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ASX Announcement

22 August 2023

FY23 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 2023.

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

--- ENDS ---

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 2023[1]

	Increase / Decrease	30 June 2023 $'000	30 June 2022 $'000	Change %
Revenue from ordinary activities		754,298	671,067	
Other income		51,730	8,966	
Total revenue and other income from ordinary activities	**Increase**	**806,028**	**680,033**	18.5
Profit / (Loss) before interest and tax	**Increase**	**5,497**	**(27,260)**	120.2
Profit / (Loss) from ordinary activities after tax attributable to members	**Decrease**	**(33,898)**	**(52,362)**	(35.3)

	30 June 2023 (cents)	30 June 2022 (cents)	Change %
Basic (loss) / earnings per share	**(13.13)**	(20.10)	34.7
Diluted (loss) / earnings per share	**(13.13)**	(20.10)	34.7
Net tangible asset backing per ordinary share	**(93.50)**	(85.15)	(9.8)

Net tangible assets are 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 C5 which accompanies the full year Financial Report of Estia Health Limited for the year ended 30 June 2023.

Dividend information

Dividend	30 June 2023 (cents)	30 June 2022 (cents)	Change %
Interim dividend – fully franked (2022: fully franked)	**3.70**	**2.35**	57.4
Final dividend – fully franked (2022: fully franked)	**12.00**	**-**	100.0
Total dividend – fully franked (2022: fully franked)	**15.70**	**2.35**	568.1

Final dividend dates

Ex-dividend date	25 August 2023
Record date	28 August 2023
Payment date	15 September 2023

Further Information

Commentary on the results for the period can be found in the attached 30 June 2023 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 2022

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Leanne Ralph

Company Secretary

22 August 2023

ESTIA HEALTH LIMITED

ABN 37 160 986 201

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2023

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)

Sean Bilton (Managing Director and CEO, Appointed 11 July 2022)

Norah Barlow ONZM (Property and Investment Committee Chair)

Paul Foster (Nomination and Remuneration Committee Chair)

Helen Kurincic (Risk Management Committee Chair)

Karen Penrose (Audit Committee Chair)

Professor Simon Willcock (Commenced 1 September 2022)

Ian Thorley (Managing Director and CEO, Resigned 13 July 2022)

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

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

Thomson Geer
Rialto South Tower
525 Collins Street
Melbourne VIC 3000

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

The names and qualifications of the Directors of Estia Health Limited ("the Company") and its subsidiaries (collectively the "Group" or "Estia Health") 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 year unless otherwise stated.

DIRECTORS

The names and qualifications of the Directors of Estia Health Limited ("the Company") and its subsidiaries (collectively the "Group" or "Estia Health") 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 year 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 LL. B (Hons) and LL.M (with dist.) from Victoria University of Wellington, as well as a Doctor of Juridical Science (JSD) from Cornell University, New York.

SEAN BILTON (MANAGING DIRECTOR AND CEO)

Sean was appointed as the Managing Director and CEO on 11 July 2022. Sean held the roles of Chief Operating Officer and Deputy CEO prior to the appointment.

Sean holds a Bachelor of Economics from UNSW, is a Fellow of the Financial Services Institute of Australia and a graduate of the Advanced Management Program at INSEAD.

NORAH BARLOW ONZM (PROPERTY AND INVESTMENT COMMITTEE CHAIR)

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 (with Merit) from the University of Wollongong and a Master of Arts from the University of NSW.

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.

PROFESSOR SIMON WILLCOCK AM

Simon was appointed to the Board on 1 September 2022 as an Independent Non-executive Director.

Simon has been the independent chair of the Group's Clinical Governance Committee since 2019 and has an extensive academic and clinical career including a number of Commonwealth and State Ministerial appointments. He is a Director of Sydney North Primary Health Network and was previously a Director and Chair of Avant Mutual Group. Simon is currently Program Director for Primary Care and Wellbeing Services at MQ Health, a subsidiary of Macquarie University.

IAN THORLEY (FORMER 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 retired from the role of Managing Director and CEO with effect from 11 July 2022, resigned as a director on 13 July 2022 and remained with the Company until 29 July 2022.

Ian holds a Bachelor of Health Administration and a Master of Commerce from the University of NSW.

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
Chair	Karen Penrose	Paul Foster	Helen Kurincic	Norah Barlow ONZM
Member	Dr. Gary H Weiss AM	Dr. Gary H Weiss AM	Paul Foster	Dr. Gary H Weiss AM
Member	Helen Kurincic	Helen Kurincic	Karen Penrose	Paul Foster
Member			Professor Simon Willcock AM[1]	

[1] Appointed 1 September 2022.

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	
	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)
Dr. Gary H Weiss AM	28	28	8	8	5	5	-	-	4	4
Sean Bilton[1]	28	28	-	-	-	-	-	-	-	-
Norah Barlow ONZM	28	28	-	-	-	-	-	-	4	4
Paul Foster	28	27	-	-	5	5	5	5	4	4
Helen Kurincic	28	28	8	8	5	5	5	5	-	-
Karen Penrose	28	27	8	8	-	-	5	5	-	-
Professor Simon Wilcock AM[2]	25	20	-	-	-	-	5	5	-	-
Ian Thorley[3]	-	-	-	-	-	-	-	-	-	-

(A) Number of meetings eligible to attend. (B) Number of meetings attended.

[1] Appointed 11 July 2022

[2] Appointed 1 September 2022

[3] Resigned 11 July 2022

All Directors have a standing invitation to attend Committee meetings and regularly attend meetings of Committees for which they are not members. 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:

	Number of ordinary shares
Dr. Gary H Weiss AM	103,312
Sean Bilton[1]	184,191
Norah Barlow ONZM	129,474
Paul Foster	24,000
Helen Kurincic	50,000
Karen Penrose	44,071
Professor Simon Willcock AM[2]	-

[1] Appointed 11 July 2022

[2] Appointed 1 September 2022

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 2023 continued to be the provision of services in residential aged care homes in Australia as an Approved Provider under the *Aged Care Act 1997* ("the 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, developing and commissioning new homes, enhancing existing homes, complementary acquisitions; and
- develop additional earnings from related services within the continuum of aged care.

DIRECTORS' REPORT

THE MARKET IN WHICH ESTIA HEALTH OPERATES

Services Provided

The Group provides permanent residential care in a safe and supportive environment for people who are no longer able to live at their own home. Short-term respite and reablement 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.

Size of the Residential Aged Care Sector

The sector is one of the largest in Australia, employing more than 278,000 workers, and represents 0.9% of the Australian GDP.

The Department of Health and Aged Care 2021-22 Report on the Operation of the Act disclosed the following in relation to residential aged care:

	2021/22	2020/21
Approved Providers	805	830
Residential aged care homes	2,671	2,704
Permanent residential aged care operational places at the end of the year	219,965	219,105
Number of permanent residents in residential aged care homes at the end of the year	180,750	183,894
Number of people receiving permanent care services during the year	245,719	243,117
Number of people receiving respite care services during the year	70,993	67,775
Total funding and subsidies provided to Approved Providers under the Act by the Australian Government	$14.6 billion	$14.1 billion

Ageing Demographic

The ageing of the Australian population and the influence of the "baby boomer" generation is expected to result in a marked increase in Australia's aged population.

This demographic shift is expected to increase the number of Australians likely to need aged care, including residential aged care, in coming years. The Group's growth strategy is to provide services to meet this growing demand.

Access to Services

Under the Act, in order to access Government supported residential aged care services, potential residents must be assessed as qualifying for such services by an Aged Care Assessment Team ("ACAT") and may then choose a residential aged care home that best meets their needs. Only Approved Providers are eligible to provide services which qualify for Government funding support.

Regulatory Environment

The provision of services eligible for Government funding in residential aged care homes in Australia may only be delivered by Approved Providers and is highly regulated under the Act. The Royal Commission into Aged Care Quality and Safety ("Royal Commission") delivered its final report in March 2021 which contained multiple recommendations intended to lead to a higher quality sector with greater choice and transparency available to residents and their families. The majority of these recommendations have now been implemented by Government with the intention of securing a higher level of confidence in the use of taxpayer-funded Government subsidies to the sector. Further reference to these changes is made later in this report.

DIRECTORS' REPORT

THE GROUP'S PORTFOLIO

The Group is one of the largest Approved Providers in Australia with 73 homes operating across four states.

	Number of homes	Number of places	Average home size	Significantly refurbished homes	Number of places in single rooms	Approximat e number of staff
New South Wales	18	1,975	110	18	1,303	2,240
Queensland	10	1,104	110	10	1,035	1,330
South Australia	19	1,535	81	19	1,481	1,860
Victoria	26	2,106	81	26	1,842	2,790
Group	73	6,720	92	73	5,661	8,220

CARE AND SERVICES PROVIDED

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

Each Estia Health home provides care, accommodation, hotel and lifestyle services, led by a Residential Aged Care Manager, supported by a team of nurses, clinical support staff, personal care assistants, lifestyle, allied health, chefs, cleaning, laundry and maintenance staff. 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 Professor Simon Willcock AM, who joined the Board of Directors on 1 September 2022.

The application of these policies and procedures at a home level is managed by the Residential Aged Care Manager and Care Director of each home supported by regional teams. Quality of care is monitored against uniform clinical quality indicators, which are measured and reviewed by the Quality Improvement Committee. Internal reviews of quality of care are regularly undertaken by the Group's Quality Team and key clinical performance data is assessed against industry benchmarks.

Upon entry to a home, the specific needs of new residents are assessed, in conjunction with families or carers in order to develop personalised clinical care, nutrition and lifestyle plans.

Food and nutrition form a critical part of the care and well-being of all residents. Menus are reviewed by nutritionists and meals are prepared fresh on-site every day by Estia Health chefs. Wherever possible, food is sourced from Australian producers with a focus on fresh, high-quality ingredients. All Estia Health chefs attend in-house masterclass workshops as part of their development in line with the Group's commitment to delivering nutritious, high quality and enjoyable meals for all residents.

Lifestyle coordinators 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 through relationships with outside organisations including churches and schools.

Regular surveying of resident satisfaction levels is conducted. Up until 31 March 2023, this exercise was undertaken using the same criteria originally developed by the Aged Care Quality and Safety Commission ("ACQSC") using Consumer Experience Reports ("CER") during inspection visits to homes, which ask residents to respond to a series of question on a five-point scale. The Group achieved an overall average 92% (2022: 93%) satisfaction rating during the 9 months to 31 March 2023, based on the number of respondents that reported they were satisfied with services "most of the time" or "always".

The ACQSC introduced an expansion of the National Quality Indicator Program ("NQIP") program from April 2023 to require mandatory quarterly surveying of all residents asking them to report against a new series of questions relating to Consumer experience and Quality of life, with results to be publicly available.

The Group is re-establishing its internal customer satisfaction reporting to align with the new ACQSC program to avoid duplication and ensure consistency in future reporting.

In addition, the Group regularly assesses performance of homes based on the new Star Ratings system, which was introduced in December 2022 across four measures. More information on Star Ratings is shown on page 12.

DIRECTORS' REPORT

REGULATORY ENVIRONMENT AND REFORM POST ROYAL COMMISSION

The Royal Commission was established on 8 October 2018 and delivered its final report in March 2021.

The Government's response has seen multiple reforms to the Residential Aged Care sector, the majority of which have now been legislated, including changes to funding models, introducing the Independent Health and Aged Care Pricing Authority ("IHACPA"), removing capacity constraints on bed licenses, mandating minimum care minutes and increased transparency, reporting and governance.

It is anticipated that these changes will lead to a better quality sector with greater choice and transparency available to residents, leading to a higher level of confidence in the use of taxpayer-funded Government subsidies to the sector.

The Group already operated in accordance with many of the proposed changes to Governance, Quality and Safety and does not currently expect to require further significant investment in order to meet the governance and prudential requirements.

The most significant changes which have now been enacted which impact future financial performance relate to:

- completion of the abolition of the Aged Care Approval Rounds ("ACAR") restrictive licensing regime from 30 June 2024;
- the replacement of the Aged Care Funding Instrument ("ACFI") with an alternative case-mix model (referred to as AN-ACC) in October 2022;
- the introduction of a publicly available 5 Star Rating system for all homes from December 2022;
- the creation of IHACPA to provide cost and pricing advice and recommendations to the Government in relation to the funding of aged care services, with its first advice recently made to take effect from 1July 2023;
- 24/7 attendance by a Registered Nurse; and
- mandated minimum care minutes from 1 October 2023, increasing from 200 to 215 per day from 1 October 2024.

SECTOR FINANCIAL SUSTAINABILITY

The Group has previously highlighted the critical role to be played by IHACPA in maintaining financial sustainability of the sector following successive years where increases in Government funding did not keep pace with increasing input costs.

In May 2023, the Government announced a significant increase in funding to take effect from 1 July 2023 based on IHACPA's initial advice and recommendations which were published shortly afterwards. These increases followed the introduction of AN-ACC to replace ACFI in October 2022, with a significant uplift in funding to enable Approved Providers to finance the Work Value Case decision of the Fair Work Commission ("FWC") and contribute to minimum mandated care minutes, amongst other costs.

The Group is encouraged by the Government's response to follow the initial advice from IHACPA in relation to increasing funding levels to meet the cost of service delivery as a first step in ensuring the enduring financial sustainability of the sector.

Based on its own assessment, the Group concurs with other industry commentators in expecting that in relation to FY24, the net effect of the following key changes is likely to be broadly neutral to the financial performance of the sector.

Beyond FY24, future sustainability and financial performance of the sector is expected to be largely dependent on the continued pricing advice of IHACPA and the Government's response to that advice.

The Group also notes the establishment by Government of the Aged Care Taskforce in June 2023 to review funding arrangements for aged care and develop options for a system that is fair and equitable for all Australians. The taskforce will build on Royal Commission recommendations and review funding arrangements for aged care with a focus on:

- contribution arrangements that will support a sustainable system;
- equity for older people needing aged care now and into the future, and for all Australians contributing to aged care funding through their taxes;
- making innovation the sector default; and
- enhancing the elements of the system that Australians value, including putting people using aged care at the centre of the funding arrangements.

The Group will continue to advocate for sector reform which will 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.

DIRECTORS' REPORT

COVID-19

The Group continues to adopt a disciplined and carefully managed program of protective and preventative measures in accordance with local health authorities and its own risk assessments. These measures have varied throughout the year as external circumstances have evolved.

The impact of COVID-19 on the sector continued to reduce in the early part of the period, in line with the reduced impact in the wider Australian community and reduced Public Health settings. This saw a reduction in outbreaks, exposures and costs associated with Personal Protective Equipment ("PPE"), cleaning and waste disposal, as well as a reduction in enforced staff absences through sickness.

The 'Fourth Wave', which escalated in the community during November and into January 2023, resulted in a partial reversal of this decline, which was repeated during the 'Fifth Wave' in May and June 2023. Nevertheless, the high level of vaccination rates and the effectiveness of anti-viral medications is frequently resulting in shortened periods of infection and lower levels of impact on the health of residents and staff compared to prior periods. This has resulted in the direct operational and financial impacts of COVID-19 continuing to reduce, supported by the extension of Government grant schemes to recover the majority of costs associated with managing outbreaks.

At other times during the year, the extent of COVID-19 in the wider community has been reflected in lower frequency and impact of outbreaks in the whole sector, including the Group's homes.

The Group has ensured that all staff without medical exemption have had at least three doses of an approved COVID-19 vaccine, and mandates participation in the annual influenza vaccine program. In addition, the Group has strongly encouraged and facilitated vaccination of residents.

More than three years since the pandemic was declared, the Group's frontline staff continue to demonstrate extraordinary support and care for residents and families at a time when many are also experiencing the consequences of COVID-19 within their own families and communities. Their dedication and commitment to supporting residents in such difficult circumstances has been remarkable.

GRANT RECOVERY OF ELIGIBLE COVID-19 RELATED COSTS

Approved Providers are able to apply to recover some of the costs associated with COVID-19 outbreaks through Government grant schemes. These grants do not cover preventative measures taken by the Group outside of outbreak periods in specific homes. The period covered by grant schemes has been extended on multiple occasions, including a new scheme covering costs up to 31 December 2023. The grant schemes are demand-driven and amounts allocated to the schemes have been increased on several occasions consistent with that definition.

Details of the amounts claimed, received and the financial impact of the long delays associated with the Government's processing of claims is shown on page 16 of this Report. Notwithstanding the processing delays occurring within the Department of Health and Aged Care, directors are confident based on experience to date that at least 95% by value of all claims submitted but not yet paid will be accepted by the Department and subsequently paid by Government.

The Government has indicated that in the medium-term it would expect cost impacts of COVID-19 to be incorporated into the recommendations of IHACPA for recurrent funding.

DIRECTORS' REPORT

WORKFORCE

The aged care sector is currently experiencing a significant workforce shortage, with the Committee for Economic Development of Australia ("CEDA") in August 2021 estimating a shortfall of 35,000 workers in 2022 and a projected need for an additional 170,000 workers by 2030, as reported by CEDA in 2021. Over recent years, the attractiveness of the sector for workers has been hampered by factors such as below-average pay compared to other healthcare sectors, the lingering effects of COVID-19, negative media coverage, and adverse sentiment resulting from the Royal Commission. Additionally, competition from other healthcare providers and the aging global population further compounds the shortage of skilled staff.

The sector's workforce challenges are expected to intensify with the forthcoming increase in mandatory care minutes, set to take effect from October 2023. This situation is exacerbated by the current record low levels of unemployment within the economy, which further hinders providers' efforts in attracting workers to the sector. Consequently, maintaining fully resourced homes to ensure continuity of care becomes challenging, driving unsustainable levels of expensive agency labour and overtime to meet staffing needs in the sector.

To address these issues, the recent 15% increase in the Aged Care Award by the FWC, effective from 30 June 2023, will aid in making employment in the sector more competitive with other sectors. Furthermore, the significant increase in the level of inward migration is expected to make a positive contribution to workforce availability and stability.

Estia Health has placed a strong emphasis on staff engagement and retention initiatives, resulting in a reduction in staff turnover during the year. The Group has made strategic investments in programs designed to attract, retain, train, and develop employees, aiming to effectively compete with other providers while addressing the staffing gaps exacerbated by the impact of COVID-19.

Addressing the workforce shortage in the aged care sector and successfully attracting and retaining skilled staff will necessitate ongoing attention and collaboration between providers, the Government, and training institutions.

ACCREDITATION CARE AND QUALITY

The Government has increased funding to the ACQSC, which in turn has increased its activity levels and visits across the sector as the impact of COVID-19 has reduced. The ACQSC has also assumed responsibility for prudential and regulatory oversight.

The Group has implemented and complied with increased reporting obligations for all Approved Providers during the year, including detailed quarterly financial reporting and various clinical indicators in the NQIP.

All homes remained fully accredited at all times during the year and at the date of this report, with 42 of the Group's homes undergoing a full reaccreditation during the financial year. During the year and up to 18 August 2023, no home had received a Sanction or a Notice to Agree. One home entered into an Undertaking To Remedy a Non-Compliance, which has since been satisfied.

External complaints to ACQSC were 55% below industry levels reported in the most recent ACQSC published data. 35% of the Group's homes did not receive an external complaint during the year.

DIRECTORS' REPORT

ABOLITION OF ACAR AND IMPLICATIONS FOR BED LICENCE VALUATIONS

As previously reported, in September 2021, the Government affirmed its decision to abolish ACAR and associated supply restrictions on bed licences, which is expected to take full effect on 30 June 2024. The Directors support this move to more competitive markets as one of the most significant items within the reform agenda to date.

Importantly, the Government introduced simple transitional arrangements prior to the full implementation date to enable Approved Providers with homes and beds ready to operate, but without existing licences, to secure access to subsidised fees under the Act.

As a result of the former Government's announcement and the transitional arrangement that allows providers to apply directly to the Department of Health and Aged Care for an allocation of places, the secondary market for bed licences has ceased. The Group commissioned an independent assessment, which has supported its own analysis, that the fair value of bed licences is nil.

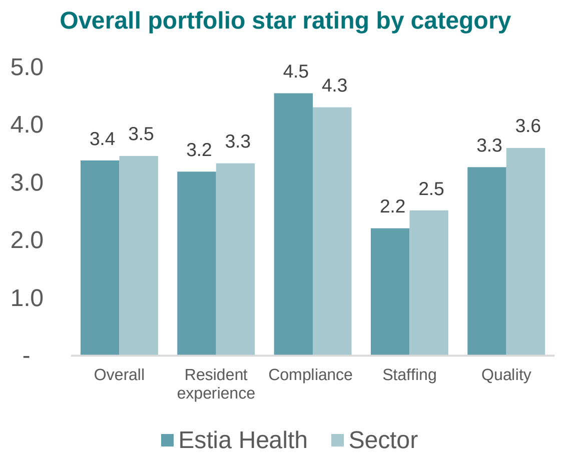
Notwithstanding the directors' view that the fair value of existing operational bed licences is nil, the directors have determined that in order to comply with Accounting Standards and the Group's accounting policy in relation to Goodwill and Intangible Assets as set out in Note C4 to the Group's Consolidated Financial Statements (the "Financial Statements"), bed licences are now regarded as finite life intangible assets with the carrying value being amortised on a straight line basis over the period from 1 October 2021 to 30 June 2024.

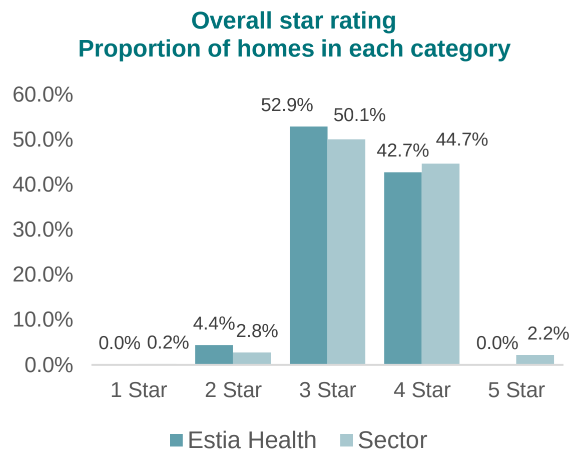
The Financial Statements in this Report include a bed licence amortisation charge of $57.0 million after tax. The carrying value of bed licences in the Balance Sheet on 30 June 2023 was $80.5 million (2022: $160.9 million). Other than the potential future tax implications explained below, the amortisation charge has no impact on the cash flows of the Group and nor does it impact the Group's compliance with its debt covenants or regulatory obligations.

Subject to further analysis, it is currently anticipated that the abolition of bed licences should result in a capital loss of up to $200 million on 30 June 2024, available to be carried forward from that date which could be utilised against future capital gains of the Group, subject to prevailing tax legislation and tax loss recoupment tests. It is unlikely that the criteria to recognise an associated deferred tax asset in the Financial Statements will be met until such time as future capital gains become probable.

STAR RATINGS FOR RESIDENTIAL AGED CARE

The Government commenced publishing its Star Ratings for every residential aged care home on the My Aged Care portal in December 2022. The system provides an overall rating based on four criteria – compliance, customer experience, quality indicators and average care minutes. The Group's current overall ratings compared to the sector as a whole are shown below. The Group will continue to review the ratings of each home, in conjunction with its own pre-existing quality control and continuous improvement approach.





[1] The sector averages above were sourced from MyAgedCare as published on 7 August 2023.

DIRECTORS' REPORT

PROPOSED ACQUISITION OF THE COMPANY BY BAIN CAPITAL

On 23 March 2023 the Company advised the ASX that it had received a confidential, non-binding and indicative proposal from Bain Capital to acquire all of the shares in Estia Health by way of a Scheme of Arrangement (the "Scheme"), under which Estia Health shareholders would receive $3.00 cash per share, adjusted for any dividends paid or payable after that date.

On 7 June 2023, the Company advised the ASX that it had received a revised non-binding and conditional proposal from Bain Capital to acquire 100% of the issued capital of Estia Health by way of a Scheme under the terms of which Estia Health shareholders would receive $3.20 per share in cash, less the cash amount of any dividends declared and paid after 7 June 2023.

Following careful consideration, the Board of Estia Health determined that it was in the interests of shareholders to progress the proposal and as such entered into a Process Deed to allow Bain Capital to undertake further due diligence to enable it to provide a binding proposal.

On 7 August 2023 the Company advised the ASX that it had entered into a Scheme Implementation Agreement ("SIA") with Bain Capital for the acquisition of all of the issued shares in the Company by way of a Scheme. The SIA was also provided to the ASX on 7 August 2023.

Implementation of the Scheme is subject to various conditions which are set out in the SIA, including an Independent Expert's Report concluding that the Scheme is in the best interests of Estia Health shareholders, approval of the Foreign Investment Review Board, and no material change in financial circumstances.

