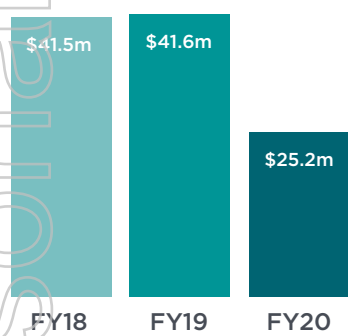
### AVERAGE OCCUPANCY<sup>1</sup>



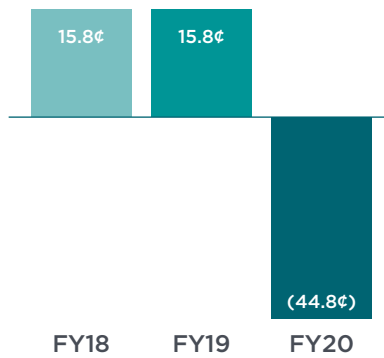
### OPERATIONAL REVENUE<sup>2</sup>



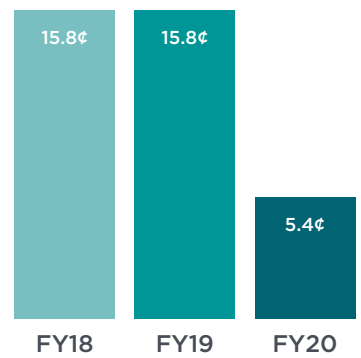
### PROFIT AFTER TAX BEFORE IMPAIRMENT



### EARNINGS PER SHARE



### DIVIDENDS PER SHARE

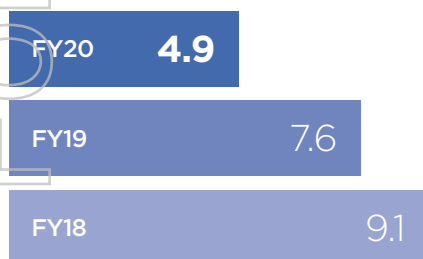


<sup>1</sup> Mature homes only

<sup>2</sup> Operational revenue excludes the impact of AASB 16 adopted with effect from 1 July 2019.

## Health and safety

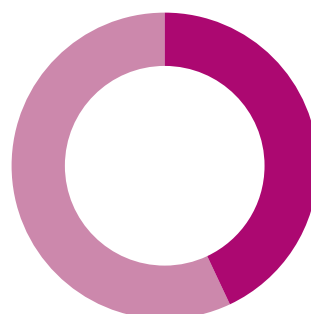
### LTIFR<sup>1</sup>



<sup>1</sup> Lost Time to Injury Frequency Rate (LTIFR). 12 month rolling average.

## Gender diversity

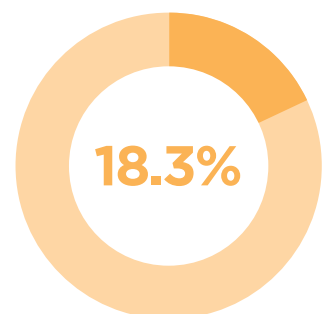
### BOARD AND EXECUTIVE POSITION COMPOSITION



60% Male  
40% Female

## Employees

### EMPLOYEE TURNOVER



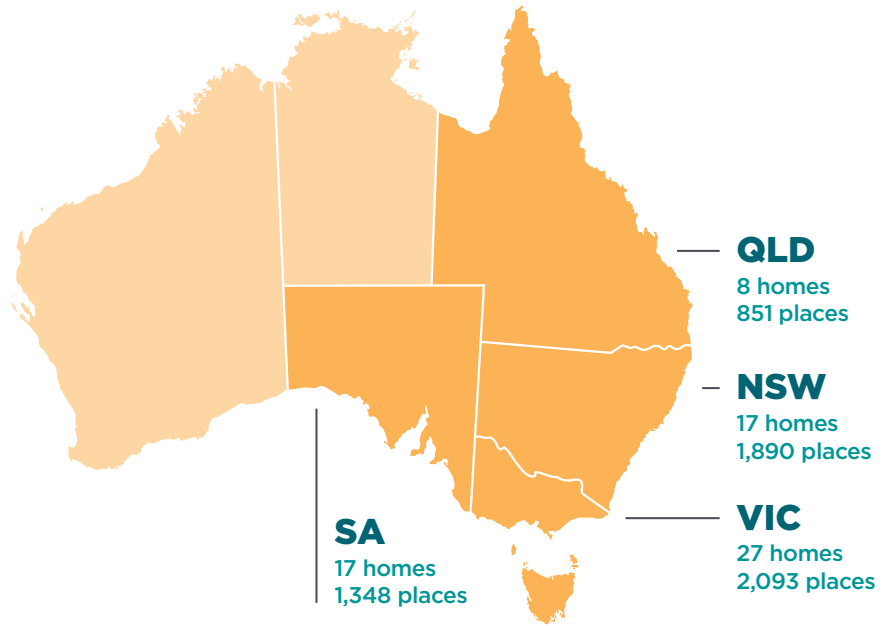


# Key Highlights

## Network of homes

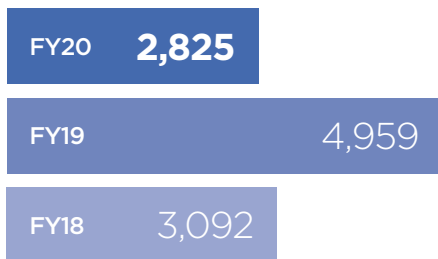
Statistics are as at 16 August 2020 (except as noted)

Total number of operational homes	<b>69</b>
– Metro	<b>53</b>
– Regional	<b>16</b>
Freehold sites	<b>62</b>
Total operational places – 30 June 2020	<b>6,182</b>
Number of single rooms	<b>5,092</b>
Single rooms as percentage of total rooms	<b>91%</b>
Average number of places per home	<b>90</b>
Number of homes receiving significant refurbishment supplement	<b>47</b>



## Professional development

### EMPLOYEES TRAINED ACROSS PROFESSIONAL DEVELOPMENT PROGRAMS

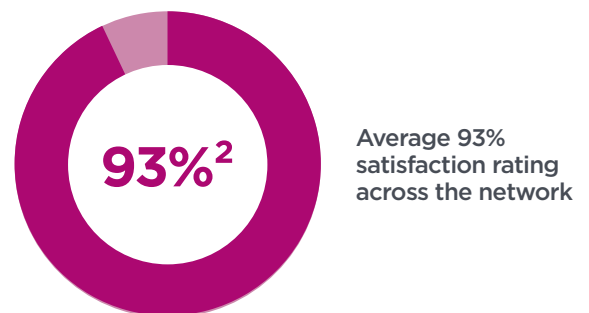


### TRAINING DELIVERED ON PERSONAL PROTECTIVE EQUIPMENT



## Consumer Experience Report (CER)

8,435 CER SURVEYS CONDUCTED



<sup>2</sup> Satisfaction defined as percentage of responses that report experience as “most of the time” or “always”

# Our Executive Team

Our Executive Team is responsible for setting and implementing our strategy for Estia Health to become Australia's most trusted residential aged care provider. Led by Chief Executive Officer Ian Thorley, the team brings a depth of experience and expertise in the health care and aged care sectors, to ensure we provide consistently high quality and safe residential aged care to the communities we serve.



**IAN THORLEY**

Chief Executive Officer and  
Managing Director



**SEAN BILTON**

Chief Operating Officer and  
Deputy Chief Executive Officer



**STEVE LEMLIN**

Chief Financial Officer



**LEANNE LAIDLER**

Chief Quality and Risk Officer



**DAMIAN HISER**

Chief Customer Officer



**FIONA CALDWELL**

Chief Information Officer



**RITA SHERIDAN**

General Manager  
Development and Property



**ASHLEY VAN WINKEL**

Chief People Officer



**MARK BRANDON, OAM**

Chief Policy and  
Regulatory Officer



**IAN THORLEY****Chief Executive Officer and Managing Director**

Joining Estia Health in October 2016 and appointed Chief Executive Officer in October 2018, Ian is focused on consolidating Estia Health as a high quality residential aged care provider and positioning the group through the disciplined investment in new homes and systems infrastructure, to be capable of being a leader in the next phase of residential aged care growth. Ian has over 30 years' health and aged care experience in both Australia and overseas and has been at the forefront of major developments that have shaped Australia's healthcare sector.

**SEAN BILTON****Chief Operating Officer and Deputy Chief Executive Officer**

Appointed as Estia Health's Chief Operating Officer and Deputy Chief Executive Officer in October 2018, Sean is focused on ensuring the highest level of care is delivered effectively to the 8,000 residents we care for annually across our homes. Sean ensures that every one of our 69 homes engage closely with their local communities and deliver exceptional and compassionate care for all our residents and their families.

**STEVE LEMLIN****Chief Financial Officer**

Joining Estia Health in February 2017 as Chief Financial Officer, Steve is responsible for planning, implementation, managing and running all the finance activities of Estia Health, including business planning, budgeting, forecasting and capital management. Steve also manages investor relations, external financial reporting and prudential compliance within the Aged Care Act.

**LEANNE LAIDLER****Chief Quality and Risk Officer**

Appointed in May 2019, Leanne leads Estia Health's clinical governance strategies with the objective to ensure high quality and safe clinical care is delivered for our residents. 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.

**DAMIAN HISER****Chief Customer Officer**

Since October 2017, Damian has led strategies and programs to improve the experience for Estia Health's residents and their families and support the difficult and emotional move into aged care. This includes developing

hospitality and lifestyle programs and activities to enhance the quality of life and daily living requirement of our residents. Damian has also led the development of Estia Health's Sustainability Strategy and continues to build Estia Health's brand as one of the most respected and preferred within residential aged care.

**FIONA CALDWELL****Chief Information Officer**

Appointed in October 2017, Fiona has led the investment in systems and technology to ensure that our business and clinical systems are delivering productivity gains for the network and are capable of upscaling to support our future growth. This has seen the delivery of modern and innovative technologies and services to advance resident care, support employees and provide best-practice solutions for our organisation and shared service functions.

**RITA SHERIDAN****General Manager Development and Property**

Rita has led Estia Health's capital development and property maintenance programs since March 2018. Throughout her career, Rita has successfully completed major capital developments in aged care, retirement living, residential construction and commercial interior design. These diverse experiences have been brought together to evolve the designs of our recent new greenfield developments to reflect a more intimate resident-focused design aesthetic.

**ASHLEY VAN WINKEL****Chief People Officer**

Joining Estia Health in May 2020, Ashley's team is dedicated to attracting and developing the best talent in the sector, maintaining a safe workplace and supporting a motivated workforce to deliver high quality and safe care and services for our residents and their families.

**MARK BRANDON, OAM****Chief Policy and Regulatory Officer**

Mark leads Estia Health's government relations activities and has oversight of regulatory compliance and policy. He is an internationally recognised leader on strategy, quality improvement and accreditation systems. He is a member of the panels of experts for the International Society for Quality in Healthcare and the International Federation on Ageing.

Full biographies available on the Estia Health website:

<https://www.estiahealth.com.au/who-is-estia-health/our-executive-team>

# Vision, Purpose, Strategy

During FY19, we conducted extensive research with over 2,000 people including our residents, their families, our employees, Board Directors and community members, to understand their perspective of Estia Health and what they believe is important in the delivery of quality care. In FY20 the findings of this research were used to inform a brand refresh, including our vision, purpose and family code and Estia Health's Corporate Strategy and Strategic Framework.

## Our vision: trusted aged care is accessible to all

### OUR PURPOSE

***We exist to enrich and celebrate life together.***

To enrich a life means every small action we take can make a difference. As aged care professionals, we look after people at the most important time of their lives. We want to celebrate this time with our residents, their families and our employees.

### OUR FAMILY CODE

We achieve our purpose by living our family code - ***A family where everyone belongs.***

### OUR PRINCIPLES GUIDE OUR EVERYDAY ACTIONS

- **Creating happiness** - we make magical moments happen, in small and special ways
- **Always approachable** - we make time to listen because we care
- **Taking responsibility** - we own our decisions and actions to improve ourselves and help others
- **Embracing diversity** - we acknowledge and respect individual uniqueness
- **Growing together** - we bring out the best in each other and are stronger together

### OUR VALUES UNDERPIN OUR FAMILY CODE:

- **Compassion** - we demonstrate care and understanding with empathy
- **Responsiveness** - we are approachable, we listen and we take action
- **Accountability** - we are responsible and always act with integrity
- **Respect** - we embrace individuality and choice
- **Collaboration** - we positively engage together to deliver our purpose

### OUR STRATEGIC PRIORITIES

Achieving our strategic goals and objectives enables us to bring our vision to life.

Our Strategic Framework, set out as pillars, demonstrates focus areas for the organisation that we believe will deliver the best care possible to our residents and will create value for all our stakeholders.

- Care
- Customer
- People
- Community
- Growth





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# Our Strategy – Care



**Goal:** to be considered as the number one quality provider of residential aged care services.

**What success looks like:**

- 100% met outcomes from Aged Care Quality and Safety Commission assessment visits
- Government recognition of our support and partnerships with Primary Health Networks
- Reduce complaints by 50% year on year to the Aged Care Quality and Safety Commission
- Reduce procedures, guidelines and forms by at least 50%, to streamline clinical care processes
- Premium optimisation through insurer recognition as best in class for risk recognition, mitigation and management.

## INCREASED CARE NEEDS

Australia's ageing population continues to steadily increase the demand for aged care, with people moving into residential aged care later in their lives. With later entry into aged care, we continue to see an increase in residents with a range of co-morbidities including residents living with dementia, which requires more specialised sub-acute clinical care and services to deliver the best care outcomes for our residents.

We continue to evolve and grow our expertise. In addition to every home having Registered Nurse/s rostered seven days a week, 24 hours a day and our education and development programs to support nursing and care staff, we are well placed to provide high quality clinical and personal care.

## PERSON-CENTRED APPROACH

Our employees are committed to truly knowing each resident. They understand that each resident has their own individual story to tell, with different experiences, preferences, identity, values, beliefs, likes and dislikes. By taking the time to understand each resident's individual needs and preferences, our teams are equipped to truly support them to feel safe, comfortable and ensure they are treated with both dignity and respect, while living in one of our homes. This is strengthened by our brand principle *Embracing Diversity*, which begins when a resident first enters one of our homes. We work with both the resident and the family to understand their unique story and offer culturally diverse programs and activities.

## PERSON-CENTRED CARE FRAMEWORK

The quality of care our residents receive, is guided by a person-centred care and clinical governance framework. Through the two key pillars of the framework, clinical and risk management, we are able to deliver on our vision of being the most trusted aged care provider.

## CLINICAL GOVERNANCE COMMITTEE

Ensuring the organisation is guided by sound clinical practices, our Clinical Governance Committee includes highly experienced professionals with expertise across a range of aged care specialties. This year, two new external members were appointed to the Committee, a Professor of Primary Care (Committee Chair) and a Doctor of Pharmacy. They are able to provide an external industry perspective to guide care and service improvements. It also provides the opportunity to strengthen our partnerships with general practitioners and pharmaceutical providers.

## CONTINUOUS QUALITY IMPROVEMENT

Through a culture of continuous improvement our teams reflect on how we can improve systems, processes and procedures. Through critical reflection our teams constantly review and improve, providing for individual's needs, quality clinical care and valued resident experiences.

The application of these policies into the delivery of consistent processes across our 69 homes is supported by regional quality teams. Through various audit and other predictive indicator insights, we are able to highlight and address areas for improvement.



## RESIDENT VOICE

Ensuring our residents have choice and a voice in their care and overall experience helps retain our resident's autonomy and sense of self, a critical aspect in their overall wellbeing, especially when they first move into one of our homes. Every employee is focused on treating residents with the respect and dignity anyone would expect in their own home, which lays the foundations for quality person-centred care.

Listening to our residents and providing various ways to share their thoughts and ideas, in a timely, transparent and open way is key to maintaining their confidence and trust in us. One way in which we measure the experience of residents is through internal surveying of residents and their families using the Aged Care Quality and Safety Commission's original Consumer Experience Rating survey (CER). This year, 8,435 surveys were conducted with an average of 93% satisfaction<sup>1</sup> across our network of homes.

## BUILDING CLINICAL NETWORKS

The quality of the care we provide is built on the strength of our partnerships with allied health and Primary Health Networks.

Through a combination of national and local partnerships with allied health professionals, including physiotherapy, dental, speech, podiatry and others, we aim to ensure we provide holistic personalised care. This year, our pharmacy partnership was strengthened by the introduction of regular remote reviewing of the use of medication, in line with guidance received in the Royal Commission into Aged Care Quality and Safety's interim report.

In a direct response to COVID-19, we developed two new national partnerships, one with a provider of telehealth to ensure continued General Practitioner support and the other with a national provider of infection prevention and control.

## COMMITMENT TO TECHNOLOGY

Technology is one of the key foundations to improving clinical care and this year, we continued to enhance our electronic resident clinical records, seeing improvements in clinical data capture, enabling accurate analysis, industry benchmarking and overall improvements in resident outcomes.

Earlier this year, two of our homes joined a Government trial in medication management, involving the paperless administration of medication leading to improved management of medications and timely reporting.

This year, as part of our commitment to improving resident care, we have partnered with a national provider to benchmark our clinical data in three key areas; pressure injuries, physical restraint and unplanned weight loss. Results have shown we are consistently in line with, or better than the industry benchmark for each category. Engaging in this partnership provides clinical support teams additional tools to monitor and analyse clinical indicator data remotely, supporting consistent quality of care for our residents.

## QUALITY STANDARDS

In July 2019, the Aged Care Quality and Safety Commission released the Aged Care Quality Standards (Quality Standards), with all aged care organisations who provide Commonwealth subsidised services required to be assessed and provide evidence of their compliance with and performance against these Quality Standards.

The Quality Standards have eight individual Standards with 42 requirements, which our individual 69 homes are assessed against:

1. Consumer dignity and choice
2. Ongoing assessment and planning with consumers
3. Personal care and clinical care
4. Services and supports for daily living
5. Organisation's service environment
6. Feedback and complaints
7. Human resources
8. Organisational governance

**“Our person-centred framework puts the resident at the centre of every decision that we make. If we're designing a home or reviewing a system, we must do it in partnership with the people whose home it is.”**

*Leanne Laidler, Chief Quality and Risk Officer*

<sup>1</sup> Satisfaction defined as percentage of responses that report experience as “most of the time” or “always”

# Our Strategy – Customer



**Goal:** to be the most customer-centric residential aged care provider in the sector.

**What success looks like:**

- Consumer Experience Report scores greater than 93%<sup>1</sup> satisfaction rating
- Recognised as a leading provider of personalised and specialist residential aged care services including dementia care
- Greater than 90% of residents and families likely to recommend Estia Health
- Customer experience driving occupancy rates higher than peers.

**Key research insights:**

- Providing safe and personalised quality care are the top motivations of potential customers when selecting the right aged care home
- Potential customers want more clarity with a simplified process and access to the right information at the right time
- The Royal Commission into Aged Care Quality and Safety and the sector's response to COVID-19 are shaping customer attitudes and their decision-making process.

## UNDERSTANDING OUR CUSTOMERS' PRIORITIES

When we refer to our customers, this includes our residents and their relatives. Often this includes children and increasingly grandchildren, who are involved in the decision-making process for their loved one to enter residential aged care. Understanding their unique needs and providing the right support and guidance when looking to make this difficult decision, is a critical part of our commitment to be the most customer-centric aged care provider in the sector.

In FY20, we conducted research with our customers and potential customers to better understand the journey they must take and the challenging choices when looking at residential aged care for themselves or a loved one.

## SUPPORTING CUSTOMER CHOICE

- When looking for residential aged care, people on average visit 3.5<sup>2</sup> homes before making a decision
- 80% of people make their decision based on the emotional connection<sup>3</sup> they make with employees at the home during their visits.

Even though the decision for someone to move into residential aged care is one of the most significant moments in a person's life; the need for aged care often occurs following a sudden event or a rapid decline in health, and as a result, a decision must be made quickly. We understand this and our customer teams work to provide information quickly and clearly. This is via face-to-face meetings and phone calls when urgent care is needed, but some people will want to investigate and

conduct their own research, often with the support of the broader family. This is why digital channels like our website and social media are critical touchpoints to access clear and concise information that answers their questions.

We also understand the importance of first impressions and a core aspect in people's decision-making process is how they feel when they visit one of our homes and

<sup>1</sup> Satisfaction defined as percentage of responses that report experience as "most of the time" or "always"

<sup>2</sup> Customer segmentation research, Instinct & Reason, April 2020

<sup>3</sup> Customer segmentation research, Instinct & Reason, April 2020



see our employees interacting and building meaningful connections with our residents, demonstrating our purpose *to enrich and celebrate life together*.

### LISTENING TO OUR CUSTOMERS

We value and actively seek our customer’s feedback to support a culture of continuous improvement and a greater understanding of what is important to them when receiving care in one of our homes.

Our processes and systems provide residents, their families and the community with a range of ways to provide feedback and include:

- Regular pulse surveys of residents and families that can be completed on digital tablets in the home or via email and are aligned to the Aged Care Quality and Safety Commission’s (ACQSC) Consumer Experience Reports (CERs)
- Immediate feedback to a Registered Nurse or carer at the time of a positive or negative experience

- Regular resident and family forums in our homes, led by our Executive Directors
- Accessible feedback forms both online and in our homes, translated into various languages, which once completed go through our formal feedback or complaints process.

Consumer Experience Reports (CERs) surveys were introduced by the Aged Care Quality and Safety Commission (ACQSC) when assessing residential aged care homes during FY19 and we are now regularly ‘pulsing’ residents and families with the same survey, with 8,435 surveys completed this year. We are continuing to look at ways to listen to our customers and gather feedback and are expanding the use of resident and customer surveys. These are aligned with the ACQSC survey themes to establish our own benchmarks for customer experience with the aim of exceeding broader industry results and promoting consumer choice.

## Choice and variety

When residents and their families are choosing a residential aged care home, high-quality clinical care is an expectation, however other aspects of daily life, including food and lifestyle activities also play a critical role in supporting our residents’ overall wellbeing.

All of our homes have a lifestyle team, who program a range of daily events or activities based on residents’ input and feedback. This includes; games, cooking, craft, arts, cultural activities, and spiritual and religious events. Prior to COVID-19 restrictions, our lifestyle team would also schedule regular outings and visits to help our residents remain connected to their community, family and friends. This includes local community groups and schools, giving residents and school children the opportunity to build unique and special inter-generation connections.

We understand the importance of a well prepared, home cooked meal, with each home’s Chef and catering team working to our food philosophy: *‘thoughtfully sourced, freshly prepared, served with love’*. Each home’s menu is developed based on residents’ preferences and includes recipes they have cooked and enjoyed themselves in the past, while catering to unique medical or cultural dietary requirements. With this in mind, the continued training of our Chefs and their teams is critical and we conduct a quarterly Masterclass series to upskill and educate our teams.

**“Customer and community engagement provide insights to continuously improve our customer experience and resident-centred framework.”**

*Damian Hiser, Chief Customer Officer*



# Our Strategy – People



**Goal:** to be the aged care employer of choice, attracting and retaining skilled and engaged employees.

**What success looks like:**

- Zero preventable lost time to injuries
- 70% uptake of employee wellbeing programs
- 70% of leadership roles recruited internally
- 15% or less employee turnover
- 60% of employees completing engagement surveys

## Our people are at the heart of our organisation

The safety and care of our residents is achieved through the skills, dedication and compassionate care of our people. Attracting, training, retaining and caring for a diverse team of skilled clinicians, carers and hospitality employees is key for the aged care sector. We seek to become the residential aged care employer of choice, by offering a safe, caring and supportive environment for our people to grow their careers, develop skills and work collaboratively to feel an important member of the Estia Health family.

Our People Strategy is based on a set of projects and initiatives that connects our brand purpose, principles and values to build a unique culture across the organisation in line with our Family Code: *a family where everyone belongs*. We continue to look beyond traditional recruitment measures to attract the best candidates, engage and retain our employees and develop talent and upskill our existing workforce.

### HEALTH, SAFETY AND WELLBEING STRATEGY

Estia Health has an uncompromised focus and commitment to health, safety and wellbeing. Our Health, Safety and Wellbeing Strategy sets out our vision and targets to 2023. The Strategy integrates leadership, risk management, support systems and wellbeing to continue to improve on our existing performance and enable us to address existing and emerging risks.

We commenced the transition to workers compensation self-insurance and secured our self-insurance license in NSW, which enhances our ability to intervene early, help our injured employees return

to work and obtain timely and required medical intervention.

In FY20 we achieved our health, safety and wellbeing performance targets, increased our focus on mental health and wellbeing and continued to enhance our robust workplace health and safety systems by:

- Starting to shift our culture from injury management to injury prevention
- Implementing enhancements to our safety incident reporting system
- Introducing paid quarantine leave in addition to the regular sick leave allowance for employees who were required to self-isolate due to COVID-19
- Boosting mandatory training in infection prevention and control
- Securing supply chains and stock levels of personal protective equipment (PPE)
- Implementing wellbeing education and tools
- Commencing remote learning and onboarding programs
- Introducing a pay supplement for employees working in homes with COVID-19 cases.

