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ASX Announcement

24 August 2021

Appendix 4E and Annual Financial Report

In accordance with ASX Listing Rule 4.3A, Estia Health Limited (ASX: EHE) provides the attached Appendix 4E and Annual Financial Report for the year ended 30 June 2021.

Approved for release by the Board of Directors of Estia Health Limited

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Further Enquiries:

Media	Investors
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Appendix 4E

Estia Health Limited

Results for announcement to the market
Preliminary final report for the year ended 30 June 2021[1]

	Increase / Decrease	30 June 2021 $'000	30 June 2020 $'000	Change %
Revenue from ordinary activities		646,305	636,908	
Other income		19,087	214	
Total revenue and other income from ordinary activities	**Increase**	**665,392**	637,122	4.4
Profit / (loss) before interest and tax	**Increase**	**57,875**	(56,947)	201.6
Profit / (loss) from ordinary activities after tax attributable to members	**Increase**	**5,998**	(116,909)	105.1

	30 June 2021 (cents)	30 June 2020 (cents)	Change %
Basic earnings / (loss) per share	**2.30**	(44.79)	105.1
Diluted earnings / (loss) per share	**2.27**	(44.79)	105.1
Net tangible asset backing per ordinary share	**(73.53)**	(76.86)	4.3

Net tangible assets is total net equity less intangible assets and deferred tax liabilities, divided by the number of ordinary shares on issue at period end. It includes the right of use assets and lease liabilities as disclosed in Note C7 which accompanies the full year Financial Report of Estia Health Limited for the period ended 30 June 2021.

Dividend information

Dividend	30 June 2021 (cents)	30 June 2020 (cents)	Change %
Interim dividend – fully franked (2020: fully franked)	**-**	5.40	(100.0)
Final dividend – fully franked (2020: fully franked)	**2.30**	-	100.0
Total dividend – fully franked (2020: fully franked)	**2.30**	5.40	(57.4)

Final dividend dates

Ex-dividend date	29 August 2021
Record date	30 August 2021
Payment date	17 September 2021

The Dividend Reinvestment Plan will be suspended at this time.

Further Information

Commentary on the results for the period can be found in the attached 30 June 2021 full year Directors' Report. This ASX Appendix 4E (Listing Rule 4.3A) should be read in conjunction with the fully year Financial Report which has been audited by Ernst & Young, with an unqualified audit opinion, and any public announcements made in the period by Estia Health Limited in accordance with the continuous disclosure requirements of the Corporations Act 2001 and ASX Listing Rules.

Changes in controlled entities

There have been no changes in controlled entities during the year.

[1] Previous corresponding period being the year ended 30 June 2020

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Leanne Ralph

Company Secretary

24 August 2021

ESTIA HEALTH LIMITED

ABN 37 160 986 201

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2021

ESTIA HEALTH LIMITED

ABN 37 160 986 201

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CORPORATE INFORMATION

ABN 37 160 986 201

DIRECTORS

Dr. Gary H Weiss AM (Chairman)

Ian Thorley (Managing Director and CEO)

Norah Barlow ONZM

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

Commonwealth Bank of Australia
201 Sussex Street
Sydney NSW 2000

Australia and New Zealand Bank
242 Pitt Street
Sydney NSW 2000

AUDITORS

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000

DIRECTORS' REPORT

Your Directors submit their report on Estia Health Limited ("the Company") and its controlled entities ("Estia" or the "Group") for the year ended 30 June 2021.

DIRECTORS

The names and qualifications of the Group's Directors who held 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	COVID-19 Committee
Chair	Karen Penrose	Paul Foster	Helen Kurincic	Warwick Smith	Gary Weiss	Helen Kurincic
Member	Gary Weiss	Gary Weiss	Paul Foster	Gary Weiss	Warwick Smith	Gary Weiss
Member	Warwick Smith	Helen Kurincic	Karen Penrose	Paul Foster	Karen Penrose	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:

	Board Meetings	Audit Committee	Nomination & Remuneration Committee	Risk Management Committee	Property & Investment Committee	COVID-19 Committee
No. of meetings eligible to attend:	19	6	6	8	3	18
	Attended	Attended	Attended	Attended	Attended	Attended
Dr. Gary H Weiss AM	19	6	6		3	18
Ian Thorley	19	-	-			
Norah Barlow ONZM	19	-	-		3	
Paul Foster	19	-	6	8	3	
Hon. Warwick L Smith AO	19	6	-		3	
Helen Kurincic	19	-	6	8		18
Karen Penrose	19	6	-	8		16

The Royal Commission and Regulatory Committee held no meetings during the period.

During the year the board established a Class Action Committee comprising Hon. Warwick L Smith AO (Chair), Ms Helen Kurincic, Ms Karen Penrose, Mr Ian Thorley, and Mr Steve Lemlin, for the sole purpose of assisting the Board with matters concerning the class action against the Company. This committee met three times during the period.

All directors have a standing invitation to attend Committee meetings and regularly attend meetings of Committees, particularly the COVID-19 Risk sub-committee. Such attendance is not reflected in the above tables.

The board may establish other sub-committees, from time to time, as and when required.

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	78,312
Ian Thorley	138,001
Norah Barlow ONZM	129,474
Paul Foster	24,000
Hon. Warwick L Smith AO	182,000
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 member of the Australian Institute of Company Directors.

PRINCIPAL ACTIVITIES AND STRATEGY

The principal activities of the Group during the year ended 30 June 2021 continued to be the provision of services in residential aged care homes in Australia as an Approved Provider under the *Aged Care Act*.

The Group's strategy is to:

- be a market leader in owning and developing high quality residential aged care homes in Australia.
- provide residents with the highest standards of aged care services in an innovative, supportive and caring environment.
- deliver earnings growth through sustained high occupancy rates across all homes, opening new homes, the enhancement of current homes, and acquisitions; and
- develop additional earnings from related services within the continuum of Aged Care

THE MARKET IN WHICH ESTIA OPERATES

The Aged Care Funding Authority ("ACFA") in its 2021 Report disclosed 217,145 operational places in the sector at 30 June 2020, an increase of 1.8% from the prior year. Services were provided to 244,363 residents (an increase of 0.7% compared to the prior year) with total revenues of $18.5 billion of which $13.4 billion was provided by the Australian Government. The Government's May 2021 response to the Royal Commission Report into Aged Care is expected to provide $17.7 billion additional funding to the aged care sector over the next four years, out of which $8.7 billion is expected to be invested towards improving Residential Aged Care services.

Currently, in order to access Government supported residential aged care services, potential residents must be assessed as qualifying for such services by a Government Aged Care Assessment Team ("ACAT") and may then choose a residential aged care home of their choice. Only Approved Providers, such as Estia, with approved bed licences in accredited homes are eligible to provide services which qualify for Government funding support. The Government's response to the Royal Commission proposed multiple reforms to the Residential Aged Care sector including changes to ACAT assessment and the issuing of bed licences, which will likely change the financial and operational environment in which Estia operates as referenced further in this report.

The ageing of the Australian population and in particular the ageing of the "baby boomers" is generally expected to see a marked increase in Australia's aged population. The 85 years and over cohort will increase from under 500,000 people in 2020 to over one million people by 2040. This is expected to increase the number of Australians likely to need aged care, including residential aged care in coming years.

THE MARKET IN WHICH ESTIA OPERATES (CONTINUED)

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

THE GROUP'S PORTFOLIO

The Group delivers services across 69 homes in New South Wales, Queensland, South Australia and Victoria, of which 62 are freehold sites. As at 30 June 2021, these homes had 6,289 operational bed licences, and the Group holds a further 159 off-line 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.

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 care in a safe and supportive environment for people who are no longer able to live at their own home. Short-term respite and rehabilitation care is also provided for older Australians who normally live at their home, but temporarily require a higher level of support and care following a hospital stay, an accident or medical event, or to allow their normal carers to take a break.

Each Estia home is managed by an Executive Director who leads a team of clinical staff, nurses, personal care assistants, lifestyle and allied health co-ordinators, chefs, cleaning, laundry and maintenance staff. During periods of lockdowns or restricted access associated with COVID-19, additional resident liaison staff are engaged as appropriate to assist families in keeping in touch with their loved ones, remotely or in person. 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 under the direction of the Clinical Governance Committee, chaired by an independent expert, Professor Simon Wilcock. The application of these policies and procedures at a home level is managed by each home Executive Director supported by regional and local educators and support teams.

When new residents are welcomed into an Estia home, their individual needs are assessed in order to develop tailored clinical care plans. The inclusion of families in the process assists in the identification of meaningful ways to assist residents to feel comfortable and supported in their new home beyond clinical care.

Food and nutrition form a critical part of the care and well-being of Estia's residents. Home menus are reviewed by nutritionists and food is prepared fresh on-site every day 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 to delivering nutritious, quality meals for all residents.

Lifestyle co-ordinators liaise with physiotherapists and other allied health support services to design and deliver a wide range of activities to support the mental, social and welfare needs of residents. Cultural and community engagement is further fostered with relationships with outside organisations including local schools.

Quality of care is monitored by uniform clinical quality indicators, which are measured and reviewed by the Quality Improvement Committee. Internal audit reviews of quality of care are regularly undertaken by the Group's quality team and key clinical performance data is assessed against industry benchmarks by independent consultants.

Regular surveying of resident and family satisfaction levels is conducted using the same criteria originally adopted by the Aged Care Quality and Safety Commission's ("ACQSC") Consumer Experience Reports ("CER") during inspection visits to homes. The Group achieved an overall average 93.7% (2020: 93.0%) satisfaction rating across the questions during the year to 30 June 2021, based on the percentage of responses that reported experience as "most of the time" or "always".

REGULATORY ENVIRONMENT, REFORM AND THE ROYAL COMMISSION INTO AGED CARE

The Residential Aged Care sector is highly regulated within the provisions of the Aged Care Act and the Aged Care Quality and Safety Commission Act 2018. The ACQSC approves providers and monitors the quality of care and services delivered. The Department of Health currently issues bed licences on a strictly controlled basis, governs the services which are delivered and levels of funding and revenue. As such Government policy settings have a major impact on the financial performance of providers.

Prior to the Royal Commission into Aged Care Quality and Safety (the "Royal Commission"), there had been multiple significant reviews and reports commissioned by Government into the operation of the sector since the publication of the Aged Care Roadmap in 2016. Most of the recommendations were not implemented.

The Royal Commission was called by the Prime Minister in September 2018 and handed down its final report in February 2021 containing 148 specific recommendations. The Government provided a formal response statement in late May 2021 and announced increased funding measures in the May 2021 Budget.

ROYAL COMMISSION

As one of the large Approved Providers, the Group along with many providers was required by the Royal Commission to provide two data sets of information in relation to the quality of care and staff hours worked at its homes. The Group complied by the requested date for each submission and was not asked to appear before the Royal Commission following those submissions nor in relation to any matters relating to its operations. Estia was not referenced in the final report in relation to any performance matters.

The Group CEO Mr Ian Thorley was invited to make a submission to the Royal Commission in relation to the future funding, financing and sustainability of the sector and appeared before the Commission on 21 September 2020. Mr Thorley presented the Group's views on necessary sector reform to create a sustainable and high quality sector where funding and financing arrangements would support the financial viability of efficient providers and enable investment returns sufficient to attract the capital required to meet the increase in expected demand and quality.

The Royal Commission's 148 recommendations are wide-ranging and can be categorised into the following areas:

- Governance and prudential regulation
- Quality and safety
- Workforce
- Funding and financing

Many of the recommendations, if adopted by the Government, will lead to greater cost and administrative burdens on providers and create increased hurdles and potential barriers to entry for new entrants.

The Royal Commission recognised that legislated funding to the sector had been insufficient to support the level of services and quality expected by the community and would need to be significantly increased in future to meet those expectations and the Royal Commission's own recommendations. The Commissioners recommended some immediate steps be taken and a longer-term review and re-positioning of pricing and funding be undertaken to ensure the financial sustainability of the sector.

GOVERNMENT RESPONSE TO THE ROYAL COMMISSION

Many of the responses will require legislative approvals following detailed assessment, research and consultation which is expected to take place over the next 2-3 years including the passing of a new Aged Care Act.

Selected key matters which the Government has indicated will form part of its proposed legislative change include:

GOVERNMENT RESPONSE TO THE ROYAL COMMISSION (CONTINUED)

- Short-term financial relief by way of an of $10 per day increase in the daily fee supplements from 1 July 2021. If this had been applied to the Group's occupied bed days in FY21 this would have equated to an additional $20.6 million of revenue.
- Mandated minimum care hours from October 2023, with a commitment to increase funding to cover increased costs.
- A wide range of regulatory, supervisory, prudential, reporting and governance improvements which will be introduced over the next 18-24 months.
- The replacement of Aged Care Funding Instrument (ACFI) with a case-mix model (referred to as AN-ACC) by October 2022.
- Confirmation that an independent pricing authority will provide pricing recommendations to Government.
- An increase of 80,000 new home care packages over the next two years.
- Establishment of working groups or other bodies to undertake research or planning and propose detailed solutions in a range of areas, many of which are likely to have a material impact on financial outcomes but will not be known for some time including:

  • abolition of Aged Care Approval Round (ACAR) or allocated bed licences by 2024,

  • alternative capital funding sources to potentially replace Refundable Accommodation Deposits (RADs) from 2025

  • increased user-pay amended means or asset testing and any increase in resident co-contributions.

The Government Response has not yet defined:

- to what extent future input cost inflation will be supported by legislated revenue rate increases in order to address sector margin compression,
- a level of appropriate returns to cover the provision of capital or delivery of services,
- how the costs associated with the delivery of increased minimum staff care hours will impact funding at a home level,
- how workforce planning and remuneration levels will operate to ensure a sufficient supply of skilled workers is available to the sector to meet increased needs,
- detail on any future regulatory requirements subsequent to the proposed abolition of bed licences in 2024 nor any transitional arrangements, including necessary legislative processes,
- information on alternative capital funding solutions for the potential replacement of RADs by 2025,
- future arrangements in relation to user co-contribution to ensure that proposed changes can be sustainably financed by the Commonwealth Budget.