The Board has concluded that the Scheme is in the best interests of shareholders and has unanimously recommended that shareholders vote in favour of the Scheme, in the absence of a superior proposal and subject to an independent expert concluding that the Scheme is fair and reasonable and in the best interests of shareholders.

A booklet explaining the details of the Scheme will be sent to shareholders, who will then be given the opportunity to vote on the recommended Scheme at a meeting which is expected to be held in November 2023. If the Scheme is approved and implemented, shareholders will receive total cash consideration of $3.20 per share, less the cash amount of any dividends declared and paid after the date of entry into the SIA.

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW

REVIEW OF FINANCIAL PERFORMANCE

For the first time in many years, the decline in sector margins was halted with the introduction of increased funding from 1 October 2022 when the new AN-ACC pricing model was introduced, with an average increase in daily subsidy rates of approximately $36 (2022: Nil).

During the year, the Group also experienced a lesser impact from COVID-19 with a consequential reduction in the level of incremental costs relating to the prevention and response to COVID-19 at mature homes of $24.4 million (2022: $49.8 million). The Group also benefitted from an improved rate of processing and acceptance of grant claims, including amounts relating to prior periods.

As a result, overall EBITDA from the Group's mature homes, excluding the five operational homes acquired during the period, increased to $116.0 million (2022: $37.5 million).

The loss after tax for the period, reduced to $33.9 million (2022: Loss after tax of $52.4 million).

Four Year Summary Financial Performance[1,2]

	2023 $'000	2022 $'000	2021[3] $'000	2020[4] $'000
Government revenues – excluding temporary funding and grants	520,874	472,525	443,218	426,188
Government temporary funding and grants	51,281	7,888	21,426	7,382
Resident and other revenues	166,564	149,003	147,406	146,310
Total operating revenues and grants	**738,719**	**629,416**	**612,050**	**579,880**
Employee benefits expenses	(490,130)	(444,033)	(431,355)	(404,272)
Non-staff expenses	(108,174)	(98,045)	(95,033)	(90,388)
COVID-19 incremental costs[5]	(24,365)	(49,823)	(24,309)	(2,538)
EBITDA – Mature Homes[6]	**116,050**	**37,515**	**61,353**	**82,682**
Other income	102	913	9,487	214
Net impact of new homes and home closures	4,205	455	(625)	491
Depreciation, amortisation and impairment (excluding bed licence amortisation and goodwill impairment)	(46,022)	(45,122)	(42,808)	(39,119)
Impairment of two homes in Benalla and Bendigo	(11,448)	-	-	-
Net finance costs	(7,628)	(6,970)	(6,496)	(8,491)
Profit / (Loss) before tax and exceptional items	**55,259**	**(13,209)**	**20,911**	**35,777**
Associated income tax credit / (expense)	(16,879)	3,586	(6,169)	(10,599)
Profit / (Loss) before exceptional items	**38,380**	**(9,623)**	**14,742**	**25,178**
Bed licence amortisation	(80,466)	(60,349)	-	-
Business acquisition related costs	(9,112)	-	-	-
Impact of legislated change on employee leave provisions	(9,054)	-	-	-
Class action settlement	-	-	(12,409)	-
Goodwill impairment	-	-	-	(144,622)
Associated income tax credit	26,354	17,610	3,272	2,535
Profit / (Loss) for the year	**(33,898)**	**(52,362)**	**5,605**	**(116,909)**

Page 19 "Reconciliation of Non-IFRS Information" contains a reconciliation of the above table to the Financial Statements. EBITDA and other measures are categorised as non-IFRS financial information prepared in accordance with ASIC Regulatory Guide 230 - Disclosing non-IFRS financial information, issued in December 2011.

1. EBITDA and other measures have been adjusted from the reported information to assist readers to better understand the financial performance of the business in each financial year. 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.
2. All reported figures exclude Imputed DAP revenue on RADs and the equivalent Imputed Interest on RADs which have a net effect of nil on reported profit. Note B1 of the Financial Statements provides further details.
3. In adopting the recently announced IFRIC changes for the accounting for SaaS arrangements the Group has re-stated certain previously reported information for consistency purposes.
4. Information reported with no adjustment for the IFRIC changes for the accounting for SaaS Arrangements.
5. Refer to the section under "Incremental costs associated with COVID-19 prevention and response" for details.
6. "Mature Homes" (which exclude homes from the date of closure and homes acquired during the year and new homes in ramp-up) are homes that have been opened for more than 12 months or if open for less than 12 months have greater than 85% occupancy at the commencement of the financial year.

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW (CONTINUED)

REVIEW OF FINANCIAL PERFORMANCE (CONTINUED)

Occupancy

The Group delivered 2,081,216 occupied bed days in the year (2022: 2,030,143 occupied bed days), an increase of 51,073 days compared to the prior corresponding period. Average occupancy on its Mature Homes increased to 92.3% compared to 91.6% in the previous year.

Average group occupancy levels on its Mature Homes (excluding the five acquisition homes) during the year have improved as the recovery from COVID-19 continues. This recovery is taking a longer period in Victoria, where occupancy averaged 86.8% in the year (2022: 86.4%) compared to 94.9% in the rest of the portfolio (2022: 94.1%).

	Spot 18 August 2023	Average 2023	Average 2022	Average 2021
New South Wales	93.7%	92.9%	91.1%	91.0%
Queensland	94.5%	96.6%	97.4%	96.1%
South Australia	97.9%	96.5%	96.3%	96.6%
Victoria	89.4%	86.8%	86.4%	85.9%
Total Group	**93.5%**	**92.3%**	**91.6%**	**91.2%**

Key Operating Metrics

	2023	2022	2021	2020
Available bed days	2,256,047	2,216,782	2,256,916	2,175,868
Occupied bed days	2,081,216	2,030,143	2,057,794	2,026,915
Operating revenue per occupied bed day	$330.3	$306.2	$287.0	$282.5
Increase	*7.9%*	*6.8%*	*1.6%*	*1.3%*
Staff costs per occupied bed day (excl COVID-19)	$235.5	$218.7	$209.6	$199.5
Increase / (Decrease)	*7.7%*	*4.4%*	*5.1%*	*6.8%*
Non-staff costs per occupied bed day (excl COVID-19)	$52.0	$48.3	$46.2	$44.6
Increase / (Decrease)	*7.6%*	*4.5%*	*3.6%*	*(10.8%)*[1]
Annualised EBITDA on Mature Homes per occupied bed (excl COVID-19)	$15,632	$14,284	$11,394	$14,017

[1] Decrease in FY20 followed the adoption of AASB16 impacting leasing costs.

Government Revenues

On 1 October 2022, the base ACFI subsidy and $10 per day basic daily fee supplement were replaced with the AN-ACC subsidy. The impact of the change between the first quarter, when care fees were funded under the old ACFI model, and the remainder of the year is shown below:

	Q1 FY23	Q2-Q4 FY23	Increase/ (Decrease)
Total Government revenues (excluding grants and temporary funding)	$123,619,000	$397,255,000	
Occupied bed days	519,826	1,561,390	
Average Government revenue per occupied bed day	$237.8	$254.4	$16.6

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW (CONTINUED)

REVIEW OF FINANCIAL PERFORMANCE (CONTINUED)

Staff costs

Staff costs at mature homes excluding the impact of the incremental costs associated with COVID outbreaks increased by $46.1 million to $490.1 million (2022: $444.0 million). This increase arose from increasing resident occupancy levels, Enterprise Agreement (EA) increases and a greater level of agency staff and overtime costs associated with sector-wide staff shortages.

Impact of legislated change on employee leave provisions

Following the FWC's decision to increase the Aged Care Award by 15% for certain aged care workers, an increase in annual leave and long service leave provisions for past service totalling $9.1 million was made in the current financial year (2022: Nil). The Australian Government advised that a future grant opportunity would be established to reimburse a proportion of eligible employees' annual leave, personal leave and long service leave entitlements accrued at 30 June 2023. However, no details of this scheme have been released and as such it has not been possible to estimate the potential future financial benefits of such a grant opportunity if released.

Non-staff costs

Non-staff costs at mature homes excluding the impact of the incremental costs associated with COVID outbreaks increased by $10.2 million to $108.2 million (2022: $98.0 million). This increase arose from increasing resident occupancy levels, inflationary pressures on consumables including food and medical supplies, and higher utilities costs.

Incremental costs associated with COVID-19 prevention and response

As referenced earlier in this report, the impact of COVID-19 on the sector continued to moderate in the early part of the period in line with the reduced impact in the wider Australian community and lessened Public Health settings. This saw a reduction in outbreaks, exposures and costs associated with Personal Protective Equipment (PPE), cleaning and waste disposal, as well as a reduction in enforced staff absences through sickness.

	H1 2023 $'000	H2 2023 $'000	2023 $'000	2022 $'000
Staff expenses	10,988	3,813	14,801	36,512
Non-staff expenses	5,232	4,332	9,564	13,311
Total incremental costs associated with COVID-19 prevention and response	**16,220**	**8,145**	**24,365**	**49,823**

Grant recoveries

Government grants primarily relate to amounts recoverable under Government grant schemes GO4863 and GO6223 which reimburse some of the costs incurred during COVID-19 outbreaks. Non-monetary grants represented personal protective equipment and supplies provided direct by Government. The Group has recognised these grants where it has determined that it has reasonable assurance that they will be received. The amount of grants recognised as income of the period is shown in the table below.

COVID-19 costs grant recoveries – All homes

	2023 $'000	2022 $'000
COVID-19 Outbreak costs reimbursement (see further detail below)	50,604	7,072
Personal protective equipment consumed (non-monetary)	825	981
Other	199	-
Total Government grants recognised as income of the period	**51,628**	**8,053**

REVIEW OF FINANCIAL PERFORMANCE (CONTINUED)

REVIEW OF FINANCIAL PERFORMANCE (CONTINUED)

COVID-19 Outbreak Cost Grant Schemes GO4863 and GO6223

As referenced in the Group's 2022 Annual Financial Report, delays continue in the Government's processing of grant applications across the whole aged care sector, including those of the Group. These delays resulted in grants relating to FY22 costs being confirmed and received in FY23 with the potential to distort the view of the financial performance of the Group between the two years. Since 31 December 2022, the Government has invested additional resources in processing more than 11,000 claims made across the sector, which has resulted in an increase in the amount and speed with which claims have been processed. The Group has experienced a low rejection rate of some elements of its claims, with more than 95% by value accepted, and no claim has been rejected entirely. The directors are confident that a significant majority of its lodged claims will be processed and remitted prior to 31 December 2023.

As a result of these factors the Group has determined that the point in time when receipt becomes reasonably assured for income recognition is the date that a properly prepared grant is lodged on the Government portal. In prior periods, based on the limited experience of grant reimbursements at the time, the point of recognition was determined to be the receipt of an outcome letter from the Government.

The status of claims at the date of this report is shown in the tables below.

Claims lodged

	2023 $'000	2022 $'000	Total $'000
Relating to expenses incurred in FY22	4,696	37,138	**41,834**
Relating to expenses incurred in FY23	17,835	-	**17,835**
Total Claims lodged	**22,531**	**37,138**	**59,669**

Claims processed and approved

	Claims relating to expenses incurred in:		
	2023 $'000	2022 $'000	Total claims $'000
Claims submitted	17,835	41,834	**59,669**
Claims approved	(3,389)	(37,170)	**(40,559)**
Partially rejected claims	(46)	(1,170)	**(1,216)**
Claims outstanding at the end of the period	**14,400**	**3,494**	**17,894**
Income recognised in relation to claims outstanding at the end of the period	(13,815)	(3,302)	**(17,117)**
Claims partially rejected subsequently	(151)	(104)	**(255)**
Claims outstanding at the report date, not yet recognised as income	**434**	**88**	**522**

Income recognised

	2023 $'000	2022 $'000	Total $'000
Grants Processed and Approved	33,487	7,072	**40,559**
Income recognised in relation to claims outstanding at the end of the period	17,117	-	**17,117**
Total income recognised	**50,604**	**7,072**	**57,676**

REVIEW OF FINANCIAL PERFORMANCE (CONTINUED)

REVIEW OF FINANCIAL POSITION AND CASH FLOWS

The Group's balance sheet has $500.6 million (2022: $541.7 million) of equity supporting $1,869.3 million (2022: $1,795.0 million) 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. On 30 June 2023, the Group had net bank debt of $43.8 million (2022: $79.6 million). Net operating cash inflows prior to RAD flows were $101.8 million (2022: $32.7 million) in the period.

There has been no significant change in the Group's financial position subsequent to 30 June 2023.

Bed Licences

Total assets include bed licences with a carrying value of $80.5 million (2022: $160.9 million) as at 30 June 2023, less an associated deferred tax liability of $23.5 million (2022: $47.0 million), resulting in a net carrying value of $57.0 million (2022: $113.9 million). The Directors consider that the fair value, less cost to dispose of bed licences, is nil. However, in accordance with Australian Accounting Standards, the licences are deemed to have a remaining value in use which requires the carrying value to be amortised over the period until formal abolition of licences on 30 June 2024.

Goodwill

The carrying value of Goodwill in the Group Balance Sheet on 30 June 2023 was $717.6 million (2022: $681.0 million). Note C4 to the Financial Statements refers to the key assumptions relating to the assessment of this value. A key assumption, consistent with the going concern concept and recent reform implementation, particularly in relation to the operation of IHACPA, is that there will be a cessation of margin erosion in the sector caused by historic decisions to limit increases in Government regulated fees and subsidies at a level below input cost inflation.

RAD Balances

The balance of RADs (including amounts pending return to deceased resident estates, referred to as "probate liability") on 30 June 2023 was $1,027.5 million, compared to $884.1 million on 30 June 2022, representing an increase of $143.4 million (2022: $20.2 million). As of 30 June 2023, RADs held on behalf of current residents totalled $890.3 million (2022: $756.9 million), with probate liability increasing from $127.2 million to $137.2 million.

Average incoming RAD prices in the period were $461,410 (2022: $449,489) compared to outgoing RAD prices of $437,605 (2022: $401,951) and average current RAD held of $355,058 (2022: $339,896).

Debt & Financing facilities

The Group has a $330.0 million Sustainability Linked Syndicated Financing Agreement ("SLSFA"). The SLSFA also has an accordion feature ("Accordion") which allows for the facility limit to be increased (subject to lender consent and approval) by an additional $170.0 million.

Of the total debt facility available, 50% will mature in March 2025 and 50% in March 2026.

In addition, the Group has a separate additional Guarantee Facility ("Guarantee Facility") with Westpac Banking Corporation which permits bank guarantees to be issued up to the value of $15.1 million.

On 30 June 2023, $70.0 million of the SLSFA had been drawn (2022: $100.0 million) and Bank Guarantees on issue totalled $15.0 million (2022: $7.7 million).

Under the SLSFA, the Group will be eligible for an interest rate margin reduction of up to five basis points per annum dependent on the level of achievement of sustainability targets embedded in the agreement. A failure to achieve any of the targets will result in an increased margin, up to five basis points per annum in total. These targets include:

- improving resident engagement and satisfaction
- supporting employee well-being
- reducing greenhouse gas emissions
- portfolio energy efficiency performance

The Group's performance against these targets during the prior year, which was independently reviewed, resulted in an interest rate margin reduction of three basis points per annum over the current financial year (2022: nil).

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW (CONTINUED)

REVIEW OF FINANCIAL POSITION AND CASH FLOWS (CONTINUED)

Share Buy-Back

In November 2022, the Board resolved to extend its on-market Share Buy-Back scheme ("Buy-Back") conducted in accordance with the ASX rules for a further 12-month period. Directors considered that the Company's current share price at the time did not appropriately reflect the intrinsic value of the Group's assets and business.

The Buy-Back is also part of the Group's capital management strategy in maintaining a balance between operating a high quality and sustainable business and preserving flexibility to invest capital for future value accretive opportunities, while seeking to provide returns to shareholders through regular dividends and to remain within a target bank debt gearing ratio of 1.4 – 1.9X EBITDA, subject to prevailing circumstances.

Any purchase of shares under the Buy-Back is permitted within the Group's debt facilities and is funded from existing cash reserves and undrawn debt capacity. The Buy-Back itself was not expected to impact the Group's ability to progress a disciplined growth strategy, nor its ability to continue to pay dividends in line with the Group's targeted payout ratio.

The directors determined that as a result of circumstances prevailing at various times over the course of the year, that there were no periods when it would be appropriate within the ASX rules for the Company to undertake any on-market purchases of its own shares.

RECONCILIATION OF NON-IFRS INFORMATION

The following tables provide a reconciliation of the non-IFRS financial information disclosed in the Four Year Summary Financial Performance as disclosed within the Operating and Financial Review presented on page 14 of this report to the Financial Statements per ASIC Regulatory Guide 230 *Disclosing non-IFRS financial information, issued in December 2011*.

	2023 $'000	2022 $'000	2021[1] $'000	2020 $'000
Revenue				
Total operating revenue and grants	**738,719**	**629,416**	**612,050**	**579,880**
Less: Government grants	(51,281)	(7,888)	(9,600)	-
Imputed DAP revenue on RAD and bond balances under AASB 16	41,242	39,328	42,316	43,407
Operating revenue from homes in ramp-up / closed homes	25,618	10,211	1,539	13,621
Total revenue	**754,298**	**671,067**	**646,305**	**636,908**
Government grants				
Government grants – Mature Homes	51,281	7,888	21,426	7,382
Government grants – Homes in ramp-up	347	165	-	-
Total government grants	**51,628**	**8,053**	**21,426**	**7,382**
Employee benefit expenses				
Employee benefit expenses – Mature Homes	490,130	444,033	431,355	404,272
COVID-19 incremental costs – Mature Homes	14,801	36,512	11,198	931
Employee benefit expenses – Homes in ramp-up / home closures	17,560	8,228	1,555	10,797
Total employee benefit expenses	**522,491**	**488,773**	**444,108**	**416,000**
Non-staff expenses[2]				
Non-staff expenses – Mature Homes	108,174	98,045	95,033	90,388
COVID-19 incremental costs – Mature Homes	9,564	13,311	13,111	1,607
Non-staff expenses – Homes in ramp-up / home closures	4,200	1,693	609	2,334
Total non-staff expenses	**121,938**	**113,049**	**108,753**	**94,329**
Net finance costs				
Net finance costs excluding imputed interest expense on RAD and bond balances under AASB 16	7,628	6,970	6,496	8,491
Imputed interest expense on RAD and bond balances under AASB 16	41,242	39,328	42,316	43,407
Total net finance costs	**48,870**	**46,298**	**48,812**	**51,898**

1. In adopting the IFRIC changes for the accounting for SaaS arrangements the Group has re-stated certain previously reported information for consistency purposes.

2. Presented as administrative expenses, occupancy expenses and resident expenses in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

DIRECTORS' REPORT

DEVELOPMENTS AND ACQUISITIONS

New Developments

As the COVID-19 pandemic and ACAR reforms were better understood, the Group re-commenced development and expansion with the resumption of greenfield projects at St Ives and Aberglasslyn, both in NSW. These developments, with a total of 236 new beds, are projected to open in FY24.

The Group is continuing to advance plans for future development in a measured way, including developing the Group's existing land portfolio, where expansion was previously challenged under the ACAR regime.

Capital Investment Summary

	2023 $'000	2022 $'000
Refurbishments (including significant refurbishments)	1,217	2,077
Upgrades and enhancements to the nurse call and CCTV systems	1,199	4,688
Asset life-cycle replacements, improvements and sustainability initiatives	16,517	15,138
Planning, design/ tendering and construction of Greenfield development projects	37,825	4,922
Planning, design/ tendering and construction of Brownfield development projects	5,228	4,954
Acquisition of Residential Aged Care facilities	76,400	-
IT and systems improvements	-	1,276
Trademark	-	400
Total	**138,386**	**33,455**

Divestments

The Group made no divestments during the period.

Acquisitions

Premier Health Acquisition

On 1 December 2022, the Group acquired the freehold sites and operations of four residential aged care homes from Premier Health Care comprising two homes in South Australia and two homes in Queensland for a cash consideration of $60.5 million. The homes align with the Group's existing operating clusters and added 409 resident places in high quality aged care homes. The acquisition aligns with the Group's growth strategy and enhances the existing portfolio.

Goodwill of $27.3 million arising from the acquisition represents the excess of the cost of the acquisition over the net fair value of the identifiable assets and liabilities acquired. The acquired homes performed in line with expectations and contributed $23.6 million of revenue and $1.9 million to profit before tax for the Group from the date of acquisition to 30 June 2023. RAD balances increased by $12.0 million over the same period. If the acquisition had taken place at the beginning of the period, 1 July 2022, revenue and profit before tax from Premier Health Care homes for the Group would have been $38.5 million and $3.3 million, respectively.

Mount Clear Acquisition

On 1 May 2023 the Group acquired a fully operational home situated in Mount Clear, Victoria, with 120 operating places for a provisional cash consideration of $15.9 million. The acquisition aligns with the Group's growth strategy and enhances the existing portfolio.

Goodwill of $9.3 million arising from the acquisition represented the excess of the cost of the acquisition over the net fair value of the identifiable assets and liabilities acquired. The acquisition performed in line with expectations and contributed $2.0 million of revenue and $0.3 million to profit before tax for the Group from the date of acquisition to 30 June 2023. If the acquisition had taken place at the beginning of the period, 1 July 2022, revenue and profit before tax from Mount Clear for the Group would have been $11.9 million and $1.0 million, respectively.

DIRECTORS' REPORT

DEVELOPMENTS AND ACQUISITIONS (CONTINUED)

Royal Freemasons Homes

The Group entered into a binding contract to purchase two operational homes with a total of 264 operational places in Bendigo and Benalla in Victoria on 1 August 2023.

Total net cash consideration for the two homes is expected to total approximately $17.3 million (excluding stamp duty and transaction costs), which will be funded from the Group's existing debt facilities. Final consideration will depend on RAD balances, which are expected to be approximately $35.8 million, and employee obligations at completion. The transactions, which are subject to customary closing conditions, are currently expected to settle in early October 2023.

In connection with the acquisitions, the Group will be consolidating its operations in Bendigo and Benalla which will result in the relocation of residents and employees from its existing homes in the two towns. Once the transaction and relocations are complete, each of the acquired homes are expected to be at or close to full occupancy and the Group intends to evaluate options for its existing sites which may include re-purposing or sale. As a result of this, the Group has reported an impairment charge of $11.4 million before tax in the period.

DIVIDENDS

On 22 August 2023, the Directors resolved that the Company declare a fully franked final cash dividend for the year ended 30 June 2023 of 12 cents per ordinary share totalling $31.0 million.

The record date for the dividend will be 28 August 2023, with payment being made on 15 September 2023. Shares will trade excluding entitlement to the dividend on 25 August 2023.

Dividends paid during the year were as follows:

	Date paid	Fully franked dividend per share	Total dividend paid
Interim dividend for the six months ended 31 December 2022	17 March 2023	3.7	$9,560,000

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than those explained in this report there were no significant changes in the state of affairs of the Group during the financial year ended 30 June 2023.

SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

COVID-19 Grant Recoveries

$1,940,000 of COVID-19 costs reimbursement claims recognised as receivable at 30 June 2023 were subsequently remitted as cash at the date of this report.

Proposed Acquisition of the Company by Bain Capital

As referred to in more detail on page 13 of this Report, on 7 August 2023, the Company advised the ASX that it had entered into a SIA with Bain Capital for the acquisition of all of the issued shares in the Company by way of a Scheme. The SIA was also provided to the ASX on 7 August 2023.

The Company's shareholders will be given the opportunity to vote on the Scheme at a meeting which is expected to be held in November 2023. If the Scheme is approved and implemented, shareholders will receive total cash consideration of $3.20 per share, less the cash amount of any dividends declared and paid after the date of entry into the SIA.

Royal Freemasons homes acquisition

As referenced in more detail on page 21 the Group entered into a binding contract with Royal Freemasons to purchase two operational homes with a total of 264 operational places in Bendigo and Benalla in Victoria on 1 August 2023 for an estimated cash consideration of $17.3 million which is expected to settle in October 2023.

South Australia land acquisition

On 5th July 2023, the Group completed the purchase of a block of land at Findon, SA, with an approved Development Application for a 120 bed residential aged care home from Premier Health Care for $5.4 million cash consideration.

DIRECTORS' REPORT

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Proposed Acquisition of the Company by Bain Capital

A Scheme Booklet containing information relating to the proposed acquisition, reasons for the Directors' recommendation, an Independent Expert's Report and details of the Scheme meeting will be prepared and provided to the Australian Securities and Investments Commission for review, and subsequently sent to shareholders.

Shareholders will then have the opportunity to vote on the Scheme at a shareholder meeting that is expected to be held in November 2023. Subject to shareholder approval being obtained by the requisite majorities and the other conditions of the Scheme being satisfied, the Scheme is expected to be implemented prior to the end of 2023. If the Scheme is implemented, Bain Capital would acquire 100% of the Issued Share Capital, and it is expected that the current board of directors would resign and the Company would be de-listed from the ASX.