### TRAINING AND DEVELOPMENT

Training and development remain central to retaining and supporting our employees to ensure they can confidently deliver high quality, safe care and the best overall experience for our residents and their families.

We offer national hospitality and lifestyle training programs for our Chefs, food services and lifestyle



employees, attracting a broader range of experienced and passionate people to the organisation, while continuing to build the skills and experience of our existing teams in specialised areas including nutrition and medically prescribed diets and meaningful activities.

A key focus during the second half of FY20 was infection prevention control for all employees based

in our homes. Addition to our mandatory training of all employees in infection prevention and control, specific learning modules, toolboxes and resources were developed with 6,756 employees trained on the effective use of personal protective equipment (PPE) and a further 828 employees trained to collect respiratory swabs, all of which form a core part of our COVID-19 Response Plan.

### KEY FY20 OUTCOMES:

**4.9**

**Lost Time to Injury Frequency Rate (LTIFR)**

We have worked hard over the last four years to significantly reduce our LTIFR with mandatory workplace safety training and toolboxes and awareness campaigns such as Safety Awareness Month in October. We continue to strive to have zero preventable injuries by mitigating risks with protocols and training to help keep employees safe.

**18.3%**

**Employee turnover**

Estia Health aims to reduce turnover to less than 15% in a sector where recruitment and retention of employees is a significant challenge. High turnover impacts standards of clinical care, and overall delivery of the customer experience. Our priority is to retain and support our employees, recruit future leaders internally and increase employee engagement.

**10,429**

**Professional development programs completed**

2,825 employees accessed ongoing professional development programs across all aspects of care before our response to COVID-19 necessitated our training to focus on the critical areas of education in infection surveillance, prevention and control:

- 6,756 employees were trained on effective use of infection prevention control techniques
- 828 employees were trained to collect respiratory swabs.

### CULTURE

We understand the importance of listening to our people to understand what matters most to them while working for us. In FY20 we undertook our second biannual Employee Experience Survey conducted by Best Practice Australia. Completed by 66% of our employees, this is both above the sector average and is an increase on our 49% participation rate in 2017.

In addition, we also internally launched the refreshed Estia Health brand, which followed research involving asking our people what they believed was important to deliver high-quality care to our residents and what they believed was unique about working for Estia Health. The results were fed into the brand refresh including the vision, purpose and our Family Code, consisting of principles and values. Launched internally within the organisation, all employees were introduced to the refreshed brand during FY20 and ongoing employee engagement initiatives will continue. Having a strong purpose that is brought to life everyday by our employees living a set of values and principles, helps build a strong and lasting culture that can support each other during these difficult times.

### DIVERSITY

We are committed to creating a diverse work environment that reflects and celebrates the diversity of each of the communities we operate in. One of our key principles is *Embracing Diversity*, we welcome residents from all walks of life and celebrate the experience and diversity of our people. Estia Health recognises that diversity honours core human principles: inclusivity, equal opportunity, freedom of expression and all people feeling comfortable and safe to express themselves and be proud of their identity, irrespective of gender, ethnic background, faith or sexual identity.

In our biannual employee survey, 58% of employees stated they were born outside of Australia, 2% answered they were living with a disability, 2% identified as being Aboriginal and/or Torres Strait Islander and 3% identified as being part of the LGBTIQ community.

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# Our Strategy – Community



**Goal:** to have a positive social impact in the communities in which we operate.

**What success looks like:**

- All of our homes have active community engagement plans identifying local social and environmental initiatives
- Measuring outcomes using a Social Impact Framework defining the causes that align with the organisation and metrics to measure impact
- Volunteer programs with high satisfaction levels for residents and volunteers.

Prior to COVID-19, residents would frequently connect with pre-school, primary and secondary school students through local intergenerational programs. These programs see students regularly visit homes to engage with residents through activities, stories, musical performance and more. During COVID-19, instead of physically visiting, neighbours, local preschools and schools write letters to our residents and where possible conduct window visits to remain connected.

**CELEBRATING DIVERSITY**

Our homes reflect the communities where they are located, with residents from over 95 cultural backgrounds, speaking 22 languages and enjoying a range of hobbies and interests. Through our Family Code, we are committed to ensuring our homes are places where everyone belongs and this includes developing lifestyle activities, events and celebrations that reflect our residents' backgrounds, interests and passions.

**COMMUNITY CONNECTIONS**

It is vital we continue to develop lasting and meaningful relationships with our local communities to support our purpose; *to enrich and celebrate life together*. By inviting the broader community into our homes, our residents can maintain their connections through local clubs and cultural groups and by building relationships with schools and youth organisations, helping create an enriching multi-generational environment.



Estia Health Bendigo





Estia Health Bendigo

## COMMUNITY PARTNERSHIPS

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. Our network of homes can often provide communities with a choice of homes to match their individual needs and preferences for accommodation and services. As part of our Sustainability Strategy, we are developing community engagement plans, as well as working towards establishing long standing, mutually beneficial national partnerships with not-for-profit or social enterprises that support our key causes.

We support partnerships such as the Centenarian Portrait Project for Teenagers, of which Estia Health is the major corporate sponsor for the third year. Matching 100 teenage artists with 100 centenarians, the project connects two very different generations encouraging storytelling, reminiscing, joy and laughter as unique portraits of the centenarians are created.

We also focus on continued opportunities to train a skilled workforce from the local community. Partnerships with preferred state-based Registered

Training Organisations (RTOs) and TAFEs ensures local students studying either a Bachelor of Nursing, Diploma of Nursing or Certificate III in Individual Support, have the opportunity to learn practical aged care skills through hands-on experience. During the COVID-19 pandemic, Estia Health continued to offer student placements ensuring a future workforce for the sector.

## VOLUNTEERING FOR GOOD

Volunteers are a valued part of the Estia Health team — providing a breadth of skills and support; whether pairing volunteers with residents looking for spiritual or cultural connections, through to shared interests and hobbies; their energy and compassion brings joy to our residents.

A refreshed national Volunteer Program will roll out in stages in 2021 as part of Estia Health's commitment to having a positive social impact in our communities.

**"I love being a volunteer at Estia Health Albany Creek. I love being around the residents, having chats, helping them as much as I can. The environment there is calm, and everyone is kind and helpful. It's such a nice place to come to; everyone makes you feel very welcome. The nurses, carers and the lifestyle team all do a wonderful job, and it's a pleasure to be part of the team."**

*Sarina, Volunteer*

# Our Strategy – Growth



**Goal:** to optimise shareholder returns by disciplined capital investment to provide access to trusted aged care services.

**What success looks like:**

- Enhancement of homes through significant and strategic refurbishments
- Expansion through new or brownfield developments and acquisitions
- Service development including access to allied health services
- Environmentally friendly programs to improve climate resilience and reduce dependence on non-renewable energy sources, as per our Sustainability Strategy and Framework.

**Key outcomes:**

- Estia Health Southport, QLD: Opened in mid May 2019 providing 110 resident places
- Estia Health Maroochydore, QLD: Opened in late August 2019 providing 126 resident places
- Estia Health Blakehurst, NSW: Under development, will offer 105 resident places
- First stage development approval secured for Toorak Gardens and Burton and being progressed for Mt Barker, SA
- Development Approval secured for Aberglasslyn, NSW
- Land acquisition completed at Aberglasslyn, NSW and Mt Barker, SA
- Acquisition of adjoining neighbour properties at Estia Health Lockleys and Estia Health Parkside, SA.

We aim to be the provider of choice in the communities in which we operate. Through our regional networks we are able to provide a choice of home to meet the individual preferences. With an investment of \$80.6m in FY20 our strategy involves sustainably growing earnings through measured, well-executed investments in new greenfield sites, targeted acquisitions, and the expansion and refurbishment of our current homes to improve their amenity and marketability.

Australia's population is ageing and individuals are living longer. The increasing acuity of people entering residential aged care, combined with evolving community expectations of residential aged care provides significant growth opportunities for Estia Health as we have the capacity to respond to these changing needs.



Estia Health Maroochydore



The success of building new purpose-built homes to meet local community demand is demonstrated by the performance of our new home in Southport, Queensland. The home opened in May 2019 and was 100 per cent occupied by February 2020 performing strongly during its initial year of operation. Our new 126 resident home at Maroochydore, Queensland opened in August 2019 and has also performed strongly reaching 81.7 per cent occupancy within its first 12 months. These homes combined delivered a net positive EBITDA contribution of \$0.5 million in FY20.

Our Maroochydore home was designed around a choice of living and activity centres to create individual and intimate communities within the home. The ground floor also includes spaces for wellbeing services where residents can access health care from visiting medical professionals and specialists such as physiotherapists and rehabilitation services, and hair, beauty and massage treatments.

## Looking ahead

### GROWTH OPPORTUNITIES

Development	Nature of Development	Total New Places	Net Additional Places	Land Held	Development Approval	Licenses Secured	Status	Opening
<b>Completed 2019</b>								
Southport, QLD	Brownfield	110	110	✓	✓	✓	Open	May-19
Maroochydore, QLD	Greenfield	126	126	✓	✓	✓	Open	Aug-19
<b>Total</b>		<b>236</b>	<b>236</b>					
<b>Underway/InProgress</b>								
Blakehurst, NSW	Brownfield	108	108	✓	✓	✓	Under Construction	H2 FY21
<b>Total</b>		<b>226</b>	<b>226</b>					
<b>Future/Uncommitted</b>								
St Ives, NSW	Greenfield	118	118	✓	✓	Partial		
Burton, SA	Expansion	24	24	✓	Planning Approval	✓		
Mt Barker, SA	Greenfield	116	86	✓	Submitted	✓		
Aberglasslyn, NSW	Greenfield	115	115	✓	✓	✓		
Toorak Gardens, SA	Brownfield	118	82	✓	Planning Approval	Partial		
<b>Total</b>		<b>491</b>	<b>425</b>					

**Further development and redevelopment opportunities are being progressed with a number of projects in the development application or advanced planning stage.**

**“Estia Health is well placed to meet the future needs of the increasing ageing population, through our targeted approach to acquisitions, opening of new homes, redevelopment and refurbishment of our existing homes”**

**Rita Sheridan, General Manager of Property and Development**

# Our Strategy – Growth ...continued

## Giving Estia Health Aberfoyle Park a new lease on life

### RESIDENT-FIRST REFURBISHMENT

Estia Health Aberfoyle Park in South Australia is home to 92 residents. The refurbishment focused on improving the residents' private rooms and reconfiguring social and lifestyle activity spaces, encouraging social gatherings and participation in lifestyle activities.

### IMPROVING THE RESIDENT EXPERIENCE

Residents are now enjoying a more functional and modern home. Upgrades to resident bedrooms included new flooring and lighting, decorative wall protection, wider doorways for ease of access and co-ordinated new bedding and curtains, as well as new furniture and individually controlled air-conditioning systems.

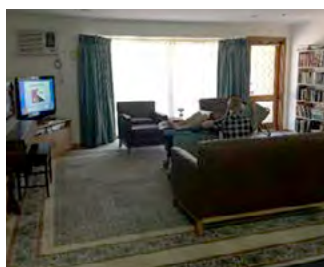
Enhancements to communal areas included:

- Full renovation of outdoor courtyards and alfresco areas with an integrated barbeque area
- New landscaping and potted plants for a relaxed and shaded space connecting with nature
- New space for group physiotherapy, yoga and exercise sessions
- A new servery with an island bench to provide a homelike dining feel
- A new hair salon in a central location for easy resident access
- New furniture, floor coverings and artwork
- Additional safety features including CCTV.

### EXCEEDING EXPECTATIONS

Residents are appreciating their fresh, updated home and are spending more time outdoors, with a number of residents now enjoying their meals in the new dining room, providing opportunities for socialising and building connections.

With all refurbishments, we pay attention to designing spaces to assist residents with orientation and wayfinding, which can be particularly challenging when living with a visual impairment or diagnosis of dementia. By helping our residents navigate through the home with ease, we support their independence and dignity.





## Development in progress: Estia Health Blakehurst

Due to open in early 2021, Estia Health Blakehurst shows the benefits of redeveloping within the existing portfolio through the efficient recycling of older assets. The employees and residents of the original 42 place Blakehurst home were given the opportunity to transfer to the nearby new Kogarah home when it was originally opened in February 2018. This provided an efficient and ramp up of occupancy of the Kogarah home while maintaining the continuity of care for these residents.

The new purpose-built Blakehurst home accommodating 105 residents will expand our Southern Sydney cluster providing increased choice in this community where our brand and referrer networks are strong. The home will incorporate the design trends expected of a contemporary residential aged care including a choice of pampering, social and private areas on the top floor of the home.



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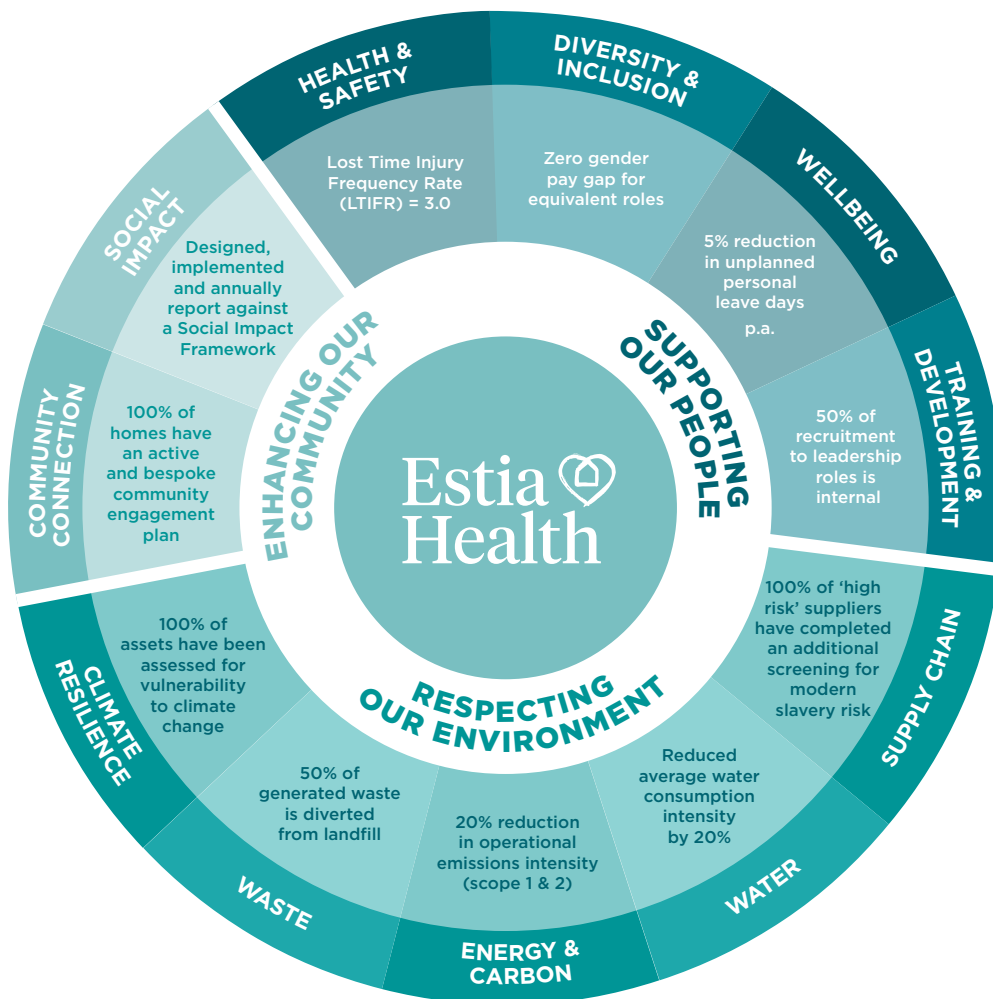
# Our Approach to Sustainability

Estia Health is committed to the creation of both financial and non-financial value for its stakeholders, including our residents, their families, our employees, investors and the wider community. Achieving a continuous, positive impact for each of these stakeholders is important for the long-term sustainability of the organisation.

During the previous period, we conducted a materiality assessment, asking our stakeholders what was important to them, including environmental, social and governance areas we should prioritise. We also conducted an Environmental and Social Impact Baseline from which to measure and monitor the environmental and social impact of the organisation's operations and supply chain.

We continued to drive performance across environmental, social and governance areas (see FY20 highlights) and took a significant step forward in developing our first Sustainability Strategy. Developed by Estia Health's sustainability committee, the Strategy gives us a formal roadmap with associated targets for addressing key issues and opportunities for the period 2020-2024.

## Estia Health Sustainability Framework (2020-24)





Sustainability is a key principle in Estia Health’s corporate strategic framework, integrated within the five pillars of value creation (People, Customer, Community, Care, Growth). We recognise the long-term viability and profitability of our organisation depends on the wellbeing of our people, supporting and integrating within our local communities and the continued health of the natural environments we rely upon.

Our 2020-2024 Sustainability Strategy provides focus areas and associated targets that will help us both mitigate any negative impacts, as well as maximise any potential positive value that could result from the way we do business.

## What success looks like

### 1. SUPPORTING OUR PEOPLE:

- a. **Health and safety:** a culture exists where hazards and risks are identified and mitigated before injury
- b. **Wellbeing:** employees have access to and are using our wellbeing support services to ensure they bring their physical and mental best to work every day
- c. **Diversity and inclusion:** diversity of our employees and residents is promoted as an outstanding characteristic that attracts people to the Estia Health family
- d. **Training and development:** we attract, develop and retain the best workforce in aged care.

### 2. ENHANCING OUR COMMUNITIES:

- a. **Social impact:** we have identified and support core ‘shared value’ social causes
- b. **Community connection:** our homes actively support and add value back to the communities in which they operate.

### 3. RESPECTING OUR ENVIRONMENT:

- a. **Energy and carbon:** our portfolio of homes has optimised energy efficiency and are progressing towards sourcing more energy from renewable sources
- b. **Climate resilience:** our portfolio of homes has been assessed for their vulnerability to the impacts of climate change and implemented risk mitigation strategies where required
- c. **Waste:** we have implemented targeted programs, understanding our waste composition and focused on minimising waste generation and maximising diversion
- d. **Water:** we have assessed where and how our water is being used and are implementing efficiency measures
- e. **Supply chain:** we actively engage key suppliers to reduce their ecological footprint and ensure they are screened for modern slavery risk.

## FY20 highlights

### PEOPLE

#### Improved health and safety culture:

We continued to strengthen our work health and safety culture, resulting in Lost Time to Injury Frequency Rate (LTIFR) improving from 7.6 in FY19 to 4.9 in FY20. The focus of our workplace health program continues to move toward an injury prevention mindset and reaching our 2024 target of a LTIFR of 3.0.

#### Refreshed purpose, values and family code:

Research conducted with over 2,000 of our key stakeholders in FY19 informed a refresh of our brand, including the vision, purpose and our family code, consisting of principles and values. Launched internally within the organisation, Estia Health employees were inducted to the refreshed brand during FY20.

# Our Approach to Sustainability ...continued

## **Paid pandemic leave:**

With the onset of the COVID-19 pandemic, our priority has been protecting the health, safety and wellbeing of our residents and employees. In addition to rigorous screening of all entrants to our home, we focused on encouraging a culture of self-reporting by our employees and introduced paid pandemic quarantine leave with over 8,500 hours being granted in the period March to June 2020.

## **High CEW ranking:**

Diversity and inclusion remain a focus of the organisation at all levels, from our home teams through to our Executive team and Board. For the third consecutive year, Estia Health was one of the highest ranked ASX200 companies for gender diversity, as reported in the CEW Senior Executives Survey 2020.

## **Increased training and education:**

Training and development is central to retaining and supporting our employees to deliver quality care and the best overall experience to our residents and their families. During the year, 2,825 employees were trained in professional development programs and industry specific initiatives. With the onset of COVID-19, training shifted to an increased focus on infection prevention and control with 6,756 employees trained on effective use of infection prevention control techniques and a further 828 employees trained to collect respiratory swabs.

## **GOVERNANCE**

### **Supply chain review:**

A supply chain risk assessment conducted in FY19 identified higher risk suppliers and categories of focus and in FY20 progress was made toward compliance with the Modern Slavery Act 2018. This included engagement with key suppliers as to their own progress toward compliance. The impact of COVID-19 led to an extension for submission of the Modern Slavery Statement from December 2020 to March 2021, which Estia Health is working towards.

## **Strengthened Clinical Governance Committee:**

During the year an external pharmacist was appointed to oversee medication management risk and Professor Simon Wilcock was appointed as independent Chair.

## **ENVIRONMENT**

### **Climate change resilience review of our portfolio:**

We undertook a climate change resilience review of our portfolio of homes and a physical risk exposure to climate change was completed during FY20. This informed the next stage of the program currently underway to assess the vulnerability of our portfolio and develop mitigation plans for assets most at risk.

### **Waste reduction:**

As part of our waste reduction program and to help reach our 2024 target of 50% diversion of waste from landfill, single use packaged pre-thickened water was replaced with a process of thickening fluids manually in our homes. This initiative eliminated 239,770 single-use plastic units, diverted 60 tonnes of waste from landfill and achieved savings of \$318,000 per year.

### **Laundry asset upgrades:**

Following a review of laundry assets, a program was implemented to replace 40 laundry dryers. The forecast annual reduction of carbon emissions is 230 tonnes, with a predicted saving of \$134,000 per year.

### **Renewable energy projects:**

During the year the implementation of renewable energy projects progressed, with a total of 44 phase 2 energy projects completed, made up of 16 solar energy and 28 LED projects. This brings a total of 65 of 69 homes that have had a renewable energy project implemented (either solar panels, LED lighting or solar pre-heat hot water or a combination), with just one remaining project delayed by COVID-19 stage 4 lockdowns in Melbourne. The forecast saving from the phase 2 energy projects is 3,367MWh of energy and \$589,000 annually.



## Clean Laundry Lower Emissions

Each of Estia Health's 69 aged care homes operates an onsite laundry, servicing residents' clothes and linen and the home's hospitality linen. Combined, our 69 homes launder over 8,760 tonnes of clothes and linen a year.

During FY19, a full laundry audit was conducted across the network, finding areas where we could be more energy and cost efficient in our laundry processes. 22 laundry dryers were identified as being greater than 25 years old and 18 being greater than 15 years old. These older dryers lacked the residual moisture control technology and axial airflow which speeds up drying time, which makes drying more efficient and eliminates overuse of energy.

Our commitment to sustainability saw the replacement of these 40 dryers with new efficient and environmentally friendly laundry dryers. Resulting in a reduction of carbon emissions through energy savings by 230 tonnes per annum and a reduction in operating costs by \$134,000 annually.



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# Tax Transparency Report

For the year ended  
30 June 2020

## **ESTIA HEALTH LIMITED**

ABN 37 160 986 201

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## CHIEF FINANCIAL OFFICER'S INTRODUCTION

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

The Group's strategy remains to:

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

The Group is committed to having in place governance policies and practices that create a low tax risk environment to support the execution of the Group's strategy.

In creating a low tax risk environment, the Group:

- Maintains a framework that ensures 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 relevant tax legislation; and
- Maintains appropriate relationships with the ATO and other relevant tax authorities.

In response to the COVID-19 pandemic, Governments at a Federal and State level announced tax relief measures which included the option for taxpayers to defer the payment of various Federal and State taxes. The Group elected to apply this option by deferring the payment of its monthly income tax, the payment of Pay As You Go ("PAYG") withholding tax and State payroll taxes for Queensland and New South Wales. The deferral applied to taxes that would have been payable between April 2020 to the end of June 2020. The total amount deferred as at the end of the period was \$22.2 million and the majority of the deferral was for PAYG withholding tax. PAYG was fully settled in July 2020 and the remaining taxes will be settled before December 2020 in accordance with the requirements of the tax relief measures.

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 53 to 162 of this Annual Report.

We are pleased to disclose our approach to managing our tax and the taxes we have contributed in Australia.



**Stephen Lemlin**  
Chief Financial Officer

## PART A: OUR APPROACH TO TAX

### A1

#### TAX GOVERNANCE AND STRATEGY

The Group'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 the Group'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 the Group's tax team with recommendations referred to the Audit Committee for approval.

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

Where there is uncertainty around a tax position in relation to a transaction or category of transactions, the Group 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 reported to the Board's Audit Committee. Where appropriate, the Group engages with its external advisers to receive tax advice.

The Group seeks to have appropriate relationships with the ATO and other relevant tax authorities. The Group adopts structures and positions that align to its business outcomes and values and are not driven by tax outcomes.

### A2

#### INTERNATIONAL TAX

The Group is a tax resident of Australia and does not own any foreign asset or have any foreign related party subsidiaries. Therefore, the Group does not have any transfer pricing transactions or any international related party dealings.



## PART B: TAX RECONCILIATIONS & CONTRIBUTIONS

### B1

#### INCOME TAX EXPENSE RECONCILIATION

A full reconciliation of the Group's accounting loss for the period to its income tax expense is included in Note B7, on page 108 of this Annual Report. The Group's accounting loss has been determined in accordance with Australian Accounting Standards ("Standards"). From this accounting loss, the Group applies Australian tax legislation to determine its taxable income or loss for the period, by deducting allowable deductions from assessable income.