The Government response to the Royal Commission recommendations is widely expected to lead to higher costs and increased regulatory requirements upon operators. Most of the more substantive changes are still subject to considerable design, development, consultation and then implementation risk, all of which will need to be successfully completed before the full impact to consumers and operators can be known.

GOVERNMENT RESPONSE TO THE ROYAL COMMISSION (CONTINUED)

Securing a sufficient, well trained workforce will need ongoing and priority attention by Government, training institutions and providers.

Under current arrangements, the announced reforms will also add significantly to the cost of future aged care services for Government, and therefore future taxpayers, raising concerns about the sustainability of future aged care services which remain to be resolved.

The Group will continue to advocate for its residents and appropriate sector reform and legislated changes to deliver 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.

BED LICENCES

The Government has announced its intention to abolish the ACAR and associated supply restrictions on bed licences which will take effect from June 2024. This is a positive move which will increase consumer choice, competition and is line with the strong recommendations of the peak consumer body, Council on the Ageing (COTA) and the Group's own recommendations to the Royal Commission. The Directors believe this will be beneficial to the Group which will no longer be restricted by the allocation process in the scope or geography of its development and expansion. These proposed changes will require enacting in legislation as part of the proposed new Aged Care Act for which the Government has indicated a target date for enacting of 2023. Until such time, Approved Providers may only secure Government subsidies and fees if they hold appropriate licences.

The Group's balance sheet at 30 June 2021 included a value of $221.3 million relating to bed licences, and an associated deferred tax liability of $64.6 million. The majority of this was established under fair value accounting rules on the purchase of homes and providers from 2014 to 2016, when there existed an open market value for bed licences, varying over time and regions from $25,000 up $100,000 per bed licence. $2.7 million related to licences acquired on market during 2018-2019.

The Directors believe this reform will be positive for the Group's growth prospects. As referenced in note C6 Goodwill and Intangibles of the Financial Statements, the value in use assessment of the Group's total assets, including intangibles and bed licence, exceeds the reported net book value. Given this fact and the uncertainty at this time as to whether the legislation will be enacted, in what form and with what associated transitional arrangements, the Directors have determined that the carrying value of these bed licences in the financial statements continues to be appropriate at the date of this report. It is possible that as further information becomes available as this process progresses that the reported value of these licences may be impaired either progressively or in total immediately. Any such impairment would be a non-cash item without adverse impact on solvency, liquidity or banking covenants.

COVID-19

As a result of the pandemic, all of the Group's homes were impacted at one time or another during the year to varying degrees by the need for visitor restrictions, increased Infection Protection and Control ("IPC") protocols, increased Personal Protective Equipment ("PPE") consumption, and higher cleaning and waste disposal cost.

As has been well-documented, the State of Victoria was severely impacted by the "second wave' of COVID-19 from early July 2020, with major restrictions including a lockdown which did not ease until November 2020. Of the Group's 27 homes in Victoria, 11 experienced at least one infection in a resident or staff member and, sadly, 36 residents who had contracted COVID 19 died during this "second wave". No homes outside of Victoria experienced any infections during the period.

The Group responded rapidly and comprehensively to the outbreak in Victoria by working with the relevant Government agencies in managing its response at a home level in accordance with guidelines and its COVID-19 Response Plans. Measures taken included: restriction of visitors to homes, testing and isolation of new admissions, use of full PPE, increased dedicated IPC personnel, and family or resident liaison staff. In addition, the Group adopted the Victorian industry voluntary code restricting staff to working at one site. The Group provided and continues to provide paid Quarantine Leave for staff who are symptomatic or awaiting test results.

COVID-19 (CONTINUED)

In 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 required Estia to agree to undertake specified actions. All matters identified by the ACQSC have been addressed to the satisfaction of ACQSC and no further action is required from Estia.

During September and October 2020, the outbreaks were progressively resolved and the last of Estia’s homes with a COVID-19 infection was declared free of COVID-19 on 10 November 2020.

Subsequent to November 2020, there were periodic outbreaks and lockdowns in all States during the year. The Group’s homes responded in line with health guidelines, including temporary closing to visitors. No Estia homes experienced infections in residents or staff between November 2020 and 30 June 2021.

The financial impacts arising from the pandemic are explained later in this Report.

It is evident that the impacts of COVID-19 on the community will continue to be experienced for the foreseeable future and the impact on the aged care sector which cares for some of the most vulnerable members of the community will likely continue to be significant. As local infections and “clusters” emerge in local communities it is likely that regular lockdowns, restrictions to visitor access and increased PPE usage will continue to be part of the normal operating mode of residential aged care homes. The Group regularly reviews its COVID-19 Response Plans and established a program of outbreak simulations to enhance the skills and preparedness of managers and staff to respond to a variety of COVID-19 related events or situations.

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.

All residents were offered COVID-19 vaccines at their Estia home in the period from April to June.

The Federal Government announced that it expected the States to issue public health orders before 17 September 2021 to make vaccinations mandatory for all residential aged care workers. It is anticipated that all States will have issued relevant public health Directions by that date.

The Group has undertaken awareness programs, requested all staff are vaccinated in advance of any legislation and established an in-reach program offering vaccinations at each home to all staff and residents which commenced in July.

As of 20 August 2021, 82.4% of the Group’s residents and 82.1% of employees had been partially or fully vaccinated against COVID-19.

ACCREDITATION AND COMPLIANCE

The ACQSC undertakes regular assessment inspections at all homes in the sector. During the year 95 accreditation visits were made to 60 of the Group’s homes. All homes have at all times remained fully accredited and no Estia home has been sanctioned during the period or subsequently. 10 homes received a report of unmet outcomes during the period, of which 6 were fully resolved within any required time frames. At the date of this Report, 4 homes have remaining unmet outcomes, which the group continues to work with ACQSC to resolve in expected time frames.

OPERATING AND FINANCIAL REVIEW

REVIEW OF FINANCIAL PERFORMANCE

The financial performance of the Group was materially impacted by COVID-19. The pandemic increased costs, reduced occupancy and revenue, the effects of which were partially offset by additional Government funding. The financial performance has been presented in the section below, which is different to prior years, to provide a better understanding for shareholders of the financial impact of COVID-19 and other non-recurring items during this volatile and unprecedented period.

In addition to the impact of COVID-19, input cost inflation, primarily resulting from employment Enterprise Agreements, continued to run ahead of Government funding rate increases leading to continued margin compression as resident care and service levels were maintained. Margin erosion across the sector was a key finding of the Royal Commission.

	2021 $'000	2020 $'000
Government Revenue - Excluding Temporary Funding and Grants	443,218	426,188
Government Temporary Funding and Grants	21,426	7,382
Resident and Other Revenue	147,406	146,310
Total Operating Revenues & Grants	**612,050**	**579,880**
Employee Benefit Expense	430,648	404,272
Non Wage Expenses	94,639	90,287
COVID-19 Incremental Expense	24,309	2,538
EBITDA - Mature Homes	**62,454**	**82,783**
Royal Commission Expenses	105	101
Net loss or (gain) from Homes in Ramp-Up	625	(491)
Depreciation and Amortisation Expenses	42,263	39,119
Other Income - Asset Disposals	(9,487)	(214)
Net Finance Costs	6,496	8,491
Operating Profit Before Income Tax, Class Action & Impairment Expense	**22,452**	**35,777**
Income Tax expense (Pre Class Action & Impairment Expenses)	6,493	10,599
Profit for the Period (Pre Class Action & Impairment Expenses)	**15,959**	**25,178**
Class Action Settlement Expenses	12,409	-
Impairment Expenses	980	144,622
Income Tax Benefit on Class Action & Impairment Expenses	(3,428)	(2,535)
Profit (Loss) for the Period	**5,998**	**(116,909)**

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 or 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 records. These financial records have been used for the preparation of the financial report, which has been subject to an audit by the external auditors.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

REVIEW OF FINANCIAL PERFORMANCE (CONTINUED)

Occupancy

Occupancy rates across the Group's portfolio of homes have been affected by the pandemic to greatly varying degrees depending on the location. In particular, the extent of the outbreak, long lockdowns, and restrictions in Victoria in the period had a far greater impact than in other homes which is shown in the table below:

	Spot at 20/08/21	Average H2FY21	Average H1FY21	Average 2021	Average 2020
Victorian Homes	88.9%	86.8%	85.1%	85.9%	90.7%
Other States	94.8%	94.5%	93.5%	94.0%	94.5%
Total Group	**92.8%**	**91.8%**	**90.6%**	**91.2%**	**93.2%**

Total occupied bed days in FY21 were 2,062,958 (FY20: 2,076,808)

Revenues & Grants

In addition to the impact of occupancy declines, revenues in the period were impacted by the Group's decision to cease resident billings at several homes during COVID-19 outbreaks in Victoria and to cease Additional Services billings at all homes in Victoria for 3 months as a result of limitations on the ability to deliver those services during the State-wide lock down. All homes in Victoria returned to full billing from 1 November 2020.

Income in the period was supported by temporary Government funding and grants of $21.4 million, as shown below:

	2021 $'000
Temporary Funding Increases	11,826
Grants to Reimburse Outbreak Related Costs	7,369
Grants Provided as Personal Protective Equipment	2,231
Total Government Temporary Funding and Grants	**21,426**

	2021 $'000	2020 $'000
Government Revenue - Excluding Temporary Funding and Grants	443,218	426,188
Government Revenue -Temporary Funding	11,826	7,382
Government Grants	9,600	-
Resident and Other Revenue	147,406	146,310
Total Operating Revenue & Grants	**612,050**	**579,880**
Less: Government Grants	(9,600)	-
Imputed DAP Revenue on RAD or Bond Balances (AASB 16 impact)	42,316	43,407
Operating Revenue From New Homes in Ramp-Up	1,539	13,621
Total Revenue	**646,305**	**636,908**

Operational Costs

Operating costs were significantly impacted by the Group's response to COVID-19 during the period. The impact varied by region and period depending on the degree to which homes were directly impacted by outbreaks. Costs were higher during the first half year when the second wave in Victoria reached its peak and reduced progressively during the remainder of the year. The Group has incurred total incremental costs as a result of the COVID-19 pandemic of approximately $24.3 million in the period.

Incremental COVID-19 related staff costs in the period of $11.2 million arose from multiple sources, totalling $7.1 million in the 27 Victorian homes, $4.1 million in the 43 homes in other States and included:

OPERATING AND FINANCIAL REVIEW (CONTINUED)

REVIEW OF FINANCIAL PERFORMANCE (CONTINUED)

- Quarantine and Pandemic leave
- Increased agency, wages supplement and "surge" workforce costs
- Costs of Resident Liaison Staff assisting with family communications and engagement
- Additional Infection Prevention Control staff assisting with active training, monitoring and assistance
- Costs associated with additional support staff transferred from Queensland and New South Wales.

Incremental COVID-19 related non-staff costs in the period were $13.1 million, totalling $6.6 million in Victoria and $6.5 million in other States. These costs were primarily in relation to Personal Protective Equipment (PPE), cleaning and waste disposal with most of the costs in Victoria relating to the major outbreaks at four homes.

	2021 $'000	2020 $'000
Employee Benefit Expense	430,648	404,272
COVID-19 Incremental Expense *	11,198	931
Employee Benefits Expense From New Homes in Ramp-Up	1,575	10,797
Total Employee Benefit Expense	**443,421**	**416,000**
Non Wage Costs	94,639	90,287
COVID-19 Incremental Expense *	13,111	1,607
Non-Wage Costs From New Home Ramp-Up	5,489	2,333
Total Non-Wage Expenses **	**113,239**	**94,227**

** Presented on a combined basis as COVID-19 incremental expenses in the earlier table.*
*** Non-wage costs comprise Administration, Occupancy and Resident Expenses*

Class Action Settlement

On 15 February the Company reached an agreement to settle the shareholder class action commenced against it in July 2019 in the Federal Court of Australia, relating to market disclosures made between August 2015 and October 2016. The settlement was approved by the Federal Court on 7 May 2021, without admission of liability on May 7 2021 and a total settlement sum of $38.4 million being paid in the period. The Company contributed $12.35 million to this settlement, with the balance being contributed by the Company's insurers. The Directors determined that the agreement to settle the class action was a commercial decision made in the best interests of the Company and its shareholders.

REVIEW OF FINANCIAL POSITION AND CASH FLOWS

The Group's balance sheet has $615.7 million of equity supporting $1,864.7 of total assets.

The Group's capital and funding position is a product of the efficiency of operating profit to cash conversion, net RAD flows, capital investment and dividend distributions. At 30 June 2021, the Group had net bank debt of $81.1 million and net assets of $615.7 million.

The balance of RADs (including the probate liability) at the end of the period was $863.9 million, compared to $836.3 million at 30 June 2020. During this period RADs received from current residents increased from $736.4million to $761.1 million with probate liability increasing from $99.9 million to $102.8 million. It is noted that the Government has indicated in its response to the Royal Commission Final Report that it proposes to review the role of RADs with a view to establishing potential alternative sources of capital.

The Group remains in compliance with the covenants applying to its $330 million syndicated financing facility, which next matures in November 2022. (FY23 year).

There has been no significant change in the Group's financial position after 30 June 2021.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

DEVELOPMENTS, ACQUISITIONS AND DIVESTMENTS

New Developments and Capital Investment

As previously reported, major capital projects were paused during the period pending a clearer investment outlook. As a result, total capital investment in the period was $49.0 million (2020: $80.6 million), of which $18.5 million was invested in the completion of the 105-bed new home at Blakehurst (NSW), which opened on 22 February 2021 at a total cost of $41.2 million. As of 20 August 2021, occupancy at Blakehurst was 71.4%, and RAD receipts were $9.7 million.

During the period the Group continued its investment in a number a refurbishment and asset life-cycle improvement outcomes as follows:

- The significant refurbishments of 9 homes with 787 beds ($3.4m)
- Upgrades and enhancements to the nurse call and CCTV systems ($5.0m)
- Asset life-cycle replacements, improvements and sustainability initiatives ($16.8m) and
- IT and systems improvements ($2.0m).

