Estia Health Limited

ABN 37 160 986 201

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017

Estia Health Limited

ABN 37 160 986 201

Contents to financial report

CORPORATE INFORMATION

ABN 37 160 986 201

Directors
Dr. Gary Weiss (Chairman)
Norah Barlow ONZM (Managing Director and CEO)
Andrew Harrison (Audit Committee Chair)
Paul Foster (Nomination and Remuneration Committee Chair)
Patrick Grier AM
Hon. Warwick Smith AM — Appointed 4 May 2017
Helen Kurincic (Risk Management Committee Chair) — Appointed 1 July 2017

Company Secretary
Suzy Watson

Registered office
357 Camberwell Road
Camberwell VIC 3124

Principal place of business
357 Camberwell Road
Camberwell VIC 3124

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

Bankers
Westpac Banking Corporation
275 Kent Street
Sydney NSW 2000

Auditors
Ernst & Young
8 Exhibition Street
Melbourne VIC 3000

DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2017.

Directors

The names and details of the Group's directors in office during the financial year and until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

Dr. Gary Weiss (Chairman)

Gary was appointed as an independent non-Executive Director in February 2016. Gary 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.

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

Gary is Chairman of Ridley Corporation Ltd, executive director of Ariadne Australia Ltd, and a director of several public companies including Premier Investments Limited and The Straits Trading Company Ltd. Gary was recently appointed as a Commissioner of the Australian Rugby League Commission. He is also a director of the Victor Chang Cardiac Research Institute. He was Chairman of Clearview Wealth Ltd from 2013 to May 2016, executive director of Guinness Peat Group plc from 1990 to April 2011 and has held directorships of numerous companies, including Coats Group plc (Chairman), Westfield Group, Tower Australia Ltd, Australian Wealth Management Limited, Tyndall Australia Ltd (Deputy Chairman), Joe White Maltings Ltd (Chairman), CIC Ltd, Whitlam Turnbull & Co Ltd and Industrial Equity Ltd. Gary has authored numerous articles on a variety of legal and commercial topics.

Norah Barlow (Managing Director) ONZM

Norah was appointed to the Board in November 2014 as an independent non-executive director.

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

Norah is amongst Australasia's most experienced and respected executives and directors, with an in-depth knowledge of the aged and health care sector. A Director with Estia Health since November 2014, Norah was appointed Acting CEO from September 2016, and appointed permanently to the roles of Managing Director and CEO in November 2016. She also holds extensive experience as the highly-respected former CEO and former Director of Summerset Group, a NZX and ASX-listed company named Australasia's best retirement village operator four years running.

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

Andrew Harrison (Audit Committee Chair)

Andrew was appointed to the Board in November 2014 as an independent non-executive director.

Andrew holds a Bachelor of Economics from the University of Sydney and a Master of Business Administration from the Wharton School at the University of Pennsylvania, and is a Chartered Accountant.

Andrew is an experienced company Director and corporate adviser. He is currently a non-executive Director of Bapcor Limited, WiseTech Global Limited, IVE Group Limited and Xenith IP Limited. He has previously held executive and non-executive directorships with public, private and private equity owned companies, including as CFO of Seven Group Holdings, Group Finance Director of Landis + Gyr. and CFO and Director of Alesco.

Andrew was previously a Senior Manager at Ernst & Young (Sydney and London) and Gresham Partners Limited, and an Associate at Chase Manhattan Bank (New York).

Paul Foster (Nomination and Remuneration Committee Chair)

Paul was appointed as an independent non-executive director in February 2016.

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

Paul is an experienced financial services professional and company director, with more than 20 years of investment experience in the infrastructure, private equity and real estate asset classes, including substantial investments in the healthcare sector. Until May 2015 Paul was head of AMP Capital's Infrastructure investment business in Australia and New Zealand, where he was responsible for the management of $4.5 billion of infrastructure investments on behalf of Australian and global superannuation funds and investors. In this role and amongst investments spanning the aged care, transport, timberland and social infrastructure sectors Paul was responsible for the investment that created the second largest for profit aged care business in Australia. Paul was a Director of the Opal Aged Care Group (formerly Domain Principal Group) between 2010 and 2015 and was Chairman of the group in 2011. Prior to AMP Capital Paul was an investment professional at Macquarie Bank and Perpetual Investments.

Patrick Grier AM

Patrick was appointed to the board in November 2014 as Chairman and independent non-executive director. Patrick resigned as Chairman on 31 December 2016 and still serves as a non-executive director.

Patrick holds a Bachelor of Science and a Diploma in Education from Cape Town University.

Patrick was MD and CEO of Ramsay Health Care Limited for 14 years. Under his leadership, Patrick grew the Ramsay group from 7 hospitals to an ASX listed organisation operating over 100 hospitals in Australia and overseas, with an annual turnover of almost $3 billion and employing 25,000 people. He remains on the Board of Ramsay as a non-executive Director. Prior to this role, he was with Hospital Corporation Australia. Patrick also served as both President and Chairman of the Australian Private Hospitals Association for over 10 years. In 2010, he was awarded the Order of Australia for his leadership and contribution to the Australian health care sector. Patrick was previously the Chairman of the Opal Aged Care group and Chairman of the Australian Healthcare Workforce Institute. Patrick is a member of the Skin Cancer Network Advisory Board.

Hon. Warwick Smith AM

Warwick was appointed to the Board on 4 May 2017.

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

Warwick has extensive public policy and corporate experience. He is Senior Managing Director and Chairman, New South Wales and Australian Capital Territory, Australia and New Zealand Banking Group Limited (ANZ Bank); Board Director of ANZ Bank Greater China and Chairman of the Board ANZ Bank Thailand and former Chairman of E*TRADE Ltd.

In addition, he is Chairman, Advisory Board of Australian Capital Equity; a Director of Seven Group Holdings Limited and Coates Hire Limited. He was also an Executive Director at Macquarie Bank Limited for 10 years.

Warwick held many portfolios as a Federal Government Minister, including Family Services and Aged Care, during his parliamentary career spanning fifteen years. Warwick was Australia's first Telecommunications Ombudsman.

Helen Kurincic (Risk Management Committee Chair)

Helen was appointed to the Board on 1 July 2017.

Helen has extensive executive and non-executive experience across the healthcare sector. Helen is Chairman of Integral Diagnostics Ltd and a non-executive director of HBF Health Ltd. Helen was previously the Chief Operating Officer and Director of Genesis Care for 7 years from early inception in 2007, creating Australia's largest radiation oncology and cardiology service business. Previous roles also include Non-Executive Director of DCA Group Ltd which included residential aged care in Australia and New Zealand; Non-Executive Director of AMP Capital Investor's aged care business Domain Principal Group, CEO and Executive Director of residential aged care provider Benetas and board member of Melbourne Health and Orygen Research Centre. Helen has also been actively involved in healthcare Government policy reform across various areas of the healthcare sector.

Peter Arvanitis

Peter was the founding director and former CEO of Estia and has been a non-independent non-executive director since 1 September 2014.

Peter resigned from the Board on 31 August 2016.

Marcus Darville

Marcus was appointed as a non-independent non-executive director in July 2015.

Marcus also served as a director of Isentia Group Limited between 14 January 2014 and 9 May 2014, Virtus Health Limited between 11 February 2008 and 7 October 2014, and Summerset Group Holdings Limited between 17 April 2009 and 21 October 2013.

Marcus resigned from the Board on 30 September 2016.

Jonathon Pearce (Alternate)

Jonathon was appointed to the Board in March 2016 as an alternate director.

Jonathon joined Quadrant Private Equity in January 2012 as an Investment Director. Prior to this Jonathon was a Director of PricewaterhouseCoopers, where he was responsible for advising on private equity and corporate mergers and acquisitions across Europe, the US and Asia. Jonathon holds a Bachelor of Commerce and is a Chartered Accountant.

Jonathon resigned from the Board on 30 September 2016.

DIRECTORS' REPORT

Paul Gregersen

Paul joined Estia on 1 August 2014 as Chief Executive Officer and was then appointed as a Managing Director on 17 November 2014.

Paul holds a Bachelor in Engineering from the University of Wales, a Master in Business Administration from the University of Bradford and is also a graduate of the Wharton Business School's Advanced Management Programme.

Paul resigned as Managing Director and CEO on 16 September 2016.

Company Secretary

Suzy Watson

Suzy was appointed as Company Secretary and General Counsel in December 2014.

Suzy was previously in-house counsel at BUPA in both Sydney and the UK. She holds a B.A Hons (Law and Government), an LLM in International Economic Law (Distinction) and is studying for an LLM (Applied Law) in In-House Practice. Suzy is a qualified Solicitor in England and Wales and in Australia, a member of the Law Society of Victoria, a member of the Australian Corporate Lawyers Association and a member of the Governance Institute of Australia.

Suzy was awarded the 2016 Leonard Watson Chant Legacy postgraduate governance scholarship (to study Graduate Diploma of Applied Corporate Governance, Governance Institute of Australia), National Industry Scholarship for Women in Leadership (for participation in the Accelerated Leadership Performance Program) and will shortly commence the Women in MBA Scholarship at Macquarie University Graduate School of Management.

Dividends

On 23 August 2017, the Directors resolved to pay a final fully franked dividend of 8.0 cents per share ($20,848,220) bringing dividends per share for the financial year ended 30 June 2017 to 8.0 cents per share. The record date for the final dividend will be 8 September 2017, with payment being made on 29 September 2017. Shares will trade excluding entitlement to the dividend on 7 September 2017.

Dividends paid during the year were as follows:

Dividend	Date paid	Fully franked dividend per share	Total Dividend
Final dividend for the year ended 30 June 2016	7 November 2016	12.8 cents	$24,087,542

Principal activities

The principal activities of the Estia Health Group during the year ended 30 June 2017 included the operating and developing of owned and leased residential aged care homes throughout Australia.

Operating and financial review

Following the appointment of Norah Barlow as MD and CEO in November 2016, in the face of declining occupancy and financial metrics, the Group undertook a full strategic and operational review. This review led to a range of initiatives resulting in:

- a new leadership team and structure;
- new business monitoring and reporting processes and metrics;
- dedicated occupancy optimisation strategies and team;
- financial position strengthening through a $136,821,502 capital raise;
- non-wage cost reduction; and
- revenue improvement strategies to offset projected reductions on government subsidies.

The results of this wide-ranging review resulted in improving financial performance in the latter part of the second half year with improvement across key financial metrics. Aligned with the strengthened financial position with lower debt levels, this improvement has put the Group in a solid position to continue to optimise the performance of its homes and portfolio of assets.

The Group's summary financial results for the year ended 30 June 2017 are shown below:

	2017 $'000	2016 $'000
Revenue	524,630	442,821
Other income	1,037	3,689
Total revenue	525,667	446,510
Total expenses	456,990	392,723
Operating profit for the year	**68,677**	**53,787**
Net profit after tax	**40,698**	**27,640**
Reconciliation of operating profit for the year to EBITDA*		
Operating profit for the year	**68,677**	**53,787**
Depreciation, amortisation and impairment expense	18,860	12,831
	87,537	**66,618**
FY16 Acquisition related costs	-	24,230
FY16 Other one-off costs	-	1,900
	87,537	**92,748**
Profit on sale of non-current assets	(1,037)	(889)
FY16 Gain on bargain purchase	-	(2,800)
EBITDA*	**86,500**	**89,059**

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

DIRECTORS' REPORT

Review of financial position

Estia's principal funding sources were:

- cash flow from operations;
- net Refundable Accommodation Deposits (RADs);
- bank debt; and
- the $136,821,502 capital raise.

At 30 June 2017, the Group had a total bank facilities of $330,000,000 with an expiry date of 10 December 2018, of which $121,500,000 were drawn at 30 June 2017. These facilities were subsequently renewed in full with its existing lenders, Westpac and CBA, for a 3 year period from 22 August 2017 providing greater funding security and borrowing capacity of the Group.

Cash flow

The Group produced strong operating cash flows in the year with $98,082,000 generated from the provision of services to residents, and a further $80,112,000 from net RAD inflows. The latter was generated through higher occupancy rates and the replacement of RADs, as new residents move in to a home at a higher price than the refunded RAD.

Acquisitions

There were no new acquisitions undertaken during the year. A total of $86,364,000 was paid as deferred consideration during the year with respect to prior period acquisition of which, $86,000,000 related to the acquisition of the Kennedy Group. There are no remaining deferred consideration obligations at 30 June 2017.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of our company during the financial year ended 30 June 2017.

Significant events after the balance date

Subsequent to 30 June 2017, the Group has repaid a total of $30,000,000 of bank debt.

The Group renewed its $330,000,000 debt facility with its existing bankers Westpac and CBA in full with a maturity date of 22 August 2020.

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

Likely developments and expected results

Following a detailed strategic and operational review of the business during the year, the Group paused large-scale acquisitions for the immediate term and determined to focus on maximising the value of the Group's existing assets through a range of operational improvements, development-led growth opportunities, and significant refurbishment opportunities that exist within the business. The Group will carefully consider future smaller bolt-on acquisition opportunities within existing geographic networks, should they arise, which meet the Group's investment criteria.