For the period, the Group has determined that it has taxable income to which it applied the Australian statutory income tax rate of 30% ("30%") to calculate its tax expense.

	2020 \$'000	2019 \$'000
Accounting loss before income tax	(108,845)	57,829
Add: Goodwill impairment expense *	136,059	-
Accounting profit before impairment and income tax expense	27,214	57,829
Tax at the Australian statutory income tax rate of 30% (2019: 30%)	8,164	17,349
Adjustments in respect of income tax of previous year	61	(632)
Permanent differences	15	4
Utilisation of unrecognised tax losses	(176)	(182)
Other	-	-
<b>Income tax expense in the consolidated income statement</b>	<b>8,064</b>	<b>16,539</b>
Effective Tax Rate	29.6%	28.6%

\*also refer to Note C6, on page 120 of this Annual Report.

The Group's Effective Tax Rate ("ETR") for the current period is calculated as its income tax expense divided by accounting profit before impairment and income tax expense. The Group incurred goodwill impairment expense of \$136,059,000 in the period and in accordance with current tax legislation, this expense is not an allowable tax deduction and has been excluded from the calculation of the ETR in the current period. The calculated ETR for the period of 29.6% deviates from 30% due to differences between accounting profit and taxable income as explained above.

### B2

#### RECONCILIATION OF INCOME TAX EXPENSE TO CURRENT TAX LIABILITY/ (RECEIVABLE)

	2020 \$'000	2019 \$'000
Income tax expense in the consolidated income statement	8,064	16,539
Add/(subtract):		
Net timing differences*	8,090	(642)
Over/(under) provision in prior years	294	341
Current tax expense included in income tax expense	16,448	16,238
Add/(subtract):		
Tax payments to tax authorities	(9,336)	(15,932)
Net opening balance	(607)	(913)
<b>Net current tax (receivable)/ payable</b>	<b>6,505</b>	<b>(607)</b>

\*refer to Note B3 on page 104 of this Annual Report

## PART B: TAX RECONCILIATIONS & CONTRIBUTIONS

### B3

#### EXPLANATION OF MATERIAL TEMPORARY AND NON-TEMPORARY DIFFERENCES

A detailed reconciliation of accounting profit or (loss) to income tax expense and material temporary and non-temporary differences is disclosed in Note B7 on page 108 of this Annual Report.

The temporary difference of \$8,090,000 in note B2 above is represented as follows:

- During the period, the Group recognised an impairment expense of \$8,449,000 following the write down of the carrying value of tangible assets (refer to Note C4 on page 117). Under tax legislation and in accordance with the standards, the tax deductibility of the expense is deferred to the earlier of when the asset is disposed or the asset reaches the end of its effective tax life. The amount of the difference was determined by applying 30% to the impairment expense.
- A binding and unconditional contract of sale of its Mona Vale property was entered into during the period with settlement expected to be completed by November 2020 (refer to Note C3 on page 116). The estimated income tax on the expected profit on sale has been brought to account as a deferred tax asset with a corresponding tax liability.
- The remaining balance is represented 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: TAX RECONCILIATIONS & CONTRIBUTIONS

### B4

#### SUMMARY OF TAX CONTRIBUTIONS

<b>Taxes paid by Estia</b>	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Income Tax	9,336	15,932
Payroll Tax	18,663	17,584
Fringe Benefits Tax	141	180
Council Rates	2,006	1,946
Land Tax	1,105	1,065
Stamp Duty	516	552
<b>Total</b>	<b>31,767</b>	<b>37,259</b>

<b>Taxes collected by Estia</b>	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Pay As You Go (PAYG) withholding	67,866	63,730
GST (collected and remitted)	214	246
GST (paid and reclaimed)	(15,671)	(17,795)
<b>Total</b>	<b>52,409</b>	<b>46,181</b>

<b>Recipients of these paid by the Group</b>	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Australian Federal Government	61,885	62,293
State Governments	20,284	19,201
Local Governments	2,006	1,946
<b>Total</b>	<b>84,176</b>	<b>83,440</b>

All taxes paid by the Group are to Australian Federal, State and Local Revenue authorities.

# 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 Health confirms that it has complied with all the ASX Governance Recommendations for the period 1 July 2019 to 30 June 2020 as outlined in our Corporate Governance Statement and Appendix 4G. The Corporate Governance Statement is current as at 18 September 2020 and has been approved by the Board on that date.

**Our Corporate Governance Statement and Appendix 4G are available on the Estia Health website at [estiahealth.com.au/investor-centre](http://estiahealth.com.au/investor-centre)**

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

Some of the governance activities conducted during the year include:

- Regularly scheduled meetings with external auditors.
- Engagement of an independent external/internal auditor resource.
- 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.
- Formation of a COVID-19 Risk Sub-Committee to provide governance oversight of the response to the pandemic.

## BOARD COMMITTEES

Estia Health's five standing Board Committees assist the Board in its oversight role. The Audit Committee,

Risk Management Committee, Nomination and Remuneration Committee, Royal Commission and Regulatory Committee, 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 Committee 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 February 2020, an additional Board Committee was formed, a COVID-19 Risk Sub-Committee that met and continues to meet one to three times per week during the pandemic. The members of this Committee include: the Chair of the Risk Committee, Chair of the Audit Committee and Chair of the Board.

## 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 Health, refer to the Corporate Governance Statement and the following documents, all found on the Company website at [estiahealth.com.au/investor-centre](http://estiahealth.com.au/investor-centre)**

- **Board and Committee Charters**
- **Disclosure and Communication Policy**
- **Diversity Policy**
- **Trading Policy**
- **Code of Conduct**
- **Minimum Shareholding Policy**
- **Whistleblower Policy**
- **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](http://estiahealth.com.au)**



# 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 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 Limited, 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.

Gary was awarded a Member of the Order of Australia (AM) in recognition of his significant services to business and to the community.

**Committees:** Nomination and Remuneration Committee, Audit Committee, Property and Investment Committee, Royal Commission and Regulatory Committee (Chair).

**Listed Company Directorships (including those in the last three years):** Ariadne Australia Limited, Ardent Leisure Group Limited, Thorney Opportunities Ltd, Hearts and Minds Investments Limited, Ridley Corporation Limited (resigned 26 August 2020), Tag Pacific Limited (resigned 31 August 2017), Premier Investments Limited (28 July 2018), Pro-Pac Packaging Limited (resigned 27 November 2017).

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



## 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 Health'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 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 Health in November 2018 and remains on the board as a Non-executive Director. Norah is currently Chief Executive of Heritage LifeCare NZ.

**Listed Company Directorships (including those in the last three years):** Evolve Education Group Limited (resigned 18 September 2019), Methven Limited (resigned 11 October 2017).

**Committees:** Property and Investment Committee.

## 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, Non-executive Director of HBF Health Limited, McMillan Shakespeare Limited and the Victorian Clinical Genetics Service.

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, GAICD

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. He is also a Non-executive Director of WINconnect Pty Ltd.

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. Paul was head of AMP Capital's Infrastructure investment business in Australia and New Zealand until 2015. Before AMP Capital, he was an investment professional at Macquarie 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 the Director of Seven Group Holdings (SGH), a leading Australian diversified operating and investment group with market-leading businesses with investments in a range of industrial services, oil and gas, and media businesses.

Chairman, Advisory Board of Australian Capital Equity, which has significant investment interests through its major shareholding in SGH.

Chairman of Ord Minnett, a leading private wealth management group.

Chairman of Aitken Investment Management (AIM). The AIM Global High Conviction fund focuses on delivering high conviction investment solutions for its investors.

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

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.

Global Trustee of the Asia Society and Chairman Emeritus of the Asia Society in Australia.

Formerly, Chairman of the Australia-China Council and its successor, the National Foundation for Australia-China Relations, Australia's first Telecommunications Ombudsman and has received a Centenary Medal and twice been awarded an Order of Australia.

**Committees:** Property and Investment Committee (Chair), Audit Committee, Royal Commission & Regulatory Committee.

**Listed Company Directorships (including those in the last three years):** Seven Group Holdings Limited, Magnis Energy Technologies Limited (resigned January 2020), 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 seven years.

Karen's executive career was in leadership and CFO roles, mainly in financial services including roles at Commonwealth Bank Group and HSBC Bank Australia for over 20 years. 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, Ramsay Health Care and Vicinity Centres. She is also Deputy Chairman of Marshall Investments Pty Limited.

Karen is a member of Chief Executive Women.

**Committees:** Audit Committee (Chair), Risk Management Committee, Royal Commission & Regulatory Committee.

**Listed Company Directorships (including those in the last three years):** Bank of Queensland Limited, Vicinity Centres, Ramsay Health Care, Spark Infrastructure Group (resigned May 2020), 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 21 August 2020.

## 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	68	214,407,603	82.06
10,001 to 100,000	1,110	27,276,657	10.44
5,001 to 10,000	1,275	9,650,721	3.69
1,001 to 5,000	3,335	9,018,482	3.45
1 to 1,000	1,907	941,506	0.36
<b>Total</b>	<b>7,695</b>	<b>261,294,969</b>	<b>100.00</b>

## 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	5	1,288,033	85.67
10,001 to 100,000	6	215,427	14.33
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
<b>Total</b>	<b>11</b>	<b>1,503,460</b>	<b>100.00</b>

## LESS THAN MARKETABLE PARCELS OF ORDINARY SHARES

There are 604 shareholders with unmarketable parcels totalling 73,043 shares.

## UNQUOTED EQUITY SECURITIES

The Company had the following unquoted performance rights on issue:

11 holders of performance rights issued as part of an employee incentive scheme	1,503,460	100.0%
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## RESTRICTED SECURITIES

The Company had no restricted securities on issue.



## 20 LARGEST SHAREHOLDERS

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

NAME	NO. OF FULLY PAID ORDINARY SHARES	% OF ISSUED CAPITAL
J P Morgan Nominees Australia Pty Limited	48,573,684	18.59
HSBC Custody Nominees (Australia) Limited	48,494,223	18.56
Citicorp Nominees Pty Limited	29,342,977	11.23
Network Investment Holdings Pty Ltd	24,665,858	9.44
Argo Investments Limited	11,809,250	4.52
BNP Paribas Noms Pty Ltd <DRP>	10,163,523	3.89
BNP Paribas Nominees Pty Ltd <AGENCY LENDING DRP A/C>	4,900,143	1.88
National Nominees Limited	4,364,029	1.67
3rd Wave Investors Pty Ltd	4,250,000	1.63
Emalyn Holdings Pty Limited <JOHN KENNEDY A/C>	4,102,766	1.57
Network Investment Holdings Pty Ltd	2,580,000	0.99
Buttonwood Nominees Pty Ltd	1,966,253	0.75
Mr Mark Edward Kennedy <MARK EDWARD KENNEDY A/C>	1,910,678	0.73
Custodial Services Limited <BENEFICIARIES HOLDING A/C>	1,890,035	0.72
Mark Edward Kennedy <MARK EDWARD KENNEDY FAMILY>	1,277,438	0.49
Kennbros Pty Limited	1,156,834	0.44
Riviera Health Pty Ltd <MANKEN FAMILY SUPER A/C>	936,278	0.36
National Nominees Limited <DB A/C>	818,109	0.31
Woodross Nominees Pty Ltd	688,000	0.26
SEP Super Pty Ltd <SEP SUPER FUND A/C>	480,920	0.18
<b>Total for top 20 shareholders</b>	<b>204,370,998</b>	<b>78.21</b>
<b>Total Quoted Equity Securities</b>	<b>261,294,969</b>	

## SUBSTANTIAL SHAREHOLDERS

The names of the Substantial Shareholders listed as disclosed by notices submitted to the ASX:

NAME	NO. OF ORDINARY FULLY PAID SHARES	% OF ISSUED CAPITAL
Perpetual Limited and Subsidiaries	38,407,475	14.70
Seven Group Holdings Limited, Network Investment Holdings Pty Ltd & SGHs other subsidiaries	26,156,399	10.01
United Super Pty Ltd	21,888,457	8.38
Citigroup Global Markets Australia Pty Ltd	18,232,894	6.98

# Shareholder Information

## ...continued

### 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.



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Project Case only







# Annual Financial Report

For the year ended  
30 June 2020

## **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

**Norah Barlow ONZM**  
Non-executive Director

**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

## COMPANY SECRETARY

**Leanne Ralph**

## REGISTERED OFFICE

Level 9, 227 Elizabeth Street  
Sydney NSW 2000

## PRINCIPAL PLACE OF BUSINESS

Level 9, 227 Elizabeth Street  
Sydney NSW 2000

## SOLICITORS

**Minter Ellison**  
Governor Macquarie 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 2020.

### 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 (<https://investors.estiahealth.com.au/investor-centre>).

#### 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 Bachelor of Health Administration and a Masters 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 the University of NSW, CPA and FAICD.



## DIRECTORS' REPORT

### COMMITTEE MEMBERSHIP

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

Membership	Audit Committee	Nomination & Remuneration Committee	Risk Management Committee	Property & Investment Committee	Royal Commission & Regulatory Committee
Chair	Karen Penrose	Paul Foster	Helen Kurincic	Warwick Smith	Gary Weiss
Member	Gary Weiss	Gary Weiss	Paul Foster	Gary Weiss	Warwick Smith
Member	Warwick Smith	Helen Kurincic	Karen Penrose	Paul Foster	Karen Penrose
Member				Norah Barlow*	

\* Norah Barlow was appointed to the Property and Investment Committee on 1 July 2020.

### 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:

	Directors' meetings		Audit Committee		Nomination & Remuneration Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
<b>No. of meetings held:</b>	15		9		7	
Dr. Gary H Weiss AM	15	15	9	9	7	7
Ian Thorley	15	14	-	-	-	-
Norah Barlow ONZM	15	15	-	-	-	-
Paul Foster	15	14	-	-	7	7
Hon. Warwick L Smith AO	15	15	9	9	-	-
Helen Kurincic	15	15	-	-	7	7
Karen Penrose	15	15	9	9	-	-

	Risk Management Committee		Property & Investment Committee		Royal Commission & Regulatory Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
<b>No. of meetings held:</b>	11		4		3	
Dr. Gary H Weiss AM	-	-	4	4	3	3
Ian Thorley	-	-	-	-	-	-
Norah Barlow ONZM	-	-	-	-	-	-
Paul Foster	11	11	4	4	-	-
Hon. Warwick L Smith AO	-	-	4	4	3	3
Helen Kurincic	11	11	-	-	-	-
Karen Penrose	11	11	-	-	3	3

Following the declaration by the Prime Minister of Australia, of COVID-19 as a national pandemic on 27 February 2020, the Group convened a COVID-19 Risk Sub-Committee to provide governance oversight of the response to the pandemic. This Sub-Committee comprised the Chair of each of the Board, the Risk Management Committee and the Audit Committee. The COVID-19 Risk Sub-Committee held 10 meetings between 27 February and 30 June and, in light of the rapid escalation in Victoria during July, is currently meeting multiple times per week.

## DIRECTORS' REPORT

### 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	48,312
Ian Thorley	138,001
Norah Barlow ONZM	129,474
Paul Foster	24,000
Hon. Warwick L Smith AO	117,000
Helen Kurincic	50,000
Karen Penrose	32,333

### COMPANY SECRETARY

#### LEANNE RALPH

Leanne was 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 graduate member of the Australian Institute of Company Directors.

### PRINCIPAL ACTIVITIES AND STRATEGY

The principal activities of the Estia Health Group during the year ended 30 June 2020 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:

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

### THE MARKET IN WHICH ESTIA OPERATES

The Aged Care Funding Authority ("ACFA") in its 2020 Report disclosed 213,397 operational places in the sector at 30 June 2019, an increase of 3.0% from the prior year. Services were provided to 242,612 residents (an increase of 0.5% compared to the prior year) with total revenues of \$17.8 billion of which \$13.0 billion was provided by the Australian Government.

In order to access Government supported residential aged care services, potential residents must be assessed as qualifying for such services by an Aged Care Assessment Team ("ACAT"), and may then select 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 ageing of the Australian population and in particular the ageing of the "baby boomers" is expected to 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 demand from this growing demographic trend.

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 rate of increase in operating costs, principally staff costs.



## DIRECTORS' REPORT

### THE MARKET IN WHICH ESTIA OPERATES (CONTINUED)

The emergence of COVID-19 in 2020 presents a further considerable challenge to the sector, particularly in areas where there are high community infection levels. The pre-existing ailments, co-morbidities and frailty of residential aged care residents, some of whom are palliative, makes them amongst the most vulnerable to developing serious illness and potentially accelerated death from the COVID-19 virus. Increased measures designed to safeguard the health and well-being of staff and residents and to prevent COVID-19 infections arising in homes will continue to be in place for the foreseeable future. The scale and duration of these conditions remain uncertain and it is likely that the future earnings, cash flow and financial conditions of the Group will be impacted. Any regulatory review of the sector's response and operating model in relation to COVID-19 may result in changes to the sector's funding, operating model and other requirements, the financial impact of which cannot yet be quantified with any degree of certainty.

### THE GROUP'S PORTFOLIO

The Group delivers services across 69 homes in Victoria (27 homes), South Australia (17 homes), New South Wales (17 homes), and Queensland (8 homes), of which 62 are freehold sites. As at 30 June 2020, these homes had 6,182 operational places, and the Group holds a further 408 non-operational and provisional licences pending activation through future developments.

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

### COVID-19

The economic, health and social impacts of the COVID-19 pandemic continue to be experienced across Australia at the date of this report. The COVID-19 pandemic is presenting enormous challenges, which are being acutely felt across the aged care sector, particularly in Victoria.

At all times during the pandemic the Group's intense focus has continued to be on the safety and well-being of residents and staff.

At 14 August 2020, nine of the Group's 27 homes in Victoria have COVID-19 positive cases in residents or staff, and no homes in other states had active COVID-19 positive cases.

### MARCH TO JUNE 2020

#### Governance and Response Management

A Board COVID-19 Risk Sub-Committee was established in February and held 10 meetings between 27 February and 30 June. In light of the escalation in Victoria in July, the Committee has been meeting multiple times per week.

Management established a dedicated Critical Incident Management Team ("CIMT") which works with our 69 homes in managing our response to Australian Health Protection Principal Committee ("AHPPC") guidelines and State Directions which are regularly revised. The CIMT closely monitored developments in other countries and World Health Organisation ("WHO") guidelines and announcements to learn from those experiences and pro-actively initiate preventative measures in our homes.

The Group has regularly reviewed and revised its COVID-19 prevention and response plans, and its business continuity plans in response to the specific challenges posed by COVID-19 as this unprecedented situation continued to evolve.

#### Infection Control at Homes

All homes had Infection Prevention and Control ("IPC") Procedures which were reviewed and revised in light of COVID-19. Refresher training was undertaken at each home on updated procedures in response to AHPPC guidelines and State Directions as they evolved during the pandemic.

Infection control processes in relation to new admissions and visitors were reviewed and revised across all homes, including isolation, temperature testing, health checks and COVID-19 swab tests depending on local community infection rates and AHPPC guidelines and State Directions.

## DIRECTORS' REPORT

### MARCH TO JUNE 2020 (CONTINUED)

Suspected cases of COVID-19 in residents or staff were regarded as positive until their status was resolved. Residents stayed in their rooms and staff were required to self-isolate subject to a test being undertaken and confirmed negative.

The Group pro-actively introduced paid Quarantine Leave in March 2020 in addition to regular sick leave allowance for staff who fell within the Group's isolation requirements, in order to support staff who were self-isolating. In the period to 30 June 2020, 280 staff took 8,564 hours of paid Quarantine Leave.

These processes were continually monitored and evolved as the pandemic developed in Australia. The Group introduced visitation limitations in response to local community infection levels, with the intention of reducing transmission into the Group's homes prior to the "Industry Code for Visiting Residential Aged Care Homes during COVID-19" released in May which the Group has adopted. The Group has invested in technology and additional staff to provide increased resident access and contact with families during this crisis.

Remote working was instigated for the Group's central services teams based in its Sydney and Melbourne offices when the pandemic was declared. In addition, interstate travel and visitation to homes by those teams ceased.

The Group enhanced its Employee Assistance Program to support staff as they adapted to the challenges during the pandemic.

#### Supply Chain and Personal Protective Equipment

It became evident in early March that nationwide supply chains may not be able to cope with anticipated demand and the Group moved quickly to secure increased inventories of Personal Protective Equipment ("PPE"). At the time due to global shortages, PPE was acquired at historically higher prices, and although prices have fallen from those levels, they are still well above historic levels. Increased PPE inventory levels continue to be held at homes and regional hubs.

#### Impact on Estia Homes

During the period up to 30 June 2020, the Group experienced a case of one COVID-19 positive staff member at its Tuncurry (NSW) home and two at its Kogarah (NSW) home. In each case, the Group's COVID-19 Response Plan was activated in conjunction with the relevant local Public Health Unit ("PHU"). Neither home experienced further infections in residents or staff.

### JULY TO AUGUST 2020

In July, an increase in community transmitted cases in Victoria became evident and whilst the Victorian Government introduced progressively increasing community restrictions, the number of cases of COVID-19 continued to rapidly escalate. In July 2020 the Victorian Government extended the State of Emergency previously declared and declared a State of Disaster on 2 August 2020.

Restrictions, AHPPC Guidelines and State Directions continued to be updated in relation to aged care services as well as the broader community.

The COVID-19 pandemic is presenting enormous challenges, which are being acutely felt across the aged care sector, particularly in Victoria. As of 14 August 2020, it was estimated that there were more than 1,144 residents in more than 125 residential aged care homes in Victoria who had tested positive for COVID-19.

The Group has responded rapidly and comprehensively to the outbreak in Victoria working with the relevant Government agencies in managing its response at a home level in accordance with guidelines. Measures taken have included: restriction of visitors to homes, testing and isolation of new admissions, use of full PPE, increased dedicated Infection Prevention & Control ("IPC") personnel, and family/resident liaison staff. The Group is adopting the recently released Victorian industry voluntary code with the intention of restricting staff to working at one site. The Group continues to provide paid Quarantine Leave for staff who are symptomatic or awaiting test results.



## DIRECTORS' REPORT

### JULY TO AUGUST 2020 (CONTINUED)

Notwithstanding these measures, the Group's homes at Ardeer and Heidelberg West in Victoria experienced high COVID-19 positive test rates amongst residents and staff. At Ardeer, as of 14 August 2020, a total of 49 residents and 61 staff had tested positive for COVID-19 since the first confirmed case on 9 July 2020. A total of 29 residents and 54 staff at Heidelberg West had tested positive for COVID-19 since the first confirmed case on 12 July 2020. Some residents were transferred to hospitals from each home and have subsequently returned to their Estia home.

On 21 July 2020 and 26 July 2020 the Group was issued with Notices to Agree ("Notices") from the Aged Care Quality and Safety Commission ("ACQSC") in relation to the COVID-19 outbreaks at Heidelberg West and Ardeer respectively. These Notices specified additional requirements relating to the monitoring and management of the homes including:

- not admitting new residents into the home until the Victorian Public Health Unit has declared the home cleared of COVID-19;
- the appointment of an independent adviser to assist with ensuring the health and well-being of residents;
- providing daily and weekly reports to the ACQSC on managing the outbreak.

These requirements were complied with and Estia continued to have full management control and responsibility for each of these homes at all times.

The COVID-19 outbreaks in Ardeer and Heidelberg West homes have caused great anxiety for residents, their families and staff. This is a very difficult time for them all, yet families have expressed concern not only for their loved ones but also for the other residents, as well as staff. The Group CEO has undertaken regular video conferences with residents and families to provide support, information and address concerns. Families have also received regular contact calls from the home.

The challenges at our Ardeer and Heidelberg West homes have demonstrated the compassion and dedication of Estia staff - both those required to self-isolate and those continuing to work in caring for residents.

Where the Group has had positive cases in other homes in Melbourne, the COVID-19 Positive Response Plan has been implemented immediately. As at 14 August 2020, the outbreaks have been limited to less than six residents or staff in each home.

Across all its homes, the Group continues to work closely with each State's Public Health Unit, the Commonwealth Department of Health and the ACQSC to manage and monitor residents' and staff health, safety and well-being, including following guidelines and directions on restrictions on employees, hospital transfers of residents on a case-by-case basis and the process for ongoing regular testing.

### 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* and *Aged Care Quality and Safety Commission Act 2018*. The Commission approves providers and, monitors the quality of care and services delivered. The Department of Health 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, focusing on the quality of care and future sustainability of the sector.

The Royal Commission handed down an Interim Report in October 2019 and is expected to deliver its final report in February 2021. The Interim Report specified three recommendations:

- To provide more Home Care Packages to reduce the waiting list for higher level care at home;
- To respond to the significant over-reliance on chemical restraint in Aged Care; and
- To stop the flow of younger people with a disability going into aged care and speed up the process of transitioning out those young people who are already in Aged Care.

## DIRECTORS' REPORT

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

The initial recommendations do not have a direct or significant impact on the Group's strategy or operations. In January 2020, the Group along with a significant number of other providers was asked to provide information in relation to staff hours worked at all homes in the last five years. The Group complied by the requested date.

As at 14 August 2020, the Group has not been asked to appear before the Commission in relation to any matters relating to its operations nor following any submissions including those made in relation to care in January 2019, and to staffing hours in January 2020.