Financial and Operational Outlook

Sector Demand

The aging population and increasing number of people aged over 85, is likely to lead to increased demand for residential aged care services. The industry continues to grow in complexity and the acuity of residents is increasing as the incidence of residents presenting with dementia and extensive co-morbidities escalates. This will see a need for a growing sophistication of aged care providers, with scale, systems, governance and leadership likely to be key requirements in order to adapt to these changes.

Sector Supply

The abolition of supply constraints via the ACAR bed licence process, will underpin opportunities for large, high-quality providers with strong balance sheets, such as Estia Health, to grow and benefit through scale, higher occupancy and attraction of workforce. The abolition of ACAR may also lead to increased competition in some areas where the Group operates.

Operating Places Increase

The acquisition of the four homes from Premier Health Care, the home at Mount Clear and the expansion of 24 places at the Group's existing home in Burton, SA during FY23 has increased capacity to 6,720 places on 1 July 2023 (1 July 2022: 6,163 places).

The acquisition of two homes from Royal Freemasons in the early part of FY24, and the likely closure of the Group's existing homes in Benalla and Bendigo shortly afterwards will result in a net increase in capacity of a further 150 operating places. The opening of new homes in St Ives and Aberglasslyn in FY24 will add a further 236 new operational places.

Subject to occupancy levels, this increase in operating places is expected to lead to higher future revenues and earnings.

Occupancy

The introduction of publicly available Star Ratings by the Government may also impact future occupancy levels for some, or all, of the Group's homes. That said, increasing occupancy to pre-COVID levels, in excess of 94%, remains a key objective and would be expected to result in increased revenues and earnings.

COVID-19 Costs and Associated Grant Recovery

The financial impacts of COVID-19 outbreaks at homes continue to lessen and the re-imbursement of some outbreak costs under Government grant schemes has been extended to at least 31 December 2023. The scheme is intended to assist providers to recover from the impact of COVID-19 outbreaks and as a pre-cursor to IHACPA considering the longer term funding implications on ongoing operations. Eligible expenditure is that which is incurred in managing direct impacts of COVID-19 to a maximum grant value per home. Therefore, the Group expects that the net impact of COVID-19 costs will continue to diminish.

Inflation

Broad inflation indices across all areas of the Australian and global economy have increased dramatically during FY23 and have increased, and are expected to continue to increase, many costs incurred by the Group, particularly in relation to food, energy, and medical services. Whilst IHACPA has factored a level of cost escalation into its pricing advice, expectations about the level of future inflation may not align with actual inflation in FY24 and beyond.

DIRECTORS' REPORT

LIKELY DEVELOPMENTS AND EXPECTED RESULTS (CONTINUED)

Financial and Operational Outlook (Continued)

Workforce

The competition for talent and the ability to attract, develop and retain a skilled workforce, remains one of the greatest challenges facing the aged care sector and the Group which may impact future financial performance.

The FWC 15% increase in the Award for Aged Care workers in direct care roles, which came into effect on 30 June 2023, will assist in retaining and attracting workers to the sector. Addressing the workforce shortage in the aged care sector and successfully attracting and retaining skilled staff will necessitate ongoing attention and collaboration between providers, the Government, and training institutions.

Interest rates

Interest rates on the Group's borrowings have increased compared to prior periods and are expected to remain higher for some time. Whilst the Group undertakes interest rate hedging activities, finance charges are expected to be higher than seen in prior periods. Higher interest rates have also resulted in an increase in the Maximum Permissible Interest Rate (MPIR) used to calculated Daily Accommodation Payments ("DAPs"), which was 7.90% at 1 July 2023, compared to 4.07% in April 2022, and 5.00% on 1 July 2022. This leads to higher DAP payments for incoming residents.

Funding increases, FWC 15% Award increase, cost and wage inflation, mandated care minutes

In May 2023, the Government announced significant increases in funding to take effect from 1 July 2023 based on IHACPA's initial advice and recommendations which were published shortly afterwards.

Based on its own assessment, the Group concurs with other industry commentators in expecting that in relation to FY24, the net effect of the following key changes is likely to be broadly neutral to the financial performance of the sector:

- the funding increases to take effect from 1 July 2023;
- the impact of the FWC 15% increase in the Aged Care Award from 30 June 2023;
- the impact of meeting mandated minimum care minutes from 1 October 2023; and
- general wage and CPI inflation.

Overall Outlook

For the first time in many years, there is an increased degree of certainty surrounding the regulatory framework.

This level of regulatory reform, which has been implemented with the intention of increasing quality and performance in the sector, is creating significant barriers to entry and new supply and is encouraging smaller providers without the ability to manage increasing administrative, compliance and governance requirements to consider exiting the sector, which is reflected in the reducing number of residential aged care providers.

The Group has previously highlighted the critical role to be played by IHACPA in maintaining financial sustainability of the sector following successive years where increases in Government funding did not keep pace with increasing input costs. The Group is encouraged by the Government's response in following the initial advice from IHACPA in relation to increasing funding levels to meet the cost of service delivery, as a first step in ensuring the enduring financial sustainability of the sector.

Beyond FY24, the Group's financial performance and the broader financial sustainability of the sector, will continue to be largely dependent on the continued pricing advice of IHACPA and the Government's response to that advice.

In the face of these uncertainties, the Group will continue to deploy capital cautiously to take advantage of growth opportunities with the objective of delivering earnings growth and increasing shareholder value.

DIRECTORS' REPORT

KEY BUSINESS RISKS

The following business risks are considered to be some of the more significant to the Group's performance and growth. Risks continue to evolve and as such these should not be regarded as exhaustive nor are they reported in any order of relative importance or potential impact.

Risk	Potential Impact	Response Strategy
REGULATORY CHANGE		
Estia Health operates in a highly regulated environment. The Group is exposed to failures to anticipate, respond to and manage material changes in regulation.	• Change in financial profitability and/or viability. • Increased cost of compliance. • Inability to adequately deliver the required volume of operational change. • Instances of non-compliance such as meeting accreditation requirements for residential homes. • Costs associated with remediating lack of compliance and/or penalties. • Change in competitive position of Estia Health's services.	Ongoing monitoring and assessment of regulatory change enables the Group to prioritise changes that have the greatest impact. This process of continual review is undertaken with short, medium and long-term planning cycles. Regulatory changes are also considered in the strategic planning process. The Group seeks to proactively engage with Government and industry to advocate for a regulatory environment which supports a strong and financially sustainable aged care sector. Project management capability is used to facilitate the delivery of large regulatory change initiatives. This is further supported by targeted training, education and technology changes.
GOVERNMENT FUNDING		
Estia Health relies on funding regulated by the Act, of which approximately 72% (2022: 71%) is paid directly from the Federal Government. The Federal Government has also provided significant direct financial support to the sector during the COVID-19 pandemic as referenced elsewhere in this Report.	• Any regulatory change or changes in Government policies in relation to existing funding legislation for the industry may have an adverse impact on the way the Group manages and operates its homes, its resultant financial performance and the carrying value of its tangible and intangible assets.	The creation of IHACPA will be a critical mitigation in maintaining financial sustainability of the sector. IHACPA is expected to advise Government on setting funding levels at an appropriate level to meet the cost of service delivery. The Group monitors and assesses changes to the regulatory and funding environment which may require adapting and changing its operations to continue to provide high quality services to residents and generate appropriate returns on the 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.

DIRECTORS' REPORT

KEY BUSINESS RISKS (CONTINUED)

Risk	Potential Impact	Response Strategy
WORKFORCE		
The Group's staff are critical in the delivery of quality care and services. A growing demand for care workers along with mandated staffing requirements is presenting significant challenges across the sector in identifying, recruiting and retaining sufficient personnel with the suitable skills and capabilities to carry out operations. There is also a high level of external competition for senior leadership and management expertise across the broader health sector.	• Operational disruption and/or reduced business resilience. • Technical, operational or business knowledge loss due to resignation or departure of key employees. • Increased fatigue amongst staff and the potential for errors. • Reduced productivity and lower quality of care. • Non-compliance with regulatory requirements, including meeting mandatory staffing requirements • Reduced occupancy. • Inability to deliver on strategic objectives. • Lower Star ratings of homes. • Brand and reputational damage.	Estia Health is working through multiple strategies to manage this risk including: • maintaining a strong leadership team, • improved employee benefits, • reviewing hiring strategies and streamlining recruitment processes, • seeking to attract suitable talent from broader pools, • investing in staff development including a graduate program, • focussing on training, induction and orientation for new hires Career pathways and succession planning are refreshed annually. Staff safety and wellbeing remains a top priority with ongoing focus on fatigue management, personal development initiatives and engagement programs.

DIRECTORS' REPORT

KEY BUSINESS RISKS (CONTINUED)

Risk	Potential Impact	Response Strategy
REFUNDABLE ACCOMMODATION DEPOSITS		
The Group has $1,027.5 million (2022: $884.1 million) of funding provided in the form of Refundable Accommodation Deposits (RADs) from residents, which have been deployed in accordance with the 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 incoming RADs from new residents. Reductions 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. At the present time there is no proposed legislation or indication from Government that RAD regulations will be amended. Nevertheless, it is possible that future regulatory change may be made resulting in the need to replace RADs with alternative sources of capital.	• If many 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, 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. • If the Government replaces the RAD scheme, the Group will need to replace RAD balances with alternative funding sources consistent with any transitional arrangements as existing residents depart.	The Group aims to maintain overall RAD balances by regularly monitoring and analysis of RAD movements and trends across its portfolio of homes. In accordance with the 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 $330.0 million (2022: $330.0 million), $260.0 million (2022: $230.0 million) was undrawn as of 30 June 2023, providing a significant capacity to manage a potential reduction in RAD balances. The Group will monitor and seek to contribute to any industry consultation or engagement in the event the Government proceeds with a review of RADs.

DIRECTORS' REPORT

KEY BUSINESS RISKS (CONTINUED)

Risk	Potential Impact	Response Strategy
OCCUPANCY LEVELS		
Occupancy levels at the Group's homes may fall as a result of increased competition, changing consumer trends, disrupted resident referral patterns, consumer preference for home care services, pandemic or epidemic, and capacity constraints from a shortage of skilled workers.	• Reduced occupancy levels will adversely affect the Group's financial performance leading to reduced revenues, and costs may not be able to be reduced in line with the lower occupancy. • Reduced occupancy levels may also result in lower RAD balances requiring replacement by alternative financing sources.	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. A dedicated occupancy team is focused on attracting new residents to the Group's homes supported by home-specific customer service resources and marketing. Staff actively engage with referrers, local hospitals, health clinics and General Practitioners to promote and encourage enquiries and admission. Resident satisfaction levels and preferences are assessed through ongoing feedback and formal surveying. The Group invests in digital engagement strategies and systems including, *Estia Health Connect*, an application for families to stay connected with their loved ones.
CLINICAL & QUALITY CARE		
Failure to provide person centred care. A failure to keep residents safe from potentially preventable risk of injury or harm.	• Loss of trust from residents and their families. • Reputational damage from poor clinical outcomes and/or decreasing quality of life for residents. • Instances of non-compliance such as meeting accreditation requirements for residential homes. • Costs associated with remediating lack of compliance and/or penalties. • Financial loss from potential medical malpractice and public liability claims. • Lower Star rating of homes. • Lower occupancy.	A system of clinical governance and a person-centred care framework is maintained to promote and support the health, safety and quality of care to residents. Quality systems and processes drive clinical monitoring, evaluation and corrective actions when needed. Quality and risk management frameworks are established to increase assurance that clinical care standards are at appropriate levels and any decline is addressed in a timely manner. The Clinical Governance Committee, led by an independent medical specialist Chairperson, provides clinical oversight and evaluation of clinical improvement strategies and performance. Estia Health continually reviews clinical governance health standards, guidelines, regulatory requirements and best practice. Supported by ongoing clinical education and development of employees.

DIRECTORS' REPORT

KEY BUSINESS RISKS (CONTINUED)

Risk	Potential Impact	Response Strategy
CYBER SECURITY & PRIVACY		
Estia Health handles and stores personal and health information of residents and employees. The Group is exposed to an increase in the prevalence and severity of cyber security incidents and/or privacy breaches.	• Operational disruption. • Significant brand and reputational damage. • Adverse regulatory outcomes. • Financial impacts from potential incidents, remediation and penalties. • Loss of trust.	Estia Health has an information security management program in place which includes a range of controls from prevention, detection and recovery. Employees are provided with training on information security practices and privacy obligations. The Group continues to invest in systems and processes over responsible use of data and security of information. The strength and effectiveness of the Group's privacy and information security management is regularly assessed, including by external experts. Reporting and management of privacy, IT and cybersecurity risk are embedded in the Group's risk management practices with oversight from Board Risk and Audit Committees.
PANDEMIC OR EPIDEMIC		
A pandemic or epidemic, such as COVID-19 can have a local, regional or national impact on Estia Health.	• Aged Care residents are more likely to be vulnerable to the serious effects of infection, which may result in unexpected death. • Reduced occupancy. • Reduced ability to secure sufficient suitably trained staff. • Change in work practices. • Operational disruption, including supply chains which may impact provision of medical supplies, including PPE. • Increased operating costs. • Brand and reputational damage.	Estia Health has established Infection Prevention Control ("IPC") processes and protocols, in which staff are trained. In accordance with the Act, each home has the required level of IPC personnel who undertake training, monitoring and review of IPC processes at each home, supported by an independent audit process. COVID-19 response plans are established at each home and are implemented in the event of outbreaks. The maintenance of adequate levels of PPE inventory at each home, supported by buffer stocks at regional warehouses is centrally monitored. Monitoring of outbreaks is undertaken Critical Incident Management Teams established if appropriate. The Group has a vaccination program for residents and staff in accordance with the requirements of the Act. Where possible, anti-viral treatment is provided for residents infected with COVID-19.

DIRECTORS' REPORT

KEY BUSINESS RISKS (CONTINUED)

Risk	Potential Impact	Response Strategy
CLIMATE CHANGE		
Estia Health's operations are potentially exposed to physical risks and transition risks associated with climate change.	• Homes may be susceptible to physical risks associated with climate change including supply chain. • Higher operational costs may result from the impacts of climate change and the transition to a low-carbon economy.	The TCFD ("Taskforce on Climate Related Financial Disclosures") Report on page 48 to 57 of this report provides more detail on our exposure and approach to managing climate risk.

ENVIRONMENTAL REGULATION

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

This Report contains the Group's TCFD Report on pages 48 to 57, setting out the Group's assessment of the risks and opportunities posed by climate change.

The Group also publishes a separate annual ESG report detailing its approach to Environmental, Social and Governance Issues. Directors recognise that the long-term viability and profitability of the Group depends on the wellbeing of staff, residents, integrating its homes within their local communities and the continued health of the natural environment. The Group's 2020-2024 Sustainability Strategy and Framework provides focus areas and associated targets to help mitigate any negative impacts, and to identify potential positive value creation activities across three core areas:

- supporting our people;
- enhancing our community; and
- respecting our environment.

PERFORMANCE RIGHTS

UNISSUED SHARES

As at the date of this report, there were 3,401,143 unissued ordinary shares under performance rights (2022: 3,709,553).

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.

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.

DIRECTORS' REPORT

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 24% (2022: 19%) of the total fees received by the firm.

	2023 $'000	2022 $'000
Tax compliance services	255	159
Sustainability Linked Loan assurance	16	20
Other	21	18
Total Non-audit services	**292**	**197**

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

Signed in accordance with a resolution of Directors on 22 August 2023.

Dr. Gary H Weiss AM

Chairman

Sydney
22 August 2023

DIRECTORS' REPORT

REMUNERATION REPORT

Dear Shareholders,

The Estia Health Limited ('Estia Health', the 'Company' or the 'Group') Board is pleased to present the Remuneration Report for the year ended 30 June 2023 ('FY23').

The environment in which the Company operates continued to be impacted by periodic COVID-19 outbreaks, persistently tight labour markets and high inflation during FY23. These challenges were magnified by the demands placed upon the aged care sector and the people who work within it to adapt to new regulatory, funding and quality regimes introduced by the Government following the Aged Care Royal Commission.

The ability to attract, recruit and retain high quality talent across all levels of the Group whilst maintaining clinical quality has never been more critical. Given this, the Company's remuneration framework continued its long-standing practice of requiring the successful achievement of a resident-centric, clinical quality "gateway" as a pre-determinant to eligibility for the award and payment of short term incentive entitlements during FY23, irrespective of operational and financial performance.

Sean Bilton, previously the Company's Chief Operating Officer ("COO") and Deputy CEO was promoted to the role of Chief Executive Officer ("CEO") and Managing Director with effect from 11 July 2022, succeeding Ian Thorley. This succession planning process and announcement also resulted in Damian Hiser, previously the Company's Chief Customer Officer, being announced as the successor to Sean as COO. Damian has been included in the Company's Key Management Personnel ("KMP"), also effective 11 July 2022.

In October 2022, Steve Lemlin advised the Board of his intention to retire after almost six years in the role of Chief Financial Officer to pursue other interests and opportunities outside of full-time executive positions. Steve committed to remain with the Company until such time as a successor was appointed and fully transitioned into the role. Anthony Rice was appointed as the Company's new Chief Financial Officer and commenced in the role on 17 July 2023, with Steve remaining with the Company until 31 August 2023.

FY23 Remuneration Outcomes

In order for the FY23 short-term incentive ("STI") to be eligible to vest, a resident quality gateway hurdle must be successfully achieved. This requires a range of ongoing regulatory compliance and accreditation targets to be met as a precondition for any of the STI to be eligible to vest, irrespective of individual and Company-wide financial and operational performance.

The Board is pleased to confirm that this gateway was achieved in FY23, and that FY23 STI vesting outcomes for KMP ranged from 55-60% of their respective maximum STI opportunities, following evaluation of performance against a "scorecard" comprised of role-specific and Company-wide financial, operational and Environmental, Social and Governance ("ESG") related performance measures.

The FY21 long-term incentive ("LTI"), which had a three-year performance period that ended on 30 June 2023, fully vested. Given the challenges of setting earnings per share ("EPS") targets at the time of the FY21 LTI grant due to uncertainties over the impact of COVID-19 on the Company's financial performance, the FY21 LTI performance conditions comprised two equally weighted relative Total Shareholder Return ("TSR") targets. One of these TSR targets measured the performance of the Group's TSR relative to the ASX300 Index (excluding mining and energy), whilst the other measured TSR relative to a customised weighted index of Australian and NZ-listed aged care stocks. Both of these TSR targets were met over the three year performance period to 30 June 2023.

As disclosed at our 2020 Annual General Meeting ("AGM"), and in our 2021 and 2022 annual reports, we awarded a once-off retention-based grant of performance rights ("FY21 Retention Incentive") to our executive KMP (awarded due to COVID-19 disruption and in the absence of an STI plan in FY21), which vested on 1 July 2022.

REMUNERATION REPORT

The FY23 LTI opportunity for the Company's KMP, with a three year performance period to 30 June 2025, continued to be subject to two, equally weighted, performance measures, comprising target EPS growth over the three year period, as well as a relative TSR measure Given the decreasing number of directly comparable listed peer companies operating in the aged care industry, with the delisting of Japara Healthcare and Aveo Group in recent years, from FY22 onwards LTI TSR performance measures reference the performance of the ASX300 Index (excluding mining and energy).

From FY23, in addition to these measures, the Board will overlay a qualitative assessment, which will involve it reviewing whether the LTI vesting outcome is appropriate having regard to a number of factors over the performance period, including the Group's environmental impact, quality of care, reputation and employee experience, further strengthening the link between remuneration outcomes and ESG performance.

On behalf of the Board, I am pleased to present to you the FY23 Remuneration Report for Estia Health and we look forward to welcoming you at the 2023 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 2023 (FY23) outlines the remuneration arrangements of the Group in accordance with the requirements of the *Corporations Act 2001(Cth)* (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
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.

Key Management Personnel		
Dr. Gary H Weiss AM	Non-Executive Chairman	Full year
Paul Foster	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
Professor Simon Willcock AM	Non-Executive Director	From 1 September 2022
Ian Thorley[1]	Chief Executive Officer and Managing Director	Until 11 July 2022
Sean Bilton[2]	Chief Executive Officer and Managing Director	From 11 July 2022
Steve Lemlin[3]	Chief Financial Officer (CFO)	Full year
Damian Hiser[4]	Chief Operating Officer (COO)	From 11 July 2022

[1] Ian Thorley retired from the role of CEO and Managing Director with effect from 11 July 2022, resigned as a director on 13 July 2022 and remained with the Company until 29 July 2022.
[2] Sean Bilton held the positions of Chief Operating Officer and Deputy Chief Executive Officer from the start of FY23 until he assumed the role of Chief Executive Officer and Managing Director of the Company, succeeding Ian Thorley, on 11 July 2022.
[3] Steve Lemlin announced his intention to retire in October 2022 and will remain with the company until 31 August 2023. He was succeeded by Anthony Rice on 17 July 2023.
[4] Damian Hiser held the position of Chief Customer Officer and was appointed Chief Operating Officer effective 11 July 2022 and is considered KMP from that date.

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 five times in FY23. The Chief Executive Officer and Managing Director (CEO & MD) attends certain Committee meetings by invitation, where management input is required. The CEO & MD is not present during any discussions related to his 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 2023, the Nomination and Remuneration Committee engaged KPMG to provide advice regarding a range of remuneration related matters.

The services provided by KPMG did 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 Health'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 CEO and Executive-level direct reports to the CEO) 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 CEO are required to achieve the minimum target shareholding by the later of:

- The 3rd anniversary of the commencement of the policy; or
- The 3rd anniversary of the NED's or CEO's commencement date (the Measurement Date).

Other Senior Executives have 5 years from the above dates.

All members of KMP are in compliance with the policy as at 30 June 2023.

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 Health's historic performance against the key metrics upon which the Group performance is measured.

	30 June 2023	30 June 2022	30 June 2021	30 June 2020	30 June 2019
Revenue - $'000	$754,298	$671,067	$646,305	$636,908	$585,985
Net (loss) / profit after tax - $'000	($33,898)	($52,362)	$5,605	($116,909)	$41,290
Share price at start of the year	$1.91	$2.47	$1.53	$2.64	$3.29
Share price at the end of the year	$2.96	$1.91	$2.47	$1.53	$2.64
Dividends paid per share – cents	15.7	2.4	0.0	13.2	16.0
Basic earnings per share – cents	(13.13)	(20.10)	2.15	(44.8)	15.8
Diluted earnings per share – cents	(13.13)	(20.10)	2.12	(44.8)	15.8
Vesting outcomes – CEO incentives					
Short term incentive vesting	60%	45%	n/a	Nil	Nil
Long term incentive vesting	100%	Nil	Nil	Nil	Nil

4. Remuneration principles and strategy

The remuneration strategy and framework set by the Committee is designed to support and drive the achievement of Estia Health'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.

As stated in the Diversity, Equity Inclusion and Belonging Policy[1], Estia Health is committed to embracing diversity and fostering an inclusive and equitable working environment across the organisation.

Estia Health 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 Health'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, our residents and 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.

[1] The full policy can be viewed at http://www.estiahealth.com.au/investor-centre/corporate-governance.

REMUNERATION REPORT – audited (continued)

5. Executive remuneration

5.1 Remuneration Framework and Link to Strategy

In FY23, the executive remuneration framework comprised a mix of fixed annual remuneration, the short-term incentive plan and the long-term incentive plan. 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 Health's shareholders.

Component	Approach	Link to business and remuneration strategy
Fixed Annual Remuneration (FAR)	FAR is set with reference to role, capability 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 talent pool.
Short-Term Incentive Plan (STI)	In FY23, the STI was measured against group-wide targets comprising financial, customer, people and safety, as well as individual strategic measures. In addition, a resident care and compliance gateway hurdle remained in place, requiring a range of ongoing compliance and accreditation targets to be met as a precondition for any of the STI to be eligible to vest, irrespective of financial and operational performance. For executive KMP, the STI award is delivered in a mix of cash and equity. 75% of the award is delivered in cash, with the remaining 25% delivered in performance rights subject to 12-month deferral.	Short term incentives align the interests of executives with achievement of business strategic objectives over the short to medium term and place important focus on the inter-related interests of our shareholders, residents/customers and employees. Deferral of 25% of any STI award into equity increases alignment with shareholder interests.
Long-term Incentive Plan (LTI)	The FY23 LTI was delivered in the form of performance rights subject to the following performance conditions, measured over a three-year period: Total shareholder return (TSR) (50%) relative to constituents of the ASX300 excluding mining and energy companies; and Earnings Per Share (EPS) (50%).	The LTI is designed to drive sustainable value creation for shareholders, encourage retention, with a multi-year performance focus. The combination of EPS and relative TSR reflects internal and external performance measures and provides alignment with shareholder outcomes.
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. No such awards were granted to KMP in FY23.	Once-off awards may be approved by the Board in order to retain or attract key talent, to ensure the achievement of Estia Health'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 Health'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, selective acquisitions, 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.	
Board discretion	The Board also has a broad discretion to vary incentives, including their withdrawal, in a range of circumstances where the Board considers appropriate.	