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

Environmental regulation and performance

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

Indemnification and insurance of directors and officers

The Group has agreed to indemnify all the directors and executive officers for any breach of environmental or discrimination laws by the Group for which they may be held personally liable. The agreement provides for the Group to pay an amount provided that:

(a) The liability does not arise out of conduct involving a lack of good faith; and

(b) The liability is for costs and expenses incurred by the director or officer in defending proceedings in which judgement is given in their favour or in which they are acquitted.

During or since the financial year, the Group has paid premiums in respect of a contract insuring all the directors of Estia Health Limited against legal costs incurred in defending proceedings for conduct other than:

(a) A wilful breach of duty; or

(b) A contravention of sections 182 or 183 of the *Corporations Act 2001*, as permitted by section 199B of the *Corporations Act 2001.*

The total amount of insurance contract premiums paid was $474,755.

DIRECTORS' REPORT

Indemnification of auditors

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

Non-audit services

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

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

	$
Tax compliance services	176,000
Assurance related services	286,000
	462,000

Rounding

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

Committee membership

During the financial year, the Group had an Audit and Risk Committee comprising of Andrew Harrison (Chair), Gary Weiss and Patrick Grier and a Nomination and Remuneration Committee comprising of Paul Foster (Chair), Patrick Grier and Gary Weiss. Following the appointment of Warwick Smith and Helen Kurincic on 4 May 2017 and 1 July 2017 respectively, the Committee structure was realigned and a new Risk Management Committee was formed, of which Helen Kurincic was appointed as Chair.

Directors' meetings

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

	Directors' meetings		Nomination and remuneration committee		Audit and risk committee	
No. of meetings held:	11		3		4	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Norah Barlow	11	11	-	-	-	-
Gary Weiss	11	11	3	3	4	4
Andrew Harrison	11	11	-	-	4	4
Paul Foster	11	11	3	3	-	-
Patrick Grier	11	9	3	3	4	3
Warwick Smith^	2	2	-	-	-	-
Paul Gregersen	1	1	-	-	-	-
Peter Arvanitis	1	1	-	-	-	-
Marcus Darville	2	1	-	-	-	-
Jonathon Pearce	2	1	-	-	-	-

^ Warwick Smith joined the board on 4 May 2017.

This report is made on 24 August 2017 in accordance with a resolution of Directors.

Dr. Gary Weiss
Chairman

DIRECTORS' REPORT

Remuneration report – audited

Dear shareholders,

The Estia Board is pleased to present the Remuneration Report for the year ended 30 June 2017 (FY17).

Strategic and Operational Developments

Senior management undertook a detailed strategic and operational review of the company during FY17 which identified a range of operational improvements, development-led growth opportunities, and significant refurbishment opportunities that exist within the business.

Estia also paused large-scale acquisitions for the immediate term and determined to focus on maximising the value of the company's existing assets and consider smaller bolt-on acquisition opportunities within existing geographic networks, should they arise.

A number of key initiatives have been implemented, or are in the process of being implemented, as a result of the review to ensure Estia continues to provide quality services to its residents, and maximises returns to shareholders. These include:

1. Regeneration of the leadership and management structure, including the appointment of a new CEO, CFO, COO and Chairman during the year, as well as the appointment of new Non-Executive Directors (NEDs), further strengthening Estia's leadership team as it positions the company for future growth;
2. An enhanced operational structure to provide greater role clarity and accountability throughout the company;
3. A review of Estia's asset portfolio which has resulted in the divestment of a small number of non-core assets, and a recommitment to organic growth through the development of Estia's highly attractive greenfield and brownfield development pipeline, and execution of significant refurbishment opportunities within the existing portfolio; and
4. Creating flexibility within the company's capital structure to pursue these attractive opportunities as a result of a significant reduction in net debt from $223,690,000 at 30 June 2016 to $102,299,000 at 30 June 2017.

These initiatives provide the foundations to further build on what is already a well-performing and profitable company and create the opportunity for Estia to provide leading quality care services to a greater number of Australians, at important times in their lives, over the coming years.

Changes to FY17 Remuneration

The Board made a number of important changes to Estia's remuneration framework in FY17 designed to enhance alignment of interest between the company's management, shareholders, and residents.

A resident care quality "gateway" was introduced to the FY17 Short-Term Incentive Plan (STIP) for Key Management Personnel (KMP). This gateway requires ongoing compliance and accreditation targets to be met, irrespective of performance relative to other prescribed STIP Key Performance Indicators (KPI's) for KMP to be eligible to receive an STIP award.

Care standards are the essence of Estia's value proposition to residents, the community, and ultimately its shareholders. We are pleased with the high standards we presently set and remain focused on maintaining industry-leading levels of resident care. The gateway reaffirms the criticality of compliance and accreditation to the business.

DIRECTORS' REPORT

Remuneration report – audited (continued)

Changes to FY17 Remuneration (continued)

In FY17 an Earnings Per Share (EPS) metric was added to the Long-Term Incentive Plan (LTIP), challenging management to increase profitability by growing earnings over the three-year period corresponding with the LTIP vesting timeframe. FY17 LTIP grants are measured against 70% Relative Total Shareholder Return (TSR) and 30% Earnings Per Share (EPS).

The composition of total remuneration opportunity for all executive KMPs was substantially realigned towards "at risk" variable remuneration during FY17. Furthermore, within this variable component the majority of remuneration opportunity is weighted towards LTIP rather than STIP, aligning the incentives of management with the experience of Estia's security holders. For the Managing Director (MD), 60% of total remuneration opportunity is at risk (40% LTIP, 20% STIP). This amount of "at risk" remuneration opportunity is 50% (35% LTIP, 15% STIP) of total remuneration for all other executive KMPs.

FY17 Remuneration Outcomes

The FY17 STIP did not vest due to EBITDA performance being below the threshold level required for vesting to commence. No vesting occurred under previous year's LTIP grants in FY17.

Looking Forward – Changes to FY18 Remuneration

From FY18 onwards, all executive KMP who are entitled to an STIP award will have 25% of the award delivered in performance rights over Estia shares, which will require the award recipients to remain employed with the Company for an additional 12 months for the performance rights to vest. This deferral mechanism already applies to the MD and enhances alignment of interest between Estia's executive KMPs and shareholders.

A new KPI scorecard against which the performance of Estia's executives will be measured for the purposes of STIP eligibility, has been introduced for FY18. In addition to broadening the range of financial measures against which performance is assessed, the KPI scorecard incorporates key non-financial metrics such as workplace safety as well as role specific measures.

The Board has not made any changes to the Base NED fees for FY18 but has introduced Chair and Member fees for each of Estia's Board subcommittees to reflect the extra workload and time commitment and align with ASX and peer group market practice. Total NED Board and Board subcommittee fees remain below the company's NED fee cap, which remains unchanged.

On behalf of the Board, I am pleased to present to you the FY17 Remuneration Report for Estia and we look forward to welcoming you at the 2017 AGM.

Yours sincerely

Paul Foster

Chair of the Nomination and Remuneration Committee

DIRECTORS' REPORT

Remuneration report – audited (continued)

This report for the year ended 30 June 2017 (FY17) outlines the remuneration arrangements of the Group in accordance with the requirements of the *Corporations Act 2001(Cth), as amended* (the Act) and its regulations. This information has been audited as required by section 308(3C) of the Act.

This report is presented under the following sections:

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

1. Introduction

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

The table below outlines the KMP of the Group during FY17. There were no other changes to KMP after the reporting date and before the date the financial report was authorised for issue.

For the purposes of this report, the term "executive" includes the executive directors and senior executives of the Group.

Non-executive directors (NEDs)[1]		
Gary Weiss	Non-Executive Chairman	Full year[2]
Andrew Harrison	Non-Executive Director	Full year
Patrick Grier	Non-Executive Director	Full year[3]
Paul Foster	Non-Executive Director	Full year
Hon. Warwick Smith AM	Non-Executive Director	Appointed 4 May 2017
Peter Arvanitis	Former Non-Executive Director	Resigned 31 August 2016
Norah Barlow	Former Non-Executive Director	Resigned 16 September 2016[4]
Marcus Darville	Former Non-Executive Director	Resigned 30 September 2016
Jonathon Pearce	Former Alternate Non-Executive Director	Resigned 30 September 2016

[1] Helen Kurincic was appointed as a Non-Executive Director on 1 July 2017

[2] Gary Weiss was appointed Chairman on 31 December 2016

[3] Patrick Grier retired from the position of Chairman on 31 December 2016

[4] Norah Barlow held the position as Non-Executive Director from December 2014 to September 2016. She was appointed as Acting CEO on 16 September 2016 and then appointed permanently as Managing Director and Chief Executive Officer in November 2016 with a commencement date of 17 January 2017.

Remuneration report – audited (continued)

Executive Director		
Norah Barlow	Managing Director and Chief Executive Officer (MD and CEO)	Appointed 16 September 2017[5]

Senior Executives		
Ian Thorley	Deputy Chief Executive Officer and Chief Operating Officer (Deputy CEO and COO)	Appointed 24 October 2016
Steve Lemlin	Chief Financial Officer (CFO)	Appointed 1 February 2017
Steve Boggiano	Chief Strategy Officer (CSO) Acting Chief Financial Officer (from 29 August 2016 to 1 February 2017)	Full year[6]
Paul Gregersen	Former Managing Director and Chief Executive Officer	Resigned 16 September 2016
Joe Genova	Former Chief Financial Officer	Resigned 29 August 2016[7]

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), Gary Weiss and Patrick Grier. Further information on the Committee's role, responsibilities and membership, which is reviewed annually by the Board, can be viewed at *http://www.estiahealth.com.au/investor-centre/corporate-governance*.

The Committee met three times in FY17. The MD and CEO attends certain Committee meetings by invitation, where management input is required. The MD and CEO is not present during any discussions related to their own remuneration arrangements.

[5] Norah Barlow held the position as Non-Executive Director from December 2014 to September 2016. She was appointed as Acting CEO on 16 September 2016 and then appointed permanently as Managing Director and Chief Executive Officer in November 2016 with a commencement date of 17 January 2017.
[6] Steve Boggiano's employment with the company ceased on 13 July 2017.
[7] Joe Genova changed roles from Chief Financial Officer to Commercial Director on 29 August 2016 and was no longer considered as a KMP from the date of the change. Joe held the role as Commercial Director until his resignation from the Company on 8 October 2016.

Remuneration report – audited (continued)

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 2017, the Nomination and Remuneration Committee engaged KPMG to provide the following to assist the Board in its decision making:

- Information in relation to market practice on various design elements of the short term incentive (STI) and long term incentive (LTI) plans;
- Benchmarking data for Executive and Non-Executive Director remuneration;
- Assistance with stakeholder communication documents including remuneration report, employee communications, etc.; and
- Advice on tax and accounting implications of the remuneration framework.

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

3. Company performance

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

	30 June 2017	30 June 2016	30 June 2015
Revenue - $'000	$524,630	$442,821	$284,798
Net profit after tax - $'000	$40,698	$27,640	($22,523)
EBITDA - $'000	$86,500	$62,929	$30,900
Share price at start of the year	$4.37	$5.70	$5.75*
Share price at the end of the year	$3.05	$4.36	$5.68
Dividends paid per share – cents	8.0	25.6	13.6
Basic earnings per share – cents	18.2	15.1	(16.3)
Diluted earnings per share – cents	18.0	15.1	(16.3)

**share price at date of listing*

DIRECTORS' REPORT

Remuneration report – audited (continued)

4. Remuneration principles and strategy

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

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

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

5. Executive remuneration

5.1 Remuneration Framework and link to strategy

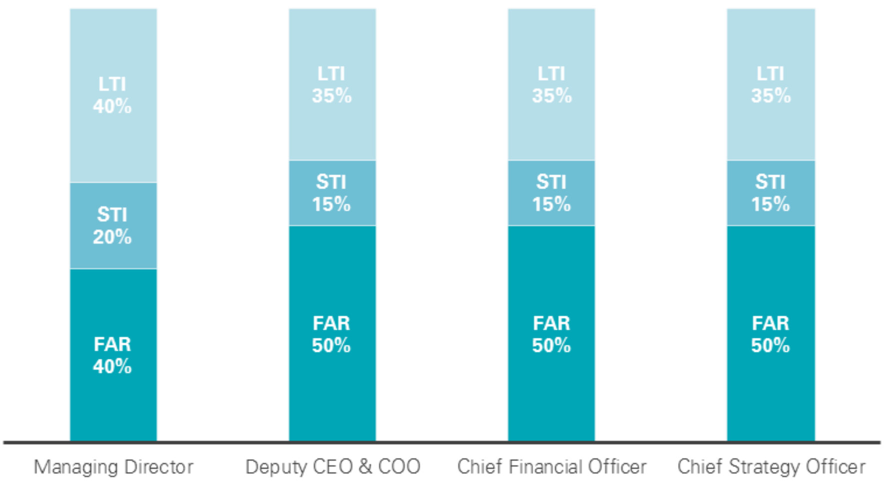
In FY17, the executive remuneration framework comprised a mix of fixed annual remuneration, and short and long-term performance-linked incentive plans. The Group aims to reward executives with a level and mix of remuneration appropriate to their position and responsibilities, while being market competitive.