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 within existing geographic networks against the Group’s investment criteria.

Divestments

During the period, the Group completed the sale of three surplus land sites at Mona Vale (NSW), Wollongong (NSW) and Grovedale (VIC) which resulted in a combined pre-tax profit on sale of $9.4 million.

In June 2021 the decision was taken to close the Group’s 46 bed home at Keilor Downs in Victoria as it will not meet emerging community expectations for residential aged care homes in coming years. The home closed on 2nd August 2021, and all residents were assisted in finding new homes with Estia or other local providers. Employees have been supported either with continued employment at other Estia homes, or redundancy packages with appropriate support. Costs associated with the closure of $0.3 million were provided for in the period ended 30 June 2021.

DIVIDENDS

No dividends were declared or paid during the year. On 24 August 2021 the Directors resolved to pay a final dividend for the year of 2.3 cents per share ($6.0 million) (2020: nil). The record date for the final dividend will be 30 August 2021, with payment being made 17 September 2021. Shares will trade excluding entitlement to the dividend on 31 August 2021. This dividend represents a payout ratio of 100% of total comprehensive profit for the year.

The Directors have elected to suspend the Dividend Reinvestment Program at this time.

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 2021.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Estia remains committed to the provision of residential aged care services, which the Directors consider will continue to form an essential part of the continuum of aged care. This is particularly the case at the higher levels of complex care, including needs which home care cannot currently fulfill. The Directors consider that the Group's balance sheet, scale, systems, leadership and management sees the Group well-placed to continue to be a leading provider in a reformed residential aged care sector.

As referenced in detail in this report, the impacts of COVID-19 on the community will continue to be experienced for the foreseeable future and the impact on the aged care sector which cares for some of the most vulnerable members of the community will likely continue to be significant. The pandemic situation remains volatile and unpredictable and the potential financial impact of future outbreaks in the community or Estia homes remains uncertain.

At the date of this report, there are varying degrees of restrictions or lockdowns in the States in which the Group operates. It is possible that these circumstances will have a depressing impact on future occupancy levels should restrictions remain in place.

As referenced earlier in this report, the Government's response to the Royal Commission's recommendations, once enacted into legislation, are widely expected to lead to greater cost, compliance, and administrative requirements on operators. Most of the more substantive changes are still the subject of significant design, development, and consultation prior to implementation. Importantly, most are subject to Government legislation which has not been drafted at the date of this Report. As a result, there remains significant uncertainty over the detail of what will be enacted and the financial and operational impacts for the sector which will persist for some time to come.

As a result, the Group will continue to exercise caution over the deployment of capital until such time as there is greater visibility and certainty of future returns

The Group continues to advocate for appropriate sector reform and legislated changes 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.

KEY BUSINESS RISKS

The following business risks are considered to be some of the 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* 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.

In February 2021 the Royal Commission into Aged Care handed down its final report.

As referenced earlier in this Report, the Government's response to the Royal Commission's recommendations once enacted into legislation are widely expected to lead to greater cost, compliance and administrative requirements on operators. Most of the more substantive changes are still the subject design, development, and consultation prior to implementation. Importantly, most are subject to Government legislation which has not been drafted at the date of this Report. As a result, there remains significant uncertainty over the detail of what will be enacted and of the financial and operational impacts for the sector which will persist for some time to come.

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 also result.

Risk Strategy

Ageing demographics point to increasing demand for aged care services. Estia is committed to the provision of residential aged care services which will continue to form an essential part of the continuum of aged care. This is particularly the case at the higher levels of complex care including needs which home care cannot fulfill.

With more than 95% of these services provided by private providers, whether "Not For Profit" or "For Profit", the Directors believe that future regulatory and funding changes will need to ensure a strong and financially sustainable sector in order to meet community expectations of caring for the elderly. The Group monitors and assesses changes to the regulatory and funding environment with a view to adapting and changing its operations in order to continue to provide high quality services to residents and generate appropriate returns on capital provided by shareholders. This process of continual review is undertaken with short, medium and long-term planning cycles. The Group seeks to proactively engage with Government and the sector to advocate for a regulatory and funding environment which supports a strong and financially sustainable sector.

The Group will continue to exercise caution over the deployment of capital until there is greater visibility and certainty of future returns resulting from the upcoming Government reviews and reforms.

KEY BUSINESS RISKS (CONTINUED)

WORKFORCE

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 recruit and retain 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 lead to upward pressure on wages and salaries.

The ageing global population will create increasing demand for staff providing care services which may impact Australia's ability to secure sufficient inbound migration to support its need for an increased workforce. The closure of international borders as a result of the COVID-19 pandemic is further reducing the pool of potential carer staff from inward migration.

The Royal Commission reported an estimated need for more than 130,000 additional, full-time equivalent workers by 2050 - a 70% increase on current levels which will create further competitive pressures on recruiting and retaining staff at all levels.

The impact of COVID-19, the Royal Commission findings and increasingly regulatory activities has resulted in adverse media and community views about the sector which may reduce the attractiveness of the sector to potential and existing employees.

Impact The relative attractiveness to potential employees of the sector may make it more difficult to recruit and retain quality staff which could result in reduced quality of services provided, capacity or capability.

Increasing labour costs and labour shortages may arise as a result which may adversely affect the Group's business, financial performance and future prospects. This may result in increased costs, which the Group is unable to recover from residents' fees or Government funding fees. Staff shortages may result in increased overtime or use of agency staff, which typically results in higher staffing costs to the Group. At greater levels of staff shortages the Group may have to reduce the capacity of homes it operates in order to maintain service levels including delivering future minimum care staff hours per resident.

Risk Strategy Key initiatives are in place to help mitigate the challenges of attracting and retaining workforce and positioning Estia Health as an employer of choice, these include:

- Review and benchmarking of remuneration and benefits packages, increasing the number of staff on Enterprise Agreements
- Building a differentiated employee value proposition
- Diversifying recruitment and sourcing strategies to enable access to a broader network of potential employees.
- Developing effective career pathway and training and development programs
- Developing support programs, retention strategies, and non-financial benefits to increase the relative attractiveness of the Group as an employer.

KEY BUSINESS RISKS (CONTINUED)

RAD BALANCES

Risk

Non-supported residents may choose to pay for accommodation by a RAD or a Daily Accommodation Payment, known as a DAP. Approved Providers, such as Estia can set a RAD price subject to Aged Care Pricing Commissioner approval if in excess of $500,000 but cannot determine whether a resident pays a RAD or a DAP. The Group has $863 million of funding provided in the form of RADs from residents, most of which have been deployed in accordance with the Aged Care Act in the acquisition, building or redevelopment of residential aged care facilities and assets which are illiquid.

RADs are repayable within legislated timeframes after the departure of a resident. Overall RAD balances are maintained by the replacement of outgoing RADs with commensurate incoming RADs from new residents. Falls in occupancy (which may arise for many reasons), changes in accommodation payment preferences by new residents, or legislated changes may lead to declining RAD balances which will require replacing with alternative funding sources.

The Royal Commission recommended the replacement of the $32bn of residential aged care RADs by 2025, however, proposed no alternative source of financing. ACFA recommended, in its report to Government in March 2021, that no change be made. The Government, in its response to the Royal Commission, indicated it is assessing the recommendation and has provided no indication of timing or of potential alternative sources of financing.

Impact

If a large number of departing RAD payers are subsequently replaced by non-RAD paying residents, or not replaced at all, the Group may need to draw down higher levels of bank or other debt, be required to reduce capital investment, reduce dividend payments or seek additional capital. Extreme events resulting in very large net outflows may cause severe liquidity or solvency issues.

In the event that the Government replaces the RAD scheme, the Group would need to replace RAD balances with alternative funding sources consistent with any transitional arrangements.

Risk Strategy

The Group regularly monitors and analyses RAD movements and trends across its portfolio of 69 homes. In accordance with the Aged Care Act, the Group maintains a formal liquidity policy intended to keep sufficient cash or credit facilities reserved to refund RADs as and when they fall due, should outgoing RADs not be replaced by an equivalent amount of incoming RADs from new residents. Of the Group's bank debt facility of $330 million, $211 million was undrawn at 30 June 2021.

The Group will monitor and contribute to any consultancy process in relation to the Government's review of RADs.

OCCUPANCY LEVELS MAY FALL

Risk

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

- Increased competition
- Changing consumer trends
- Declining referrals from hospitals and other sources
- Growth of home care services
- Pandemic or epidemic with local, regional or national impact
- Shortage of skilled workers may necessitate capacity restrictions

Impact

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

KEY BUSINESS RISKS (CONTINUED)

OCCUPANCY LEVELS MAY FALL (CONTINUED)

Risk Strategy The Group operates a centrally led occupancy team supported by regional and home specific customer service officers dedicated to securing new residents across the Group's 69 homes. Occupancy is pro-actively monitored and managed by this team including ongoing market and competitor analysis, and monitoring of customer satisfaction and needs. The Group's services and home offerings are established, marketed and promoted to meet the needs of the local community, and staff actively engage with referrers, hospitals, health clinics and GPs within the locale of each home.

The geographic and demographic spread of the Group's homes mitigates against factors which may impact one area, region, state or a specific demographic cohort of the aged population.

FAILURE TO MEET CLINICAL CARE STANDARDS

Risk 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 agencies or providers 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.

Risk Strategy 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 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 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.

The Group has a Clinical Governance Committee to provide clinical oversight and evaluation of clinical improvement strategy and performance, which is independently chaired by Professor Simon Willcock, Professor and Discipline Head of General Practice at Sydney University and Director of Primary Care services at Macquarie University Hospital.

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. The Group may also suffer from adverse media coverage and community sentiment towards the sector, particularly during events such as the recent Royal Commission and impact of COVID-19 in Victoria in 2020.

KEY BUSINESS RISKS (CONTINUED)

ESTIA'S REPUTATION MAY BE DAMAGED (CONTINUED)

Impact Any such damage to the Group's or sector's reputation could result in existing residents moving out of Estia's 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.

Reputational damage, particularly associated with quality of care, may also adversely impact the willingness of lenders to continue providing funding, the ability to hire and retain staff, and increased regulatory supervision or action.

Risk Strategy The Group's Risk and Quality Management Framework monitors, analyses and reports of clinical and care outcomes across the Group's 69 homes. Customer Experience Reports are undertaken to provide detailed feedback on resident and family experience. Complaints management procedures escalate matters to the Chief Customer Officer as part of the quality and risk policy in order to ensure appropriate action is taken to remedy failings and protect the Group's reputation.

Central staff monitor and assess press, media, social media to identify areas where the Company's reputation may be reported in a way which may be reputationally damaging.

INFORMATION TECHNOLOGY SECURITY AND CYBERSECURITY

Risk Like most large businesses, the Group stores large quantities of data in electronic format, communicates data in electronic format and is heavily reliant on information technology ("IT") in the operation of its business. Criminal activity is increasingly being observed and perpetrated against many businesses with the intent of theft, blackmail, fraud, ransom or causing malicious damage. Cybersecurity and IT security threats are constantly evolving and increasingly sophisticated in targeting IT infrastructure.

Impact Systems breaches could result in disruption, theft, misuse, ransom, fraud or blackmail of the Group, its residents or staff. Rectification can be lengthy, expensive and in some cases cause irretrievable damage both financial and reputational.

Risk Strategy The Group has a framework of access security controls, security monitoring, business continuity management, disaster recovery processes and off-site back-up facilities, including training of staff in relation to privacy and data security. The strength and effectiveness of this framework are regularly assessed, including by external experts with a view to continuous testing and improvement. Reporting and management of IT and cybersecurity risk is part of the Board Risk Committee Charter.

GROWTH MAY BE CONSTRAINED BY ABILITY TO SECURE BED LICENCES

Risk Approved Providers may only provide funded places to residents to the extent of bed licences 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 licences 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 licences they would like to secure.

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

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

The Government has announced the intention to abolish the current restrictive and anti-competitive licensing regime from 1 July 2024 which may result in this constraint on growth being removed.

KEY BUSINESS RISKS (CONTINUED)

INABILITY TO RECRUIT AND RETAIN KEY PERSONNEL

Risk The Group may experience an inability to recruit and retain personnel to key leadership and management positions at home or executive level. This may be exacerbated if executives choose to leave 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.

Impact The loss of key personnel at a home or executive level can affect occupancy, standards of clinical care and operational efficiency and effectiveness. Replacement of key personnel is expensive, time-consuming and can be disruptive and destabilising to the business, possibly resulting in poorer clinical or financial performance.

Risk Strategy The Group's People and Culture team seeks to identify, retain and develop key employees supported by succession planning strategies and tactics. Employee engagement surveys are undertaken regularly to evaluate culture and engagement. Communication strategies that celebrate the resident life experience, recognise team initiatives, milestones and achievements are key elements to ensure employees are recognised. Benchmarking of remuneration and benefits packages are undertaken with the aim of ensuring the Group's offerings remain competitive both within the aged care sector and associated health services.

PANDEMIC OR EPIDEMIC

Risk A pandemic or epidemic, such as COVID-19 may have a local, regional or national impact on the Group.

Impact **Local** 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.

Regional impact may result in reduced occupancy arising from community concerns about safety or local authority restrictions on access to homes even if an Estia home does not experience an outbreak. 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 secure staff for its own homes.

National impact may result in supply chain disruption, restrictions on population movement, and wider economic, health and social impacts which may be longer lasting.

Risk Strategy **Local** risk mitigation is managed by the adoption of consistent and comprehensive infection control procedures including staff training. Procedures are in place for close monitoring of all resident and staff health for signs of infection and all times but especially during high levels of community infection, whether local, regional or national.

In the event of an outbreak, policies and procedures are in place designed to rapidly isolate and test residents and staff, and introduce 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 home level response. Surge staffing plans have been designed to provide additional skilled resource from a variety of sources at short notice, and homes have access to regional PPE stock.

KEY BUSINESS RISKS (CONTINUED)

PANDEMIC OR EPIDEMIC (CONTINUED)

Risk Strategy

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 70 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 single home in the Group contributes more than 5% of Group operational cashflow, and most are below 3%.