REMUNERATION REPORT – audited (continued)

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.

In setting FAR, 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.

5.3 Short Term Incentive

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

Participation	All executive KMP participated in the FY23 STI plan[1].
STI value	In FY23, all executive KMP had an STI opportunity of 50% of FAR.
Performance conditions	Estia Health is committed to delivering safe, high-quality and sustainable aged care services for all Australians. Estia Health's STI scorecard reflects this commitment. The STI is subject to a resident care and compliance gateway hurdle which requires ongoing compliance and accreditation targets to be met in order for any STI awards to be made. This is a reflection of the importance Estia Health places on compliance and quality of care. The balance of the STI scorecard assesses performance against a balanced scorecard of measures including financial, customer, people and safety as well as individual strategic measures. The collective use of these performance measures highlights an appropriate balance on shareholder, resident/customer and workforce outcomes, all of which are inter-related.
Delivery of STI	Performance against the measures is tested annually after the end of the financial year. All payments under the STI plan are determined and approved by the Committee and the Board. Once STI payments have been approved, they are delivered in cash and equity. For senior executives (including all executive KMP), 25% of any payment is deferred for a period of 12 months in the form of performance rights. The quantity of performance rights granted is determined using face value allocation methodology, using the volume weighted average price (VWAP) for the 10 trading days immediately following the release of results (i.e. deferred STI amount divided by share price).
Cessation of employment	For "Bad Leavers" (defined by the Group as resignation or termination for cause), any unpaid or deferred STI is forfeited, unless otherwise determined by the Board. For any other reason, the Board has discretion to award STI on a pro-rata basis taking into account time and the current level of performance against performance hurdles
Clawback policy	The Board has the discretion to reduce, cancel or clawback any unvested performance-based remuneration (including deferred STI) in the event of serious misconduct or a material misstatement in the Group's financial statements.
Board discretion	The Board also has a broad discretion to vary incentives, including their withdrawal, in a range of circumstances where the Board considers appropriate.

[1] This excluded:
- Ian Thorley whose employment ended in early FY23; and
- Anthony Rice, whose employment did not commence until early FY24.

5.4 STI Outcomes

In FY23, Estia Health met the resident quality gateway hurdle, which created eligibility for STI payments to be made subject to the achievement of STI scorecard measures. The gateway required that Estia Health must maintain approved provider status and accreditation at all facilities throughout the period and any sanction or variation to accreditation received during the period would also prevent the STI from vesting. A single occurrence of any of the following category of events would warrant the forfeiture of the STI:

- the accreditation of a home is revoked or not renewed;
- the approved provider status of Estia Investments Pty Ltd is revoked; and/or
- a notice of Decision to Impose Sanctions is issued.

The table below outlines the vesting outcome of STI measures, including group-wide KPIs and role specific measures applied to KMP during FY23.

An overview of executive KMP performance under the FY23 STI scorecard is detailed in the table below.

Performance measure	Weighting[1]	Outcome
Resident Care and Compliance	Gateway	Resident care and compliance gateway met
Financial	20% - 30%	Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") was above threshold – full vesting (100%).
Customer	20%	FY23 occupancy of 92.3% was within target range – partial vesting (50%)
People	20%	FY23 employee turnover rate did not meet threshold – no vesting (0%)
Safety	20%	FY23 Lost Time Injury Frequency Rates was within target range - partial vesting (50%)
Role specific measures	10% - 20%	A variety of role specific measures were used for different members of the executive KMP, including the implementation of AN-ACC, a review of the sustainability strategy and execution of selective acquisition opportunities. These measures partially vested.

These outcomes resulted in STI vesting outcomes for the Group's Executive KMP ranging from 55% to 60% of maximum STI opportunities as shown below.

Executive[2]	STI opportunity ($)	STI awarded ($)	STI awarded (%)	STI foregone (%)
Sean Bilton	370,000	222,000	60	40
Steve Lemlin	265,000	145,750	55	45
Damian Hiser	250,000	143,750	58	42

[1] Sean Bilton has a 30% weighting for the financial component and a 10% weighting for the role-specific component. The other executive KMP have 20% weighting against all measures.

[2] Neither Ian Thorley nor Anthony Rice participated in the STI for this period.

REMUNERATION REPORT – audited (continued)

5.5 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 FY23.</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 FY23, 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">The FY23 LTI award is subject to two equally weighted performance measures: relative total shareholder return (TSR) and earnings per share (EPS), as defined below:
• 50% relative to the ASX300 excluding mining and energy companies; and
• 50% relative to Earnings Per Share (EPS).
TSR vesting and EPS schedules are provided below:</td></tr>
<tr><td>Estia Health'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 Health's FY25 EPS ($)</td><td>Percentage of performance rights that vest</td></tr>
<tr><td>Less than 0.091</td><td>Nil</td></tr>
<tr><td>Equal to 0.091</td><td>25%</td></tr>
<tr><td>Greater than 0.091 up to 0.109</td><td>Straight line pro-rata 25% to 100%</td></tr>
<tr><td>At or above 0.109</td><td>100%</td></tr>
<tr><td colspan="2"></td></tr>
<tr><td>Performance period</td><td colspan="2">The performance rights granted in FY23 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>
<tr><td>Total shares issued</td><td colspan="2">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.</td></tr>
<tr><td>Cessation of employment</td><td colspan="2">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 FY23 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 FY23 LTI Incentive will immediately lapse.
Notwithstanding the above, the Board may, subject to any requirement for shareholder approval, determine to treat any of the FY23 LTI in a different manner to that set out above upon participants ceasing to be an employee of the Group.</td></tr>
<tr><td>Change of control</td><td colspan="2">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.</td></tr>
<tr><td>Clawback policy</td><td colspan="2">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.</td></tr>
</table>

REMUNERATION REPORT – audited (continued)

5.6 LTI Vesting Outcomes

The FY21 LTI performance rights, which had a three-year performance period that ended on 30 June 2023, vested as the relative total shareholder return performance targets were achieved.

Executive	Number of Performance Rights
Ian Thorley	325,521
Sean Bilton	325,520
Steve Lemlin	318,384
Damian Hiser	74,609

DIRECTORS' REPORT

REMUNERATION REPORT – audited (continued)

6. Executive remuneration outcomes

6.2 Executive remuneration for the year 1 July 2022 to 30 June 2023

		Short-term benefits			Post-employment benefits	Long-term benefits		Share Based Expenses[1]					
		Salary and fees	STI Bonus	Non-monetary benefits	Superannuation benefits	Long service leave entitlements	Fixed annual remuneration (FAR)	Deferred STI	LTI	Retention Incentive	Total fixed and "at risk" remuneration	Termination / Retirement benefits	Performance related remuneration
	Period	$	$	$	$	$	$	$	$	$	$	$	%
Executive director													
Sean Bilton[2]	**2023**	**709,470**	**166,500**	**-**	**25,292**	**-**	**734,762**	**39,406**	**364,540**	**-**	**1,305,208**	**-**	**44%**
	2022	496,432	107,250	-	23,568	-	520,000	17,875	182,270	77,326	904,721	-	34%
Senior executives													
Damian Hiser[3]	**2023**	**472,374**	**107,813**	**-**	**25,292**	**-**	**497,666**	**22,991**	**159,320**	**-**	**787,790**	**-**	**37%**
Steve Lemlin	**2023**	**502,628**	**109,313**	**-**	**25,292**	**-**	**527,920**	**30,868**	**259,199**	**-**	**927,300**	**-**	**43%**
	2022	490,470	125,297	-	23,568	-	514,038	20,883	171,983	75,631	907,832	-	35%
Former executive													
Ian Thorley[4]	**2023**	**62,892**	**-**	**-**	**23,101**	**-**	**85,993**	**22,971**	**161,409**	**-**	**270,373**	**138,750**	**68%**
	2022	756,432	131,625	-	23,568	-	780,000	21,938	140,878	111,350	1,185,791	-	25%
Total executives													
	2023	**1,747,364**	**383,626**	**-**	**98,977**	**-**	**1,846,341**	**116,236**	**944,468**	**-**	**3,290,671**	**138,750**	
	2022	1,743,334	364,172	-	70,704	-	1,814,038	60,696	495,131	264,307	2,998,344	-	

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[1] Share Based Expenses represents the amounts expensed in the Financial Statements in accordance with AASB 2 *Share-based Payment* ("AASB 2") and as such does not reflect the value of rights vested in the period.

[2] Sean Bilton was appointed as CEO and Managing Director CEO on 11 July 2022. The comparative information was when holding role of Chief Operating Officer.

[3] Damian Hiser was appointed as the Chief Operating Officer on 11 July 2022.

[4] Ian Thorley retired from the role of CEO and Managing Director with effect from 11 July 2022, resigned as a director on 13 July 2022 and remained with the Company until 29 July 2022.

REMUNERATION REPORT - audited (continued)

7. Executive employment contracts

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

Name	FY23 FAR	Commencement in current role	Notice of termination by Group	Employee notice
Sean Bilton	$740,000	11 July 2022	6 months (or payment in lieu of notice)	6 months
Steve Lemlin	$530,000	1 February 2017	6 months (or payment in lieu of notice)	6 months
Damian Hiser	$500,000	11 July 2022	6 months (or payment in lieu of notice)	6 months
Anthony Rice*	$540,000	17 July 2023	6 months (or payment in lieu of notice)	6 months

Note that Ian Thorley's (former CEO &MD) employment ceased due to retirement on 29 July 2022. His FY22 FAR was $780,000 and he was employed on an ongoing executive employment agreement commencing 23 October 2018, which was subject to 6 months' notice of termination by either party (or payment in lieu of notice).

*Employment commenced 17 July 2023.

7.1 Ian Thorley

As noted in last year's report, Ian Thorley stepped down from the role of CEO & MD effective 11 July 2022 and remained with the Company until 29 July 2022 to ensure a comprehensive and smooth transition to his successor, Sean Bilton.

Ian's unvested equity-based LTI incentives in connection with his role as MD and CEO will remain on foot on a pro-rata basis and be subject to performance testing in line with the ordinary terms of the plan.

As noted in last year's report, Ian received 25% of his FY22 STI as deferred share rights, which remained subject to forfeiture in line with the ordinary terms of the plan. Ian did not participate in the FY23 STI or LTI.

7.2 Sean Bilton

As outlined in last year's report, Sean Bilton formally assumed the role of CEO & MD of Estia Health on 11 July 2022.

From this date, his fixed remuneration was increased to $740,000 per annum, inclusive of superannuation. His STI opportunity is 50% of this amount, and his LTI opportunity has a face value of 100% of this amount.

Sean's notice period was also increased from 3 to 6 months.

Sean received 25% of his FY22 STI as deferred share rights, which remained subject to forfeiture in line with the ordinary terms of the plan.

7.3 Steve Lemlin

Steve Lemlin announced his intention to retire from the role of CFO in October 2022. However, he is expected to remain with Estia Health until 31 August 2023, to allow a smooth handover with his successor, Anthony Rice, who assumed the role of CFO on 17 July 2023.

Subject to certain performance conditions and undertakings, Steve's unvested FY22 and FY23 LTI awards are expected to remain on foot on a pro-rata basis in line with the ordinary terms of the plan, including the exercise of board discretion.

REMUNERATION REPORT - audited (continued)

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).

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

8.1 Directors' FY23 Fee Structure

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

	Description	Fees
Board	Chair	$250,000
	Member	$110,000
Audit Committee	Chair	$15,000
	Member	$10,000
Nomination & 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

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

8.2 Non-Executive director remuneration

The table below outlines NED remuneration for FY23 in accordance with statutory rules and applicable accounting standards.

	Year	Board fees $	Superannuation $	Total fees $
Non-Executive Directors				
Dr. Gary H Weiss AM	**2023**	**273,677**	**6,323**	**280,000**
	2022	256,432	23,568	280,000
Paul Foster	**2023**	**131,222**	**13,778**	**145,000**
	2022	131,818	13,182	145,000
Professor Simon Willcock AM	**2023**[1]	**90,498**	**9,502**	**100,000**
	2022	-	-	-
Helen Kurincic	**2023**	**131,230**	**13,770**	**145,000**
	2022	125,000	12,500	137,500
Karen Penrose	**2023**	**122,172**	**12,828**	**135,000**
	2022	122,727	12,273	135,000
Norah Barlow ONZM	**2023**	**125,000**	**-**	**125,000**
	2022	121,250	-	121,250
Warwick Smith	**2023**	**-**	**-**	**-**
	2022	98,182	3,068	101,250
Total	**2023**	**873,799**	**56,201**	**930,000**
	2022	855,409	64,591	920,000

[1] Represents Professor Simon Willcock's remuneration for the year from his commencement effective 1 September 2022.

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 FY23.

	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						
Sean Bilton	183,614	21/11/2022	1.40	30/06/2025	Nil	30/06/2025
	183,613	21/11/2022	1.94	30/06/2025	Nil	30/06/2025
	17,741	21/11/2022	2.11	22/08/2023	Nil	22/08/2023
Senior Executives						
Damian Hiser	124,063	19/09/2022	1.18	30/06/2025	Nil	30/06/2025
	124,063	19/09/2022	1.78	30/06/2025	Nil	30/06/2025
	8,228	19/09/2022	1.96	22/08/2023	Nil	22/08/2023
Steve Lemlin	131,507	19/09/2022	1.18	30/06/2025	Nil	30/06/2025
	131,507	19/09/2022	1.78	30/06/2025	Nil	30/06/2025
	20,726	19/09/2022	1.96	22/08/2023	Nil	22/08/2023
Former Executives						
Ian Thorley	21,773	15/11/2022	2.11	22/08/2023	Nil	22/08/2023
Total	**946,835**					

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.

						Vested at 30 June 2023	
	Number of rights at 1 July 2022 or commencement of employment	Granted as remuneration	Rights exercised	Rights Forfeited	Number of rights at 30 June 2023 or cessation of employment	Exercise-able	Not exercise-able
Executive director							
Sean Bilton	654,681	384,968	(105,794)	-	933,855	325,520	-
Senior Executive							
Damian Hiser[1]	186,100[1]	256,354	(59,687)	-	382,767	74,609	-
Steve Lemlin	642,664	283,740	(103,474)	-	822,930	318,384	-
Former Executive							
Ian Thorley[2]	956,143	21,773	(152,343)	(357,289)	468,284[2]	325,521	-
Total	**2,439,588**	**946,835**	**(421,298)**	**(357,289)**	**2,607,836**	**1,044,034**	**-**

[1] Damian Hiser was appointed as the Chief Operating Officer on 11 July 2022.

[2] Ian Thorley retired from the role of CEO and Managing Director with effect from 11 July 2022, resigned as a director on 13 July 2022 and remained with the Company until 29 July 2022.

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				
Sean Bilton	650,702	227,457	-	50
Senior executive				
Damian Hiser	383,353	128,327	-	49
Steve Lemlin	429,884	222,469	-	46
Former executive				
Ian Thorley	45,941	324,491	714,578	17
Total	**1,509,880**	**902,744**	**714,578**	

[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 other than application of discretion regarding good leavers which is accounted for as a modification.

REMUNERATION REPORT - audited (continued)

9.4 Shareholdings of KMP and related parties

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

	Number of shares at 1 July 2022 or commence-ment of employment	Granted as remunera-tion	Exercise of rights	On Market trades	Number of shares at 30 June 2023 or cessation of employ-ment	Held Nominally
Non-executive directors						
Dr. Gary H Weiss AM	78,312	-	-	25,000	**103,312**	**103,312**
Paul Foster	24,000	-	-	-	**24,000**	**-**
Professor Simon Willcock AM	-	-	-	-	**-**	**-**
Helen Kurincic	50,000	-	-	-	**50,000**	**25,000**
Karen Penrose	36,833	-	-	7,238	**44,071**	**44,071**
Norah Barlow ONZM	129,474	-	-	-	**129,474**	**129,474**
Executive director						
Sean Bilton	29,774	-	105,794	48,623	**184,191**	**-**
Senior executives						
Damian Hiser[1]	55,432	-	59,687	-	**115,119**	**-**
Steve Lemlin	134,904	-	103,474	-	**238,378**	**-**
Former executive						
Ian Thorley[2]	138,001	-	152,343	-	**290,344**	**53,312**
Total	676,730	-	421,298	80,861	**1,178,889**	**355,169**

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

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

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

[1] Damian Hiser was appointed as the Chief Operating Officer on 11 July 2022.

[2] Ian Thorley retired from the role of CEO and Managing Director with effect from 11 July 2022, resigned as a director on 13 July 2022 and remained with the Company until 29 July 2022.

DIRECTORS' REPORT

CLIMATE-RELATED FINANCIAL DISCLOSURES REPORT

Contents

1. INTRODUCTION

Overview

This report is prepared in accordance with the recommendations of the Task Force on Climate-Related Financial Disclosures ("TCFD") and covers the Estia Health Group and its entities during the financial year 2023.

Chief Executive Officer's Message

As part of our commitment to sustainability and addressing climate-related risks and opportunities, we recognise the importance of meeting the recommendations of the TCFD. Estia Health acknowledges the potential impacts of climate change on the aged care sector. Potential risks related to extreme weather events, changing climatic conditions, evolving health risks, and regulatory changes are considered, while also evaluating opportunities to enhance resilience and contribute to a more sustainable future.

Our approach to sustainability is dynamic, we continue to monitor the external environment and adjust our Sustainability Strategy and targets, ensuring appropriateness and relevance to the future sustainability of the Group. We understand that in identifying and managing climate-related risks, we are ultimately safeguarding the wellbeing of our residents and staff and the longevity of our operations. Our risk assessment processes have enabled us to identify vulnerabilities associated with extreme weather events and evolving health risks. We are implementing risk management strategies and measures to enhance preparedness, ensure the safety of our residents and staff, and maintain business continuity.

The impact of the COVID-19 pandemic on the residential aged care sector has been well-documented, resulting in adverse health outcomes, elevated costs, staffing shortages, increased consumption of medical supplies, and increased waste disposal volumes and costs. This also resulted in strategic decisions to ensure resources and management time were solely focused on the immediate care and well-being of residents and staff during the three year crisis, sometimes in priority to longer-term objectives. This impacted all areas of the business, including climate resilience activities. Nonetheless, I am pleased with our progress and with the passing of the pandemic I look forward to the establishment of a new sustainability strategy in FY24 in line with emerging community and regulatory expectations.

This report presents a summary of our progress made to date, outlining our commitment to addressing climate change, and is structured around the core elements of Governance, Strategy, Risk Management, Metrics and Targets.

Sean Bilton

Chief Executive Officer

DIRECTORS' REPORT

CLIMATE-RELATED FINANCIAL DISCLOSURES REPORT (continued)

FY22 – FY24 TCFD Roadmap

The FY22 to FY24 TCFD roadmap outlines the Company strategy and serves as a structured framework which guides company efforts in assessing climate-related risks and opportunities. Forming part of an ongoing process, the activities reported are tailored to the specific circumstances and objectives of Estia Health in implementing the TCFD recommendations.

Core element	Roadmap objective	Required activities	FY22	FY23	FY24
Governance Disclose the organisation's governance around climate-related risks and opportunities.	The Board has appropriate oversight and understanding of climate risks and opportunities through appropriate governance structures, education and engagement.	Strengthen Board and management oversight of climate-related risks through appropriate reporting.	■		
		Establish cross-functional management committee with explicit ownership and oversight of climate-related risks and opportunities.		■	
Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's business strategy and financial planning.	Incorporate climate scenario analysis into strategy and financial planning.	• Define short, medium, long-term periods	■		
		• Identify material risks and opportunities		▲	
		• Assess impact in the: - Short-term	▲		
		- Medium-term			➡
		- Long-term			➡
		In identifying impacts and opportunities, establish the impact on strategy and financial planning, including resilience of physical and transitional risk impacts under different climate scenarios.			➡
Risk management Disclose how the organisation identifies, assesses, and manages climate-related risks.	Integrate climate-related risks within the existing company-wide risk management framework.	Integrate climate-related risks into risk management processes to assess the significance of climate risks alongside other risks.	■		
		Integrate climate-related risk assessments into the Risk Committee, and Development Committee decisions on investments and capital spending.		▲	
Metrics and targets Disclose metrics and targets used to assess and manage climate-related risks and opportunities.	Disclose metrics and set targets in line with TCFD cross-industry standard metrics.	Establish target and metrics for managing climate-related risks and opportunities.		▲	

■ Complete ▲ Commenced ➡ Planned

Figure 1: Estia Health's TCFD roadmap

CLIMATE-RELATED FINANCIAL DISCLOSURES REPORT (continued)

2. GOVERNANCE

TCFD recommendation: Disclose the organisation's governance around climate-related risks and opportunities

Recommended disclosures:

a) Describe the board's oversight of climate-related risks and opportunities

b) Describe management's role in assessing and managing climate-related risks and opportunities

Board oversight of climate-related risks and opportunities

The Board oversees progress against targets through the Board level Risk Management Committee. The Board receives regular reports from key personnel regarding climate-related matters, initiatives and activity aimed at reducing the Company's environmental impact, and the assessment of homes' resilience to physical climate-related risks. The Company has assigned responsibility for climate-related issues with the Board and Executive.

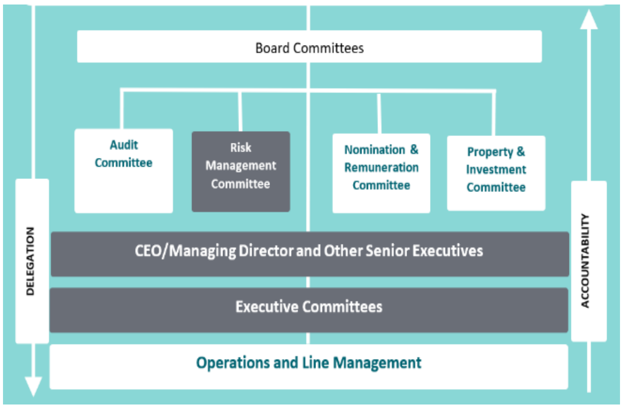

Figure 2: Governance structure as of 30 June 2023

Management's role assessing and managing climate-related risks and opportunities

The role of assessing and managing climate-related risks and opportunities is a shared responsibility. Designated roles and committee ensure oversight, assessment and management of climate-related risks and opportunities within the business. This includes integrating climate considerations into strategy and managing climate-related risks and assessing potential opportunities.

Sustainability Committee:

In FY23, the Sustainability Committee, comprised of senior leaders and subject matter experts, led Estia Health's environmental, social and governance (ESG) agenda. This included overseeing and reviewing the implementation of sustainability strategies, activities and initiatives, reviewing targets and monitoring performance. The Sustainability Committee meets near monthly and is comprised of the key Executive, the Head of Sustainability, and other senior managers across the Group.

Risk Management Committee:

The Risk Management Committee is responsible for assessing and ensuring that there are internal controls for determining and managing key risk areas such as non-compliance with laws, regulations, standards, and best practice guidelines including environmental laws, and the economic, environmental, (including climate risk), social sustainability and governance risks.

Property and Investment Committee:

The Property and Investment Committee ensures that appropriate programs are in place for the maintenance and renewal of aged care facilities, including for the restoration, repair, replacement and/or modernisation of existing facilities, including programs to improve the climate change resilience of the Company's real estate assets.

Audit Committee:

The Audit Committee is responsible for corporate reporting, including the review of climate-related financial disclosures in the Annual Report.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee considers the inclusion in executive remuneration schemes of appropriate measures relating to ESG matters, including responding to the risks and opportunities presented by climate change.

DIRECTORS' REPORT

CLIMATE-RELATED FINANCIAL DISCLOSURES REPORT (continued)

3. STRATEGY

TCFD recommendation: Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.

Recommended disclosures

a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long-term
b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

The Estia Health 2020-2024 Sustainability Strategy is based on the foundations of Supporting our People, Respecting our Environment, and Enhancing our Community. Focus areas and targets define metrics to track progress in the reduction of greenhouse gas emissions, energy consumption, water usage, and waste. By monitoring performance, we also manage climate-related risks and opportunities, enabling visibility in our environmental performance and sustainable outcomes.

The financial impacts of climate-related issues on Estia Health are driven by specific climate-related risks and opportunities to which the Company is exposed. The approach undertaken by Estia Health in identifying physical and transition climate-related risks and opportunities is aligned with TCFD recommendations outlined in figure 3. As part of this, risk identification forms part of determining potential financial implications.