Component	Conditions	Link to business and remuneration strategy
Fixed Annual Remuneration (FAR)	FAR is set with reference to role, market and experience of the employee with reference to external benchmarking data, particularly looking at competition in the same sector, both public and private. Group and individual performance are considered during the annual remuneration review.	Competitive remuneration packages that attract and retain high calibre employees from a diverse pool of talent.
Short-Term Incentive Plan (STIP)	In FY17, 100% of the STIP was measured against Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) over a 12 month period. A resident quality gateway hurdle was also used which required ongoing compliance and accreditation targets to be met in order for any of the STIP to be eligible to vest. The STI award is delivered in cash. For the CEO & MD, 25% of any payment is deferred for a period of 12 months in the form of equity. This deferral mechanism will be extended to all Senior Executives within the KMP from FY18 onwards. In FY18, a new STI scorecard will be introduced which assesses all	Short term incentives align the interests of executives with achievement of business strategic objectives over the short to medium term. The scorecard used highlights Estia's focus on achieving key financial targets, while also continuing to deliver quality care. EBITDA was selected by the Board as the core measure in FY17 as it effectively aligns rewards for senior executives with the Group's immediate priority of maximising operational and financial performance whilst maintaining strategic focus upon delivering strong earnings throughout the business cycle. Deferral into equity for the MD & CEO increases alignment with shareholder interests.

Remuneration report – audited (continued)

Component	Conditions	Link to business and remuneration strategy
	participants on performance against EBITDA, NPAT and Lost Time Injury Frequency Rate (LTIFR) targets, as well as other role specific measures. The compliance and accreditation gateway will continue to apply.	
Long-Term Incentive Plan (LTIP)	The LTIP is delivered in the form of performance rights subject to the following performance conditions, measured over a three year period: • Total shareholder return (TSR) performance relative to the ASX200 excluding mining and energy companies (70%); and • Earnings Per Share (EPS) (30%). These measures will continue to apply in FY18.	The LTIP is designed to drive sustainable value creation for shareholders; encourage retention and encourage a multi-year performance focus. Relative TSR focuses executives on generating returns for shareholders. Profitable growth is a key measure of success against our strategy. The introduction of EPS in FY17 challenges management to increase profitability by growing earnings over a long term horizon. The LTIP is delivered in equity which aligns the interests of executive with achievement of increased shareholder wealth over the long-term.
Total remuneration	The overall remuneration framework is designed to support and drive the achievement of Estia's business strategy: • be the leader in providing high quality residential aged care homes in Australia • providing our residents with the highest standards of aged care services in an innovative, supportive and caring environment • deliver profitable growth through our robust development pipeline, significant refurbishment opportunities and through maximising the performance of our core assets.	

5.2 FY17 Remuneration Opportunity Mix[8]



[8] There are no proposed changes to KMP remuneration mix for FY18

DIRECTORS' REPORT

Remuneration report – audited (continued)

5.3 Fixed Annual Remuneration

FAR includes base salary, non-cash benefits such as travelling allowances (including any fringe benefits tax), as well as leave entitlements and superannuation contributions. Remuneration levels are reviewed annually by the Committee and the Board through a process that ensures that KMP's fixed remuneration remains competitive with the market and reflects their skills, experience, accountability and general performance. In undertaking the review, the Committee benchmarks the remuneration of the current KMP against a group of companies which operate within the same industry as Estia and with which Estia competes for key executive talent. The comparator group comprises entities within 50% and 200% of Estia's market capitalisation. In addition, the Committee may from time to time engage external consultants to provide analysis and advice to ensure the KMP's compensation is competitive in comparison to comparator groups. This provides flexibility to recognise capability, contribution, value to the organisation and performance of individuals, while maintaining remuneration at a competitive level necessary to retain and motivate KMP.

5.4 Short-Term Incentive Plan

The Group operates an annual STIP available to executives and awards a cash incentive subject to the attainment of clearly defined Group measures.

Participation	Norah Barlow, Ian Thorley, Steve Lemlin and Steve Boggiano all participated in the FY17 STIP.
STIP value	In FY17, the MD had a maximum STIP opportunity of 50% of FAR and other senior executives had a maximum STIP opportunity of 30% of FAR.
Performance conditions	Estia chose to use a single financial KPI performance measure in FY17. The FY17 financial measure is Statutory EBITDA. EBITDA was selected by the Board as it effectively aligns rewards for senior executives with the Group's immediate priority of maximising operational and financial performance whilst maintaining strategic focus upon delivering strong earnings throughout the business cycle. The STI is subject to a resident quality gateway hurdle which requires ongoing compliance and accreditation targets to be met in order for any of the STIP to be eligible to vest.
Delivery of STIP	Performance against the measures is tested annually after the end of the financial year. All payments under the STIP are determined and approved by the Committee and the Board. Once STIP payments have been approved, they are delivered in cash. For the MD, 25% of any payment is deferred for a period of 12 months in the form of equity. From FY18 onwards, all Senior Executives within the KMP who are entitled to an STI award will have 25% of any STI award payment deferred for a period of 12 months in the form of equity.
Cessation of employment	For "Bad Leavers" (defined by the Group as resignation or termination for cause), any unpaid or deferred STIP is forfeited, unless otherwise determined by the Board. For any other reason, the Board has discretion to award STIP on a pro-rata basis taking into account time and the current level of performance against performance hurdles.
Clawback policy	The Board has discretion to reduce, cancel or clawback any unvested performance-based remuneration in the event of serious misconduct or a material misstatement in the Group's financial statements

DIRECTORS' REPORT

Remuneration report – audited (continued)

Changes in FY18	In FY18, a new STI scorecard will be introduced which assesses all participants on performance against EBITDA, NPAT and LTIFR, as well as other role specific measures. The compliance and accreditation gateway will continue to apply.

5.4.1 STI remuneration outcomes

The FY17 STI did not vest due to EBITDA performance being below the threshold level required for vesting.

5.5 Long-Term Incentive Plan

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

Participation	LTIP performance rights were extended to all members of executive KMP in FY17. Award of the MD's FY17 LTIP grant is subject to shareholder approval at the 2017 AGM.
Delivery of LTIP	LTIP performance rights are delivered in the form of performance rights. On exercise, performance rights entitle the holders to ordinary shares.
LTIP value	In FY17, the MD had a LTIP opportunity of 100% of FAR, other executive KMP had a LTIP opportunity of 70% of FAR.
Allocation methodology	The quantity of instruments granted under the LTIP is determined using face value allocation methodology, using the VWAP for the 10 trading days immediately following the release of results (i.e. LTIP opportunity divided by share price).
Performance conditions	The performance conditions for FY17 performance rights are as follows: 70% of award will be subject to a relative TSR performance measure, with the below vesting schedule.

Company's TSR over performance period, relative to companies in the ASX 200 Index, excluding mining and energy companies	Percentage of performance rights that vest
Less than median of comparator group	Nil
At median of comparator group	50%
Between median and 75th percentile of comparator group	Straight line pro rata vesting between 50% and 100%
Greater than 75th percentile of comparator group	100%

30% of award subject to EPS performance measure, with the below vesting schedule.

Company's compound annual growth of EPS from FY16 base year	Percentage of performance rights that vest
Below threshold rate	Nil
At threshold rate	25%
Between threshold and stretch rate	Straight line pro rata vesting between 25% and 100%
At or in excess of stretch rate	100%

DIRECTORS' REPORT

Remuneration report – audited (continued)

	When assessing performance against targets, EPS will be adjusted to account for acquisitions made during the performance period. The absolute EPS threshold and stretch targets will be explicitly disclosed retrospectively to the extent that any LTI performance rights vest as a result of the achievement of the EPS performance measure, subsequent to the conclusion of the relevant performance period.
Performance period	The performance rights granted in FY17 have a performance period of three years. For those who commenced employment during FY17, the performance period commenced at time of employment.
Lapse of performance rights	Any performance rights that remain unvested at the end of the performance period will lapse immediately.
Total shares issued	The number of shares allocated on the vesting of all outstanding rights may not exceed 5% of the total number of shares on issue at the time of the offer.
Cessation of employment	For "bad leavers" (defined by the Group as resignation or termination for cause), all of the performance rights held by that employee upon cessation will automatically lapse. Cessation of employment for any other reason, a portion of the performance rights held by that employee upon cessation will lapse according to a formula which takes into account the length of time the participant has held the performance right and the performance period for the performance right, unless otherwise determined by the Board.
Change of control	The Board may exercise its discretion to allow all or some unvested rights to vest if a change of control event occurs, having regard for the performance of the Group during the vesting period up to the date of a change of control event. The FY17 LTIP performance rights proposed for the MD (subject to shareholder approval at the 2017 AGM) will be subject to accelerated vesting in the event of a change of control during the three year performance period.
Clawback policy	The Board has discretion to reduce, cancel or clawback any unvested performance-based remuneration in the event of serious misconduct or a material misstatement in the Group's financial statements.
Changes for FY18	It is intended that relative TSR and EPS will remain the performance conditions for the FY18 LTIP performance rights.

DIRECTORS' REPORT

Remuneration report – audited (continued)

5.5.1 LTIP Vesting Outcomes

Upon resignation, a portion of Joe Genova's FY15 LTIP remained on foot. The LTIP was measured against the TSR performance of the ASX 200 Index (Tranche 1) and the TSR performance of the ASX 200 Healthcare Index (Tranche 2). Given the date of Listing, the performance period commenced on 8 December 2014 and ended on 30 June 2017.

No portion of the FY15 LTI vested due to TSR performance being below the threshold level required for vesting to commence.

5.6 Additional incentive plans

Legacy Plan - Management Equity Plan

The MEP is a legacy plan which was approved by the Board and implemented prior to listing. All MEP offers were made prior to listing and no new MEP offers were made since. No new MEP offers will be made going forward as this plan has been replaced with the LTIP (refer above).

The purpose of the MEP was to assist in the attraction, retention and motivation of Estia's senior management by providing them with an opportunity to acquire an ownership interest in Estia. Under the plan, certain directors and employees of the Estia Group (as determined by the Board) were invited to subscribe for shares on the terms specified in the MEP rules. A number of MEP participants were also offered a 10 year limited recourse loan to subscribe for MEP shares.

The former MD and CEO, Paul Gregersen, was offered a 10 year limited recourse loan with a face value of $5 million under the MEP on 5 December 2014. The MEP loan was offered to subscribe for 869,565 MEP shares and was interest free and repayable by 5 December 2024. These shares were to be held under an escrow agreement until 5 December 2017.

Following Paul's resignation, his MEP shares were disposed, with the sale proceeds being applied in full discharge of the MEP loan. Dividend entitlements relating to the MEP shares were applied against the repayment of the loan, meaning that Paul did not receive any financial benefit from his participation in this plan.

Patrick Grier and Norah Barlow also subscribed for shares under the MEP. The shares were self-funded and were fully issued and paid for without a corresponding MEP loan. These shares are held under an escrow agreement until 5 December 2017.

Remuneration report – audited (continued)

6. Executive remuneration outcomes

6.1 Executive remuneration for the year from 1 July 2016 to 30 June 2017

		Short-term benefits				Post-employment	Long-term benefits	Fixed annual remuneration	Share based payments		Total fixed and "at risk" remuneration	Termination payments	Performance related remuneration
		Salary and fees	STIP bonus	Non-monetary benefits	Annual leave entitlements	Superannuation benefits	Long service leave entitlements		Deferred STIP	LTIP			
		$	$	$	$	$	$	$	$	$	$	$	%
Executive director													
Norah Barlow[9]	2017	556,499	-	-	45,424	48,117	-	650,040	-	117,086	767,126	-	15%
	2016	100,000	-	-	-	-	-	100,000	-	-	100,000	-	-
Senior executive													
Ian Thorley[10]	2017	276,923	-	-	24,672	23,244	-	324,839	-	40,264	365,103	-	11%
	2016	-	-	-	-	-	-	-	-	-	-	-	-
Steve Lemlin [11]	2017	164,077	-	-	14,423	15,587	-	194,087	-	12,674	206,761	-	6%
	2016	-	-	-	-	-	-	-	-	-	-	-	-
Steve Boggiano[12]	2017	455,998	-	-	39,475	42,645	-	538,118	-	56,807	594,925	-	10%
	2016	-	-	-	-	-	-	-	-	-	-	-	-
Former executives													
Paul Gregersen	2017	554,572	-	-	15,958	26,407	-	596,937	-	-	596,937	205,552	N/A
	2016	642,994	-	-	74,358	35,718	-	753,070	-	123,523	876,593	-	14%
Joe Genova	2017	76,923	-	-	7,384	7,308	-	91,615	-	12,172	103,787	-	N/A
	2016	397,591	-	-	44,727	37,594	-	479,912	-	71,744	551,656	-	13%
Total	**2017**	**2,084,992**	**-**	**-**	**147,336**	**163,308**	**-**	**2,395,636**	**-**	**239,003**	**2,634,639**	**205,552**	
	2016	**1,140,585**	**-**	**-**	**119,085**	**73,312**	**-**	**1,332,982**	**-**	**195,267**	**1,528,249**	**-**	

[9] Norah Barlow held the position of Non-Executive Director from December 2014 to September 2016. Norah was appointed as Acting CEO on 16 September 2016 and then appointed permanently as Managing Director and CEO in November 2016, with a commencement date of 17 January 2017. The disclosure includes the sum of salary and fees received in her capacity as a Non-Executive Director and as MD and CEO. Norah's LTIP is subject to shareholder approval at the Company's FY17 AGM.