Regional 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 liaison with local and state authorities to ensure compliance with legislation and guidelines and to secure relevant information pertaining to the extent of infection in the area.

National 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.

COVID-19

Risk

On 18 March 2020 the World Health Organisation declared coronavirus caused by the COVID-19 virus a global pandemic.

Until high levels of community vaccination has been achieved, the highly contagious nature of the virus, and the frequent high severity of the illness on the sick, elderly, and frail, presents an ongoing risk to the community and to the elderly in particular.

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.

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

KEY BUSINESS RISKS (CONTINUED)

COVID-19 (CONTINUED)

Risk Strategy The Group has responded to the pandemic with the establishment of a Board COVID-19 Committee to provide governance oversight of the response to the pandemic. The Group has revised protocols and procedures in line with Australian Health Protection Principle Committee (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

• Work Health Safety requirements for all the Group's homes and premises

• Business continuity plans continue to be revised

• 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

• Establishment of an in-house vaccination program for residents and staff.

The Federal Government has announced that it expects the States to pass legislation before September 2021 to make vaccinations mandatory for all residential aged care workers. Each of the States has been consulting and passing legislation to this effect in July and August with the intention of reaching a consistent national position by September. The Group has undertaken awareness programs, requested all staff are vaccinated in advance of any legislative and established an in-reach program offering free vaccinations at each home to all staff and residents which commenced in July 2021.

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.

KEY BUSINESS RISKS (CONTINUED)

CLIMATE RISK (CONTINUED)

Impact	**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.
Risk Strategy	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.

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

PERFORMANCE RIGHTS

UNISSUED SHARES

As at the date of this report, there were 3,220,383 unissued ordinary shares under performance rights (2020: 1,526,515).

SHARES ISSUED AS A RESULT OF THE VESTING OF PERFORMANCE RIGHTS

A total of 23,055 performance rights were exercised during the year ended 30 June 2021 (2020: 13,693) and were issued as shares on 5 November 2020. During the year ended 30 June 2021, 2,268,751 rights were granted (2020: 994,018) and 551,828 rights were forfeited (2020: 990,206).

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

In accordance with provisions in its constitution, 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 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.

DIRECTORS' REPORT

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 Australia 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, which represents 11% of the total fees received by the firm.

	$
Tax compliance services	93,000
Total Non-audit Services	**93,000**

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 or Directors' Reports) Instrument 2016/191*. Estia Health Limited is an entity to which the class order applies.

This report is made on 24 August 2021 in accordance with a resolution of Directors.

Dr. Gary H Weiss AM
Chairman

DIRECTORS' REPORT

Remuneration report

Dear Shareholders,

The Estia Health Limited ('Estia' or the 'Group') Board is pleased to present the Remuneration Report for the year ended 30 June 2021 ('FY21').

The impacts of the ongoing COVID-19 pandemic upon the Group's residents, their families and staff along with uncertainty concerning implementation of the array of recommendations flowing from the Royal Commission into Aged Care Quality and Safety have continued to create a challenging environment to attract, motivate and retain staff.

The Group's remuneration strategy during this time of ongoing uncertainty has been focused on the attraction and retention of industry-leading talent in the acknowledgement that this is the key factor that will allow Estia to respond to company-specific and industry-wide challenges as well as take advantage of opportunities emerging from this landscape, for the benefit of all the Group's stakeholders, including shareholders.

Changes to FY21 Remuneration

As disclosed at our 2020 Annual General Meeting ('AGM'), due to the significant uncertainty around the impact of the COVID-19 pandemic and the Royal Commission on the Company's FY21 operational and financial performance, and the associated challenges in setting meaningful FY21 performance targets, the Board decided not to operate a short-term incentive ('STI') plan in FY21 for executive Key Management Personnel ('KMP').

Rather, given the importance of stability and continuity of leadership as our organisation managed the array of complex challenges currently facing the industry, we awarded a once-off retention-based grant of performance rights ('FY21 Retention Incentive') to our KMP, which will be eligible for vesting on 1 July 2022 subject to continued employment with the group. Shareholders approved the award of the FY21 Retention Incentive to the MD and CEO Mr. Ian Thorley at the 2020 AGM.

Unlike in previous years, Earnings Per Share ('EPS') was not included as a performance measure in the FY21 LTI, due to the challenges in setting appropriate three-year targets at the beginning of FY21. The FY21 LTI will be entirely subject to relative Total Shareholder Return ('TSR') measures (consisting of two equally weighted relative TSR performance measures with different comparator groups). Shareholders approved the award of the FY21 LTI with these performance measures to the MD and CEO at the 2020 AGM.

FY21 Remuneration Outcomes

As above, the STI plan did not operate during FY21 and therefore did not vest.

The FY19 LTI,with a three-year performance period to the end of FY21 did not vest as the EPS and relative TSR targets were not met.

Looking Forward

An STI plan will once again be offered to the Company's senior executives in FY22. As in prior years, the incentive will be eligible for vesting subject to performance against a scorecard comprised of individual and team-based financial and non-financial performance measures as well as the successful achievement of a clinical quality compliance and accreditation gateway that reflects the primary importance of resident care outcomes.

Details of the FY22 LTI will be included in the 2021 Notice of AGM, with vesting eligibility for the award to be measured against both EPS and TSR performance targets.

Effective 1 July 2021, several executive KMP fixed remuneration changes will be made. These changes (which will also reflect the increase of the superannuation guarantee to 10%) have been made following review of benchmarking data and having regard for the complexity and demands attached to each role and include increasing the MD and CEO's fixed remuneration from $720,000 p.a. to $780,000 p.a.. The change to the MD and CEO's fixed remuneration is the first increase awarded since Mr. Thorley assumed the role in November 2018 and takes his revised fixed remuneration to the same level as that of his predecessor at that time.

In addition, Non-executive Director (NED) base member fees will be increased from $100,000 p.a. to $110,000 p.a. from 1 July 2021. This adjustment to NED base fees is the first increase since the Initial Public Offer of the Group in 2014.

On behalf of the Board, I am pleased to present to you the FY21 Remuneration Report for Estia and we look forward to welcoming you at the 2021 AGM.

Yours sincerely

Paul Foster
Chair of the Nomination and Remuneration Committee

DIRECTORS' REPORT

Remuneration report – audited

This report for the year ended 30 June 2021 (FY21) 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 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 the Board or KMP during FY21.

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

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

The Committee met six times in FY21. The managing director (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 2021, the Nomination and Remuneration Committee engaged KPMG to provide advice regarding market practice and trends, and assistance with other ad-hoc matters.

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

2.3 Minimum Shareholding Policy

The Board recognises the importance of ensuring that the interests of its leaders are aligned with the long-term interests of shareholders.

In 2019, Estia's Senior Executive and Board Minimum Shareholding Policy was introduced. The policy requires that:

Board members accumulate and maintain a minimum holding in Estia Health shares equivalent to at least 50% of one year's prevailing base board fees (excluding committee fees); and

Senior Executives (comprising the MD and CEO and their direct reports) accumulate and maintain a minimum holding in Estia Health shares equivalent to at least 50% of one year's fixed annual remuneration.

Board members and the MD and CEO have 3 years from the date of appointment, or date of commencement of the policy, to achieve the above target. Other Senior Executives have 5 years from the above dates.

All members of KMP are in compliance with the policy as at 30 June 2021.

The full policy, including definitions and calculation methodology, can be viewed at http://www.estiahealth.com.au/investor-centre/corporate-governance.

Remuneration report – audited (continued)

3. Group performance

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

	30 June 2021	30 June 2020	30 June 2019	30 June 2018	30 June 2017
Revenue - $'000	$646,305	$636,908	$585,985	$547,054	$524,630
Net profit after tax - $'000	$5,998	($116,909)	$41,290	$41,154	$40,698
Share price at start of the year	$1.53	$2.64	$3.29	$3.05	$4.37
Share price at the end of the year	$2.47	$1.53	$2.64	$3.29	$3.05
Dividends paid per share – cents	0.0	13.2	16.0	15.8	8.0
Basic earnings per share – cents	2.30	(44.8)	15.8	15.8	18.2
Diluted earnings per share – cents	2.27	(44.8)	15.8	15.7	18.0
Vesting outcomes – CEO incentives					
Short term incentive vesting	n/a	Nil	Nil	22%	Nil
Long term incentive vesting	Nil	Nil	Nil	Nil	Nil

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.

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 FY21, the executive remuneration framework comprised a mix of fixed annual remuneration, one-off retention awards and the long-term performance-linked incentive plan (although as stated above, the Board intends to return to offering variable remuneration in the form of STI and LTI grants in FY22, and therefore the STI remains an ongoing and important component of Estia's executive remuneration framework). The Group aims to reward executives with a level and mix of remuneration appropriate to their position and responsibilities, while being market competitive and delivering outcomes that are aligned to the experience of Estia's shareholders.

Component	Approach	Link to business and remuneration strategy
Fixed Annual Remuneration (FAR)	FAR is set with reference to role, market and experience of the employee with reference to external benchmarking data, particularly looking at competition in the same sector, both public and private. Group and individual performance are considered during the annual remuneration review.	Competitive remuneration packages that attract and retain high calibre employees from a diverse pool of talent.
Short-Term Incentive Plan (STI)	An STI was not granted in FY21 due to economic uncertainty due to the COVID-19 pandemic. The Board intends to return to STI grants in FY22. See section 5.3 for further commentary regarding the FY21 Retention Incentive.	Short term incentives align the interests of executives with achievement of business strategic objectives over the short to medium term. Deferral of 25% of any STI award into equity increases alignment with shareholder interests.
Long-term Incentive Plan (LTI)	The FY21 LTI was delivered in the form of performance rights subject to the following performance condition, measured over a three-year period: • Total shareholder return (TSR) performance: - 50% relative to constituents of the ASX300 excluding mining and energy companies; and - 50% relative to the weighted average performance of a group of listed companies involved in the provision of aged care services. EPS was not included as a performance measure in the FY21 LTI given the challenge of setting appropriate targets at the beginning of the performance period.	The LTI is designed to drive sustainable value creation for shareholders, encourage retention and encourage a multi-year performance focus. Relative TSR focuses executives on generating returns for shareholders. 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. The LTI is delivered in equity which aligns the interests of executives with achievement of increased shareholder wealth over the long-term.

Remuneration report – audited (continued)

Component	Approach	Link to business and remuneration strategy
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 (see section 5.3 for further commentary regarding the FY21 Retention Incentive).	Once-off awards may be approved by the Board 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	The overall remuneration framework is designed to support and drive the achievement of Estia's business strategy: • to be the leader in providing high quality residential aged care homes in Australia; • to provide our residents with the highest standards of aged care services in an innovative, supportive and caring environment; and • to deliver profitable growth through our robust development pipeline, significant refurbishment opportunities and through maximising the performance of our core assets. A minimum shareholding policy is also in place to drive share ownership amongst NEDs and Senior Executives.	

5.2 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.

The Committee regularly benchmarks the remuneration of the current KMP, and considers the skills and experience of each individual, as well as the complexity and accountabilities associated with the role, in setting FAR.

5.3 FY21 Retention Incentive

As disclosed at our 2020 AGM, due to the significant uncertainty around the impact of the COVID-19 pandemic and the Royal Commission on the Company's FY21 operational and financial performance, and the associated challenges in setting meaningful FY21 performance targets, the Board decided not to operate the STI plan in FY21 for KMP.

Rather, given the importance of stability and continuity of leadership as our organisation managed the array of complex challenges currently facing the industry, our KMP received the FY21 Retention Incentive.

Key terms of the FY21 Retention Incentive are as follows:

- Delivered in performance rights.
- Vests 1 July 2022, subject to continued employment with the Group, and overall Board discretion having regard for performance and conduct throughout the vesting period.
- The FY21 Retention Incentive represents 33% of each of the KMP's FY21 FAR.
- The number of rights allocated was determined using face value allocation methodology, using the volume weighted average price for the 10 trading days immediately following (and not including) the date of release of FY20 annual results.
- In the event of a change of control prior to 1 July 2022, the award will vest in full subject to the individual remaining employed as at that date.
- Leaver provisions align with those which apply to the FY21 LTI (see section 5.4).

In FY22, Estia will return to its historic STI structure.

DIRECTORS' REPORT

Remuneration report – audited (continued)

5.4 Long-Term Incentive

A long-term incentive is designed to drive sustainable value creation for shareholders, encourage retention of key talent and promote a multi-year performance focus.

The LTI is delivered in performance rights, in order to further align the interests of executives with shareholders over the long term.

<table>
<tr><td>Participation</td><td colspan="2">LTI performance rights were offered to all members of executive KMP in FY21.</td></tr>
<tr><td>Delivery of LTI</td><td colspan="2">LTIs are delivered in the form of performance rights. On vesting, performance rights entitle the holders to ordinary shares.</td></tr>
<tr><td>LTI opportunity</td><td colspan="2">In FY21, all executive KMP had an LTI opportunity of 100% of FAR.</td></tr>
<tr><td>Allocation methodology</td><td colspan="2">The quantity of instruments granted under the LTI is determined using face value allocation methodology, using the volume weighted average price ('VWAP') for the 10 trading days immediately following (and not including) the date of release of annual results (i.e. LTI opportunity divided by VWAP share price).</td></tr>
<tr><td rowspan="12">Performance conditions</td><td colspan="2">100% of the FY21 LTI award is subject to a relative TSR performance measure, with two equally weighted comparator groups:
• 50% relative to the ASX300 excluding mining and energy companies; and
• 50% relative to the weighted average performance of a group of the following listed companies: Regis Healthcare (40% weighting); Japara Healthcare (40% weighting); Oceania Healthcare (10% weighting) and Summerset Group (10% weighting).