Figure 3: TCFD Climate-Related Risks and Opportunities

Climate-related risks and opportunities

Climate-related risks and opportunities can arise in the short term, medium term, or long term. When assessing climate related risk, Estia Health has determined the time periods of short-term as up to 3 years, medium-term as 3 to 15 years, and long-term as more than 15 years, in which climate risks and opportunities may affect the business.

Impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning

In 2021, Estia Health assessed all homes for exposure and vulnerability to climate change. In 2022 we identified key focus areas for transition climate-related risks and opportunities which may impact operations, strategy, and financial planning of the Group in the short-term, across the geographic locations in which Estia Health operates, and identified the extent to which the geographic locations may be subject to both acute and chronic physical risks.

DIRECTORS' REPORT

CLIMATE-RELATED FINANCIAL DISCLOSURES REPORT (continued)

Transition Risks

The Group has undertaken an assessment of the potential impact of transition risks in the short-term, being in the next 3 years. This will be extended to an assessment of medium-term impacts in future years. Risks continue to evolve and as such these should not be regarded as exhaustive nor are they reported in any order of relative importance or potential impact.

Risk	Assessment of the impact to the Group	Assessed short-term impact
Policy and Legal. These are risks to the business as a result of legislative response to climate change through regulations by increasing efficiency standards, capping supply or use of resources, or the use of a carbon price.	The Group generates modest emissions through its operations, primarily through the use of gas in some of its homes to power laundry driers, kitchen stoves or water heating. If legislation were passed to require the replacement of gas in homes this may result in the need for capital investment to replace equipment in such homes. The Group's total spend on gas during FY23 was $2.9m. Total CO_2 emissions resulting from gas use during FY23 was 6,498 mtons CO_2-e, equating to 3kg per occupied bed day.	Low
	The Group uses significant amounts of electricity with usage varying over the course of a year to manage the temperature of its homes in order to provide safe and comfortable conditions for its elderly and vulnerable residents, as well as for staff and visitors. The potential introduction of efficiency standards or the use of a carbon price may require capital investment to replace items such as air-conditioning units or result in increased operating expenses through the purchase of electricity from renewable sources. The Group's total spend on electricity usage during FY23 was $6.6m.	Low
	The Group operates a small fleet of 36 petrol or diesel powered mini-buses and vehicles which support lifestyle activities and operations at each home. The impact of potential legislation to replace these with electric vehicles would require capital investment. The running costs of the fleet are minimal in relation to the Group's total cost base.	Low
	Potential future changes to building regulations relating to energy and water efficiency, or climate-change resilience may increase the cost of constructing new homes, or require rectification work to existing homes.	Low
	It would be expected that to the extent to which such cost increases impacted the whole residential aged care sector, they would be incorporated into funding recommendations made by the IHACPA. In which case, this would further reduce any impact on the Group's financial performance.	Low
	To the extent to which the Group can provision such services at a lower cost than sector averages, this would therefore have the potential to deliver improved relative financial performance.	Low
Technology Technology may allow existing products and services to be replaced with ones that are more energy efficient and deliver lower emissions. This will have increased research costs and impact demand for existing products.	Other than as referenced above, the Group has not identified specific areas where technology change may significantly impact the competitiveness or marketability of its services provided to residents.	Low
Market There may be a significant change in consumer behaviour and expectations with consumers looking for low carbon goods and services. This could lead to risks of reduced demand for existing products (as green products become more attractive), uncertainty in the market, and increased cost of raw materials and production.	The Group provides care to elderly and vulnerable residents at a critical stage in their lives. The Group's own research and the requirements of the Aged Care Act place primary importance on the quality of care above other matters. Aged care is needs-driven and there few alternatives available to people when they reach this stage in life. The prime onus and opportunity for the Group is to ensure it delivers high quality care to attract residents in a competitive market. Monitoring and benchmarking of the importance attached to the Group's sustainability performance in residents or staff making choices about care providers will be required to ensure high occupancy levels and required staffing levels are maintained.	Low

DIRECTORS' REPORT

CLIMATE-RELATED FINANCIAL DISCLOSURES REPORT (continued)

Transition Risks (continued)

Risk	Assessment of the impact to the Group	Assessed short-term impact
Reputation Stakeholders have higher expectations of how businesses respond to climate change issues. Risks in this area can lead to loss of revenue or market share if these expectations are not addressed.	Lenders and investors continue to attach an increased importance to the Group's approach to climate change issues. These expectations are assessed by management to identify any emerging risk or potential withdrawal of support. The Royal Commission recommendations and subsequent (or proposed) legislation has not identified climate change response as a key area of concern for the sector.	Low

Physical risks

The Group has undertaken an assessment of the potential impact of physical risks in the short-term, being in the next 3 years. This will be extended to an assessment of medium-term impacts in future years. Risks continue to evolve and as such these should not be regarded as exhaustive nor are they reported in any order of relative importance or potential impact.

Risk	Assessment	Short term Impact
Acute Acute risks include one off disruptions such as hurricanes, floods and fire.	A formal assessment of all the Group's homes' exposure and vulnerability to physical climate change was undertaken in 2021, supported by external experts. This exercise was internally reviewed and re-assessed in FY23 for any substantive changes in light of more recent climate related disruptions and events. The wide geographical dispersion of the Group's 73 homes, with the majority being located within large metropolitan areas, reduces the Group's total potential financial exposure to any single extreme weather. The Group's homes are built and maintained in accordance with building codes and legislation appropriate to their location and use. The Group maintains a comprehensive insurance policy over the cost of building repair and replacement, as well as business interruption cover. The fire season in 2019/20 and extensive rain and flooding events over the last 3 years associated with an extended La Nina weather pattern, presented operational challenges for many homes on multiple occasions but did not result in significant financial loss or enduring damage to the Group's operations.	Low
Chronic Chronic risks are more gradual changes such as higher temperatures, changing rain patterns, rising sea levels, reduced air quality.	The formal assessment of all the Group's homes' exposure and vulnerability to physical climate change did not identify any home as being at significant risk of either obsolescence, shortened useful life, or requiring significant incremental investment in order to preserve its operational functionality or earnings capacity as a result of chronic risks associated with climate change in the short-term.	Low
	Chronic risk may also increase the cost of food provided to residents. The cost of food provided in FY23 was \$23.2m. It would be expected that to the extent to which such cost increases impacted the whole residential aged care sector, they would be incorporated into funding recommendations made by the IHACPA. In this case, this may further reduce any impact on the Group's financial performance. To the extent to which the Group can purchase and provide food at a lower cost than sector averages, this would therefore have the potential to deliver improved relative financial performance.	Low
	Higher temperatures may increase the demand on air-conditioning usage and resultant increase in electricity consumption. As noted earlier, the Group's total spend on electricity usage during FY23 was \$6.6m.	Low

CLIMATE-RELATED FINANCIAL DISCLOSURES REPORT (continued)

Opportunities

The Group has undertaken an assessment of the potential impact of climate change related opportunities in the short-term, being in the next 3 years. This will be extended to an assessment of medium-term impacts in future years. Opportunities continue to evolve and as such these should not be regarded as exhaustive nor are they reported in any order of relative importance or potential impact.

Opportunity	Assessment	Short term Impact
Resource efficiency Reducing costs relating to energy, water and waste management by improving efficiency across service delivery	Since 2018, the Group has invested $9.5m in energy efficiency projects across its portfolio of homes, of which $4.5m was invested in solar electricity generation and the remainder across lighting, water heating, HVAC systems and laundry services. Considered assessment of high consumption appliances and equipment is undertaken on each new development project the Group undertakes. The Group has a single waste management contract across its 73 homes with KPIs and service levels in place to monitor and improve waste efficiency. Waste disposal costs in FY23 were $4.6m, a reduction of $2.4m from FY22, which was heavily impacted by COVID-19 related clinical waste. A water usage monitoring project commenced during FY23 with an external expert to identify water usage patterns to seek opportunities for reducing usage. Water usage costs in FY23 were $2.5m. Achieving resource efficiency that is greater than sector averages and benchmarks presents the opportunity to deliver improved financial performance relative to the sector given the role of IHACPA in recommending funding in line with sector averages.	Low
Energy source Shifting energy usage to low emission sources, or investing in self-generation	The Group's investment in solar generation has resulted in 12.5% of its electricity consumption in FY23 being generated from the 51 sites with solar installations. An externally supported review commenced in FY23 to review the Group's solar installations with a view to improving and increasing generation levels. In FY23, 12.5% of total electricity consumption was from renewable energy, generated through onsite PV solar systems. The Group determined not to purchase Green Power or LGC's in FY23 but will review this in line with industry benchmarks and overall funding outcomes.	Low
Products/Services Develop and deliver low-emission products and services with greater consumer appeal under a lower-carbon economy	The Group has not to date identified opportunities within its stated strategy of delivering residential aged care services to deliver alternative low emission products or services which may benefit from increased demand under a lower-carbon economy. The Group intends to continue to review future opportunities through the function of the Sustainability Committee.	Low
Markets Diversify into new markets or asset classes which may benefit from increased demand under a lower-carbon economy	The Group has not to date identified opportunities within its stated strategy of delivering residential aged care services to diversify into new markets or asset classes which may benefit from increased demand under a lower-carbon economy. The Group intends to continue to review future opportunities through the function of the Sustainability Committee.	Low
Resilience Developing capacity and capability to better respond to evolving climate change driven risks and opportunities	The Group has an established management Sustainability Committee to regularly monitor and assess the Group's response to climate change driven risks and opportunities. A new sustainability strategy will be developed beyond FY24 to be integrated within the Group's overall business strategy and the evolving regulatory environment.	Low

DIRECTORS' REPORT

CLIMATE-RELATED FINANCIAL DISCLOSURES REPORT (continued)

4. RISK MANAGEMENT

TCFD recommendation: Disclose how the organisation identifies, assesses, and manages climate-related risks

Recommended disclosures

a) Describe the organisation's processes for identifying and assessing climate-related risks

b) Describe the organisation's processes for managing climate-related risks

c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management

Process for identifying climate-related risks and opportunities

Estia Health has conducted assessments across the Group to identify the likelihood of climate hazards at a physical asset level, to better understand potential impacts on homes, operations, and on the safety and wellbeing of our residents and staff. The three-stage climate risk assessment framework approach was applied to evaluate exposure and vulnerability to extreme weather events. The systematic risk assessment was applied to homes with a first pass qualitative regional hazard screening, and a second pass portfolio risk assessment.

Process for managing climate-related risks

A prioritisation process is used to identify the most at-risk properties across the portfolio. The second stage portfolio climate exposure and vulnerability assessment screening used climate data and qualitative survey data from Estia Health's Property Service Managers, to understand the climate related vulnerability on property assets. This approach informs planning and prioritisation of site-specific climate change risk and mitigation planning in the short term.

Integrating climate-related risk into Estia Health's risk management framework

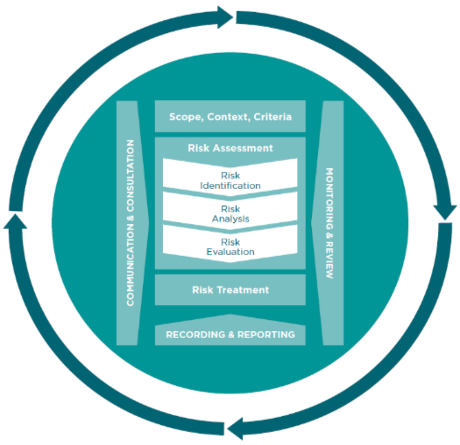

Figure 4: Estia Health's risk Management Process and Framework

Climate change assessment is reflected within the Group's corporate risk profile relative to other risks that could prevent the achievement of strategic objectives. Priorities are established based on 'plausible' events, with consideration given to the current operating and control environment as identified by Executive Management, Board, and subject matter experts.

CLIMATE-RELATED FINANCIAL DISCLOSURES REPORT (continued)

5. METRICS AND TARGETS

TCFD recommendation: Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

Recommended disclosures

a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process
b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

Metric Category	Target	Status
Greenhouse Gas (GHG) emissions Absolute Scope 1, Scope 2 and Scope 3; emissions intensity (MT of CO^2e).	FY23: no target FY24: 20% reduction in carbon emissions intensity (Scope 1 and 2) from FY19 baseline.	19% reduction in FY23 in carbon emissions intensity (scope 1 and scope 2) from FY19 baseline. Scope 1 and 2 emissions were calculated in accordance with the Australian Government National Greenhouse Account Factors.
Transition risks Amount and extent of assets of business activities vulnerable to transition risks (amount or percentage).	FY23: no target FY24: Quantification of potential financial exposure associated with transition risks in short and medium term	Initial assessment has focused on the potential financial impact of cost increases related to direct energy consumption. The total costs associated with energy consumption were $12.05m in FY23, which represents approximately 0.95% of the Group's total recurring costs excluding depreciation and amortisation. A significant increase in prices or consumption would therefore have a limited impact on the Group's total costs. Future exercises are expected to extend the analysis to medium- and long-term impacts under different climate scenarios and to consider any potential indirect impact of higher energy prices on other costs such as food and travel. It would be expected that to the extent to which such cost increases impacted the whole residential aged care sector, they would be incorporated into funding recommendations made by the IHACPA. In which case, this may further reduce any impact on the Group's financial performance.
Physical risks Amount and extent of assets or business activities vulnerable to physical risks (amount or percentage).	FY23: no target FY24: 100% of portfolio assessed for climate resilience.	68 homes have been subject to a detailed assessed for exposure and vulnerability to physical climate change. Physical risk for the 5 homes acquired during FY23 was considered as part of the due diligence prior to acquisition. No home was identified as being at significant risk of either obsolescence, shortened useful life, or requiring significant incremental investment in order to preserve its operational functionality or earnings capacity as a result of short-term physical risks associated with climate change.
Climate-related opportunities Proportion of revenue, assets or other business activities aligned with climate-related opportunities (amount or percentage).	FY23: no target FY24: Quantification of potential financial benefits associated with climate-related opportunities.	Other than the investment in solar electricity generation and other energy efficiency initiatives referred to elsewhere in this report, the Group has not to date identified opportunities within its stated strategy of delivering residential aged care services to diversify into new markets or asset classes which may benefit from increased demand under a lower-carbon economy.
Capital deployment Amount of capital expenditure, financing or investment deployed toward climate-related risks and opportunities (reporting currency).	FY23: no target FY24: Assessment of potential capital investment to be deployed toward climate-related adaptation measures.	Capital investment of $4.07m has been made in energy efficiency projects across the Group's homes in the last 5 years. In FY22, the Group committed to a $330m Sustainability Linked Loan with embedded targets aligned to sustainability strategy.

CLIMATE-RELATED FINANCIAL DISCLOSURES REPORT (continued)

Metric Category	Target	Status
Internal carbon prices Prices on each ton of GHG emissions used internally by an organisation (price in reporting currency).	Based on the industry and scale of the group, there are no immediate plans to develop and disclose internal carbon pricing.	
Remuneration Proportion of executive management-remuneration linked to climate considerations (percentage, weighting, description, or amount in reporting currency).	Sustainability and climate-related incentive compensation of Executive to be considered as an element of performance management.	From FY23 onwards, in relation to executive remuneration derived from Long Term Incentive (LTI) opportunities, the Board will overlay a qualitative assessment, which will involve it reviewing whether the LTI vesting outcome is appropriate having regard to a number of factors over the performance period, including the Group's environmental impact, quality of care, reputational impact and employee experience, further strengthening the link between remuneration outcomes and Environmental, Social and Governance ("ESG") performance.

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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 2023, 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;

b. No contraventions of any applicable code of professional conduct in relation to the audit; and

c. No non-audit services provided that contravene 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

Paul Gower
Partner
22 August 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2023

	Notes	2023 $'000	2022 $'000
Revenue	B1	754,298	671,067
Other income excluding Government grants	B1	102	913
Government grants	B2	51,628	8,053
Expenses			
Employee benefits and agency staff expense	B3	522,491	488,773
Increase in leave liabilities arising from the 15% legislated increase to the Aged Care Award	C7	9,054	-
Administrative expenses	B4	29,870	27,729
Occupancy expenses	B5	25,637	21,087
Resident expenses		66,431	64,233
Amortisation of bed licences	C4	80,466	60,349
Depreciation, impairment and amortisation of other assets		57,470	45,122
Business acquisition related costs		9,112	-
Operating profit / (loss) for the year		**5,497**	**(27,260)**
Net finance costs	B6	48,870	46,298
Loss before income tax		**(43,373)**	**(73,558)**
Income tax benefit	B7	(9,475)	(21,196)
Loss for the year		**(33,898)**	**(52,362)**
Other comprehensive income, net of tax			
Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax:			
- Net gain / (loss) on cash flow hedges, net of tax	C8	801	-
Other comprehensive income not to be reclassified to profit or loss in subsequent periods, net of tax		-	-
Other comprehensive income for the year, net of tax		801	-
Total comprehensive loss for the year, net of tax		**(33,097)**	**(52,362)**

		Cents per share	Cents per share
(Loss) / earnings per share			
Basic	B8	(13.13)	(20.10)
Diluted	B8	(13.13)	(20.10)

The accompanying notes form part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2023

	Notes	2023 $'000	2022 $'000
Current assets			
Cash and cash equivalents	C1	26,200	20,411
Trade and other receivables	C2	27,073	10,261
Prepayments and other assets		4,645	5,031
Consumable supplies		2,190	4,714
Income tax receivable		-	11,960
Derivative financial instruments	C8	485	-
Total current assets		**60,593**	**52,377**
Non-current assets			
Property, plant, equipment	C3	951,309	840,343
Investment properties		850	750
Goodwill	C4	717,614	681,014
Bed licences and other intangible assets	C4	82,959	164,209
Right of use assets	C5	54,446	56,367
Prepayments		881	1,426
Derivative financial instruments	C8	659	-
Total non-current assets		**1,808,718**	**1,744,109**
Total assets		**1,869,311**	**1,796,486**
Current liabilities			
Trade and other payables	C6	55,946	52,135
Other financial liabilities		596	466
Provisions	C7	73,425	63,126
Income tax payable		12,422	-
Lease liabilities	C5	3,724	3,686
Refundable accommodation deposits and bonds	D1	1,027,537	884,069
Total current liabilities		**1,173,650**	**1,003,482**
Non-current liabilities			
Lease liabilities	C5	57,336	58,766
Provisions	C7	9,320	8,542
Loans and borrowings	D2	70,000	100,000
Deferred tax liabilities	B7	58,449	83,959
Total non-current liabilities		**195,105**	**251,267**
Total liabilities		**1,368,755**	**1,254,749**
Net assets		**500,556**	**541,737**
Equity			
Issued capital	D3	796,473	795,748
Share-based payments reserve	D4	4,234	3,483
Hedging reserve		801	-
Accumulated losses		(300,952)	(257,494)
Total equity		**500,556**	**541,737**

The accompanying notes form part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2023

	Notes	Issued capital $'000	Share-based payments reserve $'000	Hedging reserve $'000	Accumulated losses $'000	Total equity $'000
Balance as at 1 July 2021		**803,459**	**2,629**	**-**	**(192,995)**	**613,093**
Loss for the year		-	-	-	(52,362)	(52,362)
Other comprehensive income		-	-	-	-	-
Total comprehensive loss		**-**	**-**	**-**	**(52,362)**	**(52,362)**
Transactions with shareholders:						
Shares repurchased	D3	(7,956)	-	-	-	(7,956)
Transfer from share-based payments reserve	D3	244	(244)	-	-	-
Share-based payments	D4	-	1,086	-	-	1,086
Repayment of management equity plan	D4	1	12	-	-	13
Dividends	D3	-	-	-	(12,137)	(12,137)
As at 30 June 2022		**795,748**	**3,483**	**-**	**(257,494)**	**541,737**
Balance as at 1 July 2022		**795,748**	**3,483**	**-**	**(257,494)**	**541,737**
Loss for the year		-	-	-	(33,898)	(33,898)
Other comprehensive income		-	-	801	-	801
Total comprehensive loss		**-**	**-**	**801**	**(33,898)**	**(33,097)**
Transactions with shareholders:						
Share-based payments	D4	-	1,402	-	-	1,402
Repayment of management equity plan	D4	51	23	-	-	74
Transfer from share-based payments reserve	D3	674	(674)	-	-	-
Dividends	D3	-	-	-	(9,560)	(9,560)
As at 30 June 2023		**796,473**	**4,234**	**801**	**(300,952)**	**500,556**

The accompanying notes form part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2023

	Notes	2023 $'000	2022 $'000
Cash flows from operating activities			
Receipts from residents		166,029	145,005
Receipts from government excluding Government grants received		523,447	470,806
Government grants received		31,528	7,049
Payments to suppliers and employees		(621,192)	(575,983)
Net operating cash flows before interest, income tax and RAD, accommodation bond and ILU entry contributions		**99,812**	**46,877**
Interest received		644	18
Income taxes refunded / (paid)		8,100	(7,584)
Finance costs paid		(4,925)	(4,669)
Interest expense on lease liabilities		(1,812)	(1,911)
Net cash flows from operating activities excluding RAD, accommodation bond and ILU entry contributions		**101,819**	**32,731**
RAD, accommodation bond and ILU entry contribution received		363,684	268,430
RAD, accommodation bond and ILU entry contribution refunded		(278,010)	(245,629)
Net cash flows from operating activities	B9	**187,493**	**55,532**
Cash flows from investing activities			
Payments for intangible assets		(210)	(1,676)
Proceeds from sale of property, plant and equipment		-	64
Proceeds from sale of assets held for sale		-	3,550
Purchase of property, plant and equipment		(61,777)	(31,780)
Business combinations, net of cash acquired	C9	(76,400)	-
Net cash flows used in investing activities		**(138,387)**	**(29,842)**
Cash flows from financing activities			
Proceeds from repayment of MEP loans		51	1
Proceeds from borrowings		80,000	125,000
Repayment of borrowings		(110,000)	(139,500)
Payments for shares repurchased on-market and incremental costs		-	(7,956)
Dividends paid	D3	(9,560)	(12,137)
Repayment of lease liabilities		(3,808)	(4,115)
Net cash flows used in financing activities		**(43,317)**	**(38,707)**
Net increase / (decrease) in cash and cash equivalents		**5,789**	**(13,017)**
Cash and cash equivalents at the beginning of the year		20,411	33,428
Cash and cash equivalents at the end of the year	C1	**26,200**	**20,411**

The accompanying notes form part of these Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

SECTION A: ABOUT THIS REPORT

This section sets out the basis on which the Group's financial report is prepared as a whole. Where a significant accounting policy is specific to a note, the policy is described within that note.

A1
CORPORATE INFORMATION

The Consolidated Financial Statements of Estia Health Limited (the "Company" or the "Parent") and its subsidiaries (collectively, the "Group" or "Estia Health") for the year ended 30 June 2023 were authorised for issue in accordance with a resolution of the Directors on 22 August 2023.

The Company is a for-profit company limited by shares incorporated in Australia and whose shares are publicly traded on the Australian Securities Exchange 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

This general purpose financial report:

- has been prepared in accordance with the Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001;
- has been prepared on the basis of historical cost, except for investment properties and derivative financial instruments which have been measured at fair value;
- complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board;
- presents all values as rounded to the nearest thousand dollars unless otherwise stated under the option available under ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191;
- does not early adopt any Australian Accounting Standards and Interpretations issued or amended but are not yet effective.

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

A3
BASIS OF CONSOLIDATION

The Consolidated Financial Statements comprise the financial statements of the Company and its controlled subsidiaries as at and for the year ended 30 June 2023 (the note E6 on page 111 contains further information about 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

A4
CURRENT OR NON-CURRENT CLASSIFICATION

The Group presents assets and liabilities in the Consolidated Statement of Financial Position based on current/ non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle,
- Expected to be realised within twelve months after the reporting period,
- Held primarily for trading, or
- Cash and cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle,
- It is due to be settled within twelve months after the reporting period,
- Held primarily for trading, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classified all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

A5
GOING CONCERN

The financial report has been prepared on a going concern basis which assumes that the Group will be able to meet its obligations as and when they fall due. The Group's current liabilities exceed current assets by $1,113,057,000 as at 30 June 2023 (2022: $951,105,000) resulting in a net deficiency of current assets. This mainly arises because of the requirement to classify Refundable Accommodation Deposits ("RADs") of $1,027,537,000 (2022: $884,069,000) as current liabilities.

RADs and Bonds are classified as a current liability because 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 may be 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 (Note D1 on page 98 contains further details).

The Group has a syndicated financing facility of $330,000,000 of which $260,000,000 remains undrawn as at 30 June 2023 (2022: $230,000,000). This debt facility can be drawn down to repay RAD and bond refunds should the Group experience significant RAD and bond net outflows. The Group also has a guarantee facility of $15,100,000 (2022: $8,000,000) of which $91,000 remains unused as at 30 June 2023 (2022: $326,000).