[10] Ian Thorley was appointed as COO & Deputy CEO on 24 October 2016.

[11] Steve Lemlin was appointed as CFO on 1 February 2017.

[12] Steve Boggiano was considered as a KMP from 1 July 2016 and therefore no comparative information has been provided for the period where he was not a KMP.

Remuneration report – audited (continued)

7. Executive employment contracts

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

Name	FAR	Agreement commence	Agreement expire	Notice of termination by Group	Employee notice
Norah Barlow	$700,000	17 January 2017	3 years fixed term	6 months (or payment in lieu of notice)	6 months
Ian Thorley	$438,000	24 October 2016	3 years fixed term	3 months (or payment in lieu of notice)	3 months
Steve Lemlin	$432,525	1 February 2017	No expiry, continuous agreement	3 months	3 months
Steve Boggiano	$480,000	13 July 2015	No expiry, continuous agreement	3 months	3 months

8. Non-executive director fee arrangements

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

8.1 Fee Pool

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

8.2 Director's 2017 Fee Structure

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

Position	Board Base Fees
Chair	$250,000
Directors	$100,000

NEDs may be reimbursed for expenses reasonably incurred in attending to the Group's affairs. NEDs do not receive retirement benefits, nor do they participate in any incentive programs.

Remuneration report – audited (continued)

8.3 Changes for FY18

No changes will be made to main board Chair and Member fees in FY18.

In acknowledgement of the extra workload and time commitment, as well as ASX market practice, Chair and Member fees for each of the Estia Board subcommittees will be introduced from FY18 onwards. The Audit Committee Chair fee will be $20,000, and the Chair fees for the Nominations & Remuneration Committee and Risk Management Committee will be $15,000. The Member fee for each committee will be set at $10,000.

8.4 Non-Executive director remuneration

The table below outlines NED remuneration for FY17 in accordance with statutory rules and applicable accounting standards.

	Year	Board fees $	Superannuation $	Total fees $
Non-Executive Director				
Gary Weiss	2017	159,254	15,130	**174,384**
	2016	35,681	3,390	**39,071**
Patrick Grier	2017	160,380	15,236	**175,616**
	2016	228,310	21,690	**250,000**
Andrew Harrison	2017	91,324	8,676	**100,000**
	2016	91,324	8,676	**100,000**
Paul Foster	2017	91,324	8,676	**100,000**
	2016	31,689	3,010	**34,699**
Warwick Smith	2017	14,512	1,378	**15,890**
	2016	-	-	**-**
Former Non-Executive Director				
Norah Barlow[13]	2017	21,370	-	**21,370**
	2016	100,000	-	**100,000**
Peter Arvanitis[14]	2017	16,986	1,474	**18,460**
	2016	91,324	8,676	**100,000**
Marcus Darville[15]	2017	25,205	-	**25,205**
	2016	95,902	-	**95,902**
Jonathon Pearce[16]	2017	-	-	**-**
	2016	-	-	**-**
Total	**2017**	**580,355**	**50,570**	**630,925**
	2016	**674,230**	**45,442**	**719,672**

[13] Norah Barlow stepped down from her position as a NED on 16 September 2016 and was appointed as acting Chief Executive Officer.
[14] Peter Arvanitis resigned on 31 August 2016.
[15] Marcus Darville was appointed as NED on 15 July 2015 and resigned on 30 September 2016.
[16] Jonathon Pearce was appointed on 10 March 2016 as an Alternate NED for Marcus Darville. Jonathon did not receive any NED remuneration during the relevant period. Jonathon resigned on 30 September 2016.

Remuneration report – audited (continued)

9. Additional disclosures relating to performance rights and shares

9.1 Performance rights granted, vested and lapsed during the year

The table below discloses the number of performance rights granted, vested or lapsed during the year. Performance rights do not carry any voting or dividend rights, and can only be exercised once the vesting conditions have been met, until their expiry date. No options were granted to members of KMP during FY17.

	Number of rights granted during the year	Grant date[17]	Fair value per right at grant date	Vesting date	Exercise price per option	Expiry date	Number of rights vested during the year	Number of rights lapsed during the year
Executive director								
Norah Barlow[18]	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Senior Executive								
Ian Thorley	57,001	28/04/17	1.82	24/10/19	Nil	24/10/19	-	-
	24,429	28/04/17	2.67	30/06/19	Nil	30/06/19	-	-
Steve Lemlin	31,655	28/04/17	1.54	03/02/20	Nil	03/02/20	-	-
	13,566	28/04/17	2.67	30/06/19	Nil	30/06/19	-	-
Steve Boggiano	89,371	28/04/17	0.76	30/06/19	Nil	30/06/19	-	-
	38,302	28/04/17	2.67	30/06/19	Nil	30/06/19	-	-
Former Executive								
Paul Gregersen	-	N/A	N/A	N/A	N/A	N/A	-	869,565
Joe Genova	-	N/A	N/A	N/A	N/A	N/A	-	29,122
Total	**254,324**							**898,687**

[17] Valuations of performance rights which are subject to total shareholder return performance hurdle vary due to the fact that the performance periods commenced at different dates for each participant listed, i.e. the performance periods for Steve Boggiano and Steve Lemlin commenced on 01/07/16 and 03/02/17 respectively, while Ian Thorley's performance period commenced on his first day of employment with the Group (24/10/16).

[18] Shareholders will be asked to approve a grant of 261,495 performance rights to Norah Barlow in respect of the FY17 LTIP, at the Company's FY17 AGM.

DIRECTORS' REPORT

Remuneration report – audited (continued)

9.2 Performance rights holdings of KMP and related parties

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

						Vested at 30 June 2017		
	Number of rights at 1 July 2016	Granted as remuneration	Rights exercised	Net change other	Number of rights at 30 June 2017	Exercisable	Not exercisable	
Executive director								
Norah Barlow	-	-	-	-	-	-	-	-
Senior Executive								
Ian Thorley	-	81,430	-	-	81,430	-	-	-
Steve Lemlin	-	45,221	-	-	45,221	-	-	-
Steve Boggiano	-	127,673	-	-	127,673	-	-	-
Former Executive								
Paul Gregersen	869,565	-	-	(869,565)	-	-	-	-
Joe Genova	37,541	-	-	(29,122)	8,419	-	-	-
Total	**907,106**	**254,324**	**-**	**(898,687)**	**262,743**	-	-	-

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				
Norah Barlow[19]	-	-	-	N/A
Senior executive				
Ian Thorley	168,803	-	-	11%
Steve Lemlin	84,873	-	-	6%
Steve Boggiano	170,422	-	-	10%
Former executive				
Paul Gregersen	-	-	1,232,869	N/A
Joe Genova	-	-	132,366	N/A
Total	**424,098**	**-**	**1,365,235**	

[a] Determined at the time of grant per the AASB 2. For details on the valuation of the options, including models and assumptions used, please refer to section 7.5 of this report.
[b] Determined at the time of exercise.
[c] Determined at the time of lapse.

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

[19] Shareholders will be asked to approve a grant of 261,495 performance rights to Norah Barlow in respect of the FY17 LTIP, at the Company's FY17 AGM.

Remuneration report – audited (continued)

9.4 Shareholdings of KMP and related parties

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

	Number of shares at 1 July 2016	Granted as remuneration	Exercise of rights	Net change other	Number of shares at 30 June 2017[20]	Held nominally
Non-Executive Director						
Gary Weiss	5,000	-	-	40,312	45,312	45,312
Patrick Grier	333,027	-	-	20,760	353,787	353,787
Andrew Harrison	20,000	-	-	5,542	25,542	25,542
Paul Foster	-	-	-	8,000	8,000	8,000
Warwick Smith	N/A	-	-	45,000	45,000	45,000
Peter Arvanitis	17,745,556	-	-	-	17,745,556	17,745,556
Marcus Darville	-	-	-	-	-	-
Jonathon Pearce	-	-	-	-	-	-
Senior executive						
Norah Barlow[21]	88,191	-	-	34,909	123,100	123,100
Ian Thorley	N/A	-	-	18,087	28,518	28,518
Steve Lemlin	N/A	-	-	8,000	8,000	8,000
Steve Boggiano	85,000	-	-	55,000	140,000	140,000
Previous executives						
Paul Gregersen	869,565	-	-	-	869,565	-
Joe Genova	9,070	-	-	-	9,070	9,070
Total	**19,155,409**	**-**	**-**	**235,610**	**19,401,450**	**18,531,885**

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.

The shares held by Patrick Grier, Andrew Harrison and Norah Barlow are under an escrow agreement until 5 December 2017.

All shares under escrow can only be traded under certain customary exceptions during the escrow period.

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.

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

[21] Shareholders will be asked to approve a grant of 261,495 performance rights to Norah Barlow, in respect to the FY17 LTIP at the Company's FY17 AGM.

AUDITOR'S INDEPENDENCE DECLARATION

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

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

As lead auditor for the audit of Estia Health Limited for the financial year ended 30 June 2017, I declare to the best of my knowledge and belief, there have been:

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

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

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

Ernst & Young

Ernst & Young

Rodney Piltz

Rodney Piltz
Partner
24 August 2017

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2017

	Note	2017 $'000	2016 $'000
Revenues	6	**524,630**	**442,821**
Other income	6	1,037	3,689
Expenses			
Administrative expenses	7	16,990	37,583
Depreciation, amortisation and impairment expenses	8	18,860	12,831
Employee benefits expenses		339,515	274,004
Occupancy expenses	9	28,527	24,051
Resident expenses		53,098	44,254
Operating profit for the year		**68,677**	**53,787**
Net finance costs	10	9,623	7,166
Profit before income tax		**59,054**	**46,621**
Income tax expense	11	18,356	18,981
Profit for the year		**40,698**	**27,640**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax		**-**	**-**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods, net of tax		**-**	**-**
Total comprehensive income for the year, net of tax		**40,698**	**27,640**
Earnings per share		**cents**	**cents**
Basic, profit for the year attributable to ordinary equity holders of the Parent		**18.2**	**15.1**
Diluted, profit for the year attributable to ordinary equity holders of the Parent		**18.0**	**15.1**

The accompanying notes form part of these consolidated financial statements.

Consolidated statement of financial position

As at 30 June 2017

	Notes	2017 $'000	2016 Restated* $'000
Current assets			
Cash and cash equivalents	12	19,215	29,810
Trade and other receivables	13	10,359	16,005
Prepayments and other assets		5,353	5,698
Assets held for sale	14	2,561	-
Total current assets		**37,488**	**51,513**
Non-current assets			
Property, plant and equipment	16	723,549	711,416
Investment properties	15	1,500	1,500
Goodwill	17	817,074	779,797
Other intangible assets	17	218,916	218,841
Total non-current assets		**1,761,039**	**1,711,554**
Total assets		**1,798,527**	**1,763,067**
Current liabilities			
Trade and other payables	18	28,855	30,554
Loans and borrowings	19	264	-
Income received in advance		24	41
Refundable accommodation deposits and bonds	20	730,222	652,659
Other financial liabilities	21	1,293	677
Deferred consideration on acquisition	4	-	84,500
Income tax payable		4,227	16,338
Provisions	22	38,955	35,534
Total current liabilities		**803,840**	**820,303**
Non-current liabilities			
Deferred tax liabilities	11	108,765	94,117
Loans and borrowings	19	121,250	253,500
Provisions	22	3,441	3,297
Other payables	18	115	169
Total non-current liabilities		**233,571**	**351,083**
Total liabilities		**1,037,411**	**1,171,386**
Net assets		**761,116**	**591,681**
Equity			
Issued capital	23	801,830	649,163
Share-based payments reserve		673	515
Accumulated losses		(41,387)	(57,997)
Total equity		**761,116**	**591,681**

* Certain amounts shown here do not correspond to the 2016 Financial Statements and reflect adjustments made. Refer to Notes 2(c), 11 and 17.