On 7 August the Royal Commission announced hearings to inquire into the response to the COVID-19 pandemic in aged care and, secondly, to inquire into aged care accommodation. The hearings inquired into the response to the COVID-19 pandemic in Aged Care, and the lessons that can be learned for responding to the current and any future pandemics, infectious disease outbreaks or other emergencies.

Since the publication of the Aged Care Roadmap in 2016 there have been multiple significant reviews and reports commissioned by Government into the operation of the Aged Care sector. Most of the recommendations have not been implemented. The Group has contributed to a number of these reviews, and continues to advocate for necessary sector reform to create 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.

### QUALITY OF CARE AND SERVICES

Quality of care and services to residents is the foremost priority for the Group. The Group is committed to delivering the highest quality care to people who choose to trust in Estia at an important time in their lives.

The Group provides permanent and respite care for people who are no longer able to live at home. A number of homes have Memory Support Units, providing a safe and supportive environment for residents requiring additional specialist dementia care. Estia also provides short-term respite care for people who require 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.

In each home, Registered Nurses are rostered on all shifts, 24 hours a day, every day.

Clinical Care and Quality Standards protocols, policies and procedures are established centrally with oversight by a Clinical Governance Committee which is chaired by an independent expert Professor of Primary Care, Dr Simon Wilcock. The application of these policies and procedures at a home level is managed by the Executive Director of each Estia home supported by the Estia Quality team comprising regional and local educators and managers. Internal quality audit reviews and validations are regularly undertaken by the Group's quality team supported by independent audits. Quality of care is monitored by uniform clinical quality indicators, which are measured and reviewed by our Quality Improvement Committee and are also assessed against external benchmarks.

The Group's transition to the introduction of the new Aged Care Quality Standards on 1 July 2019 involved increased investment in clinical management and resident care systems, employee education, technology development, and customer engagement and service programs.

When new residents are welcomed into an Estia home, their individual needs are assessed in order to develop tailored clinical care plans. The plans are also developed with families included in the process to learn more about each resident's needs and expectations. This ensures the identification of meaningful ways to assist residents to feel comfortable and supported in their new home.

Food and nutrition is a critical part of the care and well-being of residents. Home menus are based on residents' preferences, reviewed by nutritionists and food is prepared fresh each day on-site by Estia chefs. Wherever possible, food is sourced from Australian producers with a focus on fresh high-quality ingredients. All Estia chefs attend in-house master class workshops as part of their development and the Group's commitment in delivering nutritious, quality meals for all residents.

## DIRECTORS' REPORT

### CLIMATE CHANGE AND SUSTAINABILITY

Scientific consensus is indicating that climate change is increasingly likely to result in an increase in global temperatures of 2°C or more relative to the pre-industrial period. Such a change in the global climate will likely have wide-ranging impacts on society, that may result in consequences which potentially impact the Group in two ways:

- **Transitional** consequences relating to a shift to a low carbon and potentially a decarbonised economy through a change in regulation, policy and technology; and
- **Physical** consequences such as property damage relating to the physical change in climate conditions. For example, rising temperatures, an increased frequency of droughts and bush fires and an increased severity of severe weather events.

The Group acknowledges the financial risks relating to climate change and that it is affecting a wide range of industries around the world. In response to the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD"), the Group also acknowledge the need for greater transparency in disclosures from businesses in industries that are being impacted by climate change. The Group has considered the financial impact of climate-related risks and has updated where appropriate its disclosures on material accounting judgements, estimates and assumptions throughout the following Financial Statements for the period. In addition, the Group has now identified Climate Change as a new Key Business Risk on page 72.

At the current time, based on reasonable forward expectations, which by definition are uncertain, the Group has not identified specific physical or transitional risks which have had or will have a future material financial impact on the value of its assets or operations which has not been reflected in these Financial Statements.

### OPERATING AND FINANCIAL REVIEW

#### REVIEW OF FINANCIAL PERFORMANCE

During the eight months to February 2020, the Group's occupancy averaged 93.6%, a decline of 0.2% from the prior year, though a stronger performance than the sector average. Margin compression continued to be experienced as a result of Government funding rate increases being below the level of increase in operating costs, principally nursing and care staff pay rates. Notwithstanding the cost increase, the Group maintained its staffing levels and rostering policies as a priority in maintaining care and quality standards which contributed to the negative impact on margin in the period.

From March 2020, the financial impacts of COVID-19 included the following items:

#### Occupancy

Occupancy in mature homes, representing 5,946 operational beds fell during the early stages of the COVID-19 lock down from 93.8% on 17 March 2020 to 91.7% on 26 April 2020. This fall of 2.1% represented a reduction of 125 residents, of which 80 comprised respite residents, and 45 being permanent residents. The cancellation of travel, elective surgery and a slowdown in regular hospital activity during this time, combined with the Group's implementation of the AHPPC Guidelines and State Directions for admission of permanent and respite residents, and heightened visitor restrictions, were major contributing factors to this reduction.

#### Operational Costs

The Group will continue its intense focus on the safety, care and well-being of its residents and staff at all times.

The Group has seen an increase in staff costs, PPE and other medical supply costs associated with the management and response to COVID-19 in the period of \$2.5 million. The increase in staffing costs includes higher staffing levels to support residents, family interaction and engagement programs during this period of reduced or limited visiting access, as well as paid quarantine leave for those staff required to self-isolate.

#### Government Support and Tax Relief Measures

The Government introduced several financial support measures for Approved Providers in the sector as part of its response to COVID-19 of which the following impacted the Group in the period:



## DIRECTORS' REPORT

### OPERATING AND FINANCIAL REVIEW (CONTINUED)

#### REVIEW OF FINANCIAL PERFORMANCE (CONTINUED)

- A temporary monthly funding increase announced for the period 1 March 2020 to 31 August 2020 contributed \$1.6 million of revenue up to 30 June 2020.
- A one-off payment in June 2020 of either \$900 or \$1,350 (depending on location of the home) for each resident based on February census data contributed \$5.8 million of revenue in the period.
- Federal and State Governments announced various tax relief measures of which the Group participated in by electing to defer the payment of monthly corporate tax instalments, PAYG remittances and some State based payroll taxes. The total amount deferred as at 30 June 2020 was approximately \$22.0 million.

The Government also announced it would fund Aged Care Workforce Retention Grants of up to \$1,600 for each direct care worker at a residential aged care home. The payments will be made in two payments of \$800 in July and September. Approximately 5,200 of the Group's employees are eligible and will receive the payments. The first payment was received in July and this was then paid to eligible employees. Nearly 2,000 home-based employees engaged in food services, cleaning, administration support and other non-clinical roles were not eligible for the grant however the Group elected to make a payment totaling \$0.5 million in July on its own account for these employees who have also played a key role in the homes during the pandemic.

#### Impairment

The ongoing uncertainty of future sector funding and financing, exacerbated by the future uncertainty and impacts of COVID-19 is expected to have a detrimental effect on future operating cashflows for some time. As a result of these impacts, the review of the carrying value of the Group's assets identified a non-cash impairment charge, primarily to goodwill, of \$144.6 million in the period.

A range of assumptions including discount rates, business and industry operating performance, the economic environment and regulatory conditions were considered in determining the amount of the impairment charge. The impairment charge comprises \$136.1 million of goodwill and \$8.5 million across its homes and other tangible assets.

These impairments are non-cash in nature, have no impact on the Group's existing debt facilities, compliance with banking covenants or its ability to undertake capital management initiatives.

As a result of these factors, operating loss after tax for the year was \$116.9 million.

## DIRECTORS' REPORT

### OPERATING AND FINANCIAL REVIEW (CONTINUED)

	FY20 \$'000	FY19 <sup>1</sup> \$'000	FY18 <sup>1</sup> \$'000
Government revenue (excluding temporary funding)	435,926	427,987	404,064
Government revenue (temporary funding) <sup>2</sup>	7,382	10,336	-
Resident and other revenue <sup>3</sup>	150,193	147,662	142,990
Imputed revenue on RAD and bond balances (AASB 16)	43,407	-	-
<b>Total operating revenue</b>	<b>636,908</b>	<b>585,985</b>	<b>547,054</b>
Employee benefits expenses	416,000	386,804	360,216
Non wage expenses	94,227	103,493	96,755
Royal Commission expenses	101	1,721	-
<b>EBITDA<sup>4</sup></b>	<b>126,580</b>	<b>93,967</b>	<b>90,083</b>
Depreciation and amortisation expense	39,119	28,719	22,163
Other (gains)	(214)	(36)	(363)
Impairment expense	144,622	465	3,839
<b>(Loss)/ profit for the period</b>	<b>(56,947)</b>	<b>64,819</b>	<b>64,444</b>
Imputed interest cost on RAD and bond balances (AASB 16)	43,407	-	-
Net finance costs	8,791	6,990	7,279
<b>(Loss)/ profit for the year before income tax</b>	<b>(108,845)</b>	<b>57,829</b>	<b>57,165</b>
Income tax expense	8,064	16,539	16,011
<b>(Loss)/ profit for the year after income tax</b>	<b>(116,909)</b>	<b>41,290</b>	<b>41,154</b>

<sup>1</sup> Effective from 1 July 2019, the Group adopted the modified retrospective approach when transitioning to AASB 16. As a result the comparative periods have not been adjusted.

<sup>2</sup> Government revenue for FY20 and FY19 includes the impact of the temporary funding increase (Including additional funding for COVID-19).

<sup>3</sup> Resident and other revenue for FY20 excludes the impact of the RAD/bond non-cash revenue arising as a result of the adoption of AASB16.

<sup>4</sup> 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

On 16 August 2019 the Group renewed its \$330 million syndicated debt facility which will now expire in November 2022. Net bank debt at 30 June 2020 was \$99.4 million, which represents a bank debt gearing ratio of 1.3X EBITDA (on a pre-AASB 16 basis).

Conversion of EBITDA to cash remained strong with a near 100% conversion of EBITDA for the period.

Total capital investment for the year ended 30 June 2020 was \$80.6 million (2019: \$93.8 million).

During the 8 months to the end of February 2020, overall RAD balances increased to \$831.5 million, with net RAD inflows of \$26.5 million, of which \$19.3 million came from new homes which opened in the preceding 12 months.

## DIRECTORS' REPORT

### OPERATING AND FINANCIAL REVIEW (CONTINUED)

#### REVIEW OF FINANCIAL POSITION AND CASH FLOWS (CONTINUED)

Subsequent to the declaration of the COVID-19 pandemic, overall RAD balances have increased to \$836.3 million at 30 June 2020 and were \$832.7 million at 14 August 2020 notwithstanding the fall in occupancy experienced since that time.

#### DEVELOPMENTS AND ACQUISITIONS

\$80.6 million of capital was invested in the continued development of new homes, refurbishment and improvement of existing homes.

##### New Homes

The 110 bed home which the Group opened at Southport (Queensland) in May 2019 performed strongly during the period reaching 100% occupancy by 9 February 2020 which has been sustained since that time. In August 2019 the Group opened a 126 bed home at Maroochydore (Queensland) which had reached an occupancy level of 70.6% occupancy by 30 June 2020. Both homes deliver high quality of care in outstanding environments and are delivering financial performance ahead of expectations. Notwithstanding the start-up nature of these two new homes, the combined financial result in the period from both homes was a net positive EBITDA contribution of \$0.5 million in the period.

Estia completed significant refurbishment programs in 13 homes with 1,187 beds during the period, improving the quality of amenities provided to residents, and bringing the total number of homes qualifying for the higher accommodation supplements to 47.

##### Planned New Homes

In November 2019 the Group announced plans for three new projects:

- Extension of our home in Burton, South Australia to increase capacity by 24 beds;
- Construction of a new 118 bed home at Aberglasslyn, New South Wales; and
- Construction of a new 116 bed home at Mount Barker in South Australia.

The Group has a development pipeline with the capacity to deliver approximately 600 new beds over the next three to four years and once development plans are activated.

##### Divestments

In May 2019 the Estia home in Mona Vale (NSW) was closed after a review confirmed it would not meet future community expectations for residential aged care homes. After detailed review it was decided that the best option for the site was to sell the property. The Group entered a binding unconditional contract to sell the site for \$10.95 million with settlement due in the second half of FY20. The Group has subsequently agreed to defer settlement to November 2020 upon receipt of payment of an additional \$125,000 in June 2020. The book value of the site at 30 June 2020 was \$2.9 million.

##### Acquisitions

There were no business acquisitions completed during the period, though the Group continues to identify and carefully consider single home or portfolio acquisition opportunities against the Group's investment criteria.

### DIVIDENDS

No final dividend has been declared for the year ended 30 June 2020

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 2019	2 October 2019	7.8 cents	\$20,328,082
Interim dividend for the year ended 30 June 2020	27 March 2020	5.4 cents	\$14,098,838



## 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 the *Aged Care Act 1997* 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. Additional accreditation and other requirements, including changes in relation to accommodation and infection control emanating from COVID-19 may result prior to or following the Aged Care Royal Commission report expected in February 2021.

**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 and Royal Commission's aspirations 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 the National Disability and Insurance Scheme ("NDIS"), hospitals, other residential aged care homes and home care services, 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 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.

## DIRECTORS' REPORT

### KEY BUSINESS RISKS (CONTINUED)

#### RAD BALANCES

<b>Risk</b>	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.
<b>Impact</b>	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.
<b>Mitigant</b>	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

<b>Risk</b>	<p>The Group's occupancy levels may fall below expectations as a result of numerous factors, including but not limited to:</p> <ul style="list-style-type: none"> <li>• Increased competition</li> <li>• Changing consumer trends</li> <li>• Declining referrals from hospitals and other sources</li> <li>• Growth of home care services</li> <li>• Pandemic or epidemic with local, regional or national impact</li> </ul>
<b>Impact</b>	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.
<b>Mitigant</b>	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.

## DIRECTORS' REPORT

### KEY BUSINESS RISKS (CONTINUED)

#### FAILURE TO MEET CLINICAL CARE STANDARDS

**Risk** As an approved aged care provider, the Group maintains a documented system of clinical governance to promote and support the health, safety and quality of care provision to residents, with the objective of ensuring 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. Serious failures may result in adverse reports by the ACQSC, sanctions or in extreme circumstances, may lead to the 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.

In addition, the Group has also established a Clinical Governance Committee to provide clinical oversight and evaluation of clinical improvement strategy and performance. This Committee is independently chaired by a Professor of Primary Care, Dr Simon Wilcock.

#### 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.

**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.



## DIRECTORS' REPORT

### KEY BUSINESS RISKS (CONTINUED)

#### INFORMATION TECHNOLOGY (IT) SYSTEM BREACHES OR LOSS

<b>Risk</b>	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.
<b>Impact</b>	These systems failures or breaches could adversely affect the Group's operations, reputation and financial performance.
<b>Mitigant</b>	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

<b>Risk</b>	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. Growth may also be constrained if limitations on multiple-bed rooms result from regulatory or other assessment of COVID-19 IPC guidelines.
<b>Impact</b>	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
<b>Mitigant</b>	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 Group will not commit future significant development funds unless licenses are substantially secured for a development.

#### INABILITY TO RECRUIT AND RETAIN KEY PERSONNEL

<b>Risk</b>	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 and the impact of COVID-19. The decision may be triggered by opportunities that have greater financial reward or other benefits.
<b>Impact</b>	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.
<b>Mitigant</b>	The Group's 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.

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## DIRECTORS' REPORT

### KEY BUSINESS RISKS (CONTINUED)

#### PANDEMIC OR EPIDEMIC

<b>Risk</b>	A pandemic or epidemic, such as COVID-19 may have a local, regional or national impact on the Group.
<b>Impact</b>	<p><b>Local</b> impact may result in resident and staff infection at an Estia home, which may cause a home lock down, staff shortages and occupancy reduction. Cost increases may result from increased infection control activity including PPE costs, cleaning costs, and additional support staff. Revenue losses may result from occupancy reductions, and from the cessation of Additional Services billing. Reputational damage resulting from the manner in which an outbreak was managed may be longer lasting and may continue to impact occupancy and the ability to retain staff in the future.</p> <p><b>Regional</b> impact, even if an Estia home does not experience an outbreak, may result in reduced occupancy arising from community concerns about safety or local authority restrictions on access to homes. Staff shortages may result from illness, quarantining or movement restrictions. Staff shortages may also arise if multiple homes in a region experience outbreaks and require additional or "surge" staffing which may make it difficult for the Group to retain staff for its own homes.</p> <p><b>National</b> impact, such as that seen with COVID-19, may result in supply chain disruption, restrictions on population movement, and wider economic, health and social impacts which may be longer lasting.</p>
<b>Mitigant</b>	<p><b>Local</b> risk mitigation is managed by the adoption of consistent and comprehensive infection control procedures, cleaning and hygiene in the first instance, including staff training. Procedures are in place for close monitoring of all resident and staff health for signs of infection, but especially during high levels of community infection, whether or not during a pandemic or epidemic.</p> <p>In the event of an outbreak, policies and procedures are in place designed to rapidly isolate and test residents and staff, and to adopt the wearing of appropriate PPE. Established processes are in place to escalate incidents to management. In the event of an outbreak during a pandemic, it is standard procedure to establish a Critical Incident Management Team to oversee response at a home level. Surge staffing plans have been designed to provide additional skilled resource from a variety of sources at short notice if required, and homes have access to regional PPE stock in case of shortages.</p> <p>The extent of the financial impact associated from infection at a single home, or more than one home are mitigated by the fact that the Group's earnings are generated from 69 homes with a geographic dispersion in Australia. The Group maintains bank credit facilities well in excess of its normal day to day operational needs with the intention of maintaining solvency and liquidity during abnormal events such as infection outbreaks which may impact home profitability and RAD balances. No one home in the Group contributes more than 5% of Group operational cashflow, and most are below 3%.</p> <p><b>Regional</b> risk mitigation is managed by the relevant Regional Managers supported by central clinical and quality teams in adopting the Group's pandemic response guidelines. Central and regional management lead comprehensive liaison with local and state authorities to ensure compliance with legislation and guidelines and to share relevant information pertaining to the extent of infection in the area.</p> <p><b>National</b> risk mitigation is managed with Group-wide response guidelines and the declaration of a pandemic is a trigger for the establishment of the national Critical Incident Management Team ("CIMT") which will then lead the emerging national response. The CIMT comprises Executive Team members supported by internal and external technical experts and resource as required. Depending on the extent of the impact of the pandemic, key Executives may be seconded full-time to the CIMT and their operational roles backfilled.</p>

## DIRECTORS' REPORT

### KEY BUSINESS RISKS (CONTINUED)

#### PANDEMIC - COVID-19 SPECIFIC

**Risk** On 18 March 2020 the WHO declared coronavirus caused by the COVID-19 virus a global pandemic. Subsequent to that date there have been more than 20 million infections and 725,000 deaths worldwide. Australia's response and infection rates were initially very low compared to the rest of the world during this "first wave" with a very low rate of community infection and transmission seen.

In the absence of a vaccine the highly contagious nature of the virus, and the high consequences on the sick, elderly, and frail, presents an ongoing risk to the community and to the elderly in particular. In late June 2020 cases began to increase in Victoria and the Victorian government subsequently implemented increasing restrictions, lock downs and on 2 August 2020 declared a State of Disaster as a result of widespread community transmission.

Residents of residential aged care homes are generally frail, suffer from co-morbidities, dementia, are reliant on day-to-day personal and clinical care, and are approaching the end of their lives. These residents are the most vulnerable to the serious effects of COVID-19 infection. Some health authorities and advisers have indicated that in the absence of a vaccine an ongoing series of lock downs and restricted operations may continue for a significant period of time.

**Impact** The potential impact of the COVID-19 pandemic on the business include but are not restricted to:

- reduced occupancy as a result of families electing not to admit to, or to remove their loved ones from aged care
- reduced occupancy as a result of homes being closed to new admissions during either community or home outbreaks
- reduced occupancy as a result of reputational damage associated with outbreaks and consequences of outbreaks at Estia homes or the aged care sector as a whole
- a reduced ability to secure sufficient suitably trained staff to work in homes
- change in work practices to limit casual workers to one employer and/or place of work
- potential legal claims by staff, residents, resident families, or visitors who may have become exposed to the virus which may be linked to an Estia home and any resultant liabilities
- increased costs of responding to and managing community and home outbreaks which include PPE, staff costs, medical and surgical supplies, cleaning and advisory support services
- increased costs associated with changes to the operations and physical design of residential aged care homes which may result from legislative or other reviews

**Mitigant** The Group has responded to the pandemic with the establishment of a Board Risk Sub-Committee to provide governance oversight of the response to the pandemic. The Group has established a Critical Incident Management Team tasked with adopting revised protocols and procedures in line with AHPPC guidelines and State Directions with the objective of minimising the risk of introducing COVID-19 infection into a home and infection spreads in the event of a resident or staff member testing positive for COVID-19.

Specific matters include:

- Entry and access protocols and procedures for staff, residents and visitors
- Infection Prevention Control processes, protocols, training, monitoring, and expertise including PPE usage and training
- COVID-19 response plans at each home
- WHS requirements for all the Group's homes and premises
- Business continuity plans continue to be revised



## DIRECTORS' REPORT

### KEY BUSINESS RISKS (CONTINUED)

#### PANDEMIC - COVID-19 SPECIFIC (CONTINUED)

- Staff quarantine leave, rostering and single-home work requirements
- PPE supply chains, stock levels and logistics
- Insurance programs
- Applying for all applicable COVID-19 Government subsidy and grant assistance programs available

#### CLIMATE RISK

**Risk** Scientific consensus is indicating that climate change is increasingly likely to result in an increase in global temperatures of 2°C or more relative to the pre-industrial period. Such a change in the global climate will likely have wide-ranging impacts on society and businesses.

**Impact** The current understanding of the potential financial risks posed by climate change to companies, investors, and the financial system as a whole is still at an early stage. The Task Force on Climate Related Financial Disclosures has identified climate related risks as falling into two major categories: (1) risks related to the **transition** to a lower-carbon economy and (2) risks related to the **physical** impacts of climate change.

##### Transition Risks

Transitioning to a lower-carbon economy may entail extensive policy, legal, technology, market, and reputational risks resulting from changes to address mitigation and adaptation requirements related to climate change. Depending on the nature, speed, and focus of these changes, transition risks may pose varying levels of financial and reputational risk to organisations. These effects may also result in second and third order effects on their supply and distribution chains.

##### Physical Risks

Physical risks resulting from climate change can be event driven (acute) or longer-term shifts (chronic) in climate patterns. Physical risks may have financial implications for organisations, such as direct damage to assets. Financial performance may also be affected by changes in water availability, sourcing, and quality; food security; and extreme temperature changes affecting organisations' premises, operations, supply chain, transport needs, and employee safety. Acute physical risks refer to those that are event-driven, including increased severity of extreme weather events, such as bush fires, cyclones, hurricanes, or floods. Chronic physical risks refer to longer-term shifts in climate patterns (e.g., sustained higher temperatures) that may cause sea level rise or chronic heat waves.

**Mitigant** The Group has established a Sustainability Committee, which reports to the Board Risk Sub-Committee, which has responsibility for monitoring and providing advice to management and the board on activities which should be undertaken to mitigate the Group's exposure to climate change derived risks, both transition and physical risks. The Committee engages external consultants to conduct assessments and mitigation plans where appropriate, including climate change impact assessments for each home in the Group's portfolio including vulnerability to acute and chronic climate change conditions or events. New homes and potential acquisitions are assessed for climate change resilience as part of due diligence.

## DIRECTORS' REPORT

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than those explained in this report relating to COVID-19, there were no significant changes in the state of affairs of the Group during the financial year ended 30 June 2020.

### SIGNIFICANT EVENTS AFTER THE BALANCE DATE

#### DIVIDENDS

On 18 August 2020, the Directors resolved to not pay a final dividend for the financial year ended 30 June 2020.

#### COVID-19

The impact of the COVID-19 pandemic after the Balance Date is explained on page 144 of this report.

### LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Group will continue to prioritise the safety, care and well-being of both its residents and staff at all times.

The Group will continue to assess, monitor and manage the impacts of the COVID-19 pandemic on the business. The Group has and continues to expect to see lower occupancy levels, an increase in staff costs, and in Personal Protective Equipment and other medical supply costs associated with the management and response to COVID-19. The increase in staffing costs includes higher clinical, Infection Prevention Controls, personal care, and family/resident liaison staff to support residents and families at this time. Paid quarantine leave continues to be available for those staff required to self-isolate. The future level and duration of this increase in costs is highly dependent on uncertain future events driven by the COVID-19 pandemic.

The Federal Government has issued a number of schemes to provide additional financial support to assist Approved Providers to offset the impact of cost increases arising from responding to COVID-19. The Group will apply for such amounts for which it believes it is eligible but is not able to quantify total amounts with any degree of certainty at the present time.

The Royal Commission into Aged Care commenced during FY19 and continues into FY21. The Commission handed down its Interim Report in October 2019 and is expected to make its final report in February 2021. 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.

On 7 August 2020 the Royal Commission announced hearings to inquire into the response to the COVID-19 pandemic in aged care and, secondly, to inquire into aged care accommodation. The hearings inquired into the response to the COVID-19 pandemic in aged care, and the lessons that can be learned for responding to the ongoing and any future pandemics, infectious disease outbreaks or other emergencies.