SECTION A: ABOUT THIS REPORT

A6
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 associated with 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 are material to the financial statements relate to the following areas:

Significant accounting judgements, estimates and assumptions	
Note B1	Revenue and other income excluding Government grants
Note B2	Government grants
Note B6	Finance costs
Note C3	Property, plant and equipment impairment test
Note C4	Intangible assets impairment test
Note C5	Leases
Note C7	Provisions
Note C8	Derivative financial instruments
Note C9	Business combinations
Note D4	Share-based payments

SECTION B: OUR PERFORMANCE

This section provides additional information on the Group results for the year, including detail on revenue, expenses, earnings per share.

B1
REVENUE AND OTHER INCOME EXCLUDING GOVERNMENT GRANTS

	Note	2023 $'000	2022 $'000
Revenue			
ACFI subsidies (ceased from 1 October 2022)		107,447	414,142
AN-ACC subsidies (effective from 1 October 2022)		376,433	-
Accommodation supplements		47,615	43,098
Basic daily fee supplement (ceased from 1 October 2022)		5,195	20,569
Other supplements		3,468	1,842
Total government funded subsidies & supplements	(a)	**540,158**	**479,651**
Resident daily care fees		122,695	110,411
Other resident fees		50,203	41,677
Total resident fees	(b)	**172,898**	**152,088**
Imputed DAP revenue on RAD and bond balances under AASB 16	(c)	41,242	39,328
Total revenue		**754,298**	**671,067**
Net gain on disposals of assets held for sale		-	848
Net gain on disposals of property, plant and equipment		-	64
Other		102	1
Total other income excluding government grants		**102**	**913**

The Group recognises revenue from residential aged care services over time as performance obligations are satisfied, which is as the services are rendered. Services provided by the Group include provision of accommodation, use of common areas or facilities, and the ongoing daily delivery of care. The Group has disaggregated revenue based on the source of the funding for the provision of residential aged care.

(a) Government Funded Subsidies & Supplements

The Australian Government (the "Government") determines the amount of subsidies and supplements in accordance with the provisions of the Aged Care Act 1997 (the "Act"). In accordance with the Act the level of subsidy or supplement is dependent on a range of factors, including a resident's care needs, supported resident ratios in a particular home and whether a home has been newly built or significantly refurbished on or after 20 April 2012. The subsidies and supplements are calculated as a daily rate 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 $21,538,000 for the year ended 30 June 2023 (2022: $16,808,000).

On 1 October 2022, the Australian National Aged Care Classification ("AN-ACC") care funding model replaced the Aged Care Funding Instrument ("ACFI"). The transition to the new funding model did not impact the Group's accounting policy for recognising Government-funded subsidies and supplements.

Basic Daily Fee Supplement

The Group received the Basic Daily Fee supplement from the Government which was introduced with effect from 1 July 2021. The supplement was paid at the rate of $10/day per resident and ceased under the transition to AN-ACC funding as at 1 October 2022.

SECTION B: OUR PERFORMANCE (CONTINUED)

B1
REVENUE AND OTHER INCOME EXCLUDING GOVERNMENT GRANTS (CONTINUED)

(b) Resident fees

Resident Daily Care Fees

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

Other Resident Fees

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

(c) Imputed revenue on RAD and bond balances under AASB 16 *Leases* (“AASB 16”)

Accommodation services provided to residents who have elected to pay a RAD or accommodation bond are accounted for as a lease under AASB 16. Details in relation to the recognition policy can be found under Significant Accounting Policy below.

SECTION B: OUR PERFORMANCE (CONTINUED)

B1
REVENUE AND OTHER INCOME EXCLUDING GOVERNMENT GRANTS

(CONTINUED)

SIGNIFICANT ACCOUNTING POLICY

The Group recognises revenue under AASB 15 Revenue from Contracts with Customers ("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 as those performance obligations are fulfilled over time on a daily basis as the customer receives and consumes the benefits provided by the Group.

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

The Group has applied the practical expedient not to disclose the transaction price allocation to unperformed performance obligations because all performance obligations are considered to be met on a daily basis. Therefore, the Group does not have any outstanding performance obligations that have not been met at the reporting date.

The following recognition criteria must also be met before revenue is recognised:

Government fees and subsidies

Revenue from the rendering of services is recognised upon delivery of the performance obligations to the residents, which is based on daily services for daily fees.

Resident fees

Revenue from the rendering of a service or supply of goods to residents is recognised upon delivery of the performance obligations to the residents, which is based on daily services for daily fees.

Other resident fees include income arising from provision of accommodation is accounted for in accordance with AASB 16 *Leases* on a straight-line basis over the length of stay.

Imputed revenue on RAD and bond balances

The Group has determined that the arrangement in which residents who choose to pay a RAD or a bond for their accommodation services meet the definition of a lease under AASB 16. 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 results in a non-cash increase in revenue for accommodation and a non-cash increase in finance costs on the outstanding RAD and bond balance, with no net impact on profit and loss for the year.

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Imputed Daily Accommodation Payment ("DAP") Revenue on RAD and Bond Balances

The Group has determined the use of the Maximum Permissible Interest Rate ("MPIR") prevailing at the date of admission 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 DAP to applicable residents.

SECTION B: OUR PERFORMANCE (CONTINUED)

B2
GOVERNMENT GRANTS

	2023 $'000	2022 $'000
COVID-19 costs reimbursement	50,604	7,072
Personal protective equipment received and consumed	825	981
Other	199	-
Total Government grants recognised as income of the period	**51,628**	**8,053**

COVID costs reimbursement

Government grants primarily relate to claims disbursed from the Government which reimburse some of the costs incurred during COVID-19 outbreaks. The Group has recognised these grants where it has determined that it has reasonable assurance that they will be received. The status of the claims as at 30 June 2023 is shown in the table below.

	2023 $'000	2022 $'000
Claims approved	33,487	7,072
Claims submitted, not yet approved and recognised as income[1]	17,117	-
Grant income recognised as income during the year	**50,604**	**7,072**
Unapproved claims not yet recognised as income[2]	523	29,298
Claims recognised as income in prior period	7,072	-
Partially declined claims	1,470	233
Total claims submitted	59,669	36,603

[1] To the date of this report, claims totalling $7,170,000 which were unapproved at 30 June 2023 have subsequently been approved (2022: Nil). As a result, the amount of claims not yet approved at the date of this report is $9,947,000 (2022: Nil).

[2] Of the claims submitted but not recognised as income in the prior financial year, $28,241,000 has been recognised in the year ended 30 June 2023.

SIGNIFICANT ACCOUNTING POLICY

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions have been complied with. Monetary grants relating to compensation for expenses already incurred or for the purpose of giving immediate financial support with no future related costs, which are recognised in the profit or loss of the period in which the Group determines receipt is reasonably assured in accordance with AASB120.

Other monetary grants, where there is no such lengthy experience of performance, are recognised when an approval letter is issued by the Government.

For non-monetary assets received from the Government, the replacement cost of the underlying assets received are initially recognised as assets and deferred grant income, which is subsequently released to profit or loss based on the pattern of consumption of the benefits of the underlying asset. Government grants are classified as Other Income.

SECTION B: OUR PERFORMANCE (CONTINUED)

B2
GOVERNMENT GRANTS (CONTINUED)

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

COVID-19 costs reimbursement

Income associated with COVID-19 costs reimbursement claims submitted under the Aged Care Support Programs (GO4863 and GO6223) are recognised in accordance with AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* when the Group obtains reasonable assurance that the grants will be received.

The Group has determined, based on the experience from the high volume and value of COVID-19 costs reimbursement claims processed to date, that the point in time when receipt becomes reasonably assured for income recognition of COVID-19 cost reimbursement grants is the date that a properly prepared grant application claimed is lodged on the Government portal.

The Group has recognised $9,947,000 (2022: nil) as income, reflecting 95% of the total amount of grant applications that were submitted but not yet approved to the date of this report. This recognition reflects the Group's estimation of the minimum portion of grant applications that is expected to be approved by the Government.

SECTION B: OUR PERFORMANCE (CONTINUED)

B3
EMPLOYEE BENEFITS AND AGENCY STAFF EXPENSES

	2023 $'000	2022 $'000
Salaries and wages expense	391,077	382,129
Superannuation expense	39,342	34,651
Other employee expenses including agency staff expenses	92,072	71,993
Total employee benefits and agency staff expenses	**522,491**	**488,773**

Aged care retention bonus payments

The Group administered and disbursed aged care retention bonus payments to certain employees of $3,011,000 (2022: $4,385,000) on behalf of the Australian Government during the financial year. These payments were treated as a disbursement and presented as a pass-through in the financial statements.

B4
ADMINISTRATIVE EXPENSES

	2023 $'000	2022 $'000
Advertising and marketing expenses	1,502	1,313
Information technology and telephone expenses	5,649	5,258
Travelling expenses	5,145	2,735
Printing and stationery expenses	1,034	1,190
Professional services expenses	5,634	6,609
Insurance premiums	4,237	5,241
Recruitment expenses	1,650	1,142
Other administrative expenses	5,019	4,241
Total administrative expenses	**29,870**	**27,729**

The costs included in administrative expenses have been reviewed during the year to reflect the nature of this cost category more closely. As a result the prior year value has been reclassified.

B5
OCCUPANCY EXPENSES

	2023 $'000	2022 $'000
Repairs and maintenance expense	10,702	8,199
Other occupancy expenses	14,935	12,888
Total occupancy expenses	**25,637**	**21,087**

SECTION B: OUR PERFORMANCE (CONTINUED)

B6
NET FINANCE COSTS

	2023 $'000	2022 $'000
Finance income		
Interest income from cash at banks	644	19
Total finance income	**644**	**19**
Finance costs		
Imputed interest expense on RAD and bond balances	41,242	39,328
Interest expense on RAD and bond balances for departed residents	2,853	2,654
Interest expense on leases under AASB 16	1,812	1,911
Interest expense on bank loans	1,546	469
Other finance costs	2,061	1,955
Total finance costs	**49,514**	**46,317**
Net finance costs	**48,870**	**46,298**

SIGNIFICANT ACCOUNTING POLICY

Interest income

Interest income is recognised using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Borrowing costs

Borrowing costs comprise 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. Note C5 on page 87 contains further details relating to interest expenses recognised under AASB 16 and Note D2 on page 99 contains information relating to loans and borrowings.

Imputed interest on RAD and bond balances

Note B1 on page 66 contains details in relation to Imputed DAP revenue on RAD and bond balances under AASB 16.

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 DAP 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

Major components of income tax expense

Consolidated profit or loss

	2023 $'000	2022 $'000
Current income tax		
Current tax expense / (benefit)	15,023	(3,432)
Adjustments in respect of income tax of previous year	(2)	(2,106)
Deferred income tax		
Relating to origination and reversal of temporary differences	(24,496)	(17,795)
Adjustments in respect of income tax of previous year	-	2,137
Income tax benefit	**(9,475)**	**(21,196)**

Consolidated other comprehensive income

	2023 $'000	2022 $'000
Deferred tax related to items recognised *in other comprehensive income during in the year:*		
Net loss on derivative instruments at fair value through other comprehensive income	343	-
Deferred tax charged to other comprehensive income	**343**	**-**

Reconciliation of income tax expense and accounting profit:

	2023 $'000	2022 $'000
Accounting loss before income tax	(43,373)	(73,558)
At the Australian statutory income tax rate of 30% (2022: 30%)	(13,012)	(22,067)
Adjustments in respect of income tax of previous year	(2)	31
Utilisation of previously unrecognised tax losses	(166)	-
Expenditure not allowable for income tax purposes		
- Business acquisition related costs	2,576	-
- Other expenditure	1,129	840
Income tax benefit	**(9,475)**	**(21,196)**

Reconciliation of deferred tax liabilities, net:

	$'000
Balance at 1 July 2021	(99,617)
Income tax benefit during the year recognised in profit or loss	17,795
Adjustments in respect of income tax of previous year	(2,137)
Balance as at 1 July 2022	(83,959)
Income tax benefit during the year recognised in profit or loss	24,496
Income tax expense during the year recognised in equity	(343)
Net deferred tax assets arising from business combinations	1,357
Balance as at 30 June 2023	**(58,449)**

SECTION B: OUR PERFORMANCE (CONTINUED)

B7
INCOME TAX (CONTINUED)

Major components of deferred tax

	Opening balance $'000	Charged to consolidated profit or loss $'000	Charged to equity $'000	Arose from business combinations $'000	Closing balance $'000
2023					
Deferred tax assets / (liabilities)					
Property, plant and equipment	(61,388)	3,536	-	952	(56,900)
Lease liabilities	18,736	(418)	-	-	18,318
Provisions and accruals	23,951	2,966	-	369	27,286
Right of use assets	(16,910)	576	-	-	(16,334)
Bed licences	(46,961)	23,481	-	-	(23,480)
Revaluation of derivative financial instruments	-	-	(343)	-	(343)
Government grant income	-	(5,135)	-	-	(5,135)
Other	(1,387)	(510)	-	36	(1,861)
Total	**(83,959)**	**24,496**	**(343)**	**1,357**	**(58,449)**
Reflected in the Consolidated Statement of Financial Position as follows:					
Deferred tax assets	42,924				45,889
Deferred tax liabilities	(126,883)				(104,338)
Deferred tax liabilities, net	**(83,959)**				**(58,449)**
2022					
Deferred tax assets / (liabilities)					
Property, plant and equipment	(59,849)	(1,539)	-	-	(61,388)
Lease liabilities	21,889	(3,153)	-	-	18,736
Provisions and accruals	22,075	1,876	-	-	23,951
Right of use assets	(17,897)	987	-	-	(16,910)
Bed licences	(64,571)	17,610	-	-	(46,961)
Other	(1,264)	(123)	-	-	(1,387)
Total	**(99,617)**	**15,658**	**-**	**-**	**(83,959)**
Reflected in the Consolidated Statement of Financial Position as follows:					
Deferred tax assets	44,347				42,924
Deferred tax liabilities	(143,964)				(126,883)
Deferred tax liabilities, net	**(99,617)**				**(83,959)**

SECTION B: OUR PERFORMANCE (CONTINUED)

B7
INCOME TAX (CONTINUED)

SIGNIFICANT ACCOUNTING POLICY

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the Australian Taxation Office (“ATO”). 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, the Group 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)

B8
EARNINGS PER SHARE

	2023 cents	2022 cents
Basic earnings / (loss) per share	(13.13)	(20.10)
Diluted earnings / (loss) per share	(13.13)	(20.10)

Basic Earnings Per Share ("EPS") are calculated as net profit or loss after tax divided by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is calculated on the same basis as basic EPS except that it reflects the impact of any potential commitments the Group has to issue shares in the future, for example shares to be issued upon vesting of performance rights.

Due to the loss for the year, the diluted earnings per share is the same as the basic earnings per share.

Earnings used in calculation of EPS

	2023 $'000	2022 $'000
Loss attributable to owners of the Company	(33,898)	(52,362)

Weighted average number of shares used in calculating EPS

	2023 Number	2022 Number
Weighted average number of ordinary shares used in calculating basic EPS	258,163,624	260,519,150
Adjustment for calculation of diluted EPS:		
- Performance rights[1, 2]	2,634,576	2,559,858
Weighted average number of ordinary shares adjusted for the effect of dilution	**260,798,200**	**263,079,008**

1. Performance rights granted to participants are considered to be potential ordinary shares and have been included in the determination of diluted EPS to the extent to which they are dilutive.

2. The performance rights used in the calculation of diluted earnings per share were anti-dilutive for the years ended 30 June 2023 and 30 June 2022 due to the financial loss reported in each year and as a result were not included in the calculation of diluted earnings per share.

SECTION B: OUR PERFORMANCE (CONTINUED)

B9
CASH FLOW RECONCILIATION

(a) Reconciliation of net loss after income tax to net cash flows from operations

	2023 $'000	2022 $'000
Loss for the year	(33,898)	(52,362)
Adjustments to reconcile profit after income tax to net cash flows:		
Depreciation of property, plant and equipment	40,127	40,031
Depreciation on right of use assets	4,336	4,142
Amortisation of bed licences and other intangible assets	81,471	61,180
Impairment of property, plant and equipment	11,448	118
Write off of capitalised construction costs	554	-
Gain arising from change in fair value of investment properties	(100)	-
Net loss / (gain) on disposal of property, plant and equipment	-	(64)
Net gain on sale of assets held for sale	-	(848)
Accommodation bond retentions	(2,399)	(2,661)
Imputed revenue on RAD and bond balances	41,242	39,328
Imputed interest cost on RAD and bond balances	(41,242)	(39,328)
Income tax benefit	(9,475)	(21,196)
Finance costs	-	409
Share-based payments	1,426	1,097
Movement in allowance for expected credit losses	34	(328)
(Increase) / Decrease in:		
Trade and other receivables	(16,363)	(2,864)
Prepayments and other assets	2,981	(1,447)
(Decrease) / Increase in:		
Trade and other payables	3,085	9,462
Receipts in advance	647	-
Provisions	9,845	5,646
Refundable accommodation deposits and bonds	85,674	22,801
Less: Income tax refunded / (paid), net	8,100	(7,584)
Net cash flows from operating activities	**187,493**	**55,532**

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 by the Group within the guidelines set out by the Prudential Compliance Standards and are therefore classified as an operating activity for the purposes ofcash flow reporting.

(b) Reconciliation of liabilities arising from financing activities

	2022 $'000	Net cash flows $'000	Other $'000	2023 $'000
2023				
Non-current loans and borrowings	100,000	(30,000)	-	70,000
Lease liabilities	62,452	(3,808)	2,416	61,060
Dividends payable	-	(9,560)	9,560	-
Total liabilities from financing activities	**162,452**	**(43,368)**	**11,976**	**131,060**
2022				
Non-current loans and borrowings	114,500	(14,500)	-	100,000
Lease liabilities	65,122	(5,987)	3,317	62,452
Dividends payable	-	(12,137)	12,137	-
Total liabilities from financing activities	**179,622**	**(32,624)**	**15,454**	**162,452**

SECTION C: ASSETS AND LIABLITIES

This section outlines the assets and liabilities held by the Group as at 30 June each year.

C1
CASH AND CASH EQUIVALENTS

	2023 $'000	2022 $'000
Cash at bank	26,136	20,357
Cash on hand	64	54
Total cash and cash equivalents	**26,200**	**20,411**

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 any outstanding bank overdrafts where offset is within the terms of the facility.

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C2
TRADE AND OTHER RECEIVABLES

	2023 $'000	2022 $'000
Trade receivables	7,182	8,290
Allowance for expected credit losses	(1,001)	(967)
Net trade receivables	6,181	7,323
Other receivables	1,793	2,915
COVID grants receivable[1]	19,099	23
Total trade and other receivables	**27,073**	**10,261**

[1] Of the COVID grants receivable outstanding as at 30 June 2023, $1,940,000 has been received to the date of this report.

As at 30 June 2023, the Group recognised $19,099,000 (2022: $23,000) of COVID-19 costs reimbursement income as receivables, reflecting the balance of funding to be received from the Australian Government in relation to the COVID-19 costs reimbursement claims submitted under the Aged Care Support Programs (GO4863 and GO6223). In accordance with the Government guidelines, Approved Providers as defined under the Aged Care Act are able to claim for COVID-19 costs in accordance with the eligible criteria. Due to the volume of claims from across the sector, there is a backlog of pending claims awaiting Government review. The Group has determined, based on experience to date and the terms of the grant schemes that it is reasonably assured that properly prepared claims lodged with the Government for eligible COVID-19 costs will be recovered. Note B2 on page 69 contains further details on the significant accounting judgement exercised in relation to the recognition of the grant income.

Allowance for expected credit loss

	2023 $'000	2022 $'000
As at 1 July	967	1,295
Net remeasurement of allowance for expected credit losses	49	(20)
Utilised	(15)	(308)
As at 30 June	**1,001**	**967**

SIGNIFICANT ACCOUNTING POLICY

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

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

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C3
PROPERTY, PLANT AND EQUIPMENT

Reconciliation of property, plant and equipment

	Note	Land $'000	Buildings $'000	Property improve-ments $'000	Furniture, fixtures & equipment $'000	Motor vehicles $'000	Construction in progress $'000	Total $'000
Cost								
Balance at 1 July 2021		190,065	567,238	88,852	137,665	992	12,492	997,304
Additions		-	-	2,745	9,400	79	22,843	35,067
Transfers		-	-	3,331	7,803	-	(11,134)	-
Disposals		-	-	(631)	(2,455)	(89)	(5)	(3,180)
Transfer to assets held for sale		378	(3,323)	(737)	(787)	-	-	(4,469)
Balance at 30 June 2022		**190,443**	**563,915**	**93,560**	**151,626**	**982**	**24,196**	**1,024,722**
Additions		2,975	14,222	4,556	15,145	-	46,645	83,543
Acquisitions through business combinations	**C9**	25,100	43,934	-	10,565	157	-	79,756
Transfers		449	-	7,950	3,177	-	(11,576)	-
Disposals		-	-	(397)	(3,013)	-	(554)	(3,964)
Balance at 30 June 2023		**218,967**	**622,071**	**105,669**	**177,500**	**1,139**	**58,711**	**1,184,057**
Accumulated depreciation and impairment								
Balance at 1 July 2021		821	67,148	14,296	68,914	660	-	151,839
Depreciation expense		-	13,275	6,378	20,308	70	-	40,031
Impairment expense		569	-	-	-	-	5	574
Reversal of impairment expense		(456)	-	-	-	-	-	(456)
Disposals		-	-	(603)	(2,384)	(90)	(5)	(3,082)
Transfer to assets held for sale		-	(3,154)	(694)	(679)	-	-	(4,527)
Balance at 30 June 2022		**934**	**77,269**	**19,377**	**86,159**	**640**	**-**	**184,379**
Depreciation expense		-	13,557	6,864	19,530	176	-	40,127
Impairment expense		428	8,762	1,013	1,245	-	-	11,448
Disposals		-	-	(356)	(2,850)	-	-	(3,206)
Balance at 30 June 2023		**1,362**	**99,588**	**26,898**	**104,084**	**816**	**-**	**232,748**
Net book value								
As at 30 June 2022		**189,509**	**486,646**	**74,183**	**65,467**	**342**	**24,196**	**840,343**
As at 30 June 2023		**217,605**	**522,483**	**78,771**	**73,416**	**323**	**58,711**	**951,309**

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C3
PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

SIGNIFICANT ACCOUNTING POLICY

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated. Such cost includes the cost of replacing parts 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 acquired through business combination 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

Assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively, if appropriate, at each reporting period end.

De-recognition & Disposal

An item of property, plant and equipment and any significant part initially recognised is de-recognised 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 Consolidated Statement of Profit or Loss and Other Comprehensive Income when the asset is de-recognised.

Impairment

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 reporting period 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 or 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

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C3
PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Mature homes impairment assessment

Due to the Group's decision to relocate its operations from the mature homes in Benalla and Bendigo to the neighbouring operational homes, which are to be acquired from Royal Freemasons under a binding contract executed as at 1 August 2023 (Note E9 contains further details), and subsequently close the existing mature homes in the region, impairment indicators have been identified in relation to these two homes.

Consequently, an impairment assessment was conducted, which determined that the carrying values of the mature home CGUs exceeded the recoverable amounts, being $887,000 for Benalla and $1,822,000 for Bendigo, respectively . The recoverable amount was determined as the fair value of the mature home CGU, less any cost of disposal, utilising a valuation technique that predominantly incorporates the price per square metre for comparable properties derived from observable market data (classified as level 3 in the fair value hierarchy), which is the most sensitive assumption applied in the valuation technique.

Therefore, total non-cash impairment charges of $11,448,000 have been recognised during the current financial year (2022: Nil) against the carrying value of the depreciable assets associated with the mature homes.

Capitalisation of costs

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 re-assesses on a regular basis whether projects are still sufficiently probable of completion and expected to deliver desired economic benefits.

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C4
GOODWILL AND OTHER INTANGIBLE ASSETS

	Notes	Goodwill $'000	Bed licences $'000	Others $'000	Total $'000
Cost					
Balance at 1 July 2021		817,074	221,281	8,957	1,047,312
Additions		-	-	1,575	1,575
Transfer to assets held for sale		-	-	(10)	(10)
Balance at 30 June 2022		**817,074**	**221,281**	**10,522**	**1,048,877**
Additions		-	-	221	221
Acquisition through business combinations	**C9**	36,600	-	-	36,600
Balance at 30 June 2023		**853,674**	**221,281**	**10,743**	**1,085,698**
Accumulated amortisation and impairment					
Balance at 1 July 2021		136,060	-	6,423	142,483
Amortisation expense		-	60,349	831	61,180
Transfer to assets held for sale		-	-	(9)	(9)
Balance at 30 June 2022		**136,060**	**60,349**	**7,245**	**203,654**
Amortisation expense		-	80,466	1,005	81,471
Balance at 30 June 2023		**136,060**	**140,815**	**8,250**	**285,125**
Net book value					
As at 30 June 2022		**681,014**	**160,932**	**3,277**	**845,223**
As at 30 June 2023		**717,614**	**80,466**	**2,493**	**800,573**

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C4
GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

SIGNIFICANT ACCOUNTING POLICY

Bed licences

Bed licences 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.