The accompanying notes form part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 30 June 2017

	Note	Issued capital $'000	Share-based payments reserve $'000	Accumulated losses $'000	Total equity $'000
As at 1 July 2015		**600,785**	**121**	**(36,992)**	**563,914**
Profit for the year		-	-	27,640	27,640
Other comprehensive income		-	-	-	-
Total comprehensive income		**-**	**-**	**27,640**	**27,640**
Transactions with owners in their capacity as owners:					
Issue of share capital	23	47,989	-	-	47,989
Share issue costs (net of tax)	23	(61)	-	-	(61)
Repayment of management equity plan	23	450	-	-	450
Dividends	23	-	-	(48,645)	(48,645)
Share-based payments	24	-	394	-	394
As at 30 June 2016		**649,163**	**515**	**(57,997)**	**591,681**
Profit for the year		-	-	40,698	40,698
Other comprehensive income		-	-	-	-
Total comprehensive income		-	-	40,698	**40,698**
Transactions with owners in their capacity as owners:					
Issue of share capital	23	156,659	-	-	156,659
Share issue costs (net of tax)	23	(6,766)	-	-	(6,766)
Repayment of management equity plan	23	2,774	-	-	2,774
Dividends	23	-	-	(24,088)	(24,088)
Share-based payments	24	-	158	-	158
As at 30 June 2017		**801,830**	**673**	**(41,387)**	**761,116**

The accompanying notes form part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 30 June 2017

	Note	2017 $'000	2016 $'000
Cash flows from operating activities			
Receipts from residents		134,574	114,812
Receipts from government		394,681	322,447
Payments to suppliers and employees		(431,173)	(359,400)
Net operating cash flows before interest, income tax and RAD, accommodation bond and ILU entry contributions		**98,082**	**77,859**
Interest received		483	816
Finance costs paid		(10,837)	(6,896)
Income tax paid		(28,595)	(6,622)
Net cash flows from operating activities excluding RAD, accommodation bond and ILU entry contributions		**59,133**	**65,157**
RAD, accommodation bond and ILU entry contribution received		266,396	220,799
RAD, accommodation bond and ILU entry contribution refunded		(186,284)	(144,435)
Net cash flows from operating activities	12	**139,245**	**141,521**
Cash flows from investing activities			
Payments for business combinations, net of cash acquired	4	(86,364)	(220,564)
Deposits for property, plant and equipment		-	(84)
Payments for acquisition transaction costs		(6,628)	(16,629)
Payments for intangible assets	17	(1,191)	(2,112)
Proceeds from sale of property, plant and equipment		46	335
Proceeds from sale of assets held for sale	14	2,542	4,176
Purchase of property, plant and equipment	16	(54,837)	(65,180)
Net cash flows used in investing activities		**(146,432)**	**(300,058)**
Cash flows from financing activities			
Proceeds from issue of share capital	23	151,821	-
Payments for share issue costs	23	(6,766)	(61)
Proceeds from repayment of MEP loans	23	2,774	450
Proceeds from borrowings		112,557	215,750
Repayment of borrowings		(244,543)	(16,500)
Repayment of commercial bills		-	(13,000)
Dividends paid	23	(19,251)	(44,489)
Net cash flows (used in)/from financing activities		**(3,408)**	**142,150**
Net decrease in cash and cash equivalents		**(10,595)**	**(16,387)**
Cash and cash equivalents at the beginning of the year		**29,810**	**46,197**
Cash and cash equivalents at the end of the year	12	**19,215**	**29,810**

The accompanying notes form part of these consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

1. Corporate Information

The consolidated financial statements of Estia Health Limited and its subsidiaries (collectively, the "Group") for the year ended 30 June 2017 were authorised for issue in accordance with a resolution of the directors on 24 August 2017.

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

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

2. Summary of significant accounting policies

(a) Basis of preparation

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

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

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 $766,352,000 as at 30 June 2017 (2016: $768,790,000). This mainly arises because of the requirement to classify refundable accommodation deposits and independent living unit (ILU) entry contributions of $731,515,000 (2016: $653,336,000) as current liabilities (refer Notes 20 and 21 for further details).

(b) Statement of compliance

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

(c) New accounting standards and interpretations

(i) Changes in accounting policy, disclosures, standards and interpretations

New and amended standards and interpretations

The Group has adopted the following new or amended Australian Accounting Standards and AASB Interpretations as of 1 July 2016:

- AASB 2014-4: *Amendments to AASB 116 and AASB 138 – Clarification of Acceptable Methods of Depreciation and Amortisation*;
- AASB 2015-1: *Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle*; and
- AASB 2015-2: *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101.*

2. Summary of significant accounting policies (continued)

(c) New accounting standards and interpretations (continued)

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

Changes in Accounting Policies – Income Taxes

Following the November 2016 publication of the IFRS Interpretation Committee's agenda decision addressing the expected manner of recovery of intangible assets with indefinite useful lives for the purposes of measuring deferred tax, the Group has retrospectively changed its accounting policy in accordance with AASB 108 *Accounting Policies, Changes to Accounting Estimates and Errors.* The Interpretation Committee noted that, in applying AASB 112 *Income Taxes*, the fact that an entity does not amortise an intangible asset with an indefinite life does not necessarily mean that it has an infinite life and that the entity will recover the carrying amount of that asset only through sale and not through use. Previously, the Group measured deferred taxes on temporary differences arising from indefinite life intangible assets based upon the tax that would result solely through future sale. Consequently, the Group has adopted an accounting policy to measure deferred taxes on temporary differences arising from indefinite life intangible assets based upon the tax consequences arising through use.

The impact of this change was as follows:

	30 June 2016	**1 July 2015**
	$'000	**$'000**
Increase/(decrease) of previously reported balances		
Goodwill	64,482	30,538
Deferred tax liabilities	64,482	30,538

Refer to Notes 11 and 17 for the impact of the restatement to deferred tax liabilities and goodwill.

Other than the above, the accounting policies adopted are consistent with those of the previous financial reporting period.

(ii) Accounting Standards and Interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 30 June 2017, are outlined in the following table:

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

2. Summary of significant accounting policies (continued)

REFERENCE	TITLE	IMPACT ON GROUP FINANCIAL REPORT	APPLICATION DATE OF STANDARD	APPLICATION DATE FOR GROUP
AASB 2016-1	Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses	This Standard makes amendments to AASB 112 Income Taxes to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The Group is in the process of evaluating the impact of the new standard. The Group does not plan to early adopt the standard.	1 January 2017	1 July 2017
AASB 2016-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	The amendments to AASB 107 Statement of Cash Flows are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The application of the new standard will only impact on the disclosure requirements of the Group. The Group does not plan to early adopt the standard.	1 January 2017	1 July 2017
AASB 9, and relevant amending standards	Financial Instruments	AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement. The standard addresses the classification and measurement of financial assets and liabilities, including amendments to the requirements for hedge accounting. The Group expects that the main impact of the introduction of the new standard to derive from the incurred credit loss model in AASB 139 being replaced with an expected credit loss model in AASB 9. The Group does not plan to early adopt the standard.	1 January 2018	1 July 2018
AASB 15, and relevant amending standards	Revenue from Contracts with Customers	AASB 15 replaces all existing revenue requirements in Australian Accounting Standards and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as AASB 117 (or AASB 16 Leases, once applied). The Group is in the process of evaluating the impact from the application of AASB 15, however it is not expected to have a material impact on the recognition of revenue once adopted. The Group does not plan to early adopt the standard.	1 January 2018	1 July 2018

2. Summary of significant accounting policies (continued)

REFERENCE	TITLE	IMPACT ON GROUP FINANCIAL REPORT	APPLICATION DATE OF STANDARD	APPLICATION DATE FOR GROUP
AASB 2016-5	Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions	This Standard amends AASB 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The Group is in the process of evaluating the impact of the new standard. The Group does not plan to early adopt the standard.	1 January 2018	1 July 2018
AASB 16	Leases	AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117 Leases. AASB 16 addresses the classification, recognition, measurement and disclosure requirements for both lesses and lessors. The Group is in the process of evaluating the impact from the application of AASB 16. It is expected that this will result in the recognition of leasehold properties on the balance sheet once adopted. Lessor accounting is substantially unchanged from today's accounting under AASB 117. The Group does not plan to early adopt the standard.	1 January 2019	1 July 2019

2. Summary of significant accounting policies (continued)

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2017. 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. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposures, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. 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.

(e) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of *AASB 139 Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognised either in profit or loss or as a change to Other Comprehensive Income (OCI). If the contingent consideration is not within the scope of AASB 139, it is measured in accordance with the appropriate Australian Accounting Standard. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

2. Summary of significant accounting policies (continued)

(e) Business combinations and goodwill (continued)

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

(f) Current versus non-current classification

The Group presents assets and liabilities in the 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;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalents 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 held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

(g) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

Rendering of services

Revenue from the rendering of services is recognised upon the delivery of the service to the residents.

2. Summary of significant accounting policies (continued)

(g) Revenue recognition (continued)

Interest income

Revenue is recognised when the Group controls the right to receive the interest payment.

(h) Taxes

Current income tax

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

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

Deferred tax

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

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

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

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

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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.

2. Summary of significant accounting policies (continued)

(h) Taxes (continued)

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

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 benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction to goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

Tax consolidation legislation

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

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

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

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details of the tax funding agreement are disclosed in Note 11.

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.

Goods and services tax (GST)

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

- When the GST incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and
- When receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. Commitments and contingencies are disclosed net of the amount of GST.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, are classified as part of operating cash flows.

(i) Cash and cash equivalents

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 consists of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

2. Summary of significant accounting policies (continued)

(j) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate of doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Receivables from related parties are recognised and carried at the nominal amount due. Interest is taken up as income on an accrual basis.

(k) Property, plant and equipment

Construction in progress, plant and equipment and land and buildings are stated at cost, which includes borrowing costs, net of accumulated depreciation and accumulated impairment losses, if any. Land is not depreciated. Such cost includes the cost of replacing part of the plant and equipment. When significant parts of plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. All other repair and maintenance costs are recognised in profit or loss as incurred.

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

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

- Buildings and property improvements
  50 years;
- Furniture, fixtures and equipment
  4 - 15 years; and
- Motor vehicles
  4 years.

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

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

(l) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. An operating lease is a lease other than a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date at fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

2. Summary of significant accounting policies (continued)

(m) Borrowing costs

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. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(n) 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, excluding capitalised development costs, are not capitalised and the related expenditure is reflected as a profit or loss in the period in which the expenditure is incurred.

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

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

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

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

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

Bed licences

Bed licences for the Group’s aged care homes are initially carried at historical cost or if acquired in a business combination, at fair value at the date of acquisition in accordance with AASB 3 Business Combinations. Following initial recognition, the licenses are not amortised but are measured at cost less any accumulated impairment losses.

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

Goodwill

Goodwill is 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 cash generating unit (CGU) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

2. Summary of significant accounting policies (continued)

(o) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

The measurement of financial assets depends on their classification, as described below:

Loans and receivables

This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily de-recognised (i.e. removed from the group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measureable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

2. Summary of significant accounting policies (continued)

(o) Financial instruments (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings, including bank overdrafts, financial guarantee contracts, and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings. For more information refer Note 19.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged, cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement or profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

2. Summary of significant accounting policies (continued)

(p) Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

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

Intangible assets with indefinite useful lives are tested for impairment annually as at 30 June at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

(q) Provisions

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. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

2. Summary of significant accounting policies (continued)

(q) Provisions (continued)

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Wages, salaries, and sick leave

Liabilities for wages and salaries, including non-monetary benefits, and sick leave acquired through business combinations are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

Long service leave and annual leave

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

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

Contingent liabilities recognised in a business combination

Any contingent consideration to be transferred in a business combination is recognised at fair value at the acquisition date. Contingent consideration classified as a liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments*: *Recognition and Measurement,* is measured at fair value with changes in fair value recognised in the statement of profit or loss.

(r) Share-based payments

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. For more information refer to Note 24.

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

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

2. Summary of significant accounting policies (continued)

(r) Share-based payments (continued)

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

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

(s) Investment properties

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

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

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

(t) Fair value measurement

The Group measures non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 29.

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

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

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2. Summary of significant accounting policies (continued)

(t) Fair value measurement (continued)

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.

(u) Operating cash flow

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

(v) Assets held for sale

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

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

3. 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 of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Use of judgements, estimates and assumptions

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively. The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

3. Significant accounting judgements, estimates and assumptions (continued)

Use of judgements, estimates and assumptions (continued)

Information about critical judgements, assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the year ended 30 June 2017 are included in the following notes:

- Note 4 – Business Combinations: finalisation of the fair value previously measured on a provisional basis;
- Note 11 – Income Taxes recognition of deferred tax assets: availability of future taxable profit;
- Note 15 – Investment Properties: fair value based on key assumptions underlying the assessment of fair value;
- Note 17 – Intangible assets impairment test: key assumptions underlying recoverable amounts; and
- Note 24 – Share-based payments: measurement of equity-settled transactions.

Fair value of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions in relation to these factors could affect the reported fair value of financial instruments. See Note 29 for further disclosures.

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently remeasured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor, refer Note 4 for further disclosures.

4. Business combinations

There were no acquisitions made during the year ended 30 June 2017.

Information on prior year acquisitions

The fair values of the identifiable assets and liabilities of acquisitions made during the year ended 30 June 2016 recognised at the date of acquisition were based on a provisional assessment of their fair value while the Group sought independent valuations for the land and buildings owned and post-settlement adjustments. The following adjustments to fair values have been made in the current period for prior year acquisitions:

	Provisional fair value			
	Kennedy Group ($'000)	Other Acquisitions ($'000)	Adjustments and Restatements ($'000)	Final fair value ($'000)
Assets				
Land and buildings	140,554	87,245	(20,870)	206,929
Plant and equipment	887	2,986	-	3,873
Assets held for sale	-	3,570	-	3,570
Investment properties	-	1,500	-	1,500
Bed licenses	52,000	52,022	-	104,022
Cash and cash equivalents	4,999	(1)	-	4,998
Other assets	499	537	(307)	729
Deferred tax assets	2,895	1,685	172	4,752
	201,834	149,544	(21,005)	330,373
Liabilities				
Refundable accommodation deposits and bonds	41,577	66,421	-	107,998
Other financial liabilities	-	677	644	1,321
Employee entitlements	9,650	5,619	575	15,844
Trade and other payables	2,332	303	241	2,876
Commercial bills	13,000	-	-	13,000
Deferred tax liability	-	11,220	44,154	55,374
	66,559	84,240	45,614	196,413
Total fair value of net assets acquired	**135,275**	**65,304**	**(66,619)**	**133,960**
Goodwill on acquisition	**74,343**	**81,969**	**68,483**	**224,795**
Gain on bargain purchase	**-**	**(2,800)**	**-**	**(2,800)**
Purchase consideration transferred	**209,618**	**144,473**	**1,864**	**355,955**
Cash flow on acquisition				
Deferred consideration	84,500	-	(84,500)	-
Cash paid during the period	81,285	144,273	86,364	311,922
Issue of share capital	43,833	-	-	43,833
Deposit paid in the prior period	-	200	-	200
Total consideration paid	**209,618**	**144,473**	**1,864**	**355,955**
Cash acquired				(4,998)
Deposit paid in the prior period				(200)
Issue of share capital				(43,833)
Cash consideration paid for these acquisitions, net of cash acquired				**306,924**

4. Business combinations (continued)

All fair values for prior year acquisitions are now final as illustrated in the previous table.