The Group continues to advocate for necessary sector reform which will result in 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.

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.

## DIRECTORS' REPORT

### PERFORMANCE RIGHTS

#### UNISSUED SHARES

As at the date of this report, there were 1,526,515 unissued ordinary shares under performance rights (2019: 1,522,703).

#### SHARES ISSUED AS A RESULT OF THE VESTING OF PERFORMANCE RIGHTS

A total of 13,693 performance rights were granted during the year ended 30 June 2020 (2019: nil) and were issued as shares on 24 July 2020. During the year ended 30 June 2020, 994,018 rights were granted (2019: 628,712) and 106,584 rights were forfeited (2019: nil).

### 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	87,900
	<u>87,900</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 18 August 2020 in accordance with a resolution of Directors.



Dr. Gary H Weiss AM  
Chairman

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## DIRECTORS' REPORT

### Remuneration report – audited

Dear Shareholders,

The Estia Health Limited ('Estia' or the 'Group') Board is pleased to present the Remuneration Report for the year ended 30 June 2020 ('FY20'). Whilst this report reflects the performance of the Group during FY20 it is delivered against the backdrop of the significant escalation of the impact of COVID-19 upon residents, their families and staff working in the Australian residential aged care ('RAC') sector in the period since 30 June 2020, including the substantial impact upon residents, their families and staff at a number of Estia's RAC homes.

The combined uncertain impacts of COVID-19, the Aged Care Royal Commission and the ongoing failure of sector funding to keep pace with resident care costs make this a time of unprecedented challenge for the aged care sector. Given this environment, the need to balance requisite restraint in senior executive remuneration practices against the challenges of attracting, retaining and motivating industry leading talent as a key input to delivering the best possible standard of care to Estia's residents, for the benefit of all of the Group's stakeholders, remains an acute focus of the Group's Board.

The Board regards the objective of maintaining stability in Estia's Executive Key Management Personnel ('KMP') and broader senior executive group as critical to ensuring that the Group remains optimally positioned to respond effectively to the current challenges facing the RAC sector and continues to play an industry leading future role in the sector, for the benefit of shareholders.

#### Changes to FY20 Remuneration

The Board maintained a "Clinical Quality" gateway as a precondition to Executive KMP Short Term Incentive ('STI') eligibility in FY20 and expanded the range of quality conditions required to be met for this gateway precondition to be achieved.

Whilst the STI scorecard against which Estia's senior executives are measured continued to comprise a mix of shared and role-specific Key Performance Indicator ('KPI') measures, in FY20 the weighting of role-specific KPI's was increased from 40% to 50%. In addition, the Group's senior executive accountable for overseeing clinical quality and risk frameworks and processes had 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.

Shareholders approved an increase in the maximum aggregate remuneration that may be paid to the Group's Non-Executive Directors ('NEDs') by \$200,000, from \$900,000 per annum to \$1,100,000 per annum, at the Group's 2019 Annual General Meeting ('AGM').

#### FY20 Remuneration Outcomes

The Group maintained tight discipline upon the Fixed Annual Remuneration ('FAR') paid to Estia's Executive KMP's during FY20, with the CEO and COO/Deputy CEO's levels of FAR remaining unchanged from FY19, at \$720,000 and \$500,000 respectively. The FAR of the CFO increased by \$20,000 to \$470,000. This represents a FAR increase across Estia's combined Executive KMP group of 1.2% between FY19 and FY20. In addition, there were no increases in individual NED Board or Sub-committee fees during FY20.

The STI clinical quality gateway described above was met during FY20, making senior executives eligible for consideration to receive STI payments for FY20 performance. Whilst financial KPI's related to the achievement of EBITDA and Net Profit After Tax targets were not met, other KPI targets related to clinical compliance, workforce health and safety, financing costs and organisational cultural engagement were either fully or partially met, resulting in partial vesting entitlements under the FY20 STI plan.

However, in the context of the impact of COVID-19 upon residents, their families and staff since 30 June 2020, the Group's Board and Management have agreed that no FY20 STI entitlements will be paid, notwithstanding the strong performance and results generated across a number of key operational and strategic KPI's that resulted in partial vesting entitlements under the STI plan.

Previous LTI grants with a FY20 vesting date did not fulfil their vesting requirements and as such have lapsed. A retention-based tranche of performance rights was granted to the CFO in FY20, in acknowledgement of strong performance since his appointment in February 2017 and to encourage retention and ongoing contribution to the Group's success. This tranche of retention-based performance rights has a face value of \$125,000 and requires the CFO to be employed at 1 July 2021 for vesting to occur.

#### Looking Forward

Given the scale of previously detailed challenges facing the RAC sector and Group the Board has decided to maintain unchanged levels of FAR of Estia's senior executives, including Executive KMP's, until the operational and financial impacts of the uncertainties facing the Group become clearer. Board and Sub-Committee fees payable to individual NED's in FY21 will remain unchanged from FY20 levels. FY21 STI and LTI incentive arrangements for the Group's senior executives are yet to be finalised, as the entire organisation continues to focus its efforts on the health, safety and care of our residents and staff. Such arrangements will be disclosed subsequent to finalisation.

On behalf of the Board, I am pleased to present to you the FY20 Remuneration Report for Estia and we look forward to welcoming you at the 2020 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 2020 (FY20) 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.

There were no changes to KMP during FY20.

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	Full year
Norah Barlow ONZM	Non-Executive Director	Full year
Ian Thorley	Chief Executive Officer (MD and CEO)	Full year
Sean Bilton	Deputy Chief Executive Officer and Chief Operating Officer (Deputy CEO and COO)	Full year
Steve Lemlin	Chief Financial Officer (CFO)	Full year



## 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 seven times in FY20. 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 2020, the Nomination and Remuneration Committee engaged KPMG to provide advice regarding market practice and trends, and assistance with other adhoc 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 against the key metrics upon which the Group performance is measured.

	30 June 2020	30 June 2019	30 June 2018	30 June 2017	30 June 2016
Revenue - '\$000	\$636,908	\$585,985	\$547,054	\$524,630	\$442,821
Net profit after tax - '\$000	(\$116,909)	\$41,290	\$41,154	\$40,698	\$27,640
EBITDA* - '\$000	\$126,580	\$93,967	\$90,083	\$86,500	\$89,059
Share price at start of the year	\$2.64	\$3.29	\$3.05	\$4.37	\$5.70
Share price at the end of the year	\$1.53	\$2.64	\$3.29	\$3.05	\$4.36
Dividends paid per share – cents	13.2	16.0	15.8	8.0	25.6
Basic earnings per share – cents	(44.8)	15.8	15.8	18.2	15.1
Diluted earnings per share – cents	(44.8)	15.8	15.7	18.0	15.1
Vesting outcomes – CEO incentives					
Short term incentive vesting	Nil	Nil	22%	Nil	Nil
Long term incentive vesting	Nil	Nil	Nil	Nil	Nil

\*The Group adopted AASB 16 Leases effective from 1 July 2019. EBITDA above is on a post AASB 16 basis. The comparative periods have not been adjusted. Refer to Note E9 for further details.

#### 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 FY20, 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.

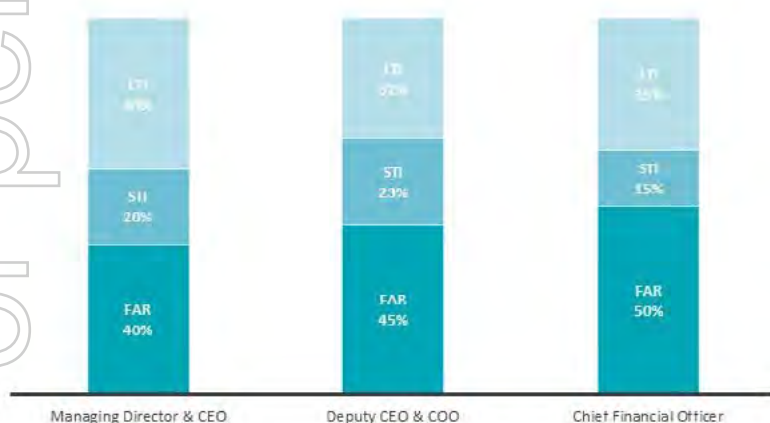
Component	Approach	Link to business and remuneration strategy
<b>Fixed Annual Remuneration (FAR)</b>	FAR is set with reference to role, market and experience of the employee with reference to external benchmarking data, particularly looking at competition in the same sector, both public and private.  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
<b>Short-Term Incentive Plan (STI)</b>	In FY20, the STI was measured against common targets comprising Group EBITDA (both on a post AASB 16 basis) and NPAT as well as role specific measures including organisational culture, resident clinical outcomes, workplace health and safety, funding costs, resident satisfaction and role-specific projects over a 12-month period. A resident quality gateway hurdle remained in place, requiring a range of ongoing compliance and accreditation targets to be met as a precondition for any of the STI to be eligible to vest, irrespective of financial and operational performance.  For executive KMP, 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.
<b>Long-term Incentive Plan (LTI)</b>	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
Long-term Incentive Plan (LTI) continued	<ul style="list-style-type: none"> <li>Total shareholder return (TSR) (70%) performance:                             <ul style="list-style-type: none"> <li>35% relative to the ASX200 excluding mining and energy companies; and</li> <li>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.</li> </ul> </li> <li>Earnings Per Share (EPS) (30%).</li> </ul>	<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 executives with achievement of increased shareholder wealth over the long-term.</p>
Once-off Awards	The Company may grant once-off incentive awards, approved by the Board, where the circumstances warrant it. This may include the grant of retention incentives	Once-off awards may be appropriate in order to retain or attract key talent, to ensure the achievement of Estia's business strategy, and to maximise long term shareholder outcomes.
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"> <li>to be the leader in providing high quality residential aged care homes in Australia;</li> <li>to provide our residents with the highest standards of aged care services in an innovative, supportive and caring environment; and</li> <li>to deliver profitable growth through our robust development pipeline, significant refurbishment opportunities and through maximising the performance of our core assets.</li> </ul>	

#### 5.2 FY20 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 regularly benchmarks the remuneration of the current KMP against relevant roles from a comparator group of ASX-listed companies. 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.

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.

<b>Participation</b>	All executive KMP participated in the FY20 STI plan.
<b>STI value</b>	In FY20, Ian Thorley and Sean Bilton had a maximum STI opportunity of 50% of FAR and Steve Lemlin had a maximum STI opportunity of 30% of FAR.
<b>Performance conditions</b>	The STI is subject to a resident quality gateway hurdle which requires ongoing compliance and accreditation targets to be met in order for any STI awards to be made.  The FY20 group-wide performance measures for KMP were EBITDA (on a post AASB 16 basis) and NPAT (50% combined), as well as other role specific measures for the remaining 50%. Other role specific measures for KMP included LTIFR reduction targets, organisational culture measures, delivery of efficiencies through management of external financing, and developments in connection with clinical governance and risk management processes.
<b>Delivery of STI</b>	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 (including all executive KMP) 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).
<b>Cessation of employment</b>	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.
<b>Clawback policy</b>	The Board has the discretion to reduce, cancel or clawback any unvested performance-based remuneration (including deferred STI) in the event of serious misconduct or a material misstatement in the Group's financial statements.

## DIRECTORS' REPORT

### Remuneration report – audited (continued)

#### 5.4.1 STI outcomes

In FY20 Estia met the resident quality gateway hurdle, which created eligibility for STI payments to be made subject to the achievement of STI scorecard measures. This gateway required:

1. no more than two notices of non-compliance in any State in which Estia operates;
2. any Timetable for Improvement imposed upon an Estia facility to be fully met; and
3. no sanctions to be imposed on any Estia facility.

FY20 group-wide KPI's related to the achievement of EBITDA and Net Profit After Tax targets were not met.

Many of the other role specific measures applied to KMP were met during FY20. These included a reduction of >25% in Lost Time Injury Frequency Rate (LTIFR) from FY19, improved workforce engagement scores, further developments in connection with clinical governance and risk management processes and reducing external financing costs.

These outcomes would have ordinarily resulted in STI vesting outcomes for the Group's Executive KMP's ranging from 40-45% of target.

However, in the context of the impact of COVID-19 upon residents, staff and their families since 30 June 2020, the Board and Management have agreed that FY20 STI entitlements will not be paid.

Senior Executive	STI opportunity (\$)	STI vesting outcome, per scorecard \$	STI vesting outcome, per scorecard %	STI awarded (\$)	STI awarded (%)	STI foregone (%)
Ian Thorley	360,000	144,000	40%	Nil	0%	100%
Sean Bilton	250,000	100,000	40%	Nil	0%	100%
Steve Lemlin	141,000	63,450	45%	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.

<b>Participation</b>	LTI performance rights were offered to all members of executive KMP in FY20.																											
<b>Delivery of LTI</b>	LTIs are delivered in the form of performance rights. On exercise, performance rights entitle the holders to ordinary shares.																											
<b>LTI value</b>	In FY20, Ian Thorley had a LTI opportunity of 100% of FAR, both Sean Bilton and Steve Lemlin had a LTI opportunity of 70% of FAR.																											
<b>Allocation methodology</b>	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).																											
<b>Performance conditions</b>	<p>The performance conditions for FY20 performance rights are as follows. 70% of award will be subject to a relative TSR performance measure:</p> <ul style="list-style-type: none"> <li>• 35% relative to the ASX200 excluding mining and energy companies; and</li> <li>• 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%).</li> </ul> <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 per 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 FY19 base</th> <th>Percentage of performance rights that vest</th> </tr> </thead> <tbody> <tr> <td>Below threshold rate (&lt;1%)</td> <td>Nil</td> </tr> <tr> <td>At threshold rate (1%)</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 per 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 FY19 base	Percentage of performance rights that vest	Below threshold rate (<1%)	Nil	At threshold rate (1%)	25%
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Group's compound annual growth of EPS from FY19 base	Percentage of performance rights that vest																											
Below threshold rate (<1%)	Nil																											
At threshold rate (1%)	25%																											



## DIRECTORS' REPORT

### Remuneration report – audited (continued)

	Between threshold and target rate (1% to 3%)	Straight line pro rata vesting between 25% and 50%
	At target rate or above (3% to 5%)	Straight line pro rata vesting between 50% and 100%
<b>Performance period</b>	When assessing performance against targets, EPS will be adjusted to account for acquisitions made during the performance period.	
<b>Lapse of performance right</b>	The performance rights granted in FY20 have a performance period of three years.	
<b>Total shares issued</b>	Any performance rights that remain unvested at the end of the performance period will lapse immediately.	
<b>Cessation of employment</b>	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.	
<b>Change of control</b>	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. Where cessation of employment occurs 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 (i.e. pro-rata vesting), unless otherwise determined by the Board.	
<b>Clawback policy</b>	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 the 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.	

#### 5.5.1 LTI Vesting Outcomes

The FY18 LTI performance rights did not vest, as the relevant earnings per share (EPS) and relative total shareholder return performance targets were not achieved.

#### 5.6 Other Awards

During FY20, a retention incentive was granted to the CFO, Steve Lemlin, to recognise his contribution to Estia since his appointment as CFO in February 2017 and to encourage his continued contribution over the coming period. The award was delivered in performance rights, with a face value of \$125,000 and will only vest subject to his continued employment with the Group until 1 July 2021.

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**DIRECTORS' REPORT**

**Remuneration report – audited (continued)**

**6. Executive employment outcomes**

**6.1 Executive remuneration for the year 1 July 2019 to 30 June 2020**

	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 <sup>1</sup>	LTI <sup>2</sup>				\$	\$
<b>Executive director</b>														
Ian Thorley <sup>3</sup>	2020	698,997	-	21,003	-	-	720,000	-	32,173	752,173	-	4%		
	2019	620,719	-	20,531	-	-	641,250	-	136,869	778,119	-	18%		
<b>Senior executives</b>														
Sean Bilton	2020	479,002	-	20,998	-	-	500,000	-	51,049	551,049	-	9%		
	2019	330,888	187,500	14,169	-	-	345,057	62,500	15,106	610,163	-	43%		
Stephen Lemlin	2020	449,122	-	20,878	-	-	470,000	-	14,524	484,524	-	3%		
	2019	429,469	-	20,531	-	-	450,000	-	90,127	540,127	-	17%		
<b>Former executives</b>														
Norah Barlow <sup>4</sup>	2020	-	-	-	-	-	-	-	(231,009)	(231,009)	-	-		
	2019	316,026	-	10,421	-	-	326,447	-	297,979	624,426	-	48%		
<b>Total</b>	<b>2020</b>	<b>1,627,122</b>	<b>-</b>	<b>62,878</b>	<b>-</b>	<b>-</b>	<b>1,690,000</b>	<b>-</b>	<b>(133,263)</b>	<b>1,556,737</b>	<b>-</b>	<b>-</b>		
	<b>2019</b>	<b>1,697,102</b>	<b>187,500</b>	<b>65,652</b>	<b>-</b>	<b>-</b>	<b>1,762,754</b>	<b>62,500</b>	<b>540,081</b>	<b>2,552,835</b>	<b>-</b>	<b>-</b>		

<sup>1</sup> 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.

<sup>2</sup> The LTI share based expenses represents the fair value of the expense recognised in the year.

<sup>3</sup> Ian was remunerated as the MD and CEO at the commencement of the one month handover with Norah Barlow on 23 October 2018. Ian was formally appointed as MD and CEO on 23 November 2018.

<sup>4</sup> Remuneration received in respect of Norah Barlow's role as a non-executive director is included in table 8.2. Norah Barlow stepped down as Executive Director on 23 November 2018 to become a Non-Executive Director.

## DIRECTORS' REPORT

### Remuneration report – audited (continued)

#### 7. Executive employment contracts

Remuneration arrangements for executives are formalised in employment agreements as follows

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	\$470,000	1 February 2017	No expiry, continuous agreement	6 months (or payment in lieu of notice)	6 months

#### 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 FY20, there were no increases to NED fees and will remain unchanged for FY21.

Following shareholder approval at the 2019 AGM, the NED fee pool at Estia increased to \$1,100,000 (including superannuation contributions as required by law).



## DIRECTORS' REPORT

### Remuneration report – audited (continued)

#### 8.1 Director's 2020 Fee Structure

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

	Description	Fees
<b>Board</b>	Chair	\$250,000
	Director	\$100,000
<b>Audit Committee</b>	Chair	\$15,000
	Member	\$10,000
<b>Nominations &amp; Remuneration Committee</b>	Chair	\$15,000
	Member	\$10,000
<b>Risk Management Committee</b>	Chair	\$15,000
	Member	\$10,000
<b>Property &amp; Investment Committee</b>	Chair	\$15,000
	Member	\$10,000
<b>Royal Commission &amp; Regulatory Committee</b>	Chair	No additional fee
	Member	No additional fee

NEDs may elect to receive fees inclusive or exclusive of superannuation provided an election has been made directly with the Australian Taxation Office to opt out of fees being paid inclusive of superannuation. This election is available to NEDs who have multiple NED roles.

NEDs may be reimbursed for expenses reasonably incurred in attending to the Group's affairs. NEDs do not participate in any incentive programs.

## DIRECTORS' REPORT

### Remuneration report – audited (continued)

#### 8.2 Non-Executive director remuneration

The table below outlines NED remuneration for FY20 in accordance with statutory rules and applicable accounting standards.

	Year	Board fees \$	Superannuation \$	Total fees \$
<b>Non-Executive Director</b>				
Gary Weiss	2020	258,997	21,003	<b>280,000</b>
	2019	259,469	20,531	<b>280,000</b>
Paul Foster	2020	126,216	8,784	<b>135,000</b>
	2019	123,288	11,712	<b>135,000</b>
Warwick Smith	2020	114,155	10,845	<b>125,000</b>
	2019	114,155	10,845	<b>125,000</b>
Helen Kurincic	2020	114,155	10,845	<b>125,000</b>
	2019	114,155	10,845	<b>125,000</b>
Karen Penrose <sup>5</sup>	2020	114,155	10,845	<b>125,000</b>
	2019	79,597	7,562	<b>87,159</b>
Norah Barlow <sup>6</sup>	2020	100,000	-	<b>100,000</b>
	2019	58,333	-	<b>58,333</b>
<b>Former Non-Executive Director</b>				
Andrew Harrison <sup>7</sup>	2020	-	-	-
	2019	38,052	3,615	41,667
<b>Total</b>	<b>2020</b>	<b>827,679</b>	<b>62,321</b>	<b>890,000</b>
	<b>2019</b>	<b>787,049</b>	<b>65,110</b>	<b>852,159</b>

<sup>5</sup> Karen Penrose was appointed on 17 October 2018.

<sup>6</sup> 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.

**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 FY20.

	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
<b>Executive director</b>								
Ian Thorley <sup>8</sup>	92,958	25/11/19	0.76	30/06/22	Nil	30/06/22	-	181,748
	92,958	25/11/19	0.69	30/06/22	Nil	30/06/22	-	-
	79,678	25/11/19	2.51	30/06/22	Nil	30/06/22	-	-
<b>Senior executives</b>								
Sean Bilton	64,554	25/11/19	0.76	30/06/22	Nil	30/06/22	-	-
	64,554	25/11/19	0.69	30/06/22	Nil	30/06/22	-	-
	55,332	25/11/19	2.51	30/06/22	Nil	30/06/22	-	-
	23,055	25/11/19	2.71	01/07/20	Nil	01/07/20	-	-
Steve Lemlin	41,483	25/11/19	0.76	30/06/22	Nil	30/06/22	-	141,644
	41,483	25/11/19	0.69	30/06/22	Nil	30/06/22	-	-
	35,557	25/11/19	2.51	30/06/22	Nil	30/06/22	-	-
	91,241	27/04/20	1.37	01/07/21	Nil	01/07/21	-	-
<b>Former Executive</b>								
Norah Barlow <sup>9</sup>							-	484,234
<b>Total</b>	<b>682,853</b>						<b>-</b>	<b>807,627</b>

<sup>8</sup> Shareholders approved the grant of performance rights to Ian Thorley, Sean Bilton and Steve Lemlin at the Group's AGM on 6 November 2019.



## 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.

						Vested at 30 June 2020	
	Number of rights at 1 July 2019	Granted as remuneration	Rights exercised	Net change other	Number of rights at 30 June 2020	Exercisable	Not exercisable
<b>Executive director</b>							
Ian Thorley	387,086	265,594	4,016	181,748	466,916	-	-
<b>Senior executive</b>							
Sean Bilton	81,454	207,495	-	-	288,949	-	-
Steve Lemlin	251,191	209,764	3,303	141,644	316,008	-	-
<b>Former Executive</b>							
Norah Barlow	594,490	-	6,374	484,234	103,882	-	-
<b>Total</b>	<b>1,314,221</b>	<b>682,853</b>	<b>13,693</b>	<b>807,627</b>	<b>1,175,754</b>	<b>-</b>	<b>-</b>

**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 \$ <sup>a</sup>	Value of rights exercised during the year <sup>b</sup> \$	Value of rights lapsed during the year <sup>c</sup> \$	Remuneration of rights for the year %
<b>Executive director</b>				
Ian Thorley	154,811	11,908	291,269	4%
<b>Senior executive</b>				
Sean Bilton	170,009	-	-	9%
Steve Lemlin	194,085	9,793	202,585	3%
<b>Total</b>	<b>518,905</b>	<b>21,701</b>	<b>493,853</b>	

<sup>a</sup> Determined at the time of grant per the AASB 2.

<sup>b</sup> Determined at the time of exercise.

<sup>c</sup> 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 2019 <sup>10</sup>	Granted as remuneration	Exercise of rights	Net change other	Number of shares at 30 June 2020 <sup>11</sup>	Held nominally
<b>Non-Executive Director</b>						
Gary Weiss	45,312	-	-	3,000	48,312	48,312
Paul Foster	24,000	-	-	-	24,000	24,000
Warwick Smith	90,000	-	-	27,000	117,000	117,000
Helen Kurincic	25,000	-	-	25,000	50,000	50,000
Norah Barlow	123,100	-	6,374	-	129,474	129,474
Karen Penrose	18,833	-	-	13,500	32,333	32,333
<b>Senior executive</b>						
Ian Thorley	78,518	-	4,016	55,467	138,001	138,001
Sean Bilton	-	-	-	6,719	6,719	6,719
Steve Lemlin	16,500	-	3,303	23,860	43,663	43,663
<b>Total</b>	<b>421,263</b>	<b>-</b>	<b>13,693</b>	<b>154,546</b>	<b>589,502</b>	<b>589,502</b>

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





**Building a better  
working world**

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

As lead auditor for the audit of the financial report of Estia Health Limited for the financial year ended 30 June 2020, 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.

A handwritten signature in black ink that reads 'Ernst &amp; Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Paul Gower'.