Subsequently, the Group's bed licences, which were previously carried at cost less any accumulated impairment losses, are now measured at cost less accumulated amortisation and any accumulated impairment losses following the decision by the Australian Government to abolish bed licences with effect from 1 July 2024.

Impairment testing for bed licences is performed in line with the procedures noted below under Goodwill.

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 group of CGUs to which the goodwill relates. When the recoverable amount of the group of CGUs is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Other intangible assets

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 recognised in 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 life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Software costs are amortised over the estimated useful life of 3 - 5 years.

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimates and are applied prospectively.

De-recognition and disposal

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 de-recognised.

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C4
GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Impairment of goodwill and other intangible assets

The Group performs impairment testing on goodwill and other intangible assets to ensure they are not carried above their recoverable amounts at least annually (for goodwill and other intangible assets with an indefinite useful life) and where there is an indication that assets may be impaired, which is assessed at least at each reporting date.

For impairment testing purposes, goodwill, bed licences and other intangible assets are allocated to the Group of CGUs, which is consistent with the operating segment identified in Note E6 and which represents the lowest level within the Group at which these assets are monitored. The carrying value of the CGU was compared against the recoverable amount which was determined on a value-in-use calculation basis by discounting cash flow projections for a five year period 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 future impacts of mandated care minutes, the 15% increase in the Aged Care Award, potential costs associated with managing COVID-19 outbreaks, the activity of Independent Health and Aged Care Pricing Authority (“IHACPA"), announced changes to Government funding, existing grant schemes and climate related risks.

The most sensitive assumptions used in the calculation of the value in use are the discount rate, long term growth rate, and the assumption that margin deterioration driven by successive years of failure of Government funding increases to keep pace with increased input costs will cease following the appointment of IHACPA to monitor costs and make appropriate recommendations to Government. Sensitivity analysis on reasonably likely changes to these assumptions did not result in an outcome where impairment would be required.

A discount rate was applied to the cash flow forecasts, including the terminal value. This rate reflects the current market assessments of the risks specific to the industry the Group operates in and takes 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.

A long term growth rate reflects the Group’s assessment of inflation and perpetual growth using market and economic data.

The discount and growth rates used at 30 June 2023 in assessing the recoverable amount are as follows:

	2023 %	2022 %
Post-tax discount rate	9.0	9.0
Pre-tax discount rate	12.1	12.1
Long term growth rate	2.3	2.3

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C5
LEASES

The Group has lease agreements for various residential aged care homes, office space and office equipment with varying lease terms.

Carrying amounts of right-of-use assets and associated lease liabilities and the movements during the year are shown below:

	Right of use assets			Lease liabilities
	Property leases $'000	Other equipment $'000	Total right of use assets $'000	$'000
As at 1 July 2021	58,717	503	**59,220**	**65,122**
Additions	-	196	**196**	**196**
Depreciation expense	(3,999)	(143)	**(4,142)**	**-**
Interest expense	-	-	**-**	**1,911**
Lease payments	-	-	**-**	**(5,987)**
Remeasurement of leases	1,111	(18)	**1,093**	**1,210**
As at 30 June 2022	**55,829**	**538**	**56,367**	**62,452**
Additions	-	388	**388**	**388**
Depreciation expense	(4,126)	(210)	**(4,336)**	**-**
Interest expense	-	-	**-**	**1,812**
Lease payments	-	-	**-**	**(5,619)**
Remeasurement of leases	2,028	(1)	**2,027**	**2,027**
As at 30 June 2023	**53,731**	**715**	**54,446**	**61,060**

The Group had low-value leases relating to office equipment such as printers and photocopiers. An amount of $455,000 (2022: $90,000) was recognised as an expense during the year. Under its lease agreements, the Group incurs expenditure in relation to insurance, council and water rates, and water consumption. The Group recognised an amount of $417,000 (2022: $447,000) as an expense during the year.

SIGNIFICANT ACCOUNTING POLICY

When a contract is entered into, the Group assesses whether a contract is, or contains, a lease. A lease arises when 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.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease which is when 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 the estimated useful life of the assets and the lease term. Right-of-use assets are subject to impairment testing.

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C5
LEASES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICY (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 using the Group's incremental borrowing rate ("IBR") if the rate implicit in the lease cannot be readily determined. 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.

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 to be 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.

Interest expense on lease liabilities

Interest expense on lease liabilities is reported as a component of total finance costs, which is recognised over the term of the lease using the Group's IBR.

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Lease term

The Group determines the lease term as the non-cancellable term of a lease, together with any periods covered by an option to extend if it is reasonably certain to be exercised.

Where the Group has the option to extend a lease for additional terms, judgement is applied in evaluating whether it is reasonably certain to exercise the option to renew, taking into account relevant factors that create an economic incentive to exercise the renewal option. After commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects it ability to exercise (or not exercise) the option to renew.

Discount rates

Where the Group cannot readily determine the interest rate implicit in the lease, it uses its IBR to calculate the present value of future lease payments. The Group estimates the IBR using market interest rates and adjusts these rates to include the effect of its own stand-alone credit rating.

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C6
TRADE AND OTHER PAYABLES

	2023 $'000	2022 $'000
Trade creditors	14,806	14,719
Payroll liabilities	17,923	16,466
Sundry creditors and accruals	23,217	20,950
Total trade and other payables	**55,946**	**52,135**

C7
PROVISIONS

	2023 $'000	2022 $'000
Current		
Workcover provision	1,610	1,929
Annual leave provision	46,148	40,139
Long service leave provision	25,667	21,058
Total current provisions	**73,425**	**63,126**
Non-current		
Workcover provision	3,807	3,773
Long service leave provision	5,513	4,769
Total non-current provisions	**9,320**	**8,542**
Total provisions	**82,745**	**71,668**

An increase in annual leave and long service leave provisions totalling $9,054,000 was made in the current financial year (2022: Nil) following the Fair Work Commission's decision to increase the Aged Care Award by 15% for certain aged care workers. Note E2 on page 109 contains details relating to a potential future Australian Government grant opportunity which may be used to partially offset future cash settlements of this provision.

Movements in self-insured Workcover provisions

	2023 $'000	2022 $'000
At 1 July	5,702	1,400
Transfer during the year	55	3,384
Net charge during the year	3,289	2,524
Utilised during the year	(3,629)	(1,606)
Balance at 30 June	**5,417**	**5,702**

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C7
PROVISIONS (CONTINUED)

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

Long service leave or annual leave entitlements are not expected to be settled fully within the next 12 months but are 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 of Australian corporate bonds at the reporting date, with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Workcover provision

The Group operates as an approved self-insured for worker's compensation in New South Wales and South Australia. Provisions are recognised based on claims reported and an estimate of claims which may have incurred but may not yet have been reported. These provisions are measured at present value using independent actuarial valuations performed at each reporting date.

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Long service leave

The provision for long service leave is measured based on the relevant regulations of each State. Judgement is required in determining the following key assumptions used in the calculation of the long service leave provision at the balance sheet date:

- future increases in salaries and wages;
- future probability of employee departures and periods of service; and
- an appropriate discount rate

Workcover provision

The workcover provision represents a self-insured risk liability based on a number of estimates and assumptions including, but not limited to:

- ultimate number of reported claims;
- discount rate;
- wage inflation;
- average claim size;
- superimposed inflation (i.e., Inflation above wage inflation) and
- claims administration expenses

These assumptions are reviewed periodically and any reassessment of these assumptions may impact the size of the provision required.

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C8
DERIVATIVE FINANCIAL INSTRUMENTS

	2023 $'000	2022 $'000
Interest rate swaps - current	485	-
Interest rate swaps – non-current	659	-
Total derivative financial assets	**1,144**	**-**

The effect of the above derivative financial instruments in the consolidated statement of profit or loss and other comprehensive income is, as follows:

	2023 $'000	2022 $'000
Total hedging gains / (loss) recognised in other comprehensive income	1,144	-
Less: Deferred tax charged to other comprehensive income	(343)	-
Total hedging gains / (loss) recognised in other comprehensive income, net of tax	**801**	**-**
Amount reclassified to profit or loss	**-**	**-**

Instruments used by the Group

Derivative financial instruments are used by the Group in the normal course of business as part of its risk management relating to fluctuations in future interest rates.

Floating rate interest bearing loans that the Group has entered into and those that are considered highly probable to be entered in the future are exposed to future interest rate changes that could ultimately affect the cost of funding which in turn could impact both the future profit and loss and cash flows.

In order to reduce the exposure of future interest payments in relation to the floating rate interest bearing loans, the Group has entered into forward interest rate swaps contracts under which it has a right to receive interest at variable rates and to pay interest at fixed rates. These interest rate swaps require settlement of the resulting net interest receivable or payable as designated under the swap contracts with the transaction counterparty.

The following table sets out the start dates, maturity dates and interest rate risk profiles of the Group's hedging instruments as at 30 June 2023 (2022: Nil):

In $ thousand	Commenced but not yet matured	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Total
As at 30 June 2023						
Notional principal						
- Starting in	20,000	60,000	10,000	40,000	-	130,000
- Maturing in		-	10,000	80,000	40,000	130,000
Average fixed rate	3.71%	3.90%	3.65%	3.78%	3.78%	

As at 30 June 2023, the interest rate swaps were considered highly effective hedges as defined in AASB 9 *Financial Instruments*, as the terms of the interest rate swap materially aligned with the terms of the floating interest bearing loans (i.e., notional amount, maturity, payment and reset dates).

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C8
DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

SIGNIFICANT ACCOUNTING POLICY

The Group uses derivative financial instruments, namely interest rate swaps to partly hedge risks associated with interest rate movements. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured to fair value. Derivatives are carried as assets when the fair value is positive and as a liability when the fair value is negative.

For the purposes of hedge accounting, hedges are classified as:

- fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability;
- cash flow hedges when they hedge exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not ‘dominate the value changes’ that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described follows:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in Other Comprehensive Income within equity (hedging reserve), while any ineffective portion is recognised immediately in the Consolidated Statement of Profit and Loss.

The Hedging reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item. The amount accumulated in the hedging reserve is then reclassified to profit or loss in the same period or periods during which the hedged cash flows affect profit or loss. If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

The Group uses interest rate swap contracts as hedges of its exposure to fluctuations in interest rates. There is an economic relationship between the hedged item and the hedging instrument as the term of the interest rate swap matches the terms of the variable rate loan (that is, notional amount, maturity, base rate, payment and reset dates). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the interest rate swap is identical to the hedged risk component. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instrument against the changes in fair value of the hedged item attributable to the hedged risk.

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C8
DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

SIGNIFICANT ACCOUNTING POLICY (CONTINUED)

Cash flow hedges (Continued)

The hedge ineffectiveness can arise from:

- Different interest rate curves applied to discount the hedged item and hedging instrument
- Differences in timing of cash flows of the hedged item and hedging instrument
- The counterparties' credit risk differently impacting the fair value movements of the hedging instrument and hedged item
- Changes to the forecasted amount of cash flows of hedged items and hedging instruments

Subsequent measurement

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transaction;
- Reference to the current fair value of another instrument that is substantially the same; or
- A discounted cash flow analysis or other valuation models.

Fair value of derivative financial instruments

The Group measures financial instruments, such as, derivatives, at fair value at each reporting date.

Fair value is the price that would be received to sell 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.

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values (Note C10 contains further details of the methodology used).

Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), interest rate curves and forward rate curves. These assumptions are reviewed periodically and any reassessment of these assumptions may impact the carrying value of the assets or liabilities recognised.

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C9
BUSINESS COMBINATIONS

Premier Health Acquisition

On 1 December 2022, the Group acquired the freehold sites and operations ("Premier Health Acquisition") of four residential aged care homes from Premier Health Care comprising two homes in South Australia and two homes in Queensland (the "Premier Homes"). The homes align with the Group's existing operating clusters and added 409 resident places in high quality aged care homes. The acquisition provides a number of strategic benefits consistent with the Group's growth strategy.

The amounts for the Premier Health Acquisition have been finalised and are disclosed as follows:

	$'000
Property, plant and equipment	79,756
Deferred tax assets, net[1]	933
Consumable supplies	250
Other current assets	210
Refundable accommodation deposits and bonds	(46,883)
Employee liabilities (current)	(903)
Employee liabilities (non-current)	(80)
Other current liabilities	(99)
Fair value of identifiable net assets	**33,184**
Goodwill arising	**27,289**
Business combination date fair value of consideration transferred	**60,473**
Cost of the combination:	
Purchase consideration paid in cash	60,473
Business acquisition related costs	6,490
Total cost of the combination	**66,963**

[1] The finalised deferred tax asset related to the transferred assets and liabilities was $933,000, a decrease of $2,000,000 from the provisional value relating to the transferred property, plant and equipment. Consequently, there was corresponding an increase in goodwill of $2,000,000.

Goodwill of $27,289,000 arising from the Premier Health Acquisition represents the excess of the cost of the acquisition over the net fair value of the identifiable assets and liabilities acquired. None of the goodwill recognised is expected to be deductible for income tax purposes.

At the date of the acquisition, the carrying value and the fair value of trade receivables were both $99,000. It is expected that the full contractual amounts can be collected.

Premier Homes contributed $23,601,000 to revenue and $1,947,000 to profit before tax for the Group from the date of acquisition to 30 June 2023. If the acquisition had taken place at the beginning of the period, 1 July 2022, the Group's revenue and loss before tax would have been $769,193,000 and $42,024,000, respectively.

Transactions separate to the Premier Health Acquisition

Separate to the Premier Health Acquisition, the Group has entered into contractual agreements to acquire two additional development sites located in South Australia from Premier Health Care for considerations totalling $10,000,000 exclusive of GST. The acquisition of the two additional sites was assessed to be a separate transaction from the Premier Health Acquisition.

The acquisition of the first site ($5,355,000) was completed in July 2023 with the second still subject to the closing conditions contained within the contract. Note E2 contains further details on the capital commitments concerning the transactions.

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C9
BUSINESS COMBINATIONS (CONTINUED)

Mount Clear Acquisition

On 1 May 2023 the Group completed the acquisition of a freehold site, residential aged care home, and 100% of the equity interest in OC Health Ballarat Pty Limited from OC Health Pty Limited. The acquisition, referred to as the Mount Clear Acquisition, encompasses a fully operational home situated in Mount Clear, Victoria, which includes 120 operating places. This acquisition aligns with the Group's growth strategy and presents several strategic advantages.

The recognised amounts for the business combination are outlined below. Accounting for the business combination is based on information available at reporting date and is provisional because the identification and fair value measurement of the assets and liabilities remains ongoing.

	$'000
Cash and cash equivalents	11,302
Property, plant and equipment	20,482
Deferred tax assets, net	423
Consumable supplies	33
Other current assets	59
Refundable accommodation deposits and bonds	(13,311)
Employee liabilities (current)	(234)
Employee liabilities (non-current)	(14)
Income tax liabilities	(491)
Other current liabilities	(150)
Fair value of identifiable net assets	**18,099**
Goodwill arising	**9,311**
Business combination date fair value of consideration transferred	**27,410**
Cost of the combination:	
Purchase consideration paid in cash	**27,229**
Less: Net cash acquired with the acquiree	(11,302)
Net cash outflow as a result of the business combination	**15,927**
Additional consideration payable	181
Total provisional purchase consideration	**16,108**
Acquisition costs	2,055
Total cost of the combination	**18,163**

At the date of the acquisition, the carrying value and the fair value of trade receivables were $151,000 and $32,000. The difference between the fair value and the carrying value is the result of adjusting for counterparty credit risk. It is expected that the full contractual amounts can be collected.

Provisional goodwill of $9,311,000 arising from the Mount Clear acquisition represents the excess of the cost of the acquisition over the net fair value of the identifiable assets and liabilities acquired. None of the goodwill recognised is expected to be deductible for income tax purposes.

Mount Clear contributed $2,017,000 to revenue and $259,000 to profit before tax for the Group from the date of acquisition to 30 June 2023. If the acquisition had taken place at the beginning of the period, 1 July 2022, the Group's revenue and loss before tax would have been $764,137,000 and $42,625,000, respectively.

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C9
BUSINESS COMBINATIONS (CONTINUED)

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The Group recognises the identifiable assets and liabilities of businesses acquired based on fair values at the date of acquisition. Where a significant amount of properties, plant and equipment are recognised in the business combination, the fair value determination is supported by an independent external valuer using the Income method for real properties and the direct costs approach for plant and equipment.

SECTION C: ASSETS & LIABILITIES (CONTINUED)

C10
FAIR VALUE MEASUREMENT

	Note	2023 $'000	2022 $'000
Investment properties	(a)	850	750
Derivative financial assets	(b)	1,144	-
Total		**1,994**	**750**

There were no transfers between levels during the financial year.

(a) The Group's investment properties represent Independent Living Units ("ILUs") which are occupied by residents who have contributed a non-interest-bearing loan to occupy the ILUs. The resident vacates the property based on the applicable State-based Retirement Village Acts. These investment properties are measured at fair value, which is determined based on a valuation model recommended by the International Valuation Standards Committee that uses unobservable inputs (level 3 in fair value hierarchy) at the reporting date:

	2023	2022
Unobservable inputs		
Discount rate	16.50%	16.50%
Growth rate	4.30%	2.46%
Cash flow term	50 years	50 years

(b) Derivative financial assets represent interest rate swap contracts which were valued using the income approach which utilises a combination of short and long term market observed inputs such as BBSW, LIBOR, and Money Market Basis Swap rates (level 1 in fair value hierarchy) to generate various curves across multiple products for valuation purposes. The inputs are then bootstrapped using cubic spline interpolation method to generate yield curves. The valuation curve is then adjusted for an appropriate credit spread associated with the counterparty Bank and then a notional BBB curve adjustment is applied for the Group (level 2 in fair value hierarchy) as proxy via a parallel shift in the yield curve as derived in the valuation approach.

SIGNIFICANT ACCOUNTING POLICY (CONTINUED)

The Group measures financial instruments such as derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date. All other financial instruments on the balance sheet are measured at amortised cost.

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 D: CAPITAL, FINANCING, RADS AND RISK

This section provides additional information on the Group's capital structure, including RADs, bank borrowings and access to capital market and a summary of the Group's exposure to key financial risks, including interest rate, credit and liquidity risks, along with the Group's policies and strategies to mitigate these risks.

D1
REFUNDABLE ACCOMODATION DEPOSITS AND BONDS

	2023 $'000	2022 $'000
Current residents	890,292	756,894
Departed residents	137,245	127,175
Total refundable accommodation deposits and bonds – amounts received	**1,027,537**	**884,069**

RADs and bonds are paid at the choice of residents upon their admission to homes and are refunded after a resident departs a home in accordance with the Act. Providers must pay a Government set 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 refunds and other financial obligations as or when they fall due.

To ensure that funds are readily available when required, the minimum level of funds chosen by the Group are met by undrawn lines of credit under its existing financing facilities.

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

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

D2
LOANS AND BORROWINGS

	2023 $'000	2022[1] $'000
Secured bank loans – Syndicated debt facility	70,000	100,000
Total loans and borrowings	**70,000**	**100,000**

[1] Comparative has been restated to present the capitalised facility costs as prepayments.

At 30 June 2023, the Group had available $260,000,000 (2022: $230,000,000) of undrawn committed borrowing facilities, and $91,000 (2022: $326,000) of unutilised guarantee facility.

Syndicated debt facility

The Group has a $330,000,000 Sustainability Linked Syndicated Financing Agreement ("SLSFA"). The SLSFA has an accordion feature ("Accordion") which allows for the facility limit to be increased (subject to lender consent and approval) by an additional $170,000,000.

Of the total debt facility available, 50% will mature in March 2025 and 50% in March 2026.

Under the SLSFA, the Group will be eligible for an interest rate margin reduction of up to five basis points per annum dependent on the level of achievement of sustainability targets embedded in the agreement. A lower level of achievement may result in a similar sized increase in margins. These targets include:

- improving resident engagement and satisfaction
- supporting employee well-being
- reducing greenhouse gas emissions
- property portfolio energy efficiency

The Group's performance against these targets during the prior year, which was independently reviewed, resulted in an interest rate margin reduction of three basis points per annum over the current financial year (2022: nil).

Bank guarantee facility

In addition, the Group has a separate additional Guarantee Facility ("Guarantee Facility") with Westpac Banking Corporation for the issuance of bank guarantees up to the value of $15,100,000. Note E2 on page 109 contains further details in relation to the amount of utilised bank guarantees.

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 de-recognised as well as through the EIR amortisation process. Amortised cost is calculated by considering 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

	2023 $'000	2022 $'000
Issued and fully paid		
Ordinary shares[1]	796,473	795,748
Total share capital	**796,473**	**795,748**

(a) Movements in ordinary shares on issue

	2023		2022	
	Numbers of shares	$'000	Numbers of shares	$'000
Beginning of the financial year	257,802,471	795,748	261,294,969	803,459
Vesting of employee performance rights	558,563	674	146,673	244
Shares repurchased and incremental costs	-	-	(3,639,171)	(7,956)
Movement in management equity plan	-	51	-	1
End of the financial year	**258,361,034**	**796,473**	**257,802,471**	**795,748**

1. Ordinary shares have no par value per share.

(b) Share-based payments reserve

The share-based payments reserve arises from performance rights granted to certain employees, including key management personnel, as part of their remuneration. Upon vesting, the rights are equity settled by the issuance of ordinary shares in Estia Health Ltd. Further information about share based payments is set out in Note D4.

(c) Franking credits

The franking credit balance of Estia Health Limited as at 30 June 2023 is $13,965,000 (2022: $26,162,000).

(d) Dividends paid and proposed

On 23 August 2022, the Directors determined not to declare a final dividend for the year end 30 June 2022.

On 21 February 2023, the Directors declared a fully franked interim dividend for the six months ended 31 December 2022 of 3.7 cents per share totalling $9,560,000 (December 2021: $6,124,000).

On 22 August 2023, the Directors declared a fully franked final dividend for the year ended 30 June 2023 of 12 cents per share totalling $31,003,000. The record date for the dividend will be 28 August 2023, with payment being made on 15 September 2023. Shares will trade excluding entitlement to the dividend on 25 August 2023.

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

D4
SHARE-BASED PAYMENTS

At 30 June 2023, the Group had the following share-based payments arrangements:

(a) Long-Term Incentive Plan ("LTIP")

Under the LTIP, awards are made to executives who are in a position to make a significant contribution to the Group's financial and operational performance. LTIP awards are delivered in the form of performance rights entitling the holder to shares in Estia Health Ltd which vest following a period of three years subject to meeting performance measures.

Details of performance rights granted prior to 1 July 2022 are disclosed in the relevant annual reports.

The FY23 LTI award is subject to the following performance conditions:

- 50% of the performance rights will vest subject to Estia Health Ltd shares achieving a Total Shareholder Return ("TSR") hurdle, measured over a three-year period compared to a comparator group comprising the ASX300 Index excluding mining and energy companies
- 50% of the performance rights will vest subject to achieving an Earnings Per Share hurdle in the year ending 30 June 2025.

The Group granted a total of 1,148,067 rights (2022: 1,009,506) during the year.

(b) Short-Term Incentive Plan (STIP)

Under the STIP, awards are made to key managers and executives who are in a position to make a significant contribution to the Group's financial and operational 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 performance rights to vest.

The STIP performance criteria represent a combination of Group-wide financial and operational targets and other role specific measures. Other role specific measures may include Lost Time injury Frequency Rate reduction targets, organisational culture measures, key project deliverables, and improvements in connection with clinical governance and risk management process.

89,375 performance rights were granted under the STIP during the year (2022: nil).

(c) Retention Plan (RP)

No further performance rights were granted under the retention plan during the years ended 30 June 2022 and 30 June 2023. 558,563 retention performance rights issued in prior years vested during the year ended 30 June 2023 (2022: 146,673).

Details of performance rights granted prior to 1 July 2022 under the retention plan are disclosed in the relevant annual reports.

(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:

	Number of MEP shares	Total amount subscribed $'000	% of MEP shares funded through MEP loans	Interest rate on MEP loan
30 June 2023	25,000	50	100%	4.52%
30 June 2022	50,000	100	100%	4.52%

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

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

D4
SHARE-BASED PAYMENTS (CONTINUED)

(e) Movements during the year

The following tables illustrate the number and movements in performance rights, which does not have an exercise price (2022: nil), during the year:

	2023	2022
Performance rights only	Numbers of rights	Numbers of rights
Outstanding as at 1 July	3,079,553	3,220,383
Granted during the year	1,237,442	1,009,506
Forfeited during the year	(357,289)	(1,003,663)
Exercised during the year	(558,563)	(146,673)
Exercisable as at 30 June	**3,401,143**	**3,079,553**

The weighted average fair value of performance rights granted during the year was $1.33 (2022: $1.34). The weighted average share price at the exercise dates for the performance rights exercised during the year was $2.13 (2022: $2.44).