During the year, a restatement to deferred tax liability on bed licenses was applied to Goodwill due to a change in accounting policy. See Note 2(c) for more details. The impact on prior year acquisitions amounted to $31,206,000.

The adjustment to the fair value of land and buildings acquired in the previous period of $20,870,000 reflects the valuations obtained from an independent external valuation specialist. The fair value adjustment to the cost base of the land and buildings has a deferred tax implication for which recognition of a deferred tax liability of $12,948,000 has been made during the period.

An additional $1,500,000 was paid in relation to the Kennedy Group acquisition as part of deferred consideration. The remaining $364,246 cash paid during the period relates to post settlement adjustments for other acquisitions made during the prior year.

5. Information relating to subsidiaries

The consolidated financial statements of the Group include:

Name	Country of Incorporation	% Equity Interest 2017	% Equity Interest 2016
Estia Finance Pty Ltd [2]	Australia	100%	100%
Estia Investments Pty Ltd [3, 5]	Australia	100%	100%
Estia Mezzco Pty Ltd [1]	Australia	100%	100%
Estia Midco Pty Ltd [1]	Australia	100%	100%
Spirytus Pty Ltd [4, 5]	Australia	100%	100%
Jaid Residential Services Pty Ltd [4, 5]	Australia	100%	100%
TGM Care Pty Ltd ATF the TGM Care Unit Trust [1, 5]	Australia	100%	100%
East Coast Senior Care Pty Ltd [4, 5]	Australia	100%	100%
William Kennedy Holdings Pty Ltd [1, 5]	Australia	100%	100%
Wollongong Nursing Home Pty Ltd [4, 5]	Australia	100%	100%
Kenna Investments Pty Ltd [4, 5]	Australia	100%	100%
Ranesta Holdings Pty Ltd [5]	Australia	100%	100%
Hayville Pty Ltd [5]	Australia	100%	100%
Eddystone Nursing Home Pty Ltd [6]	Australia	100%	100%
Merrylands Nursing Home Pty Ltd [5]	Australia	100%	100%
Kennedy Health Care Group Pty Ltd [5]	Australia	100%	100%
Camden Village Pty Ltd [5]	Australia	100%	100%
Camden Nursing Home Pty Ltd [6]	Australia	100%	100%
Camden House Pty Ltd [5]	Australia	100%	100%
Kilbride Village Pty Ltd [5]	Australia	100%	100%
Bankstown Aged Care Facility Pty Ltd [6]	Australia	100%	100%

Principal activities

1. Holding company
2. Holder of financing facilities
3. Current accredited provider of aged care home
4. Acquired accredited provider of aged care home – transferred to Estia Investments Pty Ltd
5. Holder of assets
6. Dormant entity

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

6. Revenues and other income

	2017 $'000	2016 $'000
Revenues		
Government funding	388,099	327,547
Resident funding	136,531	115,274
Total revenues	**524,630**	**442,821**
Other income		
Net gain on disposals of assets held for sale	1,036	606
Net gain on disposals of property, plant and equipment	1	283
Gain on bargain purchase	-	2,800
Total other income	**1,037**	**3,689**

7. Administrative expenses

	2017 $'000	2016 $'000
Acquisition and integration related costs	-	24,230
Advertising and marketing expenses	496	644
Telephone and communication expenses	2,432	1,855
Travelling expenses	2,422	3,408
Printing and stationery expenses	2,383	2,320
Professional services expenses	2,870	1,838
Movement in doubtful debts	225	(153)
Other administrative expenses	6,162	3,441
Total administrative expenses	**16,990**	**37,583**

8. Depreciation, amortisation and impairment expenses

	Note	2017 $'000	2016 $'000
Depreciation expense	16	17,289	12,067
Amortisation expense	17	1,116	764
Impairment expense	16	455	-
Total depreciation, amortisation and impairment expenses		**18,860**	**12,831**

9. Occupancy expenses

	2017 $'000	2016 $'000
Rent expense	5,662	4,820
Repairs and maintenance expense	8,954	7,832
Other occupancy expenses	13,911	11,399
Total occupancy expenses	**28,527**	**24,051**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

10. Net finance costs

	2017 $'000	2016 $'000
Interest income from cash at banks	483	816
Total finance income	**483**	**816**
Interest expense on bank loans	7,046	5,602
Interest capitalised[1]	(479)	-
Interest expense on accommodation bonds	2,675	2,236
Other finance costs	864	144
Total finance costs	**10,106**	**7,982**
Net finance costs	**9,623**	**7,166**

[1] Interest directly attributable to the construction of homes has been capitalised to construction in progress at a weighted average rate of 3.20%. Assets have been funded through general borrowings and the capitalisation rate represents the average cost of interest on such borrowings.

11. Income tax

The major components of income tax expense for the years ended 30 June 2017 and 2016 are:

	2017 $'000	2016 $'000
Current income tax:		
Current income tax expense	16,415	18,306
Adjustments in respect of income tax of previous year	895	134
Deferred income tax:		
Relating to origination and reversal of temporary differences	968	751
Adjustments in respect of income tax of previous year	78	(210)
Income tax expense reported in the consolidated statement of profit or loss and other comprehensive income	**18,356**	**18,981**

Reconciliation of income tax expense and the accounting profit:

	2017 $'000	2016 $'000
Accounting profit before income tax	59,054	46,621
At the Australian statutory income tax rate of 30% (2016: 30%)	17,716	13,986
Adjustments in respect of income tax of previous year	973	(210)
Non-taxable income	-	(840)
Utilisation of unrecognised tax losses	(407)	-
Estimated future taxable gains on assets held for sale	428	-
Expenditure not allowable for income tax purposes		
- Acquisition related costs for current year business combinations	(383)	5,911
- Acquisition related costs for previous year business combinations	29	134
Income tax expense	**18,356**	**18,981**

11. Income Tax (continued)

Deferred taxes relate to the following:

	Consolidated statement of profit or loss and other comprehensive income		Consolidated statement of financial position	
	2017	**2016**	**2017**	**2016 (restated)***
	$'000	**$'000**	**$'000**	**$'000**
Accelerated depreciation	314	5	(62,027)	(49,225)
IPO transaction fees	(2,034)	(2,051)	4,118	6,152
Other	(711)	-	(711)	564
Assets held for sale	(291)	-	(291)	-
Bed licences	-	-	(64,482)	(64,482)
Share-based payments	48	118	202	154
Provisions and accruals	1,706	1,177	14,426	12,720
Deferred tax expense	**(968)**	**(751)**		
Deferred tax assets/(liabilities), net			**(108,765)**	**(94,117)**

Reflected in the statement of financial position as follows:		
Deferred tax assets	19,303	20,190
Deferred tax liabilities	(128,068)	(114,307)
Deferred tax assets/(liabilities), net	**(108,765)**	**(94,117)**

Reconciliation of deferred tax liabilities, net:

	Note	**$'000**
Balance at 1 July 2015, as previously reported		(9,246)
Impact of restatement	2(c)	(30,538)
Balance at 1 July 2015, restated		**(39,784)**
Tax expense during the year recognised in profit or loss		(751)
Adjustments in respect of income tax of previous year		(748)
Net deferred taxes arising from business combinations		(18,890)
Impact of restatement on acquisitions in the year	2(c)	(33,944)
Balance at 30 June 2016, restated		**(94,117)**
Tax expense during the year recognised in profit or loss		(968)
Adjustments in respect of income tax of previous year		(905)
Net deferred taxes arising from business combinations		(12,775)
As at 30 June 2017		**(108,765)**

* See Notes 2(c) and 17.

The Group offsets tax assets and liabilities if, and only if, it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

11. Income Tax (continued)

Tax consolidation

(i) Members of the income tax consolidated group and the tax sharing arrangement

Estia Health Limited and its subsidiaries formed an income tax consolidated group with effect from 19 June 2013. Estia Health Limited is the head entity of the income tax consolidated group. Members of the Group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

(ii) Tax effect accounting by members of the income tax consolidated group

Measurement method adopted under AASB Interpretation 1052 Tax Consolidation Accounting

The head entity and the controlled entities in the income 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 income tax consolidated group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 *Income Taxes*. The nature of the tax funding agreement is discussed further below. In addition to its own current and deferred tax amounts, the head entity also recognises 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 income tax consolidated group.

Nature of the tax funding agreement

Members of the income tax consolidated group have entered into a tax funding agreement. Under the funding agreement the funding of tax within the Group is based on accounting profit, which is not an acceptable method of allocation under AASB Interpretation 1052. The tax funding agreement requires payments to/from the head entity to be recognised via an inter-entity receivable (payable) which is at call. To the extent that there is a difference between the amount charged under the tax funding agreement and the allocation under AASB Interpretation 1052, the head entity accounts for these as equity transactions with the subsidiaries. The amounts receivable or payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

The benefit of the tax losses is recognised on the basis that the Company to which it relates will generate taxable income within the next four years, against which the tax losses will be utilised.

12. Cash and cash equivalents

(a) Reconciliation of cash

	2017 $'000	2016 $'000
Cash balance comprises:		
Cash at banks	19,141	29,738
Cash on hand	74	72
	19,215	**29,810**

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

At 30 June 2017, the Group had available $208,750,000 (2016: $76,500,000) of undrawn committed borrowing facilities. Refer to Note 19 for further details.

	2017 $'000	2016 $'000
(b) Cash flow reconciliation		
Reconciliation of net profit after income tax to net cash flows from operations:		
Profit after income tax	40,698	27,640
Adjustments to reconcile profit after income tax to net cash flows:		
Depreciation of property, plant and equipment	17,289	12,067
Amortisation of intangibles	1,116	764
Impairment of property, plant and equipment	455	-
Gain on bargain purchase	-	(2,800)
Net gain on disposal of property, plant and equipment	(1)	(283)
Net gain on sale of assets held for sale	(1,036)	(606)
Bond retention revenue	(2,549)	(2,751)
Movement in doubtful debts provision	225	163
Share-based payments	158	394
Stepped lease costs	149	134
Acquisition related transaction costs	-	24,230
Changes in assets and liabilities		
Decrease/(Increase) in trade and other receivables	5,422	(3,369)
Increase in prepayments and other assets	(361)	(3,453)
Decrease/(Increase) in deferred tax assets	1,059	(17,604)
Increase in deferred tax liabilities	814	19,103
(Decrease)/Increase in current tax payable	(12,111)	10,860
Increase in trade and other payables	4,965	386
Increase in provisions	2,841	257
Increase in refundable accommodation deposits and bonds	80,112	76,389
	139,245	**141,521**

13. Trade and other receivables

	2017 $'000	2016 $'000
Trade receivables	7,431	13,416
Other receivables	2,928	2,589
	10,359	**16,005**

a) Allowance for impairment loss

An allowance for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. As at 30 June 2017, trade receivables of an initial value of $1,435,000 (2016: $1,210,000) were impaired and fully provided for. The movements in the allowance for impairment loss was as follows:

	2017 $'000	2016 $'000
At 1 July	1,210	1,017
Charge for the year	540	679
Increase through business combinations	-	356
Utilised	-	-
Unused amounts reversed	(315)	(842)
At 30 June	**1,435**	**1,210**

As at 30 June, the ageing analysis of trade receivables is as follows:

	Total ($'000)	Neither past due nor impaired ($'000)	Past due but not impaired <30 days ($'000)	Past due but not impaired 30-60 days ($'000)	Past due but not impaired 61-90 days ($'000)	Past due but not impaired > 90 days ($'000)	Past due and impaired ($'000)
2017	8,866	2,833	1,229	669	607	2,093	1,435
2016	14,626	9,436	1,455	772	452	1,301	1,210

See Note 28 on credit risk which discusses how the Group manages and measures credit quality of trade receivables that are neither past due nor impaired.

b) Terms and conditions and allowances for impairment loss

(i) Trade debtors are non-interest bearing and generally on 30 day terms.
(ii) Sundry debtors and other receivables are non-interest bearing.

14. Assets held for sale

	2017 $'000	2016 $'000
Assets held for sale	2,561	-
	2,561	**-**

During the year, the Group identified a number of properties that were surplus to requirements. One property was sold during the year for a total of $2,542,274, which resulted in a gain of $1,036,398 and has been included in other income (see Note 6). The remaining properties are expected to be sold within 12 months of reporting date.