Paul Gower  
Partner  
18 August 2020

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2020

	Notes	2020 \$'000	2019 \$'000*
Revenues	B1	636,908	585,985
Other income	B1	214	36
<b>Expenses</b>			
Employee benefits expense	B2	416,000	386,804
Administrative expenses	B3	18,033	19,782
Occupancy expenses	B4	24,186	31,297
Resident expenses		51,276	51,613
Depreciation and amortisation expense	B5	39,119	28,719
Impairment expense	B5	144,622	465
Impairment losses on trade receivables		732	801
Direct costs associated with the Royal Commission		101	1,721
<b>Operating (loss) or profit for the year</b>		<b>(56,947)</b>	<b>64,819</b>
Net finance costs	B6	51,898	6,990
<b>(Loss) or profit before income tax</b>		<b>(108,845)</b>	<b>57,829</b>
Income tax expense	B7	8,064	16,539
<b>(Loss) or profit for the year</b>		<b>(116,909)</b>	<b>41,290</b>
<b>Other comprehensive income</b>			
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		-	-
<b>Total comprehensive (loss) or income for the year, net of tax</b>		<b>(116,909)</b>	<b>41,290</b>
		<b>cents</b>	<b>cents</b>
<b>Earnings per share</b>			
Basic, (loss) or profit for the year attributable to ordinary equity holders of the Parent	B8	(44.79)	15.84
Diluted, (loss) or profit for the year attributable to ordinary equity holders of the Parent	B8	(44.79)	15.77

\* Comparative period not restated for AASB 16.

The accompanying notes form part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### AS AT 30 JUNE 2020

	Notes	2020 \$'000	2019 \$'000*
Cash and cash equivalents	C1	30,600	14,631
Trade and other receivables	C2	8,129	9,046
Income tax receivable		-	607
Prepayments and other assets		6,444	5,694
Assets held for sale	C3	5,441	-
<b>Total current assets</b>		<b>50,614</b>	<b>29,978</b>
Property, plant and equipment	C4	842,524	822,696
Investment properties	C5	1,500	1,620
Goodwill	C6	681,014	817,074
Other intangible assets	C6	226,950	222,575
Right of Use Assets	C7	67,137	-
Prepayments		585	449
<b>Total non-current assets</b>		<b>1,819,710</b>	<b>1,864,414</b>
<b>Total assets</b>		<b>1,870,324</b>	<b>1,894,392</b>
Trade and other payables	C8	59,527	44,046
Other financial liabilities	C9	1,193	1,304
Provisions	C10	52,678	45,616
Income tax payable		6,504	-
Lease liabilities	C7	4,052	-
Refundable accommodation deposits and bonds	D1	836,304	805,033
<b>Total current liabilities</b>		<b>960,258</b>	<b>895,999</b>
Lease liabilities	C7	68,910	-
Other payables	C8	-	12
Provisions	C10	5,155	4,496
Deferred tax liabilities	B7	98,404	107,775
Loans and borrowings	D2	128,848	124,603
<b>Total non-current liabilities</b>		<b>301,317</b>	<b>236,886</b>
<b>Total liabilities</b>		<b>1,261,575</b>	<b>1,132,885</b>
<b>Net assets</b>		<b>608,749</b>	<b>761,507</b>
Issued capital	D3	803,356	801,843
Share-based payments reserve	D4	1,747	1,794
Accumulated losses		(196,354)	(42,130)
<b>Total equity</b>		<b>608,749</b>	<b>761,507</b>

\* Comparative period not restated for AASB 16. Prepayments has been reclassified between Current and Non Current Assets.

The accompanying notes form part of these consolidated financial statements.



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2020

	Notes	Issued capital \$'000	Share-based payments reserve \$'000	Accumulated losses \$'000	Total equity \$'000
<b>As at 1 July 2018</b>		801,836	1,136	(41,408)	761,564
Adjustment on adoption of AASB 9 (net of tax)		-	-	(316)	(316)
<b>Adjusted total equity at the beginning of the financial year</b>		<b>801,836</b>	<b>1,136</b>	<b>(41,724)</b>	<b>761,248</b>
Profit or (loss) for the year		-	-	41,290	41,290
Other comprehensive income		-	-	-	-
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>41,290</b>	<b>41,290</b>
<b>Transactions with owners in their capacity as owners:</b>					
Repayment of management equity plan	D3	7	-	-	7
Dividends	D3	-	-	(41,696)	(41,696)
Share-based payments	D4	-	658	-	658
<b>As at 30 June 2019</b>		<b>801,843</b>	<b>1,794</b>	<b>(42,130)</b>	<b>761,507</b>
<b>Balance at 1 July 2019</b>		801,843	1,794	(42,130)	761,507
Adjustment on adoption of AASB 16 (net of tax)		-	-	(2,889)	(2,889)
<b>Adjusted total equity at the beginning of the financial year</b>		<b>801,843</b>	<b>1,794</b>	<b>(45,019)</b>	<b>758,618</b>
Profit or (loss) for the year		-	-	(116,909)	(116,909)
Other comprehensive income		-	-	-	-
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>(116,909)</b>	<b>(116,909)</b>
<b>Transactions with owners in their capacity as owners:</b>					
Issue of share capital	D3	1,507	-	-	1,507
Repayment of management equity plan	D3	6	-	-	6
Dividends	D3	-	-	(34,426)	(34,426)
Share-based payments	D4	-	(47)	-	(47)
<b>As at 30 June 2020</b>		<b>803,356</b>	<b>1,747</b>	<b>(196,354)</b>	<b>608,749</b>

The accompanying notes form part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

### FOR THE YEAR ENDED 30 JUNE 2020

	Notes	2020 \$'000	2019 \$'000*
<b>Cash flows from operating activities</b>			
Receipts from residents		145,941	148,427
Receipts from government		432,171	437,556
Payments to suppliers and employees		(466,936)	(489,880)
<b>Net operating cash flows before interest, income tax and RAD, accommodation bond and ILU entry contributions</b>		<b>111,176</b>	<b>96,103</b>
Interest received		435	70
Finance costs paid		(7,473)	(6,878)
Income taxes paid		(9,086)	(15,932)
Interest expense of lease liability		(2,171)	-
<b>Net cash flows from operating activities excluding RAD, accommodation bond and ILU entry contributions</b>		<b>92,881</b>	<b>73,363</b>
RAD, accommodation bond and ILU entry contribution received		272,871	246,454
RAD, accommodation bond and ILU entry contribution refunded		(239,690)	(231,888)
<b>Net cash flows from operating activities</b>	<b>B9</b>	<b>126,062</b>	<b>87,929</b>
<b>Cash flows from investing activities</b>			
Payments for intangible assets	C6	(5,911)	(4,850)
Proceeds from sale of property, plant and equipment		51	19
Proceeds from sale of assets held for sale		2,283	956
Purchase of property, plant and equipment	C4	(74,718)	(88,932)
<b>Net cash flows used in investing activities</b>		<b>(78,295)</b>	<b>(92,807)</b>
<b>Cash flows from financing activities</b>			
Proceeds from repayment of MEP loans	D3	6	7
Proceeds from borrowings		405,000	225,000
Repayment of borrowings		(400,000)	(175,000)
Dividends paid	D3	(32,920)	(41,696)
Repayment of lease liabilities		(3,884)	-
<b>Net cash flows from/(used in) financing activities</b>		<b>(31,798)</b>	<b>8,311</b>
<b>Net increase in cash and cash equivalents</b>		<b>15,969</b>	<b>3,433</b>
Cash and cash equivalents at the beginning of the year		14,631	11,198
<b>Cash and cash equivalents at the end of the year</b>	<b>C1</b>	<b>30,600</b>	<b>14,631</b>

\* Comparative period not restated for AASB 16.

The accompanying notes form part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

## 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 2020 were authorised for issue in accordance with a resolution of the directors on 18 August 2020.

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 2020 (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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020

### SECTION A: ABOUT THIS REPORT (CONTINUED)

#### 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 2020. Liabilities are disclosed as current when they are due within 12 months of 30 June 2020 or when there is no unconditional right to defer settlement for at least 12 months after 30 June 2020.

#### 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 potential impacts of COVID-19, as referenced in Note E4, have been taken into consideration in preparing the financial report on a going concern basis. The Group's current liabilities exceed current assets by \$909,644,000 as at 30 June 2020 (2019: \$866,021,000) 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 \$837,497,000 (2019: \$806,337,000) 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 Note D1 for further details).

The Group has a debt facility of \$330,000,000 of which \$197,152,028 remains undrawn as at 30 June 2020, 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. In making any judgement, estimate or assumption relating to reported amounts, management have also considered, where appropriate the impact of COVID-19.

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 2020 are included in the following notes:

##### **Significant accounting judgements, estimates and assumptions**

Note B1	Revenue and other income
Note B6	Finance costs
Note B7	Income Taxes recognition of deferred tax assets



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### SECTION A: ABOUT THIS REPORT (CONTINUED)

#### A7 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Note C2	Allowance for expected credit losses
Note C3	Assets held for sale
Note C4	Property, plant and equipment impairment test
Note C5	Investment properties
Note C6	Intangible assets impairment test
Note C7	Right of use assets and lease liabilities
Note D4	Share-based payments

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2020

#### SECTION B: OUR PERFORMANCE

##### B1 REVENUE AND OTHER INCOME

	2020 \$'000	2019 \$'000
<b>Revenues</b>		
Government funded residential care subsidies & supplements	443,308	438,323
Resident daily care fees	107,092	104,253
Other resident fees	43,101	43,409
Imputed revenue on RAD and bond balances under AASB 16	43,407	-
<b>Total revenues</b>	<b>636,908</b>	<b>585,985</b>
<b>Other income</b>		
Net gain on disposals of assets held for sale	283	17
Decrease in fair value of investment property	(120)	-
Net gain on disposals of property, plant and equipment	51	19
<b>Total other income</b>	<b>214</b>	<b>36</b>

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 16 *Leases* ("AASB 16"). This includes operating lease revenue which is recognised on a straight line basis over the length of stay. In addition, revenue includes imputed revenue in relation to residents who have chosen to pay a RAD or Bond. This is a non-cash amount. Note E9 includes full details on the Group's adoption and transition to AASB 16 effective from 1 July 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020

### SECTION B: OUR PERFORMANCE (CONTINUED)

#### B1 REVENUE AND OTHER INCOME (CONTINUED)

##### 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. This is 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 \$16,920,642 in the period (2019: \$16,782,000).

##### (b) Resident Daily Care Fees

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

##### (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.

##### (d) Imputed Revenue on RAD and Bond Balances under AASB 16

For residents who have chosen a RAD or Bond arrangement to receive residential aged care services, the Group has determined that following the adoption of AASB 16, these are lease arrangements for accounting purposes with the Group acting as the lessor. The Group has recognised as revenue an imputed non-cash charge for accommodation representing the resident's right to occupy a room under the arrangement. The accounting treatment required a non-cash increase in revenue for accommodation and a non-cash increase in finance cost on the outstanding RAD and Bond balance, with no net impact on the result for the period.

##### Other Income

During the year, the Group sold two properties for \$1,215,000 (2019: \$956,000) and recognised a net gain on sale of \$283,000 (2019: net gain on sale \$17,000).

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.

##### Contract Assets and Liabilities

AASB 15 *Revenue from contracts with customers* ("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).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### SECTION B: OUR PERFORMANCE (CONTINUED)

#### B1 REVENUE AND OTHER INCOME (CONTINUED)

##### SIGNIFICANT ACCOUNTING POLICY

The Group recognises revenue under AASB 15 which 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 because all performance obligations are considered to be met on a daily basis. Therefore the Group does not have any outstanding performance obligations that have not been met at the reporting date.

The Group recognised revenue under AASB 16, and in accordance with the Group's determination that it is acting as a Lessor in respect of the right of a resident to occupy a room. Further details of the Group's adoption and transition to AASB 16 is included in Note E9.

##### SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Following the adoption of AASB 16, the Group has determined the use of the Maximum Permissible Interest Rate ("MPIR") as the interest rate to be used in the calculation of the Imputed Revenue on RAD and Bond Balances. The MPIR is a rate set by the Government and is used to calculate the Daily Accommodation Payment to applicable residents.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### SECTION B: OUR PERFORMANCE (CONTINUED)

#### B2 EMPLOYEE BENEFITS EXPENSES

	2020 \$'000	2019 \$'000
Salaries and wages expense	344,904	322,290
Superannuation expense	32,091	29,462
Other employee expenses	39,005	35,052
<b>Total employee benefits expenses</b>	<b>416,000</b>	<b>386,804</b>

#### B3 ADMINISTRATIVE EXPENSES

	2020 \$'000	2019 \$'000
Advertising and marketing expenses	1,417	924
Telephone and communication expenses	2,353	2,108
Travel expenses	1,594	2,152
Printing and stationery expenses	1,642	2,369
Professional services expenses	3,943	5,476
Other administrative expenses	7,084	6,753
<b>Total administrative expenses</b>	<b>18,033</b>	<b>19,782</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### SECTION B: OUR PERFORMANCE (CONTINUED)

#### B4 OCCUPANCY EXPENSES

	2020 \$'000	2019 \$'000*
Rent expense	350	5,849
Repairs and maintenance expense	8,117	9,578
Other occupancy expenses	15,719	15,870
<b>Total occupancy expenses</b>	<b>24,186</b>	<b>31,297</b>

\* Comparative period not restated for AASB 16.

The Group has various leases for aged care homes, office space and minor office equipment. These leases were previously classified as operating leases under AASB 117 and classified within Rent Expense. Following the adoption of AASB 16 from 1 July 2019, these leases are now accounted for by recognising a depreciable right of use asset and a corresponding lease liability subject to an interest cost, similar to accounting for finance leases under AASB 17. Variable lease payments that do not depend on an index or a rate continue to be recognised as an expense in the period. Further details of the Group's adoption and transition to AASB 16 is included in Note E9.

#### B5 DEPRECIATION, AMORTISATION AND IMPAIRMENT EXPENSES

	Notes	2020 \$'000	2019 \$'000*
Depreciation expense	C4, C7	37,674	26,432
Accelerated depreciation due to home closures	C4	-	1,298
Amortisation expense	C6	1,445	989
Impairment expense	C4, C6	144,622	465
<b>Total depreciation, amortisation and impairment expenses</b>		<b>183,741</b>	<b>29,184</b>

\* Comparative period not restated for AASB 16.

The Group has various leases for aged care homes, office space and minor office equipment. These leases were previously classified as operating leases under AASB 117 and classified within Rent Expense. Following the adoption of AASB 16 from 1 July 2019, these leases are now accounted for by recognising a depreciable right of use asset with an effective life equivalent to the term of the lease. Depreciation expense on right of use assets for the period was \$4,524,000. Further details of the Group's adoption and transition to AASB 16 is included in Note E9.

The impairment expense comprises \$136,059,000 of goodwill and \$8,563,000 across the Group's homes and tangible assets.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### SECTION B: OUR PERFORMANCE (CONTINUED)

#### B6 NET FINANCE COSTS

	Notes	2020 \$'000	2019 \$'000*
Interest income from cash at banks		435	70
<b>Total finance income</b>		<b>435</b>	<b>70</b>
Imputed interest cost on RAD and bond balances <sup>1</sup>	E9	43,407	-
Interest expense on leases under AASB 16 <sup>2</sup>	E9	2,171	-
Interest expense on bank loans		2,801	2,549
Interest capitalised <sup>3</sup>		(597)	(960)
Interest expense on accommodation bonds for departed residents		2,512	3,402
Other finance costs		2,039	2,069
<b>Total finance costs</b>		<b>52,333</b>	<b>7,060</b>
<b>Net finance costs</b>		<b>51,898</b>	<b>6,990</b>

\* Comparative period not restated for AASB 16.

<sup>1</sup> Following the adoption of AASB 16 from 1 July 2019, the Group has determined that it is a lessor where a resident has chosen a RAD or Bond arrangement under which to receive residential aged care services. The Group has recognised an imputed non-cash interest cost on the outstanding RAD and Bond liability. Further details on the Group's adoption and transition to AASB 16 is included in Note E9.

<sup>2</sup> The Group has various leases for aged care homes, office space and minor office equipment. These leases were previously classified as operating leases under AASB 117 and classified within Rent Expense. Following the adoption of AASB 16 from 1 July 2019, these leases are now accounted for by recognising a depreciable right of use asset and a corresponding lease liability subject to an interest cost, similar to accounting for finance leases under AASB 117. Further details of the Group's adoption and transition to AASB 16 is included in Note E9.

<sup>3</sup> Interest directly attributable to the construction of homes has been capitalised to construction in progress at a weighted average rate of 2.46% (2019: 3.04%). Assets have been funded through general borrowings and the capitalisation rate represents the average cost of interest on such borrowings.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### SECTION B: OUR PERFORMANCE (CONTINUED)

#### B6 NET FINANCE COSTS (CONTINUED)

##### 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 D2 for information relating to loans and borrowings.

##### SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The Group has determined the use of the Maximum Permissible Interest Rate ("MPIR") as the interest rate in the calculation of the Imputed Interest Cost on RAD and Bond Balances. The MPIR is a rate set by the Government and is used to calculate the Daily Accommodation Payment to applicable residents.

Where the Group, as a lessee, cannot readily determine the interest rate implicit in a lease, it uses an Incremental Borrowing Rate ("IBR") to calculate interest expense on leases. The IBR is the interest rate that the lessee would have to pay to borrow over a similar term of each lease. The Group estimates the IBR using market interest rates and adjusts these rates to include the effect of the lessee's own stand alone credit rating.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2020

#### SECTION B: OUR PERFORMANCE (CONTINUED)

##### B7 INCOME TAX

	2020 \$'000	2019 \$'000
<i>Current income tax</i>		
Current income tax expense	16,093	16,529
Adjustments in respect of income tax of previous year	355	(290)
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	(8,090)	642
Adjustments in respect of income tax of previous year	(294)	(342)
<b>Income tax expense reported in the consolidated statement of profit or loss and other comprehensive income</b>	<b>8,064</b>	<b>16,539</b>

##### Reconciliation of income tax expense and the accounting profit:

	2020 \$'000	2019 \$'000
Accounting profit before income tax	(108,845)	57,829
At the Australian statutory income tax rate of 30% (2019: 30%)	(32,654)	17,349
Adjustments in respect of income tax of previous year	61	(632)
Utilisation of previously unrecognised tax losses	(176)	(182)
Expenditure not allowable for income tax purposes		
- Goodwill impairment expense	40,818	-
- Other expenditure	15	4
<b>Income tax expense</b>	<b>8,064</b>	<b>16,539</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### SECTION B: OUR PERFORMANCE (CONTINUED)

#### B7 INCOME TAX (CONTINUED)

	Consolidated statement of profit or loss and other comprehensive income		Consolidated statement of financial position	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Accelerated depreciation and impairment	2,541	1,003	(57,307)	(59,848)
IPO transaction fees	(8)	(2,059)	8	16
Other	281	(184)	(545)	(825)
Assets held for sale	2,216	(17)	2,216	-
Bed licences	-	-	(64,571)	(64,571)
Share-based payments	-	(341)	-	-
Provisions and accruals	3,126	1,298	20,047	17,489
Investment properties	36	-	-	(36)
Right of use assets	1,195	-	21,889	-
Lease liabilities	(1,003)	-	(20,141)	-
<b>Deferred tax expense</b>	<b>8,384</b>	<b>(300)</b>		
<b>Deferred tax assets/(liabilities), net</b>			<b>(98,404)</b>	<b>(107,775)</b>
Reflected in the statement of financial position as follows				
Deferred tax assets			45,067	17,672
Deferred tax liabilities			(143,471)	(125,447)
<b>Deferred tax assets/(liabilities), net</b>			<b>(98,404)</b>	<b>(107,775)</b>
<b>Reconciliation of deferred tax liabilities, net:</b>				
			<b>\$'000</b>	
Balance at 1 July 2018			(107,475)	
Tax income during the year recognised in profit or loss			(300)	
<b>Balance at 1 July 2019</b>			<b>(107,775)</b>	
Adjustment due to AASB 16 adoption			1,555	
<b>Adjusted balance as of 1 July 2019</b>			<b>(106,220)</b>	
Tax expense during the year recognised in profit or loss			8,384	
Adjustments in respect of income tax of previous year			(568)	
<b>As at 30 June 2020</b>			<b>(98,404)</b>	

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### 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 a tax asset or liability 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 2020

### 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 or (loss) 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 or (loss) 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.

	2020 \$'000	2019 \$'000
(Loss) or profit attributable to ordinary equity holders of the Parent for basic and diluted earnings	(116,909)	41,290
	2020	2019
Weighted average number of ordinary shares for basic EPS	261,014,726	260,602,749
Effect of dilution	1,538,291	1,270,857
<b>Weighted average number of ordinary shares for the effect of dilution</b>	<b>262,553,017</b>	<b>261,873,606</b>
	2020 cents	2019 cents
Basic (loss) or earnings per share	(44.79)	15.84
Diluted (loss) or earnings per share	(44.79)	15.77



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2020

#### SECTION B: OUR PERFORMANCE (CONTINUED)

##### B9 CASH FLOW RECONCILIATION

	2020 \$'000	2019 \$'000
<b>(a) Reconciliation of net profit or (loss) after income tax to net cash flows from operations</b>		
<b>(Loss)/Profit for the year</b>	(116,909)	41,290
<b>Adjustments to reconcile profit or (loss) after income tax to net cash flows:</b>		
Depreciation of property, plant and equipment	33,150	27,730
Depreciation on right of use assets	4,524	-
Imputed revenue on RAD and bond balances	43,407	-
Imputed interest cost on RAD and bond balances	(43,407)	-
Amortisation of intangibles	1,445	989
Impairment of property, plant and equipment	144,622	465
Net gain on disposal of property, plant and equipment	(51)	(19)
Net gain on sale of assets held for sale	(283)	(17)
Bond retention revenue	(1,910)	(1,041)
Movement in allowance for expected credit losses	440	(387)
Share-based payments	(47)	658
Stepped lease costs	-	209
Net (gain) or loss on fair value of investment properties	120	-
<b>Changes in assets and liabilities</b>		
Decrease/ (increase) in trade and other receivables	(835)	2,000
Decrease/ (increase) in prepayments and other assets	(1,595)	344
Decrease/ (increase) in deferred tax assets	(5,185)	1,129
(Decrease)/ increase in deferred tax liabilities	(2,755)	(828)
(Decrease)/ increase in current tax payable	7,111	306
(Decrease)/ increase in trade and other payables	22,260	(3,306)
(Decrease)/ increase in provisions	8,779	3,841
(Decrease)/ increase in refundable accommodation deposits and bonds	33,181	14,566
<b>Net cash flows from operating activities</b>	<b>126,062</b>	<b>87,929</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### SECTION B: OUR PERFORMANCE (CONTINUED)

#### B9 CASH FLOW RECONCILIATION (CONTINUED)

##### 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.

	2019 \$'000	AASB 16 Adoption \$'000	Net cash flows \$'000	Other \$'000	2020 \$'000
<b>(b) Reconciliation of liabilities arising from financing activities</b>					
Non-current loans and borrowings	125,000	-	5,000	-	130,000
Lease liabilities	-	76,305	(3,884)	540	72,961
Dividends paid	-	-	(32,920)	-	-
<b>Total liabilities from financing activities</b>	<b>125,000</b>	<b>76,305</b>	<b>(31,804)</b>	<b>540</b>	<b>202,961</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### SECTION C: ASSETS & LIABILITIES

#### C1 CASH AND CASH EQUIVALENTS

	2020 \$'000	2019 \$'000
Cash at bank	30,522	14,555
Cash on hand	78	76
<b>Total cash and cash equivalents</b>	<b>30,600</b>	<b>14,631</b>

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

At 30 June 2020, the Group had available \$197,152,028 (2019: \$201,596,890) of undrawn committed borrowing facilities, which excludes \$4,000,000 (2019: \$4,000,000) of bank guarantees disclosed in Note E2.

#### 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 2020

### SECTION C: ASSETS & LIABILITIES (CONTINUED)

#### C2 TRADE AND OTHER RECEIVABLES

	2020 \$'000	2019 \$'000
Trade receivables	8,593	8,045
Other receivables	1,549	2,574
Allowance for expected credit losses	(2,013)	(1,573)
<b>Total trade and other receivables</b>	<b>8,129</b>	<b>9,046</b>

#### Allowance for expected credit loss

Set out below is the movement in the allowance for expected credit losses of trade receivables for the period.

	2020 \$'000	2019 \$'000
As at 1 July	1,573	1,509
AASB 9 Adjustment	-	451
Provision for expected credit loss	732	801
Utilised	(292)	(1,188)
<b>At 30 June</b>	<b>2,013</b>	<b>1,573</b>

#### 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.

#### SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In calculating the allowance for expected credit loss, the Group applies judgements when identifying customers 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 customer, 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 customer balances.

The Group determined that the risk characteristics of its customers were not significantly impacted by COVID-19 during the period. The Group observed there to be no significant shift in customer payment patterns and performance following the declaration of the COVID-19 pandemic in Australia from March 2020 that would materially impact the ability to collect outstanding debtor balances.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### SECTION C: ASSETS & LIABILITIES (CONTINUED)

#### C3 ASSETS HELD FOR SALE

	2020 \$'000	2019 \$'000
Assets held for sale	5,441	-
<b>Total assets held for sale</b>	<b>5,441</b>	<b>-</b>

In May 2019, the Estia home in Mona Vale (NSW) was closed as it did not meet the community expectations for residential aged care homes. Following a detailed review it was decided that the best use of the site was to sell the property. During the period, the Group entered into a binding unconditional contract to sell this site for \$10.95 million with settlement expected to be in June 2020. The purchaser requested and the Group agreed, to an extension of the settlement to November 2020 for which the Group received a single incentive payment of \$125,000. A deposit of \$1,095,000 has also been received during the period. The Group has not recognised any profit on this sale during the period.