TSR vesting schedules are provided below:</td></tr>
<tr><td>Estia's TSR relative to constituents of the ASX300 (excluding mining and energy companies)</td><td>Percentage of performance rights that vest</td></tr>
<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>
<tr><td>Estia's TSR relative to the weighted average performance of aged care services peer group</td><td>Percentage of performance rights that vest</td></tr>
<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>
<tr><td colspan="2"></td></tr>
<tr><td>Performance period</td><td colspan="2">The performance rights granted in FY21 have a performance period of three years.</td></tr>
<tr><td>Lapse of performance rights</td><td colspan="2">Any performance rights that remain unvested at the end of the performance period will lapse immediately.</td></tr>
</table>

Remuneration report – audited (continued)

Total shares issued	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.
Cessation of employment	Unless the Board determines otherwise, if a participant's employment with the Group is terminated during the performance period as a 'good leaver' (i.e. as a result of genuine redundancy, death, terminal illness, total and permanent disablement, or any other reason as determined by the Board) they will be entitled to receive a pro-rata amount of their FY21 LTI Incentive (based on the proportion of whole months they were employed by the Group during the performance period). Any remaining unvested performance rights will lapse. If their employment with the Group is terminated in circumstances in which they are not considered a good leaver (e.g. resignation, or termination of employment initiated by the participant or the Group other than where such termination is as a good leaver), their FY21 LTI Incentive will immediately lapse. Notwithstanding the above, the Board may, subject to any requirement for shareholder approval, determine to treat any of the FY21 LTI in a different manner to that set out above upon participants ceasing to be an employee of the Group.
Change of control	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.
Clawback policy	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.

5.4.1 LTI Vesting Outcomes

The FY19 LTI performance rights did not vest, as the relevant earnings per share (EPS) and relative total shareholder return performance targets were not achieved.

5.5 Other Awards

No other incentive awards were granted to KMP in FY21.

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 vested on 1 July 2021.

Remuneration report – audited (continued)

6. Executive remuneration outcomes

6.1 Executive remuneration for the year 1 July 2020 to 30 June 2021

	Period	Short-term benefits			Post-employment benefits	Long-term benefits	Fixed annual remuneration (FAR)	Share based expenses			Total fixed and "at risk" remuneration	Performance related remuneration
		Salary and fees	STI Bonus	Non-monetary benefits	Superannuation benefits	Long service leave entitlements		Deferred STI	LTI[1]	Retention Bonus		
		$	$	$	$	$	$	$	$	$	$	%
Executive director												
Ian Thorley	2021	698,306	-	-	21,694	-	720,000	-	125,012	72,606	917,618	14%
	2020	698,997	-	-	21,003	-	720,000	-	32,173	-	752,173	4%
Senior executives												
Sean Bilton	2021	478,306	-	-	21,694	-	500,000	-	89,423	50,421	639,844	14%
	2020	479,002	-	-	20,998	-	500,000	-	51,049	-	551,049	9%
Steve Lemlin	2021	467,344	-	-	21,694	-	489,038	-	74,253	168,315	731,607	10%
	2020	449,122	-	-	20,878	-	470,000	-	14,524	-	484,524	3%
Former executives												
Norah Barlow	2021	-	-	-	-	-	-	-	-	-	-	
	2020	-	-	-	-	-	-	-	(231,009)	-	(231,009)	
Total executives	**2021**	1,643,955	-	-	65,083	-	1,709,038	-	288,688	291,342	2,289,069	
	2020	1,627,122	-	-	62,878	-	1,690,000	-	(133,263)	-	1,556,737	

[1] The LTI share based expenses represents the fair value of the expense recognised in the year.

DIRECTORS' REPORT

Remuneration report – audited (continued)

7. Executive employment contracts

Remuneration arrangements for executives are formalised in employment agreements as follows:

Name	FY21 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	$489,038	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 Non-Executive Director (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. The NED fee pool is currently $1,100,000 (last approved at 2019 AGM).

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

	Description	Fees
Board	Chair	$250,000
	Member	$100,000
Audit Committee	Chair	$15,000
	Member	$10,000
Nominations & Remuneration Committee	Chair	$15,000
	Member	$10,000
Risk Management Committee	Chair	$15,000
	Member	$10,000
Property & Investment Committee	Chair	$15,000
	Member	$10,000
Royal Commission & Regulatory	Chair	No additional fee
	Member	No additional fee
COVID-19 Committee	Chair	No additional fee
	Member	No additional fee

Effective 1 July 2021, NED base member fees will increase from $100,000 p.a. to $110,000 p.a.. This represents the first NED base fees since the Group's IPO in 2014 and has been made following a detailed NED fee benchmarking exercise.

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

Remuneration report – audited (continued)

8.2 Non-Executive director remuneration

The table below outlines NED remuneration for FY21 in accordance with statutory rules and applicable accounting standards.

	Year	Board fees $	Superannuation $	Total fees $
Non-Executive Directors				
Gary Weiss	2021	258,306	21,694	**280,000**
	2020	258,997	21,003	**280,000**
Paul Foster	2021	135,000	-	**135,000**
	2020	126,216	8,784	**135,000**
Warwick Smith	2021	114,155	10,845	**125,000**
	2020	114,155	10,845	**125,000**
Helen Kurincic	2021	114,155	10,845	**125,000**
	2020	114,155	10,845	**125,000**
Karen Penrose	2021	114,155	10,845	**125,000**
	2020	114,155	10,845	**125,000**
Norah Barlow	2021	110,000	-	**110,000**
	2020	100,000	-	**100,000**
Total	2021	845,772	54,228	**900,000**
	2020	827,678	62,321	**890,000**

Remuneration report – audited (continued)

9. Additional disclosures relating to performance rights and shares

9.1 Performance rights granted during the year

The table below discloses the number of performance rights granted 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 FY21.

	Number of rights granted during the year	Grant date	Fair value per right at grant date	Vesting date	Exercise price per option	Expiry date
Executive director						
Ian Thorley	234,375	5/11/2020	0.70	30/06/2023	Nil	30/06/2023
	234,375	5/11/2020	0.35	30/06/2023	Nil	30/06/2023
	152,343	5/11/2020	1.21	1/07/2022	Nil	1/07/2022
Senior Executives						
Sean Bilton	162,760	5/11/2020	0.70	30/06/2023	Nil	30/06/2023
	162,760	5/11/2020	0.35	30/06/2023	Nil	30/06/2023
	105,794	5/11/2020	1.21	1/07/2022	Nil	1/07/2022
Steve Lemlin	159,192	5/11/2020	0.70	30/06/2023	Nil	30/06/2023
	159,192	5/11/2020	0.35	30/06/2023	Nil	30/06/2023
	103,474	5/11/2020	1.21	1/07/2022	Nil	1/07/2022
Total	**1,474,265**					

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 as detailed in the table below.

Rights forfeited represent 100% of those rights granted in FY19

						Vested at 30 June 2021	
	Number of rights at 30-Jun-20	Granted as remuneration	Rights exercised	Rights Forfeited	Number of rights at 30-Jun-21	Exercisable	Not exercisable
Executive director							
Ian Thorley	466,916	621,093	-	(201,323)	886,686	-	-
Senior Executive							
Sean Bilton	288,949	431,314	(23,055)	(81,454)	615,754	-	
Steve Lemlin	316,008	421,858	-	(106,243)	631,623	-	-
Former Executive							
Norah Barlow	103,882	-	-	-	103,882	-	-
Total	**1,175,754**	**1,474,265**	**(23,055)**	**(389,020)**	**2,237,945**	**-**	**-**

Remuneration report – audited (continued)

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

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

	Value of rights granted during the year [a] $	Value of rights exercised during the year [b] $	Value of rights lapsed during the year [c] $	Remuneration consisting of rights for the year %
Executive director				
Ian Thorley	431,183	-	112,112	47%
Senior executive				
Sean Bilton	299,432	62,500	45,360	47%
Steve Lemlin	292,867	-	59,164	44%
Total	**1,023,482**	**62,500**	**216,636**	

[a] *Determined at the time of grant per the AASB 2.*
[b] *Determined at the time of exercise.*
[c] *Determined at the time of lapse.*

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

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 Jul 2020	Granted as remuneration	Exercise of rights	On Market trades	Number of shares at 30 June 2021	Held Nominally
Non-executive directors						
Gary Weiss	48,312	-	-	30,000	**78,312**	78,312
Paul Foster	24,000	-	-	-	**24,000**	-
Warwick Smith	117,000	-	-	65,000	**182,000**	182,000
Helen Kurincic	50,000	-	-	-	**50,000**	25,000
Karen Penrose	32,333	-	-	-	**32,333**	32,333
Norah Barlow	129,474	-	-	-	**129,474**	129,474
Executive director						
Ian Thorley	138,001	-	-	-	**138,001**	53,312
Senior executives						
Sean Bilton	6,719	-	23,055	-	**29,774**	-
Steve Lemlin	43,663	-	-	-	**43,663**	-
Total	589,502	-	23,055	95,000	**707,557**	500,431

All equity transactions with KMP have been entered into under terms and conditions no more favorable 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.

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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 2021, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

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

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

Ernst & Young

Ernst & Young

Paul Gower
Partner
24 August 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2021

	Notes	2021 $'000	2020 $'000
Revenues	B1	646,305	636,908
Other income	B1	19,087	214
Expenses			
Employee benefits expense	B2	443,421	416,000
Administrative expenses	B3	23,206	20,876
Occupancy expenses	B4	21,054	21,343
Resident expenses		64,381	51,276
Depreciation and amortisation expense	B5	42,263	39,119
Impairment expense	B5	980	144,622
Net remeasurement of expected credit loss allowance		(302)	732
Direct costs associated with the Royal Commission		105	101
Class action settlement		12,409	-
Operating profit or (loss) for the year		**57,875**	**(56,947)**
Net finance costs	B6	48,812	51,898
Profit or (Loss) before income tax		**9,063**	**(108,845)**
Income tax expense	B7	3,065	8,064
Profit or (Loss) for the year		**5,998**	**(116,909)**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax		-	-
Other comprehensive income not to be reclassified to profit or loss in subsequent periods, net of tax		-	-
Total comprehensive income or (loss) for the year, net of tax		**5,998**	**(116,909)**
		cents	**cents**
Earnings per share			
Basic, profit or (loss) for the year attributable to ordinary equity holders of the Parent	B8	2.30	(44.79)
Diluted, profit or (loss) for the year attributable to ordinary equity holders of the Parent	B8	2.27	(44.79)

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2021

	Notes	2021 $'000	2020 $'000
Cash and cash equivalents	C1	33,428	30,600
Trade and other receivables	C2	7,125	8,129
Prepayments and other assets		8,820	6,444
Assets held for sale	C3	2,601	5,441
Total current assets		**51,974**	**50,614**
Property, plant and equipment	C4	845,465	842,524
Investment properties	C5	750	1,500
Goodwill	C6	681,014	681,014
Other intangible assets	C6	227,584	226,950
Right of Use Assets	C7	59,221	67,137
Prepayments		351	585
Total non-current assets		**1,814,385**	**1,819,710**
Total assets		**1,866,359**	**1,870,324**
Trade and other payables	C8	39,305	59,527
Other financial liabilities	C9	508	1,193
Provisions	C10	59,962	52,678
Income tax payable		1,162	6,504
Lease liabilities	C7	3,897	4,052
Refundable accommodation deposits and bonds	D1	863,929	836,304
Total current liabilities		**968,763**	**960,258**
Lease liabilities	C7	61,225	68,910
Provisions	C10	6,059	5,155
Deferred tax liabilities	B7	100,747	98,404
Loans and borrowings	D2	113,833	128,848
Total non-current liabilities		**281,864**	**301,317**
Total liabilities		**1,250,627**	**1,261,575**
Net assets		**615,732**	**608,749**
Issued capital	D3	803,459	803,397
Share-based payments reserve	D4	2,629	1,706
Accumulated losses		(190,356)	(196,354)
Total equity		**615,732**	**608,749**

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2021

	Notes	Issued capital $'000	Share-based payments reserve $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2019		**801,843**	**1,794**	**(45,019)**	**758,618**
Profit or (loss) for the year		-	-	(116,909)	(116,909)
Other comprehensive income		-	-	-	-
Total comprehensive income		**-**	**-**	**(116,909)**	**(116,909)**
Transactions with owners in their capacity as owners:					
Issue of share capital	D3	1,507	-	-	1,507
Transfers from share-based payment reserve [1]	D3	41	(41)	-	-
Repayment of management equity plan	D3	6	-	-	6
Dividends	D3	-	-	(34,426)	(34,426)
Share-based payments	D4	-	(47)	-	(47)
As at 30 June 2020		**803,397**	**1,706**	**(196,354)**	**608,749**
Balance at 1 July 2020		**803,397**	**1,706**	**(196,354)**	**608,749**
Profit or (loss) for the year		-	-	5,998	5,998
Other comprehensive income		-	-	-	-
Total comprehensive income		**-**	**-**	**5,998**	**5,998**
Transactions with owners in their capacity as owners:					
Issue of share capital	D3	62	(62)	-	-
Repayment of management equity plan	D4	-	12	-	12
Dividends	D3	-	-	-	-
Share-based payments	D4	-	973	-	973
As at 30 June 2021		**803,459**	**2,629**	**(190,356)**	**615,732**

[1] The vesting of employee performance rights in July 2019, resulted in the issuance of ordinary shares in the Company. The issuance of these shares was not previously disclosed and the comparative period has now been reclassified.