(f) Expense recognised in profit or loss

The share-based payments expense recognised for employee services received during the year is shown in the following table:

	2023 $'000	2022 $'000
Long-term incentive plan expense	1,116	995
Short-term incentive plan expense	286	90
MEP expense	25	12
Share-based payments and MEP expense	**1,427**	**1,097**

SIGNIFICANT ACCOUNTING POLICY

The cost of equity-settled transactions is measured by reference to the fair value at the date at which the grant is made. The fair value is determined by an external valuer using the Binomial model for the EPS performance hurdles and the Monte Carlo simulation for the TSR performance hurdles, taking into account the terms and conditions on which underlying equity instruments were granted, historical and expected dividends, and the share price volatility of the Group relative to that of its competitors so as to predict the share performance.

That cost is recognised in employee benefits expense, together with a corresponding increase in equity (Share-based payments reserve), over the period in which the service and 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 movement in cumulative expense is recognised in employee benefit expense.

Service and non-market performance conditions are not taken into account when determining the fair value of awards at the date of grant, but the likelihood of the conditions being met is assessed as part of the best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the fair value at the date of grant. 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.

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

D4
SHARE-BASED PAYMENTS (CONTINUED)

SIGNIFICANT ACCOUNTING POLICY (CONTINUED)

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the fair value of the unmodified award at the grant date, provided the original vesting terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled any remaining element of the fair value of the award is expensed immediately through profit or loss.

To the extent that the outstanding performance rights are dilutive, the effect of which is reflected in the computation of diluted earnings per share.

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Recognition and measurement of fair value

Long-Term Incentive Plan (LTIP)

As the exercise price is NIL upon vesting, the fair value of the performance rights issued under the LTIP is determined 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.

Inputs to the models used for the valuation of the LTIPs:

	FY23 Plan	FY22 Plan	FY21 Plan
Share price at grant date	$2.03 and $2.17	$2.20 and $2.32	$1.29
Dividend yield	4.43% and 4.16%	4.0%	4.0%
Expected volatility[1]	37% and 38%	50%	47%
Risk free rate	3.3% and 3.4%	0.2% - 1.0%	0.8%
Fair value of right – TSR	$1.18 - $1.40	$0.60 - $0.70	$0.35 - $0.70
Fair value of right – EPS	$1.78 - $1.94	$1.98 - $2.07	N/A
Fair value of right – RP			$1.21

[1]Expected volatility is determined based on annualised historical daily volatility over the three year period to the valuation date, exclusive of any abnormal returns

Short-Term Incentive Plan

The fair value of the performance rights issued under the STIP is determined at grant date. The number of shares issued are determined by the volume weight average share price of the Group in the 10 trading days following the release of the Group's annual results. The performance rights are deferred for a 12 month period and are settled in the Group's equity if the participants remain 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 financial liabilities consist of interest-bearing loans and borrowings, trade and other payables, refundable accommodation deposits and lease liabilities which finance the Group's operations. The Group's financial assets include trade receivables, derivative financial instruments 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 2023 and 30 June 2022.

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 2023 and 30 June 2022. Furthermore, it is assumed that 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 2023 and 30 June 2022.

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 which are exposed to 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
	2023 %	2022 %	
Cash and liquid assets	0.5	0.6	Floating
Refundable accommodation deposits – departed residents	2.3	2.3	Floating
Derivative financial instruments	3.8 / 4.4	-	Pay fixed / receive floating
Bank loans	4.6	1.4	Floating

The Group seeks to reduce interest rate risk arising from the Group's operations and its sources of finance by entering into interest rate swap contracts (cash flow hedges) in which it agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount.

The details of debt and interest rate swap contracts are disclosed in Note D2 and Note C9 to the financial statements, respectively.

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 reasonably likely changes in interest rates on its cash, cash equivalents, loans and borrowings after the impact of hedge accounting, assuming all other variables remain constant, on Group's profit before tax and equity through the impact on floating rate financial instruments:

	Effect on profit before tax Higher / (Lower)		Effect on equity Higher / (Lower)	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
+ 100 basis points	262	(547)	563	(383)
- 100 basis points	(262)	547	(563)	383

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 72% (2022: 71%) of the revenue of the Group is obtained from Australian Government funding. This funding is maintained for providers as long as they continue to comply with Accreditation standards and other requirements per the Act.

Trade receivables

Customer credit risk is managed subject to an established Group policy, procedures and control relating to customer credit risk management.

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 receivables.

Generally, trade and other receivables are written off only once all reasonable avenues to recover the balances have been exhausted.

Other receivables are primarily due from the Australian Government. The Group does not believe that there is a material credit risk for these receivables.

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

D5
FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

The following table provides information about the expected credit losses for trade receivables, excluding the Australian Government balance of $3,333,000 as at 30 June 2023 (2022: $5,060,000):

	Expected credit loss rate %	Gross carrying amount $'000	Allowance for expected credit loss $'000
As at 30 June 2023			
Current (not past due)	5	1,796	94
<30 days past due	12	651	75
30-60 days past due	21	349	75
61-90 days past due	28	202	56
>90 days past due	82	851	701
Total	**26**	**3,849**	**1,001**

	Expected credit loss rate %	Gross carrying amount $'000	Allowance for expected credit loss $'000
As at 30 June 2022			
Current (not past due)	7	1,612	108
<30 days past due	21	412	85
30-60 days past due	28	239	68
61-90 days past due	42	132	56
>90 days past due	78	835	650
Total	**30**	**3,230**	**967**

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 regularly monitors its risk to a shortage of funds. The Group maintains a balance between continuity of funding and flexibility through its financing facilities which are available for potential acquisitions, capital investments and working capital requirements. The Group has evaluated the risk concentration relating to the refinancing of its debt and concluded it to be low as a result of the maturity profile further referenced as follows.

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
As at 30 June 2023					
Trade and other payables	1,147	54,152	-	-	55,299
Loans and borrowings (including future interest)	-	2,423	77,505	-	79,928
Refundable accommodation deposits and bonds	1,027,537	-	-	-	1,027,537
Other financial liabilities	596	-	-	-	596
Lease liabilities	-	5,458	20,626	51,316	77,400
Total	**1,029,280**	**62,033**	**98,131**	**51,316**	**1,240,760**
As at 30 June 2022					
Trade and other payables	1,172	50,963	-	-	52,135
Loans and borrowings (including future interest)	-	1,691	104,529	-	106,220
Refundable accommodation deposits and bonds	884,069	-	-	-	884,069
Other financial liabilities	466	-	-	-	466
Lease liabilities	-	5,497	20,193	55,788	81,478
Total	**885,707**	**58,151**	**124,722**	**55,788**	**1,124,368**

Capital management

The Group's capital management strategy focuses on maintaining a strong capital base to support its ongoing operations and growth initiatives, while ensuring prudent risk management and financial stability.

The primary objective of the Group's capital management strategy is to ensure that the Company maintains adequate capital resources to support its business activities, enhance shareholder value, and meet regulatory requirements. The policy aims to strike a balance between providing a competitive return to shareholders and maintaining financial flexibility.

The Group's capital management policy is subject to market conditions, regulatory changes, and the evolving needs of the business. As a result, capital management is regularly reviewed in light of prevailing circumstances.

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

D5
FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management (Continued)

Key Components of the Capital Management Policy.

Capital Structure Optimisation: The Group continuously evaluates its capital structure to ensure an optimal mix of debt and equity. This includes monitoring the Company's leverage ratios and maintaining a sustainable level of debt, taking into account interest costs, credit ratings, and financial covenants.

Risk Management: risks associated with its capital, such as interest rate risk, liquidity risk, and credit risk are actively identified, assessed, and managed. Risk mitigation strategies are implemented to safeguard the Company's financial position and ensure compliance with regulatory requirements.

Dividend Policy and Share Buybacks: the Group maintains a prudent dividend policy, considering various factors such as profitability, cash flows, capital requirements for growth, and the need to retain sufficient earnings to support ongoing operations and future investments. The Group may also include share buybacks as a component of its capital management policy, subject to market conditions, and regulatory approvals. Share buybacks can be utilised to return capital to shareholders and enhance shareholder value when deemed appropriate and in the best interests of the Company.

Capital Expenditure and Investment Allocation: the Group allocates capital resources towards strategic initiatives, including organic growth, acquisitions, and capital expenditure projects. Investments are assessed based on their potential for generating long-term value and alignment with the Company's strategic objectives.

Financial Planning and Forecasting: The Group engages in detailed financial planning and forecasting processes to assess its future capital requirements and assess future funding needs. Scenario analysis is conducted to evaluate the potential impact of adverse economic conditions or unforeseen events on the Company's capital position.

Compliance and Reporting: The Group adheres to relevant legal and regulatory requirements regarding capital management. The Company discloses its capital management practices and key financial ratios in its financial statements and periodic reports to provide transparency to stakeholders, including the Department of Health and Aged Care.

SECTION E: OTHER INFORMATION

This section includes information required to be disclosed under the Australian Accounting Standards and other pronouncements, that is not immediately related to the individual line items in the financial statements.

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 (d) provides the information about the MEP loans, which was a legacy plan that offered a 10 year limited recourse loan to subscribe for MEP shares to its participants including the former Managing Director and a number of senior employees of the Group.

The table below discloses the compensation recognised as an expense during the reporting period related to Key Management Personnel.

	2023 $'000	2022 $'000
Short-term employee benefits	3,005	2,963
Post-employment benefits	155	135
Share-based payments	1,061	820
Termination benefits	139	-
Total compensation of key management personnel	**4,360**	**3,918**

There were no other transactions and outstanding balances that have been entered into with related parties for the relevant financial year.

E2
COMMITMENTS AND CONTINGENCIES

Capital commitments

During the year, the Group entered into contracts relating to the development of aged care homes of which there were remaining capital commitments at 30 June 2023 of $24,495,000 (2022: $60,331,000).

The Group had also entered into contracts for the purchase of land for future development with a total value of $13,635,000. One of these contracts, for land at Findon in South Australia, settled for a sum of $5,355,000 on 5th July 2023 as referenced in Note E9 on page 113.

Bank guarantees

Bank guarantees totalling $15,100,000 (2022: $7,674,000) have been issued in relation to the Group's leased properties and Workcover arrangements, under the terms of the Facility disclosed in Note D2. As at the date of signing this report, the Directors are not aware of any situations that have arisen that would require bank guarantees to be presented or redeemed.

Grant opportunity to reimburse increased leave entitlements

The 2023 Federal Budget measures included $98,700,000 allocated to a future grant opportunity to provide one-off funding to assist residential aged care providers in meeting historical leave liabilities which were increased at 30 June 2023 because of the Fair Work Commission 15% increase in the Aged Care Award. The increase in the Group's leave provisions as a result of the Fair Work Commission 15% increase in the Aged Care Award was approximately $9,054,000 as explained in Note C7 on page 89. The Australian Government advised that the grant opportunity would reimburse a proportion of eligible employees' annual leave, personal leave and long service leave entitlements accrued at 30 June 2023. No details of this scheme have been released by the Government and therefore there can be no reasonable assurance of any amounts which may in future be available to the Group under the grant opportunity.

SECTION E: OTHER INFORMATION (CONTINUED)

E3
AUDITOR REMUNERATION

	2023 $'000	2022 $'000
Audit or review of the financial report	928	810
Tax compliance services	255	159
Fees for assurance services that are not required by legislation to be provided by the auditor	37	38
Total auditor remuneration	**1,220**	**1,007**

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

E4
CHANGES IN ACCOUNTING POLICY

Changes in accounting policy, disclosures, standards and interpretations

The accounting policies adopted in preparation of the Consolidated Financial Statements are consistent with those followed in the preparation of the Group's Consolidated Financial Statements for the year ended 30 June 2022, except for the adoption of amendments to standards effective as of 1 July 2022. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

New and Amended Accounting Standards and Interpretations

The amendments and interpretations apply for the first time in the current financial year do not have a significant impact on the financial statements of the Group.

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.

E5
SEGMENT REPORTING

For management reporting purposes, the Group has identified one reportable segment. Estia Health 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 ultimate parent entity of the Group is Estia Health Limited.

The Consolidated Financial Statements incorporate the assets, liabilities and results of Estia Health Limited and the following controlled entities, which are parties to the Deed of Cross Guarantee except for OC Health Ballarat Pty Limited.

		% Owned	
	Country of Incorporation	2023 %	2022 %
Estia Finance Pty Limited	Australia	100	100
Estia Investments Pty Limited	Australia	100	100
Estia Health Residential Aged Care Pty Limited	Australia	100	100
OC Health Ballarat Pty Limited[1]	Australia	100	-

[1] The entity's operations, assets and liabilities were transferred to Estia Investments Pty Limited immediately after the acquisition. The entity has since been dormant.

E7
PARENT ENTITY INFORMATION

	2023 $'000	2022 $'000
Information relating to Estia Health Limited		
Current assets	371,176	331,667
Non-current assets	570,398	570,398
Total assets	**941,574**	**902,065**
Current liabilities	11,930	-
Non-current liabilities	229,730	223,634
Total liabilities	**241,660**	**223,634**
Net assets	**699,914**	**678,431**
Issued capital	796,473	795,748
Reserves	4,234	3,483
Accumulated losses	(100,793)	(120,800)
Total shareholders' equity	**699,914**	**678,431**
Profit for the year	29,567	30,806
Total comprehensive profit for the year	**29,567**	**30,806**

Subsequent to the end of the financial year, a wholly owned subsidiary of the Company, Estia Finance Pty Limited, determined that a $11,100,000 dividend (2022: $4,075,000) from its FY23 profits be paid to the Company. As a result, the distributable profit of the Company for the period (including this dividend) is $40,667,000 (2022: $34,881,000).

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.

SECTION E: OTHER INFORMATION (CONTINUED)

E7
PARENT ENTITY INFORMATION (CONTINUED)

Deed of cross guarantee

Each party to the deed of cross guarantee, as identified in Note E6, guarantees the debts of the others. By entering into the deed, the subsidiaries are relieved from the requirements of preparation, audit and lodgement of a financial report and a directors' report under *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785*.

Together with Estia Health Limited, the entities represent a 'Closed Group' for the purposes of the ASIC instrument. 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 Health consolidated group.

E8
TREATMENT OF GST

Revenue, expenses and assets are recognised net of the amount of GST, except:

- when the GST incurred on a purchase of goods or services is not recoverable from the Australian Taxation Office, 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,
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the Australian Taxation Office 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.

SECTION E: OTHER INFORMATION (CONTINUED)

E9
SUBSEQUENT EVENTS

Government Grants

$1,940,000 of COVID-19 costs reimbursement claims recognised as receivable at 30 June 2023 were subsequently remitted as cash at the date of this report.

Proposed Acquisition of the Company by Bain Capital

On 7 August 2023, the Company advised the ASX that it had entered into a Scheme Implementation Agreement ("SIA") with Bain Capital for the acquisition of all of the issued shares in the Company by way of a Scheme of Arrangement ("Scheme"). The SIA was also provided to the ASX on 7 August 2023.

The Company's shareholders will be given the opportunity to vote on the Scheme at a meeting which is expected to be held in November 2023. If the Scheme is approved and implemented, shareholders will receive total cash consideration of $3.20 per share, less the cash amount of any dividends declared and paid after the date of entry into the SIA.

Royal Freemasons homes acquisition

The Group entered into a binding contract with Royal Freemasons to purchase two operational homes with a total of 264 operational places in Bendigo and Benalla in Victoria on 1 August 2023 for an estimated cash consideration of $17,300,000 which is expected to settle in October 2023.

South Australia land acquisition

On 5 July 2023, the Group completed the purchase of a block of land at Findon, SA, with an approved Development Application for a 120 bed residential aged care home from Premier Health Care for $5,355,000 cash consideration.

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.

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 2023 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 2023 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 Corporations (Wholly-owned Companies) Instrument 2016/785)*.

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 2023.

On behalf of the Board

Dr. Gary H Weiss AM

Chairman

Sydney

22 August 2023

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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 2023, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes 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 2023 and of its consolidated financial performance for the year ended on that date; and

b. Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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

Business Combinations

Why significant	How our audit addressed the key audit matter
During the year ended 30 June 2023, the Group undertook two acquisitions which were accounted for as business combinations under AASB 3 *Business Combinations*. On 1 December 2022, the Group finalised a purchase agreement with Premier Health Care to acquire four homes (two homes each in South Australia and Queensland) adding 409 resident places to its portfolio. Separate to the Premier Health Care acquisition, the Group entered into contractual agreements to acquire two additional development sites. The acquisition of the two additional sites was assessed to be a separate transaction from the Premier Health Care acquisition. On 1 May 2023, the Group finalised a purchase agreement with OC Health Pty Ltd to acquire one home (in Victoria) adding 120 resident places to its portfolio. The Group determined the fair value of properties, plant and equipment with the support of an independent external valuer. The Group disclosed in Note C9 to the consolidated financial report the method of assessing the nature of the transactions, including the significant underlying assumptions and the results of the assessment. Transaction costs associated with the business combinations were expensed in profit or loss. Business combinations were considered a key audit matter due to the quantum of related balances and the complexity of the accounting for these transactions, requiring the Group to exercise judgement in determining the fair value of acquired assets and liabilities and determining the goodwill.	Our audit procedures included the following: ▶ Obtained and assessed the underlying transaction agreements; ▶ Assessed that the contractual agreements to acquire the two development sites are independent to the Premier Health Care acquisition; ▶ Evaluated the Group's assessment that the transactions constituted business combinations in accordance with the requirements of AASB 3; ▶ Evaluated the Group's determination of the acquisition dates having regard to the date control of the homes was obtained; ▶ Agreed the gross purchase price and milestone payments included in the transaction agreements to bank statements; ▶ Performed audit procedures relating to the acquisition date balances including RAD/Bond balances and employee provisions; ▶ Obtained and evaluated the Group's calculation of the working capital adjustments and assessed whether these had been appropriately adjusted from net consideration transferred; ▶ Assessed the competence, capabilities and objectivity of the external valuer used by management; ▶ Involving our valuation specialists, we assessed the key assumptions underlying the fair value of properties, plant and equipment acquired; ▶ Assessed the appropriateness of transaction costs associated with the acquisitions being expensed in the year ended 30 June 2023; and ▶ Assessed the adequacy of the Group's disclosures in the financial statements.

Carrying Value of Goodwill

Why significant	How our audit addressed the key audit matter
At 30 June 2023 the Group's goodwill balance was $718 million which represents 40% of total assets. The Group reviews the carrying amount of goodwill annually, or more frequently, if impairment indicators are present. The group of cash generating units (CGUs) to which goodwill can be allocated is consistent with the operating segment as identified and disclosed in Note E5 which is the whole Group. The Group 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 2023 and are developed on an underlying assumption that adequate Government funding will continue to be provided to cover the rising costs of providing aged care services. Carrying value of goodwill was considered a key audit matter due to the quantum of the balance and significant judgement involved in determining future cashflows. The Group has disclosed in Note C4 to the consolidated financial report the assessment method, including the significant underlying assumptions and the results of the assessment.	We assessed the appropriateness of the allocation of goodwill to the group of CGUs and composition of its carrying amount. Involving our valuation specialists, we assessed the key assumptions underlying the discounted cash flow model. In doing so, we: ▶ Tested the mathematical accuracy of the discounted cash flow model; ▶ Assessed key assumptions adopted in the Board-approved forecast cash flows, including working capital levels, cash flows related to refundable accommodation deposits, neutral net effect of legislation changes, and climate related risks; ▶ Assessed the impact of conditions existing and emerging at 30 June 2023 on the 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 appropriateness of the discount rate including comparing the weighted average cost of capital of the Group with comparable businesses; ▶ 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 assessed the likelihood of these changes in assumptions arising; and ▶ 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.

Building a better
working world

Construction in Progress

Why significant	How our audit addressed the key audit matter
Costs of $46 million were incurred during the year that were capitalised to Construction in Progress. This primarily represents costs of development projects. In determining whether costs incurred are capitalised as Construction in Progress, the Group applies 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, the Group continued to reassess whether ongoing projects remained feasible and therefore, likely to be completed. This resulted in assessments of the recoverability of costs already incurred and capitalised including determining whether future economic benefits continue to be expected from the projects. This assessment required additional judgement and the use of assumptions which are affected by future market conditions or economic developments. Costs are transferred to relevant asset categories when management assesses that the asset is available for use. Depreciation charges are then recognised 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 whether future economic benefits continue to be expected from the projects under development. The Group has disclosed the capitalisation policy in Note C3 to the consolidated financial report.	Our audit procedures included the following: ▶ Agreed a sample of additions to supporting evidence and assessed the nature of amounts capitalised; ▶ For projects in the development phase, we evaluated key assumptions applied and estimates made for amounts capitalised ▶ Assessed whether costs were transferred to appropriate asset categories when available 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 for development projects by taking into account the approved business case and costs incurred to date compared to budgets and forecasts. We also made enquiries of executives responsible for management of the projects; ▶ 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; and ▶ Assessed the adequacy of the Group's disclosures regarding the timing of the transfer of costs to relevant asset categories and the deprecation rates applied to each asset category.

Building a better working world

Revenue and Government Grants

Why significant	How our audit addressed the key audit matter
Revenue is generated primarily through two sources, being resident billings and Government subsidies. Both sources are subject to legislation, detailing the rates and charges that the Group receives for each resident. Government subsidies received from Services Australia vary depending on a number of factors, including the resident's financial means and level of care. Income derived from resident billings is recognised as billed within the relevant month. The Group raises a Government revenue accrual at year-end to recognise any differences between the monies received in advance from Services Australia 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. The Group has applied for and recognised Government grant income to recover incremental costs associated with COVID-19 outbreaks in homes. Government grant income amounted to $51 million for the year ended 30 June 2023. The Group recognised Government grant income for claims for which approval has been received and for claims which have been submitted and for which there is reasonable assurance of the grant conditions being met and the amounts being received. Revenue and Government grants were considered key audit matters given the effect of strict legislation, adjustment in rates by Government from time to time, the volume of transactions with residents and Government, and significant judgement applied in assessing reasonable assurance for the recognition of government grants. The Group's revenue recognition and disaggregation policies have been disclosed in Note B1 to the consolidated financial report. Government grants are disclosed in Note B2 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. Our audit procedures included the following: ▶ Agreed a sample of the Group's Government revenue to Medicare Payment Statements, subsequent receipt in the bank statements and associated journal entries; ▶ Tested a sample of the monthly reviews performed by the Group to assess the accuracy of the Government revenue recorded in the Epicor system and Medicare Payment Statements; ▶ Tested the accuracy of updates to a sample of the residents' daily care and accommodation fees; ▶ Tested the accuracy of updates to a sample of residents' additional services fees, assessing the appropriateness of approval, and whether the updated billing rate was correctly reflected in the Epicor System; ▶ On a sample basis, with the assistance of our Digital Assurance specialists, tested that discharged residents were appropriately removed from the billing process within the Epicor System; ▶ Evaluated the operating effectiveness of Information Technology general and application controls relating to the revenue process within the Epicor System. ▶ Assessed the accuracy of the Group's revenue accrual by comparing the accrual to the Government subsidies received in July 2023; ▶ Performed sensitivity analysis of the revenue accrual calculation by considering the difference between the default rate and the average AN-ACC rates for residents with existing AN-ACC class assessments; ▶ Applying data driven analysis, completed a three-way correlation of revenue to receivable to cash. We also performed testing on cash entries that settled receivables by tracing a sample of settlements through to bank statements; and ▶ Recalculated the imputed DAP revenue on RAD and bond balances. We performed the following audit procedures in relation to Government grant income: ▶ Assessed management's position that there is reasonable assurance that grant conditions have been met and the grant monies will be received,

Why significant	How our audit addressed the key audit matter
	including considering the evidence available to support there being sufficient Government funding available to reimburse the grant applications submitted for the year ended 30 June 2023; ▸ Agreed the amounts recognised to respective approval letters for a sample of approved claims and to bank statements; and ▸ Inspected the underlying support for a sample of claims to check whether the claims meet the eligibility criteria under the grant schemes. We also assessed the appropriateness of the financial statement disclosures in relation to the Group's revenue and Government grant income.

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 Group's 2023 annual report but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do 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, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

- 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.

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

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages **33** to **47** of the Directors' Report for the year ended 30 June 2023.

In our opinion, the Remuneration Report of Estia Health Limited for the year ended 30 June 2023, 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
22 August 2023