During the period, the Group considered the potential redevelopment into a residential aged care facility of a property it owns in Wombarra, NSW. However, the Group decided in June 2020 to enter into a process for the disposal of this site.

#### 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 in its current condition and 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.

#### SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

For an asset held for sale for which fair value less cost of disposal cannot be referenced to a binding unconditional contract of sale, the Group takes into consideration various external sources of information, such as comparable sales history and guidance provided by independent external parties, to determine the likely fair value less cost of disposal for the asset.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### SECTION C: ASSETS & LIABILITIES (CONTINUED)

#### C4 PROPERTY, PLANT AND EQUIPMENT

##### Reconciliation of property, plant and equipment

Note	Furniture, fixtures & Motor vehicles						Construction in progress	Total
	Land \$'000	Buildings \$'000	Property Improvements \$'000	equipment \$'000	& \$'000	vehicles \$'000		
<b>Cost</b>								
Balance at 1 July 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)	
<b>Balance at 30 June 2019</b>	<b>192,840</b>	<b>504,816</b>	<b>64,823</b>	<b>92,045</b>	<b>989</b>	<b>47,593</b>	<b>903,106</b>	
Additions	3,148	-	2,783	9,884	65	51,981	67,861	
Transfers	3,960	26,653	15,129	19,143	-	(64,885)	-	
Disposals	(885)	(445)	(46)	(2,112)	(155)	-	(3,643)	
Transfers to assets held for sale	(5,250)	-	-	(48)	-	(108)	(5,406)	
<b>Balance at 30 June 2020</b>	<b>193,813</b>	<b>531,024</b>	<b>82,689</b>	<b>118,912</b>	<b>899</b>	<b>34,581</b>	<b>961,918</b>	
<b>Accumulated depreciation</b>								
Balance at 1 July 2019	-	28,832	2,174	25,947	788	-	57,741	
Depreciation expense	B5	11,884	3,306	12,438	102	-	27,730	
Impairment expense	B5	-	-	-	-	465	465	
Disposals	-	(786)	(1,267)	(2,965)	(43)	(465)	(5,526)	
<b>Balance at 30 June 2019</b>	<b>-</b>	<b>39,930</b>	<b>4,213</b>	<b>35,420</b>	<b>847</b>	<b>-</b>	<b>80,410</b>	
Depreciation expense	B5	11,498	4,148	17,431	72	-	33,149	
Impairment expense	B5	4,844	858	589	-	2,213	8,504	
Disposals	-	(445)	(30)	(2,046)	(149)	-	(2,670)	
<b>Balance at 30 June 2020</b>	<b>-</b>	<b>55,826</b>	<b>9,189</b>	<b>51,395</b>	<b>770</b>	<b>2,213</b>	<b>119,393</b>	
<b>Net book value</b>								
As at 30 June 2019	<b>192,840</b>	<b>464,887</b>	<b>60,610</b>	<b>56,624</b>	<b>142</b>	<b>47,593</b>	<b>822,696</b>	
As at 30 June 2020	<b>193,813</b>	<b>475,198</b>	<b>73,500</b>	<b>67,516</b>	<b>129</b>	<b>32,368</b>	<b>842,524</b>	

The land and buildings predominately relate to aged care facilities. The provision of aged care includes operating leases as described in Note E9.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020

### SECTION C: ASSETS & LIABILITIES (CONTINUED)

#### C4 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 are 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 are tested for impairment at the lowest level Cash Generating Unit ("CGU"). Each mature home is determined to be a separate CGU because it generates cash flows which are largely independent of other assets.

The Group also assesses the indicators for impairment at each financial year end. If impairment indicators exist an impairment test will be performed. The impairment test consists of comparing the recoverable amount of a CGU against its carrying value. Recoverable amount is the higher of the CGU's fair value less costs of disposal and value in use. The carrying value is determined on a basis consistent with the way the recoverable amount of the CGU is determined. The carrying value of the CGU represents those assets that can be attributed directly or allocated on a reasonable and consistent basis.

Additionally, the Group assesses the residual values, useful lives and methods of depreciation of property, plant and equipment and adjusts prospectively, if appropriate.

##### **SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

During the period, the Group identified the existence of indicators of impairment at some of its aged care homes. An impairment test on these homes determined that the long term financial returns of the homes are likely to be compromised due to external factors such as new competition, changing consumer expectations and the impacts of COVID-19. The Group determined the recoverable amount of these homes to be the higher of fair value less costs of disposal and value in use. For value in use, the Group applied a discount rate of 9.5% to financial forecasts of each home which covered a five year period (2021 to 2025) and a terminal value which assumed a long term growth rate of between 0.0% to (5.0%). The recoverable amount was then compared to the carrying value of each home and in accordance with AASB 136, the Group reduced the carrying value of each home to equal its recoverable amount.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### SECTION C: ASSETS & LIABILITIES (CONTINUED)

#### C5 INVESTMENT PROPERTIES

	2020 \$'000	2019 \$'000
Balance at beginning of period	1,620	1,620
Fair value adjustments	(120)	-
<b>Total investment properties</b>	<b>1,500</b>	<b>1,620</b>

Investment properties comprise Independent Living Units ("ILUs") located in one retirement village 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.

#### SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The fair value of investment properties of \$1,500,000 (2019: \$1,620,000) has been categorised as Level 3 based on the inputs to the valuation technique used (see Note D6).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2020

#### SECTION C: ASSETS & LIABILITIES (CONTINUED)

##### C6 GOODWILL AND OTHER INTANGIBLE ASSETS

	Note	Goodwill \$'000	Bed licences \$'000	Software costs \$'000	Total \$'000
Balance at 1 July 2018		817,074	215,236	7,029	1,039,339
Additions		-	2,695	2,155	4,850
Disposals		-	-	(89)	(89)
<b>Balance at 30 June 2019</b>		<b>817,074</b>	<b>217,931</b>	<b>9,095</b>	<b>1,044,100</b>
Additions		-	3,350	2,529	5,879
Disposals		-	-	(94)	(94)
<b>Balance at 30 June 2020</b>		<b>817,074</b>	<b>221,281</b>	<b>11,530</b>	<b>1,049,885</b>
<b>Accumulated amortisation</b>					
Balance at 1 July 2018		-	-	3,551	3,551
Amortisation expense	B5	-	-	989	989
Disposals		-	-	(89)	(89)
<b>Balance at 30 June 2019</b>		<b>-</b>	<b>-</b>	<b>4,451</b>	<b>4,451</b>
Amortisation expense	B5	-	-	1,445	1,445
Impairment	B5	136,059	-	59	136,118
Disposals		-	-	(94)	(94)
<b>Balance at 30 June 2020</b>		<b>136,059</b>	<b>-</b>	<b>5,861</b>	<b>141,920</b>
<b>Net book value</b>					
As at 30 June 2019		<b>817,074</b>	<b>217,931</b>	<b>4,644</b>	<b>1,039,649</b>
As at 30 June 2020		<b>681,014</b>	<b>221,281</b>	<b>5,669</b>	<b>907,964</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020

### SECTION C: ASSETS & LIABILITIES (CONTINUED)

#### C6

#### 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 licences 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 licences 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 2020

### SECTION C: ASSETS & LIABILITIES (CONTINUED)

#### C6 GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

##### **SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

The Group performs impairment testing on goodwill and intangible assets, such as bed licences, annually and also when an impairment indicator(s) exist. The Group considers the relationship between its market capitalisation and its net book value, among other factors, when reviewing for indicators of impairment. As at 30 June 2020, the market capitalisation of the Group was below its net book value, indicating that potentially these assets could be impaired.

For impairment testing purposes, goodwill and bed licences are allocated to a group of CGUs that represent the lowest level within the Group at which these assets are monitored. This is consistent with the Group's operating segment identified in Note E5. The carrying value of the CGU was then compared against its recoverable amount. The recoverable amount of the CGU was determined on a value-in-use calculation basis by discounting cash flow projections approved by the Board and senior management that cover a five year period (2021 to 2025) after which a terminal value is applied. The valuations used to test carrying values are based on forward looking assumptions which are uncertain. The forecasts also considered the impacts of COVID-19, including potential outbreaks, during the forecast period.

**Discount rate** of 9.3% was applied to the cash flow forecasts, including terminal value. The discount rate incorporates adjustments resulting from the adoption of AASB 16 to include the impact of lease liabilities on debt and equity assumptions. This rate reflects the current market assessments of the risks specific to the industry the CGU operates in, and also taking into consideration the time value of money. The calculation of the rate is based on the specific circumstances of the Group and is derived from its weighted average cost of capital.

**Long term growth rate** of 2.3% which reflects an assessment of inflation and perpetual growth using market and economic data.

The result of the testing indicated that the recoverable amount of the CGU was less than its carrying value which resulted in an impairment charge against goodwill of \$136.1 million.

##### **Sensitivities to change in assumptions:**

As a result of the impairment charge noted above, the recoverable amount of the CGU is now in line with its carrying value. The following sensitivity changes to the forward assumptions will have an impact of increasing or decreasing the recoverable amount:

- A 10% increase or reduction in forecasted EBITDA across all future years, including the terminal year, will result in an increase or decrease of \$52.0 million.
- An increase or decrease of 50 basis points to the discount rate will result in an increase or decrease of approximately \$50.0 million
- An increase or decrease of 50 basis points in the long term growth rate will result in an increase or decrease of approximately \$40.0 million.

	2020	2019
	%	%
Post-tax discount rate	9.3	9.5
Pre-tax discount rate	12.5	11.8
Long term growth rate	2.3	2.1

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### SECTION C: ASSETS & LIABILITIES (CONTINUED)

#### C7 RIGHT OF USE ASSETS AND LEASE LIABILITIES

The Group has lease agreements for various aged care facilities, office space and minor office equipment with varying lease terms. Following the adoption of AASB 16 on 1 July 2019, the carrying amounts of the Group's right of use assets and lease liabilities and the movement during the period are presented below. Refer to E9 paragraph (a) for full details on the adoption and transition to AASB 16.

	Property Leases \$'000	Other Equipment \$'000	Total \$'000	Lease Liabilities \$'000
As at 1 July 2019	70,827	295	71,122	76,305
Depreciation expense	(4,375)	(149)	(4,524)	-
Interest expense	-	-	-	2,171
Lease payments	-	-	-	(6,055)
Remeasurement of leases	540	-	540	540
<b>As at 30 June 2020</b>	<b>66,992</b>	<b>146</b>	<b>67,138</b>	<b>72,961</b>

Right of use assets of property leases predominately relates to aged care facilities. The provision of aged care includes operating leases as described in Note E9.

The following table is provided to assist with the understanding of the impact of the adoption of AASB 16 on the profit and loss for the period:

	\$'000
Depreciation expense of right-of-use assets, now recognised	4,524
Interest expense on lease liabilities, now recognised	2,171
Operating lease rentals, under AASB 117	(6,055)
<b>Net impact on the Profit and Loss</b>	<b>640</b>

As allowed by adopting a practical expedient under AASB 16, there is no change to the recognition and measurement of short term, low asset value and variable leases. The Group had low value leases relating to minor office equipment such as printers and photocopiers. An amount of \$122,000 was recognised as an expense during the period.

Under its lease agreements, the Group incurs variable lease payments in the form of expenditure in relation to insurance, council and water rates, and water consumption. There has been no change in recognition of these amounts under AASB 16 and the Group recognised an amount of \$350,000 as an expense in the period.

#### SIGNIFICANT ACCOUNTING POLICY

In accordance with AASB 16, the Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### SECTION C: ASSETS & LIABILITIES (CONTINUED)

#### C7

#### RIGHT OF USE ASSETS AND LEASE LIABILITIES (CONTINUED)

##### *Right-of-use-assets*

The Group recognises right-of-use assets at the commencement date of the lease (that is, the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred if any, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

##### *Lease liabilities*

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

##### *Short term leases and leases of low value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of minor office equipment (that is, those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

#### **SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

In applying AASB 16, the Group has made the following judgements.

In determining the lease term used to ascertain total future lease payments, the Group considers all facts and circumstances that create an economic benefit to exercise an extension option. Renewal options are only considered to be part of the lease term if the lease is reasonably certain to be extended. The Group has included renewal periods as part of the lease term for all leases as it is reasonably certain these will be extended. This assessment is reviewed if a significant event or change in circumstances occurs which affects this assessment and is also within the control of the Group.

Where the Group cannot readily determine the interest rate implicit in the lease, it uses its incremental borrowing rate (IBR) to calculate the present value of future lease payments. The IBR is the interest rate that the lessee would have to pay to borrow over a similar term of each lease. The Group estimates the IBR using market interest rates and adjusts these rates to include the effect of the lessee's own stand alone credit rating.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2020

#### SECTION C: ASSETS & LIABILITIES (CONTINUED)

##### C8

#### TRADE AND OTHER PAYABLES

	2020 \$'000	2019 \$'000
<b>Current trade and other payables</b>		
Trade creditors	9,643	12,865
Payroll liabilities	36,297	14,832
Sundry creditors and accruals	13,587	16,349
<b>Total current trade and other payables</b>	<b>59,527</b>	<b>44,046</b>
<b>Non-current other payables</b>		
Sundry creditors and accruals	-	12
<b>Total non-current other payables</b>	<b>-</b>	<b>12</b>
<b>Total trade and other payables</b>	<b>59,527</b>	<b>44,058</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### SECTION C: ASSETS & LIABILITIES (CONTINUED)

#### C9 OTHER FINANCIAL LIABILITIES

	2020 \$'000	2019 \$'000
Independent living unit (ILU) entry contributions	1,193	1,304
<b>Total other financial liabilities</b>	<b>1,193</b>	<b>1,304</b>

#### 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.

#### SIGNIFICANT ACCOUNTING POLICY

ILU entry contributions are recognised at fair value through profit or loss with resulting fair value adjustments recognised in profit or loss. Fair value is measured as the amount payable on demand and is measured as the net of the principal amount at the point of entry, plus the resident's share in any increase or decrease in the market value of the occupied ILU (for ILU contracts that contain a capital gain or loss share clause) and less any deferred management fees that have accrued up to the reporting date.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2020

#### SECTION C: ASSETS & LIABILITIES (CONTINUED)

##### C10 PROVISIONS

	2020 \$'000	2019 \$'000
<b>Current provisions</b>		
Employee benefits	52,678	44,558
Stepped lease provision	-	1,058
<b>Total current provisions</b>	<b>52,678</b>	<b>45,616</b>
<b>Non-current provisions</b>		
Employee benefits	5,155	4,496
<b>Total non-current provisions</b>	<b>5,155</b>	<b>4,496</b>
<b>Total provisions</b>	<b>57,833</b>	<b>50,112</b>

#### 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### SECTION D: CAPITAL, FINANCING, RADS AND RISK

#### D1 REFUNDABLE ACCOMMODATION DEPOSITS AND BONDS

	2020 \$'000	2019 \$'000
Current residents	759,479	698,242
Departed residents	76,825	106,791
<b>Total refundable accommodation deposits and bonds - amounts received</b>	<b>836,304</b>	<b>805,033</b>

#### 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.

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, with the intention of ensuring it has sufficient liquidity, in the form of cash or undrawn lines of credit, 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. 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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

#### D2 LOANS AND BORROWINGS

	2020 \$'000	2019 \$'000*
<b>Non-current loans and borrowings</b>		
Bank loans, secured	128,848	124,603
<b>Total non-current loans and borrowings</b>	<b>128,848</b>	<b>124,603</b>

\* The comparative period has been restated to deduct directly attributable transaction costs from the carrying value of the loan. The amount deducted in the current period was \$1,152,000 and the prior period was \$397,000.

#### Terms and conditions of loans

The Group has a syndicated debt facility ('Facility') with a number of major Australian banks. The Facility may be used for general corporate purposes including funding acquisitions, capital expenditure, working capital requirements and providing sufficient liquidity to redeem refundable accommodation deposits or bonds.

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 2020 was \$330,000,000. In addition, the facility now has an accordion feature which allows for the facility to be increased by an additional \$170,000,000, subject to various terms and conditions of the accordion feature being satisfied. The Facility will mature in November 2022.

#### SIGNIFICANT ACCOUNTING POLICY

Borrowings are recognised initially at fair value. Directly attributable transaction costs are deducted from the initial carrying value of the loan and these costs amortised over the term of the facility.

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 2020

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

#### D3 SHARE CAPITAL AND RESERVES

	2020 \$'000	2019 \$'000
<b>Issued and fully paid</b>		
Ordinary shares	803,356	801,843
<b>Total share capital</b>	<b>803,356</b>	<b>801,843</b>

#### (a) Movements in ordinary shares on issue

	2020		2019	
	Number of shares	\$'000	Number of shares	\$'000
Beginning of the financial year	260,602,749	801,843	260,602,749	801,836
Share issue – DRP	669,165	1,507	-	-
Movement in management equity plan	-	6	-	7
<b>End of the financial year</b>	<b>261,271,914</b>	<b>803,356</b>	<b>260,602,749</b>	<b>801,843</b>

Ordinary shares have no par value per share.

#### (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 D4 for further details of these plans.

#### (c) Franking credits

The franking credit balance of Estia Health Limited for the year ended 30 June 2020 is \$19,087,406 (2019: \$23,917,303).

#### (d) Dividends paid

The final dividend for the year ended 30 June 2019 of \$20,328,082 (7.8 cents per share) was paid on 2 October 2019. The interim dividend for the year ended 30 June 2020 of \$14,098,838 (5.4 cents per share) (2019: \$20,848,220) was paid on 27 March 2020.

#### (e) Dividend reinvestment plan

The DRP has been reinstated which will allow eligible shareholders to reinvest all or part of their dividend distribution into shares. The DRP was only applicable for the interim dividend paid on 27 March 2020 as no final dividend will be paid in regards to the period ended 30 June 2020.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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

#### D4 SHARE-BASED PAYMENTS

At 30 June 2020, 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 and dual listed NZX/ASX 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 824,290 rights (2019: 615,019) to executives.

##### (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.

For the year ended 30 June 2020, the STIP was measured against Earnings Before Interest, Tax and Depreciation and Amortisation ('EBITDA') on a pre AASB 16 basis, Net Profit After Tax and Culture 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.

The number of performance rights granted under the STIP during the year ended 30 June 2020 relating to the incentive payments earned in the year ended 30 June 2019 was 23,055 (2019: 13,693).

##### (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 2020. There has been no change since 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%



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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

#### D4 SHARE-BASED PAYMENTS (CONTINUED)

##### (c) Management Equity Plan (MEP) (continued)

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

##### (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:

	2020		2019	
	Number	WAEP	Number	WAEP
<b>MEP shares only</b>				
Outstanding at 1 July	50,000	2.00	50,000	2.00
<b>Outstanding at 30 June</b>	<b>50,000</b>	<b>2.00</b>	<b>50,000</b>	<b>2.00</b>
Exercisable at 30 June	50,000	2.00	50,000	2.00

	2020		2019	
	Number	WAEP	Number	WAEP
<b>Performance rights only</b>				
Outstanding at 1 July	1,536,396	-	907,684	-
Granted during the year	994,018	-	628,712	-
Forfeited and cancelled during the year	(990,206)	-	-	-
Exercised during the year	(13,693)	-	-	-
<b>Outstanding at 30 June</b>	<b>1,526,515</b>	<b>-</b>	<b>1,536,396</b>	<b>-</b>
Exercisable at 30 June	-	-	13,693	-

The weighted average remaining contractual life for the MEP shares and performance rights outstanding as at 30 June 2020 was approximately 1.67 years (2019: 1.31).

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 \$0.58 (2019: \$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:

	2020 \$'000	2019 \$'000
Long-term incentive plan	(121)	605
Short-term incentive plan	62	41
Management equity plan	12	12
<b>Share-based payments expense recognised in profit or loss</b>	<b>(47)</b>	<b>658</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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

#### D4 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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

#### D4 SHARE-BASED PAYMENTS (CONTINUED)

##### 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, 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	FY20 Plan	FY19 Plan	FY18 Plan
Share price at grant date	\$2.71	\$2.19	\$3.02 - \$3.51
Dividend yield	3.0%	5.0%	3.5%
Volatility	30%	38%	40%
Risk free rate	0.7%	2.0%	2.0%
Probability of achieving EPS	10%	40%	50%
Fair value of right - TSR	\$0.68 - \$0.76	\$0.46 - \$0.47	\$1.16 - \$1.58
Fair value of right - EPS	\$2.50	\$1.92	\$2.73 - \$3.21

###### 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 \$2.71 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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

#### D4 SHARE-BASED PAYMENTS (CONTINUED)

##### SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

###### MEP-Recognition and measurement of fair value

In accordance with AASB 2, 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 2020

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

#### D5 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities consist of interest-bearing loans and borrowings, trade and other payables, Refundable Accommodation Deposits and lease liabilities. 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 Group is not exposed to commodity or equity risks.

The sensitivity analyses in the following sections relate to the position as at 30 June 2020 and 30 June 2019.

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 2020 and 30 June 2019.

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 2020 and 30 June 2019.

##### 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
	2020 %	2019 %	
Cash and liquid assets	1.1	0.9	Floating
Bank loans	1.4	2.7	Floating
Refundable accommodation deposits – departed residents	2.9	3.8	Floating

The details of debt are disclosed in Note D2 to the financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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

#### D5 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

##### 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)	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
+ 0.25% (25 basis points)	(174)	(193)	(122)	(135)
- 0.25% (25 basis points)	174	193	122	135

##### 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 maximum loss is equal to the carrying amount of the asset. The Group is exposed to credit risk from customer receivables and from its deposits with banks.

Approximately 75% (2019: 74%) of the revenue (excluding imputed non cash revenue on RAD and bond balances following the adoption of AASB 16 from 1 July 2019) of the Group is obtained from Commonwealth Government funding. 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.

##### Trade and other receivables

Customer credit risk is managed subject to an established Group policy which requires the regular monitoring and follow up of outstanding customer receivables.

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

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 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.

Generally, customer receivables are written-off when the Group have exhausted all reasonable avenues to recover the balance.

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 these receivables.

The following table provides information about the expected credit losses for trade receivables, excluding the Commonwealth Government balance of \$3,323,000 at 30 June 2020 (2019: \$1,813,000):

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2020

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

##### D5 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

###### Credit risk (continued)

	Expected credit loss rate %	Gross carrying amount \$'000	Allowance for expected credit loss \$'000
<b>As at 30 June 2020</b>			
Current (not past due)	6%	1,892	110
<30 days past due	16%	533	84
30-60 days past due	22%	388	85
61-90 days past due	20%	465	93
>90 days past due	81%	2,033	1,640
		<b>5,311</b>	<b>2,012</b>

	Expected credit loss rate %	Gross carrying amount \$'000	Expected credit loss \$'000
<b>At 30 June 2019</b>			
Current	1%	756	8
<30 days	8%	1,792	135
30-60 days	11%	838	95
61-90 days	17%	491	83
>90 days	53%	2,355	1,252
<b>Total</b>	<b>25%</b>	<b>6,232</b>	<b>1,573</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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

#### D5 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

##### 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
<b>Year ended 30 June 2020</b>					
Trade and other payables	926	58,601	-	-	59,527
Loans and borrowings	-	-	130,000	-	130,000
Refundable accommodation deposits and bonds	836,304	-	-	-	836,304
Other financial liabilities	1,193	-	-	-	1,193
Lease liabilities	-	6,123	22,102	67,225	95,450
	<b>838,423</b>	<b>64,724</b>	<b>152,102</b>	<b>67,225</b>	<b>1,122,474</b>
<b>Year ended 30 June 2019</b>					
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
Lease liabilities	-	-	-	-	-
	<b>807,719</b>	<b>46,039</b>	<b>125,511</b>	<b>-</b>	<b>979,269</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### 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 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. Any unremedied 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 2020.

#### 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	Total \$'000	Fair value measurement using		
		Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Investment properties				
30 June 2020	1,500	-	-	1,500
30 June 2019	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 2020	30 June 2019
Discount rate	15.00%	15.00%
Growth rate	2.63%	2.85%
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 2020

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

#### D6

#### FAIR VALUE MEASUREMENT (CONTINUED)

##### SIGNIFICANT ACCOUNTING POLICY

The Group measures its 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 2020

### 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 D4 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.

	2020 \$'000	2019 \$'000
Short-term employee benefits	1,627	1,697
Post-employment benefits	63	66
Short-term incentive payments	-	188
Share-based payments	98	581
Termination payments	-	-
<b>Total compensation of key management personnel</b>	<b>1,788</b>	<b>2,532</b>

#### E2 COMMITMENTS AND CONTINGENCIES

##### Class action

On 16 July 2019 Phi Finney McDonald commenced a representative proceeding (shareholder class action) in the Federal Court of Australia against the Group. The statement of claim includes allegations of contraventions of the Corporations Act 2001 (Cth) in relation to continuous disclosure obligations and misleading or deceptive conduct in 2015 and 2016. The claim 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.