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2021

	Notes	2021 $'000	2020 $'000
Cash flows from operating activities			
Receipts from residents		145,716	145,941
Receipts from government		462,420	432,171
Payments to suppliers and employees		(568,772)	(466,936)
Net operating cash flows before interest, income tax and RAD, accommodation bond and ILU entry contributions		**39,364**	**111,176**
Interest received		520	435
Finance costs paid		(6,153)	(7,473)
Income taxes paid		(6,065)	(9,086)
Interest expense of lease liability		(1,943)	(2,171)
Net cash flows from operating activities excluding RAD, accommodation bond and ILU entry contributions		**25,723**	**92,881**
RAD, accommodation bond and ILU entry contribution received		256,599	272,871
RAD, accommodation bond and ILU entry contribution refunded		(226,007)	(239,690)
Net cash flows from operating activities	**B9**	**56,315**	**126,062**
Cash flows from investing activities			
Payments for intangible assets	C6	(2,036)	(5,911)
Proceeds from sale of property, plant and equipment		41	51
Proceeds from sale of assets held for sale	C3	15,385	2,283
Purchase of property, plant and equipment	C4	(46,997)	(74,718)
Net cash flows used in investing activities		**(33,607)**	**(78,295)**
Cash flows from financing activities			
Proceeds from repayment of MEP loans	D3	-	6
Proceeds from borrowings		239,500	405,000
Repayment of borrowings		(255,000)	(400,000)
Dividends paid	D3	-	(32,920)
Repayment of lease liabilities		(4,380)	(3,884)
Net cash flows (used in) financing activities		**(19,880)**	**(31,798)**
Net increase in cash and cash equivalents		2,828	15,969
Cash and cash equivalents at the beginning of the year		30,600	14,631
Cash and cash equivalents at the end of the year	**C1**	**33,428**	**30,600**

The accompanying notes form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

SECTION A: ABOUT THIS REPORT

A1
CORPORATE INFORMATION

The consolidated financial statements of the Company and its subsidiaries for the year ended 30 June 2021 were authorised for issue in accordance with a resolution of the directors on 24 August 2021.

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 independent living units 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.

Comparative information in certain circumstances has been adjusted to confirm with the current period presentation.

Refer to Note E4 for information relating to the Group's accounting policies.

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 2021 (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.

SECTION A: ABOUT THIS REPORT (CONTINUED)

A5
CURRENT OR 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 2021. Liabilities are disclosed as current when they are due within 12 months of 30 June 2021 or when there is no unconditional right to defer settlement for at least 12 months after 30 June 2021.

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, have been taken into consideration in preparing the financial report on a going concern basis. The Group's current liabilities exceed current assets by $916,789,000 as at 30 June 2021 (2020: $909,644,000) 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 $864,437,000 (2020: $837,497,000) 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 quickly 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 syndicated financing facility of $330,000,000 of which $212,167,000 remains undrawn as at 30 June 2021. This debt facility can be drawn down to repay 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 that relates to these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities impacted 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 2021 are included in the following notes:

SECTION A: ABOUT THIS REPORT (CONTINUED)

A7
SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

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
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

SECTION B: OUR PERFORMANCE

B1
REVENUE AND OTHER INCOME

	2021 $'000	2020 $'000
Revenues		
Government funded residential care subsidies & supplements	456,120	443,308
Resident daily care fees	106,569	107,092
Other resident fees	41,300	43,101
Imputed DAP revenue on RAD and bond balances under AASB 16	42,316	43,407
Total revenues	**646,305**	**636,908**
Other income		
Net gain on disposals of assets held for sale	9,446	283
Decrease in fair value of investment property	-	(120)
Net gain on disposals of property, plant and equipment	41	51
Government grants	9,600	-
Total other income	**19,087**	**214**

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 or 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.

Government funded residential care subsidies & supplements, includes a payment in October 2020 of either $975 or $1,435 (depending on the location of the home) for each resident based on June 2020 census data and a payment of either $763 for Metro or $1,145 for Regional (depending on the location of the home) in February 2021 . The payment contributed $11,826,000 in revenue for the period (2020: $5,800,000) as a temporary funding increase.

Following an application for a Government Grant to obtain expense reimbursement associated with the COVID-19 response, the Group received $7,369,000 by way of reimbursement.

The Group received personal protective equipment ("PPE") from Government during a time of critical shortages in Australia, which supplemented its own purchases. $2,231,000 relating to PPE supplied by Government was consumed in the period and as such was recognised as grant income and as PPE expense.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

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 Aged Care 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 $15,478,000 in the period (2020: $16,920,000).

(b) Resident Daily Care Fees

The Group receives Basic 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

The Group has determined that residents who choose to pay a RAD as bond for their accommodation services, that these arrangements meet the definition of a lease under AASB 16, accounting for leases. 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 separately sold two surplus land sites within NSW at Mona Vale and Wollongong and one site within Victoria at Grovedale for a total of $16,450,000 (2020: $1,215,000) and recognised a net gain on sale of $9,446,000 (2020: net gain on sale $283,000).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

SECTION B: OUR PERFORMANCE (CONTINUED)

B1
REVENUE AND OTHER INCOME (CONTINUED)

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).

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.

Government grants, including non-monetary grants, are recognised when all conditions attached to the grant will be met and the grant will be received. The grant is recognised at an amount equivalent to what will be received, and non-monetary grants are recognised at fair value and as Other income.

Monetary grants are recognised as income in the profit and loss on a systematic basis over the periods in which the related costs are recognised as expenses for which the grants are intended to compensate. For non-monetary grants, both the grants and the related assets are accounted for at fair value. The grants are recognised as other income in the profit and loss over the periods in which the related asset is consumed and expensed.

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 DAP 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.

The Group have used the replacement cost of PPE items which are comparable to the items it has received from the Government, to determine the value of non-monetary Government grants received during the period of $2,231,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

SECTION B: OUR PERFORMANCE (CONTINUED)

B2
EMPLOYEE BENEFITS EXPENSES

	2021 $'000	2020 $'000
Salaries and wages expense	365,446	344,904
Superannuation expense	33,014	32,091
Other employee expenses	44,961	39,005
Total employee benefits expenses	**443,421**	**416,000**

The Group administered and disbursed COVID-19 aged care retention bonuses on behalf of the Australian Government during the financial year and considered that it acted as an agent in making these payments on behalf of the Australian Government. These payments were therefore treated as a disbursement and not a grant and were presented as a pass-through with no impact on the results. For the year ended 30 June 2021, COVID aged care retention bonuses totalled $9,104,000 (2020: Nil) were administered and disbursed by the Group.

B3
ADMINISTRATIVE EXPENSES

	2021 $'000	2020 $'000
Advertising and marketing expenses	1,326	1,417
Telephone and communication expenses	2,576	2,353
Travel expenses	800	1,594
Printing and stationery expenses	1,179	1,642
Professional services expenses	5,456	3,943
Insurance Premiums	4,200	2,843
Other administrative expenses	7,669	7,084
Total administrative expenses	**23,206**	**20,876**

The costs included in administrative expense has been reviewed during the period to more closely reflect the nature of this cost category, as result the prior period value has been restated.

SECTION B: OUR PERFORMANCE (CONTINUED)

B4
OCCUPANCY EXPENSES

	2021 $'000	2020 $'000
Repairs and maintenance expense	8,555	8,468
Other occupancy expenses	12,499	12,875
Total occupancy expenses	**21,054**	**21,343**

The Group has various leases that relate to the Groups aged care homes and are accounted for in accordance with AASB16 Accounting for Leases. Refer Note C7 Right of Use Assets and Lease Liabilities.

The costs included in other occupancy expense has been reviewed during the period to more closely reflect the nature of this cost category, as result the prior period value has been restated.

B5
DEPRECIATION, AMORTISATION AND IMPAIRMENT EXPENSES

	Notes	2021 $'000	2020 $'000
Depreciation and Amortisation Expense	C4, C7	42,263	39,119
Impairment expense	C4, C6	980	144,622
Total depreciation, amortisation and impairment expenses		**43,243**	**183,741**

The Group has various leases for aged care homes, office space and minor office equipment. These leases are 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 $4,535,000 (2020: $4,524,000).

The impairment expense in June 2020 comprises $136,059,000 of goodwill and $8,563,000 across the Group's homes and tangible assets.

SECTION B: OUR PERFORMANCE (CONTINUED)

B6
FINANCE INCOME AND COSTS

	Notes	2021 $'000	2020 $'000
Finance Income			
Interest income from cash at banks		**520**	**435**
Total finance income		**520**	**435**
Finance Costs			
Imputed interest cost on RAD and bond balances	B1	**42,316**	**43,407**
Interest expense on leases under AASB 16		**1,943**	**2,171**
Interest expense on bank loans		**1,509**	**2,204**
Interest expense on accommodation bonds for departed residents		**2,019**	**2,512**
Other finance costs		**1,545**	**2,039**
Total finance costs		**49,332**	**52,333**
Net finance costs		**48,812**	**51,898**

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.

SECTION B: OUR PERFORMANCE (CONTINUED)

B7
INCOME TAX EXPENSE

The major components of income tax expense for the twelve months ended 30 June 2021 and 30 June 2020 are:

	2021 $'000	2020 $'000
Current income tax		
Current income tax expense	1,155	16,093
Adjustments in respect of income tax of previous year	(433)	355
Deferred income tax		
Relating to origination and reversal of temporary differences	1,831	(8,090)
Adjustments in respect of income tax of previous year	512	(294)
Income tax expense reported in the consolidated statement of profit or loss and other comprehensive income	**3,065**	**8,064**

Reconciliation of income tax expense and the accounting profit:

	2021 $'000	2020 $'000
Accounting profit or (loss) before income tax	9,064	(108,845)
At the Australian statutory income tax rate of 30% (2020: 30%)	2,719	(32,654)
Adjustments in respect of income tax of previous year	79	61
Utilisation of previously unrecognised tax losses	(13)	(176)
Expenditure not allowable for income tax purposes		
- Goodwill impairment expense	-	40,818
- Other expenditure	280	15
Income tax expense	**3,065**	**8,064**

SECTION B: OUR PERFORMANCE (CONTINUED)

B7
INCOME TAX EXPENSE (CONTINUED)

	Consolidated statement of profit or loss and other comprehensive income		Consolidated statement of financial position	
	2021 $'000	**2020 $'000**	**2021 $'000**	**2020 $'000**
Accelerated depreciation and impairment	(3,672)	2,541	(60,979)	(57,307)
IPO transaction fees	(8)	(8)	-	8
Other	(719)	281	(1,264)	(545)
Assets held for sale	(2,216)	2,216	-	2,216
Bed licences	-	-	(64,571)	(64,571)
Provisions and accruals	2,028	3,126	22,075	20,047
Investment properties	-	36	-	-
Right of use assets	-	1,195	21,889	21,889
Lease liabilities	2,244	(1,003)	(17,897)	(20,141)
Deferred tax (credit) or expense	**(2,343)**	**8,384**		
Deferred tax, net liabilities			**(100,747)**	**(98,404)**
Reflected in the statement of financial position as follows				
Deferred tax assets			44,347	45,067
Deferred tax liabilities			(145,094)	(143,471)
Deferred tax, net liabilities			**(100,747)**	**(98,404)**

Reconciliation of deferred tax liabilities, net:

	$'000
Balance at 1 July 2020	(98,404)
Income Tax expense during the year recognised in profit or loss	(1,831)
Adjustments in respect of income tax of previous year	(512)
Balance at 30 June 2021	(100,747)

SECTION B: OUR PERFORMANCE (CONTINUED)

B7
INCOME TAX EXPENSE (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.

SECTION B: OUR PERFORMANCE (CONTINUED)

B7
INCOME TAX EXPENSE (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.

The shares that may dilute basic earnings per share in the future, were anti-dilutive for the period ended 30 June 2020 due to the loss for the year and therefore they were not included in the calculation of diluted earnings per share.

	2021 $'000	2020 $'000
Profit (Loss) attributable to ordinary equity holders of the Parent for basic and diluted earnings	5,998	(116,909)

	2021	2020
Weighted average number of ordinary shares for basic EPS	**261,294,969**	**261,014,726**
Effect of dilution	**3,013,807**	**1,538,291**
Weighted average number of ordinary shares for the effect of dilution	**264,308,776**	**262,553,017**

	2021 cents	2020 cents
Basic profit or (loss) per share	2.30	(44.79)
Diluted profit or (loss) per share	2.27	(44.79)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

SECTION B: OUR PERFORMANCE (CONTINUED)

B9
CASH FLOW RECONCILIATION

	2021 $'000	2020 $'000
(a) Reconciliation of net profit or (loss) after income tax to net cash flows from operations		
Profit/(Loss) for the year	5,998	(116,909)
Adjustments to reconcile profit or (loss) after income tax to net cash flows:		
Depreciation of property, plant and equipment	37,728	33,150
Depreciation on right of use assets	4,535	4,524
Imputed revenue on RAD and bond balances	42,316	43,407
Imputed interest cost on RAD and bond balances	(42,316)	(43,407)
Amortisation of intangibles	1,402	1,445
Impairment of property, plant and equipment	980	144,622
Net gain on disposal of property, plant and equipment	(41)	(51)
Net gain on sale of assets held for sale	(9,446)	(283)
Bond retention revenue	(2,968)	(1,910)
Movement in allowance for expected credit losses	(718)	440
Share-based payments	923	(47)
Net (gain) or loss on fair value of investment properties	-	120
Changes in assets and liabilities		
Decrease or (increase) in trade and other receivables	(71)	(835)
Decrease or (increase) in prepayments and other assets	(2,397)	(1,595)
Decrease or (increase) in deferred tax assets	720	(5,185)
(Decrease) or increase in deferred tax liabilities	1,622	(2,755)
(Decrease) or increase in current tax payable	666	7,111
(Decrease) or increase in trade and other payables	(21,399)	22,260
(Decrease) or increase in provisions	8,189	8,779
(Decrease) or increase in refundable accommodation deposits and bonds	30,592	33,181
Net cash flows from operating activities	**56,315**	**126,062**

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.

	2020 $'000	Net cash flows $'000	Other $'000	2021 $'000
(b) Reconciliation of liabilities arising from financing activities				
Non-current loans and borrowings	130,000	(15,500)	667	113,833
Lease liabilities	72,961	(4,270)	(649)	69,340
Total liabilities from financing activities	**202,961**	**(19,770)**	**18**	**183,173**

SECTION C: ASSETS & LIABILITIES

C1
CASH AND CASH EQUIVALENTS

	2021 $'000	2020 $'000
Cash at bank	33,300	30,522
Cash on hand	128	78
Total cash and cash equivalents	**33,428**	**30,600**

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

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.