As part of the reclassification, an impairment expense of $455,053 was recognised during the year for write-downs of certain assets to the lower of their carrying amount and their fair value less costs to sell.

15. Investment properties

(a) Reconciliation of carrying amount	2017 $'000	2016 $'000
Balance at beginning of period	1,500	-
Additions through business combinations	-	1,500
Transfer from property, plant and equipment	-	-
Fair value adjustments	-	-
Total investment properties	**1,500**	**1,500**

Investment properties comprise Independent Living Units (ILUs) located in 1 retirement village located in Bendigo. The retirement village is subject to a loan licence agreement which confers the right to occupancy of the unit, until such time as the resident's occupancy terminates and the occupancy rights are transferred to another resident. Upon entry, a resident will loan the Group an amount equal to the fair value of the unit. On termination the resident is entitled to repayment of the loan inclusive of any uplift in fair value since the agreement date less the deferred management fee.

16. Property, plant and equipment

(a) Reconciliation of property, plant and equipment

	Note	Land $'000	Buildings $'000	Property improvements $'000	Furniture, fixtures & equipment $'000	Motor vehicles $'000	Construction in progress $'000	Total $'000
Cost								
Balance at 1 July 2015		93,604	296,644	1,966	26,282	659	5,563	**424,718**
Adjustments relating to prior period acquisitions		(515)	11,895	-	(1,480)	-	-	**9,900**
Acquisitions through business combinations		82,233	138,182	-	3,619	254	7,384	**231,672**
Additions		29,071	-	3,477	10,121	124	22,387	**65,180**
Transfers		-	-	23,059	410	-	(23,469)	**-**
Disposals		-	-	-	-	(80)	-	**(80)**
Balance at 30 June 2016		**204,393**	**446,721**	**28,502**	**38,952**	**957**	**11,865**	**731,390**
Adjustments relating to prior period acquisitions	4	(13,605)	-	-	-	-	(7,265)	**(20,870)**
Additions		6,464	-	3,660	9,816	-	34,897	**54,837**
Transfers		-	-	4,037	462	-	(4,499)	**-**
Transfers to assets held for sale		(3,811)	(234)	-	-	-	-	**(4,045)**
Disposals		-	-	-	-	(57)	-	**(57)**
Balance at 30 June 2017		**193,441**	**446,487**	**36,199**	**49,230**	**900**	**34,998**	**761,255**
Accumulated depreciation								
Balance at 1 July 2015		-	4,450	71	3,272	142	-	**7,935**
Depreciation expense	8	-	6,353	218	5,280	216	-	**12,067**
Disposals		-	-	-	-	(28)	-	**(28)**
Balance at 30 June 2016		**-**	**10,803**	**289**	**8,552**	**330**	**-**	**19,974**
Depreciation expense	8	-	8,453	730	7,870	236	-	**17,289**
Impairment expense	8	455	-	-	-	-	-	**455**
Disposals		-	-	-	-	(12)	-	**(12)**
Balance at 30 June 2017		**455**	**19,256**	**1,019**	**16,422**	**554**	**-**	**37,706**
Net book value								
As at 30 June 2016		204,393	435,918	28,213	30,400	627	11,865	**711,416**
As at 30 June 2017		**192,986**	**427,231**	**35,180**	**32,808**	**346**	**34,998**	**723,549**

16. Property, plant and equipment (continued)

(b) Change in estimates

During the year, the Group conducted a review of its buildings which resulted in a change of the expected useful life. The buildings were previously expected to have a 60 year useful life, however based on new assessments, management estimate that a useful life of 50 years is appropriate.

	2017 $'000	2018 $'000	2019 $'000	2020 $'000	Later $'000
Increase/(decrease) in depreciation expense	847	1,722	1,737	1,756	(6,062)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

17. Intangible assets

	Note	Goodwill $'000	Bed licences $'000	Software costs $'000	Total $'000
Cost					
Balance at 1 July 2015, as previously reported		565,594	101,794	3,080	670,468
Impact of restatement of deferred tax liabilities on bed licences	2(c)	30,538	-	-	30,538
Balance at 1 July 2015, restated		**596,132**	**101,794**	**3,080**	**701,006**
Additions		-	-	2,112	2,112
Adjustments relating to prior period acquisitions		(6,591)	9,124	-	2,533
Acquisitions through business combinations		156,312	104,022	-	260,334
Impact of restatement of deferred tax liabilities on bed licences	2(c)	33,944	-	-	33,944
Balance at 30 June 2016, restated		**779,797**	**214,940**	**5,192**	**999,929**
Additions		-	-	1,191	1,191
Adjustments relating to prior period acquisitions		37,277	-	-	37,277
Balance at 30 June 2017		**817,074**	**214,940**	**6,383**	**1,038,397**
Accumulated amortisation					
Balance at 1 July 2015		-	-	527	527
Amortisation expense		-	-	764	764
Balance at 30 June 2016		**-**	**-**	**1,291**	**1,291**
Amortisation expense	8	-	-	1,116	1,116
Impairment		-	-	-	-
Balance at 30 June 2017		**-**	**-**	**2,407**	**2,407**
Net book value					
As at 30 June 2016, restated		**779,797**	**214,940**	**3,901**	**998,638**
As at 30 June 2017		**817,074**	**214,940**	**3,976**	**1,035,990**

(a) Bed Licences
Bed licences acquired through a business combination are assessed at fair value at the date of acquisition in accordance with AASB 3 *Business Combinations* in the consolidated accounts.

(b) Impairment of intangible assets
Intangible assets with an indefinite useful life form part of one Cash Generating Unit for impairment testing purposes, which is consistent with the operating segment identified in Note 32.

Goodwill and bed licenses acquired through business combinations were tested for impairment at the reporting date. The recoverable amount of the Cash Generating Unit was assessed by reference to the Cash Generating Unit's value in use based on financial forecasts approved by the Board covering a three year period (2018 to 2020), a further period of 2 years based on a growth rate and a terminal value. The cash flow projections for financial years 2018 to 2020 reflect the expected increases in EBITDA from greenfield and brownfield developments whereas the cash flow projections for financial years 2021 and 2022 assume a growth rate of 2.6%. A terminal value growth rate of 2.1% has been applied.

17. Intangible assets (continued)

A post-tax discount rate of 9.5% (2016: 10.5%) was applied in the value in use model, which was determined based on the specific circumstances of the Group and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Market-specific risk is incorporated by applying individual beta factors which are evaluated annually based on publicly available market data.

Adjustments to the discount rate are made to factor in the specific amount of the future tax flows in order to reflect a pre-tax discount rate of 11.8%. The recoverable amount was determined to be higher than the carrying amount and therefore the directors determined that the intangible assets with an indefinite useful life were not impaired.

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

18. Trade and other payables

	2017 $'000	2016 $'000
Current trade and other payables		
Trade creditors	9,760	3,233
Payroll liabilities	11,174	10,117
Sundry creditors and accruals	7,921	17,204
Total current trade and other payables	**28,855**	**30,554**
Non-current other payables		
Sundry creditors and accruals	115	169
Total non-current other payables	**115**	**169**
Total trade and other payables	**28,970**	**30,723**

19. Loans and borrowings

	2017 $'000	2016 $'000
Current loans and borrowings		
Other borrowings, unsecured	264	-
Total current loans and borrowings	**264**	**-**
Non-current loans and borrowings		
Bank loans, secured	121,250	253,500
Total non-current loans and borrowings	**121,250**	**253,500**
Total loans and borrowings	**121,514**	**253,500**

Terms and conditions of loans

The Facility may be used for general corporate purposes including funding acquisitions, capital expenditure, working capital requirements and bond liquidity to redeem refundable accommodation deposits.

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

The total debt facility available to Estia at 30 June 2017 was $330,000,000 and subsequent to year end, the Group renewed this debt facility with its existing lenders Westpac and CBA in full with a maturity date of 22 August 2020.

20. Refundable accommodation deposits and bonds

	2017 $'000	2016 $'000
Current residents	654,193	584,362
Departed residents	76,029	68,297
Total refundable accommodation deposits and bonds – amounts received	**730,222**	**652,659**

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

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

RAD and Bond refunds are guaranteed by the Government under the Accommodation Payment Guarantee Scheme. Providers are required to maintain sufficient liquidity to ensure that they can refund all amounts as they fall due. As required under legislation, the Company maintains a liquidity management policy, which is reviewed on regular basis to ensure it has sufficient liquidity to meet its RAD and Bond refund and other financial obligations.

RADs and Bonds are classified as a current liability as the Company 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 large number of individual residents in different locations with differing circumstances, and often a departing RAD- and Bond-paying resident is replaced shortly afterwards with a new RAD-paying resident. The repayment of individual balances that make up the total current balance will be dependent upon the actual tenure of individual residents, which can be more than ten years but averages approximately 2 - 2.5 years.

Based on past experience and the nature of this liability, the Group regards it is as unlikely that the total RAD and Bond liability will be significantly reduced over the next twelve months.

21. Other financial liabilities

	2017 $'000	2016 $'000
Independent living unit (ILU) entry contributions	1,293	677
Total other financial liabilities	**1,293**	**677**

(a) Terms and conditions relating to independent living units (ILUs)

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

22. Provisions

	2017 $'000	2016 $'000
Current		
Employee benefits	38,165	34,894
Stepped lease provision	715	565
Make good provision	75	75
Total current provisions	**38,955**	**35,534**
Non-current		
Employee benefits	3,441	3,297
Total non-current provisions	**3,441**	**3,297**
Total provisions	**42,396**	**38,831**

23. Issued capital and reserves

	2017 $'000	2016 $'000
Issued and fully paid		
Ordinary shares	801,830	649,163
	801,830	**649,163**

(a) Movements in ordinary shares on issue

	2017		2016	
	Number of shares	$'000	Number of shares	$'000
Beginning of the financial year	188,183,920	649,163	180,885,580	600,785
Share issue – Other	5,494,506	15,000	6,631,300	43,833
Share issue – Institutional Rights Issue	33,284,751	69,898	-	-
Share issue – Retail Rights Issue	31,868,345	66,924	-	-
Share issue – DRP	1,771,227	4,837	667,040	4,156
Transaction costs for issued share capital	-	(6,766)	-	(61)
Movement in management equity plan	-	2,774	-	450
End of the financial year	**260,602,749**	**801,830**	**188,183,920**	**649,163**

On 31 October 2016, 5,494,506 shares with a fair value of $15,000,000 were issued, based on the average Estia share price ($2.73) on a 10 trading day period from 7 October 2016 to 20 October 2016.

Additionally, 33,284,751 shares were issued on 21 December 2016 with a fair value of $69,897,977, as well as 31,868,345 shares issued on 19 January 2017 with a fair value of $66,923,525, based on a discounted share price of $2.10, equalling a 21.6% discount on Estia's closing share price on 9 December 2016. The issue was based on a 1-for-3 offer to existing institutional and retail shareholders and was fully underwritten by Macquarie Capital (Australia) Limited.

(b) Share-based payments reserve

The share-based payments reserve is used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration. Refer to Note 24 for further details of these plans.

23. Share capital and reserves (continued)

(c) Franking credits

The franking credit balance of Estia Health Limited for the year ended 30 June 2017 is $21,194,715 (2016: $3,306,450).

(d) Dividends paid and proposed

The final dividend for the year ended 30 June 2016 of $24,087,542 (12.8 cents per share) was paid on 7 November 2016.

There was no interim dividend for the year ended 30 June 2017 (2016: $24,044,818; 12.8 cents per share).

The Directors propose a fully franked final cash dividend for the year ended 30 June 2017 of 8.0 cents per share totalling $20,848,220. Proposed dividends on ordinary shares are subject to approval at the annual general meeting and are not recognised as a liability at 30 June 2017.

(e) Dividend reinvestment plan

The dividend paid on 7 November 2016 includes an amount attributable to the Dividend Reinvestment Plan of $4,837,160 with 1,771,227 ordinary shares being issued under the plan rules.

24. Share-based payments

At 30 June 2017, the Group had the following share-based payments arrangements:

(i) Long-Term Incentive Plan (LTIP)

Under the LTIP, awards are made to executives and other key talent who have an impact on the Group's performance. LTIP awards are delivered in the form of performance rights providing the holder of these rights with options over shares which vest over a period of three years subject to meeting performance measures. The Group uses relative TSR and Earnings Per Share as performance measures for the LTIP.

During the year, a number of LTIP performance rights were awarded to the Group's key management personnel. Further details can be found in section 9 of the Remuneration Report.

Recognition and measurement of fair value

As the exercise price is zero upon vesting, the fair value of the performance rights issued under the LTIP is deemed to be equal to the market price of the underlying shares on the date of grant. The contractual term of the share options 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.

(ii) 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. All MEP offers were made prior to listing and no new MEP offers were made in FY17 or will be made going forward.

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.

24. Share-based payments (continued)

(ii) Management Equity Plan (MEP) (continued)

The following table details the MEP loans outstanding at 30 June 2017:

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

All MEP shares listed above are held under an escrow agreement until 5 December 2017.