The proceedings have, to date, mostly involved procedural issues including the discovery process. The Group will continue to vigorously defend the proceedings. It is too early in the process of assessing the claims to provide a reliable assessment of the quantum of any damages that may become payable if the Group's defence is unsuccessful in whole or in part. As a result, the Group is not in a position to state whether the proceeding is likely to have a material impact on its future financial position or performance.

##### Capital commitments

During the year, the Group entered into contracts relating to the development of aged care homes. As at 30 June 2020, the remaining capital commitments amounted to \$20,238,000 (2019: \$41,700,000).

##### 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 (2019: \$4,000,000). These are secured against the borrowing facilities disclosed in Note D2. 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### SECTION E: OTHER INFORMATION (CONTINUED)

#### E3

#### AUDITOR REMUNERATION

	2020 \$'000	2019 \$'000
Fees to the auditor for statutory financial report	800	688
Fees for assurance services that are required by legislation to be provided by the auditor	16	14
Fees for other services	88	193
<b>Total auditor remuneration</b>	<b>904</b>	<b>895</b>

The auditor of Estia Health Limited and its subsidiaries is Ernst & Young.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### SECTION E: OTHER INFORMATION (CONTINUED)

#### E4 SUBSEQUENT EVENTS

##### COVID-19

Subsequent to 30 June 2020 there was an outbreak in some Group homes in Victoria, with Ardeer (55 beds) and Heidelberg West (45 beds) experiencing high COVID-19 positive test rates among residents and staff. At 14 August 2020, nine of the Group's 27 homes in Victoria have COVID-19 positive cases in residents or staff, and no homes in other states had active COVID-19 positive cases.

In relation to the Ardeer and Heidelberg West COVID-19 outbreaks, the Group was issued with Notices to Agree ("Notices") from the Aged Care Quality and Safety Commission ("Commission"). These Notices specified additional requirements relating to the monitoring and management of the homes including:

- Not admitting new residents into the home until the Victorian Public Health Unit has declared the home cleared of COVID-19;
- The appointment of an independent advisor to assist with ensuring the health and well-being of residents; and
- Providing daily and weekly reports to the Commission on managing the outbreak.

The escalating COVID-19 pandemic is impacting all our operating locations and is impacting the financial results of the Group subsequent to 30 June 2020. In particular, our Ardeer and Heidelberg West locations have been significantly impacted as a result of falling revenues, and the increased cost of staffing and personal protective equipment which are well above historical trends. The scale and duration of these conditions remain uncertain and it is likely that the future earnings, cash flow and financial conditions of the Group will be impacted. This may also result in the non-cash impairment of assets in the future. The Commonwealth Government has issued a number of schemes to provide additional financial support to assist Approved Providers to offset the impact of cost increases arising from responding to COVID-19. The Group will apply for such schemes and amounts for which it believes it is eligible. Due to the uncertainty regarding the extent of declining revenues, increasing costs and funding support from the Government schemes, the Group is not able to quantify the overall financial impact of the COVID-19 outbreak with a degree of certainty at this stage.

The Group continued to have full management control for each of the affected homes at all times, and continues to operate within the provisions of its Syndicated Financing Facility. The Group has total liquidity (being cash on hand and undrawn debt facilities) totalling \$222.6 million as at 14 August 2020. As a result and as also mentioned in Note A6, the Financial Report has been prepared on a going concern basis.

#### 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 2020

### SECTION E: OTHER INFORMATION (CONTINUED)

#### E6 INFORMATION RELATING TO SUBSIDIARIES

The consolidated financial statements of the Group include:

Name	Country of Incorporation	% Equity Interest	
		2020	2019
Estia Finance Pty Ltd <sup>2</sup>	Australia	100%	100%
Estia Investments Pty Ltd <sup>3, 5</sup>	Australia	100%	100%
Kenna Investments Pty Ltd <sup>4, 5</sup>	Australia	100%	100%
Hayville Pty Ltd <sup>6</sup>	Australia	100%	100%
Camden Village Pty Ltd <sup>5</sup>	Australia	100%	100%
Kilbride Village Pty Ltd <sup>5</sup>	Australia	100%	100%
Subsidiaries that were dormant during the period and deregistered:			
Estia Mezzco Pty Ltd <sup>6</sup>	Australia	0%	100%
Estia Midco Pty Ltd <sup>6</sup>	Australia	0%	100%
Spirytus Pty Ltd <sup>4, 6</sup>	Australia	0%	100%
Jaid Residential Services Pty Ltd <sup>4, 6</sup>	Australia	0%	100%
TGM Care Pty Ltd ATF the TGM Care Unit Trust <sup>1, 6</sup>	Australia	0%	100%
East Coast Senior Care Pty Ltd <sup>4, 6</sup>	Australia	0%	100%
William Kennedy Holdings Pty Ltd <sup>1, 5</sup>	Australia	0%	100%
Wollongong Nursing Home Pty Ltd <sup>4, 6</sup>	Australia	0%	100%
Ranesta Holdings Pty Ltd <sup>6</sup>	Australia	0%	100%
Eddystone Nursing Home Pty Ltd <sup>6</sup>	Australia	0%	100%
Merrylands Nursing Home Pty Ltd <sup>6</sup>	Australia	0%	100%
Kennedy Health Care Group Pty Ltd <sup>6</sup>	Australia	0%	100%
Camden Nursing Home Pty Ltd <sup>6</sup>	Australia	0%	100%
Camden House Pty Ltd <sup>6</sup>	Australia	0%	100%
Bankstown Aged Care Facility Pty Ltd <sup>6</sup>	Australia	0%	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 and was de-registered as at 30 June 2020

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### SECTION E: OTHER INFORMATION (CONTINUED)

#### E7 PARENT ENTITY INFORMATION

	2020 \$'000	2019 \$'000
<i>Information relating to Estia Health Limited</i>		
Current assets	559,796	565,622
Non-current assets	570,406	476,207
<b>Total assets</b>	<b>1,130,202</b>	<b>1,041,829</b>
Current liabilities	-	-
Non-current liabilities	454,623	228,297
<b>Total liabilities</b>	<b>454,623</b>	<b>228,297</b>
<b>Net assets</b>	<b>675,579</b>	<b>813,532</b>
Issued capital	803,356	801,843
Reserves	1,747	1,794
Retained earnings	(129,524)	9,895
<b>Total shareholders' equity</b>	<b>675,579</b>	<b>813,532</b>
(Loss)/ profit of the parent entity	(104,992)	27,405
Total comprehensive (loss)/ income of the parent entity	(104,992)	27,405

The goodwill impairment charge recognised in the period of \$136,059,000 (refer to Note C6) was recognised by Estia Investments Pty Ltd, a wholly owned subsidiary of Estia Health Ltd (the parent entity). The recognition of a goodwill impairment charge by its subsidiary resulted in the parent entity recognising an impairment charge against the carrying value of its investment in Estia Investments Pty Ltd of \$132,247,000. In accordance with Note A4 Basis of Consolidation, the impairment charge recognised by the parent entity is eliminated in preparing the Consolidated Financial Statements.

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
- Kenna Investments Pty Ltd
- Hayville Pty Ltd
- Camden Village Pty Ltd
- Kilbride Village Pty Ltd

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### SECTION E: OTHER INFORMATION (CONTINUED)

#### E7

#### PARENT ENTITY INFORMATION (CONTINUED)

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.

#### 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### SECTION E: OTHER INFORMATION (CONTINUED)

#### 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 2019:

##### AASB 16 Leases

The Group has adopted AASB 16 Leases with an application date of 1 July 2019. AASB 16 replaces AASB 117 Leases and AASB Interpretation 4 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. The adoption requires the Group to disclose leases as a lessor and as a lessee.

##### (a) Group as a Lessee

AASB 16 requires lessees to account for all leases similar to accounting for finance leases under AASB 117. This results in the Group recognising a right of use ('ROU') asset and a corresponding lease liability for all leases with a term greater than 12 months, excluding assets of low value when acquired new. The operating lease expense is replaced by depreciation on the ROU assets and interest expense on the amortising lease liability.

The Group has also adopted the modified retrospective approach when transitioning to AASB 16. Under this approach, the Group has not restated comparatives and has recognised the cumulative effect of AASB 16 as an adjustment to the opening balance of retained earnings.

The Group elected to use a transition practical expedient to not reassess whether a contract is, or contains, a lease at 1 July 2019. Instead the Group applied AASB 16 only to contracts that were previously identified as leases applying AASB 117 and AASB Interpretation 4 at the date of initial application.

The adoption of AASB 16 has had the following increase or (decrease) affect on the Group's balance sheet as at 1 July 2019:

	\$'000
<b>Assets</b>	
Right-of-use assets	71,122
Deferred tax assets	22,891
<b>Total</b>	<b>94,013</b>
	<b>\$'000</b>
<b>Liabilities</b>	
Interest bearing lease liabilities	(76,305)
Deferred tax liabilities	(21,654)
Reversal of Stepped Rental Provision	1,057
<b>Total</b>	<b>(96,902)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### SECTION E: OTHER INFORMATION (CONTINUED)

#### E9

#### NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (CONTINUED)

##### Changes in accounting policy, disclosures, standards and interpretations (continued)

##### AASB 16 Leases (continued)

**\$'000**

##### Total adjustment on equity:

Retained earnings	2,889
<b>Total</b>	<b>2,889</b>

##### (i) Lease liabilities

The Group has various leases for aged care homes, office space and minor office equipment. These leases were previously classified as operating leases under AASB 117. Upon adoption of AASB 16, the Group has now recognised lease liabilities measured at the present value of the future remaining lease payments, discounted using an incremental borrowing rate for each lease as at 1 July 2019.

Lease liabilities recognised on 1 July 2019 can be reconciled to the operating lease commitments as of 30 June 2019 as follows:

**\$'000**

Lease commitments reported as at 30 June 2019	24,482
Add: Payments in optional extension period not recognised as at 30 June 2019	77,563
Less: Impact of discounting under AASB 16	(25,740)
Lease liabilities as at 1 July 2019	<b>76,305</b>

The weighted average incremental borrowing rate as at 1 July 2019 was 2.9%.

##### (ii) Right of use assets

ROU assets for leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of the incremental borrowing rate at the date of initial application based on remaining lease term. The ROU asset is then depreciated on a straight-line basis over the lease term determined in (i) above.

For (i) and (ii), as permitted by AASB 16, the following practical expedients have been applied by the Group:

- Reliance on previous assessments of whether leases are onerous as an alternative to performing an impairment review;
- Treating leases with a lease term of less than 12 months as at 1 July 2019 as short term leases;
- Application of hindsight in determining the lease term where the lease agreement contains an option to extend or terminate the lease; and
- Exclusion of the initial direct costs from the measurement of the right of use asset at the date of initial application.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### SECTION E: OTHER INFORMATION (CONTINUED)

#### E9 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (CONTINUED)

##### Changes in accounting policy, disclosures, standards and interpretations (continued)

###### AASB 16 Leases (continued)

###### (iii) Deferred Tax Asset and Liability

The Group recognises deferred tax on initial recognition by considering the right of use asset and the lease liability separately. The resultant deferred tax asset and deferred tax liability are offset where a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

###### (iv) Stepped Rental Provision

The Group has four property leases which are subject to an annual fixed rental increase. The rental expense was being recognised on a straight line basis each month over the term of the lease. As at 30 June 2019, the amount of the accumulated expense was greater than the actual cost of the lease payments and the Group had recognised a corresponding liability for future lease payments.

Following the adoption of AASB 16, future lease increases are now included in the measurement of the lease liability. The stepped rental provision was reversed against retained earnings as a transition adjustment.

##### (b) Group as a Lessor

The Group classifies leases as an operating or finance lease based on whether substantially all the risks and rewards are transferred to the lessee. For sub-leases, the classification is performed by reference to the head lease ROU asset rather than the underlying asset. Leases with residents are classified as operating leases.

For residents who have chosen a RAD or Bond arrangement, the Group has determined that the adoption of AASB 16 will define these arrangements to be a lease for accounting purposes with the Group acting as the lessor. Where residents have opted to pay a Daily Accommodation Payment, the Group has determined that the adoption of AASB 16 will not have a material change to the existing accounting treatment.

Under a RAD or Bond arrangement the Group has recognised an imputed non-cash charge for accommodation representing the resident's right to occupy a room under the arrangement. The accounting treatment required a non-cash increase in revenue for accommodation and a non-cash increase in finance cost on the outstanding RAD liability, with no net impact on the result for the period.

The imputed non-cash charge for the year ended 30 June 2020 was calculated based on applying the Maximum Permissible Interest Rate as at the date the RAD or Bond balance was received up to the date the balance was refunded. If the balance remained outstanding as at 30 June 2020, then the calculation was completed up to this date.

###### *AASB 2018-1: Amendments to Australian Accounting Standards - Annual Improvements to IFRS Standards 2015-2017 Cycle*

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### SECTION E: OTHER INFORMATION (CONTINUED)

#### E9

#### NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (CONTINUED)

##### Changes in accounting policy, disclosures, standards and interpretations (continued)

##### AASB 2018-1: Amendments to Australian Accounting Standards - Annual Improvements to IFRS Standards 2015-2017 Cycle (continued)

The adoption of this interpretation did not have a significant impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

##### *AASB Interpretation 23, and relevant standards: Uncertainty over Income Tax Treatments*

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 adoption of this interpretation did not have a significant impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### SECTION E: OTHER INFORMATION (CONTINUED)

#### E9 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (CONTINUED)

##### Accounting Standards and Interpretations issued but not yet effective

###### *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.

###### *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 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.

###### *AASB 2019-3 Amendments to Australian Accounting Standards: Interest Rate Benchmark Reform*

Effective for the Group from 1 July 2020.

These amendments were issued in response to the effects of Interbank Offered Rates reform on financial reporting and provides hedge accounting to continue during a period of uncertainty before the replacement of an existing interest rate benchmark with an alternative benchmark.

The Group is in the process of evaluating the impact of the new standard with no material impact expected.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### SECTION E: OTHER INFORMATION (CONTINUED)

#### E9

#### NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (CONTINUED)

##### **Accounting Standards and Interpretations issued but not yet effective (continued)**

*AASB 2019-5 Amendments to AASs - Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia*

Effective for the Group from 1 July 2020.

It may be possible for an entity that asserts to be complying with Australian Accounting Standards, may not be able to assert it is complying with IFRS Standards if its reporting date falls between the issuance date of a new IFRS Standard and a later release date of an Australian Accounting Standard. This Standard allows the entity to disclose the possible impact of an initial application of a forthcoming IFRS Standard not yet adopted by the Australian Accounting Standards Board.

The Group is in the process of evaluating the impact of the new standard with no material impact expected.

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## 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 2020 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 2020 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 2020.

On behalf of the Board



Dr. Gary H Weiss AM  
Chairman

18 August 2020



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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 2020, 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 2020 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 (including Independence Standards)* (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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### Subsequent events - COVID-19 Outbreaks

#### Why significant

In July 2020, there were outbreaks of COVID-19 in two Estia facilities. As these outbreaks arose subsequent to 30 June 2020, these are non-adjusting subsequent events.

The Group is required to include adequate disclosures of material subsequent events in the financial statements. The disclosures should include a description of the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made.

The COVID-19 outbreaks are expected to have negative impacts on the financial performance of these affected facilities, as well as potentially greater levels of regulatory scrutiny on the operations of aged care providers. There have also been further outbreaks at other aged care providers which may reduce overall consumer sentiment regarding the Aged Care Sector.

Management has considered the potential impact of these outbreaks on the going concern assessment, which underpins the preparation of the financial statements.

Subsequent Events - COVID-19 Outbreaks was considered a key audit matter due to the uncertainty regarding the impact these events may have on the future performance and financial position of the Group.

The Group has disclosed in Note E4 of the financial statements the impact of the COVID-19 outbreaks and how this has been considered by the directors in the preparation of the financial statements at 30 June 2020.

#### How our audit addressed the key audit matter

**In assessing the impacts of the COVID-19 outbreaks subsequent event, we:**

- ▶ Enquired of management regarding the extent of positive COVID-19 cases with residents and employees;
- ▶ Enquired of management regarding any requests from residents of the affected facilities to leave the facilities, and how this may impact the Group's liquidity and recoverability of amounts owed from the residents;
- ▶ Enquired of management regarding staff member's ability and willingness to continue working in the affected facilities, and Group's arrangements for back up staff in the event of staff shortages due to further confirmed COVID-19 cases;
- ▶ Enquired of management regarding the potential impact on business and the Group's response regarding Government-imposed restrictions on aged care staff members to work in multiple facilities;
- ▶ Enquired of management regarding any actual or potential claims from residents or employees against Group in relation to the COVID-19 outbreaks;
- ▶ Enquired and assessed management's response to the potential impact on business viability and the ability to continue as a going concern;
- ▶ Assessed the adequacy of the Group's disclosures in relation to the COVID-19 outbreaks included in the financial report.

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### Goodwill, intangible assets and related impairment loss

Why significant	How our audit addressed the key audit matter
-----------------	--

At 30 June 2020 the Group's goodwill and bed licences balance was \$902 million which represents 48% of total assets. This is after recognition of an impairment loss of \$136 million in FY20.

The Group reviews the carrying amount of goodwill and bed licenses annually, or more frequently, if impairment indicators are present.

The group of cash generating units (CGUs) to which goodwill and bed licenses can be allocated is consistent with the operating segment identified as disclosed in Note E5, which is the whole Group.

The Group has used a discounted cash flow model to estimate the value in use of the assets. The estimates are based on conditions existing and emerging at 30 June 2020. In assessing discounted future cash flows as at 30 June 2020, the expectation was that the probability of a second Melbourne-wide lockdown was relatively high. However, the estimates do not include the effect of events indicative of conditions arising after 30 June 2020.

The impairment analysis was considered a key audit matter due to the process to estimate recoverable amount being complex and requiring significant judgment.

The Group has disclosed in note C6 to the consolidated financial report the assessment method, including the significant underlying assumptions, the results of the assessment and impairment loss as well as the impact of applying sensitivities.

We assessed the appropriateness of the allocation of goodwill and bed licenses to the Group, composition of carrying amount of CGU and related impairment loss.

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 impact of COVID-19 based on conditions existing and emerging at 30 June 2020 on cash flow forecast of revenues, operating costs and the effect of changes in residency mix;
- ▶ 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 the adequacy of the estimated capital expenditure;
- ▶ Assessed the discount rates through comparing the weighted average cost of capital for the Group with comparable businesses including the impact of COVID-19;
- ▶ 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 recoverable amount of the CGU and we assessed the likelihood of these changes in assumptions arising;
- ▶ 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 and bed licences.

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## Construction in Progress and related impairment loss

### Why significant

Costs incurred during the year that were capitalised to Construction in Progress amounted to \$52 million. This represents costs of development projects and significant refurbishments of existing aged care facilities. Costs of the projects impaired during the year amounted to \$2.2 million.

The specific criteria to be met for capitalisation of development costs in accordance with Australian Accounting Standards involves judgement, 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.

In addition, as a result of COVID-19, the Group reassessed whether ongoing projects remained feasible and therefore, likely to be completed. This resulted in further assessments of the recoverability of costs already incurred and capitalised. In the case of construction in progress, determining the recoverable amounts of projects under development requires additional judgement and use of assumptions which are affected by future market conditions or economic developments.

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.

Construction in Progress and related impairment loss was considered a key audit matter due to the quantum of the balance and judgement required in applying the capitalisation criteria and carrying out the impairment analysis.

The Group has disclosed in Note C4 to the consolidated financial report the capitalisation policy and the impact of impairment of costs for the projects that are **less likely to proceed**.

### How our audit addressed the key audit matter

Our audit procedures included the following:

- ▶ 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;
- ▶ Assessed whether the capitalised costs of projects that are less likely to proceed have been appropriately impaired and reduced from the balance;
- ▶ 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;
- ▶ Assessed the appropriateness of the key inputs in the determination of value in use of ongoing projects under construction and performed sensitivity analysis in respect of these inputs;
- ▶ Assessed the adequacy of the Group's disclosures regarding the timing that costs are recognised as an asset, the deprecation rates applied to each asset category and the impairment of projects that are less likely to proceed.

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**Revenue**

Why significant	How our audit addressed the key audit matter
<p>Revenue is generated primarily 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 also received a temporary funding increase from March 2020 which resulted in an uplift in the amount of revenue recognised.</p> <p>In addition, the Group received a COVID-19 Support Supplement for the month of February 2020. This has also been recognised in the year ended 30 June 2020.</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>Revenue was considered a key audit matter given the effect of strict legislation, adjustment in rates by government time to time, and the volume of transactions with residents and government.</p> <p>The Group's revenue recognition and disaggregation policies have been disclosed in note B1 to the consolidated financial report.</p>	<p>We evaluated the effectiveness of key controls in relation to 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"> <li>▶ Assessed whether ACFI assessments were prepared by an authorised person, and were calculated based on resident care assessments;</li> <li>▶ Compared the government revenue recognised to payments received;</li> <li>▶ Tested whether resident revenue agreed to agreements, legislated billing rates, and payments received;</li> <li>▶ Tested whether the application of the Daily Care Fee incorporated rate increases;</li> <li>▶ Assessed whether resident additional service fees changes were approved and whether billing rates were correct.</li> </ul> <p>We performed the following other audit procedures in relation to revenue:</p> <ul style="list-style-type: none"> <li>▶ Compared the revenue accrual to actual occupancy rates;</li> <li>▶ Tested whether the revenue recognised related to performance obligations satisfied within the period;</li> <li>▶ Assessed whether the COVID-19 support supplement received by the Group during the year related to performance obligations already satisfied within the period;</li> <li>▶ Assessed the appropriateness of the financial statement disclosures in relation to the Group's revenue recognition and disaggregation policies.</li> </ul>

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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 2020 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.

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.

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- 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, actions taken to eliminate threats or safeguards applied.

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.

## Report on the Audit of the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 76 to 92 of the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Estia Health Limited for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

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## 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.

A handwritten signature in black ink that reads 'Ernst &amp; Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Paul Gower'.

Paul Gower  
Partner  
Melbourne  
18 August 2020

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# Directory of Estia Health 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**

<b>Albany Creek</b>	55 Faheys Road West, 4035	07 3264 4850
<b>Gold Coast</b>	34 Scarborough Street, Southport 4215	07 5551 0307
<b>Maroochydore</b>	2-6 Amity Ave, 4558	07 5391 4800
<b>Mount Coolom</b>	15 Suncoast Beach Drive, 4573	07 5343 0200
<b>Mudgeeraba</b>	21-25 Old Coach Road, 4213	07 5565 0900
<b>Nambour</b>	27 Glenbrook Drive, 4560	07 5459 3600
<b>Southport</b>	40 William Street, 4215	07 5646 4170
<b>Twin Waters</b>	190 Ocean Drive, 4564	07 5646 4120

**VICTORIA**

<b>Altona Meadows</b>	297 Queen Street, 3028	03 9369 4568
<b>Ardeer</b>	30 North Street, 3022	03 9360 4552
<b>Bannockburn</b>	71 McPhillips Road, 3331	03 5281 1991
<b>Benalla</b>	73 Samaria Road, 3672	03 5762 6933
<b>Bendigo</b>	9 Brown Street, Long Gully, 3550	03 5449 2400
<b>Bentleigh</b>	34-36 Clairmont Avenue, 3204	03 9557 2888
<b>Coolaroo</b>	15 Mladen Court, 3048	03 9309 0011
<b>Dandenong</b>	151 David Street, 3175	03 9792 4322
<b>Epping</b>	30 Epping Road, 3076	03 9408 8564
<b>Glen Waverley</b>	2B Grace Street, 3150	03 9562 5814
<b>Grovedale</b>	6A Perrett Street, 3216	03 5247 2000
<b>Heidelberg</b>	413-415 Waterdale Road, 3081	03 9455 0000
<b>Keilor</b>	2-6 Copernicus Way, Keilor Downs, 3038	03 9367 1011
<b>Keysborough</b>	15 Stanley Road, 3173	03 8788 2700
<b>Knoxfield</b>	428 Scoresby Road, 3180	03 9763 1421
<b>Leopold</b>	52-60 Ash Road, 3224	03 5250 2156
<b>Melton South</b>	34-42 Brooklyn Road, 3338	03 9747 5600
<b>Oakleigh East</b>	23A Elizabeth Street, 3166	03 9544 8167
<b>Plenty Valley</b>	806 Plenty Road, South Morang, 3752	03 9404 8000
<b>Prahran</b>	241 Dandenong Road, Windsor, 3181	03 9533 7855
<b>Ringwood</b>	211-217 Wantirna Road, 3134	03 9879 5155
<b>South Morang</b>	879 Plenty Road, 3752	03 9404 8600
<b>Victoria Heights</b>	41-47 Victoria Street, Ironbark, 3550	03 5443 2731
<b>Wattle Glen</b>	45 Silvan Road, 3096	03 9718 2267
<b>Werribee</b>	8-10 Russell Street, 3030	03 9749 8000
<b>Wodonga</b>	240 Felltimber Creek Road, 3690	02 6043 5000
<b>Yarra Valley</b>	21 Hoddle Street, Yarra Junction, 3797	03 5967 5500



# Estia Health

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Estia Health Bannockburn