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C2
TRADE AND OTHER RECEIVABLES

	2021 $'000	2020 $'000
Trade receivables	6,767	8,593
Other receivables	1,653	1,549
Allowance for expected credit losses	**(1,295)**	**(2,013)**
Total trade and other receivables	**7,125**	**8,129**

Allowance for expected credit loss

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

	2021 $'000	2020 $'000
As at 1 July	**2,013**	**1,573**
(Release) or provision for expected credit losses	**(302)**	**732**
Utilised	**(416)**	**(292)**
At 30 June	**1,295**	**2,013**

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. Refer to D5 Credit Risk for additional information.

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-9 pandemic in Australia from March 2020 that would materially impact the ability to collect outstanding debtors balances.

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C3
ASSETS HELD FOR SALE

	2021 $'000	2020 $'000
Assets held for sale	2,601	5,441
Total assets held for sale	**2,601**	**5,441**

On 4 November 2020, the Group completed the previously announced sale of land in Mona Vale, New South Wales, and recorded a pre-tax profit on sale of $7,792,000 in the period.

Development options for a site at Crown Street, Wollongong, New South Wales, were re-assessed in the period and the decision was made to dispose the site. A contract for sale for $3,800,000 was executed in October 2020 which was settled on 15 December 2020 for a pre-tax profit of $435,000 in the period.

Land in Grovedale, Victoria, was contracted for sale in December 2020 and settled in April 2021, recognising a pre-tax profit of $475,000.

The Group has a property in Wombarra, NSW for which a process for disposal commenced in June 2020 and continued during the current period.

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 contact 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.

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C4
PROPERTY, PLANT AND EQUIPMENT

Reconciliation of property, plant and equipment

	Note	Land $'000	Buildings $'000	Property Improvements $'000	Furniture, fixtures & equipment $'000	Motor vehicles $'000	Construction in progress $'000	Total $'000
Cost								
Balance at 1 July 2019		192,840	504,816	64,823	92,045	989	47,593	903,106
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)
Transfer to assets held for sale		(5,250)	-	-	(48)	-	(108)	(5,406)
Balance at 30 June 2020		**193,813**	**531,024**	**82,689**	**118,912**	**899**	**34,581**	**961,918**
Additions		-	750	3,238	9,195	246	30,583	44,012
Transfers		-	35,492	3,056	11,790	-	(50,338)	-
Disposals		-	(28)	(131)	(2,232)	(153)	(2,334)	(4,878)
Transfer to assets held for sale		(3,748)	-	-	-	-	-	(3,748)
Balance at 30 June 2021		**190,065**	**567,238**	**88,852**	**137,665**	**992**	**12,492**	**997,304**
Accumulated depreciation and impairment								
Balance at 1 July 2019		-	39,930	4,213	35,420	847	-	80,410
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)
Balance at 30 June 2020		**-**	**55,827**	**9,189**	**51,394**	**770**	**2,213**	**119,393**
Depreciation expense	B5	-	11,352	5,238	19,694	41	-	36,325
Impairment expense	B5	821	-	-	-	-	159	980
Disposals		-	(30)	(131)	(2,175)	(152)	(2,372)	(4,860)
Balance at 30 June 2021		**821**	**67,148**	**14,296**	**68,914**	**659**	**-**	**151,838**
Net book value								
As at 30 June 2020		**193,813**	**475,198**	**73,500**	**67,516**	**129**	**32,368**	**842,524**
As at 30 June 2021		**189,244**	**500,089**	**74,556**	**68,752**	**332**	**12,492**	**845,465**

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.

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.

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C4
PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The Group capitalises costs relating to the construction and refurbishment of aged care facilities. The initial capitalisation of costs is based on the Group's judgement that the project is expected to generate future economic benefits. Subsequent to determining the initial eligibility for capitalisation the Group reassesses on a regular basis whether projects are still sufficiently probable of completion and expected to deliver desired economic benefits.

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C5
INVESTMENT PROPERTIES

	2021 $'000	2020 $'000
Balance at beginning of period	**1,500**	**1,620**
Transfer from property, plant and equipment	**(750)**	**-**
Fair value adjustments	**-**	**(120)**
Total investment properties	**750**	**1,500**

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 $750,000 (2020: $1,500,000) has been categorised as Level 3 based on the inputs to the valuation technique used (see Note D6).

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C6
GOODWILL AND OTHER INTANGIBLE ASSETS

	Note	Goodwill $'000	Bed licences $'000	Software costs $'000	Total $'000
Book Cost					
Balance at 1 July 2019		817,074	217,931	9,095	1,044,100
Additions		-	3,350	2,529	5,879
Disposals		-	-	(94)	(94)
Balance at 30 June 2020		**817,074**	**221,281**	**11,530**	**1,049,885**
Additions		-	-	2,035	2,035
Balance as at June 2021		**817,074**	**221,281**	**13,565**	**1,051,920**
Accumulated amortisation					
Balance at 1 July 2019		-	-	4,451	4,451
Amortisation expense	B5	-	-	1,445	1,445
Impairment		136,059	-	59	136,118
Disposals		-	-	(94)	(94)
Balance at 30 June 2020		**136,059**	**-**	**5,861**	**141,920**
Accumulated amortisation					
Amortisation expense		-	-	1,402	1,402
Balance at 30 June 2021		136,059	-	7,263	143,322
Net book value					
As at 30 June 2020		**681,014**	**221,281**	**5,669**	**907,964**
As at 30 June 2021		**681,014**	**221,281**	**6,303**	**908,598**

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 3- 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

The Accounting Policy for bed licences remains unchanged, where 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.

The current Government has stated its intention to abolish bed licence restrictions and the Aged Care Approval Rounds ("ACAR") from 1 July 2024. This proposal has the potential to impact the accounting value of bed licences. At 30 June 2021, the Group recognises bed licences at a book value of $221,281,000, less an associated deferred tax liability of $64,571,000 representing a net asset position of $156,710,000. Legislation has not yet been drafted or passed to give effect to this intention and the exact nature of any changes to the licencing regime remains uncertain at the date of this report. Until such time as any legislation is passed, Approved Providers will still be required to own bed licences to be eligible for Government subsidies under the Aged Care Act. As a result, the Group has determined that the bed licences continue to have an indefinite life and the carrying value remains appropriate at the date of this report.

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C6
GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

Goodwill

Goodwill is initially measured at cost and represents the excess of the total 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.

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.

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.

The most sensitive assumptions used in the calculation of the value in use of the CGU are the discount rate and long term growth rate. Sensitivity analysis on reasonably likely changes to these assumptions did not result in an outcome where impairment would be required.

Discount rate of 9.3% was applied to the cash flow forecasts, including terminal value. 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 asset 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 discount and growth rates used at 30 June 2021 in assessing the recoverable amount are as follows:

	2021 %	2020 %
Post-tax discount rate	9.3	9.3
Pre-tax discount rate	12.5	12.5
Long term growth rate	2.3	2.3

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.

Right of use assets	Property Leases $'000	Other Equipment $'000	Total $'000	Lease Liabilities $'000
As at 1 July 2020	66,992	145	67,137	72,962
Additions during the year	-	532	532	532
Depreciation expense	(4,362)	(174)	(4,536)	-
Interest expense	-	-	-	2,080
Lease payments	-	-	-	(6,371)
Remeasurement of leases	(3,913)	-	(3,913)	(4,081)
Total Right of use assets as at 30 June 2021	**58,717**	**503**	**59,220**	**65,122**

The Group had low value leases relating to office equipment such as printers and photocopiers. An amount of $121,000 (2020: $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. The Group recognised an amount of $477,900 (2020:$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.

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.

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C7
RIGHT OF USE ASSETS AND LEASE LIABILITIES (CONTINUED)

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 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.

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C8
TRADE AND OTHER PAYABLES

	2021 $'000	2020 $'000
Current trade and other payables		
Trade creditors	13,692	9,643
Payroll liabilities	15,723	36,297
Sundry creditors and accruals	9,890	13,587
Total current trade and other payables	**39,305**	**59,527**
Total trade and other payables	**39,305**	**59,527**

C9
OTHER FINANCIAL LIABILITIES

	2021 $'000	2020 $'000
Independent living unit (ILU) entry contributions	508	1,193
Total other financial liabilities	**508**	**1,193**

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.

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C10 PROVISIONS

	2021 $'000	2020 $'000
Current provisions		
Employee benefits	59,962	52,678
Non-current provisions		
Employee benefits	6,059	5,155
Total provisions	**66,021**	**57,833**

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.

SECTION D: CAPITAL, FINANCING, RADS AND RISK

D1
REFUNDABLE ACCOMMODATION DEPOSITS AND BONDS

	2021 $'000	2020 $'000
Current residents	761,100	736,402
Departed residents	102,829	99,902
Total refundable accommodation deposits and bonds - amounts received	**863,929**	**836,304**

The comparative period has been restated to correct an error in the split previously reported in the total balance between Current and Departed residents as at 30 June 2020

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. 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.

RADs 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.

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

D2
LOANS AND BORROWINGS

	2021 $'000	2020 $'000*
Non-current loans and borrowings		
Bank loans, secured	113,833	128,848
Total non-current loans and borrowings	**113,833**	**128,848**

** Directly attributable transaction costs are deducted from the initial carrying value of the bank loan and are amortised over the term of the Facility. The amount deducted from carrying value in the period was $667,000 (30 June 2020: $1,152,000).*

At 30 June 2021, the Group had available $210,941,000 (2020:$197,152,000) of undrawn committed borrowing facilities, which excludes $4,559,000 (2020: $4,000,000) of bank guarantees disclosed in Note E2.

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 (RAD) or bonds.

The Facility is secured by real property mortgages and security interests over a majority of the freehold property, and material leases, with 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 2021 was $330,000,000. In addition, the Facility has an accordian feature which allows for the facility to be increased by an additional $170,000,000, subject to lender participation and the satisfaction of specified terms and conditions of the accordian feature being satisfied. The Facility will mature in November 2022. Refer to D5 interest Rate Risk for further details.

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.

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

D3
ISSUED CAPITAL AND RESERVES

	2021 $'000	2020 $'000
Issued and fully paid		
Ordinary shares	803,459	803,397
Total share capital	**803,459**	**803,397**

(a) Movements in ordinary shares on issue

	2021		2020	
	Number of shares	$'000	Number of shares	$'000
Beginning of the financial year	261,271,914	803,397	260,602,749	801,843
Vesting of employee Performance Rights	23,055	62	-	-
Dividend Reinvestment Plan	-	-	669,165	1,507
Transfers share-based payment reserve	-	-	-	41
Movement in management equity plan	-	-	-	6
End of the financial year	**261,294,969**	**803,459**	**261,271,914**	**803,397**

Ordinary shares have no par value per share.

The Group grants performance rights to some employees, including key management personnel, as part of their remuneration. Upon vesting, the rights are equity settled by the issuance of ordinary shares in the Group. Refer to Note D4 for further details of these plans. In July 2020, performance rights vested resulting in the issuance of 23,055 ordinary shares in the Group.

Reclassification of prior period balance

13,683 performance rights vested in July 2019 and were not recorded and disclosed in the twelve-month period ended 30 June 2020. The comparative period has now been reclassified to reflect the vesting of the performance rights and the issuance of 13,693 ordinary shares in the Group.

(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 2021 is $27,843,000 (2020: $19,087,000).

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

D3
ISSUED CAPITAL AND RESERVES (CONTINUED)

(d) Dividends paid

There was no final dividend paid for the year ended 30 June 2020.

On 23 February 2021 the Directors resolved not to declare an interim dividend for the six-month period ended 31 December 2020. (2020:$14,098,838 at 5.4 cents per share)

On 24 August 2021 the Directors declared a final dividend for the year end 30 June 2021 of 2.30 cents per share representing 100% of profit for the period of $5,998,000. (2020:nil)

(e) Dividend Reinvestment Plan (DRP)

The DRP allows eligible shareholders to reinvest all or part of their dividend distribution into shares. As there was no dividend payable in FY21, there was no reinvestment through this program during the current or prior period.

Whilst the Directors have announced a final dividend relating to FY21 which is payable in FY22, the DRP program has been suspended at this time.

D4
SHARE-BASED PAYMENTS

At 30 June 2021, 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.

Unlike in previous years, Earnings Per Share ('EPS') was not included as a performance measure in the FY21 LTI, due to the challenges in setting appropriate three-year targets at the beginning of FY21. The FY21 LTI will be entirely subject to relative Total Shareholder Return ('TSR') measures (consisting of two equally weighted relative TSR performance measures with different comparator groups).

During the period the Group granted a total of 1,629,361 rights (2020: 824,290) to executives.

(b) Short-Term Incentive Plan (STIP)

In the comparison period, the STIP, awards were made to key managers and executives who have a significant 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.

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

D4
SHARE-BASED PAYMENTS (CONTINUED)

(b) Short-Term Incentive Plan (STIP) (continued)

Additionally, in the comparative period, 50% of the STIP was measured on a combined basis against EBITDA and NPAT, as well as other role specific measures for the remaining 50%. Other role specific measures include Lost Time Injury Frequency Rate reduction targets, organisational culture measures, delivery of efficiencies through management of external financing, and developments in connection with clinical governance and risk management processes

In the current period, due to the significant uncertainty around the impact of the COVID-19 pandemic and the Royal Commission on the Company's FY21 operational and financial performance, and the associated challenges in setting meaningful FY21 performance targets, the Board decided not to operate a short-term incentive ('STI') plan in FY21 for executive Key Management Personnel ('KMP').

The number of performance rights granted under the STIP during the year ended 30 June 2021 relating to the incentive payments earned in the year ended 30 June 2020 was nil (2020: 23,055).

(c) Retention Plan ("RP')

Under the RP, awards in the form of performance rights, are made to key managers and executives to encourage retention of their employment with the Group. The executive must remain employed with the Group from the date the award is granted to the vesting date of the performance right. Upon successful vesting of the performance rights, the executive is issued ordinary shares in the Group, equivalent to the number of performance rights originally granted.

The number of performance rights granted under the retention plan during the period ended 30 June 2021 was 639,390 (2020:146,673).