During the financial year, 869,565 MEP shares granted to Paul Gregersen were forfeited after his employment was terminated on 16 September 2016.

Recognition and measurement of fair value

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

24. Share-based payments (continued)

Movements during the year

The following table illustrates the number and weighted-average exercise prices (WAEP) of, and movements in, MEP shares and share options during the year:

	2017 Number	2017 WAEP	2016 Number	2016 WAEP
Outstanding at 1 July	1,024,757	5.08	1,254,955	4.35
Granted during the year	515,819	-	19,802	-
Forfeited during the year	(869,565)	5.75	-	-
Exercised during the year	(62,500)	1.66	(250,000)	1.00
Expired during the year	(34,273)	-	-	-
Outstanding at 30 June	**574,238**	**0.17**	**1,024,757**	**5.08**
Exercisable at 30 June	**50,000**	**2.00**	**982,065**	**5.30**

The weighted average remaining contractual life for the MEP shares and share options outstanding as at 30 June 2017 was approximately 2.62 years.

The exercise price for MEPs outstanding at the end of the year was $2.00.

The weighted average fair value of performance rights granted during the year was $1.88.

Expense recognised in profit or loss

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

	2017 $'000	2016 $'000
Long-term incentive plan	239	81
Management equity plan	(81)	313
Share-based payments expense recognised in profit or loss	**158**	**394**

25. Earnings per share

Basic EPS amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the profit attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential original shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted EPS calculation:

	2017 $'000	2016 $'000
Profit attributable to ordinary equity holders of the Parent for basic earnings	40,698	27,640
Effect of dilution	-	-
Profit attributable to ordinary equity holders of the Parent for dilutive earnings	**40,698**	**27,640**

	2017	2016
Weighted average number of ordinary shares for basic EPS	223,894,931	182,614,590
Effect of dilution	1,825,760	373,199
Weighted average number of ordinary shares for the effect of dilution	**225,720,691**	**182,987,789**

26. Related party disclosures

Note 5 provides the information about the Group's structure including the details of the subsidiaries and the holding company. Note 24 provides the information about the loans to related parties. There were no other transactions and outstanding balances that have been entered into with related parties for the relevant financial year.

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

	2017 $'000	2016 $'000
Short-term employee benefits	2,232	1,041
Post-employment benefits	163	73
Short-term incentive payments	-	-
Share-based payments	239	195
Termination payments	206	-
Total compensation of Key Management Personnel	**2,840**	**1,309**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

27. Commitments and contingencies

Operating lease commitments – Group as lessee

During the year, the Group had commercial property leases for the Corporate Office, one interstate administration offices and seven aged care homes.

The remaining non-cancellable leases have remaining terms of between 1 and 19 years.

Future estimated minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	2017 $'000	2016 $'000
Within one year	4,723	4,175
After one year but not more than five years	14,742	11,945
More than five years	8,001	10,454
	27,466	**26,574**

Finance lease and hire purchase commitments

The Group has finance leases and hire purchase contracts for various items of plant and equipment. The Group's obligations under finance leases are secured by the lessor's title to the leased assets. Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows:

	2017		2016	
	Minimum payments $'000	Present value of payments $'000	Minimum payments $'000	Present value of payments $'000
Within one year	149	149	110	110
After one year but not more than five years	115	115	284	284
More than five years	-	-	-	-
	264	**264**	**394**	**394**

Capital commitments

The Group entered into construction contracts for the development of two new homes at Twin Waters (QLD) and Kogarah (NSW) at an estimated cost of $23,000,000 and $15,000,000 respectively during the prior financial year. The homes will add a total of 186 operating places and are expected to be opened by September 2017 and February 2018, respectively. The remaining capital commitments relating to these two contracts amount to $9,500,000 at 30 June 2017.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

28. Financial risk management objectives and policies

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

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

Market risk

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

The sensitivity analyses in the following sections relate to the position as at 30 June 2017 and 30 June 2016.

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 2017 and 30 June 2016.

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

- The sensitivity of the relevant statement of profit or loss item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 30 June 2017 and 30 June 2016.

Interest rate risk

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

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

	Weighted average effective interest rates		Fixed or Floating
	2017 %	2016 %	
Cash and liquid assets	1.3	1.5	Floating
Bank loans	2.9	3.5	Floating
Refundable accommodation deposits – departed residents	3.8	3.8	Floating

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

The details of debt are disclosed in Note 19 to the financial statements.

28. Financial risk management objectives and policies (continued)

Interest rate sensitivity

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

	Effect on profit before tax Higher/(lower)		Effect on equity Higher/(lower)	
	2017	**2016**	**2017**	**2016**
+ 0.25% (25 basis points)	(312,000)	(511,000)	(312,000)	(511,000)
- 0.25% (25 basis points)	312,000	511,000	312,000	511,000

Foreign currency risk

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

Credit risk

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

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

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

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

An impairment analysis is performed at each reporting date on an individual basis for each resident and other major debtors. The ability of residents and other debtors to pay their debts is based on payment history including amounts on deposit through an accommodation bond for residents and other debtor specific circumstances.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial asset. There is no concentration of credit risk with respect to trade receivables.
In addition, receivables balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

28. Financial risk management objectives and policies (continued)

Liquidity risk

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

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

	On demand $'000	Less than 12 months $'000	1 to 5 years $'000	More than 5 years $'000	Total $'000
Year ended 30 June 2017					
Trade and other payables	879	27,547	115	-	28,541
Loans and borrowings	-	693	121,250	-	121,943
Refundable accommodation deposits and bonds	730,222	-	-	-	730,222
Other financial liabilities	1,293	-	-	-	1,293
	732,394	**28,240**	**121,365**	**-**	**881,999**
Year ended 30 June 2016					
Trade and other payables	691	29,863	169	-	30,723
Deferred consideration	-	84,500	-	-	84,500
Loans and borrowings	-	1,254	253,500	-	254,754
Refundable accommodation deposits and bonds	652,659	-	-	-	652,659
Other financial liabilities	677	-	-	-	677
	654,027	**115,617**	**253,669**	**-**	**1,023,313**

Capital management

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

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

No changes were made in the objectives, policies or processes for managing capital during the year ended 30 June 2017.

29. Fair value measurement

The Group uses various methods in estimating the fair value of its financial assets and liabilities which are categorised within the fair value hierarchy as described in Note 2(t). The hierarchy comprises:

Level 2 – the fair value is estimated using inputs other than quoted prices that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

The loans and borrowings and refundable accommodation deposits fall within the Level 2 method of determining fair value.

The fair value of the Group's interest-bearing borrowings and loans are determined by using the Discounted Cash Flow method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period.

			Fair value measurement using		
	Date of Valuation	Total $'000	Quoted prices in active markets (Level 1) $'000	Significant observable inputs (Level 2) $'000	Significant unobservable inputs (Level 3) $'000
Investment properties	30 June 2017	1,500	-	1,500	-
Loans and borrowings	30 June 2017	121,250	-	121,250	-
Refundable accommodation deposits and bonds	30 June 2017	730,222		730,222	
Other financial liabilities	30 June 2017	1,293	-	1,293	-
		854,265	**-**	**854,265**	**-**

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

The fair value of investment properties of $1,500,000 (2016: $1,500,000) has been categorised as Level 2, based on the inputs to the valuation technique used.

Due to the frequency of residents entering and departing from a unit the fair value of each unit within a retirement village under a loan licence agreement is based upon the most recent loan received for a similar unit.

There were no transfers between levels during the financial year.

30. Remuneration of auditors

	2017 $'000	2016 $'000
Audit of the financial report	555	528
Tax compliance services	176	204
Other assurance services	286	-
Other services	-	333
	1,017	**1,065**

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

31. Subsequent events

Subsequent to 30 June 2017, the Group has repaid a total of $30,000,000 of bank debt.

The Group renewed its $330,000,000 debt facility with its existing bankers Westpac and CBA in full with a maturity date of 22 August 2020.

On 23 August 2017, the Directors resolved to pay a final fully franked dividend of 8.0 cents per share ($20,848,220) payable on 29 September 2017.

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.

32. Segment reporting

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

33. Parent entity information

	2017 $'000	2016 $'000
Information relating to Estia Health Limited		
Current assets	677,766	505,644
Non-current assets	176,706	178,693
Total assets	**854,472**	**684,337**
Current liabilities	4,227	16,338
Non-current liabilities	18,697	-
Total liabilities	**22,924**	**16,338**
Net assets	**831,548**	**667,999**
Issued capital	801,830	649,163
Reserves	673	515
Retained earnings	24,045	18,321
Total shareholders' equity	**831,548**	**667,999**
Profit of the parent entity	**34,812**	**34,688**
Total comprehensive income of the parent entity	**34,812**	**34,688**

The Parent has issued the following guarantees in relation to the debts of its subsidiaries:

Pursuant to Class Order 98/1418, Estia Health Limited entered into a deed of cross guarantee on 13 May 2016 with the following entities:

- Estia Finance Pty Ltd
- Estia Investments Pty Ltd
- Estia Midco Pty Ltd
- Estia Mezzco Pty Ltd
- William Kennedy Holdings Pty Ltd
- Wollongong Nursing Home Pty Ltd
- Kenna Investments Pty Ltd
- Camden House Pty Ltd

The effect of the deed is that Estia Health Limited has guaranteed to pay any deficiency in the event of winding up of any controlled entity or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The controlled entities have also given a similar guarantee in the event that Estia Health Limited is wound up or if it does not meet its obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee.

Pursuant to Class Order 98/1418, relief has been granted to these entities from the Corporations Act 2001 requirements for the preparation, audit and lodgement of their financial reports.

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 2017 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 2017 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 2(b); 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 33 of the financial statements will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant to ASIC Class Order 98/1418.

2. This declaration has been made after receiving the declarations required to be made to the directors by the chief executive officer and chief financial officer in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2017.

On behalf of the Board

Dr. Gary Weiss
Chairman

24 August 2017

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

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 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial performance for the year ended on that date; and

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

Basis for Opinion

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

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

Key Audit Matters

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

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

Carrying value of goodwill and intangible assets

Why significant	How our audit addressed the key audit matter
At 30 June 2017 the Group's goodwill, bed licences and other intangible assets balance was $1,036 million which represents 58% of total assets. The Group reviews the carrying amount of these non-current assets annually, or more frequently, if impairment indicators are present. Before estimating the recoverable amount of the assets, the Group first identifies cash generating units ('CGU') and then allocates the goodwill and intangible assets to the identified CGUs. The Group has used a discounted cash flow model to estimate the recoverable amount of the assets. The impairment test was significant to our audit because the process to estimate recoverable amount is complex and requires significant judgment. The Group has disclosed in note 17 to the consolidated financial report the assessment method, including the main underlying assumptions, the results of the assessment as well as the impact of applying sensitivities.	We assessed the appropriateness of the identification of CGUs and the allocation of assets to the CGUs. Involving our valuation specialists, we assessed the key assumptions underlying the discounted cash flow valuation. In doing so, we: ▸ Tested the mathematical accuracy of the discounted cash flow model; ▸ Assessed key assumptions such as board approved forecast cash flows, including working capital levels and cash flows related to refundable accommodation deposits; ▸ Assessed the Group's current year actual results in comparison to prior year forecasts to assess forecast accuracy; ▸ Assessed the Group's assumptions for terminal growth rates in the discounted cash flow model in comparison to economic and industry forecasts; ▸ Assessed estimates of capital expenditure; ▸ Assessed the discount rates through comparing the weighted average cost of capital for the Group with comparable businesses; and ▸ Considered EBITDA multiples of comparable businesses as a valuation cross check to the Group's determination of recoverable amount.

We performed sensitivity analysis in respect of the assumptions noted above to ascertain the extent of changes in those assumptions which either individually or collectively would materially impact the fair value of the CGUs and we assessed the likelihood of these changes in assumptions arising.

We assessed the adequacy of the Group’s disclosures of the key assumptions to which the outcome of the impairment test is most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of goodwill, bed licences and intangible assets.

Building a better working world

Change in accounting policy

Why significant	How our audit addressed the key audit matter
As described in note 2(c) to the financial report, the Group had the following change in accounting policy during the year ended 30 June 2017: ▸ Recognition of deferred tax liabilities on indefinite life intangible assets following International Financial Reporting Interpretations Committee (IFRIC) guidance on this matter. This change was accounted for retrospectively in accordance with Australian Accounting Standard – AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors.* The change in accounting policy was significant to our audit as it required consideration of the appropriateness of the new accounting policy in line with the relevant Australian Accounting Standards and guidance, accuracy of the restatements made and appropriateness of the financial report disclosures.	In performing our audit procedures: ▸ We evaluated the Group's assessment and conclusion that indefinite life intangible assets are expected to be recovered through use rather than sale; ▸ We tested the Group's calculations of the recognised deferred tax liabilities and goodwill for the current and prior periods for accuracy; and ▸ We evaluated the adequacy of the disclosures relating to changes in accounting policies in the financial report.

Information Other than the Financial Report and Auditor's Report

The directors are responsible for the other information. The other information comprises the information included in the Group's 2017 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our auditor's report.

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 25 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Estia Health Limited for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

AUDITOR'S REPORT

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

Rodney Piltz
Partner
Melbourne
24 August 2017