(d) 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 2021. 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%

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

(e) Movements during the year

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

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

D4
SHARE-BASED PAYMENTS (CONTINUED)

(e) Movements during the year (continued)

	2021		2020	
Performance rights only	**Number**	**WAEP**	**Number**	**WAEP**
Outstanding at 1 July	1,526,515	-	1,536,396	-
Granted during the year	2,268,751	-	994,018	-
Forfeited during the year	(551,828)	-	(990,206)	-
Exercised during the year	(23,055)	-	(13,693)	-
Exercisable as at 30 June	3,220,383	-	1,526,515	-

The weighted average fair value of performance rights granted during the year was $0.67 (2020: $0.58).

(f) 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:

	2021 $'000	2020 $'000
Long-term incentive plan reversal	(143)	(121)
Long-term incentive plan expense	1,116	-
Short-term incentive plan expense	-	62
Management equity plan expense	12	12
Share-based payments expense recognised in profit or loss	**985**	**(47)**

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.

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

D4
SHARE-BASED PAYMENTS (CONTINUED)

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

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

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

LTIP-Recognition and measurement of fair value

As the exercise price is zero upon vesting, the fair value of the performance rights issued under the LTIP are determined by the fair value at grant date by utilising methodologies allowable under AASB 2, 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.

Retention Performance (RP) rights were introduced in the FY21 plan.

Assumption	FY21 Plan	FY20 Plan	FY19 Plan
Share price at grant date	$1.29	$2.71	$2.19
Dividend yield	4.0%	3.0%	5.0%
Volatility	47%	30%	38%
Risk free rate	0.8%	0.7%	2.0%
Probability of achieving EPS	N/A	10%	40%
Fair value of right - TSR	$0.35 - $0.70	$0.68 - $0.76	$0.46 - $0.47
Fair value of right - EPS	N/A	$2.50	$1.92
Fair Value of right - RP	$1.21		

STIP-Recognition and measurement of fair value

The fair value of the performance rights issued under the STIP are determined at grant date. The number of shares issued are determined by 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.

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, equity risks or currency risk.

The sensitivity analyses in the following sections relate to the position as at 30 June 2021 and 30 June 2020.

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 2021 and 30 June 2020.

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 2021 and 30 June 2020.

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
	2021 %	2020 %	
Cash and liquid assets	0.6	1.1	Floating
Bank loans	1.5	1.4	Floating
Refundable accommodation deposits – departed residents	2.3	2.9	Floating

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

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 or (lower)		Effect on equity Higher or (lower)	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
+0.25% (25 basis points)	(141)	(174)	(98)	(122)
-0.25% (25 basis points)	141	174	98	122

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 76% (2020: 75%) of the revenue 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.

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.

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 $3,317,000 at 30 June 2021 (2020: $3,323,000):

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	Expected credit loss $'000
At 30 June 2021			
Current	6%	1,603	99
<30 days	17%	453	76
30-60 days	27%	229	62
61-90 days	36%	144	52
>90 days	85%	1,191	1,008
Total	**36%**	**3,620**	**1,297**

	Expected credit loss rate %	Gross carrying amount $'000	Expected credit loss $'000
At 30 June 2020			
Current	6%	1,892	110
<30 days	16%	533	84
30-60 days	22%	388	85
61-90 days	20%	465	93
>90 days	81%	2,033	1,640
Total	**38%**	**5,311**	**2,012**

During the year, the Group has focused on the recovery of aged debt. This action has resulted in a significant reduction in the gross carrying amount as well as a moderate change in the aging profile distribution. There has been no change to the underlying methodology or approach to the calculation of expected credit loss.

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
Year ended 30 June 2021					
Trade and other payables	837	36,960	-	-	37,797
Loans and borrowings	-	-	114,500	-	114,500
Refundable accommodation deposits and bonds	863,929	-	-	-	863,929
Other financial liabilities	508	-	-	-	508
Lease liabilities	-	6,005	20,335	**59,950**	86,290
Total Commitments	**865,274**	**42,965**	**134,835**	**59,950**	**1,103,024**
Year ended 30 June 2020					
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
Total Commitments	**838,423**	**64,724**	**152,102**	**67,225**	**1,122,474**

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 2021.

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

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 uses fair value for Investment Properties, which are valued using Level 3 inputs. The Group's Investment Properties represent Independent Living Units ("ILU") which are occupied by residents who have contributed a non-interest-bearing loan to occupy the ILU. The resident vacates the property based on the applicable State-based Retirement Village Acts.

During the period, residents vacated two properties. The Group elected to use these properties for the provision of residential aged care services and transferred the properties into its control at an amount equivalent to its fair value of $750,000.

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

			Fair value measurement using		
	Date of Valuation	Total	Level 1	Level 2	Level 3
		$'000	$'000	$'000	$'000
Investment properties	30 June 2021	750	-	-	750
	30 June 2020	1,500	-	-	1,500

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 2021	30 June 2020
Discount rate	16.50%	15.00%
Growth rate	2.50%	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.

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.

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.

Share based payments include expenses recognised under the Retention Bonus scheme.

	2021 $'000	2020 $'000
Short-term employee benefits	**2,490**	**2,455**
Post-employment benefits	**119**	**125**
Share-based payments	**580**	**(133)**
Total compensation of key management personnel	**3,189**	**2,447**

E2
COMMITMENTS AND CONTINGENCIES

Capital commitments

During the year, the Group entered into contracts relating to the development of aged care homes. As at 30 June 2021, the remaining capital commitments amounted to $5,547,000 (2020: $20,238,000).

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 $4,559,000 (2020: $4,000,000). These are secured against the borrowing facilities disclosed in Note D2. As at the date of signing this report, there are no calls against these guarantees.

SECTION E: OTHER INFORMATION (CONTINUED)

E3
AUDITOR REMUNERATION

	2021 $'000	2020 $'000
Fees to the auditor for statutory financial report	723	800
Fees for assurance services that are not required by legislation to be provided by the auditor	17	16
Fees for other services - Tax Compliance	93	88
Total auditor remuneration	**833**	**904**

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

E4
SUBSEQUENT EVENTS

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

E5
SEGMENT REPORTING

For management reporting purposes, the Group has identified one reportable segment. Estia operates predominantly in one business and geographical segment being the provision of residential aged care services in Australia. The Group's operating performance is evaluated across the portfolio as a whole by the Chief Executive Officer on a monthly basis and is measured consistently with the information provided in these consolidated financial statements.

SECTION E: OTHER INFORMATION (CONTINUED)

E6
INFORMATION RELATING TO SUBSIDIARIES

The consolidated financial statements of the Group include:

Name	Country of	% Equity Interest	
	Incorporation	2021	2020
Estia Finance Proprietary Limited	Australia	100%	100%
Estia Investments Proprietary Limited	Australia	100%	100%
Kenna Investments Proprietary Limited	Australia	100%	100%
Hayville Proprietary Limited	Australia	100%	100%
Camden Village Proprietary Limited	Australia	100%	100%
Kilbride Village Proprietary Limited	Australia	100%	100%

Principal activities

1. Estia Health Limited : Holding company.
2. Estia Finance Pty Limited: Holder of financing facilities.
3. Estia Investments Pty Limited: Current Approved Provider under the Aged Care Act.
4. All entities are holders of assets accept for Estia Finance Pty Limited.

SECTION E: OTHER INFORMATION (CONTINUED)

E7
PARENT ENTITY INFORMATION

	2021 $'000	2020 $'000
Information relating to Estia Health Limited		
Current assets	561,581	559,796
Non-current assets	570,398	570,406
Total assets	**1,131,979**	**1,130,202**
Current liabilities	-	-
Non-current liabilities	455,670	454,623
Total liabilities	**455,670**	**454,623**
Net assets	**676,309**	**675,579**
Issued capital	803,459	803,356
Reserves	2,629	1,747
Retained earnings	(129,779)	(129,524)
Total shareholders' equity	**676,309**	**675,579**
(Loss) or profit of the parent entity	(206)	(104,992)
Total comprehensive (loss) or income of the parent entity	(206)	(104,992)

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 which are carried at cost.

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 28th June 2021 with the following entities:

- Estia Finance Proprietary Limited
- Estia Investments Proprietary Limited
- Kenna Investments Proprietary Limited
- Hayville Proprietary Limited
- Camden Village Proprietary Limited
- Kilbride Village Proprietary Limited

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 ASIC Instrument 2016/785, relief has been granted to these entities from the *Corporations Act 2001* requirements for the preparation, audit and lodgement of their financial reports.

SECTION E: OTHER INFORMATION (CONTINUED)

E7
PARENT ENTITY INFORMATION (CONTINUED)

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.

E9
CHANGES IN ACCOUNTING POLICY

Changes in accounting policy, disclosures, standards and interpretations

The accounting policies adopted in preparation of the full year consolidated financial statements are consistent with those followed in the preparation of the Group's financial statements for the year ended 30 June 2020, except for the adoption of amendments to standards effective as of 1 July 2020.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Configuration or Customisation Costs in a Cloud Computing Arrangement

In April 2021, the IFRS Interpretations Committee (IFRIC) published an agenda decision for configuration and customisation costs incurred related to implementing Software as a Service (SaaS) arrangements. The Group is currently assessing the impact of the agenda decision on its current accounting policy, which may result in previously capitalised costs needing to be recognised as an expense.

The process to quantify the impact of the decision is presently ongoing. An internal project team has been appointed to determine the impact ahead of the release of the Groups interim reporting for the period ended 31 December 2021.

At the date of this report, the impact of the IFRIC agenda decision on the Group/Company is not reasonably estimable

SECTION E: OTHER INFORMATION (CONTINUED)

E9
CHANGES IN ACCOUNTING POLICY (CONTINUED)

New and Amended Accounting Standards and Interpretations

The adoption of amendments and revisions to accounting pronouncements applicable from 1 July 2020, including the change in definition of a business under the amendments to AASB 3 'Business Combinations', revisions to the Conceptual Framework for Financial Reporting and definition of materiality did not have a significant impact on the Group's Financial Statements.

Standards issued but not yet effective

A number of other accounting standards and interpretations, have been issued and will be applicable in future periods. While these remain subject to ongoing assessment, no significant impacts have been identified to date. These standards have not been applied in the preparation of these Financial Statements.

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 2021 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 2021 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 2021.

On behalf of the Board

Dr. Gary H Weiss AM
Chairman

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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 2021, 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 2021 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 judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

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Carrying value of goodwill and bed licences

Why significant	How our audit addressed the key audit matter
At 30 June 2021 the Group's goodwill and bed licences balance was $902 million which represents 48% of total assets. The Group reviews the carrying amount of goodwill and bed licences annually, or more frequently, if impairment indicators are present. The group of cash generating units (CGUs) to which goodwill and bed licences can be allocated is consistent with the operating segment as identified and 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 as at 30 June 2021. The impairment analysis was considered a key audit matter due to the process to estimate the recoverable amount being complex and requiring significant judgement including consideration of the continued effects of COVID-19. 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 licences to the Group and composition of the carrying amount of the CGU. 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 2021 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 forecasting 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 maintenance capital expenditure with reference to historical data; ▸ Assessed the impact of the announcements by the Government in response to recommendations from the Royal Commission into Aged Care Quality and Safety ("Royal Commission'), including their intention to abolish the Aged Care Allocation Round and associated supply restrictions on bed licences, noting that legislation has not yet been drafted or passed to give effect to this intention and the exact nature of any changes to the licencing regime remained uncertain as at 30 June 2021.

Building a better working world

Why significant	How our audit addressed the key audit matter
	▶ Assessed the discount rate through comparing the weighted average cost of capital for the Group with comparable businesses including the potential impacts of the government response to Royal Commission recommendations, announcement to abolish the Aged Care Allocation Round and COVID-19; ▶ Considered earnings multiples of comparable businesses as a valuation cross check to the Group's determination of recoverable amount. ▶ 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

Why significant	How our audit addressed the key audit matter
Costs incurred during the year that were capitalised to Construction in Progress amounted to $31 million. This represents costs of development projects and significant refurbishments of existing aged care facilities. 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 was considered a key audit matter due to the quantum of the balance and judgement required in applying the capitalisation criteria and undertaking the impairment analysis. The Group has disclosed in Note C4 to the consolidated financial report the capitalisation policy.	Our audit procedures included the following: ▶ Agreed a sample of additions to supporting evidence and assessed the nature of amounts capitalised; ▶ Evaluated key assumptions applied 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 the relevant depreciation or amortisation rates were applied; ▶ Considered whether there were any indicators of impairment present after examining the business case documentation of development projects, any impacts of COVID-19 on management adhering to the construction development timeline, enquiries of executives responsible for management of the projects and comparing the cost of development to forecasts; ▶ Assessed 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 and the deprecation rates applied to each asset category.

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Revenue Recognition

Why significant	How our audit addressed the key audit matter
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. 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. The Group also received a temporary funding increase and COVID-19 related supplements which have been recognised in the year ended 30 June 2021. 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. Revenue was considered a key audit matter given the effect of strict legislation, adjustment in rates by government from time to time, and the volume of transactions with residents and government. The Group's revenue recognition and disaggregation policies have been disclosed in note B1 to the consolidated financial report.	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: ▶ Assessed whether ACFI assessments were prepared by an authorised person, and were calculated based on resident care assessments; ▶ Compared the government revenue recognised to payments received; ▶ Tested whether resident revenue agreed to agreements, legislated billing rates, and payments received; ▶ Tested whether the application of the Daily Care Fee incorporated rate increases; ▶ Assessed whether resident additional service fees changes were approved and whether billing rates were correct. We performed the following other audit procedures in relation to revenue: ▶ Compared the revenue accrual to actual occupancy rates; ▶ Tested whether the revenue recognised related to performance obligations satisfied within the year; ▶ Assessed whether the COVID-19 support supplements received by the Group during the year related to performance obligations already satisfied within the year; ▶ Assessed the appropriateness of the financial statement disclosures in relation to the Group's revenue recognition and disaggregation policies.

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 2021 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 judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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.

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Report on the audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 27 to 39 of the directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of Estia Health Limited for the year ended 30 June 2021, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

Paul Gower

Paul Gower
Partner
Melbourne
24 August 2021